Study Period: Semester 1, 2012

Unit Convenor: Shirley Murphy

Prerequisites / Co requisites: ACCG854 and ACCG861

Credit points: 4 credit points

Students in this unit should read this unit outline carefully at the start of the semester. It contains important information about the unit. If anything is unclear, please consult one of the teaching staff in the unit.

ABOUT THIS UNIT

This unit covers the laws relating to income tax, fringe benefits tax and the goods and services tax in Australia. The unit is broken up into weekly lectures and student presentations of assigned questions on specific topics which, in the main will apply the taxation laws to fact situations as well as group discussion. This unit is 4 credit points.

TEACHING STAFF

<table>
<thead>
<tr>
<th>Name</th>
<th>Role in unit</th>
<th>Email</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shirley Murphy</td>
<td>Unit Convenor &amp; Lecturer</td>
<td><a href="mailto:Shirley.Murphy@mq.edu.au">Shirley.Murphy@mq.edu.au</a></td>
</tr>
<tr>
<td>Victoria Lakis</td>
<td>Lecturer</td>
<td><a href="mailto:Victoria.Lakis@mq.edu.au">Victoria.Lakis@mq.edu.au</a></td>
</tr>
</tbody>
</table>
**CONSULTATION TIMES**

Consultation time with Victoria Lakis is on Tuesdays 1pm to 2pm on Level 2, E4A. Consultation with Shirley Murphy can be arranged by email.

You are encouraged to seek help at a time that is convenient to you from a staff member teaching on this unit during their regular consultation hours or by appointment. Staff will not conduct any consultations by e-mail. You may, however, phone staff during their consultation hours.

In order to gain access to staff located at levels 1, 2 and 3 of building E4A during their consultation hours please ring the staff member from the phones available in the lobby (phone numbers of relevant staff members will be provided on i-learn and are available next to the phones).

*Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.*

**CLASSES**

- The thirteen three-hour seminars will consist of a 2 hour lecture and 1 hour tutorial each week as detailed later in this unit outline.
- The timetable for classes can be found on the University web site at: [http://www.timetables.mq.edu.au/](http://www.timetables.mq.edu.au/)
- Class attendance for this unit is compulsory.

**REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS**

**Prescribed textbooks:**

- Woellner, Barkoczy, Murphy, Evans and Pinto *Australian Taxation Law 2012* CCH 22nd Edition
- Barkoczy, S. *Core Tax Legislation and Study Guide 2012* CCH.

All students must purchase the prescribed texts and bring them to seminars each week

**Recommended textbooks:**

The following is not specifically required but may be used for additional reading.

- Barkoczy S *Australian Tax Casebook* 11th Edition CCH

The prescribed and recommended texts can be purchased from the Macquarie University Co-op Bookshop and are available in the Macquarie Library.

**UNIT WEBPAGE**

- Course material is available on the learning management system (ilearn)
- There is no web page for this unit.

**LEARNING OUTCOMES**

The learning outcomes of this unit are:

1. An understanding of the law relating to income taxation.
2. An understanding of the law relating to GST.
3. An understanding of the law relating to FBT.
4. The ability to apply the relevant tax laws and related legal precedents to a problem or fact situation.
5. The ability to analyse events and explain the applicable legislation to determine tax liability.
6. Develop practical skills of problem solving and of communicating in a group setting.

**GRADUATE CAPABILITIES**

In addition to the discipline-based learning objectives, all academic programs delivered at Macquarie University North Ryde and City campuses seek to develop the capabilities the University's graduates will need to address the challenges, and to be effective, engaged participants in their world.

This unit contributes to this by developing the following graduate capabilities:

1. Discipline Specific Knowledge and Skills
2. Critical, Analytical and Integrative Thinking
3. Problem Solving and Research Capability
TEACHING AND LEARNING STRATEGY

Each week, lecture notes will be placed on i-learn before the class. These notes are only the core notes and they are NOT intended to stand alone nor in place of lecture attendance. They are provided for your convenience. You must also properly construct your own notes based on your own readings and any additional comments, supplements and corrections to these notes which may occur during lectures – and which you MUST attend.

You are not entitled to rely on lecturer provided notes for full study purposes nor as the final indicator of exam content. You are required to and expected to read all text and legislative references and also to take into account comments, additional materials and illustrations and examples which may also be given in lectures.

The three-hour seminars will consist of a 2 hour lecture and 1 hour tutorial. It is expected that ALL students have prepared answers to each week’s tutorial questions PRIOR to the tutorial.

Please refer to the week-by-week list of topics and readings in this unit outline below.
Please see the following table:

