

Fundamentals Level – Skills Module

Taxation (Singapore)

September/December 2016 – Sample Questions



Time allowed: 3 hours 15 minutes

This question 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 question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

Think Ahead

ACCA

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CHARTERED
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The Association of Chartered
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Chartered Accountants

Paper F6 (SGP)

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 for 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 2016	17%
Corporate tax rebate (capped at \$20,000)	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 \$750 per month (1 January 2015 to 31 December 2015)

	Employee	Employer
Rates of CPF contributions	20%	17%
Maximum monthly ordinary wages (OW) attracting CPF		\$5,000
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 2016 to 2018

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 2016 to 2018.

Under the PIC+ Scheme for qualifying small and medium enterprises, the expenditure cap is increased from \$400,000 to \$600,000 per qualifying activity per year of assessment.

Personal income tax for the year of assessment 2016

	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 2016

Earned income relief	Standard (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	\$5,500
Qualifying child relief (per child)	\$4,000	\$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	Standard (max)	Handicapped (max)
Not living in the same household	\$5,500	\$10,000
Living in the same household	\$9,000	\$14,000
Grandparent caregiver relief	\$3,000	
Dependent handicapped sibling relief	\$5,500	
Life assurance relief	\$5,000 (max)	
Voluntary CPF contribution of self-employed	Capped at \$31,450 or 37% of assessable trade income whichever is lower	
Course fees	\$5,500 (max)	

NSman relief	Non-key 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 relief	\$6,360 (max)	

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 The following selected items have been extracted from the books of Zabina Pte Ltd (ZPL), a goods and services tax (GST) registered trader, for the quarter ended 31 March 2016:

	\$ (excluding GST)
(1) Bought two items of specialised equipment, each costing \$500,000, from a supplier in Japan and imported them into Singapore	1,000,000
(2) Sold the first item of specialised equipment to a Singapore-based customer. The equipment was delivered to the customer's factory in Jurong	600,000
(3) Sold the second item of specialised equipment to a US-based customer. The equipment was delivered to the US customer's factory in China	700,000
(4) Staff cost to modify the equipment	50,000
(5) Local delivery cost for the first item of equipment	1,000
(6) Freight charges for delivery of the second item of equipment to China	3,000
(7) Bought a new private motor car, SYY 123. The car is used solely by the marketing director in the course of the company's business	200,000
(8) Sold a used computer to a Singapore-based company	3,000
(9) Compulsory medical insurance premium for employees under the Industrial Relations Act	5,000

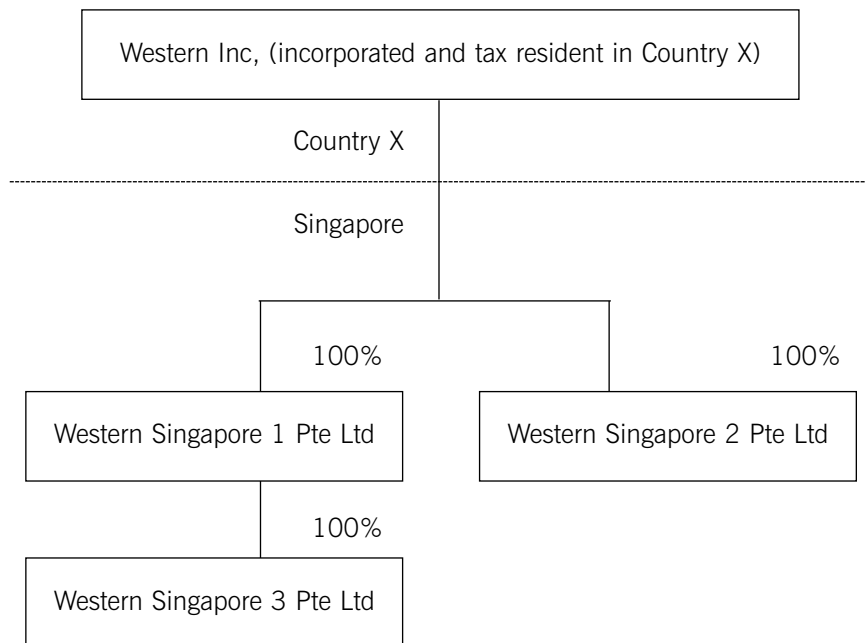
Apart from items (1) and (4), all the suppliers were Singapore GST-registered traders.

