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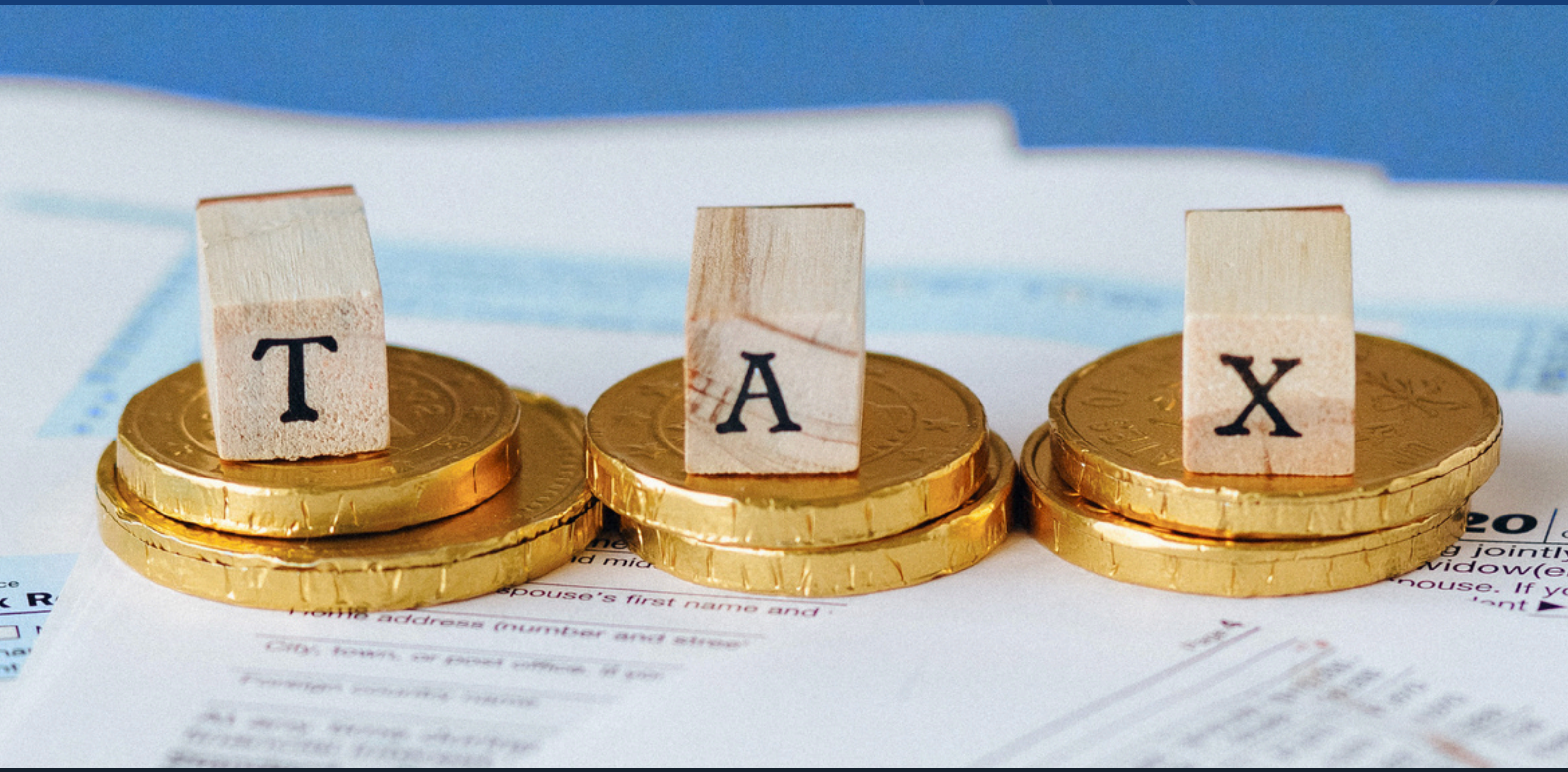

TAX FACT SHEET • CAPITAL GAINS TAX

Gold, Coins & Collectables

Understanding Capital Gains Tax in Australia - a practical guide for investors and collectors.

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When you sell, **what happens next?**

Gold prices and the value of rare coins, jewellery, artwork and other collectables can increase significantly over time. But what happens when you sell?

Many Australians assume that selling personal possessions, gold bullion or a coin collection is automatically tax-free. That is not necessarily the case.

The Australian Capital Gains Tax (CGT) rules can apply to these assets, but the treatment varies considerably depending on what you own, what you paid for it, why you acquired it and how you have used or held it.

> This guide explains some of the key rules — so you know the questions to ask before you sell.

Use it as a starting point. The right tax treatment depends on your circumstances, so speak with your RJS adviser before acting.

01 Three different categories

Gettingtheclassificationrightiswherethetax outcome begins.

For CGT purposes, it helps to distinguish between three different types of asset. The category an asset falls into changes the exemptions and loss rules that apply.

