Answers

1 (a) Hanafi Pte Ltd

Tax liability for the year of assessment 2011
Basis period: 1 July 2009 to 30 June 2010

	$	$	*Marks*
Net profit as per accounts		600,000	0·5
Tax adjustments on income			
Recovery of trade debt taken over	(40,000)		1·0
Interest from OCBC – fixed deposit (separate source)	(30,000)		0·5
Interest accrued from DBS (separate source)	(2,500)		0·5
One-tier tax exempt dividend (separate source)	(16,000)		0·5
Rental (separate source)	(80,000)		0·5
Gain on sale of investment	(250,000)	(418,500)	0·5
Tax adjustments on expenses			
Restructuring costs	120,000		1·0
Excess CPF Contributions (($6,000 x 12 – $54,000) x 0·145)	2,610		1·5
Medical expense capping ($5,500 less 1% of {620,000 – 120,000 – 2,610})	526		2·0
Rental of passenger cars	8,000		1·0
Praying expenses	850		1·0
Cash stolen from cash register	0		1·0
Legal fees – recovery of trade debt	0		1·0
Legal fees – appeal against tax assessment	12,000		1·0
Interest expense – late payment of trade debt	0		1·0
Interest expense – late payment of CPF	1,200		1·0
Exchange loss on trading stocks	0		1·0
Non-trade exchange loss	20,000		1·0
Donations	30,000		0·5
Depreciation	240,000	435,186	0·5
		616,686	
Less: Capital allowances			
Laptops and printers (100% of $12,000)	(12,000)		1·0
Productivity and Innovation Credit – laptops and printers (150% of $12,000) (See marking note below)	(18,000)		1·0
Handphones (less than $1,000 each – concessionary one-year claim)	(9,000)		1·0
Office furniture ($20,000 x 75%)	(15,000)		0·5
Van ($48,000 x 75%)	(36,000)	(90,000)	0·5
Trade adjusted profit		526,686	
Add: Non-trade income			
Interest from OCBC	30,000		0·5
Interest from DBS	2,500		0·5
Dividends – Singapore (one-tier – exempt)	0		0·5
Rental income (not remitted)	0	32,500	1·0
Statutory income		559,186	
Less: Approved cash donation ($10,000 x 2·5)		(25,000)	1·0
Assessable/Chargeable income		534,186	
Less: Partial tax exemption			
First $10,000 – 75% exempt	(7,500)		
Next $290,000 – 50% exempt	(145,000)	(152,500)	0·5
Chargeable income after partial exemption		381,686	
Tax thereon at 17%		64,887	0·5
			27

Marking note:
Enhanced PIC capital allowances computed based on the total of 400% of qualifying expenditure would also have been accepted as correct, even though the revised rate of 400% was announced after September 2010.

	Marks

(b) Resident status would be advantageous in the following circumstances:

1. Only a new start-up company that is a tax resident company can potentially qualify for full tax exemption on the first $100,000 of chargeable income for the first three years of assessment after incorporation under the tax exemption scheme for new start-up companies. Non-tax resident companies are excluded from the scheme.
2. Only a tax resident company can qualify for tax exemption on the remittance of certain foreign-sourced income such as dividends, branch profits and service income.
3. Only a tax resident company can claim double taxation reliefs.
4. Only a tax resident company can claim unilateral tax reliefs.

(Note: One mark to be awarded for each of the above 4 points, maximum 3 marks)	3
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2 (a) Isabelle Choy

Tax liability for the year of assessment 2011

	$	$	
Trade income			
Share of partnership loss (restricted to contributed capital)		(25,000)	1·5
Employment income			
Salary ($13,000 x 12)	156,000		0·5
Bonus – contractual 2010	13,000		1·0
No adjustment for 2009 bonus	0		0·5
Bonus – Non-contractual paid January 2010	26,000		1·0
No adjustment for non-contractual bonus paid January 2011.	0		0·5
Stock options ([$3·00 – $1·30] x 100,000)	170,000		1·5
Car benefits [(3/7 x 1/10 x $140,000) + (10,000 x $0·55)]	11,500		2·0
Holiday passage (100% of $2,400)	2,400		1·0
Birthday gifts	400		1·0
Christmas hamper (not exceeding $200)	0		1·0
	379,300		
Housing benefit – lower of annual value of $72,000 and 10% of $379,300	37,930	417,230	2·0
Interest income		8,800	1·0
Royalty (10% of $3,000)		300	1·0
		401,330	
Less: donation ($2,000 x 2·5)		(5,000)	1·0
		396,330	
Less:			
Earned income	(1,000)		0·5
Spouse relief (husband's income > $4,000)	0		0·5
Qualifying child relief	(4,000)		0·5
Working mother child relief (capped)			
(lower of 15% of $392,230 or $50,000 less $4,000)	(46,000)		1·0
CPF (capped at 20% of $76,500)	(15,300)		1·0
Wife of NSman	(750)	(67,050)	0·5
		329,280	
Tax on first $320,000		42,700	
Tax on balance of $9,280 at 20%		1,856	
Tax payable		44,556	0·5
			21

		Marks
(b)	A married couple are allowed to transfer any excess qualifying deductions arising from unabsorbed tax losses, capital allowances and donations to his/her spouse for utilisation against the spouses taxable income.	2
	In cases where both spouses have rental income, one spouse is allowed to transfer a rental deficit to set off against positive taxable rental of the other spouse. However, no amount of the rental deficit can be set off against any other income of their spouse.	2
		4
		25

