

Fundamentals Level – Skills Module

Taxation (Singapore)

Tuesday 2 June 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This 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 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 exam paper.

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 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 \$1,500 per month

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

| | Normal (max) | Handicapped (max) |
|---|---|-------------------|
| Earned income | | |
| 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 Honest Pte Ltd (HPL), whose financial year end is 31 December, regularly discards its old accounting records. After its last purging exercise, HPL kept accounting records from the financial year ended 31 December 2007 onwards.

What is the earliest financial year for which Honest Pte Ltd must retain accounting records as at 1 January 2015?

- A** Year ended 31 December 2007
- B** Year ended 31 December 2008
- C** Year ended 31 December 2009
- D** Year ended 31 December 2010

2 Robert is employed by Success Ltd (SL), a company listed on the Stock Exchange of Singapore. In 2014, Robert had the following transactions in stock options:

| Date of award of option | Date of exercise of option | Exercise price | No of shares granted | No of shares acquired on exercise |
|--------------------------------|-----------------------------------|-----------------------|-----------------------------|--|
| 1 January 2013 | 1 March 2014 | \$3.00 | 10,000 | 5,000 |
| 31 December 2014 | 2 January 2015 | \$3.80 | 10,000 | 5,000 |

The following are the share prices of SL on the relevant dates:

| | \$ |
|------------------|-----------|
| 1 January 2013 | 3.20 |
| 1 March 2014 | 3.80 |
| 31 December 2014 | 4.50 |
| 2 January 2015 | 4.60 |

What is the taxable amount in respect of Robert's stock options for the year of assessment 2015?

- A** \$4,000
- B** \$8,000
- C** \$10,000
- D** \$1,000

- 3 Triple Pte Ltd (TPL) and Quadruple Pte Ltd (QPL) both have a financial year end of 31 December. In the year ended 31 December 2013, TPL took over some assets from QPL. As TPL and QPL are related companies, an election was made to transfer the assets at their tax written down value (a s.24 election).

In the financial year ended 31 December 2014, TPL sold all of the assets taken over from QPL to an unrelated third party.

Both QPL and TPL claimed the maximum capital allowances on these assets.

Details of the assets are as follows:

| | Cost to QPL on 1 July 2012 \$ | Sales proceeds received by TPL on 1 December 2014 \$ |
|-----------------|-------------------------------------|---|
| Computers | 60,000 | 15,000 |
| Exhaust machine | 90,000 | 40,000 |

What is the amount of the balancing adjustment Triple Pte Ltd will make in the year of assessment 2015 in respect of these asset disposals?

- A Net balancing charge of \$10,000
 - B Net balancing charge of \$30,000
 - C Net balancing charge of \$25,000
 - D Net balancing allowance of \$30,000
- 4 Startlet Pte Ltd (SPL) was incorporated on 1 April 2012. After months of hard work, SPL secured its first sales on 1 April 2014. SPL's financial results from 1 April 2012 to 31 December 2014 are as follows:

| | Nine month period ended 31 December 2012 \$ | Financial year ended 31 December 2013 \$ | Financial year ended 31 December 2014 \$ |
|-----------------------|--|---|---|
| Sales | 0 | 0 | 100,000 |
| Less: | | | |
| Cost of incorporation | (5,000) | - | - |
| Staff costs | (13,000) | (26,400) | (34,400) |
| Staff training costs | - | - | (2,000) |
| | <u>(18,000)</u> | <u>(26,400)</u> | <u>63,600</u> |

What is Startlet Pte Ltd's chargeable income for the year of assessment 2015?

- A \$37,200
- B \$18,200
- C \$19,200
- D \$31,200

- 5 Merchant Pte Ltd (MPL) bought the following vases on 1 June 2014:
- 10 red vases costing \$1,070 (inclusive of goods and service tax (GST)) from a GST registered trader and claimed the input tax on the purchase.
 - 10 white vases costing \$500 from a non-GST registered trader.

In the quarter ended 30 September 2014, MPL gave five red vases and five white vases as gifts to Vee Pte Ltd.

What is the amount of output goods and services tax (GST) which Merchant Pte Ltd must account for on the gifts of vases made in the quarter ended 30 September 2014?

- A \$52
- B \$0
- C \$35
- D \$70

- 6 Forgetful Pte Ltd (FPL) is a wholly owned subsidiary of X Co, a company which is tax resident and incorporated in Country X. On 2 August 2013, FPL made a royalty payment of \$10,000 to X Co but only remitted the withholding tax of \$1,000 to the Inland Revenue Authority of Singapore on 25 April 2014.

