ESTATE & TRUST TAXATION SPECIALISTS

What can be included in the cost base of a CGT asset?

Income Tax Assessment Act 1997 provides five elements of an asset's cost base. Within each element there are specific costs which can be added to a cost base. A brief description, and some examples of these are provided below:

1st Element – Acquisition costs

Includes money paid in respect of acquiring an asset or the market value of any other property given in respect of acquiring the asset.

On death, the executor must consider if this was a pre-CGT or post-CGT asset:

- For a pre-CGT asset: use the market value at date of death, or
- For a post-CGT asset: the deceased's cost base.

2nd Element – Incidental costs

Expenses incurred in acquiring the asset, such as:

- Stamp duty
- Legal/conveyancing fees & disbursements

Expenses incurred that relate to the CGT event, such as:

- Remuneration for services by a surveyor, valuer, auctioneer, accountant, broker or lawyer
- Sales commission, advertising, and marketing
- Cost of transfer, search fees to check title, mortgage discharge fees

3rd Element – Costs of owning (for CGT assets acquired post 21 August 1991)

Examples include:

- Interest on money borrowed to acquire the asset
- Rates
- Land taxes
- Repairs
- Insurance and premiums
- Adjustments on sale.

Care should be taken with 3rd element costs as a result of nuances in the legislation.
These costs cannot be included if they have been or could have been claimed as a tax deduction.
Further, third element costs cannot be included in the cost base if the CGT event results in a capital loss.

4th Element – Enhancement expenditure

This includes capital expenditure that increases or preserves the asset's value or relates to installing or moving the asset. e.g. renovation of a property.

5th Element – Expenses relating to title or rights

This includes capital expenditure to establish, preserve, or defend your title to the asset, or a right over the asset.

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