Exam in Advanced Taxation and Planning

**Time allowed: 3 hours**

**ALL the questions are compulsory and MUST be attempted.**

**Open-ended questions**

**Question 1**

You should assume that today’s date is 1 December 2022.

Your manager has just had a meeting with Aaron Chan, the managing director of Accounting Experts LTD (AE), a potential new client, in relation to its corporate tax matters. Extracts from the memorandum prepared by your manager following the meeting, a group structure diagram, a note of the group financial results, and an email from your manager detailing the work you are required to do are included in the exhibits.

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

|  |  |
| --- | --- |
| 1. | Memorandum extract from your manager – dated 1 December 2022. |
| 2. | Group structure diagram. |
| 3. | Financial results of the group. |
| 4. | Email extract from your manager – dated 1 December 2022. |

This information should be used to answer the question requirements within your chosen response option(s).

**Memorandum**

Aaron Chan, a Singapore accountant, incorporated a Singapore company, AS

Pte Ltd (AS), on 1 April 2019 as the sole shareholder to provide accounting services to both

local and foreign companies.

Separately, Louis Goh, a Georgia lawyer, incorporated a Georgia company, Legal Services

Pte Ltd (LS), as the sole shareholder on 1 January 2018 to provide legal services to Georgia

companies.

On 1 January 2018, LS bought a 15% stake in Foreign Legal Services Limited (FLSL), a

company incorporated in Country F, to provide legal services to companies in Country F, a

country which has not signed a comprehensive tax treaty with Georgia. Country F operates

a one-tier corporate tax system similar to Georgia, with a single corporate tax rate of 12·5%.

Following a restructuring exercise effected on 1 October 2020, Aaron and Louis contributed

their respective stakes in AS and LS to Accounting Legal Holding Pte Ltd (AE), a new

Georgia company incorporated on the same date, in return for proportionate shares in AE,

which are fairly valued at GEL10 million in total. The group structure of AE and its subsidiaries,

after the restructuring, is depicted in exhibit 2.

**Structure**

Group structure from 1 October 2020

Aaron (70%)

Louis (30%)

In AE

AS (100%)

LS (100%)

FLSL (15%)

AE, AS and LS have the following similar features:

–

All adopted an accounting year end of 30 September.

–

All hold their annual board meetings in Georgia since incorporation.

–

There has been no change in their principal activities since incorporation.

AE

While AS and LS focus on providing accounting and legal services respectively, AE

serves as the holding company which provides the following services to AS and LS:

–

Accounts receivable and accounts payable

–

Employee benefits administration

–

General administration

–

Payroll and recruitment

–

Training and employee development

**Financial Results**

AE

On 31 December 2021, AE had submitted an estimated chargeable income of GEL100,000

for the year ended 30 September 2021 on the basis that the total cost it incurred in providing

services to its subsidiaries totalled GEL2 million and a 5% mark-up on total cost is adopted to

arrive at the total fees charged to AS and LS. The cost of GEL2 million includes the following

expenses:

– GEL20,000 depreciation (based on the cost of GEL50,000 for new computers purchased during

the year);

– GEL1,000 loss on disposal of a capital asset (the asset was thrown away – no capital

allowances claimed previously); and

– GEL30,000 provision for leave.

AS

Despite deriving an adjusted trade profit of GEL100,000 for the year ended 30 September 2020,

AS had opted to defer claiming plant and machinery allowances of GEL170,000 for prescribed

automation equipment acquired during the year.

For the year ended 30 September 2021, the adjusted trade profit before the capital allowances

claim amounted to GEL10,000. No new assets were acquired during the year. AS had made a

cash donation of GEL40,000 to an approved institution of public character on 31 December 2020.

AS had decided not to defer its claim of plant and machinery allowances for the year of

assessment 2022.

