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# Answers

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1 Eternally Precious Pte Ltd

(a) Briefing notes for meeting with the chief financial officer of Eternally Precious Pte Ltd

Prepared by: Tax assistant  
For: Tax manager  
On 6 December 2010

(i) Singapore tax implications on the renovation and refurbishment works

- Expenditure incurred on renovation and refurbishment works carried out in rented premises does not qualify for tax deduction or for wear and tear allowance claims unless they fall under one of the following categories:
  - (1) The expenditure is deductible under the normal revenue expense rules as being for the repair of the premises, the plant, machinery or fixtures employed or for the renewal, repair or alteration of implements used; with no element of improvement. [s.14(1)(c)]
  - (2) The expenditure constitutes capital expenditure incurred on the provision of plant and machinery for use in the business for which a claim for wear and tear allowances can be made. [ss.19 or 19A]
  - (3) The expenditure constitutes a qualifying cost incurred during the period from 16 February 2008 to 15 February 2013 on renovation and refurbishment works carried out in the business premises for which a specific tax deduction is available. [s.14Q]

Under this provision, for costs incurred in the basis period for the year of assessment 2010, the full amount up to a maximum of \$150,000, can be claimed in the year of assessment 2010.

Alternatively, one-third of the full amount can be claimed in each of the years of assessment 2010, 2011 and 2012. The total allowable amount claimable for these years of assessment is also restricted to \$150,000.

- The specific treatment of the items of expenditure incurred by Eternally Precious Pte Ltd on the renovation and refurbishment works carried out in 2009 to its shop premises is as follows:

Nature of work	Amount	Types of claim
Removal of existing fixed partitions	\$18,000	Revenue expenditure [s.14(1)(c)]
Design fees	\$12,000	No claim
Calligraphy	\$5,000	No claim
Demountable partitions	\$100,000	Wear and tear allowances [ss.19 or 19A]
Fixed partitions	\$80,000	s.14Q (Note 1)
Flooring (tiled)	\$90,000	s.14Q (Note 1)
False ceilings and cornices	\$12,000	s.14Q (Note 1)
Clearing debris	\$10,000	Revenue expenditure [s.14(1)(c)] (Note 2)

Note 1: The total amount claimed in YA 2010 is restricted to \$150,000 [or \$50,000 in each YA from 2010, 2011 and 2012].

Note 2: Alternatively, the Inland Revenue Authority of Singapore [IRAS] may attribute and accordingly apportion the clearing charges of \$10,000 to each of the above work.

(ii) Withholding tax exposure on the design fees paid to Mr P Kong

- Mr Kong is not a Singapore tax resident, therefore, the fees paid to him for the technical services provided will be subject to Singapore withholding tax unless the services were performed outside Singapore and were not performed through his business carried on in Singapore.
- If the design fees were for services provided in Singapore by Mr Kong as a non-resident professional, the payer is required to withhold tax at 15% of the gross fee payable to Mr Kong or the non-resident rate of 20% if Mr Kong elects to be taxed on net income.
- Eternally Precious Pte Ltd must notify the IRAS immediately, in writing, of the deduction made and pay over the amount withheld by the 15th day of the month following the date of payment of the fees to the non-resident, Mr Kong.

**(b) Mr P Kong**

**(i) Personal tax filing position**

If Mr Kong is assessed to tax at 15% of gross fee, the 15% withholding tax is the final tax. If he opts to be assessed at 20% of net fee, he can claim deduction of any expenses wholly and exclusively incurred in the production of the fee income and obtain a refund of any tax overpaid.

**(ii) Rental income from property in Singapore**

The rental income derived from Mr Kong's property in Singapore is sourced in Singapore and accordingly the rental income is subject to Singapore tax in his hands. This is notwithstanding that Mr Kong is a non-resident of Singapore. Mr Kong can claim deduction of expenses incurred wholly and exclusively in the production of the rental income, against the gross rents received, to arrive at the net rental income subject to tax.

As Mr Kong is a non-resident, the rental income, net of related expenses, will be taxed at the rate of 20% in the year of assessment 2010.

