"The Bottom Line"
SIMMONDS LE-FEVRE

Client Newsletter – Tax & Super
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RENTING OUT YOUR HOME - AND THE CGT AND NEGATIVE GEARING CHANGES

About this newsletter

Welcome to the **Simmonds Le-Fevre** client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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One of the many areas where the big changes to negative gearing and Capital Gains Tax may have an effect is where you use the "absence concession" to allow you to "continue to treat" your home as your CGT-free main residence during an extended absence from the home - including where you rent it out for up to 6 years during this period.

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While, at this stage, there appear to have been no direct changes to this concession, some interesting consequences arise from using it under these new tax rules.

For example, if you rent it out during a period of absence, and you have a big mortgage, you may find yourself in a negatively geared position (ie where your taxable rent is less than the deductible rental expenses) – so that you end up with a deductible loss.

Moreover, if you acquired your home before 12 May 2026 (ie Budget-day) you will still be allowed to claim this negative geared loss, as the changes which now “quarantine” negative gearing losses do not apply to property acquired before that date.

In other words, such property is “grandfathered” from the negative gearing changes ie the property is carved out from the changes, but in the expectation that that property will one day cease to be a pre-12 May 2026 property when it is sold or bequeathed to beneficiaries etc.

Suffice to say the combination of this carve out from negative gearing quarantining and the CGT absence concession can provide some benefits – and even some good planning opportunities.

In relation to the CGT discount changes, where the absence concession is used, its effect is to “continue to treat” the home as your CGT-free main residence during your period of absence – so that there will be no CGT consequences on any later sale or disposal.

But this is subject to an important exception: where you rent your home for more than 6 years only a partial CGT exemption will apply – to reflect the period that it was rented for more than 6 years. But even then, that partial exemption will be calculated favourably by reference to the market value of your home when you first rent it and not its original cost.

Nevertheless, the capital gain so calculated will be subject to the new CGT rules regardless of when you acquired the property (unlike the negative gearing changes).

This will generally mean that you still get the 50% discount up to the property’s market value on 30 June 2027, but thereafter any gain that accrues will be subject to the new (less favourable) indexation rules and the minimum 30% tax rate!

And for those that are interested, the 50% CGT discount applying to a partial capital gain from the sale of a home (and other circumstances where a partial CGT exemption on a home arises) actually costs the government some $25 billion to $30 billion in foregone tax each year - and has done so for at least the last 10 years!*

So, given a person’s home is usually their most significant asset, if you think that these changes could affect (or even help) you, please make an appointment to see us about it.

*See “Mid-Year Economic and Fiscal Outlook” (MYEFO) statistics