Professional Level – Options Module

Advanced Taxation (Singapore)

Thursday 8 June 2017

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Tax rates and allowances are on pages 2–4

Do NOT open this question paper until instructed by the supervisor.

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

Paper P6 (SGP)

Think Ahead ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances for the year of assessment 2017 will continue to apply for the foreseeable future.
2. All apportionments should be made to the nearest month.
3. Calculations and workings need only be made to the nearest $.
4. All workings should be shown.

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

Buyer's stamp duty for all properties

Purchase price or market value	
First $180,000	1%
Next $180,000	2%
Remaining amount	3%

Additional buyer's stamp duty for residential properties

Foreigners and entities buying a first and subsequent residential property	15%
Singapore permanent residents buying a first residential property	5%
Singapore permanent residents buying a second and subsequent residential property	10%
Singapore citizens buying a second residential property	7%
Singapore citizens buying a third and subsequent residential property	10%

Seller's stamp duty for residential properties

Property disposed of within one year of purchase	16%
Property disposed of within more than one year and up to two years of purchase	12%
Property disposed of within more than two years and up to three years of purchase	8%
Property disposed of within more than three years and up to four years of purchase	4%

Seller's stamp duty for industrial properties

Property disposed of within one year of purchase	15%
Property disposed of within more than one year and up to two years of purchase	10%
Property disposed of within more than two years and up to three years of purchase	5%

Stamp duty on transfer of shares

Purchase price or net asset value of the shares	0·2%

Corporate income tax

Rate – Year of assessment 2017	17%
Corporate income 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	152,500

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	200,000

Central Provident Fund (CPF)

Contributions for individuals below the age of 50 years and earning more than $750 per month

	Employee	Employer
Rates of CPF contributions	20%	17%
Maximum monthly ordinary wages (OW) attracting CPF	$6,000	

For the year 2016 (i.e. from 1 January 2016 to 31 December 2016)

Maximum annual ordinary wages (OW) attracting CPF	$72,000
Maximum annual additional wages (AW) attracting CPF	$102,000 less OW subject to CPF

Personal income tax for the year of assessment 2017

	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	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 child	25%
Maximum cumulative 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 assurance 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	**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)

Supplementary retirement scheme	
Foreigners	$35,700 (max)
Singaporeans and Singapore permanent residents	$15,300 (max)

Section A – BOTH questions are compulsory and MUST be attempted

1 Mr Kenny Tsang, a bachelor, is a citizen of Country X. He is currently exploring the possibility of relocating to Singapore with a view to applying to be a Singapore permanent resident or even a Singapore citizen in the near term.

As a first step, he is interested in acquiring a residential property in Singapore (Property A) whose expected acquisition cost is $2 million. Kenny is open to buying Property A, either solely in his own name or in joint ownership with his girlfriend, Tamsin, who is a citizen of Singapore. He may also consider acquiring further properties in Singapore, both residential and commercial, in the future.

At the moment, he is unsure of his plans for Property A and may use it as his own residence in Singapore, rent it out or just leave it vacant.

Kenny has heard that there are certain tax benefits which can be enjoyed by a tax resident and wants to know how he can qualify to be treated as one. He also understands that this may be complicated by his citizenship in Country X and is not sure how the comprehensive tax treaty concluded between Singapore and Country X will affect his situation.

Being unfamiliar with the Singapore tax rules, he has engaged your help to provide some proactive tax advice, which will be compliant with the tax law in Singapore but at the same time minimise any tax liabilities in Singapore.

Singapore's comprehensive tax treaty with Country X follows the OECD Model Convention.

