
Answers

Section A

1 D

An individual who has not received the Form B1 by 31 March 2015 is only required to notify the IRAS of their chargeability to tax by 14 April 2015, if they have income chargeable to tax of more than \$20,000 in 2014.

2 B

As an administrative concession, a company is not required to file ECI for a particular financial year if the following two conditions are met:

- The annual revenue is not more than \$1 million for the financial year; and
- The ECI is NIL.

As CPL has ECI and DPL's turnover is more than \$1 million, both companies do not qualify for the concession and are required to file their ECI.

3 B \$210 (70 + 140)

4 D Years of assessment 2013, 2014 and 2015

Under the three-year administrative concession, as Andrew will work in Singapore continuously for three consecutive years, he will be regarded as a tax resident for all three years even though the number of days he is in Singapore is less than 183 days in the first and third year.

5 D \$20,971 (48,000 x 3/7) + (0.1 x 10,000 x 40%)

Only the benefits relating to the leased car and the private mileage are taxable. The group medical insurance premium is not a taxable benefit as the policy is available to all staff.

6 A \$18,000 (3,000 + 15,000)

The wage credit scheme and PIC bonus are taxable. The PIC cash pay-out and grants for the acquisition of automated equipment are not taxable.

7 C \$1,400 (20,000 x 7%)

As the lump sum compensation for the early termination of the tenancy agreement is punitive in nature, it is not subjected to GST. The reinstatement cost, it is a payment for repairs done and thus, it is subjected to GST.

8 A \$50,000 (((200,000 + 300,000)/1,000,000) x 100,000)

9 D \$255,600 (180,000 + 60,000 + 10,000 + (9,600 - ((85,000 - 60,000) x 16%)))

The long service award – watch > \$200 is taxable.

The excess CPF contribution paid by employer ((9,600 - ((85,000 - 60,000) x 16%)) is taxable.

10 B

Withholding tax is due on 15th of the second month following the date of payment. The date of payment is the earliest of the invoice date or the payment date or the date of crediting. In this case, as the invoice date is 15 September 2015 and payment date is 15 October 2015, the withholding tax has to be paid by the second month, following the date of payment, i.e. 15 November 2015.

11 A

CA claim	
Lorry	14,667
Venetian blinds	<u>4,800</u>
	19,467

$$14,667 = ((16,000) + (7 \times (4,000)))/3$$

12 C \$12,400 (10,000 + (20% x 12,000))

Relocation allowance is taxable. As a concession, the air tickets to take up the employment are not taxable whilst only 20% of the leave passage cost is subject to tax.

13 C \$137,500 ((20,000 + 35,000) x 2.5)

Paintings – do not qualify as approved donations unless approved by the National Heritage Board.

The shares donation scheme only applies to individuals.

14 A \$19,000 (36,000 + 3,000 – 20,000)

15 C \$80,000 (30,000 + 50,000)

The *ex-gratia* retrenchment payment is not tax deductible due to the cessation of the manufacturing operations. The contractual retrenchment benefit is tax deductible as this is a pre-existing contractual term. Outplacement support cannot be claimed as there is a complete cessation of the business.

2 marks each

30

Section B

Marks

1 Majorie

(a) Tax payable for the year of assessment 2015

	\$	
Employment income		
Salary (\$10,000 x 12)	120,000	0.5
Fully furnished apartment		
Annual value (\$36,000 x 150%)	54,000	1.0
Utilities allowance (\$200 x 12)	2,400	0.5
Tuition fees for Chloe	34,000	0.5
\$100 gift voucher for birthday (not a substantial gift) – exempt	0	0.5
Stock option (relates to services performed for Australian subsidiary)	0	1.0
Stock award (5,000 at \$4)	20,000	1.0
	<u>230,400</u>	
Rental income (\$1,000 x 12)	12,000	0.5
	<u>242,400</u>	
Less: Personal reliefs		
Earned income	(1,000)	0.5
Qualifying child relief	(4,000)	0.5
Working mother's child relief	0	0.5
Chargeable income	<u>237,400</u>	
Tax on the first \$200,000	20,750	0.5
Tax on the next \$37,400 at 18%	6,732	0.5
	<u>27,482</u>	
		<u>8</u>

Tutorial notes:

1. Since the annual value of the apartment is available, it should be used to compute the taxable benefit.
2. Chloe is not a Singapore citizen, thus, Majorie cannot claim working mother child relief.
3. Following the announcement in the 2015 Budget, a personal tax rebate of 50% of the tax payable, capped at \$1,000 would have been available but this was not within the scope of the syllabus at the time of this examination.

- (b) The foreign income of an individual received in Singapore (other than that received through a partnership) is exempt from tax. Therefore, since the interest income is a foreign sourced income, it will be exempt from tax in the hands of Majorie when she receives it in Singapore.

