CHARLES DARWIN UNIVERSITY

Family Name	
Given Names	
Student Number	
Teaching Period	Semester 1, 2017

FINAL EXAMINATION	DURATION
LAW511 – Australian Taxation Law	Reading Time: **10** minutes Writing Time: **180** minutes

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

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

This is an OPEN BOOK examination

Any calculator is permitted

Any handwritten material is permitted

Hard copy, annotated English translation dictionary

ADDITIONAL AUTHORISED MATERIALS	EXAMINATION MATERIALS TO BE SUPPLIED
Any printed material with the exception of CDU Library books	1 x 20 Page Book

THIS EXAMINATION IS PRINTED DOUBLE-SIDED.

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QUESTION ONE

Ace Couriers Pty. Ltd. is an Australian resident private company for tax purposes and carries on the business of parcel delivery throughout Australia. It is registered for GST.

Amanda, the accountant has prepared the Income Statement for the year ended 30 June 2017 based on the financial accounting standards:

Fees		**$4,489,700**
Less:		
Operating expenses:		
Advertising	350,000	
Accounting depreciation (note 4)	35,000	
Fringe benefits tax	15,000	
Provision for motor vehicle accident claims (note 5)	50,000	
Provision for long service leave (note 5)	40,000	
Repairs (note 6)	30,000	
Wages (note 7)	405,000	
Purchase of trading stock (note 8)	45,000	
Payment for a new business (note 9)	100,000	1,070,000
Net profit		**$3,419,700**

Additional Information

(1) Unless otherwise stated the figures are GST exclusive.

(2) On 30 November 2016, the company received a cash dividend of $240,000 (franked to 80%). This dividend is **not** recorded in the above Income Statement.

(3) On 31 August 2016, the company also received a cash dividend of $160,000 from a Singapore company. Withholding tax of $20,000 had been withheld in Singapore. This dividend is **not** recorded in the above Profit and Loss Statement.

(4) The accounting depreciation of $35,000 is based on the directors estimating the effective life of all assets being 10 years. Amanda advises you that for taxation purposes the following information is applicable:

Ace Couriers Pty Ltd's final records show that on 1 July 2016 the opening balance of the low value and low cost pool of assets was $80,000. During the year ended 30 June 2017 the company purchased a number of low value assets for $17,080 at various times during the year which Amanda wishes to be pooled.

During the year the company also purchased the following assets:

- New motor vehicle servicing equipment at a cost of $17,750 (GST inclusive) on 1 July 2016. The estimated life is 6 years.

- A new i-Pad at a cost of $990 (GST inclusive) on 1 July 2016. The estimated life is 3 years.

- The old delivery van was traded in for $8,768 on 1 July 2011. The written down value of the van at that date was $9,710. A new VW delivery van was purchased on the same day for $74,232 (the amount payable after deducting the trade in value). The amount paid was GST inclusive. The estimated life, given the kilometers they will travel in the van, is 5 years.

(5) The provision for motor vehicle accident claims was based on the company's estimate of anticipated costs (based on statistical experience) of the number of accidents involving its drivers and the amount to be paid to the insurance company as contribution towards the repair costs. The provision for long service leave is an estimate but the actual cost for the year was $25,000.

(6) The repairs of $30,000 consisted of painting the company premises for $10,000 and replacing the old rotting wooden office window frames with new steel window frames for $20,000. The painting was to the west wall which got the afternoon sun and had not been painted for seven years. The existing paint was peeling and needed to be done before the timber also started to rot. The cost of replacing the old wooden office window frames with new wooden window frames would have been $21,000. The new steel window frames had the advantage of not being subject to rotting but had the disadvantage, unlike the old wooden frames, of being subject to rust. The new steel window frames were installed on 1 July 2016 and have an estimated life of 25 years.

(7) Wages of $405,000 include $50,000 paid for marketing services provided by a director's daughter. The Commissioner considers that $20,000 is a reasonable amount for the services provided.

(8) Ace Couriers Pty Ltd has carried out a stock take and values its closing trading stock at the following amounts:

Cost $33,567
Market value $35,278

Stock at the beginning of the income year was: $230,000

Amanda has **not included** the opening and closing stock figures in calculating the net profit of $3,419,700.

(9) Ace Couriers Pty Ltd purchased the goodwill from a competitor for $500,000 and the purchase price is paid over five years in exchange for five annual payments of $100,000. The date of the purchase was 1 July 2016.

(10) The company paid a total of $955,000 in **PAYG Installments** during the financial year.

(11) The company owns the building that it operates from and it purchased the building on 1 July 2016. The building and land cost $2,456,657. The building was five years old when purchased and the cost of the actual building was $1,200,000. This cost has been confirmed by the builder. Amanda has not included the building in the financial accounts and is unsure how to treat this expense for taxation purposes.