What is the amount of the late payment penalties payable by Forgetful Pte Ltd?

- A \$100
- B \$110
- C \$90
- D \$50

- 7 Peter runs a consultancy business as a sole trader. For the financial year ended 30 September 2014, Peter's business incurred the following expenses:

| | \$ |
|---|---------|
| Employees' salaries, allowances and bonuses | 300,000 |
| Peter's salary | 60,000 |
| Skills development levy | 1,000 |
| Medical expenses of employees | 25,000 |
| Peter's medical expense | 20,000 |

Peter did not implement any portable medical shield plan.

What is the amount of medical expenses which will NOT be allowable to Peter's business for the year of assessment 2015?

- A \$42,000
- B \$22,000
- C \$41,400
- D \$21,990

8 Careless Pte Ltd (CPL) terminated Gabriel's employment contract on 30 June 2014 on the grounds that he had breached the terms of his employment contract. Under the terms of the employment contract Gabriel was entitled to two months' pay in lieu of notice amounting to \$10,000 and a lump sum of \$10,000 for the loss of employment.

However, as CPL claimed liquidated damages of \$20,000 from Gabriel for breaching the terms of the employment contract, he did not receive any monies from CPL following the termination.

Which of the following statements correctly describes Gabriel's income tax position in respect of the termination payments?

- A Both the two months' pay in lieu of notice and the lump sum payment are taxable
- B Only the two months' pay in lieu of notice is taxable
- C Only the lump sum payment is taxable
- D The taxable amount is nil because the liquidated damages can be set off against both the payments received

9 Mary, who is a writer, recorded the following income and expenditure for the year ended 31 December 2014:

| | \$ |
|---|---------|
| Fees for articles published in the local newspaper | 20,000 |
| Royalties from a musical work | 30,000 |
| | 50,000 |
| <i>Less:</i> | |
| Hotel accommodation and airfare to present the musical work in London | (5,000) |
| Net income | 45,000 |

What is Mary's assessable income for the year of assessment 2015?

- A \$20,000
- B \$23,000
- C \$45,000
- D \$50,000

10 Designer Pte Ltd (DPL) commenced the renovation of its premises in the financial year ended 31 December 2013 and claimed a renovation and refurbishment (R&R) deduction (s.14Q) on qualifying expenditure of \$270,000.

In the financial year ended 31 December 2014, DPL incurred further expenditure as follows:

| | \$ |
|----------------------------------|--------|
| Installation of general lighting | 25,000 |
| Installation of cornices | 11,000 |
| Purchase of display cabinets | 4,800 |
| Purchase of an antique | 12,000 |

None of the works required the approval of the Commissioner of Building Control and DPL had not made a R&R deduction claim prior to the year of assessment 2014.

What is the maximum amount of renovation or refurbishment works deduction (s.14Q) and capital allowance claim which Designer Pte Ltd can claim in the year of assessment 2015?

- A \$107,600
- B \$106,800
- C \$101,600
- D \$104,800

- 11** Anchor Pte Ltd (APL) acquired accounting software from Y Co, a company incorporated and tax resident in Country Y. On 15 December 2014, APL made the following payments to Y Co:
- \$20,000 licence fee for APL to use the accounting software in Singapore; and
 - \$2,000 modification fee for the modifications made to the software by Y Co in Country Y.

APL does not have the right to modify or decode the accounting software. It has only paid for the right to use the software.

Which of the following statements correctly describes Anchor Pte Ltd's Singapore withholding tax obligation?

- A** Withholding tax is not applicable on either the payment of the licence fee or the modification fee
- B** Withholding tax should have been applied on both the payment of the licence fee and the modification fee
- C** Withholding tax should have been applied on the payment of the licence fee only
- D** Withholding tax should have been applied on the payment of the modification fee only

- 12** Stephen had the following income from his employment in the year ended 31 December 2014:

| | \$ |
|--|---------|
| Salary | 120,000 |
| Non-contractual bonus for his performance in 2013 | 20,000 |
| Interest income from DBS | 5,000 |
| Interest income from a loan extended to a friend | 5,000 |
| Director's fees received from a Malaysian company (remitted into Singapore on 30 June 2014) | 50,000 |
| | 200,000 |

What is Stephen's assessable income for the year of assessment 2015?

