

Fundamentals Level – Skills Module

# Taxation (Singapore)

Specimen Exam applicable from June 2015

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This 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 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.**

**Do NOT record any of your answers on the exam paper.**

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

The Association of Chartered Certified Accountants

# Paper F6 (SGP)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

## 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

<b>Goods and services tax</b>	
Standard rate	7%
Registration threshold	\$1 million
<b>Corporate income tax</b>	
Rate – Year of assessment 2015	17%
Corporate tax rebate (capped at \$30,000)	30%
<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>Full 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 50 years and earning more than \$1,500 per month (up to 31 December 2014)

	<b>Employee</b>	<b>Employer</b>
Rates of CPF contributions	20%	16%
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 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 for the year of assessment 2015

	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 2015

	Normal (max)	Handicapped (max)
<b>Earned income</b>		
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)	
Handicapped spouse relief	\$5,500 (max)	
Qualifying child relief (per child)	\$4,000	
Handicapped child relief (per child)	\$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	
<b>Parent relief</b>		
Not living in the same household	\$5,500	
Living in the same household	\$9,000	
<b>Handicapped parent relief</b>		
Not living in the same household	\$10,000	
Living in the same household	\$14,000	
Grandparent caregiver relief	\$3,000	
Dependent handicapped sibling relief	\$5,500	
Life assurance	\$5,000 (max)	
Voluntary CPF contribution of self-employed	Capped at \$30,600 or 36% of assessable trade income whichever is lower	
Course fees	\$5,500 (max)	

<b>NSman</b>	<b>Normal 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
Foreign maid levy	\$6,360 (max)	

**Section A – ALL 15 questions are compulsory and MUST be attempted**

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 Advance Pte Ltd, which has a portable medical benefits scheme for its staff, has incurred the following expenses in the financial year ended 30 June 2014:

	\$
Employees' salaries, allowances and bonuses	500,000
Directors' fees	50,000
Cash allowance in lieu of medical expense	12,000
Hospitalisation insurance	18,000

**How much of the medical expense is NOT allowable for Advance Pte Ltd?**

- A \$19,000
  - B \$7,000
  - C \$8,000
  - D \$20,000
- 2 Destiny Pte Ltd (DPL) received the Notice of Assessment for Year of Assessment 2013 dated 1 June 2014 for tax payable of \$100,000. DPL is appalled by the adjustment made by the Inland Revenue Authority of Singapore and would like to object to the said notice of assessment.

**What steps must Destiny Pte Ltd take to lodge a valid objection to the notice of assessment?**

- A Pay the tax assessed of \$100,000 and lodge an objection to the assessment by 1 July 2014
- B Pay the tax assessed of \$100,000 and lodge an objection to the assessment by 1 August 2014
- C Pay the tax assessed of \$100,000 by 1 July 2014 and lodge an objection to the assessment by 1 August 2014
- D Pay the tax assessed of \$100,000 by 1 August 2014 and lodge an objection to the assessment by 1 July 2014

- 3 Gregory commenced employment as the chief financial officer of DDZZ Ltd, a company whose shares are listed on the Stock Exchange of Singapore, on 1 January 2014. Prior to that, he was working in the Australian subsidiary of DDZZ Ltd.

In 2014, he exercised the following stock options in DDZZ Ltd in Singapore:

Date of award of option	Date of exercise of option	Exercise price (\$)	No of shares granted	No of shares acquired at the exercise of the option	Remarks
1 January 2013	2 February 2014	2.00	20,000	10,000	The option was granted to Gregory whilst he was working for the Australian subsidiary of DDZZ Ltd.
30 June 2014	31 December 2014	2.50	10,000	5,000	The option was granted to Gregory by DDZZ Ltd.

