

Applied Skills

Taxation – Singapore (TX – SGP)

September/December 2018 – Sample Questions



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are printed on pages 2–4.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

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TX

Think Ahead



The Association of Chartered
Certified Accountants

Institute of Singapore
Chartered Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest \$.
2. All apportionments should be made to the nearest month.
3. All workings should be shown for Section B.
4. All computations should indicate by the use of '0' any item of income or expense which is tax exempt, not taxable or does not require adjustment, as appropriate.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions

Goods and services tax

Standard rate	7%
Registration threshold	\$1 million

Corporate income tax

Rate – Year of assessment 2018	17%
Corporate tax rebate (capped at \$10,000)	20%

Partial tax exemption

	\$
First \$10,000 of chargeable income is 75% exempt	7,500
Next \$290,000 of chargeable income is 50% exempt	145,000
Total	152,500

Tax exemption for new start-up companies

	\$
First \$100,000 of chargeable income is 100% exempt	100,000
Next \$200,000 of chargeable income is 50% exempt	100,000
Total	200,000

Central Provident Fund (CPF)

Contributions for individuals below the age of 55 years and earning more than \$750 per month (1 January 2017 to 31 December 2017)

	Employee	Employer
Rates of CPF contributions	20%	17%
Maximum monthly ordinary wages (OW) attracting CPF	\$6,000	
Maximum annual ordinary wages (OW) attracting CPF	\$72,000	
Maximum annual additional wages (AW) attracting CPF	\$102,000 less total OW subject to CPF	

Productivity and innovation credit (PIC) – years of assessment 2016 to 2018

Training (enhanced deduction)
Prescribed automation equipment (enhanced capital allowance)

An enhanced deduction/allowance can be claimed at 300% on up to \$400,000 of qualifying expenditure in addition to the usual deduction/allowance.

The annual expenditure cap of \$400,000 can be pooled to give a combined cap of \$1,200,000 for the years of assessment 2016 to 2018.

Under the PIC+ scheme for qualifying small and medium enterprises, the expenditure cap is increased from \$400,000 to \$600,000 per qualifying activity per year of assessment.

Personal income tax for the year of assessment 2018

	Chargeable income \$	Tax rate %	Tax \$
On the first	20,000	—	—
On the next	10,000	2·0	200
On the first	30,000		200
On the next	10,000	3·5	350
On the first	40,000		550
On the next	40,000	7·0	2,800
On the first	80,000		3,350
On the next	40,000	11·5	4,600
On the first	120,000		7,950
On the next	40,000	15·0	6,000
On the first	160,000		13,950
On the next	40,000	18·0	7,200
On the first	200,000		21,150
On the next	40,000	19·0	7,600
On the first	240,000		28,750
On the next	40,000	19·5	7,800
On the first	280,000		36,550
On the next	40,000	20·0	8,000
On the first	320,000		44,550
Above	320,000	22·0	

Personal income tax reliefs for the year of assessment 2018

Earned income relief	Standard (max)	Handicapped (max)
Below 55 years	\$1,000	\$4,000
55 to 59 years	\$6,000	\$10,000
60 years and above	\$8,000	\$12,000
Spouse relief	\$2,000	\$5,500
Qualifying child relief (per child)	\$4,000	\$7,500
Working mother's child relief (WMCR)	% of mother's earned income	
First child		15%
Second child		20%
Third and subsequent child		25%
Maximum WMCR		100%
Maximum relief per child		\$50,000
Parent relief	Standard (max)	Handicapped (max)
Not living in the same household	\$5,500	\$10,000
Living in the same household	\$9,000	\$14,000
Grandparent caregiver relief	\$3,000	
Dependant handicapped sibling relief	\$5,500	
Life insurance relief	\$5,000 (max)	
Voluntary CPF contribution of self-employed	Capped at \$37,740 or 37% of assessable trade income, whichever is lower	
Course fees	\$5,500 (max)	

NSman relief	Non-key appointment holder	Key appointment holder
Active NSman	\$3,000	\$5,000
Non-active NSman	\$1,500	\$3,500
Wife/widow/parent of NSman	\$750	\$750
Foreign maid levy relief	\$6,360 (max)	
Total amount of personal income tax reliefs	\$80,000 (max)	

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answer to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

1 Which of the following statements correctly describe the input goods and services tax (GST) claimable for each type of purchase?

