
Answers

- 1 (a) Capital gains are not chargeable to Singapore income tax whereas gains arising from the carrying on of a trade or business fall within the charging provisions of s.10 of the Singapore Income Tax Act.

Whether a trade is being carried on is a question of fact and has to be determined from the facts of the situation. Case law has established the six badges of trade as a guide in the determination of whether a trade exists. Each of the badges may not by itself establish conclusively that a trade exists but collectively they have more than persuasive influence to point to the existence of a trade being carried on. The six badges are:

- (i) The length of ownership
- (ii) The frequency of similar transactions
- (iii) The subject matter of the sale
- (iv) Supplementary work on or in connection with the property sold
- (v) The circumstances surrounding the sale
- (vi) The motive of the transaction.

- (b) Mount Vale Pte Ltd, being the transferor company, must make an irrevocable election to transfer the qualifying deductions to the named claimant company at the time of lodgement of the tax return for the year of assessment 2007.

Mount Vision Pte Ltd, being the claimant company must make an irrevocable election to claim the qualifying deductions transferred to it by the named transferor company at the time of lodgement of the tax return for the year of assessment 2007.

- (c) Mount Vale Pte Ltd

Tax computation for the year of assessment 2007
 Basis period 1 January 2006 to 31 December 2006

	\$	\$
Trade income		
Net profit as per accounts		51,700
<i>Less</i>		
Dividend income (separate source)	(50,000)	
Accrued interest (separate source)	(10,000)	(60,000)
<i>Add</i>		
Late payment penalty to CPF Board	2,800	
Contributions to overseas provident fund (Note 1)	N/A	
Feasibility study fee	90,000	
Legal fee – recovery of non-trade debt	25,000	
Fee for due diligence exercise	36,000	
Realised foreign exchange losses on trade receivables (Note 1)	N/A	
Realised foreign exchange losses on loan repayment	65,000	
Loss on sale of computer	1,500	
Depreciation	120,000	340,300
Tax adjusted profit		332,000
<i>Less</i>		
Industrial building allowances (Note 2)	(150,000)	
Capital allowances (Note 3)	(44,000)	(194,000)
		138,000
Other income		
Singapore one-tier dividend (\$50,000 – \$16,000)	Tax exempt	
Singapore franked dividend (regross)	20,000	
Accrued interest taxable only when matures	Not taxable	20,000
Total assessable income		158,000
<i>Less: transfers from Mount Vision Pte Ltd</i>		
Group relief – capital allowances	(28,000)	
Group relief – part of the tax adjusted loss	(130,000)	(158,000)
Chargeable income		0
Refund of tax deducted at source		4,000

Mount Vision Pte Ltd
Tax computation for year of assessment 2007

	\$	\$
Capital allowances	28,000	
Transferred to Mount Vale Pte Ltd	<u>(28,000)</u>	
Balance of capital allowances	<u>0</u>	
Tax adjusted loss	(260,000)	
Transferred to Mount Vale Pte Ltd	<u>130,000</u>	
Balance of loss carried forward	<u>(130,000)</u>	
Chargeable income		<u>0</u>

Notes

1. N/A denotes no adjustment necessary
2. Calculation of industrial building allowances.

	Basis	\$
Old building	3% of \$2,000,000	60,000
Newly acquired building	3% of \$3,000,000	90,000
Total		<u>150,000</u>

3. Calculation of annual allowances and balancing charge.

		\$
Machinery	Fully claimed in year of assessment 2004	0
Motor car	Claim not allowed	0
Equipment	Second year of claim (\$120,000/3)	40,000
Computer	100% claim in the year of purchase	5,000
Total		<u>45,000</u>
Computer sold	Balancing charge (Note 4)	<u>(1,000)</u>
Total		<u>44,000</u>

4. Computer purchased in 2002

	\$
Cost	7,000
Less 100% capital allowances claimed in year of assessment 2003	<u>7,000</u>
Tax written down value	0
Proceeds from sale	<u>1,000</u>
Balancing charge	<u>1,000</u>

- 2 (a)** An employee who is paid a contractual bonus in accordance with the terms of the employee's employment contract would be regarded as having accrued the bonus in the year to which the contractual bonus relates. This is usually the year in which the employee renders the services for which the contractual bonus is paid.