The following are extracts of the share prices of DDZZ Ltd on certain selected dates:

	\$
1 January 2013	3.00
2 February 2014	3.60
30 June 2014	3.50
31 December 2014	4.00

**How much is the taxable option benefit for Gregory in the year of assessment 2015?**

- A \$7,500
- B \$23,500
- C \$31,000
- D \$15,000

- 4 Herman Pte Ltd incurred the following expenditure in the financial year 30 September 2014.

	\$
<b>External training cost</b>	
Cost paid to an external trainer	10,000
Hotel accommodation and airfare of external trainer	2,000
Printing of training material	3,000
	<hr/>
	15,000
<b>Internal training cost</b>	
Salary and other related costs of in-house trainer for the delivery of the training cost (Note)	9,000
Rental of external training venue	2,000
	<hr/>
	11,000

**Note:** The trainer is not accredited by the Workforce Development Agency or approved/certified by the Institute of Technical Education.

**How much is the maximum enhanced tax deduction for training expenditure under the productivity and innovation credit scheme which Herman Pte Ltd could claim?**

- A \$72,000
- B \$75,000
- C \$78,000
- D \$66,000

- 5 Vanessa owns an apartment which was tenanted from 1 March 2014 to 31 December 2014 at a monthly rent of \$4,000. She was looking for a tenant during the period 1 January to 28 February 2014. To secure the new tenant, Vanessa paid for a new music system costing \$10,000. In addition, Vanessa incurred the following expenses for the period 1 January 2014 to 31 December 2014:

	\$
Property tax	2,400
Interest	6,000

**How much is the taxable rental income for Vanessa for the year of assessment 2015?**

- A \$33,000
- B \$23,000
- C \$31,600
- D \$21,600

- 6 Fantastic Limited, a trading company, has had the following results:

	Chargeable income/(loss)
	\$
Year of assessment 2014 (YA) (Basis period: year ended 31 December 2013)	(300,000)
YA 2013 (Basis period: year ended 31 December 2012)	300,000

**How much of Fantastic Limited's year of assessment (YA) 2014 losses can be relieved against its chargeable income of \$300,000 for the YA 2013?**

- A \$300,000
- B \$200,000
- C \$147,500
- D \$100,000

- 7 Mae, a Singapore citizen, returned to Singapore in 2014 upon completion of her masters degree in Australia. She started working as a research scientist on 1 July 2014.

Her remuneration package is as follows:

- Monthly pay was \$4,000.
- A new car costing \$120,000 inclusive of certificate of entitlement of \$60,000. The residual value of the car is \$30,000. Total mileage driven in 2014 was 10,000 km, 50% of which was for business purposes. The company paid all the running expenses of the car.

Due to her superb performance, she will be paid a special bonus of \$10,000 on 2 February 2015.

**How much is Mae's chargeable income for the year of assessment 2015?**

- A \$40,607
- B \$40,107
- C \$30,607
- D \$30,107

- 8 For the quarter ended 30 September 2014, Accommodating Pte Ltd received a tax invoice dated 30 September 2014 from Car Pte Ltd. Details of the tax invoice were as follows:

	Cost (\$)
Rental of a private motor car	6,000
Petrol cost for the private motor car	1,000
Chauffeur services	3,000
	<hr/>
	10,000
<i>Add: goods and services tax at 7%</i>	<i>700</i>
	<hr/>
Total billed amount	10,700
	<hr/>

The private motor car was used solely by the managing director.

**How much input goods and services tax can Accommodating Pte Ltd claim for the quarter ended 30 September 2014?**

- A \$700  
 B \$210  
 C \$420  
 D \$280
- 9 Band Ltd ('BL'), whose financial year is 31 December, commenced building an extension to its current industrial building on 1 January 2014. BL has obtained the Economic Development Board's approval to claim land intensification allowance on the extension. BL moved into the new extension on 1 December 2014. BL has incurred the following costs for building the extension:

	\$
Land cost	4,000,000
Legal fee for acquisition of land	20,000
Building cost	1,000,000
Demolition cost	50,000
Design fee for the building	50,000

**How much land intensification allowance can Band Ltd claim?**

- A \$330,000  
 B \$1,536,000  
 C \$1,530,000  
 D \$1,521,000
- 10 Computer Associate Limited (CAL), a company incorporated in January 2014, bought a computing machine costing \$120,000 in April 2014. CAL proceeded to make a claim for cash payout of \$60,000.

