Reliefs and Deduction of Expenses

(Corporation Tax)

**Question 1**

Jimmy Tay suffered losses in his business as a sole-proprietor and the adjusted trade losses agreed with IRAS for the financial year ended 30/9/13 was $48,000. Mrs. Tay’s employment income for the year 2013 was $65,000. Mr. and Mrs. Tay both are Singaporeans and aged 30 years old have a two year old son. Mr. Tay is an inactive reservist. Employee’s CPF rate is 20%.

**Required**

Calculate the minimum tax payable by Mr. and Mrs. Tay for YA14 on the basis that they elect to transfer qualifying deductions to their spouse.

**Question 2**

The income and trade losses of Mr and Mrs Anthony are as follows:

Mr. Anthony

Assessable income Tax losses Capital allowances

$ $ $

YA 2013 52,000 NA NA

YA 2014 NIL 254,000 19,000

Mrs. Anthony

Assessable income Tax losses Capital allowances

$ $ $

YA 2013 60,000 NA NA

YA 2014 33,000 NA NA

**Required**

Compute the assessable income (AI) and Mr and Mrs Anthony for relevant YA on the basis that Mr and Mrs Anthony if:

a) Mr Anthony elects to transfer his current year qualifying deductions to his wife to set-off against her current year assessable income

b) Mr Anthony elects to carry-back his qualifying deductions (No transfer to spouse)

c) Mr Anthony elects to transfer the qualifying deductions to his wife as well as carry-back the qualifying deductions

**Question 3**

ABC Pte Ltd has the following loans from DBS Bank:

Loan 1 $500,000 @ 5% interest per annum = $25,000

Loan 2 $100,000 @ 7% interest per annum = $7,000

Loan 1 has been used to finance the company’s working capital whereas Loan 2 was to finance its investment in its subsidiary company XYZ Pte Ltd which paid ABC Pte Ltd a 1 – tier dividend of $10,000 on 31/12/2013. ABC Pte Ltd’s profit (excluding dividend income) before tax for the financial year ended 31/12/2013 was $300,000.

What is the statutory income of ABC Pte Ltd.

**Question 4**

Fastener Ptd Ltd incurred interest expenses of &78,580 during the accounting year ended 30/9/13. Details of these expenses are:

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Bank overdraft 34,560

Loan for purchase of Plant and Machinery 20,450

Loan for purchase of shares 23,570

Total 78,580

**Required**

Calculate the interest expenses that are deductible against the company trading profit and investment income.

**Question 5**

Same facts as Question 2 except that the total interest expenses incurred cannot be directly identified between interest expenses incurred for trading and share investment purposes. The company has $500,000 total assets which include $100,000 non-income producing share investment.

**Required**

Calculate the interest expenses that are deductible against the company trading profit and investment income.

**Question 6**

Hotel Galaxy incurred for the first time $50,000 to install new windows and doors during the financial year ended 31/12/10. During the financial year ended 31/12/13, it incurred $25,000 to replace the windows.

**Required**

State whether the expenses on the windows & doors of $50,000 and $25,000 replacement cost are tax deductible.

**Question 7**

The profit and loss account has been debited with a bad and doubtful debt expense of $9,700 comprising:

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Loans to staff written off 2,000

Bad debts written off 4,000

Trade debts recovered (1,000)

Increase in impairment losses on trade receivables 1,500

Increase in impairment losses on non-trade receivables 3,200

Profit/Loss account 9,700

**Required**

State which expenses are deductible and non-deductible?

**Question 8**

Gummi Pte Ltd has employed 2 local employees (below 50 years old) and one foreign employee, John, with Employment pass. Details of their income during the year 2013 are:

**Employee Salary per month Bonus paid on 31/12/13**

$ $

Moses Lee 4,000 12,000

Stephen 7,000 38,000

John 8,000 40,000

The company’s CPF contribution for each of these employees is:

$

Moses 9,600

Stephen 17,060

John 19,000

**Required**

Calculate if any of the contributions are not tax deductible

**Question 9**

a) Carrier Pte Ltd purchased a car for its representative office in Malaysia which cost $70,000. Calculate the amount of allowable expenses to the company if maintenance of the car is $6,840.

b) the company bought a private car – SBC1234J costing $180,000 for use by sales director for private and business usage. Calculate the amount of allowable expenses to the company if maintenance of the car is &20,000.

**Question 10**

ABC Pte Ltd incurred total employee’s remuneration of $500,000 for the YA 2014 and the medical expenses incurred were $35,000. The company did not implement any portable or transferable medical insurance scheme. What is deductible medical expenses for that YA.

