

Fundamentals Level – Skills Module

Taxation (Singapore)

March/June 2016 – Sample Questions



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are printed on pages 2–4.

Do NOT open this question paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

Paper F6 (SGP)

Think Ahead

ACCA

ISCA INSTITUTE OF
SINGAPORE
CHARTERED
ACCOUNTANTS

The Association of Chartered
Certified Accountants

Institute of Singapore
Chartered Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest \$.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.
4. All computations should indicate by the use of '0' any item of income or expense which is tax exempt, not taxable or does not require adjustment, as appropriate.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions

| Goods and services tax | |
|--|----------------|
| Standard rate | 7% |
| Registration threshold | \$1 million |
| | |
| Corporate income tax | |
| Rate – Year of assessment 2016 | 17% |
| Corporate tax rebate (capped at \$20,000) | 30% |
| | |
| Partial tax exemption | |
| | \$ |
| First \$10,000 of chargeable income is 75% exempt | 7,500 |
| Next \$290,000 of chargeable income is 50% exempt | 145,000 |
| Total | <u>152,500</u> |
| | |
| Full tax exemption for new start-up companies | |
| | \$ |
| First \$100,000 of chargeable income is 100% exempt | 100,000 |
| Next \$200,000 of chargeable income is 50% exempt | 100,000 |
| Total | <u>200,000</u> |

Central Provident Fund (CPF)

Contributions for individuals below the age of 50 years and earning more than \$750 per month (1 January 2015 to 31 December 2015)

| | Employee | Employer |
|---|---------------------------------|-----------------|
| Rates of CPF contributions | 20% | 17% |
| Maximum monthly ordinary wages (OW) attracting CPF | | \$5,000 |
| Maximum annual ordinary wages (OW) attracting CPF | | \$60,000 |
| Maximum annual additional wages (AW) attracting CPF | \$85,000 less OW subject to CPF | |

Productivity and innovation credit (PIC) – years of assessment 2016 to 2018

Training (enhanced deduction)
Prescribed automation equipment (enhanced capital allowance)

An enhanced deduction/allowance can be claimed at 300% on up to \$400,000 of qualifying expenditure in addition to the usual deduction/allowance.

The annual expenditure cap of \$400,000 can be pooled to give a combined cap of \$1,200,000 for the years of assessment 2016 to 2018.

Under the PIC+ scheme for qualifying small and medium enterprises, the expenditure cap is increased from \$400,000 to \$600,000 per qualifying activity per year of assessment.

Personal income tax for the year of assessment 2016

| | Chargeable income \$ | Tax rate % | Tax \$ |
|--------------|-------------------------|---------------|-----------|
| On the first | 20,000 | 0 | 0 |
| On the next | 10,000 | 2.0 | 200 |
| On the first | 30,000 | | 200 |
| On the next | 10,000 | 3.5 | 350 |
| On the first | 40,000 | | 550 |
| On the next | 40,000 | 7.0 | 2,800 |
| On the first | 80,000 | | 3,350 |
| On the next | 40,000 | 11.5 | 4,600 |
| On the first | 120,000 | | 7,950 |
| On the next | 40,000 | 15.0 | 6,000 |
| On the first | 160,000 | | 13,950 |
| On the next | 40,000 | 17.0 | 6,800 |
| On the first | 200,000 | | 20,750 |
| On the next | 120,000 | 18.0 | 21,600 |
| On the first | 320,000 | | 42,350 |
| Above | 320,000 | 20.0 | |