**How much productivity and innovation credit (PIC) and capital allowance can Computer Associate Limited claim for the computing machine?**

- A PIC claim of \$360,000 only  
 B Capital allowance claim of \$120,000 only  
 C Both PIC and capital allowance claim of \$480,000  
 D Neither PIC nor capital allowance can be claimed



- 11** On 31 March 2014, Advance Limited entered into a contract with Loyal Limited. The terms of the contract are as follows:
- The stocks will be supplied on the 15th day of the month. The first batch was delivered on 15 April 2014.
  - The invoice will be raised on the 1st day of the following month. The first invoice was raised on 1 May 2014.
  - Loyal Limited has agreed to settle the invoice within 30 days upon receipt. The first payment was made on 1 June 2014.

**What is the time of supply for the stock delivered on 15 April 2014?**

- A** 31 March 2014
- B** 15 April 2014
- C** 1 May 2014
- D** 1 June 2014

- 12** Malcom is a tax resident of Country Z. He received the following income/reimbursement for technical services which he has provided to Apples Limited (AL), a Singapore incorporated and tax resident company in April 2014:

	\$
Consulting fees	50,000
Hotel accommodation reimbursed for 59 days	12,000
Meal allowance	2,000

In addition, he incurred taxi fares of \$1,000 travelling to and from AL's office.

Country Z does not have any double taxation agreement with Singapore. Malcom has opted for tax to be withheld on gross income.

**What is the total remuneration of Malcom which will be subject to withholding tax at 15%?**

- A** \$63,000
- B** \$64,000
- C** \$52,000
- D** \$62,000

- 13** X-Rui Pte Ltd (XPL), a Singapore tax resident company, has entered into a contract with Y-Mei Ltd (YML), a tax resident company of Country C, for the exclusive rights to use its brand name in Singapore on 1 January 2013. Both XPL and YML's year end is 31 December.

Amongst others, the contract provides that:

- (1) All royalties are due at the end of the financial year;
- (2) An invoice will be raised on 31 January of each year for royalty payment due in the preceding calendar year; and
- (3) The amount has to be settled within a month after the issuance of the invoice.

**By which date must X-Rui Pte Ltd account for the withholding tax on the amount payable to Y-Mei Ltd?**

- A** 15 January 2014
- B** 15 February 2014
- C** 15 March 2014
- D** 15 April 2014

**14 Assuming that a professional tax adviser and their client are both aware that the information used in the preparation of the income tax computation is false and will result in tax being undercharged, which of the following statements describes their responsibilities?**

- A** It is the responsibility of the client to ensure the correctness of the information, thus only the client will be liable to penalties
- B** It is the responsibility of the professional adviser to ensure the correctness of the information, thus only the professional adviser will be liable to penalties
- C** Neither the professional adviser nor the client is responsible as IRAS is unlikely to discover that incorrect information has been provided
- D** Both the professional adviser and the client are responsible and will be liable to penalties

**15** Adrian, a sole proprietor of a consultancy business set up on 1 April 2013, incurred the following expenditure for its financial year ended 31 March 2014:

	\$
General electrical installation and wiring to supply electricity	50,000
Doors, gates and roller shutters (manual)	100,000
Designer fees	30,000
Display cabinet	120,000
Total	<u>300,000</u>

Adrian has never made any claims for tax deduction for expenses incurred on renovation or refurbishment works (s.14Q claim).

