Answers

1 (a) DY Pte Ltd (DYPL)

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

	$	$	*Marks*
Net profit as per accounts		15,000,000	0·5
Tax adjustments on income			
Interest from fixed deposit received (separate source)	(36,000)		0·5
Interest of $2,000 on trade receivables – treated as trade income	0		1·0
Dividend from the Bermudan company (separate source)	(30,000)		0·5
Compensation from law suit (for infringement of copyright)	(500,000)		1·0
		(566,000)	
Tax adjustments on expenses			
Motor car SJT 1111A maintenance expense	12,000		0·5
Legal fees for the copyright infringement suit	10,000		1·0
Depreciation	80,000		0·5
Legal fees to review sales contract	0		1·0
Medical fees (((500,000 – 60,000)*2%) – 15,000)	6,200		1·5
School fees of managing director's son borne by company	0		1·0
Bond discount	0		1·0
Donation – Singapore Red Cross	5,000		0·5
Renovation and refurbishment – s.14Q claim Total cost $330,000 less new display cabinet ($12,000), eight executive chairs ($3,000) and antiques ($10,000) = $305,000, but capped at $300,000 x 1/3	(100,000)		3·0
		13,200	
		14,447,200	
Less: Specific deductions provided under the ITA:			
Capital allowances: automated inventory tracking system (100% of $500,000)	(500,000)		1·0
Productivity and Innovation Credit: automated inventory tracking system (300% of $500,000)	(1,500,000)		1·0
Capital allowances: display cabinet (one-third of $12,000)	(4,000)		1·0
Capital allowances: eight executive chairs, each costing $375	(3,000)		1·0
Capital allowances: antiques	0	(2,007,000)	0·5
Trade adjusted profit		12,440,200	
Add: Non-trade income			
Interest on fixed deposit deemed remitted	12,000		1·0
Dividends from a Bermudan company – taxable ('subject to tax' and 'headline tax' conditions not met)	30,000	42,000	1·0
Statutory income		12,482,200	
Less: Approved donation ($5,000 x 2·5)		(12,500)	1·0
Assessable/Chargeable income		12,469,700	
Less: Loss transferred from DZPL		(95,000)	1·0
		12,374,700	
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		12,222,200	
Tax thereon at 17%		2,077,774	0·5

Tutorial note: *Based on the announcement made in Budget 2013, DYPL would be entitled to a corporate income tax rebate of $30,000. However, as the announcement was made after 30 September 2012, this rebate is not examinable for the December 2013 examination session and so is not included in the answer.*

			Marks
DZ Pte Ltd (DZPL)			
Tax liability for the year of assessment 2013			
Basis period: 1 July 2011 to 30 June 2012			
	$	$	
Net loss as per accounts		(100,000)	
Tax adjustments on expenses			
Company registration cost	4,000		0·5
Penalties and fines	1,000	5,000	0·5
Adjusted loss		(95,000)	
Transferred to DYPL		95,000	1·0
Adjusted loss carried forward		0	
			25

(b) Group relief

(i) Group relief (GR) is a system which considers group companies as one single company for tax purposes. 0·5

Under the GR system, the unutilised capital allowances/trade losses/donations of the current year of one group company can be deducted from the assessable income of another company in the same group. 1·5

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(ii) The conditions which need to be satisfied for there to be a valid claim for GR are that the transferor and the claimant of the loss items have to:

- be Singapore incorporated companies; 0·5
- be members of the same group of companies and maintain a shareholding level of at least 75% throughout the basis period of the year of assessment; 1·5
- have the same accounting year end; and 0·5
- make a written election to transfer the loss items. 0·5

