

**SUBJECT CODE: 16B**



**SINGAPORE TAXATION  
MAY 2004**

**SIX questions ONLY to be attempted. All FOUR questions from Section A must be attempted and TWO questions from Section B.**

Friday morning 28<sup>th</sup> May 2004

Time Allowed:3 hours

**SECTION A  
(Answer all FOUR questions)**

Q1 Co D, a Singapore incorporated company, makes up its account to 31 December annually. Your review of its accounts for the year ended 31 December 2003 revealed the following:-

- (i) The adjusted business profit for the year ended 31 December 2003 was \$2,386,000.
- (ii) It received the following dividend income during the year 2003:-

	<u>Date of Payment</u>	<u>Gross</u>	<u>Tax</u>	<u>Net</u>
	\$	\$	\$	
Dividends from China subsidiary	28.07.2003	400,000	Exempt	400,000
Dividends from Malaysian subsidiary:				
- Co M	10.03.2003	200,000	56,000	144,000
- Co M	20.09.2003	300,000	84,000	216,000
Dividends from Singapore:				
Co F – Interim dividend	15.06.2003	10,000	2,200	7,800
Co G – Final dividend	18.08.2003	15,000	Exempt	15,000
Co H – Final dividend	25.10.2003	20,000	4,400	15,600
		<u>945,000</u>	<u>146,600</u>	<u>798,400</u>

The dividends from the China and Malaysia subsidiaries were remitted to its UB Bank account at Raffles Place. The corporate tax rate in China is 33%. However, the China subsidiary is currently enjoying a 5-year tax holiday.

Singapore has double taxation treaties with China and Malaysia. The treaty between China and Singapore provides for tax sparing and underlying tax credits.

(iii) Fixed assets of the company comprise:

<u>Assets</u>	<u>Year of Purchase</u>	<u>Cost</u> \$
Leasehold factory building	20.02.1998	12,000,000
Plant and machinery	15.03.1998	6,000,000
Motor car QBA 178E	18.03.1998	140,000
Motor car SBE 1033F	12.12.1999	280,000
Truck- YH 899C	10.02.2001	180,000
Truck- YH 969B	15.06.2002	135,000
Computer equipment	17.08.2002	150,000
Furniture and fixtures	30.04.2002	450,000
Office equipment	20.07.2002	150,000
Plant and machinery	03.05.2003	1,500,000
Office equipment	28.12.2003	180,000

The leasehold factory building was purchased from Jurong Town Corporation under a 60-year lease. The production area occupied 45,000 sq.m of the total factory built-up area of 60,000 sq.m.

(iv) Income received from qualifying Floating Rate Notes (“FRN”) securities:

Interest received from qualifying FRN on 10.11. 2003	\$325,000
Gain on the sale of FRN	<u>3,600</u>
	<u><u>\$328,600</u></u>

(v) Co D has unabsorbed losses brought forward for the financial year ended 31.12.2000 of \$400,000. Its wholly owned Singapore subsidiary, Co KTS has unabsorbed capital and losses relating to its engineering services activities for the relevant years ended 31 December as follows:

<u>Year Ended</u>	<u>Capital Allowances</u>	<u>Losses</u>	<u>Approved Donations</u>
	\$	\$	\$
31.12.2001	150,000	124,000	3,000
31.12.2002	85,000	118,000	2,500
31.12.2003	65,000	135,000	5,000

- (vi) On 1 May 2003, Co D acquired 100% equity interest in another Singapore incorporated company, Co Y, for a nominal value of \$1. Co Y is engaged in the business of trading of industrial equipment. It has the same accounting year end as Co D and has the following unabsorbed capital allowances and losses:

<u>Year Ended</u>	<u>Capital Allowances</u>	<u>Losses</u>
	\$	\$
31.12.2002	36,000	81,000
31.12.2003	45,000	165,000

**Required:**

- (a) Calculate the capital allowances available for the Year of Assessment 2004 for Co D. (9 marks)
- (b) Compute the net tax payable by Co D for the Year of Assessment 2004 (assuming the Group relief claim will be made). (15 marks)
- (Total: 24 marks)

- Q2. The following income was received by Mr Lai and his wife (both Singapore citizens) for the year ended 31 December 2003:-

	<u>Mr Lai</u>	<u>Mrs Lai</u>
	\$	\$
<b>Mr Lai : (Aged 56)</b>		
Director remuneration from EDA Ltd (including 3 months bonus)	240,000	-
Share of profit from a partnership business (commenced in 1998)	235,000	-
Rental less outgoings from apartment	36,000	-
Gross Singapore franked dividends (tax deducted at 22%)	20,000	-
<b>Mrs Lai: (52)</b>		
Profits from hairdressing business	-	185,000
Interest income - POSB	-	2,000
- OCF Singapore Bank	-	5,000
Income from estate of deceased father (as one of the beneficiaries) gross	-	11,700
Net Malaysian franked dividends:		
- received on 21.03.2003 (tax deducted at 28%)	-	21,600
- received on 15.10.2003 (tax deducted at 28%)	-	14,400

EDA Ltd also provides Mr Lai with a rental car costing \$2,100 per month and pays for the petrol amounted to \$1,800 in 2003. The total mileage is 15,000 km and 9,000 km is agreed as private.