**How much is the maximum s.14Q claim which Adrian can make?**

- A** \$100,000
- B** \$60,000
- C** \$50,000
- D** \$90,000

**(30 marks)**

**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** Boys Fashion Pte Ltd (BFPL), incorporated on 1 January 2013, is a wholly owned subsidiary of Future Fashion Pte Ltd. For the financial year ended 30 September 2014, BFPL recorded a net profit before tax of \$30,000 after securing its first sales order worth \$100,000 on 1 April 2014. BFPL suffered a net operating loss of \$20,000 for the first accounting period from 1 January 2013 to 30 September 2013.

The profit and loss accounts for the two periods are as follows:

	Year ended 30 September 2014	Period ended 30 September 2013
	\$	\$
Sales income	100,000	0
Less: expenses		
Office expenses	40,000	8,000
Penalties and fines	250	120
Private car expenses	2,750	1,280
Salaries	27,000	10,600
Net profit/(loss)	<u>30,000</u>	<u>(20,000)</u>

**Required:**

- (a) State the deemed date of commencement of Boys Fashion Pte Ltd (BFPL) and explain your reason. (2 marks)
- (b) Compute the tax liability of BFPL for the year of assessment 2015, claiming the maximum deductions and capital allowances. (8 marks)

**(10 marks)**

- 2 For the quarter ended 30 September 2014, Grand Supreme Technology Pte Ltd (GSTPL), a goods and services tax (GST)-registered trader, recorded the following transactions from trading in electrical components:
- Sold \$1,000,000 worth of goods to customers, one-half of which were exported to Thailand, two-fifths were sold to Singapore GST-registered companies, and the remainder sold to Singapore companies which were not GST-registered.
  - Transferred an old photocopying machine worth \$500 to a subsidiary at no charge.
  - Purchased \$400,000 worth of goods, one-quarter of which were from GST-registered traders.
  - Imported \$150,000 goods from a Malaysia supplier who had no business presence in Singapore.
  - Leased an apartment it owns with an annual value of \$54,000 to an expatriate and his family at a monthly rental of \$6,000.

In addition, GSTPL incurred the following expenses in the quarter, all of which were paid to GST-registered traders, except for the donation to the overseas charitable organisation:

	\$
Rental of warehouse	200,000
Shipping charges for goods exported	2,000
Annual dinner and dance expenses (half of which were attributable to the spouses of staff)	20,000
Donations to an overseas charitable organisation	5,000

All figures are stated exclusive of any applicable GST.

**Required:**

**Compute the amount of goods and services tax (GST) payable by or refundable to Grand Supreme Technology for the quarter ended 30 September 2014. For each item, clearly identify the type of supply and state the amount of output/input tax chargeable/payable.**

**(10 marks)**

**3** Willowhand Pte Ltd (WPL) is an active trading company incorporated but not tax resident in Singapore. It has a business operation in Singapore. WPL's financial year end is 31 March.

During the year 2014, WPL made the following payments:

- Lease of office equipment used in its Singapore office amounting to \$100,000 paid to Company A, which is incorporated and tax resident in Country A.
- Rental of office premises outside Singapore amounting to \$200,000 to Company B which is incorporated and tax resident in Country B.
- Interest of \$300,000 on a loan taken from the Singapore branch of its parent company, Company C, which is registered in Country C.
- Consultancy fees of \$400,000 paid for services performed in Singapore to an unrelated Singapore-incorporated company, Company D. All the directors of Company D are non-residents of Singapore and all its board of directors meetings are held in Country D.
- Royalty payments of \$500,000 to the licensor, who is located in Country E and does not have any operations or presence in Singapore.

Singapore does not have a double taxation agreement with any of the Countries A, B, C, D and E.

**Required:**

**For each of the above five payments made by Willowhand Pte Ltd, state, giving reasons, whether Singapore withholding tax is applicable and if so, calculate the amount of withholding tax which needs to be accounted to the Inland Revenue Authority of Singapore.**

**(10 marks)**

**4** Ash and Kumar are partners in a limited liability partnership, Echo LLP, which commenced business in Singapore on 1 January 2012. Ash and Kumar share profits in the ratio 8:2.