**2 Kong Soon Holdings Pte Ltd**

To: The Directors of Kong Soon Holdings Pte Ltd  
From: Tax Consultant  
Date: 6 December 2010

**Report on the acquisition of the new waste treatment consultancy business in Singapore**

**(i) Loan plan financing**

Under Loan plan I, the interest payable by Kong Soon Waste Consultants Pte Ltd (KSWaste) (or Kong Soon Waste Treatment Consultants (KSWTC)) on the loan extended by the Singapore branch of HSBC and used by KSWaste (or KSWTC) to acquire the waste treatment consultancy business should be tax deductible against the profits generated by KSWaste (or KSWTC) from the waste consultancy business conducted.

Based on an annual interest rate of 2.75% per annum, the annual interest payable would be \$82,500. After claiming the tax deduction, the net interest cost under Loan plan I will be \$68,475. This is arrived at as follows:

Annual interest cost	\$82,500
Less: Tax saving from claiming deduction (17% of \$82,500)	(\$14,025)
Net interest cost under Loan plan I	<u>\$68,475</u>

Under Loan plan II, the interest payable by Kong Soon Holdings Pte Ltd (KSH) on the loan borrowed from HSBC will not be tax deductible against the dividend and rental income generated by KSH from its shares and real properties. This is because the dividend income, if any, paid by KSWaste (or Kong Soon Asia Pte Ltd (KASia)) will be tax exempt in the hands of KSH and the interest cost is not incurred on the real estate properties of KSH.

Accordingly, the annual interest cost to KSH under Loan plan II would be \$75,000, being 2.5% of \$3,000,000.

The lending bank would prefer Loan plan II because the value of the shares in KSH held as collateral will be worth more than the shares in either of the individual subsidiary companies, KSWaste or KASia. However, comparing the net annual interest cost incurred under the two alternatives, it is clearly beneficial to the group to use Loan plan I as this results in reduced after tax interest costs of \$6,525 per annum (\$75,000 – \$68,475).

With regards to the withholding tax exposure, the interest payable to the Singapore branch of HSBC which is tax resident in the UK, is strictly under the Singapore Income Tax Act, subject to withholding tax. The domestic withholding tax rate on interest payable to the Singapore branch is 17%. The branch is not entitled to the reduced rate prescribed under the Singapore-UK tax treaty. This is because the branch, being a permanent establishment (PE) of HSBC, carries on business in Singapore.

However, as a concession, the Inland Revenue Authority of Singapore has granted blanket exemption from withholding tax on interest payments derived by foreign banks operating in Singapore. Accordingly, it is reasonable to expect that the Singapore branch of HSBC will have obtained blanket exemption from Singapore withholding tax on such interest. We therefore recommend that KSH obtains confirmation in this regard from the lending bank.

## **(ii) Business structure**

Under Structure A, KSH will set up a new subsidiary, called KSWaste, to house the new waste consultancy business.

### **Income tax implications**

The purchase consideration payable by KSWaste to WasteConsult Pte Ltd (WAC) for the transfer of the business would likely be regarded as a capital payment. As a capital payment, it is not deductible for income tax purposes. Also there would be incorporation and set-up costs involved. Such costs are also not tax deductible. The net taxable profits derived by KSWaste will be subject to income tax at the normal corporate tax rate.

Under the group relief scheme, any current year trade losses suffered by KASia would be available for set-off against the same year profits of KSWaste subject to their meeting the prescribed conditions. The agreed unabsorbed losses (of \$84,000) and wear and tear allowances (of \$59,000) brought forward from prior years in KASia would, however, not be allowed for group relief claim.

### **Goods and services tax (GST) implications**

The transfer of the waste treatment consultancy business will be subject to GST as WAC is a registered trader for GST purposes. The GST treatment amount involved is \$210,000 being 7% of \$3m, and this amount may be regarded as substantial.

As the annual turnover of KSWaste is not expected to exceed \$1,000,000, it will not be obliged to register for GST. As a non-registered entity, any GST suffered by KSWaste cannot be claimed from the tax authority. This non-claim situation will also apply to the GST suffered on the transfer of the waste treatment business from WAC. Further, the GST non-claimable on the purchase will not be granted an income tax deduction as it is part of the consideration for acquiring the new business and hence likely to be capital in nature.

Notwithstanding that the company is not obliged to be registered for GST, it can apply for voluntary registration if it considers that the benefits of doing so would outweigh the costs involved in the medium to long term.