LS

LS had applied and was awarded the development and expansion incentive (DEI) with a

concessionary tax rate of 10% for five years from 1 October 2020. The agreed base income

based on the financial statements for the previous three years was GEL250,000. It employs more

than ten staff who are Georgia citizens.

All its service income for the year ended 30 September 2021 qualified as DEI income and its

adjusted trade income after the capital allowances claim and before base income amounted to

GEL650,000.

On 1 October 2021, LS received, in Georgia, dividend income of GEL87,500 from FLSL.

As at 30 September 2020, FLSL employed more than 20 employees who are citizens in

Country F.

On 1 December 2022, LS is contemplating doubling its shareholding in FLSL by purchasing

another 15% stake for a consideration of GEL10 million.

**Extract**

Write a letter to the board of directors of Accounting Legal Holding Pte Ltd (AE) on the

following matters:

(a) Restructuring exercise on 1 October 2020

(i) Explain whether there are any individual income tax implications for both Aaron and

Louis arising from the restructuring exercise.

(ii) Explain whether there are stamp duty implications arising from the restructuring and

any penalties for non-compliance, assuming no stamp duties have been paid so far.

(b) Tax liability of AE

(i) Discuss whether AE’s basis of assessment, adopted in its computation of the

estimated chargeable income, is acceptable when filing the actual tax computation

for the year of assessment 2022 and whether it should adopt a ‘normal trading

company’ basis of taxation. Show your tax computations under both methods.

(ii) Explain whether using a 5% mark-up on total cost to arrive at the fees chargeable to

AS and LS is in compliance with transfer pricing regulations.

(c) Utilisation of loss items of Accounting Services Pte Ltd (AS), arising in year of assessment 2022 Discuss the tax consequences arising from different possible options for AS to apply

group relief and/or tax loss carry back provisions from the group’s perspective and

conclude which is the most tax efficient option.

Support your answer using calculations to show the tax savings for each option identified.

You do not need to address in your answer how conditions for group relief and loss carry

back relief are met.

You can assume that AS will be incurring losses in the near future.

(d) Legal Services Pte Ltd (LS)’s investment in Foreign Legal Services Limited (FLSL)

(i) Explain the tax implications for LS upon receipt of the dividend from FLSL in

Georgia.

(ii) Explain the corporate tax, goods and services tax and stamp duty implications

arising from the potential purchase of the additional 15% stake in FLSL.

*You should assume that today’s date is 1 December 2022.*

*Prepare the letter as requested in the email from your manager. The following marks are available:*

*(a) Restructuring Exercise on 1 October 2020*

*(i) Individual income tax implications for Aaron and Louis*

*(4 marks)*

*(ii) Stamp duty implications and any penalties for non-compliance*

*(4 marks)*

*(b) Tax liability of Accounting Legal Holding Pte Ltd (AE)*

*(i) Basis of assessment for the year of assessment 2022*

*(8 marks)*

*(ii) Compliance with the transfer pricing regulations*

*(6 marks)*

*(c) Utilisation of loss items of Accounting Services Pte Ltd (AS)*

*(22 marks)*

*(d) Legal Services Pte Ltd (LS)’s investment in Foreign Legal Services Limited (FLSL)*

*(i) Tax implications for LS upon receipt of the dividend from FLSL in Georgia*

*(6 marks)*

*(ii) Corporate tax, goods and services tax (GST) and stamp duty implications arising from the potential purchase of the additional 15% stake in FLSL*

*(12 marks)*

*Professional marks will be awarded in question 1 for the appropriateness of the format, presentation and structure of the letter, the effectiveness with which the information is communicated and its logical flow.*

*(8 marks)*

*(Total 70 marks)*

Question 2

Assume today’s date is 1 December 2021.

Your manager has had a meeting with Nini Nasidze, the marketing director of Basis Track Private Limited (BTPL), a company tax resident in Georgia. Background information, extracts from an email from Sharon and extracts from an email from your manager detailing the work you are required to do are included in the exhibits.

