TaxGuruai

A GUIDE FOR AUSTRALIAN TAX PROFESSIONALS

Professional Intelligence Prompting™

Why artificial intelligence produces ordinary advice for most professionals — and the discipline that changes it.

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THE PREMISE

Artificial Intelligence contributes knowledge.

The professional contributes judgement.

Together they create advice neither could have produced alone.

CHAPTER ONE

Why Artificial Intelligence Produces Ordinary Advice for Most Professionals

Artificial Intelligence is already changing the accounting profession.

That statement is no longer a prediction about the future. Every week accountants, tax agents and advisers discover another application capable of summarising legislation, reviewing tax rulings, drafting client correspondence or analysing complex transactions in a matter of seconds. What only a few years ago seemed almost impossible has rapidly become part of everyday professional life. The technology is extraordinary, yet something equally extraordinary has become apparent during its rapid adoption.

Some professionals consistently achieve remarkable results.

Most do not.

At first glance this appears difficult to explain because they are often using exactly the same technology. They may even be using the same AI platform, the same subscription and the same underlying intelligence. Yet one adviser produces thoughtful strategic advice that changes the direction of a client's future, while another receives little more than a technically accurate summary that could have been found almost anywhere.

The difference, it turns out, has very little to do with Artificial Intelligence.

It has everything to do with Professional Intelligence.

Every experienced accountant already understands this distinction, although very few have ever stopped to describe it.

Two Clients, One Practice

Imagine, for a moment, two entirely different clients walking into the same accounting practice.

The first arrives carrying three supermarket shopping bags filled with receipts, invoices, unopened bank statements and several years' worth of correspondence from the Australian Taxation Office. As the bags are emptied across the desk, fuel receipts mingle with supplier invoices, handwritten notes appear between credit card statements and somewhere near the bottom sits an unopened envelope bearing the unmistakable logo of the ATO.

The client smiles rather sheepishly before making a request that most accountants have heard more than once during their careers.

> *"Everything should be in there somewhere. The Tax Office has been chasing me for three years. Could you prepare my tax returns?"*

Every experienced practitioner already knows what will happen next.

The engagement has very little to do with preparing a tax return.

Before any meaningful taxation advice can be provided, order must first be created from disorder. Missing information has to be located. Questions that should have been asked years earlier now have to be reconstructed from memory. Receipts are reconciled, bank accounts reviewed, transactions identified and assumptions carefully tested before anyone can even begin thinking about taxation. Much of the accountant's expertise is spent rebuilding the story rather than providing strategic advice.

Now imagine a different client.

This client has also been operating a successful business for many years, yet the conversation begins in a completely different way. Quarterly meetings have become part of the rhythm of the business. Both the client and the adviser work from the same Xero file. The bookkeeping is current. Payroll has been reconciled. Superannuation has been paid. Trust distributions, Division 7A issues, capital acquisitions and succession planning have all been discussed throughout the year rather than postponed until the annual tax return.

Something remarkable has happened.

The tax return is no longer the conversation.

It has become the natural consequence of an ongoing professional relationship.

The meetings themselves are different as well. The client arrives with ideas that have emerged while running the business. The adviser brings ideas arising from changes in legislation, taxation strategy and commercial experience. Instead of spending valuable time reconstructing the past, both are now exploring the future together.

The accountant is no longer acting as a historian.

The accountant has become a strategist.

Artificial Intelligence Works the Same Way

Most professionals approach AI as though they were the first client. They arrive carrying three metaphorical shopping bags filled with disconnected thoughts, incomplete instructions and isolated questions before asking the technology to somehow reconstruct the story.

> *"Explain Division 7A." · "Write me a client letter." · "Summarise this legislation." · "Prepare a tax strategy."*

There is nothing technically wrong with those requests.

They are simply incomplete.

Professionals who consistently obtain exceptional results behave much more like the second client. They arrive prepared. They provide context before asking for conclusions. They explain the commercial objectives before discussing legislation. They describe the family, the business, the structures, the risks, the opportunities and, perhaps most importantly, what success actually looks like.

In other words, they do not present Artificial Intelligence with three shopping bags.

They provide a professional brief.

That single distinction sits at the heart of Professional Intelligence Prompting™.

It is not a methodology for writing clever prompts. It is a disciplined way of thinking that experienced professionals have used throughout their careers, now applied to a new form of intelligence capable of working alongside them.

The future of professional practice will not belong to those with the most powerful Artificial Intelligence.

It will belong to those who learn how to have the most intelligent professional conversations.

CHAPTER TWO

Artificial Intelligence Doesn't Think Like an Accountant

Professional Intelligence begins when two different forms of intelligence learn to work together.

One of the great misconceptions surrounding Artificial Intelligence is that it somehow thinks the way professionals think. It doesn't. In fact, the more accountants, tax agents and advisers work alongside it, the more obvious that distinction becomes.

Imagine that one of Australia's finest taxation barristers walked into your office tomorrow morning. You wouldn't simply point towards a file and say, "Tell me what you think." Nor would you hand over three shopping bags of receipts and expect brilliant advice to emerge by magic. Every experienced professional instinctively understands that great advice begins long before the first opinion is offered. It begins with a carefully prepared brief that explains the client, the history, the commercial objectives, the structures already in place, the concerns that have arisen and the outcome everyone is hoping to achieve.

Artificial Intelligence deserves exactly the same professional courtesy.

The reason is surprisingly simple.

Artificial Intelligence possesses something no human adviser could hope to possess. It can search extraordinary volumes of information, recognise patterns across thousands of authorities, compare alternative approaches in seconds and recall legislation that might otherwise require days of research.

What it does not possess is the lived experience that sits quietly behind every professional judgement.

It has never sat opposite a client who has spent forty years building a family business before quietly admitting that retirement is beginning to frighten him. It has never watched a husband hesitate before answering because he knows his wife will hear something entirely different from the words he is about to speak. It has never carried the responsibility that accompanies signing an opinion, advising a family or standing behind a recommendation that may influence three generations.

