
Answers

Section A

- 1 D An arrangement which involves a claim for expenses which is fictitious is an example of tax evasion and not a tax avoidance arrangement.
- 2 B In order to gain a waiver from having to file its estimated chargeable income (ECI), a company's annual revenue must not be more than \$5 million for the financial year and ECI for the year of assessment (before deducting the partial tax exemption) must be nil.
- 3 C \$2,000 (10,000 x 20%)
When a withholding tax payment is not received by the due date, an initial 5% penalty based on the unpaid tax will be charged. Subsequently, an additional 1% (subject to a maximum of 15%) of the unpaid tax is imposed for each completed month the tax remains unpaid.
- 4 D \$10,500 (70,000 x 15%)
A non-resident professional is subject to a 15% final tax on gross income derived from services performed in Singapore.
- 5 D \$140,250 (140,000 + 250)
Ben's time spent overseas is incidental to his Singapore employment and is therefore taxable in Singapore. The long service award paid in cash is also taxable. As an administrative concession from the Inland Revenue Authority of Singapore (IRAS), long service awards not exceeding \$200 are not taxable, but this is only if the award is given in kind and not in cash. The payout from the insurance policy is a capital receipt and therefore not taxable.
- 6 C Icicles Trading Pte Ltd (ITPL) is not required to register for goods and services tax (GST) as it is not making taxable supplies.
ITPL is making out-of-scope supplies because goods are shipped directly from Indonesia to Malaysia, hence ITPL is not required to register for GST.
- 7 A \$170,000 (120,000 + 36,000 + 14,000)
- 8 B \$7,150 (4,000 + 4,200 x 9/12 months)
- 9 C Nil chargeable income and no unutilised capital allowances or losses to be carried forward.
As a company in the business of making investments, S-Mall Limited (SML) is able claim s.14Q renovation and refurbishment expenditure. However, SML is not able to carry forward any unutilised capital allowances or losses.
- 10 B Residual input tax is claimable in full because the value of exempt supplies does not exceed 5% of total supplies and the average value of exempt supplies is less than \$40,000 per month.
Under the *de minimis* rule, there are two conditions which must be satisfied, i.e.:
(i) the value of exempt supplies is less than 5% of the total value of taxable and exempt supplies; and
(ii) the average value of exempt supplies is less than \$40,000 per month.
- 11 A \$450
As a self-employed person, Sue's central provident fund (CPF) contribution is not a deductible revenue expense. However, Sue may claim CPF relief subject to fulfilling the requisite conditions. The cost incurred to purchase the laptop is not claimable as a revenue deduction.

- 12 D** Fabulous Tyres Pte Ltd (FTPL) is required to prepare transfer pricing documentation (TPD) only on its sale of finished tyres to its parent company because the value exceeded \$15 million.

Under Singapore transfer pricing guidelines, an exemption applies where the Singapore taxpayer's gross turnover in the year of assessment 2019 is below \$10 million or where the sale OR purchase of goods from a related party is below \$15 million. The \$15 million value threshold is applied separately to FTPL's Indonesian subsidiary and Hong Kong parent company. Exemption from TPD applies only on routine support services where a 5% mark-up on cost has been applied.

- 13 A** \$4,200 ($8,400 \times 6/12$ months)

The loss transferrable from subsidiary (S1) to Hamlet Holdings Ltd (HHL) is limited to the lower of:

- (i) HHL's assessable income during the continuous period = \$6,000 ($12,000 \times 6/12$ months); and
- (ii) S1's losses during the continuous period = \$4,200 ($8,400 \times 6/12$ months).

It is irrelevant that HHL is ultimately owned by a foreign parent company.

- 14 C** \$25,600 ($8,000$ shares \times \$3.20 per share)

For a share award with a sale restriction, the taxable amount is based on the market value of the shares on the date the sale restriction is lifted.

- 15 A** \$1,100 ($22,000 \times 5\%$)

Director's fees, office rental and utilities are common/indirect expenses. For an investment holding company, the deductible amount of common/indirect expenses is restricted to the lower of the actual expense or 5% of total gross income.