(12) The company has advised that it wishes to pay the minimum amount of tax and wants to claim the maximum deductions allowable.

REQUIRED

Calculate Ace Couriers Pty Ltd's taxable income and tax liability for the year ended 30 June 2017.

(20 marks)

QUESTION TWO

Sam Ryan is a self-employed accountant and registered for GST His receipts and payments (not including GST) for the year ended 30 June 2017 are as follows:

Receipts

$	
200,000	Professional accounting fees
25,000	Sales of Do-It-Yourself Superannuation guides
8,000	Income from part-time military service (note 1)
7,000	Dividends received from an Australian resident company fully franked
24,000	Net salary received from part-time lecturing at the University ($6,000 in PAYG W) (note 2)
2,000	Refunds from Government Medicare System for medical expenses
5,000	Interest on Bank Deposits
10,000	Rental income from an investment property
2,000	Profit on sale of office equipment (note 3)
500,000	Gambling wins (note 4)

Payments

$	
14,000	Office rent
10,000	Cost of Do-It-Yourself Superannuation guides (note 5)
50,000	Salary paid to employee secretary
290	Purchase of new calculator
1,400	Cost of meals and entertainment for himself and clients
1,200	Train fares for travel to and from work (note 6)
2,200	Rates on family home (note 6)
900	Electricity for family home (note 6)
1,000	Tax agent's fees for preparing tax returns for Sam
5,000	Gross medical expenses for Sam and his wife.
2,000	Rates paid on abovementioned investment property
15,000	Interest paid on loan to acquire the investment property
5,000	Cost of painting the investment property immediately after purchasing the property
1,000	Cost of replacing roof tiles on the investment property after the roof was damaged in a severe storm in February 2017
15,000	Cost of extending the bathroom in the investment property
5,000	Maintaining Sam's father Myron, who is a permanent resident of Australia and who earned $2,282 adjusted taxable income during the 2016-2017 income year.

Notes

(1) The part-time military income is exempt.

(2) Sam received the free use of a motor vehicle which had a FBT taxable value of $5,000 for the period ending 30 March 2017.

(3) Profit on sale of office equipment. The office equipment was purchased on 1 July 2014 for $10,000. Sam estimated its effective life for taxation purposes at the time of purchase at 10 years. He uses the prime cost method.

Sale proceeds – sale date 30 June 2014	$5,000
Net book value based on accounting depreciation	3,000
Profit	2,000

(4) Sam laid 602 bets on horses during the 2013-2014 income year totaling $100,000. He financed much of his lifestyle from his gambling winnings. He did not maintain an office nor employ staff for his betting activities. His betting approach, which involved reading the racing section of the daily newspapers, yielded consistent profits. He kept records of every bet and results of successful wagers. He attended one racecourse per week and placed not more than one bet on each race. On other days he placed his bets at his local betting office.

(5) The Opening stock value for tax purposes was $19,000.
The FIFO Method however produces the following results for the Do-It-Yourself Superannuation guides at the end of the year:

Cost Price	12,000
Replacement Price	9,000
Market Selling Value	14,000

(6) Sam has a carry forward past year tax loss of $12,000.

(7) Sam is married. His wife, Le Chien, works full-time and earns assessable income of $82,282 per year. Neither Sam nor Le Chien are eligible for a Family Tax Benefit Part B.

(8) Neither Sam nor Le Chien have private hospital insurance.

REQUIRED

Sam would like to minimise his tax liability for the year. Calculate Sam's tax liability for the year ended 30 June 2017.

(20 marks)

QUESTION THREE

On 30 June 2017, Sue 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 Sue 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 Sue 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, Sue spent $40,000 adding a second floor to the 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 $15,000 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, Sue granted a $10,500 three month option to purchase the property for $480,000 to a local property developer on 1 January 2017. The option lapsed on 31 March 2017. Sue 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 of her holiday house.

On 4 April 2017, Sue also sold her Porsche sports car that she had bought for $165,000 on 2 April 2006 for $110,000. She gave her painting by Monet to her brother on 16 May 2017. The painting cost her $560,000 and was valued at $580,000 on the day she gave it to her brother.

Sue has an unabsorbed capital loss of $120,000 from the sale of shares in the 2007-2008 income year. She also has capital gain of $35,000 from the sale of her father's World War II bravery medal.

During the 2016-2017 income year, Sue earned $60,000 as a part-time school teacher but she made a loss of $25,000 from her fudge manufacturing business. The fudge business has made a taxable profit in every one of the ten years Sue has owned the fudge making business except the 2016-2017 income year.

REQUIRED

Calculate Sue's tax payable for the income year ending 30 June 2017.

(20 marks)

Tax rates 2016–17 - Individual

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $87,000	$3,572 plus 32.5c for each $1 over $37,000
$87,001 – $180,000	$19,822 plus 37c for each $1 over $87,000
$180,001 and over	$54,232 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%