Professional Pilot Paper – Options module

Advanced Taxation (Singapore)

JUNE 2012 PILOT QUESTION 1

Paper P6 (SGP)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted
Section B – TWO questions ONLY to be attempted.

Tax rates and allowances are on pages 2–4

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.

ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1 You should assume that the tax rates and allowances for the year of assessment 2012 will continue to apply for the foreseeable future.
2 All apportionments should be made to the nearest month.
3 Calculations and workings need only be made to the nearest $.
4 All workings should be shown.

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

Stamp duty

Purchase or transfer of immovable property	
Purchase price or market value	
Every $100 or part thereof of the first $180,000	$1
Every $100 or part thereof of the next $180,000	$2
Thereafter, every $100 or part thereof	$3
Transfer of shares	
Purchase price or net asset value	
Every $100 or part thereof	$0.20

Corporate income tax rate

Year of assessment 2012	17%

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	152,500

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	200,000

Central Provident Fund (CPF)

Contributions for individuals below the age of 50 years and earning more than $1,500 per month

	Employee	Employer
Rates of CPF contributions (from 1 September 2010 to 28 February 2011)	20%	15·0%
Rates of CPF contributions (from 1 March 2011 to 31 August 2011)	20%	15·5%
Rates of CPF contributions (from 1 September 2011)	20%	16·0%

Maximum monthly ordinary wages (OW) attracting CPF	
– prior to 1 September 2011	$4,500
– from 1 September 2011	$5,000
For the year 2011 (ie from 1 January 2011 to 31 December 2011)	
Maximum annual ordinary wages (OW) attracting CPF	$56,000
Maximum annual additional wages (AW) attracting CPF	$79,333 less OW subject to CPF

Personal income tax for the year of assessment 2012

	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 2012

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 cumulative WMCR	100%
Maximum relief per child	$50,000
Grandparent caregiver relief	$3,000
Life assurance relief	$5,000 (max)
Voluntary CPF contribution of self-employed	Capped at $30,600 or 36% of s10(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)

Sample question for Section A

Universal Technology Corporation Inc (UTCI), a sophisticated electronics company incorporated and tax resident in the United States (US), is planning to set up a wholly-owned subsidiary, Universal Technology Pte Ltd (UTPL) with new fully automated plants in Singapore at an expected cost of $36 million.

The Singapore Economic Development Board (EDB) has given in-principle approval to grant a 50% investment allowance on new investment of $ 36 million to be incurred by UTPL during the qualifying investment period of three years from 1 January 2011 to 31 December 2013. The expenditure on the automated plants is expected to be $12 million for each of the years 2011 to 2013. Whilst these assets qualify to be treated as 'plant' for capital allowances, they are not eligible for enhanced claims under the productivity and innovation credit incentive.

As an alternative, EDB is giving UTPL the option to go for the development and expansion incentive for a period of only five years commencing from 1 January 2011. The incentive accords a concessionary tax rate of 10% and with a base profit of zero.

The financial controller of UTPL has made the following projections for the next three years:

For the year ended 31 December

	2011	2012	2013
Net profit before tax and depreciation	6.0	12.0	18.0
Less: Depreciation	1.2	2.4	3.6
Net profit before tax	4.8	9.6	14.4

He expects net profit before tax to increase by $0.5 million per year for each of the years from 2014 to 2016. The depreciation policy for the machines is straight line basis over 10 years.

Required:

As a tax consultant to Universal Technology Pte Ltd (UTPL), you have been tasked to prepare a report to advise the directors of UTPL on the following:

(i) Distinguish the investment allowance (IA) incentive from the normal capital allowances (5 marks)

(ii) Assuming that the new Singapore subsidiary is eligible for the IA incentive, compute its income tax liability and construct the IA account for each year of assessment (YA) from YAs 2012 to 2017. (14 marks)

(iii) Explain the key features and benefits of the development and expansion incentive (DEI). (4 marks)

(iv) Assuming that UTPL is eligible for DEI, compute the income tax liability of UTPL for each YA from YAs 2012 to 2017. (4 marks)

(v) Based on the overall tax liability of UTPL under the two tax incentives, explain which incentive you would recommend UTPL to take up, assuming it is eligible for both. (2 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format and presentation of the report and the effectiveness with which the information is communicated. (4 marks)

(33 marks)

Answers

Answers to sample questions
Section A

Universal Technology Corporation Inc (UTPL)

To: The Directors of UTPL
From: Tax Consultant
Date: Current date

Report on the Singapore tax incentives available to the company

(i) Investment allowance (IA) distinguished from capital allowance (CA)

Scope of allowance – CAs can be claimed for plant and machinery used in a trade whereas IAs can only be claimed provided the company intends to incur fixed capital expenditure (FCE) in approved projects.

Qualifying period – For CAs, the claim can made over one or three years, or over the prescribed tax useful life. For IAs, the qualifying period is specified by the Minister and cannot exceed five years from the investment day.

Quantum of allowance – For CAs, the entire qualifying cost can be claimed whereas for IAs, the Minister specifies a prescribed percentage (up to 100%) of FCE.

Options available for trade losses – Unutilised CAs can be carried forward, carried back or transferred to a group member for set-off against assessable income. On the other hand, unutilised IAs can only be carried forward.

