

Fundamentals Level – Skills Module

# Taxation (Singapore)

Tuesday 4 December 2012



**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**

# 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.
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 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   | <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 (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 (i.e. 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 |

### Productivity and Innovation Credit (PIC)

years of assessment 2011 and 2012

- 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 \$800,000 for the years of assessment 2011 and 2012.

### 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                              | \$5,000 (max)  |                               |
| Voluntary CPF contribution of self-employed | Capped at \$30,600 or 36% of s.10(1)(a) assessable income whichever is lower |                               |
| Course fees                                 | \$5,500 (max)  |                               |
| <b>NSman</b>                                | <b>Normal appointment holder</b>   | <b>Key appointment holder</b> |
| 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** LED Industries Pte Ltd (LED), incorporated in Singapore on 15 July 1990, is in the business of manufacturing industrial lighting. The company's financial year end is 31 December. Since incorporation, LED has held all of its board meetings in Singapore.

In the year ended 31 December 2011, LED recorded a net profit before tax of \$1,800,000, after crediting/charging the following:

**Other income**

- 1 Interest on a fixed deposit of \$25,000 from a local bank received during the financial year ended 31 December 2011 upon maturity of the fixed deposit. The principal for the deposit came from the funds that LED had drawn down from a bank loan with DBS. These funds were originally intended to be used to fund the construction of a factory in Poland but the construction was delayed due to the failure to obtain the requisite permits.
- 2 A net dividend of \$18,500 after deducting withholding tax of 10% received in Singapore from LED's investment in HKLED, a company resident in a non-treaty country with a corporate tax rate of 35%.
- 3 A one-tier tax exempt dividend of \$10,000 received from D-LITE Manufacturing Pte Ltd, a Singapore incorporated and tax resident company.
- 4 A profit of \$332,500 received on the sale of a share investment in a Singapore company which LED had purchased in 1998.

**Cost of sales**

- 5 Compensation of \$23,000 paid to a European company for rescinding an agreement to enter into a partnership to manufacture products in Shenzhen, China.
- 6 Depreciation of plant and machinery of \$65,000.
- 7 Allowance for stock obsolescence of \$45,000. LED does not have a listing of the obsolete stock.

**Staff costs**

- 8 Transport reimbursements totalling \$36,000 paid to employees who used their own private S-plated cars for travelling on business purposes.
- 9 \$4,500 paid to the Central Provident Fund (CPF) Board for the late payment of CPF contributions.
- 10 A summon of \$2,000 paid to the Ministry of Manpower.
- 11 \$8,300 contributed to an approved overseas provident fund for the chief operating officer in accordance with the terms of his employment contract.
- 12 Medical expenses of \$30,000. LED has implemented a portable medical benefit scheme for its employees since November 2010.
- 13 Total salaries and CPF costs of employees (other than the directors of the company) of \$600,000.
- 14 Salaries of \$250,000 and directors' fees of \$100,000 for Singapore resident directors.

**Professional fees**

- 15 Fees of \$120,000 paid to Intrepid Management Consultants Pte Ltd for conducting a feasibility study for the purposes of setting up a plant in Poland.
- 16 Legal fees of \$55,800 for the drafting of a new tenancy agreement.
- 17 Legal fees of \$12,500 incurred on a legal action taken to recover an outstanding debt amount loaned to Mr Oh, a trade supplier.

**Financing expenses**

- 18 An \$8,000 interest expense incurred on a bank loan obtained to fund the working capital requirements of the company.
- 19 A \$10,000 interest expense on a bank loan taken to finance the acquisition of D-LITE Manufacturing Pte Ltd.
- 20 A \$50,000 interest expense paid to DBS in relation to the loan obtained initially for the construction of the factory in Poland and subsequently placed as a deposit (See Note 1 above).

**Miscellaneous expenses**

- 21 External training for staff of \$40,000. This is the first year that LED has embarked on an external training programme.
- 22 Renovation expenses of \$72,500 (including an interior designer's fee of \$12,500) on automated doors, false ceilings and wall coverings. LED had not incurred any such expenses in the last three years.
- 23 A foreign exchange loss of \$2,700 on the revaluation of a foreign currency loan.