### **Stamp duty implications**

As the waste treatment consultancy business to be transferred does not involve shares or immovable properties, there will be no stamp duty payable on the transfer consideration.

Under Structure B, KASia will house the new waste consultancy business as a separate division (i.e. KSWTC) within KASia.

### **Income tax implications**

As under Structure A above, the purchase consideration payable to WAC by KASia for the business would likely be regarded as a capital payment not qualifying for tax deduction for income tax purposes. Similarly, the set-up and other transfer costs incurred in the transfer of the business as well as the costs of registration of the new division, KSWTC, will not be granted a tax deduction.

The agreed unabsorbed tax losses brought forward from prior years for the furniture manufacturing business of \$84,000 will be available for set-off against the future profits of KSWTC provided the shareholders comparison test is met.

However, the agreed unabsorbed wear and tear allowances brought forward of \$59,000 in KASia will not be available for set-off against the future profits of KSWTC. This is because the unabsorbed allowances and profits arose from different trade activities, i.e. they fail to meet the same business test.

Going forward, the current year profits generated by KSWTC and the current year losses suffered by the furniture manufacturing business will be netted off to arrive at the net taxable profits of KASia. These net profits will be taxed at the normal corporate tax rate. This current year set-off is not subject to either the shareholders comparison test or the same business test.

### **GST implications**

As in Structure A, the transfer of the waste treatment consultancy business is subject to GST at 7%, i.e. \$210,000.

Since KASia is already a registered trader for GST purposes, the input GST charged on the business transfer will be available for claim from the tax authority. Alternatively, GST may not be chargeable on the transfer if, subject to the prescribed conditions being met, it qualifies as the transfer of a going concern and thus becomes an excluded transaction for GST purposes. In either case, all other GST suffered on the transfer of the business and the registration of KSWTC should be available for claim.

### **Stamp duty implications**

Like in Structure A, as the transfer of the waste treatment consultancy business does not involve the transfer of shares or immovable properties, there will be no stamp duty payable on the transfer consideration.

## Recommendation

Based on the above, we would recommend Structure B as the more beneficial business structure for the following reasons:

- Incorporating and maintaining KSWaste, a corporate entity, may be more expensive and time consuming than setting up KSWTC, a division.
- Under Structure B, the unabsorbed losses brought forward from prior years (of \$84,000) in KASia are available for set-off against the profits of the waste treatment consultancy business in KSWTC, subject to meeting the shareholders comparison test.
- Under Structure B, the GST suffered on the transfer of the new business to KSWTC can be claimed for refund from the tax authority or GST will not be applicable on the transfer because it qualifies as an excluded transaction for GST purposes.

### (iii) Fee payable to Safewaste

The fees incurred by KSWaste (or KSWTC of KASia) should be tax deductible against the profits generated from the waste treatment consultancy business.

With regards to the withholding tax exposure, the fees due to Safewaste (SW), a non-tax resident of Singapore, may attract withholding tax. If applicable, the domestic withholding tax rate on technical service fees is 17%.

In order to mitigate the withholding tax exposure, you may consider the following:

Under our domestic tax regime, fees payable to a non-resident for technical services rendered outside Singapore by the non-resident (which is a foreign corporate and has a permanent establishment in Singapore) would not be subject to Singapore withholding tax provided such technical services are not performed by a Singapore permanent establishment (PE) of the foreign resident.

In addition, as a UK tax resident, SW can rely on the provisions of the Singapore–UK tax treaty to seek relief from Singapore tax. Depending on the circumstances, including the nature and extent of the work done in and/or outside Singapore, the fees, in whole or in part, may be sheltered from Singapore withholding tax. Normally, only profits attributable to a PE of SW in Singapore for work done in Singapore would be subject to Singapore tax. So technically, if SW does not have a PE in Singapore and no work is carried out in Singapore, the fees payable should not be subject to withholding tax.

Bearing in mind the above, we would recommend that you formalise the work engagement with an agreement and documents that will set out the details including the following:

- the exact nature of the work to be done,
- the place where each item/stage of the work will be conducted (i.e. in or outside Singapore),
- the amount of fees attributable to the work undertaken in each location; and
- the basis on which the attributable fees have been arrived at.

