Answers

Marks

1 Dax Pte Ltd

(a) The transfer of David's 60% shareholding in Dax Pte Ltd (DPL) on 31 July 2013 resulted in the company having a substantial change in its shareholders and their shareholdings.

Year of assessment 2013 – unutilised capital allowances:

The relevant comparison dates are 31 December 2013 and 1 January 2014. Since there is no substantial change in the shareholders and their shareholdings on the comparison dates (70% owned by Xavier and 30% owned by Alex) and DPL continues to carry on the same business, DPL can utilise the unabsorbed capital allowances in the year of assessment 2014. 2

Year of assessment 2013 – unutilised losses:

The relevant comparison dates are 31 December 2012 and 1 January 2014. There is a substantial change in the shareholders and their shareholdings on the relevant comparison dates. On 31 December 2012, 60% was owned by David and 40% by Xavier. On 1 January 2014, 70% was owned by Xavier and 30% by Alex. Thus, the unabsorbed losses cannot be utilised in the year of assessment 2014. 2

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			Marks
(b) Tax liability for the year of assessment 2014			
Basis period: 1 October 2012 to 30 September 2013			
	$	$	
Net profit per the accounts		1,480,000	
Tax adjustments on income			
Interest received from DBS on maturity of a fixed deposit	(3,200)		0·5
Fixed deposit interest accrued as at 30 September 2013	(1,800)		0·5
Interest on an outstanding trade receivable from a US customer deposited into a bank account in New York (treated as trade income)	0		0·5
Insurance recovery for trading stock destroyed in a fire on 1 April 2013	0		0·5
One tier tax exempt dividend from a Singapore listed company	(6,800)		0·5
Net dividend from a listed company in Hong Kong	(5,600)	(17,400)	0·5
		1,462,600	
Obsolete stock written off	0		0·5
Salary, bonus and statutory CPF contributions	0		0·5
CPF contributions in excess of statutory limits	2,000		0·5
Wage credit scheme receipts	0		0·5
Directors' fees	0		0·5
Medical and insurance expense (($5,500 + $2,000) – (2%*$320,000))	1,100		1·5
Rent – staff accommodation	0		0·5
Group term life insurance premium (akin to the acquisition of an asset)	6,000		1
Insurance premium – workmen's compensation	0		0·5
Net interest paid to a bank in Hong Kong for trade financing	0		0·5
Legal fee – pursuing recovery of a non-trade debt	2,000		0·5
Legal fee – regarding insurance recovery on stocks damaged by the fire on 1 April 2013	0		0·5
Gifts for staff	0		0·5
Maintenance of S-plated cars	6,000		0·5
Training – external courses attended by staff	0		0·5
Training – materials used for internal courses	0		0·5
Property tax on the private residence of David	5,000		0·5
Singapore withholding tax on interest paid to a bank in Hong Kong	0		1
Penalty for late filing of DPL's income tax return	800		0·5
Depreciation	5,000		0·5
Loss on disposal of computers on 1 May 2013	1,200		0·5
PIC claim – training expenditure ($12,000 + $8,000)*3	(60,000)	(30,900)	1
Adjusted profit before allowances		1,431,700	
Less: Specific deductions provided under the ITA			
Unabsorbed capital allowances	30,000		1
Capital allowances: Computers	60,000		0·5
Productivity and innovation credit (PIC): Computers ($60,000*3)	180,000		1
Capital allowances: Sofa	4,000		1
Balancing charge: Computers ($2,000 – $1,200)	(800)		0·5
Land intensification allowance: 25%*$0·8m	200,000	(473,200)	1
Total adjusted profit after allowances		958,500	
Less: Unabsorbed losses		0	0·5
Adjusted profit after allowances and unabsorbed losses		958,500	
Add: Non-trade income			
Interest received from DBS on maturity of a fixed deposit	3,200		0·5
Fixed deposit interest accrued as at 30 September 2013 (taxable only on the maturity of the fixed deposit)	0		0·5
One tier tax exempt dividend from a Singapore listed company	0		0·5
Net dividend from a listed company in Hong Kong (Hong Kong's headline tax rate is more than 15%, so FSIE applies)	0	3,200	0·5
Assessable income/chargeable income		961,700	
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 tax exemption		809,200	

