
Answers

1 (a) Fong Lee Kong Pte Ltd

Tax computation

Year of assessment 2009

Basis period 1 January 2008 to 31 December 2008

	Notes	\$	\$
Net profit as per accounts			280,000
<i>Less</i>			
Other income (separate source)	1		<u>(42,000)</u>
Net profit from trade			238,000
<i>Add</i>			
Purchase of workstations (30 X \$540)		16,200	
Obsolete stock written off		0	
Depreciation of plant and machinery		45,000	
Staff cost (under cost of sales)		0	
Payments to labour contractor		0	
Shanghai representative office expenses		30,000	
Consultancy fee		15,000	
US social security contribution		0	
Keyman insurance premiums		5,600	
Directors' fees		0	
Staff cost (under general and administrative expenses)		0	
Medical expenses	2	16,380	
Depreciation of office equipment		21,000	
Reimbursement of motorcar expenses		2,800	
Donations		12,000	
Compensation		0	
Rent free accommodation		0	
Amortisation of goodwill		<u>20,000</u>	<u>183,980</u>
Adjusted profit from trade			421,980
<i>Less</i>			
Industrial building allowance (3% of \$950,000)		(28,500)	
Capital allowances	3	<u>(54,200)</u>	<u>(82,700)</u>
Taxable trading income			339,280
Separate source (other income)			
Interest		12,000	
Dividend		Tax exempt	<u>12,000</u>
			351,280
<i>Less</i>			
Donation (\$12,000 X 2)			<u>(24,000)</u>
Chargeable income			327,280
<i>Less full tax exemption</i>			
On the first \$100,000 – 100% exemption		(100,000)	
On the next \$200,000 – 50% exemption		<u>(100,000)</u>	<u>(200,000)</u>
Chargeable income			<u>127,280</u>
Tax payable at 18%			<u>22,910</u>

Notes

1 – Other income \$42,000

Interest of \$3,000 on overdue trade receivables is recognised as income incidental to the trade or business

2 – Medical expenses \$16,380

The amount of medical expenses allowable is an amount equal to 1% of total remuneration of \$162,000 (staff cost of \$90,000 + wages of factory workers of \$32,000 + staff cost of \$40,000). The amount not deductible is \$16,380 [\$18,000 – (\$162,000 X 1%)]

3 – Capital allowances \$54,200	
Plant (last year of claim)	\$18,000
Machinery (second year of claim)	\$20,000
Workstations	\$16,200
Total	<u>\$54,200</u>

- (b) A building or structure would qualify as an industrial building or structure if it were used for the purposes of (state any four):
- (1) a transport, dock, water or electricity undertaking;
 - (2) a trade which consists in the manufacture of goods or materials or the subjection of goods or materials to any process;
 - (3) a trade which consists in the storage of goods or materials which are to be used in the manufacture of other goods or to be subjected, in the course of a trade, to any process;
 - (4) a trade which consists of the storage of goods or materials on their arrival in Singapore;
 - (5) research and development activities by a research and development organisation for any manufacturing trade or business;
 - (6) the welfare of workers employed by the trade or undertaking that is carried on in an industrial building or structure.

2 (a) Peter Lau

Tax computation

Year of assessment 2009

	Note	\$	\$
Trade income			
Share of partnership profit	1	10,200	
Less: capital allowances (30% of \$9,000)		<u>(2,700)</u>	7,500
Employment income			
Salary (\$3,400 X 12 months)		40,800	
Bonus (\$3,400 X 4 months)		13,600	
Special allowance		750	
Reimbursement of non-business expense (20% of \$2,000)		400	
Winter clothing allowance		500	
Cash gifts – not taxable		<u>0</u>	56,050
Interest			1,000
Rental income			
Net rental income		2,600	
Rental loss transferred from Michelle		<u>(2,600)</u>	0
Total			64,550
Less: donation (\$800 X 2)	2		<u>1,600</u>
Assessable income			62,950
Less			
Earned income		(1,000)	
Wife relief		(2,000)	
CPF contributions	3	(11,030)	
Course fees		(3,350)	
NSman		<u>(3,000)</u>	(20,380)
Chargeable income			<u>42,570</u>
Tax on the first \$40,000			900
Tax on the balance of \$2,570 at 8.5%			<u>218</u>
Total tax payable			<u>1,118</u>

(b) Michelle

Tax computation

Year of assessment 2009

	\$	\$
Gross rent		13,500
Less		
Property tax (\$2,400 X 9/12)	(1,800)	
Commission	(0)	
Legal fee	(0)	
Maintenance fee (\$240 X 9)	(2,160)	
Mortgage interest (\$1,700 X 9)	(15,300)	(19,260)
Net rental loss		(5,760)
Less rental loss transferred to Peter		2,600
Net rental loss (disregarded)		0
Chargeable income		0
Tax payable		0

Notes

	\$
1 – Share of partnership profit	
Adjusted profits	70,000
Less partners' salary	(36,000)
Less partners' interest	(4,000)
Divisible profit	30,000
Peter's share of divisible profits (30% x 30,000)	9,000
Peter's interest (30% x \$4,000)	1,200
Peter's share of partnership profit	10,200

2 – Donations

The donation of a computer by an individual and the cash donation to a temple do not qualify for deductions.

