Answers

Section B *Marks*

1 Pluto Pte Ltd (PPL)

(a) **Goods and services tax (GST) return for the quarter ended 30 September 2017**

			Type of supply	Input tax	Output tax	
		$		$	$	
1.	Sales to customers in Singapore	500,000	Standard-rated supply		35,000	0·5
2.	Sales to customers outside Singapore (goods bought from suppliers outside Singapore and delivered directly to the customers outside Singapore)	200,000	Out of scope – third country delivery		0	1
3.	Sales to customers outside Singapore (goods exported from Singapore to the customers outside Singapore)	100,000	Zero-rated supply		0	0·5
4.	Interest income from a Singapore bank	10,000	Exempt supply		0	1
5.	Trading stock bought from a supplier in Singapore	300,000	Standard-rated purchase	21,000		0·5
6.	Second hand computers purchased from a related company in Malaysia, brought into and used in Singapore	50,000	Standard-rated purchase – GST payable on importation	3,500		1
7.	Sports club subscription fee	3,000	Standard-rated purchase but blocked	0		1
8.	Trade association subscription fee	5,000	Standard-rated purchase	350		1
9.	Motor car expenses	20,000	Standard-rated purchase but blocked	0		1
				24,850	35,000	
					(24,850)	
			GST payable		10,150	0·5
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(b) The conditions necessary to satisfy the application of the *de minimis* rule, are that the value of the exempt supplies has to be less than or equal to: 1

– an average of $40,000 per month; **and** 0·5

– 5% of the total value of all taxable and exempt supplies made in that period. 0·5

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Marks

2 Mars Pte Ltd (MPL)

(a) (i) Conditions for carry-back relief

1. The continuity of shareholding test, i.e. the shareholders of the ultimate parent company and their shareholdings must be 50% or more at the relevant comparison dates, must be met: 0·5

   Relevant dates for unabsorbed capital allowances (CA)
   First day of the year of assessment (YA) in which the CA were claimed and the last day of the immediate preceding YA in which the CA are to be deducted. 1

   Relevant dates for unabsorbed trade losses
   First day of the year in which the trade losses were incurred and last day of the immediate preceding YA in which the trade losses are to be deducted. 1

2. For the carry back of the unabsorbed CA, the same trade or business test also has to be met. 0·5

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(ii) Amount of carry-back relief and how the amount of carry-back relief is determined if group relief can be claimed

1. The maximum amount of carry-back relief is restricted to the lowest of:
   – the actual amount of losses or capital allowances;
   – the assessable income of the immediate preceding YA; and
   – $100,000. 1

2. In the case of a group company, the amount available for carry-back relief is determined after any transfer(s) available under the group relief system, i.e. current year group relief takes priority. 1

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(b) (i) Cartian Pte Ltd (CPL) – Year of assessment (YA) 2017

	$	
Chargeable income before reliefs and exemptions	200,000	0·5
Less: Group relief: Capital allowances transferred from MPL	(200,000)	1
Chargeable income after reliefs and exemptions	0	
MPL – YA 2017		
Unabsorbed capital allowances	200,000	
Transferred to CPL	(200,000)	0·5
Balance c/f	0	
Unabsorbed losses	50,000	
Carried back to YA 2016	(50,000)	0·5
	0	
MPL – YA 2016		
Chargeable income before reliefs and exemptions	150,000	0·5
Less: Carry-back relief for unabsorbed losses	(50,000)	0·5
Chargeable income before exemptions	100,000	
Less: Tax exemption for new start-up companies First $100,000 at 100%	(100,000)	0·5
Chargeable income after exemptions	0	4

(ii) Tax saving:

	$	
Tax paid by MPL for YA 2016 – now refundable	2,125	0·5
Tax no longer payable by CPL for YA 2017	8,287	0·5
	10,412	1
		10

Marks

3 ABC Trading

(a) Divisible profit, adjusted profit and capital allowances for the year of assessment (YA) 2017

	$	Marks
Net profit	321,920	
Add:		
Medical insurance (staff) – restricted by (2,000 – 1% x 120,000)	800	1
Donations	20,000	0·5
Divisible profit	342,720	
Add:		
Maintenance of Allen's car	20,000	0·5
Medical expenses (Brad)	1,000	0·5
Partners' entitlement	115,080	0·5
Adjusted profit	478,800	
Capital allowances (CA)		
Computer – Base CA	2,000	0·5
Computer – Productivity and innovation credit (PIC) enhanced CA (2,000 x 300%)	6,000	0·5
	8,000	
		4

(b) Partners' assessable income for YA 2017

	Allen	Brad	Chad	Total	Marks
Profit sharing ratio	1	2	3		
	$	$	$	$	
Divisible profit	57,120	114,240	171,360	342,720	1
Salary	36,000		48,000	84,000	0·5
Motor vehicle expenses	20,000			20,000	0·5
Medical expenses		1,000		1,000	0·5
CPF	13,320		17,760	31,080	1
Adjusted profit	126,440	115,240	237,120	478,800	
Share of base and PIC enhanced CAs	(1,333)	(2,667)	(4,000)	(8,000)	1
Share of donations (20,000 x 2·5)	(8,333)	(16,667)	(25,000)	(50,000)	1·5
Assessable income	116,774	95,906	208,120	420,800	
					6
					10

