Will I pay capital gains tax on my inheritance?

By Perpetual Private Insights

3 July 2026



In Australia, special capital gains tax (CGT) rules apply to the transfer of assets from a deceased estate. The most common types of capital gains assets are property, shares and managed funds. You may have just received, or are about to receive, an inheritance. While this

article provides a general overview and is not a substitute for specialist tax advice, it outlines some of the key CGT considerations when selling assets from a deceased estate.

No sale, no capital gains tax for Australian residents

Australian residents who receive an asset are not affected by CGT at the point of receipt, as CGT is usually deferred until they decide to sell. The deceased person's date of death is an important date for CGT purposes, and the cost base used to calculate any future capital gain or loss depends on the type of asset and when it was originally acquired by the deceased.

For foreign residents inheriting Australian based assets, different CGT consequences may apply depending on the type of asset and circumstances.

Key capital gains tax considerations

The rules vary depending on the type of asset. If the asset:

- is a dwelling (house, apartment), special rules apply – for example, the main residence exemption may apply in part or full.
- is a collectable or personal-use asset, it continues to be treated as one when you receive and dispose of it.
- was acquired before 20 September 1985, it is considered a pre-CGT asset for the person you inherited it from (CGT did not apply before this date).
- had any unapplied net capital losses, these are not passed on to you as the beneficiary - you can't use any such losses to offset against any net capital gains when you do your personal tax return.

There are different ways to work out your capital gain or loss

Assets may increase or decrease in value over time. A capital gain is when the sale price is higher than the purchase price. Conversely, a capital loss is when the sale price is lower than the purchase price.

Calculating capital gains depends on:

- when the asset was acquired (and whether your ownership period is over 12 months); and
- whether you are disposing of the asset as an individual, trust, complying super fund or other entity.

We suggest you speak to a financial adviser to help you work out your capital gain or loss. Your adviser will be able to consider your personal circumstances to recommend the most suitable method as well as strategies to help you manage the tax implications associated with the gain or loss.

Remember to keep complete records

It is always recommended to keep a record of the financial information related to an inherited asset. This information will be required to determine your CGT obligations when it comes time to complete your tax return.

In terms of the financial information generally required, if it's a pre-CGT asset, you need to know its market value at the date of death, and any related costs incurred by the executor as part of the administration process.

If the deceased acquired the asset on or after 20 September 1985, generally you need a valuation report to show the current market value of the asset, details of all related costs incurred by the deceased and any related costs incurred by the executor as part of the administration process.

Do I pay CGT on inherited family home?

The family home may be subject to CGT. A principal place of residence is ordinarily a capital gains tax-free asset due to main residence exemption, however, it can become subject to CGT on transfer and sale. How the home is treated depends on whether it was bought before or after 20 September 1985:

If purchased **before** 20 September 1985, and

- it is sold within two years of the date of death (unless an extended period is granted by the ATO), it is CGT-free.
- it is sold after this time, a capital gain may arise using the market value of the home at the date of death as the starting point for calculating any gain. However, a full or partial main residence exemption may still be available depending on who occupies the home after death and the circumstances of the inheritance.

If purchased **after** 20 September 1985, and

- the home was the deceased's main residence and was not being used to produce income immediately before death, the full main residence exemption may be available.

it was being used to produce income immediately before death, a full main residence exemption may not be available and some or all of the capital gain on a later sale may be taxable. The cost base used to calculate the gain will depend on the specific circumstances and the deceased's ownership history.

Tax is complicated. Seek financial advice

The capital gains tax implications of a deceased estate are complicated. A properly administered estate is one that takes into account the assets of the estate and your financial situation. For more information on the key stages of estate administration, read our article 'A guide to understanding estate administration'.

