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# Answers

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1 (a) The Income Tax Act defines a company to be 'resident in Singapore' if the control and management of the company's business is exercised in Singapore. Tax cases have established that the control and management of a company's business is usually vested with the board of directors. It therefore follows that where the board meets determines where the control and management of the company is exercised.

**(b) Jan Star Pte Ltd**

Year of assessment 2010

Basis period 1 January to 31 December 2009

	Notes	\$
Net profit as per accounts		780,000
<i>Add:</i>		
Medical expenses	1	11,500
Net interest	2	25,500
Withholding tax on interest	2	4,500
Hire purchase interest		4,800
Club entrance fee (\$12,800 – \$800)		12,000
Club subscription fees (\$200 x 4)		0
Legal fees		0
Donation – cash		20,000
Donation – artefact		2,000
Depreciation		17,000
		<u>97,300</u>
Tax adjusted profit		877,300
<i>Less:</i>		
Capital allowances – brought forward		(45,000)
Capital allowances – current		
Industrial building allowances		
Initial allowance (25% of \$300,000)		(75,000)
Annual allowance (3% of \$1,500,000)		(45,000)
Machinery – capital allowances	3	(60,000)
New computers (100% of \$16,000)		(16,000)
Balancing charge on sale of old computers		3,000
		<u>(238,000)</u>
		639,300
<i>Less:</i>		
Losses – brought forward		(120,000)
		<u>519,300</u>
<i>Less:</i>		
Donation – brought forward	4	(16,000)
Cash donation – current	4	(50,000)
Donation of artefact – current	4	(7,500)
		<u>(73,500)</u>
		445,800
<i>Less: partial tax exemption</i>		
First \$10,000 – 75% exempt		(7,500)
Next \$290,000 – 50% exempt		(145,000)
		<u>(152,500)</u>
Chargeable income		<u>293,300</u>
Tax payable at 17%		<u>49,861</u>

Notes

1. Medical expenses  
 The amount of medical expenses allowable is an amount equal to 1% of the total remuneration, excluding directors' fees and benefits-in-kind. The amount of medical expenses not deductible is \$11,500 arrived at [\$13,500 – 1% (\$320,000 – \$80,000 – \$40,000)].
2. Interest  
 The total amount of interest charged to the accounts was \$30,000. This comprised the net interest of \$25,500 paid to the financial institution and \$4,500 of withholding tax paid to the Comptroller of Income Tax. The total amount of interest is not deductible as it was not incurred in the production of income that is subject to Singapore income tax.

3. Machinery – capital allowances  
 First item of machinery – second year of claim (\$45,000/3) \$15,000  
 Second item of machinery (75% x \$60,000) \$45,000  
 Total \$60,000
4. Donations  
 The donation made in 2008 is granted a deduction of 200%, i.e. \$16,000 (2 x \$8,000).  
 The 2009 cash donation is granted a deduction at 250% of the cash donation made, i.e. \$50,000 (\$20,000 x 250%).  
 The 2009 donation of the artefact is also granted a deduction at 250%, based on the market value of the artefact at the time the donation was made. This amounts to \$7,500 (250% x \$3,000).

**2 (a) (i) Kevin Kong**

**Tax computation**

**Year of assessment 2010**

	Notes	\$	\$
Partnership			
Share of partnership tax adjusted divisible profit	1		15,000
Employment			
Salary (\$8,000 x 9 months) + (\$9,000 x 3 months)		99,000	
Bonus (\$9,000 x 2 months)		18,000	
		<u>117,000</u>	
Housing benefit [10% of \$117,000 – (\$500 x 12 months)]		5,700	122,700
			<u>137,700</u>
Less: Personal relief			
Earned income		(1,000)	
CPF contributions			
Ordinary wages (\$54,000 x 20%)		(10,800)	
Additional wages (\$18,000 x 20%)		(3,600)	(15,400)
		<u></u>	<u>122,300</u>
Chargeable income			
Tax payable			
On the first \$80,000		4,300	
On the balance of \$42,300 at 14%		5,922	10,222
		<u></u>	<u></u>