Purchases from a foreign supplier who is not a GST registered person in Singapore, for goods imported into Singapore

- A** None as there is no GST reflected in the invoice
- B** The GST as shown on the import permits issued by Singapore Customs
- C** The GST as shown on the import permits issued by Singapore Customs
- D** None as there is no GST reflected in the invoice

Purchases from a Singapore GST registered person who invoices in foreign currency for delivery in Singapore

- The Singapore dollar equivalent of the GST calculated based on the purchaser's exchange rate
- The Singapore dollar equivalent of the GST calculated based on the supplier's exchange rate
- The Singapore dollar equivalent of the GST calculated based on the purchaser's exchange rate
- The Singapore dollar equivalent of the GST calculated based on the supplier's exchange rate

2 The Inland Revenue Authority of Singapore (IRAS) disputed the mark-up applied by Universe Pte Ltd (UPL) on its related party transactions for the year of assessment (YA) 2013. On 31 December 2017, IRAS issued a notice of assessment for YA 2013 showing additional tax payable of \$10,000 based on a mark-up of 10%.

At the same time, IRAS asked UPL to submit transfer pricing documentation (TPD) to justify why the mark-up should be lower. On 15 January 2018, UPL submitted TPD to show that a 5% mark-up is at arm's length. UPL has not paid the tax assessed of \$10,000 as the tax assessment should be amended to \$5,000 based on the TPD submitted.

Which of the following statements correctly describes the next course of action to be taken by the Inland Revenue Authority of Singapore (IRAS) and Universe Pte Ltd (UPL)?

- A** IRAS will not automatically amend the YA 2013 assessment upon receipt of the TPD. UPL is required to pay the tax assessed of \$10,000 on or before 31 January 2018
- B** IRAS will automatically amend the YA 2013 assessment upon receipt of the TPD. UPL is required to pay the amended tax assessment of \$5,000 on or before 31 January 2018
- C** IRAS will amend the YA 2013 assessment only after reviewing and accepting the methodology used in the TPD. UPL is required to pay the tax assessed of \$10,000 on or before 31 January 2018 first, before an amended assessment is issued
- D** IRAS will not amend the YA 2013 assessment even after reviewing and accepting the methodology used in the TPD because YA 2013 is time-barred. UPL is required to pay the tax assessed of \$10,000 on or before 31 January 2018

- 3 Cherry is employed as an accountant and incurred the following expenses during the year 2017:

	\$
New laptop for office use	2,500
Private car maintenance costs. The car was used solely for business meetings	6,000
Annual membership subscription to a professional accountancy body	500

Under the terms of Cherry's employment contract, she is entitled to a transport allowance of \$12,000 per annum.

What is the total deductible amount Cherry can claim against her employment income in respect of these expenses for the year of assessment 2018?

- A \$3,000
- B \$6,500
- C \$500
- D \$6,000

- 4 Chrome Pte Ltd (CPL) recognised the following expenses in its statement of profit or loss for the year of assessment 2018:

	\$
Employee remuneration	2,200,000
Air tickets for expatriate employees	8,000
Medical expenses	24,000