Required

- (a) Calculate the net goods and services tax (GST) payable by or refundable to Zabina Pte Ltd for the quarter ended 31 March 2016. For each item, clearly identify the type of supply together with the applicable GST, if any. For any item where no GST should be taken into account, state the reason. (8 marks)
- (b) State any TWO conditions which must be met in order for a GST-registered trader to claim input tax on goods or services bought locally from another GST-registered trader for the purpose of its business. (2 marks)

(10 marks)

- 2 Western Inc is incorporated and tax resident in Country X. It has three subsidiaries, Western Singapore 1 Pte Ltd, Western Singapore 2 Pte Ltd and Western Singapore 3 Pte Ltd, each of which is incorporated and tax resident in Singapore. The shareholding structure of the group is as follows:



The tax profiles of the three Singapore companies are as follows:

1. Western Singapore 1 Pte Ltd: For the year ended 31 December 2015, this company has tax adjusted profits of \$1,000,000 and capital allowances of \$50,000.
2. Western Singapore 2 Pte Ltd: For the year ended 31 December 2015, this company has tax adjusted profits of \$500,000 and capital allowances of \$10,000.
3. Western Singapore 3 Pte Ltd: For the year ended 31 December 2015, this company has tax adjusted losses of \$1,500,000.

Required:

- (a) **State, giving reasons, whether the three Singapore incorporated companies are members of the same group for the purpose of the transfer of losses between them and state the action required for such a transfer to occur.** (4 marks)
- (b) **Compute the minimum tax liability of each of the three Singapore companies for the year of assessment 2016, showing the amount of losses and capital allowances to be carried forward, if any.** (6 marks)

(10 marks)

3 Stuart is the sole proprietor of an architectural service firm. Details of his income and expenditure for the financial year ended 31 December 2015 are as follows:

	\$
Sole proprietorship	
Revenue	20,000
<i>Less:</i>	
Staff costs	(120,000)
Utilities of home office (Note 1)	(8,000)
Interest on the loan to purchase the home office (Note 2)	(12,000)
Medical insurance (staff)	(500)
Medical insurance (Stuart)	(600)
Net loss	<u>(121,100)</u>
Investment income	
One-tier dividend from a company listed on the Singapore Exchange	<u>2,000</u>
Rental income	
Gross rent	42,000
<i>Less:</i>	
Property tax	(2,500)
Fire insurance	(2,800)
Mortgage interest paid to a local bank (Note 3)	(10,000)
	<u>26,700</u>

Notes:

1. Based on the separate meters installed by Stuart, the actual amount attributable to the office is \$2,000.
2. Stuart has agreed with the Inland Revenue Authority of Singapore (IRAS) that the interest cost applicable to the home office will be the same proportion as the split of the utilities cost.
3. The rental property was bought with this mortgage loan.

Required:

(a) Calculate Stuart's chargeable income/loss available for carry forward for the year of assessment 2016.

Note: You should indicate by the use of zero (0) any items for which no adjustment is required. (8 marks)

(b) From the Singapore income tax perspective, state any TWO benefits which are available to a self-employed person which are not available to an employee. (2 marks)

(10 marks)

- 4 Russell, aged 45, is a bachelor and a tax resident of Utopia Land, a country which has not concluded a tax treaty with Singapore. He commenced employment in Singapore on 1 October 2016 and will leave Singapore at the end of his contract on 15 February 2017. Russell has no income except from this employment contract.

Details of Russell's income for his period in Singapore are as follows:

	1 October to 31 December 2016	1 January to 15 February 2017
	\$	\$
Salary – paid to his Singapore bank account	30,000	15,000
Salary – paid to his Utopia Land bank account	60,000	30,000
Hotel accommodation cost borne by employer	12,000	6,000
Meal allowance	3,000	1,500

Required

- (a) Assuming all tax rates and allowances remain unchanged from year of assessment 2016, calculate the tax payable in Singapore by Russell for each of the years of assessment 2017 and 2018. Support your calculations with relevant explanations. (8 marks)
- (b) Explain the obligations of an employer on the cessation of the employment of a foreign employee whose income is more than \$20,000, who will be leaving Singapore permanently and who has been in Singapore for more than 183 days in the basis period. (2 marks)

(10 marks)

- 5 Tann Manufacturing Pte Ltd (TMPL), incorporated on 1 January 2000, is a wholly owned subsidiary of Tann Manufacturing Inc (TMI), a company incorporated and tax resident in Country T. Singapore does not have a taxation agreement with Country T.

