
Answers

Section B

Marks

1 Cosmetic Pte Ltd

- (a) In order to claim the pre-registration goods and services tax (GST) incurred on goods acquired in the previous six months, a GST registered person must satisfy both of the following conditions:

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|---|---------|
| 1. the goods were purchased or imported by the business for the purpose of making taxable supplies; and | 1 |
| 2. the goods were still held by the business at the GST registration date. | 1 |
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- (b) GST in respect of transactions in May and June 2017

		Type of supply	Input tax \$	Output tax \$	
	\$		\$	\$	
May 2017					
1.	Purchased cosmetic products	100,000	Pre-registration GST claim on 80% of the stock remaining as at 1 June 2017	5,600	1
2.	May and June accountancy fees (\$300 per month)	600	Pre-registration GST claim on services acquired within six months prior to GST registration not directly attributable to supplies made prior to the registration	42	1
June 2017					
3.	Sales of cosmetic products	60,000	Standard rated purchase	4,200	0.5
4.	Interest income from a Singapore bank	500	Exempt supply	–	1
5.	Rental paid for shop unit	6,000	Standard rated purchase	420	0.5
6.	Salary costs	8,000	Not a supply		0.5
7.	Cosmetics purchased from a supplier in Korea and imported into Singapore	20,000	Standard rated purchase, GST paid on importation	1,400	1
8.	Freight charges for the delivery of the Korean cosmetics to Singapore	500	Zero rated purchase	0	1
9.	Local delivery cost	300	Standard rated purchase	21	0.5
10.	New private motor car, SBC 123 bought for the sole use of the marketing director in the course of the company's business	50,000	Standard rated purchase, but input tax is blocked	0	1
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2 (a) Orange Pte Ltd

Chargeable income for the year of assessment 2018
Basis period: 1 January 2017 to 31 December 2017

	\$	\$	
Tax adjusted profit		800,000	
Less:			
Capital allowances – brought forward		(20,000)	1
Capital allowances – current year		(300,000)	1
Less:			
Losses – brought forward		(90,000)	1
Less:			
Donations – brought forward		(50,000)	1
Less:			
Group relief			
Capital allowances		(80,000)	0.5
Losses		(60,000)	0.5
Chargeable income before tax exemption		200,000	
Less: Partial tax exemption			
First \$10,000 – 75% tax exempt	7,500		
Next \$190,000 – 50% tax exempt	95,000	(102,500)	1
Chargeable income		97,500	
			<u>6</u>

(b) A transfer of capital allowances and losses for any year of assessment is allowed only if both the transferor company and the claimant company:

– are Singapore incorporated companies;	1
– are members of the same group on the last day of the basis period;	1
– have accounting periods ending on the same day; and	1
– have made an election to effect the transfer.	1
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3 Ellen

(a) Assessable income for the years of assessment 2017 and 2018

Year of assessment (YA)	2017 \$	2018 \$	
Employment income	300,000	400,000	1
Less:			
Share of LLP capital allowances (CA) current year	(48,000)	(57,600)	1
LLP losses brought forward		(36,000)	0.5
Share of LLP losses:			
YA 2017 limited to available income	(252,000)		1
YA2018 restricted (working)		(6,400)	0.5
Assessable income	<u>0</u>	<u>300,000</u>	
Share of LLP losses brought forward (288,000 – 252,000)/(384,000 – 6,400)	(36,000)	377,600	1

Working:

	\$	
Contributed capital as at 31 December 2017	400,000	
Less:		
LLP's YA 2017 CA utilised	(48,000)	0.5
LLP's YA 2017 losses utilised	(252,000)	0.5
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Balance of contributed capital as at 31 December 2017	100,000	
Less:		
LLP's YA 2017 losses brought forward	(36,000)	0.5
LLP's CA utilised	(57,600)	0.5
LLP's YA 2018 losses (restricted)	(6,400)	1
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Balance of contributed capital available	0	
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- (b) At the end of YA 2018, Ellen's past relevant deductions equal the amount of her contributed capital, therefore the restricted losses of \$377,600 can only be carried forward and relieved against Ellen's future income from EL LLP (not against any other sources of income) unless she makes an additional capital contribution to the LLP.

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10**4 (a) FinCo Pte Ltd (FPL)****Withholding tax (WHT) on interest payment**

Interest paid	\$10,000	
WHT at 15%	\$1,500	1
Due date of payment (invoice date as no agreement)	15 January 2017	
Due date for payment of WHT and submission of e-filing of form	15 March 2017	1
		<hr/>
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(b) Treatment of other payments**Item 2 – Repatriation of branch profits**

Branch profits repatriated by a Singapore tax resident company are exempt from tax [under s.13(8)] if:

- the branch operates in a tax jurisdiction where the headline tax rate is at least 15%;
- the branch profits have been subject to tax in that tax jurisdiction; and
- the Comptroller is satisfied that this is beneficial to the company.

