

# SECTION 1

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## Questions with Suggested Solutions

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### **Assessable Income**

Category A Questions	¶10-001
Category B Questions	¶10-034

### **Capital Gains**

Category A Questions	¶10-043
Category B Questions	¶10-059
Category C Question	¶10-070

### **Fringe Benefits**

Category A Questions	¶10-071
Category B Questions	¶10-078

### **Deductions**

Category A Questions	¶10-087
Category B Questions	¶10-114

### **Trading Stock**

Category A Questions	¶10-129
Category B Question	¶10-140

### **Depreciation**

Category A Questions	¶10-141
Category B Questions	¶10-154

### **Taxation of Individuals**

Category A Questions	¶10-159
Category B Questions	¶10-168
Category C Questions	¶10-177

**Partnerships**

Category A Questions	¶10-183
Category B Questions	¶10-189
Category C Questions	¶10-196

**Trusts**

Category A Questions	¶10-199
Category B Questions	¶10-203
Category C Questions	¶10-212

**Companies and Distributions**

Category A Questions	¶10-216
Category B Questions	¶10-227
Category C Questions	¶10-239

**Administration and Assessment**

Category A Questions	¶10-245
Category B Questions	¶10-266

**Goods and Services Tax**

Category A Questions	¶10-273
Category B Questions	¶10-288
Category C Question	¶10-294

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# Assessable Income

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## CATEGORY A: QUESTIONS 1 TO 33

### [¶10-001] Question 1

- (1) Jim Brown earned a salary of \$75,000 at Invicta Ltd for the year ended 30 June 2018. However, he elected to receive only \$70,000, the unpaid balance being credited to Brown's account in the company's books on 30 June 2018 and paid to him on 6 September 2018.

What is Brown's taxable income for the year ended 30 June 2018?

- (2) Suppose that because of a good year's profit results, the directors of Invicta declared a bonus to its employees of \$8,000 on 28 June 2018. However, this was not credited to their accounts until 2 July 2018.

How does this affect Brown's tax liability for the 2018 income year?

*Australian Master Tax Guide* ¶9-035, ¶10-050

*Australian Taxation Law* ¶13-100, ¶13-110

*Foundations of Taxation Law* ¶16.2

### [¶10-002] Question 2

Joe Wilson, a foreman with Carpet Ltd, received a severe injury while driving a forklift at work on 1 February 2018. As a result of the injury, Wilson received the following amounts:

	\$
Workers compensation	4,800
Reimbursement of medical expenses by Carpet Ltd	2,000
Damages for personal injury	10,000

Advise Wilson as to whether any of the amounts are assessable.

*Australian Master Tax Guide* ¶10-005, ¶10-060, ¶10-180, ¶10-185, ¶35-645

*Australian Taxation Law* ¶3-250, ¶4-110

*Foundations of Taxation Law* ¶11.3, ¶12.2, ¶12.3

### [¶10-003] Question 3

For the year ended 30 June 2018, Johnson Ltd, a manufacturer of carpets, prepared an analysis of its receivable and debt provisions for the year:

	<i>30 June 2017</i>	<i>30 June 2018</i>
	\$	\$
Accounts receivable	1,000,000	1,250,000
Cash received		4,000,000
Provision for doubtful debts	150,000	100,000

Calculate the assessable income of Johnson for the year ended 30 June 2018.

*Australian Master Tax Guide* ¶9-000, ¶9-030, ¶9-120

*Australian Taxation Law* ¶13-020, ¶13-100, ¶13-300

*Foundations of Taxation Law* ¶13.1, ¶13.5, ¶16.2, ¶16.3

### **[¶10-004] Question 4**

Dr Pauline Green is a surgeon who is self-employed and operates her business as the sole principal with a few employees. The following information relates to Dr Green's business for the year ended 30 June 2018:

	\$
Cash received from patients in 2017/18	150,000
Medicare reimbursement for services provided	40,000
Unpaid accounts as at 30.6.2017	25,000
Unpaid accounts as at 30.6.2018	30,000
Salaries paid to employees in 2017/18	50,000
Other expenses paid	40,000

Calculate Dr Green's taxable income for the year ended 30 June 2018.

*Australian Master Tax Guide* ¶9-030

*Australian Taxation Law* ¶13-100, ¶13-130

*Foundations of Taxation Law* ¶16.2

### **[¶10-005] Question 5**

Because of ill health Bob Furlong sold his pharmacy in North Melbourne for \$800,000 in March 2018. He had purchased the pharmacy in 1981. Furlong also received the sum of \$50,000 from the purchaser for agreeing not to operate another pharmacy within 5 km of his old pharmacy for five years.