<table>
<thead>
<tr>
<th></th>
<th>Assessment Task 1</th>
<th>Assessment Task 2</th>
<th>Assessment Task 3</th>
<th>Assessment Task 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Title/Name</strong></td>
<td>Written Report</td>
<td>Individual/pair presentation</td>
<td>Mid-semester examination</td>
<td>Final examination</td>
</tr>
<tr>
<td><strong>Description</strong></td>
<td>Report to the Tax Manager Word limit 1,000</td>
<td>Oral presentation (maximum 10 minutes) of assigned question and written analysis of the question (maximum 300 words)</td>
<td>50 minutes plus 10 minutes reading time</td>
<td>180 minutes plus 10 minutes reading time</td>
</tr>
<tr>
<td><strong>Due date</strong></td>
<td>In class Week commencing 19 March 2012</td>
<td>In class</td>
<td>In class – week commencing 2 April</td>
<td>End-of-semester exam period</td>
</tr>
<tr>
<td><strong>% Weighting</strong></td>
<td>15%</td>
<td>5% oral; 5% written</td>
<td>20%</td>
<td>55%</td>
</tr>
<tr>
<td><strong>Grading method</strong></td>
<td>Zero for non-submission. Mark out of 10 based on the student's analysis of the tax issues, and mark out of 5 for communicative competence</td>
<td>Zero for failure to present or to submit written analysis Marks are awarded based on the identification of relevant tax issues and application to the facts as well as the style and relevance of the presentation and analysis.</td>
<td>Assessed on lecture topics 1-5. Multiple choice questions only.</td>
<td>Assessed and graded on lecture topics 6-12. Multiple choice and problem questions.</td>
</tr>
<tr>
<td><strong>Submission method</strong></td>
<td>Submit to Turnitin through the ACCG924 i-learn page and attach a copy of the Turnitin Report to the hard copy of the assignment. The assignment and Turnitin Report must be handed in to the lecturer in the seminar in the week beginning</td>
<td>Presentation in the particular seminar allocated to the student. Submission of written analysis in class or by email within two days after the class.</td>
<td>Hand in examination script.</td>
<td>Hand in examination script.</td>
</tr>
<tr>
<td>Assessment Task 1</td>
<td>Assessment Task 2</td>
<td>Assessment Task 3</td>
<td>Assessment Task 4</td>
<td></td>
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<tr>
<td>19 March 2012. An additional copy of the assignment (without the Turnitin Report attached) must at the same time be handed to the lecturer for CME to mark. An assignment submitted late will not be accepted without prior permission from your lecturer.</td>
<td>Presentation Feedback Form completed and returned to the student by the lecturer.</td>
<td>Review and discussion in seminars. Feedback on common mistakes posted on i-learn.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feedback</td>
<td>Marking guidelines will be made available on i-learn after the assignments have been returned to students.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Estimated student workload (hours)</td>
<td>Approximately 15 hours</td>
<td>Approximately 10 hours</td>
<td>This is cumulative over the prior weeks in the semester.</td>
<td></td>
</tr>
<tr>
<td>Learning outcomes assessed</td>
<td>1,2 and 3</td>
<td>1-10</td>
<td>1, 2, 3, 4 and 10</td>
<td></td>
</tr>
<tr>
<td>Graduate capabilities assessed</td>
<td>1,2,3, 5 and 6</td>
<td>1,2,3,4,and 5</td>
<td>1,2,3,5 and 6</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2, 5, 6, 7, 8 and 9</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1,2,3,5 and 6</td>
<td></td>
</tr>
</tbody>
</table>
(1) Written Report (15%)
Maximum length: 1000 words.
This assessment task requires students to apply their knowledge of the concepts covered in the first three lectures to a given fact situation and prepare a report to the Tax Manager. A mark out of 10 will be awarded for the technical tax content of the report and a mark out of 5 for communicative competence. The Centre for Macquarie English will mark the report for communicative competence. The written report is to be handed in during class in the week commencing 19 March 2012. Students are also required to submit this assignment electronically to the Turnitin icon on the home page of ACCG924 on i-learn. Students will receive a grade for their assignment and a copy of the tax issues that the markers were looking to be addressed will be provided on i-learn.

Two assignment questions are printed on pages 31 and 32 of this unit outline. Students must answer ONE question only.

(2) Presentation of an allocated question (10%)
Each student will be allocated a question and will be required to give an oral presentation analysing and answering the issues in the question. In some cases, students will present their answer with another student. The presentation (worth 5 marks) must not be longer than 10 minutes by each student. Presentations will be marked on the basis of the level of preparation, understanding, accuracy, ability to explain the key issues and appropriate use of learning aids.

Each student will also be required to submit a written analysis (maximum 300 words) of the issues, the law and how to approach solving the question that they have been allocated. This written analysis (worth 5 marks) may be presented to the lecturer in class on the day of the presentation, or by email within two days after the presentation. This written analysis must not be a repeat of the presentation. It should instead be a statement by the student of the issues arising from the question, the taxation law relevant to those issues and a suggestion of how the issues can be solved by application of the law. The written analysis should not include calculations or numerical explanations.

Generally, students are expected to display knowledge and communication skills of a postgraduate student.

Two examples of the type of written analysis that you are required to submit are included on pages 33 and 34 of this unit outline.

(3) Mid-semester examination (20%)
The mid-semester exam will cover lecture topics 1 to 5 and will be held in class in the week commencing 2 April. The exam will comprise 20 multiple choice questions and will last 50 minutes plus 10 minutes reading time. Results will be provided to students via i-learn.

See comments below about what study aids can be taken into the exam.
(4) End of semester final examination (55%)
The end-of-semester exam will cover lecture topics 6 to 12 and will be held in the exam period commencing 12 June 2012. The date, time and location of this exam will be provided on i-learn later in the semester. You must achieve at least 50% in the final exam to pass this unit.

See comments below about what study aids can be taken into the exam.

Exam Aids

You are permitted to take into the two exams the following aids:

- Your own handwritten notes.
- A calculator.
- Tax legislation in book published form, eg 2012 Core Tax Legislation and Study Guide. This may be written on, marked up by hand or tagged as you see fit.

You are NOT permitted to take into either exam any other items – you are not, for example, allowed to take your textbook Australian Taxation Law into the exam. Similarly, no photocopies are permitted nor any computer downloads or printed output of any type.

Turnitin

ACCG924 students are required to submit the written assignment electronically to the Turnitin website. Turnitin is an internet database that identifies papers containing unoriginal material. All students will be provided with a Student User Guide for Turnitin on i-learn which contains instructions of how to register and use the Turnitin website.

Assignment Submission Requirements

When submitting assignments for ACCG924 students must:
• Submit your assignment through the Turnitin icon on the ACCG924 i-learn site. An Originality Report will be produced. The Originality Report must be printed and submitted in hard copy with your assignment by the due date as instructed by your lecturer. No password or username is required for Turnitin submission through i-learn.

• A Cover Sheet must be attached to the front of your assignment when submitted in hard copy. The cover sheet must be signed and dated. Coversheets can be downloaded from http://www.businessandeconomics.mq.edu.au/for/new_and_current_students/undergraduate/bess

PENALTIES WILL APPLY TO STUDENTS WHO FAIL TO FOLLOW THESE INSTRUCTIONS. IT IS THE STUDENT'S RESPONSIBILITY TO COMPLETE THESE REQUIREMENTS CORRECTLY.

Final Examination

A final examination is included as an assessment task for this unit to provide assurance that:
  i) the product belongs to the student and
  ii) the student has attained the knowledge and skills tested in the exam.

A 3 hour final examination for this unit will be held during the University Examination period.

The University Examination period in Semester 1 2012 commences on 12 June 2012.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations. http://www.timetables.mq.edu.au/exam

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. The University’s policy on special consideration process is available at http://www.mq.edu.au/policy/docs/special_consideration/policy.html

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Faculties may wish to signal when the Faculties’ Supplementary Exams are normally scheduled.)
The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at: http://www.mq.edu.au/policy/docs/examination/policy.htm

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations. http://www.timetables.mq.edu.au/exam

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**Academic Honesty**

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.
Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

**GRADES**

Macquarie University uses the following grades in coursework units of study:

- HD - High Distinction
- D - Distinction
- CR - Credit
- P - Pass
- F - Fail

All final grades in the Department of Accounting and Corporate Governance are determined by a grading committee and are not the sole responsibility of the Unit Coordinator.