Those responsibilities belong to the professional.

A Remarkably Simple Idea

That is why Professional Intelligence Prompting™ is built upon a simple idea.

ARTIFICIAL INTELLIGENCE	THE PROFESSIONAL
Contributes unlimited information.	**Contributes judgement.**
Contributes extraordinary pattern recognition.	**Contributes commercial wisdom.**

Contributes research, alternatives and possibilities.	**Contributes context, ethics, experience and responsibility.**

Neither is complete without the other.

The future of professional practice will not be determined by Artificial Intelligence acting alone, nor by professionals attempting to ignore one of the most significant developments of their generation. It will belong to those who learn to combine the strengths of both into a single professional conversation.

That conversation begins with a brief.

Not a prompt. A professional brief.

Because the quality of the conversation has always determined the quality of the advice. Long before Artificial Intelligence arrived, the finest professionals already understood that truth. Professional Intelligence Prompting™ simply gives it a name.

PROFESSIONAL INTELLIGENCE PRINCIPLE ONE

Artificial Intelligence contributes knowledge.
The professional contributes judgement.
Together they create advice neither could have produced alone.



CHAPTER THREE

Why Professionals Prefer Specialists

Two things determine the quality of an answer: how well you ask, and what the system is drawing on.

One of the first questions professionals ask after working with Artificial Intelligence for a little while is a perfectly reasonable one.

> *"If a general AI tool already knows so much, why would I ever need a specialist?"*

The answer requires separating two things that are usually confused, because they are almost always changed at the same time.

- How well the question was asked — the quality of the brief.
- What the system was drawing on when it answered — the quality of the source base.

Improving the first will improve the answer you receive from almost any system. Improving the second determines whether the answer can be traced, verified and placed on a client file.

Most disappointing results are a failure of the first. Most unusable results are a failure of the second.

This guide is largely about the first. It would be dishonest not to be clear about the second.

Part One: The Quality of the Brief

The difference becomes obvious when the same underlying question is asked in two different ways. Both versions below were directed to the same specialist. Only the briefing changed.

A PROMPT

"Can you explain the CGT implications of restructuring a business before sale?"

The answer will probably be technically correct. It may explain CGT rollover relief, summarise the Small Business CGT Concessions and discuss active assets.

Useful? Absolutely.

Professional advice? Not yet.

A PROFESSIONAL BRIEF

"I act for a second-generation family manufacturing business that has traded successfully for more than thirty-five years. The founders are aged sixty-two and sixty-four and expect to complete a sale within three years. The operating business is conducted through a company, commercial property is held by the family's SMSF, investment assets sit within a Family Protection Trust, and there are substantial retained earnings together with historical Division 7A loans requiring review.

The family wishes to maximise access to the Small Business CGT Concessions, preserve intergenerational wealth, maintain asset protection, minimise taxation on the eventual sale and ensure any restructuring undertaken today does not prejudice future succession planning.

Please identify every restructuring alternative available, compare the taxation consequences of each, analyse eligibility for the Small Business CGT Concessions, identify implementation risks, outline the sequence in which each step should occur and recommend the most appropriate professional pathway together with the documentation that should be prepared before implementation."

The first asks for information. The second invites professional judgement.

Nothing about the technology changed between those two answers. Only the conversation did. That is the premise of this guide, and it is the part fully within your control today, whatever tools you happen to use.

Part Two: What Better Briefing Cannot Fix

There is a limit to what preparation can achieve, and it is worth being direct about it.

A brilliantly prepared brief directed to a general-purpose model will still produce an answer assembled from whatever that model absorbed during training — material of uneven provenance, of uncertain currency, drawn from many jurisdictions. The reasoning may be impressive. The structure may be excellent. But you will not be able to establish where a particular proposition came from, whether the authority relied upon is still good law, or whether the principle being applied is Australian at all.

For a practitioner, that is the difference between something interesting and something usable.

You can defend a conclusion you can trace. You cannot defend one you cannot.

This is why Tax Guru was built around specialist Professional Intelligence rather than a single general chatbot. Each specialist draws on a curated body of Australian tax material — legislation, cases, rulings and expert commentary — and returns answers identifying the authorities relied upon, so that each one can be opened and read.

Look ahead to the worked examples in the chapters that follow. Notice that the responses do not simply reason well. They name provisions, rulings and determinations. Sections 432 and 433. Sections 447 and 448. Taxation Determination TD 2010/20. Division 815.

That specificity is not decoration. It is what allows a practitioner to do the one thing a professional obligation actually requires, which is to check. We return to that in Chapter Eight.

Choosing the Right Specialist

Within that curated environment, the second professional decision is which specialist to brief. The principle is no different from selecting the right adviser for a client.

A restructuring conversation	**CGT Genius**
A complex Division 7A issue	**Division 7A Whisperer**
International structures	**International Tax Sage**
SMSF succession	**SMSF Guru**
Trust distributions	**Trust Guru**

A suburban conveyancer and a leading taxation barrister both understand the law. One has devoted an entire career to mastering a particular corner of it. You already know which one you would brief on a thirty-five-year-old family manufacturing group with an SMSF, a Family Protection Trust and historical Division 7A loans.

The better the specialist, the better the conversation.

The better the conversation, the better the advice.

PROFESSIONAL INTELLIGENCE PRINCIPLE TWO

Better briefing improves the reasoning of any system.

Only a curated, source-linked specialist produces an answer you can put on a file.



CHAPTER FOUR

The Professional Intelligence Brief

Every professional brief should answer six questions before asking one.

By now one idea should be becoming clear.

Professional Intelligence Prompting™ is not really about prompting at all.

The word "prompt" has become popular because it describes the instruction we type. Unfortunately it also encourages professionals to think far too narrowly about what they are doing. Prompts are short, disconnected and transactional. Professional advice has never been built that way.