- A** \$195,000
- B** \$175,000
- C** \$145,000
- D** \$140,000

- 13** Global Pte Ltd incurred the following expenses to market its products in the year ended 31 December 2014:

| | \$ |
|--|--------|
| Trade fair in China | |
| Travel and accommodation cost for four staff | 20,000 |
| Rental of exhibition booth | 15,000 |
| | 35,000 |
| Trade fair in Singapore | |
| Samples and promotional materials | 7,000 |

The Singapore trade fair was approved by IE Singapore as qualifying for a double tax deduction.

What is the maximum tax deduction Global Pte Ltd can claim in respect of the above expenditure in the year of assessment 2015?

- A** \$84,000
- B** \$74,000
- C** \$49,000
- D** \$64,000

- 14 The following is the breakdown of the cost of the benefits-in-kind provided to the marketing director of Lambda Pte Ltd in the month of June 2014:

| | Cost | Goods and service tax (GST) | Total |
|-------------------------------------|---------------|-----------------------------|---------------|
| | \$ | \$ | \$ |
| Rental of apartment (exempt supply) | 8,000 | 0 | 8,000 |
| Rental of furniture and fittings | 2,000 | 140 | 2,140 |
| Rental of private car | 5,000 | 350 | 5,350 |
| Chauffeur service | 1,000 | 70 | 1,070 |
| | <u>16,000</u> | <u>560</u> | <u>16,560</u> |

What is Lambda Pte Ltd's input goods and service tax (GST) and deemed output GST on the director's benefits for the month of June 2014?

- A Claim input GST of \$560 and to account for deemed output tax of \$210
 - B Claim input GST of \$560 and to account for deemed output tax of \$140
 - C Claim input GST of \$210 and to account for deemed output tax of \$140
 - D Claim input GST of \$210 and to account for deemed output tax of \$210
- 15 Wren Pte Ltd recorded the following other income in the financial year ended 31 December 2014:

| | \$ |
|--|---------------|
| Interest levied on an overdue trade receivable. The interest was deposited in a bank account in Hong Kong | 3,000 |
| Dividend from P Ltd, a company resident in Country P. Withholding tax at the rate of 10% was deducted from the dividend in Country P. Country P's headline tax rate is 35% and there is no tax treaty between Singapore and Country P | 10,000 |
| Interest income on a fixed deposit from a Hong Kong bank. The interest was used to pay for two paintings each costing \$2,500. One of the paintings was brought to Singapore in 2014 but the other is stored in a warehouse in Hong Kong | 5,000 |
| | <u>18,000</u> |

What is Wren Pte Ltd's income chargeable to tax in the year of assessment 2015?

- A \$15,500
- B \$5,000
- C \$8,000
- D \$5,500

(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 Sports Pte Ltd (SPL) is a goods and service tax (GST) registered trader. The following items have been extracted from SPL's books for the period 1 January to 31 March 2015:

| | \$ |
|---|---------|
| Revenue | |
| Local sales | 800,000 |
| Export sales | 100,000 |
| Expenditure | |
| Purchases* | 100,000 |
| Purchases from non-GST registered traders | 20,000 |
| Salary and CPF contributions | 30,000 |
| Employee routine medical expenses* | 1,000 |
| Warehouse rental* | 30,000 |
| Singapore Island Country Club subscription* | 6,000 |
| Interest on bank overdraft* | 2,000 |
| Petrol costs of a S-plate car* | 1,000 |
| Air tickets* | 4,000 |

All amounts are stated excluding GST, where applicable.

*: Purchased from GST registered traders.

Required:

- (a) Calculate the net goods and service tax (GST) payable by Sports Pte Ltd for the period 1 January to 31 March 2015. In the case of any item of expenditure for which no GST input tax claim is available, state the reason(s). (8 marks)
- (b) State any TWO reasons acceptable to the Comptroller of GST for granting an extension of time for the filing of a GST return. (2 marks)

(10 marks)

2 Alpha Pte Ltd (APL), Beta Pte Ltd (BPL) and Ci Pte Ltd (CPL) are all Singapore incorporated companies with a 31 December year end.

APL, which was incorporated on 1 January 2014, has always been owned by the same five individual shareholders.

BPL was also incorporated on 1 January 2014. As at 31 December 2014, APL owns 75% of the ordinary shares in BPL, which were acquired in two tranches as follows:

- Tranche 1 of 60% of the shares acquired on 1 March 2014; and
- Tranche 2 of a further 15% of the shares acquired on 1 July 2014.

CPL, which was incorporated on 1 July 2014, is a wholly owned subsidiary of APL.