Macquarie University’s Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a Standardised Numerical Grade (SNG).

The Standardised Numerical Grade (SNG) is not a summation of the individual assessment components.

To be awarded a specific grade, students are required to perform at an equivalent standard in the final examination and the overall assessment mark in the unit.

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at: http://www.mq.edu.au/policy/docs/grading/policy.html

**GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING**
If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.


**SPECIAL CONSIDERATION**

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at: http://www.mq.edu.au/policy/docs/special_consideration/procedure.html

**STUDENT SUPPORT SERVICES**

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at http://www.student.mq.edu.au.

**IT CONDITIONS OF USE**

Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. At all times, student ID cards must be displayed in the locations provided. Students are expected to act responsibly at all times when utilising University IT facilities. The following regulations apply to the use of computer labs and online services:

- Accessing inappropriate web sites, or downloading inappropriate material, are not permitted, material that is not related to coursework in units authorised to use these facilities is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may possibly result in criminal proceedings.
Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.

**Weekly Curriculum**

<table>
<thead>
<tr>
<th>Week</th>
<th>Lecture</th>
<th>Presentation</th>
<th>Seminar date</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td><strong>Lecture 1</strong>&lt;br&gt;Introduction to taxation law&lt;br&gt;Tax formula, tax rates and tax offsets&lt;br&gt;International aspects of taxation</td>
<td>No presentations</td>
<td>Week commencing 27 February</td>
</tr>
<tr>
<td>02</td>
<td><strong>Lecture 2</strong>&lt;br&gt;General principles of income&lt;br&gt;Income from property&lt;br&gt;Centre for Macquarie English – Report Writing</td>
<td>No presentations</td>
<td>Week commencing 5 March</td>
</tr>
<tr>
<td>03</td>
<td><strong>Lecture 3</strong>&lt;br&gt;Income from personal exertion&lt;br&gt;Income from business&lt;br&gt;Non-assessable income</td>
<td>Q 1, 2, 3 and 4 relating to Lectures One and Two</td>
<td>Week commencing 12 March</td>
</tr>
<tr>
<td>04</td>
<td><strong>Lecture 4</strong>&lt;br&gt;Tax Accounting&lt;br&gt;General deductions&lt;br&gt;&lt;br&gt;<em>Written Assignment due</em></td>
<td>Q 1, 2, 3 and 4 relating to Lecture Three</td>
<td>Week commencing 19 March</td>
</tr>
<tr>
<td>05</td>
<td><strong>Lecture 5</strong>&lt;br&gt;Specific deductions&lt;br&gt;Trading stock</td>
<td>Q 1, 2, 3, 4 and 5 relating to Lecture Four</td>
<td>Week commencing 26 March</td>
</tr>
<tr>
<td>Week</td>
<td>Lecture</td>
<td>Topics</td>
<td>Questions Relating To</td>
</tr>
<tr>
<td>------</td>
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</tr>
<tr>
<td>06</td>
<td>Mid-semester exam in class (50 minutes plus 5 minutes reading time)</td>
<td>Lecture 6</td>
<td>Q 1, 2, 3 and 4 relating to Lecture Five</td>
</tr>
<tr>
<td>07</td>
<td>Mid-Semester Break</td>
<td></td>
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</tr>
<tr>
<td>08</td>
<td>Lecture 7</td>
<td>Capital Gains Tax</td>
<td>Q 1, 2 and 3 relating to Lecture Six</td>
</tr>
<tr>
<td>09</td>
<td>Lecture 8</td>
<td>Goods and Services Tax</td>
<td>Q 1, 2 and 3 relating to Lecture Seven</td>
</tr>
<tr>
<td>10</td>
<td>Lecture 9</td>
<td>Partnerships and Trusts</td>
<td>Q 1, 2 and 3 relating to Lecture Eight</td>
</tr>
<tr>
<td>11</td>
<td>Lecture 10</td>
<td>Companies</td>
<td>Q 1, 2 and 3 relating to Lecture Nine</td>
</tr>
<tr>
<td>12</td>
<td>Lecture 11</td>
<td>Fringe Benefits Tax</td>
<td>Q 1, 2 and 3 relating to Lecture Ten</td>
</tr>
<tr>
<td>13</td>
<td>Lecture 12</td>
<td>Tax Administration</td>
<td>Q 1 and 2 relating to Lecture Eleven</td>
</tr>
<tr>
<td>14</td>
<td>Lecture 13</td>
<td>Revision</td>
<td>No presentations</td>
</tr>
<tr>
<td>15</td>
<td>FINAL EXAM PERIOD START</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Lecture One

Introduction to taxation law

Tax formula, tax rates and tax offsets

International aspects of taxation

Readings from Woellner, Barkoczy, Murphy, Evans and Pinto *Australian Taxation Law 2012* CCH (referred to in this unit outline as “W”) for this week’s lecture.

**Introduction to taxation law**
Australian Legal System
W 1-310 to 1-520
Constitutional Aspects of Taxation
W 1-530 to 1-610

**Tax formula, tax rates and tax offsets**
W 2-000 to 2-540
W 2-640 to 2-650

**International aspects of taxation**
Introduction
W 24-010 to 24-020
Residence
W 24-040 to 24-066
Source
W 24-100 to 24-170

No presentation questions

Lecture Two

General principles of income

Income from property

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.

**General principles of income**
W 3-000 to 3-420

**Income from property**
Interest W 5-200 to 5-260
Annuities W 5-300
Leases and rental income W 5-400 to 5-475
Royalties W 5-500 to 5-525

Presentation questions relating to Lecture one and two material to be presented in next week’s class:

**Question One**
Janet has lived and worked in the United States (US) for the last 10 years. Although Janet was born in Australia, while living and working in the US she married and had two children and purchased an apartment in New York with her husband in which the family resided.
In September 2011, Janet and her husband decided to move the family to Australia for a period of two years, and, depending on how they felt at the end of that period, perhaps for longer. Janet found work as a receptionist in Brisbane, her husband found employment as an engineer and their children were enrolled in school in Brisbane. The family arrived in Australia on 1 December 2011 and moved into a rental home close to the children’s schools. Janet and her husband started work on 1 February 2012.

The apartment in New York was made available for rent during the two years that the family was to be in Australia, and after that time a decision would be made whether to sell the apartment. In the meantime, the family rented an apartment in Brisbane.