Throughout your career you have prepared hundreds, perhaps thousands, of professional briefs. You have briefed clients before major decisions, partners before meetings, barristers before litigation, and valuers, auditors, financiers and expert witnesses along the way.

Every one of those conversations succeeded or failed for the same reason.

The quality of the brief determined the quality of the advice.

Professional Intelligence Briefing simply applies the discipline you have always used to a new professional collaborator. The objective is not to write clever prompts. It is to prepare professional briefs.

The Six Questions

01 **Who is the client?**

Not simply their age or occupation, but the person sitting across the table. What matters to them? What stage of life are they entering? What responsibility are they carrying?

02 **What structures already exist?**

Companies. Family Protection Trusts. SMSFs. International entities. Investment assets. Debt. Existing arrangements.

03 **Why are they seeking advice now?**

What has changed? What opportunity has appeared? What risk has emerged? Why today rather than six months ago?

04 **What outcome are they hoping to achieve?**

Reduce taxation? Protect family wealth? Sell a business? Transfer control? Avoid litigation? Preserve family harmony?

05

What concerns you as the adviser?

Where do you believe the risks lie? Division 7A? CGT? International tax? Family law? State taxes? ATO review?

06

What does success look like?

Technical advice? A strategy paper? An implementation roadmap? A client letter? A meeting agenda? An execution plan?

Only after those questions have been answered should the conversation begin.

Three Drafts

Nobody writes a complete brief on the first attempt. The skill is knowing what to add.

The examples later in this guide are finished briefs, and finished briefs can be intimidating. In practice they are built in passes. What follows is the same enquiry written three times, on a matter most practitioners will recognise.

DRAFT ONE · *What most of us type*

"Can my client access the small business CGT concessions?"

This is not a bad question. It is an incomplete one. Nothing in it identifies a client, a transaction, a structure or a purpose, so the answer can only restate the legislation. You will receive a summary of Division 152 and the four concessions. You already knew that.

DRAFT TWO · *Add the client and the objective*

"My client is selling her physiotherapy practice for $2.6 million. She is fifty-eight, operates through a discretionary trust, and owns the consulting rooms personally. She wants to retire within two years and contribute as much as possible to superannuation. Can she access the small business CGT concessions, and which ones give the best outcome?"

The answer changes immediately, because the question now has facts to work with. It will address the $6 million net asset value test and the small business entity test, the active asset status of the rooms, the fifteen-year exemption and the retirement exemption, and the CGT cap contribution. This is already worth reading.

DRAFT THREE · *Add the structure, the concern and the deliverable*

"My client is fifty-eight and is selling her physiotherapy practice for $2.6 million, with settlement expected in March. The practice is conducted through the Hartley Family Trust, of which she and her husband are the primary beneficiaries and a corporate trustee acts. The consulting rooms are owned by her personally and leased to the trust at market rent. There is a corporate beneficiary holding prior-year distributions with unpaid entitlements. Combined net assets are close to the $6 million threshold and I have not yet tested her husband's interests as connected entities or affiliates.

Her objectives, in order, are to retire within two years, to contribute the maximum available amount to superannuation, and to retain the consulting rooms as an income-producing asset if that does not prejudice the concessions. My concerns are the net asset value calculation once affiliates are included, whether the rooms qualify as an active asset given the leasing arrangement, the interaction between the fifteen-year exemption and the CGT cap given her age, and whether the corporate beneficiary arrangements create a Division 7A exposure that should be addressed before settlement.

I need a briefing paper I can take to a client meeting: the concessions available, the conditions to be satisfied for each, the calculation of the net asset value test showing what is included and excluded, the superannuation contribution consequences of each pathway, the risks, and the order in which steps should occur before settlement."

> This is the same question, three times. The third version took perhaps four minutes longer to write and will produce something you can hand to a client.

Four minutes is the entire difference between a summary and a strategy.

The Anatomy of a Weak Brief

The most dangerous brief is not the short one. It is the long one with a hole in it.

A short brief produces a general answer, and everyone can see that it is general. A detailed brief that omits one material fact produces something far more hazardous: a confident, well-structured, specific answer that is wrong on the point that mattered.

Artificial Intelligence will not tell you what you failed to mention. It will reason capably from what it was given and present the result with the same assurance either way. In practice, the same handful of omissions cause most of the damage.

- ✓ **The income year.** Thresholds, rates and rules change. An answer that does not know which year it is answering for is answering for none of them.
- ✓ **The governing documents.** Trust deed terms, company constitutions and shareholder agreements frequently determine an outcome the legislation alone appears to settle.
- ✓ **The resolutions and the paperwork.** What was actually resolved, when, and in what form, will often matter more than what everybody intended.
- ✓ **Whether money actually moved.** Entitlements, declarations and payments have very different consequences, and are easily blurred in a summary.
- ✓ **The related parties.** Affiliates, connected entities and associates change thresholds, tests and outcomes across most of the provisions practitioners deal with daily.
- ✓ **What has already been done.** Prior-year positions, elections already made and structures already implemented constrain what is available now.

There is a straightforward professional habit that guards against all six, and it costs one sentence at the end of a brief.

> *"Tell me what further information you would need before you would be prepared to rely on this analysis."*

It is the same question you would ask counsel, and it produces the same value: an inventory of your own blind spots, before they become a problem on the file.

PROFESSIONAL INTELLIGENCE PRINCIPLE THREE

A brief with a hole in it produces a confident answer built on a gap.
Ask what is missing before you ask what to do.

Now Let’s Meet the Specialists

Over the following chapters we’ll step into the offices of several Tax Guru specialists and see how Professional Intelligence Briefing changes the quality of the conversation.

Not by asking better prompts. By preparing better professional briefs.



CHAPTER FIVE

International Tax Sage

Every great piece of advice begins long before the first answer.

One of the most common misconceptions surrounding Artificial Intelligence is that success depends upon asking clever questions.

