AGOSTINELLI PERLEN PTY LTD

CHARTERED ACCOUNTANTS

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YOUR KNOWLEDGE NEWSLETTER

FROM THE ATO: TREATMENT OF PROPERTY FLIPPING

On the ATO website is a guide which deals with various tax issues associated with property. One aspect of this guide deals with a scenario that hasn't really received a great deal of attention in the past and this is where someone buys a property with the intention of carrying out renovations while living in the property and then selling the property once the work is completed (i.e., property flipping).

Many clients make the assumption that any gain made from this activity will be exempt from tax as long as the property is their main residence for the entire ownership period. However, this is only the case where the property is held on capital account.

The ATO guide indicates that someone who is renovating a property with the intention of selling the property again at a profit could be taxed on revenue account in which case the main residence exemption is no longer applicable.

The ATO identifies three main scenarios and the general tax implications as follows:

- Personal property investor – this is someone who purchases a property with the primary intention of using it as a long -term rental property or private residence. If this person undertakes some renovation activities and then sells the property earlier than originally planned then they should still generally be able to argue that the sale is dealt with on capital account, which means that the main residence exemption and/ or CGT discount could apply.

- Isolated profit making undertaking – this is someone who buys a property with the primary intention of carrying out renovation activities and then selling the property when the work is completed. Someone in this category is likely to be taxed on revenue account with no access to the main residence exemption or CGT discount.

- Business of renovating properties – this is someone who undertakes property flipping activities on a regular or repetitive basis and where the activities are organised in a business-like manner. As with the category above, there is generally no access to the main residence exemption or CGT discount.

Just because someone may live in the property for all or part of the ownership period does not automatically mean that profits on sale are exempt from tax. The main residence exemption can only reduce capital gains, it cannot reduce amounts that are taxed on revenue account.

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The information in this document is current as at 1 November 2017.