
Answers

1 Stand Firm Pte Ltd
Tax computation for the year of assessment 2008
Financial year ended 31 December 2007

	Note	\$	\$
Net profit before income tax as per account			1,300,000
Less			
Other revenue (separate source)			(270,000)
			<u>1,030,000</u>
Add			
Compensation to a US corporation		50,000	
CPF contributions in respect of Mr Maurice		16,000	
Repair costs of motor car		2,500	
Loss on sale of motor car		4,500	
Cost of replacing the entire roof	1	40,000	
Expenditure on alteration to building	2	15,000	
Interest on loan to fund the acquisition of shares in the Singapore company	3	16,000	
Interest on loan to fund the acquisition of shares in the overseas companies	3	44,000	
Depreciation		<u>100,000</u>	<u>288,000</u>
Trade adjusted profit			1,318,000
Less			
Year of assessment 2007 capital allowances b/f			(12,420)
Year of assessment 2008 capital allowances			
Industrial building	4	291,200	
Moulding machine	5	10,000	
Converter machine	6	2,000	
Delivery van	7	<u>8,000</u>	<u>(311,200)</u>
Year of assessment 2007 losses b/f			<u>(9,380)</u>
			985,000
Separate source income			
Singapore one-tier tax exempt dividend		80,000	
Less interest expense	3	<u>(16,000)</u>	
Net dividend		<u>64,000</u>	Tax exempt
Bank interest			70,000
Interest received from overseas			<u>120,000</u>
Chargeable income			1,175,000
Less partial exemption of chargeable income			
First \$10,000 – 75% exempt		7,500	
Balance \$290,000 – 50% exempt		<u>145,000</u>	<u>152,500</u>
Chargeable income			<u>1,022,500</u>
Tax payable at 18%			<u>184,050</u>

Notes:

1 – Cost of replacing the entire roof

The cost of replacing the entire roof was a capital expenditure not qualifying for deduction. The cost, however, would be considered as part of the cost of the industrial building, qualifying for industrial building allowances.

2 – Expenditure on alteration of building

The expenditure was of a capital nature and would not qualify as a deductible expense. However, as the expenditure was incidental to the installation of the moulding machine, it would form part of the cost of the moulding machine, qualifying for capital allowances.

3 – Finance costs

Interest of \$16,000 in relation to the loan obtained to finance the acquisition of the shares in the Singapore resident company is deductible against the dividend income classified under separate source income.

The interest of \$44,000 in relation to the loan obtained to finance the acquisition of shares in overseas companies was only deductible against the dividends from these companies. As no dividend was received, the interest incurred is not deductible.

4 – Industrial building allowances	\$
Purchase price of industrial building	1,000,000
Cost of roof replacement	40,000
Expenditure qualifying for industrial building allowances	<u>1,040,000</u>
Initial allowances at 25% of \$1,040,000	260,000
Annual allowances at 3% of \$1,040,000	31,200
Total industrial building allowances	<u>291,200</u>
5 – Capital allowances on moulding machine	\$
Down payment	10,000
Instalments (5 X \$40,000/40)	5,000
Alteration cost qualifies as part of machine cost	15,000
Total capital expenditure incurred	<u>30,000</u>
Capital allowances under s.19A (\$30,000/3)	<u>10,000</u>
6 – Capital allowances on converter machine	\$
Cost of old converter machine	14,000
Capital allowances claimed for the years of assessment 2004 to 2006 (3 X \$14,000/3)	<u>14,000</u>
Tax written down value	0
Sold in 2007	<u>9,000</u>
Balancing charge	<u>9,000</u>
Cost of new converter machine	15,000
Less balancing charge on old converter machine	<u>9,000</u>
Balance of cost on replacement treatment	<u>6,000</u>
Capital allowances under s19A (\$6,000/3)	<u>2,000</u>
7 – Delivery van	\$
Delivery van purchased in 2005	60,000
Initial allowance (20% X \$60,000)	12,000
Balance of cost after initial allowances	<u>48,000</u>
Annual allowances (\$48,000/6) for each year of assessment from year of assessment 2006 to year of assessment 2011.	<u>8,000</u>

