Australian Government
Australian Taxation Office

Investing

- https://www.ato.gov.au/Individuals/Investing/
- Last modified: 09 Jun 2015
- QC 22800

Profits or returns you make on your investments usually become part of your income for tax purposes. Many expenses relating to your investment are tax deductible - for example, interest on money you borrow to buy shares.

Australian residents for tax purposes are taxed on their worldwide income, so whether you have investments in Australia or overseas there are tax implications in obtaining, owning and disposing of them.

Understanding how tax works in relation to your investment helps ensure you don't pay more tax than you need to.

Follow the links below to find out more about how tax applies to different types of investments:

- Bank accounts and income bonds
- Shares
- Managed investment trusts
- Making capital gains and capital losses
- Foreign investments

See also:

- Keeping good investment records
- Investigate before you invest
- Capital gains tax
- Tax planning
- Investing in property

Investing in bank accounts and income bonds

- https://www.ato.gov.au/Individuals/Investing/Investing-in-bank-accounts-and-income-bonds/
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- QC 22809

Interest from a bank or other financial institution is part of your assessable income for the year, even if you are a foreign resident for tax purposes or the account is in a child's name.

Even if the funds earning the interest were not subject to tax, the interest is. For example, if you won some prize money and banked it, you wouldn't usually include the prize money on your tax return, but you would include the interest you earned on it.

You can also claim a tax deduction for expenses incurred in earning interest income or income from friendly society income bonds.

Banks and other investment bodies report to the ATO the interest they pay to account holders and investors. We match this information with the amounts people report in their tax returns to ensure that all income is being declared. If we find a discrepancy, we do adjust returns and penalties can apply.

Income bonds are a type of life insurance policy only friendly societies issue. They are sometimes marketed as 'bonus bonds' or 'savings bonds'. Unlike other life insurance policies, which pay bonuses on maturity or surrender, an income bond is like a savings account and distributes regular bonuses. For tax purposes, these bonuses are treated in the same way as interest.

Tax File Number (TFN) withholding tax

If your bank doesn't have your tax file number (TFN) it will withhold tax from your interest at the highest marginal tax rate. You can claim a credit for the amount of tax withheld when you lodge your tax return.

You don't need to provide your TFN if:

- you are under 16 years of age
- the account is in your name, and
- the account earns less than $420 interest each year.

If you are under 18 years old on 30 June of a financial year, your interest may be taxed under the special high tax rates for minors.

See also:

- Children's savings accounts
- Income of individuals under the age of 18

Bank accounts held by foreign residents

Financial institutions automatically withhold tax from interest earned on accounts held by foreign residents.

If you've given the financial institution your overseas address, the tax will be withheld at the rate of 10%. Without your overseas address tax is withheld at 47% (from 1 July 2017).

You do not include this interest as income on your Australian tax return.

See also:

- [International tax for individuals - investing in Australia]

Investing in shares

- https://www.ato.gov.au/Individuals/Investing/Investing-in-shares/
- Last modified: 09 Jun 2015
- QC 22810

Dividends (income from shares) are considered income for tax purposes.

There are also other tax implications of obtaining, owning and disposing of shares, including shares in employee share schemes.

You can claim deductions for costs related to the dividend income, such as management fees and interest on money you borrowed to buy the shares.

Next steps:

- Obtaining shares
- Owning shares
- Disposing of shares

See also:

- Employee share schemes

Obtaining shares

- https://www.ato.gov.au/Individuals/Investing/Investing-in-shares/Obtaining-shares/
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- QC 22811

You can obtain shares through:

- buying them
- inheriting them
- being given them (receiving them as a gift)
- them being transferred to you as the result of a marriage or relationship breakdown
- an employee share scheme
- a conversion of notes to shares
- demutualisation of an insurance company with which you have a policy
- bonus share schemes of companies in which you hold shares
- dividend reinvestment plans of companies in which you hold shares
- mergers, takeovers and demergers of companies in which you hold shares.

