

Fundamentals Level – Skills Module

Taxation (Singapore)

March/June 2017 – 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.

Paper F6 (SGP)

Think Ahead

ACCA

ISCA INSTITUTE OF
SINGAPORE
CHARTERED
ACCOUNTANTS

The Association of Chartered
Certified Accountants

Institute of Singapore
Chartered Accountants

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 2017	17%
Corporate tax rebate (capped at \$20,000)	50%
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 55 years and earning more than \$750 per month (1 January 2016 to 31 December 2016)

	Employee	Employer
Rates of CPF contributions	20%	17%
Maximum monthly ordinary wages (OW) attracting CPF	\$6,000	
Maximum annual ordinary wages (OW) attracting CPF	\$72,000	
Maximum annual additional wages (AW) attracting CPF	\$102,000 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 2017

	Chargeable income \$	Tax rate %	Tax \$
On the first	20,000		-
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	18.0	7,200
On the first	200,000		21,150
On the next	40,000	19.0	7,600
On the first	240,000		28,750
On the next	40,000	19.5	7,800
On the first	280,000		36,550
On the next	40,000	20.0	8,000
On the first	320,000		44,550
Above	320,000	22.0	

Personal income tax reliefs for the year of assessment 2017

	Standard (max)	Handicapped (max)
Earned income relief		
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 insurance relief	\$5,000 (max)	
Voluntary CPF contribution of self-employed	Capped at \$37,740 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** Bastille Pte Ltd (BPL) is a goods and services tax (GST) registered trader. For the quarter ended 31 March 2017, BPL recorded the following transactions:
1. Paid \$2,500 to an air courier company to deliver equipment from its Singapore warehouse to a customer in Malaysia.
 2. Paid \$3,000 to a Singapore company for the purchase of spare parts.
 3. Invoiced a customer in Malaysia \$30,000 for equipment delivered to the customer's warehouse in Malaysia by the air courier company (as in (1) above).
 4. Cleared customs for equipment costing \$25,000 bought from a US supplier.
 5. Paid \$1,000 to SingTel, comprising IDD calls of \$800 and local calls of \$200.
 6. Paid \$1,000 to a local supplier to repair faulty equipment sold to a customer during the warranty period which covers both labour and parts.
 7. Sold equipment and an extended warranty for the equipment for \$5,000 and \$500 respectively to a customer in Singapore.
 8. Paid \$12,000 and \$6,000 respectively for the rental of an apartment and furniture, which is used exclusively by BPL's managing director.

All amounts are stated excluding any applicable GST and all the suppliers are Singapore GST registered traders.

Required:

- (a) Explain the goods and services tax (GST) treatment (output tax and input tax) of the parts used for the repair and repair service provided during the warranty period (item 6).** (2 marks)
- (b) Calculate the net GST payable by or refundable to Bastille Pte Ltd for the quarter ended 31 March 2017. For each item, clearly identify the type of supply together with the amount of GST applicable, if any. For any item where no GST should be taken into account, state the reason.** (8 marks)

(10 marks)

- 2** On 1 December 2016, Maryland Pte Ltd (MPL), a Singapore incorporated and tax resident company, paid interest of \$30,000 on Loan #1 and of \$50,000 on Loan #2.

Both loans were obtained from Maryland Inc (MI), a company tax resident in Country X. There is no tax treaty between Singapore and Country X. The loan agreements provide that the interest is due and payable on 1 December of each year and that any withholding tax will be borne by MI.

Loan #1 was brought into Singapore and used to purchase a fully automated production line used in MPL's factory in Jurong.

Loan #2 was used to purchase an office unit in Hong Kong. This office unit has been tenanted since its acquisition. MPL e-filed the withholding tax form on 1 June 2017.

Required:

- (a) **Explain Maryland Pte Ltd's withholding tax obligations in respect of Loan #1 and Loan #2 respectively.** (4 marks)
- (b) **Calculate the withholding tax and penalties, if any, payable by Maryland Pte Ltd in respect of Loan #1 and Loan #2 if it does not qualify for reduced penalties under the voluntary disclosure programme.** (3 marks)
- (c) **State the conditions which must be met for a company to avail itself of the reduced penalties under the voluntary disclosure programme.** (3 marks)

(10 marks)

- 3** Create Pte Ltd (CPL) has been a wholly owned subsidiary of Create Holding Ltd (CHL) since its incorporation. Both companies make up accounts to 31 December each year. There has been no change in the ultimate shareholders of CPL or their shareholdings since its incorporation.