Required:

As the tax adviser to Mr Kenny Tsang, write a letter to him advising on the following matters:

(i) The Singapore goods and services tax (GST), stamp duty and income tax liabilities which may arise in respect of the acquisition, holding and subsequent disposal of Property A. (14 marks)

(ii) The filing obligations relevant to income tax, including any declarations required on the disposal of a property. (3 marks)

(iii) The steps which might be taken to minimise the tax liabilities identified in (i) above, including taking advantage of any concessions. (6 marks)

(iv) The advantages of being treated as a tax resident of Singapore, how he may qualify as such under Singapore domestic law and why the provisions of the tax treaty between Singapore and Country X are likely to prevent, or at least delay, his being accorded tax resident status. (8 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format, presentation and structure of the letter, the effectiveness with which the information is communicated and its logical flow. (4 marks)

(35 marks)

2 Star Commodities Pte Ltd (SCPL), a company incorporated and tax resident in Singapore, is involved in the physical trading of approved petroleum products. SCPL was awarded the global trader programme (GTP) incentive for five years commencing from 1 January 2015 and its qualifying income is taxed at a concessionary tax rate of 10%.

SCPL's statement of profit or loss for the year ended 31 December 2016 is as follows:

	Note	$	$
Revenue			
Sales of commodities to overseas customers (qualifying persons)	1		8,400,000
Income from supplying fuel to aircraft within Singapore			1,600,000
Interest from a fixed deposit placed with an approved bank in Singapore			50,000
			10,050,000
Less: Expenses			
Purchases for sales to overseas customers (qualifying persons)	2	5,000,000	
Purchases from qualifying persons for supply to aircraft within Singapore		700,000	
Freight expenses relating to the sales to overseas customers		600,000	
Audit fees		15,000	
Bank charges		170,000	
Depreciation	3	37,000	
Donations to an approved institution of a public character		20,000	
Medical fees	4	8,000	
Salaries and CPF		500,000	
			(7,050,000)
Net profit			3,000,000

Notes:

1 Of the sales to overseas customers (who are all qualifying persons), five-sixths originated from purchases from qualifying persons.

2 Seven-tenths of these purchases were from qualifying persons.

3 Depreciation relates to assets which include computers and accessories purchased in the current year for $20,000. There were no acquisitions of assets in the year 2015.

4 SCPL did not implement any portable medical benefits scheme or transferable medical insurance scheme.

SCPL has unabsorbed trade losses of $560,000 arising from non-qualifying income brought forward from the year of assessment 2016.

Required:

(a) Compute the tax payable by Star Commodities Pte Ltd for the year of assessment 2017, identifying clearly the qualifying and non-qualifying income and the related expenses. (18 marks)

(b) List the three quantitative benchmark criteria areas which must be satisfied in order for a company to qualify for the global trader programme incentive. (3 marks)

(c) State ANY FOUR types of transactions which will be considered as non-qualifying transactions in the case of the physical trading of approved commodities by an approved global trading company. (4 marks)

(25 marks)

Section B – TWO questions ONLY to be attempted

3 You should assume that today's date is 1 January 2016.

Charlie Teo, a Singapore citizen, has been practising as a lawyer for many years in a limited liability partnership (LLP). In the year 2015, Charlie's share of income from the LLP exceeded $1 million and he expects to derive a similar amount of income from the LLP for at least the next five years. In addition to his partnership income, Charlie also receives annual director's fees of $100,000 as a non-executive independent director of a listed company in Singapore.

Desmond Teo, Charlie's son, has attended a two-day workshop on income tax law and practice in Singapore, on the basis of which he has given the following advice to his father:

'You should incorporate a new company in Singapore, with yourself as the sole director and shareholder. Name it Charlie Consultancy Services Pte Ltd (CCSPL) and make sure you hold all the company's board meetings in Singapore. Then get the listed company to pay the $100,000 director's fee to CCSPL in the form of a consultancy fee for at least the next three years, starting from the year 2016. This way, you will reduce your taxes significantly. This is not tax evasion as you are taking advantage of an incentive promoted by the government.

'It is perfectly legal to direct payment of director's fees in this way. In the partnership in which I am a partner, we have a policy for all partners to contribute any director's fees earned by them to the partnership to be shared equally by all partners.'

