

Fundamentals Level – Skills Module

Taxation (Singapore)

September/December 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 in 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>
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 total 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

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	
Dependant 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	\$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 Pluto Pte Ltd (PPL), a goods and services tax (GST) registered trader, for the quarter ended 30 September 2017:

Income	\$
1. Sales to customers in Singapore	500,000
2. Sales to customers outside Singapore (all these goods were bought from suppliers outside Singapore and delivered directly to the customers outside Singapore)	200,000
3. Sales to customers outside Singapore (all these goods were exported from Singapore to the customers outside Singapore)	100,000
4. Interest income from a Singapore bank	10,000
Expenditure	
5. Trading stocks bought from suppliers in Singapore	300,000
6. Second hand computers bought from a related company in Malaysia. The computers were brought into and used by PPL in Singapore	50,000
7. Sports club subscription fee. The club is for the use of all the employees of PPL	3,000
8. Trade association subscription fee	5,000
9. Motor car expenses	20,000

Except for item (6), all the suppliers were Singapore GST-registered traders. All items are stated before any applicable GST.

Required:

- (a) Calculate the net goods and services tax (GST) payable by or refundable to Pluto Pte Ltd for the quarter ended 30 September 2017. For each item, state the type of supply and the amount of output/input GST, if any. For any item where no GST should be taken into account, state the reason. (8 marks)
- (b) State the TWO conditions which must be met in order for a GST-registered trader to satisfy the *de minimis* rule and claim full input tax credit. (2 marks)

(10 marks)

- 2 Mars Pte Ltd (MPL) is a Singapore tax resident company which was incorporated in Singapore in 2015. MPL's chargeable income and tax payable for the year of assessment (YA) 2016 was calculated as follows:

	\$	\$
Chargeable income before exemptions		150,000
Less: Tax exemption for new start-up companies		
First \$100,000 at 100%	100,000	
Next \$ 50,000 at 50%	<u>25,000</u>	<u>(125,000)</u>
Chargeable income after exemptions		<u>25,000</u>
Tax at 17%		4,250
Less: Corporate tax rebate at 50%		<u>(2,125)</u>
Tax payable		<u>2,125</u>

In YA 2017, MPL has the following available loss items:

Unabsorbed capital allowances	\$200,000
Unabsorbed losses	\$50,000

MPL has a wholly owned subsidiary, Cartian Pte Ltd (CPL), which is also a Singapore tax resident company and was incorporated in Singapore. In YA 2017, CPL has chargeable income before partial exemption of \$200,000 on which tax of \$8,287 would be payable calculated as follows:

	\$	\$
Chargeable income before exemptions		200,000
Less: Partial exemption		
First \$10,000 at 75%	7,500	
Next \$190,000 at 50%	<u>95,000</u>	<u>(102,500)</u>
Chargeable income after exemptions		<u>97,500</u>
Tax at 17%		16,575
Less: Corporate tax rebate at 50%		<u>(8,288)</u>
Tax payable		<u>8,287</u>

Both MPL and CPL close their books on 31 December each year.

Required:

- (a) (i) **State the conditions to be satisfied in order to carry-back unabsorbed capital allowances and losses.** (3 marks)
- (ii) **Assuming the conditions in (a)(i) are satisfied, state the maximum amount of carry-back relief and how the amount of carry-back relief is determined if group relief can be claimed.** (2 marks)
- (b) (i) **Assuming all necessary conditions are satisfied and Mars Pte Ltd (MPL) elects to claim group relief and carry back relief for its unabsorbed capital allowances and losses, calculate the chargeable income after all available reliefs and exemptions of:**
- (1) **MPL for the years of assessment (YA) 2016 and 2017; and**
- (2) **Cartian Pte Ltd (CPL) for YA 2017.** (4 marks)
- (ii) **State the total amount of tax saved as a result of the claim made in (b)(i).** (1 mark)

(10 marks)

3 Allen, Brad and Chad, the partners of ABC Trading, have the following profit sharing agreements:

	Allen	Brad	Chad
	\$	\$	\$
Monthly salary	3,000	–	4,000
Monthly partnership CPF contribution	1,110	–	1,480
Profit and loss sharing ratio	1	2	3

Details of ABC Trading’s results for the financial year ended 31 December 2016 are as follows:

	\$	\$
Trading revenue		600,000
Less:		
Staff salaries	120,000	
Cash donations to the National Kidney Foundation, an approved institution of a public character	20,000	
Maintenance of Allen’s car	20,000	
Medical insurance (staff)	2,000	
Medical expenses (Brad)	1,000	(163,000)
Total partners’ entitlement		
Partners’ salaries	84,000	
Partners’ CPF	31,080	(115,080)
Net profit		<u>321,920</u>

On 31 December 2016, ABC Trading bought a computer costing \$10,000 on hire purchase. Only a cash deposit of \$2,000 was paid on 31 December 2016.

Required:

(a) Calculate the divisible profit, adjusted profit and capital allowances claim for ABC Trading for the year of assessment 2017.

Note: You should start your computation with the net profit of \$321,920 and indicate by the use of zero (0) any items for which no adjustment is required. (4 marks)

(b) Calculate the assessable income of each of the partners (Allen, Brad and Chad) for the year of assessment 2017. (6 marks)

(10 marks)

4 Bahamas Pte Ltd (BPL) is a Singapore incorporated and tax resident company. In 2016, BPL entered into an agreement with Krane Limited (KL), a company incorporated and tax resident in Country Q. This agreement provides for the following:

1. **Distribution of KL's software, KLog, in Singapore**

BPL is granted an exclusive right to sell KLog in Singapore. KLog can be downloaded by BPL's customers online upon completion of the sale. No modification or reproduction right is sold to BPL or its customers. KL will invoice BPL on a monthly basis for each unit sold.