**(ii) Kathy**

**Tax computation**

**Year of assessment 2010**

	Notes	\$	\$
Partnership			
Share of tax adjusted divisible profit	1	37,500	
Interest on loans	1	42,000	79,500
Employment			
Lecturing fees (\$5,500 x 12 months)			66,000
Royalty (amount taxable is 10% of \$33,000)			3,300
			<u>148,800</u>
Chargeable income			
Less: Personal relief			
Earned income		(1,000)	
CPF contributions on ordinary wages (\$54,000 x 20%)		(10,800)	
Qualifying child relief (\$4,000 x 2)		(8,000)	
Working mother's child relief			
First child (15% of earned income of \$106,800)	2	(16,020)	
Second child (20% of earned income of \$106,800)	2	(21,360)	(57,180)
		<u></u>	<u>91,620</u>
Chargeable income			
Tax payable			
On the first \$80,000		4,300	
On the balance of \$11,620 at 14%		1,627	5,927
		<u></u>	<u></u>

**(b) Leonard**

Singapore withholding tax at the rate of 15% was imposed on the payments made to Leonard by the company. The withholding tax would have been deducted from the consultancy fee, the airfares and the hotel accommodation expenses. This amounted to \$8,100 [15% (\$36,000 + \$10,000 + \$8,000)]. If Leonard does not wish to accept the tax withheld as the final tax, he can opt to be taxed at 20% on the net consultancy fee, in which case, as a concession the airfares and hotel accommodation expenses would not be taxable. This option results in tax payable of \$7,200 (\$36,000 x 20%), which is lower than the 15% option, so Leonard should opt to be taxed on the net amount at 20%.

**Tax Computation**

**Year of assessment 2010**

	Notes	\$	\$
Partnership			
Share of partnership tax adjusted divisible profit	1	22,500	
Less:			
Partnership capital allowances – brought forward		(15,000)	
Partnership losses – brought forward		<u>(30,000)</u>	(22,500)
Rent			
Gross rent		54,000	
Less:			
Mortgage interest		(25,600)	
Renovation cost – not deductible		0	
Valuation report – not deductible		<u>0</u>	28,400
Consultancy fee (\$3,000 x 12 days)			<u>36,000</u>
Chargeable income			<u>41,900</u>
Tax payable as a non-resident			
At the rate of 20% on \$41,900			8,380
Less: tax refund on tax withheld			<u>(8,100)</u>
Tax payable			<u>280</u>

Notes

1. Share of partnership income

	Kevin (20%)	Kathy (50%)	Leonard (30%)
	\$	\$	\$
Share of tax adjusted divisible profit of \$75,000	15,000	37,500	22,500
Interest paid to a partner	0	42,000	0

2. Interest on loans

The interest on loans does not qualify to be treated as earned income. Consequently, it has to be excluded for the purpose of calculating working mother's child relief. Kathy's earned income is an amount of \$106,800 (\$148,800 – \$42,000).

**Note to markers:**

Qualifying child relief can be claimed by either Kevin or Kathy as their marginal tax rates are the same. The same marks should be awarded if the claim is made by Kevin instead of Kathy.

**3 Jasper Production Pte Ltd**

**Goods and services tax return  
For the quarter ended 31 December 2009**

	Input tax \$	Output tax \$
Sales (\$1,200,000 x 7%) – taxable supply		84,000
Purchases (\$700,000 x 7%) – taxable supply	49,000	
Rental of furniture and fittings – taxable supply (see working)		105
Purchase of commercial property (\$370,000 x 7%) – taxable supply	25,900	
Legal fees (\$4,500 x 7%) – taxable supply	315	
Rental of Malaysian property – out-of-scope	0	
Valuation service fee – zero-rated supply	0	
Purchase of vase (\$100,000 x 7%) – taxable but blocked supply	7,000	
Sale of vase (\$110,000 x 7%) – taxable supply		7,700
Purchase of food hampers (\$400 x 10 x 7%) – taxable supply and output tax has to be accounted for.	280	280
Purchase of food hamper (\$180 x 7%) – taxable supply	13	
Return airfares – zero-rated supply	0	0
Total	82,508	92,085
Less: Blocked input tax	(7,000)	
Net	75,508	92,085
GST payable (\$92,085 – \$75,508)		16,577

