

Fundamentals Level – Skills Module

# Taxation (Singapore)

Monday 6 December 2010

**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

**ACCA**



# 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 'O' 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 rate

Year of assessment 2010	17%
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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 2010

**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	

**Personal income tax reliefs**  
For the year of assessment 2010

<b>Earned income</b>	<b>Normal (max)</b>	<b>Handicapped (max)</b>
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)	
<b>NSman</b>		
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** Jan Star Pte Ltd (JSPL) commenced its manufacturing business in Singapore in 2001 as a wholly owned subsidiary of a US corporation. The shareholders of the US corporation have remained the same since 2001.

For the financial year ended 31 December 2008, JSPL had tax adjusted losses of \$120,000 and unabsorbed capital allowances of \$45,000. It had donated cash of \$8,000 to an institution of a public character in 2008.

For the financial year ended 31 December 2009, JSPL recorded a net accounting profit of \$780,000 after charging depreciation of \$17,000 and debiting the following items:

1. Medical expenses incurred of \$13,500. JSPL's total employment costs were \$320,000, which included \$80,000 of directors' fees and \$40,000 for rent of an accommodation provided to a director. JSPL did not make any contribution to the staff medisave account with the CPF Board nor did JSPL participate in any medical insurance plan.
2. Interest paid of \$25,500 net of Singapore withholding tax to a financial institution in Hong Kong and the appropriate amount of withholding tax to the Comptroller of Income Tax. The interest expense was in connection with a loan taken by JSPL to finance the purchase of shares in a Hong Kong company. JSPL has yet to derive any dividend from these shares.
3. Hire purchase interest paid of \$4,800 to a finance company in Singapore for the hire purchase of a motorcar, which was used for business purposes.
4. Payment to a social club of \$12,800, comprising an entrance fee and four monthly subscriptions of \$200 per month.
5. A legal fee of \$12,000 paid to a law firm to defend JSPL against a copyright infringement legal suit brought against it by a competitor.
6. Donations of \$20,000 in cash and of an artefact purchased on 3 February 2009 for \$2,000. The cash and artefact were donated to an approved museum on 1 September 2009 when the artefact was valued at \$3,000 by the National Heritage Board.

In 2009, JSPL added to its property, plant and equipment as follows:

1. In 2007, JSPL had purchased a piece of land costing \$1 million and paid a contractor a first progress payment of \$500,000 for the construction of a factory building on the acquired land. In 2008, a second progress payment of \$700,000 was paid to the contractor. The construction of the factory building was completed in March 2009 and a final progress payment of \$300,000 was paid to the contractor.
2. In 2008, JSPL had purchased an item of machinery for \$45,000 and in 2009, JSPL purchased another item of machinery for \$60,000.
3. In 2007, JSPL had purchased three computers for a total sum of \$12,000. In 2009, these computers were sold for a total sum of \$3,000 and replaced with two, more technologically advanced computers each costing \$8,000.

**Required:**

- (a) State the rules for determining the Singapore tax resident status of a company.** (3 marks)
- (b) Compute the minimum tax liability of Jan Star Pte Ltd for the year of assessment 2010.** (27 marks)

**(30 marks)**

- 2 Kevin Kong is married to Kathy and they are both in their thirties and are Singapore citizens. They have two children. The first was born in 2005 and the second was born in 2009. Kevin is exempt from national service due to injuries sustained in his younger days.

Leonard is the younger brother of Kathy and is still single. Leonard is a citizen of Hong Kong and maintains his residence there on a permanent basis.

Kevin, Kathy and Leonard are partners in a partnership operating in Singapore with a profit/loss sharing ratio of 20%, 50% and 30% respectively. In the financial year ended 31 December 2008, the partnership had a tax adjusted loss of \$100,000 and capital allowances of \$50,000. Kevin and Kathy were able to fully utilise their allocated partnership losses and capital allowances against their other income for the year of assessment 2009 but Leonard was not able to offset his partnership loss and capital allowances as he did not derive any other income in Singapore in 2008.

For the financial year ended 31 December 2009, the partnership recorded a tax adjusted divisible profit of \$75,000. Kathy was paid interest of \$3,500 per month for the whole of 2009 on loans she had advanced to the partnership. None of the partners were paid a salary even though Kathy actively managed the partnership.

Kevin is employed and has exercised his employment in Singapore with the same employer since 1998. In 2009, he was paid a monthly salary of \$8,000, which was increased in October 2009 to \$9,000. He was entitled to two months contractual bonus based on his last drawn salary as at 31 December 2009. The bonus was paid to him on 15 January 2010. Statutory CPF contributions were made on his ordinary and additional wages. He was also provided with accommodation in an apartment with an annual value of \$45,000, which his employer rented at \$5,000 per month. Kevin contributed \$500 per month towards the rental of the apartment.

In addition to being a partner of the partnership, Kathy is also a part-time lecturer at the National University of Singapore and in 2009 she was paid a monthly salary of \$5,500, which was subject to statutory CPF contributions. She wrote a text book which was published in February 2009 and she received a royalty of \$33,000 on 15 December 2009.

Leonard purchased a tenanted apartment in Singapore in January 2009. In 2009, Leonard derived gross rental income of \$54,000 and incurred the following expenses in respect of the apartment:

	\$
Mortgage interest	25,600
Renovation costs	12,500
Valuation report	1,100

Leonard also undertook a consultancy project for a company in Singapore. Under the terms of the contract, Leonard was to be paid \$3,000 per day and his return airfares of \$10,000 and hotel accommodation of \$8,000 were to be borne by the company. Leonard spent a total of 12 days in Singapore to complete the project and withholding tax at 15% was levied by the company subject to any option being exercised.