	$	*Marks*
Tax thereon at 17%	137,564	0·5
Less: Corporate tax rebate (30% of tax payable, capped at $30,000)	(30,000)	0·5
Tax payable after corporate tax rebate	107,564	
PIC bonus (all claimed in the year of assessment 2013)	0	0·5
		26
		30

2 Barry Lai

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

	$	$	$	
Partnership profit				
Share of profits		48,000		0·5
Less:				
Capital allowances	(58,000)			0·5
Donations	(12,000)	(70,000)		0·5
(*Markers' note: 1 mark is for the setoff of unabsorbed balances against other income*)			(22,000)	1
Employment income				
Basic salary ($12,000*12)		144,000		1
Contractual bonus		12,000		1
Transport allowance ($1,000*12)		12,000		1
Interest subsidy (not taxable)		0		1
Stock Option #1 (20,000*($3·00 – $1·90))		22,000		1
Stock Option #2		0		1
		190,000		
Housing benefit in kind				
Lower of annual rental ($96,000 (i.e. $8,000*12) or 10% of $190,000)	19,000			1
Less: Rental paid ($2,000*12)	(24,000)	0		1
			190,000	
Rental income (net)		11,200		0·5
Add: Interest expense		20,000	31,200	1
Other income				
Interest income from Harvest & Co		25,000		1
Less: Interest expense		(20,000)	5,000	1·5
Interest income from DBS			0	0·5
Interest income from a Hong Kong bank			0	0·5
Consultancy fee			5,000	0·5
			209,200	
Less:				
Earned income relief		1,000		0·5
Spouse relief		2,000		0·5
Qualifying child relief		4,000		0·5
CPF (($5,000*12) + ($12,000))*20%		14,400		1
NS man relief		0	(21,400)	0·5
			187,800	
Tax on the first $160,000			13,950	0·5
Tax on the next $27,800 at 17%			4,726	0·5
			18,676	
				20

Marks

(b) **(i)** As Barry has expended the car allowance on the maintenance of an S-plate car, a tax deduction for this expense is prohibited even if the car is used for business purposes. Hence the full amount of the car allowance is taxable. 1

(ii) As the loan was extended to Barry by Leisure Land Ltd under its general staff loan scheme and it is available to all employees, as a concession, the benefit accruing to Barry from the loan is not taxable. 1

2

(c) The three elements of a valid objection against a notice of assessment by an individual are:

– it must be in writing;
– it must state the ground of the objections; and
– it must be made within 30 days from the date of the notice of assessment. 3

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3 Pegasus Pte Ltd

(a) Pegasus Pte Ltd (PPL) has to repay half of the input tax claimed to the Comptroller of GST in its goods and service tax (GST) return for the quarter ended 30 September 2014 as:

– PPL has claimed the input tax on the invoice raised by Queenie Pte Ltd in its GST return in the September 2013 quarter; and

– 50% of the said invoice is outstanding as at 1 August 2014 (12 months from the due date of the payment). 2

(b) **Goods and services tax (GST) for the quarter ended 30 September 2014**

	Value $	Input tax $	Output tax $	
Local sales (standard rated)	140,000		9,800	0·5
Export sales (zero rated)	60,000		0	0·5
Non-refundable deposit (standard rated)	2,000		140	1·5
Recovery of cost of staff seconded to a related company with mark-up (standard rated)	2,200		154	1·5
Import of consumables (standard rated, paid on importation)	30,000	2,100		0·5
Depreciation of plant and machinery (accounting entry, out of scope)	10,000	–		0·5
Production staff wages (out of scope)	5,000	–		0·5
Public utilities cost (standard rated)	1,000	70		0·5
Rental of factory premises (standard rated)	20,000	1,400		0·5
Lorry repair costs (standard rated)	2,000	140		0·5
Motor car expenses (standard rated, blocked)	1,000	0		0·5
Rental of residential apartment for staff (exempt)	8,000	0		0·5
Interest paid on bank borrowings (exempt)	3,000	0		1
Brokerage fee for purchase of shares (standard rated)	2,000	140		1
Purchase of computer (standard rated)	1,200	84		0·5
Airfares to Bangkok for business purpose (zero rated)	1,800	0		1
Trade debt owing to Queenie Pte Ltd for more than a year	(10,000)	(700)		1
		3,234	10,094	
			(3,234)	
Net GST payable			6,860	0·5
				13
				15

