

COMMONWEALTH OF AUSTRALIA

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Family Name	
Given Names	
Student Number	
Teaching Period	Semester 2, 2016

FINAL EXAMINATION	DURATION				
TAX305 – Taxation	<table border="1"> <tr> <td>Reading Time:</td> <td>10 minutes</td> </tr> <tr> <td>Writing Time:</td> <td>180 minutes</td> </tr> </table>	Reading Time:	10 minutes	Writing Time:	180 minutes
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INSTRUCTIONS TO CANDIDATES

The total marks for this exam: 60
 There are three questions each worth 20 marks. Students are required to answer all questions.

EXAM CONDITIONS

You may begin writing from the commencement of the examination session. The reading time indicated above is provided as a guide only.

This is a RESTRICTED OPEN BOOK examination

Any calculator is permitted

No handwritten notes are permitted

Any hard copy, unannotated English dictionary is permitted

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
No additional printed material is permitted Relevant Legislation (Unannotated)	1 x 20 Page Book Case/Precedents List

**THIS EXAMINATION IS PRINTED
DOUBLE-SIDED.**

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QUESTION ONE

Jim Lee and his wife Mary Lee are the two directors of the private company, Central Accounting Services Pty Ltd. On 1 July 2003 a Deed of Settlement was executed establishing the Central Accounting Services Trust.

The trust accounts for the consulting business for the year ending 30 June 2016 disclose the following:

Receipts

Consulting receipts	\$524,000
Interest see note (iv)	1,800
Exempt income	40,000
Capital gain from the sale of shares in an Australian company – see note (v)	40,000
Dividend from BHP fully franked	16,540

Expenses

Rent	40,000
Salaries to employees including	67,000
Purchase of a new photocopier with an effective life of 4 years	3,600
PAYG Withholding of \$18,000 paid to ATO	
Salary to Jim Lee including PAYGW \$23,000	90,000
Salary to Mary Lee including PAYGW \$15,000	40,000
Payment of Jim's gambling debts	65,000
Superannuation contributions for employees	5,674
Superannuation contributions for Jim and Mary (50% each)	50,000

Notes - Additional Information – Central Accounting Services Trust

- (i) The Trust is a discretionary trust and Jim and Mary have as the trustees' full discretion as to how the net trust income will be distributed.
- (ii) The trust is registered as a Small Business Entity (SBE).
- (iii) The Trust is registered for GST and all figures are exclusive of GST.
- (iv) Net interest of \$1,800 from Singapore after withholding tax of \$200 was withheld.
- (v) The trust purchased the shares in January 2013 and sold them on 31 May 2016.
- (vi) On 10 January 2016 one of the employees was robbed at gunpoint of the consulting receipts of \$26,000 while on the way to the bank.
- (vii) In the income year ending 30 June 2015, the trust made a loss of \$20,000 in respect of the consulting business.

The trustees resolved to distribute the net trust income as to 50% to Jim and 50% to Mary.

It is important that you take note of the separate items of income when accounting for the distribution. This means that the capital gain, dividend and exempt income are treated as retaining their original characteristics after distribution.

Jim's individual personal records reveal the following:

Receipts

\$90,000	Salary paid by the trust
\$ 6,000	Rental income from a rental property
?	Distribution from the trust, amount to be determined from the above figures

Payments

\$ 8,000	Interest on money borrowed to purchase the income producing property
\$14,000	Medical fees for Jim and Mary
\$ 3,500	Motor vehicle costs associated with Jim using his own car for work purposes using the cents per kilometre method

Notes - Additional Information – Jim's individual activities

- (i) In the income year ending 30 June 2016, Jim made a trading loss of \$36,000.
- (ii) Jim made a capital loss of \$12,000 from the sale of shares the he had purchased on 20 June 2005.
- (iii) The trust paid Jim's expenses of \$3,000 to attend an accounting conference in New Delhi.
- (iv) Jim and Mary have private hospital insurance.

REQUIRED:

1. Calculate the net trust income for the Central Accounting Services Trust for the year ended 30 June 2016.
2. Calculate Jim's share of the net income from the trust and his own personal tax liability for the income year ended 30 June 2016.

