

Examination Booklet

Advanced Diploma of Financial Services (Financial Planning)

Module 1: Taxation Planning for Financial Advisers

Practice Exam

(2008/2009 Financial Year)

This is a closed book exam.

Time allowed is 90 minutes.

- Question 1** Julie, a financial adviser, has advised a client to place some money into investment XYZ, which is currently treated advantageously by the ATO for tax purposes. Which of the following is true with regards to the giving of taxation advice?
- a) The ATO cannot change the tax treatment of an investment at a later date
 - b) Before making any recommendations Julie must always refer a client to a taxation specialist
 - c) Julie cannot give advice on any item that has a tax impact (including investments)
 - d) Julie should only advise this action if she is confident that the expected tax treatments are likely to continue to apply
- Question 2** An adviser needs to be confident that:
- a) A proposed strategy will be in the best interest of the client
 - b) A proposed strategy will be in the best interest of the licensee
 - c) A proposed strategy will be in the best interest of the client, you as the adviser and the licensee
 - d) A proposed strategy will be in the best interest of the client and the licensee
- Question 3** What is the Commissioner of Taxation, or any duly authorised ATO officer, entitled to with 'Right of Access'?
- a) Full and free access to any buildings, places, books, documents and other papers they need for the purposes of CGT issues only
 - b) Supervised access only to books and documents they need for ITAA36 and ITAA97 purposes
 - c) Communications made between a lawyer and client for the dominant purpose of giving or receiving legal advice, and for use in anticipated legislation
 - d) To obtain tax-related information for any client who is being investigated for tax avoidance

- Question 4** The system that allows decisions on the interpretation of the laws administered by the Commissioner of Taxation to become available to the general public is called the:
- a) Taxation Classification Service
 - b) Tax Interpretation System
 - c) Tax Rulings System
 - d) Taxation Information System
- Question 5** Income generated by a trust is generally taxable:
- a) By the trust
 - b) At 46.5% within the trust
 - c) In the hands of the trustee
 - d) In the hands of the beneficiaries
- Question 6** Which of the following is NOT exempt income?
- a) Disability Support Pension
 - b) Payments made to part-time members of the Defence Force
 - c) Child support or spouse maintenance payments
 - d) Dividends paid to a minor
- Question 7** Brent has invested an inheritance. How are the funds, and the earnings on those funds, treated for tax purposes?
- a) The inheritance is an income amount, but the earnings are treated as capital
 - b) Both the inheritance and the earnings from it are treated as income
 - c) The inheritance is a capital amount, but the earnings are treated as income
 - d) Both the inheritance and the earnings from it are treated as capital

Question 8 A minor has earned 'eligible' income. This means that the minor is to pay tax at the following rate:

- a) It depends on how much eligible income the minor has earned
- b) The highest marginal tax rate
- c) Half the normal marginal tax rate
- d) The normal marginal tax rate

Question 9 For PAYG, the instalment amount is calculated as follows:

- a) The instalment rate divided by the instalment income
- b) The instalment rate multiplied by the instalment income
- c) The instalment income divided by the instalment rate
- d) The instalment income divided by the GST amount

Question 10 Chris is considering returning to Australia after having worked overseas for the last 5 years. He went overseas intending to spent 'some time' away, and always expected to return to Australia.

- a) Chris is likely to have been granted residency in the country he is living in, so can claim dual citizenship, and so will be able to access any dual taxation arrangements that might be in place
- b) Chris is still likely to be a resident
- c) Chris is likely to be a non resident, despite his intent to eventually return to Australia
- d) Chris is a likely to be a 'temporary' non resident, which means that he is still able to pay tax in Australia on his salary

Question 11 In Australia, non residents do NOT pay which of the following?