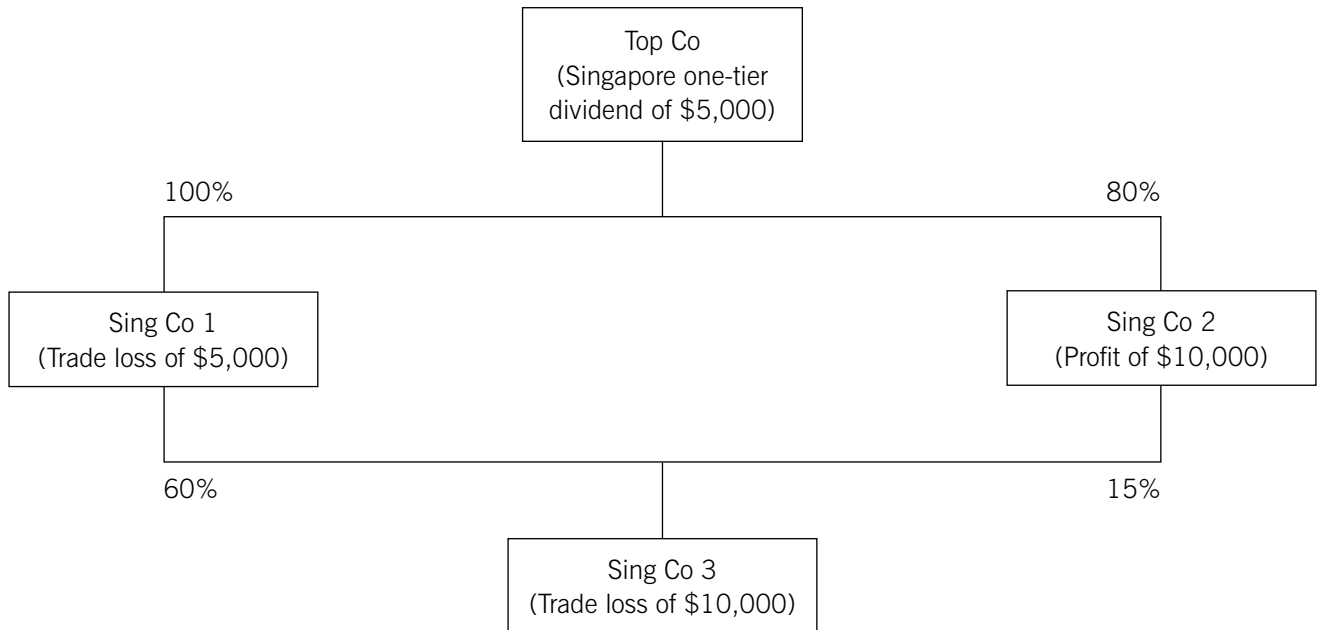
During the year, CPL received \$29,000 in respect of government paid childcare and maternity leave.

CPL does not implement any portable medical benefit scheme for its employees.

What is the amount of medical expenses which will NOT be allowable as a deduction, for Chrome Pte Ltd in the year of assessment 2018?

- A \$2,000
- B \$2,290
- C \$2,210
- D \$1,920

- 5 The following diagram depicts the shareholding structure of a group of Singapore incorporated companies and their respective current year tax adjusted profit (before partial tax exemption) or trade losses. All four companies have the same financial year end. There has been no change to the shareholding structure of any of these companies in the past two years.



Which of the following statements describes the maximum trade losses which can be transferred between these companies under the group relief provisions?

- A Sing Co 1 to transfer the trade loss of \$5,000 to Top Co
 - B Sing Co 1 to transfer the trade loss of \$5,000 to Sing Co 2
 - C Sing Co 3 to transfer the trade loss of \$10,000 to Sing Co 2
 - D None of the losses can be transferred within the group
- 6 Desiree works in a beauty salon as a beautician. During the year 2017, in addition to her base salary, Desiree received the following amounts:

	\$
Personal tips from customers	8,000
Compensation received from a customer who wrongly accused Desiree of a failed beauty procedure	20,000
Alimony received from ex-spouse	6,000

What is the net amount to be included in Desiree's assessable income in respect of these items for the year of assessment 2018?

- A \$14,000
- B \$0
- C \$34,000
- D \$8,000

- 7 For the year ended 31 August 2017, Aries Pte Ltd and Mars Pte Ltd had the following amounts of turnover and estimated chargeable income (ECI):

	Turnover	ECI
	\$	\$
Aries Pte Ltd	6,000,000	0
Mars Pte Ltd	800,000	20,000

Which of the following statements correctly describes the obligations of Aries Pte Ltd and Mars Pte Ltd to file estimated chargeable income (ECI) by 30 November 2017?

- A Neither Aries Pte Ltd nor Mars Pte Ltd is required to file ECI
B Both Aries Pte Ltd and Mars Pte Ltd are required to file ECI
C Only Aries Pte Ltd is required to file ECI
D Only Mars Pte Ltd is required to file ECI
- 8 Low Equipment (LE), a goods and services tax (GST) registered trader, sold a fully automated computing system for \$100,000 to a customer. LE allowed the customer to trade in an old computing system for \$10,000, leaving \$90,000 left to pay. To entice early payment of the remaining amount within 15 days, LE offered a 5% prompt payment discount. However, the customer paid after the 15-day discount period.

