

Fundamentals Level – Skills Module

Taxation (Singapore)

Tuesday 3 June 2014



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 2–4.

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.

The Association of Chartered Certified Accountants

Paper F6 (SGP)

The ACCA logo, consisting of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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 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	
Year of assessment 2014 – rate	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 \$1,500 per month

	Employee	Employer
Rates of CPF contributions	20%	16%
Maximum monthly ordinary wages (OW) attracting CPF		\$5,000
For the year 2013 (i.e. from 1 January 2013 to 31 December 2013)		
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 2014

	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 2014

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	\$3,500 (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	
Parent relief		
Not living in the same household	\$4,500	
Living in the same household	\$7,000	
Handicapped parent relief		
Not living in the same household	\$8,000	
Living in the same household	\$11,000	
Grandparent caregiver relief	\$3,000	
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)	

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

1 Slimming Industries Pte Ltd (SIPL) manufactures slimming pills and teas. For the year ended 31 December 2013, SIPL made a net accounting profit of \$5,000,000 before income tax. The following items were charged/(credited) to the profit and loss account in arriving at the net accounting profit:

	\$
Dividend income received from shares in Best Fit Ltd in Country B, a tax haven. There was no corporate or withholding tax suffered on this dividend income and the funds were used to repay a supplier in Hong Kong in August 2013	(20,000)
Insurance recovery of loss of profits as a result of the bad publicity relating to SIPL's slimming pills	(10,000)
Realised exchange gain on the repayment of a loan taken out to fund the investment in Best Fit Ltd	(2,000)
Scrap value of a machine. At the time of sale, both the net book value and tax written down value of this machine was nil	(1,200)
Cash donation to a building fund for a temple in Myanmar	3,000
Cash donation to the National Kidney Foundation	5,000
Compensation paid to customers who experienced serious discomforts after consuming the slimming pills	250,000
Corporate secretarial charge	300
Depreciation	20,000
Due diligence fee on the acquisition of the spa division of Wellness Pte Ltd	30,000
Hire purchase interest for the lorry acquired during the year	3,120
Insurance premium – workman compensation	2,000
Interest expense on a loan taken to fund the investment in Best Fit Ltd	5,000
Late payment interest on the late payment of CPF contributions	1,000
Legal fees – insurance recovery for loss of profits	3,000
Legal fees – new tenancy agreement for a spa outlet	5,000
Loan to a staff member written off	6,000
Medical expenses reimbursed to customers who consumed the slimming pills	50,000
Penalty for the late filing of CPF contributions	500
Personal income tax liability of SIPL's managing director borne by SIPL in accordance with the terms of his employment	15,000
Retrenchment benefits paid to staff following the closure of the slimming pills division	50,000
Staff costs – salary, bonus and CPF contributions (75% of the staff strength of 200 are local employees)	250,000
Staff medical expenses (SIPL has implemented a portable medical insurance scheme for its staff)	6,000
Write off of all slimming pills in stock	60,000

SIPL acquired the following assets in the financial year ended 31 December 2013.

1. A lorry purchased on hire-purchase on the following terms:

Cash price	\$130,000
Deposit paid on 1 June 2013	\$26,000
Amount of each monthly instalment (including interest on a straight line basis). The first of 24 monthly payments was made on 1 July 2013	\$4,853
2. Computer system \$150,000
3. Eight desks \$7,200

SIPL claimed the maximum productivity and innovation credit (PIC) cash payout on 30 June 2013 and has not made any PIC claims previously.

Required:

(a) Explain the tax treatment of the monthly instalments paid in respect of the lorry acquired on hire purchase and calculate the qualifying expenditure incurred for a capital allowances claim for the year of assessment 2014. (2 marks)

(b) Compute the minimum tax liability of Slimming Industries Pte Ltd (SIPL) for the year of assessment 2014 and clearly identify all applicable productivity and innovation credit (PIC) claims.

Note: You should start your computation with the net accounting profit of \$5,000,000 and indicate by the use of zero (0) any items which do not require adjustment. (27 marks)

(c) State the date by which SIPL must file its tax return (Form C) for the year of assessment 2014. (1 mark)

(30 marks)

- 2 (a) Benson Lim, an active, non-key appointment holder national serviceman, is 38 years old and a divorcee. He pays monthly alimony of \$3,000 to his ex-wife. Following the divorce, Benson was awarded custody of his six-year-old twins, Annie and Anderson, and hired a Filipino maid to look after the twins. In addition, Benson's mother, a retired teacher, who has rental income of \$2,000 per month, lives with him and helps look after the twins.