2 marks each

30

Section B

Marks

1 Torpedo Pte Ltd (TPL) – Goods and services tax (GST) on transactions in the quarter ended 30 June 2018

	Amount \$	Type of supply/purchase	Output GST \$	Input GST \$	
Sale of goods – billed to Singapore customer and delivered to customer's warehouse in Singapore	13,200	Standard rated supply	924		0.5
Sale of goods – billed to overseas customer and delivered to customer's warehouse in Singapore	7,600	Standard rated supply	532		0.5
Sale of goods – billed to Singapore customer and delivered to customer's overseas warehouse	18,000	Zero rated supply	0		1
Purchased goods imported into Singapore	15,800	Standard rated purchase		1,106	1
Net realised foreign exchange gain (2,100 – 1,750)	350	Exempt supply			1
Compensation paid to customer for late delivery	10,000	Out-of-scope			0.5
Golf club membership subscription	5,000	Blocked input tax			0.5
Lucky draw prizes					
– First prize – travel voucher redeemable from any four specified travel agencies	500	Out-of-scope			1
– Second prize – a watch	320	Standard rated purchase and deemed output tax	22	22	1
Supplier invoice 1	6,000	No GST implication as payment is outstanding for less than 12 months			0.5
Customer invoice 2	4,000	Bad debt relief claim		280	1
Supplier invoice 3	3,400	Repayment of input GST previously claimed		(238)	1
Customer invoice 4	2,600	No GST implication as it does not qualify for bad debt relief			0.5
					10

Tutorial notes:

- In respect of lucky draw prizes given to employees, alternatively, TPL need not account for output tax on the goods given free to its employees where no credit for input tax has been allowed on the purchase or import of those gifts.
- In respect of Supplier invoice 3, since TPL has not paid its supplier for more than 12 months, TPL is required to repay to the Comptroller of GST the amount of input tax which it has claimed previously.

2 Margaret's assessable income for the year of assessment (YA) 2019

	\$	
Adjusted profits from LLP		
1 January 2018–30 June 2018 (16,000 x 6/12 x 25%)	2,000	1
1 July 2018–31 December 2018 (16,000 x 6/12 x 20%)	1,600	1
Margaret's share of profit for YA 2019	3,600	
Less: share of loss for prior years (working)	(3,000)	1
Less: share of capital allowances (6,000 x 20%)	(1,200)	1
Unabsorbed capital allowances carried forward	(600)	0.5
Rental income	50,000	0.5
Deemed income from excess of past year deduction	3,000	1
Assessable income	53,000	

Marks

Working – Share of loss for prior years

	\$	
Past relevant deductions brought forward:		
Contributed cash as at 1 January 2016	15,000	0.5
Less: YA 2017 share of losses (50,000 x 25%)	(12,500)	1
	<u>2,500</u>	
Relevant deduction restriction not applicable (YA 2017)		
Add: contributed computers on 1 February 2017	6,000	1
Less: YA 2018 share of losses (30,000 x 25%)	(7,500)	1
	<u>1,000</u>	
Relevant deduction restriction not applicable (YA 2018)		
Less: Loan taken on 1 June 2018	(4,000)	0.5
	<u>(3,000)</u>	
Excess of past relevant deduction over contributed capital		
	<u><u>(3,000)</u></u>	
Resulting in:		
(i) Deemed income in YA 2019	3,000	
(ii) Deemed loss deductible against share of LLP's profits	(3,000)	
		<u>10</u>

Tutorial note: *Unabsorbed capital allowances are not deductible against rental and other income.*

3 Durian Exchange Limited

(a) Corporate income tax liability for the year of assessment 2019

	\$	\$	
Tax adjusted trade profit		174,000	
Add:			
Balancing charge		6,000	1
Less:			
Unabsorbed capital allowances brought forward		(11,300)	0.5
Current year capital allowances		(2,000)	0.5
Current year balancing allowance		(1,400)	0.5
		<u>165,300</u>	
Tax adjusted trade profit after capital allowances			
Less: unabsorbed trade losses brought forward		(180,300)	1
		<u>(15,000)</u>	
Adjusted loss			
Add: interest income		127,400	0.5
		<u>112,400</u>	
Less: unabsorbed donations brought forward		(8,000)	1
		<u>104,400</u>	
Chargeable income (before partial tax exemption)			
Less: partial tax exemption			
75% on first \$10,000	(7,500)		0.5
50% on balance	(47,200)		0.5
	<u>(54,700)</u>		
Chargeable income (after partial tax exemption)		<u><u>49,700</u></u>	
Tax at 17%		8,449	0.5
Less: 20% tax rebate (capped at \$10,000)		(1,690)	0.5
		<u>6,759</u>	
Net tax liability		<u><u>7</u></u>	