## 3 Ngo Garments Pte Ltd

### (a) Appropriateness of advice on valuation of trading stock

Under the Income Tax Act, trading stocks disposed or transferred must be at the market value prevailing at the date of disposal or transfer, notwithstanding that the transaction may be conducted between related parties. However, where the disposal or transfer of trading stocks is made as a consequence of the transfer of a business, it can be done at the net book value at the date of disposal or transfer. Accordingly, the transfer of trading stocks by Ngo Garments Pte Ltd (NGarments) to uNiQ Concepts Pte Ltd (uNiQ) at net book value will be allowable for Singapore income tax purposes.

### (b) Singapore income tax implications on the transfer of assets

Ngo Garments Pte Ltd

For NGarments, the net book value of the trading stocks transferred would constitute the sale proceeds of the stocks transferred. Accordingly, there should be no gain or loss arising from the transfer of the trading stocks to uNiQ.

In relation to the claim for a tax deduction on the write off of trade receivables of \$1.2m in the year of assessment 2010, the Inland Revenue Authority of Singapore (IRAS) is likely to query the basis for claiming that the debts are bad and uncollectable. This is because a portion of the trade receivables are due from related parties and a major portion of the debts were actually repaid in the following financial year. The IRAS may insist on receiving evidence to show that the debts were indeed bad and uncollectable.

In the event that NGarments adopts FRS 39 tax treatment and claims the above \$1.2m as an impairment loss, the IRAS may still contest the claim, in particular if it is aware that the debts were subsequently recovered soon after the transfer and that the proceeds are not taxable in the hands of uNiQ.

With regard to the \$300,000 received for the goodwill, it should be argued that this is a capital receipt and hence not taxable.

## uNiQ Concepts Pte Ltd

The net book values of the trading stocks taken over from NGarments of \$1m would, for Singapore income tax purposes, constitute the purchase cost of the stocks taken over. This cost would be tax deductible against the sale proceeds obtained from the sale of the trading stocks by uNiQ.

With regards to the trade receivables taken over from NGarments at nil value, uNiQ would contend that the collections received of \$740,000 are capital receipts and hence they are not taxable. This would be subject to IRAS agreement as it may represent a leakage of tax revenue.

The \$300,000 paid for the goodwill will be viewed as a capital payment arising from the transfer of the business. As a capital payment, it would not be granted a tax deduction.

### (c) Goods and services tax (GST)

The IRAS has stated that a supply of assets will be treated as an excluded transaction for the purposes of GST if all of the following conditions are met:

- the supply of assets is made in relation to the transfer of a business or part business;
- the assets transferred are intended for use by the transferee in carrying on the same kind of business as the transferor;
- where only part of the business is transferred that part must be capable of being operated independently;
- the business or part thereof must be a going concern at the time of the transfer of ownership;
- the transferee must be a GST registered person at the time of transfer;
- both the transferee and transferor must maintain sufficient records of the transferred assets to determine their nature and value.

Both NGarments and uNiQ are GST registered traders and the transfer is of the entire wholesale garment business as a continuing business. The transfer should satisfy the conditions for exclusion provided the necessary documentary evidence is kept. However, for the exclusion to apply, NGarments as the transferor of the assets must notify the IRAS of the transfer within 30 days of the transfer.

## 4 Benny Kam

### Benny Kam

#### Income tax

The transfer of the property to Siglap Developments Pte Ltd (SDPL) will be regarded as a disposal for income tax purposes. Notwithstanding that the property was given free of charge to SDPL, the market valuation of the property as at the date of transfer would need to be determined. To satisfy the Inland Revenue Authority of Singapore (IRAS), an independent valuation should be preferred as due to Benny's wife's shareholding in SDPL, the transferor and transferee may be regarded as related. Based on the market valuation, the gain or loss arising on the disposal/transfer of the property by Benny would be established.

The question of whether the gain or loss from the disposal/transfer of property would be regarded as a trading gain/loss or a capital gain/loss also needs to be considered. If it is a trading gain (or loss), it would be taxable (or tax deductible) in the hands of Benny. If it is capital in nature, it is not taxable nor tax deductible as there is no capital gains tax in Singapore. Whether it is trading or capital in nature will depend on the facts and circumstances of the case and the evidence that supports the contention. The 'badges of trade' factors are vital to determining whether a gain/loss is trading or capital in nature.

The transfer of the new bungalow, when completed, from SDPL to Benny would not be a taxable event for Benny at the date of transfer.

