Answers

Marks

1 Useful Bolt Pte Ltd (UBPL)

Tax liability for the year of assessment 2013
Basis period: 1 October 2011 to 30 September 2012

	$	$	Marks
Net profit as per accounts		5,400,000	0·5
Tax adjustments on income			
Compensation from renovation contractor	(10,000)		1·0
Recovery of non-trade debt	(15,000)		1·0
Interest from New York bank deposit – separate source	(25,000)		1·0
Interest on outstanding trade debt (Singapore source) – $5,000	0		1·0
One-tier tax exempt dividend (separate source)	(16,600)		0·5
Dividend from HK – separate source	(8,350)		0·5
		(74,950)	
Tax adjustments on expenses			
Golf club membership – entrance fee	100,000		1·0
Golf club membership – subscription fee – $1,200	0		1·0
Depreciation	85,000		0·5
Hire purchase interest – private car	12,000		1·0
Foreign exchange loss – capital	7,500		1·0
Misappropriation of cash	0		1·0
Medical expenses (6,000 less 1% of $500,000)	1,000		2·0
Salaries (including $60,000 gratuity)	0		1·0
Legal fees – non-trade	3,000		1·0
Donations	70,000		1·0
Goods van – road tax	(5,000)		1·0
		273,500	
		5,598,550	
Less: Capital allowances			
Prescribed automation equipment (PAE) – (100% of $1,000,000)	(1,000,000)		1·0
Productivity and innovation credit (PAE) (300% of $1,000,000)	(3,000,000)		1·5
Goods van (one-third of $75,000)	(25,000)		1·0
Existing factory building – annual allowance (3% of $1,000,000)	(30,000)		1·0
Extension to factory building – no claim (phased out)	0		1·0
		(4,055,000)	
Trade adjusted profit		1,543,550	
Add: Non-trade income			
Interest from New York bank deposit – $5,000 not remitted by 30 September 2012	0		1·0
Interest from New York bank deposit – $20,000 deemed remitted on 5 September 2012	20,000		1·0
One-tier tax exempt dividend	0		0·5
HK dividends – exempt ('subject to tax' and 'headline tax' conditions satisfied)	0	20,000	1·0
Statutory income		1,563,550	
Less: Approved cash donation ($35,000 x 2·5) (gifts of shares not claimable by companies)		(87,500)	2·5
Assessable/Chargeable income		1,476,050	
Less: Partial tax exemption			
First $10,000 – 75% exempt	(7,500)		0·5
Next $290,000 – 50% exempt	(145,000)		0·5
		(152,500)	
Chargeable income after partial exemption		1,323,550	
Tax thereon at 17%		225,004	0·5
			30

			Marks
2 Bill and Katrina			
(i) Bill – Tax payable for the year of assessment 2013			
	$	$	
Trade income – sole proprietor			
Net profit as per accounts	79,500		0·5
Adjustments:			
Salary of sole proprietor (2,000 x 6)	12,000		1·0
Salary of Bruce, sole proprietor's son	0		1·0
Training attended by sole proprietor	1,000		1·0
Training attended by accountant (enhanced deduction)	(3,000)		1·0
Renovations and refurbishments	180,000		0·5
Renovations and refurbishments ($180,000/3)	(60,000)		0·5
		209,500	
Interest income (exempt)		0	0·5
Rental income			
Property at Parkway Parade (half share of $75,000 – $39,000)	18,000		1·0
Rental deficit transferred from wife	(2,000)		1·0
		16,000	
Statutory income		225,500	
Less: Qualifying donations ($6,000 x 250%)		(15,000)	1·0
Assessable income		210,500	
Less: Personal reliefs			
Earned income relief	(8,000)		0·5
Course fees relief	(1,000)		0·5
NSman relief	(1,500)	(10,500)	0·5
Chargeable income		200,000	
Tax on the first $200,000		20,750	0·5
			11

