

Worked Examples on External Training of Employees

Example 1

Company J sent its staff for an external marketing course in Jan 2016 and incurred \$15,000 in Year of Assessment (YA) 2017.

Other information on Company J:

- Net profit before tax for YA 2017 is \$36,000.
- There are no other tax adjustments to be made to the company's net profit before tax for YA 2017 apart from the claim of tax benefits on staff training costs under PIC.
- Incorporated in year 2005 and as such, does not qualify for the [Tax Exemption Scheme for New Start-Up Company](#) in YA 2017.

Depending on its financial and tax position, Company J may decide to claim enhanced deduction **or** elect for cash payout under PIC on the staff training costs.

Find out how Company J can claim for PIC benefits for each of the scenarios below:

[Scenario A: Claim for Enhanced Deduction](#)

[Scenario B: Elect for Cash Payout](#)

[Scenario C: Claim for Enhanced Deduction and Elect for Cash Payout](#)

Scenario A: Claim for Enhanced Deduction

In this scenario, Company J decides to claim enhanced deduction on the staff training costs.

Computation of Enhanced Deduction

The enhanced deduction on the staff training costs is computed as follows:

Activity	Cost \$	Base deduction (100%) \$	Enhanced deduction (300%) \$	Total \$
Staff Training - External	15,000*	15,000	45,000	60,000

* Within the combined expenditure cap of \$1,200,000 for YA 2016 to YA 2018

Tax Computation for YA 2017

Company J's tax computation for YA 2017 is as follows:

	\$
Net profit before tax	36,000
Less: Enhanced deduction for staff training costs	(45,000)
Unutilised losses c/f	(9,000.00)
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Chargeable income (after exempt amount)	Nil
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Tax thereon @ 17%	Nil
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Scenario B: Elect for Cash Payout

In this scenario, Company J decides to convert the expenditure on staff training costs of \$15,000 to a cash payout for YA 2017.

Computation of Cash Payout

Company J will receive a cash payout of \$9,000 for YA 2017, which is derived as follows:

PIC Cash Payout (60%* x \$15,000 of qualifying expenditure) \$9,000

* The qualifying staff training costs that have been converted to cash payout were incurred before 1 Aug 2016.

Tax Computation for YA 2017

Company J's tax computation for YA 2017 is as follows:

	\$
Net profit before tax	36,000
Add: Staff training costs converted to cash payout [#]	15,000
Chargeable income (before exempt amount)	<u>51,000</u>
Less: Exempt amount	
- First \$10,000 @ 75%	(7,500)
- Next \$41,000 @ 50%	(20,500)
Chargeable income (after exempt amount)	<u>23,000</u>
Tax thereon @ 17%	3,910
Less: Corporate Income Tax Rebate (50% x \$3,910)	<u>(1,955)</u>
Net tax payable	<u>1,955</u>

The qualifying staff training costs have been converted to cash payout and therefore will not be eligible for tax deduction.

Scenario C: Claim for Enhanced Deduction and Elect for Cash Payout

In this scenario, Company J decides to convert the staff training costs of \$10,000 into a cash payout and claim enhanced deduction on the remaining amount of \$5,000.

Computation of Cash Payout

Company J will receive a cash payout of \$6,000 for YA 2016, which is derived as follows:

PIC Cash Payout (60%* x \$10,000 capped of qualifying expenditure) \$6,000

* The qualifying staff training costs that have been converted to cash payout were incurred before 1 Aug 2016.

Computation of Enhanced Deduction

The enhanced deduction on the staff training costs is computed as follows:

Activity	Cost \$	Base deduction (100%) \$	Enhanced deduction (300%) \$	Total \$
Staff Training - External	5,000	5,000	15,000	20,000

Tax Computation for YA 2017

Company J's tax computation for YA 2017 is as follows:

	\$
Net profit before tax	36,000
Add: Staff training costs converted to cash payout [#]	10,000
Less: Enhanced deduction for staff training costs	(15,000)
Chargeable income (before exempt amount)	<u>31,000</u>
Less: Exempt amount	
- First \$10,000 @ 75%	(7,500)
- Next \$21,000 @ 50%	(10,500)
Chargeable income (after exempt amount)	<u><u>13,000</u></u>
Tax thereon @ 17%	2,210
Less: Corporate Income Tax Rebate (50% x \$2,210)	<u>(1,105)</u>
Net tax payable	<u><u>1,105</u></u>

The qualifying staff training costs have been converted to cash payout and therefore will not be eligible for tax deduction.