

Fundamentals Level – Skills Module

# Taxation (Singapore)

March/June 2018 – Sample Questions



F6 SGP ISCA

**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

<b>Goods and services tax</b>	
Standard rate	7%
Registration threshold	\$1 million
<b>Corporate income tax</b>	
Rate – Year of assessment 2018	17%
Corporate tax rebate (capped at \$10,000)	20%
<b>Partial tax exemption</b>	
	\$
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>
<b>Tax exemption for new start-up companies</b>	
	\$
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 2017 to 31 December 2017)

	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 2018**

	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 2018**

<b>Earned income relief</b>	<b>Standard (max)</b>	<b>Handicapped (max)</b>
Below 55 years	\$1,000	\$4,000
55 to 59 years	\$6,000	\$10,000
60 years and above	\$8,000	\$12,000
<b>Spouse relief</b>	\$2,000	\$5,500
<b>Qualifying child relief (per child)</b>	\$4,000	\$7,500
<b>Working mother's child relief (WMCR)</b>	<b>% of mother's earned income</b>	
First child	15%	
Second child	20%	
Third and subsequent child	25%	
Maximum WMCR	100%	
Maximum relief per child	\$50,000	
<b>Parent relief</b>	<b>Standard (max)</b>	<b>Handicapped (max)</b>
Not living in the same household	\$5,500	\$10,000
Living in the same household	\$9,000	\$14,000
<b>Grandparent caregiver relief</b>	\$3,000	
<b>Dependant handicapped sibling relief</b>	\$5,500	
<b>Life insurance relief</b>	\$5,000 (max)	
<b>Voluntary CPF contribution of self-employed</b>	Capped at \$37,740 or 37% of assessable trade income, whichever is lower	
<b>Course fees</b>	\$5,500 (max)	

<b>NSman relief</b>	<b>Non-key appointment holder</b>	<b>Key appointment holder</b>
Active NSman	\$3,000	\$5,000
Non-active NSman	\$1,500	\$3,500
Wife/widow/parent of NSman	\$750	\$750
<b>Foreign maid levy</b>	\$6,360 (max)	
Total amount of personal income tax reliefs	\$80,000 (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** Cosmetic Pte Ltd (CPL), which was incorporated on 1 May 2017, engages in the wholesaling and retailing of cosmetic products. CPL registered for goods and services tax (GST) on 1 June 2017 and will submit its first GST return for the quarter ended 30 June 2017.

CPL's transactions in the period 1 May 2017 to 30 June 2017 are as follows:

	\$
<b>May 2017</b>	
1. Purchased cosmetic products, 80% of which remained unsold as at 1 June 2017	100,000
2. Paid May and June accountancy fees at \$300 per month	600
<b>June 2017</b>	
3. Sales of cosmetic products	60,000
4. Interest income received from a Singapore bank	500
5. Rental paid for a shop unit	6,000
6. Salary costs	8,000
7. Purchased cosmetics from a supplier in Korea and imported them into Singapore	20,000
8. Freight charges for the delivery of the Korean cosmetics to Singapore	500
9. Local delivery costs	300
10. New private motor car, SBC 123, purchased for the sole use of CPL's marketing director in the course of the company's business	50,000

**Notes:**

- All amounts are stated exclusive of any applicable GST.
- Except for the Korean supplier, all of CPL's suppliers are Singapore GST registered traders.

**Required:**

- (a) **State the TWO conditions which must be met for a goods and services tax (GST) registered trader to claim input tax on goods acquired for sale in the six months prior to its GST registration.** (2 marks)
- (b) **For each of the transactions (1) to (10), identify the type of supply or purchase and, where applicable, calculate the GST output tax chargeable or input tax claimable by Cosmetic Pte Ltd. For any item where no GST should be taken into account, state the reason.** (8 marks)

**(10 marks)**

- 2 Orange Pte Ltd (OPL) and Peat Pte Ltd (PPL) are both Singapore incorporated companies with a 31 December year end. PPL is a wholly owned subsidiary of OPL.

OPL has been carrying on the same business since 2000 and its shareholders and their shareholdings have remained the same since its incorporation.