(ii) Katrina – Tax payable for the year of assessment 2013

	$	$	*Marks*
Salary ($30,000 x 12)	360,000		0·5
Non-contractual bonus	30,000		1·0
Share option ($4·50 – $3·00) x 30,000	45,000		1·0
Share award ($4·50 x 8,000)	36,000		1·5
Car benefits [(3/7 x 1/10 x $154,000) + (10,000 x $0·55)]	12,100		2·0
Taxi reimbursement (private)	4,000		1·0
		487,100	
Rental income			
Property at Parkway Parade (half share of $36,000 – as for Bill)	18,000		0·5
Property at Bugis Junction ($50,000 less $40,000 less $30,000)	(20,000)		1·5
Rental deficit transferred to husband	(2,000)		0·5
Interest income – personal loan to friend		6,000	1·0
		493,100	
Less: Donation (foreign charitable organisations not approved)		0	0·5
		493,100	
Less: Personal reliefs			
Earned income	(6,000)		0·5
CPF ($85,000 x 13%)	(11,050)		0·5
Working mother child relief ($4,000 plus 15% of $487,100 capped at $50,000)	(50,000)		1·0
Wife of NSman	(750)		0·5
		(67,800)	
Chargeable income		425,300	
Tax on the first $320,000		42,350	
Tax on the balance of $105,300 at 20%		21,060	0·5
Tax payable		63,410	14
			25

Note: *An alternative answer based on $17,000 (i.e. 20% of $85,000) can be accepted if it assumes Katrina's CPF rate is based on the rate for individuals below the age of 50.*

Marks

3 (a) Compare and contrast tax loss carry-back and group relief system for companies

	Tax loss carry-back	Group relief system	Marks
Main benefit	By carrying back tax losses, a company can reduce the tax payable on the immediate preceding year's income and, thus, obtain a tax refund for the tax paid previously.	Benefits a company within a group which is able to utilise the tax loss items transferred to it from a loss company, thus paying lower tax in the current year.	2.0
Conditions to apply	No substantial change (50%) in shareholdings at the relevant comparison dates for the same company.	Members of the group must be Singapore incorporated, have the same year end and at least 75% of the total ordinary shares – in one company is held by the other; or – in each of the two companies is held by a third Singapore company (directly or indirectly held).	2.5
Relevant dates for shareholding test	– First day of the calendar year in which the loss was incurred. – Last day of the year of assessment (YA) in which the loss is utilised.	– Must maintain a shareholding level of 75% for a continuous period ending on the last day of the basis period.	1.5
Maximum amount allowed to carry-back/transfer	The lower of: – the actual amount of qualifying deduction; – the assessable income of the immediate preceding YA; and – $100,000.	No limit as long as the claimant's adjusted profit after capital allowances is enough to absorb the amounts to be transferred.	2.0
Order of items to carry-back/transfer under group relief	1. Current year unabsorbed capital allowances. 2. Current year unabsorbed trade losses.	1. Current year unabsorbed capital allowances. 2. Current year unabsorbed trade losses. 3. Current year unabsorbed donations.	2.0
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(b) Company S – comments by the advisor

(i) False. Withholding tax is only applicable when the consultancy fees are paid to a non-resident person of Singapore.

(ii) False. The withholding tax rate should be 17% as it was paid to the permanent establishment of a non-resident person in Singapore.

(iii) False. The withholding tax has to be paid to the IRAS by the 15th day of the second month following the date of payment for withholding tax, i.e. by 15 January 2013.

(iv) False. The withholding tax suffered is not a final tax, the non-resident company can submit a tax return for the income to be taxed on a net basis and claim back any excess withholding tax suffered.

(v) False. Making the payment to an offshore bank account will not alter the withholding tax obligation.

1 mark for each item (½ mark for correct true/false and ½ mark for reason) 5

15

Marks

4 (a) Patsy, Queenie and Rachel – Adjusted profits for the year of assessment 2013

	Patsy	Queenie	Rachel	Total	
Year ended 31 December 2012	$	$	$	$	
1 January 2012 to 30 June 2012					
Salaries (6/12)	100,000	75,000	50,000	225,000	0·5
Interest on capital	2,500	2,500	2,500	7,500	1·0
Divisible profits (5:3:2)	83,750	50,250	33,500	167,500	1·5
Adjusted profit (6/12 x $800,000)	186,250	127,750	86,000	400,000	
Capital allowances	7,500	4,500	3,000	15,000	
1 July 2012 to 31 December 2012	$	$	$	$	
Salaries (6/12)	100,000	75,000	50,000	225,000	0·5
Interest on capital	2,500	2,500	7,500	12,500	1·0
Divisible profits (4:3:3)	65,000	48,750	48,750	162,500	1·5
Adjusted profit (6/12 x $800,000)	167,500	126,250	106,250	400,000	
Total adjusted profit for 2012	353,750	254,000	192,250	800,000	0·5
Capital allowances	6,000	4,500	4,500	15,000	
Capital allowances (law publications)	13,500	9,000	7,500	30,000	1·5
					8