Required:

(a) Explain and distinguish the terms 'tax evasion', 'tax avoidance' and 'tax planning', and state the penalties or other consequences, if any, provided under the law in each case. (6 marks)

(b) Comment on validity of Desmond Teo's advice to his father and the likelihood of the proposed scheme being challenged by the Comptroller. (12 marks)

(c) State the purpose of a taxpayer audit and distinguish between a taxpayer audit and a tax investigation. (2 marks)

(20 marks)

4 **(a)** Accounting Clarity Pte Ltd (ACPL) is a company incorporated and registered for goods and services tax (GST) in Singapore. During the quarter ended 30 September 2016, ACPL incurred input tax in relation to the provision of the following fringe benefits to its employees:

– providing accommodation to expatriate employees;

– paying all its foreign employees' tax agent fees relating to the preparation of their individual income tax returns, as provided in their employment contracts; and

– reimbursing the ACCA membership fees of all its accountant employees.

Required:

(i) Explain the conditions which must be satisfied before a goods and services tax (GST) registered business can claim the input tax on expenses incurred in relation to the provision of fringe benefits. (6 marks)

(ii) Explain by reference to the conditions identified in (i) above, the Singapore GST implications of each of the fringe benefits provided to the employees of Accounting Clarity Pte Ltd in the quarter ended 30 September 2016. (7 marks)

(b) Dallas Innovation Pte Ltd (DIPL) is a trading company with a staff strength of 100, half of whom are Singapore employees. During the year ended 31 December 2016, DIPL incurred the following expenditure:

– $0·5 million to acquire customer information, including a list of customers from a rival firm;

– $1·0 million to acquire patents from an unrelated company; and

– $1·5 million to acquire information on work processes including standard operating procedures from an unrelated company, which is a market leader in the industry.

DIPL did not incur any expenditure to acquire intellectual property in the year ended 31 December 2015.

Required:

Explain whether Dallas Innovation Pte Ltd can claim any productivity and innovation credit (PIC) benefit in respect of each of the items of expenditure incurred in the year ended 31 December 2016 and, if so, compute the maximum PIC benefit which can be claimed in the year of assessment 2017. (7 marks)

(20 marks)

5 **You should assume that today's date is 1 July 2016.**

After attending an internet business course, Gary Chow, a Singaporean, decided to start an e-commerce business selling consumer goods and downloadable music to Singapore buyers. On 1 July 2016, in an attempt to save taxes, Gary incorporated a company, Bantin Corporation Ltd (BCL), in Country Y. Country Y is a tax haven which does not levy any corporate tax on any income and does not have a tax treaty with Singapore.

To operate BCL, Gary rented a small office space at Jurong in Singapore, for which BCL signed a lease agreement with the owner of the office premises for a period of two years commencing from 1 July 2016. BCL maintains a lean staff force comprising only an office manager, an accountant and a sales manager. In addition, BCL has entered into contractual arrangements with a team of part-time agents, who secure orders for BCL's products in Singapore through the internet. The sales manager conducts regular monthly training sessions for these agents to impart to them the skills necessary to generate sales through the internet. This training is done in a seminar room located at the same office address as that occupied by BCL, and for which it pays further monthly lease payments. The agents are mainly students and retired personnel, who also sell similar products for other companies in the same industry as BCL.

Andy, who is Gary's mentor in his internet business, incorporated a similar business, Bamta United Ltd (BUL), in Country Y three years ago. In fact, Gary copied his own mode of business operations from Andy. In return for Andy imparting his knowledge and skills and providing guidance to Gary, BUL will receive a semi-annual royalty fee from BCL. The first of these royalty payments is due upon the expiry of six months from 1 July 2016.

Gary expects to generate sales of $800,000 from the sale of goods and a further $500,000 from the sale of downloadable music in his first year of operation starting from 1 July 2016.

Required:

(a) **Explain the Singapore corporate income tax consequences arising from Bantin Corporation Ltd (BCL)'s operations in Singapore, including compliance with any statutory requirements.** (12 marks)

(b) **Explain the Singapore goods and services tax (GST) consequences arising from BCL's operations in Singapore, including compliance with any statutory requirements.** (8 marks)

(20 marks)

End of Question Paper