2**10**

2 (a) Witan Pte Ltd

Goods and services tax (GST) for the quarter ended 30 September 2014

	Value \$	Type of supply	Input tax \$	Output tax \$	
Export sales (30% x \$980,000)	294,000	Zero rated		0	0.5
Local sales (70% x \$980,000)	686,000	Standard rated		48,020	0.5
Import of goods	300,000	Standard rated, payable on importation	21,000		1.0
Local purchases	500,000	Standard rated	35,000		0.5
Rental of warehouse	48,000	Standard rated	3,360		0.5
Utilities charges of warehouse	2,000	Standard rated	140		0.5
Rental of private car	6,000	Standard rated and blocked	0		1.0
Annual dinner and dance (Staff portion – 12,000 x 60%)	7,200	Standard rated	504		1.0
Annual dinner and dance (Family members' portion – 12,000 x 40%)	4,800	Standard rated and blocked	0		0.5
Shipping charges for export sales	1,000	Zero rated	0		0.5
Cash donations	20,000	No supply	–		1.0
			<u>60,004</u>	<u>48,020</u>	
GST refund due				(11,984)	0.5
					<u>8</u>

- (b) If the deposit is a partial payment for the goods or services supplied, GST has to be charged and accounted for in the accounting period in which the deposit is received.

1.0

If the deposit is refundable and used as a security, GST is not chargeable.

1.0

2**10**

3 DEF Trading

(a) Cash payout

The cash payout will be \$60,000 (60% x \$100,000).

1.0

It will not be taxable as DEF Trading cannot claim capital allowance and enhanced deduction under PIC.

1.0

2(b) Adjusted profits for the year of assessment 2015
(Financial year ended 31 December 2014)

	David \$	Edwin \$	Francis \$	Total \$	
Salaries	0	200,000	200,000	400,000	1.0
Interest on capital	15,000	10,000	5,000	30,000	1.5
Groceries taken			10,000	10,000	1.0
Divisible profit/(loss) (3:2:1)	<u>(270,000)</u>	<u>(180,000)</u>	<u>(90,000)</u>	<u>(540,000)</u>	2.0
Adjusted profit/(loss)	(255,000)	30,000	125,000	(100,000)	
Capital allowances – van (\$90,000/3)	15,000	10,000	5,000	30,000	1.5
Capital allowances – computerised sorting machine (none as cash payout has been claimed)					1.0
					<u>8</u>
					<u>10</u>

4 Island Pte Ltd (IPL)

(a) Utilisation of brought forward losses and capital allowances

Shareholdings at the various relevant dates are as follows:

Shareholder	31 December 2013	31 December 2014	31 December 2015	1 January 2016
Alan	50%	15%	0	0
Brian	10%	0	0	0
Cathy	20%	25%	25%	25%
David	20%	60%	75%	75%
Total	100%	100%	100%	100%

Tutorial note: The above table is reproduced here to facilitate the comprehension of the answers below. Candidates are not required to present the above table in their written response.

The relevant dates for the deduction of the year of assessment (YA) 2014 losses against the YA 2016 profits are:

31 December 2013 and 1 January 2016

The common shareholders as at the two dates are Cathy and David. On 31 December 2013, they hold 40% and on 1 January 2016, they hold 100% of IPL's shareholdings. Hence, there is a substantial change in the continuity of shareholding in the company. Hence, the trading losses of \$300,000 cannot be deducted against the YA 2016 profits.

2.0

The relevant dates for the deduction of the YA 2015 losses and the YA 2014 capital allowances against the YA 2016 profits are:

31 December 2014 and 1 January 2016

The common shareholders as at the two dates are Cathy and David. On 31 December 2014, they hold 85% and on 1 January 2016, they hold 100% of IPL's shareholdings. Hence, there is no substantial change in the continuity of shareholding of the company. Hence, both the YA 2015 trading losses of \$40,000 and the YA 2014 capital allowances of \$100,000 can be deducted against the YA 2016 profits. The additional condition for carry forward of capital allowances is met as IPL continues to carry on the same trade.

2.5

The relevant dates for the deduction of the YA 2015 capital allowances against the YA 2016 profits are:

31 December 2015 and 1 January 2016

The common shareholders as at the two dates are Cathy and David. On both dates, they hold 100% of IPL's shareholdings. Hence, there is no substantial change in the continuity of shareholding of the company. Hence, the YA 2015 capital allowances of \$10,000 can be deducted against the YA 2016 profits. The additional condition for carry forward of capital allowances is met as IPL continues to carry on the same trade.

