

Fundamentals Level – Skills Module

Taxation (Singapore)

Thursday 10 December 2015



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.

The Association of Chartered Certified Accountants

Paper F6 (SGP)

ACCA

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 2015	17%
Corporate tax rebate (capped at \$30,000)	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 2014 to 31 December 2014)

	Employee	Employer
Rates of CPF contributions	20%	16%
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 2013 to 2015

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 2013 to 2015.

Personal income tax for the year of assessment 2015

	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 2015

Earned income	Normal (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 (max)	
Handicapped spouse relief	\$5,500 (max)	
Qualifying child relief (per child)	\$4,000	
Handicapped child relief (per child)	\$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		
Not living in the same household	\$5,500	
Living in the same household	\$9,000	
Handicapped parent relief		
Not living in the same household	\$10,000	
Living in the same household	\$14,000	
Grandparent caregiver relief	\$3,000	
Dependent handicapped sibling relief	\$5,500	
Life assurance	\$5,000 (max)	
Voluntary CPF contribution of self-employed	Capped at \$30,600 or 36% of assessable trade 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)	

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

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 Eileen started working as a manager of IA Associate LLP in December 2014 earning a monthly salary of \$6,000. In 2014, Eileen also received interest income of \$20,000 from an approved bank in Singapore and she remitted rental income of \$60,000 from a property which she owns in Australia. Eileen had no other sources of income in 2014.

On 1 May 2015, Eileen had not received any notification from the Inland Revenue Authority of Singapore (IRAS) to file a tax return for the year of assessment 2015.

What should be Eileen's next step in relation to her chargeability to tax for 2014?

- A Notify the IRAS immediately of her chargeability to tax as she has chargeable income of \$86,000
B Notify the IRAS immediately of her chargeability to tax as she has chargeable income of \$26,000
C Notify IRAS immediately of her chargeability to tax as she has chargeable income of \$66,000
D Do not notify IRAS of her chargeability to tax as she has chargeable income of \$6,000 only
- 2 The financial year end of Candy Pte Ltd (CPL) and Desiree Pte Ltd (DPL) is 31 December. The following data has been extracted from the management accounts of CPL and DPL:

As at 31 December 2014	CPL	DPL
Revenue	\$800,000	\$1,200,000
Tax adjusted profit	\$100,000	\$(200,000)

Which of the following correctly describes the obligations of Candy Pte Ltd and Desiree Pte Ltd to file estimated chargeable income (ECI) by 31 March 2015?

- A Neither Candy Pte Ltd nor Desiree Pte Ltd are required to file an ECI
B Both Candy Pte Ltd and Desiree Pte Ltd must file an ECI
C Only Desiree Pte Ltd needs to file an ECI
D Only Candy Pte Ltd needs to file an ECI
- 3 Advantage Pte Ltd (APL), a goods and services tax (GST) registered trader, has decided to stop selling goods to Basel Pte Ltd (BPL) after several futile attempts to recover its outstanding debts.

As at 30 June 2015, APL had the following outstanding trade balances due from BPL:

Date of supply	Invoice amount (including GST)
1 May 2014	\$1,070
1 March 2015	\$2,140
1 June 2015	\$4,280

BPL went into liquidation on 1 July 2015. The liquidator has informed all creditors that BPL does not have the ability to repay any debts and returned the goods which were invoiced by APL on 1 June 2015.

What is the amount of bad debt relief which Advantage Pte Ltd can claim in its goods and service tax (GST) return for the quarter ended 30 September 2015?

- A \$490
B \$210
C \$70
D \$350

- 4 Andrew is a citizen of Country U, which does not have any tax treaty with Singapore. Andrew worked in Singapore during the following periods:

Year of assessment	Period of work in Singapore	No of days
2013	1 September 2012 to 31 December 2012	122
2014	1 January 2013 to 31 December 2013	365
2015	1 January 2014 to 28 February 2014	59

For which year(s) of assessment will Andrew be treated as a tax resident in Singapore for tax purposes?