Investment assets

Examples may include:

- Gold bullion purchased as an investment
- Silver bullion purchased as an investment
- Precious metals accumulated primarily for investment

Generally CGT assets. They do not automatically receive the special exemptions applying to collectables or personal-use assets.

Collectables

Items used orkept mainly for personal use or enjoyment, specifically named in the legislation:

- Coins and medallions
- Jewellery
- Artwork
- Antiques
- Rare books
- Rare manuscripts and folios
- Postage stamps
- First-day covers

Personal-use assets

CGTassets, other than collectables, used or kept mainly for personal use or enjoyment.

Different CGT exemptions and loss rules apply to each category.

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02 Gold bullion

One of the biggest misconceptions concerns investment gold.

> *"I bought gold personally, so surely it is a personal-use asset?"*

Not necessarily. If gold bullion has been purchased primarily as an investment or store of wealth, its purpose is generally investment rather than personal use or enjoyment. That distinction is important.

Where the normal CGT provisions apply, selling the gold for more than its cost base can result in a taxable capital gain.

EXAMPLE

Purchase price	**$40,000**
Sale price (several years later)	**$70,000**
Capital gain	**$30,000**

If you are an Australian resident individual and have owned the gold for at least 12 months, you may potentially qualify for the 50% CGT discount. That could reduce the $30,000 gain to a $15,000 discounted capital gain, before considering other capital gains and losses.

READ THIS CAREFULLY
The $15,000 is not necessarily the tax you pay. It is the amount potentially included in calculating your taxable income. Your actual tax depends on your overall circumstances and marginal tax rate.

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03 Gold coins can be different

Coins require particular care. The legislation specifically identifies a coin or medallion as a potential collectable. But simply being shaped like a coin does not tell us the complete tax story — the purpose for which the asset is acquired and held matters. There can be a significant distinction between:

Gold bullion acquired as an investment	vs	Rare or collectable coins acquired and kept for personal enjoyment

Before selling a valuable coin collection, we recommend determining the tax classification of the assets rather than assuming all gold is treated the same way.

04 The $500 collectable rule

There is an important CGT exemption for collectables. Generally, a capital gain or capital loss from a collectable is disregarded where the collectable was acquired for:

$500 or less

This can make the original purchase price extremely important.

EXAMPLE

Purchased many years ago for	**$300**
Subsequently sold for	**$4,000**

Provided the asset satisfies the requirements to be treated as a collectable, the capital gain may be disregarded because its acquisition cost was $500 or less.

WHY RECORDS MATTER

This is why old receipts, invoices and records can be extremely valuable.

05 Be careful with sets

You cannot necessarily avoid CGT simply by breaking a collection into individual pieces. Special rules can apply where collectables:

- form part of a set;
- would ordinarily be disposed of as a set; and
- are disposed of separately in an attempt to obtain the $500 exemption.

EXAMPLE

A collection of coins purchased as a set	**$5,000**

It would generally be inappropriate to argue that each of 20 coins cost only $250 — and therefore each qualifies for the under-$500 exemption — if the relevant CGT provisions treat the collection as a set. The circumstances surrounding the original purchase and disposal need to be considered.

06 Capital losses on collectables are restricted

This is another major trap. If you make a capital loss when selling a collectable, that loss generally cannot be used against ordinary capital gains.

For example, a loss from selling a coin collection cannot simply be used to reduce a capital gain made from selling:

- Shares
- An investment property
- Cryptocurrency
- Other ordinary CGT assets

THE RULE IN SHORT

Collectable losses can only reduce capital gains from collectables. Unused collectable capital losses can generally be carried forward against future capital gains from collectables.

EXAMPLE

Capital loss — artwork	**$20,000**
Capital gain — shares	**$50,000**

You generally cannot use the $20,000 artwork loss to reduce the $50,000 share gain. However, the collectable loss may potentially be available against a future taxable capital gain from another collectable.

07 Personal-use assets have a different $10,000 rule

Assets that satisfy the definition of a personal-use asset have different rules. Generally, a capital gain from a personal-use asset is disregarded where the asset was acquired for:

$10,000 or less

This is completely different from the $500 threshold applying to collectables. Capital losses from personal-use assets are generally disregarded.

THE TAKEAWAY

THE TAKEAWAY

This distinction is another reason why correctly classifying an asset is so important.

08 What about gold nuggets?

Gold nuggets show why the purpose for which an asset is held matters. The ATO has previously considered circumstances where gold nuggets collected as part of a hobby can constitute personal-use assets, where they are not held as part of a business or profit-making activity.

THE PRINCIPLE

The same general type of asset can potentially receive different tax treatment depending on the circumstances in which it was acquired and held. Gold acquired as an investment is very different from an item retained primarily as part of a personal hobby.

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09 The 50% capital gains tax discount

Where an asset is subject to the ordinary CGT provisions, the CGT discount can become extremely valuable. Generally, an Australian resident individual who has owned an eligible CGT asset for at least 12 months may be entitled to reduce the relevant capital gain by 50%.