Mr Lai's partnership business is engaged in the provision of engineering services to electronic industry. Mr Lai's share of capital allowances from his partnership is \$8,500. The assets of Mrs Lai's hairdressing business have been fully claimed.

Mrs Lai is required to contribute 2% of her hairdressing business assessable income to the CPF Medisave Fund in order to renew her sole-proprietorship business registration with the Registrar of Businesses. She also makes a monthly contribution of \$1,200 to CPF.

Mr and Mrs Lai always credit all their dividend income, including the dividend received from Malaysia, into their bank accounts in Singapore. Singapore has a double taxation agreement with Malaysia.

They have three children, Teck Hock born on 19 January 1988, Lily born on 8 April 1990 and Teck Wee born on 15 June 1993. All three children are attending full-time education.

Mrs Lai employs a part time nurse at \$450 per month to look after her sick widowed mother, who lives with them and has annual income of \$1,500.

Mr Lai pays annual life assurance premium of \$4,500 providing for \$120,000 in the event of his wife's death. He also pays \$5,630 interest on a loan taken out in 1999 to finance the purchase of his apartment in which the rental is received above.

He and his wife, both make a monthly donation of \$100 each to the Community Chest, an Institution of Public Character. They employ a domestic maid who is paid a salary of \$300 per month and they also pay a foreign maid levy of \$345 per month.

**Required:**

Compute the tax payable by Mr and Mrs Lai for the Year of Assessment 2004 claiming all allowances in the most efficient manner. (Assume employee's CPF rate of 20%) (21 marks)

Q3 SingCo is a wholly owned Singapore subsidiary of HKCo, which is incorporated in Hong Kong and wholly owned by Mr William's family. SingCo has unabsorbed capital allowances and losses for its financial years ended 30 September 2001 and 30 September 2002, and is expected to turn around with substantial profit for the year ended 30 September 2003 due to Mr Johnson's business acumen.

In order to retain Mr Johnson as a business associate, Mr William proposes to transfer all the issued and fully paid up shares of SingCo to Company Z, wholly for cash consideration. The shareholders of Company Z are HKCo and Mr Johnson and their shareholdings are 75% and 25% respectively.

Advise Mr William on the Singapore income tax implications on SingCo in relation to his proposal. (12 marks)

Q4 Mr Ah Meng who is a Singapore citizen, has been posted to Penang, Malaysia for many years. As he has financial commitments in Singapore, he has requested his employer to pay 60% of his base salary and all his additional wages, in Singapore. The employer will make the CPF contributions (both the employer's and employee's) on his base salary and additional wages up to the statutory limits.

His remuneration for the year 2003 is made up of base salary of \$13,000 per month, annual wage supplement of \$13,000 and performance bonus of \$18,000.

His other income derived from Singapore in the year 2003 is as follows:

-	Singapore franked dividend (at deducted at 22%)	\$ 7,800
-	Rental of apartment, less expenses	\$40,000

Mr Ah Meng is single and is liable to pay Malaysia tax of 25% on his remuneration. Singapore has a double taxation agreement with Malaysia. He is a sergeant in his reservist unit.

Advise Mr Ah Meng as to whether he should elect to be a non-resident for the Year of Assessment 2004, showing the relevant workings (Assume employee's and employer's CPF rates are 20% and 16% respectively). (13 marks)

**SECTION B**  
**(Answer TWO Questions Only)**

Q5. Jco, a company incorporated and tax resident in Japan, has sold air-purifiers equipment directly to Sco, a Singapore incorporated company and is a GST registered trader. Under the sales agreement between Jco and Sco, Jco is obligated to provide maintenance services ("WS"), including supply and replacement of spare parts ("SP"), free of charge to Sco in Singapore during the warranty period.

Jco has set up a Singapore Branch ("SB") to provide the WS to Sco in Singapore. Jco or SB would not issue any bill to Sco during the warranty period. Jco would reimburse SB of all costs incurred associated with the provision of the WS to Sco.