(b) In order to utilise unabsorbed donations brought forward, the conditions of the shareholding test must be met as follows:

- there is no substantial change in shareholders (i.e. not more than 50% change in shareholders of the company) 1
- as at the **relevant dates**, being:
 - the last day of the year in which the donations were incurred; and 0.5
 - the first day of the year of assessment (YA) in which the donations are to be deducted. 0.5

		Marks
	The unabsorbed donations must also be utilised within five years from the YA in which the donation was claimed.	1
		3
		10
4	(a) A company is regarded as non-tax resident when its management and control is not exercised in Singapore. An individual is regarded as a non-tax resident when they are in Singapore for less than 183 days in a calendar year.	1 1 <hr/> 2
	(b) X-Printer Pte Ltd – Withholding tax payable to the Inland Revenue Authority of Singapore (IRAS)	
	(i) Withholding tax applies on the payment of director's fees. Reason – Peter is a non-resident as he is in Singapore for less than 183 days in the calendar year 2018. Payments to non-resident directors are subject to withholding tax regardless of physical presence in Singapore. Withholding tax payable is \$11,000 (50,000 x 22%).	0.5 0.5 1
	(ii) Withholding tax does not apply on the rental of the photocopier. Reason – The rental of movable property used outside Singapore (at an overseas representative office) is exempt from withholding tax.	0.5 0.5
	(iii) Withholding tax applies on the training fees. Reason – This is a provision of technical service in connection with the use of industrial knowledge in operating a 3D-printer. As the service is performed in Singapore, withholding tax applies. Withholding tax payable is \$2,040 (12,000 x 17%).	0.5 1 1
	(iv) Withholding tax applies on the payment to the entertainment artiste. Reason – Payment for services rendered in Singapore is subject to withholding tax regardless of where physical payment is made. Withholding tax payable is \$600 (6,000 x 10%).	0.5 1 1 <hr/> 8 <hr/> 10
5	Ivan	
	(a) Residency status	
	Ivan's period of presence in Singapore is less than 183 days in each of the years 2018 (122 days) and 2019 (31 days). He also does not qualify for the two-year administrative concession. For this concession to apply, Ivan has to stay or work in Singapore for a continuous period of at least 183 days straddling two consecutive years. Hence, Ivan will be treated as a non-resident for Singapore tax purposes during his stay in Singapore.	1 1 1 <hr/> 3

(b) Income tax computation for the year of assessment 2019

	\$	\$	
Tax as a non-resident			
Salary		56,000	0.5
Joining bonus		10,000	1
Airfare for Ivan and his family to relocate to Singapore		0	1
Home leave passage		6,000	1
Housing benefit-in-kind (48,000 x 4/12)	16,000		0.5
Value of furnishings and fittings (48,000 x 50% x 4/12)	8,000		1
Less: rental paid by Ivan (1,000 x 4 months)	(4,000)		1
		20,000	
Child tuition support allowance		10,000	0.5
Total employment income		102,000	
Cash remitted from German bank account		0	1
Total assessable income		102,000	
Tax at 15% as a non-resident (A)		15,300	1
Tax as a resident			
Total assessable income		102,000	
Less: personal reliefs			
Earned income relief		(1,000)	0.5
Spouse relief		0	0.5
Qualifying child relief		(4,000)	0.5
Chargeable income		97,000	
Tax on first \$80,000		3,350	0.5
Tax on remaining amount at 11.5%		1,955	0.5
Tax at resident rate (B)		5,305	
Ivan's tax liability at higher of (A) or (B)		15,300	1
			12
			15

6 (a) Badges of trade**1. Nature of subject matter**

This refers to the nature of the asset/property which is being bought and sold. Some property (e.g. commodities, manufactured items) are normally regarded as the subject of trading while others are less likely to be regarded as trading when they are not bought in quantity (e.g. antiques, art work).