Sale of qualifying assets – There are no restrictions on sales of assets that are claimed under CAs. On the other hand, sales of assets cannot take place within the qualifying period, or within two years after the end of the qualifying period without the prior approval of EDB.

(ii) Computations of income tax liability and investment allowance account

Income tax computations
with investment allowances

Year of assessment	2012	2013	2014	2015	2016	2017
For the year ended 31 Dec	2011	2012	2013	2014	2015	2016
Net profit before tax	4,800,000	9,600,000	14,400,000	14,900,000	15,400,000	15,900,000
Add: depreciation	1,200,000	2,400,000	3,600,000	3,600,000	3,600,000	3,600,000
Adjusted profit	6,000,000	12,000,000	18,000,000	18,500,000	19,000,000	19,500,000
Less: capital allowances						
(claimed over three years)	(4,000,000)	(8,000,000)	(12,000,000)	(8,000,000)	(4,000,000)	-
	2,000,000	4,000,000	6,000,000	10,500,000	15,000,000	19,500,000
Less: investment allowances utilised	(2,000,000)	(4,000,000)	(6,000,000)	(6,000,000)	–	
Chargeable income	–	–	–	4,500,000	15,000,000	19,500,000
Less: partial exemption						
1st 10,000 @ 75%	–	–	–	(7,500)	(7,500)	(7,500)
Next 290,000 @ 50%				(145,000)	(145,000)	(145,000)
	–	–	–	4,347,500	14,847,500	19,347,500
Income tax @ 17%	–	–	–	739,075	2,524,075	3,289,075
Total tax payable						6,552,225

Investment allowance account

Year of assessment	2012	2013	2014	2015	2016	2017
For the year ended 31 Dec	2011	2012	2013	2014	2015	2016
Balance brought forward	–	4,000,000	6,000,000	6,000,000	–	–
Investment allowance – 50% of $12m	6,000,000	6,000,000	6,000,000	–	–	–
	6,000,000	10,000,000	12,000,000	6,000,000	–	–
Investment allowance utilised	(2,000,000)	(4,000,000)	(6,000,000)	(6,000,000)	–	–
Balance carried forward	4,000,000	6,000,000	6,000,000	–	–	–

(iii) Key features and benefits of DEI

Tax relief – A qualifying company may be taxed at a reduced rate of not less than 5% on “expansion income”, which is the income from qualifying activities which exceeds its average corresponding income for the three years immediately preceding the commencement day.

Qualifying conditions – To qualify, a company must be engaged in the manufacturing or increased manufacturing of any product from any industry that would be of economic benefit to Singapore or the same qualifying activities as pioneer service companies.

Relief period – The initial tax relief period may be granted for a period not exceeding ten years, and this may be extended for up to five years at a time, subject to a maximum total period of 20 years.

(iv) Computations of income tax liability under DEI

Income tax computations
Development and Expansion Incentive

Year of assessment	2012	2013	2014	2015	2016	2017
For the year ended 31 Dec	2011	2012	2013	2014	2015	2016
Chargeable income (as in (ii)	2,000,000	4,000,000	6,000,000	10,500,000	15,000,000	19,500,000
Less: partial exemption (Tutorial note)	–	–	–	–	–	(152,500)
	2,000,000	4,000,000	6,000,000	10,500,000	15,000,000	19,347,500
Income tax @ 10% / 17% (YA 2017)	200,000	400,000	600,000	1,050,000	1,500,000	3,289,075
Total tax payable						7,039,075

Tutorial note: Partial exemption is only available if the company pays the prevailing corporate tax rate of 17%

(v) Recommendations

The total tax liability for the company under the IA incentive for the six YAs from YA 2012 to 2017 is $6,552,255. This compares with the total liability of $7,039,075 under the DEI for the same period.

I would therefore recommend that the company take up the IA incentive in view of the lower total tax liability which will save the company $486,850.

		Marks
Section A		
(i)	**Investment allowance distinguished from development and expansion incentive (DEI)**	
	Scope of allowance	1
	Qualifying period	1
	Quantum of allowance	1
	Options available with trade losses	1
	Sale of qualifying assets	1
		5
(ii)	**Income tax computations with investment allowance**	
	Tax adjustment for depreciation for the 6 YAs	1.5
	Capital allowances for the 6 YAS	2.5
	Investment allowances utilised for the 6 YAs	3.0
	Partial tax exemption for the 6 YAs	1.5
	Tax liability for the 6 YAs	1.5
	Investment allowance account	
	Balance brought forward for the 6 YAs	2
	Investment allowance eligible for the 6 YAs le for the 6 YAs	2
	Balance carried forward for the 6 YAs	2
		16
(iii)	**Key features and benefits of DEI**	
	Tax relief	1
	Qualifying conditions	2
	Relief period	1
		4
(iv)	**Income tax computations with DEI**	
	Chargeable income for the 6 YAs – per part (ii)	1
	Partial tax exemption for the 6 YAs	1
	Tax liability – Years 2012 to 2016 @ 10%	1
	– Year 2017 @ 17%	1
		4
(v)	**Recommendations**	
	Quantify tax benefits under the two incentive schemes	1
	Recommendation	1
		2
Professional marks		
Appropriate format and presentation of the report		1
Effectiveness of communication		1
Structure including relevant headings		1
Logical flow		1
		4
		35