

Fundamentals Level – Skills Module

Taxation (Singapore)

Monday 6 June 2011

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 2011	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 (from 1 July 2007 to 31 August 2010)	20%	14.5%
Rates of CPF contributions (from 1 September 2010 to 28 February 2011)	20%	15.0%
Rates of CPF contributions (from 1 March 2011)	20%	15.5%
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 2011

	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 2011

Earned income	Normal (max)	Handicapped (max)
Below 55 years	\$1,000	\$2,000
55 to 59 years	\$3,000	\$5,000
60 years and above	\$4,000	\$6,000
Spouse 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 \$26,775 or 35% of s.10(1)(a) assessable income whichever is lower	
Course fees	\$5,500 (max)	
NSman	Normal 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	\$6,360 (max)	

ALL FIVE questions are compulsory and MUST be attempted

- 1** Hanafi Pte Ltd (HPL), incorporated in Singapore in 2000, is a trading company, which has been tax resident in Singapore since its incorporation. For the year ended 30 June 2010, HPL has a net profit before tax of \$600,000, after crediting/charging the following:

Income

- 1 Recovery of trade debt of \$40,000
The debt arose from an accounts receivable taken over from a related company, which had fully recognised the FRS 39 impairment loss on it.
- 2 Interest income from approved banks in Singapore of \$32,500
This comprises interest of \$30,000 paid by OCBC Bank upon maturity of a six-month fixed deposit placed on 1 August 2009, and interest of \$2,500 on current account accrued in the bank account with DBS Bank on 30 June 2010. Both OCBC Bank and DBS Bank are approved banks in Singapore
- 3 Dividend income of \$16,000
A one-tier tax exempt dividend received from a Singapore tax resident company.
- 4 Rental income from property in China of \$80,000
The net rental income of \$80,000 was kept in a bank account in China. 5% of this income was used to buy a printer outside Singapore for use by an overseas subsidiary.
- 5 Gain on the sale of an investment of \$250,000
HPL sold its entire investment in the shares of an unrelated company in Korea, which HPL had purchased in 2008. The divestment was required because HPL had breached the new foreign shareholding limit prescribed in Korea.

Expenses

- 6 Staff costs for the year included the following:
 - Salaries and CPF costs of \$620,000
 - Salary costs included a one-off retrenchment benefit of \$120,000 paid to lay off one worker due to the permanent closure of a division.
 - CPF contributions included an amount of \$10,440 in respect of a Singapore employee, aged 33, on his monthly salary of \$6,000. No bonus was paid to the said employee.
 - Medical expenses of \$5,500, which included dental insurance of \$2,800. HPL did not implement any portable medical benefit scheme for its employees.
 - Rental of passenger cars of \$8,000 for use by sales directors for their official duties.
- 7 Miscellaneous expenses included the following:
 - Praying expenses incurred during the seventh lunar month in September 2009 of \$850.
 - Cash of \$25,000 lost through theft by the previous full time cashier who has left the country and cannot be found.
- 8 Professional fees included the following:
 - Legal fees of \$15,000 paid to a lawyer to recover a trade debt from the sale of goods made one year ago.
 - Legal fees of \$12,000 paid to a law firm to appeal against the Comptroller's disallowance of borrowing costs incurred in the year 2006 in the High Court.
- 9 Interest expenses included the following:
 - Interest incurred on a late payment to a trade creditor of \$2,400.
 - Interest on the late payment of CPF contributions of \$1,200.

10 Foreign exchange loss comprised the following:

- A realised exchange loss on trading stocks of \$2,300
- A realised exchange loss on the repayment of a non-trade loan of \$20,000

11 Donations comprised the following:

- Cash donations to the Autism Association (Singapore), an approved institution of public character, on 25 January 2010 of \$10,000.
- A donation of beds and massage chairs, valued at \$20,000 to the Assisi Hospice, an approved institution of public character, on 23 May 2010.