2 Tax computations of Albert and Alice
Year of assessment 2008

	Albert		Alice	
	\$	\$	\$	\$
Trade				
Sole-proprietorship				
Net loss as per accounts	(85,000)			
Add: depreciation	<u>15,000</u>			
Adjusted loss		(70,000)		
Capital allowances (Note 1)		(17,000)		
Partnership taxable income (Note 2)				14,000
Employment				
Salary	90,000			45,000
Sales commission	30,000			
Contractual bonus	NT			
Payment in lieu of annual leave	3,000			
Taxi fares reimbursement	5,000			
All expense paid holiday	8,000			
Plasma television	<u>NT</u>	136,000		
Director's fee		30,000		
Investment				
Interest from a fixed deposit placed with a licensed finance company				
Rent				
Rental income	18,000		37,000	
Less expenses	<u>(27,000)</u>			
Less property tax			(4,500)	
Less mortgage interest			<u>(12,500)</u>	
Rental profit/(loss)	(9,000)		20,000	
Transfers to/from spouse	<u>9,000</u>	0	<u>(9,000)</u>	11,000
Statutory income		79,000		70,000
Less donation (\$3,000 X 2)		<u>0</u>		<u>(6,000)</u>
Assessable income		79,000		64,000
Less personal reliefs				
Earned income	(1,000)		(1,000)	
Child relief			(2,000)	
Working mother's child relief				
(5% of \$45,000)			(2,250)	
CPF (Note 3)	(15,300)		(9,000)	
NSman relief	<u>(3,000)</u>	(19,300)	<u>(750)</u>	15,000
Chargeable income		<u>59,700</u>		<u>49,000</u>
Tax payable				
On the first \$40,000		900		900
On the balance				
\$19,700/\$9,000 at 8.5%		<u>1,675</u>		<u>765</u>
Tax payable		<u>2,575</u>		<u>1,665</u>
Notes				
1. Capital allowances			\$	\$
Computer (100% claimed)				25,000
Machinery			39,000	
Capital allowances claimed			<u>(39,000)</u>	
Tax written down value			0	
Sold			<u>8,000</u>	
Balancing charge				(8,000)
Net capital allowances				<u>17,000</u>

2.	Alice's share of partnership income	\$
	Partnership tax adjusted profit	38,000
	Less: reimbursement of Alice's motor car expense	(5,000)
	Partnership tax divisible profit	<u>33,000</u>
	Alice's 30% share in the partnership divisible profit (30% X \$33,000)	9,900
	Reimbursement of Alice's motor car expenses	<u>5,000</u>
	Total	14,900
	Less: share of capital allowances (30% X \$3,000)	(900)
	Partnership taxable income	<u>14,000</u>
3.	Albert's and Alice's CPF contributions	
	Albert	\$
	CPF on ordinary wages capped at \$54,000 at 20%	10,800
	CPF on additional wages (capped at \$76,500 less ordinary wages subject to CPF of \$54,000) of \$22,500 at 20%	<u>4,500</u>
	Total CPF contributions	<u>15,300</u>
	Alice	
	CPF on ordinary wages of \$45,000 at 20% (no capping required)	<u>9,000</u>

3 (a) The contributed capital of a partner of a limited liability partnership is the aggregate of:

- the amount which the partner has contributed to the limited liability partnership (in cash or in kind but does not include any loan made by him to the limited liability partnership) as capital, and has not, directly or indirectly, been withdrawn or returned to him (whether as a distribution or a loan or otherwise); and
- the amount of profits or gains derived by the limited liability partnership from any past year of assessment to which the partner is entitled but which he has not received (whether as a distribution or a loan or otherwise).

(b) Johnson LLP

Thomas' tax computation for the years of assessment 2007 and 2008

Years of assessment	Note	2007 \$	2008 \$
Employment income		250,000	300,000
Less LLP capital allowances		(22,400)	(30,400)
Less LLP losses b/f			(28,400)
Less share of LLP losses/losses restricted	1	<u>(256,000)</u>	<u>(91,200)</u>
Assessable income		<u>0</u>	<u>150,000</u>
Share of LLP losses c/f		<u>(28,400)</u>	<u>(244,800)</u>

Keith's tax computation for the years of assessment 2007 and 2008

Years of assessment	2007 \$	2008 \$
Interest income	Tax exempt	Tax exempt
LLP capital allowances b/f		(5,600)
Share of LLP capital allowances	(5,600)	(7,600)
LLP losses b/f		(64,000)
Share of LLP losses	<u>(64,000)</u>	<u>(84,000)</u>
Assessable income	<u>Nil</u>	<u>Nil</u>
LLP capital allowances c/f	<u>(5,600)</u>	<u>(13,200)</u>
LLP losses c/f	<u>(64,000)</u>	<u>(148,000)</u>

Note 1 – Restriction on the utilisation of Johnson LLP's losses for the year of assessment 2008.

	\$
Contributed capital	400,000
Less: LLP's year of assessment 2007 capital allowances utilised	(22,400)
Less: LLP's year of assessment 2007 losses utilised	(227,600)
Balance of contributed capital available	150,000
Less: LLP's year of assessment 2007 capital allowances b/f utilised	(28,400)
Less: LLP's year of assessment 2008 capital allowances utilised	(30,400)
Less: LLP's year of assessment 2008 losses utilisation restricted	(91,200)
Balance of contributed capital available	nil

4 (a) Global Union Pte Ltd

In order to dispute the notice of additional assessment for the year of assessment 2007, Global Union Pte Ltd has to file a notice of objection within 30 days from the date of service of the notice of additional assessment. The notice of objection must provide the grounds of objection.