#### Goods and services tax (GST)

As it involves a residential property, the transfer of the property from Benny to SDPL will not attract GST.

#### Stamp duty

Stamp duty is payable on the transfer of property, notwithstanding that there is no consideration for the transfer. The market valuation of the property prevailing at the date of transfer would need to be determined and again, an independent valuation would be helpful as Benny and SDPL may be regarded as related. The stamp duty payable on the market value will be based on the following rates:

Every \$100 or part thereof of the first \$180,000	\$1
Every \$100 or part thereof of the next \$180,000	\$2
Thereafter every \$100 or part thereof	\$3

Stamp duty is normally payable by the transferee, i.e. in the case of the transfer of the property from Benny to SDPL, by SDPL.

When the new bungalow is transferred by SDPL to Benny for no consideration, stamp duty will also need to be accounted for based on the market value of the new bungalow as at the date of transfer which will need to be determined as there is no consideration. In this case, the stamp duty will be payable by Benny Kam as the transferee.

## **Siglap Developments Pte Ltd**

### **Income tax**

As a property developer, the gains or losses derived by SDPL from its property development business would be taxable. However, there are several questions to be addressed due to the nil consideration payable for the property transferred from Benny and the new bungalow given free to Benny.

First, as there is no consideration payable for the property transferred to the company, it would be difficult for SDPL to claim that it has incurred a cost. This is notwithstanding that the independent market valuation may be imputed on Benny for the property transferred to the company.

Given the above, SDPL will want to ensure that there should be no imputation of the independent market valuation on the company in respect of the new bungalow transferred to Benny. Otherwise, SDPL would be taxed on the deemed sale proceeds with no tax deduction available for the original property transferred from Benny. This treatment is subject to IRAS agreement. The IRAS may seek to recover tax especially if there is any tax leakage arising from the difference between the market value of the property transferred to SDPL and the market value of the new bungalow transferred to Benny.

### **GST**

As stated above, no input GST is imposed on the transfer of residential property. This applies in the case of the transfer of the new bungalow to Benny by SDPL, as well as the transfer of the original property to SDPL.

### **Stamp duty**

As stated above, stamp duty is payable on the transfer of property by the transferee, notwithstanding that no consideration is payable, i.e. by SDPL on the original transfer, but by Benny on the transfer of the new bungalow.

## **5 MCY Trust**

The income of a trust is normally the statutory income of the trustee, although in certain cases, it may form the statutory income of a resident beneficiary of the trust. Hence, the income of the MCY Trust will be chargeable to tax on the trustees or on Charles.

### **The trustees**

#### **Fish breeding business**

Profits derived from any trade or business carried on by the trust is taxed in the hands of the trustees. The tax rate applicable is 17% and the tax payable by the trustees is regarded as the final tax. The profits, net of tax at 17% are available for distribution to the beneficiaries.

#### **Malaysian dividends**

Malaysian dividends received in Singapore are exempt from Singapore tax under the foreign sourced income exemption (FSIE) provisions, i.e. no Singapore tax is payable. The full amount received is therefore available for distribution to the beneficiaries.

#### **Interest from a Hong Kong bank**

Interest received in Singapore from an overseas bank is *prima facie* taxable in the hands of the trustees at the applicable tax rate of 17%. Although it is a foreign sourced income, it does not qualify for exemption under the FSIE provisions. Neither does it qualify for exemption under the temporarily liberalised FSIE scheme because it was received outside the one-year exemption period.

However, if the trustees can satisfy the IRAS that Charles is a Singapore tax resident, his share of the trust income will enjoy tax transparency, i.e. it will not be taxed as income of the trustees but as Charles' own statutory income.

With tax transparency, the portion to which Charles is entitled and can be distributed to him will be gross, i.e. \$15,000 (50% of \$30,000). Also distributions of such income to Charles (a Singapore resident beneficiary) retained the nature of the underlying trust income for the purpose of claiming concessions, exemptions and foreign tax credits.

Distributions to Dominic Pty Ltd (the non-resident beneficiary) will be made out of interest income, net of the tax at 17% paid by the trustees.

#### **Singapore dividends**

Singapore dividends are tax exempt in the hands of the trustees, i.e. no Singapore tax is payable. The full amount received is therefore available for distribution to the beneficiaries.

