

Learning Assessment Guide

Unit Standard 11628 – Version 4

Explain and apply concepts of taxation

Level 5 – 20 Credits

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| Assessment Summary | | | |
| Learner to complete | | | |
| Learner's name: | | | |
| Employer: | | | |
| NSN no. (ROL): | | DOB: | |
| Signed: | | Date: | |
| Assessor to complete | | | |
| <input type="checkbox"/> Meets requirements <input type="checkbox"/> More training required <input type="checkbox"/> More evidence required | | | |
| Assessor's name: | | Assessor's No. | |
| Signed: | | Date: | |

Before you begin...

- As well as this Learning Assessment Guide, you may also want to refer to the unit standard from the NZQA website (<http://www.nzqa.govt.nz>).
- Read the Trainee Information Kit. The kit contains important information and guidelines for Learners and can be found on the Learning State website (<http://www.learningstate.govt.nz>) under Learners, then Learning Assessment Guides.
- Check the learning resources available for this unit standard on the Learning State website (<http://www.learningstate.govt.nz>) under Learners, then Learning Assessment Guides.

This Learning Assessment Guide is made up of:

- Case studies which relevant to the fundamental concept of taxation;
- Questions that are designed to test your competency related to the ability of explaining and applying concepts of taxation.

The tasks in this assessment are designed to show your assessor that you can:

- Determine taxation compliance requirements;
- Explain the tax implications of a range of activities;
- Calculate and determine tax liability;
- Prepare tax return for a range activities.

Assessment Task One – Element 1

The questions in task one are designed to address the learner's abilities to:

- Determine tax residency for different legal persons;
- Determine allowable deduction for difference business entities;
- Calculate annual gross income for different business entities;

Introduction

If you have workplace evidence of your ability in the areas addressed by assessment task one you may submit examples of your work to your assessor in place of completion of the questions in assessment task one. Please contact your assessor if you intend to submit workplace evidence to make arrangements for the submission. Your assessor is likely to wish to discuss your evidence with you. Your assessor may require verification from your manager that you were responsible for completing the work.

Case study one

Individual residency

Kimberly Wills is an experienced auditor working for a multinational accounting firm in New Zealand. She is a busy person with lots of audit assignments and she has been frequently seconded to other countries for a few months to complete different audit assignments. She lives with her husband and has a family in New Zealand with two lovely children at school age. They bought a house in a suburb of Wellington several years ago. Her husband helps with caring of children while she is way on secondment. On 20 April, 2005, she left New Zealand for an audit assignment in Australia for 92 days. She returned to New Zealand later in the year to visit her family for 4 weeks holiday and then she was seconded again to the Netherlands for another 4 months. The family has been through a period of stress due to her constant absence from New Zealand. She finally separated with her husband at the end of this year, and her husband has taken over the custody of the two children. Their family home was temporarily rent out before a final buyer is found. She has moved to Netherlands for two years working for the Netherlands branch of the accounting firm. During her time in the Netherlands, she has kept a New Zealand bank account for the purpose of child support payment. Other than that, she has no further contact with her family.

Learners are required to:

1. Explain the tax implication if Kimberly is a resident for income tax purposes, hint: please refer the concept of residency under the New Zealand Tax rules;
2. Explain whether you believe Kimberly was a resident in New Zealand prior to and after her separation with her husband for income tax purposes (in your answer, please ignore any impact of New Zealand / Netherlands or New Zealand / Australia DTAs).

Case study two*Company residency*

Pacific Construction Ltd is a property development company, which was incorporated in Fiji. It is in the business of developing large-scale tourist attraction in Fiji. Ian Wilson, a 60 –year old Kiwi entrepreneur who incorporated this company back in 1995. Ian has a family in New Zealand; he spends most of his time in New Zealand and only fly to Fiji for business negotiations or board meetings. A Fijian Company called FJCO, which also have a director of Pacific Construction Ltd, carried out the day-to-day administrative management and accounting functions of the company. Later in the year, Ian decided to have an early retirement and have his nephew John to take over the business. John is an Australian citizen and he looks after the business one behalf of Ian Wilson. John does not come to NZ often and only comes over one a year to celebrate Christmas with relatives in New Zealand.