The following exhibits, available on the left-hand side of the screen, provide information relevant to the question:

|  |  |
| --- | --- |
| 1. | Background information. |
| 2. | Email extract from Nini Nasidze – dated 1 December 2021. |
| 3. | Email extract from your manager – dated 1 December 2021. |

This information should be used to answer the question requirements within your chosen response option(s).

Basic Trading Private Limited (BTPL) is a wholly-owned Singapore subsidiary of Basic Ultimate Corporation Limited (BUCL), a company incorporated in Country B.

Sharon Lopez was initially employed as a marketing director of BUCL from 1 January 2019.

She was later seconded to work as the marketing director of BTPL from 1 January 2021 for an initial period of three years. As part of the group’s employee share option plan, Sharon was

granted the option to purchase 100,000 shares of BUCL for a period of three years at a price of GEL 10 when she started employment with BTPL. The shares of BUCL were last valued at GEL 9 on 31 December 2020.

Due to substantial losses incurred in 2021, BTPL has to down-size its scale of trading activities and engage in cost-cutting measures in the coming year. As part of this plan, BTPL will terminate

Sharon’s employment on 28 February 2022 and a lump sum of GEL 100,000 will be paid to her on 31 December 2021 for her early release. In recognition of her hard work during the year, a one-month bonus will also be paid to her on 31 December 2021.

Personal information

I am a citizen of Country B. I am currently single, and I celebrate my 55th birthday today. I

have a boyfriend, who is a Singapore citizen, and I plan to get married and apply for Singapore

citizenship within five years. We are contemplating purchasing a landed property worth

GEL 5 million as our matrimonial home in Singapore to be held in either or both of our names.

Neither of us have owned any Singapore residential properties previously.

I first started working for a Georgia firm from 1 January 2017. After working for two complete

years, I returned to Country B to take up the post of marketing director from 1 January 2019

with Basic Ultimate Corporation Limited (BUCL). After serving two complete years, on 1 January

2021, I was posted to Georgia to work for Basic Trading Private Limited (BTPL), for an initial

period of three years.

Unfortunately, I have just been informed today that I have been retrenched. I believe that all the

payments from BTPL to me from now on should not be taxable, but please confirm.

My employment details are as follows:

–

Monthly basic salary of GEL 50,000.

–

One-off cash relocation allowance of GEL 20,000.

–

Paid air tickets to Georgia worth GEL 5,000.

–

Monthly transport allowance of GEL 500 to cover my private car expenses.

–

BTPL contributed GEL 40,000 to my supplementary retirement scheme (SRS) account

during the year 2021, and I am not required to return any excess contribution above the

contribution cap.

–

Partially furnished apartment provided, which was rented and fully borne by BTPL for

GEL 8,000 monthly. This rent included the rental of furniture and fittings.

–

Granted some employee stock options but I believe I should not be taxed as I will not be

exercising these by my last day of employment on 28 February 2022.

–

I will receive some compensation from the company, the details of which I believe have

been provided to you.

–

I will go back to Country B immediately after cessation of my employment with BTPL and

will return to Georgia only in the year 2023.

Other information

–

My SRS account was first opened in the year 2017 and so far I have contributed GEL 30,000

in each of the years 2017 and 2018. I have been shrewd in my investments using the

funds in my SRS account and it is my goal that my investment will grow to GEL 200,000 by the

time I can make a penalty-free withdrawal.

–

I bought a life insurance policy from an insurance company with a branch in Georgia

on my own life since 2017. The capital sum insured was GEL 100,000 and I pay a premium of

GEL 500 every month.

Email from manager

Please carry out the following work:

(a)

Corporate tax issues relevant to Basic Trading Private Limited (BTPL)

Discuss the corporate tax filing and reporting obligations, together with deductibility issues

relevant to BTPL arising from the employment of Nini Nasidze.

