

MACQUARIE
UNIVERSITY



FACULTY OF
BUSINESS AND ECONOMICS

ACCG 857
Taxation Law

Semester Two, 2011

*Department of Accounting and Corporate
Governance*

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Study Period: Semester 2, 2011

Unit Convenor: Catriona Lavermicocca

Prerequisites / Co requisites: ACCG854 and ACCG861

Credit points: 3 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 3 credit points.

TEACHING STAFF

Name	Role in unit	Phone	Email
Catriona Lavermicocca	Unit Convenor	9850-8528	catriona.lavermicocca@mq.edu.au

CONSULTATION TIMES

Consultation time with Catriona Lavermicocca is Monday 10.30am to 12.30pm in her office located at E4A241. Consultation with other lecturers on this unit is by appointment.

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 consultation hours please ring from the phones available in the lobby (phone numbers of relevant staff members will be provided on Blackboard and are available next to the phones).

Students experiencing significant difficulties with any topic in the unit are strongly 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/>

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

Prescribed textbooks:

- Woellner, Barkoczy, Murphy, Evans and Pinto *Australian Taxation Law 2011* CCH 21st Edition
- Barkoczy, S. *Core Tax Legislation and Study Guide 2011* 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.

- *Australian Master Tax Guide 2011* 46th Edition CCH
- Nethercott LJ and others *Australian Tax Study Manual: Questions and Suggested Solutions* 20th Edition CCH

- Barkoczy S *Australian Tax Casebook* 10th 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 (BlackBoard)
- The web page for this unit can be found at: learn.mq.edu.au

LEARNING OUTCOMES

On completion students will be able to:

1. Detail and explain the framework for the income tax laws in Australia.
2. Undertake critical analysis in applying the income tax laws to a problem or fact situation and formulate a logical piece of taxation advice.
3. Identify and distinguish income and capital receipts.
4. Apply the income tax deduction provisions.
5. Calculate a net capital gain or loss and apply capital gains exemptions.
6. Advise and explain the tax treatment of individuals, partnerships, trusts and companies.
7. Apply key aspects of the Goods and Services Tax provisions
8. Apply key aspects of Fringe Benefits Tax Act.
9. Ascertain and explain the key elements of the tax administration regime in Australia.
10. Describe the legislative structure of Australia's tax laws and the role of the courts in the formulation of tax laws.

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
4. Creative and Innovative
5. Effective Communication
6. Capable of Professional and Personal Judgement and Initiative

TEACHING AND LEARNING STRATEGY

Each week, lecture notes will be placed on BLACKBOARD 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.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

Please see the following table:

	Assessment Task 1	Assessment Task 2	Assessment Task 3	Assessment Task 4
Title/Name	Written Report	Individual/ pair presentation	Mid-semester examination	Final examination
Description	Report to the Tax Manager Word limit 1,000	15 minute in-class presentation to assigned question and submission of power point slides	90 minutes plus 10 minutes reading time	180 minutes plus 10 minutes reading time
Due date	In class Week commencing 24 August 2011	In class	Friday 23 September 2011	End-of-semester exam period
% Weighting	15%	10%	25%	50%
Grading method	Zero for non-submission. Mark out of 10 based on the number of tax issues identified correctly and mark out of 5 for communicative competence. Total marks 15. This assessment task will allow students and lecturers to ascertain the level of understanding of concepts fundamental to successful completion of this unit. Students who perform below average in this task will be identified and encouraged to review the readings and tutorial questions for the first 3 weeks.	Zero for failure to present. 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. Presentation Feedback form returned to the students	Assessed and graded on lecture topics 1-6 including multiple choice and problem questions.	Assessed and graded on lecture topics 4 -13 including multiple choice and problem questions.
Submission method	Submit to Turnitin through the ACCG857 Blackboard page and attach a copy of the Turnitin Report to the hard copy of the assignment. The assignment and Turnitin	Presentation in the particular seminar allocated to the student.	Hand in examination script.	Hand in examination script.

	Assessment Task 1	Assessment Task 2	Assessment Task 3	Assessment Task 4
	Report must be handed in to the lecturer in the seminar in the week beginning 24 August 2011. An assignment submitted late will not be accepted without prior permission from your lecturer.			
Feedback	Criteria for marking made available on Blackboard on return of the written assignment.	Presentation Feedback Form completed and returned to the student by the lecturer.	Review and discussion in seminars. Feedback on common mistakes posted on Blackboard.	
Estimated student workload (hours)	Approximately 10 hours	Approximately 10 hours	This is cumulative over the prior weeks in the semester plus your own time-management for revision	This is cumulative over the prior weeks in the semester plus your own time-management for revision
Learning outcomes assessed	1,2 and 3	1-10	1, 2, 3, 4 and 10	2, 5, 6, 7, 8 and 9
Graduate capabilities assessed	1,2,3, 5 and 6	1,2,3,4,and 5	1,2,3,5 and 6	1,2,3,5 and 6

(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 on 24 August 2011. Students are also required to submit this assignment electronically to the Turnitin icon on the home page of ACCG857 on Blackboard. 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 Blackboard. The assignment question is included in this unit outline at pages 43 to 45.

(2) Individual and pair presentations (10%)

Students will be allocated to present a discussion question individually or in pairs. Students will be required to make a 15 minute in-class presentation answering an assigned question covering a topic area addressed in lectures. Each individual or pair will be provided with feedback with respect to their presentation and awarded a mark out of 10.

Presentations by individuals and pairs will be marked on the basis of the quality of the presentation including the level of preparation, understanding, accuracy, comprehensiveness, ability to explain the key issues to fellow students, good use of learning aids such as overhead transparencies etc. **Generally, students are expected to display knowledge and communication skills of a postgraduate student.**

(3) Mid-semester examination (25%)

The mid-semester exam will cover lecture topics 1-6 and will be held on Friday 23 September 2011. This exam will be 90 minutes plus 10 minutes reading time and results will be provided to students via Blackboard. Further detail of the time and location of this exam will be provided in an overhead in class and on Blackboard later in the trimester.

