

Case Study

The case study below illustrates how a new start-up company can benefit from the various tax schemes available.

For the year ended 31 March 2010, Company A received a training grant of \$35,000 from SPRING Singapore, and expended \$38,000 on external training for its staff. The training costs net of grant (i.e. \$3,000) will be tax deductible. In addition, an additional 300% deduction on \$3,000 (i.e. enhanced deduction) of the net training cost will be deductible under the Productivity and Innovation Credit (PIC) scheme.

Company A acquired a motorcycle and laptops which cost \$18,000 and \$5,000 respectively. It will be able to claim capital allowances on the motorcycle's cost over a period of 3 years under Section 19A(1) of the Income Tax Act (ITA) and the laptops' cost in 1 year under Section 19A(2) of the ITA. The laptops will also qualify for an additional 300% capital allowances (i.e. enhanced allowances) under PIC as they are prescribed automation equipment.

Company A also spent \$15,000 on office renovation and it will be able to make a claim for the said expenses incurred under Section 14Q of the ITA.

Assuming the gross revenue and net profit before tax for Company A are \$550,000 and \$300,000 respectively, the YA 2011 income tax computation for Company A is as follows:-

	\$
Net profit before tax	300,000
Less: Office renovation - S14Q	(15,000)
Enhanced deduction for training costs [\$3,000 x 300%]	(9,000)
Adjusted profit	276,000
Less: Capital allowances re: motorcycle [\$18,000 / 3 years]	(6,000)
Base & enhanced capital allowances re: laptops [\$5,000 x 400%]	(20,000)
Chargeable income (before exempt amount)	250,000
Less: Tax exemption for new start-up companies	
1st \$100,000 @ 100%	(100,000)
Next \$150,000 @ 50%	(75,000)
Chargeable income (after exempt amount)	75,000
Tax payable @ 17%	12,750.00
Less: Corporate Income Tax Rebate*	Nil
Net tax payable	12,750.00
SME Cash Grant given to Company A*	5,000.00

**Company A will receive the SME Cash Grant (5% of revenue of \$550,000, capped at \$5,000) instead of the Corporate Income Tax Rebate (20% of \$12,750) as the computed SME Cash Grant amount is higher than the Corporate Income Tax Rebate.*