
Answers

Section A

1 B

The input tax based on the Singapore dollar amounts shown on the import permits issued by Singapore Customs can be claimed for the purchases from the foreign supplier.

For purchases in foreign currency from a local supplier, the input tax claim is based on the Singapore dollar equivalent of the goods and services tax (GST) as reflected on the tax invoice issued by the supplier.

2 C

3 C \$500

The \$500 membership subscription is tax deductible as it is related to Cherry's employment as an accountant. The cost of the laptop is not deductible for an employee and a deduction for the private car maintenance costs is also not allowed.

4 A \$2,000 ($24,000 - (2,200,000 \times 1\%)$)

It is not necessary to deduct Government paid childcare/maternity leave from remuneration when calculating the medical expense restriction. Air tickets are not considered remuneration for the purposes of calculating the medical expense restriction.

5 B

Top Co, Sing Co 1 and Sing Co 2 are companies within the same group for group relief. Top Co has one-tier tax exempt dividend, hence, there is no value in transferring any loss to it.

Sing Co 2 and Sing Co 3 are NOT companies within the same group for group relief as the 75% shareholding threshold is not met ($60\% + 80\% \times 15\%$).

Hence, only the transfer between Sing Co 1 and Sing Co 2 can be effected.

6 D \$8,000

Personal tips from a customer are taxable as Desiree received them in the course of her employment. Compensation received from a customer who has wrongly accused Desiree of a failed beauty procedure is not taxable. Alimony received is tax exempt.

7 B

Both Aries Pte Ltd and Mars Pte Ltd are required to file estimated chargeable income (ECI) by 30 November 2017. Although Aries Pte Ltd has ECI of nil, it has a turnover of more than \$5 million. For Mars Pte Ltd, although it has a turnover of less than \$5 million, it has ECI.

8 D \$6,650 ($100,000 \times 7\% \times 95\%$)

Goods and services tax (GST) on the sale and the trade-in items are to be accounted for separately. GST is chargeable on the price after the prompt payment discount.

9 C \$24,500 [$(36,000 - 7,000) - (9/12 \times 6,000)$]

Betty is better off claiming a tax deduction on the deductible maintenance expenses of \$7,000 than to opt for 85% of net rental income, before deducting the interest expense.

10 C \$49,000 ($102,000/3 + 15,000$)

11 B \$300,000

As the overseas duties are ancillary to Gerald's Singapore employment, all the employment income is considered Singapore sourced income and, thus, taxable in Singapore.

12 D \$90,000

A taxpayer may claim a tax deduction for revenue expenses incurred before the first dollar of business receipt is derived as well as revenue expenses incurred up to 12 months prior to the deemed date of commencement (i.e. 1 January 2017).

13 A

The full amount is subject to withholding tax at 22%.

The 60-day exemption applies only to short-term visiting employees, not non-resident directors. It does not matter whether the non-resident director attends the meeting in person in Singapore.

14 D \$180,000 (200,000 – 20,000)

The gain from the sale of the antiques is deemed to be capital in nature in view of the long holding period. The gain from David's subsequent property purchases are revenue gains in view of the frequency and short holding period. Accordingly, the legal fees and commission are tax deductible expenses against David's trading profits. Interest from an approved bank is tax exempt.

15 A \$56,000 $[(12,000 + (32,700/1.09 (w1)))/3 \times 4]$

W1 Interest rate = $9,720/108,000 = 9\%$

Both the down payment and principal repaid qualify for capital allowance and enhanced capital allowances claim.

2 marks each

30

Section B

Marks

1 Jeannie Widgets Pte Ltd

Goods and services tax (GST) return for the quarter ended 31 March 2018

	\$	Output GST \$	Input GST \$	Nature of supply/purchase	
Widgets sold and delivered to customers in Singapore	200,000	14,000		Standard rated	0·5
Widgets sold to customers in Singapore and delivered to the customers' warehouses in China	50,000	0		Zero rated	1
Widgets sold to a customer in the United Kingdom and delivered to its warehouse in Singapore	60,000	4,200		Standard rated	1
Repairs of widgets performed in Singapore for a customer in Singapore	20,000	1,400		Standard rated	0·5
Design and customisation services performed in Singapore for a customer in China	30,000	0		Zero rated	1
Interest income received from an approved bank in Singapore	1,000			Exempt supplies	0·5
Staff remuneration	250,000			Out of scope	0·5
Airfares for business trips	10,000			Zero rated	0·5
Reimbursement to staff for business entertainment expenses	6,500		455	Standard rated	0·5
One-year recreation club membership (for staff members and their families)	2,000			Blocked input tax	1
Office rental expense	50,000		3,500	Standard rated	0·5
Freight charges for delivery to customers' warehouses in China	2,000		0	Zero rated	1
Managing director's private motor car insurance	5,000			Blocked input tax	1
		19,600	3,955		
Net GST payable			15,645		0·5
					10

