
Answers

		<i>Marks</i>
1 (a) H & W Fashion Pte Ltd (HWFPL)		
Tax liability for the year of assessment 2012		
Basis period: 1 October 2010 to 30 September 2011		
Net profit as per accounts	\$ 150,000	0.5
Tax adjustments on income		
Interest from fixed deposit received (separate source)	(24,000)	0.5
Interest from fixed deposit accrued but not received (separate source)	(12,000)	0.5
Interest of \$1,200 on overdue trade receivables – treated as trade income	0	1.0
Dividend from US (separate source)	<u>(21,000)</u>	<u>0.5</u>
Tax adjustments on expenses		
Maintenance expenses for company car	15,000	1.0
Non-compete payment	40,000	1.0
Depreciation	56,000	0.5
Legal fees for new sales distributor agreement	8,000	1.0
Director fees of \$120,000 paid to non-residents	0	1.0
Medical fees (only 1% deductible)	14,000	1.0
Individual tax of \$18,500 payable by managing director borne by company	0	1.0
Interest for refinancing of loan of \$16,000	0	1.0
Donations (\$23,000 + \$7,000)	<u>30,000</u>	<u>1.0</u>
	163,000	
Renovation works (does not qualify for S14Q deduction)	<u>256,000</u>	<u>1.0</u>
	0	
	256,000	
<i>Less: Capital allowances</i>		
Computer hardware and software equipment (100% of \$20,000)	(20,000)	1.0
Productivity and Innovation Credit – computer equipment (300% of \$20,000)	(60,000)	1.0
Executive filing cabinets (one-third of \$2,400 – each item > \$1,000)	<u>(800)</u>	<u>1.0</u>
	(80,800)	
Trade adjusted profit	175,200	
<i>Add: Non-Trade Income</i>		
Interest on fixed deposit received	24,000	1.0
Interest on fixed deposit accrued of \$12,000 (not earned yet)	0	1.0
US dividends – exempt ('subject to tax' and 'headline tax' conditions satisfied)	<u>0</u>	<u>24,000</u>
	24,000	
Statutory income	199,200	
<i>Less: Approved donation (\$7,000 x 2.5)</i>	<u>(17,500)</u>	<u>1.5</u>
	181,700	
Assessable/Chargeable Income	181,700	
<i>Less: Full tax exemption</i>		
First \$100,000 – 100% exempt	(100,000)	1.0
Next \$81,700 – 50% exempt	<u>(40,850)</u>	<u>0.5</u>
	(140,850)	
Chargeable Income after full exemption	40,850	
<i>Tax thereon at 17%</i>	<u>6,945</u>	<u>0.5</u>
	<u>6,945</u>	
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		<i>Marks</i>
(b) Boys Fashion Pte Ltd (BFPL)		
Tax liability for the year of assessment 2012		
Basis period: 1 October 2010 to 30 September 2011		
Net profit as per accounts	\$ 30,000	0·5
Tax adjustments on expenses		
Penalties and fines	250	1·0
Private car expenses	2,750	1·0
Expenses from 1 October 2010 to 31 March 2011 – allowed	0	3,000
	<hr/>	1·0
Deductible revenue expenses in basis period for YA 2011		
Office expenses	8,000	1·0
Salaries	10,600	(18,600)
	<hr/>	1·0
Other expenses (not deductible)	0	0·5
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Chargeable income		14,400
<i>Less: Partial tax exemption</i>		
First \$10,000 – 75% exempt	(7,500)	1·0
Next \$4,400 – 50% exempt	(2,200)	0·5
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Chargeable Income after partial exemption		4,700
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Tax thereon at 17%	799	0·5
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2 Dave Hamilton