SB is also registered for GST purposes in Singapore. All the SP required for the WS to Sco will be imported and kept by SB on Jco's behalf in Singapore. SB has paid the GST on importation of such SP.

**Required:**

Advise Jco on the conditions for input tax credit claim and GST implications in relation to the following three scenarios:

(a) *Scenario 1:* The SP belonging to Jco for providing WS to Sco free of charge during the warranty period are kept by SB in Singapore. This is to ensure that SB can provide them to Sco promptly when the needs arise.

Jco will reimburse SB of all costs incurred associated with the provision of the WS to Sco.

(b) *Scenario 2:* The SP belonging to Jco kept by SB in Singapore meant for the WS may be sold by Jco directly to Sco in Singapore after the warranty period.

Under this scenario, you are also required to describe what particulars need to be stated in the tax invoice.

(c) *Scenario 3:* After the warranty period, the SP belonging to Jco kept by SB in Singapore may be sold by Jco directly to other customers in Singapore.

All the maintenance services rendered by SB to Sco after the warranty period will be chargeable. (15 marks)

Q6 Describe in detail the integrated industrial capital allowance incentive (“IICA”) and qualifying criteria. (15 marks)

Q7 The Government has announced that it would grant, on a case-by-case approval basis, tax concessions to mitigate the unfavourable tax effects faced by holding companies that have difficulties restructuring their operations/investments within the tight time frame due to the introduction of the one-tier corporate tax system.

Briefly explain the unfavourable tax effects faced by such holding companies and tax concessions that may be granted by the Government. (15 marks)

Q8 Andy has indicated that due to “inequitable” transfer pricing policy during the financial years 2000 to 2003, Co E in Singapore has returned profits while its holding company (“Aco”) in Australia has incurred massive losses. Andy has suggested that to rectify this problem, he is considering the following two options for the year ended 31 December 2003 for Co E:

Option I: Aco to issue additional invoices to Co E for the year ended 31 December 2003 for a larger mark-up.

Option II: Aco to charge part of its office expenses to Co E.

**Required:**

Briefly advise Andy on the Singapore income tax implications in relation to his above options. (15 marks)

**END**

## PERSONAL ALLOWANCES

Wife Relief		\$2,000
Handicapped Spouse Allowance		\$3,500
Reservist Allowance		
-Active		\$3,000
-Non-active		\$1,500
-Parent/Wife		\$750
Earned Income Allowance		
Age -Under 55		\$1,000
-Over 55 but under 60		\$3,000
-Over 60		\$4,000
Special Earned Income Allowance for the Handicapped		
Age -Under 55		\$2,000
-Over 55 but under 60		\$5,000
-Over 60		\$6,000
Qualifying Child Allowance (QCR)		
-1 <sup>st</sup> Child		\$2,000
-2 <sup>nd</sup> Child		\$2,000
-3 <sup>rd</sup> Child		\$2,000
-4 <sup>th</sup> Child		
- (Born before 1.8.1973)		\$300
- (Born on or after 1.1.1988)		\$2,000
Handicapped Siblings Relief		\$3,500
Enhanced Child Relief (HCR)		
	<u>Below 12 years old on 1 Jan 01</u>	<u>12 years old or above on 1 Jan 01</u>
- 1 <sup>st</sup>	5% of earned income	5% of earned income
- 2 <sup>nd</sup>	15% of earned income	10% of earned income
- 3 <sup>rd</sup>	20% of earned income	15% of earned income
- 4 <sup>th</sup>		
(born in 1987)	25% of earned income +1,500	15% of earned income +1,500
(born on or after 1 Jan 88)	25% of earned income	15% of earned income
Subject to a maximum of (QCR/DCR/HCR +ECR)	\$15,000 per child	\$10,000 per child
Dependant Relief		\$3,500/5,000
Foreign Maid Levy Relief		Twice the normal levy

**RATES OF INCOME TAX  
FOR RESIDENT INDIVIDUALS  
SCHEDULE 2 PART A  
(For Year of Assessment 2003 onwards)**

	<u>Chargeable Income</u> S\$	<u>Tax Rate</u> %	<u>Tax</u> S\$
On the first	20,000	0	0
On the next	<u>10,000</u>	4	<u>400</u>
On the first	30,000		400
On the next	<u>10,000</u>	6	<u>600</u>
On the first	40,000		1,000
On the next	<u>40,000</u>	9	<u>3,600</u>
On the first	80,000		4,600
On the next	<u>80,000</u>	15	<u>12,000</u>
On the first	160,000		16,600
On the next	<u>160,000</u>	19	<u>30,400</u>
On the first	320,000		47,000
Excess over	320,000	22	

