
Answers

Marks

1 Slimming Industries Pte Ltd (SIPL)

(a) Lorry acquired on hire purchase

The instalments payable under a hire purchase contract comprise two elements:

- | | |
|---|-----|
| (1) Hire purchase interest, which is tax deductible as a revenue expense. | 0.5 |
| (2) The capital repayment of the purchase price, which is capital expenditure eligible for capital allowances commencing in the basis period in which it is paid. | 0.5 |

The interest element of each instalment is: $[(\$26,000 + 24 \times \$4,853) - \$130,000]/24 = \520 .	0.5
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Therefore, the qualifying expenditure for the year of assessment 2014 is:

	\$	
Deposit	26,000	
Instalments (6 x (\$4,853 – \$520))	<u>25,998</u>	
	<u>51,998</u>	0.5
		<u>2</u>

(b) Tax liability for the year of assessment 2014
Basis period: 1 January to 31 December 2013

	\$	\$	
Net profit as per accounts		5,000,000	
<i>Less:</i> Tax adjustments on income			
Dividend income received from investment in Best Fit Ltd (separate source)	(20,000)		0.5
Insurance recovery of loss of profits as a result of bad publicity	0		0.5
Realised exchange gain on repayment of a loan taken to fund the investment in Best Fit Ltd	(2,000)		0.5
Scrap value of machine	(1,200)	(23,200)	0.5
		<u>4,976,800</u>	
<i>Add:</i> Tax adjustments on expenses			
Cash donation to a building fund for temple in Myanmar	3,000		0.5
Cash donation to National Kidney Foundation	5,000		0.5
Compensation paid to customers	0		1
Corporate secretarial charge	0		0.5
Depreciation	20,000		0.5
Due diligence fee on the acquisition of a spa division of Wellness Pte Ltd	30,000		1
Hire purchase interest (lorry)	0		0.5
Insurance premium – workmen’s compensation	0		0.5
Interest expense on a loan taken to fund the investment in Best Fit Ltd	5,000		0.5
Late payment interest on the late payment of CPF contributions	0		1
Legal fees – insurance recovery for loss of profits	0		0.5
Legal fees – new tenancy agreement for a spa outlet	5,000		1
Loan to a staff member written off	6,000		0.5
Medical expenses reimbursed to customers	0		0.5
Penalty for the late filing of CPF contributions	500		0.5
Personal income tax liability of SIPL’s managing director borne by SIPL in accordance with his terms of employment	0		1
Retrenchment benefits paid to staff following the closure of the slimming pills division	50,000		1
Staff costs – salary, bonus and CPF contributions	0		0.5
Staff medical expense (\$6,000 – (2% x \$250,000))	1,000		1
Write off of stock of slimming pills	0	125,550	1
		<u>5,102,300</u>	
<i>Less:</i> Specific deductions provided under the ITA			
Capital allowances: Computer system – as the company has claimed cash payout on the whole computer, the unclaimed balance will be disregarded, i.e. no capital allowance and PIC can be claimed	0		1
Productivity and innovation credit (PIC): Computer system	0		1
Capital allowances: Lorry (\$51,998/3)	17,333		0.5
Capital allowances: Eight desks (each costing \$900)	7,200		1
Balancing charge: Scrap value of machine	(1,200)	(23,333)	1
Trade adjusted profit		<u>5,078,967</u>	
<i>Add:</i> Non-trade income			
Dividend income received from investment in Best Fit Ltd	20,000		0.5
<i>Less:</i> Interest expense on a loan taken to fund the investment in Best Fit Ltd	(5,000)	15,000	1
Statutory income		<u>5,093,967</u>	
<i>Less:</i> Approved donation (\$5,000 x 2.5)		(12,500)	1
Assessable/Chargeable income		5,081,467	
<i>Less:</i> Partial income exemption			
First \$10,000 – 75% exempt	(7,500)		0.5
Next \$290,000 – 50% exempt	(145,000)	(152,500)	0.5
Chargeable income after partial income exemption		<u><u>4,928,967</u></u>	

	\$	Marks
Tax thereon at 17%	837,924	0.5
Less: Corporate tax rebate	<u>(30,000)</u>	0.5
Tax after corporate tax rebate	<u>807,924</u>	
PIC cash payout	\$60,000	1
PIC bonus	\$15,000	<u>1</u>
		<u>27</u>
(c) The due date for the submission of SIPL's tax return (Form C) for the year of assessment 2014 is 30 November 2014.		<u>1</u>
		<u>30</u>