2 Jarod

Contributed capital as at 31 July 2017

	\$	
Balance as at 1 August 2016	12,000	0.5
Add: Contribution in kind – laptops	1,000	1
Balance as at 31 July 2017	13,000	

JJ LLP – Tax computation for the year of assessment 2018

	\$	
Net profit before tax	52,000	
Add/(Less)		
Rental income (separate source)	(12,000)	0.5
Partners' salaries	200,000	0.5
Interest expense on small office home office (SOHO):		
– portion attributable to Jenny (40% x 3,000)	1,200	0.5
– portion attributable to rented portion (20% x 60% x 3,000)	360	1
Office furniture	30,000	1
Adjusted trading profit/(loss)	271,560	
Less		
Partners' salaries	(200,000)	0.5
Interest expense on SOHO		
– portion attributable to Jenny (40% x 3,000)	(1,200)	0.5
Divisible trading profit/(loss)	70,360	
Divisible rental income (separate source)		
Add: Rental income	12,000	0.5
Less: Attributable expense		
Interest	(360)	0.5
Divisible rental income (separate source)	11,640	
Capital allowance (low value items, each costs <\$5,000)	30,000	1

Jarod – Share of profit from JJ LLP year of assessment 2018

	\$	
Share of JJ LLP's trading profits (70,360 x 20%)	14,072	0.5
Salary from JJ LLP	80,000	0.5
Less: Share of capital allowance (30,000 x 20%)	(6,000)	0.5
	88,072	
Share of JJ LLP's rental income (11,640 x 20%)	2,328	0.5
	90,400	
		10

3 (a) (i) The **date of payment** is determined as the **earliest** of the following dates:

- when the payment is due and payable **based on the agreement or contract**; 0.5
- the **date of the invoice** in the absence of any agreement or contract (credit terms should not be taken into consideration); 1
- when payment is **credited to the account** of the non-resident or any other account(s) designated by the non-resident; or 1
- the date of **actual payment**. 0.5

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(ii) A 5% penalty on the withholding tax (WHT) outstanding is imposed for late payment. 0.5

An additional 1% penalty is imposed on the WHT for each completed month, capped at 15 %.

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0.5

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(b) 15% withholding tax (WHT) on interest (\$100,000 x 15%) = \$15,000	Marks 1
Penalty: 6% x 15,000 = \$900	
Total to pay = \$15,900	1
	<u>2</u>
Tutorial note: The date of payment is 31 December 2017 as per the agreement between Trilive Pte Ltd and its head office. Hence, WHT is due to the Inland Revenue Authority of Singapore (IRAS) by 15 February 2018. As payment was not made until 30 April 2018, a 6% (5% + 1%) penalty applies.	
(c) Payment for technical assistance provided in Singapore is subject to withholding tax (WHT) at 17%.	1
Payment for the right to use the supplier's stock management software is not subject to Singapore WHT.	1
Payment for the modification of the stock management software carried out in Country T is not subject to Singapore WHT.	1
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4 Alpha Pte Ltd (APL)

- (a) Capital allowances (CA) and productivity and innovation credit enhanced allowances for the year of assessment 2018**

	Cost	Normal CA	Enhanced CA	Total	
	\$	\$	\$	\$	
Computers – cash paid (60,000 + 8,000)	68,000	68,000	204,000		1
Website design	<u>16,000</u>	<u>16,000</u>	<u>48,000</u>		0.5
		84,000	252,000	336,000	
Calculation of balancing allowance					
Disposal of computers – balancing charge = trade in value, no TWDV				(8,000)	1
Disposal of awnings, light fittings, partitions, etc (Section 14Q claim, no balancing charge calculation)				–	1
Disposal of ten tables – balancing charge				<u>(2,000)</u>	0.5
				<u>326,000</u>	<u>4</u>

- (b) Conditions for carry forward of unabsorbed capital allowances**

The unabsorbed capital allowances can be deducted against APL's future income if the continuity of shareholding test (i.e. not more than 50% change) of its ultimate shareholders and their shareholdings as at the relevant comparison dates is met.

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For the utilisation of the unabsorbed capital allowances, there is an added condition whereby APL must continue to carry on the same trade (i.e. the same trade test).

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- (c) Group relief (GR)**

The GR scheme enables companies to deduct unabsorbed capital allowances/trade losses/donations of one company from the assessable income of another company in the same group. To qualify for GR, the transferor and claimant of the loss items have to meet the following conditions. Both companies must:

1

- be Singapore incorporated companies;
- belong to the same group of companies and maintain the 75% shareholding threshold; and
- have the same financial year end.

0.5

0.5

0.5

As APL and Bravo Pte Ltd (BPL) have met all these conditions, the unabsorbed losses and unutilised capital allowances of APL can be transferred to BPL.