(Please see comment concerning exam aids below)

(4) End of semester final examination (50%)

The end-of-semester exam will cover lecture topics 4-13 and will be held in the exam period commencing 14 November 2011. The date, time and location of this exam will be provided in an overhead in class and on Blackboard later in the trimester. **You must achieve at least 50% in the final exam to pass this unit.**

(Please see comment concerning exam aids below)

Exam Aids

You will be permitted to take into exams the following aids:

- **Your own handwritten class notes and study notes.**
- A calculator.
- Tax legislation in book published form – which may be hand written on and hand marked up as you see fit. Please note that, we allow book published legislation including *2011 Core Tax Legislation and Study Guide*.
- **You are NOT permitted to take into either exam any other items. No photocopies of any items are permitted nor are any computer downloads or printed output of any type.**

Written advice about both the mid-semester and final exam coverage and content will be provided in class and on BLACKBOARD.

Turnitin

ACCG857 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 Blackboard which contains instructions of how to register and use the Turnitin website.

Assignment Submission Requirements

When submitting assignments for ACCG857 students must:

- Submit your assignment through the **Turnitin icon** on the ACCG857 Blackboard 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 Blackboard.**
- **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.businessandconomics.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 the 1st semester 2011 is from 14 November 2011 to 4 December 2011.

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>

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

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>

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.

Students will be awarded one of these grades plus a Standardised Numerical Grade (SNG). The SNG is not necessarily a summation of the individual assessment components.

The final grade and SNG that are awarded reflect the corresponding grade descriptor in the Grading Policy.

In addition, there is a requirement to pass the final examination to be awarded a final grade of a Pass or a higher grade.

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.

http://www.businessandeconomics.mq.edu.au/for/new_and_current_students/undergraduate/admin_central/grade_appeals.

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

Week	Lecture	Presentation	Seminar date
01	Lecture 1 Introduction to taxation law Tax formula, tax rates and tax offsets International aspects of taxation	No presentations	3 August 2011
02	Lecture 2 General principles of income Income from property Centre for Macquarie English–Report Writing	No presentations	10 August 2011

03	Lecture 3 Income from personal exertion Income from business Non-assessable income	Q 1*, and 2 relating to Lecture One and Two	17 August 2011
04	Lecture 4 Tax Accounting Deductions Part 1 <i>Written Assignment due</i>	Q 1, 2+, 3, 4*, 5* and 6* relating to Lecture Three	24 August 2011
05	Lecture 5 Deductions Part 2 Practical tax return example	Q 1*, 2+, 3+, 4+ and 5* relating to Lecture Four	31 August 2011
06	Lecture 6 Capital allowances and capital works Trading stock Small business concessions	Q 1+, 2, 3, 4 and 5* relating to Lecture Five	7 September 2011
07	Lecture 7 Capital Gains Tax	Q 1, 2, 3 and 4* relating to Lecture Six	14 September 2011
	Mid-Semester Exam		23 September 2011
	Mid-Semester Break		19 September to 2 October 2011
08	Lecture 8 Goods and Services Tax	Q 1, 2*, 3* and 4+ relating to Lecture Seven	5 October 2011
09	Lecture 9 Partnerships and Trusts	Q 1* and 2* relating to Lecture Eight	12 October 2011
10	Lecture 10 Companies	Q 1*, 2* and 3* relating to Lecture Nine	19 October 2011
11	Lecture 11 Fringe Benefits Tax	Q 1, 2+, 3 and 4* relating to Lecture Ten	26 October 2011
12	Lecture 12 Tax Administration	Q 1+ and 2* relating to Lecture 11	2 November 2011

13	Lecture 13 Revision	No presentations	9 November 2011
14	FINAL EXAM PERIOD STARTS		14 November 2011

*Pair presentation questions 2 students

+Individual presentation 1 student

Lecture One
Introduction to taxation law
Tax formula, tax rates and tax offsets
International aspects of taxation

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks 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, tax offsets and taxation of minors

W 2-000 to 2-540

W 2-640 to 2-650

W 21-010 to 21-050

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 Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks 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 weeks class:

Question One*

Pauline has lived and worked in the United Kingdom (UK) for the last 15 years. Although Pauline was born in Australia, whilst living and working in the UK she married and had two children and purchased a residence in London with her husband in which the family resided.

During the year ended 30 June 2011 Pauline and her husband made a decision to relocate the family to Sydney, Australia for a period of three years and depending on how they felt at the end of that period they may decide to remain indefinitely. Pauline had found employment with a recruitment firm in Sydney, her husband had also found employment and schools in Sydney were found for the children. The family arrived in Sydney on 1 May 2011 and moved into a rental home close to the children's schools. Pauline and her husband commenced their new employment positions on 1 June 2011.

The residence in London will be made available for rent during the first three years the family are located in Australia and after that time a decision will be made as to whether to sell that residence. The family will rent in Sydney during the first three years and then consider the purchase of an Australian residence depending on their decision whether to remain in Australia indefinitely.

During the year ended 30 June 2011 Pauline received the following payments:

- Salary and wages in relation to her UK employment paid prior to 1 May 2011 A\$122,000
- Her share of rental income from the London residence of A\$2,200 paid in May 2011 and A\$3,000 paid in June 2011
- Interest paid on her UK bank deposits of A\$680 paid on 1 December 2010 and A\$780 paid on 1 June 2011
- Salary and wages in relation to her Australian employment of A\$6,500 paid on 15 June 2011

Required

Advise Pauline of the Australian income tax implications arising from the family's relocation to Sydney, Australia. In your answer detail the Australian income tax treatment of the payments received by Pauline during the year ended 30 June 2011. Please explain your answer with reference to sections of the Income Tax Assessment Acts and cases where relevant.