In the case of a non-contractual bonus, this is usually paid at the discretion of the employer. Accordingly, such a bonus would only accrue to the employee in the year in which the employer decides that the bonus is payable.

From the employer's viewpoint, both the contractual and non-contractual bonuses would be tax deductible for the year of assessment corresponding to the accounting year in which such bonuses are accrued in accordance with the accepted accounting convention.

(b) Mr and Mrs Tan Joo Seng
Tax computations
Year of assessment 2007

Tax computation	Mr Tan Joo Seng	
	\$	\$
Sole-proprietorship		
Tax adjusted loss	(34,000)	
Less: transferred to wife	<u>34,000</u>	0
Capital allowances	(15,000)	
Less: transferred to wife	<u>15,000</u>	0
Dividend income		
Singapore one-tier dividend		Tax exempt
Interest income		
Interest from an approved bank in Singapore		Tax exempt
Interest from a bank outside Singapore		Tax exempt
Income from properties		
Net rental income	12,000	
Transfer of loss from wife	<u>(12,000)</u>	<u>0</u>
Donation	3,500	
Less: transferred to wife	<u>(3,500)</u>	<u>0</u>
Assessable income		<u>0</u>
Tax computation	Mrs Tan Joo Seng	
	\$	\$
Employment income		
Salary	180,000	
Contractual bonus	<u>30,000</u>	210,000
Dividend income		
Singapore franked dividend (re-grossed)		10,000
Income from properties		
Net annual value of owner-occupied property	200,000	
Less: tax exemption	<u>(150,000)</u>	50,000
Net rental loss	(25,000)	
Less: amount transferred to husband	<u>12,000</u>	
Net rental loss	<u>(13,000)</u>	Disregarded
Total statutory income		270,000
Less: Donation (\$7,000 x 2)	14,000	
Less: Donation transferred from husband (\$3,500 x 2)	<u>7,000</u>	<u>21,000</u>
Assessable income		249,000
Less: transfers from husband		
Trade loss	(34,000)	
Capital allowances	<u>(15,000)</u>	<u>(49,000)</u>
Assessable income		200,000
Less: personal reliefs		
Earned income		(1,000)
Child relief – first child		
Qualifying child relief	2,000	
Working mother's child relief – (5% of \$171,889)	8,595	(10,595)
Child relief – second child		
Qualifying child relief	2,000	
Working mother's child relief – (15% of \$171,889)	<u>25,784</u>	
Relief for second child capped	<u>27,784</u>	(25,000)

	Mrs Tan Joo Seng	
	\$	\$
CPF contribution on ordinary wages capped at \$54,000 (20% x \$54,000)	10,800	
CPF contribution on additional wages capped at \$22,500 (20% of \$22,500)	4,500	(15,300)
		<u>(750)</u>
NSman wife relief		(5,900)
Foreign maid levy		<u>141,455</u>
Chargeable income		
Tax payable		
First \$80,000	4,300	
Balance of \$61,455 at 14%	8,604	12,904
		<u>(2,000)</u>
Less: tax deducted at source		
Tax payable		<u>10,904</u>

3 (a) Benny Hyde

**Tax computation of gains or profits from employment
Year of assessment 2007**

	\$
Salary	120,000
Bonus	20,000
Transport allowances	2,800
Reimbursement of car repair cost	2,400
Reimbursement of taxi fares	1,630
Meal allowances	Not taxable
Per diem in excess of acceptable rate (\$10 x 10 days)	100
Warm clothing allowance	500
Reimbursement of business entertainment expenses	Not taxable
Service award of branded watch	210
Subsidies for course and examination fees	Not taxable
Insurance premium	Not taxable
Total employment income chargeable to tax	<u>147,640</u>

