Strategy 10

Defer asset sales to manage Capital Gains Tax

If you want to sell a profitable asset, you may want to delay the sale until after 30 June 2010.

What are the benefits?

By using this strategy, you could:

- Defer paying Capital Gains Tax (CGT), and
- Possibly reduce your CGT liability.

How does the strategy work?

CGT is generally only payable by individuals after they lodge their tax return for the financial year in which an asset is sold.

So by deferring the sale until after 30 June 2010, you may be able to delay paying tax on your capital gain for up to 12 months – in some cases longer.

If you expect to earn a lower taxable income next financial year (eg because you plan to retire or intend taking parental leave – see case study), the marginal tax rate you have to pay on realised capital gains in 2010/11 may decline considerably.

But even if your taxable income stays the same, you may still find your marginal tax rate is lower in the 2010/11 financial year.

This is because, from 1 July 2010, the income threshold at which the 31.5%[1] marginal tax rate applies will increase from $35,000 to $37,000.

Furthermore, the current marginal tax rate of 39.5%[1] (which is payable on taxable incomes between $80,000 and $180,000) will reduce to 38.5%[1].

It may also be a good idea to hold assets for more than 12 months to take advantage of the 50% CGT discount.

CGT is only payable on 50% of the capital gain if an asset is held by an individual for more than a year, reducing the effective tax rate on capital gains from 46.5%[1] to 23.25% (for higher income earners).

1 Includes a Medicare levy of 1.5%.

Case study

Natalie, aged 32, works full-time, pays tax at a marginal rate of 39.5%[1] and is considering selling shares that have increased in value by $10,000 over the last five years.

By selling the shares before the end of the financial year, Natalie will need to pay $1,975 in CGT after applying the 50% CGT discount. This assumes she has no capital losses to offset her gain – see Strategy 9.

Before strategy

Realised capital gains	$10,000
Less 50% CGT discount	($5,000)
Taxable capital gain	$5,000
CGT payable at 39.5%[1]	$1,975

However, Natalie plans to take 12 months' maternity leave next financial year. As a result, she anticipates her marginal tax rate will decline from 39.5%[1] to 16.5%[1].

By selling her shares in the new financial year, Natalie will be able to take advantage of her lower marginal tax rate and reduce her CGT liability to $825 (see below).

After strategy

Realised capital gains	$10,000
Less 50% CGT discount	($5,000)
Taxable capital gain	$5,000
CGT payable at 16.5%[1]	$825

By implementing this strategy, Natalie will cut her tax bill by $1,150.

Note: Investment decisions should not be solely driven by taxation outcomes. They should always be considered in light of an investment strategy designed to meet your lifestyle and financial goals.

Tips and traps

- You may want to defer asset sales when transferring assets into a spouse or family member's name for income splitting purposes (see Strategy 5).
- Depending on your situation, you could consider selling a portion of a share or unit trust investment in the current financial year and the remainder after this date. By spreading the sale of an asset over several financial years, you may be able to reduce your CGT liability even further.
- Some unit trusts allow investors to select which parcel of units they want to sell. For example, if you have made several separate investments in a unit trust (at different prices), you don't have to sell the first parcel you purchased. Selecting the right units to sell can also help you minimise your CGT liability.
- If you must sell a profitable asset this financial year, there are some other strategies you can use to save on CGT. You may be able to use capital losses to your advantage (see Strategy 9). If you are self-employed, or not employed, you could consider making a tax-deductible contribution into a super fund to offset your capital gains. Speak to your financial adviser to find out more about this strategy.