

Primary Examination for the University of Adelaide
Semester 2, 2020

102238 (course id)

Income Taxation M
COMMLAW 7013

Total Duration: **190 mins**

Instructions for Candidates

1. Answer **ALL THREE** questions.
 - The Capital Gains Tax Index Numbers, Car Expense “Cents per Kilometre” Rate, Car Limit and Resident Individual Income Tax Rates are reproduced on **page 8** of this exam paper.
 - This is a non-invigilated open-book examination.
 - Please ensure that you save your **Word document** regularly and that you clearly label which question you are answering.
 - You **MUST SUBMIT** your **Word document** within the allocated time for this online examination **using the ‘Submission’ link** in the ‘Exam’ course on MyUni.
 - It is your responsibility to submit your Word document within the allocated time.
 - You **will not be able to submit** after the allocated time.
 - If you experience a problem and you are not sure what to do, contact the Online Exams Call Centre on +61 8 8313 3311.

QUESTION 1 Part 1**(20 marks)**

From the following you are required to calculate Jas's taxable income (if any) for the income year ended 30 June 2020, giving **brief** reasons to support your calculation.

Jas is an Australian resident, adult individual. Jas works as an Associate Professor at the University of Adelaide and her areas of research include auditing and not-for-profit organisations.

During the income year ended 30 June 2020, Jas received and derived the following amounts:

1. Wage totalling \$140,000 from University of Adelaide from which \$40,000 Pay As You Go tax instalments were withheld.
2. Jas also received a lump sum of \$5,000 from the Stephen Cole Elder Award Foundation for her 'Excellence in Teaching' having nominated successfully for the Stephen Cole Elder Award, however, no PAYG was withheld from the award.
3. Jas was sought out by the Community Council of Australia and received consultancy fees of \$60,000 during the financial year under a short-term contract (6-month project). Jas was to examine the impact of recently announced government reform proposals regarding Governance and Reporting for not-for-profit organisations. Jas worked on the project and also hired an assistant for 3 months during the financial year to fast track the project whose efforts were directly rewarded each fortnight by Jas for a total cost of \$20,000.
4. Jas celebrated the consultancy project and went out to dinner and then visited the Casino for entertainment. Jas was fortunate to win \$4,000 playing poker that she accredited to her keen sense of numbers.
5. Jas received an income distribution of \$10,000 from the Jacobson Family trust as a beneficiary.
6. Jas received interest totalling \$2000 paid into a cash management bank account held by Jas with the National Australia Bank Ltd, an Australian resident company.
7. Jas received rent of \$15,000 from her rental property.

During the income year ended 30 June 2020, Jas paid and incurred the following outgoings and has kept "written evidence" for each of them:

1. Annual Membership fees of \$600 paid to CPA Australia.
2. Relating to her rental property:
 - a. Repairs of \$2,500 to replace a laminate bench (movable) as the old bench top was chipped and worn. The replacement bench top is made of granite,

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which is a considerably stronger and more durable surface than the laminate.

- b. Payments totalling \$15,000 for interest on the loan of \$300,000 that had been used by Jas to fund the purchase of the rental property.
 - c. Payment of Council rates of \$1,525, Emergency Services Levy of \$260, Land tax of \$265, SA Water supply and usage charges of \$1,225 and House and landlord insurance expense of \$670.
3. Jas incurred \$400 total for the internet service at home using a monthly plan paying Internode. The internet was used for her research and private purposes, which Jas reasonably estimated was on a 50/50 basis.

Question 1 Part 2

(5 marks)

Calculate Jas' income tax liability or refund for the income year ended 30 June 2020.

(End of Question 1 – Total Marks 25)

QUESTION 2 Part 1**(15 marks)**

From the following, you are required to calculate the Jumble Family Trust's Net income (if any) for the income year ended 30 June 2020, giving **brief** reasons to support your calculation.

Background

The Jumble Family Trust is a discretionary trust that opened business as Jumble Joints on 1 July 2019, a small store in Adelaide that substantially sells new storage furniture in flat packs and a few other bits and pieces, with many sales on the internet set up by John and Wendy. The shop displays its furniture, but only about a tenth of its product line is on display, and shows all the different colours and sizes, so that customers have a very good idea of what they will receive when they go to the shop. A small shipment of purchases arrived late on 2 July 2019 to set up as the display. This display constantly changes with new products and floor sales.

