

Fundamentals Level – Skills Module

Taxation (Singapore)

Tuesday 12 June 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

The Institute of Certified Public Accountants of Singapore

F6 (SGP)

Paper



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 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%
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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 (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, instead of 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)	
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)	

ALL FIVE questions are compulsory and MUST be attempted

- 1 (a) H & W Fashion Pte Ltd (HWFPL) is a retail company, selling male and female fashion clothes. HWFPL was incorporated in Singapore on 1 January 2009 and has always been profitable. Its shares are jointly owned by a husband and wife team.

For the financial year ended 30 September 2011, HWFPL recorded a net profit before tax of \$150,000, after crediting/charging the following:

Other income

- 1 \$24,000 interest on a fixed deposit placed with an approved bank in Singapore that matured on 30 June 2011.
- 2 \$12,000 interest accrued on a fixed deposit as at 30 September 2011. The said fixed deposit was deposited for a six month period from 1 July 2011.
- 3 \$1,200 interest charged on overdue trade receivables received and deposited into a bank in Malaysia.
- 4 \$21,000 net dividend received in Singapore after deducting 30% withholding tax in the USA.

Cost of sales and expenses

- 5 \$15,000 maintenance expenses for a company car, SJV 1234A, used exclusively for business purposes by HWFPL's managing director.
- 6 \$40,000 paid to a boutique firm for agreeing not to compete on the same type of clothes designed by a local celebrity.
- 7 \$56,000 depreciation expense.
- 8 \$8,000 legal fees for new sales distributor agreements.
- 9 \$120,000 gross directors' fees. As the directors are not tax residents in Singapore, 20% withholding tax was paid by HWFPL to the Inland Revenue Authority of Singapore on 14 October 2011.
- 10 \$28,000 medical expenses. The medical expenses amounted to 2% of total salaries, bonuses, cash allowances and CPF contributions for employees who are not directors. HWFPL has not implemented a portable medical benefit or transferable medical insurance scheme for its employees.
- 11 \$18,500 relating to the individual tax payable by the managing director for the previous year, which was borne by the company as provided in the employment contract.
- 12 \$16,000 guarantee fees for the refinancing of a loan in order to reduce the company's overall interest cost.
- 13 \$23,000 donated to a charitable organisation in Japan to help earthquake victims.
- 14 \$7,000 worth of computers donated to an approved institution of public character.

Capital expenditure capitalised

- 15 \$20,000 paid for the acquisition of computer hardware and software equipment for the accounting department. In the accounting year ended 30 September 2010, the company had spent \$500,000 on computer hardware and software and had claimed the maximum deductions and capital allowances.
- 16 \$14,800 paid for structural renovation works which required approval from the Commissioner of Building Control.
- 17 \$2,400 paid to acquire two identical, executive filing cabinets.

Required:

Compute the tax liability of H & W Fashion Pte Ltd (HWFPL) for the year of assessment 2012, claiming the maximum deductions and capital allowances. (22 marks)

- (b) On 1 January 2010, HWFPL had incorporated a wholly-owned subsidiary, Boys Fashion Pte Ltd (BFPL) to focus on fashion clothes for teenage boys. But BFPL did not secure its first sales order, which was worth \$100,000 until 1 April 2011.

For its first year's accounting period from 1 January 2010 to 30 September 2010 BFPL registered a net operating loss of \$20,000 and for the financial year ended 30 September 2011, it recorded a net profit before tax of \$30,000.

BFPL's profit and loss accounts for these two periods are as follows:

	Year ended 30 September 2011	Period ended 30 September 2010
	\$	\$
Sales income	100,000	0
<i>Less: expenses</i>		
Office expenses	(40,000) (Note 1)	(8,000)
Penalties and fines	(250)	(120)
Private car expenses	(2,750)	(1,280)
Salaries	(27,000) (Note 1)	(10,600)
 Net profit/(loss)	 30,000	 (20,000)

Note 1: Office expenses and salaries attributable to the period 1 October 2010 to 31 March 2011 were \$22,000 and \$15,000 respectively.