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(d)	APL will not be able to utilise any unabsorbed capital allowances in the near future. Since BPL can group relieve the losses of APL, APL should claim the capital allowances and transfer them to BPL.	Marks
		1
		10

5 (a) Arnold

Income tax computation for the year of assessment 2018

	\$	
Joining bonus	36,000	1
Salary	240,000	0.5
Air ticket – business trip	0	0.5
Air ticket – two home leave passages	4,000	1
Apartment ((150% of AV or rental paid) less annual rent contribution) ((150% x 50,000) – 6,000)	69,000	1.5
Birthday gift (>\$200)	500	0.5
Stock option – Lot 1 – awarded for services performed outside Singapore	0	1
Stock option – Lot 2 – awarded for services performed in Singapore (2,000 x (28 – 10))	36,000	1
Returns from equity investment in Marco Polo Fund	0	1
Interest income from a pawnshop	2,000	1
Statutory income	387,500	
Less		
Donation to an approved institution of a public character (10,000 x 250%)	(25,000)	1
Assessable income	362,500	
		10

(b) Bruce

Calculation of the tax payable of a sole proprietor and a company

The tax payable by a sole proprietor is based on the progressive tax rates and the maximum rate is 22%. Tax reliefs and rebates are available if the individual is a Singapore tax resident and meets the qualifying conditions.	1
The tax payable by a company is based on the flat rate of 17% after the partial tax exemption/full tax exemption for a new start-up company. A corporate tax rebate, where available, can also be claimed.	1
	2

(c) Tax payable – as a sole proprietor

	\$	
Chargeable income	200,000	
Tax payable	21,150	1
Tax payable – as a company		
	\$	
Chargeable income	200,000	
Less		
Full exemption on first \$100,000	(100,000)	0.5
50% exemption on next \$100,000	(50,000)	0.5
Chargeable income (after exempt amount)	50,000	
Tax at 17%	8,500	0.5
Less: Corporate tax rebate (20%, capped at \$10,000) (Tutorial note)	(1,700)	0.5
Net tax payable	6,800	
		3
		15

Tutorial note: Where a candidate calculated the corporate tax rebate based on the new rebate (i.e. 40% of \$8,500 (\$3,400)) as announced in Budget 2018, full credit was awarded.

6 Yogurt Pte Ltd

(a) Tax computation for the year of assessment 2018
(basis period: 1 January to 31 December 2017)

	\$	
Net profit before tax	800,000	
Less:		
Gross interest income received from Country Z	(6,000)	0.5
Dividend income received in Singapore from Country Z	(7,200)	0.5
Compensation received from ZenYog	(300,000)	0.5
	<u>486,800</u>	
Add:		
Depreciation	38,000	0.5
Professional fees re termination of ZenYog agreement	20,000	1
Yogurt dispenser unit expensed off	3,000	0.5
Blocked input goods and service tax (GST) on motor vehicles	2,500	0.5
Advance to staff written off (non-trade)	6,000	0.5
General business risk insurance premium	0	0.5
One-time fee paid to YaoYao for a ten-year right to use its standard operating procedures	250,000	0.5
Annual fee paid to YaoYao (calculated by YPL's turnover)	0	0.5
Interest expense on loan taken to fund payments to YaoYao	0	0.5
Donation of new computer to an approved institution of a public character	2,000	0.5
Cash donation to an approved institution of a public character	1,000	0.5
	<u>809,300</u>	
Adjusted profit before capital allowances	809,300	
Less:		
Unabsorbed capital allowances brought forward	0	1.5
Capital allowance on the yogurt dispenser unit (low value item)	(3,000)	0.5
	<u>806,300</u>	
Adjusted profit after capital allowances	806,300	
Less:		
Unabsorbed trade losses brought forward	(10,000)	1
Add:		
Dividend income received in Singapore from Country Z (exempt)	0	0.5
Less:		
Current year donation (1,000 x 250%)	(2,500)	0.5
Donation of computer	0	0.5
	<u>793,800</u>	
Chargeable income before partial exemption	<u>793,800</u>	
		<u>12</u>

Tutorial notes:

- (1) The tax deduction scheme which was previously available in respect of company donations of computers was withdrawn with effect from 21 February 2017 and so no deduction is available in respect of the computers donated on 1 August 2017.
- (2) The brought forward capital allowances cannot be utilised as the shareholding test is not met. The relevant dates for this test are 31 December 2012 (the last day of the year of assessment (YA) in which the capital allowances arose) and 1 January 2018 (the first day of the YA in which the capital allowances are deducted).
- (3) The brought forward trade losses can be offset because the shareholding test is met. The relevant dates for this test are 31 December 2011 (last day of the year in which the losses were incurred) and 1 January 2018 (the first day of the YA of utilisation).

- (b) The termination of the agreement by ZenYog will result in the destruction of the whole structure of the profit making apparatus of YPL. Thus, the compensation received is not taxable. 1.5
- The payment by YPL to YaoYao is in exchange for an asset of an enduring benefit. Thus, the payment is capital in nature and, thus, not tax deductible. 1.5

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