
Answers

1 LED Industries Pte Ltd (LED)

Marks

Tax computation for the year of assessment 2012
Basis period: 1 January 2011 to 31 December 2011

	\$	\$	\$	
Net profit as per accounts			1,800,000	0.5
Less: Tax adjustments on income				
Interest on fixed deposit (separate source)		(25,000)		0.5
Net dividend received from HKLED (separate source)		(18,500)		0.5
One-tier tax exempt dividend (separate source)		(10,000)		0.5
Gain on sale of investment (capital gains)		(332,500)	(386,000)	1.0
Add: Tax adjustments on expenses				
Cost of sales				
Compensation paid to a European company		23,000		1.0
Depreciation on plant and machinery		65,000		0.5
Allowance for stock obsolescence		45,000		0.5
Staff costs				
Transport reimbursements – employees' private plated cars		36,000		0.5
CPF Board late payment penalty		4,500		1.0
A summon paid to the Ministry of Manpower		2,000		1.0
Contribution to an approved overseas provident fund		0		1.0
Medical expenses capping (\$30,000 – (\$600,000 + 250,000)*0.02) (i.e. 2% of total employee costs = 30,000 – 17,000)		13,000		1.5
Total salaries and staff costs for non-director employees		0		0.5
Directors' salaries and fees		0		0.5
Professional fees				
Feasibility study fees – Poland plant		120,000		1.0
Legal fees – new tenancy agreement		55,800		1.0
Legal fees – legal action to recover trade supplier debt		12,500		1.0
Financing expenses				
Interest expenses on bank loan – working capital of the company		0		1.0
Interest expenses – acquisition of D-LITE		10,000		1.0
Interest expenses – loans from DBS temporarily placed as fixed deposit		50,000		0.5
Miscellaneous expenses				
External training of staff		0		0.5
Renovation expenses		72,500		0.5
Foreign exchange gains/losses				
Realised exchange loss – Non-trade		2,700	512,000	0.5
Less: Special/further deductions				
External training – enhanced Productivity and Innovation Credit (PIC) deduction (300%)		(120,000)		1.0
Renovation expenses – s.14Q (\$72,500 – \$12,500)/3		(20,000)	(140,000)	1.5
Less: Capital allowances				
Laptops and printers (100% of 30,000)		(30,000)		1.0
PIC allowance – laptops and printers (300% of 30,000)		(90,000)		1.0
(Second hand van (AA: \$29,750/3)		(9,917)		1.0
Nine ergonomic chairs (one-year claim)		(8,100)		1.0
Industrial buildings allowance – AA at 3%*25,000,000		(750,000)	(888,017)	1.0
Add: Non-trade income				
Interest on fixed deposit	25,000			0.5
Less: Interest expense on loan from DBS	(50,000)	0		1.0
Net dividend received from HKLED		0		0.5
One-tier tax exempt dividend		0		0.5
Gain on sale of investment (capital gains)		0	0	0.5
Assessable/Chargeable income			897,983	

	\$	\$	\$	Marks
Less: Partial tax exemption:				
First \$10,000 at 75%		(7,500)		0.5
Next \$290,000 at 50%		(145,000)	(152,500)	0.5
Chargeable income after partial exemption			745,483	
Tax thereon at 17%			126,732	0.5
			<u>30</u>	