Tax obligations when obtaining shares

The key tax issues you need to be aware of are:

- Generally, you can only declare your dividends and claim your expenses if your name is on the share purchase order.
- If you hold a policy in an insurance company that demutualises, you may be subject to capital gains tax either at the time of the demutualisation or when you sell your shares.
- Even if you didn't pay anything for your shares, you should find out the market value at the time you obtain them - otherwise, you may pay more tax than necessary when you dispose of them.
- You can't claim a deduction for some costs related to purchasing your shares, such as brokerage fees and stamp duty, but you can include them in the cost base (cost of ownership - which you deduct from what you receive when you dispose of the shares) to work out your capital gain or capital loss.
- You need to keep proof of all your share transactions from the beginning to ensure you can claim everything you're entitled to, otherwise you pay more tax than you would otherwise need to.
- In some circumstances, you may be considered the owner of shares even if they were purchased in your child's name.
  Next steps:

- Owning shares
- Disposing of shares

See also:

- Children's share investments
- You and your shares
- Shares: helping you to avoid common mistakes
- Employee share schemes

Owning shares

- https://www.ato.gov.au/Individuals/Investing/Investing-in-shares/Owning-shares/
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- QC 22812

When you own shares, there are tax implications from:

- receiving dividends
- participating in a dividend reinvestment plan
- participating in a bonus share scheme
- receiving a call payment on a bonus share scheme
- receiving non-assessable payments
- transactions the company you have invested in undertakes, such as mergers, takeovers and demergers.

Tax obligations when owning shares

The key tax issues you need to be aware are:

- you need to declare all your dividend income on your tax return, even if you use your dividend to purchase more shares - for example, through a dividend reinvestment plan.
- the costs you may be able to claim as tax deductions include management fees, specialist journals and interest on money you borrowed to buy the shares.
- receiving bonus shares can alter the cost base (costs of ownership) of both your original and bonus shares.
- in some demergers, you may be eligible to choose to rollover any capital gain or capital loss you make. This means you do not report your capital gain or capital loss the year the demerger occurs. Instead, you settle your tax obligations in the year that another CGT event happens to those shares.
- if you receive a retail premium for rights or entitlements that you didn't take up, you need to declare these premiums as income on your tax return for the year.

Next steps:

- Disposing of shares

See also:

- You and your shares
- Refunding franking credits - individuals
- Taxing retail premiums.

Disposing of shares

- https://www.ato.gov.au/Individuals/Investing/Investing-in-shares/Disposing-of-shares/
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- QC 22813

How do I dispose of shares?

You can dispose of your shares in the following ways:

- selling them
- giving them away
- transferring them to a spouse as the result of a breakdown in your marriage or relationship
- through share buy-backs
- through mergers, takeovers and demergers
- because the company goes into liquidation.

Capital gains and losses when disposing of shares

You are likely to make either a capital gain or capital loss when you dispose of your shares. Your capital gain is the difference between your cost base (costs of ownership) and your capital proceeds (what you receive when you sell your shares)

You have a capital loss on your shareholding when an administrator or liquidator makes a written declaration that a company's shares are worthless - you are entitled to offset capital gains against that capital loss, even in future years.

You may be able to reduce your capital gain if:

- you have owned your shares for at least 12 months, or
- you gifted them to a deductible gift recipient, provided they are valued at less than $5,000 and you acquired them at least 12 months earlier.

See also:

- Capital gains tax
- Claiming losses from the disposal of investments (for share traders)
- Shares and other securities that become worthless
- Gifts of shares valued $5,000 or less

Managed investment trusts

- https://www.ato.gov.au/Individuals/Investing/Managed-investment-trusts/
- Last modified: 09 Jun 2015
- QC 22815

You must show any income or credits you receive from any trust investment product on your tax return. This includes income or credits from a:

- cash management trust
- money market trust
- mortgage trust
- unit trust
- managed fund, such as a property trust, share trust, equity trust, growth trust, imputation trust or balanced trust.