The three companies recorded the following results for the year 2014:

APL recorded an accounting profit of \$500,000 for the financial year ended 31 December 2014, after charging incorporation expenses of \$10,000 and professional fees of \$90,000 for the due diligence work performed on BPL prior to the acquisition of the first tranche of shares.

BPL recorded a tax adjusted loss of \$100,000 and unabsorbed capital allowance of \$200,000 for the financial year ended 31 December 2014.

CPL's only asset is an office block which has been let out since the company's incorporation on 1 July 2014. For the six months ended 31 December 2014, CPL recorded a taxable profit of \$500,000 (rental income less statutory and direct rental-related expenses).

Required:

(a) Calculate the amount of loss items which Beta Pte Ltd can transfer under the group relief system for the year of assessment 2015. (4 marks)

(b) Compute the corporate tax liabilities of Alpha Pte Ltd and Ci Pte Ltd for the year of assessment 2015, if the group elects to transfer the maximum amount of Beta Pte Ltd's loss items to Alpha Pte Ltd. (6 marks)

(10 marks)

3 Fabulous Pte Ltd (FPL) is a Singapore incorporated company which carries on a manufacturing business in Singapore. FPL's financial year end is 30 June.

On 1 July 2013, the following assets of FPL were destroyed in a fire:

| | Note | \$ |
|--|------|------------|
| Factory | 1 | |
| Land cost | | 10,000,000 |
| Building cost – piling and construction | | 2,000,000 |
| Legal and other professional fees to obtain approvals for the construction | | 50,000 |
| Automated conveyor system | 2 | 1,200,000 |
| Furniture | 3 | 20,000 |

Notes:

1. The factory qualifies for a land intensification allowance (LIA). Construction, which commenced in 2010, was completed in the financial year ended 30 June 2011 and the factory was put into use in the same year. FPL also commenced its LIA claim in the year ended 30 June 2011.
2. The automated conveyor system was installed on 1 March 2013. FPL has claimed the maximum enhanced deduction under the productivity and innovation credit (PIC) scheme and PIC bonus. Prior to 1 March 2013, FPL had not claimed any enhanced deduction under the PIC scheme.
3. The furniture was bought in July 2010 and FPL had claimed maximum capital allowances.

The insurance company evaluated the extent of the damage and had agreed to make the following compensation payments:

| | \$ |
|---------------------------|-----------|
| Factory building | 1,000,000 |
| Automated conveyor system | 1,000,000 |
| Furniture | 3,000 |

Required:

- (a) **Compute the enhanced productivity and innovation credit (PIC) allowance, PIC bonus and capital allowance which may be claimed/will be clawed back in respect of each of the assets destroyed in the fire.** (8 marks)
- (b) **State the circumstance in which the claw-back provision for equipment which is disposed of within one year of acquisition for which an enhanced PIC allowance has been claimed, will be automatically waived.** (2 marks)

(10 marks)

4 Alice Lee (aged 38) is married to Benson (aged 43) and they have a son, who is 15 years old. Benson is an entrepreneur and he is developing a new line of business in China. In the year ended 31 December 2014, his business in China incurred losses of \$25,000. Benson does not have any other sources of income.

In the year ended 31 December 2014, Alice had the following income:

1. Partnership income

Alice is a sleeping partner of the XYZ Partnership which operates an online shop in Singapore. She is entitled to a 20% share of the partnership profit/loss.

For the financial year ended 30 June 2014, the adjusted profit of the XYZ Partnership is \$50,000. Alice was reimbursed \$5,000, being the cost of her son's tuition fee, which as provided in the partnership agreement is to be borne by the partnership. The XYZ Partnership claimed capital allowances of \$6,000 for the year of assessment 2015.

2. Employment income

Alice derived an annual salary of \$48,000 from her employment as a part-time marketer with Adjunct Pte Ltd.

3. Rental income

Alice receives rental income from an apartment which she inherited from her late grandfather. She has mortgaged the apartment to fund Benson's new business. Details of the rental income and expenses for the year 2014 are as follows:

| | |
|----------------------------------|---------------|
| | \$ |
| Gross rental | 48,000 |
| Less: | |
| Interest expense on the mortgage | (10,000) |
| Property tax | (2,000) |
| Maintenance fees | (3,000) |
| | <u>33,000</u> |

Required

Compute Alice's minimum tax payable for the year of assessment 2015.