2. **Maintenance of the platform**

KL has outsourced the maintenance of KLog to Dorrie Pte Ltd (DPL), another Singapore incorporated and tax resident company. All the maintenance work will be carried out in Singapore by DPL. KL bills BPL for the maintenance cost plus a mark-up. In 2016, the total maintenance payments made by BPL amounted to \$5,000.

3. **Interest on settlement of accounts**

Payment from BPL is required within 30 days from the date of KL's invoice. A late interest penalty at 10% per annum is imposed on each outstanding payment. In 2016, BPL paid late interest penalties of \$1,000.

Singapore does not have any double taxation agreement with Country Q.

Required:

(a) **Explain how the 'rights-based approach' is used to ascertain whether Singapore withholding tax is applicable to software payments.** (6 marks)

(b) **State, with reasons, whether Singapore withholding tax will apply to each of the transactions (1) to (3). Where withholding tax is applicable, calculate the amount due.** (4 marks)

(10 marks)

- 5 Jelly Co Pte Ltd (JCPL) manufactures jellies and gummies. For the year ended 31 December 2016, JCPL made a net accounting profit of \$900,000 before tax. The following items were credited/charged to the statement of profit or loss in arriving at this net accounting profit:

Income	\$
1. Dividend income received from a share investment in Lollies Ltd in Country B. Country B does not impose any corporate tax nor impose any withholding tax on dividend payments. These funds were used to repay an amount due to a supplier of raw materials in Hong Kong in August 2017	30,000
2. Insurance recovery for loss of profits due to a food poisoning scare in 2015	50,000
3. Scrap value on the disposal of a candy making machine. Both the net book value and tax written down value of this machine were nil.	1,800
 Expenses	
4. Compensation paid to a competitor for agreeing to stop using its brand name	350,000
5. Depreciation	20,000
6. Donation of gummies to the Pertapis Education and Welfare Center, an approved institution of a public character	8,000
7. Interest expense on a loan taken to fund the working capital of the business operations	12,000
8. Interest expense on a loan taken to fund the share investment in Lollies Ltd (as in (1) above)	5,000
9. Late payment interest on the late payment of CPF contributions	1,000
10. Legal fees in respect of the insurance recovery for loss of profits (as in (2) above)	3,000
11. Loan to a staff member written off	6,000
12. Nominee director's fee	2,400
13. Personal income tax liability together with a late payment penalty of \$1,000 of JCPL's managing director borne by JCPL in accordance with the terms of the director's employment contract	15,000
14. Term life insurance premium for staff. JCPL is the beneficiary of the policy	2,000
15. Write off of obsolete stock	50,000

JCPL acquired the following assets in the financial year ended 31 December 2016:

1. Vacuum packing machine – The Inland Revenue Authority of Singapore (IRAS) has approved this machine as qualifying under the productivity and innovation credit (PIC) scheme for allowances over three years	180,000
2. Eight identical display cabinets	30,000

Required:

- (a) **Compute the chargeable income of Jelly Co Pte Ltd (JCPL) for the year of assessment 2017.**

Note: You should start your computation with the net accounting profit before tax of \$900,000 and indicate by the use of zero (0) any items which do not require adjustment. (12 marks)

- (b) **Explain the impact of the liberalised tax treatment of expenses incurred in Singapore to derive foreign dividend income on the tax position of JCPL assuming that the dividend income will not be exempt from tax under the foreign source income exemption scheme.** (3 marks)

(15 marks)

- 6 Harsh, an Indian citizen aged 40, and his wife Sandra moved to Singapore from India in November 2015 and they both commenced employment with Tarquin Limited (TL) on 1 January 2016. The couple have two children, twins aged five, and they have agreed that they will claim child relief on one child each.

Harsh is TL's chief operating officer and derived the following employment income and benefits in 2016:

- A monthly salary of \$20,000.
- The use of a fully furnished condominium owned by TL, with an annual value of \$120,000.
- A contractual bonus of \$20,000.
- Home leave passages comprising:
 - two trips each costing \$2,000 for him; and
 - two trips each costing \$6,000 for his twins

Sandra's trips were covered separately by her employment contract.

Due to TL's superb financial results, Harsh was also entitled to a further additional bonus of \$40,000. Both this additional bonus and the contractual bonus were paid to him on 1 April 2017.

In addition to his employment income, Harsh also derived the following incomes during the year 2016:

1. Rental income from a residential unit as follows:

	\$
Rent received from tenant	48,000
Less:	
Maintenance fee	(5,000)
Mortgage interest on a loan taken out to acquire the unit	(18,000)
Net profit	<u>25,000</u>

2. Interest income of \$12,000 received from a loan he extended to his brother-in-law in India. Both the interest and principal repayments received from his brother-in-law have been kept in a bank account in Hong Kong.

In 2016, Harsh made a donation of an Indian artefact, which he had inherited from his late grandfather, to a museum in Singapore. This museum has been granted approved museum status by the National Heritage Board (NHB). The NHB valued the artefact at \$10,000.

Required:

- (a) Compute the minimum tax payable by Harsh for the year of assessment 2017.**

Note: You should indicate by the use of zero (0) any items which do not impact the tax calculation.

(12 marks)

- (b) State the tax treatment of a contractual bonus and a non-contractual bonus and explain why their tax treatment is different.**

(3 marks)

(15 marks)

End of Question Paper