

COMMONWEALTH OF AUSTRALIA

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	Family Name	
	Given Names	
	Student Number	
	Teaching Period	Semester 2, 2015
FINAL EXAMINATION	DURATION	
CMT301 – Taxation	Reading Time:	10 minutes
	Writing Time:	180 minutes

INSTRUCTIONS TO CANDIDATES

1.1 The examination has two sections

Section A:

Suggested Time: Approx. 40 Minutes writing. Multiple Choice Questions: Answer ALL 20 questions

Note that questions are of equal value.

Section B:

Suggested Time: Approx. 140 Minutes writing. Short Answer and Essay Questions: This section consists of four questions (some with multiple parts each), all of which must be answered.

Note that the marks for each questions are indicated on the exam paper.

1.2 Use only BLACK or DARK BLUE INK. DO NOT write in pencil

1.3 Read ALL questions carefully.

1.4 Do not commence writing until instructed to do so.

EXAM CONDITIONS

This is a RESTRICTED OPEN BOOK examination

Any non-programmable calculator is permitted

No handwritten notes are permitted

Hard copy, unannotated English translation dictionary only

Answer on the supplied examination material/s only

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
Case/Precedents List Relevant Legislation (Annotated Permitted)	2 x 8 Page Book 1 x 4-Multiple Choice Answer Sheet Reference Information

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Section B
Short Answer and Essay Questions

Total No of Marks for this section: 60

Answer 4 of 4 questions

This section should be answered in the Answer Booklet provided.

Marks for each question are indicated. Suggested Time allocation for Section B: 140 mins

QUESTION 1 (15 Marks)

Anna, a resident, an accountant-lawyer based in Darwin, has the following transactions during the year:

1. Received compensation of \$50,000 for pain and suffering from a work-related accident.
2. She sold land for \$40,000 on 30 June of the current income tax year. This was used 100 per cent for private use. The land cost \$43,000 and was purchased six months ago.
3. On 1 May of the current year ended 30 June, she sold an antique painting for \$40,000. The sales contract was dated 30 June of the current income tax year. The painting cost \$10,000 and was acquired on 29 June 1985 and the costs were incurred on that date.
4. She sold shares for \$20,000 on 30 June of the current income tax year. The shares cost \$40,000 which were incurred on 23 July 1988.
5. She acquired a holiday house in Brisbane for \$200,000 paid on date of the contract. The purchase contract was dated on 30 June 1986. Other costs were stamp duty of \$10,000 and the legal costs to purchase of \$1,000 which were paid on 16 July 1986.

In addition to the transactions related to disposal of her holiday house in Brisbane, Anna also incurred the following:

- Her costs of running the house included: interest \$60,000, repairs \$6,000. On 24 June 2000 she spent \$20,000 on legal costs in defending her right to the ownership to the property in opposing the bank's action to foreclose on the mortgage.
 - On 31 December of the current income tax year she sold the house for a contract price of \$1,000,000. She, however, only received \$900,000 of the amount in cash. The balance owing was to be paid by April of the current income tax year. This \$100,000, though, remained unpaid as at 30 June and she could not be bothered pursuing this debt. Her advertising costs on sale were \$6,000 and the sales commission was \$16,000.
6. Carried forward capital losses \$2,000.

Required:

- a) Calculate the capital gain or loss for each of the above CGT events.
- b) Then calculate the net capital gain or loss.

QUESTION 2 (20 Marks)

Part A

Do the following transactions constitute ordinary income? Yes or No? Support each answer with the section, if no relevant section state the relevant case, and reason.

