INSTRUCTIONS
PLEASE READ CAREFULLY BEFORE PROCEEDING

1  Write your name and student number on the top of this examination paper and on ALL answer booklets.

2  Exam is PARTIALLY CLOSED book examination Only Woellner’s Australian Tax Law (2010 or 2009) and CCH Core Tax Legislation and Study Guide 2010 OR CCH Core Tax Legislation 2009 and may be underlined or highlighted only no tabs.

3  Answer all questions in the Answer Booklet provided

4  The exam is worth 50%. 5 Questions worth 10 marks each. All parts of exam must be answered.

5  Non-programmable calculators are permitted in the exam.

6  There are no other instructions

DO NOT TAKE THIS PAPER FROM THE EXAMINATION ROOM
Question 1(10 marks)

Part A (5 marks)
Bryan and Clara are business partners. They are not married. Bryan has 75% interest in the partnership and Clara has 25%. They submitted the following information to you:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$300,000</td>
</tr>
<tr>
<td>Sale of land acquired 1 August 2000 for $75,000</td>
<td>$235,000</td>
</tr>
<tr>
<td>sold 1 August 2009</td>
<td></td>
</tr>
<tr>
<td>Interest Income</td>
<td>$5,000</td>
</tr>
<tr>
<td>Salary to Solly (receptionist)</td>
<td>($75,000)</td>
</tr>
<tr>
<td>Rent for Office Space</td>
<td>($130,000)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>($75,000)</td>
</tr>
<tr>
<td>Salary to Clara</td>
<td>($60,000)</td>
</tr>
</tbody>
</table>

Required: Prepare a partnership distribution statement and determine the tax payable for Bryan and Clara. Your answer must refer to taxation legislation and cases.

Question 1 Part B (5 marks)
Hersda International Co (HIC) in a company incorporated in Singapore. The company has three shareholders, Hersda Singapore Co, Hersda UK Co and Hersda USA Co. All of HIC’s director’s meetings are held in Singapore and the Annual General Meeting is held in Hawaii. HICs business is entering into export/import contracts between China and Australia. Most contracts are signed, as authorized, by the Managing Director of HICs in Australia.

Required: Advise whether the company is an Australian resident?

Question 2 (10 marks)
On 1 June 2010 a resident private company Alpha Pty Ltd paid a 75% franked dividend of $12,300 dividend to each of the following three shareholders.
a) Betty, individual with $45,000 in salary, $1,500 in deductions (ignore Medicare levies).

b) Delta Pty Ltd, a resident private company with a tax loss of $1,500 incurred last year when the business changed from importing toys to manufacturing toys for domestic use. The two shareholders Goody and Rem each own all the shares and have done so since 2005 when the business started Gamma Family trust. The dividend was the only income of the trust. The trust is a fixed trust with all income to be distributed to the two beneficiaries Ray (aged 51) and Raylene (aged 15).

Required: Calculate tax payable for each of the shareholders. Refer to tax law principles in your answers.

Question 3 (10 marks)
Advise of the tax effects of each of the following payments: Each question is worth 2 marks.

(a) Payment of $5,000 in interest on a loan used to purchase a dye machine used by a clothing manufacturer.

(b) $700 incurred by employee architect driving from office to his home where he continued to work on building drafts for work.

(c) $5,000 bribe paid to Elbonian official to allow continuation of Australian sourced business in Elbonia.

(d) $30,000 repair of Colorbend roof on factory after it was blown off completely in a storm. Colorbend was used in repair.

(e) $5,000 in legal fees incurred in appearing before a court to defend self from improper professional conduct charges.

Question 4 (10 marks)
Part A (5 marks)

Explain how the purchase of a newsagency business for $200,000 would be treated for GST purposes. Assume the purchaser is intending to continue the business once it is purchased and that the sale price includes all parts of the business necessary for this
change of ownership. Your answer should include references to GST legislation and cases.

Part B (5 marks)
Explain whether an audit by the Australian Tax Office (the “ATO”) looking for “taxation dirt” can be done if the ATO has no other grounds for the audit. Your answer should canvass tax legislation and case law.

Question 5 (10 marks)
Georgiou purchased vacant land for $100,000 in 1984 with the intention of reselling at a profit. On 1st January this year when the land is worth $600,000 Georgiou transfers the property to his wife Stephanie as a gift. On 3rd January this year he informs his wife of the gift and 3 days later she sells the land to a developer for $600,000.

Required: Advise Georgiou and Stephanie of the tax effects of the transactions. You answer should include a discussion of relevant legislation and cases.

THIS IS THE END OF THE EXAM.