For its financial year ended 31 December 2017, OPL has a tax adjusted profit of \$800,000. Other relevant tax information relating to OPL is as follows:

	\$
Losses brought forward from the year of assessment (YA) 2016	90,000
Capital allowances brought forward from YA 2016	20,000
Donations brought forward from YA 2016	50,000
Capital allowances claim for YA 2018	300,000
For YA 2018, OPL, being a member of a Singapore tax group, made a claim for group relief on the transfer of the following qualifying deductions from PPL:	
– losses	60,000
– capital allowances	80,000

**Required:**

- (a) **Compute the chargeable income of Orange Pte Ltd for the year of assessment 2018 showing clearly the order of set-off of the various deductions from the tax adjusted profit.**

Note: You should start your computation with the tax adjusted profit figure of \$800,000. (6 marks)

- (b) **State the conditions which must be satisfied for losses and capital allowances to be transferred between group companies.** (4 marks)

**(10 marks)**

- 3 EL LLP, a limited liability partnership, was set up in 2016 by Ellen and Lorraine. Ellen and Lorraine contributed capital of \$400,000 and \$100,000 respectively and share profits and losses in the ratio 80:20.

EL LLP has not been profitable. For the years of assessment (YAs) 2017 and 2018, the amount of tax adjusted losses and capital allowances allocated to Ellen are as follows:

	\$
<b>YA 2017</b>	
Losses	288,000
Capital allowances	48,000
<b>YA 2018</b>	
Losses	384,000
Capital allowances	57,600

In addition to being a partner of EL LLP, Ellen is the chief executive officer of Dora Inc. Ellen's total remuneration from Dora Inc totalled \$300,000 for the year ended 31 December 2016 and \$400,000 for the year ended 31 December 2017.

**Required:**

- (a) **Compute Ellen's assessable income for each of the years of assessment 2017 and 2018, clearly identifying the amounts of any tax losses and/or capital allowances to be carried forward for each of these years.** (8 marks)
- (b) **Explain how the amounts carried forward from the year of assessment 2018 (as identified in (a) above) can be relieved.** (2 marks)

**(10 marks)**

- 4 Alex is the new chief financial officer of FinCo Pte Ltd (FPL), a Singapore incorporated and tax resident company. Following his review of FPL's records, Alex has identified the following issues:
- (1) FPL paid interest of \$10,000 on an outstanding trade debt to a Country H company on 1 February 2017 based on an invoice dated 15 January 2017. No Singapore withholding tax had been deducted from this payment.  
Singapore does not have a tax treaty with Country H.
  - (2) In the year of assessment 2017, FPL repatriated the net profit of \$20,000 from its branch operating in the Philippines, but this branch profit was not brought into tax in FPL's tax computation for that year.  
The corporate tax rate in the Philippines is 30% and the withholding tax on the repatriation of branch profits is 15%.
  - (3) FPL received the sum of \$12,000 from an insurance company for a machine which had to be scrapped after it had been damaged by a pipe leakage. FPL did not include this sum in its taxable income for the year of assessment 2017.  
Capital allowance has been claimed in full on the machine.
  - (4) FPL made a contribution to a compulsory overseas pension fund for an expatriate employee seconded from the UK. This amount has not been disclosed in the employee's Form IR8A and FPL has not claimed a tax deduction for this amount.
  - (5) FPL paid late tax payment penalties of \$2,000 for Alex. Based on his employment contract, FPL is responsible for all taxes and penalties, if any, associated with Alex's personal income tax filing. FPL has claimed a tax deduction for this payment.

**Required:**

- (a) **In respect of item (1), state the amount of the withholding tax which should have been deducted and the date by which it should have been paid.** (2 marks)
- (b) **State, giving reasons, whether FinCo Pte Ltd's tax treatment of each of the items (2), (3), (4) and (5) was correct.** (8 marks)

**(10 marks)**



- 5 Thomas is the finance director of Excellent Pte Ltd (EPL). EPL is a wholly owned Singapore subsidiary of Excellent Inc (EI), a company listed on the New York Stock Exchange.

