

REPORT

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The salary that has been earned from online transaction done away from the soil of Australia is not considered an income in Australia. It is not an asset per se within the definition and contemplation the Income Tax Assessment Act 1997 that has allowed for the half the value of the assets used for capital or mostly investment purposes be exempted. This would therefore mean that the total realizable capital gain for Peter Barton this year would be different if the transaction involved website profits. This is more of a consumption item and not an asset though it is expected to last for more than a year. <sup>1</sup>

The profit from the website will be subject of the exemption of the tax to the tune of half the normal rate and thus the total capital gain for Peter Barton will be different for the year. Though all the other calculations will be applicable to it so as to attain the total taxable income just like is the case for a capital asset.

Generally, the taxation process is the resultants that are gained from the benefits of anything. Therefore, there is a need to understand the exact and actual meaning of the tax fringe benefits which many scholars had given in their own point of view depending on the situation of many of the cases. The term fringe benefit is the amount that is gained from the salary of a person, and this amount is said to be an extra benefit. This term of fringe benefit can be described by some examples of a company like its living away from home allowances or its particular insurance policies or the meals of the company (Money control, 2016). These benefits in some instances can be described as the amount that is being to the employee from an employer which is also in any terms very much exempted from the laws and rules of the conditions of taxes. But in some instances also there are some fringe benefits which can also be said to be applicable for the taxes. Also if there will be any application of the taxes for the fringe benefits, then there will have the fair amount of market value of any product or the services in the annual calculation.

The same thing or the concept of fringe benefits, in other words, can be said to be as the payment to the employees from his or employer which also includes the amount for the families and the

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<sup>1</sup>Burkhauser, R.V., Hahn, M.H. and Wilkins, R., 2015. Measuring top incomes using tax record data: A cautionary tale from Australia. *The Journal of Economic Inequality*, 13(2), pp.181-205.

other associates of the employee(The Economic Times, 2016). The employee's salary has the addition of the amount of the fringe benefits including in their packages, where it is also said that the fringe taxes are mostly the separated value from the tax amount which is again is calculated depending upon the exact value of the benefit provided. The Australian government had made a list of fringe benefits which contains the car fringe benefits, car parking fringe benefits, expense payment fringe benefits, loan fringe benefits, debt waiver fringe benefits, housing fringe benefits, board fringe benefits, living away from home allowance fringe benefits, property fringe benefits, and residual fringe benefits. <sup>2</sup>

The process of living away from the house is generally said to be as LAFHA which includes the allowances. This amount of fringe benefit is given by the employer to the employee because of any reason that the employee in intended to live away from his or her home or normal residence which are beyond the duty of the employee (The Economic Times, 2016).

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<sup>2</sup>McGee, R.W., Devos, K. and Benk, S., 2016. Attitudes towards tax evasion in Turkey and Australia: A comparative study. *Social Sciences*, 5(1), p.10.

According to the Australian law on taxation that is generally governed by the Income Tax Assessment Act 1997 capital gains enjoy the least of taxation rates. There has been quite a number of arguments as to why this is the case. Before the various arguments are stated is crucial to first define what capital gains are. Capital gains are those profits or income that is realizable after an asset has been disposed mostly by way of sell.<sup>3</sup>

In Australia and just like many other jurisdictions capital gains are taxed lowly for a number of reasons. It has been argued that one of the reasons why this is the case is because capital gains accrues from risky assets. Thus taxing them will have an effect of deterring risk taking and such a thing will not be very healthy for the economy because it is from such risk takings that people invest and help the economy to grow (Burman, 2010). Another argument has been that these capital are often eroded by inflation. Things like shares and unit trusts will keep on fluctuating in an unpredictable manner. Thus it will not be all an easy task to be able to determine what base to use for purposes of taxation. (Brown, 1983). Gains from the Company shares and sometimes unit trusts are normally realized after the companies are taxed at the corporate level, thus taxing them at the individual level will amount to double taxation which is seen to unfair. However, critics have always insisted on the fact that this less taxation of the capital gains is unfair since it makes the people earning more money to pay less taxes (Thomas, 1996).<sup>4</sup>

To answer this question thus, regard will be hard to the number and the kind of transactions that Peter Barton has engaged himself which includes profit from website. It is noteworthy that for purposes of taxation, capital gains are realized upon the sale of the asset or assets in question. Thus the difference in the selling price and the buying price which is of course as a result of maybe the value added to the asset is what is used for taxation.

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<sup>3</sup>Deutsch, R.L., 2014. Australian Tax Handbook 2006.

<sup>4</sup>Saad, N., 2014. Tax knowledge, tax complexity and tax compliance: Taxpayers' view. *Procedia-Social and Behavioral Sciences*, 109, pp.1069-1075.