2 (a) Benson Lim

(i) Minimum tax payable for the year of assessment 2014

	\$	\$	
Employment income – Alpha Fund			
Joining fee		60,000	1.5
Salary (12 x \$30,000)		360,000	1
Fixed bonus		30,000	1
Variable bonus (taxable in YA 2015)		0	1
Entertainment allowance (12 x \$3,000 x 20%)		7,200	1
Car benefit (3/7 x (\$200,000 – \$50,000)/10) + (22,000 x 0.2 x \$0.55)		<u>8,848</u>	1.5
		466,048	
Housing benefit – Lower of annual rental \$60,000 (\$5,000 x 12) or 10% of \$466,048		<u>46,605</u>	2
Total employment income		512,653	
Other income			
Director's fee – year ended 31 December 2012 approved in March 2013		18,000	1
Director's fee – year ended 31 December 2013 approved in March 2014 (taxable in YA 2015)		0	1
Interest income from Melvin remitted to Singapore		0	1
Gain on sale of wine and liquor collection		<u>0</u>	1
		530,653	
Less:			
Earned income relief	1,000		0.5
Spouse relief (ex wife)	0		0.5
Qualifying child relief	8,000		0.5
Parent relief	0		0.5
Foreign maid levy relief	0		0.5
CPF relief (17 x \$5,000 x 20%)	17,000		1
NSman relief	<u>3,000</u>	<u>(29,000)</u>	0.5
Total chargeable income		<u>501,653</u>	
Tax on first \$320,000		42,350	0.5
Tax on the remainder, \$181,653 at 20%		<u>36,331</u>	0.5
Total tax payable		<u>78,681</u>	
			<u>18</u>

- (ii) The gain of \$100,000 from the sale of Benson's wine and liquor collection should not be subject to tax as Benson did not engage in a trade or business of selling wine or liquor. 1
- In addition, it should not be caught under s.10(1)(g) as it is not an adventure in the nature of a trade. 1
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(b) Beatrice

(i) The deemed date of commencement of Beatrice's business is 1 January 2013, i.e. the first day of the accounting year in which the business earns its first dollar of business receipt.		1
(ii) Tax deductibility of expenditure		
Wages of a part-time employee in the period 1 October 2011 to 31 December 2011	Not tax deductible. The expense is not incurred within the 12 month period prior to the deemed date of commencement of the business.	1
Period from 1 January 2012 to 31 December 2012 Registration cost with the ACRA	Not tax deductible as the expense is capital in nature.	1
Rental of shop	Tax deductible as the expense is a revenue expense incurred within the 12 month period prior to the deemed date of commencement of the business.	1
Legal fee for the purchase of a new office in the period 1 January 2013 to 31 December 2013	Not tax deductible as the expense is capital in nature.	1
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3 (a) The items of information which must be present on a tax invoice for goods and service tax (GST) which are not required on a non-GST registered trader's invoice are:

1. the words 'Tax invoice';
2. the supplier's GST registration number;
3. the GST rate, amount and total payable; and
4. for a foreign currency invoice, the Singapore dollar equivalent of the GST amount and total payable.

THREE items only required, 1 mark each maximum 3

(b) A zero rated supply is charged to GST but at a zero rate, whereas an exempt supply is specifically excluded as a taxable supply and so is not subject to any charge to GST. 1 + 1

Input tax attributable to the making of a zero rated supply can be claimed as an input tax credit, whereas the input tax attributable to the making of an exempt supply cannot be claimed as an input tax credit. 1 + 1

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(c) (i) Scenario 1

Output tax is not chargeable on the consideration of \$400 million, as the sale of the executive condominium is an exempt supply. 1

The input tax of \$700,000 is attributable to the making of a tax exempt supply and thus it cannot be claimed as an input tax credit. 1

Scenario 2

The sales manager's use of the car is not considered a deemed supply as the car was used for the company's business. Therefore, output tax need not be accounted for. 1

The input tax of \$4,200 is blocked input tax as it relates to a private car hire and thus cannot be claimed. 1

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(ii) Scenario 3

The services are supplied outside Singapore by the Brunei branch of SPL. The supply is therefore outside the scope of Singapore GST and no output tax is chargeable. 2

Scenario 4

As a GST registered trader, Peter has to account for output GST on any business assets which he sells or disposes of. Since he has supplied the groceries to his family (albeit at no cost) he has to account for the output GST of \$140 (\$2,000 x 7%). 2

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4 P-Star Pte Ltd (P-Star)