12 Depreciation for new and existing assets totalled \$240,000.

The total additions to HPL's fixed assets for the year ended 30 June 2010 comprised:

Date of purchase	Description	\$
18 August 2009	Laptops and printers	12,000
21 December 2009	10 identical hand phones (at \$900 each)	9,000
30 March 2010	Office furniture	20,000
19 June 2010	Second-hand van	48,000
Total		89,000

HPL had a nil balance of s.19A claim assets as at 1 July 2009

Required:

- (a) **Compute the tax liability of Hanafi Pte Ltd for the year of assessment 2011, claiming the maximum deductions and capital allowances.** (27 marks)
- (b) **State THREE advantages of being a tax resident company over a non-resident company when ascertaining its Singapore tax liability.** (3 marks)

(30 marks)

- 2 Isabelle Choy, aged 46, is a Singapore citizen married to Rainer Choo, aged 48, who has completed national service in the police force. The couple have a 14-year-old daughter.

Rainer was unemployed for the year 2010, but he has substantial savings and the interest earned from his deposits at approved banks in Singapore for the whole of the year 2010 amounted to \$10,000.

Isabelle works as a fashion designer in an established Singapore company and she received a salary of \$13,000 per month for the year 2010. In addition, she was entitled to the following bonuses and benefits:

Bonus

- A half month salary guaranteed 2009 annual bonus paid in January 2010 of \$6,500
- A one month salary guaranteed 2010 annual bonus paid in January 2011 of \$13,000
- Two months salary special bonus, declared and paid in January 2010 of \$26,000
- Three months salary special bonus, declared and paid in January 2011 of \$39,000

Stock option

Isabelle was granted an employee stock option on 1 January 2010. This entitled her to purchase up to 100,000 shares within five years at an option price of \$1.30 per share. She exercised the option to purchase the entire 100,000 shares on 25 December 2010 when the market price was \$3.00 per share. Two days later, she sold the entire 100,000 shares at a price of \$4.00 per share, realising a profit of \$270,000.

Company car

Isabelle was provided with a new company car and all of the running expenses for the car were paid by the company. The cost of the car was \$190,000 and it had an estimated residual value of \$50,000. For the year 2010, it was estimated that 10,000 km of Isabelle's travel were used for private purposes.

Apartment

Isabelle was provided with an unfurnished apartment owned by the company from 1 January 2010. The annual value of the apartment is \$72,000.

Other benefits

- Cost of air-tickets of \$2,400 provided to her in 2010 for one return holiday passage to a location in Asia.
- A birthday gift of \$400 plus belated Christmas hamper worth \$200 on 27 December 2010.

In the year 2010, Isabelle took up a 25% stake in a restaurant business set up as a limited liability partnership (LLP), the remaining 75% of the shares were held equally by three friends. Up to 31 December 2010, Isabelle had contributed capital of \$25,000. The LLP incurred heavy losses during the first year of operation. Isabelle's 25% share of the LLP's \$1 million tax adjusted loss for the year of assessment 2011 was \$250,000.

Unlike her husband, Isabelle placed her savings in an established pawnshop in Singapore earning interest of \$8,800 for the year 2010.

In the year 2010, Isabelle earned a gross royalty of \$3,000 from a book she had written on her travels on a freelance basis. The production of the book was undertaken by the publisher and hence she incurred minimal expenses in writing her book.

On 31 December 2010, Isabelle donated \$2,000 cash to the All Saints Home, an approved institution of public character.

Required:

- (a) **Compute the Singapore tax liability of Isabelle for the year of assessment 2011, assuming she would like to pay the minimum amount of tax.** (21 marks)
- (b) **Briefly explain the TWO types of transfers that are currently allowed between a married couple.** (4 marks)

(25 marks)

- 3 (a) State the circumstances in which a business is legally liable to register for goods and services tax (GST) in Singapore and by when the Comptroller must be notified of such liability. (4 marks)
- (b) State the requirements that a trading business which is not legally liable to register for GST needs to satisfy in order to register voluntarily; and the potential advantages of doing so. (3 marks)
- (c) Hector Manufacturing Pte Ltd (HMPL) has been registered for GST since its incorporation in 2008. For the quarter ended 31 March 2010, HMPL recorded the following transactions:

	\$
Sales to local entities	500,000
Export sales	100,000
Re-billing of the rental cost of the office to a related company that occupies part of the office	5,000
Imports of trading stock	200,000
Purchase of equipment	50,000
Salaries and CPF	80,000
Rental of office premise	45,000
Rental of apartment for staff	30,000
Repair costs of lorries and vans	3,000
Monthly subscription fees to a golf club	2,000

All monetary values are stated exclusive of applicable GST and all payments to external parties are made to GST-registered persons.