Note should be taken with regard to the fact that those improvements Peter Barton has done on the home he bought will be factored in while computing or calculating the net capital gain or even loss for purposes of taxing him as it is required by the necessary Australian laws and other regulations. Consequently, as such one should be aware of the Australian laws that govern the issue of taxation specifically the Income Tax Assessment Act of 1997.

The table below shows the calculation of net capital gain for Peter Barton in a tabular form.

<b>Table showing calculation of Peter Barton's Capital Gain.</b>			
	<b>Particulars</b>	<b>Value (\$)</b>	<b>Total Value (\$)</b>
Plus:	Profit from website	800,000.00	
Minus:	Tax Liabilities	100,000.00	
			700,000.00
Minus:	Aggregated legal fee (1100 + 1000)	2100.00	697900.00
Plus:	Initial cost of garage (1990)	20,000	717900.00
Minus:	Value of salary after indexation (Current year)  20000*123.4/71.3	34,614.30	683,285.70
Minus:	Expenses for paying commission for the Agent	9900.00)	673,385.70

Minus:	Stamp duty paid upon acquisition	(2000.00)	671,385.70
Minus:	Last years' capital loss	(10,000.00)	
Aggregated capital gain			661,385.70
Minus:	Half discount on usage of property for more than a year (50%)	(330692.85)	
AGGREGATE CAPITAL GAIN			330692.85

As the table above shows, to calculate the total capital gain of an individual one has to factor in all the transactions that occurs from the time they bought or acquired the asset to the time they dispose of it and even that which happens right at the time of disposing it.<sup>5</sup>

In Australia half discount of the total capital gain is exempted or given to the capital assets owners when they hold a house for more than a year that is for 12 calendar months. This is mostly done to encourage the buying and keeping of these capital assets as they are so crucial in boosting the economy of a country (Burman, 2010). This would mean that since the highest tax rate payable is 46.5% which includes a 1.5% medical care levy, the rate at which one who makes or acquires a capital gain will be taxed is 23.25% (Burman, 2010). Thus when we got the total capital gain for Peter Barton to be \$ 661385.70 that had to be subjected to a 23.25% tax rate to be able to get the total amount of capital gain for Peter Barton in this current year.

The cost basis method has the statutory formula in the absence of the election.

In the absence of an election to use the cost basis method (and further information), the statutory formula method is used:

$$\text{Taxable value} = (0.2 * \$33,000 \times 330/365) = \$5,967$$

For any instances, Barton has been reimbursed for all of his expenses.

This benefit is a fringe benefit of expense payment which is exempted under FBTA, s 53.

- Loan of \$500,000

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<sup>5</sup>Woellner, R., Barkoczy, S., Murphy, S., Evans, C. and Pinto, D., 2016. Australian Taxation Law 2016. *OUP Catalogue*.

Approval of loan can be said to have the fringe benefit of loan: FBTAA, Div 4

Taxable value =  $\$500,000 \times (5.95\% - 4.45\%) \times (212/365) = \$4,356$

N.B.: As Barton had not used the loan amount in any of the assessable income therefore the deductible rule is not applicable.

There is a reduction in the taxable amount by \$1,300 for recipient's contribution to \$650.

After determining the taxable amount of all the benefits, the determination of whether the fringe benefit is a Type 1 or Type 2 fringe benefit is necessary.

Fringe benefits taxable amount =  $(\$5,967 \times 2.0802) + (\$4,356 \times 1.8868) = \$12,413 + \$8,219 = \$20,632$ .

Liability of Fringe benefits tax =  $47\% \times \$20,632 = \$9,697$

If Barton would have been earned the profit from website by himself, then he would have been definitely deprived of the profits and benefits that he got from the taking the loan as her interest rate was also decreased also with a decrease in the taxable amount. This decrease of the taxable amount is the deductible rule for the employee according to the Act of the fringe benefits.



## *Conclusion*

In this instance of the case, it is said that the company has given the fringe benefit taxes due to a number of benefits they have given to Barton, which Barton has received in accordance with his beneficial services for the company (Business, 2016). There is very effort in the employee's work process, and it will get best when to get motivated regularly, therefore the reduction a number of rates in the FBT makes the employee's motivation level high resulting into a good organizational environment. But if the amount of FBT will not be reduced then the employees will get demotivated and demoralized getting very lower response towards the assigned work (Ato.gov, 2016). Due to this process, there will be an effect on the country's economy as the amount of production is similar to the amount of motivation of the employees which says that the fringe benefits can be helpful in getting the motivation of employees and their interests making them active. The income tax liability of Barton has been calculated for the given scenario and has been found that there would be some tax liability for him, even though the income that has been obtained by him has been earned from the soil away from home.

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