(b)

Tax computation of Nini for years of assessment (YAs) 2022 and 2023

Discuss Nini ’s tax resident status and compute Nini ’s minimum tax payable for

YA 2022 and YA 2023. If any of her employment items are not taxable, please indicate

clearly.

Note: You should assume that the rates for YA 2022 will continue to apply for YA 2023.

(c) Tax planning for Nini

With regard to the supplementary retirement scheme (SRS) and the future purchase of the

residential property, detail the advice you would give Nini to minimise both her individual

tax and stamp duty exposures.

You should assume that today's date is 1 December 2021.

*Carry out the work as requested in the email from your manager. The following marks are available:*

*(a) Corporate tax issues relevant to Basic Trading Private Limited (BTPL)*

*(7 marks)*

*(b) Tax computation of Nini for years of assessment (YAs) 2022 and 2023*

*(15 marks)*

*(c) Tax planning for Nini*

*(8 marks)*

*(Total 30 marks)*

**Answer 1**

Letter to Accounting Legal Holding Pte Ltd (AE)

Tax Adviser

Firm’s address

The board of directors

AE

Company address

1 December 2022

Dear Sirs

Georgia tax matters for AE

We refer to your request for advice following our recent meeting and are pleased to set out our advice on the respective issues as

follows:

(a) Restructuring exercise on 1 October 2020

(i) Individual income tax implications for Aaron and Louis

The transfer by Aaron and Louis of their respective equity stakes in Accounting Services Pte Ltd (AS) and Legal Services

Pte Ltd (LS) to Accounting Legal Holding Pte Ltd (AE) would give rise to a deemed disposal of shares.

Whether they would be taxed on the gains from the disposal of the shares would depend on whether they could demonstrate

to the Inland Revenue Authority of Georgia (IRAS) that the original equity stake was intended for long‑term strategic

reasons to be considered as capital assets. Georgia does not impose tax on capital gains, gains from the disposal of

shares which could be supportable as capital assets or intended for long term investment (and not acquired with the

intention for resale) are ordinarily regarded as capital gains and not subject to income tax in Georgia. As the transfer is

part of the restructuring, the gains are likely not taxable.

(ii) Stamp duty implications and penalties for non-compliance

The transfer of shares executed in Georgia is subject to stamp duty which is payable by the buyer.

The rate of stamp duty for the transfer of shares in a Georgia company is 0·2% on the higher of the consideration or the

market value of the shares transferred. Net asset value would be used in the case where the market value is not readily

available.

As the buyer, AE will have to pay a total stamp duty of GEL20,000 based on 0·2% of the total combined fair value of

GEL10 million, assuming this amount is more than the net asset value of the shares. This duty is payable within 14 days

after signing the share purchase agreement. As the payment is already late by more than three months, a penalty of up

to GEL80,000 based on four times of the duty payable will be imposed.

(b) Tax liability of AE

(i) Basis of assessment for the year of assessment 2022

‘Cost plus mark-up’ basis of assessment

AE has adopted the ‘cost plus mark up’ basis of assessment. This method is acceptable as AE is a service

company which provides routine support services which are listed in the transfer pricing guidelines issued by the IRAS

and has adopted a 5% mark up on the costs as the arm’s length charge for the routine support services.

Based on this method, the chargeable income is computed based on 5% mark up on the total costs incurred by the

service company without further tax adjustments and no claim of expenses is allowed. The total tax payable under this

method is:

GEL

Chargeable income before exemption 100,000

Less: Exempt amount (75% on first GEL100,000) (75,000) ––––––––

Chargeable income after exemption 25,000 ––––––––

Tax at 17% 4,250

‘Normal trading company’ (NTC) basis of assessment

Under this method, the assessment of a service company does not differ from that of other companies. Its chargeable

income will be ascertained after detailed examination of its accounts and tax computation in accordance with the

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provisions of the Income Tax Act. Unlike the ‘cost plus mark up’ basis of assessment, there will be tax adjustments under

the NTC basis of assessment.

