



FINAL Examination
Second Semester, 2006

COURSE CODE LAWS3102

COURSE TITLE Advanced Taxation Law

EXAMINER Ross Kirkwood

WEIGHTING/MARKS 60%

PERUSAL TIME 20 mins Writing permitted on exam paper only.

WRITING TIME 1 Hr 40 mins

NO. OF PAGES IN EXAM PAPER (including cover sheet) 9

Exam Type: Restricted Open Book (See Permitted Materials)

Calculator: Yes - Non-programmable

Dictionary: Yes

Permitted Materials: Students may take into the examination room any written material including legislation, texts and notes. No computers or devices with text storage capabilities are allowed. No University Library materials permitted.

SPECIAL INSTRUCTIONS TO STUDENTS:

1. Students must answer ALL questions.
2. Questions carry the number of marks indicated.

THIS EXAMINATION PAPER MUST NOT BE REMOVED FROM THE EXAMINATION ROOM

General Award Rules 1A.7 and 1A.8

1A.7 Responsibilities of students

- 1A.7.1 A student must comply with the examination instructions and directions given by an examination supervisor.
- 1A.7.2 A student may not enter an examination room without the permission of the examination supervisor, or after the first 10 minutes of examination working time.
- 1A.7.3 A student must not leave the examination room without the permission of the examination supervisor.
- 1A.7.4 Permission will not be granted under GAR 1A.7.3 during —
(a) the first 10 minutes of examination working time; and
(b) the final 10 minutes.
- 1A.7.5 (a) A student must bring into the examination some identification in the form of a current student card or other photographic identification.
(b) The identification must be displayed throughout the examination.
(c) Before the start of the examination, a student without identification must sign a declaration in a form set by the secretary and registrar.
(d) A student who does an examination without identification must produce identification at a location specified in writing by the secretary and registrar either generally or for that student.
(e) The university may withhold the results for an examination for a student who did not have identification at the examination until the student has produced identification under GAR 1A.7.5(d).
- 1A.7.6 Unless addressing a question to the examiner or examination supervisor, a student must not communicate in any way with another person during the examination.
- 1A.7.7 A student may bring unauthorised material into the examination room only if the material —
(a) is brought in with the permission of the examiner or examination supervisor; or
(b) is left with the examination supervisor immediately on entering the examination room.
- 1A.7.8 A student may remove examination books, scripts or material provided to the student during the examination only with the permission of the examination supervisor.

1A.8 Examination supervisors

- 1A.8.1 The examination supervisor may —
(a) inspect any material brought into the examination room by a student; and
(b) confiscate any material which the examination supervisor reasonably suspects to be or to contain unauthorised material.
- 1A.8.2 If the examination supervisor reasonably believes that a student's behaviour may distract or disturb other students, the examination supervisor may direct the student to leave the examination room.

QUESTION ONE (Answer ALL Parts)

Eric and Ben are planning to operate a new retail business. They approach you seeking taxation advice. Based on research they have conducted they conclude that a partnership would best suit their business requirements (instead of a trust or a company structure).

- 1) **Advise Eric and Ben on the advantages and disadvantages of using a partnership to operate their retail business.**
- 2) Assuming that Eric and Ben proceed with the partnership structure, you then provide them with a partnership agreement that states the profits or losses of the partnership are to be divided equally after Ben, the active partner, receives an agreed salary. For the 2005/2006 tax year that salary was \$60,000. Suppose the partnership made a loss of \$80,000 after the payment of Ben's salary. **Calculate the net partnership loss and the distribution to Eric and Ben for the 2005/2006 year.**
- 3) The partnership is registered for GST and employs three staff on a full time basis. **What would be the tax implications of providing a \$1,000 (GST inclusive) expense fringe benefit to one of the employees.**
- 4) As part of Ben's agreed salary package the partnership purchases a Toyota Landcruiser motor vehicle at a GST inclusive price of \$62,000. The car will be used by Ben 100% for business purposes as he already has another vehicle for private use. **Advise Ben and Eric on the tax consequences of this purchase.**

(15 marks)

QUESTION TWO

Significant changes to the rules for Superannuation were recently announced by the Federal Treasurer under the 'Plan to Simplify and Streamline Superannuation'.

As a result, Jon Stevens approaches you for taxation advice about his plans to retire.