Working – Rental of furniture and fittings

As the rental did not specify the amounts applicable to the premises and furnishing, the monthly rental of the premises would have to be taken as 1/12 of the valuation list, that is \$4,000 (1/12 x \$48,000) and the rental of the furnishing to be \$500 (\$4,500 – \$4,000). The GST is therefore \$105 [7% x \$1,500 (\$500 x 3)].

**Tutorial notes:**

1. Valuation service fee – as the valuation service was done on land outside Singapore, the service qualifies as an international service and is zero-rated.
2. Purchase of food hampers – output tax has to be computed and paid on gifts in excess of \$200.

**4 (a) Angela**

**Tax computations**

Year of assessment 2009	Notes	\$	\$
Net rental income		3,000	
Less: Dodge City LLP capital allowances		(3,000)	
Net rental income			0
Dodge City LLP – losses		(60,000)	
Transfer of Dodge City LLP losses to spouse	1	27,000	
Dodge City losses – carried forward		(33,000)	
Assessable income			Nil
<b>Year of assessment 2010</b>			
Dodge City LLP – profits		36,000	
Less: Dodge City LLP capital allowances – current		(7,200)	
Balance of Dodge City LLP profit		28,800	
Less: Dodge City LLP losses brought forward	2	(33,000)	
Dodge City LLP losses carried forward		(4,200)	
Net rental income			5,000
Assessable income			5,000

(b) Beatrice

Tax computations

Year of assessment 2009	Notes	\$	\$
Employment income			40,000
Dodge City LLP capital allowances		(2,000)	
Dodge City LLP losses – restricted	3	(3,000)	(5,000)
Dodge City LLP losses carried forward		<u>(37,000)</u>	
Assessable income			<u>35,000</u>
<b>Year of assessment 2010</b>			
Dodge City LLP profits		24,000	
Less: Dodge City LLP capital allowances – current		<u>(4,800)</u>	
Balance of Dodge City LLP profits		19,200	
Less: Dodge City losses brought forward	2	<u>(37,000)</u>	
Dodge City LLP losses carried forward		<u>(17,800)</u>	
Employment income			60,000
Assessable income			<u>60,000</u>

Notes

1. Transfer of Dodge City LLP losses to spouse  
The transfer of losses is possible as Angela and her husband have elected for spousal transfer. The amount of losses to be transferred to her husband is restricted to \$27,000 (\$30,000 – \$3,000), the amount of contributed capital remaining after deducting the Dodge City LLP capital allowances of \$3,000 against her rental income.
2. Dodge City LLP losses brought forward  
The utilisation of the Dodge City LLP losses brought forward is restricted to the amount of Dodge City LLP profit and no amount can be used against her rental income as her contributed capital equals the amount of past relevant deductions. The balance of the losses has to be carried forward.
3. Dodge City LLP losses restricted  
Beatrice's contributed capital was reduced to \$5,000 (\$20,000 – \$15,000) from December 2008 as a result of the loan she had taken from the LLP. As a consequence, only \$3,000 of the losses could be used against her employment income due to the rule that the relevant deduction cannot exceed her contributed capital. The amount of contributed capital that remained after deducting the Dodge City LLP capital allowances was \$3,000 (\$5,000 – \$2,000).

