WILL I PAY CAPITAL GAINS TAX ON MY INHERITANCE?

PERPETUAL PRIVATE INSIGHTS
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In Australia, special capital gains tax rules apply when dealing with assets of a deceased estate. The most common types of assets inherited by a beneficiary that could be subject to a capital gain are property, shares and managed funds. You may have just received (or are about to receive) an inheritance. While this article isn't a substitute for specialist tax advice it considers some of the capital gains tax implications should you ultimately choose to sell an inherited asset of this nature.

Implications for Australian tax residents

Where you're an Australian resident for tax purposes and you inherit assets from the deceased estate of an individual who was also an Australian tax resident, the transfer of these assets from the deceased estate is not a capital gains tax (CGT) event, in and of itself. This means that only if you decide to sell the asset at a later point in time, then the normal CGT rules apply.

In this scenario, CGT outcomes are an important aspect to consider when selling inherited investments like shares, managed funds and investment properties. The sale of the family home may receive the 'main residence exemption' which means that CGT will not apply. However, this an area where advice is best sought.

Note: where a family home was used for investment (income producing) purposes at some stage, only a partial main residence exemption will occur. We discuss this in a little more detail below.

Implications for Australian tax residents

Where the deceased individual was an Australian resident for tax purposes, if you're a non-Australian tax resident CGT may be applicable.

Depending on the on the type of asset inherited and the circumstances involved, this can be an especially complex area, so specialist advice is key.

Other Capital Gains Tax considerations

Generally speaking, if the asset:

- a collectable asset, such as rare stamps, then CGT may apply depending on a host of circumstances
- personal-use asset such as jewellery, a car or boat CGT will typically not apply.

Capital gain (or losses) on an inherited asset

There are several considerations involved in calculating a capital gain or loss. Some of these can include:

- the type of asset, and how it was used prior to the deceased's passing;
- the deceased's date of death;
- the date the asset was inherited;
- your ownership period, prior to selling the asset;
- whether you are selling the asset as an individual Australian tax resident, or not.

You should keep detailed financial records related to an inherited asset. This information is needed to determine if there's any CGT payable later when the asset is sold.

A financial adviser will be able to assist you in understanding any tax implications of inheriting an asset, based on your personal circumstances, objectives and goals. They may also be able to determine whether there are any strategies to manage any tax implications associated with your inheritance

Did you know…

Inheriting a family home may involve CGT when it is sold. This depends on a few factors, such as when it was bought, when it was sold and if it was used for investment purposes at any time during the ownership period.

Source: Australian Taxation Office

Tax is complicated – seek financial advice

The capital gains tax implications of a deceased estate are complicated. For more information on the key stages of estate administration, read our article 'A guide to understanding estate administration'.

We suggest you seek professional financial advice; this will go a long way in helping to ensure your financial wellbeing over the long term.

We're here to help

With expertise in financial planning and tax advice, Perpetual will consider your personal circumstances and manage all the technical taxation matters involved in receiving an inheritance to build a strategy that helps grow your wealth and future-proof the legacy.

If you have any questions about capital gains tax and the estate administration process, go to our dedicated webpage on inheritance.