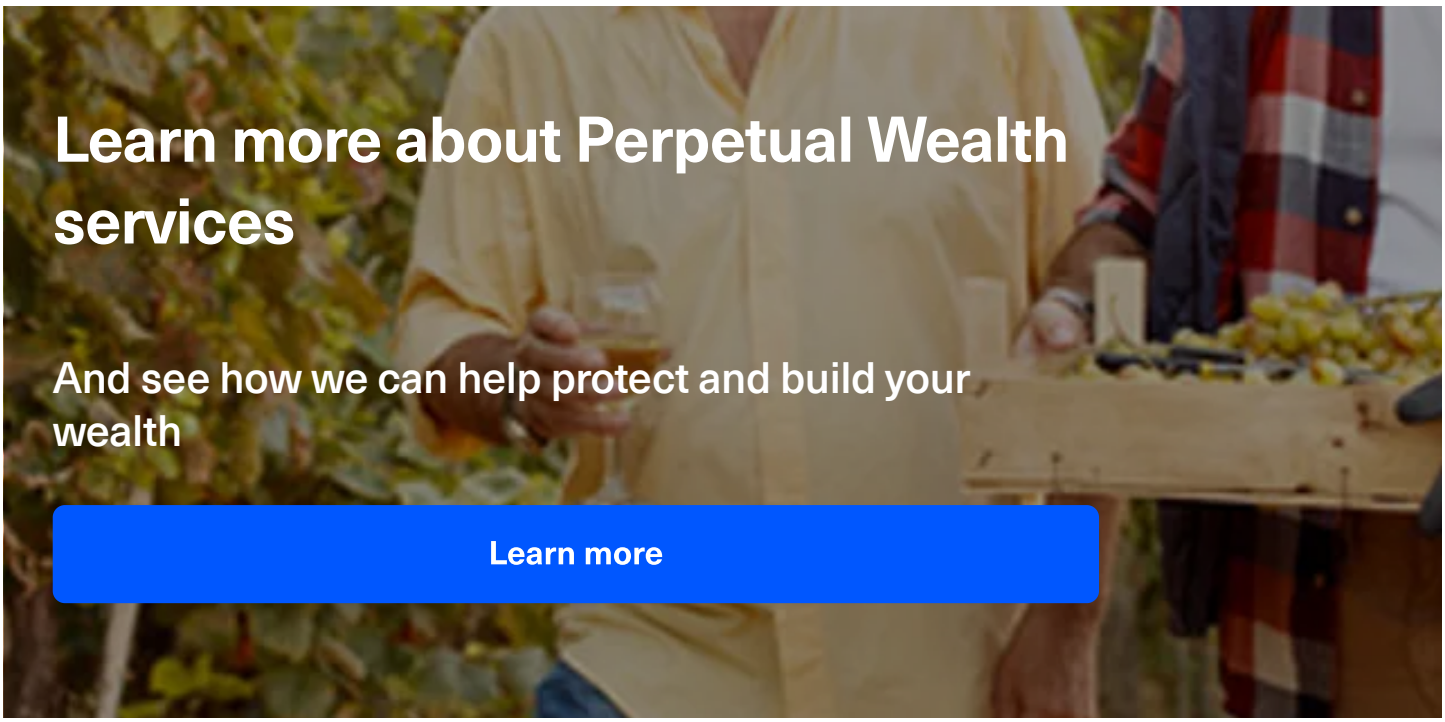
Before deciding whether to retain or sell inherited assets, it is important to consider your personal goals, financial circumstances and intentions for the deceased estate. This is especially important in light of the 2026 Federal Budget changes to capital gains tax regime, including the introduction of an indexation framework and a minimum effective tax rate on certain capital gains. As these changes can have a significant impact on the after-tax value of inherited assets, obtaining professional financial advice can help ensure you understand your options and make decisions that align with your long-term financial objectives.

We're here to help

With expertise in financial planning and tax advice, Perpetual Wealth will consider your personal circumstances and manage all the technical taxation matters involved in receiving an inheritance to build a strategy that helps grow your wealth and future-proof the legacy.

If you have any questions about capital gains tax and the estate administration process, go to our dedicated webpage on inheritance.





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