2 Ms Clare Leem

(a) Income tax computation for year of assessment 2012

Investment income	\$	\$	
Interest from an exclusive offshore bank account (exempt)		0	1.0
Net rental income of a Singapore property	48,000		0.5
Add: Purchase of a new air-conditioning system	3,000	51,000	1.0
Employment income			
Salary (12 x \$50,000)	600,000		0.5
Bonus – 2010 contractual bonus received in 2011 (no adjustment required)	0		1.0
Bonus – Special bonus received in 2011	25,000		1.0
Stock options (\$4.00 – \$2.50) x 10,000	15,000		1.5
Car benefits (3/7*(350,000 – 150,000/10)) + (0.55*20,000)	19,571		2.0
Holiday passage	12,000		1.0
Birthday gift	5,000		0.5
CNY hamper	888		0.5
Exclusive use of company yacht	15,000		1.0
Entertainment allowance (\$10,000 – \$6,000)	4,000		1.0
	696,459		
Housing benefit – lower of annual value of \$240,000 and 10% of \$696,459	69,646	766,105	1.5
Royalty (10% of \$50,000)		5,000	1.0
Total assessable income		822,105	
Less: Donation (\$18,000*2.5)		(45,000)	2.0
Assessable income		777,105	
Less:			
Earned income	1,000		0.5
Spouse relief (husband's income > \$4,000)	0		0.5
Working mother child relief (capped) (Lower of 15% of \$766,105 or \$50,000)	50,000		1.0
CPF capped at 20% of \$79,333	15,867		1.0
Wife of NSman	750	(67,617)	0.5
Chargeable income		709,488	
Tax on first \$320,000		42,350	
Tax on balance of \$(709,488 – 320,000) at 20%		77,898	0.5
Tax payable		120,248	
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(b) In the case of non-resident individuals:

- (1) cannot claim tax treaty benefits;
- (2) not entitled to personal reliefs;
- (3) employment income is taxed at a flat rate of 15% or the resident rates, whichever is higher; and
- (4) all income other than employment income will generally be taxed at a flat rate of 20%.

1 mark each

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3 Desert King Pte Ltd (DKPL)

(a) Payments made to Treats Ice Cream Ltd (TIC)

(i) Royalty payment of \$200,000

The \$200,000 refers to royalty payments made by DKPL to TIC for the use of TIC's patented recipe for a unique ice-cream flavour known as 'Black-Ice'. TIC's royalty income is deemed sourced in Singapore since it is borne by DKPL, a Singapore resident company in accordance with s.12(7)(a) of the Singapore Income Tax Act (SITA).

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As such, a final withholding tax based on the Singapore domestic tax law of 10%, i.e. \$20,000, applies.

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(ii) Purchase of 'The Cyclone' ice-cream making machine for \$25,000

The payment for 'The Cyclone' is an outright sale and therefore does not fall within s.12(7) of the SITA. Thus, DKPL is not required to withhold tax on the payment to TIC.

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(iii) Modifications and installation of parts in 'The Cyclone' of \$120,000

The modifications and installation of parts are performed in Singapore. DKPL is therefore required to withhold tax at the prevailing corporate tax rate of 17% on the payment made to TIC.

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(b) DKPL should account for withholding tax to the IRAS by the 15th of the month following the date of payment, which is based on the earliest of the following dates:

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- when the payment is due and payable based on the licensing agreement; 1.0
- when the payment is credited or deemed credited to the account of the non-resident; and 1.0
- the date of actual payment. 0.5

Since the amount was accrued in DKPL's accounts on 31 December 2011, the withholding tax should be accounted for by 15 January 2012.

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(c) Computation of TIC's tax payable in Singapore on the modification and installation project

	\$	\$	
Chargeable income (modification and installation project fees)		120,000	0.5
Less:			
Salaries of technicians		(36,000)	1.0
Accommodation, food and subsistence allowance		(20,000)	1.0
		<u>64,000</u>	
Less:			
Partial tax exemption:			
75% on the first \$10,000	(7,500)		
50% on the next \$54,000	<u>(27,000)</u>	(34,500)	1.0
		<u>29,500</u>	
Tax payable at 17%		5,015	0.5
Less: Withholding tax (17% x \$120,000)		<u>(20,400)</u>	1.0
Tax refundable		<u>15,385</u>	5
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4 (a) A company may elect to avoid the computation of a balancing allowance/balancing charge on the sale of plant and machinery, under s.24, provided the following conditions are satisfied:

1. There must be common control, that is the buyer has control over the seller or the seller has control over the buyer or both the seller and buyer are controlled by a third party.
2. It is a genuine sale and is not motivated solely to secure a tax advantage.
3. The plant and machinery must be used by the seller before the sale and the buyer after the sale in the production of income chargeable to Singapore income tax.
4. The plant and machinery must not have been leased by the seller to the buyer before the sale.