Jumble Pty Ltd is the corporate trustee of the Jumble Family Trust. The directors of Jumble Pty Ltd are John and Wendy Jenkins.

The beneficiaries of the trust are John and Wendy and their child Jack who is 16 years of age.

The trust's account balances for the income year ended 30 June 2020 show the following income and expenses amounts, all of which are GST exclusive.

INCOME

Gross Sales	\$380,000
Other Receipt	\$9,400

EXPENSES

Advertising	\$4,000
Electricity	\$1,600
Rent	\$10,000
Telephone	\$1,000
Purchases	\$240,000
Entertainment	\$800
Repairs	\$2,000
Gift to R.A.H.	\$100
Salary and Wages	\$100,000
Lease Document Expenses	\$2,000

The following additional information is provided:

1. The Jumble Family Trust trading as Jumble Joints is a small business entity.

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2. 'Gross Sales' - John has calculated gross sales based on the cash and credits sales having been received. Debtors outstanding amount to \$20,000. It is clear the appropriate system should be accruals for this small business.
3. 'Other Receipt' – The State Government provided a subsidy to get small businesses started of \$9,400.
4. 'Trading stock' on hand at year-end was \$50,000 at cost.
5. 'Advertising', 'Electricity', 'Rent', and 'Telephone' were all regular outlays to meet the continuous demand of operating the business. Similarly, 'Purchases' of trading stock are a regular outlay.
6. 'Entertainment' expenses were incurred by the business to improve working relationships with suppliers and encourage discounts.
7. 'Repairs' were incurred on 1 June 2020 to replace a laminate bench (movable), which was provided by the landlord. The old bench top was chipped and worn. The replacement bench top is made of granite, which is a considerably stronger and more durable surface than the laminate.
8. 'Gift' of \$100 paid by the business to the Royal Adelaide Hospital (R.A.H).
9. 'Salary and Wages' included \$100,000 paid to John who worked full-time in the business.
10. 'Lease Document Expenses' were incurred for preparing and registering a lease of the business premises in July 2019.
11. John asked that a deduction be allowed of 3% for the provision for doubtful debts - to encourage sales, he had authorised a number of them on credit, but found the customers were not paying in a timely manner.

QUESTION 2 Part 2**(5 marks)**

Advise how the directors of the corporate trustee should use their discretion to distribute the net income to the family beneficiaries in the most effective tax manner and explain why giving **brief** reasons. The following additional facts are provided:

- **Jack** – attends high school and earns \$5,200 working independently at McDonalds.
- **John** –has received the wage from the business and also investment income yielding \$80,000.
- **Wendy** – has no income.

(End of Question 2 – Total Marks 20)

QUESTION 3 Part 1**(7 marks)**

Nicholas is excited as he is new graduate accountant and he has been contracted to work for a large accounting firm in Abu Dhabi.

He has spent all of his life in Adelaide and so is very excited that he will now be working abroad. He looks forward to the opportunity to use this time to travel overseas.

In July 2019 Nicholas signed a contract for 2 years. Nicholas leaves Australia on 1 August 2019 and spends the first few days checking into a hotel and working out his whereabouts. Over the next month he develops a friendship with a co-worker who has a 2-bedroom apartment on the coast and lives with him until the contract expires.

Nicholas is single and prior to his departure lived with his parents and only returns to Australia for each Christmas for one week to visit his parents and catch up with friends. He has 6 weeks of holidays under the contract but spends the remaining 5 weeks of holidays touring the Middle East and Europe. Nicholas brought from home his sporting trophies, his cricket bat and ball and photos to adorn his bedroom, but over time they became obscured by the numerous souvenirs of his travels.

Although, he has been motivated by the large salary in Abu Dhabi, he misses home and towards the end of his contract has negotiated a position back in Adelaide with Adelaide accounting firm KPMG.

Required

For the 2019-2020 year of tax, advise whether Nicholas is a resident of Australia within the meaning of that term in subsection 6(1) of the *Income Tax Assessment Act 1936* (ITAA 1936) for the 2019-20 income year.

