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# Answers

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Section B

Marks

1 DNut Singapore Pte Ltd (DSPL)

(a) Withholding tax implications

(1) Licence fee

The licence fee of \$100,000 to use the brand name 'Nut' in Singapore is deemed sourced in Singapore, thus, the payment is subject to the Singapore withholding tax provision.

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As there is no tax treaty between Singapore and Country D, the applicable withholding tax rate under the domestic tax law of 10% applies. Thus, the withholding tax is \$10,000.

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(2) Software usage fee

As this is a payment for a copyrighted item (i.e. the right to use the software) and not for the copyright (no right to modify), the payment is exempt from the Singapore withholding tax provision under the right based approach.

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(3) Equipment purchase

This is a payment for the outright purchase of equipment, thus, it does not fall within the Singapore withholding tax provision.

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As the modification work is carried out outside Singapore, it also does not fall within the Singapore withholding tax provision.

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(4) Equipment installation

As the installation is done in Singapore, it will be subject to the Singapore withholding tax provision as it relates to the provision of technical services in Singapore.

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The applicable withholding tax rate is the prevailing corporate tax rate of 17%. Thus the withholding tax is \$1,700.

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(b) Payments of withholding tax to the IRAS

DSPL should account for the withholding tax to the IRAS by the 15th of the second month following the date of the payment.

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For the licence fee and the equipment installation fee, the dates of payment are 1 June 2016 and 15 December 2016. Accordingly, the withholding tax on the licence fee and equipment installation fee has to be paid to the IRAS by 15 August 2016 and 15 February 2017 respectively.

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## 2 Tailor Pte Ltd (TPL)

## (a) Time of supply of the advance payment (deposit)

The time of supply is the earlier of the date of receipt of the payment or the date of the invoice. Since the customer made the advance payment on 30 December 2015, TPL has to account for the goods and services tax (GST) on the deposit received in the quarter 1 October to 31 December 2015.

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## (b) GST for the quarter 1 October to 31 December 2015

	Nature of supply/purchase	Value \$	Input tax \$	Output tax \$	
Local sales	Standard rated	350,000		24,500	0.5
Export sales	Zero rated	100,000		–	0.5
Local purchases	Standard rated	200,000	14,000		0.5
Salary and CPF contributions	Not a supply	50,000	–		0.5
Employee routine medical expenses	Standard rated but blocked	10,000	0		1
Interest on bank overdraft	Exempt	5,000	–		1
Rental – bare rent for the residential apartment provided rent free to the general manager	Exempt	18,000	–		1
Rental – furniture and fittings of the above residential apartment (Please refer to the tutorial note)	Standard rated	6,000	420		
	Related deemed supply			420	1.5
Advance payment received (\$1,000/107%)	Standard rated	935		65	1
			<u>14,420</u>	<u>24,985</u>	
				<u>(14,420)</u>	
GST payable				<u>10,565</u>	0.5
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**Tutorial note:** TPL has the choice of either claiming the input GST and recognising deemed output GST or not claiming the input GST. If no input GST is claimed, then there is no deemed output GST. Marks should be awarded accordingly for this alternative treatment.

## 3 Jane and Jack

## (a) JJ LLP – Adjusted and divisible profits for the year ended 31 December 2015

Accounting profit	\$	280,000	
Add:			
Staff salaries and bonus		0	0.5
Reimbursement of car park expenses of staff (private cars)		3,600	1
Interest expense		24,000	1
Divisible profits		<u>307,600</u>	
Add:			
Jane's airfare		0	0.5
Jane's salary and bonus		36,000	1
Reimbursement of Jack's car park expenses		4,800	1
Adjusted profit		<u>348,400</u>	
			<u>5</u>

**(b) Chargeable income applicable to the partners for the year of assessment 2016**

	Jane \$	Jack \$	Total \$	
Share of divisible profit	153,800	153,800	307,600	1
Salary and bonus	36,000	0	36,000	0.5
Reimbursement of car park expenses	0	4,800	4,800	1
Adjusted profit	189,800	158,600	348,400	
<i>Less:</i>				
Losses brought forward from previous year available for utilisation in the current year:				
Jane (working)	(20,000)			1.5
Jack		(120,000)		1
Chargeable income	169,800	38,600		5
				<b>10</b>

**Working – Jane**

	\$
Agreed adjusted loss – 31 December 2014	120,000
Amount utilised in YA 2015 (restricted to capital contributed)	(100,000)
Amount carried forward to YA 2016	20,000

**4 Display Pte Ltd (DPL)****(a) Capital allowance and enhanced allowance for the year of assessment 2016**

	\$	\$	
Website design – capital allowance		12,000	1
Website design – enhanced allowance		36,000	0.5
Computers	50,000		0.5
Cabling for computers	3,000		1
	53,000		
Computers and cabling- capital allowance		53,000	0.5
Computers and cabling – enhanced allowance		159,000	0.5
Disposal of computers – no balancing adjustment (cash payout claimed, so no capital allowance has been claimed)		0	1
Disposal of ten computer tables – balancing charge (low value assets – 100% claim in year 1)		(2,000)	1
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**(b) Deductible donations for the year of assessment 2016**