- a) Tax on any of their income
- b) Medicare Levy
- c) Tax on personal exertion income earned in Australia
- d) Tax on Australian sourced dividends

- Question 12** Liz earns \$70,000. She is single, has no dependants and has no hospital cover. How much is Liz's Medicare Levy Surcharge?
- a) \$1,050
 - b) \$700
 - c) \$1,750
 - d) \$0
- Question 13** There are six conditions that must be met before an Employee Share Scheme can qualify for tax benefits. Which of the following is NOT one of those conditions?
- a) Any individual employee does not hold more than 5% interest in the company under the scheme
 - b) All of the shares available under the scheme are ordinary shares
 - c) The ESS must be offered to 100% of all full time or part time employees
 - d) Any individual is not in the position to cast more than 5% of the maximum number of votes at a general meeting
- Question 14** During 2008/2009, Amy will have assessable income of \$35,000 from salary and wages and she will also received a \$2,000 fully franked dividend. What will her net tax payable be including the Medicare Levy?
- a) \$6,227
 - b) \$4,898
 - c) \$5,068
 - d) \$7,634
- Question 15** Which of the following are ordinary termination payments?
- I. Accrued annual leave
 - II. Accrued long service leave
 - III. Unused sick leave
 - IV. Concessionally taxed bona fide redundancy amount
- a) I and II
 - b) I, II and III
 - c) I, II and IV
 - d) II, III and IV

- Question 16** If an insurance bond is withdrawn in its 7th year, what percentage of the profit made on the bond would be included in the taxpayer's assessable income?
- a) 0%
 - b) 66%
 - c) 100%
 - d) 33%
- Question 17** The Commissioner of Taxation can reject a claimed deduction on the grounds of:
- a) The lack of connection to income producing activities
 - b) The amount of the expense is extravagant and is an 'arms length' expense
 - c) The size of the expenditure
 - d) The amount of the expenditure, given what an 'ordinary prudent person' would have expended
- Question 18** In order for a self education course to be deductible, the course must be:
- a) Directly connected to the taxpayer's current work activities
 - b) Directly connected to the taxpayer's intention to commence a new job
 - c) Accredited by the Australian National Training Authority
 - d) Approved by the taxpayer's employer, or in the case of the self employed, must be supported by a statutory declaration that the training is relevant to the taxpayer's income
- Question 19** The Net Medical Expenses Tax Offset is claimable by the taxpayer on behalf of expenses incurred for:
- I. Themselves
 - II. Their spouse
 - III. Children aged under 21
 - IV. An invalid relative (in some circumstances)
- a) I, II, III and IV
 - b) I, II and III
 - c) I, II and IV
 - d) I, III and IV

- Question 20** Under the cents per kilometre method what is the maximum number of business kilometres that are able to be claim?
- a) 5,000
 - b) 20,000
 - c) 1,000
 - d) 10,000
- Question 21** What is Personal Services Income?
- a) Income that is mainly generated by an income producing asset
 - b) Income that is mainly from granting a right to use property
 - c) Income that is mainly a reward for an individual's personal efforts or skills
 - d) Income that is mainly for supplying and selling goods
- Question 22** The cost of preparing and lodging Business Activity Statements for PSI businesses that are not Personal Services Businesses is:
- a) Not deductible, since the business is caught under the PSI regime
 - b) Deductible
 - c) Only deductible if the business has agreed to move to a PSB structure in the next financial year
 - d) Not deductible, since the business has failed both the Results and 80/20 Tests
- Question 23** Which of the following is correct with regards to a company?
- a) A company includes any partnerships
 - b) It has a tax free threshold of \$6,000
 - c) A company is a legal entity separate from its shareholders
 - d) Its income must be distributed to beneficiaries each year

- Question 24** A private company is looking to save itself and its owners some tax. Instead of making payments from the company to the owners, the company decided to forgive a debt owed by the company to its owners. This is:
- a) An example where the amount of the forgiven debt is still included as a 'deemed dividend' to the owners
 - b) Clever tax planning, since the amount used to forgive the debt is not taxed before the debt is forgiven. It becomes a capital amount and is therefore no longer 'income' for tax purposes
 - c) An occasion where the company still has to pay tax on the amount, even if not actually paid to the owners
 - d) An occasion where the owners have the choice of either having the company pay the tax or paying the tax themselves
- Question 25** A business is paying tax using Instalment Activity Statements. The rate at which the business needs to make its payments is determined by:
- a) Their accountant in accordance with the Statutory Formula
 - b) The taxpayer, being mindful that there are penalties if the taxpayer's calculation is out by 10% or more
 - c) The taxpayer, being mindful that there are penalties if the taxpayer's calculation is out by 5% or more
 - d) The ATO
- Question 26** A business has income of \$190,000, business related expenses of \$178,000 and donations to registered charities of \$20,000. This situation results in:
- a) A business tax loss of \$8,000, since all deductions can be used to determine a tax loss
 - b) Business income of \$12,000
 - c) No tax loss, since the donations are ignored for tax loss purposes
 - d) None of the donation can be claimed as a deduction
- Question 27** Which of the following is NOT a depreciating asset?
- a) Computers
 - b) Land
 - c) Motor vehicles
 - d) Furniture

