Cut and chop case study

Business

The cost base of the premise (SSL including purchase price (2. Million), incidental costs (SSL 10-35) (legal fees $13500 and agents fees$45000). So current year capital game , 500. This amount Less unappeased net capital losses for a previous year ($70, 000) (sass-5): , 500 Lastly, the Cut and Chop is a company, it cannot use discount method (Dive 1 15).

So, net capital gain to be included in assessable income for the year ended 30 June 2014 as a result of the sale of the business premise is $141 , 500. B. If Cut and Chop want to minimize taxable income as at 30 June 2014, the most appropriate valuation method for it to adopt to value the trading stock is replacement method. Under sec 70-35: where the value of trading stock on hand at the end of the year is more than trading stock on hand at the beginning of the year, the difference is included in assessable income, and where the value of trading stock on hand at the end of the year is less than trading stock on hand at the beginning of the year, the difference is deductible.

Taxpayer can choose to value each item of stock on hand at the end of the year based on: (1) its cost, (2) its market selling value or (3) its replacement value (s 70-45). Sprayer can also use a reasonable lower value for obsolete trading stock (s 70-50).

In this case, the cost of the trading stock is $230, 000, the market selling value is $350, 000, and the replacement value is 195, 000. Under cost method, there will be no difference between the beginning and the ending value of the trading stock.

Under market selling value method, the ending value is more than beginning value the difference of $120, 000 will be included in assessable income. Under replacement method, the ending value of the trading stock is less than the ¶ginning value ( ), the difference to 3 So, replacement method is most appropriate. Mount of $180, 000 that Cut and Chop set aside for long service, annual and sick leave as at 30 June 2014 is not deductible(ass-10). The actual payments of $87, 000 to employees in relation to leave entitlements during the year ended 30 June 2014 is deductible.

Sec 25-35 provides a deduction for a debt (or part of a debt) written off as bad in an income year if four conditions are satisfied: 11)There must be a debt in existence Z)The debt must have gone bad 13)The debt must have been written off during the year, and 14)The debt was included in the taxpayer’s assessable income, or arose in the course f a business of lending money. Rhea amount of $50, 000 that Cut and Chop set aside for doubtful debts are not satisfied with the above requirements, thus not deductible. The actual bad debts Mitten off against the provision account during the year ($67, 000) satisfied the above requirement, thus deductible. .) When Cut and Chop received compensation of $70, 000 through a claim under an insurance policy in respect of the stolen artwork on 31 August 2014, CUT event CLC occurred.

(sass-20). The amount of $70, 000 is the capital proceeds. The artwork was acquired for $105, 000 by Cut and Chop on 1 January 2014 from Mrs. Paresis. The cost base is $105, 000(sass-25). No exemption for collectibles acquired for more than so there a net capital loss of 2.

)The yacht owned by Mr.. Paris is used for both business purpose and private functions.

The income from renting the yacht for weddings, birthdays and promotion events for 60 times are assessable. Rhea advertising fee for placing advertisement in newspapers and magazines in Sydney is to generate assessable income, thus deductible (SO-1(1)). So as to the payment paid to agent to look after bookings and events.

Since the yacht is both for business and private use. The interest relating to the loan would be spilt into two parts. Mr.. Paris should divided the loan ($85, 000) into home loan portion(private usage) and investment loan portion(business usage).

The interest relating to the business portion is deductible (so-1) while the interest relating to the home loan portion is not deductible(so-1(2)). Lastly, the expense for the 30 days cruise up the NEWS/Queensland coast in the next [ear is totally private use, thus not deductible. (so-1(2)) f.) When Mr.. And Mrs.

. Paris decide to relocate to Korea on 31 August 2014 to reside there indefinitely, CUT event II occurs. (sass-160(1)). They are deemed to have exposed of assets that are not taxable Australian property at their market value. Near snares in the Cut and Chop are taxable Australian property (ass no deemed to dispose until they actually disposed of. Capital gain or loss that happens to a dwelling that is a taxpayer’s main residence is generally ignored.

(Dive 118) So, Mr.. And Mrs.. Paris can ignore any gain or loss related to the family home, If the family home is the main residence for them(SSL 18-115).

Under Dive 1 18, motor vehicles designed to carry a load of less than one tone and less than 9 passengers are considered as general exemptions. So, no CUT consequence occurs to the motor vehicle.

As to the antique collection, it should be Australian property and thus deemed to be disposed of at market value. However, under SSL 18-10(1), if the collectibles were acquired for $500 or less, any capital gain or losses related to it will be disregarded. Lastly, the yacht owned by Mr.

. Paris should be regarded as not taxable Australian property, thus deemed to be disposed of at the market value. Under sass-165(2), capital gain or loss from CUT event II can be ignored where an individual chooses, assets are then treated as taxable Australian property and then no consequences Joint actually disposed of. So, Mr.. ND Mrs.

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Paris can choose to ignore the capital gain or loss until they actually disposed of them. G.) If Mr..

And Mrs.. Paris accept the offer of purchasing their shares in Cut and Chop on 1 September 2014, CUT event AY occurs(sass-10). The capital proceeds is 100* The cost base of the share was 100*$1 when they acquired the 100 shares at the price of $1000 each on 1 June 2001(sass-25). They are individuals and acquired the Shares after 21 September 1999.

And they had hold the CUT assets for more than 12 moths. So they can have 50% discount (Dive 114) Rhea net capital gain in respect of selling their shares in Cut and Chop will be -$450, 000.