Learners are required to:

1. Explain current tests used in the determination of company residency for tax purpose;
2. Explain whether you believe Pacific Construction Ltd was a New Zealand resident company?

Case study three

Determination of allowable deductions, dividend imputation, resident withholding tax, fringe benefit tax (FBT), Goods and Services Tax (GST)

Tony Atkins, a NZ resident operates a plumbing partnership with his wife Teresa. The partnership employs two other apprenticeship plumbers. The partnership was established in September 2005. Tony and Teresa was not sure about the possible annual turn over in deciding whether the business should be GST registered. However, they both believe that the business will exceed the \$40,000 threshold based on the business revenue of other plumbing business with similar scales. The partnership owns a van that was predominately used by the business. However, the van is often being used during weekends for family gatherings or activities. Tony's wife, Teresa works in the office for half a day performing duties such as receiving phone enquiries and regular GST returns. She is paid a salary of \$49,000 per annum while Tony is paid a salary of \$55,000 per annum. Due to the expansion of the partnership business, Teresa provided a loan to the partnership for the business expansion at the interest rate of 5% per annum. The partnership pays quarterly interests to Teresa.

Both Teresa and Tony believe that a successful business rely on harmonious working relationship with the employees. There is a rest room in the business premises where an audio entertainment set was provided for employee during morning and afternoon tea for their enjoyment. Teresa arranges to have local movie land to provide free-movie passes to their workers and families. Apart from the van, the partnership also owns a four wheel drive. The workers were also told that the four-wheel drive will be available for them if they wish to take their family for a holiday during Christmas. Tony and Teresa often use the vehicle when they go to Taupo to visit their elderly parents with their kids during school holidays. The vehicle, however, has never been used by any of the two employees. Tony is also the shareholder of the Warehouse Ltd. Assume that the Warehouse Ltd pay out regular dividend, Tony was worried about whether he has to pay tax on the dividend received. Except the partnership business, Tony and Teresa also run a small-scale dairy farm that was managed by Steve, an experienced dairy farmer. Steve is provided with free accommodation (a farm house), and pays him an annual salary of \$40,000 per annum.

Learners are required to:

1. Explain the tax implication regarding the issue of the deductibility of partnership salary payment, especially the IRD rules governing partnership remuneration;
2. Deductibility of the interest paid on the loan from Teresa;
3. Explain the tax implication on the issues relating to the free movie passes; the availability of the four wheel drive for staff of the partnership; audio entertainment set for the enjoyment of employee; the farm house which is provided to Steve for free;
4. Advice to Tony on the tax implication regarding the dividend payment from the Warehouse Ltd;
5. Explain the tax compliance issues regarding the interest income received by Teresa;
6. Explain tax compliance issue with regard to whether the partnership should or should not be registered for GST, and you are also required to point out the determination of GST in terms of the use of partnership vehicles.

Case study four

PAYE tax returns

Susannah is an accountant working for Collins Accountants and is paid monthly. Fred looks after the payroll at Collins Accountants and deducts PAYE from Susannah's income prior to her receiving her salary payments each month. Susannah is on an annual salary of \$55,000 and makes no student loan or child support payments. The applicable tax rate is 19.5% for the income to a maximum of \$38,000, then 33% for income to a maximum of \$60,000. Any income over \$60,000 is taxed at 39%.

Learners are required to:

Calculate Susannah's PAYE expense for one month.

Assessment Task Two – Element 2

The questions in task two are designed to address the learner's abilities to:

- Complete tax returns comply with statutory requirements

Introduction

If you have workplace evidence of your ability in the areas addressed by assessment task two you may submit examples of your work to your assessor in place of completion of the questions in assessment task two. Please contact your assessor if you intend to submit workplace evidence to make arrangements for the submission. Your assessor is likely to wish to discuss your evidence with you. Your assessor may require verification from your manager that you were responsible for completing the work.