**Question 11**

Facts as in Question 8 except that the company implemented portable or transferable medical insurance scheme.

**Question 12**

Euro Asia Pte Ltd made the following approved donations during its financial year-end 30/6/09:

**Date of donation receipt $**

1/7/08 2,000

31/12/08 5,000

1/4/09 6,000

**Required**

Calculate the amount of approved donation that is deductible for the Year of Assessment 2010.

**Question 13**

An Analysis of foreign exchange account shows the following:

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Foreign exchange loss on settlement of raw materials (225,000)

Foreign exchange gain on settlement of foreign currency loan 60,000

Translation of foreign currency

Current assets and liabilities at year end:

-Foreign currency bank account\* 80,000

-Trade debts (40,000)

-Trade creditors 60,000

Net foreign exchange loss (unrealized) (65,000)

\*Election is made to treat this as revenue in nature.

**Required**

Calculate the amount of exchange difference that deductible and the adjustment if any to be made against the company’s trading profit.

**Question 14**

Co A incurred $120,000 to provide external training for its staff in YA 2014. The company net profit for YA 2014 is $2,000,000. Assuming that the company’s non-deductible expenses amount to $200,000.

Compute the tax adjusted profit for YA 2014.

**Question 15**

Same facts as above except Co A opts to convert maximum of $100,000 of the training expenses to cash payout. Compute the tax adjusted profit and the amount of cash payout for YA 2014.

**Question 16**

Company P makes up its accounts annually to 30 September and incurs the following qualifying expenditure during the financial years ended 30 September 2010m 30 September 2011 and 30 September 2012;

Qualifying expenditure 30/9/10 30/9/11 30/9/12

$ $ $

R&D expenses 460,000 480,000 1,350,000

Training costs 120,000 250,000 200,000

Leasing of an automated

Injection mould machine 850,000 880,000 920,000

**Required**

Calculate the amount of enhanced deductions claimable for each type of qualifying activity for YA 2011, YA 2012 and YA 2013.

**Question 17**

Facts as above except Company P has adjusted profits before the enhanced deductions claim for the financial years ended 30 September 2010, 30 September 2011 and 30 September 2012 of $6,000,000, $6,500,000 and $8,000,000 respectively, and elects to covert the maximum qualifying deductions relating to R&D expenses and training costs into cash payout. Calculate the chargeable income of the company.

**Question 18: 88-EIGHT**

Your client peter is the sole-proprietor of 88-EIGHT which operates a chain of sundry stores. The profit and loss statement of 88-EIGHT for the year ended 30 June 2013 has been reviewed by your staff and the following items highlighted:

a) Compensation received from an insurance company - $35,000

An ex-cashier embezzled cash totaling $40,000 during 2012 and the loss was charged to the profit and loss account for that year. The CIT allowed the full amount as a deduction in the Year of Assessment 2013. In January 2013, 88-EIGHT received compensation of $35,000 from the insurance company and has credited it to the profit and loss account for the year ended 30 June 2013.

b) Inventory write down - $4,500

In May 2013, a lorry loaded of canned goods was involved in an accident causing a large number of the cans to be dented. It was estimated that the market value of the goods at balance sheet date had depreciated to $4,500 below cost. The write-down of $4,500 was charged to the profit and loss account.

c) Peter drew a monthly manager’s salary of $5,000

Peter’s wife Janet, joined 88-EIGHT as a store supervisor when the former store supervisor resigned in early 2012. Due to her family connections, Janet was paid a monthly salary of $3,000 which is twice the amount paid to the former store supervisor. 88-EIGHT contributed CPF as the statutory rate on both Peter’s and Janet’s gross monthly salary.

d) A memorandum written by Peter:

I am currently negotiating with licensed lottery agents who are interested in subletting a section of the retail stores. The plan is to allow them to set up, in each store, a lottery booth which will occupy approximately one-tenth of the total floor area. In return, for each lottery booth, I expect to receive/incur the following:

Revenue:

i. A monthly rent of $1,000

Expenses:

i. An initial lump-sum payment of $10,000

ii. Cost of constructing a booth, which essentially comprises movable partitions

iii. An increase in maintenance related expenditure (e.g. higher utility charges)

**Required**

Explain the tax treatment of each of the items (a) to (d) in arriving at the assessable income of Peter for the Year of Assessment 2014. Comment on the tax implications of Peter’s proposed subletting scheme. You are to consider the taxability of receipts and deductibility of expenses.

**Question 19: S V Wong**

S V Wong is employed as an insurance supervisor by an international insurance company. He has to go into his company's office in Sheraton Way to supervise and give instructions to a group of insurance agents under his supervision. He spends the rest of his working hours servicing his existing clients as well as visiting potential clients in an effort to sell insurance policies.