- Question 28** Does a trust need to have its own TFN?
- a) Yes, and the trust needs to use it when it submits its own tax return
 - b) Yes, but the trustee's TFN is used when the trust's tax return is submitted
 - c) No, since the trustee's TFN is used for the trust's tax return
 - d) No, since the trust's ABN is all that is needed by the ATO for tax purposes
- Question 29** Under the Simplified Tax System's Trading Stock Rules, a small business doesn't need to account for stock value changes less than:
- a) \$10,000
 - b) \$1,000
 - c) \$2,500
 - d) \$5,000
- Question 30** The two main elements of the Simplified Tax System are:
- I. Low cost pool
 - II. Simplified depreciation
 - III. Accrual accounting for income tax
 - IV. Simplified trading stock rules
- a) I and II
 - b) II and IV
 - c) III and IV
 - d) I and III
- Question 31** With the Trading Stock Rules of the Simplified Tax System (STS) a taxpayer can:
- a) Select a method for valuing stock and use that method for at least three years
 - b) Have a different value of stock at the beginning of the income year compared with the end of the previous income year
 - c) Change the method they use to value trading stock from year to year
 - d) Choose not to account for trading stock variations if the taxpayer estimates less than \$7,500 in a trading year

- Question 32** Peter has paid \$1,100 for a new refrigerator for his new home. How much GST did the retailer pay the manufacturer for the fridge?
- a) \$100
 - b) It can't be determined since we don't know how much the retailer paid for the fridge
 - c) \$110
 - d) Nil, since Peter, as the final user of the fridge, paid all the GST
- Question 33** Input taxed sales are those where:
- a) GST is only paid by the retailer, or final vendor of a good or service
 - b) A business has paid GST on goods or services it needs, but cannot then charge GST to its customers
 - c) The seller does not pay GST on goods or services it has purchased
 - d) The seller includes GST on the price of its goods or services, but the purchaser is not allowed to claim any credits
- Question 34** If an adjustment takes place and an invoice has already been issued, when must the adjustment be reflected?
- a) In the next financial year
 - b) By the end of the current tax year
 - c) In the next GST return
 - d) It does not need to be reflected once an adjustment note has been issued
- Question 35** A business is able to claim GST credits for which of the following sorts of purchases?
- I. Input taxed sales
 - II. GST free sales
 - III. GST items
- a) III
 - b) I
 - c) II and III
 - d) I and II

- Question 36** Taxi operators:
- a) Must register for GST only if turnover is half the statutory limit (currently \$50,000 for businesses)
 - b) Do not need to register for GST, irrespective of turnover
 - c) Must register for GST regardless of annual turnover
 - d) Must account for GST on a cash basis
- Question 37** The major change brought by the CGT regime was, for the first time, to deem:
- a) Some capital amounts as income
 - b) Some income amounts as capital
 - c) Some income amounts as being exempt from tax
 - d) Some capital amounts as being exempt from tax
- Question 38** CGT concessions apply so long as the asset has been held for:
- a) At least 18 months
 - b) At least 6 months
 - c) At least 12 months
 - d) At least 24 months
- Question 39** What is the maximum number of continuous years that a taxpayer may elect to treat a property as the main residence if it is NOT being used to generate income?
- a) 0 years
 - b) 6 years
 - c) Indefinitely
 - d) 10 years
- Question 40** When is a collectable exempt from CGT?
- a) If it was acquired for less than \$500
 - b) If it sold for less than \$500
 - c) If it acquired for more than \$500 but less than \$1,000
 - d) If it is sold for less than \$1,000