Question Two

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 referred to.

Lecture Three

Income from personal exertion

Income from business

Non-assessable income

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as "W") for this weeks 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 weeks class:

Question One

Tom is employed on a full time basis as a garbage collector. At Christmas each year he often finds cartons of beer by bins that have been left by residents in gratitude for the terrific job he does each year.

Tom also receives a small payment each weekend throughout winter for playing football and at the end of the 2011 season he was voted by spectators as the most popular player for which he received from a local newspaper a Toyota Yaris car worth \$17,000 and a cash prize of \$500.

Advise Tom as to whether the above-stated receipts are assessable.

Question Two+

Jane is employed with a large recruiting firm and in the course of her employment travels interstate on numerous occasions. Jane is a member of the Qantas Frequent Flyer Club and during the year ended 30 June 2011 Jane redeemed frequent flyer points for a return flight to Paris to visit her sister who lives there. If Jane had purchased that ticket it would have cost her \$2,200.

Advise Jane on the tax consequences, if any, of the free return flight to Paris

Question Three

Margaret receives a cash payment of \$40,000 from a television quiz show, as well as goods worth \$20,000. As a result of her success Margaret is invited back for a championship play-off. She wins \$50,000 in the championship play-off.

Advise Margaret as to whether the prizes constitute assessable income.

Question Four*

During the year ended 30 June 2010 Duran was employed full-time as a security officer. During that year Duran was also an amateur golfer who was paid by sponsors to cover tournament travel expenses (\$10,000 for 30 June 2010). On a number of occasions Duran's employer allowed Duran to take leave without pay to compete in golf tournaments. He won two amounts of \$18,000 and \$14,000 in small tournaments during 30 June 2010.

In July 2010 Duran entered a major international ProAm golf tournament held in Australia. He won this ProAm and accepted the amateur's prize of a car. Almost immediately a major golfing equipment manufacturer offered Duran A\$500,000 to become a professional golfer. Duran accepted this money and resigned from his employment as a security officer and in the subsequent 12 months Duran won a total of AUD\$1.2 million from golf tournaments.

In August 2010 Duran appointed a sports management company to manage his golf career and as a result a major magazine agreed to pay a lump sum of \$100,000 for Duran to sit down with one of their writers and answer questions about his life. The magazine will hold the copyright to the story.

In January 2011, shortly after the magazine story was published Duran was struck by a fellow competitor's golf ball and he was badly injured. He received \$100,000 compensation for lost income and \$50,000 for personal pain and suffering.

Advise Duran of the tax treatment of the various payments he received during the years ended 30 June 2010 and 2011. Give full reasons for your advice referring to relevant cases and legislation.

Question Five*

Popup Ltd (Popup) sells imported clothing by wholesale and holds ten valuable import quotas that allow it to import stock. Popup wishes to restructure its business and for that purpose, sells two of its import quotas for \$250,000.

In addition Popup has a license to reproduce pictures of Disney characters on t-shirts and other types of clothing for a 10 year period. Popup charges a fee (royalty) per reprint made by clients. To obtain additional funding Popup enters into an arrangement under which it assigns its rights to receive royalties with respect to the reprints to a finance company, Finances Ltd, for 10 years in return for a lump sum payment of \$10 million.

Popup and Finances are not related. Finance's agreement to take the assignment of unpaid royalties is on purely commercial grounds.

Required

Advise Popup on the income tax implications of the above-stated receipts for the purposes of the Income tax Assessment Acts with reference to sections and cases where relevant.

Question Six*

A firm of accountants, wishing to move into new premises, is induced to lease the top six floors of a new building erected by a developer. The developer is keen on the accountants moving in because their "name" will add to the prestige of the building and will help to attract other tenants. In return for agreeing to move in, the firm of accountants may be given either:

- a lump sum of \$200,000 to be shared between the partners

- a rent-free period of nine months, or
- a free fit-out of all furniture, etc.
- a payment to each partner and his or her family to have a ten-day holiday in Bali (however, if a partner is unable to take the holiday at the time it is no alternative is offered).

Discuss the tax implications of these alternatives for the firm of accountants.

Lecture Four **Tax Accounting** **Deductions Part 1**

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks lecture.

Tax Accounting

Tax accounting – Income
W 13-000 to 13-460

Deductions Part 1- General deductions (Section 8-1 ITAA 1997)

General deductions
Chapter 10
Meaning of incurred
W 13-500 to 13-545

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

Question One*

Webster, Nicholls and Co is a public accounting partnership with eight partners, 15 employed

salaried accountants and 20 support and secretarial staff. The partnership has offices in Brisbane, Townsville and Toowoomba. Although it is involved in some long-term projects, approximately 75% of turnover is represented by work taking less than three months to complete. Up to and including the year ended 30 June 2010, the partnership submitted its 2010 income tax returns on a cash received basis and the Commissioner assessed them on this basis. However, due to the increasingly complex nature of their activities the partnership has decided to submit its return for the year ended 30 June 2011 on an earnings basis.

Your advice is sought on the following matters:-

(a) Must the Commissioner accept the altered basis for returning income? What are the relevant considerations?

(b) For tax purposes, in which income year are fees which were earned but not received prior to 30 June 2010 regarded as having been derived?

(c) What treatment should be adopted in respect of the value of work-in-progress (i.e. work not complete) as at 30 June 2011?

Question Two+

Tuffy FM has a viable business as an FM radio station in the small country town of RumTumba. Three times in the past three years Tuffy has taken potential rivals before the FM Radio Broadcasting Tribunal to stop their ambition to become licensees in RumTumba. If any of the rivals had obtained a licence Tuffy's commercial viability would have been jeopardised. Tuffy has been claiming these expenses as tax deductions and is amazed to find that, after a tax audit, their claims have been declared invalid by the ATO.