- a. Alf receives long-service leave of \$3000.
- b. Clive receives director's fees of \$1,000,000 each quarter.
- c. Acme Pty Ltd receives rent of \$555,500 from a hotel property in Kalgoorlie during the current income tax year.
- d. Rose receives bank interest of \$348 on 30 June of the current income tax year.
- e. Terry works as a chauffeur for Cindy and is given a bottle of Whiskey as a Christmas present; no other employees receive gifts. Terry is a good friend of Cindy.
- f. Mona was a regular punter at the horses and won \$90,000, \$85,000, \$76,000 and \$89,000 over the last four years. She did not maintain an office or keep records but intensively studied the racing form.
- g. Dividends of \$500 from Rio Ltd.
- h. Lump sum payment of \$80,000 received as a result of a car accident injury to the neck. The injury was of a long-term nature.
- i. \$5000 received by Louie for selling mind-altering drugs.
- j. As part of the sale of a business, a lump sum payment of \$50,000 was received by the vendor as a result of agreeing not to compete in business within a 10-kilometre radius of Parkside for 10 years.

You can use the table format below to answer the above:

Item	Constitute ordinary income?	Section or Case	Reason
a.			

Part B

Are the following items of expenditure allowable deductions under the positive limbs of s 8-1? Yes or No? Provide section, if no relevant section state the relevant case, and reason.

- a. A South Australian branch of ANZ Bank paid child care expenses of one of its employees.
- b. A self-employed concreting contractor travels from his home to his place of work, which is always at the same location.
- c. A self-employed electrical contractor who is an itinerant workers travel between two places of business and the motor vehicle expenses are all paid by his rich uncle.
- d. Expenses paid by a company director for his trip to visit major overseas clients and existing agencies in Brazil. As a result of the trip, he gained appointment to Chairman of the Board, and his director fees doubled from \$100,000 per annum to \$200,000 per annum.
- e. A Queensland engineer borrows \$200,000 at 10 per cent per annum on 1 July of the current tax year ended 30 June for the purpose of on-lending the same amount to the trustee of his family trust. The interest charged by the engineer to his trustee is 1 per cent per annum. Assuming he derived \$2000 income for the 30 June tax year from this transaction, what deduction is he entitled to given he has interest expenses of \$20,000?
- f. Child care fees paid by a single working mother to a child care centre. She works in a Melbourne school as a teacher.
- g. Costs incurred by a 50-year-old pharmaceutical manufacturer, a large public company, in an unsuccessful research programme to develop a new drug.
- h. Interest on a loan used by an investor to purchase shares that yield only a 2 per cent dividend. The rate of interest on the loan is 8 per cent.
- i. A deli owner borrows money by mortgaging the business assets to purchase a family home. Are the interest expenses deductible?
- j. Would it make any difference if the loan was mortgaged against a family home and used to purchase business assets?

You can use the table format below to answer the above:

Item	Allowable deductions under the positive limbs?	Section or Case	Reason
a.			

QUESTION 3 (10 Marks)

Golf Equip Pty Ltd (GE), a large golf equipment retailer, provided the following benefits to its employees during the year ended 31 March 2015:

1. On 1 April 2014, the company loaned \$30,000 to Chris (the general manager) at an interest rate of 2% per annum. The purpose of the loan was to assist with the payment of school fees for his children. Loan repayments were made every six months. The total balance of the loan remained unpaid as at 31 March 2015.
2. All employees receive a staff discount of 50% off the retail price of golf carts. Eddie, the forklift driver, received the 50% discount when he purchased a golf cart. The retail price was \$4,000 and GE's cost price was \$2,900.
3. David, the weekend store manager, is provided with a smartphone, which he uses primarily for work purposes. The cost of the phone was \$660.
4. The managing director took his assistant to lunch to thank her for her hard work. The total cost of the lunch which was paid for by GE was \$290.
5. For their Christmas party, GE hired a boat to cruise the harbour. Ten staff and twenty clients attended the cruise. The cost to hire the boat was \$10,000. GE provided each person in attendance with a premium bottle of champagne to take home. The champagne cost \$350 per bottle.

The above benefits were not provided under salary sacrifice arrangements.

GE made the election under Division 9A and s. 152B of the Fringe Benefits Assessment Act 1986, to apply the 50:50 split method.

All amounts are GST-inclusive.

Required:

Calculate the total fringe benefits tax (FBT) payable for the year ended 31 March 2015. Show all workings and briefly explain any exclusions.