It doesn't.

Imagine that your client is facing one of the most significant commercial decisions of their life. They are contemplating an international restructure involving Singapore, the United States, China, Australian taxation, Controlled Foreign Company legislation, transfer pricing, Part IVA and the possibility of expanding into overseas markets. The consequences of the wrong decision could involve millions of dollars, years of unnecessary taxation and a prolonged dispute with the Australian Taxation Office.

Would you simply telephone one of Australia's leading international tax barristers and say, "Can you explain the tax implications of setting up a Singapore company?"

Of course you wouldn't. Before any meaningful advice can be given, the adviser must understand the client, the commercial objectives, the existing structure, the transactions proposed, the legislation likely to apply and the outcomes everyone is hoping to achieve.

Professionals don't ask questions. Professionals prepare briefs.

What follows is a real briefing directed to International Tax Sage. Read it once, and then read the annotation that follows it, because the annotation is the part you can copy.

The Brief

PROFESSIONAL INTELLIGENCE BRIEF

I have a client operating through Smith Proprietary Limited in Australia, and they sell lighting in Australia, which they import from China. The physical product comes into Australia, GST is payable, and then they sell it essentially through drop shipping from a warehouse in Lakemba NSW. They also ship to locations outside of Australia and the Directors just found out last three or four months that 70% or so of their sales have now been from the US via Australia. They've emailed their Chinese manufacturer and rather than bringing it into Australia and shipping it out, the Chinese manufacturer will drop ship directly to the US.

We don't do much international tax and need a good briefing paper so we can get the ball rolling with an international tax expert. However from what we know we are looking at having a Singaporean company which will be owned by Smith Proprietary Limited as a subsidiary and book all the operations through that company. This means all the sales to the US and anywhere else overseas — ex-Australia will be through that company. Can International Tax Sage do a deep research briefing paper looking at the international tax consequences, whether it's a Controlled Foreign Corporation (all the shares will be owned by Smith Proprietary Limited) for the Singapore company and whether there are any exemptions for operations from the CFC regime.

The Same Brief, Annotated

Six questions. Every one of them answered, in the adviser's own words, before a single question was asked.

01 · Who is the client?

"A client operating through Smith Proprietary Limited in Australia... they sell lighting in Australia, which they import from China."

An operating business, an industry, a trade flow. Not a hypothetical.

02 · What structures already exist?

"The physical product comes into Australia, GST is payable, and then they sell it essentially through drop shipping from a warehouse in Lakemba NSW."

The existing arrangement is described before the proposed one. This is what stops the answer from being generic.

03 · Why are they seeking advice now?

"The Directors just found out last three or four months that 70% or so of their sales have now been from the US via Australia."

A specific, recent, quantified trigger. The reason today is different from six months ago.

04 · What outcome are they hoping to achieve?

"We are looking at having a Singaporean company which will be owned by Smith Proprietary Limited as a subsidiary and book all the operations through that company."

The adviser's working hypothesis, stated plainly so it can be tested rather than assumed.

05 · What concerns you as the adviser?	*"Whether it's a Controlled Foreign Corporation... and whether there are any exemptions for operations from the CFC regime."* The professional instinct about where the risk sits. This directs the analysis to the provisions that matter.
06 · What does success look like?	*"We don't do much international tax and need a good briefing paper so we can get the ball rolling with an international tax expert."* The deliverable, the audience and the honest statement of the adviser's own limits. All three change what comes back.

Notice what the brief is not. It is not elegant. It is not carefully composed. It contains the rhythms of ordinary speech, and one sentence runs on considerably longer than it should.

None of that matters. Completeness matters.

If you can answer the six questions in your own voice, in a single unedited paragraph, you have written a professional brief.

The Response

PROFESSIONAL INTELLIGENCE RESPONSE

1. Issues

The proposed restructuring of Smith Proprietary Limited's operations raises the following material tax issues:

- Will the Singapore-resident subsidiary be a Controlled Foreign Company (CFC) under Part X of the Income Tax Assessment Act 1936 (ITAA 1936), and if so, will its income be attributed to the Australian parent?
- Can the Singapore entity satisfy the active income test so that its trading profits are treated as notional exempt income?
- Does the drop-shipping model and the use of a Singapore intermediary create tainted services income or tainted sales income under the CFC rules?
- Is the arrangement vulnerable to the general anti-avoidance rule in Part IVA ITAA 1936?
- What transfer pricing obligations arise under Division 815 ITAA 1997 for transactions between the Australian and Singapore entities?

2. Relevant Law

Controlled Foreign Company regime (Part X ITAA 1936). A foreign company is a CFC if five or fewer Australian entities control 50% or more of the company, if a single Australian entity (with associates) holds at least 40% and no other entity holds a greater interest, or if Australian residents otherwise exercise effective control. Control interests include voting power, dividend rights, rights to capital, and paid-up share capital, with the greatest percentage prevailing. Singapore is an unlisted country for Part X purposes, meaning the full attribution framework applies rather than the listed-country modified rules.

Active income test (ss 432–433 ITAA 1936). Where a CFC's gross tainted turnover is less than 5% of its gross turnover, the active income test is satisfied and the CFC's active business profits are treated as notional exempt income, excluding them from attributable income under s 384(2)(a). Trading income from unrelated third-party customers generally constitutes active business income, and the geographic destination of sales is irrelevant to the analysis.

Tainted income (ss 447–448 ITAA 1936). Income is tainted where a CFC derives related-party services income (including management, procurement, logistics, or technical support provided to Australian residents or associates) or tainted sales income from purchasing from or selling to Australian associates without substantial alteration of the goods. Mere packaging, labelling, or minor processing will not satisfy the substantial alteration test. Once income is tainted, it forms part of gross tainted turnover and can cause failure of the active income test, triggering full attribution.