What is the amount of output goods and services tax (GST) Low Equipment should charge on this transaction?

- A \$5,985
B \$6,300
C \$7,000
D \$6,650
- 9 Betty took out a bank loan on 1 January 2017 to buy a residential apartment unit for rental purposes. The apartment obtained its temporary occupation permit on 1 April 2017 and was rented out on the same day. Betty's income and expenses relating to the rental apartment in the year 2017 are as follows:

	\$
Gross rental income	36,000
Less:	
Interest expense on bank loan	(6,000)
Property maintenance charges	(7,000)
	<u>23,000</u>

Betty always calculates her rental income using the most beneficial method.

What is Betty's assessable rental income for the year of assessment 2018?

- A \$24,600
B \$26,100
C \$24,500
D \$23,000

- 10** Décor Works Pte Ltd was incorporated on 1 July 2017 and incurred the following expenses in its first six months of trading:

	\$
Light fittings and electrical installations	102,000
Tables and chairs (each costing less than \$5,000)	15,000
Antique paintings for display	20,000
Designer's fee	5,000
	<hr/> 142,000 <hr/>

What is the maximum amount of capital allowances and/or tax deductions which Décor Works Pte Ltd can claim in the year of assessment 2018?

- A** \$117,000
B \$55,667
C \$49,000
D \$50,667
- 11** Gerald, a Singapore citizen, works as a regional sales manager for a Singapore incorporated company. As part of his duties, he travels extensively around Asia. During the year 2017, Gerald spent 30% of his time working overseas. His total remuneration for 2017 is \$300,000, of which he has arranged for \$50,000 to be credited directly into a Hong Kong bank account.

How much of Gerald's employment income is subject to Singapore income tax in the year of assessment 2018?

- A** \$210,000
B \$300,000
C \$250,000
D \$260,000
- 12** Planter Pte Ltd (PPL), a Singapore tax resident company, was incorporated on 1 July 2015 and has a 31 December year end. PPL earned its first dollar of revenue in June 2017. Prior to 1 January 2017, PPL incurred the following expenses:

	\$
Office rental (1 July 2015 to 31 December 2015)	45,000
Office rental (1 January 2016 to 31 December 2016)	90,000
Fines (1 January 2016 to 31 December 2016)	1,000

What is the total tax deduction Planter Pte Ltd can claim for these pre-trading expenses in the year of assessment 2018?

- A** \$45,000
B \$135,000
C \$91,000
D \$90,000

- 13** Rodger is a non-executive director of Season Limited (SL), a Singapore tax resident company. Being a resident of Country X, Rodger spent eight days in the year 2017 attending SL's board meetings in Singapore. Rodger attended the remaining two SL board meetings in the year 2017 via teleconference from Country X. There is no tax treaty between Singapore and Country X.

Which of the following statements correctly describes the Singapore tax treatment of Rodger's director's fees received from Season Limited?

- A** The director's fees are subject to 22% withholding tax
 - B** The director's fees are subject to 15% withholding tax
 - C** The director's fees are not taxable in Singapore, as Rodger was present in Singapore for less than 60 days in the year
 - D** Only the director's fees relating to Rodger's physical attendance at meetings in Singapore are taxable. The director's fees relating to his attendance via teleconference from Country X are not taxable
- 14** In 2017, David, a private collector, sold antiques which he purchased in 1999 for a profit of \$300,000. Since 2016, he purchased several properties under development, and sold a few of them in 2017 for a total profit of \$200,000 before deducting legal fees and commissions totalling \$20,000.

In addition, David received interest of \$1,000 from an approved bank in Singapore during the year 2017.

What is David's assessable income for the year of assessment 2018?