Explain on what basis the ATO may have denied a tax deduction to Tuffy for expenses in preventing a rival obtaining a radio license.

Question Three+

Petra works as a scriptwriter for the Six Television Network. She is provided with an office and all necessary equipment by Six. For creative reasons and to maximise productive output, rather than work at her Six office, Petra often works at home in an office she has set up specifically for this purpose. Six are quite happy about this but they do not provide any facilities for Petra to use at home.

Petra wishes to claim a deduction for expenses related to the home office (interest on mortgage, rates, electricity, insurance).

Advise Petra on the deductibility of the expenses related to the home office.

Question Four+

Sam is a lawyer who operates his own business providing legal advice. He has four qualified staff. During the year ended 30 June 2011 Sam incurred the following expenses:

- A set of law reports containing all decided cases relevant to commercial law purchased for \$3,600 on 1 November 2010. The reports will be used in the firm for many years to come.
- An annual payment of \$250 for a weekly commercial law newsletter paid on 4 February 2011.
- Travelling costs of \$400 paid to a prospective employee to attend an employment interview.
- Professional indemnity insurance (for one year) of \$3,500 paid on 1 July 2011.

Discuss the extent to which the above-stated expenses are deductible in accordance with Section 8-1 of the ITAA1997

Question Five*

Pauline is a qualified Chartered Accountant. She operates an accounting practice as a sole practitioner from a study in her main residence. Once a week Pauline lectures at university on accounting topics and receives an hourly fee for her services. During the year ended 30 June 2011 Pauline incurred the following expenses:

All costs are GST exclusive

- Rental \$6000, rates \$220 and insurance \$300 that relate to the study.
- Cost of a computer that Pauline purchased on 1 April 2011 that will be used 100% for the purposes of the accounting practice and expected to last for 3 years from the date of acquisition \$2,800.
- Accounting software purchased for \$950 on 1 January 2011 that will be updated every 2 years.
- Cost of public transport to and from University to give accounting lectures \$330.
- Annual membership fee to the Institute of Chartered Accountants \$780.
- Legal expenses incurred of \$5,500 in defending an action for professional negligence against Pauline initiated by one of her clients.
- Pauline has a son who is 3 years old. The cost of child care for her son during the times she must visit clients totals \$3,500.
- Cost of restaurant meals with clients, paid by Pauline to maintain professional relationships \$900.
- Cost of Master of Business Administration that Pauline is completing by correspondence \$2,500.
- Cost of construction of a pathway and separate external door to the study so that clients can have direct access the study \$5,500.

Required

Advise Pauline on the deductibility of the above-stated expenses for the purposes of the Income Tax Assessment Acts with reference to sections and cases where relevant.

Lecture Five **Deductions Part 2**

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks lecture.

Deductions Part 2 – 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

W11-550 to 11-558

Tax related expenses

W 11-560

Lease document expenses

W 11-562

Borrowing expenses

W 11-565

Travel between workplaces

W 11-635

Gifts

W 11-680

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

Question One

A construction company incurred borrowing expenses of \$1,080 on 1 March 2011 in relation to a new loan to fund further business expansion. The term the loan was 6 years.

To what extent would the borrowing expenses be allowed as a deduction for the year ended 30 June 2011? What kinds of expenses constitute borrowing expenses? Provide specific examples?

Question Two

The owner of a dance hall, on ascertaining that a portion of the ceiling of the hall was in need of repairs, decided to replace the whole of the ceiling with a different but better material. The new ceiling, in addition to enhancing the appearance of the hall, improved the acoustics. The total cost of the material and of erecting the new ceiling was \$240,000. It was estimated that the cost of repairing the ceiling, rather than replacing it, would have been \$150,000.

Taking account of s25-10 (ITAA 97), what amount, if any, is allowed as a deduction?

Question Three+

James owns and operates a market research business in Sydney and purchased another market research business in Melbourne on 1 June 2010. Included in the price of \$250,000 paid for the Melbourne business was \$50,000 for the outstanding debtors.

On 1 October 2010 James realised that of the \$50,000 debts purchased only \$30,000 could be collected. The balance of \$20,000 was written off on 1 October 2010.

What are the tax consequences of the purchased debtors written off?

Question Four

On 8 August 2010 a storm struck the warehouse building owned by ICN Pty Ltd. Water leaked through the external warehouse roof, damaging the warehouse internal ceiling. ICN decided to fix the whole roof and ceiling using a new substance that was heavily insulated and that would keep the warehouse cooler, reducing the need for air conditioning that kept the warehoused materials at an appropriate temperature. The total cost of the new roof and ceiling was \$150,000 whilst the original quote that ICN received that only provided for a new internal ceiling and ensured the roof was water tight was only \$50,000.

Advise ICN on what tax deduction is available in respect of the above-stated costs.

Question Five*

On reviewing the annual accounts for a client, you find a category of expenses listed as business-related meals. On enquiry you discover that the following amounts are included in the expense account:

- a) Catering in a corporate box at the football – it is used by customers and staff to promote the company’s products and as a staff incentive. It also provides advertising for the company as a logo is clearly displayed.
- b) Travel and accommodation expenses for an employee to attend a conference – the company also paid for the employee to spend the weekend at the resort as an incentive to attend the conference.
- c) Working lunches provided during in-house training sessions
- d) The cost of gourmet meals cooked in the boardroom kitchen and served to the directors during meetings.

Advise on the tax deductibility of these items.

Lecture Six
Capital allowances and capital works
Trading stock
Small business concessions

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks 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

Trading stock

W 14-000 to 14-160

Small business concessions

Overview

W 15-000 to 15-200

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

Question One

Fiona purchased a truck (carrying capacity 10 tonnes) for use in her delivery business for \$67,000 on 1 September 2010. She uses the truck 100% for business use at all times and is not using the Small Business Entity method of depreciation. The effective life of the truck at the time of acquisition was seven years.