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Therefore, as these conditions are met in the case of FPL's Phillipines branch, the treatment is correct.

Item 3 – Insurance proceeds for scrapped machines

The amount recovered from the insurance company is not an income as it relates to a fixed asset of the company. As such, FPL was correct not to treat it as taxable income.

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However, the amount should have been used to calculate the balancing charge on the machine. Since the tax written down value is nil, a balancing charge of \$12,000 will be taxable.

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Item 4 – Compulsory pension fund contributions for expatriate employee

As a tax concession, an employer's contributions to a compulsory overseas pension fund are not taxed in the hands of the employee provided that both the following conditions are satisfied:

- the contributions are mandatory under that country's rules even though the employee is working outside their home country; and
- no tax deduction has been claimed by a company in Singapore.

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Therefore, as these conditions are met, the treatment is correct.

Item 5 – Late payment penalties paid for Alex

FPL is entitled to claim a tax deduction on the late payment penalties of \$2,000 as it is contractually liable to pay these for Alex as part of the terms of his employment. As such, it is a staff cost wholly and exclusively incurred in the production of income and tax deductible.

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Therefore, the treatment is correct.

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10**5 Thomas****(a) Chargeable income for the year of assessment 2018**

	\$	
Salary (30,000 x 12)	360,000	0.5
Car ($3/7 \times [(500,000 - 120,000)/10] + (0.55 \text{ per km} \times 30\% \times 30,000)$)	21,236	2
Chauffeur (30% x 36,000)	10,800	1
Stock option exercised 30 June 2017:		
60% – without a selling restriction ($60\% \times 5,000 \times (50 - 10)$)	120,000	1
Remaining 40% – not taxable in YA 2018 due to selling restriction	0	1
Fully paid holiday	10,000	0.5
Gold ring (exempt as value is less than \$200)	0	1
Reimbursement of mandarin class tuition fee	3,600	1
Interest subsidy	10,000	1
Interest income received from Tony	5,000	1
Dividend from Cayman Islands company (exempt)	0	1
Total chargeable income	<hr/> 540,636	<hr/> 11

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- (b)** The term 'presence in Singapore' is determined by reference to the individual's presence in Singapore. Hence, a day in Singapore is counted if an individual is present in Singapore for any part of that day. Hence, the day of arrival in Singapore and the day of departure from Singapore are both counted as days in Singapore.

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Tax residency status for an expatriate is determined on the basis of the number of days a person is physically present or exercises an employment in Singapore. Therefore, the definition is advantageous to an expatriate who wishes to qualify as a tax resident but not to an expatriate who does not want residency status.

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6 Smart Manufacturing Pte Ltd

(a) Chargeable income before partial tax exemption for the year of assessment 2018

Basis period: 1 January 2017 to 31 December 2017

	\$	
Net profit before tax	900,000	
Less: Income from separate source/Non-taxable income		
Gain on the sale of ordinary shares in wholly owned subsidiary	(200,000)	0.5
Interest on trade debt from a customer in Malaysia (trading receipt, accrual basis applies)	0	1
Compensation received for stock damaged in a fire	0	0.5
	<u>700,000</u>	
Add: Disallowable expenses		
Audit and tax filing fee	0	0.5
Depreciation	10,000	0.5
Cash donation made to a temple in Sri Lanka	2,000	0.5
Cash donation to the National Kidney Foundation (an institution of a public character)	11,000	0.5
Hire purchase interest	0	0.5
Legal fees on sale of shares in wholly owned subsidiary	3,000	0.5
Legal fees for the recovery of trade debts	0	0.5
Medical insurance restriction (14,000 – (1% x 600,000))	8,000	1
Penalty for late payment of CPF contributions	500	0.5
Repair and maintenance of lorries and delivery vans	0	0.5
Repair and maintenance of private plated motor cars	10,000	0.5
Staff remuneration	0	0.5
Training expenses (cash payout claimed on this amount)	9,000	1
Write off of trading stock damaged in fire	0	0.5
	<u>753,500</u>	
Adjusted profit before capital allowance		
Less: Capital allowance		
Automated conveyance system		
Base capital allowance claim (18,000 + (10 x 2,000))	(38,000)	1
Enhanced capital allowance claim (300%)	(114,000)	0.5
Five tables (each costing less than \$5,000)	(12,000)	0.5
Add: Separate source		
Gain on the sale of ordinary shares in wholly owned subsidiary (long-term investment – exempt)	0	1
	<u>589,500</u>	
Less: Donations		
Cash donation made to a temple in Sri Lanka	0	0.5
Cash donation to the National Kidney Foundation (an institution of a public character) (11,000 x 250%)	(27,500)	0.5
	<u>562,000</u>	
Chargeable income		<u>14</u>

- (b) The due date for filing the return of income (Form C) is 30 November 2018 (if paper filed)/15 December 2018 (if e-filed).

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