1 mark each condition

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(b) Optima Pte Ltd (OPL)

- (i) A person chargeable to tax for any year of assessment, who has not been required within three months after the commencement of such year of assessment to make a return of his income for that year, must, within 14 days after the end of that period, give notice to the Comptroller that he is so chargeable (s.62(4)).

Therefore, if OPL has not received an income tax return for the year of assessment 2012 by 31 March 2012, it has to give notice of its chargeability to tax by 14 April 2012.

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- (ii) A valid notice of objection must be filed in writing, stating the grounds of objection within 30 days from the date of the notice of original assessment that was issued by the Comptroller (ss.76(2) and (3)).

Therefore, OPL has to lodge its objection in writing, stating the grounds of objection, against the year of assessment 2012 notice of assessment on or before 1 November 2012.

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(c) Holding Pte Ltd (HPL)

As the error pertains to an income tax return submitted in respect of the year of assessment 2010, HPL can request a retrospective review of its filed return in accordance with s.93A. This section provides that every claim for repayment must be made within four years after the end of the year of assessment within which the assessment was made. The application must be made in writing, stating the error or mistake that has been made in the company's tax return.

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The Comptroller will only revise the assessment if it is of the view that the error or mistake is reasonable and just. Where the error is due to the practice of the Comptroller prevailing at the time the return is made, the Comptroller will not revise the assessment.

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(d) Expenses incurred prior to the commencement of a business may be claimed if:

- they are revenue in nature; and
- (with effect from YA 2012) in the case of a newly incorporated company, the revenue expense is incurred within one year prior to the deemed date of commencement of its business. The deemed date of commencement of business is regarded as the first day of the accounting year in which the business earns its first dollar of business receipt.

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15**5 Mister Wheelie Pte Ltd****(a) Output/input goods and service tax (GST) chargeable/payable**

	Type of supply	Taxable amount \$	Output tax \$	Input tax \$	
Singapore sales	Standard rated supply	1,600,000	112,000		1
Overseas sales	Zero rated supply	3,500,000	0		1
Imports of trading stock	Standard rated supply	570,000		39,900	1
Samples received	Not a supply	0			1
Salaries	Out of scope	0			1
Rental of office	Standard rated supply	24,000		1,680	1
Air tickets for staff	Zero rated supply	10,050		0	1
Purchase of gift costing \$250 each for family members of staff on Family Day	Standard rated supply and deemed supply	3,000	210	210	2
Club subscription fees	Standard rated supply	2,600		182	1
Total			112,210	41,972	10

(b) Goods and services tax (GST) payable for the quarter ended 30 September 2011

	\$	\$	
Total output tax		112,210	0.5
Less:			
Total input tax	41,972		0.5
Less: Blocked input tax – Club subscription fees	(182)	41,790	1
GST payable (net)		70,420	
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(c) According to Regulation 83 of the Goods and Services Tax (General Regulations) Cap. 117A, Rg.1, the conditions for a bad debt relief claim for output tax are:

- (i) goods and services have been supplied by the claimant for consideration in money and the claimant has accounted for and paid tax on the supply;
- (ii) the whole or any part of the consideration for the supply has been written off in his accounts as a bad debt;
- (iii) a period of 12 months beginning with the date of supply has elapsed or the debtor has become insolvent before the period of 12 months has elapsed;
- (iv) the Comptroller is satisfied that all reasonable efforts have been taken by the claimant/person to recover the debt;
- (v) the value of the supply is equal to or less than its open market value;
- (vi) where the supply involved goods, the ownership of the goods has been transferred to the customer by the claimant; and
- (vii) the bad debt relief claim must be made within five years (for supplies made on or after 1 January 2007)/seven years (for supplies made before 1 January 2007) from the date of the supply .

1 mark each valid action, maximum

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