Answers

Section B *Marks*

1 Bastille Pte Ltd (BPL)

(a) Repairs during the warranty period which covers both labour and parts replacement will not incur a charge to the customer as the price of the original supply of the equipment has already included the charge for the warranty service. Therefore, BPL is not required to charge a deemed output tax on the supply of any items associated with the warranty service. 1

The input tax incurred on any items used to carry out the warranty repairs will be allowable to BPL since it was incurred in the making of taxable supplies. 1

2

(b) **Goods and services tax (GST) return for the quarter ended 31 March 2017**

	Value $	Type of supply	Input tax $	Output tax $	
Paid to an air courier company to deliver goods to a customer in Malaysia	2,500	Zero-rated purchase	0		1
Paid to a Singapore company for the purchase of spare parts	3,000	Standard-rated purchase	210		0·5
Invoiced to a customer in Malaysia for equipment delivered to the customer's warehouse in Malaysia by the air courier company	30,000	Zero-rated supply		0	0·5
Cleared customs for equipment bought from a US supplier	25,000	Standard-rated purchase, GST paid on importation	1,750		1
Paid to SingTel:					
For IDD calls	800	Zero-rated purchase	0		0·5
For local calls	200	Standard-rated purchase	14		0·5
Paid to repair faulty equipment supplied during the warranty period which covers labour and parts	1,000	Standard-rated purchase	70		0·5
Sold equipment	5,000	Standard-rated supply		350	0·5
Sold extended warranty for the equipment	500	Standard-rated supply		35	0·5
Paid for the rental of an apartment	12,000	Exempt supply	–		1
Paid for the use of furniture in apartment	6,000	Standard-rated purchase blocked	–	–	1
			2,044	385	
				(2,044)	0·5
Net GST receivable				(1,659)	8
					10

2 Maryland Pte Ltd

(a) **Loan #1 – Interest $30,000**

As the interest expense is borne by Maryland Pte Ltd, a Singapore resident company, it is deemed to be Singapore sourced income. As it is paid to a non-resident company, Maryland Inc, Maryland Pte Ltd has to withhold tax at 15%. 2

Loan #2 – Interest $50,000

As the interest expense borne by Maryland Pte Ltd is incurred in respect of its investment in an immovable property in Hong Kong (outside Singapore), the interest expense will not be deemed Singapore sourced income and thus the Singapore withholding tax provisions do not apply. 2

4

		Marks

(b) Withholding tax and penalties payable re Loan #1

	$	
Withholding tax amount (30,000*15%)	4,500	1
Due date 15 February 2017		
5% late payment penalty (up to 30 days late) (5%*4,500)	225	1
1% late payment penalty (two complete months from 15 March 2017 to 1 June 2017) (2%*4,500)	90	1
Total penalty	315	
		3

(c) The qualifying conditions for reduced penalties under the voluntary disclosure programme are:

1. The voluntary disclosure is timely, accurate, complete and self-initiated. A voluntary disclosure must be made **before** a taxpayer receives a query or notification of the commencement of an audit or investigation from the Inland Revenue Authority of Singapore (IRAS) relating to the disclosure in question. 1·5
2. The taxpayer must co-operate fully with the IRAS to correct the errors made. 0·5
3. The taxpayer must pay or make arrangements with the IRAS to pay the additional taxes and the penalties imposed (if any), and honour such arrangements until all the payments are made. 1

3

10

3 Create Pte Ltd (CPL) and Create Holding Ltd (CHL)

(a) Automated sorting system

CHL

	$	
Year of assessment (YA) 2015		
Cost (acquired in 2014)	60,000	0·5
YA 2015 s.19A claim	(20,000)	0·5
Tax written down value (TWDV) carried forward	40,000	
YA 2016		
Disposal of automated sorting system and s.24 elected		
No balancing adjustment	NIL	0·5

CPL

	$	
YA 2016		
Section 24 elected – TWDV taken over	40,000	0·5
YA 2016 s.19A claim	(20,000)	0·5
TWDV carried forward	20,000	

	$	
YA 2017		
Sales proceeds	45,000	0·5
Less: TWDV	(20,000)	0·5
Balancing charge (not restricted to capital allowances claimed to date by CPL as s.24 has been elected)	25,000	0·5
		4

Marks

(b) Hydraulic bulking unit

CPL – YA 2017

	$	
Principal payments		
Deposit	90,000	0·5
Instalment repayment (90,000/36 months*6 months)	15,000	0·5
Total principal payments	105,000	
Base capital allowance (105,000/3 years)	35,000	0·5
Enhanced capital allowance (35,000*300%)	105,000	0·5
	140,000	
		2

(c) CPL Corporate income tax

	$	
YA 2017		
Agreed adjusted profit	5,000	
Less:		
Base and enhanced capital allowance (from (b))	(140,000)	0·5
Balancing charge (from (a))	25,000	0·5
Unabsorbed capital allowance	(110,000)	
Less:		
Unabsorbed capital allowance carried back (capped at $100,000)	100,000	0·5
Unabsorbed capital allowance carried forward	(10,000)	0·5
Chargeable income	NIL	

	$	
YA 2016		
Agreed adjusted profit	450,000	
Less: Loss carried back (as above)	(100,000)	
Chargeable income before tax exemption	350,000	
Less: Partial tax exemption	(152,500)	0·5
Chargeable income after tax exemption	197,500	
Tax payable at 17%	33,575	0·5
Less: 50% corporate tax rebate (capped at $20,000)	(16,788)	0·5
Net tax payable	16,787	
Less: Tax paid previously	(30,575)	0·5
Tax refund due	(13,788)	
		4
		10

