

Fundamentals Level – Skills Module

Taxation (Singapore)

Tuesday 3 December 2013



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 '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 2013		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		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		
	Employee	Employer
Rates of CPF contributions (from 1 September 2011)	20%	16%
From 1 September 2011		
Maximum monthly ordinary wages (OW) attracting CPF		
– from 1 September 2011		\$5,000
For the year 2012 (i.e. from 1 January 2012 to 31 December 2012)		
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 2013

	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 2013

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)	
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 fourth child	25%	
Maximum 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 DY Pte Ltd (DYPL), incorporated in Singapore on 1 January 2000, is a wholly owned subsidiary of DX LLC, a company tax resident and incorporated in Country X. On 1 July 2011, DYPL incorporated a wholly owned subsidiary, DZ Pte Ltd (DZPL), to expand into a new line of business.

DYPL

For the financial year ended 30 June 2012, DYPL recorded a net profit before tax of \$15,000,000 after crediting/charging the following:

Other income

1. \$36,000 interest on a fixed deposit placed with a bank in Hong Kong which matured on 30 June 2012. Of this amount, \$12,000 was used to repay an amount owing to S Ltd, a trade supplier based in Hong Kong, on the same day. The remaining \$24,000, together with the principal amount, was placed as a fixed deposit for a further year from 1 July 2012.
2. \$2,000 interest received from a customer in Malaysia for outstanding balances. The interest was used to fund the acquisition of shares in a Malaysian listed company.
3. \$30,000 net dividend received in Singapore from a Bermudan company. No corporate tax or withholding tax was suffered in Bermuda.
4. \$500,000 from a law suit instituted by DYPL against a competitor for infringing its copyright which resulted in the substantial reduction of its dominance in the market.

Cost of sales and expenses

5. \$12,000 maintenance expenses for a motor car, SJT 1111A, which was used exclusively by the sales director.
6. \$10,000 legal fees incurred in relation to the copyright infringement suit (as described in note 4 above).
7. \$80,000 depreciation expense.
8. \$5,000 legal fees to review and redraft DYPL's sales contracts.
9. \$15,000 medical expenses. DYPL has implemented a portable medical benefit or transferable medical insurance scheme for its employees.
10. \$500,000 staff costs including the cost of \$60,000 for the renting of an apartment, which is occupied rent free by the sales director.
11. \$20,000 relating to the school fees of the managing director's son under the terms of his employment contract.
12. \$30,000 bond discount realised on the maturity of the bond. The bond was issued eight years ago to fund the acquisition of a warehouse. The warehouse has since been used exclusively for the storage of goods for sale.
13. \$5,000 cash donated to the Singapore Red Cross Society, an approved Institution of Public Character.

Additionally, the following amount of capital expenditure was capitalised in the statement of financial position:

14. \$500,000 paid for the acquisition of a new automated inventory tracking system.

15. \$330,000 paid for renovation and refurbishment, the breakdown is as follows:

	\$
General electrical installations	50,000
Fitting rooms in outlets	125,000
Flooring	60,000
New display cabinet	12,000
False ceilings and cornices	28,000
General lighting	10,000
Wall coverings	32,000
Eight identical executive chairs	3,000
Antiques	10,000
Total	<u>330,000</u>

The above is DYPL's first renovation project since incorporation.

DZPL

For the financial year ended 30 June 2012, DZPL recorded a net loss before tax of \$100,000 as follows:

	S\$	S\$
Sales income		500
<i>Less:</i>		
Company registration cost	4,000	
Office expenses	30,000	
Penalties and fines	1,000	
Salaries	<u>65,500</u>	<u>(100,500)</u>
Net profit/(loss)		<u>(100,000)</u>

Required:

- (a) **Compute the minimum tax liability of DY Pte Ltd (DYPL) and DZ Pte Ltd (DZPL) for the year of assessment 2013, claiming the maximum deductions, reliefs and capital allowances.** (25 marks)
- (b) (i) **Briefly explain group relief.** (2 marks)
- (ii) **State the conditions which must be met in order for a valid group relief claim to be made.** (3 marks)

(30 marks)

- 2 Brendon and his wife, Alice, reported the following information in their respective tax returns for the year of assessment 2013.

Brendon

Sole proprietorship income

Brendon is the sole proprietor of a consultancy firm.

For the financial year ended 31 December 2012, the sole proprietorship reported an accounting loss of \$100,000 after deducting Brendon’s medical expense of \$10,000 and depreciation of \$5,000. In July 2012, the sole proprietorship sold a laptop at its net book value of \$500. The laptop was purchased in July 2010 at a cost of \$2,000.

Rental income

Brendon attached the following rental income and expenditure statement for the year ended 31 December 2012:

	S\$	S\$
Rental income		20,000
<i>Less:</i>		
Interest expense	18,000	
Property tax	3,500	
New washing machine	2,000	(23,500)
Net rental income/(loss)		<u>(3,500)</u>

Alice

Employment income

For the year ended 31 December 2012, Alice received a monthly basic salary of \$10,000 and a three-month good performance bonus declared and paid on 31 January 2012. In addition, she received the following benefits:

- The use of a car costing \$120,000. All the running expenses of the car are borne by her employer. The residual value of the car was \$30,000. Alice’s private mileage is 800 km per month.
- A fully furnished apartment for which she paid her employer a monthly rent of \$1,000. Her employer rented the apartment at a cost of \$6,000 per month.
- A fully paid personal membership at a gym, which costs her employer \$1,200 per annum.

