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Deductions

Exam Notes

- *Expense*, deductible, s 8-1, incurred in producing assessable income, relates to income from: property/carrying on a business/employment
- Asset purchase price, not deductible, capital in nature, meets the negative limbs of section 8-1
- Food and groceries, not deductible, private and domestic expense, meets the negative limbs of section 8-1
- As the asset is a depreciating asset that is used to produce assessable income, it qualifies for capital allowances under Div 40 / The capital item will qualify for capital allowances as it is used to produce assessable income

Model Answers

<u>ASSET PURCHASES</u>

Purchase of Asset - Registered for GST

As Paul is registered for GST, he will be entitled to claim input tax credits on the purchase of the asset, to the extent that it is used for business purposes.

ITCs = $60,000 x 1/11 x 60% = $3,273

Then, Paul is entitled to a deduction for the decline in value of the asset based on the formula in s 40-72

$$= \text{Base value} \times \frac{\text{Days held}}{365} \times \frac{200\%}{\text{Asset's effective life}}$$

In the 2016-17 income year, the base value of the asset is its purchase price less the amount of GST input tax credits claimed back:

= $60,000 - $3,273

= $56,727

The decline in value will be:

= $56,727 x (30/365) x (2.00/6.25) = $1,492

The Div 40 capital allowances that may be claimed as a deduction = $1,492 x 60% = $895

Small Business Pool - Purchase of Asset & Subsequent Sale

2015-2016 income year

As the business is registered for GST, Owen will be able to claim back input tax credits on the acquisition of the asset:

= $40,000 x 1/11 = $3,636

Therefore, Owen was out of pocket as follows when he purchased the asset:

= $40,000 - $3,636

= $36,364

As Owen has an existing SBE pool, it is worth considering whether the value of the pool is below $20,000 and would qualify for an immediate write-off. To do this, the following calculation is performed:

Opening Balance	$30,000
Plus taxable use % value of new assets added	$36,364
Less taxable use % value of termination value of assets sold	$0
=	**$66,364**

As the answer is >$20,000, the accelerated write-off provisions for the entire pool will not apply.

- Owen qualifies for capital allowances on the opening balance of his SBE pool as follows under Dib 328: $30,000 x 30% = $9,000. The $9,000 is a deduction | Div 328
- As the asset cost at least $20,000, Owen cannot claim an immediate deduction for this asset under Div 328. Owen will add the asset to his small business pool. He will be able to claim capital allowances of $36,364 x 15% = $5,455 under Division 328 in his 2015-16 income year
- The closing value of his pool at the end of the 2015-16 income year is = $30,000 - $9,000 + $36,364 - $5,455 = $51,909

2016-2017 income year

As Owen's business is registered for GST, he needs to include GST in the selling price when he sells the asset and he needs to include the amount in his BAS and pay the amount over to the ATO. The amount of the GST is
= $14,000 x 1/11 = $1,273

Therefore, the net amount from the sale of the asset is:
= $14,000 - $1,273
= $12,727

- As Owen has an existing SBE pool, it is worth considering whether the value of the pool is below $20,000 and would qualify for an immediate write off. To do this, the following calculation is performed:
    - Opening Balance $51,909
    - Plus taxable use % value of new assets added $0
    - Less taxable use % value of termination value of assets sold $12,727
    - = **$39,182**
- As the answer is >$20,000, the accelerated write off provisions for the entire pool will not be available
- Therefore, Div 328 capital allowances for the 2016-2017 income is based on the opening value of the pool and may be claimed as follows: $51,909 x 30% = $15,573
- The closing value of the pool at the end of the 2016-2017 income year is = $51,909 - $15,573 - $12,727 = $23,609

<u>BALANCING ADJUSTMENT CALCULATIONS (REMEMBER TO ADJUST FOR PRIVATE USE IF APPLICABLE)</u>

Company

- The balancing adjustment calculation is calculated by comparing the termination value to the adjustable value
- Termination value = $80,000
- Adjustable value = $250,000 - $120,000 = $130,000
- Therefore, as the termination value is less than the adjustable value, the balancing adjustment is a loss of $50,000, which is deductible under section 40-285(2)

Employee where car value exceeds the car limit | Log book (40%)

- Adjustable value = $57,581 (capped by the car limit) - Div 40 allowances claimed $5,975 = $51,606
- Termination value = $85,000 x (car limit of $57,581)/(original cost of $90,000) = $54,382
- Balancing adjustment = termination value less adjustable value, section 40-285(1) = $54,382 - $51,606 = **$2,776**
- Assessable amount, section 40-290 = $2,776 x 40% = **$1,110**

Sole Proprietor - Private Use

- Div 40 capital allowances for the income year = $2,500/3 x 184/365 = $420
- As Casey uses the laptop computer 20% of the time for private purposes, he is entitled to claim: $420 x 80% = $336
- When he sells the laptop, a balancing adjustment arises under section 40-285
    - Termination value = $800
    - Adjustable Value = $3,500 - $420 - $2,500/3 x 366/365 = $1,244
    - Therefore, Casey is entitled to a deduction that reflects the business use percentage of the laptop computer under section 40-285(2) =(1,244 - 800) x 80% = $355
- As the laptop is used 20% of the time for business purposes, the sale will result in CGT consequences as follows:
    - Proceeds = $800
    - Cost base of asset = $2,500
    - Resulting in a loss of $1,700 x 20% private use = $340

<u>REPAIRS EXPENSES (s25-10)</u>

1. <u>Bushfire damaged fence - mending & replacing damaged parts vs replacing entire fence</u>
    - Mr Fermier is entitled to claim a deduction for the cost of repairing his fencing under section 25-10. The entirety is the total fencing, so replacing the fencing on the northern boundary is a replacement of a subsidiary part of the whole fencing
    - Mr Agricola’s expenditure is not deductible under section 25-10 because the whole fencing was replaced, making it a reconstruction of the entirety. The total fencing is not a subsidiary part of the rural property or of anything else. To replace the entire fencing with new fencing is to replace one capital asset with