- A Years of assessment 2014 and 2015 only
B Year of assessment 2014 only
C Years of assessment 2013 and 2014 only
D Years of assessment 2013, 2014 and 2015
- 5 Vanessa was provided with the following benefits in kind in the calendar year 2014:

Company car	
Annual leasing cost of the car	\$48,000
Total mileage	10,000 km
Business use	60%

The total petrol cost is borne by Vanessa's employer.

Group medical insurance premium	\$6,000
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The policy has been taken out by Vanessa's employer for all staff.

What is Vanessa's total taxable benefit in kind for the year of assessment 2015?

- A \$27,171
B \$26,971
C \$21,171
D \$20,971
- 6 Fun Limited, a trading company, recorded the following credits in the financial statement for the year ended 31 December 2014:

	\$
Wage credit scheme	3,000
Productivity and innovation credit (PIC) bonus	15,000
PIC cash payout	30,000
Grant for the acquisition of automated equipment	10,000

What is the amount of credits on which Fun Limited will be taxable in the year of assessment 2015?

- A \$18,000
B \$28,000
C \$48,000
D \$58,000

- 7 The tenancy termination agreement between Landlord Pte Ltd and Tenant Pte Ltd provided for the following:

	\$
Lump sum compensation for early termination of the tenancy agreement	60,000
Reinstatement and repair costs	20,000

What is the amount of output goods and services tax (GST) which Landlord Pte Ltd must charge on the above payments?

- A \$5,600
- B \$4,200
- C \$1,400
- D \$0

- 8 Eureka Pte Ltd (EPL) uses the total asset method to compute its interest adjustment.

An extract from EPL's key financial data for the financial year ended 31 December 2014 is as follows:

	\$
Interest free loan to Benson, a director of EPL	100,000
Interest free loan to a related company	200,000
Investment in Star Ltd, a company listed on the Singapore Exchange	300,000
Total assets	1,000,000
Total interest expense	100,000
One-tier dividend received from Star Ltd.	10,000

What is the amount of interest expense which will NOT be deductible against Eureka Pte Ltd's trading operations for the year of assessment 2015?

- A \$50,000
- B \$30,000
- C \$20,000
- D \$60,000

- 9 Bruce, the chief financial officer of Grand Ltd (GL), received the following remuneration in cash and kind for the year ended 31 December 2014:

Annual salary	\$180,000
Annual bonus	\$60,000
Long service award (a branded watch) – open market value	\$10,000

In 2014, the related CPF contributions are as follows:

	Bruce's portion	GL's portion
Annual salary	\$12,000	\$9,600
Annual bonus	\$12,000	\$9,600 (Note)

Note: The CPF contribution made in excess of the statutory requirement by GL is \$5,600.

What is Bruce's taxable employment income for the year of assessment 2015?

- A \$240,000
- B \$245,600
- C \$250,000
- D \$255,600

- 10** Mistral Pte Limited (MPL) is a company incorporated and tax resident in Singapore. On 15 September 2015, MPL received an invoice of \$1,000 for late payment interest on an outstanding trade balance of \$100,000 for parts supplied by X Ltd. X Ltd is a company incorporated and tax resident in Country X.

There is no double taxation agreement between Singapore and Country X.

MPL settled the late payment and outstanding trade balance, a total of \$101,000, on 15 October 2015.

What is the amount of withholding tax, if any, which MPL must withhold from the payment made to X Ltd and by when must any tax withheld be paid to the Inland Revenue Authority of Singapore?

- A** Withholding tax of \$150 is payable by 15 December 2015
- B** Withholding tax of \$150 is payable by 15 November 2015
- C** Withholding tax of \$150 is payable by 15 October 2015
- D** No withholding tax is payable

- 11** During the financial year ended 30 December 2014, Rail Pte Limited (RPL) bought the following items of plant and equipment:

Lorry	
Cash price	\$160,000
Down payment paid on 30 June 2014	\$16,000
Amount per monthly instalments – capital	\$4,000
– interest	\$400
Number of monthly instalments	36
First instalment – paid on 30 June 2014	
Subsequent instalments – due and payable at the end of each month, commencing on 31 July 2014	
Venetian blinds	\$4,800

RPL meets all the conditions for a maximum capital allowances claim.