Advise Furlong as to whether the amount of \$50,000 is assessable income.

*Australian Master Tax Guide* ¶10-115, ¶11-280

*Australian Taxation Law* ¶3-280, ¶4-060, ¶7-165

*Foundations of Taxation Law* ¶10.2, ¶10.6, ¶19.2, ¶19.6

### **[¶10-006] Question 6**

Josephine Banks, aged 59, was employed as a bank clerk with Melbank Ltd for 36 years. She terminated her employment with Melbank on 30 June 2018 and received a lump

sum retirement payment of \$250,000 from the firm's superannuation fund, which she had joined on 1 July 1982.

Banks had made contributions of \$40,000 to the fund since 1 July 1983. \$3,000 of this was made after 30 June 2007. Assume the payment is made from a taxed superannuation fund.

Calculate the tax payable on the retirement payment to Banks for the year ended 30 June 2018.

*Australian Master Tax Guide* ¶14-000, ¶14-220

*Australian Taxation Law* ¶23-400–¶23-520

*Foundations of Taxation Law* ¶25.14

### [¶10-007] Question 7

On 30 June 2018, Bob Foreman, aged 54 years, was retrenched from his job with XMH Ltd after 37 years of service. He received a lump sum of \$300,000 from the XMH Ltd Superannuation Fund, plus an early retirement payment of \$100,000 from his employer as part of a genuine redundancy scheme.

Foreman joined XMH on 1 July 1981. He contributed \$28,000 to the firm's superannuation fund from 30 June 1983 of which \$5,500 was paid after 30 June 2007.

Advise Foreman of the tax consequences of the above.

*Australian Master Tax Guide* ¶14-000–¶14-220, ¶14-700

*Australian Taxation Law* ¶4-700, ¶4-740, ¶4-800, ¶23-400–¶23-520

*Foundations of Taxation Law* ¶25.14, ¶26.2 .2–¶26 .4

### [¶10-008] Question 8

Tom Howard, a computer programmer, is employed by IDAP Ltd. On 1 January 2018 he was posted to London for four months. His Australian salary for the year was \$45,000. However, he earned the equivalent of A\$50,000 when working with the London office. An amount equalling A\$6,000 in tax had been deducted from his income earned overseas.

Assuming Howard received no other income and was not entitled to any tax offsets or deductions, calculate his assessable income and the tax payable for the year ended 30 June 2018.

*Australian Master Tax Guide* ¶10-860

*Australian Taxation Law* ¶24-210

*Foundations of Taxation Law* ¶9.1, ¶9.4, ¶34.2, ¶34.3

### [¶10-009] Question 9

Mary Fellows, a resident of Australia, received the following income for the year ended 30 June 2018:

- (1) \$49,300 from sources in Australia
- (2) the equivalent of A\$30,000 as salary while working overseas for four months (foreign income tax amounting to A\$5,000 had been deducted from this income)

- (3) fully franked dividend of \$10,000, and
- (4) dividend income of \$850 from RTZ Ltd, a London-based company (15% withholding tax had been paid).

Calculate the assessable income of Fellows for the year ended 30 June 2018.

Assuming Fellows does not have any deductions, what is the tax payable on the income?

*Australian Master Tax Guide* ¶10-860, ¶21-060

*Australian Taxation Law* ¶22-200, ¶22-320

*Foundations of Taxation Law* ¶9.3, ¶11.1, ¶11.3, ¶22.6, ¶22.8, ¶38.2, ¶38.3

### **[¶10-010] Question 10**

On 1 July 2017, Edward Lord, the executive director of Goodrich Ltd, was granted rights at a cost of \$10,000 to acquire 200,000 ordinary shares paid up to \$1 per share in the company. The offer was only available to the directors of the company. At the time the market value of the rights was 50 cents per right.

On 1 September 2017, Lord exercised the rights at a cost of \$1 per share to acquire 200,000 shares when the market price of the shares was \$2 per share. As a result of this acquisition Lord's beneficial interest in the company was 6%.

On 10 January 2018, Lord sold the 200,000 shares for \$2.20 per share. The costs of disposal were \$1,550.

- (a) Calculate Lord's assessable income arising from the issue and acquisition of the rights.
- (b) Calculate any gain on the sale of the shares in 2017/18.