Calculate the depreciation deduction, comparing both depreciation methods, with respect to the truck for the year ended 30 June 2011 showing all workings.

Question Two

Matrix Pty Ltd acquired a piece of machinery costing \$150,000, used for shrink-wrapping their product, on 1 January 2010. Matrix believed the machine to have an effective life of four years and claimed diminishing value depreciation on the machine.

On 30 June 2011 Matrix traded in the machine for a new model. Matrix was given \$100,000 for the old machine that was offset against the purchase price of a new machine costing \$350,000.

What are the taxation implications of these transactions? Please show all workings.

Question Three

Westend Pty Ltd's low-value pool closing balance for the year ended 30 June 2010 was \$5,000. During the year ended 30 June 2011 Westend acquired a computer printer for \$900. Its taxable use percentage is 100%. Also in the 2010/11 tax year, the taxpayer made a capital improvement to a photocopier already

in the pool for \$330. Finally, in the 2010/11 tax year, Westend chose to allocate to the low-value pool an office desk. The opening adjusted value of the office desk as at 1 July 2010 was \$850.

What income tax deductions are available in respect of the expenditures referred to above?

Question Four*

John has provided you with the following information from his fixed asset register as at June 2010:

Asset	Acquisition date	Cost (GST inclusive)	Effective life	
Computer	1 July 2009	\$1,650	5 years	Decline in value method
Printer	17 August 2009	\$550	3 years	Diminishing value method
Office Building	18 May 2008	\$660,000		

*Of the \$660,000 purchase price, \$450,000 is attributed to the land and \$210,000 to the building. The original construction cost of the building is \$190,000. The building was constructed on 20 October 2007.

The opening low value pool balance (including the printer) on 1 July 2010 is \$3,000.

All assets are used 100% for his business.

John also acquired the following assets during the 2011 income year:

Asset	Acquisition date	Cost (GST inclusive)	Effective life
Fax machine	1 July 2010	\$880	5 years
Office table	30 June 2011	\$2,200	6 years

John is a small business entity for the 2011 year and has elected to enter the small business capital allowances regime. John is registered for GST.

Calculate the total decline in the value for John and the closing balance of the various pools for the year ended 30 June 2011. Show all workings.

Lecture Seven

Capital gains tax (CGT)

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks 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 to C3

W 7-140 to 7-155

Bringing into existence a CGT asset: CGT event D1

W 7-160 to 7-165

Australian residency ends: CGT event I1

W 7-370 to 7-380

CGT assets: definition and classification

W 7-500 to 7-540

Timing of acquisition of assets

W 7-550 to 7-570

Calculating a capital gain or loss from a CGT event

W 7-600

Capital proceeds

W 7-605 to 7-615

Cost base

W 7-620 to 7-625

Reduced cost base

W 7-630 to 7-635

General modifications to cost base and reduced cost base

W 7-640 to 7-660

Indexation of the cost base

W 7-690 to 7-698

Exceptions or exemptions that may apply to a CGT event

W 7-700 to 7-720

Main residence exemption

W 8-050 to 8-060

Effect of Death

W 8-500 to 8-540

Consider roll-over provisions

W 7-800 to 7-820

Determining net capital gain/loss for the income year

W 7-900 to 7-960

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

Question One

Max and Molly were in partnership providing gardening and landscaping services in the North Shore. Whilst working on a large commercial project a truck collided with their van and caught fire. The van and all its contents were neither useable nor repairable and had to be replaced.

Max Molly's original claim was for \$60,000 covering:

Replacing the van	\$45,000
Gardening Tools	\$ 2,000
Jackhammer	\$ 3,000
Loss of profits	<u>\$10,000</u>
	\$60,000

The trucking company, after a long protracted court case, agreed to pay \$45,000 in compensation to the Max and Molly Partnership without reference to any particular item.

Advise Max, Molly and the partnership as to the tax consequences of the settlement. Please cite relevant authorities.

Question Two*

Janet acquired an apartment in Sydney, under a contract dated 14 January 2008, for \$250,000 cash payable on 14 January 2008 and a promise by Janet to pay an additional \$52,000 on 14 July 2009. Janet planned to make the apartment available for rent however the real estate agent advised that the apartment could not be made available to rent until a coat of paint was applied to the apartment's internal walls (cost \$3,500) and the balcony railing is replaced (cost \$5,500). After the coat of paint is applied and the balcony railing is complete on 28 February 2008 Janet rents the apartment to Peter for \$250 per week.

Janet obtained a loan from the CCA Bank to fund the purchase of the apartment and incurred interest on the loan as follows:

\$5,900 for the year ended 30 June 2008

\$10,850 for the year ended 30 June 2009

\$8,800 for the year ended 30 June 2010

\$5,000 for the period ended 30 June 2011.

Janet decides to sell the apartment and enters into a contract dated 10 February 2011 with her brother for the sale of the apartment to him for \$410,000. Janet did receive an offer for \$420,000 but decided to accept the offer from her brother as this was the least she could do to 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 2011 at which time the tenant moved out of the apartment.

Required

Explain to Janet the capital gains tax consequences of the above-stated transactions for the year ended 30 June 2011. Please calculate any net capital gain or loss, explain all exclusions and inclusions and show all workings.

Question Three*

Jennifer was employed as a medical practitioner at a private hospital in Concord. After many years of hard work, she decided to sell the following assets and used the money she received to travel around Australia:-

1. Yacht sold on 6 June 2011 for \$5,000 which she had acquired on 7 October 1999 for \$15,000.
2. Unique collection of stamps sold on 15 June 2011 for \$3,000 which she had acquired on 6 March 1989 for \$495.
3. BMW (motor vehicle) sold for \$16,000 on 17 June 2011. Jennifer had acquired the car on her 50th birthday for \$25,000 on 15 March 2005.
4. 2,000 shares in a publicly listed company for \$50,000 sold on 19 June 2011. She had inherited the shares from her father on 16 July 1989 when they had a market value of \$5 each. Her father had acquired the shares for \$4 on 15 April 1987.