- Question 41** In order to be eligible to use the small business concessions a business must have:
- a) CGT assets owned by the taxpayer and any connected entities less than \$6 million in value
 - b) CGT assets in only his/her own name less than \$6 million in value
 - c) CGT assets owned by the taxpayer and any connected entities less than \$5 million in value
 - d) CGT assets in only his/her own name less than \$5 million in value
- Question 42** A client on a 30% marginal tax rate has been offered a fringe benefit by her employer where the employer pays her mortgage payments in exchange for a drop in salary. Should she take this offer up?
- a) Yes, as it will be more tax effective to make mortgage repayments out of pre tax income
 - b) Yes, since the FBT will be fully refunded by the ATO
 - c) This offer is not applicable, since employees under the highest marginal tax rate are not allowed to enter salary sacrifice agreements
 - d) No, as it will be more tax effective to make the mortgage payments out of post tax income
- Question 43** An employer pays his employee \$50,000 pa. He also contributes \$4,500 to the employee's superannuation under the standard Super Guarantee rules. This payment to the super fund is:
- a) An exempt fringe benefit
 - b) Not a fringe benefit
 - c) A rebatable fringe benefit
 - d) A reportable fringe benefit
- Question 44** Which of the following employer types are not liable for FBT (up to prescribed limits)?
- a) Public benevolent institutions
 - b) Trusts
 - c) Public companies
 - d) Private companies

- Question 45** An employee is relocating from Adelaide to Brisbane which will cost \$4,500 for furniture removals. The move is for employment reasons, as a new Brisbane office of the business is just about to open. The employer has agreed to pay the bill on behalf of the employee. What impact will there be, if any, on the GST payable to the removal company?
- a) The GST will need to be returned to the employer since the costs incurred are FBT exempt for the employee
 - b) The GST will still need to be paid by the employer, even though it is exempt from FBT
 - c) The GST will still need to be paid by the employer, and the benefit will also need to be grossed up for packaging and FBT purposes
 - d) The GST may be claimed as a rebate so long as the employer is a rebatable employer
- Question 46** Greta works for a major mining company earning \$58,000 pa. Purely from a net tax cost for Greta, which of the following are UNLIKELY to be worth salary packaging?
- I. Laptop computer
 - II. Child care at the employer's premises
 - III. Private school fee payments
 - IV. Salary sacrifice to superannuation
- a) III
 - b) I, II and IV
 - c) II and III
 - d) I and II
- Question 47** Julie purchases a vehicle for \$18,000 and uses it for both private and business purposes. She has travelled 9,000 kilometres in the vehicle for the full FBT year and has contributed \$700 towards the car costs. Using the statutory method calculate the taxable value of the car fringe benefit.
- a) \$1,280
 - b) \$1,850
 - c) \$3,600
 - d) \$3,980

- Question 48** Sandra and Peter are a married couple who also have a family trucking business operated via a partnership. Peter drives the truck six days a week and Sandra does one day a week bookkeeping for their business. Which of the following is likely to rouse the ATO's suspicions?
- I. Deductions claimed for the expenses incurred for the maintenance of the truck
 - II. Sandra and Peter equally sharing the income generated by the business
 - III. Sandra claims deductions for depreciation of office equipment purchased for the business
 - IV. Peter claims deductions for protective clothing purchased by the business
- a) II
 - b) III
 - c) III and IV
 - d) I, II, III and IV
- Question 49** Adam has shares in a successful bank. He has owned them for 14 years, reinvesting all the dividends into more shares in the company. His wife Rowena has a lower income. Of the strategies shown, which one might be appropriate from an income splitting perspective?
- a) Stop the dividend reinvestment and invest the dividends in Rowena's name
 - b) Stop the dividend reinvestment and invest the funds in a widely diversified investment, retained in Adam's name
 - c) Continue the dividend reinvestment, with Adam taking a loan out in his name, for a share fund investment purchased in Rowena's name
 - d) Continue the dividend reinvestment, and take out a joint loan for a share fund investment also in joint names
- Question 50** Yusuf is looking to borrow \$50,000 for an Australian share fund investment. The interest only loan will cost 8% pa, and he expects to receive 6% income from the investment. What tax deduction would Yusef receive?
- a) \$3,000
 - b) \$4,000
 - c) \$1,000
 - d) Nil

Marking Guide

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Module 1: Taxation Planning for Financial Advisers

