

Published based on [The Family Home Subdividing](#)

# **The Family Home Subdividing**

Do you need to pay capital gains tax when you subdivide your family home from one block into two or more blocks ?

Subdividing an original block into two or more blocks does not , in and of itself, lead to a capital gains tax event. It is considered for capital gains tax purposes that the new blocks were acquired on the same date as the original block and that no disposal has occurred.

The original purchase price of the one block is then apportioned across the number of new blocks. This apportionment can occur on either an area basis , relative market value basis or any other reasonable method.

For example Bob and Jane purchased their family home on 20 August 2005 for \$500,000 and then decided to subdivide the one block into two blocks. The original block was 800 sqm and the two new blocks will be 300sqm (Block One) and 500sqm (Block Two) in size. It would be reasonable for Bob and Jane to apportion \$187,500 to Block One and \$312,500 to Block Two. At the time of subdivision Bob and Jane will not have a capital gains tax liability.

What happens if Bob and Jane sell the subdivided block(s) ? There will be a capital gains tax event when Bob and Jane sell the family home and the subdivided blocks. So how does the 'main residence exemption' fit into all this.

If Bob and Jane sell the family home and the subdivided blocks at the same time then they will be able to apply the main residence exemption to the subdivided blocks to the extent which the adjacent land is used for private and domestic purposes in association with the dwelling. The maximum area of land that will be covered including the family home on it is 2 hectares.

However the main residence exemption does not apply in relation to the subdivided adjacent blocks if the blocks are sold separately to the family home. The family home will be eligible for the main residence exemption but not the subdivided block. This also applies even if you sell the family home and the subdivided block at the same time but to different purchasers.

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