			Marks

4 (a) AB & Co

Adjusted and divisible profit for the year ended 31 December 2016

	$	
Net profit per accounts	120,000	
Add:		
Car expenses – Nigel	20,000	1
Legal fee to sue a competitor for infringing its registered trademark	0	1
Cash donation to Community Chest of Singapore	2,000	1
Goodwill written off	6,000	1
Excess CPF contribution for Nigel	14,400	1
Divisible profit	162,400	
Add:		
Rent paid for Bernard's rented apartment	72,000	0·5
Bernard's salary	96,000	0·5
Bernard's CPF contributions	19,200	1
Adjusted profit	349,600	
		7

(b) Bernard

Assessable income for the year of assessment 2017

	$	
Share of divisible profit of partnership (2/3*162,400)	108,267	0·5
Salary paid by the partnership	96,000	0·5
CPF contributions	19,200	0·5
Rent paid for apartment	72,000	0·5
Share of adjusted trade profit from partnership	295,467	
Less:		
Share of partnership donation (2,000*2·5*2/3)	(3,333)	1
Assessable income	292,134	
		3
		10

5 Harry

(a) Director's fees

For the year ended 30 September 2016

Harry will be taxed on the director's fees for the year ended 30 September 2016 in the year of assessment (YA) 2017, as the company voted and approved these fees on 30 December 2016 to be paid to Harry for his services rendered for the year ended 30 September 2016. 1

For the year ended 30 September 2017

The director's fees for the year ended 30 September 2017 were approved in advance on 30 December 2016. As Harry had not rendered the requisite services for the year end concerned when the fees were approved, he will not be taxed on them in YA 2017 but only in YA 2018 when he is entitled to the fees for the services rendered. 1

2

(b) Income tax payable for YA 2017

	$	$	Marks
Basic salary (20,000*12)		240,000	0·5
Bonus		100,000	1
Car allowance (1,500*12)		18,000	1
Fully furnished apartment			
Annual value (AV)	72,000		1
Value of furniture and fitting (50% of AV)	36,000		1
	108,000		
Less: Rental paid (2,000*12)	(24,000)	84,000	0·5
Share option (50,000*(8·50 – 5·50))		150,000	1
Travel package for Harry and his wife		6,000	1
Home theatre system won in the lucky draw at annual dinner and dance		0	1
		598,000	
Director's fees – for the year ended 30 September 2016	12,000		0·5
Director's fees – for the year ended 30 September 2017	0	12,000	0·5
Assessable income		610,000	
Less: Personal reliefs			
Earned income relief	1,000		0·5
Spouse relief	2,000		0·5
CPF – ordinary wages (6,000*12*20%)	14,400		1
CPF – additional wages ((102,000 – (6,000*12))*20%)	6,000	(23,400)	1
Chargeable income		586,600	
Tax at first $320,000		44,550	0·5
Tax on the balance ($586,600 – 320,000) at 22%		58,652	0·5
Tax payable		103,202	
			13
			15

6 (a) Section 13Z of the Income Tax Act (ITA) exempts from tax the gains derived by a company ('divesting company') from the disposal of ordinary shares in another company ('investee company') which are legally and beneficially owned by the divesting company, if immediately prior to the date of the share disposal: 1

– the divesting company holds a minimum shareholding of at least 20% in the investee company whose shares are being disposed; and 1

– the divesting company maintains the minimum 20% shareholding in the investee company for a continuous minimum period of 24 months prior to the disposal. 1

3

(Note: Candidates are not required to quote the ITA, marks were awarded based on the explanation provided)

Marks

(b) **Starlight Pte Ltd**

Chargeable income for the year of assessment 2017
Basis period: Year ended 30 September 2016

	$	$	Marks
Net profit per accounts		780,000	
Less:			
Gain on the disposal of all the ordinary shares in subsidiary, Brightlight Pte Ltd (BPL)	(200,000)		0·5
Rental of excess factory space (separate source)	(8,000)		0·5
Recovery of amount owing by an ex-employee (non-trade)	(5,000)	(213,000)	0·5
		567,000	
Add:			
Depreciation	20,000		0·5
Director's fee (approved on 30 November 2016 and paid on 1 December 2016)	0		0·5
Exchange difference – realised exchange loss on interest-free loan from Starlight Inc	800		0·5
Exchange difference – unrealised on approved designated bank account	0		0·5
Interest on the loan obtained to acquire the factory building attributable to rented factory space (10%*100,000)	10,000		1
Legal fee on the sale of BPL shares	3,000		0·5
Legal fee to collect debt from ex-employee (non-trade)	1,500		0·5
Staff remuneration	0		0·5
Overseas trade fair – hire of exhibition booths (double deduction)	(1,500)		1
Overseas trade fair – travelling expenses for two employees (6,000/3*2) (double deduction)	(4,000)	29,800	1
		596,800	
Add: Separate sourced income			
Gain on disposal of ordinary shares of a subsidiary (exempt)		0	0·5
Rental of excess factory space (8,000 – 10,000) – loss disregarded		0	1
		596,800	
Less: Capital allowances (CA)			
New computers – s.19A	20,000		0·5
– enhanced CA claim	60,000		0·5
Renewal of certificate of entitlement (COE) of a lorry (15,000/3)	5,000	(85,000)	1
		511,800	
Less: Partial tax exemption		(152,500)	0·5
Chargeable income		359,300	
			12
			15