Required:

Compute the amount of goods and services tax (GST) payable by or refundable to Hector Manufacturing Pte Ltd for the quarter ended 31 March 2010. (8 marks)

(15 marks)

- 4 Systematic Solutions Pte Ltd (SSPL) is a company incorporated and tax resident in Singapore. On 1 March 2010, SSPL engaged the services of an established education provider, Overseas Corporate Consultancy Ltd (OCCL), based in Country X, to provide the following training services in Singapore during the month of May 2010:

- Making available textbooks, workbooks and guidebooks during the period of training in Singapore

For a fixed sum of \$400,000, SSPL is allowed to use the technology and information contained in the course materials (including textbooks, workbooks and guidebooks) provided in soft copies on the art of geomancy. The ownership of these course materials is copyrighted and remains with OCCL, which is merely granting SSPL the right to use such copyrights during the training.

- Consultancy services for curriculum planning

For a fixed sum of \$200,000, a team of experts who are employees of OCCL and tax resident in Country X, will come to Singapore to guide the local team on all matters relating to the development of expertise in the future teaching of geomancy. The experts will also answer any subsequent queries through email communications from the date they leave Singapore until 30 June 2011, at no additional charge.

Country X has not concluded any tax treaty with Singapore.

Required:

- (a) (i) **Advise Systematic Solutions Pte Ltd (SSPL) on the Singapore tax implications arising from the payment of the fixed sum of \$400,000 to Overseas Corporate Consultancy Ltd (OCCL) for the course materials made available during the training;** (7 marks)
- (ii) **State how your answer to part (i) would differ if the fee paid was only \$50,000 for an outright purchase of the course materials in hard copies with no guidance from OCCL and SSPL did not have the right to exploit the copyright of the information.** (2 marks)
- (b) **Advise SSPL on the Singapore tax implications arising from the payment of the fixed sum of \$200,000 to OCCL for the consultancy services rendered by the experts in Singapore.** (6 marks)

(15 marks)

- 5 (a) The new accountant at Errand Pte Ltd (EPL) has noted the following errors when he reviewed the income tax return, tax computation and supporting documents of EPL for the year 2009:
- EPL had omitted to report commission income from the provision of services to customers; and
 - EPL had made a transposition error in its deductible expense claim, which resulted in a higher claim being made.

Required:

Advise Errand Pte Ltd of the FOUR levels of penalties that may be imposed in respect of the tax underpaid as a result of these errors, clearly identifying the circumstances in which each level will apply. (4 marks)

- (b) Michael and Felicia set up a general partnership on 1 January 2009, contributing \$60,000 and \$40,000 respectively of capital to the partnership. They agreed to share profits and losses in the ratio based on the capital contributions made by each of them.

For the year ended 31 December 2009, the partnership incurred tax adjusted losses and capital allowances of \$300,000 and \$50,000 respectively. Neither Michael nor Felicia had any other sources of income in the year 2009.

During the year ended 31 December 2010, the partnership made a net profit of \$240,000, after taking into account the following items:

- Salary of \$50,000 paid to Michael, who is the working partner.
- Depreciation of \$24,000 for office assets and renovations.
- Cash donations of \$8,000, of which only half were paid to approved institutions of public character.

For the year 2010, the partnership was entitled to capital allowances of \$3,000 in respect of office furniture and in addition, incurred \$18,000 on office renovations as follows:

	\$
Electrical installations	2,400
General lighting	3,200
Fixed partition	1,200
False ceilings and cornices	3,200
Fee to interior designer	8,000
	<hr/>
	18,000
	<hr/>

Required:

Calculate the assessable income of Michael and Felicia respectively for the year of assessment 2011, clearly identifying unabsorbed amounts, if any, which can be carried forward. (11 marks)

(15 marks)

End of Question Paper