Answers

Marks

1 (a) Mr and Mrs Li – Income tax computations for the Year of Assessment 2006

	Mr Stanley Li	Mrs Lilian Li	Election of qualifying deductions Mrs Lilian Li	Marks
	$	$	$	
Trade				
Adjusted trade loss	(9,500)	–		1
Employment				
Salary and bonus	–	70,000	70,000	1
Dividends				
– Singapore (Tax exempt – one-tier) (1)	–	0	0	1
– Singapore (gross)	2,800	–	–	1
Interest				
– DBS Bank (2)	–	0	0	1
Unabsorbed trade loss	(6,700)			1
Unabsorbed donations (3)	(1,000)			1
		70,000	70,000	
Less: Qualifying deductions transferred from husband				
– Unabsorbed trade loss		–	(6,700)	1
– Unabsorbed donations		–	(1,000)	1
Donations (3)		(400)	(400)	1½
Assessable Income	0	69,600	61,900	
Less: Personal reliefs				
Earned income	0	1,000	1,000	1
Child – Penny (QCR)	0	2,000	2,000	1
Penny (WMCR 5% of earned income)	0	3,500	3,500	1
Rachel (QCR)	0	2,000	2,000	1
Rachel (WMCR 15% of earned income)	0	10,500	10,500	1
Parent	0	5,000	5,000	1
Grandparent caregiver relief (GCR)	0	3,000	3,000	1
CPF	0	14,000	14,000	1
Nsman	1,500	750	750	2
	1,500	41,750	41,750	
Chargeable income	0	27,850	20,150	
Tax on 1st $20,000	0·00	0·00	0·00	½
Tax on next $7,850 at 3·75%	–	294·37	–	½
Tax on next $150 at 3·75%	–	–	5·62	½
	0.00	294·37	5·62	
Less: Tax deducted from dividends	(560·00)	–	–	1
Tax payable/(repayable)	(560·00)	294·37	5·62	
				23

Notes:
(1) Tax exempt – one-tier dividends are not taxable in the hands of shareholders.
(2) Interest income from approved banks received by resident individuals is exempt from tax.
(3) Donations claimed – Mr Stanley Li ($500 x 2) $1,000
Mrs Lilian Li ($200 x 2) $400

(b) (i) Election of qualifying deductions between spouses

(1) A married couple can transfer the excess of qualifying deductions between each other if there are any remaining qualifying deductions that cannot be completely set-off against the income of the respective spouse for a particular Year of Assessment. 1

(2) Qualifying deductions refer to:
(i) Capital allowances claimed under ss.16, 17, 19, 19A, 19C, 19D or 20 of the Income Tax Act. 1

Marks

(ii) Losses incurred by an individual in any trade, business, profession or vocation. 1

(iii) Donations made by the individual to approved institutions. 1

(3) The transfer of any excess qualifying deductions must follow the order of deduction. 1

(4) An election for the transfer must be made by both spouses in writing on a year by year basis. 1
The election can be made at any time, including at the time of submission of their return, but no later than 30 days from the date of service of the notice of assessment of the individual or his spouse, whichever is the later.
The election once made is irrevocable. 2

8

(ii) In this case, when the unabsorbed losses and donations were transferred from Mr Li to Mrs Li the amount of her tax payable was reduced to $5·62 i.e. an immediate tax saving of $288·75. 1
If the unabsorbed losses and donations from Mr Li had not been transferred to set-off against her income, her tax liability would have been $294·37. But, Mr Li would have unabsorbed losses and donations of $6,700 and $1,000 respectively, which will be available for utilisation against income assessable in subsequent years of assessment. 1
If Mr Li expects a very high income in the subsequent year such that his marginal rate of tax will be more than 3·75%, it will be more advantageous for Mr and Mrs Li not to make the election for the transfer, but to wait to obtain relief at a higher rate of tax. 1

3

34

				Marks
2 (a)	**RAGS Trading Pte Ltd** **Tax computation for the Year of Assessment 2006**			
		$	$	
	Net profit per accounts		253,600	
	Less: Other income – Interest		(4,000)	1
	Dividends		(8,700)	1
	Commissions		0	$^1/_2$
			240,900	
	Add: Depreciation of equipment	10,400		1
	Rental of business premises	0		$^1/_2$
	Legal fee re: renewal of tenancy agreement for lease of business premises	0		$^1/_2$
	Insurance	0		$^1/_2$
	Directors' salaries	0		$^1/_2$
	Staff salaries and bonuses	0		$^1/_2$
	CPF and related costs	0		$^1/_2$
	Medical expenses	0		$^1/_2$
	Commissions to third parties	0		$^1/_2$
	Singapore Retailers Association subscriptions	0		$^1/_2$
	Hire of motor cars in Malaysia	0		$^1/_2$
	Upkeep of motor cars	3,500		1
	HP interest – motor car	3,400		1
	NETS transfer/credit card charges	0		$^1/_2$
	Composition fine for late filing of annual return to ACRA	300		1
	Donation to Assisi Home Hospice	2,000		1
			19,600	
	Adjusted profits		260,500	
	Less: Capital allowances – current year		(14,000)	1
			246,500	
	Add: Interest		4,000	1
	Dividends – (Taxable – gross)		4,500	1
	– (Tax exempt – one-tier)		0	1
	Assessable income		255,000	
	Less: Donations (2 x $2,000)		(4,000)	1
	Total income		251,000	
	Less: Exemption on 1st $10,000 at 75%		(7,500)	$^1/_2$
	Exemption on next $90,000 at 50%		(45,000)	$^1/_2$
	Chargeable income		198,500	
	Tax thereon at 20%		39,700	1
	Less: Tax deducted from dividends		(900)	1
	Tax payable		38,800	
				21