*Australian Master Tax Guide* ¶10-080, ¶10-085

*Australian Taxation Law* ¶4-400

*Foundations of Taxation Law* ¶27.1–¶27.4

### **[¶10-011] Question 11**

During 2017/18 Tom Jones received cash payments of \$100,000 from a television quiz show. He also received goods worth \$8,000. Because of his success he was invited to another quiz show and received \$5,000.

Advise Jones as to whether the above amounts are assessable.

*Australian Master Tax Guide* ¶10-440

*Australian Taxation Law* ¶6-010

*Foundations of Taxation Law* ¶10.5

### **[¶10-012] Question 12**

On 1 August 2017, Bob Johnson claimed \$275,000 for fire damage to a building he had used since 1 December 1999 as a warehouse for trading stock and plant.

The claims consisted of \$150,000 compensation for the building, \$50,000 for trading stock and \$75,000 for plant. After protracted negotiations, he accepted \$200,000 in full settlement of the claim.

Advise Johnson as to the assessability of the amount received.

*Australian Master Tax Guide* ¶10-170, ¶10-175  
*Australian Taxation Law* ¶6-800, ¶7-145, ¶12-250  
*Foundations of Taxation Law* ¶10.8, ¶17.2

### [¶10-013] Question 13

(1) Felicity Canon is an auditor with Young and Olde, a large firm of chartered accountants. For the year ended 30 June 2018 she received a car allowance of \$5,000 and had her parking expenses of \$250 reimbursed by her employer. Half of the parking expenses were incurred while meeting clients.

Advise Canon as to the assessability of such amounts.

(2) Suppose Canon was given an allowance of \$2,600 based on the estimated number of kilometres she should travel for business. In 2017/18 this was estimated to be 4,000 km at 65 cents per km.

Advise Canon as to the assessability of this allowance.

(3) Suppose Canon was reimbursed on the actual number of business kilometres travelled. At the end of June 2018 this was 4,500 km. She was reimbursed at the rate of 65 cents per km.

Advise Canon as to the assessability of the reimbursement.

*Australian Master Tax Guide* ¶10-060  
*Australian Taxation Law* ¶4-190, ¶10-475  
*Foundations of Taxation Law* ¶8.7, ¶10.1, ¶11.1, ¶14.1, ¶24.1

### [¶10-014] Question 14

Kylie Grant is a sales representative with Pharacorp Ltd. During the year ended 30 June 2018 she received the following:

	\$
Salary	80,000
Entertainment allowance	10,000
Travel allowance	5,000
Telephone allowance	750
Reimbursement of accommodation expenses	10,000
Reimbursement of meals while away from home	2,000

Advise Grant as to the amount of her assessable income for the year ended 30 June 2018.

*Australian Master Tax Guide* ¶10-050, ¶10-060

*Australian Taxation Law* ¶4-020, ¶4-110  
*Foundations of Taxation Law* ¶10.1–¶10.4, ¶10.8, ¶17.3

### [¶10-015] Question 15

On 1 March 2018 Bert Hudson, aged 60, sold his farm for \$300,000. In order to secure his retirement he immediately purchased an annuity of \$30,000 pa, which was to be paid until his death. There is no lump sum payable on death. The annuity cost \$280,000.

Advise Hudson as to the assessability of the annuity.

*Australian Master Tax Guide* ¶14-500, ¶14-510

*Australian Taxation Law* ¶5-300

*Foundations of Taxation Law* ¶11.2

### [¶10-016] Question 16

Jack held a Dutch passport at all relevant times. From the time of his first visit to Australia in 2014 until the end of the 2018 income year, he held a visa which permitted him to live and work here.

During the time he was in Australia, Jack worked under contract as a marine engineer on a sea-going dredge owned by an Australian company. Subsequently, the dredge was leased to a Cyprus-based company, D, for use in carrying out work in Saudi Arabia. Jack accepted employment with D and left Australia on 6 July 2017, leaving his son and his estranged wife here. He worked for D for nine months in Saudi Arabia. He then terminated his contract and returned to Australia, where he stayed for the rest of the income year. During the period Jack was away, he had a reconciliation with his wife and entered into a partnership business with her on his arrival back in Australia.

Accommodation provided for Jack in Saudi Arabia by his employer was of a temporary or transitory nature in the form of single men's quarters or barracks. Meals were also provided. D's office in Cyprus paid Jack's wages into his bank account in Australia, after deducting 'tax' required to be paid in Cyprus. Jack paid no income tax in Saudi Arabia. The evidence established that, at the time he entered into the contract with D, Jack intended to be absent from Australia for approximately nine months and was in fact away for that period only.

