



HI6028 Taxation, Theory, Practice & Law

HOLMES
INSTITUTE



T2 2016 ASSIGNMENT 2

Due date: Week 10


Maximum marks: 20 (20%)

Instructions:

This assignment is to be submitted by the due date in both soft-copy (Safeassign – Bb) and hard copy.

The assignment is to be submitted in accordance with assessment policy stated in the Subject Outline and Student Handbook.

It is the responsibility of the student submitting the work to ensure that the work is in fact his/her own work. Ensure that when incorporating the works of others into your submission that it appropriately acknowledged.



Case study 1: Capital Gains Tax

Fred is a resident who signed a contract to sell his holiday home in the Blue Mountains in August last year. The sale was settled in February this year when Fred received \$800,000 from the purchaser. Fred incurred legal fees of \$1100 (Inclusive of GST) and real estate agent's commission of \$9,900 (Inclusive of GST) in relation to the sale. Fred purchased the holiday home in March 1987 for \$100,000 and paid \$2,000 in stamp duty on the transfer and \$1000 in legal fees. In January 1990, Fred engaged a builder to build a garage on the property for \$20,000,

Calculate Fred's net capital gain for the current year. Assume he also has a net capital loss from last year of \$10,000 arising from the sale of shares.

Would your answer be different if the loss arose from the sale of an antique vase?

(10 marks, max. 1000 words).

Case study 2: Fringe Benefits Tax

Periwinkle Pty Ltd (Periwinkle) is a bathtub manufacturer which sells bathtubs directly to the public. On 1 May 2015, Periwinkle provided one of its employees, Emma, with a car as Emma does a lot of travelling for work purposes. However, Emma's usage of the car is not restricted to work only. Periwinkle purchased the car on that date for \$33,000 (including GST).

For the period 1 May 2015 to 31 March 2016, Emma travelled 10,000 kilometres in the car and incurred expenses of \$550 (including GST) on minor repairs that have been reimbursed by Periwinkle. The car was not used for 10 days when Emma was interstate and the car was parked at the airport and for another five days when the car was scheduled for annual repairs.

On 1 September 2015, Periwinkle provided Emma with a loan of \$500,000 at an interest rate of 4.45%. Emma used \$450,000 of the loan to purchase a holiday home and lent the remaining \$50,000 to her husband (interest free) to purchase shares in Telstra. Interest on a loan to purchase private assets is not deductible while interest on a loan to purchase income-producing assets is deductible.

During the year, Emma purchased a bathtub manufactured by Periwinkle for \$1,300. The bathtub only cost Periwinkle \$700 to manufacture and is sold to the general public for \$2,600.

(a) Advise Periwinkle of its FBT consequences arising out of the above information, including calculation of any FBT liability, for the year ending 31 March 2016. You may assume that Periwinkle would be entitled to input tax credits in relation to any GST-inclusive acquisitions.

(b) How would your answer to (a) differ if Emma used the \$50,000 to purchase the shares herself, instead of lending it to her husband?

(10 marks, max. 1000 words).