Required:

Compute the tax liability of Boys Fashion Pte Ltd (BFPL) for the year of assessment 2012, claiming the maximum deductions and capital allowances. (8 marks)

(30 marks)

- 2 (a) Dave Hamilton, a British citizen, is single and has been employed by a Singapore company since January 2009. His contract was initially for a three-year period but was terminated on 31 March 2011 due to the closure of the division headed by Dave as part of a restructuring exercise.

The following are details of Dave's income for the three complete months that he was employed in Singapore in the year 2011:

- A monthly basic salary of \$14,000.
- A two-month special bonus declared and paid on 31 January 2011
- Due to the early termination of his contract, an extra one and a half months gratuity in consideration of his good work on 31 March 2011, as well as free air tickets worth \$10,000 for a holiday to the Maldives.
- On 1 January 2011, he was awarded \$135,000 (car cost) to purchase a car in his own name. Based on the terms of the award, Dave had to bear the running costs of the car and it had to be returned to the company on the termination of his employment. The residual value of the car was \$23,000. Dave's private mileage in the period 1 January to 31 March 2011 was 600 km per month.
- The use of an apartment that the company rented at \$84,000 per annum. Dave occupied the apartment until his last day of employment.
- \$400 received under the company's staff suggestion scheme and \$200 as a Christmas gift.

Following the termination of his employment on 31 March 2011, Dave stayed on in Singapore and he had the following transactions in the remaining nine months of the year 2011:

- Contributed \$10,000 as his half share of capital in a limited liability partnership on 1 April 2011. The partnership recorded an adjusted trade loss of \$60,000 for the year 2011.
- Derived interest of \$2,000 from a loan extended to his friend.
- Donated \$1,000 worth of shares in a listed company to an approved institution of public character.
- Paid a premium of \$4,000 on an endowment life insurance policy taken on his own life for a capital sum insured of \$50,000. The policy was taken up with Great Eastern, a local insurance company.

Required:

Compute the Singapore tax payable by Dave Hamilton for the year of assessment 2012, assuming he would like to pay the minimum amount of tax. (20 marks)

- (b) Assume the same facts regarding Dave's employment as in part (a) above, but that he did not stay on in Singapore and instead left immediately following the termination of his employment on 31 March 2011.

Required:

Explain how Dave Hamilton's tax liability for the year of assessment 2012 in respect of his employment income would change under this scenario.

Note: You should consider both the normal rule and the concessionary treatment. (5 marks)

(25 marks)

3 (a) Willowhand Pte Ltd (WPL) is an active trading company incorporated but not tax resident in Singapore.

During the year 2011, WPL made the following payments:

- Lease of office equipment used in its Singapore office amounting to \$100,000 paid to Company A, which is incorporated and tax resident in Country A.
- Rental of office premises outside Singapore amounting to \$200,000 paid to Company B which is incorporated and tax resident in Country B
- Interest of \$300,000 on a loan taken from the Singapore branch of its parent company, Company C, which is incorporated and tax resident in Country C.
- Consultancy fees of \$400,000 paid for services performed in Singapore to an unrelated Singapore-incorporated company, Company D. All the directors of Company D are non-residents of Singapore and all its Board of Directors meetings are held in Country D.
- Royalty payments of \$500,000 paid to the licensor, who is located in Country E and does not have any operations or presence in Singapore.

Singapore does not have a double taxation agreement with any of the Countries A, B, C, D and E.

Required:

For each of the above five payments made by Willowhand Pte Ltd (WPL), state, giving reasons, whether Singapore withholding tax is applicable and if so, calculate the amount of withholding tax that needs to be accounted to the Inland Revenue Authority of Singapore. (10 marks)

(b) Jason is single and has just graduated from a local university. He intends to start a local retail business selling yoghurts and expects to make a tax adjusted profit of \$30,000 for each of the first three years (2012, 2013 and 2014) and of \$100,000 in the following two years (2015 and 2016).

Required:

Based on Jason's profit projections, advise him whether, from a Singapore income tax perspective, he should carry on the business as a sole proprietor or, from the start of his operations, use a company that is incorporated and tax resident in Singapore.