(a) Computation of tax liability for the year of assessment 2012

	\$	
Salary (\$14,000 x 3)	42,000	1·0
Non-contractual bonus (\$14,000 x 2)	28,000	1·0
Gratuity (\$14,000 x 1·5)	21,000	1·0
Air tickets	10,000	1·0
Car benefits [(3/7 x 1/10 x 3/12 x \$112,000) + (1,800 x 0·45)]	2,010	3·0
Staff suggestion scheme	0	1·0
Christmas gift	0	1·0
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Quarters – lower of rental of \$84,000 x 3/12 or 10% of \$103,010	103,010	
	10,301	3·0
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Partnership trade loss (restricted to his contributed capital)	(10,000)	2·0
Interest from personal loan	2,000	1·0
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<i>Less: donation</i>	105,311	
	(2,500)	1·0
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	102,811	
<i>Less:</i>		
Earned income	(1,000)	1·0
Life insurance relief (lower of \$4,000 or 7% of \$50,000)	(3,500)	2·0
	<hr/>	
Chargeable income	98,311	
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Tax on first \$80,000	3,350	
Tax on balance of \$18,311 at 11·5%	2,106	1·0
	<hr/>	
Tax payable	5,456	20
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(b) If Dave left Singapore immediately following the termination of his employment on 31 March 2011, he would have been physically present or exercising employment in Singapore for less than 183 days in 2011 according to the quantitative test. If so, he will strictly be treated as a non-resident.

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As a non-resident, under the normal rules he would be taxed at a flat rate of 15% or at the tax rates applicable to a resident, whichever is the higher. His tax liability will therefore be \$16,997.

	<i>Marks</i>
His tax as a non-resident is \$16,997 (i.e. \$113,311 x 15%)	2·0
His tax as a resident is \$7,181 (i.e. \$3,350 plus \$33,311 at 11·5% = \$3,831)	1·5
However, Dave's employment in Singapore straddles three consecutive years and he satisfies the minimum employment period of 183 days straddling two years test. Therefore, he can be treated as a resident either under the 'three-year' or the 'two-year' concession rules and thus pay tax of only \$7,181.	5
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3 (a) Willowhand Pte Ltd (WPL)

– Lease of office equipment for \$100,000 paid to a non-resident company This is a payment for rental of movable property that is deemed sourced in Singapore as it is borne by a Singapore permanent establishment and paid to a non-resident. The withholding tax to be accounted for is \$15,000 (i.e. 15% of \$100,000).	2·0
– Rental of office premises for \$200,000 paid to a non-resident company This is a payment for the rental of immovable property and does not fall within the ambit of the withholding tax regime in Singapore.	1·5
– Interest of \$300,000 on an inter-company loan taken from the Singapore branch of a non-resident parent company This is a payment for interest that is deemed sourced in Singapore as it is borne by a Singapore permanent establishment and paid to a non resident. The withholding tax to be accounted for is \$45,000 (i.e. 15% of \$300,000).	2·0
– Consultancy fees of \$400,000 paid to a non-resident company for services performed in Singapore This is a payment for technical services that is deemed sourced in Singapore as it is borne by a Singapore permanent establishment. Even though Company D is a Singapore incorporated company, it is non-resident in Singapore because its management and control is exercised outside Singapore. The withholding tax to be accounted for is \$68,000 (i.e. 17% of \$400,000).	2·5
– Royalty payments of \$500,000 to a non-resident licensor This is a royalty payment that is deemed sourced in Singapore as it is borne by a Singapore permanent establishment and paid to a non-resident licensor, who does not have any operations or presence in Singapore. The withholding tax to be accounted for is \$50,000 (i.e. 10% of \$500,000).	2·0
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(b) Jason

Sole proprietor

As a sole proprietor, Jason's chargeable income of \$29,000 (after deducting earned income relief of \$1,000) would incur a tax liability of \$180 (i.e. \$9,000 x 2%) in each of the first three years.

For years four and five, his chargeable income of \$99,000 (after deducting earned income relief of \$1,000) would incur a tax liability of \$5,535 (i.e. \$3,350 plus \$19,000 x 11·5%).

Incorporated

If Jason incorporated a company, the company would qualify for full tax exemption for the first three years, so no tax would be payable.

For years four and five, the company would no longer qualify for full tax exemption but would still be eligible for partial tax exemption, resulting in a tax liability of \$8,075 as follows:

	\$	\$	
Chargeable income before partial exemption		100,000	
Less 75% exemption on first \$10,000	(7,500)		
Less 50% exemption on next \$90,000	(45,000)	(52,500)	
Chargeable income after partial exemption		<u>47,500</u>	
Tax at 17%		8,075	1·5

Comparing the two options, the total tax payable for the five years as a sole proprietor is \$11,610 compared to \$16,150 if he were to incorporate a company. Hence, he should carry on the business as a sole proprietor.

