

Fundamentals Level – Skills Module

Taxation (Singapore)

Tuesday 4 June 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	<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 \$1,500 per month

	Employee	Employer
Rates of CPF contributions (from 1 September 2011)	20%	16%
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 with effect from the year of assessment 2012

	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 subsequent child	25%	
Maximum cumulative 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** Useful Bolt Pte Ltd (UBPL), a wholly owned subsidiary of Useful Bolt Inc (UBI), a US corporation, has carried on manufacturing and trading activities in Singapore since its incorporation. During the year ended 30 September 2012, UBPL posted a net profit before tax of \$5,400,000, after accounting for the following items:

Other income

- 1 \$10,000 compensation from a renovation contractor for not completing the office renovations by the agreed timeline.
- 2 \$15,000 recovery of a non-trade debt written off in the year 2010.
- 3 \$25,000 interest on a bank deposit placed with Bank of America at New York City. One-fifth of the interest income was withdrawn to purchase office equipment on 31 August 2012. This office equipment was brought back to Singapore on 2 October 2012. The balance of \$20,000 was used to settle an amount payable to a trade supplier in San Francisco on 5 September 2012.
- 4 \$5,000 interest charged on an outstanding trade debt received from a US debtor on 30 September 2012 which was deposited into a bank account with Bank of America at New York City.
- 5 \$16,600 Singapore one-tier tax exempt dividend received from an investment in a Singapore company on 28 May 2012.
- 6 \$8,350 net foreign dividend received from a Hong Kong company on 6 July 2012. Hong Kong's corporate tax rate is 16.5% and the dividend was declared out of the company's underlying corporate profits which have been taxed in Hong Kong.

Expenses

- 7 \$100,000 golf club entrance fee. The golf club membership was taken up exclusively to entertain business clients and a \$1,200 annual subscription fee was also paid during the year.
- 8 \$85,000 depreciation expense.
- 9 \$12,000 interest for the hire purchase of a motor car used by the managing director exclusively for business purposes.
- 10 \$7,500 foreign exchange loss from the translation of the principal amount of a US\$-denominated long-term investment.
- 11 \$20,000 cash misappropriated by the company's temporary accounts clerk who has since left Singapore.
- 12 \$4,500 medical expense reimbursements and \$1,500 dental expense reimbursements for staff. UBPL has not implemented the portable medical benefits scheme nor the transferable medical insurance scheme for its employees.
- 13 \$500,000 salaries and central provident fund (CPF) costs which included a one-off gratuity of \$60,000 paid as a 'golden handshake' to a worker in recognition of his 30 years of dedicated service with the company.
- 14 \$3,000 legal fees paid to a lawyer to recover a long overdue debt extended to an ex-employee.
- 15 \$70,000 worth of donations to an approved institution of public character, comprising cash donations of \$35,000 and shares of companies listed on the Singapore Stock Exchange valued at \$35,000 at the time of donation.

Capital expenditure

In addition to the above profit and loss items, UBPL incurred the following capital expenditure during the year ended 30 September 2012:

- 16 \$1,000,000 prescribed automation equipment which qualifies for a one-year capital allowance claim.
- 17 \$80,000 (including road tax of \$5,000 for the six months ended 30 September 2012) for a new goods van.
- 18 \$400,000 extension to a factory building. The building had been purchased in 2009 when its agreed qualifying expenditure was \$1,000,000. The factory has been used to manufacture widgets since 2009.

Required:

Compute the tax liability of Useful Bolt Pte Ltd (UBPL) for the year of assessment 2013, claiming the maximum deductions and capital allowances.

(30 marks)

- 2** Bill and Katrina are Singapore citizens with a 16-year-old son, Bruce. Bill completed his national service as a non-key appointment holder and is no longer required to attend in-camp training.

Bill and Katrina each derive taxable Singapore income from different sources. The only income which they derived jointly during the year 2012 is in respect of a commercial office unit at Parkway Parade which was rented out for \$75,000. Their related deductible rental expenses for the office unit in the same period totalled \$39,000.

