

Fundamentals Level – Skills Module

Taxation (Singapore)

Monday 7 December 2009

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are printed on pages 2–3.

Do NOT open this 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.

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

The Association of Chartered Certified Accountants

The Institute of Certified Public Accountants of Singapore



Paper F6 (SGP)

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.
4. All computations should indicate by the use of '0' any item of income or expense that 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 From the year of assessment 2008

Rate	18%
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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 \$1,500

	Employee	Employer
Rates of CPF contributions	20%	14.5%
Maximum annual ordinary wages (OW) attracting CPF		\$54,000
Maximum annual additional wages (AW) attracting CPF		\$76,500 less OW subject to CPF

Personal income tax
For the year of assessment 2009

Rates for resident individuals

	Chargeable income \$	Tax rate %	Tax \$
On the first	20,000	0	0
On the next	10,000	3.5	350
On the first	30,000		350
On the next	10,000	5.5	550
On the first	40,000		900
On the next	40,000	8.5	3,400
On the first	80,000		4,300
On the next	80,000	14.0	11,200
On the first	160,000		15,500
On the next	160,000	17.0	27,200
On the first	320,000		42,700
Above	320,000	20.0	

Resident individuals are entitled to an income tax rebate of 20%, capped at \$2,000 for the year of assessment 2009.

Personal income tax reliefs
For the year of assessment 2009

	Normal (max)	Handicapped (max)
Earned income		
Below 55 years	\$1,000	\$2,000
55 to 59 years	\$3,000	\$5,000
60 years and above	\$4,000	\$6,000
Wife relief	\$2,000 (max)	
Qualifying child relief (per child)	\$4,000	
Handicapped child relief (per child)	\$5,500	
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	
Grandparent caregiver relief	\$3,000	
Life assurance	\$5,000 (max)	
Voluntary CPF contribution of self-employed		
Capped at	\$26,393 or 34.5% of s.10(1)(a) assessable income whichever is lower	
Course fees	\$3,500 (max)	
Nsman		
Active Nsman	\$3,000	
Non-active Nsman	\$1,500	
Wife/widow	\$750	
Foreign maid levy	\$6,360 (max)	

ALL FIVE questions are compulsory and MUST be attempted

- 1 Porter Matthew Pte Ltd (PMPL), a company incorporated in Singapore in 2000, was assessed for the year of assessment 2008 as having capital allowances and losses of \$245,000 and \$120,000 respectively to be carried forward to the year of assessment 2009.

The shareholders of PMPL remained the same from the company's incorporation to 14 July 2008, when Roger sold his entire 65% shareholding in PMPL to Justin, thereby increasing Justin's shareholding in PMPL to 70%. The third shareholder, Tommy continues to hold his original 30% shareholding in PMPL.

For the financial year ended 31 December 2008, PMPL recorded a net profit of \$390,000 after crediting/charging the following:

1. Dividend – \$52,000

The dividend, which was received in Singapore, is from a company in a non-tax treaty country, that imposes income tax at the highest marginal tax rate of 8% and does not impose tax on dividends paid to shareholders outside the country. PMPL holds 10% of the total number of issued shares of the company.

2. Salaries and other employment related costs – \$384,000

– Salaries, bonus and CPF contributions	\$312,000
– Quarters for migrant workers	\$28,800
– Directors' fees	\$29,500
– Cash allowances in lieu of medical expenses	\$13,700
Total	<u>\$384,000</u>

PMPL did not make any contribution to the staff medisave account with the CPF Board nor did PMPL participate in any medical insurance plan.

3. Retrenchment benefits – \$23,900

Due to downsizing of its operations, PMPL retrenched three employees and paid them the following retrenchment benefits:

– Payment in lieu of leave	\$5,000
– Payment in lieu of notice	\$2,700
– Outplacement support benefit	\$3,700
– Compensation for premature termination	\$12,500
Total	<u>\$23,900</u>

4. Premises modification expenses – \$48,000

In January 2008, PMPL incurred an amount of \$48,000 as approved expenditure on alterations to its business premises in order to facilitate better mobility of PMPL's disabled employees. A deduction of \$72,000 for expenditure of the same nature was successfully claimed in the year of assessment 2004.

5. Approved renovation and refurbishment expenses – \$19,200

Date the expense was incurred	Description of the expense	Amount (\$)
2 February 2008	Improved flooring	3,000
14 February 2008	New wall coverings	2,500
18 February 2008	Electrical installation and wiring	4,000
20 February 2008	False ceilings and cornices	4,400
1 March 2008	Designer and professional fees	5,300
Total		<u>19,200</u>

6. Loss on sale of fixed assets – \$6,000.

Fixed assets, purchased in 2006, were sold for \$3,000. Accelerated capital allowances had been claimed on these fixed assets and their tax written down value as at the end of the year of assessment 2008 was \$4,500.