(20 marks)

QUESTION TWO

Joan Lee was a corporate lawyer for a large food processing company in Melbourne. She was retrenched as a result of a corporate reorganisation, and she left the company on 3 July 2015. On 1 August 2016 she decided to be a financial adviser and not a lawyer. In order to achieve her aim, she undertook the following activities in the 2015 – 2016 financial year:

(1) Joan attended a financial planning course run by the Financial Planning Association. This course took 12 weeks and cost her \$8,800 (including GST).

(2) She also buys a shelf company from her accountant for \$1,980 (including GST) to operate her business. The name of the company is Joan Lee Financial Services Pty Ltd.

On 1 November 2015 she is given a licence to operate her business as a financial planner. The following income was derived and expenses incurred in addition to the above by her from 1 November 2015 to 30 June 2016.

Income of the Company

Income from her licensed dealership \$85,500

(This does not include commission for business that she had completed in June 2016. That amount was \$6,600. Commissions are always paid the following month.)

Expenses for the Company

Referral fee paid to accountants (The referral fee for the business written in June 2016 was \$550. This amount was not paid until July 2016.)	\$ 8,700
Research expense from the fund managers (To determine if their products are appropriate)	\$ 1,320
Legal fees to prepare the lease of the office	\$ 330
Accounting fees	\$ 1,650
Acquisition of lap top computer	\$ 2,499
Fixtures and fittings for the office (All the items were less than \$5,000 each)	\$ 3,750
Travel costs to see clients	\$ 870
Mobile phone bills	\$ 650
Prepaid maintenance on photocopier (Period of maintenance was November 2015 to November 2016)	\$ 1,320
Wages to secretary, Wendy Smith	\$35,000
Superannuation for secretary	\$ 3,150
PAYG withholding for wages paid to Wendy (included in salary)	\$ 7,500
Stationery and postage	\$ 7,800
Professional Indemnity insurance (Period of cover is November 2015 to November 2016)	\$ 4,500

All of the above figures include GST where appropriate.

REQUIRED:

1. Calculate the taxable income and tax payable for the company for the year ended 30 June 2016.
2. Calculate the GST payable and input tax credits that are refundable for the same period.

(20 marks)

QUESTION THREE

On 3 June 2016, Kylie sold her holiday house for \$550,000. The house had been purchased on 1 March 2006 for \$360,000. At the time of acquiring the holiday house Kylie incurred \$5,000 in stamp duty, \$4,000 in valuation costs and \$1,000 for a conveyancing kit as she had chosen to do the transfer of the property herself rather than hire a solicitor.

On 1 July 2008 Kylie incurred costs of \$15,000 in removing an old dilapidated garage from the property. On 1 July 2009 she incurred legal costs of \$5,000 in a dispute with her neighbour over the proper location of the boundary separating their respective properties. On 1 February 2010, Kylie spent \$40,000 adding a second floor to the holiday house. During the period that she owned the house she had paid a total of \$60,000 in interest, rates and insurance. She rented the property for six months in the 2008-2009 income year and had claimed \$5,000 of the \$60,000 in respect of interest, rates and insurance as a tax deduction in her personal tax return. She used the property solely for her personal use at all other times.

Prior to the sale, Kylie granted a \$10,500 three month option to purchase the property for \$480,000 to a local property developer on 1 January 2016. The option lapsed on 31 March 2016. Kylie retained the \$10,500. Her solicitor charged her \$500 legal fees to prepare the option contract. At settlement she incurred legal expenses of \$2,000 and real estate agent's commission of \$8,000 in relation to the sale.

She has capital gain of \$5,000 from the sale of her father's World War II bravery medal. Kylie sold her motor car, a vintage 1964 MGB for \$50,000. She bought the car in May 2002 for \$20,000. Kylie has a carry-forward capital loss of \$20,000 from the sale of shares in the 2007-2008 income year.

During the 2015-2016 income year Kylie earned \$40,000 as a part-time school teacher but she made a loss of \$20,000 from the operation of a gymnasium that she owns. She started the gymnasium business on 1 July 2015. Kylie has no other deductible expenses and no other income for the financial year.

REQUIRED

Calculate Kylie's tax payable for the income year ending 30 June 2016.

(20 marks)

Tax rates 2015–16 - Individual

Taxable income	Tax on this income
0 – \$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.

COMPANIES

- small business entities for income years on or after 1 July 2015 - 28.5%
- Other companies and entities - 30%