General anti-avoidance (Part IVA ITAA 1936). The Commissioner may cancel a tax benefit where, having regard to the eight factors in s 177D(b), it would be concluded that a person entered into or carried out a scheme for the dominant purpose of enabling the taxpayer to obtain that benefit. Taxation Determination TD 2010/20 confirms that Part IVA can apply to arrangements designed to alter the intended effect of Australia's international tax agreements and treaty network, including interposed entities lacking commercial rationale.

Transfer pricing (Division 815 ITAA 1997). Cross-border related-party arrangements must be conducted on arm's-length terms, and the taxpayer must have documentation to support this.

3. Application to Facts

Smith Proprietary Limited proposes to establish a Singapore-resident company that it will own 100%. On these facts, the Singapore entity will be a CFC because a single Australian entity holds 100% of the control interests,

clearly satisfying the control tests in s 340 ITAA 1936. Because Singapore is an unlisted country, the full CFC accruals regime applies.

Under the proposed model, the Singapore entity would contract with the Chinese manufacturer and on-sell to US customers, with goods drop-shipped directly from China to the United States. If the Singapore company genuinely conducts this trading activity with unrelated US parties, earns trading revenue, and maintains only incidental passive income (such as bank interest on working capital), its profits may constitute active business income. Provided the company's gross tainted turnover remains below 5% of gross turnover, the active income test would be satisfied and the trading profits treated as notional exempt income.

However, the arrangement is exposed to significant recharacterisation risks. If the Singapore entity provides management, procurement, logistics, or coordination services to Smith Proprietary Limited (an Australian associate), the fees may constitute tainted services income under s 448. Similarly, if the Singapore entity purchases goods from Smith Proprietary Limited or sells goods to Australian customers without substantial alteration, the sales income may be tainted under s 447. In either case, the tainted income would cause the active income test to fail, triggering attribution of the Singapore company's profits under s 384(2)(a).

Furthermore, if the Singapore entity lacks genuine commercial substance — for example, if it has no employees in Singapore, performs no material functions, and exists primarily to interpose a low-tax jurisdiction between the Chinese manufacturer and US customers — the ATO may apply Part IVA. TD 2010/20 specifically contemplates that interposed entities without commercial rationale may indicate a scheme to obtain a tax benefit, and the Commissioner may cancel the benefit under s 177F.

4. Risk Assessment

The proposed structure carries High Risk of ATO challenge. The primary risk vectors are:

- CFC attribution: if the Singapore entity fails the active income test due to tainted income or related-party dealings, its profits may be fully attributed and taxed in Australia at the corporate rate.
- Part IVA: if the dominant purpose of the restructuring is to obtain a tax benefit, the Commissioner may cancel the benefit under s 177F, irrespective of technical compliance with the CFC provisions.
- Transfer pricing: inadequate documentation of intra-group pricing exposes the group to adjustments, penalties, and interest under Division 815.

5. Documentation Required

- Commercial rationale paper: board papers documenting the non-tax business drivers for the Singapore structure.
- Functional analysis: a detailed analysis of the functions performed, assets used, and risks assumed by the Singapore entity.
- Transfer pricing documentation: OECD-compliant local file demonstrating arm's-length terms.
- Active income test workings: annual calculations proving gross tainted turnover remains below 5% of gross turnover.
- Corporate governance evidence: minutes of Singapore board meetings, evidence of decision-making in Singapore, employment contracts for Singapore-based staff, and banking records.

6. Strategic Observations

The fact that approximately 70% of current sales are to US customers provides a credible commercial platform for the restructuring, but commercial rationale alone does not immunise the structure from Part IVA or the CFC rules. The critical issue is whether the Singapore entity will have real substance — personnel, decision-making, and risk-bearing capacity — or whether it will be a paper company directing invoices while Smith Proprietary Limited retains operational control.

7. Conclusion

The proposed Singapore restructuring is technically feasible but sits in a high-risk zone. If the Singapore entity is a genuine trading company with unrelated-party US sales, minimal passive income, and no tainted related-party dealings with Australia, the active income test should be satisfied and CFC attribution avoided. However, if the entity lacks substance, provides services to the Australian parent, or engages in related-party sales without substantial alteration, the CFC rules will attribute its income to Smith Proprietary Limited, and Part IVA may unwind any tax benefit obtained.

8. Professional Standards and Reasonable Care

This analysis is provided on the basis of the facts disclosed. Material factual gaps remain that could alter the tax outcome, specifically the precise activities to be performed by the Singapore entity, the terms of any related-party transactions, whether any Australian customers will be served by the Singapore entity, and the extent of Smith Proprietary Limited's ongoing involvement in US customer management and procurement. Given the stakes and complexity, an ATO private ruling on the application of Part X and Part IVA should be considered before executing the restructuring.

Why This Worked

The quality of the advice did not begin with Artificial Intelligence. It began with the brief.

Before any analysis commenced, the specialist already understood the commercial background, the proposed structure, the jurisdictions involved, the legislation likely to apply, the areas of professional concern, the commercial objective and the professional standard expected.

Nothing was left to guesswork.

Note also what the response gives back. It does not merely conclude. It identifies the provisions it is reasoning from — s 340, ss 432 to 433, ss 447 to 448, s 384(2)(a), s 177D(b), s 177F, TD 2010/20, Division 815 — and it closes by naming the four factual gaps that could change the outcome.

Both of those features exist so that a practitioner can do something with the answer other than trust it.

PROFESSIONAL INTELLIGENCE PRINCIPLE FOUR

General questions produce general answers.

Professional briefs directed to specialist intelligence produce professional advice.



CHAPTER SIX

Division 7A Whisperer

Professional Intelligence begins by choosing the right specialist.

Every experienced adviser has encountered situations where the taxation consequences cannot be separated from the commercial reality of the structure in front of them. Trust distributions, corporate beneficiaries, retained earnings and succession planning all require taxation advice informed by an understanding of how the group actually operates.