During the 2011/12 income year, Janet received the following payments:

- Salary from her US employment – A$150,000 paid before 1 December 2011
- Her share of rental income from the New York apartment -- A$3,100 paid in November 2011 and A$5,000 paid in May 2012
- Interest received on her US bank accounts -- A$750 paid on 1 October 2011 and A$690 paid on 11 April 2012
- Salary from her Australian employment -- A$6,000 paid each month from 1 February 2012

Advise Janet of the Australian income tax implications arising from the family’s relocation to Brisbane. In particular, you need to advise on:

- whether Janet is a resident or a foreign resident for 2011/12, and
- the Australian income tax treatment of the payments received by Janet during 2011/12.

Question Two

Marge is a 40-year-old resident who is married to Homer and has three children. In 2011/12, Marge will derive $180,000 of assessable income and will be entitled to $20,000 of deductions. Calculate Marge’s liability to income tax, Medicare levy and Medicare levy surcharge (assuming she has no private health insurance) for the year. How would your answer differ if Marge were a foreign resident?

Question Three

Tom is a resident in 2011/12 and has taxable income of $75,000. Calculate Tom’s liability to income tax, Medicare levy, Medicare levy surcharge (assuming he has no private health insurance) and flood levy.

Question Four

Explain whether any of the following amounts would be ordinary income in the hands of the recipient:

1. a prize received by a competitor on a quiz show
2. interest derived from a bank deposit
3. a gift received under a will of a deceased relative
4. Qantas frequent flyer points received by an accountant employed by an accounting firm in relation to work-related travel paid for by the firm
5. proceeds from the sale of food by a supermarket
6. a monthly pension paid by a bank to its former employees who lost their superannuation benefits because of fraud committed by the trustee of their fund
7. proceeds from the sale of old furniture at a “garage sale”.

**Lecture Three**

**Income from personal exertion**

**Income from business**

**Non-assessable income**

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.

**Income from personal exertion**
W 4-000 to 4-200

**Income from business**
W Chapter 6

**Non-assessable income**
W 9-000 to 9-025

Presentation questions relating to Lecture Three material to be presented in next week’s class:

**Question One**

Ted is employed as a parking attendant at a large hotel. Quite often patrons give Ted a tip for parking their car as he always takes care and they appreciate his good nature and friendliness.

Ted also plays cricket each weekend and is paid $100 per game. He was voted “Best Player of the Year” by the local radio station and received cash and prizes totalling $10,000 in value.

**Advise Ted whether these receipts are assessable.**

**Question Two**

Bill owns a large parcel of land on which there are many tall trees. He intends to use the land for grazing sheep and therefore wants it cleared. He discovers that a logging company is prepared to pay him $1,000 for every 100 metres of timber they take from his land. Ignoring capital gains tax issues, advise Bill whether he would be assessed on the receipts from this arrangement.

Would the answer be different if Bill was simply paid a lump sum of $50,000 for granting the logging company a right to remove as much timber as required from his land?
**Question Three**

During the year ended 30 June 2011 David was employed full-time as an IT consultant. He was also a tennis player who was paid $15,000 by sponsors to cover his tournament travel expenses.

On a number of occasions David’s employer allowed him to take leave without pay to compete in tennis tournaments, and he won $45,000 during the year.

In July 2011 David competed in an international tennis tournament in Malaysia. He won this tournament and the prize of a fully paid holiday to the United States. Almost immediately a major tennis sponsor offered David A$250,000 to become a professional tennis player. David accepted this money, resigned from his employment as an IT Consultant and in 2011/12 won $1.5 million from tennis tournaments.

In September 2011, a magazine offered David a lump sum of $150,000 in return for his agreement to sit down with one of their writers and answer questions about his life. The magazine will hold the copyright to the story.

**Advise David of the tax treatment of the various payments he received during 2010/11 and 2011/12.**

**Question Four**

Rapid Industries Ltd (Rapid) sells imported clothing by wholesale and holds five valuable import quotas that allow it to import stock. Rapid wishes to restructure its business and, for that purpose, sells two of its import quotas for $350,000.

In addition Rapid has a license to reproduce pictures of Disney characters on t-shirts and other types of clothing for a 15-year period. Rapid charges a fee (royalty) per reprint made by clients. To obtain additional funding, Rapid enters into an arrangement under which it assigns to a finance company its right to receive the royalties in return for a lump sum payment of $20 million. Rapid and the finance company are not related.

**Advise Rapid on the income tax consequences of these receipts.**

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**Lecture Four**

**Tax Accounting**

**General Deductions**

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.

**Tax Accounting**

Tax accounting

W 13-000 to 13-460

**General deductions (Section 8-1 ITAA97)**

General deductions

Chapter 10

Meaning of incurred

W 13-500 to 13-510
Presentation questions relating to Lecture Four material to be presented in next week’s class:

**Question One**

Fred operates an investment training business in which he teaches stockbrokers how to improve their investment skills. In January 2011, Millie pays Fred $1,500 for a course of lessons. There are 12 lessons in the course, each offered on the first day of each month over the duration of the course. Although the terms of the contract between Fred and Millie provide that no refunds are available, Fred typically provides his students with refunds for the unexpired portions of their course if they are unsatisfied and decide to quit part-way through. Advise how Fred should account for the course fees.

**Question Two**

Radio 24 has an established business as a radio station in the small country town of Roma. Three times in the past three years Radio 24 has taken potential rivals before the Broadcasting Tribunal to stop them gaining radio licences for Roma. If any of the rivals had obtained a licence, Radio 24’s commercial viability would have been jeopardised. Radio 24 applies to the Tax Office for a private ruling on whether these expenses are deductible under s 8-1 ITAA97. Explain what you think would be the Tax Office’s response, and why.

**Question Three**

Paul works as a self employed writer of short stories. He rents a house and has set aside a room as his office. This room represents 20% of the total floor space of his house. Paul wishes to claim a deduction for expenses related to the home office. He also wants to claim a deduction for the cost of taking people to lunch so that he can talk to them and get ideas for his stories. Advise Paul on what expenses may be deductible in these circumstances.

What difference would it make if Paul was employed by a magazine company and only maintained the office at home because he found he could work more productively there than at his employer’s premises?