Notes:

1. Support your advice with relevant calculations.
2. You should assume that the current tax rates will remain unchanged throughout the five years, 2012 to 2016.

(15 marks)

- 4 For the quarter ended 30 September 2011, Grand Supreme Technology Pte Ltd (GSTPL), a goods and service tax (GST) registered trader, recorded the following transactions from trading in electrical components:
- Sold \$1,000,000 worth of goods to customers; one-half were exported to Thailand, two-fifths sold to Singapore GST-registered companies, and the remainder sold to Singapore companies which were not GST-registered.
 - Transferred an old photocopying machine worth \$500 to a subsidiary at no charge.
 - Purchased \$400,000 worth of goods, one-quarter of which were from GST-registered traders.
 - Imported goods worth \$150,000 from a Malaysia supplier, who has no business presence in Singapore.
 - Leased an apartment it owns with an annual value of \$54,000 to an expatriate and his family at a monthly rental of \$6,000.

In addition, GSTPL incurred the following expenses in the quarter, all of which were paid to GST-registered traders, except for the donation to the overseas charitable organisation.

	\$
Rental of warehouse	200,000
Shipping charges for goods exported	2,000
Bank charges	3,000
Annual dinner and dance expenses (half of which were attributable to the spouses of staff)	20,000
Donation to an overseas charitable organisation	5,000
Three identical flower gift hampers costing \$200 each, which were given to Client X	600

All figures are stated exclusive of any applicable GST.

Required:

- (a) **Compute the amount of goods and services tax (GST) payable by or refundable to Grand Supreme Technology Pte Ltd for the quarter ended 30 September 2011. For each item, clearly identify the type of supply and state the amount of output/input tax chargeable/payable.** (13 marks)
- (b) **State ANY TWO circumstances in which a GST registered trader does not have to deem output GST on gifts given to its customers.** (2 marks)

(15 marks)

- 5 (a) Sine Pte Ltd (SPL) and Cosine Pte Ltd (CPL) are both 100% subsidiaries of Tangent Pte Ltd (TPL). All three companies were incorporated in Singapore on 1 January 2009 and all have a 31 December year end. TPL has been owned by the same ten individual shareholders since its incorporation.

SPL

SPL derives only passive rental income as the owner of an office space which has been let out since its incorporation. For the financial year ended 31 December 2011, SPL recorded a net profit of \$60,000 after deducting statutory and direct rental-related expenses. During the year, SPL bought new furniture costing \$30,000 for the office of a new office manager hired during the year.

CPL

For the financial year ended 31 December 2011, CPL recorded a tax adjusted loss of \$60,000.

For the financial year ended 31 December 2010, CPL originally recorded a tax adjusted loss of \$80,000, but during 2011 it was discovered that incorporation expenses of \$500 and consultant fees of \$35,500 paid for an overseas feasibility study, both incurred and paid in the year 2010, had not been taken into account in arriving at this \$80,000 tax adjusted loss.

TPL

For the financial year ended 31 December 2011, TPL recorded a tax adjusted profit of \$120,000. In arriving at this tax adjusted profit of \$120,000, TPL had claimed a deduction of only 100% for an amount of \$12,000 incurred for the external training of staff. Where permitted, TPL wants to defer any claims for expenses incurred in 2011.

Required:

- (i) **Compute the tax liabilities of Sine Pte Ltd (SPL) and Tangent Pte Ltd (TPL) for the year of assessment 2012;** (5 marks)
 - (ii) **Compute the chargeable income of Cosine Pte Ltd (CPL) for the year of assessment 2011;** (2 marks)
 - (iii) **State, giving reasons, how CPL should utilise its tax adjusted loss of \$60,000 for the year of assessment 2012, assuming the group would like to pay the minimum possible tax and identify the tax savings that can be achieved.** (3 marks)
- (b) (i) **Compare and contrast the utilisation of losses and capital allowances by a partner of (1) a limited liability partnership and (2) a limited partnership;**
Note: You should assume that all the partners are individuals and the same trade test is met. (3 marks)
- (ii) **State how the contributed capital of a limited liability partnership is determined.** (2 marks)
- (15 marks)**

End of Question Paper