(b) The items of benefit considered not to be chargeable to tax as employment income are as follows:

- (i) **Meal allowances** – The IRAS has confirmed that as a concession meal allowances paid to employees who work beyond the normal office hours will not be taxable. This concession will be applicable only if the benefit is available to all employees who are in similar situations.
- (ii) **Per diem in accordance with acceptable rate** – The per diem allowance is not taxable if paid in accordance with the acceptable rate as determined by the IRAS. The per diem allowance is meant to cover certain necessary living expenses whilst the employee is overseas.
- (iii) **Reimbursement of business expenses** – The reimbursement of business entertainment expenses is not regarded as a benefit and therefore is not chargeable to tax.
- (iv) **Subsidies for course and examination fees** – The subsidies are not considered as taxable benefits on the basis that they form part of the training provided by the company and such a subsidy scheme is available to all employees and is not a reward for services rendered.
- (v) **Insurance premium** – The insurance premium is not taxable as the beneficiary is the company and not the employee. Where the employee is the named beneficiary, the insurance premium is regarded as a taxable benefit.

4 (a) (i) The benefit from the 2,000 share options exercised by James Law on 1 June 2006 would accrue to him at the end of the selling restriction period, that is, on 1 September 2006. The amount chargeable to tax would be (the difference between the exercise price and the market price of the shares at the end of the restriction period) \$4,000 [2,000 x (\$4.20 – \$2.20)].

Similarly, the benefit from the 3,000 share options exercised by James Law on 1 August 2006 would accrue to him at the end of the selling restriction period, that is, 1 November 2006. The amount chargeable to tax would be (the difference between the exercise price and the market price of the shares at the end of the restriction period) \$6,900 [3,000 x (\$4.50 – \$2.20)].

(ii) Firefly Ltd would be able to claim a tax deduction for the cost incurred in the acquisition of the treasury shares that were applied for the benefit of James Law at the time that James Law exercised his share options.

In the case of the 2,000 share options exercised by James Law on 1 June 2006, Firefly Ltd would be able to claim a tax deduction on 1 June 2006 on an amount of \$1,600 [2,000 x (\$3.00 – \$2.20)].

In the case of the 3,000 share options exercised by James Law on 1 August 2006, Firefly Ltd would be able to claim a tax deduction on 1 August 2006 on an amount of \$2,400 [3,000 x (\$3.00 – \$2.20)].

(b) No output tax is chargeable on an exempt supply (since it has been specifically excluded as a taxable supply) or on a zero-rated supply (since the rate chargeable is 0%). However, input tax attributable to the making of an exempt supply is generally not recoverable as an input tax credit, whereas the input tax attributable to the making of a zero-rated supply is potentially recoverable from the IRAS as an input tax credit.

The sale or lease of residential properties and the provision of financial services are examples of other exempt supplies.

5 (a) The types of taxes and duties collected by the Inland Revenue Authority of Singapore are (any six of the seven listed below):

- (i) Income tax
- (ii) Property tax
- (iii) Goods and services tax
- (iv) Estate duty
- (v) Stamp duty
- (vi) Betting duty
- (vii) Private lotteries duty.

(b) When a Singapore incorporated company makes royalty payments to a US corporation, the Singapore incorporated company is obliged to withhold tax at the rate of 10% on the amount of the royalty payment.

The tax withheld must be paid to the Comptroller not later than the 15th day of the month following the month in which the royalty payment is made. Failure to comply with the withholding tax obligations would result in:

- (i) for not withholding the tax, the amount of tax that ought to have been withheld would be treated as a debt due to the Comptroller; and
- (ii) the tax withheld but not paid to the Comptroller by the 15th day of the month following the month of payment of the royalty, would result in a late payment penalty of 5% of the tax withheld and an additional 1% for every month that the tax remains outstanding subject to a maximum of 15%.