On 1 January 2012, Ash and Kumar contributed capital of \$250,000 and \$100,000 respectively to Echo LLP. On 31 July 2013, Ash, with the agreement of Kumar, reduced his contributed capital to \$150,000. There was no change to the profit and loss sharing ratio.

Echo LLP has not been profitable. For the years of assessment 2014 and 2015, the amount of tax-adjusted losses and capital allowances allocated to Ash are as follows:

Year of assessment	2014		2015	
	Losses	Capital allowances	Losses	Capital allowances
Ash (80%)	(216,000)	(28,400)	(236,000)	(32,400)

In addition to being a partner of Echo LLP, Ash is employed by a multi-national corporation. His total remuneration from this employment for the years ended 31 December 2013 and 31 December 2014 was \$550,000 and \$650,000 respectively.

**Required:**

**For the years of assessment 2014 and 2015, calculate the assessable income, together with the amount of relevant deductions and restricted deductions (if any), of Ash.**

**(10 marks)**

- 5 (a) Dave Hamilton, a British citizen, is aged 40 and single and has been employed by a Singapore company since January 2012. His contract was initially for a three-year period but was terminated on 31 March 2014 due to the closure of the division headed by Dave as part of a restructuring exercise.

The following are details of Dave's income for the three complete months that he was employed in Singapore in the year 2014:

- A monthly basic salary of \$14,000.
- A two-month special bonus declared and paid on 31 January 2014.
- Due to the early termination of his contract, an extra one and a half month's gratuity in consideration of his good work as well as free air tickets worth \$10,000 to return to his home in the UK.

Following the termination of his employment on 31 March 2014, Dave stayed on in Singapore and he had the following transactions in the remaining nine months of the year 2014:

- Contributed \$10,000 as his half of capital in a limited liability partnership on 1 April 2014. The partnership recorded an adjusted trade loss of \$60,000 for the year 2014.
- Derived interest of \$2,000 from a loan extended to his friend.
- Donated \$1,000 worth of shares in an unlisted company to an approved institution of public character.
- Paid a premium of \$4,000 on a life insurance policy taken on his own life for a capital sum insured of \$50,000. The policy was taken up with Great Eastern, a local insurance company.

**Required:**

**Compute the Singapore tax payable by Dave for the year of assessment 2015, assuming he would like to pay the minimum amount of tax.** (12 marks)

- (b) Amy is a waitress at ABC Restaurant Pte Ltd.

**Required:**

**Explain whether any of the following receipts would be taxable on Amy:**

- (i) \$1,000 tips received from a customer for excellent services;
- (ii) \$5,000 Rolex watch given to her by her colleagues on her birthday; and
- (iii) \$500 given to her by ABC Restaurant Pte Ltd as a token of appreciation for her loyal service.

(3 marks)

**(15 marks)**

**6 (a)** H & W Fashion Pte Ltd (HWFPL) is a retail company, selling male and female fashion clothes. HWFPL was incorporated in Singapore on 1 January 2012. Its shares are jointly owned by a husband and wife team.

For the financial year ended 30 September 2014, HWFPL recorded a net profit before tax of \$150,000, after crediting/charging the following:

**Other income**

- 1 \$12,000 interest accrued on a fixed deposit as at 30 September 2014. The said fixed deposit was deposited for a six-month period from 1 July 2014.
- 2 \$21,000 net dividend received in Singapore after deducting 30% withholding tax in the USA.

**Cost of sales and expenses**

- 3 \$15,000 maintenance expenses for a company car, SJV 1234A, used exclusively for businesses by HWFPL's managing director.
- 4 \$40,000 paid to a boutique firm for agreeing not to compete on the same type of clothes designed by a local celebrity.
- 5 \$56,000 depreciation expense.
- 6 \$8,000 legal fees for new sales distributor agreements.
- 7 \$120,000 gross directors' fees. As the directors are not tax residents in Singapore, 20% withholding tax was paid by HWFPL to the Inland Revenue Authority of Singapore on 14 October 2014.