### **The beneficiaries**

#### **Charles Yam – Singapore resident**

##### **Fish breeding business**

The tax paid by the trustees is regarded as the final tax and Charles' share of the trust income, net of the tax paid by the trustees is treated as capital in nature. Therefore, as there is no capital gains tax in Singapore, no further tax is payable.

**Malaysian dividends**

Foreign sourced income received in Singapore is tax exempt in the hands of Singapore resident individuals. Therefore, Charles' share of the income paid out of the exempt Malaysian dividend will also be exempt from Singapore tax in his hands. As Charles is a Singapore tax resident such distributions also retain the same nature as the underlying trust income for the purpose of claiming concessions, exemptions and foreign tax credit.

**Interest from Hong Kong bank**

Charles' share of the interest income will form part of his statutory income instead of that of the trustees provided the trustees satisfy the IRAS that Charles, being a Singapore tax resident, is the beneficiary entitled to such share of the trust income (see section on Trustees above).

As an individual, Charles can claim exemption from Singapore tax on foreign income received, including the interest distributed to him by the trustees.

**Singapore dividends**

As a Singapore resident individual, Charles can claim that his share of the tax exempt income in the hands of the trustees retains its exempt nature and so claim his share of the distributed Singapore exempt dividends as also tax exempt income in his hands.

**Dominic Pty Ltd (DPL) – non-resident****Fish breeding business**

The tax paid by the trustees is regarded as the final tax. DPL's share of income, net of the tax paid by the trustees, is treated as capital in nature. Therefore, as there is no capital gains tax in Singapore, no further Singapore tax is payable.

**Malaysian dividends**

As a non-resident of Singapore, DPL's share of the income is regarded as capital in nature. Therefore, as there is no capital gains tax in Singapore, no further Singapore tax is payable.

**Interest from Hong Kong bank**

The tax paid by the trustees is regarded as the final tax. DPL's share of income, net of the tax paid by the trustees, is treated as capital in nature. So again, as there is no capital gains tax in Singapore, no further Singapore tax is payable.

**Singapore dividends**

Singapore dividends are exempt from tax in Singapore in the hands of trustees. DPL's share of the gross income is again treated as capital in nature, as there is no capital gains tax in Singapore, no Singapore tax is payable.



		<i>Marks</i>
<b>1</b>	<b>Eternally Precious Pte Ltd</b>	
<b>(a)</b>	<b>(i) Renovation and refurbishment expenditure</b>	
	– Expenditure on rented premises not automatically deductible	1·0
	– Deduction under:	
	– normal repairs and replacement rules (s.14(1)(c))	1·0
	– wear and tear allowances on plant and machinery (s.19A)	1·0
	– qualifying renovation and refurbishment works (s.14Q)	3·0
	– Treatment of specific items (8 x 0·5)	4·0
	– Collective restriction on s.14Q items	1·0
	– Possible allocation of cleaning debris charges to other items	1·0
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	<b>(ii) Withholding tax on design fees payable to Mr Kong</b>	
	– Applicability of withholding tax – 15% of gross or 20% of net	2·0
	– Reporting and payment of tax withheld	1·0
		<hr/>
		3
	Appropriate format and presentation of notes	1·0
	Effectiveness of communication	1·0
		<hr/>
		2
<b>(b)</b>	<b>(i) Personal tax filing position</b>	
	– Tax assessed/withheld at 15% of gross fee is final tax	1·0
	– Tax assessed at 20% of net fee – to claim expenses and refund of tax overpaid	2·0
		<hr/>
		3
	<b>(ii) Rental income from Singapore property</b>	
	– Taxable in Singapore	1·0
	– Can claim deduction of related expenses	1·0
	– Tax rate of 20% on net income	1·0
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		3
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		<b>23</b>

## 2 Kong Soon Holdings Pte Ltd

## (a) Loan plan financing

– Loan plan I – Interest is deductible	0.5
– Net interest cost calculation	0.5
– Loan plan II – Interest is not deductible	0.5
– Reasons (2 x 0.5)	1.0
– Net interest cost calculation	0.5
– Banker's reason for preferring Loan plan II	1.0
– Conclude Loan plan I preferable	1.0
– Withholding tax is applicable at 17%	1.0
– Singapore UK tax rate is not applicable, with reason	2.0
– Domestic concessionary tax treatment	1.0
– Recommends obtaining confirmation	1.0
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## (b) Business structure