(b) The tax losses incurred by a limited liability partnership (LLP), together with any past years' tax losses, attributable to a partner of an LLP, may be carried forward for set-off against future income of the partner. However, the quantum of tax losses which can be carried forward by a partner of an LLP is subject to a cap based on the contributed capital of the partner. 1·5

The contributed capital of a partner of an LLP is the sum total of:

– their actual contributions to the LLP (in cash or in kind but not including any loan by them to the LLP) as capital less any amounts drawn out or received back by them (whether as a distribution or a loan or otherwise); and
– the amount of profits or gains of the trade, business, profession or vocation derived by the LLP from any past year of assessment to which the partner is entitled (whether as a distribution or a loan or otherwise) but which they have not received. 2·0

The amount of the contributed capital may be reduced if a partner makes a withdrawal of either the capital they have previously contributed to the LLP, or any portion of their share of the profits or gains of the trade derived by the LLP in respect of past years which they have previously not withdrawn. 1·5

Where such a reduction results in the partner's past relevant deductions exceeding their reduced contributed capital as at the end of the basis period relating to the year of assessment, the excess shall be deemed to be income of the partner chargeable with tax under s.10(1)(g) of the Act. Concurrently, an equal amount shall also be deemed to be the partner's share of the loss incurred by the LLP for the particular year of assessment. Any amount of this deemed trade loss in excess of their share of income from the LLP for the year of assessment can be carried forward to subsequent years of assessment for set-off against his future income from the LLP. 2·0

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Marks

5 (a) Jacky Pets Pte Ltd (JPPL)

(i) Goods and services tax (GST) implications

Transactions	GST Implications	
$700,000 sales to customers in Singapore	Taxable sales. Standard rated	0·5
$250,000 sales to customers in Malaysia	Taxable sales. Zero rated.	0·5
$1,000 photocopier transferred	Taxable sale. Standard rated.	1·0
$1,000 photocopier purchased	Not applicable as photocopier was purchased from a non-GST registered entity.	0·5
$300,000 purchases from GST traders	Input tax is claimable	1·0
$180,000 salaries and CPF	Not a taxable supply. Out of scope.	0·5
$30,000 courses in Malaysia	Treated as a taxable supply made in Singapore, but qualifies for zero rating.	1·0
$1,000 refundable deposit	Taxable supply but time of supply was 30 May 2013.	1·0
$9,000 balance payment	Taxable supply. Time of supply is 30 June 2013.	1·0
		7

(ii) Whether required to be GST registered

Total taxable supplies include both standard-rated supplies ($700,000 + $9,000) and zero-rated supplies ($250,000 + $30,000). The test is a prospective test, based on the expected transactions for the 12 months beginning 1 June 2013, so the $1,000 refundable deposit is not included for the determination of the $1 million threshold. Sales of assets, although regarded as taxable supplies, are excluded when determining the threshold for GST registration. 2·0

Since the total taxable supplies add up to only $989,000 (i.e. less than $1 million), JPPL is not required to register for GST in Singapore. 1·0

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(b) Kings Air-conditioning Pte Ltd (KAPL)

KAPL would be able to claim bad debts relief if it satisfies all the following conditions:

– It supplied goods or services for a money consideration and had accounted for and paid GST on the supply.
– It had written off the whole or any part of the consideration for the supply as a bad debt in its accounts.
– A period of 12 months beginning with the date of supply had elapsed or the debtor has become insolvent before the period of 12 months has elapsed.
– It had taken reasonable steps to recover the debt.
– The value of the supply is equal to or less than its open market value.
– If the supply involved goods, the ownership must have been transferred to the customer.
– The bad debt relief claim has been made within five years from the date of supply.

Only FIVE conditions required, 1 mark each, maximum 5

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