Resident individual taxpayers are entitled to the following tax rebates:-

<u>Year of Assessment</u>	<u>2002</u>	<u>2003</u>
1) GST rebate	\$250	-
2) One-off rebate on tax payable	10%	-
<u>Corporate Tax Rate</u>	<u>Y/A 2002</u>	<u>Y/A 2003 onwards</u>
Tax Rate	24.5%	22%

From Y/A 2002 onwards, 75% of first \$10,000 and 50% of next \$90,000 of chargeable income will be exempt from tax. In addition, for the Y/A 2002, a 5% tax rebate will be given on the tax payable (excluding tax payable on Singapore dividend and tax on income subject to final withholding tax).

**PERSONAL TAX RATES – SCHEDULE 2 PART C**

	<u>Chargeable Income</u> S\$	<u>Tax Rate</u> %	<u>Tax</u> S\$
On the first	2,500	4	100
On the next	<u>2,500</u>	6	<u>150</u>
On the first	5,000		250
On the next	<u>2,500</u>	8	<u>200</u>
On the first	7,500		450
On the next	<u>2,500</u>	10	<u>250</u>
On the first	10,000		700
On the next	<u>5,000</u>	14	<u>700</u>
On the first	15,000		1,400
On the next	<u>5,000</u>	16	<u>800</u>
On the first	20,000		2,200
On the next	<u>5,000</u>	17	<u>850</u>
On the first	25,000		3,050
On the next	<u>10,000</u>	20	<u>2,000</u>
On the first	35,000		5,050
On the next	<u>15,000</u>	27	<u>4,050</u>
On the first	50,000		9,100
On the next	<u>50,000</u>	34	<u>17,000</u>
On the first	100,000		26,100
Excess over	100,000	37	

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Handicapped Spouse Allowance \$3,500

Reservist Allowance  
 -Active \$3,000  
 -Non-active \$1,500  
 -Parent/Wife \$750

Earned Income Allowance  
 Age -Under 55 \$1,000  
 -Over 55 but under 60 \$3,000  
 -Over 60 \$4,000

Special Earned Income Allowance for the Handicapped  
 Age -Under 55 \$2,000  
 -Over 55 but under 60 \$5,000  
 -Over 60 \$6,000

Qualifying Child Allowance (QCR)  
 -1<sup>st</sup> Child \$2,000  
 -2<sup>nd</sup> Child \$2,000  
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Subject to a maximum of (QCR/DCR/HCR +ECR)	\$15,000 per child	\$10,000 per child

Dependant Relief \$3,500/5,000

Foreign Maid Levy Relief Twice the normal levy

**RATES OF INCOME TAX  
FOR RESIDENT INDIVIDUALS  
SCHEDULE 2 PART A  
(For Year of Assessment 2003 onwards)**

	<u>Chargeable Income</u> S\$	<u>Tax Rate</u> %	<u>Tax</u> S\$
On the first	20,000	0	0
On the next	<u>10,000</u>	4	<u>400</u>
On the first	30,000		400
On the next	<u>10,000</u>	6	<u>600</u>
On the first	40,000		1,000
On the next	<u>40,000</u>	9	<u>3,600</u>
On the first	80,000		4,600
On the next	<u>80,000</u>	15	<u>12,000</u>
On the first	160,000		16,600
On the next	<u>160,000</u>	19	<u>30,400</u>
On the first	320,000		47,000
Excess over	320,000	22	

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**PERSONAL TAX RATES – SCHEDULE 2 PART C**

	<u>Chargeable Income</u> S\$	<u>Tax Rate</u> %	<u>Tax</u> S\$
On the first	2,500	4	100
On the next	<u>2,500</u>	6	<u>150</u>
On the first	5,000		250
On the next	<u>2,500</u>	8	<u>200</u>
On the first	7,500		450
On the next	<u>2,500</u>	10	<u>250</u>
On the first	10,000		700
On the next	<u>5,000</u>	14	<u>700</u>
On the first	15,000		1,400
On the next	<u>5,000</u>	16	<u>800</u>
On the first	20,000		2,200
On the next	<u>5,000</u>	17	<u>850</u>
On the first	25,000		3,050
On the next	<u>10,000</u>	20	<u>2,000</u>
On the first	35,000		5,050
On the next	<u>15,000</u>	27	<u>4,050</u>
On the first	50,000		9,100
On the next	<u>50,000</u>	34	<u>17,000</u>
On the first	100,000		26,100
Excess over	100,000	37	