7. Depreciation – \$2,000

The depreciation was in respect of a used computer purchased in 2008 and depreciated over three years on a straight-line basis.

8. Other expenses – \$16,500

– Penalty for late filing of tax returns	\$2,000
– Cash donations made to a temple	\$8,000
– Cash donations to an institution of a public character	\$6,500
Total	<u>\$16,500</u>

Required:

(a) **Compute the minimum tax liability of Porter Matthew Pte Ltd for the year of assessment 2009.** (26 marks)

(b) **State the reasons that should have been given by Porter Matthew Pte Ltd to the retrenched employees for considering each item of the retrenchment benefits (as referred to in Note 3) as taxable or not taxable when received by them.** (4 marks)

(30 marks)

- 2 Christopher Pang (Christopher) is aged 45 and a citizen of the Republic of Jupiter and is employed by Life Sciences Ltd (LSL), a company incorporated in the Republic of Jupiter. On 1 March 2008, Christopher was seconded to the Singapore subsidiary of LSL and exercised his employment in Singapore for a continuous period of 100 days.

There is no tax treaty between the Republic of Jupiter and Singapore, and the Republic of Jupiter is not a member of the Commonwealth.

Whilst in Singapore, Christopher continued to be paid by LSL, including all his accommodation costs and business expenses. LSL recovered all the costs relating to Christopher's secondment by way of an invoice issued to the Singapore subsidiary. The invoice itemised the costs and expenses as follows:

	Notes	\$
Salary for 100 days (\$150 per day)		15,000
Bonus	1	1,500
Return airfares	2	2,800
Net rental expenses	3	10,000
Relocation allowances	4	2,000
Car hiring expenses	5	2,900
Entertainment allowances	6	3,200
Contributions to staff pension fund	7	600
Gift	8	300
Reimbursement of taxi fares	9	100
Medical fees	10	1,600
Total costs		<u>40,000</u>

Notes

- Bonus \$1,500
LSL normally pays an annual contractual bonus to its employees in March of the following year. The \$1,500 was the apportioned amount of the bonus related to the days of Christopher's secondment to the Singapore subsidiary.
 - Return airfares \$2,800
The normal return airfare for the Republic of Jupiter–Singapore segment is \$2,200. The additional charge of \$600 was due to Christopher scheduling the flight back to the Republic of Jupiter with a stopover in Taipei for the purpose of visiting his fiancée.
 - Net rental expenses \$10,000
Christopher was provided with accommodation for the duration of his stay in Singapore. The rent paid for Christopher's apartment was \$110 per day and Christopher contributed \$10 per day towards the rental. The annual value of the apartment is \$8,000.
 - Relocation allowances \$2,000
Christopher did not incur any relocation expenses except for excess baggage charges of \$500 when he flew into Singapore from the Republic of Jupiter.
 - Car hiring expenses \$2,900

Hiring expenses	\$2,100
Petrol expenses	<u>\$800</u>
Total	<u>\$2,900</u>
- Christopher travelled a total of 130 kilometres for private purposes during his secondment.
- Entertainment allowances \$3,200
An amount of \$1,200 was spent on business entertainment and the balance was incurred for personal purposes.
 - Contributions to staff pension fund \$600
The contributions of \$600 were related to the period of Christopher's secondment to the Singapore subsidiary.

8. Gift \$300
It is the tradition of LSL that all employees are given a cash gift of \$300 on their birthdays. Christopher celebrated his birthday on 5 March 2008.
9. Reimbursement of taxi fares \$100
Christopher was reimbursed for taxi fares for visiting the doctor on several occasions when he was not well enough to drive.
10. Medical fees \$1,600
All the medical fees incurred by Christopher were reimbursed by LSL.

Whilst in Singapore, Christopher received \$600 of dividends from a Singapore listed company. He donated the entire amount of \$600 received to an institution of a public character in Singapore.

Required:

(a) State the general rules for the determination of the tax resident status of an individual, together with any exceptions to these general rules. (5 marks)

(b) Compute the minimum tax liability of Christopher Pang for the year of assessment 2009.

Note: you should show calculations of the two bases that could be used in arriving at Christopher Pang's tax liability, in full. (20 marks)

(25 marks)

- 3** Popcorn Pte Ltd (Popcorn) was incorporated in Singapore on 1 November 2002 as a wholly owned subsidiary of a foreign company. The shareholders of the foreign company, all of whom are individuals, and their shareholdings have remained the same since 1999.