What is the maximum amount of capital allowances which Rail Pte Ltd can claim for the year of assessment 2015?

- A** \$19,467
- B** \$16,267
- C** \$18,133
- D** \$14,933

- 12** Matthew relocated to Singapore on 1 January 2014 to set up the Singapore subsidiary of Parrot Limited (PL). He was previously the chief executive officer of PL in Australia.

Matthew's relocation package comprised:

- \$10,000 relocation allowance; and
- \$ 8,000 air tickets to Singapore for him and his family, to take up the assignment.

Matthew is also entitled to return air tickets for him and his family costing \$12,000 for his yearly home leave to Australia. As all the relocation expenses have been borne by PL, Matthew did not incur any.

What is the total amount on which Matthew will be assessed to tax in Singapore in the year of assessment 2015?

- A** \$22,000
- B** \$14,000
- C** \$12,400
- D** \$13,600

- 13** In the financial year ended 31 December 2014, Kool Pte Ltd (KPL) made the following donations to the Community Chest of Singapore, an institution of public character:

Type of donation	Amount
Paintings (appraised value as provided by a renowned private art collector)	\$25,000
Shares of A Ltd, a company listed on Singapore Exchange (SGX) (market value on the day the title to the shares was transferred)	\$30,000
New computers:	
– purchase price to KPL	\$38,000
– assessed value ascribed to the computers by Infocomm Development Authority of Singapore	\$35,000

What is the total tax deduction which Kool Pte Ltd can claim for the donations made in the year of assessment 2015?

- A** \$62,500
- B** \$75,000
- C** \$87,500
- D** \$137,500

- 14** In the year ended 31 December 2014, Valerie had the following income from an apartment purchased using her own savings and a mortgage loan:

	\$
Rental income	48,000
Less	
Mortgage interest	(9,000)
New air conditioner	(3,000)
Net profit	<u>36,000</u>
Partnership income	
Share of tax adjusted losses	(20,000)

What is Valerie's total income for Singapore tax purposes in the year of assessment 2015?

- A** \$19,000
- B** \$16,000
- C** \$39,000
- D** \$25,000

- 15** Following the closure of its factory, Taylor Pte Ltd (TPL) retrenched all of the employees of its manufacturing operations and made the following payments:

	\$
Payments in lieu of notice	30,000
Outplacement support benefits	10,000
Contractual retrenchment payments	50,000
<i>Ex-gratia</i> retrenchment payments	45,000
	<hr/>
	135,000

What is the total tax deduction Taylor Pte Ltd can claim for these retrenchment payments?

- A** \$40,000
- B** \$85,000
- C** \$80,000
- D** \$125,000

(30 marks)

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 (a)** Majorie, 46 years old and married, is a business development manager with Great International Pte Ltd (GIPL). Majorie's daughter, Chloe, 12 years old and an Australian citizen, lives with Majorie and is a student at the Australian International School in Singapore. Majorie's husband, Richard, works and lives in Australia. His annual income in 2014 is higher than Majorie's.

For the calendar year 2014, Majorie derived the following employment income and benefits from GIPL:

1. A monthly salary of \$10,000.
2. A fully furnished rent free apartment. The total rent payable per the tenancy agreement is \$60,000 and the annual value of the apartment is \$36,000.
3. A monthly utilities allowance of \$200.
4. Tuition fees for Chloe totalling \$34,000.
5. A \$100 gift voucher on her birthday.
6. On 31 May 2014, Majorie exercised the stock option granted to her in 2012 in respect of her employment with GIPL's Australian subsidiary to acquire 10,000 shares in GIPL at the exercise price of \$2. The shares of GIPL are listed on the Singapore Exchange and traded at \$3 each at the close of business on 31 May 2014.
7. On 31 December 2014, Majorie was awarded 5,000 shares in GIPL for meeting the year's sales target. The shares of GIPL traded on the Singapore Exchange at \$4 each at the close of business on 31 December 2014.