3 – CPF contributions – \$11,030

20% on \$55,150 being the sum total of salary (\$40,800), bonus (\$13,600) and special allowance (\$750)

3 Tan Chin Lee Pte Ltd

Goods and services tax return

For the quarter ended 31 March 2009

	Types of supplies	Output tax (\$)	Input tax (\$)
Export sales of \$500,000	Zero-rated	0	
Local sales of \$1,300,000 at 7%	Taxable	91,000	
Shampoo samples	Not a supply	0	
Importation of trading stock (\$200,000 x 7%)	Taxable		14,000
Purchases from local GST registered traders (\$800,000 x 80% x 7%)	Taxable		44,800
The time of supply for the delivery of the goods ordered is 10 April 2009, as the invoice date is within 14 days from the date of delivery of the goods.	Taxable in the next quarter		0
Write off of perishable goods – no goods and services tax impact	Taxable but input tax claimed previously		0
Purchases of furniture and office equipment (\$25,000 x 7%)	Taxable		1,750
Club subscriptions of \$3,600	Taxable but input tax blocked		0
Repair cost of motorcar of \$2,100	Taxable but input tax blocked		0
Purchase of umbrellas (\$10 x 1,000 x 7%)	Taxable		700
Purchase of gift costing \$1,200 (\$1,200 x 7%)	Taxable and deemed supply	84	84
Purchased air ticket at \$3,700	Zero-rated		0
Total		91,084	61,334
GST payable (\$91,084 – \$61,334)			29,750

- 4 (a) The conditions that must be satisfied before unabsorbed tax losses and capital allowances can be carried back are:
- (i) the shareholders of the company on the first day of the year in which the allowances arose were substantially the same as the shareholders of the company on the last day of the immediate preceding year of assessment;
 - (ii) the shareholders of the company on the first day of the year in which the loss was incurred were substantially the same as the shareholders of the company on the last day of the immediate preceding year of assessment; and
 - (iii) for the carry back of capital allowances, an additional condition that must be satisfied is that the same trade or business must be carried on in the two relevant years of assessment.

The carry back relief is limited to an amount not exceeding \$100,000 of unabsorbed capital allowances and losses or the assessable income of the immediate preceding year of assessment whichever is lower.

(b) Carson Pte Ltd

Tax computation for the year of assessment 2009

Basis period: 1 January 2008 to 31 December 2008.

	\$	\$
Tax adjusted profit		900,000
<i>Less</i>		
Capital allowances – carried forward	(170,000)	
Capital allowances – current year	<u>(80,000)</u>	<u>(250,000)</u>
		650,000
<i>Less</i>		
Losses – carried forward		<u>(130,000)</u>
		520,000
<i>Less</i>		
Donations – carried forward	(200,000)	
Donations – current year	<u>(30,000)</u>	<u>(230,000)</u>
		290,000
<i>Less group relief</i>		
Capital allowances	(60,000)	
Losses	<u>(50,000)</u>	<u>(110,000)</u>
		180,000
<i>Less: partial exemption</i>		
First \$10,000 – 75% tax exempt	(7,500)	
Next \$170,000 – 50% tax exempt	<u>(85,000)</u>	<u>(92,500)</u>
Chargeable income		<u>87,500</u>

- 5 (a) Plant and machinery can be transferred at its tax written down value if the following conditions are satisfied:
- (i) an election is made by the seller and the buyer to transfer the plant and machinery at their tax written down value;
 - (ii) the transfer of plant and machinery is not for the avoidance of tax;
 - (iii) 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;
 - (iv) 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; and
 - (v) the plant and machinery were not leased by the seller to the buyer before the sale.
- (b) MacHines Pte Ltd has the following withholding tax obligations in respect of the five payments:
- (1) The late payment penalty on overdue trade payables is in the nature of an interest payment on indebtedness. Accordingly, MacHines Pte Ltd must withhold tax at the rate of 15% on the gross amount of the late payment penalty paid to the non-resident person.
 - (2) Interest paid to a Singapore branch of a foreign corporation is subject to Singapore withholding tax at the rate of 15% as the Singapore branch is a non-resident person. Withholding tax would not be applicable if the Singapore branch of the foreign corporation had been granted a waiver from withholding tax by the tax authority.
 - (3) Rent paid to a non-resident person for the use of movable property is deemed to be income derived from Singapore and is subject to Singapore withholding tax at the rate of 15%.
 - (4) The IRAS confirmation on the tax treatment of director's fee does not apply in this case as MacHines Pte Ltd, although a non-resident of Singapore has a business presence in Singapore. Consequently, the amount of director's fee attributable to having a source of income in Singapore is subject to Singapore withholding tax at the rate of 20%.
 - (5) The royalty paid for the use of commercial information is not deemed to be derived from Singapore as it was in respect of a business carried on in Hong Kong. As such Singapore withholding tax is not applicable.