Notwithstanding the lodgement of the notice of objection, Global Union Pte Ltd has to settle the tax assessed within one month from the date of service of the notice of additional assessment if a late payment penalty is to be avoided.

(b) Fraser Pte Ltd

Year of assessment 2008

Computation of industrial building allowances and capital allowances

Industrial building allowances	\$
Henderson industrial building	
Qualifying capital expenditure (75% X \$2,400,000)	1,800,000
Initial allowance claimed (25% X \$1,800,000)	(450,000)
Annual allowance claimed (3% X \$1,800,000 X 7)	(378,000)
Residue of expenditure	972,000
Sale proceeds	3,500,000
Less residue of expenditure	(972,000)
Balancing charge (restricted to total allowances claimed)	828,000
Keppel industrial building	
Qualifying capital expenditure	3,800,000
Initial allowance (25% X \$2,000,000)	500,000
Annual allowance (3% X \$3,800,000)	114,000
Total allowances	614,000
Extraction machine	
Cost	250,000
Year of assessment 2006	
First year annual allowances [(\$50,000 + \$10,000)/3]	(20,000)
Year of assessment 2007	
Second year annual allowances of year of assessment 2006	(20,000)
First year annual allowances (\$120,000/3)	(40,000)
Tax written down value as at 31 December 2006	170,000
Sale proceeds	120,000
Less tax written down value	(170,000)
Balancing allowance	50,000
Processing plant	
Cost excluding goods and services tax (\$321,000 X 100/107)	300,000
Modification excluding goods and services tax (\$53,500 X 100/107)	50,000
Total cost	350,000
Annual allowance (\$350,000/3)	116,667

5 (a) Pixie Pte Ltd

Types of supply

Transactions	Types of supply	Output tax \$	Input tax \$
Local sales	Standard rated supply	175,000	
Export sales	Zero rated supply	0	
Imports of purchases	Standard rated supply		147,000
Freight costs of exports	Zero rated supply		0
Office rent	Standard rated supply		2,100
Rent of staff accommodation	Exempt supply		0
Airfares on overseas trips	Zero rated supply		0
Repair costs of motor cars	Standard rated supply		140
Club subscription fees	Standard rated supply		84
Total		<u>175,000</u>	<u>149,324</u>

(b) Computation of goods and services tax (GST) payable for the quarter ended 31 December 2007.

	\$	\$	\$
Total output tax			175,000
Total input tax		149,324	
Less: Blocked input tax			
Repair costs of cars	(140)		
Club subscription fees	<u>(84)</u>	<u>(224)</u>	
Input tax claimed			<u>(149,100)</u>
Goods and services tax (GST) payable			<u>25,900</u>

(c) Pixie Pte Ltd must pay the goods and services tax (GST) by 31 January 2008, at the latest, failing which the following late penalty shall be imposed.

- (a) a penalty equal to 5% of the amount of goods and services tax (GST) payable; and
- (b) if the amount of the goods and services tax (GST) outstanding is not paid within 60 days of the imposition of the 5% penalty stated in (a) above, an additional penalty of 2% of the amount of outstanding goods and services tax (GST) shall be payable for each completed month that the goods and services tax (GST) remains unpaid commencing from the date on which the goods and services tax (GST) became payable. The total additional penalty shall not exceed 50% of the amount of outstanding goods and services tax (GST).

This marking scheme is given as a guide to markers in the context of the suggested answers. Scope is given to markers to award marks for alternative approaches to a question, including relevant comments, and where well reasoned conclusions are provided. This is particularly the case for essay based questions where there will often be more than one definitive solution. Candidates are not to be penalised for not quoting relevant sections of the Singapore Income Tax Act in their answers.

	<i>Marks</i>
1 Stand Firm Pte Ltd	
Net profit as per account	0·5
Separate source – other revenue	0·5
Expenses	
Compensation to US corporation	1·0
CPF contributions in respect of Mr Maurice	1·0
Repair costs of motor car	1·0
Loss on sale of motor car	1·0
Cost of replacing roof	1·0
Expenditure on alteration to building	1·0
Interest on loan – shares of Singapore company	1·0
Interest on loan – shares of overseas companies	1·0
Depreciation	1·0
Year of assessment 2007 capital allowances b/f	0·5
Year of assessment 2008	
Industrial building allowances	
Qualifying expenditure	1·0
Initial allowances	1·0
Annual allowances	1·0
Moulding machine	
Total capital expenditure incurred	3·0
Annual allowances	1·0
Converter machine	
Tax written down value	1·0
Balancing charge	1·0
Cost of new converter machine	1·0
Net off balancing charge	1·0
Annual allowances	1·0
Delivery van	
Annual allowance	2·0
Year of assessment 2007 losses b/f	0·5
Other income	
Singapore dividend	0·5
Less interest expense	0·5
Tax exemption on Singapore dividend	0·5
Bank interest	1·0
Interest received from overseas	1·0
Partial tax exemption	1·0
Tax rate	0·5
Total	<u>30·0</u>