**Capital expenditure capitalised**

- 8 \$20,000 paid for the acquisition of computer hardware and software for the accounting department. In the accounting year ended 30 September 2013, the company had spent \$500,000 on computer hardware and software and had claimed the maximum capital allowances.

**Required:**

**Compute the tax liability of H&W Fashion Pte Ltd for the year of assessment 2015, claiming the maximum deductions and capital allowances.**

Note: You should start your computation with the net accounting profit of \$150,000 and indicate by the use of zero (0) any items which do not require adjustment. (11 marks)

**(b) State the conditions required before a s.24 election can be made for a transfer of assets.** (4 marks)

**(15 marks)**

**End of Question Paper**

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# Answers

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Section A

1 D \$20,000             $\$30,000 - (2\% \times \$500,000)$

2 C

3 A \$7,500             $(5,000 \times (\$4.00 - \$2.50))$

4 B \$75,000             $(\$15,000 + \$10,000) \times 3$

5 A

	<b>\$</b>
Rent (1 March 2014 to 31 December 2014) $\$4,000 \times 10$	40,000
Less: Expenses (1 March 2014 to 31 December 2014)	
Property tax $\$2,400 \times 10/12$	2,000
Interest $\$6,000 \times 10/12$	5,000
	33,000

6 D

7 C

	<b>\$</b>
Salary $\$4,000 \times 6$	24,000
Car benefit in kind	
$= (((\$120,000 - \$30,000) \times 3/7) / 10) + (\$0.55 \times 5,000)$	6,607
	30,607

8 B \$210             $3,000 \times 7\%$

9 A

	<b>\$</b>
Qualifying cost ('QC')	1,100,000
IA – 25% of QC	275,000
AA – 5% of QC	55,000
Total	330,000

10 D

11 C

12 B

	<b>\$</b>
Consulting fees	50,000
Hotel accommodation reimbursed for 59 days	12,000
Meal allowance	2,000
Total	64,000

13 B

14 D

15 C

	\$
General electrical installation and wiring to supply electricity	50,000
Doors, gates and roller shutters (manual)	100,000
Total	<u>150,000</u>
Section 14 Q claim \$150,000/3	50,000

2 marks each

30

## Section B

Marks

- 1 (a) As the first dollar of sales was made by Boys Fashion Pte Ltd (BFPL) on 1 April 2014, the deemed date of commencement is 1 October 2013. Since BFPL was incorporated on 1 January 2013, the revenue expenditure which it incurred from 1 January 2013 to 30 September 2013 will be tax deductible.

2

## (b) Boys Fashion Pte Ltd (BFPL)

Tax liability for the year of assessment 2015

Basis period: 1 October 2013 to 30 September 2014

	\$	\$	
Net profit as per accounts		30,000	0·5
<i>Add:</i> Tax adjustments on expenses			
Penalties and fines	250		1·0
Private car expenses	2,750		1·0
Office expenses	–		0·5
Salaries	–		0·5
<i>Less:</i>			
Deductible revenue expenses in basis period for YA 2014			
Office expenses	(8,000)		1·0
Salaries	(10,600)	(15,600)	1·0
Chargeable income		<u>14,400</u>	
<i>Less:</i> Partial tax exemption			
First \$10,000 – 75% exempt	(7,500)		0·5
Next \$4,400 – 50% exempt	(2,200)	(9,700)	1·0
Chargeable income after partial exemption		<u>4,700</u>	
Tax thereon at 17%		799	0·5
<i>Less:</i> Corporate income tax rebate		(240)	0·5
Tax payable		<u>559</u>	
			<u>8</u>
			<b><u>10</u></b>