QUESTION 4 (15 Marks)

Part A

Ruben, an Australian resident for a tax purposes for the year ended 30 June 2015, works as a fisherman for a fishing company in Port Darwin. His gross salary for the current tax year is \$ 93,000. He has incurred deductions totalling \$2,000 in earning that income. He has no private hospital insurance cover.

- a. Which section or sections of the ITAA 1997 determines how his taxable income is calculated? What is the amount of his taxable income?
- b. Does he have to pay any tax if he had PAYG withholding tax taken out of his pay of \$20,996 and is eligible for a spouse tax offset of \$1,452?

His sister, Carmen is employed as a pilot and is an Australian resident for tax purposes for the year ended 30 June 2015. Her gross salary for the current year is \$109,000. She had incurred deductions totalling \$1,200 in earning that income. She has no private hospital insurance cover.

- c. How much tax does she have to pay if she has PAYG withholding tax taken out of her pay of \$25,876 and is eligible for a tax offset of \$1050?

Part B

Tito, Vic and Joey (TVJ) carry on a business as partners growing tropical dragon fruits. The partnership agreement states profit and losses are to be distributed equally between the partners. The partners also agree that Joey is to receive a salary of \$40,000.

For the tax year ended 30 June 2015 the partnership's assessable income was \$520,000 and deductible expenses (not including Joey's salary) were \$240,000.

- a. What is the partnership distribution for tax purposes to Tito, Vic and Joey for 2014/15? Show all your workings and state the relevant statutory provisions and case law.
- b. Ciara, Tito's 16 year old sister, joins the partnership and the new partnership agreement provides the distribution of any profit or losses equally between the four partners. Ciara works in the business on Saturdays as this does not interfere with her high school studies. What is the tax position for Ciara as a child partner?

REFERENCE INFORMATION

Resident Individual Tax Rates for 2014-15:

Taxable Income	Tax on Taxable Income
\$1 - \$18,200	Nil
\$18,201 - \$37,000	19c for each \$1 over \$18,200
\$37,001 - \$80,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$80,001 - \$180,000	\$17,547 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,547 plus 45c for each \$1 over \$180,000

The above rates do not include the:

- Medicare levy of 2%
- Temporary Budget Repair Levy; this levy is payable at a rate of 2% for taxable incomes over \$180,000.

Non-Resident Individual Tax Rates for 2014-15:

Taxable Income	Tax on Taxable Income
\$1 - \$80,000	32.5c for each \$1 up to \$80,000
\$80,001 - \$180,000	\$26,000 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$63,000 plus 45c for each \$1 over \$180,000

- Foreign residents are not required to pay the Medicare levy.
- The above rates do not include the Temporary Budget Repair Levy; this levy is payable at a rate of 2% for taxable incomes over \$180,000.

Income thresholds and Medicare Levy Surcharge (MLS) rate for 2014-15:

	Unchanged	Tier 1	Tier 2	Tier 3
Singles	\$90,000 or less	\$90,001 - \$105,000	\$105,001 - \$140,000	\$140,001 or more
Families	\$180,000 or less	\$180,001 - \$210,000	\$210,001 - \$280,000	\$280,001 or more
Rates	0%	1%	1.25%	1.5%

- For families, the income thresholds increase by \$1,500 for each MLS dependent child after the first.

REFERENCE INFORMATION

Consumer Price Index (CPI) Rates:

Year	Quarter Ending			
	31 March	30 June	30 September	31 December
1985	-	-	71.3	72.7
1986	74.4	75.6	77.6	79.8
1987	81.4	82.6	84.0	85.5
1988	87.0	88.5	90.2	92.0
1989	92.9	95.2	97.4	99.2
1990	100.9	102.5	103.3	106.0
1991	105.8	106.0	106.6	107.6
1992	107.6	107.3	107.4	107.9
1993	108.9	109.3	109.8	110.0
1994	110.4	111.2	111.9	112.8
1995	114.7	116.2	117.6	118.5
1996	119.0	119.8	120.1	120.3
1997	120.5	120.2	119.7	120.0
1998	120.3	121.0	121.3	121.9
1999	121.8	122.3	123.4	-