Personal income tax reliefs for the year of assessment 2016

| | | |
|--|---|--------------------------|
| Earned income relief | Standard (max) | Handicapped (max) |
| Below 55 years | \$1,000 | \$4,000 |
| 55 to 59 years | \$6,000 | \$10,000 |
| 60 years and above | \$8,000 | \$12,000 |
| Spouse relief | \$2,000 | \$5,500 |
| Qualifying child relief (per child) | \$4,000 | \$7,500 |
| Working mother's child relief (WMCR) | % of mother's earned income | |
| First child | 15% | |
| Second child | 20% | |
| Third and subsequent child | 25% | |
| Maximum WMCR | 100% | |
| Maximum relief per child | \$50,000 | |
| Parent relief | Standard (max) | Handicapped (max) |
| Not living in the same household | \$5,500 | \$10,000 |
| Living in the same household | \$9,000 | \$14,000 |
| Grandparent caregiver relief | \$3,000 | |
| Dependent handicapped sibling relief | \$5,500 | |
| Life insurance relief | \$5,000 (max) | |
| Voluntary CPF contribution of self-employed | Capped at \$31,450 or 37% of assessable trade income whichever is lower | |
| Course fees | \$5,500 (max) | |

| NSman | Non-key appointment holder | Key appointment holder |
|----------------------------|-----------------------------------|-------------------------------|
| Active NSman | \$3,000 | \$5,000 |
| Non-active NSman | \$1,500 | \$3,500 |
| Wife/widow/parent of NSman | \$750 | \$750 |
| Foreign maid levy relief | \$6,360 (max) | |

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 DNut Singapore Pte Ltd (DSPL) is a company incorporated and tax resident in Singapore.

On 1 June 2016, DSPL signed four agreements with Nut International Ltd (NIL), an associated company incorporated and tax resident in Country D. Details of the agreements are as follows:

(1) Licence agreement

This agreement allowed DSPL to use the brand name 'Nut' in Singapore. In return, DSPL paid the licence fee of \$100,000 on the signing of the agreement.

(2) Software usage agreement

This agreement allowed DSPL to utilise (but not modify) NIL's software to manage its inventory level. DSPL paid the software usage fee of \$50,000 on the signing of the agreement.

(3) Equipment purchase agreement

NIL will supply an item of fully automated processing equipment costing \$1.5 million to DSPL. The equipment will be manufactured in China and to meet Singapore requirements, modifications to the equipment at a cost of \$50,000 will also be carried out in China. DSPL paid 20% of the total cost on the signing of the agreement and will pay the remaining 80% on the delivery of the equipment (which is targeted to be 1 December 2016).

(4) Equipment installation agreement

Under this agreement, NIL will install the equipment (as purchased in (3)) at DSPL's factory in Singapore at a total cost of \$10,000. NIL does not have any office or staff in Singapore. The installation (expected to be completed on 15 December 2016) will be performed by NIL's subcontractor in Singapore. The whole amount is payable on the completion of the installation.

Singapore does not have any tax treaty with Country D.

Required:

- (a) Determine the Singapore withholding tax implications for DNut Singapore Pte Ltd (DSPL) arising from each of the payments covered in the agreements (1) to (4). Where withholding tax is applicable, calculate the amount of withholding tax payable. (8 marks)**
- (b) State, giving reasons, by when DSPL should account to the Inland Revenue Authority of Singapore for any withholding tax calculated as payable in part (a). (2 marks)**

(10 marks)

- 2 Tailor Pte Ltd (TPL) is a goods and services tax (GST) registered trader. The following information relates to TPL's transactions for the quarter 1 October to 31 December 2015.

| | \$ |
|--|---------|
| Revenue | |
| Local sales | 350,000 |
| Export sales | 100,000 |
| Expenditure | |
| Local purchases | 200,000 |
| Salary and CPF contributions | 50,000 |
| Employee routine medical expenses | 10,000 |
| Interest on bank overdraft | 5,000 |
| Rental – bare rent for residential apartment provided rent free to TPL's general manager | 18,000 |
| Rental – furniture and fittings of the residential apartment (as above) | 6,000 |

Notes:

1. All amounts are stated excluding any applicable GST.
2. TPL only uses GST registered suppliers.
3. On 30 December 2015, TPL received an advance payment of \$1,000 from a customer, being a deposit for an order. This advance payment, which is non-refundable, has not been included in any of the above figures. TPL completed the order and raised a final invoice on 2 February 2016. The \$1,000 deposit was set off against this final invoice.

