Three common CGT obstacles for homeowners

Many homeowners are not aware that the “main residence” rules exempting the family home from capital gains tax (CGT) are in fact quite complex and contain many traps. It pays to be aware of these rules and to plan ahead accordingly.

In straightforward cases, a property owned by individuals and used as a main residence throughout the period of ownership will receive a full exemption from capital gains tax (CGT) when the home is sold. But this “main residence exemption” has a number of caveats. Here, we highlight three common scenarios in which a homeowner may face some CGT liability when it is time to sell.

1. Using your home to generate income

If you use your residence to produce assessable income, you will generally only be eligible for a partial exemption from CGT. Many homeowners will understand that this includes activities like running a business from your home, or leasing the home to long-term tenants. But did you know that this also includes renting out your home – or even just a room – through short-term sharing economy platforms such as Airbnb and Stayz?

The size of your CGT exemption will generally depend on how long you used the home to produce assessable income and the proportion of total floor space that this activity related to.

You may still be eligible for a full main residence exemption if you move out of the home before you start using it to produce income, and choose to continue treating the home as your main residence for CGT purposes. However, you can only choose to do this for a maximum of six years, and it means you cannot treat any other property you live in during that time as your main residence. If you earn rent from your home *before* you move out, you will not get a full exemption.

2. Land greater than two hectares

Farmers and large property owners should be aware that the main residence exemption covers:

* your dwelling (and the land directly beneath it); and
* adjacent land used primarily for private or domestic purposes in association with the dwelling, provided the total area of the dwelling and adjacent land does not exceed two hectares.

This means a residential property (or a residential area of an income-producing farm) greater than two hectares will not be completely exempt from CGT. In this case, the owner can choose which two hectares will attract the exemption and obtain an expert property valuation to substantiate the value of that selected area. If that two-hectare area cannot be separately valued, the exemption is calculated on a proportionate area basis.

3. Moving home

When buying a new home and selling your old one, you generally have a six-month grace period in which both the old and new homes are treated as your main residence. However, if you are unable to sell your old home within six months of purchasing the new property, the main residence exemption only applies to both homes for the six months before you dispose of the old home. There will be an “excess” period beyond the six-month window that creates a CGT liability.

Plan ahead

The key to maximising your main residence exemption is to be aware of potential traps and to plan ahead, where possible. Contact our office today to discuss your plans for your home and to develop a tax-effective CGT strategy.

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