- A** \$301,000
 - B** \$181,000
 - C** \$500,000
 - D** \$180,000
- 15** Log Pte Ltd (LPL) was incorporated on 1 January 2017. On 1 March 2017, LPL acquired an automatic processing unit under a three-year hire purchase contract. This equipment qualifies as productivity and innovation automation equipment with a capital allowance claim over three years. Details of the purchase are as follows:

	\$
Purchase price	120,000
Down payment (10%)	12,000
	<hr/>
	108,000
Total interest	9,720
	<hr/>
Total hire purchase amount	117,720
	<hr/>
Repayable over 36 months – amount per monthly instalment	3,270

In 2017, LPL made the following payments:

	\$
Down payment	12,000
Instalment payments (\$3,270 x 10 months)	32,700

LPL does not want to make a cash payout claim.

What is the total maximum amount of capital allowance and enhanced productivity and innovation credit allowance Log Pte Ltd can claim in the year of assessment 2018?

- A** \$56,000
- B** \$59,600
- C** \$160,000
- D** \$168,000

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** Jeannie Widgets Pte Ltd (JWPL) is a goods and services tax (GST) registered trader. For the quarter ended 31 March 2018, JWPL recorded the following transactions:

	\$
Income	
Widgets sold and delivered to customers in Singapore	200,000
Widgets sold to customers in Singapore and delivered to the customers' warehouses in China	50,000
Widgets sold to a customer in the United Kingdom and delivered to its warehouse in Singapore	60,000
Repairs of widgets performed in Singapore for a customer in Singapore	20,000
Design and customisation services performed in Singapore for a customer in China	30,000
Interest income received from an approved bank in Singapore	1,000
Expenses	
Staff remuneration	250,000
Airfares for business trips	10,000
Reimbursement to staff for business entertainment expenses	6,500
One-year recreation club membership (for staff members and their families)	2,000
Office rental expense	50,000
Freight charges for delivery to customers' warehouses in China	2,000
Managing director's private motor car insurance	5,000

All purchases (other than staff remuneration) are bought from GST registered persons and all amounts are stated excluding any applicable GST.

Required:

Compute the net goods and services tax (GST) payable by, or refundable to, Jeannie Widgets Pte Ltd for the quarter ended 31 March 2018. For each item, clearly identify the type of supply/purchase and the amount of output/input GST payable/claimable, if any.

(10 marks)

- 2 Jarod and Jenny are partners of a limited liability partnership (JJ LLP). Jarod's contributed capital as at 31 July 2016 was \$12,000 and he is entitled to 20% of the partnership's profits. During the year 2017, Jarod contributed a laptop, bought in 2016, for \$2,000. The market value was \$1,000 when it was transferred to JJ LLP.

For the financial year ended 31 July 2017, JJ LLP recorded a net profit before tax of \$52,000 after crediting/charging the following items:

	Note	\$
Income		
Rental income	1	12,000
Expenses		
Partners' salaries	2	200,000
Loan interest	3	3,000
Office furniture expensed off (each item costs less than \$5,000)		30,000

Notes:

1. JJ LLP sublet 20% of its office premises, a small office home office (SOHO), from 1 August 2016 to 31 July 2017.
2. Partners' salaries are as follows:

	\$
Jarod	80,000
Jenny	120,000

3. This interest was incurred on a loan obtained to fund the purchase of the SOHO (as in note 1). The split between the office and residential component of this SOHO is 60:40 respectively. The residential portion is occupied by Jenny and her family.

Required:

Compute Jarod's capital contribution as at 31 July 2017 and his share of the profits of JJ LLP for the year of assessment 2018.

Note: You should assume that JJ LLP claims the maximum allowable deductions and indicate by the use of zero (0) any profit or loss items which do not require adjustment.

(10 marks)

- 3 (a) Withholding tax is payable to the Inland Revenue Authority of Singapore (IRAS) by the 15th of the second month from the date of payment to a non-resident.

Required:

- (i) **State how the date of payment to a non-resident is determined for withholding tax purposes.** (3 marks)
(ii) **State the penalties for non-compliance with the withholding tax requirements.** (2 marks)

- (b) Trilive Pte Ltd (TPL), a Singapore tax resident company, entered into a loan agreement with its head office in Country T. Under the loan agreement, TPL is liable to pay annual interest of \$100,000 payable at the end of each financial year. For the financial year ended 31 December 2017, TPL received an invoice dated 8 January 2018 for the interest due and paid this interest to its head office as well as the applicable withholding tax on 30 April 2018.