Required:

- (a) Explain the application of the time of supply rules to the advance payment (deposit) received on 30 December 2015 (Note 3). (2 marks)
- (b) Calculate the net goods and services tax (GST) payable by or refundable to Tailor Pte Ltd for the quarter 1 October to 31 December 2015. For each item, clearly identify the type of supply together with the applicable GST. For any item of expenditure where no GST is taken into account, state the reason. (8 marks)

(10 marks)

3 Jane and Jack are partners in JJ LLP, a limited liability partnership which they set up on 1 January 2014. They share profits and losses equally.

For the year ended 31 December 2015, JJ LLP recorded an accounting profit of \$280,000 after charging the following expenses:

| | \$ |
|--|---------|
| Salaries and bonuses | |
| Staff salaries and bonuses | 156,000 |
| Jane's salary and bonus | 36,000 |
| Travelling expenses | |
| Airfare for Jane on an overseas business trip | 8,000 |
| Reimbursement of staff car park expenses (private cars) | 3,600 |
| Reimbursement of Jack's car park expenses | 4,800 |
| Interest expense | |
| Interest paid to DBS on a loan obtained to fund the acquisition of an apartment. A temporary occupation licence has not been issued for the apartment. JJ LLP will let out the apartment when it is able to do so | 24,000 |

For the year ended 31 December 2014, JJ LLP reported the following:

| | Agreed adjusted loss | Contributed capital |
|------|----------------------|---------------------|
| | \$ | \$ |
| Jane | 120,000 | 100,000 |
| Jack | 120,000 | 100,000 |

To the extent permitted, Jane had utilised all of her part of the agreed adjusted loss against her employment income in the year of assessment 2015. But Jack has yet to utilise his part of the agreed adjusted loss.

Required:

(a) Compute the divisible profits and adjusted profits of JJ LLP for the year of assessment 2016.

Note: You should start your computation with the net accounting profit of \$280,000. You should indicate by the use of zero (0) any items which are not taxable or not deductible. (5 marks)

(b) Compute the chargeable income derived from JJ LLP by Jane and Jack for the year of assessment 2016.

(5 marks)

(10 marks)

4 For the year ended 31 December 2015, Display Pte Ltd (DPL) has a tax adjusted loss of \$120,000 after making all tax adjustments, but before making any tax deduction claims, where applicable, for the following transactions:

I. Additions of assets

| | Cost \$ |
|--|------------|
| Website design (including the one-time domain name registration cost of \$2,000) | 12,000 |
| Computers | 50,000 |
| Cabling for computers | 3,000 |

DPL will not make any cash payout claim for the year ended 31 December 2015.

II. Disposals of assets

| | Sales proceeds \$ |
|--|----------------------|
| Computers (acquired in 2013 at a cost of \$100,000 on which a cash payout was claimed) | 10,000 |
| Ten computer tables (acquired in 2013 at a cost of \$2,000 each) | 2,000 |

III. Breakdown of donations made

| | \$ |
|--|-------|
| Cash donations to the Sabah Earthquake Fund | 5,000 |
| Donations to The National Kidney Foundation, an approved institution of public character, comprising | |
| – an outright cash donation | 6,000 |
| – massage chairs | 5,000 |

Required:

- (a) Calculate the maximum capital allowances and enhanced productivity and innovation credit (PIC) allowances which Display Pte Ltd can claim for the year of assessment 2016. Give a brief explanation of your treatment of each of the asset disposals. (6 marks)
- (b) Calculate the maximum tax deductible donations which Display Pte Ltd can claim for the year of assessment 2016. (2 marks)
- (c) State the conditions for unabsorbed donations to be utilised. (2 marks)

(10 marks)

5 Sandra, a Singapore citizen, aged 45 and a widow, is the chief executive officer of ABC Marketing Pte Ltd (ABCM), a Singapore incorporated and tax resident company. ABCM is a wholly owned subsidiary of ABC Limited, a listed company on the Stock Exchange of Singapore.

Sandra's son, Steven, aged 20, was enlisted for National Service (NS) on 14 February 2015. He receives NSman allowance of \$500 per month.