1.5

6(b) Chargeable income for the year of assessment 2016
(Financial year ended 30 September 2015)

	\$	
Adjusted profit	1,500,000	0.5
Less:		
Capital allowances – YA 2014	(100,000)	0.5
Capital allowances – YA 2015	(10,000)	0.5
Capital allowances – YA 2016	(200,000)	0.5
	<u>1,190,000</u>	
Less:		
Losses – year ended 30 September 2013	0	0.5
Losses – year ended 30 September 2014	(40,000)	0.5
Adjusted profit after capital allowances and losses	<u>1,150,000</u>	
Dividend income (one-tier) – exempt	0	0.5
Rental loss	0	0.5
Total chargeable income	<u><u>1,150,000</u></u>	

410

5 (a) Rachel

Tax payable for the year of assessment (YA) 2015

	\$	\$	
Partnership – Grandeur LLP			
Adjusted profits for the year ended 31 December 2014		30,000	0·5
Losses brought forward which can be utilised:			
– losses available due to adjusted profits for the year	(30,000)		0·5
– losses available due to additional contributed capital	(10,000)	(40,000)	0·5
		(10,000)	0·5
Employment income			
K Associates			
Salary		18,000	0·5
Contractual bonus (taxed in YA 2014)		0	0·5
Y Associates			
Joining bonus		6,000	1·0
Salary (\$20,000 x 11)		220,000	0·5
Car allowance (\$3,000 x 11)		33,000	1·0
Reimbursement of parking (\$200 x 11)		2,200	0·5
Entertainment allowance (\$3,000 x 11 x 20%)		6,600	1·0
Reimbursement of dental care cost		0	0·5
Other income			
Interest income from approved bank		0	0·5
Dividend income from Australian company (exempt)		0	0·5
		275,800	
<i>Less:</i>			
Personal reliefs			
Earned income	1,000		0·5
Central Provident Fund – ordinary wages	12,000		0·5
Central Provident Fund – additional wages (joining bonus)	1,200		0·5
Parent relief (\$9,000 x 2)	18,000		0·5
Foreign maid levy	0	(32,200)	0·5
Total chargeable income		243,600	
			<u>11</u>

- (b) An employee who is paid a contractual bonus in accordance with the terms of the employee's employment contract would be regarded as having accrued the bonus in the year to which the contractual bonus relates. This is usually the year in which the employee renders the services for which the contractual bonus is paid. 1·5
- A non-contractual bonus is usually paid at the discretion of the employer. As such, a non-contractual bonus only accrues to the employee in the year when the bonus is paid. 1·5
- From the employer's standpoint, both the contractual and non-contractual bonuses would be tax deductible for the year of assessment corresponding to the accounting year in which such bonuses are accrued and when the legal liability to pay has crystallised. 1·0

415

6 (a) Hot Clean Pte Ltd

Tax liability for the year of assessment 2015
(Financial year ended 30 September 2014)

	\$	\$	
Net profit per accounts		480,000	
<i>Less:</i>			
Write back of over provision for diminution in value of investment in a subsidiary	20,000		0.5
Interest income on an outstanding trade debt received from a US customer	0		0.5
Country Q dividend	2,000		0.5
Compensation from a customer for the cancellation of a contract	0		1.0
		<u>(22,000)</u>	
		458,000	
<i>Add:</i>			
Foreign exchange differences			
– year end translation of USD loans	30,000		0.5
– realised difference on settlement of trade creditors	0		0.5
Loan to a staff member forgiven	6,000		0.5
Depreciation	10,000		0.5
Mileage claims by staff using own private cars for company business	12,000		0.5
External training – PIC (\$30,000 x 3)	(90,000)		1.0
Payment made to a competitor for agreeing to exit the Singapore market	30,000		1.0
Staff salary, bonuses and CPF contributions	0		0.5
Staff medical expenses (\$12,000 – (2% x \$500,000))	2,000		1.0
		<u>0</u>	
Adjusted trading profit		458,000	
<i>Less:</i>			
Capital allowances and enhanced capital allowances			
Automated equipment for cleaning-related operations – CA (\$60,000/3)	20,000		0.5
Automated equipment for cleaning-related operations – PIC(\$60,000/3 x 3)	60,000		0.5
Lorry (\$90,000/3)	30,000		0.5
Chairs (low value assets)	5,000		0.5
		<u>(115,000)</u>	
Adjusted trading profit after capital allowances		343,000	
<i>Add:</i> Non-trade income			
Country Q dividend ('subject to tax' and 'headline tax' conditions met)		<u>0</u>	1.0
		343,000	
<i>Less:</i>			
Partial tax exemption			
75% on the first \$10,000	7,500		
50% on the next \$290,000	145,000		
		<u>(152,500)</u>	0.5
Chargeable income		<u>190,500</u>	
Tax at 17%		32,385	0.5
<i>Less:</i> Corporate income tax rebate (30% capped at \$30,000)		<u>(9,715)</u>	0.5
Tax payable		<u><u>22,670</u></u>	
			<u>13</u>

- (b) A company is resident in Singapore if the management and control of its business is exercised in Singapore. 'Management and control' refers to the central management and control and not to the day-to-day running of the business. 1.0

Central management and control of a company will be vested with and exercised by the board of directors of the company. Hence, a company is resident in Singapore if the directors' board meetings are held in Singapore. 1.0

2

15