**Additional information regarding LED's capital expenditure:**

The total additions to LED's fixed assets for the year ended 31 December 2011 comprised:

| Date of purchase | Description           | \$     |
|------------------|-----------------------|--------|
| 14 February 2011 | Laptops and printers  | 30,000 |
| 15 June 2011     | Second-hand van       | 29,750 |
| 18 July 2011     | Nine ergonomic chairs | 8,100  |

On 8 August 2009, LED bought a fully fitted brand new factory in Hougang Industrial Estate. The cost of the new factory totalled \$38 million (including land cost of \$13 million). LED has used the factory wholly for qualifying purposes since acquisition.

The tax written down value of all LED's assets qualifying for capital allowance claims as at 1 January 2011 was nil.

**Required:**

**Compute the tax liability of LED Industries Pte Ltd (LED) for the year of assessment 2012, claiming the maximum deductions and capital allowances.**

**(30 marks)**

- 2** Ms Clare Leem, aged 39, is a Singapore citizen married to Luke Chen, aged 41. Luke has completed his national service in the Navy. The couple have a three-year-old son.

Luke is a retired trader but he has substantial savings and equity investments in local securities. The interest income from his deposits at HSBC bank in Singapore for the whole year of 2011 amounted to \$90,000, while the total dividend income from his Singapore equity portfolio amounted to \$250,000.

Clare is the country manager of Global Investment Ventures Pte Ltd (GIV). In the year 2011, she received a salary of \$50,000 per month from GIV and, in addition, she was also entitled to the following bonuses and benefits.

#### **Bonuses**

- Guaranteed 2010 annual bonus of \$150,000 paid in January 2011.
- Special bonus of \$25,000 declared and paid in January 2011.

#### **Stock option**

Clare was granted an employee stock option on 1 January 2010. This entitled her to purchase up to 10,000 shares within two years at an option price of \$2.50 per share. Clare exercised the option to purchase the entire 10,000 shares on 18 October 2011 when the market price was \$4.00 per share. A week later, Clare sold all 10,000 shares at the price of \$5.00 per share realising a profit of \$30,000.

#### **Company car**

Clare was provided with a brand new company car costing \$350,000. It is estimated that the residual value of the car is \$150,000. GIV is responsible for all expenses incurred on the car. According to the travel log of the car in 2011, 20,000 kilometres of Clare's travel related to private mileage.

#### **Bungalow**

GIV provided Clare with the use of a black and white bungalow owned by the company with effect from 1 January 2011. The annual value of the bungalow is \$240,000.

#### **Other benefits**

- Cost of air-tickets of \$12,000 provided to Clare in 2011 for one return holiday passage to London.
- A birthday gift of \$5,000.
- A Chinese New Year hamper worth \$888 on 20 January 2011.
- Exclusive use of GIV's private yacht. The cost of rental and upkeep of this yacht is \$15,000 per annum.
- Entertainment allowances totalling \$10,000; however, in the year ended 31 December 2011, Clare only spent a total of \$6,000 for business entertainment purposes.

#### **Rental income**

Clare derived rental income of \$48,000 from an apartment in Singapore. The rental was calculated after deducting \$3,000 for the cost of purchase of a new air-conditioning system.

#### **Other income**

In the year 2011, Clare earned a gross royalty of \$50,000 from a book she had written on her corporate experience in Asia. As the publication cost of the book was fully sponsored by the publisher, Clare did not incur any expenses in the publication of the book.

Clare also kept her savings in an exclusive offshore bank, earning interest income of \$72,000 for the year 2011.

On 30 December 2011, Clare donated a total of \$30,000 to the following institutions:

- Boys' Town Singapore, an institution of public character – \$18,000
- Tatana Foundation, a Kenyan-based charitable organisation – \$12,000

#### **Required:**

**(a) Compute Ms Clare Leem's tax payable for the year of assessment 2012.** (21 marks)

**(b) State how non-resident individuals are taxed differently from tax resident individuals in Singapore.** (4 marks)

**(25 marks)**

- 3** Dessert King Pte Ltd (DKPL) is a company incorporated and tax resident in Singapore. DKPL represents a number of specialty dessert brands. On 1 January 2012, DKPL made a gross royalty payment of \$200,000 to Treats Ice Creams Ltd (TIC), a company incorporated and tax resident in Frosty Land for the use of TIC's patented recipe for a unique ice-cream flavour known as 'Black-Ice'. TIC does not have a permanent establishment in Singapore.