## 2 Grand Supreme Technology Pte Ltd

Goods and services tax (GST) for the quarter ended 30 September 2014

	Value \$	Input tax \$	Output tax \$	
Export sales (zero rated)	500,000		0	0·5
Local sales (standard rated)	500,000		35,000	1·0
Transfer of old photocopying machine (deemed sale)	500		35	1·0
Local purchases from GST traders (standard rated)	100,000	7,000		0·5
Local purchases from non-GST traders (no input tax)	300,000	0		0·5
Imports of goods	150,000	10,500		1·0
Rental of warehouse (standard rated)	200,000	14,000		1·0
Shipping charges for exports (zero rated)	2,000	0		1·0
Annual dinner and dance expenses (half blocked)	10,000	700		1·0
Rental of furniture and fittings (standard rated) – Note 1	4,500		315	1·5
Donation (no supply)	5,000	0		0·5
		<u>32,200</u>	<u>35,350</u>	
			(32,200)	0·5
Net GST Payable			<u>3,150</u>	<b><u>10</u></b>

**Note 1:** Rental of bare apartment (an exempt supply) is taken to be 1/12 of the annual value of \$54,000, i.e. \$4,500 per month. Rental value of furniture and fittings = 3 months x (\$6,000 less \$4,500) = \$4,500.

## 3 Willowhand Pte Ltd (WPL)

– <b>Lease of office equipment for \$100,000 paid to a non-resident company</b> This is a payment for rental of movable property which is deemed sourced in Singapore as it is borne by a Singapore permanent establishment and paid to a non-tax resident. The withholding tax to be accounted for is \$15,000 (i.e. 15% of \$100,000).	2·0
– <b>Rental of office premises for \$200,000 paid to a non-resident company</b> This is a payment for the rental of immovable property and does not fall within the ambit of the withholding tax regime in Singapore.	1·5
– <b>Interest of \$300,000 on a loan taken from the Singapore branch of its non-resident parent company</b> This is a payment for interest which is deemed sourced in Singapore as it is borne by a Singapore permanent establishment and paid to a non-tax resident. However, with effect from 21 February 2014, the requirement to withhold tax has been waived for all payments made to a Singapore branch of a non-resident person.	2·0
– <b>Consultancy fees of \$400,000 paid to a non-resident company for services performed in Singapore</b> This is payment for technical services which is deemed sourced in Singapore as it is borne by a Singapore permanent establishment. Even though Company D is a Singapore incorporated company, it is non-resident in Singapore because its management and control is exercised outside Singapore. The withholding tax to be accounted for is \$68,000 (i.e. 17% of \$400,000).	2·5
– <b>Royalty payments of \$500,000 to a non-resident licensor</b> This is a royalty payment which is deemed sourced in Singapore as it is borne by a Singapore permanent establishment and paid to a non-tax resident licensor, who does not have any operations or presence in Singapore. The withholding tax to be accounted for is \$50,000 (i.e. 10% of \$500,000).	2·0
	<u>10</u>

## 4 Ash

Year of assessment 2014

Basis period 1 January to 31 December 2013

	\$	
Assessable income: Echo LLP		
Trade loss	(216,000)	0·5
Capital allowances	(28,400)	0·5
	<u>(244,400)</u>	
Income from employment	550,000	0·5
Less: LLP current year loss	(244,400)	1·0
Assessable income	<u>305,600</u>	
Contributed capital at 31 December 2013 (end of basis period)	250,000	0·5
Relevant deductions	(244,400)	0·5
Restricted deductions	nil	0·5

## Year of assessment 2015

Basis period 1 January to 31 December 2014

	\$	
Assessable income: Echo LLP		
Trade loss (236,000 + 94,400)	(330,400)	0·5
Capital allowances	(32,400)	0·5
	<u>(362,800)</u>	
Income from employment	650,000	0·5
Deemed profits (244,400 – 150,000)	94,400	2·0
Assessable income	<u>744,400</u>	
Contributed capital at 31 December 2014 (end of basis period)	150,000	0·5
Relevant deductions	150,000	0·5
Restricted deductions	0	0·5
Losses carried forward	330,400	0·5
Capital allowances carried forward	32,400	0·5
	<u>362,800</u>	
		<u><b>10</b></u>