(b) RAGS Trading Pte Ltd
Section 44 account during the five-year transitional period

(1) Resident companies with unutilised section 44 balances (as at 31 December 2002) may remain on the imputation system for the purpose of paying franked dividends during a five-year transitional period (1 January 2003 to 31 December 2007).
During the five-year transitional period, all resident companies are required to maintain a s.44 account. $1^1/_2$

(2) With effect from 1 January 2008, all companies in Singapore remaining on the imputation system must move to the one-tier system. The imputation system will cease to exist. 1

(3) In this case, the company has until 31 December 2007 to utilise the s.44 balance to pay franked dividends. Otherwise, all the s.44 balances will be forfeited. $1^1/_2$

4

25

							Marks
3	**(a)**	ITCO Pte Ltd					

Capital allowances computation

	Section 19A Claim			Section 19 Claim HP	Non-Claim	Marks
Number of years to run	1	3	Total	6		
	$	$	$	$	$	
Additions during the year 2005						
Motor Vehicles						
1 van				27,000		1
Equipment & furniture						
Air-conditioners with accessories		14,000				1
Computer systems with accessories	12,000					1
Key telephone system	4,200					1
Facsimile machine & copier	8,000					1
Office furniture		7,000				1
Leasehold Improvement						
Fixed partitions & floor tiles					11,000	1
Demountable partitions		3,000				1
	24,200	24,000		27,000	11,000	
Year of Assessment 2006						
S19 – IA 20% x (5,400 + 1,800)				1,440		$1^1/_2$
AA 80% x 27,000/6				3,600		$1^1/_2$
S19A – AA	24,200	8,000	32,200			1
Written down value	0	16,000		21,960		$1^1/_2$

Total capital allowances claim:

	$	Marks
Section 19A – AA	32,200	
Section 19 – IA	1,440	
AA	3,600	
	37,240	$^1/_2$
		14

(b) **Place of supply for purposes goods and services tax (GST)**

(1) GST is charged on the supply of goods and services if it is made in Singapore 1

A supply of services shall be treated as made in Singapore if the supplier belongs in Singapore. 1
If the supplier has a business establishment or fixed establishment only in Singapore, he will belong in Singapore. 1
However, even if the supplier does not have any business establishment in Singapore, he will belong in Singapore if his usual place of residence is in Singapore. 1

If the place of supply of goods and services is in Singapore, GST is charged on the supply and collected by the supplier. 1

(2) If the supply of goods and services is made outside Singapore, GST will not be charged on the supply. 1
On their entry to Singapore, however, the goods will be charged to GST as imports at the point of importation. 1
GST is collected by the Customs and Excise Department for imports. 1

8

22

Marks

4 (a) (i) **ACE Consultancy Services**
Tax computation for the Year of Assessment 2006

	Period 28 March 2005 to 31 July 2005	Period 1 August 2005 to 31 December 2005	Marks
	$	$	
Net income	83,000	95,000	
Add: Depreciation	15,000	18,000	1
Partners' salaries	40,000	50,000	1
Partners' interest on capital	0	5,000	1
Adjusted profits	138,000	168,000	
Less: Partners' salary	(40,000)	(50,000)	$^1/_2$
Interest on capital	0	(5,000)	$^1/_2$
Divisible profits	98,000	113,000	
			4

(ii) **ACE Consultancy Services**
Allocation of profits and deductions among partners

	Leo	Martin	Norman	Total	Marks
	$	$	$	$	
28 March 2005 to 31 July 2005					
Basis of share of profits	50%	50%		100%	
Divisible profits	49,000	49,000		98,000	1
Partners' salaries	20,000	20,000		40,000	1
Adjusted profits	69,000	69,000		138,000	
Less: Capital allowances	(6,000)	(6,000)		(12,000)	1
	63,000	63,000		126,000	
1 August 2005 to 31 December 2005					
Basis of share of profits	30%	30%	40%	100%	
Divisible profits	33,900	33,900	45,200	113,000	$1^1/_2$
Partners' salaries	25,000	25,000	0	50,000	$1^1/_2$
Interest on capital	0	0	5,000	5,000	$1^1/_2$
Adjusted profits	58,900	58,900	50,200	168,000	
Less: Capital allowances	(13,500)	(13,500)	(18,000)	(45,000)	$1^1/_2$
	45,400	45,400	32,200	123,000	
Total statutory income	108,400	108,400	32,200	249,000	1
					10

(b) (i) **Basis of assessing partnership profits and tax compliance obligations of partnerships**

A partnership is not a person for income tax purposes. $^1/_2$
Individual partners are thus assessed separately on their respective share of profits from the partnership. 1

Partnership profits will be allowed to be computed on the accounting year basis and allocated to the partners. 1

Under the provisions of the Income Tax Act, a tax return (Form P) has to be filed by the partnership for each year of assessment. $^1/_2$

3

(ii) Under the provisions of the Income Tax Act, partnerships with an accounting year ending other than on 31 December, have to furnish an estimate of their chargeable income (ECI) within three months after the end of their accounting period relating to that year of assessment. 1

In this case, following the change of accounting date, the partnership ACE Consultancy Services will have to furnish an estimate of their chargeable income (ECI) relating to the Year of Assessment 2007 by 31 December 2006, i.e. within three months from 30 September 2006 1

2

19