

Case Study One -

Part A

You are currently working as a graduate accountant and are provided with the following information from a client. The client, Harry, has the following income and expenses for the financial year ended 30 June 2019. Harry Operates a market stall selling paintings on the weekend and works as an employee for an Art Gallery during the week.

Income

\$

- 50,000 Sales of Paintings
- 10,000 A wedding gift received from his employer
- 10,000 Bonus received from his employer for finalising a sale with a large client
- 150,000 Salary received from his employer (including PAYG Withholding of \$25,000)
- 5,000 Interest on Bank Deposits
- 15,000 Lottery win from a weekly lottery
- 45,000 Sale of his personal motor vehicle (he brought the vehicle for \$35,000)
- 15,000 Sale of shares (he brought the shares 13 months ago for \$5,000)
- 1,000 Received Manager of the year award from the Institute of Managers

Expenses

\$

- 4,000 Rent on market stall
- 10,000 Purchase of paintings for market stall
- 2,000 New suit and shoes for work at the Gallery
- 5,000 Bookkeeping fees
- 18,000 Purchase of new photocopier
- 1,400 Cost of meals and entertainment
- 1,200 Train fares for travel to and from work
- 2,200 Rates on family home
- 900 Electricity for family home
- 2,000 Advertising packaging for market stall business
- 85 Taxi Fare – from work to home one way after working back and missing his Train.
- 10,000 Purchase new table and counter for market stall

Harry does not have a spouse or children. Harry does have private health insurance. Harry also advises you that he had carried forward tax losses from last year of \$5,000 relating to his market stall. In addition to the above Harry advises he does store some of the paintings for the market stall at home and also works from home.

Required:

- Determine which Income and Expenses are assessable income or allowable deductions. Note you will need to cite legislative references, case law and tax rulings as applicable. Emphasis is on providing substantiation for your reasoning to include as assessable income or allowable deduction. Also refer to the relevant item number on the 2019 tax return where the amount would be disclosed, i.e. (interest income is item 10). An Example format is provided below.
- Assume Harry is a resident for Australian taxation purposes, calculate his tax liability including any tax offsets and levies.

EXAMPLE FORMAT

Income			
Assessable	Particulars	Legislation, Case law, Rulings, Reasoning	Item – 2019 Tax Return
Y/N			
Expenses			
Deductible	Particulars	Legislation, Case law, Rulings, Reasoning	Item – 2019 Tax Return
Y/N			

Part B

During your meeting with Harry, he advised that he is considering working outside of Australia for an extended period. Advise Harry on residence issues for Australian taxation purposes. In addition to referring to the four relevant tests (including reference to relevant cases for each test) ensure you refer to *Harding v Commissioner of Taxation [2019] FCAFC 29*. This part of the case study should take the format of a formal advice to Harry (“IRAC”).

(Part A 15 marks)

(Part B 10 marks)

Word Count: 1,000 - 2000 words

Case Study 2

Diamond Co Pty Ltd is a private company which currently operates a Diamond mine on a number of mineral leases in Western Australia. A new geologist with the company has advised management that during his university studies he identified the area of land covered by the mineral leases as being a valuable site to explore for Uranium. Management decides to budget \$1 million to prepare a feasibility study into exploring for Uranium. Management does note that Australia currently has a no new Uranium mine policy which will need to be lifted before any Uranium mining could commence.

Required:

Discuss with reference to appropriate legislation, case law and/or rulings whether the feasibility expense will be an immediate deduction for Diamond Co Pty Ltd. Focus should be on whether the Uranium proposal is a new business or part of Diamond Co Pty Ltd's current business. Note reference should be made to *Softwood Pulp and Paper Ltd v FCT (1976) 7 ATR 101*, ensure to reference other relevant cases as well. IRAC format should be used to answer this question.

(5 marks)

Word Count: 500 words