**Question Four**

On 1 July 2011, Yuri borrowed $100,000 from a bank at a commercial interest rate of 10% per annum. He immediately lent the borrowed funds to the trustee of his family trust at an interest rate of 1%. The trustee used the funds to renovate a holiday home owned by the trust and used by Yuri’s family. To what extent is Yuri entitled to a deduction for 2011/12 for his interest expenditure?

**Question Five**

Peter is a doctor who is employed at a local surgery. Once a week Peter also lectures at university and receives an hourly fee for his services. Explain whether Peter would be entitled to a deduction for the following expenses:
Lecture Five
Specific Deductions
Trading Stock

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.

Specific deductions
Introduction
W 11-000 to 11-012
Repairs
W 11-020 to 11-080
Bad Debts
W 11-440 to 11-460
Tax losses of earlier years
W 11-500 to 11-530
Losses from non-commercial business activities
W 11-550 to 11-558
Tax related expenses
W 11-560
Borrowing expenses
W 11-565
Travel between workplaces
W 11-635
Trading stock
W 14-000 to 14-160

Presentation questions relating to Lecture Five material to be presented in next week’s class:

**Question One**

In September 2011, Tanya recently purchased an investment property that was in poor condition. Before leasing the property to tenants, she renovated the kitchen and replaced the front wooden fence with a new brick fence. Tenants moved in on 1 November 2011. In January 2012, the kitchen was damaged when the stove caught fire, and Tanya was forced to repaint some of the
walls. A month later, a car crashed into the new brick fence and part of it had to be rebuilt. Can Tanya claim a deduction for any of these expenses?

**Question Two**

Swift Co owns a market research business in Sydney. During 2010/11, Swift Co billed one of its customers $1,500 for services that it had provided. In March 2012, Swift Co discovers that the client is experiencing financial distress and will not be able to pay the bill. What action should Swift Co take from a tax perspective?

On 1 June 2011, Swift Co had purchased another market research business in Darwin, and included in the purchase price was $150,000 for the outstanding debts. On 1 December 2011 the company realised that, of the $150,000 debts purchased, only $120,000 could be collected. The balance of $30,000 was written off on 1 December 2011. What are the tax consequences?

**Question Three**

John recently borrowed $500,000 from a bank to purchase shares in BHP. The loan is for a period of 20 years. To establish the loan, John was required to pay a $2,000 fee to the bank. Advise John on whether he can deduct the fee under s 25-25.

Would your answer be different if John used some of the borrowed funds to go on a holiday?

**Question Four**

Sandra owns a small restaurant and incurs the following expenses in 2011/12:

1. fee paid to a recognised tax adviser for preparation of her income tax return ($440) and for lodging an objection to a GST assessment ($500)
2. general interest charge of $250 for paying her tax late in 2010/11
3. $300 administrative penalty paid to the Tax Office for failing to lodge her income tax returns on time in the previous two years.

Explain whether these amounts are deductible under s 25-5 and, if not, whether they would be deductible under s 8-1.

**Lecture Six**

**Capital allowances and capital works**

**Small business concessions**

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.

**Capital allowances and capital works**

Uniform capital allowance system
W 12-100 to 12-270
Black-hole Expenditure
W 12-300 12-330
Capital Works
W 12-500 to 12-540
Small business concessions
Overview
W 15-000 to 15-100

Presentation questions relating to Lecture Six material to be presented in next week’s class:

Question One
Fiona purchased a motor vehicle for use in her business for $75,000 on 1 August 2011. She uses the motor vehicle 80% for business use and is not using the Small Business Entity method of depreciation. The effective life of the motor vehicle at the time of acquisition was seven years.

Explain the depreciation deduction, comparing both depreciation methods, for the motor vehicle for the year ended 30 June 2012.

Question Two
On 15 January 2011, Max Pty Ltd (Max) acquired a piece of machinery at a cost of $200,000 for use in its business. Max believed the machine to have an effective life of five years and claimed diminishing value depreciation on the machine.

On 30 June 2012 Max traded in the machine for a new model. Max was given $150,000 for the old machine that was offset against the purchase price of a new machine costing $250,000.

What are the taxation implications of these transactions?

Question Three
B Co is a manufacturing company that purchased land for $2 million on 1 January 2009. It commenced to build a factory on the land on 1 September 2009. Construction of the factory was completed on 1 July 2011 for a cost of $10 million, and B Co used the factory for income-producing purposes from that date. What capital works deduction is B Co entitled to for the years 2009/10, 2010/11 and 2011/12?

Lecture Seven
Capital gains tax (CGT)

Readings from Australian Taxation Law 2012 CCH for this week’s lecture.

Capital gains tax
Overview
W 7-000
Design and structure of the CGT provisions
W 7-030 to 7-050
Identifying a CGT event
W 7-100 to 7-110
Disposal of a CGT asset: CGT event A1
W 7-120
Use and enjoyment passes before title: CGT event B1
W 7-130
End of a CGT asset: CGT event C1 and C2
Bringing into existence a CGT asset: CGT event D1
Australian residency ends: CGT event I1
CGT assets: definition and classification
Timing of acquisition of assets
**Calculating a capital gain or loss from a CGT event**
Capital proceeds
Cost base
Reduced cost base
General modifications to cost base and reduced cost base
Indexation of the cost base
**Exceptions or exemptions that may apply to a CGT event**
Main residence exemption
Effect of Death
**Roll-over provisions**
**Determining net capital gain or loss for the income year**
Presentation questions relating to Lecture Seven material to be presented in next week’s class:

**Question One**

Janet acquired an apartment in Sydney, under a contract dated 14 January 2009, for $270,000 cash payable on 14 January 2009 and a promise by Janet to pay an additional $52,000 on 14 July 2010. Janet planned to make the apartment available for rent immediately, but the real estate agent advised that the apartment could not be rented out until a coat of paint was applied to the apartment’s internal walls (cost $3,500) and the balcony railing was replaced (cost $5,500). After the work was carried out, Janet rented the apartment to Pat on 28 February 2009 for $300 a week.

By this time, Janet had paid $30,000 in stamp duty, $1000 for a valuation of the property and $500 fees to a lawyer.

Janet obtained a loan from the bank to fund the purchase of the apartment and incurred the following interest on the loan: (1) $6,700 for 2008/09, (2) $11,950 for 2009/2010, (3) $10,800 for 2010/2011, and (4) $10,450 for 2011/2012.

On 10 February 2012, Janet entered into a contract with her brother to sell him the apartment for $380,000. Janet had received an offer for $430,000 but decided to accept the lower offer from her brother as this would help him out and it would mean that she would not have to pay a fee to the
real estate agent. The sale was finalised on 20 March 2012 when the tenant moved out of the apartment.

