

Taxation Law – Lecture 12 Revision Questions

Part A

Question 1

Thomas is in the business of selling computers and software. Most customers pay at the time of delivery. However, Thomas provides credit to his largest customers. During the year ended 30 June 2019 Thomas received \$2,800,000 in cash for sales of computers and software. Sales which had been made during the year ended 30 June 2018, but which were paid for in the year ended 30 June 2019 were \$260,000 and are included in the \$2,800,000 above. At 30 June 2019 sales of computers and software not yet paid for amounted to \$430,000.

During the year ended 30 June 2019 purchases of computers and software were \$1,800,000 and at the end of 30 June 2019 stock on hand was \$150,000. Thomas's closing stock for the year ended 30 June 2018 was \$630,000. During the year ended 30 June 2019 Thomas took 2 computers from his stock for private use. The computers cost him \$1,240 each and had a market value of \$1,630 each. He also gave away another 4 similar computers to friends during the year.

Required:

What is Thomas's taxable income, assuming there are no other relevant transactions.

Question 2

Gareth had an overall loss for the year ended 30 June 2018 from all his activities of \$180,000 (there were no capital losses). Included in this loss of \$180,000 was a donation to a charity of \$25,000. During the year ended 30 June 2018 Gareth earned exempt income of \$11,000. Gareth had business income of \$500,000 for the year ended 30 June 2019. During the year ended 30 June 2019 Gareth also received an inheritance of \$80,000 (lump sum) and real estate of \$1,630,000 from a distant relative who died on 14 August 2017.

Required:

What is Gareth's taxable income for the 2019 tax year, assuming there are no other relevant transactions?

Question 3

On 1 July 2018 Maxwell bought a rental property for \$820,000. He borrowed \$530,000 on the same day from the bank to buy the property. The term of the loan was 4 years. The property was leased on 1 July 2018. He received rent in cash from his tenants during the year ended 30 June 2019 in the amount of \$85,000. Included in this amount was a payment of \$11,000 on 28 June 2019 as rent for the month of July 2019.

Required:

What is Maxwell's assessable income for the year ended 30 June 2019?

Question 4

Maxwell (from Question 3) also incurred the following expenses during the year ended 30 June 2019 in relation to the property:

- | | |
|---|-----------|
| • Repairs to the front fence damaged by his tenant | \$1,750 |
| • Agent's Commission for collecting rent | \$3,780 |
| • Loan Repayments (\$6,250 principal and \$40,250 interest) | \$46,500 |
| • Loan application fee (paid on 1 July 2018) | \$1,200 |
| • Stamp duty on the mortgage for the loan (paid on 1 July 2018) | \$1,800 |
| • Stamp duty on the purchase of the property (paid on 1 July 2018) | \$33,000 |
| • Building a garage at the side of the property on 1 January 2019 | \$103,500 |
| • New microwave (purchased 1 July 2018 with an effective life of 5 years) | \$1,650 |
| • Repairs on 2 July 2018 to the Stove damaged in June 2018 | \$470 |

Thomas wants to minimise his taxable income for this year.

Required:

Calculate Maxwell's allowable deductions for the year ended 30 June 2019.

Part B

Question 1

John bought two cars to use in his job as a salesperson. Both cars are purchased from a second-hand car yard. Car 1 costs \$4,500 and Car 2 costs \$10,000.

- While driving Car 1 home from the second-hand car yard, having just purchased it, the car's motor broke down and John had to spend \$1,800 having the motor repaired.
- Car 2 performed well until John made a long sales trip to the outback six months after acquisition. John had to spend \$1,500 repairing this car after it broke down because of the heat in the outback.

Required:

Which expenses are deductible under s.25-10 as repairs?

Question 2

Louise has owned a rental property for many years. The property has been well-maintained. However, some of the flyscreens have deteriorated and Louise has decided to replace the ground floor ones with security mesh fly screens, while the first floor screens will have the mesh repaired with normal mesh. The cost of security flyscreens is \$1,300 and the normal mesh is \$560.

Required:

What is the deduction Louise can claim against her rental income?

Question 3

A taxpayer runs a business which in the current year has the following income and expenses:

- Business receipts 28,000
- General Business Expenses 25,000
- Donation to a charity 8,000

Required:

Calculate the taxpayer's taxable income/loss for the current year.

Question 4

Lewis operates his own business selling pool equipment and materials as well as servicing swimming pools. Sales of equipment and materials are paid for at the time of sale. One of Lewis's customers bought some pool materials for \$600 on credit on 21 June 2018 but could not pay the account which was issued on the same day because he went bankrupt in November 2018. Lewis wrote off the debt on 1 July 2019. Assume that there are no other relevant tax transactions.

Required:

Advise Lewis as to what deductions (if any) he might be able to claim for the tax year ended 30 June 2019.

Question 5

Lewis operates his own business selling pool equipment and materials as well as servicing swimming pools. Sales of equipment and materials are paid for at the time of sale. One of Lewis's customers bought pool equipment for \$900 on credit on 1 April 2018 and the invoice was issued on the same day. The customer asked Lewis for more time to pay on 1 August 2018 and so Lewis immediately made a provision in the accounts for doubtful debts of \$900. Assume that there are no other relevant tax transactions.

Required:

Advise Lewis as to what deductions (if any) he might be able to claim for the tax year ended 30 June 2019.

Part C

Meldrum Pty Limited (a private company) had the following transactions in relation to its franking account:

Date	Details	Amount
1 July 2018	Opening balance	\$2,000
6 Sept 2018	Received a fully franked dividend from BHP Limited	\$49,000
7 Sept 2018	Paid Goods and Service Tax	\$25,000
9 Sept 2018	Paid a dividend franked to 50%	\$56,000
2 Oct 2018	Paid income tax instalment	\$6,000
11 Nov 2018	Received a refund of income tax	\$49,000
7 Feb 2019	Paid income tax instalment	\$5,000
14 Mar 2019	Paid a dividend fully franked	\$56,000
8 April 2019	Paid income tax instalment	\$6,000
3 May 2019	Paid fringe benefits tax	\$50,000
15 June 2019	Paid a dividend 30% franked	\$42,000

Required:

- (a) What is the closing balance of the franking account on 30 June 2019?
- (b) What are the consequences of the closing balance of the franking account?
- (c) What other tax consequences are there for Meldrum Pty Ltd?