Bill

Bill retired from full-time employment after turning 60 in 2011. On 1 July 2012, he set up a sole-proprietorship business. For the six months ended 31 December 2012, he achieved a net profit of \$79,500 after accounting for the following items:

- A monthly salary of \$2,000 paid to himself and \$500 paid to Bruce who had helped out as a cashier during his vacation in the month of December 2012. Teenage temporary cashiers are typically paid \$500 to \$800 for the services rendered by Bruce.
- Course fees of \$1,000 per participant for a two-day corporate tax planning workshop conducted by an accredited tax advisor and attended by Bill and his accountant.
- Renovations comprising general installations, false ceilings and doors totalling \$180,000 carried out on his new office premises. These renovations did not require prior approval from the Commissioner of Building Control and the costs do not include any design fees.

Bill earned \$5,000 interest from his investment in structured bank deposits in 2012.

On 5 December 2012, Bill made an artefacts donation worth \$6,000 to a museum which has approved status with the National Heritage Board. These artefacts are deemed worthy collection items by the National Heritage Board.

Katrina

Katrina, aged 57, is a finance director at a Singapore listed company. She derived the following employment income during the year 2012:

- A monthly basic salary of \$30,000.
- A one-month special bonus declared and paid on 15 February 2012.
- Exercised the share option granted to her in 2009 to acquire 30,000 shares in the Singapore listed company on 5 October 2012, at the exercise price of \$3 each. The company's shares were traded on the Singapore stock exchange at \$4.50 each at the close of business on 5 October 2012.
- Given a further 8,000 shares in the company, as a reward for her excellent performance, on 4 April 2012. The company's shares were traded on the Singapore stock exchange at \$3.50 each at the close of business on 4 April 2012. These shares were issued subject to a sales restriction which was lifted six months later, on 5 October 2012.
- A company car provided for her own use. The car had been purchased by the company in 2008 for \$200,000 and the residual value of the car is \$46,000. The company paid for all the petrol, repairs and maintenance for the car. Her private mileage for the year was 10,000 km.
- Reimbursement for the taxi fares incurred by her between home and office during those days when her company car was sent to the workshop for repairs and maintenance. These taxi fares totalled \$4,000 in the year.

Besides her employment income, Katrina also derived the following income during the year 2012:

- \$6,000 interest from her friend for a loan extended by Katrina.
- \$50,000 gross rental proceeds from a small shop space at Bugis Junction which she had acquired in 2009. During the year repair costs of \$40,000 were incurred to reinstate the property to its original condition after a fire broke out in the property. Other related deductible rental expenses for the year totalled \$30,000.

On 15 December 2012, after learning of the earthquake in China, Katrina donated \$100,000 to the Red Cross Society specifying that her donation should be channelled to help the China earthquake victims.

Required:

Assuming they would each like to pay the minimum amount of tax, compute separately the Singapore tax payable for the year of assessment 2013 by:

(i) **Bill; and** (11 marks)

(ii) **Katrina.** (14 marks)

(25 marks)

- 3 (a) Compare and contrast the tax loss carry-back system with the group relief system for companies in Singapore, using the following sub-headings:
- (i) main tax benefit;
 - (ii) conditions which apply;
 - (iii) relevant dates for the shareholding test;
 - (iv) maximum quantum allowed, if any; and
 - (v) order of claim for loss items.

The total marks will be split equally between each part.

(10 marks)

- (b) Company S, a company incorporated and tax resident in Singapore, is due to pay consultancy fees to the Singapore branch of Company T for services performed in Singapore. Company T is incorporated and tax resident in Country T. Singapore does not have a double taxation agreement with Country T.

Company T's invoice for the consultancy fees, dated 30 November 2012, was received by Company S on 2 December 2012. The agreement for the consultancy services provides that the invoice is to be settled immediately upon receipt and payment was made by Company S on 7 December 2012.