Advise Jon on the taxation consequences of delaying his retirement until July 2007 instead of his current plan to retire on 30 June 2006.

(7 marks)

QUESTION THREE

Black Ltd has a franking account surplus balance of \$6,000 at as 30 June 2005. During the 2005/2006 tax year the following transactions were recorded:

- 10.07.2005 – received notification of successful appeal against the company's 2001 notice of assessment. A refund of \$5,000 was then credited to the company's bank account.
- 21.07.2005 – payment of the June 2005 PAYG instalment of \$150,000.
- 28.10.2005 – payment of the September 2005 PAYG instalment of \$155,500.
- 01.11.2005 – paid an interim distribution of \$700,000. The distribution had a 100% franking percentage.
- 28.02.2006 – payment of the December 2005 PAYG instalment of \$155,500.
- 05.03.2006 – receipt of a distribution from an Australian public company of \$14,000. The distribution had a franking percentage of 70%.
- 28.04.2006 – payment of the March 2006 PAYG instalment of \$155, 500.
- 01.05.2006 – paid a final distribution of \$700,000. The distribution had a 100% franking percentage. (Complying with the benchmark rule in s203-25).

Prepare Black Ltd's franking account for the 2005/2006 tax year on the basis of the above information.

(8 marks)

QUESTION FOUR

John Bennet is a resident of Australia who has spent several month overseas during the 2005/2006 tax year. Details of John's income and expenses are detailed below, all relevant amounts have been converted in Australian dollars. John is not married and has full private health insurance (he has taken the relevant private health insurance tax offset as reduced premiums).

Employment income from Australia	22,000
Employment income from the United Kingdom	6,000
Employment income from Canada	4,000
Rental income from a property in the United States	12,000
Interest income from the United States	400
Dividend income form the United States	600

Expenses incurred in deriving employment income in Australia	2,000
Medical Expenses (after refunds) from Australia	2,500
Donation to deductible gift recipient in Australia	200
Expenses incurred in deriving employment income in United Kingdom	450
Expenses incurred in deriving rental income in United States	250
Interest incurred in deriving dividend income	70
Interest incurred in deriving rental income	11,030

John also paid the following amounts of foreign tax:

Employment income from the United Kingdom	1,800
Rental income from a property in the United States	300
Interest income from the United States	40
Dividend income form the United States	60

Determine whether any tax credit would be available to John in respect of the foreign tax paid. If so, calculate the amount of the tax credit for the 2005/2006 tax year.

(15 Marks)

QUESTION FIVE

The Williams family trust received the following income for the year ended 30 June 2006:

- Rental income (after expenses) \$15,000
- Unfranked dividends \$2,000
- Fully franked dividends \$1,500
- Bank Interest \$1,200
- Capital Gain on Sale of NAB shares \$3,000

The NAB shares were purchased on 21 September 2004 and sold on 29 June 2006. They had a cost base of \$1,000 and were sold for \$4,000.

The trustees resolved to distribute the income and capital equally to the following beneficiaries:

- Mark Williams, aged 15 (at school, no other income)
- Tom Williams, aged 21 (\$3,000 salary income from a part-time job); and
- Anne Williams, aged 40 (no other income).

Anne Williams had a capital gains loss of \$750 carried forward from the 2004/2005 tax year.

In relation to the 2005/06 tax year, advise the trustees and the beneficiaries of their liability for tax in respect of the income they received from the trust. Your answer should indicate who is liable on the income, as well as a calculation of the tax payable including Medicare levy and any rebates or offsets available. For Anne Williams you should also show how her taxable income is calculated.

(15 Marks)

ADDITIONAL INFORMATION (relevant to questions on this exam paper)

- **Taxation Rates 2005/2006:**

Taxable income	Tax on this income
\$0 – \$6,000	Nil
\$6,001 – \$21,600	15c for each \$1 over \$6,000
\$21,601 - \$63,000	\$2,340 plus 30c for each \$1 over \$21,600
\$63,001 – \$95,000	\$14,760 plus 42c for each \$1 over \$63,000
Over \$95,000	\$28,200 plus 47c for each \$1 over \$95,000

- **Medicare Levy is 1.5% of Taxable Income.**
- **Medical Expenses threshold for 2005/2006 is \$1,500. Excess over \$1,500 is subject to a 20% tax offset.**