## Structure A

– Purchase consideration is capital payment and not tax deductible	1.0
– No deduction for incorporation and set-up costs	1.0
– Profits are taxable at normal rates	1.0
– Group relief claim on current year's profits and losses	1.5
– Unabsorbed losses and allowances not available for set-off	1.0
– GST charged on transfer of business, with reason	1.5
– Calculation of input GST	0.5
– No compulsory registration of GST, with reason	1.0
– If not registered no offset of GST suffered	0.5
– Non-claimable GST on transfer not tax deductible	1.0
– Possibility of voluntary registration for GST	1.0
– No stamp duty	1.0
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## Structure B

– Treatment of purchase consideration (as for Structure A)	0.5
– Set-up and other transfer costs (as for Structure A)	0.5
– Registration costs of new division also capital in nature	1.0
– Unabsorbed losses available for set-off	1.0
– Unabsorbed allowances not available for set-off, with reason	1.5
– Current year profits and losses are combined for tax purposes	1.0
– Transfer subject to GST (as for Structure A)	0.5
– Input GST charged on transfer can be claimed	1.0
– Transfer may qualify as excluded transaction, with reason	1.5
– No stamp duty (as for Structure A)	0.5
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Recommendation (with reasons)

2

## (c) Fees payable to Safewaste

– Fees are tax deductible	1.0
– Withholding tax applicable at 17%	1.0
– Exempted if services are rendered outside Singapore	1.0
– Sheltered under the Singapore–UK tax treaty	2.0
– Recommend support of documentary details	1.0
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6

Appropriate format and presentation of report

1.0

Effectiveness of communication

1.0

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**41**

	<i>Marks</i>
<b>3 Ngo Garments Pte Ltd</b>	
(a) Net book value is appropriate with reason	2
(b) Income tax implications	
<b>Ngo Garments Pte Ltd</b>	
– Sale of trading stocks at no gain, no loss	1·0
– Treatment of trade receivables written off	2·0
– Treatment if FRS 39 adopted	2·0
– Treatment of goodwill	1·0
<b>uNiQ Concepts Pte Ltd</b>	
– Net book value of trading stocks equal to purchase cost	1·0
– Receivables collected as capital subject to IRAS agreement	2·0
– Treatment of goodwill	1·0
	10
(c) Goods and services tax	
– Conditions (6 x 0·5)	3·0
– Application/conclusion in this case	2·0
– Notification requirement	1·0
	6
	<b>18</b>
<b>4 Benny Kam</b>	
Benny Kam	
Income tax	
– Disposal at market valuation of property	2·0
– Desirability of an independent valuation with reason	1·5
– Whether gain is trading or capital, with explanations	2·0
– Transfer of bungalow not a taxable event for Benny	1·0
GST	
– No GST as transfer of residential property	1·0
Stamp duty	
– Payable based on market value	2·0
– Normally payable by transferee	1·0
– On transfer of property to SDPL	0·5
– On transfer of bungalow to Benny	0·5
	11·5
Siglap Developments Pte Ltd	
Income tax	
– Property developing gains are taxable	1·0
– No deduction for property transferred at nil value	1·5
– Need to ensure no imputation on transfer of bungalow, with reason	1·5
– Subject to IRAS agreement	1·0
GST	
– No GST as bungalow residential property (as above)	1·0
Stamp duty	
– Payable by transferee SDPL/Benny (as above)	0·5
	6·5
	<b>18</b>

	<i>Marks</i>
<b>5 MCY Trust</b>	
Trust income taxed on trustees/resident beneficiaries	1·0
The trustees	
– Trading profits	1·5
– Malaysian dividends	1·5
– HK bank interest – general	2·0
– Charles' portion	2·0
– Singapore dividends	1·0
	8
Charles	
– Share of trading profits	1·0
– Share of Malaysian dividends	1·5
– Share of HK bank interest	1·5
– Share of Singapore dividends	1·0
	5
Dominic Pty Ltd	
– Share of trading profits	1·0
– Share of Malaysian dividends	1·0
– Share of HK bank interest	1·0
– Share of Singapore dividends	1·0
	4
	<b>18</b>