In 2015, Sandra derived the following employment income:

- A monthly salary of \$20,000.
- Exercised the option to acquire 50,000 shares of ABC Limited on 30 June 2015 at the exercise price of \$1 per share, on meeting all the conditions of the award. The stock option had been awarded to her on 1 October 2012.
- Awarded 10,000 shares of ABC Limited on 30 June 2015. These shares were subject to a sales restriction which was lifted on 1 October 2015.

The stock prices of ABC Limited shares at the relevant dates were as follows:

| | |
|----------------|-----|
| 1 October 2012 | \$3 |
| 30 June 2015 | \$4 |
| 1 October 2015 | \$5 |

- A Rolex watch costing \$10,000 for working with ABCM for the past ten years.
- A gold ring costing \$100 on her birthday.
- Reimbursement of car park expenses for her private car, totalling \$3,600.

In addition to her employment income, Sandra also derived the following income during the year 2015:

- \$5,000 interest income from a loan she has extended to her sister, Sharon. Sharon emigrated to New Zealand in 2000. Sharon has used 40% of the loan to fund the acquisition of a property in Singapore and the remaining 60% of the loan to fund the acquisition of a property in New Zealand.
- \$1,000 dividend from a Cayman Island company. There is no corporation tax or withholding tax in the Cayman Islands.

On 1 October 2015, Sandra donated 20,000 shares of ABC Limited (part of the shares which she acquired from the exercise of the stock option on 30 June 2015) to the National Kidney Foundation (NKF), an approved institution of a public character. The legal title to the shares was transferred to NKF on the same day.

Required:

Compute the minimum amount of Singapore tax payable by Sandra for the year of assessment 2016.

Note: You should indicate by the use of zero (0) any items which are not taxable or not deductible.

(15 marks)

- 6 Gas Supply Pte Ltd (GSPL) was incorporated on 1 January 2014, by three individual shareholders. During the year ended 31 December 2015, GSPL posted a net accounting profit before tax of \$200,000 after accounting for the following items:

| | \$ |
|---|--------|
| Other income | |
| Special employment credit | 1,000 |
| Cash payout (Note 2) | 1,800 |
| Recovery of a non-trade debt from an employee | 1,500 |
| Exchange difference on a loan obtained in US dollars | 800 |
| Compensation received from a customer for the cancellation of a contract (Note 1) | 3,000 |
| Expenses | |
| Depreciation expense | 3,000 |
| Installation of gas meters at no cost to the customer, at the customers' premises (Note 1) | 4,800 |
| Compensation paid to customers for their revenue loss during the gas meter installation period (Note 1) | 15,000 |
| Advertising | 2,000 |
| Hire purchase interest on a private motor car used by GSPL's managing director | 1,500 |
| Training and seminars for staff (Note 2) | 3,000 |

Notes:

1. Based on the contracts which GSPL has entered into with its customers, GSPL will install gas meters for free and compensate the customers for their revenue loss during the installation period. In return, the customers have agreed to obtain their gas supply from GSPL for at least one year, failing which, the customer will pay for the gas meter installation and return part of the compensation.
2. GSPL has claimed the cash payout under the productivity and innovation credit (PIC) scheme on the training expenses.
3. In addition to the above profit and loss items, GSPL incurred the following capital expenditure in 2015. GSPL has not previously claimed any PIC enhanced allowance.

| | |
|--|---------|
| Laptops (no PIC cash payout has been claimed on these laptops) | \$6,000 |
| Office furniture | \$4,500 |

Required:

- (a) Explain the tax treatment of the cost of installation of the gas meters for free and the compensation paid to customers for their revenue loss during the installation period as described in Note 1. (2 marks)

- (b) Compute the tax liability of Gas Supply Pte Ltd for the year of assessment 2016, claiming the maximum capital allowance and enhanced productivity and innovation credit (PIC) allowance.

Note: You should start your computation with the net accounting profit before tax of \$200,000 and indicate by the use of zero (0) any items which do not require adjustment. (10 marks)

- (c) State the THREE conditions which a company, which has incurred qualifying expenditure on automation equipment which qualifies for a PIC claim, must meet before a PIC cash payout can be claimed in the year of assessment 2016. (3 marks)

(15 marks)

End of Question Paper