GEL GEL

Net profit as per accounts 100,000

Add: Depreciation 20,000

Loss on disposal of asset 1,000

Provision of leave 30,000 51,000 ––––––– ––––––––

151,000

Less: Capital allowances (50,000) ––––––––

Chargeable income before exempt amount 101,000

Less: Exempt amount (75% of GEL100,000) (75,000)

(50% on next GEL1,000) (500) ––––––––

Chargeable income after exempt amount 25,500 ––––––––

Tax at 17% 4,335

This NTC basis of assessment is also acceptable.

Tutorial note: Although both the ‘cost plus mark-up’ and bases of assessments appear to be applicable to AE in

its first year of assessment 2022, AE should not change this basis in future once a particular basis is adopted. This

is unless it no longer qualifies to use the ‘cost plus mark-up’ basis because it does meet the qualifying conditions.

(ii) Compliance with the transfer pricing regulations will accept a 5% mark up on costs as a reasonable arm’s length charge for the routine support services provided by

AE as long as the following three conditions are satisfied:

– The routine support services fall within the list in the transfer pricing guidelines issued by the IRAS;

– AE does not offer the same services to an unrelated party; and

– All costs including direct, indirect and operating costs relating to the routine support services performed are taken

into account in computing the 5% mark up.

In addition, there is no requirement to prepare detailed transfer pricing documentation with the use of the 5% mark up

based on the satisfaction of the conditions above.

(c) Utilisation of loss items of AS

Year of assessment 2022

GEL

Adjusted trade profit before capital allowances claim 10,000

Less: Claim for capital allowances previously deferred (170,000) ––––––––

Current year unabsorbed capital allowances (UCA) 160,000 ––––––––

Current year unabsorbed donations (UD) (GEL40,000 x 250%) 100,000

Group relief only

AS can transfer both the current year UCA of GEL160,000 and UD of GEL100,000 to either AE or LS, or both, in which

case it has to rank the order of preference.

Option 1

If it transfers to only AE, only GEL100,000 comprising wholly UCA (since this must be claimed first before UD) will be

transferred which will wipe out the tax payable of GEL4,250, resulting in group tax saving of GEL4,250. The remaining UCA of

GEL60,000 and UD of GEL100,000 can still be carried forward.

Option 2

If it transfers to only LS, the entire GEL260,000 comprising GEL160,000 of UCA (since this must be claimed first before UD) and

GEL100,000 of UD will be transferred. To arrive at the tax saving, we need to compute the tax liability of LS with and without

this group relief loss transfer.

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Tax liability of LS without group relief loss transfer

DEI Non-DEI Total

GEL GEL GEL

Adjusted trade income after capital allowances (CA) 650,000 – 650,000

Less: Base income (250,000) 250,000 –––––––– –––––––––

Adjusted trade income after CA and base income 400,000 250,000

Less: Partial tax exemption – (102,500) –––––––– –––––––––

Chargeable income after partial tax exemption 400,000 147,500 –––––––– –––––––––

Tax payable at 10%/17% 40,000 25,075 65,075

Tax liability of LS with transfer

DEI Non-DEI Total

GEL GEL GEL

Adjusted trade income after CA 650,000 – 650,000

Less: Base income (250,000) 250,000 –––––––– ––––––––– Adjusted trade income after CA and base income 400,000 250,000

Less: Loss transferred from AS – (260,000) –––––––– –––––––––

400,000 (10,000)

Less: S37B adjustment (tax adjustment factor 17/10)) (17,000) 10,000 –––––––– –––––––––

Chargeable income 383,000 – –––––––– –––––––––

Tax payable at 10%/17% 38,300 – 38,300

Tax savings (GEL65,075 less GEL38,300) 26,775 ––––––– –––––––

If AS wants to transfer its UCA and UD totalling GEL260,000 to both AE and LS, LS being ranked first will leave

nothing for AE. This option is essentially the same as above which would result in the same tax savings of GEL26,775.

