BDO Kendalls

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Tax rainbow at end of investor losses

There could be light at the end of the tunnel for investors who have lost money in the recent stock market and property trust crashes, according to BDO Kendalls Business Advisory partner Eddie Chung.

Mr Chung said any capital losses as a result of the crashes may provide some tax relief, as long as investors understood how the rules work.

He said a capital loss can be used to offset other capital gain derived but will only be available once it had been realised.

“This generally means that the investment would have had to been sold for investors to realise the loss,” he said

“If the investment isn’t sold, the loss is unrealised and will not be any good to investors.”

But Mr Chung said an investment should not be sold purely for tax reasons without considering other issues such as the investment improving in value in the medium term.

He also said a capital loss could only be used to offset a capital gain and in the absence of any capital gain, the loss could not be used to offset other income.

“As a result this will not give investors any immediate benefit,” Mr Chung said.

“However the capital loss can generally be carried forward indefinitely to offset any capital gain made in the future.

“Don’t just assume that any shares or units you sell will categorically give you a capital gain or loss.

“If you didn’t buy the shares or units as a long term investment but bought them for trading, any gain or loss you make will be considered business income or loss.

“Any gain you make will not be eligible for the Capital Gains Tax (CGT) discount and any loss you make will be a revenue loss which may be available to offset your other income, subject to the non-commercial losses provisions,” Mr Chung said.

Ends.

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For further information please contact:

Eddie Chung
Partner, Business Advisory
BDO Kendalls
Mobile: 0438 663 513

Helen Pham of BDO Kendalls on 07 3237 5713 or
Nadia Farha of Three Plus Consulting on 0408 535 993.

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