5. Main residence in Strathfield sold for \$900,000 (less \$20,000 agent fees, legal costs and advertising) on 1 June 2011. Settlement was on 15 July 2011. 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.

Required

Calculate the net capital gain or loss for Jennifer in respect of the year ended 30 June 2011. Jennifer has carried forward capital losses as at 30 June 2010 of \$10,000.

Question Four+

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 2009 when it was sold for \$835,300 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

Lecture Eight
Goods and Services Tax (GST)

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks lecture.

Goods and Services Tax

W 27-000 to 27-175

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

Question One*

Jim and Olivia Brown own a tile business located in North Sydney that supplies local and imported tiles and carries on business as a partnership under the name 'Simply Tiles'. Simply tiles is registered for GST.

Jim and Olivia are unsure of the GST implications of the following transactions:

1. Simply Tiles imported tiles from Italy which cost \$330,000. In addition to the cost of the tiles \$25,000 was paid for freight and insurance and \$ 12,000 for customs duty. The tiles were picked up from the port and delivered to the show room on the 25 August 2011.
2. An annual fee of \$4,400 (GST inclusive) was paid on 5 August 2011 for placing an advertisement for the business in the Yellow Pages.
3. Jim and Olivia installed a hot water system in their residential rental investment property at a cost of \$1,100 (GST inclusive) on the 2 September 2011.
4. Jim and Olivia purchased a prepaid phone for \$99 (GST inclusive) on 22 July 2011 for their daughter to allow her to contact them while she is on a school excursion in Perth.

Required

Explain to Jim and Olivia the:

- a) **The amount and timing of any GST payable.**
- b) **Any entitlement to a GST input tax credit. Please detail why an amount does or does not give rise to a GST input tax credit.**

Jim and Olivia have operated 'Simply Tiles' successfully over a number of years and as a result they have been approached with a generous offer by a major competitor to buy the business. Jim and Olivia own the business as partners as well as the commercial premises where the show room is located. The potential purchaser is only willing to buy the business not including the showroom, but would like to keep running it from the same show room and has suggested a lease of the premises from Jim and Olivia.

Jim and Olivia are quite excited about the idea as this will allow them to have a bit of a break after working long hours running the business. They are concerned and unsure whether there will be any GST implications or liability as a result of selling the business.

Required

Explain to Jim and Olivia the GST implications (if any) should they decide to sell the business.

Question Two*

Malcolm owns and operates a garden maintenance and lawn mowing business. He employs 2 casual staff, and is registered for GST.

For the 2010/11 income year Malcolm has recorded the following transactions:

Receipts (GST inclusive)	\$
Fees from clients	28,000
Sale of second hand ride on mower	2,300

Expenses	\$
Fuel for vehicles and equipment (eg lawn mowers he kept receipts for all purchases over \$75 excl GST)	1,600
Equipment repairs (no ABN provided on tax invoice)	1,080
Rubbish-tip fees (\$10 per visit – receipt only)	210
Wages	3,000
Telephone	1,480
New equipment (no tax invoice provided)	11,400
Stump-grinder hire (see note 2)	500
Landscape supplies	15,800
Repayments of business loan (interest \$1,000, capital \$500)	1,500

Additional Information

1. In February 2011, Malcolm made a gift for no consideration, of an old lawn mower to his son. (The market value of the lawn mower at the time of the gift was \$250)
2. On 28 June 2011, he hired a tree stump-grinder and paid \$200 and a \$300 deposit. The deposit was refundable on the return provided the equipment was not damaged and it was returned by the agreed date.
3. Assume that all supplies are taxable (where appropriate), and that a valid tax invoice has been provided unless stated otherwise.

Advise Malcolm of the correct GST treatment and financial outcomes. (Calculations must be shown where relevant).

Lecture Nine **Taxation of partnership and trust income**

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks lecture.

Taxation of partnership income

W Chapter 16

Taxation of trust income

Overview

W 17-000

Aspects of the law of trusts

W 17-005 to 17-050

Outline of the taxation of trust income

W 17-060 to 17-100

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

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

Question One*

Evans and Downing operate a legal practice as partners.

On 1 March 2011 they admitted a new partner into the partnership. The terms of the agreement provided that the profits of the partnership would be shared equally.

At 30 June 2011 the partnership accounts for the whole year revealed a profit of \$100,000.

What is each partner's share of income from the partnership?

How would it affect your answer if Evans made a loan of \$50,000 to the partnership to fund partnership working capital on 1 May 2011. The interest rate on the loan was 15% p.a.

What are the tax consequences to the partnership if Evans and Downing withdraw \$30,000 of their own capital invested in the partnership. To cover the payment, the partnership would be required to borrow \$60,000 from the bank. Specifically would the interest on the loan be deductible in calculating the net income of the partnership. Please give a reference to relevant authorities in answering this question.

Question Two*

Nell and her brother Sam decided in 2006/07 to start up a financial advising business and determined that a partnership would be the best structure to use. The written partnership agreement stated that they would share income and losses equally.

In 2010/2011, the partnership receipts and expenses were as follows:

Receipts
Interest income \$15,000
Fees received \$155,000
Expenses
Salary- Nell \$40,000
Salary- Sam \$40,000
Bank fees \$500
Rent \$20,000
Telephone and internet \$12,500

Nell and Sam decided to use \$15,000 of the income earned by the partnership in 2010/11 to purchase new equipment for the business. The remainder of the partnership income was distributed according to the partnership agreement.