The marking scheme is given as a guide to markers in the context of the suggested answers. Scope is given to markers to award marks for alternative approaches to a question, including relevant comments, and where well reasoned conclusions are provided. This is particularly the case for essay based questions where there will often be more than one definitive solution. Candidates are not penalised for not quoting relevant sections of the Singapore Income Tax Act in their answers.

		<i>Marks</i>
1	(a) Fong Lee Kong Pte Ltd	
	Tax computation	
	Net profit as per account	0.5
	Less – other income (separate source)	1.0
	Add – non-deductible expenses	
	Purchase of workstations	1.0
	Obsolete stock written off	0.5
	Depreciation – plant and machinery	0.5
	Staff cost – cost of sales	0.5
	Payments to labour contractor	0.5
	Shanghai representative office expenses	1.0
	Consultancy fee	1.0
	US social security contribution	1.0
	Keyman insurance premiums	1.0
	Directors’ fees	0.5
	Staff cost – general and administrative expenses	0.5
	Medical expenses	2.0
	Depreciation – office equipment	0.5
	Reimbursement of motorcar expenses	1.0
	Donations	1.0
	Compensation	1.0
	Rent free accommodation	0.5
	Amortisation of goodwill	0.5
	Industrial building allowance	1.0
	Capital allowances	3.0
	Separate source (other income)	
	Interest	1.5
	Dividend	1.0
	Deductible donations	1.0
	Full exemption	1.0
	50% exemption	1.0
	Tax rate	0.5
		<hr/> 26.0
	(b) Buildings qualifying for industrial building allowances	
	Four qualifying uses (1 mark each)	4.0
		<hr/> 4.0
	Total	<hr/> 30.0

		Marks
2 (a) Peter Lau		
Tax computation		
Trade income		
Share of partnership profit		2.5
Capital allowance		1.0
Employment income		
Salary		1.0
Bonus		1.0
Special allowance		1.0
Reimbursement of non-business expenses		1.0
Winter clothing allowance		1.0
Cash gifts – not taxable		1.0
Interest income		1.0
Net rental income		0.5
Rental loss transferred from wife		1.0
Donations – double deduction		1.0
Donations – not deductible		1.0
Personal relief		
Earned income		1.0
Wife		1.0
CPF contributions		1.5
Course fees		1.0
NSman		1.0
Tax at graduated rates		0.5
		<u>20.0</u>
(b) Michelle		
Tax computation		
Gross rental		0.5
Property tax		1.0
Commission		0.5
Legal fee		0.5
Maintenance fee		0.5
Mortgage interest		0.5
Rental loss transferred to husband		1.0
Net rental loss disregarded		0.5
		<u>5.0</u>
Total		<u>25.0</u>
3 Tan Chin Lee Pte Ltd		
GST return for the quarter ended 31 March 2009		
Export sales		1.0
Local sales		1.0
Shampoo samples		1.0
Importation of trading stocks		1.0
Purchases from GST registered traders		1.0
Time of supply		1.0
Write off of perishable goods		1.0
Purchases of furniture and office equipment		1.0
Club subscriptions		1.0
Repair cost of motorcar		1.0
Purchase of umbrellas		1.0
Purchase of gift		2.0
Purchase of air-ticket		1.0
GST payable		1.0
		<u>15.0</u>
Total		<u>15.0</u>

	<i>Marks</i>
4 (a) Conditions and limitations on carry back relief	
Shareholders test for carry back of capital allowances	1.5
Shareholders test for carry back of losses	1.5
The same business test	1.5
Limitation to no more than \$100,000	1.5
	<hr/> 6.0
(b) Carson Pte Ltd	
Tax adjusted profit	0.5
Less: capital allowances – carried forward	1.0
Less: capital allowances – current year	1.0
Less: losses – carried forward	1.0
Less: donations carried forward	1.0
Less: donations – current year	1.0
Less: capital allowances under group relief	1.0
Less: losses under group relief	1.0
Less: partial exemption	1.0
Chargeable income	0.5
	<hr/> 9.0
Total	<hr/> 15.0
5 (a) Election by seller and buyer	1.0
The transfer is not to avoid tax	1.0
Seller and buyer under common control	1.0
Asset in use for business purpose before and after the sale	1.0
Asset must not be leased by seller to buyer before the sale	1.0
	<hr/> 5.0
(b) MacHines Pte Ltd's withholding tax obligations	
Late payment penalty	2.0
Interest paid to a Singapore branch of a foreign entity	2.0
Rent for the use of movable assets	2.0
Directors' fee	2.0
Royalties for use by the Hong Kong branch	2.0
	<hr/> 10.0
Total	<hr/> 15.0