5 Pattern Precision Pte Ltd (PPPL)

- (1) Fees derived by directors for attending board meetings are considered income from employment and are sourced in Singapore if the board meetings are conducted in Singapore. However, in an Inland Revenue Authority of Singapore (IRAS) Circular, it was clarified that fees derived by non-resident directors of companies that have no presence in Singapore are not liable to Singapore income tax. Accordingly, the fees derived by the non-resident directors of the US parent company with no presence in Singapore are not liable to Singapore income tax even though on some occasions, board meetings are conducted in Singapore.
- (2) PPPL has to withhold tax in the following manner:
  - (a) The interest payment to a bank in Hong Kong is subject to withholding tax at the rate of 15%. As the withholding tax is to be borne by PPPL, the amount of tax to be paid (withheld) is \$8,824 [15% (\$50,000 x 100/85)].
  - (b) The royalty of \$50,000 paid to the non-resident company is subject to Singapore withholding tax at the rate of 10% if the non-resident company does not carry on a trade or business in Singapore and the royalty payment is not effectively connected to a permanent establishment in Singapore of the non-resident company. In all other cases, the withholding tax rate is 17%.
- (3) The tax liability can be settled by instalments provided the estimate is filed early enough. In order to take full advantage of the maximum of ten instalments, PPPL should E-file its estimated chargeable income within one month from the end of the accounting year. If E-filing of its estimated chargeable income is done within two months after the accounting year end, only eight instalments will be allowed, and six instalments if E-filing is done within three months. Instalment payments will not be allowed if E-filing is done after three months.
- (4) The Singapore tax regime does not impose tax on capital gains. However, gains realised from trading in investment assets are taxable. Whether or not a trade is being carried on would depend on the existence of certain factors, commonly referred to as the badges of trade. The existence of any one of the badges of trade may not be conclusive that a trade is being carried on but, collectively, they are persuasive in finding that a trade exists.

- (5) The Singapore Income Tax Act deems a payment to have been made to a non-resident of Singapore even though it is not actually paid but is reinvested, accumulated, capitalised, carried to any reserve or credited to any account however designated, or otherwise dealt with on behalf of the non-resident of Singapore. Singapore withholding tax would have to be accounted for when a payment falls to be deemed paid.

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 penalised for not quoting relevant sections of the Singapore Income Tax Act in their answers.

	<i>Marks</i>
<b>1 (a) Determination of the resident status of a company</b>	
Place of control and management	1·0
Vesting of control and management on board of directors	1·0
Place of meeting of the board of directors	1·0
	<u>3·0</u>
 <b>(b) Tax computation of Jan Star Pte Ltd</b>	
Net profit as per accounts	1·0
Medical expenses	2·0
Net interest	1·0
Withholding tax on interest	1·0
Hire purchase interest	1·0
Club entrance fee	1·0
Club subscription fee	1·0
Legal fees	1·0
Donation – cash	1·0
Donation – artefact	1·0
Depreciation	1·0
Capital allowances – brought forward	1·0
Capital allowances – current	
Industrial building allowances – initial allowances	1·0
Industrial building allowances – annual allowances	1·0
Machinery – capital allowances	2·0
Computers – 100% claim	1·0
Balancing charge	1·0
Losses – brought forward	1·0
Donation – brought forward	1·5
Donation – cash	1·5
Donation – artefact	2·0
Partial tax exemption	
First \$10,000 – 75% exemption	0·5
Next \$290,000 – 50% exemption	0·5
Tax rate	1·0
	<u>27·0</u>
	<u>30·0</u>