Practice Exam

(2008/2009 Financial Year)

Question	Answer	Topic	Learning Outcome
Question 1	D	Topic 1	Explain the obligations and regulations that impact on financial planning in the area of taxation
Question 2	A	Topic 1	Outline the ethical considerations required of financial planners
Question 3	D	Topic 1	Provide an overview of the Australian Taxation Environment
Question 4	C	Topic 1	Explain the administration of the Australian Tax System, including the role of ATO rulings and determinations
Question 5	D	Topic 1	Understand how trusts are taxed
Question 6	D	Topic 1	Identify and define assessable, ordinary, statutory and exempt income
Question 7	C	Topic 1	Explain the concept and significance of income versus capital
Question 8	A	Topic 1	Calculate, discuss and identify issues for minors and taxation
Question 9	B	Topic 1	Discuss the Pay as You Go (PAYG) system
Question 10	C	Topic 2	Understand the residency status of taxpayers
Question 11	B	Topic 2	Explain how non-resident income is assessed
Question 12	B	Topic 2	Correctly calculate tax payable for an individual, with reference to the Medicare Levy, Medicare Levy Surcharge and the Higher Education Loan Programme
Question 13	C	Topic 2	Understand employee share schemes
Question 14	C	Topic 2	Understand types of dividend payments and the taxation implications
Question 15	C	Topic 2	Explain the taxation of employer termination payments
Question 16	C	Topic 2	Understand the tax implications of income generated from common financial planning products

Question 17	A	Topic 2	Understand individual and work related deductions
Question 18	A	Topic 2	List specific deductible expenses for individuals
Question 19	A	Topic 2	Understand and list the different types of tax offsets
Question 20	A	Topic 2	Calculate the different car expense methods to calculate a deduction
Question 21	C	Topic 2	Decide when as individual has earned PSI
Question 22	B	Topic 2	Discuss the consequence of an individual earning PSI other than through a personal services business
Question 23	C	Topic 3	Define the different types of small business structures and the applicable taxation
Question 24	A	Topic 3	Understand the different types of small business income
Question 25	D	Topic 3	Explain the administration required for small businesses
Question 26	C	Topic 3	Explain how tax losses are carried forward
Question 27	B	Topic 3	Discuss depreciation
Question 28	A	Topic 3	Explain how partnerships, companies and trusts are taxed
Question 29	D	Topic 3	Outline and explain the rules and regulations of the Simplified Tax System
Question 30	B	Topic 3	Identify the key elements of the STS and who is eligible
Question 31	C	Topic 3	Understand the simplified trading stock rules
Question 32	B	Topic 4	Identify the rules and implications of the GST
Question 33	B	Topic 4	Define GST and its associated terms

Question 34	C	Topic 4	Describe how a business needs to operate with GST and the administration applications
Question 35	A	Topic 4	Explain the action that a business needs to take to deal with taxable, GST-free and input-taxed supplies
Question 36	C	Topic 4	Discuss how GST affects particular industries
Question 37	A	Topic 5	Explain the rationale for taxing capital gains and the existence of preferential treatment of capital gains
Question 38	C	Topic 5	Outline the core provisions of CGT
Question 39	C	Topic 5	Calculate the capital gains and losses for common CGT events
Question 40	A	Topic 5	Explain the assets, receipts and transactions which are exempt from the CGT regime
Question 41	A	Topic 5	Outline the eligibility criteria for access to small business CGT concessions
Question 42	D	Topic 6	Apply the rules of fringe benefits tax and salary packaging to improve a client's taxation position
Question 43	B	Topic 6	Differentiate between salary, wages and fringe benefits
Question 44	A	Topic 6	State the FBT rules applicable to different types of employers
Question 45	B	Topic 6	Discuss the impact of GST on fringe benefits
Question 46	A	Topic 6	Identify when a benefit is more costly than salary and wages.
Question 47	D	Topic 6	Be able to demonstrate the benefits of salary packaging
Question 48	A	Topic 7	Describe the anti-avoidance provisions of Part IV A of the ITAA 1936
Question 49	A	Topic 7	Describe legal and appropriate methods of income splitting
Question 50	B	Topic 7	Explain the role of gearing in a tax effective portfolio