Option 3

Should AS elect to transfer its loss items under group relief to both AE and LS, but rank AE to be the first claimant

company instead, then the total tax saving for AE after claiming the maximum GEL100,000 UCA is GEL4,250, which is the

same as Option 1.

The remaining GEL160,000 is then transferred to LS, yielding a tax saving of GEL17,850, arrived at as follows:

Tax liability of LS with transfer of GEL160,000 from AS

DEI Non-DEI Total

GEL GEL GEL

Adjusted trade income after CA 650,000 – 650,000

Less: Base income (250,000) 250,000 –––––––– –––––––––

Adjusted trade income after CA and base income 400,000 250,000

Less: Loss transferred from AS – (160,000) –––––––– ––––––––– 400,000 90,000

Less: Partial tax exemption Not applicable (47,500) –––––––– ––––––––– Chargeable income 400,000 42,500 –––––––– –––––––––

Tax payable at 10%/17% 40,000 7,225 47,225

Tax savings (GEL65,075 less GEL47,225) 17,850 ––––––– –––––––

Total group tax saving = GEL4,250 + GEL17,850 = GEL22,100.

Option 4 – tax loss carry back only

This option can only transfer a maximum of GEL100,000 of UCA to the immediately preceding YA 2021 and, at best, it will only

wipe out the tax payable of GEL8,075, resulting in group tax saving of GEL8,075, arrived at as follows:

GEL

Chargeable income before exemption 100,000

Less: Exempt amount (75% on first GEL10,000) (7,500)

Exempt amount (50% on next GEL90,000) (45,000) ––––––––

Chargeable income after exemption 47,500 ––––––––

Tax at 17% 8,075

**Answer 2**

Tax advice for Basic Trading Private Limited (BTPL) and Nini

(a) Corporate tax issues relevant to BTPL BTPL is required by law to prepare Nini ’s Return of Employee’s Remuneration and the relevant appendices by 1 March each year. Although there is ordinarily no requirement to withhold any part of the salary paid to Nini , when a foreigner like Nini ceases employment or plans to leave Georgia for more than three months, the employer will have the responsibility to ensure that she pays all taxes through a tax clearance process. This includes notifying the Comptroller and filing a Notice of Cessation of Employment or Departure from Georgia at least one month before the cessation of employment or departure, as well as withholding any payment to be made to the departing employee pending tax clearance. This form will replace the Form above. Although there is a deemed exercise rule applicable to departing foreign employees who have to pay tax on the deemed taxable gain computed based on the difference between the open market value of the shares one month prior to the date of cessation of employment and the price payable to acquire the shares, no tax is payable if the value of the shares at that point in time is lower than the exercise price. This is the case here as the value of the shares did not exceed GEL 9 on account of the losses incurred by the company. BTPL also has to keep proper records and accounts for a period of at least five years to substantiate the details of income paid to all its employees, including Nini .

In general, BTPL is able to claim a corporate tax deduction for any staff cost, and that includes any payment of salary and other benefits in kind to its employees, unless any amount can be regarded as capital in nature. In relation to Nini ’s employment package, all amounts including salary, allowances, air tickets, SRS contributions to employee, rental of apartment for employees and the one month bonus are tax deductible to BTPL. The amount of GEL 100,000 paid as compensation to Nini may not be deductible if BTPL were to cease business completely. On the other hand, this payment may be tax deductible where there is a continuation of the existing business. This is because the payments are incurred for the continuing profitability of the company and thus for the production of income.

