

Australia Taxation

CPA Program subject outline

Sixth 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.

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

- understand the key administrative components of the Australian taxation system and the basic principles of Australian 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 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 *Australian Taxation* subject reflects legislation in place as at 1 January 2023. Exam questions will be based upon the 2022–23 tax year and the FBT year ending 31 March 2023.

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 "recommended 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. The legal, ethical and regulatory fundamentals and 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
5. Taxation of various types of entities other than individuals	15	15
6. GST and FBT fundamentals	15	15

Module descriptions

The subject is divided into six modules. 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 is 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 and BAS agents) is provided. In addition, the code of conduct which those registered by the TPB must 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 client's best interests and ensure that 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 that are 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 relating to assessable income and tax deductions and capital allowances. Also discussed are the concepts of residence for tax purposes and the source of income, which underpin the Australian income tax system, to determine which entity and income is liable to Australian income tax. Assessable income of a taxpayer comprises both ordinary income and statutory income except when either component is exempt income or otherwise excluded from assessable income. As ordinary income also includes income derived from carrying on a business, the module examines the criteria for determining whether a business exists. This module then discusses the deductions available as either a general or specific deduction, unless they are excluded or limited by the legislation. A specific deduction is one that is specifically made deductible by the legislation. One of the major areas of specific deductions is capital allowances, which allow taxpayers to claim a deduction for depreciating assets based on the percentage the asset is used to earn assessable income. Also explained are capital allowance provisions, in which a 'small business entity', or other eligible entity, can benefit from the temporary full expensing measure for an immediate write-off of eligible depreciating assets. Finally, this module explains how trading stock and international transactions influence taxable income.

Module 3: CGT fundamentals

This module introduces and reviews the capital gains tax (CGT) law provisions in the income tax legislation. The module begins with a discussion of 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, personal use assets and separate CGT 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. Following this, CGT exceptions and exemptions are outlined, including the main residence exemption, rollover provisions and other reliefs. Lastly, the module explains how to calculate the net capital gain or loss of the taxpayer, and how to 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 individual capital gains and superannuation is illustrated, including the taxation of concessional and non-concessional contributions, and the tax treatment of superannuation benefits. The module makes a brief reference to individual allowable deductions and various employment-related expenditure, negative gearing and income protection. A discussion of the employee versus independent contractor test for deductions is also covered. 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. A brief mention is also made of how study and training support loans are treated for tax purposes and the tax implications of salary packaging.

Module 5: Taxation of various types of entities other than individuals

This module examines the core concepts of small business enterprises (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 capital gains tax (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 by

a description of 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 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. It 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.