Popcorn has furnished you with the following information.

- (1) For the year of assessment 2008, Popcorn was assessed to tax on chargeable income of \$300,000, before deduction of the partial tax exemption amounts.
- (2) For the year of assessment 2009, Popcorn was assessed to tax on the following basis:

Financial year ended 31 October 2008	Old trade \$	New trade \$	Total \$
Tax adjusted losses	(40,000)	(30,000)	(70,000)
Capital allowances claimed	36,000	44,000	80,000
Cash donations to institutions of a public character	20,000	10,000	30,000

- (3) The old trade is that of a restaurant business that commenced on 1 November 2002 and is still being carried on by Popcorn. The new trade is that of a business for the provision of services as an insurance agent. The new trade commenced on 1 February 2008.

Required:

Compute the revised tax liability and the chargeable income (if any) of Popcorn Pte Ltd for each of the years of assessment 2008 and 2009 on the basis that carried-back relief was elected. Where there are losses, capital allowances and/or donations to be carried forward, state the respective amounts.

(15 marks)

- 4 ABC Pte Ltd (ABC) is a Singapore incorporated company and is a goods and services tax (GST) registered trader. ABC imports raw materials from overseas and uses the imported raw materials to manufacture products that are sold 60% to local customers and 40% exported to customers in the Philippines.

For the quarter ended 30 September 2009, the income and expenditure statement of ABC showed the following itemised amounts before the imposition of GST. ABC also confirmed that all its purchases were from GST registered traders with the exception of the raw materials, which were imported from Malaysia.

ABC Pte Ltd

Income and expenditure statement

Period from 1 July 2009 to 30 September 2009

	\$	\$
Revenue		180,000
<i>Less: Manufacturing costs</i>		
Raw materials costs	(35,000)	
Staff costs	(12,000)	
Depreciation	(8,000)	(55,000)
Gross profit		125,000
<i>Less: Operating costs</i>		
Rental of factory premises	(17,500)	
Public utilities fees	(5,000)	
Motor car repair expenses	(3,000)	
Golf club subscription fees	(1,200)	
Rental of apartment provided to an expatriate staff	(7,800)	
Interest paid on bank borrowings	(2,300)	
Brokerage fees paid to a stockbroker for share purchases	(400)	
Purchase of computer	(1,500)	
Airfares to Hong Kong for business purposes	(3,600)	(42,300)
Net profit		82,700

Required:

- (a) **Compute the amount of goods and services tax (GST) that is payable by or refundable to ABC Pte Ltd for the quarter ended 30 September 2009. You are also required to identify the type of supply of each of the items listed in the question and any input tax that cannot be claimed.** (11 marks)
- (b) **State the circumstances under which a security deposit is required when a business registers for GST, together with the type(s) of security deposit that is acceptable to the Comptroller.** (4 marks)

(15 marks)

- 5 (a) Slam Pte Ltd (Slam) is a company that was incorporated in Singapore on 1 February 2008. For the financial period ended 31 December 2008, Slam's income and expenditure statement is as follows:

Income and expenditure statement

Period from 1 February 2008 to 31 December 2008

	\$	\$
Net trade income		7,000
Gross rental	28,000	
<i>Less</i>		
Tax deductible expenses	(32,000)	
Purchase of new furniture	<u>(12,000)</u>	<u>(16,000)</u>
Net loss		<u>(9,000)</u>

The rental income of a company derived from the letting of properties located in Singapore may be assessed to tax as:

- (1) incidental to the trade source of income (s.10(1)(a));
- (2) a passive source income (s.10(1)(f)); or
- (3) a source from the business of the making of investment (s.10E).

Required:

Compute the assessable income of Slam Pte Ltd for the year of assessment 2009 on the basis of each of the alternative tax treatments accorded to rental income. Capital allowances should be claimed, where applicable. (10 marks)

- (b) Gilbert Howard, a US citizen, arrived in Singapore on 1 May 2008 and immediately commenced employment with the representative office of a US corporation. As the regional representative of the US corporation, Gilbert Howard travelled extensively in the region and in 2008 made 10 business trips visiting the regional markets. Gilbert Howard recorded the total numbers of days he spent outside Singapore to be 70 days, including the days of departure from and the days of arrival in Singapore for each trip made.

For his services, Gilbert Howard was paid a monthly salary of \$12,000 and was provided with rent-free accommodation in Singapore. The business expenses incurred on his overseas business trips were all reimbursed by the Singapore representative office.

Required:

State the basis of assessment applicable to an area representative and compute Gilbert Howard's assessable income for the year of assessment 2009. (5 marks)

(15 marks)

End of Question Paper