Follow the links below to read more about how to report income and claim deductions for your managed trust investments.

- Trust income and credits
- Deductions from trust income
- Trust losses
- Capital gains made by trusts

Trust income and credits

- https://www.ato.gov.au/Individuals/Investing/Managed-investment-trusts/Trust-income-and-credits/
- Last modified: 09 Jun 2015
- QC 22816

Your distribution advice or statement from the trust will show the information you need to complete your tax return.

You should show the following on your tax return:

- income and capital gains from a trust (including a managed fund)
- capital gain or loss when you dispose of your managed investment trust units
- your share of a national rental affordability scheme tax offset.

You can also claim credits for tax:

- paid on or withheld from trust income
- withheld from fund payments from a managed investment trust
- withheld from trust income subject to foreign resident withholding
- withheld from trust income subject to non-resident withholding tax, if you were in fact a resident.

And you can claim a deduction for:

- an interest in a trust that made a loss from primary production activities.

Amounts in your trust distribution described as being tax-free, tax-deferred or tax-exempted, or as a capital gains tax (CGT) concession, are likely to be non-assessable payments that you do not have to declare as income. However, they may be relevant in determining the amount of a net capital gain or may affect the cost base of your unit or trust interest.

See also:

- Non-assessable payments
- Foreign source income and foreign assets or property

Deductions from trust income

- https://www.ato.gov.au/Individuals/Investing/Managed-investment-trusts/Deductions-from-trust-income/
- Last modified: 29 Jun 2017
- QC 22817

What deduction can I claim?

Tax deductions for managed investment trusts can include management fees, specialist journals and interest on money you borrowed to invest.

If you made a prepayment of $1,000 or more in relation to your managed investment, there are special rules which may affect the amount you can deduct.

See also:

- Deductions for prepaid expenses

What can't I claim?

You can't claim a deduction for expenses incurred in deriving exempt income or non-assessable non-exempt income, such as expenses incurred in deriving distributions on which family trust distribution tax or trustee beneficiary non-disclosure tax has been paid.

You also can't claim a deduction for amounts the trust has already claimed or that only the trust can claim, for example, expenditure on landcare operations or water facilities.

See also:

- Landcare operations.

- Capital gains made by trusts

Trust losses

- https://www.ato.gov.au/Individuals/Investing/Managed-investment-trusts/Trust-losses/
- Last modified: 09 Jun 2015
- QC 22818

If a trust makes an overall loss in an income year, the loss is retained in the trust - there is no amount of net income available for distribution.

However, in some cases you are required to report a loss on your tax return. This happens if you are eligible to use the averaging provisions available to primary producers and the trust has made a loss from its primary production activities but has an overall net income amount, part or all of which it distributes to you.

Your distribution advice or statement from the trust will separately identify your share of any primary production loss (which is needed for averaging purposes) and your share of other income.

See also:

- Primary producers

Capital gains from a trust

- https://www.ato.gov.au/Individuals/Investing/Managed-investment-trusts/Capital-gains-from-a-trust/
- Last modified: 09 Jun 2015
- QC 22819

Distributions from trusts can include different types of amounts. The following two are relevant for capital gains tax (CGT) purposes:

- capital gains
- non-assessable payments.

Non-assessable payments mostly affect the cost base of units in a unit trust (including managed funds) but can in some cases create a capital gain.

The trustee should advise you whether the CGT discount, the small business 50% active asset reduction, or both, have been taken into account in working out the trust's net capital gain.

Trustees, including fund managers, may use different terms to describe the methods of calculation and other terms. For example, they may use the term 'non-discount gains' when they refer to capital gains worked out using the indexation or 'other' calculation methods.

