

# AUSTRALIA TAXATION – ADVANCED

## CPA PROGRAM SUBJECT OUTLINE – FIFTH Edition

Taxation is a key component of the overall skills base of today's professional accountant.

Business leaders appreciate that there are taxation implications that flow on from most business and investment decisions. A sound knowledge of Australian taxation law is essential to ensure quality input into the strategic decision-making process of a business, and to provide post-implementation taxation advice. Business structures may involve different types of entity or combinations of entities (such as individuals, partnerships, trusts and companies), and it is important to consider the taxation advantages and disadvantages of each of them.

This edition of the subject has been updated so that it explores some of the complex areas of taxation in greater detail. It is the extension of Australia Taxation and requires prior undergraduate-level learning in Australian taxation. The subject allows candidates to gain an advanced understanding of tax theory and policy, as well as the practical application of complex tax knowledge across core and specialist tax areas. This subject examines advanced tax issues including income tax law for a variety of business structures and investment entities; goods and services tax; international tax; and anti-tax avoidance regimes. It also considers the tax implications of complex business structures and corporate financing arrangements to equip candidates with the skills they need to advise their corporate clients. Completing the subject will generate a competitive advantage for candidates in professional tax advisory areas.

On completion of this subject, you should be able to:

- understand the principles of tax theory and explain how tax policies will impact on business decisions
- advise on the tax implications arising from various complex business structures, superannuation and associated investment decisions
- recommend an appropriate business or investment structure to achieve commercial and personal goals within the remit of Australian taxation law
- explain the tax consequences of various corporate financing arrangements
- apply advanced taxation knowledge in complex business areas at local and international levels, such as transactions involving complex goods and services tax (GST) law, cross-border tax issues and anti-tax avoidance.

The Australia Taxation - Advanced subject reflects legislation in place by 15 February 2018. Exam questions will be based upon the 2017–18 tax year.

## Exam structure

The Australia Taxation - Advanced exam consist of multiple-choice questions and extended response questions.

## Subject content

The "weighting" column in the following table provides an indication of the emphasis placed on each module in the exam, while the "proportion of study time" column is a guide for you to allocate your study time for each module.

Module	Recommended proportion of study time (%)	Weighting (%)	Recommended study schedule
1. Tax theory and tax policy and reform	3	3	Week 1
2. Trusts and trust distributions	13	13	Week 1, 2
3. Superannuation	11	11	Week 2, 3
4. Companies and company distributions	13	13	Week 3, 4
5. Consolidations	10	10	Week 5
6. Complex business structures	10	10	Week 6
7. Corporate financing	10	10	Week 7
8. International transactions and cross-border tax issues	12	12	Week 8, 9
9. Advanced GST issues	10	10	Week 9, 10
10. Anti-avoidance regimes	8	8	Week 10
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A brief outline of each module is provided below.

## Module 1: Tax theory and tax policy and reform

After completing this module, you should be able to:

- explain the principles of taxation and tax theory relevant to a tax regime
- determine how tax policies will impact on business decisions.

### Part A: Tax theory

- The principles of taxation and tax theory relevant to a tax regime
- Weighting the tax policy criteria
- Political considerations

### Part B: Tax policy

- Australian tax reviews
- Australia's tax system
- Income and capital taxes
- Domestic consumption and production taxes
- Tax-related social and economic policies
- International tax
- The effect of court decisions on tax law reform

## Module 2: Trusts and trust distributions

After completing this module, you should be able to:

- apply the taxation laws to calculate the net income or loss of a trust in a complex scenario
- determine the share of net income a beneficiary is entitled to and its tax implications on distribution in a complex scenario
- calculate the capital gain or capital loss based on CGT rules specific to trusts
- determine whether fixed and non-fixed trusts are entitled to carry forward trust losses.

### Part A: Income and expenditure

- Taxation of trusts and trust distributions
- Income versus net income of the trust estate
- Determining net income of the trust and tax implications on distribution
- Financing trust payments of capital or income distributions—deductibility of interest

### Part B: Beneficiaries and distributions

- Making distributions from the trust to beneficiaries
- Presently entitled
- Distributions to minors
- Corporate beneficiaries
- Deemed dividends
- Unpaid present entitlements
- Streaming of trust income
- Rateable reduction
- Deceased estates and testamentary trusts

### Part C: Capital gains tax-specific rules

- Capital gains tax 'E' events
- Capital gains tax event E4 in detail
- Tax consequences of the vesting or resettlement of a trust
- Trusts and the small business capital gains tax concessions

### Part D: Carry-forward trust losses

- Distinction between fixed and non-fixed trusts
- Trust loss tests for fixed and non-fixed trusts
- Family trusts **Error! Bookmark not defined.**

## Module 3: Superannuation

After completing this module, you should be able to:

- differentiate between different types of superannuation funds and their associated compliance requirements
- assess the effect of relevant superannuation and taxation rules which govern contributions to superannuation funds
- calculate the tax payable of a superannuation entity
- assess the effect of relevant superannuation and taxation rules which govern benefits derived from superannuation funds
- assess the impact of specific rules affecting Self-Managed Superannuation Fund investment.

