

AUSTRALIA TAXATION

CPA PROGRAM SUBJECT OUTLINE

Fifth edition

Australia Taxation is designed to provide you with an awareness of the key provisions of the relevant taxation legislation and enable you to apply the relevant legislative concepts to determine taxation consequences. It is important to consider the taxation impact on individuals, partnerships, companies, trusts and superannuation funds.

A professional accountant is required to possess fundamental tax law knowledge and skills. *Australia Taxation* introduces fundamental concepts of income tax law and provides an in-depth understanding of relevant Australian tax laws and their application in the areas of income tax law for individuals and simple business structures, capital gains tax, goods and services tax, and fringe benefits tax.

This subject also covers the tax administration system, and the ethical and professional obligations a tax (financial) adviser and a registered tax agent must comply with under the requirements of the Tax Practitioners Board and as a member of a professional accounting organisation.

On completion of this subject, you should be able to:

- understand the key administrative components of the Australia taxation system and the basic principles of Australia income tax, fringe benefit tax and goods and services taxation legislation
- analyse, discuss and resolve issues relating to the determination of assessable income and allowable deductions
- explain key taxation laws that relate to the taxation of individuals, companies, partnerships, trusts and superannuation funds
- analyse transactions and circumstances and apply relevant taxation laws to determine tax liability.

The Australia Taxation subject reflects legislation in place as at 1 January 2022. Exam questions will be based upon the 2021–22 tax year and the FBT year ending 31 March 2022. Exam structure

The Australia Taxation exam consists of multiple-choice questions and extended response questions.

Subject content

The "weighting" column in the following table provides an indication of the emphasis placed on each module in the exam, while the "proportion of study time" column is a guide for you to allocate your study time for each module.

Module	Recommended proportion of study time (%)	Weighting (%)
The legal, ethical and regulatory fundamentals and		
1. administration of the tax system	15	15
2. Principles of taxable income	25	25
3. CGT fundamentals	15	15
4. Taxation of individuals	15	15
Taxation of various types of entities other than		
5. individuals	15	15
6. GST and FBT fundamentals	15	15
	100	100

A brief outline of each module is provided below.

Module 1: The Legal, Ethical and Regulatory Fundamentals and Administration of the Tax System

This module provides an overview of many of the important fundamentals of the Australian tax system and principles that apply to those working in the Australian tax field. The legal framework that the Australian tax system operates in is described, including the relevant parts of the Australian Constitution, the legislative process of creating tax laws and the judicial process for interpreting them. The ethical environment relevant to those involved in the tax advice industry, including the more important principles in the FASEA code of ethics for financial advisors and requirements under the Corporations Act are explained. The roles and responsibilities of the Tax Practitioners Board (TPB) and a description of the services offered by those registered by the TPB (tax agents, BAS agents and tax (financial) advisers) is provided. In addition, the code of conduct which those registered by the TPB need to abide by is explained.

This module concludes with a description of the concepts of tax planning, avoidance and evasion. These concepts are very important for tax professionals as they must act in their clients' best interests and ensure there is compliance with the relevant laws and obligations. The module also focuses on the administration of the tax system and the interaction between taxpayers and the tax authority. The module covers the process by which taxpayers are to operate under the self-assessment system that applies in Australia.

The ATO guidance documents and rulings available to assist taxpayers under the self-assessment system are outlined, including public and private rulings, law companion guidelines, practice statements and interpretative decisions. The module also focuses on the audit process that may follow the issue of an assessment, the tax reporting and payment obligations of the taxpayers and penalties and interest charges imposed on taxpayers who fail to comply with the law and meet their tax obligations.

Module 2: Principles of Taxable Income

This module introduces the key concepts of taxable income, including the principles of assessable income, general and specific deductions and capital allowances. Assessable income of a taxpayer comprises both ordinary income and statutory income except when these components are *exempt* income or otherwise excluded from assessable income. This module discusses the concepts of residence, source and derivation, which underpin the Australian income tax system. As ordinary income also includes income derived from carrying on a business, the module also examines the criteria for determining whether a business exists. This module then discusses s. 8-1 of ITAA97, which enables a deduction under one of the two positive limbs, provided none of the four negative limbs apply. Specific deductions available under one of the specific provisions outlined in ITAA97 for repairs, bad debts, tax losses and borrowing expenses are explained. Next, circumstances where limitations of deductibility apply, specific exclusions and record keeping requirements are reviewed. This module finally introduces the capital allowance regime for taxpayers. These capital allowance rules, under Division 40 of ITAA97, allow taxpayers to claim a deduction for the decline in value of depreciating assets based on the business use percentage of the asset spread over its effective life using either the prime cost or diminishing value method. Also explained are the capital allowance provisions, in which an SBE or another eligible entity can benefit from the temporary full expensing measure or an immediate write-off of depreciating assets costing less than the relevant thresholds. The module also explains how capital works deductions are calculated under Division 43 of ITAA97.

