

HI6028 Taxation Law

Group Assignment (2500 Words)

Due date week 10
Maximum marks: 20 (20%)

Instructions:

This assignment is to be submitted by the due date in soft-copy only (Safe assign – Blackboard).

The assignment is to be submitted in accordance with assessment policy stated in the Subject Outline and Student Handbook.

It is the responsibility of the student submitting the work to ensure that the work is in fact his/her own work. Ensure that when incorporating the works of others into your submission that it is appropriately acknowledged.

It is recommended that you prepare an assignment of 2500 words.

Part A

RIP Pty Ltd is a resident private company carrying on the business of undertaker/funeral director. It operates out of premises comprising office facilities, a chapel and assembly area and professional rooms. Its other assets include a fleet of motor vehicles.

For the year ended 30 June 2016 the company reported a net profit of \$2.45m. Its income arises from the provision of funeral services financed as follows:

- Fees payable under a 'net, 30 days' invoice.
- Fees payable under several external insurance contracts to which bills are issued under a 'net, 30 days' arrangement. For instance, some funeral costs are paid by the Transport Accident Commission, others are paid out of private life assurance plans.
- Fees received from RIP Finance Pty Ltd, a company providing credit under an instalment repayment plan.
- Amounts paid under a funeral plan in which clients make periodic contributions to meet future funeral costs. 'Easy Funeral Plan' is a fixed price contract. When the agreed amount is paid, the client is guaranteed a 'deluxe funeral arrangement'. If the contract price is not fully paid at date of death, the deceased's estate is billed under (i) or (iii), above. The amount is not refundable or transferable. At 30 June the credit balance Easy Funeral Plan is \$225,000.

From time-to-time amounts paid pursuant to the Easy Funeral Plan are not drawn upon. The clients might die abroad or remains not be recovered and no funeral service is provided. No refund issues arise.

At 30 June, the company transfers from Easy Funeral Plan amounts estimated to have arisen in connection with defaulting members (ie, members who have ceased making scheduled payments and who are not expected to make up arrears). These are credited to a 'Forfeited Payments Account' that has a balance at 30 June of \$16,200.

Required (60% of the answer)12 marks

[Note: it is necessary to refer to appropriate case law on the issues.]

- a) Refer to the decision in *Arthur Murray (NSW) Pty Ltd v FCT* (1965) 114 CLR 314. In your own words, briefly describe the facts, issues and conclusion in that case.
 - Advise RIP Pty Ltd when income is derived (i) generally, and (ii) when it derives its income from funeral services and related activities.

- Does the *Arthur Murray* principle apply to the company's accounting treatment of amounts in Easy Funeral Plan? Explain.
 - Does the Commissioner or any taxpayer have a choice in the method of accounting for tax?
- b) Advise the company of the tax treatment of \$16,200 in 'Forfeited Payments Account' in item (iv).

Part B

- a) RIP Pty Ltd holds a stock of three types of caskets as well as a range of accessories (such as religious and secular icons). In June 2016 the company prepaid \$25,000 for material to be delivered in August 2016. The company obtained considerable discounts for the advance purchase.
- b) A fully franked cash dividend of \$21,000 was received from RIP Finance Pty Ltd.
- c) An amount of \$57,000 was paid on 1 March 2016 for two year's rental of storage space. The lease expires on 28 February 2018. In the company's financial accounts an amount of \$9,500 was expensed and \$47,500 capitalised.
- d) On 1 June 2016 the managing director of RIP commenced three months long service leave and was paid \$22,000 in advance. In the company's accounts the amount was debited against a Provision for Long Service Leave Account.
- e) In 2013 the company's Board of Directors decided existing accommodation was inadequate and it resolved to construct a purpose built facility. In that year \$250,000 was paid for preliminary architectural designs. In 2014 land costing \$1.25m was acquired and \$50,000 paid to demolish an existing structure. Construction of the new premises commenced on 1 September 2014 at a cost of \$2.5m. Fitting and equipment was installed on 1 June 2015; operations began on 1 August 2015. On-site car parking costing \$125,000 was completed on 30 September and landscaping of the site was completed on 31 January 2016 at a cost of \$40,000.

Required (40% of the answer) 8 marks

Advise the company about the following:

[You must refer to appropriate sections of the legislation and relevant case law.]

- The nature of trading stock, generally, whether the caskets and accessories would be trading stock for tax purposes and how the amount of \$25,000 is treated for tax purposes.
- What adjustments (if any) should be made to the company's reported profit for tax purposes in regard to items (b), (c) and (d).

- What deductions (if any) are available for expenditure set out in item (e). Explain.