Marks

4 Bahamas Pte Ltd (BPL)

(a) The rights-based approach draws a distinction between the transfer of a 'copyright right' and the transfer of a 'copyrighted article' from the owner to the payer. It characterises a payment for software based on the nature of the rights transferred in consideration for the payment. 1·5

A payment is considered a payment for the transfer of a 'copyright right' if only a partial right is transferred permitting the buyer to commercially exploit it. The term 'commercially exploit' means to be able to reproduce, modify or adapt and distribute the software or prepare derivative works based on the copyrighted software program for distribution. Such payment would be considered a royalty and thus be subject to Singapore withholding tax. 2·5

A payment is considered a payment for the transfer of a 'copyrighted article' and the payment not subject to Singapore withholding tax if the payment is for:

– the complete alienation of the copyrights from the software owner (i.e. the transaction is a sale of the copyright); or

– the right to use the software as is only (i.e. without any right to modify, reproduce or adapt). 2

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(b) Treatment of payments made by BPL

		Withholding tax payable $	Marks
1.	**Payment for KLog** The payment is not subject to Singapore withholding tax. This payment is for a 'copyrighted article' as BPL does not have the rights to modify or reproduce KLog, it is merely buying and reselling KLog.	0	1·5
2.	**Maintenance services** This is a payment for technical services, so does not come within the scope of the rights-based approach. As the technical services are rendered in Singapore by Dorrie Pte Ltd (DPL), a Singapore tax resident, withholding tax is applicable ($5,000 x 17%)	850	1·5
3.	**Interest** As the interest is paid to Krane Limited (KL), a non-resident, withholding tax is applicable ($1,000 x 15%)	150	1
			4
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Marks

5 Jelly Co Pte Ltd (JCPL)

(a) Chargeable income for the year of assessment 2017

	$	$	Marks
Net profit before tax		900,000	
Less:			
Dividend income from a share investment		(30,000)	0·5
Insurance recovery for loss of profits		0	0·5
Scrap value on the disposal of a candy making machine		(1,800)	0·5
		868,200	
Add:			
Compensation paid to a competitor to agree to stop using its brand name		350,000	1
Depreciation		20,000	0·5
Donation of gummies		8,000	0·5
Interest expense on a loan taken to fund the working capital of the business operations		0	1
Interest expense on a loan taken to fund the share investment in Lollies Ltd		5,000	0·5
Late payment interest on the late payment of CPF contributions		1,000	0·5
Legal fees re insurance recovery for loss of profits		0	0·5
Loan to a staff member written off		6,000	0·5
Nominee director's fee		0	0·5
Personal income tax liability and late payment penalty paid for managing director		0	1
Term life Insurance premium (JCPL is the beneficiary of the policy)		2,000	0·5
Write off of obsolete stock		0	0·5
		1,260,200	
Less: Capital allowances			
Vacuum packing machine – base capital allowance	60,000		0·5
Vacuum packing machine – enhanced capital allowance	180,000		0·5
Candy machine – balancing charge	(1,800)		0·5
Eight display cabinets – 100% capital allowance	30,000	268,200	0·5
		992,000	
Add: Separate source income			
Dividend income from share investment (deemed remitted in YA 2018)		0	0·5
Less: Approved donations (in kind)		0	0·5
Assessable/chargeable income		992,000	
			12

(b) The dividend income from the share investment is deemed to have been remitted when JCPL used it to settle its trade debt, i.e. in August 2017. 1

As JCPL has incurred an interest expense to fund the share investment, JCPL should elect for the liberalised treatment of expenses incurred to derive dividend income in the year of assessment 2017. 1

JCPL will then be able to deduct the interest expense of $5,000 against the dividend income of $30,000 in the year of assessment 2018. 1

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			Marks

6 Harsh

(a) Tax payable for the year of assessment 2017

	$	$	Marks
Employment income			
Salary (20,000 x 12)		240,000	0·5
Contractual bonus		20,000	1
Non-contractual bonus		0	0·5
Home leave passage:			
Harsh			
First trip – concessionary treatment – 20% taxable (2,000 x 20%)		400	1
Second trip (no concessionary treatment)		2,000	0·5
Twins			
Both trips – concessionary treatment – 20% taxable (6,000 x 20% x 2)		2,400	1
Accommodation provided:			
Annual value (AV)		120,000	0·5
Value of furniture and fittings (fully furnished) 50% of AV		60,000	1
Rental income from residential unit:			
Gross rental	48,000		0·5
Deemed rental expense higher than actual expense (15% x 48,000)	(7,200)		1
Mortgage interest	(18,000)	22,800	0·5
Interest income (not remitted)		0	1
		467,600	
Less: Donations			
Approved museum: Artefact ($10,000 x 2·5)		(25,000)	1
Assessable income		442,600	
Less:			
Earned income relief	1,000		0·5
Child relief	4,000	(5,000)	0·5
Chargeable income		437,600	
Tax on the first $320,000		44,550	0·5
Tax on the balance at 22%		25,872	0·5
Tax payable		70,422	
			12

(b) A contractual bonus is payable in accordance with the terms of a contract of service or a bonus plan adopted by an employer, which cannot be rescinded by the employer without legal consequences. As the employee becomes entitled to such bonuses in the year in which the employee renders his services, a contractual bonus is taxed in the year the service is rendered even if it is paid in the following year. 1·5

In contrast, a non-contractual bonus can be rescinded by the employer at any time prior to actual payment without any legal consequences. As an employee only becomes entitled to such a bonus on the date the bonus is paid, it will not be taxed until the year of receipt. 1·5

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