In 2017, Thomas derived the following employment income and benefits:

- A monthly salary of \$30,000.
- A car with a chauffeur.
  - The car was purchased by EPL on 1 January 2017 for \$500,000 and has a residual value of \$120,000.
  - All of the car's petrol costs are borne by EPL.
  - The total remuneration of the chauffeur in 2017 was \$36,000.
  - The total mileage for 2017 was 30,000 km.
  - 30% of the total mileage was for Thomas' private use.
- Thomas had been awarded a stock option for 5,000 shares in EI on 1 October 2012, when the stock price was \$30 per share. On 30 June 2017, he met all the conditions of the award and exercised the option in full at the exercise price of \$10 per share. 60% of the shares from the option can be sold immediately after the exercise but the remaining 40% can only be sold one year after the date of exercise.

The stock price of EI on 30 June 2017 was \$50 per share.

- A fully paid holiday costing \$10,000 for working with EPL for the past ten years.
- A gold ring costing \$150 on his birthday.
- Reimbursement of his mandarin class tuition fee, totalling \$3,600.
- An interest subsidy of \$10,000. Thomas obtained a loan from a bank to fund the purchase of his residential apartment. He incurred a total interest expense of \$20,000 on this loan but in accordance with EPL's housing loan scheme can only claim a maximum of \$10,000. EPL's housing loan scheme is available to all its employees and Thomas is not a shareholder of EPL.

In addition to his employment income, Thomas also derived the following incomes during the year 2017:

- Interest income of \$5,000 from a loan he has extended to his friend, Tony. Tony used the loan to acquire a property in Singapore.
- Dividend income of \$1,000 from a Cayman Islands company. There is no corporation tax or withholding tax in the Cayman Islands.

**Required:**

- (a) Calculate Thomas' chargeable income for the year of assessment 2018.**

Note: You should indicate with the use of '0' any item which is not taxable or not deductible. (11 marks)

- (b) State how the term 'presence in Singapore' is determined in the case of a short-term expatriate working in Singapore and explain the effect of this definition on the determination of an expatriate's tax residency status.**

(4 marks)

**(15 marks)**

- 6 During the year ended 31 December 2017, Smart Manufacturing Pte Ltd (SMPL) recorded a net accounting profit before tax of \$900,000 after accounting for the following items:

	\$
<b>Other income</b>	
Gain on the sale of ordinary shares in its wholly owned subsidiary, Smart Trading Pte Ltd (STPL). SMPL had owned the shares in STPL since 2012	200,000
Interest on a trade debt levied on a customer in Malaysia. The interest was paid by the customer on 2 January 2018	5,000
Compensation received for stock damaged in a fire	6,000
<b>Expenses</b>	
Audit and tax filing fees	20,000
Depreciation	10,000
A cash donation to a temple in Sri Lanka	2,000
A cash donation to the National Kidney Foundation (an institution of a public character)	11,000
Hire purchase interest	2,400
Legal fees on the sale of the STPL shares (see above)	3,000
Legal fees for the recovery of trade debts	2,000
Medical insurance (SMPL did not implement either the portable medical benefits scheme or the transferable medical insurance scheme)	14,000
Penalty for late payment of CPF contribution	500
Repair and maintenance of lorries and delivery vans	8,000
Repair and maintenance of private plated motor cars	10,000
Staff remuneration	600,000
Training (SMPL has claimed a production and innovation credit (PIC) cash payout on this amount)	9,000
Write off of trading stock damaged in the fire (see above)	12,000

**Capital expenditure**

In addition to the above profit and loss items, SMPL incurred the following capital expenditure in the year 2017:

- (1) A new automated conveyance system, with a cost of \$90,000. The system was acquired using hire purchase, and the following payments were made in 2017:
- a deposit of \$18,000 on 20 January 2017; and
  - ten monthly instalments of \$2,240, comprising principal of \$2,000 and interest of \$240.

The Inland Revenue Authority of Singapore (IRAS) has approved the system as an automated productivity and innovation equipment, qualifying for a capital allowance claim over one year.

SMPL has not made any enhanced capital allowance claims for the last three years of assessment.

- (2) Five similar tables for a total cost of \$12,000.

**Required:**

- (a) **Compute the chargeable income before partial tax exemption of Smart Manufacturing Pte Ltd (SMPL) for the year of assessment 2018, claiming the maximum capital and enhanced allowances under the productivity and innovation credit (PIC) scheme.**

**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 item which does not require adjustment. (14 marks)

- (b) **State the date by which SMPL must file its return of income (Form C) for the year of assessment 2018.**

(1 mark)

**(15 marks)**

**End of Question Paper**