AUSTRALIA TAXATION

CPA Program subject outline

Third 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 taxation law that relates to the taxation of individuals, companies, partnerships, trusts, and superannuation funds
- analyse events and apply the relevant legislation to determine tax liability.

The Australian Taxation subject reflects legislation in place as at 1 January 2020. Notably the content of this subject excludes any tax-related legislation introduced in response to the economic consequences of the Coronavirus (Covid-19).

Exam questions will be based upon the 2019–20 tax year and the FBT year ending 31 March 2020.

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 (%)
1. Legal, ethical and regulatory fundamentals	6	6
2. Principles of assessable income	10	10
3. Principles of general and specific deductions	8	8

4. Capital allowances	7	7
5. CGT fundamentals	15	15
6. Taxation of individuals	15	15
7. Taxation of SBEs and partnerships	6	6
8. Taxation of trusts, companies and superannuation funds	9	9
9. FBT fundamentals	7	7
10. GST fundamentals	8	8
11. Administration of the tax system	9	9
	100	100

A brief outline of each module is provided below.

Module 1: Legal, ethical and regulatory fundamentals

This module starts by providing 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, because they need to act in their client's best interests and ensure that there is compliance with the relevant laws and obligations.

Module 2: Principles of assessable income

This module introduces the key concepts of assessable income, starting with defining and determining income. 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 then 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. The actual existence of a business is a question of fact and degree and determined by decisions from the courts, through guidance in Taxation Determinations, and via rulings from the Australian Taxation Office (ATO). The core concepts of international tax are explored in relation to the tax obligations of non-residents. There is an emphasis on double taxation agreements (DTAs), foreign currency translation and exchange rules and the withholding tax and transfer pricing regimes. Finally, this module covers the core taxation concepts relating to trading stock given that a taxpayer derives ordinary income from transactions in selling trading stock. Accounting for and valuation of closing trading stock are examined along with the tax treatment on disposal of trading stock and the tax concessions available for small business entities (SBEs).

Module 3: Principles of general and specific deductions

This module discusses the principles of general and specific deductions. It emphasises that when an expense is only partly for a taxable purpose, the taxpayer is only entitled to a deduction for the proportion of the expense connected with earning assessable income. This module explains section 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 are discussed. For example, even though an expense is deductible as either a general or specific deduction, the deduction may be denied or limited if it is specifically excluded by the legislation. In addition to the general exclusions in s. 8-1(2) of ITAA97, there are specific exclusions for entertainment, payments to related entities, prepayments, non-commercial losses, and thin capitalisation interest expenses. Lastly, this module outlines the documents taxpayers need to retain in order to substantiate certain employment and business-related deductions such as: work expenses, car expenses and travel expenses. Penalties may apply if these records are not retained.

Module 4: Capital allowances

This module 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. As the treatment of depreciating assets varies depending on the type of asset and whether the taxpayer is an SBE or not, the module discusses the rules for capital allowances for both non-SBEs and SBEs. How non-SBE taxpayers can allocate low-value assets to a low-value pool and writeoff these assets at a fixed rate is explained. Also explained are the capital allowance provisions, in which an SBE can benefit from an immediate write-off of depreciating assets costing less than the relevant threshold. Assets not eligible for the instant write-off are added to a general asset pool and the pool value is written off at a fixed rate. Specific assets such as software, some intangibles, cars and project pool expenses are dealt with separately. The final section of this module explains how capital works deductions are calculated under Division 43 of ITAA97. The rates of capital works deduction depend on the type of capital work, the date construction began and the purpose of the capital works.

Module 5: CGT fundamentals

This module introduces and reviews the capital gains tax (CGT) law provisions in the income tax legislation. It starts off by discussing the core CGT concepts, including an overview of what are capital gains, capital losses and CGT events. 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 then 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 are 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 6: 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 income relating to: employees, minors, overseas services, the sharing economy, dividends, interest, property, trusts 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. A brief overview of the CGT relief for individuals is provided, including the operation of the main residence exemption, marriage breakdown rollover relief and the small business concessions. The taxation of superannuation for individuals is illustrated, including the taxation of concessional and non-concessional contributions, and the tax treatment of superannuation benefits. A very brief reference is made 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, the Medicare levy surcharge and accumulated study and training loan debts.