According to the licensing agreement, royalty payments are to be made annually within 30 days from the end of the calendar year. The royalty payment was accrued in DKPL's accounts on 31 December 2011.

In March 2011, DKPL purchased a new ice-cream making machine called 'The Cyclone' from TIC for the sum of \$25,000. 'The Cyclone' required some modifications and the installation of new parts, all of which were carried out in Singapore. TIC sent two technicians to Singapore for a period of six months to complete this project. TIC paid the costs of the technicians' salary totalling \$36,000 for the six months, as well as accommodation, food and subsistence allowances for the duration of their stay in Singapore, totalling \$20,000. TIC charged DKPL \$120,000 for this project.

**Required:**

- (a) Explain the Singapore withholding tax implications for Dessert King Pte Ltd (DKPL) arising from the following payments to Treats Ice Creams Ltd (TIC):**

- (i) the royalty payment of \$200,000;**
- (ii) the purchase of 'The Cyclone' ice-cream making machine for \$25,000; and**
- (iii) the modifications and installation of parts in 'The Cyclone' of \$120,000.**

Note: The following mark allocation is provided as guidance for this requirement:

- (i) 2.5 marks
- (ii) 1.5 marks
- (iii) 2 marks

(6 marks)

- (b) State, giving reasons, by when DKPL should account for the withholding tax payable on the royalty payment to the Inland Revenue Authority of Singapore.**

(4 marks)

- (c) Compute TIC's Singapore tax position on the basis that it files a tax return in Singapore for the modifications and installation fee of \$120,000.**

(5 marks)

**(15 marks)**

- 4 (a) **List the conditions that must be satisfied for a company to avoid a balancing adjustment on the transfer of plant and machinery.** (4 marks)

- (b) Optima Pte Ltd (OPL) was incorporated on 28 February 2010, commenced business on 8 March 2011 and prepared its first financial statements for the period ended 30 September 2011.

On 2 October 2012, OPL received a notice of assessment for the year of assessment 2012 which showed a tax liability in excess of the tax OPL expected to pay.

**Required:**

- (i) **State, giving reasons, by which date Optima Pte Ltd (OPL) must give notice of its chargeability to tax should it not receive an income tax return for the year of assessment 2012;** (2 marks)
- (ii) **State how OPL can lodge a valid notice of objection to dispute the assessment raised by the Comptroller on 2 October 2012, and the date by which it should do so.** (2 marks)
- (c) Holding Pte Ltd (HPL) recently discovered an error in the income tax return it submitted for the year of assessment 2010.

**Required:**

**Advise Holding Pte Ltd how it can seek to redress the error.** (4 marks)

- (d) **State the circumstances in which expenses incurred prior to the commencement of a business can be claimed.** (3 marks)

**(15 marks)**



- 5 Mister Wheelie Pte Ltd (Mister Wheelie) has been a goods and services tax (GST) registered trader in car tyre care since 1998. The company files its GST return on a quarterly basis.

For the quarter ended 30 September 2011, Mister Wheelie recorded the following transactions. All monetary values are stated before the imposition of GST, where applicable.

| Transactions:   | \$        |
|---|-----------|
| Sales to both GST and non-GST registered traders  |           |
| Singapore market sales  | 1,600,000 |
| Overseas market sales   | 3,500,000 |
| Purchases   |           |
| Imports of trading stock  | 570,000   |
| Samples* of car tyre shampoo received from a GST registered supplier  | 0         |
| *These samples, which are not in the form that they are ordinarily available for sale, have been given away free. |           |
| Salaries  | 38,000    |
| Rental of office  | 24,000    |
| Air tickets for staff on overseas business trips  | 10,050    |
| Purchase of gifts for family members of staff on Family Day   |           |
| The gifts, each costing \$250, were purchased from a GST registered trader  | 3,000     |
| Club subscription fees  | 2,600     |

**Required:**

- (a) In the case of each of the above transactions, state the type of supply involved (standard rated, zero rated, out-of-scope, exempt or deemed) and calculate the amount of any output/input tax chargeable/payable. (10 marks)
- (b) Compute the amount of goods and services tax (GST) payable by Mister Wheelie Pte Ltd for the quarter ended 30 September 2011. (2 marks)
- (c) List ANY THREE conditions for bad debt relief claim for output tax. (3 marks)

**(15 marks)**

**End of Question Paper**