(10 marks)

5 Brat Roberts, a UK citizen, has been offered employment in Singapore with Ready Pte Ltd (RPL), a Singapore incorporated company. If Brat accepts RPL's offer of employment, he will travel to Singapore on 30 July 2015 and commence his two-year employment period with RPL on 1 August 2015. As part of his remuneration package Brat has been offered the following alternative benefits-in-kind by RPL.

1. Accommodation

- a fully furnished apartment with an annual value of \$36,000, owned by RPL; OR
- a housing allowance of \$5,000 per month.

2. Home leave passage

- one home leave passage per year costing \$9,600 in return airfares; OR
- a travel allowance of \$800 per month.

3. Transport

- use of a car, which will be leased by RPL for \$4,000 per month, inclusive of all running expenses. Brat's private mileage is expected to be 5,000 km per annum; OR
- a monthly transport allowance of \$4,000.

4. Loan

- RPL will pay 50% of the interest on the loan which Brat intends to take out with a bank to fund the purchase of an investment property in Singapore. The interest rate the bank will charge Brat on this loan is 5% per annum; OR
- RPL will provide Brat with an interest-free loan to fund the purchase of the investment property. RPL offers such interest-free loans to all its employees.

5. Holiday subsidy

- reimbursement of Brat's holiday expense up to a maximum of \$600 per annum; OR
- a fixed sum holiday allowance of \$600 per annum regardless of the actual cost of his holiday.

Required:

(a) Assuming that Brat Roberts will leave Singapore on 1 August 2017, state, giving reasons, for which years of assessment he will be regarded as tax resident in Singapore. (3 marks)

(b) (i) For each of the benefit items (1) to (3), explain, with the aid of calculations, which option Brat Roberts should choose on the basis that he would like to minimise his Singapore tax exposure but is indifferent from all other perspectives. (8 marks)

(ii) For each of the benefit items (4) and (5), state, giving reasons, which option Brat Roberts should choose.

Note: Calculations are not required for part (ii). (4 marks)

(15 marks)

6 Creation Pte Ltd (CPL), a Singapore incorporated company, is a wholly owned subsidiary of Creation Inc, a company incorporated and tax resident in Country C.

For its financial year ended 30 September 2014, CPL reported a net profit of \$840,000 after crediting/charging the following income and expenses:

| | \$ |
|--|--------|
| Income | |
| Recovery of a non-trade debt which had been written off in the financial year ended 30 September 2013 | 10,000 |
| Compensation from a supplier for defective supplies | 2,000 |
| One-tier dividend from an investment in a Singapore listed company | 3,000 |
| Gain on the disposal of the car which had been used by CPL's managing director | 2,800 |
| Expenses | |
| Golf club membership – initial joining fee | 25,000 |
| Golf club membership – annual subscription fee | 1,200 |
| Hire purchase interest for the purchase of the car used by CPL's finance director | 6,000 |
| Hire purchase interest for the purchase of an extrusion machine (note 1) | 4,500 |
| FRS 39 impairment loss on trade debts | 5,000 |
| Penalties for late payment of withholding tax | 2,000 |
| Cleaning of the public road following the leakage of caustic chemicals by one of CPL's delivery trucks. CPL has lodged a claim to recover this cost from its insurer | 20,000 |
| Legal fee paid to a solicitor to defend the leakage claim (as above) | 5,000 |
| Write off of the book value of the computers donated to the National Kidney Foundation (note 2) | 8,000 |

Notes:

1. The extrusion machine was an item of automated equipment eligible for the productivity and innovation credit (PIC) but did not qualify for an accelerated capital allowance claim. The total cost of \$180,000 and the interest cost of \$27,000 is to be settled in 36 fixed monthly instalments, of which six instalments were paid in the financial year ended 30 September 2014. CPL does not want to claim the PIC cash payout and it has yet to utilise the PIC quantum for the financial year ended 30 September 2014.
2. CPL had donated computers which had cost \$20,000 in the financial year ended 30 September 2013 to the National Kidney Foundation (an institution of public character) in July 2014. The Infocomm Development Authority of Singapore has assessed the value of the donated computers as \$10,000.

Required:

(a) Calculate Creation Pte Ltd's minimum tax liability for the year of assessment 2015.

Note: You should start your computation with the net accounting profit of \$840,000 and indicate by the use of zero (0) any item which does not require adjustment. (13 marks)

(b) State the shareholding conditions which must be met by a Singapore incorporated tax resident company running an e-commerce business, in order to claim the full exemption on the first \$100,000 of chargeable income in its first year of incorporation. (2 marks)

(15 marks)

End of Question Paper