The following information relates to CPL for its year ended 31 December 2016:

- (i) Sold an automated sorting system for \$45,000. CPL had bought the automated sorting system from CHL in 2015 for \$60,000. Both parties made an election under s.24 – Transferring Fixed Assets to Related Companies. CHL had bought the automated sorting system at the same price (\$60,000) in 2014 and claimed capital allowances over a three-year period.
- (ii) Bought the following hydraulic bulking unit on hire purchase on 1 July 2016. Details of the hire purchase are as follows:

	\$
Cash price	180,000
Less: Deposit	(90,000)
	<hr style="width: 50%; margin: 0 auto;"/>
	90,000
Add: Finance charges	5,400
	<hr style="width: 50%; margin: 0 auto;"/>
	95,400

The hire purchase payments will be made over 36 months. The first instalment payment of \$2,650 was due on 1 July 2016.

The hydraulic bulking unit qualifies for a productivity and innovation credit (PIC) claim over three years. CPL did not make any PIC cash payout claims.

- (iii) CPL's agreed tax adjusted profit **after** capital allowance claims for the year of assessment 2016 is \$450,000 and the tax paid is \$30,575.
- (iv) CPL's agreed tax adjusted profit **before** capital allowance claims and balancing adjustment for the year of assessment 2017 is \$5,000.

Required:

- (a) **Compute the base capital allowances due to and the balancing adjustment required for Create Pte Ltd and Create Holding Ltd for the automated sorting system in each of the years of assessment 2015, 2016 and 2017.** (4 marks)
- (b) **Compute the enhanced and base capital allowance claim of Create Pte Ltd for the hydraulic bulking unit in the year of assessment 2017.** (2 marks)
- (c) **For Create Pte Ltd, compute the unabsorbed capital allowances available for carry forward for the year of assessment 2017, together with the revised tax computation for the year of assessment 2016 on the basis that it will opt to carry back the unabsorbed capital allowances.** (4 marks)

(10 marks)

- 4 AB & Co is a partnership with three partners, Agnes, Bernard and Nigel. The partnership closes its accounts on 31 December each year and has the following agreement:
- Agnes, aged 43, is a sleeping partner.
 - Bernard, aged 45, is the managing partner.
 - Nigel, aged 35, is a salaried partner and does not have a share of the profit/loss or the net assets of the partnership.
 - Agnes and Bernard share profits in the ratio of 1:2.
 - Monthly salaries of \$8,000 and \$12,000 are paid to Bernard and Nigel respectively.
 - The partnership makes CPF contributions on the total monthly salary of Bernard and Nigel.

The partnership's statement of profit or loss for the year ended 31 December 2016 showed a net profit of \$120,000 after charging the following items:

	\$
Car expenses (Nigel). Nigel uses his car in the course of work and he is fully reimbursed all the maintenance and running costs	20,000
Rent paid for Bernard's rented apartment	72,000
Legal fee for suing a competitor for the infringement of its registered trademark. The partnership was not successful in the law suit	12,000
Cash donation to the Community Chest of Singapore (an institution of public character)	2,000
Goodwill written off. The goodwill arose several years ago when the partnership acquired another business in order to expand its footprint in Singapore	6,000
Salaries and CPF contributions of Bernard and Nigel as follows:	

	Salary	Statutory/Voluntary CPF by AB & Co	Excess CPF by AB & Co	Total	
	\$	\$	\$	\$	
Bernard	96,000	19,200	–	115,200	
Nigel	144,000	14,400	14,400	172,800	288,000

Required:

- (a) **Compute the adjusted and divisible profits of the AB & Co partnership for the year ended 31 December 2016.**

Note: You should start your computation with the net accounting profit of \$120,000 and indicate by the use of zero (0) any items which are not taxable or not deductible. (7 marks)

- (b) **Calculate Bernard's assessable income for the year of assessment 2017.** (3 marks)

(10 marks)

- 5 Harry is a Hong Kong citizen, aged 45. He was employed in Singapore by King Land Holding Ltd (KLH), a company listed on the Singapore Exchange (SGX), from 1 January 2006 until he opted for early retirement on 31 December 2016. His wife, Nancy, is a full-time homemaker and the couple do not have any children.