Case study one

Individual tax returns:

Derek is an experienced machinery mechanic and he works as an independent contractor providing mechanical services to local businesses and residents after 20 years of employment with Technic Lab Ltd. He has recently purchased workshop as his new business premises, which is situated on one acre of land. The value of the land is \$80,000 whereas the value of the building is \$30,000. The legal cost associated with the purchase of the premises is \$2600. Derek also spent \$5,000 for the re-engineering a piece of equipment before moving into the new premises. The function of the equipment has largely improved after the re-engineering. Furthermore, \$600 is spent on repairing of some of the essential tools that Derek frequently uses for his business operation. Derek works very hard for the business. However, a loss of \$10,000 is made during the first year of his operation. The business situation has improved in the current income year, as the total annual turnover for the business is \$70,000. The total ACC levies of \$1365 is payable for this income year. Furthermore, he has also received Interest and dividend income of \$2500 for this income year. The administrative expenses for the business are \$4500, resident withholding tax of \$500 is deducted at source. Provisional tax of \$6000 is paid prior for the current income year.

Derek owns a van that he frequently uses for business and personal activities. However he did not have any adequate record as to the details of distance travelled by the business and family activities respectively. The van was purchased at the beginning of his business for a cost of \$30,000. The depreciation on the van is 20% DV. The running costs of the van are \$5000 per annum. Derek has a 16 - year old son, John, who works in a local bike shop regularly after school hours. John is paid \$10.00 per hour and he has worked for a total of 100 hours in the bike shop during the current income year. John has also received \$100 interest income from his savings for this financial year. Derek made a donation of \$100 to New Zealand Red Cross in this income year.

Learners are required to:

1. Calculate Derek's income tax liability for the current income year, you are also required to explain with reasons on how the amount of tax liability is determined (assume building is depreciated at 30% per annum DV), you can ignore the effect of imputation for the purpose of this question.
2. Calculate John's child tax rebate for the current income year.

Case study two

Close company tax returns:

Jack Kennedy, a NZ resident, is one of the shareholders of Kennedy Co., Ltd. Jack's father has established the company 10 years ago as a small merchandising firm employing 6 people including Jack. The company's total turnover during this financial year is \$150,000. The company owns the business premises. The cost of \$2000 is incurred during this financial year to compartmentalise the building to allow more office place. Jack bought all the material on special from one local building supplier. The business premise also stores a transformer, which is only used as a back-up for the operation of some electrical appliances; the cost of the transformer is \$10,000. The company also own three vehicles for the transportation or delivery of goods. One of the vehicles is frequently used by Jack to transport his children to and from school during school terms. Jack's father, although no longer engage in the day-to-day management of company operations, still holds 50% of the company shares. Jack's father has been appointed as the non-executive director of the company. He however still maintained the long-term enjoyment or use of a beach property owned by the company. In the middle of this financial year, the company declared a fully imputed dividend of \$6700. Jack received 50% and another 50% of the distribution was paid to his father. Jack's oldest son Ray works at the company as a junior salesperson after school only. He was paid a salary of \$34,000 per annum.

Learners are required to comment on the following statement, you need to first state that whether you agree or disagree with the statement and provide relevant explanations to support your opinions:

1. Jack may be subject to FBT for the use of company's vehicle for private purposes;
2. The supply of the beach house for Jack's father is liable for FBT as the benefit is provided on a non-cash basis;
3. The approval from the Commissioner is required before salary of Ray be treated as allowable deductions;
4. Will depreciation be allowed on the costs of transformer?
5. The material costs associated with the compartmentalisation of the business premises are deductible.
6. Explain how an imputation credit account works when dividend is distributed.

Assessment Results

These are the judgements that your assessor will use to assess you.

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| Does the learner understand tax residency for different legal persons? | Yes | No |
| Does the learner understand allowable deductions for difference types of entities? | Yes | No |
| Can the learner calculate gross annual income for a range of entities, including individuals and close companies? | Yes | No |
| Do the learner's answers show an ability to prepare tax returns in compliance with statutory requirements? | Yes | No |