**Explain the capital gains tax consequences of these transactions.**

**Question Two**

After many years of being a teacher at a high school in Concord, Janet decided to sell the following assets and use the money she received to travel around Australia:

1. Yacht sold on 6 June 2012 for $5,000 which she had acquired on 7 October 1999 for $15,000.
2. Rare collection of gold coins sold on 15 June 2012 for $3,000 which she had acquired on 6 March 1989 for $499.
3. BMW motor vehicle sold for $16,000 on 17 June 2012. Jennifer had acquired the car on her 50th birthday for $25,000 on 15 March 2005.
4. 2,000 shares sold on 19 June 2012 for $50,000. She had inherited the shares from her father on 16 July 1989 when they had a market value of $4 each. Her father had acquired the shares for $5 on 15 April 1987.
5. Main residence in Strathfield sold for $900,000 on 1 June 2012. Settlement was on 15 July 2012. Jennifer had originally bought the house on 10 February 1986 for $250,000 plus $10,000 in stamp duty and legal fees. She had always rented the bottom half of the house to tenants and lived in the top half of the house which represented 50% of the total area.

Jennifer had carried forward capital losses of $15,000 at 30 June 2011.

**Calculate the net capital gain or loss for Jennifer for the year ended 30 June 2012**

**Question Three**

Explain which CGT event happens in the following circumstances.

1. Kath sold her business to Tim and agreed that she would not operate a similar business in the same town for five years. Tim paid Kath $20,000 for this restriction.
2. Mel acquired a factory in December 2005. The factory was destroyed by fire in January 2009 and he received compensation from his insurer in July 2009.
3. Mel acquired a factory in December 2005 and it was destroyed by fire in January 2009. Mel’s insurance company refused to compensate Mel for the loss because Mel had not installed water sprinklers in the factory, so Mel went to court. The dispute between Mel and the insurance company was settled out of court with a payment to Mel of $250,000.
4. Sanli had entered Australia on 1 January 2010 on a short-term work visa and when he left Australia two years later (intending never to return) he owned the following assets: shares in BHP, a block of land in Hobart and some jewellery.

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**Lecture Eight**

**Goods and Services Tax (GST)**

Readings from *Australian Taxation Law 2012* CCH (referred to in this unit outline as “W”) for this week’s lecture.
Goods and Services Tax
W 27-000 to 27-175

Presentation questions relating to Lecture Eight material to be presented in next week’s class:

**Question One**

Explain whether GST would apply to the following supplies (you can assume that the general requirements, ie enterprise, consideration, connection with Australia and registration are fulfilled).

1. the sale of fruit by a supermarket
2. the loan of a DVD by a video store
3. the sale of books by a bookshop
4. the supply of a meal in a restaurant
5. the opening of a bank account
6. the sale of a new residential home by a builder
7. the export of raw materials by a mining company
8. the supply of hospital care
9. the sale of a business as a going concern
10. the provision of audit services by an accounting firm.

**Question 2**

Explain whether input tax credits would be available for the following acquisitions (you can assume that the acquirer is registered and, where appropriate, GST has been charged on the supply).

1. the purchase of books by a bookshop from a publisher
2. the purchase by a doctor of a computer for use in preparing his surgery’s accounts
3. the purchase of a set of law reports by a solicitor
4. the purchase of a car by an employer to provide as a fringe benefit to an employee
5. the purchase by an employee of a car to be used 50% for private and 50% for work purposes
6. the purchase by a family of a new home unit from a developer
7. the purchase by a hamburger restaurant of beef from a butcher
8. the purchase by a bank of a computer for use in recording loan transactions
9. the purchase of textbooks by a university student
10. the importation of a pair of skis for sale in the taxpayer’s ski shop

**Question Three**

Sunny operates a business that is registered for GST. Taxable sales during June amounted to $16,000.

The following expenses were paid by Sunny during the month:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff salaries</td>
<td>$10,000</td>
</tr>
<tr>
<td>Rent of business premises</td>
<td>$4,000</td>
</tr>
<tr>
<td>Tea and coffee for staff room</td>
<td>$50</td>
</tr>
<tr>
<td>Cakes and biscuits for staff room</td>
<td>$130</td>
</tr>
<tr>
<td>Stationery</td>
<td>$500</td>
</tr>
</tbody>
</table>
Cleaner $400
First aid course for employee $600
Other expenses $900

All businesses supplying goods or services to Sunny are registered for GST, except for the cleaner, and have complied with the GST law.

Assuming that Sunny lodges GST returns monthly on an accruals basis, calculate the GST payable or refundable for the month of June.

Lecture Nine
Taxation of partnership and trust income

Readings from Australian Taxation Law 2012 CCH for this week’s lecture.

Taxation of partnership income
W 16-000 to 16-080
W 16-200 to 16-340
W 16-800

Taxation of trust income
Overview
W 17-000
Aspects of the law of trusts
W 17-005 to 17-020
W 17-040 (fixed trust, unit trust and discretionary trust only)
Outline of the taxation of trust income
W 17-060 to 17-105
Net income of a trust estate
W 17-110 to 17-130
Taxation of trust income
W 17-160 to 17-210
Problem areas in the taxation of trust income
W 17-270 to 17-305

Taxation of minors
W21-010 to 21-050

Presentation questions relating to Lecture Nine material to be presented in next week’s class:

Question One
Fred (a resident) and Wilma (a foreign resident) are equal partners in a computer business. The business generates 75% of its income from Australian sources and 25% of its income from foreign sources. Assuming the net income of the partnership for 2011/12 is $400,000, explain how that income is taxed.

Question Two
Explain the income tax consequences of the following payments made by a partnership of three equal partners. You can assume the partnership income before the payments were made was $90,000:
• salary of $10,000 to one of the partners
• interest of $2,000 paid on a loan to the partnership by one of the partners, and interest of $3,000 paid on capital contributed by the partners
• a superannuation contribution of $4,000 paid to a fund for each of the three partners.

**Question Three**

The Foy Trust was established by Mary Foy in 2007 for the purpose of providing for the education and maintenance of her grandchildren. The beneficiaries of the trust are stated to be “the grandchildren of Mary Foy”, and the trustee is Laura, a solicitor. The trust deed gives Laura absolute discretion to make such distributions of trust income to the beneficiaries as she considers appropriate.