## 5 (a) Dave Hamilton

## Computation of tax liability for the year of assessment 2015

	\$	
Salary (\$14,000 x 3)	42,000	1·0
Non-contractual bonus (\$14,000 x 2)	28,000	1·0
Gratuity (\$14,000 x 1·5)	21,000	1·0
Air tickets (not taxable by concession)	–	1·0
	<u>91,000</u>	
Partnership trade loss (restricted to his contributed capital)	(10,000)	2·0
Interest from personal loan	2,000	1·0
	<u>83,000</u>	
Less: Donation (unlisted shares are not eligible)	–	1·0
	<u>83,000</u>	
Less:		
Earned income	(1,000)	1·0
Life insurance relief (lower of \$4,000 or 7% of \$50,000)	(3,500)	2·0
Chargeable income	<u>78,500</u>	
Tax on first \$40,000	550	0·5
Tax on balance \$38,500 at 7%	2,695	0·5
Tax payable	<u>3,245</u>	<u>12</u>

## (b) (i) \$1,000 tips received from a customer for excellent services

Although the tips were not received from the employer, Amy has received them in the course of exercising her employment. Therefore, it is a taxable income.

## (ii) \$5,000 Rolex watch given to her by her colleagues on her birthday

This is a personal gift from her colleagues, thus, it is not taxable.

## (iii) \$500 given to her by ABC Restaurant Pte Ltd as a token of appreciation for her loyal service

Since the loyalty service payment exceeds the exemption threshold of \$200, it is a taxable income as it is given by the company in respect of employment.

1 mark each, total 3

**15**

## 6 (a) H&amp;W Fashion Pte Ltd

Tax liability for the year of assessment 2015

Basis period: 1 October 2013 to 30 September 2014

	\$	\$	
Net profit as per accounts		150,000	
Tax adjustments on other income			
Interest from fixed deposit accrued but not received (separate source)	(12,000)		0.5
Dividend from US (separate source)	(21,000)	(33,000)	0.5
Tax adjustments on expenses			
Maintenance expenses for company car	15,000		0.5
Non-compete payment	40,000		1.0
Depreciation	56,000		0.5
Legal fees for new sales distributor agreement	8,000		1.0
Directors' fees of \$120,000 paid to non-residents	0	119,000	1.0
<i>Less: Capital allowances</i>		236,000	
Computer hardware and software (100% of \$20,000)	(20,000)		0.5
Productivity and innovation credit – computer equipment (300% of \$20,000)	(60,000)	(80,000)	1.0
Trade adjusted profit		156,000	
<i>Add: Non-trade income</i>			
Interest on fixed deposit accrued of \$12,000 (not earned yet)	0		1.0
US dividends – exempt ('subject to tax' and 'headline tax' conditions met)	0	0	1.0
Assessable/Chargeable income		156,000	
<i>Less: Full tax exemption</i>			
First \$100,000 – 100% exempt	(100,000)		1.0
Next \$56,000 – 50% exempt	(28,000)	(128,000)	0.5
Chargeable income after partial exemption		28,000	
Tax thereon at 17%		4,760	0.5
<i>Less: Corporate income tax rebate</i>		(1,428)	0.5
Tax payable		3,332	
			<u>11</u>

(b) An election under s.24 can be made in writing jointly by both the seller and the buyer under the following circumstances:

- where the buyer is controlled by the seller or vice versa, or both the buyer and the seller are under common control
- the asset must be used in the production of income subject to tax in Singapore by the seller before the sale and by the buyer after the sale
- the asset was not leased by the seller to the buyer before the sale
- a tax benefit is not the main purpose.

*1 mark each, total* 4

**15**