

Taxation law
according to itaa
1997 and itaa 1936
cgt



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Les is a single resident taxpayer with no dependants and no private health insurance. Based on the information taken from his taxation records we work out his assessable taxes with the following points in mind:

Capital Gains Tax (CGT) in Australia was introduced on 20 Sep 1985. CGT applies only on assets acquired after that date. Gains or losses on earlier assets called pre-CGT are ignored.

Prior to 20 Sep 1999 an indexing system was used to calculate the tax. After this date a discount system is used. The taxpayer has a choice to use either system for assets acquired prior to this date. Here we are using the discount system as indexing system is used for very small gains.

CGT on collectables such as jewellery is exempt up to \$ 500.

Now we take up for tax treatment his individual assets:

1. AA shares: Cost price as on 1. 5. 1988 \$ 16, 500

Selling price as on 25. 10. 2009 \$ 10, 000

Result is net loss under CGT \$ 6, 500 (A)

2. BB shares: Cost price as on 1. 4. 1984 (pre-CGT) \$ 19, 500

Selling price as on 25. 10. 2009 \$ 12, 000

Result is net loss under CGT Nil (B)

3. CC shares:

1500 shares bought on 1. 8. 2002 for \$ 6, 000

225 shares under dividend re-investment scheme on 15. 11. 2007 for \$ 720

275 shares under reinvestment scheme on 25. 3. 2009 for \$ 980.

All 2, 000 shares were sold on 1. 11. 2009 for \$ 14, 000

Here the shares acquired in the second and third parcels under the dividend reinvestment

Scheme would be treated as having acquired with cash as if received from <https://assignbuster.com/taxation-law-according-to-ita-1997-and-ita-1936-cgt/>

the dividend.

Hence $\$ 720 + \$ 980 = \$ 1700$ (C) would be treated as an ordinary income.

Again the first two parcels, shares were retained for more than a year and

hence would

qualify for 50% discount on gains where as the last parcel being held for less

than a year

shall not qualify for 50% discount.

Therefore total cost of acquiring 2, 000 CC shares = $\$ 6, 000 + \$ 720 + \$$

$980 = \$ 7, 700$

Total selling price of CC shares on 1. 11. 2009 = $\$ 14, 000$

Therefore total capital gain on selling 2, 000 CC shares = $\$ 6, 300$ (D)

4. DD shares: Cost price of 25, 000 shares on 1. 6. 1990 = $\$ 25, 000$

Selling price as on 8. 11. 2009 = $\$ 70, 000$

Result is net gain under CGT = $\$ 45, 000$ (E)

Here again the shares were not retained for a year and do not qualify for

50% discount.

5. EE shares: These shares were inherited by Les on his father's death on 1.

4. 2004 when their market value was $\$ 20, 000$. On death, CGT assets

transferred to beneficiaries directly are not treated as disposed of by the

deceased, but instead the beneficiaries are taken to have acquired them at

the deceaseds date of death and with cost base and reduced cost base as at

that date. Hence these shares would be treated as if acquired by Les for $\$$

$20, 000$, their market value on 1. 4. 2004, the date of his father's death and

not the $\$ 15, 000$ originally paid by his father on 10 August 2001.

Hence their treatment would be: Cost price on 1. 4. 2004 = $\$ 20, 000$

Selling price on 15. 11. 2009 = $\$ 23, 000$

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Result is net gain under CGT = \$ 3, 000 (F)

6. Jewellery: This being a collectable is exempt upto \$ 500. A gain or loss under this head cannot be setoff against any loss or gain against other personal use assets loss.

Hence: Cost price on 31. 5. 2004 = \$ 7, 000 - \$ 500 (exempt) = \$ 6, 500

Selling price on 22. 11. 2009 = \$ 4, 000

Result is net loss under CGT = \$ 2, 500 (G)

7. Block of land: The block of land was purchased on 1 March 2000 for \$ 130, 000 and sold on 20 June 2010 for 150, 000 resulting in a net CGT of 20, 000 (H). Although the settlement proceeds were received on 10 August 2010 in the next financial year they would be taxable as on 30 June 2010 as the asset is considered sold or disposed off in the year the taxpayer loses its ownership.

8. Dividend income from certain shares was \$ 5, 200 with the imputation credits being \$ 2, 229. Here the taxpayer is eligible as a small shareholder as his imputation or franking credits are less than \$ 5, 000. Hence, net taxable income is \$ 5, 200 - \$ 2, 229 = \$ 2971 (I)

Assessable Capital Gain: \$ 6, 300 (D) + \$ 45, 000 (E) + \$ 3, 000 (F) + \$ 67, 800 (H) = \$74, 300

Less: \$ 6, 500 (A) + \$ 0 (B) = \$ 6, 500

Net Capital Gain = \$ 67, 800

Discount (50%) = \$ 33, 900

We add back the \$ 980 x 50% disallowed from CC shares as not held for a year = \$ 490

Assessable Capital Gain = \$ 34, 390 (J)

Taxable Income: \$ 1, 700 (C) + \$ 2, 971 (I) + \$ 34, 390 (J) = \$ 39, 061 (K)

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Net Tax Payable: Tax Rate as per schedule for 2009-10 for the bracket \$ 35,001- \$ 80,000 is as under: \$ 4,350 + 30c for each \$ 1 over \$ 35,000 = \$ 4,350 + (\$ 39,061-\$ 35,000) x 30c
= \$ 4,350 + (\$ 4,061 x 30c) = \$ 4,350 + \$ 1218.30 = \$ 5,568.30 = \$ 5,568 (rounded off)

Capital Losses: \$ 2,500 (G) which cannot be adjusted against Capital gain from any other categories or ordinary income.

Under the dividend reinvestment the shareholder can choose to receive newly issued shares instead of dividend. Such a plan is treated as if the shareholder received the actual dividend and then used the money to buy shares. The dividend is taxed like any other dividend (including with any dividend imputation), and the shares are taken to be acquired for the cash one didn't receive.

Dividend imputation is a corporate tax under which some or all of the share paid by the corporate may be attributed or 'imputed' to the shareholder by giving him tax credits so as to reduce the tax burden and avoid 'double taxation'. These credits are called franking credits which the company gives to the shareholder at the time of paying dividend. Under dividend imputation small shareholders are exempt upto \$ 5000 and franking credits are fully refundable. An eligible shareholder receiving a franked dividend declares the cash amount plus the franking credit as income, and is credited with the franking credit against their final tax bill. Franking credits are refundable and can not only reduce the tax payable by him but in case the tax payable is zero, can be claimed back as a refund.