QUESTION 3 Part 2**(18 marks)**

Graham is 68 years old and recently retired as an accountant after 23 years as a partner in a prestigious Adelaide accounting firm KPMG. Graham and his wife Sarah are retiring to the south of France and have sold a number of assets. Calculate the net capital gain for Graham in relation to the following events and advise the impact on his taxable income. Provide a full explanation citing relevant statute law and case law to support your answers.

1. Sale of Grand Piano

Graham purchased the Piano for \$10,500 in June 2005, which was in their drawing room. The piano was sold during the move for \$7,500 on 1 November 2019.

2. Sale of the family home in Glen Osmond.

Graham purchased the home in June 1987 for \$240,000, incurring \$10,000 incidental costs on the purchase. Graham and Sarah lived in the home with their three children. Graham sells the property for \$1,400,000, incurring costs of

- \$5,000. He entered into a contract for the sale of the property in May 2020, however settlement does not happen until July 2020.
- 3. Sale of holiday home at Willunga.**
Graham purchased the home in September 1991 for \$130,000, incurring \$7,000 incidental costs on the purchase. Graham and Sarah used the home on weekends and in latter years had begun renting the home out for holiday letting. The property underwent a renovation in 2003 at a cost of \$20,000. Graham sells the property for \$840,000, incurring costs of \$4,000. He entered into a contract for the sale of the property in May 2020, however settlement does not happen until June 2020.
 - 4. Sale of a business**
Graham sold his interest in the accounting firm KPMG. The buy in price when he joined the partnership was \$60,000 as shown in the contract entered into dated March 1996. Fees on the purchase of \$2,000 were incurred in bank and legal fees. He sells his interest to another solicitor at the firm for \$700,000 which settles on 1 August 2019. Costs incurred in relation to the sale were \$10,000.
 - 5. Sale of Car**
Graham sold his 1968 Jaguar for \$58,000 in June 2020, which he purchased in 2000 for 23,000. The car is a well-regarded classic and highly collectable.
 - 6. Sale of Paintings**
Graham sold a number of oil paintings by various Australian artists. The paintings were all purchased separately between 2001 and 2008 for between \$1,000 and \$2,500 for a combined total of \$10,000. They were sold for \$20,000 in June 2020.
 - 7. Sale of Jewelry.**
Graham sold a set of pearls he inherited from his great aunt in England. His Aunt had purchased the jewellery in 1980. Its market value when received in June 2010 was \$15,000. Graham auctioned the jewellery in June 2020 for only \$5,000.
 - 8. Sale of antiques**
Graham sold the following antiques from the Willunga property:

 - A set of 8 Dinning Chairs purchased for \$3,000 and sold for \$1,000
 - A Georgian Hall Table purchased for \$1,500 and sold for \$600

The antiques were both purchased at an auction in June 2013. All the antiques were sold in June 2020.
 - 9. Capital losses from prior years**
Graham has prior year capital losses of \$25,000.

(End of Question 3 – Total Marks 25)

CAPITAL GAINS TAX INDEX NUMBERS

Year	Quarter ending			
	31-Mar	30-Jun	30-Sep	31-Dec
1985	–	–	71.3	72.7
1986	74.4	75.6	77.6	79.8
1987	81.4	82.6	84	85.5
1988	87	88.5	90.2	92
1989	92.9	95.2	97.4	99.2
1990	100.9	102.5	103.3	106
1991	105.8	106	106.6	107.6
1992	107.6	107.3	107.4	107.9
1993	108.9	109.3	109.8	110
1994	110.4	111.2	111.9	112.8
1995	114.7	116.2	117.6	118.5
1996	119	119.8	120.1	120.3
1997	120.5	120.2	119.7	120
1998	120.3	121	121.3	121.9
1999	121.8	122.3	123.4	N/A*

CAR EXPENSE “CENTS PER KILOMETRE RATES” for 2019-2020 Income Year

For the 2019-2020 income year the rate is 68 cents/km.

CAR LIMIT For the 2019-2020 income year is \$57,581.

RESIDENT INDIVIDUAL INCOME TAX RATES for 2019-2020 Income Year

Taxable income	Tax on this income
0 – \$18,200	Nil
\$18,201 – \$37,000	19c for each \$1 over \$18,200
\$37,001 – \$90,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$90,001 – \$180,000	\$20,797 plus 37c for each \$1 over \$90,000
\$180,001 and over	\$54,096 plus 45c for each \$1 over \$180,000

The above rates **do not** include the Medicare levy of 2%