Question 1

This question was straight forward and generally well answered by students.

Students correctly recited the tests for residency and the implications flowing therefrom i.e., for the period Mary was a resident she was taxable on income (ordinary and statutory) from all sources as compared to the period when she was a foreign resident and only taxable on Australian sourced income.

Students also recognized the issues arising in respect of Watpac Banking Ltd concerning the deductibility of its outgoings and FBT being payable on tuition fees for Mary paid for by Watpac.

Question 2

Students generally answered this question correctly but the analysis provided was obscure. The taxpayer was required to adopt accruals as the basis for tax accounting.

The question referred to cash being received in the current year by the accruals taxpayer relating to credit sales made the previous year (and obviously returned as income in the previous year). However many students were reluctant to make an explicit statement to this effect that that amount was not included in assessable income in the current year. Often it was not at all clear how that payment was being treated by the students.

The trading stock election for closing stock was reasonably well handled. However a surprisingly large number of students overlooked the deduction available for bad debt (s25-35) or gave a confused explanation as to how the provision applied. For example some students said the amount that related to the bad debt was excluded from income. The amount is not excluded from income but claimed as a deduction.

Question 3

This question was not well answered.

Some students completely ignored the Division 40 deductions available in respect of certain equipment.

Most students considered the application of s.109 and Division 7A in respect of the payments made to George and Lisa but did not take into account the fact that the deemed dividend was not deductible in their calculations.
Question 4

This question was reasonably well answered.

Very few students recognized that the lump sum payment of $100,000 was for two things; compensation for giving up the opportunity to play for the Australian national team and agreeing to play in two tournaments. A CGT D1 event only arose in respect of agreeing to play in two tournaments. To the extent that it was for giving up the opportunity to play it was not a CGT event but may be ordinary income.

Most students recognized the importance of recognizing that Mark was a professional and therefore his receipts in the course of those activities (even if in a non-cash form) would be income under s.6-5 (if necessary, with the assistance of s.21A) or otherwise assessable under s.15-2.

Question 5

Students either answered this question very well or badly.

The poorer answers did not consider the application of Division 149 to the pre-CGT farm owned by Smith Farms Pty Ltd. This was an issue in each of the alternative strategies.

Dated: 20 March 2020