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# ***Completing an income tax return using the Tax Value Method: a practical example***

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## **STATUS OF THIS DOCUMENT**

1. Shaddick & Spence prepared the following income tax return using the Tax Value Method (TVM) for a Taxation Institute of Australia workshop on the TVM that was held on 31 March 2000.
2. This document has not been endorsed by the Treasurer or any other Minister, nor does it reflect the official views of the Treasury, the Australian Taxation Office, the Office of the Parliamentary Counsel or the Board of Taxation. Further, it does not reflect the official views of either Shaddick & Spence or the Taxation Institute of Australia.

## **Work in progress**

3. This worked example of a tax return using the TVM is work in progress. It is not being put forward as the final product or even as what the final product would look like. Significant additions and deletions may be made to this document.
4. It is important to recognise also that in developing the TVM legislative framework it has been necessary, in some circumstances, to make assumptions about the taxation treatment of particular transactions. As with the structure of the legislation itself, those assumptions may be subject to change with further consideration of the issues, and should be regarded as in no way prejudicing any future consideration the Government may give to the relevant issues.
5. Further drafts of prepared income tax returns using the TVM may be released on this website as and when they are developed.

## **Comments Welcome**

6. Comments on this draft worked example of an income tax return using the TVM are welcome. Comments in writing should be addressed to:

The Board of Taxation  
C/- The Treasury  
Langton Crescent  
PARKES ACT 2600

7. Alternatively, comments can be e-mailed to the Board of Taxation Secretariat through this website.

## WORKSHOP QUESTION 1

Prepare a calculation of taxable income under the Tax Value Method from the following information.

### Profit and Loss Statement for Year Ended 30 June 2002

	\$	\$	\$
Sales revenue (See Note 1)			65,300
Expenditure (See Note 2)		58,100	
Depreciation		1,200	
Goodwill amortisation		230	
Provision for doubtful debts		1	
Employee entitlements			
- current	150		
- non-current	<u>-10</u>	140	
Other liabilities/provisions			
- current	200		
- non-current	<u>10</u>	210	
Reduction in prepayments		<u>25</u>	<u>59,906</u>
Increase in stocks			5,394
<b>Accounting Profit before tax</b>			<u><u>1,000</u></u> <u><u>6,394</u></u>

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#### Memorandum information (for reconciliation purposes)

Note 1		\$
Sales revenue		
Sales receipts		65,000
Increase in trade debtors		100
Increase in inter group trade accounts		<u>200</u>
		<u><u>65,300</u></u>
Note 2		\$
Expenditure		
Cash costs		57,000
Increase in trade creditors		500
Increase in inter group trade accounts		<u>600</u>
		<u><u>58,100</u></u>

## WORKSHOP QUESTION 1

### BALANCE SHEET

	<b>30 June 2002</b>	<b>30 June 2001</b>
	<b>\$</b>	<b>\$</b>
<b>Shareholders Funds</b>		
Issued Capital	21,500	20,000
Retained earnings + profit before tax	8,894	
Retained Earnings		<u>2,500</u>
<b>Total Shareholders' Funds</b>	<b><u>30,394</u></b>	<b><u>22,500</u></b>
<b>Non-current Liabilities</b>		
Provision for Employee Entitlements	50	60
Other Liabilities/Other Provisions	50	40
Provisions for Income Tax	1,191	1,191
<b>Current Liabilities</b>		
Bank Overdrafts	600	700
Trade Creditors	5,300	4,700
Trade Bills Payable	100	110
Inter-Group Trade Accounts	3,500	3,000
Provision for Employee Entitlements	1,400	1,250
Other Liabilities/Other Provisions	1,700	1,500
Other Creditors	50	0
Provisions for Income Tax	0	1,400
Proposed Dividend	0	<u>1,500</u>
<b>Total Liabilities &amp; Equity</b>	<b><u>44,335</u></b>	<b><u>37,951</u></b>
<b>Goodwill</b>	4,170	4,200
<b>Fixed Assets</b>		
Land and Buildings	2,100	2,000
Plant	7,750	7,500
Buildings & Plant Under Construction	500	260
<b>Current Assets</b>		
Stock on Hand	11,000	10,000
Trade Debtors	7,000	6,800
Provision for Doubtful Debts	(101)	(100)
Inter-Group Trade Accounts	4,100	4,000
Other Debtors	250	250
Cash on Deposit	5,000	0
Cash at Bank	2,216	2,666
Prepayments	<u>350</u>	<u>375</u>
<b>Total Assets</b>	<b><u>44,335</u></b>	<b><u>37,951</u></b>