Details of Harry's employment benefits with KLH for the year 2016 are as follows:

1. Gross basic salary of \$20,000 per month.
2. Bonus of \$100,000.
3. Car allowance of \$1,500 per month. Harry spent the entire sum on the maintenance of motor vehicle SY 823. The percentages of business and private usage are 80% and 20% respectively.
4. A fully furnished apartment provided by KLH at a monthly rental of \$2,000. The apartment was rented by KLH at a cost of \$8,000 per month. The annual value of the apartment is \$72,000.
5. He exercised a share option on 14 December 2016 to acquire 50,000 shares in KLH at the price of \$5.50 per share. The share option had been granted to Harry on 15 June 2014 in recognition of his past services to the company. KLH issued new shares to Harry and these new shares were listed on the SGX on 21 December 2016.

KLH's share price on the relevant dates was as follows:

	Intra-day high	Intra-day low	Last done
	\$	\$	\$
15 June 2014	7.50	7.30	7.40
14 December 2016	8.50	8.30	8.40
21 December 2016	8.60	8.40	8.50

6. Travel package for Harry and his wife worth \$6,000.
7. A home theatre system costing \$5,000 won in the lucky draw at KLH's annual dinner and dance.

In addition to his employment, Harry is the non-executive director of Tan Brothers Pte Ltd, a family business run by his wife's family. He is entitled to the following director's fees:

For the year ended 30 September 2016
(approved in arrears for payment at the annual general meeting held on 30 December 2016) \$12,000

For the year ended 30 September 2017
(approved in advance for payment at the annual general meeting held on 30 December 2016) \$20,000

Required:

(a) State, with reasons, in which year of assessment the director's fees receivable by Harry from Tan Brothers Pte Ltd will be taxed. (2 marks)

(b) Compute the minimum income tax payable by Harry for the year of assessment 2017. (13 marks)

(15 marks)

- 6 Starlight Pte Ltd (SPL) is a wholly owned subsidiary of Starlight Inc (SI). The net profit before tax of SPL for its year ended 30 September 2016 is \$780,000 after accounting for the following:

	\$
Income	
Gain on the disposal of all the ordinary shares in its subsidiary, Brightlight Pte Ltd (BPL). SPL had held the shares in BPL since 2010	200,000
Rental income from renting out the excess factory space (10% of the total available lettable space) in its factory building	8,000
Recovery of an amount owing by an ex-employee	5,000
Expenses	
Depreciation	20,000
Director's fee for the year ended 30 September 2016 approved at the annual general meeting on 30 November 2016 and paid on 1 December 2016	10,000
Exchange differences:	
Realised exchange loss on an interest-free loan obtained from SI	800
Unrealised exchange loss on an approved designated bank account	1,200
Interest on the loan obtained to acquire the factory building	100,000
Legal fee on the sale of BPL shares	3,000
Legal fee to collect the debt due from the ex-employee	1,500
Staff remuneration	800,000
Overseas trade fair:	
Hire of exhibition booths	1,500
Travelling expenses for three employees	6,000
Non-current asset additions in the year	
Six new computers (SPL did not make any cash payout claim)	20,000
Renewal of certificate of entitlement (COE) of a lorry	15,000

Required:

- (a) **State the conditions which must be met by a company for the gains on the disposal of ordinary shares to be automatically exempted from tax.** (3 marks)
- (b) **Compute the chargeable income of Starlight Pte Ltd for the year of assessment 2017, claiming maximum base and enhanced capital allowances under the productivity and innovation credit (PIC) scheme.**

Note: You should start your computation with the net profit before tax of \$780,000 and indicate by the use of zero (0) any items which are not taxable or not deductible. (12 marks)

(15 marks)

End of Question Paper