Benson is a successful fund manager. On 1 January 2013, he joined Alpha Fund under the following employment terms:

- (i) Joining fee – upon joining Alpha Fund he was paid \$60,000. Should he leave Alpha Fund within two years, Benson will have to repay part of this joining fee.
- (ii) Salary – \$30,000 per month.
- (iii) Fixed bonus – one month's salary, payable in January of the following year.
- (iv) Variable bonus – this bonus is calculated by reference to the performance of the portfolio under his charge and is decided upon in March of the following year. Benson's portfolio performed well in 2013 and he was paid a variable bonus for 2013 of \$100,000 on 1 April 2014.
- (v) Entertainment allowance – \$3,000 per month. An estimated 80% of this allowance was expended on entertaining business clients.
- (vi) Rent free accommodation – an apartment which was rented by his employer at a monthly rental of \$5,000.
- (vii) Use of a company car – the cost of the new car was \$200,000 inclusive of COE of \$80,000 and its estimated residual value is \$50,000. Benson's total mileage for the year 2013 was 22,000 km, 80% of which were for business purposes. His employer paid all the running expenses of the car.

Benson also had the following other income in the year 2013:

- (i) Director's fees from Arc Co Ltd of \$18,000 for the year ended 31 December 2012 and \$28,000 for the year ended 31 December 2013, which were approved for payment at the company's annual general meetings on 31 March 2013 and 31 March 2014 respectively. Arc Co Ltd is a family owned company and Benson was appointed as a non-executive director in 2010.
- (ii) Interest income of \$5,000 from a personal loan extended to Melvin, an Australian national and tax resident, for the expansion of Melvin's fund management business in Australia. Benson remitted this interest to his Singapore bank account in June 2013.
- (iii) A gain of \$100,000 from the sale of his wine and liquor collection. Benson decided to sell his collection for personal medical reasons.

Required:

- (i) **Compute the minimum tax payable by Benson Lim for the year of assessment 2014, indicating by the use of zero (0) any items which do not require adjustment.** (18 marks)
- (ii) **Explain your tax treatment of the gain of \$100,000 from the sale of Benson's wine and liquor collection.** (2 marks)

- (b) Beatrice set up a sole proprietorship business to provide consultancy services on 1 October 2011 and adopted 31 December as her business accounting year end. The following expenses were charged to the profit and loss statement of Beatrice's business for the periods indicated:

Period	Expense	\$
1 October 2011 to 31 December 2011	Wages of a part-time employee	2,000
1 January 2012 to 31 December 2012	Registration cost with the Accounting and Corporate Regulatory Authority (ACRA)	500
	Rental of shop	10,000
1 January 2013 to 31 December 2013	Legal fee for the purchase of a new office	3,000

Beatrice secured her first contract for \$10,000 in January 2013.

Required:

- (i) State the date of commencement of Beatrice's business for tax purposes. (1 mark)
- (ii) State, giving reasons, whether each of the expense items listed is or is not tax deductible. (4 marks)

(25 marks)

- 3 (a) List any THREE items of information which must be present on a tax invoice for the purposes of goods and service tax (GST) which are not required on a non-GST registered trader's invoice. (3 marks)
- (b) Compare and contrast the treatment of a zero rated supply and an exempt supply for the purposes of GST. (4 marks)

(c) The following four scenarios should be addressed independently.

Scenario 1:

Nice Home Pte Ltd, a GST registered person, expended \$1.07 million (including GST) on the purchase of kitchen and bathroom fittings to fit out its latest residential development, an executive condominium project. The project was sold for a total sum of \$400 million.

Scenario 2:

Orange Pte Ltd, a GST registered person, hired a motor car for \$64,200 (including GST) for 12 months in 2013. The motor car was used by the company's sales manager exclusively for business purposes.

Scenario 3:

Petra Pte Ltd (PPL), a GST registered person, set up a branch in Brunei. PPL signed a \$1 million contract with a Singapore incorporated company, Sharp Pte Ltd (SPL), for the work to be performed in Brunei. The work in Brunei will be performed by employees of SPL's Brunei branch.

Scenario 4:

Peter, the sole proprietor of Grocery Fresh, is a GST registered trader. Peter has supplied his family with free groceries from Grocery Fresh on a regular basis. In the last quarter, these free supplies to his family had a cost of \$2,000.