His company pays him a flat rate expense allowance of $12,000 per annum in addition to his salary. This allowance is to cover all expenses relating to his work as an insurance supervisor and agent.

He has produced the following details of expenses etc. for the year 2013:

Motoring

1. Cost of S plated car purchased on 1 March 2006 was $60,000.
2. The car was purchased partly with the help of a loan from his company. The interest charged at 3% per annum for the year 2013 was $900.
3. The running cost of the car (i.e. petrol, road tax, insurance, maintenance, etc.) was $5,000.
4. Breakdown of Wong's total mileage for the year is as follows:
5. On journeys from his home to the office and back 2,000
6. On journeys from the office to visit clients 8,000
7. On private journeys 6,000

During the year Wong spent $4,000 in restaurants, $3,200 related to entertaining clients and the balance for his own lunches at a restaurant near his office.

Telephone

Of his home telephone bills, $600 was for calls to the company's clients made in the evenings when the office was closed.

Clothing

During the year, he spent $800 on a new suit because the company stipulates that its senior staff must look smart when meeting clients.

Golf club subscription

Wong paid $900 subscriptions for the year 2013. His company requires its staff to join a golfing club in order to meet potential clients.

**Required**

Write a brief report to S V Wong explaining the rules governing the deductibility of expenses incurred by him in connection with his employment as well as quantify the amount of expenses deductible against Wong's employment income.

**Question 20: Graphic Displays Pte Ltd (12/01)**

Graphic Displays Pte Ltd, a Singapore-resident company incorporated in 2000; is in the business of producing laser and other special effects lighting equipment. For the year ended 31 March 2013, the company reported a net accounting loss of S$50,000 after charging/(crediting) the following items:

|  |  |
| --- | --- |
|  | **S$** |
| Bad debt written off  (This relates to a loan made to one of the company's raw-material suppliers. The supplier was recently wound up and the debt is no longer recoverable.) | 5,000 |
| Cash donations made to approved institutions of a public character | 3,000 |
| *Date of donation S$*  25/6/2012 1,000  10/3/2013 2,000  3,000 |  |
| Depreciation of fixed assets  This includes an amount of S$60,000 relating to amortization of a patent. | 200,000 |
| Exchange gain arising from year-end translation of trade receivables | (6,000) |
| Singapore dividend from OCBC Ltd received on 30 June 2012 | (5,000) |
|  |  |
| Insurance premiums on: |  |
| 1. Fire insurance for production plant and machinery. 2. Product liability insurance. | 300  400 |
| Interest on:  i. Late CPF contributions  ii.Term loan taken to finance the purchase of production plant  and machinery | 200  15,000 |
| Legal and professional fees re: |  |
| i. Appeal against property tax valuation  ii. Corporate secretarial services  iii. Drafting a 'mutual understanding agreement' with an employee | 500  4,000  1,000 |
| For details of this agreement, see under, miscellaneous item below. |  |
|  |  |
| Drafting a term loan agreement | 700 |
| The loan was used to finance the purchase of production plant and machinery. |  |
|  |  |
| Loss on accidental destruction of the company’s motor car (SBC 1234D). The car was purchased on 30 April 2005 at a cost of S$120,000. The loss of S$72,000 represents the net book value of the car (i.e. capital cost less accumulated depreciation of S$48,000). An amount of S$80,000 was subsequently recovered from insurance company – see under ‘miscellaneous items’ below: | 72,000 |
| Miscellaneous items: |  |
| Entrance fee paid to a trade association | 800 |
|  |  |
| New false ceiling for the office | 1,200 |
|  |  |
| Payment to an employee in consideration for the employee’s undertaking under a mutual understanding agreement not to set up, carry on, or work for a competing business anywhere in the world for a period of ten years after leaving the company’s employment. | 300,000 |
|  |  |
| Proceeds received under an insurance policy following the accidental destruction of the company’s motor car (SBC 1234D) | (80,000) |
|  |  |
| External training for staff. Training expenses are before deduction of government grant of $5,000 | 12,000 |
|  |  |
| Impairment loss on obsolete stock | 15,000 |
|  |  |
| Staff recruitment expenses | 11,000 |
|  |  |
| Travelling and transport expenses:   1. Airfares relating to home leave passage for expatriate staff 2. Mileage claims – these are reimbursements made to staff for expenses incurred by them in using their own cars for the company’s business | 50,000  40,000 |
| Other information:  The capital allowances agreed with the Comptroller of Income tax for the Year of Assessment is $30,400. |  |

**Required**

Prepare the company’s income tax computation for the Year of Assessment 2014.