

I. Capital Gains Tax

The date of disposal is assumed to be the date the contract was signed, i.e. August 2015.

Cost base elements include:

- a) Acquisition costs: \$100,000 incurred in March, 1987.
- b) Incidental costs:
 - Acquisition in March 1987 included \$1,000 legal fees and \$2,000 stamp duty. These costs were incurred before the GST regime was established, so adjustment for GST is not required.
 - Disposal in August, 2015 include \$1,100 legal fees and \$9,900 real estate agent's commission. The gross costs inclusive of GST are not included in the cost base as Fred cannot obtain input tax credits.
[Note: Fred is not entitled to claim input tax credits for the GST as he is not (or not required to be) registered for GST. Even if he registered, the sale of residential premises will be deemed to be an input taxed supply.]
- c) Enhancement costs incurred by building a garage costing \$20,000 in January, 1990.

Fred may choose to calculate the cost base of the property by using either the *Indexation* or *Discount* method.

1) *Frozen indexation method* (S. 102-5, ITAA 97)

To calculate the cost base of the property by using the frozen indexation method, Fred must first calculate the acquisition cost, incidental costs and the enhancement cost, as set out below:

$$\begin{aligned} \text{a) } \underline{\text{Acquisition costs}} &= \$100,000 \times \frac{\text{CPI Sept 99 quarter}}{\text{CPI Mar 87 quarter}} \\ &= \$100,000 \times \frac{68.7}{45.3} \end{aligned}$$

$$= \$100,000 \times 1.517$$

$$= \mathbf{\$151,700}$$

b) Incidental costs: Indexation for the incidental costs at the time of sale is not available as they were incurred after 21st September 1999.

$$\text{March 1987 stamp duty} = \$2,000 \times \frac{\text{CPI Sept 99 quarter}}{\text{CPI Mar 87 quarter}}$$

$$= \$2,000 \times 1.517$$

$$= \mathbf{\$3,034}$$

$$\text{March 1987 legal fees} = \$1,000 \times \frac{\text{CPI Sept 99 quarter}}{\text{CPI Mar 87 Quarter}}$$

$$= \$1,000 \times 1.517$$

$$= \mathbf{\$1,517}$$

$$\text{c) Enhancement costs} = \$20,000 \times \frac{\text{CPI Sept 99 quarter}}{\text{CPI Mar 90 quarter}}$$

$$= \$20,000 \times \frac{68.7}{56.2}$$

$$= \$20,000 \times 1.222$$

$$= \mathbf{\$24,440}$$

$$\text{Capital gain} = \$800,000 - (\$151,700 + 1,100 + \$9,900 + \$3,034 + \$1,517 + \$24,440)$$

$$= \$800,000 - \$191,691$$

$$= \mathbf{\$608,309}$$

$$\text{Net Capital Gain} = \$608,309 \text{ less carry forward loss of } \$10,000$$

$$= \mathbf{\$598,309}$$

2. *Discount method* (S. 102-5, ITAA97)

The calculation through discount method is outlined as follows:

$$\begin{aligned}\text{Capital gain} &= \$800,000 - (\$100,000 + \$1,100 + \$9,900 + \$2,000 + \$1,000 + \$20,000) \\ &= \$800,000 - \$134,000 \\ &= \mathbf{\$666,000}\end{aligned}$$

The Net Capital Gain will be calculated after the carry forward losses are deducted from the capital gain, i.e. $\$666,000 - \$10,000 = \$656,000$

$$\begin{aligned}\text{Net Capital Gain} &= 50\% \times \$656,000 \\ &= \mathbf{\$328,000}\end{aligned}$$

Certain capital gains and losses are matched against the other. The loss carried forward from the disposal of a *collectable* antique vase can only be offset against a collectable gain. Since, the disposal of Fred's house is an ordinary gain, the collectable loss cannot be offset against it. (S. 108-10, ITAA97)

In such a case, the frozen indexation net capital gain would be **\$608,392**.

II. Fringe Benefit Tax

Fringe benefit is a benefit provided by the employer to an employee in a form other than salary or wages. The taxes imposed on these benefits are termed as fringe benefit tax (FBT). This tax is levied on the taxable value of the benefits provided.

a) Calculation of FBT

1. Car: As the car is for Emma's private use, it qualifies as a car fringe benefit [FBTAA, S. 7]. Since the method for FBT calculation is not specified, the statutory formula method is used, i.e.:

Taxable Value = [Base Value of the Car x Statutory Rate x No. of Days Car was Privately Used] ÷ 365 – Employee Contribution

Considerations to calculate car's FBT:

- i. Base value of the car = \$33,000
- ii. Statutory rate = 20%
- iii. Number of days car was used privately = 330 [Car was not under private use when it was undergoing annual repairs. However, parking at the airport counts as private use as Emma was still in possession of car keys]
- To determine if a substitute value is to be used, the annualized kilometers are to be calculated, which are $10,000 \times (365/330) = 11,061$. Since it is less than 25,000 kms, substitute value would not apply.
- iv. No employee's contribution as Emma was reimbursed for her expenses.

Taxable value of car = $(\$33,000 \times 0.2 \times 330) / 365 = \mathbf{\$5,967}$

2. Reimbursement of Motor Vehicle Expenses: This being an "expense payment fringe benefit" is exempt under S. 53, FBTA.
3. \$500,000 Loan: Provision of loan is a "loan fringe benefit". [Division 4, FBTA]
Taxable value = $\$500,000 \times (6.45\% - 4.45\%) \times (212/365) = \mathbf{\$5,808}$
Note: As Emma has not used the loan amount to earn assessable income, there is no reduction to the taxable value under the "otherwise deductible rule".
4. Purchase of bathtub for \$1,300: Since the bathtub is sold in the ordinary course of Periwinkle's business, it is an "in-house property fringe benefit". [Division 11, FBTA]

Thus, the taxable value = $75\% \times \$2,600$ (lowest price sold to public) = \$1,950.

Recipient's contribution being \$1300, it can be further reduced to \$650.

However, as per S. 62, FBTA, the taxable value will be \$0, as it is an 'in-house fringe benefit'.

It is now necessary to determine whether the taxable benefit fall under Type 1 or Type 2 fringe benefits:

- ♦ Car = Type 1 (amount is GST inclusive and Periwinkle is entitled to input tax credits)
- ♦ Loan = Type 2 (it is a financial supply; therefore no GST is applicable)

Thus, total fringe benefits taxable amount = $(\$5,967 \times 2.0647) + (\$5,808 \times 1.8692) =$
 $\$12,320 + \$10,856 = \mathbf{\$23,176}$

Fringe benefits tax liability = $46.5\% \times \$23,176 = \mathbf{\$10,777}$

Therefore, Periwinkle is liable to pay FBT of \$10,777.

- b) If the loan amount of \$50,000 was used to purchase shares for her own self, the purpose of the loan would be to produce income. In such a case, any corresponding interest would be deductible.

The taxable value of the loan fringe benefit would be reduced by 10% under the "otherwise deductible rule", and it would be calculated on \$450,000.

The taxable value of Fringe Benefit Loan would then be $\$450,000 \times (6.45\% - 4.45\%) =$
 $\mathbf{\$9,000}$.