In addition, Majorie rented a room in her Singapore apartment to an Australian friend throughout the year 2014, at a monthly rental of \$1,000.

Required:

Compute the minimum Singapore tax payable for Majorie in the year of assessment 2015. (8 marks)

- (b)** Majorie proposes to lend \$25,000 to her cousin, Fiona, in Australia. Fiona will pay Majorie interest on the loan.

Required:

Explain how the interest income received by Majorie from Australia will be treated for tax purposes in Singapore. (2 marks)

(10 marks)

- 2 Witan Pte Ltd (WPL) is a goods and services tax (GST) registered trader. For the quarter ended 30 September 2014, WPL had the following transactions, all with GST registered traders. All amounts are stated excluding GST where applicable:

	\$
Sales (30% export sales and 70% local sales)	980,000
Import of goods	300,000
Local purchases	500,000
Rental of warehouse	48,000
Utilities charges for warehouse	2,000
Rental of private car	6,000
Annual dinner and dance (40% of the cost was incurred for the family members of staff)	12,000
Shipping charges for export sales	1,000
Cash donations	20,000

Required:

- (a) Compute the amount of goods and services tax (GST) payable by or refundable to Witan Pte Ltd for the quarter ended 30 September 2014. For each item, clearly identify the type of supply together with the amount of output/input tax which is chargeable/payable. (8 marks)
- (b) State the circumstances in which GST does and does not have to be charged on all deposits collected from customers. (2 marks)

(10 marks)

- 3 David, Edwin and Francis are partners in DEF Trading. They have contributed the following capital to the partnership:

David	\$300,000
Edwin	\$200,000
Francis	\$100,000

Interest of 5% per annum is payable on the capital contributed.

The partnership agreement also provides for the following:

	David	Edwin	Francis
Salaries (per annum)	–	\$200,000	\$200,000
Profit sharing ratio	3	2	1

The following information is relevant to the year ended 31 December 2014:

- DEF Trading had an adjusted trading loss of \$100,000.
- Francis took groceries with a sales value of \$12,000 (cost \$10,000) from DEF Trading.
- DEF Trading purchased a new van costing \$90,000 and a computerised sorting system costing \$100,000.
- DEF Trading claimed the maximum cash payout in respect of the computerised sorting system. However, the partners agreed that the cash payout will not be distributed but will be used to fund the acquisition of a new computerised system in the future.

Required:

- (a) State the amount of cash payout and how it will be treated for tax purposes. (2 marks)
- (b) Compute the adjusted profit/loss and capital allowances of DEF Trading allocated to each of the three partners for the year of assessment 2015. (8 marks)

(10 marks)

- 4 Island Pte Ltd (IPL) operates nurseries in Singapore. In addition, IPL has rental and dividend income, both of which are considered as passive sources of income. IPL has the following agreed trading losses and capital allowances brought forward as at 1 October 2014:

Year ended	Trading losses	Capital allowances
30 September 2013	\$300,000	\$100,000
30 September 2014	\$40,000	\$10,000

For the year ended 30 September 2015, IPL's management expects an adjusted profit of \$1,500,000 from the nurseries operations, rental loss of \$20,000 and a one-tier dividend of \$10,000. It also estimates that a capital allowance claim of \$200,000 will be made for the year of assessment 2016.

Details of IPL's shareholdings are as follows:

Shareholder	30 September 2013	31 December 2013 and 1 January 2014	30 September 2014	31 December 2014 and 1 January 2015	30 September 2015	31 December 2015 and 1 January 2016
Alan	75%	50%	25%	15%	5%	0
Brian	25%	10%	0	0	0	0
Cathy	0	20%	25%	25%	25%	25%
David	0	20%	50%	60%	70%	75%
Total	100%	100%	100%	100%	100%	100%

Required:

- (a) Determine whether the tax losses and capital allowances brought forward can be utilised in the year of assessment 2016, clearly identifying the dates of comparison used. (6 marks)
- (b) Determine the chargeable income before partial tax exemption of Island Pte Ltd for the year of assessment 2016. State specifically the order of claim of the loss items. (4 marks)

(10 marks)

- 5 Rachel, a Singapore citizen, is 40 years old and single. She accepted an offer to join Y Associates on 1 February 2014. Prior to joining Y Associates, Rachel was working with K Associates.