Module 7: Taxation of SBEs and partnerships

This module begins with a refresher of the core concepts of an SBE, including revisiting 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. Next, the small business restructure rollover provisions are discussed—these allow small businesses to transfer active assets from one entity to one or more other entities without incurring an income tax liability. This module then turns its attention to the 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 and is included in each partner's respective income tax return and tax is paid by each partner based on their marginal tax rate. 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 concludes with a brief discussion of Everett assignments and CGT, the general work in progress and the general capital gains tax rules and the taxation consequences of the dissolution or reconstitution of a partnership.

Module 8: Taxation of trusts, companies and superannuation funds

This module covers many of the important concepts regarding how income tax law applies to trusts, companies and superannuation funds. First, the taxation of trusts is covered, including the different types of trusts, and the parties involved in a trust structure. Next, the relevant provisions of Division 6 of ITAA36 is discussed, including its application to deceased estates. The calculation of the net income of a trust and how it is assessed is demonstrated using a seven-step process. How to deal with discrepancies and capital gains is also explained. This is followed by an overview of the trust streaming rules and a description of the rules and advantages of family trusts. Next, 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 starts off with a discussion of the types of superannuation contributions and their taxation treatment. This module describes how the investment earnings made on contributions are taxed. Lastly, this module discusses the important principle that, in most instances, withdrawals made by superannuation members of at least 60 years of age will be tax-free.

Module 9: FBT fundamentals

This module examines the principles of FBT, starting with an explanation of the core concepts. Next, how FBT is calculated is explained. As an essential feature of the Australian FBT regime, FBT is a tax that is payable by employers on certain non-salary/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 next sections of the module explains the specific fringe benefits, exempt fringe benefits and salary packaging. There are 13 types of fringe benefits covered by the FBT legislation, which interacts with the income tax legislation, GST and PSI rules. There are a number of benefits that are excluded fringe benefits and are not included in the reporting requirements, and there are also a number of miscellaneous exempt benefits contained in the legislation that are not subject to FBT. The FBT implications of salary packaging is explained including a discussion on exempt benefits and salary sacrificing superannuation contributions. This module concludes with a discussion of an employee's reportable fringe benefits and the PAYG payment summary. Included in this section is an explanation of exempt and excluded fringe benefits which are not reported on an employee's PAYG payment summary.

Module 10: GST fundamentals

This module covers the fundamentals of GST, starting with a summary of the core concepts including the registration and tax invoice requirements. This module explains that even though GST is collected through each step of the supply process it is generally only borne by the final consumer as GST-registered suppliers can claim an input tax credit for the GST paid on the inputs. Taxable importations also give rise to a liability for GST, but in this case the purchaser rather than the seller is liable. 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. Finally, 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.

Module 11: Administration of the tax system

The final module focuses on the administration of the tax system and the interaction between taxpayers and the tax authority. In particular, 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. Next, the module discusses the audit process which may follow the issue of an assessment—a method used by the Commission of Taxation to ascertain the correctness of these assessments. The audit may result in penalties and/or interest charges being imposed. If the taxpayer does not agree with the Commissioner’s treatment of a certain tax issue, they may request a review, lodge a formal objection or further appeal the decision. The next section of the module discusses the tax reporting and payment obligations of taxpayers. This includes the operation of the PAYG withholding and instalment systems the lodgement of BASs and IASs, and maintaining a running balance account. Next, the penalties and interest charges imposed on taxpayers who fail to comply with the law and meet their tax obligations are discussed. Lastly, the application of the Part IVA anti avoidance laws and the operation of the promoter penalty regime are examined.