	Marks
2 (a) Albert's tax computation for the year of assessment 2008	
Sole-proprietorship	
Net loss as per account	0.5
Add depreciation	0.5
Capital allowances – computer	0.5
Capital allowances – machinery	1.0
Employment	
Salary	0.5
Sales commission	0.5
Contractual bonus	0.5
Payment in lieu of annual leave	0.5
Taxi fares reimbursement	0.5
Expense paid holiday	0.5
Plasma TV	0.5
Director's fee	0.5
Investment income	
Interest from fixed deposit with licensed finance company	1.0
Rental income	0.5
Three items of expenses (3 X 0.5)	1.5
Rental loss transferred to spouse	1.0
Personal relief	
Earned income	0.5
CPF contributions	2.0
NSman	0.5
Tax at graduated rates	0.5
	<hr/> 14.0
(b) Alice's tax computation for the year of assessment 2008	
Partnership	
Partnership's divisible profit	1.0
Share of divisible profit	0.5
Reimbursement of motor car expenses	0.5
Share of capital allowances	0.5
Partnership taxable income	0.5
Employment	
Salary	0.5
Rent	
Rental income	0.5
Expenses (2 X 0.5)	1.0
Rental loss transferred from spouse	1.0
Donations	1.0
Personal relief	
Earned income	0.5
Child relief	1.0
Working mother child relief	1.0
CPF contributions	0.5
NSman spouse relief	0.5
Tax at graduated rates	0.5
	<hr/> 11.0
Total	<hr/> 25.0

	Marks
3 (a) Contributed capital	
(i) cash or kind not withdrawn	2·0
(ii) profits or gains not distributed or withdrawn	2·0
	<hr/> 4·0
(b) Johnson LLP	
Thomas tax computation	
Year of assessment 2007	
Employment income	0·5
Less LLP capital allowances	0·5
Less LLP losses	0·5
LLP losses c/f	0·5
Year of assessment 2008	
Employment income	0·5
Less LLP year of assessment 2008 capital allowances	0·5
Less LLP losses b/f	0·5
Less LLP year of assessment 2008 losses restricted	1·5
LLP losses c/f	0·5
Keith's tax computation	
Year of assessment 2007	
Interest income – tax exempt	0·5
Less LLP capital allowances	0·5
Less LLP losses	0·5
LLP capital allowances/losses c/f	0·5
Year of assessment 2008	
Interest income – tax exempt	0·5
Less LLP capital allowances b/f	0·5
Less LLP year of assessment 2008 capital allowances	0·5
Less LLP losses b/f	0·5
Less LLP year of assessment 2008 losses	0·5
LLP capital allowances c/f	0·5
LLP losses c/f	0·5
	<hr/> 11·0
Total	<hr/> 15·0

		<i>Marks</i>
4	(a) Global Union Pte Ltd	
	Notice of objection stating grounds of objection	1·0
	To be lodged within 30 days from the date of service of the notice of assessment.	1·0
	Notwithstanding objection, tax must be paid within one month from the date of service of the notice of assessment	1·0
		<hr/> 3·0
	(b) Fraser Pte Ltd	
	Henderson industrial building	
	Qualifying capital expenditure	1·0
	Residue of expenditure	2·0
	Sale proceeds	1·0
	Balancing charge restricted	1·0
	Keppel industrial building	
	Initial allowance	1·0
	Annual allowance	0·5
	Extraction machine	
	Sale proceeds	0·5
	Tax written down value	2·0
	Balancing allowance	0·5
	Processing plant	
	Cost	1·0
	Modification added to cost	1·0
	Annual allowance	0·5
		<hr/> 12·0
	Total	<hr/>15·0
5	(a) Pixie Pte Ltd	
	Local sales	1·0
	Export sales	1·0
	Imports	1·0
	Freight costs	1·0
	Office rent	1·0
	Rent of accommodation	1·0
	Airfares	1·0
	Repair costs of cars	1·0
	Club subscription fees	1·0
		<hr/> 9·0
	(b) Output tax	0·5
	Input tax	0·5
	Blocked input tax (2 X 1·0)	2·0
		<hr/> 3·0
	(c) Latest date of payment of goods and services tax (GST)	1·0
	Penalty for not paying the goods and services tax (GST) on time	1·0
	Additional penalty	1·0
		<hr/> 3·0
	Total	<hr/>15·0