(c) (i) If let out as an unfurnished apartment, the entire rental is an exempt supply. If let out as a furnished apartment, the rental of the bare apartment is still an exempt supply but the rental of the furniture and fittings is a taxable supply and GST at the rate of 5% is chargeable.

(ii) Where an allocation is not made between rental for the bare apartment and the rental for the furniture and fittings, the monthly rental value of the bare apartment shall be taken to be 1/12 of the annual value of the apartment (as shown in the Valuation List and Valuation Notice). The monthly rental value of the furniture and fittings will be the difference between the monthly gross rent (total rental) of the furnished apartment and 1/12 of the annual value of the apartment.

Rental of a furnished apartment	\$3,500 per month
Less: 1/12 of the Valuation List (1/12 x \$36,000)	<u>\$3,000 per month</u>
Rental value of furniture and fittings	<u><u>\$500 per month</u></u>

If the rental value of furniture and fittings were taken to be before GST, then the amount of output GST would be \$25 (5% of \$500). On the other hand, if the rental value were to be treated as GST inclusive, the output GST would amount to \$24 (5/105 x \$500).

(iii) If the annual value is \$45,000, 1/12 of the annual value being \$3,750 (1/12 of \$45,000) is greater than the monthly rent of \$3,500, thus the entire amount of the monthly rent shall be deemed to be rental of the bare apartment and qualify as an exempt supply.

This 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 to be penalised for not quoting relevant sections of the Singapore Income Tax Act in their answers.

		Marks
1	(a) Capital gains not taxable	1·0
	Trading question of fact	1·0
	Badges of trade (0·5 for each badge)	3·0
	Sub-total	<u>5·0</u>
	(b) An irrevocable election by transferor	1·0
	Electing to transfer qualifying deductions to claimant	0·5
	Election made at the time of lodgement of the tax return	0·5
	An irrevocable election by claimant	1·0
	Electing to claim qualifying deductions transferred to it.	0·5
	Election made at the time of lodgement of the tax return	0·5
	Sub-total	<u>4·0</u>
	(c) Tax computation of Mount Vale Pte Ltd	
	Dividend income (separate source)	0·5
	Accrued interest (separate source)	0·5
	Late payment penalty	1·0
	Contributions to overseas provident fund	0·5
	Feasibility study fee	1·0
	Legal fee	1·0
	Due diligence fee	1·0
	Realised exchange losses on trade receivables	0·5
	Realised exchange losses on loan repayment	1·0
	Loss on sale of computer	0·5
	Depreciation	0·5
	Industrial building allowances (old building)	1·0
	Industrial building allowances (newly acquired building)	1·0
	Capital allowances on equipment purchased in 2005	1·0
	Capital allowances on computer purchased in 2006	1·0
	Balancing charge on computer sold	2·0
	Tax exempt – Singapore one-tier dividend	0·5
	Singapore franked dividend	1·0
	Accrued interest – not taxable	0·5
	Group relief – transfer in of capital allowances	0·5
	Group relief – transfer in of part of tax adjusted losses	1·0
	Refund of tax deducted at source	1·0
	Tax computation of Mount Vision Pte Ltd	
	Capital allowances	0·5
	Group relief – transfer out of capital allowances	0·5
	Tax adjusted losses	0·5
	Group relief – transfer out of part of the tax adjusted losses	0·5
	Balance of tax losses carried forward	0·5
	Sub-total	<u>21·0</u>
	Total	<u>30·0</u>