3 **(a)** Under the Goods and Services Tax Act, every person who makes an annual turnover of taxable supplies (i.e. standard and/or zero-rated supplies) of goods and services exceeding or expected to exceed $1 million in value is required to register for goods and services tax (GST). 1

In determining whether this threshold is met, two bases are used:

Retrospective basis
Under the retrospective basis, registration is compulsory if at the end of any quarter, the total value of the taxable supplies made in Singapore in that quarter plus the previous three quarters has exceeded $1 million. 1

The Comptroller must be notified within 30 days of the end of the quarter. 0·5

Prospective basis
Under the prospective basis, registration is compulsory if at any time, there are reasonable grounds to believe that the total value of taxable supplies to be made in the next 12 months will exceed $1 million. 1

The Comptroller must be notified within 30 days of the beginning of the period. 0·5

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(b) A person not liable to register for GST must satisfy the Comptroller that he either:

– makes taxable supplies; or
– intends to make such supplies in the course or furtherance of his business. 1·5

Once registered the trader will have to charge GST on his sales but will also be able to reclaim input taxes on his purchases. 1·5

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(c) **Hector Manufacturing Pte Ltd**

Goods and services tax (GST) for the quarter ended 31 March 2010

	Value	Input tax	Output tax	
	$	$	$	
Local sales	500,000		35,000	0·5
Export sales (zero-rated)	100,000		0	1·0
Re-billing of rental expense to related company	5,000		350	1·0
Imports of trading stock	200,000	14,000		0·5
Purchases of equipment	50,000	3,500		0·5
Salaries and CPF (out-of-scope)	80,000	0		1·0
Rental of office premises	45,000	3,150		0·5
Rental of apartment for staff (exempt)	30,000	0		1·0
Repair costs of lorries and vans	3,000	210		0·5
Monthly subscription fees to golf club (taxable but blocked)	2,000	0		1·0
		20,860	35,350	
			(20,860)	
Net GST payable			14,490	0·5
				8
				15

Marks

4 Systematic Solutions Pte Ltd (SSPL)

(a) (i) The fee of $400,000 paid by SSPL is for the right to use the technology and information developed by Overseas Corporate Consultancy Ltd (OCCL) in the course materials used. It relates to a royalty payment on the premise that such information is proprietary to OCCL. 1

The income is deemed to be sourced in Singapore [under s.12(7)(a) or (b)(i)] as it is borne directly or indirectly by SSPL, a person resident in Singapore and the payment is an expense deductible against the Singapore-sourced income of SSPL. 2

The gross payment is subject to a final withholding tax of 10%. This is provided OCCL does not derive the income from any trade or business carried on in Singapore and the royalty income is not effectively connected to any permanent establishment of OCCL in Singapore; if this is not the case, then the tax withheld will be at the prevailing corporate tax rate, currently 17%. 2

The withholding tax has to be accounted for to the Inland Revenue Authority of Singapore (IRAS) by the 15th day of the month following the date of payment. Failure to comply with this time limit will result in late payment penalties of up to 20% of the withholding tax payable. 2

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(ii) If a fee of $50,000 is paid by SSPL for the outright sale of the course materials, the deemed source provisions would not apply and the payment would not be construed as a royalty payment. Accordingly, no tax would need to be withheld by SSPL. 2

(b) The payment of $200,000 for the consultancy services relating to the curriculum planning would be construed as technical or 'show-how' services [under s.12(7)(b)(ii)]. Such services are more akin to those of a professional or technical nature, not a royalty. 2

The payment will be subject to a non-final withholding tax of 17% on the gross amount paid. Again this would be paid to the IRAS by the 15th day of the month following the date of payment and failure to do so will result in late payment penalties of up to 20% of the withholding tax payable. 2

By concession, no withholding tax will be applicable if the services are provided entirely outside Singapore. However, as in this case there is no separate value attached to the portion of services that will be rendered outside Singapore, the full amount of fee payable will be subject to Singapore withholding tax. 2

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5 (a) Errand Pte Ltd (EPL)

For filing an incorrect tax return, even in the case of a genuine or honest mistake, EPL may be liable upon conviction to a penalty of 100% of the tax undercharged. 1

Where negligence is involved or where EPL has no reasonable excuse for filing an incorrect tax return or information, the penalty will be based on 200% of the tax undercharged. 1

If the omission or over claim is due to fraud or evasion of tax, the penalty will be based on 300% of the tax undercharged. 1

Where serious fraudulent tax evasion is involved the penalty will be based on 400% of the tax undercharged. 1

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(b) Michael and Felicia

Assessable income for the year of assessment 2011

	$	$	Marks
Net profit as per partnership accounts		240,000	0·5
Add			
Partner's salary	50,000		0·5
Depreciation	24,000		0·5
Donations	8,000	82,000	0·5
		322,000	
Less			
Deduction for qualifying renovation and refurbishment expenses [s.14Q]			
– One year ($2,400 + $3,200 + $1,200 + $3,200)		(10,000)	2·0
		312,000	
Less: Partner's salary		(50,000)	0·5
Divisible profit		262,000	

	Michael $	Felicia $	Marks
Salary	50,000	–	0·5
Divisible profit	157,200	104,800	1·0
	207,200	104,800	
Less: Capital allowances	(1,800)	(1,200)	1·0
	205,400	103,600	
Less: Share of unabsorbed capital allowances bought forward	(30,000)	(20,000)	1·0
Less: Share of unabsorbed tax losses brought forward	(180,000)	(120,000)	1·0
Unabsorbed tax losses carried forward	(4,600)	(36,400)	0·5
Unabsorbed donations carried forward (2·5 x 4,000)	(6,000)	(4,000)	1·0
Assessable income	0	0	0·5
			11
			15