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4 (a) Grand Supreme Technology Pte Ltd (GSTPL)

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

	Value \$	Input tax \$	Output tax \$	Marks
Export sales (zero-rated)	500,000		0	0.5
Local sales (standard-rated)	500,000		35,000	1.0
Transfer of old photocopying machine (deemed sale)	500		35	1.0
Local purchases from GST traders (standard rated)	100,000	7,000		0.5
Local purchases from non-GST traders (no input tax)	300,000	0		0.5
Imports of goods	150,000	10,500		1.0
Rental of furniture and fittings (standard rated)	4,500		315	2.0
Rental of warehouse (standard rated)	200,000	14,000		1.0
Shipping charges for exports (zero rated)	2,000	0		1.0
Bank charges (exempt supply)	3,000	0		1.0
Annual dinner and dance expenses (half blocked)	10,000	700		1.0
Donation (no supply)	5,000	0		0.5
Gift hampers – series of gifts (deemed supply)	600		42	1.0
Gift hamper – purchase	600	42		0.5
		32,242	35,392	
			(32,242)	0.5
Net GST Payable			3,150	1.3

Note 1: Rental of the bare apartment is taken to be 1/12 of the annual value of \$54,000, i.e. \$4,500 per month. Rental value of the furniture and fittings is therefore (\$6,000 – \$4,500) = \$1,500 per month for three months.

(b) A GST-registered entity is not required to deem output tax for gifts in the following situations:

- when the value of the goods does not exceed \$200 and is not a series (more than two) of gifts to the same person within a three-month period; or
- when the company did not incur any input tax when purchasing the gifts externally; or
- the customer agrees to pay the output tax.

Only TWO reasons required, 1 mark each, maximum 2
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5 Tangent Pte Ltd group of companies

(a) (i) Sine Pte Ltd (SPL)

Tax liability for the year of assessment 2012

Basis period: 1 January 2011 to 31 December 2011

	\$	\$	
Chargeable income		60,000	1.0
Less: Partial tax exemption			
First \$10,000 – 75% exempt	(7,500)		
Next \$50,000 – 50% exempt	(25,000)	(32,500)	1.0
Chargeable income after partial exemption		27,500	
Tax thereon at 17%		4,675	0.5

Tutorial note: As SPL is not carrying on a trade, it is not entitled to claim capital allowances. Also as a wholly-owned subsidiary of a corporate shareholder, it will not be entitled to full tax exemption.

		<i>Marks</i>
Tangent Pte Ltd (TPL)		
Tax liability for the year of assessment 2012		
Basis period: 1 January 2011 to 31 December 2011		
	\$	
Previous tax adjusted profit	120,000	
Less: enhanced productivity and innovation credit for training (\$12,000 x 300%) (cannot defer claim)	(36,000)	1·0
	<u>84,000</u>	
Less: full tax exemption for first \$100,000 (third year of assessment)	<u>(84,000)</u>	1·0
Chargeable income after partial exemption	0	
	<u><u>0</u></u>	0·5
Tax thereon at 17%	0	
	<u><u>0</u></u>	<u>5</u>
(ii) Cosine Pte Ltd (CPL)		
Tax liability for the year of assessment 2011		
Basis period: 1 January 2010 to 31 December 2010		
	\$	\$
Tax adjusted loss	(80,000)	0·5
Tax adjustments on expenses	500	0·5
Incorporation expenses	35,500	1·0
Consultancy fee – feasibility study	<u>36,000</u>	
Adjusted loss	<u>(44,000)</u>	<u>2</u>
(iii) Utilisation of CPL's tax loss of \$60,000 for the year of assessment 2012		
CPL cannot carry back its trade loss to the immediate preceding year of assessment (2011), as this year was also in a loss position.		0·5
There is no point transferring the loss to set off against TPL's assessable income as TPL is still entitled to a third year of full tax exemption.		1·0
The most appropriate action, therefore, is to transfer the loss to set off against SPL's assessable income of \$60,000. This will result in a saving of the tax otherwise payable by SPL and thus for the group as a whole of \$4,675.		1·5
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(b) (i) Limited liability partnership (LLP) vs limited partnership (LP)		
All partners of an LLP are subject to a restriction on the utilisation of their share of the LLP's trade losses and capital allowances for set-off against other sources of income. In the case of an LP, the restriction applies only to the limited partners and not the general partners.		3
(ii) Contributed capital of a partner of a limited liability partnership (LLP)		
The contributed capital of a partner of an LLP is the aggregate of his actual capital contributions to the LLP (in cash or in kind, but excluding any loans) less any withdrawals plus profits derived from past years which the partner is entitled to but has not yet received.		2
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