There is no tax treaty between Singapore and Country T. Withholding tax, if any, will be borne by TPL's head office.

Required:

Compute the amount of withholding tax, including any applicable penalty, in respect of the payment of interest by Trilive Pte Ltd for the financial year ended 31 December 2017. (2 marks)

- (c) Trilive Pte Ltd (TPL) received an invoice dated 1 December 2017 for the following services received from a supplier in Country T:
- \$10,000 for technical assistance provided to TPL at its factory in Singapore;
 - \$50,000 for the right to use the supplier's stock management software. TPL does not have the right to modify or alter the software; and
 - \$20,000 for the supplier to modify the stock management software to meet the specific requirements of TPL. This work was carried out in Country T.

Required:

For each item, explain the Singapore withholding tax implications of the payment. (3 marks)

(10 marks)

- 4 For the year ended 31 December 2017, Alpha Pte Ltd (APL) has a tax adjusted trading loss of \$200,000 before claiming any tax deduction or capital allowances, where applicable, for the following transactions:

(i) Asset additions

	Cost \$
Computers (note 1)	60,000
Website design (including a one-time domain name registration cost of \$2,000)	16,000

(ii) Asset disposals

	Sales proceeds \$
Awnings, light fittings and fixed partitions for a shopfront which APL vacated during the year (note 2)	5,000
Computers traded in (note 1)	8,000
Ten tables (acquired in 2013 at a cost of \$1,000 each)	2,000

Notes:

- \$60,000 is the net cost after setting off the value of old computers traded in for \$8,000. Capital allowances had been fully claimed on the old computers.
- The total cost of these items was \$50,000 in 2013 when a s.14Q (renovation or refurbishment) claim was made. The new tenant paid APL for these items based on an assessment of their value prior to taking over the shopfront.
- APL did not make any cash payout claim for the year ended 31 December 2017.

APL does not expect to generate any profit in the next three years.

APL has a wholly owned subsidiary, Bravo Pte Ltd (BPL). BPL is incorporated in Singapore and has the same financial year end as APL. For the year ended 31 December 2017, BPL is highly profitable and has chargeable income in excess of \$2 million.

Required:

- Calculate the maximum capital allowances (including any balancing adjustments) and enhanced productivity and innovation credit (PIC) allowances Alpha Pte Ltd (APL) can claim for the year of assessment 2018. Briefly state your treatment of each of the asset disposals. (4 marks)
- State the conditions to be met for APL's unabsorbed capital allowances to be carried forward and set off against APL's future profits. (2 marks)
- Determine whether or not APL and Bravo Pte Ltd qualify for group relief and explain the basis of your conclusion. (3 marks)
- State whether or not APL should make the maximum capital allowances claim in the year of assessment 2018, and briefly explain the basis of your conclusion. (1 mark)

(10 marks)

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Question 5 begins on page 16.**

- 5 (a) Arnold, aged 45, is a United States (US) citizen who relocated to Singapore to work for U Singapore Pte Ltd (USPL) on 1 April 2016. USPL is a wholly owned subsidiary of U Inc.

Arnold's remuneration package in 2017 included the following:

	\$
Joining bonus (Arnold received the bonus upon completion of one year's service on 31 March 2017)	36,000
Salary	240,000
Air ticket – business trip	2,000
Air ticket – two home leave passages	4,000
Apartment (note 1)	
Birthday gift (note 2)	500

Stock options:

Lot 1: Arnold exercised the option to acquire 5,000 shares in U Inc on 30 September 2017 at an exercise price of \$10 per share, on meeting all the conditions of the award. The stock option was awarded to him on 1 October 2012 when he was working in the US.

Lot 2: Arnold exercised the option to acquire 2,000 shares in U Inc on 31 December 2017 at an exercise price of \$10 per share, on meeting all the conditions of the award. The stock option was awarded to him on 1 October 2016 after he was relocated to Singapore.

The stock prices for U Inc shares at the relevant dates are as follows:

	Price per share
	\$
1 October 2012	20
1 October 2016	25
30 September 2017	30
31 December 2017	28

Notes:

- (1) USPL rented a fully furnished apartment at a monthly rental cost of \$8,000. The annual value of the apartment is \$50,000. Arnold paid a monthly rental contribution of \$500 to USPL.
- (2) Birthday gifts are given to all USPL employees.