Company S received the following advice from a local tax advisor regarding this payment:

- (i) Withholding tax is applicable so long as the payment is made to a permanent establishment in Singapore.
- (ii) The withholding tax rate is 15%.
- (iii) The withholding tax has to be paid to the IRAS by 15 December 2012.
- (iv) The withholding tax suffered is the final tax.
- (v) No withholding tax is applicable if the payment is paid to an offshore bank account.

Required:

For each comment made by the tax advisor, state, giving reasons, whether or not it is valid.

(5 marks)

(15 marks)

- 4 (a) Patsy, Queenie and Rachel are all qualified lawyers who formed a partnership in 2009 to provide legal services in Singapore. Each of the three partners contributed the same initial capital of \$100,000, on which interest is paid at 5% per annum. However, the partnership agreement also provides for the following to take into account the relative time spent in the partnership by each partner:

	Patsy	Queenie	Rachel
Salaries (per annum)	\$200,000	\$150,000	\$100,000
Profit sharing ratio	5	3	2

On 1 July 2012, Rachel contributed an additional \$200,000 capital and from that date it was agreed that the residual profits were to be shared in the new profit sharing ratio of 4:3:3. Salaries and the interest rate on contributed capital were unchanged.

The adjusted trading profit of the partnership before capital allowances for the year ended 31 December 2012 is \$800,000.

On 31 December 2012, the partnership bought a set of law publications worth \$30,000.

Required:

Compute the adjusted profits and capital allowances to be allocated to each of the three partners for the year of assessment 2013.

(8 marks)

- (b) Explain the significance of the term 'contributed capital' in the case of tax losses incurred by a limited liability partnership.

(7 marks)

(15 marks)

- 5 (a) Jacky Pets Pte Ltd (JPPL) is a company which was incorporated in Singapore on 1 June 2013. In addition to selling various pets, pet accessories (homes, toys, etc) and pet foods to customers in Singapore and Malaysia, the sole director of JPPL also regularly travels to Malaysia to conduct one-day pet grooming courses for animal pet shops there.

Based on its projections, JPPL is expected to record the following transactions for the 12 months commencing from 1 June 2013:

- \$700,000 sales of pets, pet accessories and foods to customers in Singapore.
- \$250,000 sales of pets, pet accessories and foods to customers in Malaysia.
- The transfer of a photocopier worth \$1,000 to JPPL's related company, Kings Air-conditioning Pte Ltd (KAPL), a goods and services tax (GST) registered trader. This transfer was effected by JPPL one day after purchasing the copier in June 2013 from a non-GST registered entity in Singapore.
- \$300,000 purchases of pet foods and accessories such as bird cages, fish tanks, etc, all from GST-registered traders.
- \$180,000 salaries and central provident fund (CPF) contributions for employees working in Singapore.
- \$30,000 income from conducting grooming courses in Malaysia.
- \$1,000 refundable deposit received from a customer in Singapore on 30 May 2013 for ten rare breed parrots. The balance of 90% of the purchase price was settled on 31 July 2013, although the invoice for the full amount was issued on 30 June 2013.

All figures stated above are exclusive of any applicable GST.

Required:

- (i) **Assuming that Jacky Pets Pte Ltd (JPPL) is a goods and services tax (GST) registered trader, explain the GST implications of each of the above transactions;** (7 marks)
- (ii) **Based on the above transactions, determine if JPPL is required under the law to register for GST in Singapore.** (3 marks)
- (b) KAPL had sold an air-conditioner worth \$5,000 to a customer in November 2011. The output tax of \$350 on this sale had been accounted for when KAPL submitted its GST return for the quarter ended 31 December 2011. After sending several reminders to the customer and engaging a legal debt collector to chase after the debt, all to no avail, KAPL decided to provide for an impairment of this account receivable in its accounts for the year ended 31 December 2012.

Required:

List any FIVE conditions which Kings Air-conditioning Pte Ltd must satisfy before it will be able to claim bad debts relief in respect of the \$350 output tax on the sale of the air-conditioner. (5 marks)

(15 marks)

End of Question Paper