For the 2017/18 tax year:

- (1) Is Jack a resident or non-resident of Australia?
- (2) If Jack is a resident, would the income received while working in Saudi Arabia be exempt from tax?

*Australian Master Tax Guide* ¶10-860, ¶21-000, ¶21-060

*Australian Taxation Law* ¶24-040, ¶24-210

*Foundations of Taxation Law* ¶9.1–¶9.4, ¶34.3, ¶34.4



**[¶10-017] Question 17**

On 10 July 2017, Tim Morris was transferred to the New York office of his company, Global Australia Ltd, for five years. His wife Kate accompanied him to New York. In New York they lived in a house owned by the company and leased their Sydney house. While residing in New York Kate borrowed \$100,000 from the National Australia Bank on 1 December 2017, to fund the purchase of 50,000 shares in Global Australia.

During the 2017/18 tax year Kate received \$10,000 as her share of rental income from the lease of the Sydney house, and \$2,500 in fully franked distributions from Global Australia. She incurred no expenses in deriving the rental income, but her interest payments on the National Australia Bank loan amounted to \$5,550.

What are the Australian tax consequences of these transactions for Kate Morris?

*Australian Master Tax Guide* ¶21-010, ¶21-060

*Australian Taxation Law* ¶24-040, ¶24-210

*Foundations of Taxation Law* ¶9.1–¶9.3

**[¶10-018] Question 18**

Income tax is payable on income derived by a taxpayer during the year of income. For each of the following situations determine what amount of income, if any, has been derived during the year of income ended 30 June 2018.

- (1) An employee receives \$6,000 on 23 June 2018 in respect of long service leave which is to commence on 2 July 2018.
- (2) A finance company lends \$20,000 on 1 July 2016 on the condition that both the principal and interest, \$22,400 in total, are repaid on 30 June 2018. Payment is actually received on 1 July 2018.
- (3) A judo instruction school charges \$100 for 10 lessons payable in advance. At 30 June 2018 the school had received fees totalling \$110,000 for the year, of which fees received for lessons still to be taught amounted to \$5,000.
- (4) An exclusive jewellery shop opened for business on 30 June 2018 and made only one sale for the day: a diamond ring for \$6,500. The customer paid by credit card, which meant that the jeweller did not receive payment until the second week in July 2018. When payment was received, he received the sale price less 5%.
- (5) A large trading concern charges interest on its customers' overdue accounts. At 30 June 2018 interest charged amounted to \$1,200. These accounts, plus the interest, were not paid until the following tax year.

*Australian Master Tax Guide* ¶9-035

*Australian Taxation Law* ¶13-100, ¶13-300, ¶13-430

*Foundations of Taxation Law* ¶16.2, ¶11.2, ¶11.3

**[¶10-019] Question 19**

On retirement from his job in March 2018 Marlow, aged 58, received \$10,000 from his employer as a 'retiring gratuity' and \$3,000 in respect of unused annual leave accrued over the last six months. In addition, he received \$280,000 as a lump sum from the company's taxed superannuation fund (there were no undeducted contributions).

Marlow immediately ensured that the \$280,000 was paid directly by the superannuation fund to another superannuation fund 'Australian Life' to purchase an annuity which provided Marlow with \$22,000 pa until death.

To what extent is Marlow assessable on the above transactions?

*Australian Master Tax Guide* ¶14-000–¶14-240, ¶14-720

*Australian Taxation Law* ¶4-700, ¶4-820, ¶5-320, ¶23-400–¶23-520

*Foundations of Taxation Law* ¶25.5, ¶26.3

**[¶10-020] Question 20**

Able, a promising employee, accepted his employer's offer to complete his final year of study at university as a full-time student. Under an arrangement with his employer he was paid a 'scholarship' of 60% of his usual salary on the usual pay days while undertaking the course during the year ending 30 June 2018. The employer also reimbursed Able for his compulsory fees and prescribed reference books. There was no express condition that Able continue employment with the company upon completion of the course of study.

Advise Able as to whether he has derived assessable income.

*Australian Master Tax Guide* ¶10-740

*Australian Taxation Law* ¶9-100

*Foundations of Taxation Law* ¶11.3, ¶11.4, ¶12.2

**[¶10-021] Question 21**

Office Furniture Ltd is a retailer of office furniture for industry. In December 2017 it decided to terminate its lease in Parramatta and relocate its sales premises to Redfern. Of major consideration in choosing the Redfern premises were the benefits offered by the new lessor.