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2 (a) (i) Brendon

Chargeable income for the year of assessment 2013

		$	
Trade – Sole proprietorship			
Accounting loss		(100,000)	0·5
Add: Medical expense – Brendon		10,000	1·0
Add: Depreciation		5,000	0·5
		(85,000)	
Laptop			
Tax written down value	0		0·5
Less: Sales proceeds	500		0·5
Balancing charge		500	0·5
Adjusted loss		(84,500)	
Less: Transfer to Alice – employment income		84,500	1·0
Adjusted loss carried forward		0	
Net rental loss		(3,500)	0·5
Add: New washing machine		2,000	0·5
		(1,500)	
Less: Transfer to Alice – rental income		1,500	1·0
		0	
Total chargeable income		Nil	0·5
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				Marks
(ii) Alice				
Chargeable income for the year ended 2013				
			$	
Employment income				
Basic salary ($10,000*12)			120,000	1·0
Bonus ($10,000*3)			30,000	1·0
Car benefit (3/7*(120,000 – 30,000)/10 + (800*12*0·55)			9,137	2·0
Personal gym membership			1,200	1·0
			160,337	
Housing benefit in kind –				
Lower of annual rental (72,000) or 10% of $160,337	16,034			1·5
Less: Rental paid	(12,000)			0·5
			4,034	
Total employment income			164,371	
Less: Loss transfer from Brendon			(84,500)	1·0
		A	79,871	
Rental income				
Gross			58,000	0·5
Less:				
Property tax			(6,000)	0·5
Mortgage interest			(12,000)	0·5
Net rental income			40,000	
Less: Rental loss transfer from Brendon			(1,500)	1·0
		B	38,500	
Total chargeable income (A + B)			118,371	0·5
				11

(b) Only the following training expenditure of employees would qualify for the productivity and innovation credit incentive claim:

1. External course fees for staff; or
2. Costs incurred on internal Workforce Skills Qualification (WSQ) courses for employees' skills upgrading.
3. From YA 2012 to YA 2015, if the training is not WDA-accredited or ITE-approved/certified, a cap of $10,000 per YA applies.

1 mark for each answer, total 2

(c) Procedure for the transfer of qualifying deductions

For the transfer to take place, an election has to be made by both spouses on a year to year (annual) basis. 1·0

The election can be made at any time before the end of 30 days from the date of the service of the notice of assessment of Brendon or Alice, whichever is the later. The election once made is irrevocable. 2·0

There is no prescribed form for the election of transfer. However, both spouses must furnish in writing their names, identification numbers and signatures if they wish to elect for the transfer of the excess qualifying deductions and rental deficit. 2·0

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3 (a) The contributed capital of a partner of a limited liability partnership is the aggregate of:

(1) the amount which the partner has contributed to the limited liability partnership (in cash or in kind but not including any loan made by the partner to the limited liability partnership) as capital, and has not, directly or indirectly, been withdrawn or returned to the partner (whether as a distribution or a loan or otherwise); and 2·0

(2) the amount of profits or gains derived by the limited liability partnership from any past year of assessment to which the partner is entitled but which the partner has not received (whether as a distribution or a loan or otherwise). 2·0

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			Marks
(b)	**(i)**	Ash	

Year of assessment 2012
Basis period 1 January to 31 December 2011

	$	Marks
Assessable income: Echo LLP		
Trade loss	(216,000)	0·5
Capital allowances	(28,400)	0·5
	(244,400)	
Income from employment	550,000	0·5
Less: LLP current year loss	(244,400)	1·0
Assessable income	305,600	
Contributed capital at 31 December 2011 (end of basis period)	250,000	0·5
Relevant deductions	(244,400)	0·5
Restricted deductions	Nil	0·5

Year of assessment 2013
Basis period 1 January to 31 December 2012

	$	Marks
Assessable income: Echo LLP		
Trade loss (236,000 + 94,400 (deemed profits))	(330,400)	0·5
Capital allowances	(32,400)	0·5
	(362,800)	
Income from employment	650,000	0·5
Deemed profits (244,400 – 150,000)	94,400	2·0
Assessable income	744,400	
Contributed capital at 31 December 2012 (end of basis period)	150,000	0·5
Relevant deductions	150,000	1·0
Restricted deductions:		
Losses carried forward	330,400	0·5
Capital allowances carried forward	32,400	0·5
	362,800	10