REQUIRED:

Based on the information provided, calculate net income of the partnership and the share of net partnership income that Nell and Sam would be required to include in their assessable income in relation to the year ended 30 June 2011. Please show all workings citing relevant authorities.

Question Three*

The Foy Trust was established by Mary Foy in 2007 with 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 Valerie, a solicitor. The trust deed gives Valerie absolute discretion to make such distributions of trust income to the beneficiaries as she considers appropriate. No capital is to be distributed to the beneficiaries.

During the year ended 30 June 2011, the Foy Trust derives the following income:

- interest of \$40,000 from investments,
- fully franked dividends of \$42,000, 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 2011:

- legal fees of \$3,000,
- salaries of \$50,000, and
- administration fees of \$17,000.

Mary Foy had 3 grandchildren at 30 June 2011:

- Sonya, aged 21, who was studying at university and also earned \$15,000 from working part-time,
- Mila, aged 20, who had dropped out of university and was unemployed, and
- Vana, aged 17, who was in her final year at school and earned \$8,000 from working in a supermarket.

Valerie exercised her discretion to distribute the trust income as follows:

- 25% to Sonya to help pay for her living expenses, and
- 50% to Vana to help with her education costs and to pay for a school trip.

Valerie disapproved of the way Mila was living and decided to hold the other 25% in the trust until sometime in the future when Mila had changed her lifestyle.

Required:

- a) Calculate and explain the net income of the Foy Trust for year ended 30 June 2011.**
- b) On the basis of the information you have been given, explain the tax consequences for Sonya, Mila, Vana and Valerie for the year ended 30 June 2011.**

- c) Explain what avenues are available if Sonya, Mila, Vana and Valerie should they want to dispute the Commissioner's assessment of their 30 June 2011 tax liability.

Lecture Ten Companies

Readings from Woellner, Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as "W") for this weeks lecture.

Companies

Introduction

W 18-000 to 18-010

Basic corporate and member taxation rules

W 18-100 to 18-130

Taxation of corporate distributions

W18-200 to 18-207

Simplified imputation system

W18-330 to 18-400

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

Question One

Angela is an individual tax resident in full-time employment as a school teacher. She provides the following detail of her income and expenses during the year ended 30 June 2011:

Salary \$55,000

Cash dividend (fully franked) received from BHP shares \$350

Cash interest received (from a US bank account and net of withholding tax) \$360

Deductible expenses incurred \$855

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

Calculate Australian tax payable by Angela for the year ended 30 June 2011.

Question Two+

Grassroots Pty Ltd (Grassroots) is an Australian resident private company and on 1 July 2010 the franking account balance was \$20,000. Grassroots paid company income tax as during the year ended 30 June 2011 as follows:

21 July 2010 \$25,500
21 October 2010 \$25,500
21 January 2011 \$25,500
21 April 2011 \$5,300

In addition Grassroots received a cash dividend of \$17,000 from its subsidiary on 1 November 2010. The dividend was a fully franked dividend.

Grassroots paid a fully franked dividend of \$150,000 on 1 June 2011.

Prepare a franking account for Grassroots for the year ended 30 June 2011.

Question Three

Plus Pty Ltd has a deficit franking account balance of \$22,000 as at 30 June 2011 and total franking credits of \$320,000 for the year ended 30 June 2011.

What are the tax implications of Plus Pty Ltd having a deficit in their franking account as at 30 June 2011?

Question Four*

a) Assume that Davids Pty Ltd (Davids) has after tax profits of \$14,000 available for distribution. On 1 December 2010 the company decides to pay \$7,000 of this after-tax profit (ie a frankable distribution) to its shareholders.

Calculate the maximum franking credit that Davids can attach to the \$7,000 distribution.

b) Assume that Davids wishes to distribute \$70,000 profits to its shareholders on 10 September 2010. The company has not made, and does not intend to make, any other distributions to shareholders during the financial year. As at 10 September 2010, the balance in the company's franking account is nil. Davids will, however, lodge its tax return and pay its expected tax liability of \$30,000 in March 2011. This will give rise to a surplus in its franking account of \$30,000.

Advise Davids whether the expected payment will affect the franking credit that they can attach to the distribution paid on 10 September 2010.

c) On 1 July 2010 Davids has a balance in its franking account of \$30,000 credit. On the same date, the company made a frankable distribution of \$70,000 to its shareholders. The maximum franking credit that could be allocated to the distribution was \$30,000, being $\$70,000 \times 30\%/70\%$.

What would happen if Davids chose instead to have a 50% franked distribution and allocated franking credits of \$15,000 to the distribution

Lecture Eleven Fringe Benefits Tax (FBT)

Readings from Woellner , Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as "W") for this weeks 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

Reconciliation with other tax laws

W 26-330 to 26-360

Specific fringe benefits

- Car fringe benefit W 26-400 to 26-420

- Loan fringe benefit W 26-450 to 26-455
- Expense payment fringe W 26-500 to 26-505
- Property fringe benefit W 26-550 to 26-555

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

Question One+

Stereo Pty Ltd is looking at offering all full-time employees a choice of a number of benefits and seeks your advice as to the fringe benefits tax implications of the provision of those benefits. The benefits being considered include:

- Motor vehicle travel allowance of \$10,000 per year
- Loans of up to \$50,000 at 3% interest
- Reimburse the cost of one airline ticket per year (up to a maximum of \$3,000).

Required

Advise Stereo Pty Ltd of the fringe benefits tax implications of the provision of the above-stated benefits including, where relevant, an explanation of the possible fringe benefits tax payable. (5 marks)

Question Two*

Abbey Jones was employed by Block Publishing as the marketing manager commencing 1 July 2010. Block Publishing has agreed to provide the following benefits from 1 July 2010 and you are asked to discuss and calculate the fringe benefits tax (FBT) liability with respect to the following benefits provided to Abbey for the FBT year ended 31 March 2011:

a) Entertainment allowance \$3,500 pa.

