Deemed Disposal for Australian Expats

Understanding the Australian
Capital Gains Tax (CGT) Deemed Disposal Rules.

RUNWAY WEALTH MANAGEMENT

Moving overseas can have significant Australian tax consequences. One of the most important, and often misunderstood, is the Capital Gains Tax (CGT) deemed disposal that may occur when you cease being an Australian tax resident.

Understanding how these rules work can help you avoid unexpected tax outcomes and make more informed decisions before you leave Australia.

What is a Deemed Disposal?

When you cease being an Australian tax resident, Australian tax law generally treats most of your assets as though you sold them at their market value on the day you became a non-resident.

This is known as a deemed disposal.

Although no actual sale takes place, the Australian Taxation Office (ATO) may treat any unrealised capital gain as if it has been realised, potentially creating a CGT liability.

Which assets are affected?

The deemed disposal rules generally apply to assets that are not Taxable Australian Property (TAP).

Examples may include:

- Shares in Australian and overseas listed companies;
- Managed funds and ETFs;
- Cryptocurrency;
- Investment portfolios;
- Certain other investment assets.

Assets that are generally excluded from the deemed disposal rules include:

- Australian real property;
- Interests in land-rich entities that qualify as Taxable Australian Property;
- Assets used in carrying on a business through a permanent establishment in Australia.

These assets continue to remain subject to Australian CGT rules while owned by a non-resident.

Do you have to pay tax immediately?

Not necessarily. When you become a non-resident, you generally have two choices for assets subject to deemed disposal.

Option 1 – Recognise the Capital Gain

You can elect to recognise the capital gain at the time you cease Australian tax residency. This means:

- The capital gain is calculated using the market value at your departure date.
- Any CGT payable is generally included in your Australian tax return for that year.
- Future gains after becoming a non-resident are generally outside the Australian CGT system for those assets.

Option 2 – Defer the CGT Event

Instead of recognising the gain immediately, you can choose to defer the CGT. If you defer:

- The assets continue to be treated as Taxable Australian Property for Australian tax purposes.
- Australian CGT generally applies when the asset is eventually sold.
- The entire capital gain, from original purchase through to eventual sale may remain taxable in Australia.

Why this matters for Expats

The deemed disposal decision can affect:

- The amount of Australian tax you ultimately pay;

- Whether future investment growth remains taxable in Australia;
- Investment strategy after leaving Australia.

The best option varies significantly depending on your personal circumstances and your country of residence.

Example
Sarah purchased Australian and international shares for AUD $300,000.

When she permanently moved to Singapore and ceased Australian tax residency, the portfolio was worth AUD $500,000. She may choose to:

Option A: Recognise a capital gain based on the AUD $200,000 increase in value at departure.

Option B: Defer the deemed disposal, meaning Australian CGT may instead apply when the shares are eventually sold, potentially years later.

The most appropriate option depends on factors including expected future growth, tax rates, residency rules in the new country, available tax treaties, and long-term financial goals.

Planning before you leave Australia

Ideally, CGT planning should occur before your Australian tax residency changes. This may include:

- Confirming the date you are likely to become a non-resident for tax purposes.
- Identifying which assets are subject to deemed disposal.
- Obtaining market valuations where appropriate.
- Comparing the tax outcomes of recognising or deferring the gain.
- Considering the tax rules in your destination country.
- Reviewing your overall investment strategy before departure.

Good planning before departure can provide greater flexibility than trying to address these issues after becoming a non-resident.

How we help Australian Expats

As specialists in advising Australian Expats, we help clients understand the financial and tax implications of relocating overseas. Our advice includes:

- CGT deemed disposal planning;
- Investment structuring before and after departure;
- Cross-border financial planning;
- Retirement and superannuation strategies for expats;
- Returning to Australia planning.

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Enquire Now

Do you have further questions? Please send us an enquiry to speak with a Financial Adviser.

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