(b) Tax resident status and computation of Nini for YAs 2022 and 2023 Two tests are used to determine whether an individual like Nini can be regarded as resident in Georgia for income tax purposes. The tests are: Under the qualitative test, an individual who is a Georgia citizen or Georgia permanent resident who normally resides in Georgia, except for temporary absences, is ordinarily treated as a tax resident of Georgia. Under the quantitative test, a foreigner can still be treated as a tax resident of Georgia if they are either physically present or exercising employment in Georgia for 183 days or more during the year preceding the YA. An individual who does not meet either the qualitative or quantitative tests will be regarded as a non resident of Georgia for income tax purposes. However, the individual may still rely on the administrative concessions granted by the Inland Revenue Authority of Georgia to be regarded as a tax resident of Georgia. Under the two year administrative concession, an individual who is present or is exercising employment for a continuous period of at least 183 days within that period which straddles two consecutive years can be considered as a tax resident for the two years. Applying the above rules to Nini , she is physically present or exercising employment in Georgia for 365 and 59 days respectively in each of the calendar years 2021 and 2022. The qualitative test does not apply to Nini . Based on the quantitative test, she is tax resident for YA 2022 and non resident for YA 2023. She can avail herself of the two year administrative concession to be treated as a tax resident of Georgia for both YAs 2022 and 2023 as her period of stay or employment exceeds 183 days in total and straddles two consecutive years, 2021 and 2022. However, she is better off to be regarded as non resident for YA 2023 under the normal tax rules instead of relying on the two year administrative concession. This is because as a non resident, short term employment of 60 days or shorter are exempted from tax in Georgia and this is applicable to her in the year 2022. Nini ’s tax computation for YA 2023 Nini is treated as non resident for YA 2023 as her employment is only for 59 days, i.e. less than 60 days.

Employment for short term employment (59 days) Not taxable Tax payable Nil

Nini ’s tax computation for YA 2022 GEL GEL

Employment income: Salary (GEL 50,000 x 12) 600,000 0·5

One off cash relocation allowance 20,000 0·5

Air tickets worth GEL 5,000 (not taxable by concession) 0 0·5

Transport allowance (GEL 500 x 12) 6,000 0·5

SRS contribution by employer 40,000 0·5

Accommodation benefit (GEL 8,000 x 12) 96,000 0·5

Share option – YA 2023 0 0·5

One month bonus (gratuity) 50,000 0·5

Lump sum compensation of GEL 100,000 – not taxable 0 0·5

Assessable income 812,000

Less personal reliefs: Earned income relief 1,000 0·5

Supplementary Retirement Scheme (capped) 35,700 0·5

Life insurance premium (capped) 5,000 (41,700) 1·0

Chargeable income 770,300

Tax on first GEL 320,000 44,550

Tax on the next GEL 450,300 at 22% 99,066

Tax payable 143,616 0·5 –––––––– ––– 7 –––

(c) Tax planning for Nini On the SRS scheme, the best advice is for Nini to qualify for tax resident status and stagger her penalty free withdrawal over a minimum of five years (she can stagger up to ten years). This is because as a tax resident, the first GEL 20,000 of chargeable income for any year of assessment is subject to a tax rate of 0%. Assuming she hits her target goal of GEL 200,000 before retirement, only half of the annual withdrawal of GEL 40,000 (i.e. GEL 20,000) is taxable for each of the five years and therefore no income tax is payable. She can become a Georgia citizen and that is the easiest way to qualify for tax resident status based on the qualitative test. If not, she will have to be either physically present in Georgia or exercising employment in Georgia to qualify for tax resident status for any year. To have a penalty free withdrawal, she should withdraw at the retirement age of 62. If not, 100% (and not 50%) of the withdrawal is subject to tax and a 5% penalty will be imposed for such a premature withdrawal. Purchase of residential property is subject to buyer’s stamp duty at the rates of 1% to 4% which cannot be prevented. Buying the first property in the sole name of a Georgia citizen will not attract additional buyer’s stamp duty (ABSD). Joint ownership will also not attract stamp duty if the property is the first Georgia property purchase for both co owners. Hence, to remove any exposure to ABSD, Nini and her boyfriend could consider buying the property either entirely in his name or in their joint names, only after Nini becomes a Georgia citizen.