Traditionally these matters involved lengthy discussions between accountants, lawyers and other advisers before a strategy could be developed. Professional Intelligence allows that conversation to begin much earlier, provided the right specialist is invited into the discussion.

The following example demonstrates the same discipline applied to a domestic matter.

The Typical Prompt

> *"Can you explain whether an unpaid present entitlement creates a Division 7A problem?"*

The Professional Intelligence Brief

EDITOR'S NOTE

The analysis reproduced in this chapter was prepared before the High Court of Australia delivered its decision in Commissioner of Taxation v Bendel on 10 June 2026. It is included to illustrate briefing technique and the structure of a Professional Intelligence response. It is not current tax advice and should not be relied upon as a statement of the present law.

PROFESSIONAL INTELLIGENCE BRIEF

I have a client, the Smith Family Group, and they have a family trust, the Smith Family Trust. It has a bucket company, Smith Bucket Proprietary Limited, and currently there is a UPE of $300,000, which has just been distributed at 30 June 2026 down to the company. However, the monies have been left in the bank account in the family trust. We are just wondering whether there is a Division 7A problem. Can you give us a deep insight? And also, more importantly, can you also look at the Bendel decision?

The Response

PROFESSIONAL INTELLIGENCE RESPONSE

Quick Answer

Following the decision in Commissioner of Taxation v Bendel, the mere retention of the $300,000 unpaid present entitlement (UPE) by the Smith Family Trust does not constitute a "loan" under section 109D of the ITAA 1936. The courts have clarified that a UPE represents an obligation to pay rather than an obligation to repay, meaning it falls outside the scope of the Division 7A deemed dividend provisions. Consequently, you are not required to place this amount under a complying loan agreement to avoid Division 7A consequences.

While this provides significant relief, you must remain vigilant regarding the application of Subdivision EA. This integrity provision can still trigger tax consequences if the trust makes payments or loans to shareholders or their associates while the UPE remains unpaid. We recommend maintaining clear, contemporaneous documentation of the UPE and ensuring that no other trust transactions inadvertently trigger Subdivision EA.

This assumes the Smith Family Trust is a resident trust and Smith Bucket Proprietary Limited is a private company, and that no other payments or loans have been made that would trigger Subdivision EA.

Workpaper — Division 7A treatment of UPE

CLIENT	Smith Family Group
MATTER	$300,000 unpaid present entitlement — Smith Family Trust to Smith Bucket Proprietary Limited
TAX YEAR	2026–27

1. Issues

The primary issue is whether the $300,000 unpaid present entitlement owed by the Smith Family Trust to Smith Bucket Proprietary Limited constitutes a "loan" within the meaning of section 109D(3) of the Income Tax Assessment Act 1936, such that Division 7A would deem the amount an unfranked dividend.

Secondary issues include whether Subdivision EA (section 109XB) applies to trigger a deemed dividend through an interposed entity arrangement; the documentation and evidentiary requirements necessary to support the characterisation of the UPE as a non-loan entitlement; and the audit risk associated with the ATO's administrative position in TD 2022/11.

2. Relevant Law

Section 109D(3) ITAA 1936 defines "loan" to include an advance of money; a provision of credit or any other form of financial accommodation; a payment of an amount for, on account of, on behalf of, or at the request of, a shareholder or associate, if there is an obligation to repay the amount; or a transaction that is the same as or similar to a loan of money.

Subdivision EA (sections 109T–109XB ITAA 1936) operates as an integrity measure where a private company is entitled to receive an amount from a trust, and the trust makes a payment or loan to a shareholder of the company or their associate, or otherwise confers a benefit.

In Commissioner of Taxation v Bendel, the Tribunal and the Full Federal Court held that a UPE does not constitute a "loan" under section 109D(3), reasoning that a UPE creates an obligation to pay, not an obligation to repay, and that "financial accommodation" requires an identifiable obligation to return a principal sum. The Court emphasised that Division 7A requires a positive act of lending or advance, not merely the passive retention of funds subject to a beneficiary's entitlement.

TR 2010/3 and PS LA 2010/4 historically treated UPEs as potential Division 7A loans and introduced sub-trust arrangements. TD 2022/11 abandoned the sub-trust framework but maintained the ATO's view that inaction by a corporate beneficiary constitutes "financial accommodation" and therefore a loan.

3. Application to Facts

The Smith Family Trust is a resident family trust. Smith Bucket Proprietary Limited is a private company and a beneficiary of the trust. A UPE of $300,000 is recorded on the trust's balance sheet as a liability owed to Smith Bucket Proprietary Limited.

1. No obligation to repay: the UPE represents income to which Smith Bucket Proprietary Limited is presently entitled under section 97 ITAA 1936. The trustee's obligation is to pay the entitlement, not to repay borrowed principal.
2. No positive act of lending: the retention of funds by the trustee, without more, does not constitute an advance, provision of credit, or financial accommodation under section 109D(3).
3. No transaction effecting a loan: the facts do not indicate any loan agreement, conversion of the UPE to a loan, or other arrangement creating an obligation to return the same sum.

Subdivision EA is not triggered on the facts as stated, provided the trust has not made any payments or loans to a shareholder of Smith Bucket Proprietary Limited or their associate, and has not otherwise conferred a benefit on such a person during the relevant period.

4. Risk Assessment

RISK CATEGORY	ASSESSMENT	COMMENTARY
Legal position strength	**Strong**	The statutory construction favouring an obligation to repay is well-reasoned and was affirmed on appeal.

Audit sensitivity	**Moderate to high**	The ATO has continued to apply TD 2022/11 in audits. An assessment relying on it would require objection and potential litigation to resist.
Subdivision EA	**Low (conditional)**	Provided no other trust distributions, loans, or benefits are made to shareholders or associates of Smith Bucket Proprietary Limited.