Rental income

Alice derived gross rental income of \$58,000 and incurred property tax of \$6,000 and mortgage interest of \$12,000 in respect of an apartment which she has owned and rented out since 2006.

Required:

(a) For the year of assessment 2013, compute the minimum chargeable income of:

(i) Brendon; and (7 marks)

(ii) Alice. (11 marks)

(b) Explain whether all training expenditure of employees qualifies for the productivity and innovation credit incentive. (2 marks)

(c) Explain the procedures for electing for the transfer of the qualifying deductions between Brendon and Alice. (5 marks)

(25 marks)

3 (a) State what constitutes 'contributed capital' in the context of a partner of a limited liability partnership. (4 marks)

(b) Ash and Kumar are partners in a limited liability partnership, Echo LLP, which commenced business in Singapore on 1 January 2011. Ash and Kumar share profits in the partnership in the ratio 8:2.

On 1 January 2011, Ash and Kumar contributed capital of \$250,000 and \$100,000 respectively to Echo LLP. On 31 July 2012, Ash, with the agreement of Kumar, reduced his contributed capital to \$150,000. There was no change to the profit and loss sharing ratio.

Echo LLP has not been profitable. For the years of assessment 2012 and 2013, the tax-adjusted losses and capital allowances allocated to Ash are as follows:

Year of assessment 2012		Year of assessment 2013	
Losses \$	Capital allowances \$	Losses \$	Capital allowances \$
(216,000)	(28,400)	(236,000)	(32,400)

In addition to being a partner of Echo LLP, Ash is employed by a multi-national corporation. His total remuneration from this employment for the years ended 31 December 2011 and 31 December 2012 was \$550,000 and \$650,000 respectively.

Required:

- (i) For the years of assessment 2012 and 2013, calculate the assessable income, together with the amount of relevant deductions and restricted deductions (if any), of Ash.** (10 marks)
- (ii) State how any restricted deductions will be relieved.** (1 mark)

(15 marks)

- 4 For the quarter ended 30 September 2013, DD Distributor Pte Ltd (DDDPL), a goods and services tax (GST) registered trader, recorded the following transactions from trading in electrical components:
- Sales to employees at a 30% discount. The value before discount is \$10,000.
 - Sales to customers outside Singapore. The value of the sales totalled \$1,000,000.
 - Sales to Singapore GST-registered and Singapore non-GST-registered companies of \$1,200,000 and \$800,000 respectively.
 - Purchases of \$400,000 worth of goods, 80% of which were from GST-registered traders.
 - Imported \$200,000 of goods from a Malaysian supplier who had no business presence in Singapore.
 - Realised a foreign exchange loss of \$5,000 on settlement of a trade debt.

In addition, DDDPL incurred the following expenses which were all paid to GST-registered traders:

	\$
Rebate granted to customers who have met the minimum purchase target of \$100,000	3,000
Rental of office	200,000
Shipping charges for sales to customers outside Singapore	2,000
Reimbursement of entertainment expenses incurred by the sales manager for entertaining clients	10,000
Donation to an institution of public character	12,000
Costs and running expenses of a motor car	6,000
Public liability insurance (30% of the premium relates to the coverage for medical costs)	20,000

All amounts stated are exclusive of any applicable GST.

Required:

- (a) **Compute the amount of goods and services tax (GST) payable by or refundable to DD Distributor Pte Ltd (DDDPL) for the quarter ended 30 September 2013. For each item, clearly identify the type of supply and state the amount of output/input tax chargeable/payable.** (11 marks)
- (b) **State any FOUR types of expenses incurred by a GST-registered trader where the input tax incurred is not reclaimable.** (4 marks)

(15 marks)

5 (a) Jean Low, a Singapore citizen, has been working in Shanghai since graduating from business school in 2011. In 2012, apart from seven days during the Chinese New Year celebration, Jean has not come back to Singapore. Jean has not filed any tax return in Singapore. As at December 2013, she has not received any tax return from the Inland Revenue Authority of Singapore (IRAS) and is wondering when the IRAS will send her a tax return. Jean's parents live in Singapore and she plans to visit them each year. In the future, she will return to Singapore.

Jean has the following receipts in Singapore for the calendar year 2012:

- (1) Net rentals of \$60,000 after deducting interest expense of \$10,000 from a condominium unit at Valley Park, River Valley Road, Singapore (Valley Park). Valley Park was a gift from her parents. Jean has pledged Valley Park as collateral for a loan to fund the purchase of an apartment in Shanghai.
- (2) Gains of \$200,000 from the disposal of a property at Cascadian Garden, Singapore. Jean had inherited the property from her late grandfather. Jean has never bought or sold any property previously. Jean sold this property to fund her investment in a Shanghai Fund Company.
- (3) Employment income of \$50,000 paid to an approved Singapore bank account by her Shanghai-based employer. The total interest earned on the account amounted to \$500.

Required:

- (i) For each of the above receipts (1) to (3), advise Jean Low of the Singapore tax implications.** (6 marks)
- (ii) Advise Jean Low of the action she should have taken with regard to her tax return in Singapore and what she should do now.** (3 marks)
- (iii) State, giving reasons, if Jean Low would be considered a tax resident or non-tax resident of Singapore.** (3 marks)

(b) From a Singapore income tax perspective:

- (i) State the difference between the taxation of a company and the taxation of a partnership.** (1 mark)
- (ii) Explain the different tax treatments for both the payee and the recipient for the salary paid to the partner of a partnership and the salary paid to the shareholder of a company.** (2 marks)

(15 marks)

End of Question Paper