2. Length of ownership

This refers to the holding period of the asset/property in question. The shorter the holding period, the more likely it would be regarded as held for trading.

3. Frequency of transactions

High frequency of similar transactions is more indicative of trading than an isolated transaction.

4. Supplementary work

This refers to additional work done on the asset/property in question to make it more marketable or extra effort made to find or attract purchasers. If this is done, it is more likely that the subsequent disposal would be regarded as trading.

5. Circumstances of the realisation

Some circumstances are less likely to indicate trading (e.g. the sale of the property in question is forced on the seller due to its compulsory acquisition, a sudden urgent need for cash or threat of foreclosure by creditors).

6. Motive

This refers to whether there was an intention to trade at the time of the acquisition of the asset/property in question.

7. **Mode of financing**

This refers to how the purchase of the asset/property in question is being financed. Short-term financing is more indicative of trading than long-term financing. The company's financial position and ability to hold on to the property will also be taken into consideration.

8. **Other factors**

Other factors include whether there were any feasibility studies conducted, the accounting treatment by the seller, the availability of documentation or other evidence maintained by the seller to indicate its intention.

Any THREE factors required; 1 mark each, maximum 3

(b) Rainbow Connect Pte Ltd – Tax computation for the year of assessment 2019

	\$	
Net profit before tax	333,000	
Add/(less):		
Depreciation	4,200	0.5
Interest expense to fund dividend distribution	15,000	1
Professional fees on issue of new shares	8,000	1
Legal fees to defend against trademark infringement	0	1
Reinstatement cost on moving out of Retail Shop A	0	1
Renovation expenditure on Retail Shop B	118,000	1
Section 14Q deduction (150,000 + 51,000 (working))/3)	(67,000)	0.5
Adjusted trade profit before capital allowances	411,200	
Less: capital allowances (29,000/3 + 9,000) (working)	(18,667)	0.5
Chargeable income (before partial tax exemption)	392,533	

Working – Renovation expenditure on Retail Shop B

	\$	S14Q	Capital allowances (3-year write-off)	(1-year write-off)	No claim	
General lighting	20,000	20,000				0.5
False ceiling	6,000	6,000				0.5
Wallpaper	4,000	4,000				0.5
Glass partition	3,000	3,000				0.5
Doors	18,000	18,000				0.5
Fine art	14,000				14,000	0.5
Display cabinets	18,000		18,000			0.5
Interactive shopping kiosks	7,000			7,000		0.5
Sprinkler and smoke detector	11,000		11,000			0.5
Signage	2,000			2,000		0.5
Designer fees	15,000				15,000	0.5
Total	118,000	51,000	29,000	9,000	29,000	
						<u>12</u>
						15

Additional marking guide for section B**Marks available Marks awarded**

1	Sale of goods	2	
	Purchased goods	1	
	Net FX gain	1	
	Compensation	0.5	
	Golf club membership	0.5	
	Lucky draw prizes	2	
	Supplier invoices	1.5	
	Customer invoices	1.5	
	Total marks	10	
2	Share of profits	2	
	Share of PY loss	1	
	Share of CA	1	
	Unabsorbed CA c/f	0.5	
	Rental income	0.5	
	Deemed income	1	
	Past relevant dedn	4	
	Total marks	10	
3	(a) BC and CA	2.5	
	Unabsorbed loss	1	
	Interest income	0.5	
	Unabsorbed donation	1	
	Tax liability	2	
		7	
	(b) Shareholder test	2	
	Five-year time limit	1	
		3	
	Total marks	10	
4	(a) Company residency	1	
	Individual residency	1	
		2	
	(b) Director's fees	2	
	Photocopier	1	
	Training fees	2.5	
	Artiste payment	2.5	
		8	
	Total marks	10	
5	(a) Residency status	3	
	(b) Employment income	6.5	
	Cash remitted	1	
	Non-resident tax	1	
	Resident tax	2.5	
	Higher of rate	1	
		12	
	Total marks	15	

		<i>Marks available</i>	<i>Marks awarded</i>
6	(a) Badges of trade	3	
	(b) Adj trade profit	5·5	
	CAs and s.14Q	6·5	
		12	
	Total marks	15	