During the year ended 30 June 2012, the Foy Trust derives the following income:
• interest of $35,000 from investments,
• fully franked dividends of $16,000, and
• net capital gain of $150,000 from sale of a property.

The Foy Trust incurred the following expenses in the year ended 30 June 2012:
• legal fees of $4,000,
• salaries of $60,000, and
• administration fees of $27,000.

Mary Foy had three grandchildren at 30 June 2012:
• Sonya, aged 22, who was studying at university and also earned $15,000 from working part-time,
• Mila, aged 21, who had dropped out of university and was unemployed, and
• Vana, aged 16, who was in her final year at school and earned $8,000 from working in a supermarket.

Laura exercised her discretion to distribute the trust income as follows:
• 35% to Sonya to help pay for her living expenses, and
• 45% to Vana to help with her education costs and to pay for a school trip.

Laura disapproved of the way Mila was living and decided to hold the other 20% in the trust until sometime in the future when Mila had changed her lifestyle.

1. **Calculate and explain the net income of the Foy Trust for year ended 30 June 2012.**
2. **On the basis of the information you have been given, explain the tax consequences for Sonya, Mila, Vana and Laura for the year ended 30 June 2012.**

**Lecture Ten**

**Companies**

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.
Question One

Anna is a tax resident in full-time employment as a school teacher. She provides the following details of her income and expenses during the year ended 30 June 2012:

Salary -- $85,000 (PAYG tax withheld -- $20,000)
Dividend (fully franked) received from BHP shares -- $1,400
Interest received from a US bank account (net of withholding tax) -- $900
Deductible expenses -- $1,800

Anna is not married and has no children. She does not have private health insurance.

Calculate Australian tax payable by Anna for the year ended 30 June 2012.

Question Two

ABC Pty Ltd (ABC) is an Australian resident private company and on 1 July 2011 the franking account balance was $25,000.

ABC paid company income tax during the year ended 30 June 2012 as follows:

21 July 2011 $25,500
21 October 2011 $25,500
21 January 2012 $25,500
21 April 2012 $5,300

ABC also paid GST of $80,000 on 28 October 2011.

ABC received a fully franked dividend of $27,000 on 1 November 2011, and also received an unfranked dividend of $20,000 on 12 December 2011.

ABC paid a 60% franked dividend of $250,000 on 1 June 2012.

Prepare a franking account for ABC for the year ended 30 June 2012.

Question Three

Perfect Pty Ltd has a deficit franking account balance of $12,000 at 30 June 2012 and total franking credits of $220,000 for the year ended 30 June 2012. Explain the tax implications for Perfect Pty Ltd from having this deficit in the franking account at 30 June 2012?
Explain how the tax consequences for Perfect would be different if the deficit balance at 30 June 2012 was $25,000.

Lecture Eleven
Fringe Benefits Tax (FBT)

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.

Fringe Benefits Tax

Introduction
W 26-000 to 26-040
Definition of a fringe benefit
W 26-100 to 26-170
Taxable value of a fringe benefit
W 26-200 to 26-250
Calculation of the fringe benefits tax
W 26-300 to 26-310
Specific fringe benefits
- Car fringe benefit W 26-400 to 26-420
- Loan fringe benefit W 26-450 to 26-455
- Expense payment fringe benefit W 26-500 to 26-505
- Property fringe benefit W 26-550 to 26-555
- Residual fringe benefit W 26-650 to 26-660

Presentation questions relating to Lecture Eleven material to be presented in next weeks class:

**Question One**

Errol provides his employee with the use of a car for 183 days during the FBT year. During this period, the car travelled 16,000 km. Errol purchased the car in the previous year for $50,000. The employee contributed $1,000 towards the cost of running the car and has provided Errol with relevant documentation. Explain how the taxable value of the car fringe benefit would be calculated using the statutory formula method.

**Question Two**

Abbey was employed by Block Publishing as the marketing manager commencing 1 July 2011. Discuss Block Publishing’s fringe benefits tax (FBT) liability with respect to the following benefits provided to Abbey for the FBT year ended 31 March 2012:

**Entertainment allowance** of $3,500 pa to cover expenses incurred by Abbey in taking clients to lunch to promote the business of Block Publishing. From 1 July 2011 to 31 March 2012, Abbey spent $2,100 of the allowance for that purpose.

**Reimbursement of telephone expenses** up to maximum of $1,500 pa. – two-thirds of the telephone costs relate to business calls made by Abbey and one-third relates to private calls.
Interest-free loan of $100,000 to Abbey on 1 July 2011 -- the loan was used by Abbey to buy a rental property.

A plasma TV set is purchased by Block Publishing for $5,500 and provided to Abbey.

Taxi travel from work to home whenever Abbey is required to work after 8.00 in the evening.

Lecture Twelve

Tax Administration

Readings from *Australian Taxation Law 2012* CCH for this week’s lecture.

Lodgement and assessment system
W 30-000; 30-010; 30-018; 30-025; 30-033; 30-055
Assessment process
W 30-070 to 30-095
Amendment of assessments
W 30-140 to 30-150
Introduction to the tax appeal process
W 31-300 to 31-350; 31-510 to 31-521
Tax Offences and Penalties
W 33-020 to 33-030; 33-063

No presentation questions.

Lecture Thirteen

Revision
Written Report -- Maximum 1,000 words

Due in class in the week commencing 19 March
Total 15 marks (10 marks awarded based on tax issues; 5 marks awarded for communication skills)

You must answer ONE ONLY of the following two questions.

Question 1

Your taxation manager receives a letter from an individual asking for advice on his tax liability. The individual (Gupta) spent a year in Australia but has since returned to his home country and is surprised by a letter from the Tax Office notifying him that he has a tax bill to pay.

After carefully considering the events outlined below, you are required:

1. to point out any taxation issues arising from these events in Gupta’s life; and
2. to the extent that you have sufficient information, explain the taxation consequences from the events.

Support your advice with legislation or cases where appropriate. You are not required to consider capital gains tax or deductions for expenses.

In June 2010, Gupta arrived in Australia from India on a student visa. His trip and expenses in Australia were partly financed by his former employer who paid him $200 a week on condition that he returned to his job after he completed his studies in Australia. Gupta’s wife and child remained in India.

In July 2010, Gupta started studying for a diploma in finance (a 12-month course), and he also started work as a library assistant at the university (paid $20 per hour).