5. Documentation Required

- Trust resolutions: the original resolutions distributing income to Smith Bucket Proprietary Limited, creating the present entitlement.
- Financial statements: trust and company balance sheets recording the UPE as a liability of the trust and a receivable of the company.
- Trust deed: relevant clauses confirming the trustee's power to distribute income to corporate beneficiaries.
- Evidence of no Subdivision EA trigger: documentation confirming that no loans, payments or benefits were conferred on shareholders or associates during the year.
- Correspondence file: any written advice or file notes recording the rationale for the treatment adopted.

6. Strategic Observations

- Some practitioners continue to document UPEs under sub-trust arrangements or make cash distributions to eliminate any argument. This is defensive rather than mandatory.
- Legislative amendment remains possible. The workpaper should be reviewed if legislative change occurs.
- If the ATO issues an assessment based on TD 2022/11, the cost of objection and appeal should be weighed against the tax at stake.

7. Professional Standards and Reasonable Care

The factual matrix has been assessed against the governing statutory provision and the judicial authority available at the time of preparation. The distinction between an obligation to pay and an obligation to repay has been applied. No material factual gaps have been identified beyond the assumption that no Subdivision EA triggering transactions exist. Audit sensitivity has been flagged and documentation requirements identified.

Why This Brief Produced Better Advice

Notice what changed before the conversation even began. The specialist was not simply asked to explain taxation law. The brief established the commercial background, described the group structure, identified the client's objectives, explained the ownership arrangements, highlighted the professional concerns and defined the outcome expected.

Rather than asking Artificial Intelligence to guess what mattered, the adviser performed the same discipline expected when briefing senior counsel or an expert witness.

The quality of the advice was determined long before the first answer was written.

There is one further lesson in this chapter, and the editor's note above is where it sits. This analysis was correct when it was prepared and is no longer a statement of current law. Nothing about the briefing technique caused that. Time did.

Which is precisely why the next two chapters exist.

PROFESSIONAL INTELLIGENCE PRINCIPLE FIVE

The specialist you choose determines the questions that can be explored.

The professional brief determines the quality of the answers you receive.



CHAPTER SEVEN

Interrogating the Response

The first answer is a draft. The professional work begins after it arrives.

There is an assumption buried in most discussions of prompting, and it deserves to be dragged into the open, because almost every professional makes it at first.

Prepare a perfect brief, receive a perfect answer, and the work is done.

That is not how any experienced adviser has ever worked with a specialist.

When counsel returns an opinion, you do not file it. You read it looking for the assumption that was made too easily, the authority that seems to be carrying more weight than it can bear, the factual premise that does not quite match what the client told you last month. Then you go back. The second conversation is usually more valuable than the first, and the third more valuable again.

Artificial Intelligence is no different, with one important qualification: it will not push back unless you ask it to. It will not volunteer that its conclusion rests on a shaky premise. It will not tell you that a different characterisation of the facts produces the opposite result. It answers what was asked, thoroughly and agreeably.

Agreeableness is not a professional virtue. It is a hazard.

Which means the professional judgement this guide keeps praising cannot all be spent on the brief. Some of it has to be spent on the answer. Five follow-up moves do most of the work.

Five Follow-Up Moves

01

Ask for the case against

> *"What is the strongest argument against the conclusion you have just reached? Set it out as the Commissioner would."*

A conclusion you have only seen argued one way is a conclusion you have not tested. This single question surfaces more useful risk than any other, because it forces the analysis to change sides rather than accumulate support.

02

Find the load-bearing fact

> *"Which single fact, if I have it wrong, changes your conclusion? What would it change it to?"*

Every analysis rests on one or two facts doing most of the structural work. Identifying them tells you exactly where to spend your verification time and what to confirm with the client before you commit anything to writing.

03 Ask what you failed to mention

> *"What have I not told you that you would need to know before relying on this?"*

The diagnostic from Chapter Four, applied after the fact rather than before. It converts your own blind spots into a list, which is a far better place for them than a file note written after an ATO query.

04 Test the alternative pathway

> *"You have recommended one approach. Set out the two next-best alternatives and explain what would have to be true for each to be preferable."*

Advice that presents a single option is rarely complete. Clients ask what else was considered, and regulators occasionally ask the same question in less comfortable circumstances.

05 Separate the settled from the arguable

> *"Divide your analysis into what is settled law, what is the Commissioner's administrative view, and what is genuinely arguable. Label each proposition."*

These three categories carry entirely different weight on a file, and a well-written answer can blur them. Forcing the distinction tells you which parts you can state plainly to a client and which need to be framed as a position.

None of these takes more than a few seconds to ask. Together they turn a competent piece of research into something closer to a considered opinion — and, more importantly, they leave a record of the questions you asked, which is itself part of discharging a professional obligation.

A good brief earns you a good draft. Interrogation is what turns a draft into advice.

PROFESSIONAL INTELLIGENCE PRINCIPLE SIX

Artificial Intelligence will not argue with you unless you ask it to.

The second question is usually worth more than the first.



CHAPTER EIGHT

Verifying What You Are Given

You sign it. So you check it.

Everything in this guide has been building towards a point that is easy to state and uncomfortable to sit with.

The professional obligation does not move.

It does not matter how well the brief was prepared, how sophisticated the specialist was, or how thoroughly the response was interrogated. When advice goes out under your name, you are the one who has represented that reasonable care was taken. No tool changes that, and no tool should be asked to.

Which makes verification the least glamorous and most important habit in this entire discipline.

Where Answers Go Wrong

In practice, errors cluster in three places, and knowing them tells you where to look.

- ✓ **Currency.** The most common failure by a distance. An authority that was good law when the material was written has since been overturned, amended, or superseded by a new ruling. The reasoning is sound; the foundation has moved. Chapter Six is a worked illustration sitting inside this very guide.
- ✓ **Over-extension.** A case decided on particular facts is applied to a situation those facts do not reach. The principle is stated accurately and then stretched one step further than the judgment supports.
- ✓ **Confident synthesis.** Two provisions are combined into an interaction that reads plausibly and does not exist. This is the hardest to catch, because nothing about the output signals it, and it is the reason step two below cannot be skipped.