(ii) The restricted deductions (losses and capital allowances) can be carried forward and offset against Ash's future income from Echo LLP. 1

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Marks

4 (a) DD Distributor Pte Ltd

Goods and services tax (GST) for the quarter ended 31 September 2013

	Value $	Input tax $	Output tax $	
Sales to employees (after discount)	7,000		490	1·0
Export sales (zero rated)	1,000,000		0	0·5
Local sales (standard rated)	2,000,000		140,000	0·5
Local purchases from GST traders (standard rated)	320,000	22,400		0·5
Local purchases from non-GST traders (no input tax)	80,000	0		0·5
Imports of goods (standard rated, paid on importation)	200,000	14,000		0·5
Realised foreign exchange loss on settlement of trade debt (exempt supply)	5,000			1·0
Rebate granted to customers (standard rated)	3,000	210		1·0
Rental of office (standard rated)	200,000	14,000		0·5
Shipping charges for exports (zero rated)	2,000	0		1·0
Reimbursement of entertainment expenses incurred by the sales manager for entertaining clients (standard rated)	10,000	700		1·0
Donation (no supply)	12,000	–		1·0
Costs and running expenses of a motor car (blocked)	6,000	0		0·5
Public liability insurance (medical coverage portion – blocked)	6,000	–		0·5
Public liability insurance (non-medical coverage portion – standard rated)	14,000	980		0·5
		52,290	140,490	
			(52,290)	
Net GST payable			88,200	0·5
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(b) Input tax incurred by a GST-registered trader is not reclaimable on the following:

- Club subscription fees (including transfer fees) charged by sporting and recreational clubs.
- Medical expenses and medical and accident insurance premiums (other than workmen compensation insurance) for staff.
- Benefits provided to the family members or relatives of the GST-registered trader.
- Costs and running expenses of a motor car.
- Any transaction involving betting, sweepstakes, lotteries, fruit machines or games of chance.

1 mark each, maximum 4

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5 (a) Jean Low

(i) (1) The net rental income of $60,000 from Valley Park is subject to tax in Singapore. 1·0

The interest expense of $10,000 cannot be deducted against the rental income as it was not incurred to fund the acquisition of the property. 1·0

(2) The gain on the disposal of the property at Cascadian Garden should be considered a capital gain on the following grounds: 0·5

- The property in question was not trading stock for Jean and Jean had not acquired it (as she has inherited it) with the intention for resale; and 1·0
- Jean has never bought or sold any property previously. 0·5

(3) Foreign sourced employment income remitted into Singapore is exempt from tax in Singapore. 1·0

Interest earned from an approved bank is also exempt from tax in Singapore. 1·0

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(ii) As Jean has income chargeable to tax for the year of assessment 2013, if she had not received an income tax return by 31 March 2013, she should have notified the Inland Revenue Authority of Singapore (IRAS) of her chargeability to tax by 14 April 2013. 2·0

Since Jean has missed the 14 April 2013 deadline, she should request the IRAS to issue her with a tax return immediately. 1·0

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		Marks
(iii)	As Jean is a Singapore citizen, the qualitative test of tax residency for an individual would apply.	0·5
	As her parents reside in Singapore, she has a Singapore bank account and she intends to return to Singapore in the future, her absence would be considered temporary as her ties with Singapore are strong.	1·5
	Therefore, Jean would be considered a tax resident in Singapore under the qualitative test notwithstanding that she was here for less than 183 days in 2012.	1·0
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(b) (i)	The income earned by a company is taxed in its own name whilst the income of a partnership is taxed in the hands of the partners of the partnership.	1
(ii)	A salary paid to the partner of a partnership constitutes his/her share of profit, thus it is not a tax deductible expense to the partnership.	1·0
	A salary paid to the shareholder of a company is paid to him/her in his/her capacity as an employee (director). The employee (director) will be taxed on the said employment income and it will be a tax deductible expense for the company.	1·0
		2
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