Details of Rachel's income in the calendar year 2014 are as follows:

A. Employment income

	\$
K Associates	
Monthly salary – January 2014	18,000
2013 contractual bonus	36,000
Y Associates	
One-time joining bonus	6,000
Monthly remuneration	
Monthly salary	20,000
Monthly car allowance (Rachel used this allowance to lease a car at a rental of \$2,000 per month)	3,000
Monthly reimbursement of parking fees	200
Monthly entertainment allowance (Rachel has estimated that 80% was expended on entertaining business clients)	3,000
Reimbursement of dental care costs (this reimbursement scheme is available to all the staff of Y Associates)	500

B. Partnership

Rachel is a sleeping partner of Grandeur LLP. Grandeur LLP was set up on 1 January 2013 when Rachel contributed capital of \$10,000.

In the year ended 31 December 2013, Rachel's share of the partnership's adjusted loss was \$50,000 and she utilised the maximum possible adjusted loss of \$10,000 against her income in the year of assessment 2014.

In the year ended 31 December 2014, Rachel's share of the partnership's adjusted profit was \$30,000 and she contributed additional capital during the year of \$10,000.

C. Other income

Rachel had the following income in the year 2014:

- Dividend of \$10,000 received in Singapore from her investment in AusCo, a private Australian company.
- Interest of \$2,000 derived from an approved bank in Singapore.

Rachel, an only child, lives with her aged parents. Both parents are 75 years old and neither parent has any sources of income. Rachel hires a domestic helper to look after her parents during the day when she is at work. In 2014, she paid foreign maid levy of \$3,180.

Required:

- (a) **Compute Rachel's chargeable income for the year of assessment 2015.** (11 marks)
- (b) **Explain the tax treatment of a contractual bonus and a non-contractual bonus from the point of view of both the employee and the employer.** (4 marks)

(15 marks)

- 6 Hot Clean Pte Ltd (HCPL), a company incorporated and resident in Singapore, uses a state of the art cleaning system to provide cleaning services to customers in Singapore. For the year ended 30 September 2014, HCPL recorded an accounting profit of \$480,000 after charging/crediting the following:

	\$
Income	
Write back of over provision for the diminution in value of an investment in a subsidiary	20,000
Interest income on an outstanding trade debt received from a US customer. The interest was banked in a bank account in New York	3,000
Net dividend received in Singapore after deducting 30% withholding tax in Country Q. The headline tax rate of Country Q is 20%	2,000
Compensation received from a customer for the cancellation of a contract	5,000
	\$
Expenses	
Foreign exchange differences	
– year end translation of USD loans	30,000
– realised difference on the settlement of trade creditors	5,000
Loan to a staff member forgiven	6,000
Depreciation	10,000
Mileage claims by staff using their own private cars for company business	12,000
External staff training	30,000
Payment made to a competitor for agreeing to exit the Singapore market	30,000
Staff salaries, bonuses and CPF contributions	500,000
Staff medical expenses (HCPL has implemented a portable medical benefits scheme for its staff)	12,000
HCPL bought the following assets in the year ended 30 September 2014:	
	\$
Automated equipment for cleaning-related operations (PIC prescribed automated equipment which does not qualify for a 100% accelerated allowance claim). HCPL does not want to make a cash payout claim	60,000
Lorry	90,000
Five chairs costing \$1,000 each	5,000

Required:

- (a) **Compute the minimum tax liability of Hot Clean Pte Ltd for the year of assessment 2015.**

Note: You should start your computation with the net accounting profit of \$480,000 and indicate by the use of zero (0) any item which does not require adjustment. (13 marks)

- (b) **Explain how the country of residence of a company is determined for Singapore income tax purposes.**

(2 marks)

(15 marks)

End of Question Paper