		Marks
2	(a)	
	Timing of taxability of contractual bonus	1.5
	Timing of taxability of non-contractual bonus	1.0
	Tax deductibility of contractual and non-contractual bonuses	1.5
	Sub-total	<u>4.0</u>
	(b)	
	Tax computation of Mr Tan Joo Seng	
	Tax adjusted loss	0.5
	Tax adjusted loss transferred to wife	0.5
	Capital allowances	0.5
	Capital allowances transferred to wife	0.5
	Tax exempt – Singapore one-tier dividend	0.5
	Tax exempt – Singapore bank interest	0.5
	Tax exempt – interest received from a bank outside Singapore	0.5
	Net rental income	0.5
	Net rental loss transferred from wife	0.5
	Donation	0.5
	Donation transferred to wife	0.5
	Tax computation of Mrs Tan Joo Seng	
	Salary	0.5
	Contractual bonus	0.5
	Singapore franked dividend	1.0
	Owner-occupied property – net annual value	0.5
	Amount exempted from tax	1.0
	Net rental loss	0.5
	Rental loss transferred to husband	0.5
	Balance of rental loss disregarded	0.5
	Donation – self	1.0
	Donation transferred from husband	1.0
	Trade loss – transferred from husband	0.5
	Capital allowances – transferred from husband	0.5
	Earned income relief	0.5
	Qualifying child relief – first child	0.5
	Working mother’s child relief – first child	0.5
	Qualifying child relief – second child	0.5
	Capped working mother’s child relief – second child	1.0
	CPF on ordinary wages	1.0
	CPF on additional wages	1.0
	Nsman wife relief	0.5
	Foreign maid levy	0.5
	Tax rates applicable	0.5
	Tax deducted at source	1.0
	Sub-total	<u>21.0</u>
	Total	<u>25.0</u>

	Marks
3 (a) Computation of Benny Hyde's employment income	
Salary	1·0
Bonus	1·0
Transport allowances	1·0
Reimbursement of car repair cost	1·0
Reimbursement of taxi fares	1·0
Meal allowances – not taxable	0·5
Per diem	1·0
Warm clothing allowances	1·0
Business entertainment reimbursements – not taxable	0·5
Service award	1·0
Course fee subsidies – not taxable	0·5
Insurance premium – not taxable	0·5
Sub-total	<u>10·0</u>
(b) Five items of not taxable benefits (1 mark each)	5·0
Sub-total	<u>5·0</u>
Total	<u>15·0</u>
4 (a) (i) Date benefit accrued on exercise of 2,000 share options	1·0
Taxable quantum on exercise of 2,000 share options	1·5
Date benefit accrued on exercise of 3,000 share options	1·0
Taxable quantum on exercise of 3,000 share options	1·5
Sub-total	<u>5·0</u>
(ii) Timing on tax deductibility – 2,000 treasury shares	1·0
Amount deductible on the 2,000 treasury shares	1·5
Timing on tax deductibility – 3,000 treasury shares	1·0
Amount deductible on the 3,000 treasury shares	1·5
Sub-total	<u>5·0</u>
(b) No output tax on exempt supply as it is excluded as a taxable supply	1·0
No output tax on zero-rated supply as the rate is 0%	1·0
No input tax credit on exempt supply	1·0
Input tax credit claimable on zero-rated supply.	1·0
Another example of an exempt supply	1·0
Sub-total	<u>5·0</u>
Total	<u>15·0</u>
5 (a) Six types of taxes and duties (0·5 marks each)	3·0
Sub-total	<u>3·0</u>
(b) Royalty payment subject to withholding tax at 10%	1·0
Date of payment of tax to Comptroller	1·0
Penalty for not withholding tax – debt due	1·0
Penalties for not paying the tax to Comptroller on time	2·0
Sub-total	<u>5·0</u>

	Marks
(c) (i) Rental of unfurnished apartment – exempt supply	1·0
Rental of furniture and fittings – taxable supply	1·0
Sub-total	<u>2·0</u>
(ii) Basis of allocation	1·0
Amount allocated to the making of taxable supply	1·0
Output GST on taxable supply	1·0
Sub-total	<u>3·0</u>
(iii) Determination of amount of rental of furnished apartment	1·0
Entire rental of apartment – exempt supply	1·0
Sub-total	<u>2·0</u>
Total	<u>15·0</u>