Net capital gains made in the financial year are included in your assessable income. A capital gain arises when the sale proceeds of a capital asset exceed the cost base of the asset. If the cost base is greater than the sale proceeds, a capital loss may arise. Your capital gain is the total of all your capital gains reduced by any capital losses for the year or earlier years, and any relevant concessions.

If you make a capital loss, you can only use this capital loss to offset against a capital gain. This loss is not able to be offset against other income (such as wages). Capital losses not used in the current year can be carried forward to future years until it can be offset against a capital gain.

You must keep records of all transactions that can reasonably be expected to be relevant to working out a capital gain or capital loss. The nature and date of the transaction are important.

**Fifty percent Capital Gains Tax discount**

Some entities that make a capital gain after 21 September 1999 from an asset acquired before that time and owned for at least twelve months may choose between indexation of the cost base (adjust the cost base of the asset for inflation) or the Capital Gains Tax discount.

For assets acquired after 21 September 1999, indexation is not available, but the Capital Gains Tax discount may apply, provided the asset has been owned for at least twelve months.

For individuals and trusts the capital gain can be reduced by 50% (superannuation funds are entitled to a 33 1/3% discount). Companies are not eligible for the discount. Capital losses are offset against capital gains before applying the discount.

**Concessions for small business**

There are four small business concessions that may apply to capital gains made after 21 September 1999, if certain conditions are met. The small business concessions as follows.

- A 15 year exemption (an exemption for active business assets owned for 15 years).
- A 50% active asset reduction (this replaces the former 50% goodwill exemption).
- A retirement exemption (this is similar to the former small business retirement exemption).
- A roll-over (this is similar to the former small business roll-over).
More than one concession may apply to the same capital gain and they apply in addition to the discount if it also applies.

**Conditions**

The basic conditions required for all the small business concessions are as follows.

- A limit of $5,000,000 on the net value of assets that the business and related entities own.
- The asset must be an active asset – generally an asset that you own and use in your business.
- If the asset is a share in a company or interest in a trust, it must be owned by a controlling individual of the company or trust or the spouse of the individual.

Generally, there are further specific conditions to be satisfied for each particular concession. For more detail on these specific concessions contact the Capital Gains Tax section of the Australian Tax Office or your accountant.