	\$	
Cash donations to the Sabah Earthquake Fund (not an IPC)	0	1
Donations to the National Kidney Foundation		
– outright cash donation (\$6,000*300%)	18,000	0.5
– massage chairs (in kind, not in cash)	0	0.5
	18,000	
		2

**(c) Carry forward of unabsorbed donations**

Unabsorbed donations may be carried forward for a maximum of five years of assessment provided: 0.5

- the continuity of shareholding test (i.e. not more than a 50% change in the ultimate beneficial shareholders and their shareholdings of the company) is met on the last day of the year in which the donations were incurred and the first day of the year of assessment in which the donations are to be deducted.

1.5

2**10****5 Sandra****Tax payable for the year of assessment 2016**

	\$	\$	
Employment income			
Salary (\$20,000 x 12)		240,000	0.5
Stock option exercised (50,000 x (\$4 – \$1))		150,000	1.5
Stock award (10,000 x \$5)		50,000	1.5
Rolex watch		10,000	1
Gold ring (less than \$200, not substantial)		0	1
Reimbursement of car park expenses		3,600	1
Interest income (\$5,000 x 40%) –Singapore sourced		2,000	1
Interest income (\$5,000 x 60%) – foreign sourced		0	1
Dividend income from Cayman Island Co – foreign sourced		0	1
		<u>455,600</u>	
Less: Donations			
20,000 shares in ABC Ltd (listed on SGX) (20,000 x \$5 x 300%)		(300,000)	2
		<u>155,600</u>	
Less: Personal reliefs:			
Earned income	(1,000)		0.5
Qualifying child relief	0		0.5
Working mother child relief	0		0.5
CPF (20%*\$5,000*12)	(12,000)	(13,000)	1
Chargeable income		<u>142,600</u>	
Tax payable:			
On first \$120,000		7,950	0.5
On the remaining \$22,600 (\$142,600 – \$120,000) at 15%		3,390	0.5
Total tax payable		<u>11,340</u>	

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**Tutorial note:** As Steven is over 16 years and is not studying full-time at a tertiary institution no child relief is available. In addition, he has income greater than \$4,000.

**6 Gas Supply Pte Ltd****(a) Treatment of free installation and compensation for revenue loss**

The cost of the installation of the gas meters and the cost of compensating the customers for the revenue loss during the installation period are wholly and exclusively incurred in the production of income (i.e. to secure the customer contracts for the supply of gas). Therefore, such costs are tax deductible, provided they are revenue in nature. 1

As the minimum contract period procured from the customers is for one year, such costs should be considered revenue in nature. 1

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**(b) Corporate income tax for the year of assessment 2016**  
(Basis period: 1 January 2015 to 31 December 2015)

	\$	\$	
Net accounting profit before tax		200,000	
<i>Less:</i>			
Special employment credit		0	0.5
Cash payout		(1,800)	0.5
Recovery of a non-trade debt from an employee		(1,500)	0.5
Exchange difference on a loan obtained in US dollars		(800)	0.5
Compensation received from a customer for the cancellation of a contract		0	1
<i>Add:</i>			
Depreciation expense		3,000	0.5
Installation of gas meters (at no cost to the customer) at the customers' premises		0	0.5
Compensation paid to customers for revenue loss during the installation period		0	0.5
Advertising		0	0.5
Hire purchase interest on a private motor car used by the managing director		1,500	0.5
Training and seminars for staff (cash payout claimed)		3,000	1
Adjusted profits		<u>203,400</u>	
<i>Less:</i>			
Laptops – capital allowance	(6,000)		0.5
Laptops – enhanced allowance (\$6,000*3)	(18,000)		0.5
Office furniture (low value assets)	(4,500)	(28,500)	0.5
		<u>174,900</u>	
<i>Less: Full tax exemption</i>			
First \$100,000	(100,000)		0.5
Next \$74,900 at 50%	(37,450)	(137,450)	0.5
Chargeable income		<u>37,450</u>	
Tax at 17%		6,367	0.5
<i>Less: Corporate income tax rebate (30% of tax payable, capped at \$20,000)</i>		(1,910)	0.5
		<u>4,457</u>	
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**(c) Conditions for claiming a productivity and innovation credit (PIC) cash payout**

A company which has incurred qualifying expenditure on PIC automation equipment can apply for a cash payout in the year of assessment 2016 provided:

1. The company is carrying on an active business operation in Singapore (the 'active business operation' condition).
2. The company has at least three local employees (Singapore citizens or Singapore permanent residents with Central Provident Fund (CPF) contributions) excluding shareholders who are also directors of the company (the 'three-local-employee' condition).
3. The company must be using the PIC automation equipment at the point of applying for the cash payout (the 'in-use' condition).

1 mark each

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