### **Part A: Types of superannuation funds and compliance requirements**

- Legal basis for superannuation
- Complying versus non-complying funds
- Defined benefit versus accumulation funds
- Specific types of superannuation funds
- Taxed and untaxed funds
- MySuper funds
- Compliance requirements for superannuation funds

### **Part B: Taxation of contributions**

- Concessional contributions
- Non-concessional contributions
- Contribution age limits

### **Part C: Taxation within the superannuation fund**

- Contributions received by the superannuation fund
- Accumulation and income stream phases
- Taxation of superannuation fund investment earnings
- Deductions available to accumulation funds
- Taxation consequences of becoming a non-complying fund

### **Part D: Taxation of superannuation benefits**

- Conditions of release and authorised payments
- Taxation of lump sums
- Taxation of income streams
- Superannuation death benefits
- Maximising tax-free components

### **Part E: Self-managed superannuation funds**

- Establishing a self-managed superannuation fund
- Trustee responsibilities
- Taxation of self-managed superannuation funds
- Rules affecting self-managed superannuation funds
- Consequences of breaching the rules

## Module 4: Companies and company distributions

After completing this module, you should be able to:

- determine the taxable income and tax payable by a resident company in a complex situation
- apply CGT concessions, rollovers and reliefs to companies
- apply the rules of the imputation regime to maintain a franking account
- examine the tax implications for shareholders receiving distributions
- identify deemed dividends and their associated implications.

### Part A: Taxation of companies

- Introduction
- Calculation of taxable income
- Company tax rates
- Tax offsets
- Tax losses

### Part B: Specific incentives and concessions

- R&D tax incentive
- Early stage innovation companies

### Part C: Companies and CGT

- Introduction
- Small business CGT concessions
- Corporate restructure relief

### Part D: Advanced imputation issues

- Dividend imputation system
- Integrity rules
- Franking accounts
- Franking deficit tax
- Franking account tax return
- Effect of receiving a distribution

### Part E: Deemed dividends

- Introduction
- Division 7A
- Capital streaming arrangements
- Bonus share issues
- Redeemable preference shares
- Excessive remuneration
- Share buy-backs
- Distributions by liquidators

## Module 5: Consolidations

After completing this module, you should be able to:

- apply the eligibility criteria for a head company and a subsidiary member to form a consolidatable group;
- evaluate the tax and administrative implications of the single entity, entry history and exit history rules;
- calculate the ACA for a joining member and allocate that ACA over retained and reset cost base assets;
- determine whether each subsidiary's unused tax losses can be transferred to the group and how much of a transferred loss can be used by the group; and
- calculate an ACA for an existing member and allocate that ACA to the membership interests.

### Part A: Eligibility to consolidate

- Consolidatable group
- Head company
- Subsidiary member
- Factors affecting the decision to consolidate
- Comparison to accounting consolidation rules
- Multiple entry consolidated group

### Part B: Key consolidation rules

- Single entity rule
- Entry history rule
- Exit history rule
- Consolidated group's tax compliance
- Tax sharing agreements
- Pay-As-You-Go instalment payments
- Recognising franking credits and foreign income tax offsets
- Interaction of single entity rules with other income tax provisions

### Part C: Joining a consolidated group

- Calculating the allocable cost amount of the joining member
- Identifying assets eligible for allocation of allocable cost amount
- Allocating the allocable cost amount over a joining member's assets
- Capital gains tax events on entry
- Modification of the allocable cost amount tax cost setting rules

### Part D: Transfer and utilisation of losses

- Determining losses to be transferred
- Utilising transferred losses
- Modification of loss transfer and utilisation for a multiple entry consolidated group

### Part E: Exiting a consolidated group

- Resetting costs of membership interests in a subsidiary
- Calculating the allocable cost amount of the leaving entity

- Allocating the allocable cost amount to membership interests on exit

## Module 6: Complex business structures

After completing this module, you should be able to:

- assess the business and tax advantages and disadvantages of complex structures suitable for small business entities and their owners;
- analyse the complexities of multiple entity combinations involving companies and the associated tax opportunities;
- analyse the complexities of multiple entities in a partnership and the associated tax opportunities;
- analyse the complexities of multiple entity combinations involving trusts and the associated tax opportunities; and
- assess the relationship between complex business structuring, tax planning opportunities and tax avoidance risks.

