Australian Government
Australian Taxation Office

Cost base adjustments for capital works

Capital works deductions can't be included in the cost base or reduced cost base of an asset.

Last updated 17 June 2024

Capital works expenses (/individuals-and-families/investments-and-assets/property-and-land/residential-rental-properties/rental-expenses/capital-expenses/work-out-your-capital-works-deductions) you can claim as deductions against income can't be included in either:

- the cost base (/individuals-and-families/investments-and-assets/capital-gains-tax/calculating-your-cgt/cost-base-of-asset) of an asset (including a structure or other capital improvement treated as a separate asset for capital gains tax purposes (/individuals-and-families/investments-and-assets/capital-gains-tax/property-and-capital-gains-tax/property-improvements-and-additions))
- the reduced cost base (/individuals-and-families/investments-and-assets/capital-gains-tax/calculating-your-cgt/cost-base-of-asset) of an asset.

There are 2 exceptions to this rule:

- You acquired the asset at or before 7:30 pm (ACT time) on 13 May 1997 and incurred the capital works expense by 30 June 1999 – see the Guide to capital gains tax (/CGTrealestaterules) for more information about this situation.
- You were unable to claim a deduction because you didn't know the full amount or exact nature of the construction expense – you can include the expense in your cost base or reduced cost base.

Example: adjusting cost for capital works

Brett purchased a residential rental property on 1 July 2004 for $150,000.

- As part of the purchase he had non-deductible expenses of $20,000 for pest and building inspections, stamp duty and solicitor's fees.
- Over the next few years, Brett incurred deductible expenses of $33,000 for interest on money borrowed, council rates and deductible (non-capital) repairs.
- In 2023 Brett decided to sell the property. Prior to the sale he spent $30,000 on major structural repairs to increase the value of the property. The repairs were completed on 1 October 2023.
- On 1 February 2024 he sold the property. The real estate agent's fees and solicitor's fees for the sale of the property totalled $12,500.

The purchasing expenses of $20,000 and sale expenses of $12,500 are capital costs and not deductible. These are added to the cost base of the property.

The deductible expenses of $33,000 are not added to the cost base because Brett is able to claim deductions for them.

Brett can claim a capital works deduction for the major structural repairs:

- at the depreciation rate for capital works of 2.5% per year
- for the period between completing the capital works and selling the property (124 days).

Therefore, Brett's deduction for the major structural repairs is:

- $30,000 × 2.5% × (124 days ÷ 366 days) = $254

When working out his cost base, Brett reduces the capital costs element by the amount that he was able to claim as a deduction:

Purchase price of property	$150,000
Purchase-related costs	$20,000
Capital costs (major structural repairs): $30,000 less capital works deduction ($254)	$29,746

Sale-related costs	$12,500
Cost base	**$212,246**

QC 66023

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.

Copyright notice

© Australian Taxation Office for the Commonwealth of Australia

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).