**Required:**

- (a) For the year of assessment 2010, compute the minimum tax liability of:**

**(i) Kevin Kong; and** (7 marks)

**(ii) Kathy Kong.** (9 marks)

- (b) Explain the options available to Leonard for the taxation of his consultancy income and compute his minimum tax liability for the year of assessment 2010.** (9 marks)

**(25 marks)**

- 3** Jasper Production Pte Ltd (JP) is a goods and services tax (GST) registered trader. For the quarter ended 31 December 2009, the following transactions were recorded. All monetary amounts are stated before GST.
- (1) JP's total sales were \$1.2 million and total purchases from GST registered traders were \$700,000.
  - (2) JP received a monthly rental of \$4,500 for a furnished residential apartment. The annual value of the apartment according to the 2009 Valuation List was \$48,000.
  - (3) In 2007, JP purchased a commercial property for \$1.8 million. The legal completion of the purchase took place on 15 December 2009 and JP was invoiced by the GST registered developer for the balance of the purchase price of \$370,000, which was settled in January 2010. In addition, JP received an invoice from a GST registered law firm. Legal services in connection with the purchase of the commercial property were invoiced in the amount of \$4,500.
  - (4) JP was invoiced an amount of \$18,000 by a consultant in Singapore. The invoice was for valuation services on a commercial property in Malaysia that is owned by JP. The consultant performed the services in Malaysia. JP derived rental income of \$12,000 per quarter from the letting of the Malaysian commercial property.
  - (5) JP purchased an antique vase for \$100,000 from a GST registered trader. The vase did not serve any business purpose and was subsequently sold on 30 December 2009 for \$110,000.
  - (6) For the Christmas season, JP presented food hampers to 11 of its business associates. The food hampers were all purchased from GST registered retailers. JP paid \$400 each for ten of the food hampers and \$180 for the 11th food hamper.
  - (7) JP purchased return airfares for \$3,800 for an employee's home leave passage.

**Required:**

**Compute the amount of goods and services tax (GST) payable by or refundable to Jasper Production Pte Ltd for the quarter ended 31 December 2009. In the case of each item clearly identify the type of supply and any input tax that cannot be claimed.**

**(15 marks)**

- 4 Dodge City LLP was registered as a limited liability partnership and commenced business on 1 January 2008 with a paid up capital of \$50,000, contributed by Angela and Beatrice in proportion to their profit and loss sharing ratio of 60:40.

For the years of assessment 2009 and 2010, Dodge City LLP allocated tax adjusted losses/profits and capital allowances in the following manner even though in the financial year ended 31 December 2009 it showed an accounting loss of \$23,000:

Year of assessment	2009		2010	
	Losses (\$)	Capital allowances (\$)	Profits (\$)	Capital allowances (\$)
Angela (60%)	(60,000)	(3,000)	36,000	(7,200)
Beatrice (40%)	(40,000)	(2,000)	24,000	(4,800)
Total	<u>(100,000)</u>	<u>(5,000)</u>	<u>60,000</u>	<u>(12,000)</u>

Angela is married. In 2008 and 2009, she reported taxable net rental income of \$3,000 and \$5,000 respectively. Her husband reported employment income of \$200,000 and \$240,000 for 2008 and 2009 respectively. They have elected for spousal transfer for both years of assessment.

Beatrice is single and is employed. In 2008 and 2009, her employment income was \$40,000 and \$60,000 respectively. She encountered cash flow problems and in December 2008 borrowed a sum of \$15,000 from Dodge City LLP.

**Required:**

**Compute the assessable income for each of the years of assessment 2009 and 2010, showing the amount of unabsorbed losses and capital allowances to be carried forward, if any, of:**

(a) Angela; and (8 marks)

(b) Beatrice. (7 marks)

**(15 marks)**

- 5 The chief financial officer (CFO) of Pattern Precision Pte Ltd (PPPL) has raised the following tax questions relating to the financial statements of PPPL for the year ended 31 December 2009 and other tax related matters with its tax adviser.
- (1) The US parent company of PPPL conducts all its business activities in the US and has no presence outside the US. The board of directors of the US parent company conducts all board meetings in the US except in 2009 when one of the board meetings was conducted in Singapore. The CFO has asked whether the directors' fees derived by the non-resident directors of its US parent company for attending the one board meeting in Singapore are liable to Singapore income tax.
  - (2) The CFO noted that in 2009, PPPL recorded the following two transactions:
    - (i) PPPL paid gross interest of \$50,000 on a loan it had taken from a bank in Hong Kong. The loan agreement stipulated that any local tax payable whether by direct assessment or withholding tax is to be borne by the borrower.
    - (ii) On 1 July 2009, PPPL paid a royalty of \$50,000 to a non-resident company.The CFO has asked whether PPPL has any withholding tax obligations in respect of the above two transactions and if so what is the applicable withholding tax rate.
  - (3) PPPL was assessed to tax on estimated chargeable income for the year of assessment 2010. The tax assessed was paid within two weeks from the date the notice of assessment was received. The CFO has asked whether tax so assessed can be settled by instalments and the procedures that must be complied with in order to take advantage of the maximum number of instalments permitted.
  - (4) PPPL owns shares in a Singapore listed company. The CFO intends to sell the shares in the open market and realise gains on the disposal. The CFO is seeking confirmation on his understanding that such gains would qualify to be characterised as capital in nature and not chargeable to Singapore income tax.
  - (5) The CFO has noted that in some cases withholding tax has to be accounted for on certain payments to non-residents of Singapore even though no physical payments have been made. The CFO has asked whether his observation is correct and under what circumstances would such a rule be applicable.

**Required:**

**As the tax adviser to Pattern Precision Private Limited, provide answers to each of the questions listed as raised by the chief financial officer.**

**(15 marks)**

**End of Question Paper**