- (a) (i) The action is correct. A fixed monthly meal allowance is a taxable benefit of the employee and thus is reportable in the employees' Form IR8A. As a concession, the Inland Revenue Authority of Singapore has stated that an overtime meal allowance paid to an employee for working beyond official hours on an ad hoc basis, where the said policy is generally available to all staff, is not taxable. 2
- (ii) The action is incorrect. The liaison office in India is for the promotion of P-Star's products in India. Therefore, the costs incurred in maintaining the liaison office qualify as expenses wholly and exclusively incurred in the production of income and are tax deductible. 2
- (iii) The action is correct. The foreign income of a Singapore tax resident company which has been subject to tax at a headline tax rate of at least 15% in the foreign jurisdiction is exempt from tax in Singapore. The branch profit has been taxed in Hong Kong at the rate of 16.5%, so the repatriated branch profits are exempt from tax in Singapore. 2
- (iv) The action is correct. Expenditure on the provision of machinery includes any capital expenditure on alterations to an existing building incidental to the installation of the machinery. Therefore, the cost incurred to facilitate the installation of the computer system would be considered ancillary to the cost of the computer and qualifies for a capital allowance claim. 2

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- (b) Where a benefit is given in return for a donation to an institution of a public character (IPC), a tax deduction will only be available for the full amount of the donation if it qualifies as a pure donation, i.e. the benefit has no commercial value. 1

In this case, the space occupied by P-Star for the display of its banner has a commercial value. Therefore, the donation should be restricted to the difference between the amount donated and the value of the banner space of \$1,500, i.e. the tax deduction will be restricted to \$1,250 (\$500 x 2.5).

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- (c) The licence fee paid to Arthur Ltd will be deemed sourced in Singapore as the licence fee is borne by a person in Singapore and is deductible against income chargeable to Singapore income tax. Since there is no tax treaty between Singapore and Country A, the licence fee will be subject to the domestic Singapore withholding tax rate of 10%. 2

If the tax is not withheld on the payment of the licence fee, P-Star will be liable for the amount of withholding tax due to the Comptroller. In addition, if the withholding tax is not paid to the Comptroller by the 15th of the second month from the date of payment, P-Star may be subject to a late payment penalty of up to 20% of the amount of withholding tax.

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5 ZNA partnership

(a) Divisible profits and adjusted profit, if maximum capital allowances and productivity and innovation credit (PIC) claims are made

Year of assessment 2014

Basis period: 1 November 2012 to 31 October 2013

	\$	\$	
Net profit as per accounts		123,000	
<i>Less:</i>			
Wage credit scheme	0		0.5
Gain on disposal of antique painting	<u>(10,000)</u>	<u>(10,000)</u>	0.5
		113,000	
<i>Add:</i>			
Reimbursement of the petrol and parking charges incurred by Annie for SJP 123	10,000		0.5
Reimbursement of overseas travel expenses incurred by Zar	0		0.5
Zar's child's school fees	12,000		0.5
Zar's salary (\$3,000 x 12)	36,000		0.5
Depreciation	<u>5,000</u>	<u>63,000</u>	0.5
Total adjusted profit		176,000	
<i>Less:</i>			
Section 14Q			
– Designer's fees			
– Lighting (\$6,000/3)	0		0.5
	<u>2,000</u>	<u>(2,000)</u>	1
PIC – Training of staff by external trainer (\$6,000 x 3)		<u>(18,000)</u>	1
Net adjusted profit		156,000	
<i>Less:</i>			
Zar's child's school fees	12,000		0.5
Zar's salary (\$3,000 x 12)	<u>36,000</u>	<u>(48,000)</u>	0.5
Total divisible profit		<u>108,000</u>	
Capital allowances			
Display cabinets (\$60,000/3)		20,000	1
PIC bonus		<u>6,000</u>	<u>1</u>
			<u>9</u>

(b) Zar and Annie – assessable income from the partnership for the year of assessment 2014

	Zar	Annie	Total	
Profit sharing ratio	50%	50%	100%	
	\$	\$	\$	
Divisible profits	54,000	54,000	108,000	0.5
Salaries	36,000	0	36,000	0.5
School fees	<u>12,000</u>	<u>0</u>	<u>12,000</u>	0.5
Adjusted profits	102,000	54,000	156,000	
Capital allowances	<u>(10,000)</u>	<u>(10,000)</u>	<u>(20,000)</u>	0.5
Assessable income	<u>92,000</u>	<u>44,000</u>	<u>136,000</u>	
PIC bonus	<u>3,000</u>	<u>3,000</u>	<u>6,000</u>	<u>1</u>
				<u>3</u>

(c) The qualifying conditions for a productivity and innovation credit (PIC) bonus claim are that the taxpayer has:

- incurred at least \$5,000 in PIC-qualifying expenditure net of any government grant or subsidy during the basis period for the year of assessment in which the PIC bonus is claimed; 1
- carried on an active business operation in Singapore; and 0.5
- at least three local employees (Singapore citizens or Singapore permanent residents with CPF contributions) **excluding** sole-proprietors, partners under contract for service and shareholders who are directors of the company. 1.5

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