This allowance covered the cost of taking clients to lunch and dinner to promote Block Publishing's business. For the period ended 31 March 2011 Abbey spent \$2,100 of the allowance for that purpose.

b) Telephone rental and charges up to maximum of \$1,500 pa.

What difference would it make to your FBT advice if \$1,000 of the telephone costs paid by Block Publishing related to business calls made by Abbey and the balance of \$500 relates to private calls made by Abbey?

- c) Motor vehicle provided to Abbey:
- Cost to Block Publishing \$60,000
 - Total travel for the year 8,000 km
 - 50% private usage
 - No log-book was maintained

What difference would it make to your FBT advice if Abbey did not use the car for the month of August 2010 because he had broken his leg? Would it be relevant to your answer where the motor vehicle was garaged during the month of August 2010?

- d) Interest free loan of \$100,000 to Abbey on 1 July 2010.
Abbey plans to put the money towards the purchase of a principle residence.

What difference would it make to your FBT advice if Abbey did not use the money to purchase his principle residence but instead used the loan to purchase dividend yielding shares?

Lecture Twelve

Tax Administration

Readings from Woellner , Barkoczy, Murphy and Evans *Australian Taxation Law 2011* CCH (referred to in this unit outline as “W”) for this weeks lecture.

Lodgment and assessment system

W 30-000 to 30-360

Assessment process

W 30-400 to 30-467

Self-assessment system

W 30-470 to 30-570

Amendment of assessments

W 30-600 to 30-690

Introduction to the tax appeal process

W 31-300 to 31-700

Tax Offences and Penalties

W 33-000 to 33-095

No presentation questions.

Lecture Thirteen

Revision

Written Report

(Maximum 1000 words)

Due Week commencing 24 August 2011

Total 15 marks

(10 marks awarded based on tax issues addressed and 5 marks for the quality of the report writing)

You are a qualified accountant working with a medium sized accounting firm in Sydney, Australia. One of the partners has asked you to prepare a report on the Australian income tax consequences of the following set of facts for a new client looking at setting up business in Australia.

The new client, John Vale provides the following details:

John owns all the shares in Wool and Twine Pty Ltd (Wool and Twine) and is one of two directors and the CEO of the company. The other director is John's father who is resident in New Zealand and all directors meetings will continue to be held in New Zealand.

Wool and Twine is incorporated in New Zealand and until 30 June 2010 carried on business exclusively in New Zealand. Wool and Twine's business includes the manufacture and sale and woollen jumpers to New Zealand customers.

John was born in New Zealand, is 28 years and has always lived and worked there until 1 July 2010. He is not in any permanent relationship, and has no children but does own his own home in New Zealand.

Wool and Twine are looking at offering its product for sale in the Australian market place and at the moment plan to set up a warehouse in Sydney, Australia. Operations of Wood and Twine in Australia would involve the warehousing of its product, marketing, sales and delivery to Australian customers.

John will relocate to live in Australia for the first 12 months while the Australian operations are established. During that time John will recruit an Australian manager, an additional three staff and ensure that the set up and running of the business operations in Australia runs smoothly. Important business decisions relating to manufacture and distribution will continue to be made by John and employees of Wool and Twine in New Zealand.

John will return to New Zealand one weekend every month and stay with his father, as his main residence in New Zealand will be rented out during his 12 months in Australia.

Required

In your report you should advise the partner:

- 1. Whether and to what extent Wool and Twine would include in Australian assessable income sales of woollen jumpers.**
- 2. Whether and to what extent salary and wages paid by Wool and Twine to John during the twelve months he is living in Australia would be included in Australian assessable income.**
- 3. Whether and to what extent the value of a motor vehicle provided by Wool and Twine to John to use during the twelve months he is living in Australia would be included in Australian assessable income.**
- 4. Whether rental income received by John on his New Zealand main residence during the twelve months he is living in Australia would be included in Australian assessable income.**

You should demonstrate to the tax manager that you have researched the issues thoroughly so you must give section references and make reference to cases where relevant. You should explain why amounts are or are not assessable. If you require more information from the client to address all the tax issues identified you should state that in your report.

ACCG857 Tax Law Semester 2 2011
Student Presentation Feedback and Indicative Marks

This sheet will be used to give you your feedback for your presentations. You should prepare carefully recognising the things we will be looking for in your preparation and presentations.

Family Name _____ **First Name** _____ **Called** _____

Student Number _____

Student Presentation # _____

Presentation Day & Time _____

Lecturer _____

Co-presenter if relevant _____

Your indicative mark as a percentage _____

Note that your indicative mark will be subject to adjustment (upwards or downwards) as all students' marks are standardised across all groups to lead to an overall average of between 70% and 80%.

You will receive this sheet within a few weeks of the in-class presentation and your lecturer may also keep a copy – but you should keep the original safe.

THE STANDARD AT WHICH YOU PERFORMED (rating will be circled)

6 = Outstandingly High (High Distinction plus level – a rare mark!) 5 = Distinction level
4 = Above Average (Credit level) 3 = Average (High Pass level) 2 = below average (needed more work to achieve good Pass) 1 = well below average (equates to a fail for poor or no performance)

Quality of <u>presentation MATERIALS</u>	6	5	4	3	2	1
<u>COMMUNICATION</u> with audience	6	5	4	3	2	1
<u>EXPLANATION</u> to meet class needs	6	5	4	3	2	1
Extent of thorough <u>UNDERSTANDING</u>	6	5	4	3	2	1
Identification of <u>TOPIC DIFFICULTIES</u>	6	5	4	3	2	1
Apparent <u>PREPARATION</u> and Reading	6	5	4	3	2	1
Prepare to and <u>comply with TIME LIMITS</u>	6	5	4	3	2	1

Other Comment

Student feedback to lecturer on working in pairs (if relevant)