Required:

- (i) In respect of Scenarios 1 and 2, state, with reasons, whether output tax needs to be accounted for and input tax credit can be claimed. (4 marks)
- (ii) In respect of Scenarios 3 and 4, state, with reasons, whether output tax needs to be accounted for and if so, the amount of the output tax. (4 marks)

(15 marks)

4 Patrick Chan is the new chief financial officer of P-Star Pte Ltd (P-Star), a company incorporated and tax resident in Singapore. Patrick has conducted a review of P-Star's tax filings for the year of assessment 2013 and discovered the following:

- (i) All of P-Star's employees are entitled to a meal allowance for working overtime in addition to their fixed meal allowance. The fixed monthly meal allowance had been reported in the employees' Form IR 8A but the meal allowance for ad hoc overtime was not reported.
- (ii) P-Star maintains a liaison office in India for the purpose of promoting the sales of its products in India. P-Star has not claimed a tax deduction for the total operating cost of \$100,000 incurred in maintaining this office.
- (iii) P-Star received branch profits repatriated from its Hong Kong branch. These profits have been taxed in Hong Kong at its profits tax rate of 16.5%. P-Star has not included these profits in its Singapore tax computation.
- (iv) P-Star paid a contractor \$8,000 to install a base to run the cables and trunking required for the installation of a computer system. Capital allowances have been claimed on the installation cost of \$8,000.
- (v) P-Star donated \$2,000 to an institution of public character (IPC) in return for the space to place a banner promoting P-Star's new products at a charitable event organised by the IPC. The IPC usually charges its customers \$1,500 for the use of such space. P-Star has claimed a tax deduction of \$5,000 (being 2.5 times \$2,000) for this donation.
- (vi) P-Star paid a licence fee of \$5,000 to Arthur Ltd, a company incorporated and tax resident in Country A, for the use of its brand name in Singapore. There is no double taxation agreement between Singapore and Country A. P-Star has not accounted for any Singapore withholding tax on the licence payment.

Required:

- (a) **For items (i) to (iv), state, giving reasons, whether the actions taken by P-Star Pte Ltd (P-Star) are correct.** (8 marks)
- (b) **For item (v), explain why the action taken by P-Star is incorrect and quantify the amount of the actual tax deduction (if any) available.** (3 marks)
- (c) **For item (vi), state, giving reasons, whether tax should have been withheld from the licence fee payment and if so, the consequences for P-Star of not doing so.** (4 marks)

(15 marks)

- 5 Zar and Annie are partners in the ZNA partnership, which provides interior design services in Singapore. They have agreed to share the partnership profits and losses equally.

The net accounting profit of ZNA for the year ended 31 October 2013 is \$123,000 after charging/crediting the following items:

Expenses

- (1) Reimbursement of the petrol and parking charges of \$10,000 incurred by Annie for her vehicle, SJP 123. This vehicle is used wholly for business purposes.
- (2) Reimbursement of overseas travel expenses of \$20,000 incurred by Zar to attend a trade fair.
- (3) Monthly salary of \$3,000 paid to Zar.
- (4) Zar's child's school fees of \$12,000.
- (5) Depreciation of equipment of \$5,000.
- (6) Training of staff by an external trainer of \$6,000.

Receipts

- (7) Wage credit scheme payout of \$2,000.
- (8) Gain on the disposal of an antique painting of \$10,000. The painting was bought several years ago for display in ZNA's showroom.

In addition to the above, ZNA incurred the following capital expenditure on the refurbishment of its showroom during the year ended 31 October 2013. This is ZNA's first refurbishment project since its inception.

	\$
Designer's fees	2,000
Lighting	6,000
Display cabinets	60,000
	<hr/>
	68,000

ZNA met all the conditions for productivity and innovation credit (PIC) claims in the current year. ZNA does not want to opt for the cash payout option in the current year and has not made any PIC claims previously.

Required:

- (a) In respect of the ZNA partnership for the year of assessment 2014, compute the divisible profit and adjusted profit assuming the maximum capital allowances and productivity and innovation credit (PIC) claims are made/shown.

Note: You should start your computation with the net profit per the accounts of \$123,000 and indicate by the use of zero (0) any items which do not require adjustment. (9 marks)

- (b) Compute Zar's and Annie's assessable income from the partnership for the year of assessment 2014. (3 marks)

- (c) State the THREE qualifying conditions for a PIC bonus claim. (3 marks)

(15 marks)

End of Question Paper