## WORKSHOP QUESTION 1

### Notes Accompanying Balance Sheet

		\$
<b>1. Retained Earnings + profit before tax</b>		
Opening balance		2,500
Profit before tax	per P&L	<u>6,394</u>
Closing balance		<u>8,894</u>
<b>2. Fixed Assets</b>		
Land and buildings		
Opening balance		2,000
Additions		<u>120</u>
		2,120
Depreciation		<u>20</u>
Closing balance		<u>2,100</u>
Plant		
Opening balance		7,500
Additions - cash	1,380	
- creditors	<u>50</u>	
		<u>1,430</u>
		8,930
Depreciation		<u>1,180</u>
Closing balance		<u>7,750</u>
Buildings and plant under construction		
Opening balance		260
Additions		<u>240</u>
Closing balance		<u>500</u>
<b>3. Goodwill</b>		
Cost		4,600
Accumulated amortisation to beginning of year		<u>400</u>
Opening balance		4,200
Acquired during year		200
Amortisation		<u>230</u>
Closing balance		<u>4,170</u>
<b>4. Issued Capital</b>		
Opening balance		20,000
Increase		<u>1,500</u>
Closing balance		<u>21,500</u>

## WORKSHOP QUESTION 1

### Cash Flow Statement

	\$	\$	\$
Sales receipts			65,000
Issued capital			<u>1,500</u>
			66,500
Cash costs		57,000	
Purchase of assets	1,500		
Assets under construction	240		
Goodwill acquired	<u>200</u>	1,940	
Repayment of trade bills	10		
Dividends paid	1,500		
Taxation paid	<u>1,400</u>	<u>2,910</u>	<u>61,850</u>
<b>Cash generated</b>			4,650
<b>Overdraft</b>			
- Opening balance		700	
- Closing balance		<u>600</u>	<u>100</u>
<b>Increase in cash</b>			4,550
Opening balance			<u>2,666</u>
			7,216
Cash on deposit			<u>5,000</u>
<b>Cash at bank</b>			<u>2,216</u>

### Other Information

<b>Movements in Provisions</b>	Provisions for employee entitlements current	Provision for employee entitlements non-current	Other liabilities/ provisions current	Other liabilities/ provisions non-current
<b>Book values</b>				
Opening balance	1,250	60	1,500	40
Profit and Loss	150	-10	200	10
Amounts paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Closing balance	<u>1,400</u>	<u>50</u>	<u>1,700</u>	<u>50</u>
<b>Tax values</b>				
Opening balance	0	0	200	0
Movement	0	0	50	0
Amounts paid	0	0	0	0
Closing balance	<b>0</b>	<b>0</b>	<b>250</b>	<b>0</b>

## WORKSHOP QUESTION 1

### Other Information

#### Depreciation

		<b>Tax Values \$</b>
Land and buildings		
Opening balance		1,900
Additions		<u>120</u>
		2,020
Depreciation		<u>5</u>
Closing balance		<u>2015</u>
Plant		
Opening balance		5,600
Additions - cash	1,380	
- creditors	<u>50</u>	<u>1,430</u>
		7,030
Depreciation		<u>1,495</u>
Closing balance		<u>5,535</u>
Buildings and plant under construction		
Opening balance		260
Additions		<u>240</u>
Closing balance		<u>500</u>
<b>Deductible/Non Deductible Items</b>		<b>\$</b>
Research & Development		175
Entertainment		(53)
Subscriptions		(10)
Legal Expenses		(75)

## WORKSHOP QUESTION 1

### Answer

#### Taxable Income

	\$	\$
<b>Profit before tax</b>		6,394
Add back		
<b>Assets – Book value change</b>		
Book depreciation Plant	1,180	
Book depreciation Building	20	
Goodwill	230	
<b>Liabilities with Nil Tax Value</b>		
Provision for doubtful debts	1	
Provision for employee entitlements	140	
Other	210	
Subtract		
<b>Liabilities – Tax value change</b>	(50)	
<b>Assets – Tax value change</b>		
Plant	(1,495)	
Buildings	(5)	
<b>Income Tax Law Adjustments</b>		
Entertainment	53	
Subscriptions	10	
Legal expenses	75	
Research and development	<u>(175)</u>	
<b>Taxable Income</b>		<u><u>6,588</u></u>

Paul Abbey

7 March 2000