These benefits were:

- Sign-on bonus of \$10,000.
- Rent-free period of three months. The normal rent was \$30,000 per month.
- Two tickets to the Australian Tennis Open in January 2018. This included accommodation and air fares and was valued at \$1,500.
- Free fit-out of the new premises worth \$25,000.
- Payment of relocation costs worth \$40,000.
- Payment of \$12,500 covering costs of lease termination.
- Bonus of \$10,000 if Office Furniture Ltd continues the lease after 12 months.

Advise Office Furniture Ltd as to the assessable nature of the above benefits.

*Australian Master Tax Guide* ¶10-116

*Australian Taxation Law* ¶6-448

*Foundations of Taxation Law* ¶10.5

### [¶10-022] Question 22

Under his contract of employment Bill Watson, a sales executive, received the following employment benefits in 2017/18:

	\$
Salary	90,000
Entertainment allowance	3,000
Sole use of a fully maintained company car — estimated benefit	10,000

Watson's employer pays the necessary FBT.

To what extent is Watson assessable on the above transactions?

*Australian Master Tax Guide* ¶10-050, ¶10-060

*Australian Taxation Law* ¶4-020

*Foundations of Taxation Law* ¶10.2, ¶11.3, ¶24.2

### [¶10-023] Question 23

Mary Johnson, aged 30, is a civil engineer who works with Adco Ltd, which specialises in mining infrastructure. In November 2017 she was offered a new job with Mine Australia Ltd to establish a new mining operation in Port Headland. As part of an incentive to encourage her to take up the offer and leave her existing job, she was offered and accepted a sign-on incentive of \$25,000 and an annual salary of \$175,000. She also received a relocation and settling-in allowance of \$25,000.

On 30 June 2018, all employees were awarded a productivity bonus of \$10,000. However, this was not paid until 5 July 2018. Mary asked that the amount of the bonus be directed to a housing loan offset account held by herself and her partner.

Advise Mary of the tax consequences arising from these arrangements.

*Australian Master Tax Guide* ¶9-080, ¶10-050, ¶10-060, ¶10-074,  
¶14-610

*Australian Taxation Law* ¶4-100, ¶13-220

*Foundations of Taxation Law* ¶11.1, ¶11.3

### [¶10-024] Question 24

As a result of a car accident on the way to her place of employment in July 2016, Nancy Wall, aged 39, is seriously injured. After eight weeks' hospitalisation she is declared permanently incapable of continuing her employment.

During the 2017/18 year she received the following sums:

- sick pay supplementation by employer — eight weeks — \$4,000

- proceeds from private sickness and accident policy — eight weeks at \$530 per week — \$4,240
- guaranteed sum under an insurance policy for loss of a leg — \$120,000
- gratuity on ‘retirement due to incapacity’ by employer — \$20,000
- out-of-court settlement by third party insurance company of driver of other car involved in the car accident — \$340,000, and
- social security disability support pension — eight weeks — \$1,286.

Advise Wall as to whether any of the above amounts are assessable.

*Australian Master Tax Guide* ¶10-210

*Australian Taxation Law* ¶6-800

*Foundations of Taxation Law* ¶10.8, ¶11.4, ¶19.2, ¶19.3, ¶19.5, ¶19.6,  
¶26.1, ¶26.2

### [¶10-025] Question 25

Derrick King, aged 52, was a senior employee of Trans Engineering Ltd. Because of a downturn he was retrenched on 31 July 2017. King received a lump sum of \$254,200. This sum consisted of \$4,200 in lieu of annual leave which accrued after 17 August 1993, and \$250,000 from the Trans Engineering Superannuation Fund which is a taxed fund.

He also received \$20,000 as a parting gift from his employer for his services over the years.

King’s Statement of Termination Payment showed that he had been employed for a total of 14,608 days, of which 12,449 days related to service post-30 June 1983, and that his undeducted contributions since 1 July 1983 amounted to \$30,000 of which \$5,200 was contributed after 30 June 2007.

Outline the taxation ramifications of these events.

*Australian Master Tax Guide* ¶14-000–¶14-240, ¶14-720

*Australian Taxation Law* ¶4-700, ¶4-740, ¶4-820, ¶21-400–¶21-520

*Foundations of Taxation Law* ¶33.1–¶33.3