### **Part A: Assessment of group business structure**

- Categories of business entity
- Commercial factors in selecting an entity
- Tax factors to consider when selecting entity
- Capital gains tax rollover relief
- Combination of multiple group entities

### **Part B: Multi-entity combination involving companies**

- Limitations of a company as sole entity
- Licensing intellectual property to a related entity
- Provision of administrative services by a service trust

### **Part C: Multi-entity combination involving partnerships**

- Limitations of a partnership as sole entity
- Partnership sets up a property-holding unit trust
- Partnership of discretionary trusts with corporate trustee and company manager
- Corporate limited partnerships

### **Part D: Multi-entity combination involving trusts**

- Limitations of a trust as sole entity
- Unrelated discretionary trusts set up a subsidiary unit trust
- Distributions to discretionary corporate beneficiaries
- Interaction with self-managed superannuation funds

### **Part E: Assessment of tax risks**

- Personal services income
- Part IVA

## Module 7: Corporate financing

After completing this module, you should be able to:

- explain how the debt and equity rules apply to companies;
- identify arrangements subject to the value shifting rules;
- apply the thin capitalisation rules to calculate allowable deductions; and
- identify the treatment of gains and losses arising from various financial arrangements.

### Part A: Debt and equity rules

- The test that identifies a debt interest
- Test that determines whether an interest is an equity interest
- Non-share equity interests and non-share capital account
- Tiebreaker rule

### Part B: Value shifting

- Entity interest direct value shifting rules
- Created rights direct value shifting rules
- Method used to make a reduction
- Indirect shifting rules

### Part C: Thin capitalisation

- Thinly capitalised entities
- Types of entities and control
- Non-authorized deposit-taking institution outward investing entities
- Non-authorized deposit-taking institution inward investing entities
- Authorized deposit-taking institution entities

### Part D: Financial arrangements and financial instruments

- Taxation of financial arrangements regime
- Outside taxation of financial arrangements regime
- Asset and project financing arrangements

## Module 8: International transactions and cross-border tax issues

After completing this module, you should be able to:

- apply foreign exchange rules to international transactions
- assess the key elements of Australia's transfer pricing legislative framework and the related compliance requirements
- evaluate the ATO's accepted methodologies in determining the arm's length consideration of an international related party dealing
- determine an entity's conduit foreign income
- explain the attribution rules to foreign income under the Controlled Foreign Company and transferor trust regimes

- calculate the foreign tax credit offset
- explain how double tax agreements act to mitigate the occurrence of double taxation and double tax avoidance.

### **Part A: Foreign exchange gains and losses**

- Conversion of foreign currency
- Functional currency
- Taxation treatment of foreign exchange gains and losses

### **Part B: Transfer Pricing**

- Legislative framework
- The arm's length principle
- Documentation and reporting
- Key compliance issues
- Applying the arm's length principle
- Accepted arm's length methodologies

### **Part C: Conduit Foreign Income**

- Background
- The meaning of conduit foreign income
- Distribution of conduit foreign income

### **Part D: Foreign income attribution**

- Background
- Controlled foreign companies
- Transferor trusts

### **Part E: Foreign income tax offsets**

- Entitlement to foreign income tax offset
- Calculation of foreign income tax offset

### **Part F: Double taxation agreements**

- Background
- Other anti-avoidance issues
- Structure of double tax agreements

## **Module 9: Advanced GST issues**

After completing this module, you should be able to:

- apply relevant GST rules in complex transactions
- determine input tax credits available relating to a financial supply
- apply relevant GST rules in cross-border transactions
- apply relevant GST rules to property transactions

- determine the GST net amount for the appropriate accounting period based on the attribution rules
- analyse how the GST anti-avoidance provisions apply to a particular arrangement.

### **Part A: GST Overview**

- Applying relevant GST rules in complex transactions

### **Part B: Input tax credits relating to a financial supply**

- Financial supplies
- Apportionment of financial supplies
- Creditable acquisitions

### **Part C: Cross-border transactions**

- Supplies connected with the indirect tax zone
- Export of goods and services
- Goods imported into the indirect tax zone
- Imports other than goods and real property

### **Part D: Property and special transactions**

- Real property margin scheme
- GST-free supply of a going concern
- Residential and commercial residential property
- Second-hand goods

### **Part E: Attribution rules**

- GST attribution rules
- Adjustment events

### **Part F: GST anti-avoidance provisions**

- General anti-avoidance rules

## **Module 10: Anti-avoidance regimes**

After completing this module, you should be able to:

- analyse how the general anti-avoidance provisions of Part IVA and relevant case law may be applied to a particular arrangement
- determine how the multinational tax avoidance rules may be applied to a particular arrangement
- describe the information gathering powers available to the ATO in its pursuit of cross border tax avoidance.

### **Part A: The application of the general anti-avoidance provisions of Part IVA**

- Tax evasion, avoidance and planning
- The general provisions of Part IVA
- Application to particular transactions and leading cases
- The role of advisers

## **Part B: The application of the multinational tax avoidance rules**

- Schemes that limit a taxable presence in Australia
- Diverted profits tax

## **Part C: Tax information exchange agreements and other ATO information gathering powers supporting multinational tax avoidance rules**

- Onshore investigative powers
- Offshore information notices
- Exchange of information articles in tax treaties
- Tax Information Exchange Agreements
- Multilateral conventions on exchange of information