In addition to his employment income, Arnold received the following income in 2017:

	\$
Income distribution from an equity investment in the Marco Polo Fund, a US fund.	
Arnold deposited the receipts into his Singapore bank account	30,000
Interest income from a Singapore pawnshop	2,000

Arnold also made a cash donation of \$10,000 to the National Kidney Foundation, an approved institution of a public character on 25 December 2017.

Required:

Compute Arnold's minimum assessable income for the year of assessment 2018.

Note: You should indicate with use of '0' any item which is not taxable or not deductible. (10 marks)

- (b)** Arnold's brother, Bruce, is considering commencing a management consultancy business but is unsure whether to set up the business as a sole proprietor or a company.

If Bruce trades as a sole proprietor, his annual chargeable income is expected to be \$200,000.

If Bruce sets up a company, his annual chargeable income (before partial tax exemption) is expected to be \$200,000. All the conditions for the tax exemption for new start-up companies will be met.

Required:

- (i) Briefly explain how the amount of tax payable is calculated for a sole proprietor and a company.**
(2 marks)
- (ii) Calculate the tax payable for the year of assessment 2018 if Bruce runs his business as a sole proprietor and if he trades via a company.**
(3 marks)

(15 marks)

- 6 Yogurt Pte Ltd (YPL) is a Singapore tax resident company. YPL has been manufacturing and retailing yogurt since its incorporation.

For its financial year ended 31 December 2017, YPL recorded a net profit before tax of \$800,000 after crediting/charging the following items:

	\$
Income	
Gross interest income received from Country Z and kept in a bank account in Hong Kong (note 1)	6,000
Dividend income received in Singapore from Country Z (note 1)	7,200
Compensation received from ZenYog (note 2)	300,000
Expenses	
Depreciation	38,000
Professional fees relating to the termination of the ZenYog agreement	20,000
Yogurt dispenser unit expensed off	3,000
Blocked input goods and services tax (GST) in respect of motor vehicles	2,500
Advance to staff written off	6,000
General business risk insurance premium	18,000
One-time fee paid to YaoYao for a ten-year right to use its standard operating procedures (notes 3 and 4)	250,000
Annual fee paid to YaoYao (calculated by reference to YPL's turnover) (notes 3 and 4)	60,000
Interest expense on a loan taken to fund payments to YaoYao	8,000
Donation of a new computer to an approved institution of a public character on 1 August 2017	2,000
Cash donation to an approved institution of a public character	1,000

Notes:

- Country Z's headline tax rate is 20%. 15% withholding tax has been deducted from the interest. The dividend income is paid out of profit. The profit has been subject to tax in Country Z.
- This compensation payment is for a breach of contract by ZenYog, due to the early termination of YPL's ten-year right to use the ZenYog tradename in Singapore.
- In order to continue trading in Singapore, following the termination of the agreement with ZenYog, YPL entered into a new agreement with YaoYao for the ten-year right to use its standard operating procedures in Singapore. YaoYao is resident in Country Z.
- YPL has complied with the Singapore withholding tax provisions in respect of any payments made to YaoYao.
- YPL has the following unabsorbed amounts brought forward from the year of assessment 2012:

	\$
– unabsorbed trade losses	10,000
– unabsorbed capital allowances	3,100

- Details of YPL's shareholders as at the relevant dates are as follows:

Shareholder	31 December 2011	31 December 2012	1 January 2018
A	30%	30%	30%
B	30%	30%	10%
C	20%	40%	0%
D	20%	0%	60%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Required:

- (a) **Compute the chargeable income (before partial tax exemption) of Yogurt Pte Ltd for the year of assessment 2018.**

Note: You should start your computation with the net profit before tax of \$800,000 and indicate by the use of zero (0) any profit or loss account item which does not require tax adjustment. (12 marks)

- (b) **Explain the corporate tax treatment of the compensation of \$300,000 received from ZenYog and the payment of \$250,000 made to YaoYao.**

Note: You should ignore withholding tax implications. (3 marks)

(15 marks)

End of Question Paper