Making capital gains and capital losses

- https://www.ato.gov.au/Individuals/Investing/Making-capital-gains-and-capital-losses/
- Last modified: 09 Jun 2015
- QC 22820

Selling investment assets (such as shares or managed fund investments) is a common way to make a capital gain or capital loss. Generally, a capital gain (or capital loss) is the difference between what it cost you to obtain and keep an investment asset and what you received when you disposed of it.

Capital gains tax (CGT) is the tax you pay on your net capital gain. It isn't a separate tax, just part of your income tax.

If you make a capital loss when you dispose of an asset, you can use it to reduce any capital gain you made in the same financial year. If you have not made a capital gain in the same financial year, you can use the loss to reduce a capital gain in a later year. You cannot deduct capital losses or a net capital loss from other income.

Next steps:

Read more about how to calculate the capital gain or loss on your investments:

- Capital gains tax

Foreign investments

- https://www.ato.gov.au/Individuals/Investing/Foreign-investments/
- Last modified: 09 Jun 2015
- QC 22821

If you are an Australian resident with overseas assets you need to include any capital gains or capital losses you make on those assets in your tax return.

Additionally, if you have interests in a foreign company, a foreign trust or a foreign life insurance policy, you may have to include income you receive from these interests in your tax return.

If you receive foreign income that is taxable in Australia and you paid foreign tax on that income, you may be entitled to an Australian foreign income tax offset.

See also:

- Reporting foreign source income on your tax return
- Guide to foreign income tax offset rules
- Capital gains tax

Keeping good investment records

- https://www.ato.gov.au/Individuals/Investing/Keeping-good-investment-records/
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Good records allow you to report your investment income accurately and claim all the deductions to which you are entitled, including when you work out your capital gain or capital loss after you dispose of your investment.

- If we review your return, having good records will make it easier for you to provide any information we may request.

Generally for investments you will need to keep your records for five years after we've processed your return.

You need to keep records relating to your investments showing how much you paid for them, what you received if you disposed of them, what income you received from them and the expenses you incurred in owning them and maintaining them. For example:

- bank statements and passbooks
- dividend or managed investment distribution statements
- purchase and sale details, including any contracts
- expenditure records
- details of capital losses made in previous years (you may be able to offset these losses against future capital gains).

See also:

- Record keeping for CGT

Investigate before you invest

- https://www.ato.gov.au/Individuals/Investing/Investigate-before-you-invest/
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- QC 22804

If you invest in a dodgy tax scheme, you are risking your money and could also have to pay any missing tax (with interest and penalties) long after the promoter and your money are gone.

There are a number of ways to check out the legitimacy of an investment and its promoter. Before you invest your money in anything, use our checklist.

Checklist

- Check the promoter's licence. People who offer financial products and advice must work for a business that holds an Australian financial service licence issued by the Australian Securities & Investments Commission (ASIC).
- Obtain and read the product disclosure statement or prospectus for the investment thoroughly. As a potential investor you must be given one or the other of these documents. If you haven't received one, contact ASIC at infoline@asic.gov.au
- Get independent advice from an adviser who has no connection with the seller or the investment scheme.
- Check with us (or ask your adviser to do this) to find out if the scheme has a product ruling - many legitimate tax-effective arrangements do.
- Check our taxpayer alerts to find out if the scheme has any of the characteristics described in the alerts. Our alerts are early warnings of significant and emerging tax planning schemes we are concerned about and are assessing to see whether they are within the law.
- Ask us for a private ruling to confirm how the tax law applies to the arrangement. You can rely on private rulings as binding on us, as long as the scheme is carried out as described in the ruling.
- Look for the characteristics of dodgy schemes, the 'red flags' that help you distinguish a dodgy scheme from a legitimate one

Next steps:

- Check if the scheme has a Product Ruling
- Recognise a dodgy scheme
- If you are unsure, phone us on 1800 060 062
  See also:

- Taxpayer alerts
- Check a promoter's licence: www.moneysmart.gov.au/investing

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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