During the year ended 31 December 2015, TMPL posted a net accounting profit before tax of \$800,000 after accounting for the following items:

	\$
Other income	
Interest income received on 31 December 2015 when the 24 months fixed deposit matured	20,000
Interest income received from TMI on an outstanding trade debt. The interest was deposited into TMPL's bank account in New York	5,000
Dividend income from an investment in a company tax resident in Country X. The dividend was deposited into TMPL's Singapore bank account. Country X did not impose withholding tax on the dividend and the dividend was paid out of corporate profits which have been subject to tax at Country X's headline tax rate of 26%	1,500
Expenses	
Depreciation expense	6,000
Penalty for late payment of CPF contributions for September 2015	500
Legal fee – new tenancy agreement for staff accommodation	2,000
Legal fee – recovery of trade debts	1,000
Repair and maintenance of private plated motor cars	5,000
Repair and maintenance of lorries and delivery vans	7,000
Write off of a damaged computer, originally bought in 2012 on which capital allowances have been fully claimed	1,000
Donation to the National Kidney Foundation, an approved institution of a public character (IPC) of 5,000 shares of SG Limited, a company listed on the Singapore Exchange. The book value of the shares at the date of donation was \$5,000 and the open market value \$6,000	5,000

Additional information

TMPL incurred the following capital expenditure in 2015:

	\$
A new automated conveyance system. The IRAS has approved this system as an automated productivity and innovation equipment which qualifies for a capital allowance claim over three years	60,000
A new carpet for TMPL's offices	9,000

Required:

- (a) State the THREE conditions which must be met before a Singapore tax resident company can claim the foreign source income exemption on dividend income received in Singapore from a share investment in an overseas company. (3 marks)
- (b) Compute the tax liability of Tann Manufacturing Pte Ltd for the year of assessment 2016, claiming the maximum capital allowance and enhanced allowance under the productivity and innovation credit (PIC) scheme.

Note: You should start your computation with the net accounting profit before tax of \$800,000 and indicate by the use of zero (0) any items which do not require adjustment. (12 marks)

(15 marks)

6 Tony, aged 40 and a Singapore citizen, is the chief operating officer of Xcel Pte Ltd (XPL). Tony's wife, Sandra, has been a housewife since 2014 after giving birth to their only son, Thomas. Tony, who has been excused from in-camp training since he injured his knee in 2013, was a key command and staff appointment holder prior to 2013.

In 2015, Tony derived the following employment income and benefits:

- A monthly salary of \$30,000.
- Childcare fees for Thomas totalling \$24,000, paid by XPL.
- The use of a fully furnished bungalow owned by XPL, with an annual value of \$120,000.
- The use of a car with a chauffeur:
 - the car was purchased by XPL on 1 January 2015 at a cost of \$300,000 and has a residual value of \$60,000;
 - the total remuneration of the chauffeur in 2015 was \$24,000;
 - the total mileage of the car for 2015 was 25,000 km, of which 20% was for Tony's private use; and
 - all of the petrol costs were borne by XPL.

In addition to his employment income, Tony also derived the following during the year 2015:

- \$10,000 from the sale of an antique vase. Tony has been an avid collector of antique vases for several years but this was the first sale which he has made and was at the request of a business associate.
- Rental income from an office unit as follows:

	\$
Rent received from tenant	36,000
<i>Less:</i>	
Maintenance fee	(4,000)
Mortgage interest on the loan taken out to acquire the unit	(18,000)
Net profit	<u>14,000</u>

Required:

(a) Assuming that Tony would like to pay the minimum amount of tax, compute his tax payable for the year of assessment 2016. (13 marks)

(b) Explain the treatment of the gain on the sale of the antique vase. (2 marks)

(15 marks)

End of Question Paper