Living in Sydney was more expensive than Gupta had anticipated, so, in February 2011, he sold a property he owned in India to pay for his living expenses, making a profit of $13,000. To cover his expenses, Gupta also took on a second job – at Macdonals in the evenings. His pay was $100 per week plus anything he could eat. He usually got about $10 in tips each night.

Gupta was such a good employee that Macdonals offered him a $5,000 lump sum in return for promising not to work for Burger King down the road. Gupta took the $5,000, but a week later resigned from Macdonals and started looking for more interesting work.

In April 2011, he enrolled in a course to become a personal trainer, bought a new suit for interviews and had his crooked teeth straightened. The teeth straightening clinic entered his photo in a competition and he won a $10,000 prize. In addition, an agency offered him a modeling contract on condition that he agreed to stay in Australia for at least two years. When he signed the contract, he was offered a $20,000 advance for his services.

In May 2011, Gupta was sacked from the library after a complaint that he’d been bullying other employees. He threatened to take the university to court for unfair dismissal and claimed $100,000 in compensation. In his claim, $20,000 was for damage to his reputation, $30,000 for lost wages for the period he thought he would be out of work, and $50,000 was for pain and suffering. The university offered him $5,000 in full settlement of the claim, and Gupta accepted.

Gupta was forced to leave Australia in June 2011 when the university reported to the authorities that he had rarely attended classes or submitted any work.
**Question 2**

Misha had owned a gift shop business in Sydney since 2001. In 2006, she purchased a small farm near Canberra for $120,000. The farm had a small cottage on it and Misha often went to the farm on weekends or on holidays.

In 2007, because she loved animals, Misha decided to keep a small flock of sheep and Angora goats on her property. She arranged for her neighbour, Bob, who was an experienced farmer, to look after the animals when she was in Sydney. Bob was allowed to graze his own sheep on Misha’s property.

In 2008, Misha suffered a loss of $1,000 from the farm, and, in 2009, she made a $200 profit from wool sales. In 2010, a Korean tourist saw Misha’s goats and was impressed by the quality of the wool they produced. Misha was persuaded to sell the wool to the Korean tourist’s company and in 2010 she made a profit of $22,000 from the wool sales and also received a one-off payment of $50,000 in return for granting the Korean company the exclusive licence to market the wool in Korea. Everything looked positive for Misha’s farm business until in late 2010 all her animals died from a disease caused by pesticides on a neighbouring farm. When Misha confronted her neighbours, they admitted liability and paid her compensation of $100,000.

Misha then decided to sell the farm. Instead of selling it as a single lot, she took a break from her gift shop business and set to work developing the farm so that she could get a good price. She subdivided the farm into 20 lots, engaged surveyors, obtained council approvals, selected subcontractors to carry out road works, advertised the sales and then acted as selling agent. By the time Misha had sold all the lots in December 2011, she had made a profit of $900,000 on the sales.

Advise on whether these various activities made Misha liable to income tax (no calculations needed). Ignore any capital gains tax consequences. Support your answer with legislation or cases where appropriate.
Examples of written explanation of presentation question

Question One (from a previous semester)

Tectronic Buildings Pty Ltd owns three buildings in the Brisbane central business district. One of the buildings has just been completed and a number of proposed tenants are competing to obtain the lease of the top floor offices.
In light of the competition to lease the top floor offices, Tectronic is able to demand not only a monthly lease payment of $80,000 but also an upfront payment on commencement of the lease of $50,000.

Explain the income tax treatment of the payments in respect of the top floor offices.

The issues. There are two taxation issues here: the taxation of the monthly lease payments and the taxation of the $50,000 upfront payment (a lease premium).

The law. Lease payments (rent) are the price paid by a tenant for the right to use an owner’s property (the offices here). Taxation law treats rent as ordinary income because it exhibits the characteristics of “periodicity, recurrence and regularity” (Dixon 1952).

A premium is a one-off lump sum payment by a potential tenant to induce the landlord to allow the tenant to enter the lease (Australian Mercantile Land and Finance 1929). It is generally capital in character because it is paid for the right of access rather than for the continuing use. This means a premium was generally tax-free up to 1985 but is subject to capital gains tax today.

As an exception, a premium can be ordinary income if, like in Kosciusko Thredbo 1984, the receipt of premiums is an ordinary part of a taxpayer’s business or if, like in Australian Mercantile Land and Finance 1929, it is really rent rather than a premium.

Reaching a solution. In this case, (1) the rent is clearly ordinary income, but (2) it is unclear how the premium would be taxed. Whether the premium is capital or ordinary income depends on information about Tectronic’s business which hasn’t been given. For example, we are not told whether this is an isolated event or one of a number of occasions on which a premium is received by Tectronic.

Word count: 230 words.

Question Two (from a previous semester)

In January 2001 Ingrid purchased a house in Strathfield for $184,500. Ingrid lived in the Strathfield house until July 2005 when she accepted a job and moved to Cairns. Ingrid rented the house from July 2005 to August 2010 and at no stage did she own another house as she herself rented in Cairns. On 1 August 2010, she returned to Sydney and moved back into the house on that date and made it ready for sale. She lived in the house until 1 November 2010 when it was sold for $835,000 under a contract dated 1 October 2010.

Advise Ingrid on the capital gains tax issues that arise with respect to the sale of the house in Strathfield.
The issue. The issue here is the CGT treatment of the capital gain that arises on the sale of the house.

The law. A capital gain arising from the disposal of a dwelling may be ignored for CGT purposes (s 118-110 ITAA97). Generally, for the exemption to apply, the taxpayer must be an individual and the dwelling must be their main residence throughout the period of their ownership. For CGT purposes, a taxpayer can only have one main residence at a particular time (s 118-170 ITA97).

A taxpayer may continue to treat a dwelling as their main residence in certain cases even if they are not actually living in it at the time, for example, when they are absent for a period of time. Under the absence rules in s 118-145 ITAA97, a taxpayer who is absent from their dwelling may continue to treat it as their main residence: (1) indefinitely if it is not used to produce assessable income, or (2) for six years in other cases.

Reaching a solution. The taxpayer acquired the house in January 2001 and used it as her main residence until July 2005 when she was absent from the house for five years and one month. During her absence, she used the house to produce assessable income by renting it out. Because her period of absence was less than six years and because she has not claimed another house as her main residence, the house continues to be her main residence during the whole period of her ownership from January 2001 to 2010. Any capital gain she makes from the disposal of the house is disregarded.

Word count: 270 words.