Marks

4 (a) A company has to file its estimated chargeable income (ECI) within three months after its financial year end. 1

A company is not required to file an ECI for a particular financial year if:

– its annual revenue is not more than $1 million for the financial year; and 1
– its ECI is NIL. 1

3

(b) Brainy Pte Ltd

(i) The rights-based approach characterises a payment for software based on the nature of the rights transferred in consideration for the payment. It draws a distinction between the transfer of a 'copyright right' and the transfer of a 'copyrighted article' from the owner to the payer. 2

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

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

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

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

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(ii) (1) Distribution of 'Quicker'

The payment is for a 'copyrighted article' as Brainy Pte Ltd (BPL) does not have the right to modify or reproduce 'Quicker'. BPL is merely buying and reselling 'Quicker'. Thus, the payment would not be subject to Singapore withholding tax. 2

(2) Financial modelling software

The payment is for a 'copyrighted article' as BPL has made a payment for the use of the software without the right of modification. Since the payment for the software includes the cost of maintenance and support services incidental to the purchase of the software, as a concession, the full amount for the maintenance and support services is characterised as payments for a 'copyrighted article' and thus would not be subject to Singapore withholding tax. 2

(3) Development of add-on applications

As these are payments for technical services, they would not be within the scope of the application of the rights-based approach. For the technical services provided outside Singapore, Singapore withholding tax is not applicable. For the technical services rendered in Singapore, Singapore withholding tax is applicable. 2

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5 (a) Plant and machinery can be transferred at its tax written down value if all of the following conditions are satisfied:

(1) An election is made by the seller and the buyer to transfer the plant and machinery at its tax written down value.

(2) The transfer of plant and machinery is not for the avoidance of tax.

(3) The buyer has control over the seller or the seller has control over the buyer or some other person has control over both the seller and buyer.

(4) The plant and machinery is used for the purpose of generating income by the seller before the sale and by the buyer after the sale.

(5) The plant and machinery was not leased by the seller to the buyer before the sale.

1 mark for each condition 5

Marks

(b) Fraser Betchler

(i) A non-resident professional, such as Fraser, has to make an irrevocable election to be either:

A. subject to a final withholding tax of 15% based on gross income; or — 1

B. taxed at 20% on his net professional income (gross professional fees less deductions of allowable expenses). — 1

Option A: Final withholding tax at 15% on gross income

	$	Marks
Valuation fees	65,000	0·5
Hotel accommodation	20,000	0·5
Airfare	5,000	0·5
	90,000	
Tax at 15%	13,500	0·5

Option B: 20% tax on net professional income

	$	Marks
Valuation fees	65,000	0·5
Hotel accommodation	20,000	0·5
Airfare	0	0·5
	85,000	
Less: Deductible expenses		
Meal expenses (private expense, not deductible)	0	0·5
Taxi fares	(1,000)	0·5
Valuation services	(12,000)	0·5
	72,000	
Taxed at 20%	14,400	0·5

Based on the analysis, Fraser will be better off if he opts to be subject to a final tax of 15%. — 0·5

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(ii) The hotel accommodation and airfares borne by Mercury Pte Ltd are considered part of the gross income. — 0·5

If the option to be taxed on net professional income is taken, the airfares are not taxable and the cost of accommodation is not taxable if the stay in Singapore is 60 days or less. — 1

However, as Fraser was in Singapore for 65 days, the concession in relation to accommodation does not apply in his case. — 0·5

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