50%	33⅓%	0%
Individuals & trusts (potentially)	Complying super funds	Companies

This means the entity used to own investment gold or other appreciating assets can have a significant impact on the eventual tax outcome.

10 Holding something for 12 months can matter

Consider an individual who purchases investment gold for $60,000 and later sells it for $100,000.

EXAMPLE

Capital gain (ignoring costs) **$40,000**

HELD < 12 MONTHS		HELD 12 MONTHS +
$40,000	→	**$20,000**
Discount generally not available		Discounted capital gain (if eligible)

This can create a substantial difference in the eventual tax liability.

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11 What makes up the cost base?

CGT is generally not simply *sale price less original purchase price*. Depending on the asset and the applicable rules, the cost base can include certain eligible costs associated with acquiring and disposing of the asset. These may potentially include:

- Original purchase price
- Auctioneer's commissions
- Dealer commissions
- Brokerage
- Certain legal expenses
- Valuation expenses in appropriate circumstances
- Other eligible incidental acquisition or disposal costs

NOTE
Special cost-base rules apply to collectables, including restrictions concerning costs of ownership.

12 What if I inherited the gold or collection?

Inherited assets require separate consideration. Death itself does not necessarily mean the beneficiary immediately pays CGT. However, CGT can potentially arise when the beneficiary later disposes of an inherited CGT asset.

The cost base available to the beneficiary will depend on factors including:

- When the deceased originally acquired the asset
- Whether it was a pre-CGT or post-CGT asset
- Its market value at relevant dates
- The nature of the asset
- How the deceased acquired and held it

FOR VALUABLE COLLECTIONS
For jewellery, gold and artwork, obtaining appropriate valuations and retaining estate records can become extremely important.

13 What if the asset was a gift?

Giving an asset away does not necessarily avoid CGT. CGT can potentially apply where an asset is sold, gifted, transferred to another person, or transferred to another entity. Special market-value rules can apply to transactions not conducted on normal commercial terms.

> *"I didn't receive any money" does not automatically mean "there is no CGT."*

BEFORE YOU GIFT
Seek advice before gifting valuable gold, coins, jewellery or artwork to family members.

14 What if I bought the asset before 20 September 1985?

Australia's CGT regime generally applies to assets acquired on or after:

20 September 1985

Assets acquired before that date can potentially have significant CGT advantages, because they may be pre-CGT assets. Additional rules can apply, particularly where ownership structures or interests in assets have subsequently changed.

IF YOU'VE HELD IT SINCE BEFORE SEPT 1985
Do not assume the tax treatment. Obtain advice and preserve whatever evidence you have showing when and how the asset was acquired.

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15 Investor or trader?

CGT treatment may not always be the correct starting point. Someone occasionally purchasing gold as a long-term investment is very different from someone systematically buying and selling coins, bullion or collectables for profit.

Where the activities amount to carrying on a business, or potentially constitute a commercial profit-making activity, ordinary income and trading-stock principles may need to be considered. That can change the tax outcome significantly.

Factors can include:

- Frequency of transactions
- Volume of purchases and sales
- Intention when purchasing
- Length of ownership
- Business-like organisation
- Record keeping
- A systematic profit-making strategy
- The scale of the activity

IN PRACTICE
Someone buying and selling hundreds of coins every year may have a very different tax position from someone selling a collection accumulated over 30 years.

16 Record keeping is critical

One of the biggest problems with gold and collectables is that people can own them for decades. By the time the asset is sold, the original invoice may have disappeared. Keep records showing:

- Purchase date
- Purchase price
- Description of the asset
- Quantity and weight
- Serial numbers where relevant
- Dealer or auction-house invoices
- Certificates of authenticity
- Grading certificates
- Buying costs
- Selling costs
- Sale proceeds
- Evidence of how the asset was acquired
- Valuations
- Estate documentation for inherited assets

TIP
Photographs of valuable individual pieces can also be useful. Good documentation matters most where a collection has been accumulated over many years.

The numbers to remember

$500

Potential CGTexemption threshold for qualifying collectables.

$10,000

Potential CGTexemption threshold for qualifying personal-use assets.

12 months

Generalminimumownershipperiod before an individualcanpotentiallyaccess the 50% CGT discount.

50%

General CGTdiscount potentially available to eligible Australian resident individuals and trusts.

33⅓%

GeneralCGTdiscount for complying superannuation funds.

0%

CGTdiscount available to companies.

20 Sept 1985

Commencement ofAustralia'sCGT regime. Assetsacquired before thisdatecan potentially be pre-CGT assets.

Talk to us before you sell

TheCGT treatmentofgold,coinsand collectablescanbe surprisingly complicated. Two people selling apparently identical assets can potentially receive different tax treatment because of how and why the assets were originally acquired and held.

If you are considering selling:
Gold bullion • Silver • Coins • Jewellery • Artwork • Antiques • Stamps • Rare books • Other collectables

Speak to your tax adviser before completing the transaction.

R J Sanderson & Associates Pty Ltd
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