Module 3: CGT Fundamentals

This module introduces and reviews the capital gains tax (CGT) law provisions in the income tax legislation. The module discusses the core CGT concepts, including an overview of what capital gains, capital losses and CGT events entail. It then goes on to discuss CGT events in more detail. As many of these CGT events involve a CGT asset of the taxpayer, the next part of this module explains what is considered a CGT asset. This includes an examination of collectables and personal use assets, which are subject to specific rules. This module explains how to calculate the capital gain or loss resulting from a CGT event being triggered. Many of the CGT events utilise the concepts of capital proceeds, cost base, indexed cost base and reduced cost base in determining the capital gain or loss, so these concepts are explained in some detail. Next, when capital gains and losses are disregarded for CGT purposes is discussed. Lastly, the module explains how to calculate the net capital gain/loss of the taxpayer and apply the CGT discount and small business CGT concessions if applicable.

Module 4: Taxation of Individuals

This module begins with a brief outline of the steps used for calculating individual taxation and highlights the importance of the tax equation. Next, particular types of assessable income are defined, including, but not limited to, income relating to employees, minors, dividends, interest, property and royalties. This module then discusses three particular income regimes: (1) the tax treatment of employment termination payments, (2) personal services income (PSI) including the rules for determining whether a taxpayer is conducting a personal service business (PSB) and (3) employee-share schemes (ESS) provisions. The taxation of superannuation for individuals is illustrated, including the taxation of concessional and non-concessional contributions, and the tax treatment of superannuation benefits. The module makes reference to individual allowable deductions and various employment-related expenditure, negative gearing and income protection. This module then examines the most common tax offsets and rebates available to individuals. Finally, in calculating the tax payable for an individual, the tax rates for both residents and non-residents are indicated along with the application of the tax-free threshold formula, the Medicare levy and the Medicare levy surcharge.

Module 5: Taxation of Various Types of Entities other than Individuals

This module examines the core concepts of SBEs, partnerships, trusts, companies and superannuation funds. The module revisits the definition of an SBE and the core income tax concessions that apply to SBEs, such as the trading stock rules, capital allowances provisions and CGT small business concessions. The small business income tax offset is also discussed, which reduces the tax paid by eligible sole traders and SBEs. This module examines taxation of partnerships. As a partnership is not a separate legal entity, it does not pay income tax in its own right. Instead, the net income of the partnership is distributed to the partners in accordance with the profit sharing arrangements in the partnership agreement. This module also discusses the taxation implications when a partnership derives a loss, pays salaries and interest to partners

and when partners take drawings. This module covers the taxation of trusts, including the different types of trusts, and the parties involved in a trust structure. Next, the relevant provisions of Division 6 of ITAA36 are discussed, including its application to deceased estates. This is followed by an overview of the trust streaming rules and a description of the rules and advantages of family trusts. An overview of the core concepts relating to the taxation of companies is provided. This is followed with a description regarding how companies are taxed. The dividend imputation system is discussed in detail. Some of the specifics of the imputation system covered in this part include the circumstances in which shareholders are entitled to franking credits, the maximum number of franking credits that companies can distribute, the benchmark rule and some of the other aspects of the franking system. The final section of this module examines the taxation laws relating to superannuation funds. This includes a discussion of the types of superannuation contributions and their taxation treatment and the important principle that, in most instances, withdrawals made by superannuation members of at least 60 years of age will be tax-free.

Module 6: GST and FBT Fundamentals

This module examines the principles of GST and FBT. This module covers the fundamentals of GST, starting with a summary of the core concepts including the registration and tax invoice requirements. Also discussed are the methods of accounting for GST (cash or accruals) that determine which period the liability and input tax credit are attributed to. To simplify the reporting process, group entities can be treated as one entity if they meet the requirements of the grouping provisions. Anti-avoidance provisions included in the legislation to penalise taxpayers that undertake a scheme with a dominant purpose of artificially reducing their GST liability or increasing input tax credits are discussed. The module then explains the core FBT rules and how FBT liability is calculated. As an essential feature of the Australian FBT regime, FBT is a tax that is payable by employers on certain non-salary/non-wages benefits that they provide to their employees or their employees' associates in respect of employment. For income tax purposes, the amount of the FBT payable is generally tax deductible to the employer, as is the value of the benefit provided. The module explains the specific fringe benefits, exempt fringe benefits and salary packaging. This module also discusses employee's reportable fringe benefits and specific fringe benefits which are not reported.