Three Steps, Every Time

01

Open the source

> *Do not read the summary of the authority. Read the authority.*

This is the step that source-linked research makes practical. Where an answer identifies the provision, ruling or judgment it relies on, opening it takes seconds. Where an answer offers no citation, this step cannot be performed at all — which is the entire practical difference between the two kinds of tool discussed in Chapter Three.

02

Confirm it says what is claimed

> *Does the provision actually support the proposition, or merely sit adjacent to it?*

Read the words, not the paraphrase. This is where over-extension and confident synthesis are caught, and it is the only step that catches them. It is also the step most often skipped, because the paraphrase is usually convincing.

03

Confirm it is current

> *Has this been amended, overturned, withdrawn or superseded?*

Check the judgment has not been appealed, the ruling has not been withdrawn, the section has not been amended, and the threshold has not changed for the income year in question. Currency is the failure mode that embarrasses careful practitioners.

Leave a Record

There is a straightforward habit worth adopting, and it takes a minute. When research informs advice, record on the file what was asked, which authorities the answer relied upon, which of those you personally opened and confirmed, and what you concluded independently.

That record does two things. It documents that reasonable care was taken, which matters if the position is ever examined. And it forces the honest question of whether you actually verified the authority or simply found the answer persuasive.

The difference between those two matters enormously, and only you will ever know which one happened.

This is the point at which the whole discipline closes the loop. A professional brief earns a considered draft. Interrogation turns that draft into advice. Verification is what makes it yours.

PROFESSIONAL INTELLIGENCE PRINCIPLE SEVEN

An answer you cannot trace is an answer you cannot defend.

An answer you have not opened is an answer you have not checked.

CHAPTER NINE

The Future of Professional Practice

Artificial Intelligence changes technology. Professional Intelligence changes professionals.

Professional Intelligence Prompting™ is not a collection of clever prompts, nor a method for persuading Artificial Intelligence to provide better answers. It is a disciplined way of thinking that experienced professionals have practised throughout their careers, although very few have stopped to give it a name.

Every significant professional engagement begins with a carefully prepared brief. The client is understood before advice is offered. Commercial objectives are explored before legislation is considered. Risks are identified before recommendations are made. Then the advice that comes back is tested, and the authorities it rests on are checked. Artificial Intelligence has not changed that discipline. If anything, it has made it more valuable, because it has made it possible to skip.

The question is no longer whether professionals will use Artificial Intelligence. The question is how.

Some will treat it as a faster search engine, asking isolated questions and receiving isolated answers. They will save time and automate routine work. There is nothing wrong with that, and it leaves most of the opportunity unexplored.

Others will adopt a different discipline. They will begin with a Professional Intelligence Brief™. They will choose the specialist rather than the generalist. They will interrogate what comes back and verify what they intend to rely on. They will treat Artificial Intelligence exactly as they would a trusted barrister or expert witness — with full context going in, and full scrutiny coming out.

For those professionals, Artificial Intelligence stops behaving like software.

It begins behaving like a trusted professional colleague.

Why Tax Guru Was Created

Tax Guru is not simply another AI platform. It is a growing ecosystem of curated Professional Intelligence developed specifically for accountants, tax advisers and financial professionals who recognise that great advice has never been created by information alone.

Each specialist within Tax Guru has been built to think deeply about one discipline — international taxation, capital gains tax, trusts, SMSFs, Division 7A, estate planning, family wealth. Rather than expecting one general intelligence to master every area equally, Tax Guru invites professionals to work with the specialist best suited to the problem in front of them, drawing on curated Australian tax material and returning answers that name what they rely upon.

The technology is remarkable. The discipline is timeless. Professional Intelligence Briefing brings the two together.

For the first time, professionals have access to a system capable of searching almost limitless knowledge in moments — and the qualities that distinguish the finest advisers remain exactly what they have always been.

Curiosity	**Judgement**	**Preparation**	**Context**	**Scepticism**	**Responsibility**

Artificial Intelligence has not diminished their importance. It has magnified it.

The future will belong to professionals who learn to combine both.

PROFESSIONAL INTELLIGENCE PRINCIPLE EIGHT

Amateurs prompt.

Professionals brief, interrogate and verify.



EPILOGUE

Where to Begin

There is an old saying that the more we learn, the more we discover how little we truly understand. For most of my professional life I regarded that as a pleasant philosophical thought. Experience, I assumed, gradually reduced uncertainty. Knowledge accumulated. Judgement improved. Eventually the unknown would retreat before the known.

It has taken me more than forty years to realise the opposite is true. Every meaningful discovery opens another doorway. Every answer introduces another question. Every summit reveals another beyond it.

Working alongside these systems has simply reminded me of something the finest professionals have always known.

Mastery is never a destination. It is a way of travelling.

Everything in this guide reduces to a single change in habit, and it is a change you can make on your next matter without buying anything, installing anything or attending anything.

Stop typing questions. Start writing briefs.

The Whole Discipline, in One Page

BEFORE	Answer the six questions in your own words — who the client is, what structures exist, why now, what outcome they want, what concerns you, what success looks like. Unpolished is fine. Complete is essential.
CHOOSE	Direct the brief to the specialist whose discipline it belongs to, working from curated material rather than whatever a general model happens to have absorbed.
AFTER	Interrogate what comes back. Ask for the case against, find the load-bearing fact, ask what you failed to mention, test the alternatives, separate settled law from arguable position.
BEFORE YOU SIGN	Open the authorities. Confirm they say what is claimed. Confirm they are current. Record what you checked.

That is the entire method. Four habits, none of them new to your profession, all of them older than the technology they are being applied to.

The next brief you write will take you four minutes longer than the prompt you would otherwise have typed. It is, in my experience, the highest return available on four minutes anywhere in professional practice.

Your next matter is the place to start.



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