		<b>Marks</b>
<b>2</b>	<b>(a) (i) Kevin Kong's tax computation</b>	
	Share of partnership tax adjusted divisible profit	1·0
	Employment income	0·5
	Bonus	1·0
	Housing benefit	1·5
	Personal reliefs:	
	Earned income	0·5
	CPF on ordinary wages	1·0
	CPF on additional wages	1·0
	Tax payable	0·5
		<hr/> 7·0
	<b>(ii) Kathy's tax computation</b>	
	Share of partnership divisible profit	1·0
	Interest on loans	1·0
	Lecturing fees	0·5
	Royalty	1·5
	Personal reliefs:	
	Earned income	0·5
	CPF on ordinary wages	1·0
	Qualifying child relief	1·0
	Working mother's child relief	
	First child	1·0
	Second child	1·0
	Tax payable	0·5
		<hr/> 9·0
	<b>Note to markers:</b>	
	Qualifying child relief can be claimed by either Kevin or Kathy and either treatment should be awarded the mark.	
<b>(b)</b>	<b>Leonard</b>	
	Withholding at 15% on gross consultancy fee	1·0
	Option to be taxed at 20% on net fee	1·0
	Identification of 20% option as giving lower tax	0·5
	Computation	
	Share of partnership tax adjusted profit	1·0
	Partnership capital allowances – brought forward	1·0
	Partnership losses – brought forward	1·0
	Rental income	
	Gross rent	0·5
	Mortgage interest – deductible	0·5
	Renovation cost – not deductible	0·5
	Valuation report – not deductible	0·5
	Consultancy fee	0·5
	Tax payable as a non-resident	0·5
	Tax refund on withholding tax	0·5
		<hr/> 9·0
		<hr/> <b>25·0</b>

		<b>Marks</b>
<b>3</b>	<b>Jasper Production Pte Ltd</b>	
	Sales	0.5
	Purchases	0.5
	Rental of furniture and fittings	2.0
	Purchase of commercial property	1.0
	Legal fees	1.0
	Rental of Malaysian property – out-of-scope	1.0
	Valuation service fee – zero-rated supply	1.0
	Purchase of vase – taxable supply	1.0
	Sale of vase – taxable supply	1.0
	Purchase of ten food hampers – taxable supply and output tax	2.0
	Purchase of one food hamper – taxable supply	1.0
	Return airfares	1.0
	Blocked input tax	1.0
	GST payable	1.0
		<b>15.0</b>
		<hr/>
<b>4</b>	<b>(a) Angela</b>	
	Net rental income	0.5
	LLP capital allowances	1.0
	LLP losses	0.5
	Transfer of LLP losses to spouse	1.5
	LLP losses carried forward	0.5
	Assessable income – nil	0.5
	Year of assessment 2010	
	LLP profit	0.5
	LLP capital allowances – current	0.5
	LLP losses brought forward	0.5
	LLP losses carried forward	1.0
	Net rental income	0.5
	Assessable income	0.5
		<b>8.0</b>
		<hr/>
	<b>(b) Beatrice</b>	
	Employment income	0.5
	LLP capital allowances	0.5
	LLP losses	1.5
	LLP losses carried forward	0.5
	Assessable income	0.5
	Year of assessment 2010	
	LLP profit	0.5
	LLP current capital allowances	0.5
	LLP losses brought forward	0.5
	LLP losses carried forward	1.0
	Employment income	0.5
	Assessable income	0.5
		<b>7.0</b>
		<hr/>
		<b>15.0</b>

		<b>Marks</b>
<b>5</b>	<b>Pattern Precision Pte Ltd</b>	
1	Source of director's fee	1·0
	Non-resident companies with no presence in Singapore	1·0
	Board meetings held in Singapore on some occasions	1·0
2.	Interest withholding tax at 15% on regross amount	1·5
	Withholding tax at 10% on royalty paid to a non-resident company that does not carry on a trade or business in Singapore	1·5
	Withholding tax at 17% on royalty paid to a non-resident company in all other cases.	1·0
3	Maximum number of instalments – ten	1·0
	Estimated chargeable income E-filed within one month from the end of the accounting year	1·0
	Reduced number of instalments if E-filing is within two months and three months respectively	1·0
4	Capital gains are not taxable	1·0
	Gains from trading are taxable	1·0
	Reference to the badges of trade to determine whether the transaction is trading	1·0
5	Payments may be deemed paid although not actually paid	0·5
	Circumstances in which payment to a non-resident is deemed	1·0
	Withholding tax due on deemed payments	0·5
		<b><u>15·0</u></b>