Professional Level – Options Module

Advanced Taxation (Singapore)

Monday 6 December 2010

Paper P6 (SGP)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This 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 2–3

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

The Institute of Certified Public Accountants of Singapore

ACCA

Institute of Certified Public Accountants of Singapore

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances shown below for the year of assessment 2010 will continue to apply for the foreseeable future.
2. All apportionments should be made to the nearest month.
3. Calculations and workings need to 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.

Corporate income tax
Rate of tax

For the year of assessment 2010	17%

Partial corporate tax regime	
First $10,000 of chargeable income is 75% exempt	$7,500
Next $290,000 of chargeable income is 50% exempt	$145,000
	$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
	$200,000

Voluntary Central Provident Fund (CPF)
contributions of the self employed year of assessment 2010

Capped at $26,393 or 34·5% of s.10(1)(a) assessable income, whichever is lower.

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 contribution	20·0%	14·5%
Maximum annual ordinary wages (OW) attracting CPF	$54,000	
Maximum annual additional wages attracting CPF	$76,500 less OW subject to CPF	

Personal income tax rates
for resident individuals for the years of assessment 2010

	Chargeable income	**Tax rate**	**Tax**
	$	**%**	**$**
On the first	20,000	0	0
On the next	10,000	3·5	350
On the first	30,000		350
On the next	10,000	5·5	550
On the first	40,000		900
On the next	40,000	8·5	3,400
On the first	80,000		4,300
On the next	80,000	14·0	11,200
On the first	160,000		15,500
On the next	160,000	17·0	27,200
On the first	320,000		42,700
Above	320,000	20·0	

Personal income tax reliefs
for the year of assessment 2010

Earned income	**Normal (max)**	**Handicapped (max)**
Age		
Below 55 years	$1,000	$2,000
55 to 59 years	$3,000	$5,000
60 years and above	$4,000	$6,000

Wife relief	$2,000 (max)
Qualifying child relief (per child)	$4,000
Handicapped child relief	$5,500
Working mother's child relief	
	(% of mother's earned income)
First child	15%
Second child	20%
Third child	25%
Fourth child and subsequent child	25%
Maximum relief per child	$50,000
Cumulative % for working mother's child relief	100%
Life assurance relief	$5,000 (max)

NSman relief

Active Nsman	$3,000
Non-active Nsman	$1,500
Wife/widow	$750
Course fees – year of assessment 2010	$3,500 (max)
Foreign maid levy	$6,360

Goods and services tax (GST)

Standard rate	7%

Stamp duty

Purchase or transfer of immovable property	**Duty payable**
Purchase price or market value	
Every $100 or part thereof of the first $180,000	$1
Every $100 or part thereof of the next $180,000	$2
Thereafter, every $100 or part thereof	$3

Transfer of shares	
Purchase price or net asset value	
Every $100 or part thereof	$0·20

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Question 1 begins on page 5.

Section A – BOTH questions are compulsory and MUST be attempted

1 You are a tax assistant with LMN Tax Consultants. Your manager has scheduled a meeting with the chief financial officer of Eternally Precious Pte Ltd (Eternally Precious) to discuss the tax issues relevant to the expenditure recently undertaken to the company's business premises.

Eternally Precious operates a chain of retail shops in Singapore. The shops, which sell trendy and chic souvenirs and gifts, are all operated from rented premises. During the financial year ended 2009, Eternally Precious undertook various renovation and refurbishment works to its business premises. Such works did not require the approval of the Commissioner of Building Control. Details of the works carried out were as follows:

Removal of existing fixed partitions	$18,000
Design fees	$12,000
Calligraphy	$5,000
Demountable partitions	$100,000
Fixed partitions	$80,000
Flooring (tiled)	$90,000
False ceilings and cornices	$12,000
Cleaning debris	$10,000

All the payments in relation to these works were made to Singapore resident contractors except for the design fees (not being royalties) that were paid to Mr P Kong, an eminent shop designer. Mr Kong is a tax resident of Hong Kong for Singapore income tax purposes, but has design businesses located across Asia, including Singapore. Mr Kong is a major shareholder of a design company in Singapore and in addition derives rental income from a property, which he owns personally, located in Singapore.

Required:

(a) Prepare a set of briefing notes for your manager to use in his meeting with the chief financial officer of Eternally Precious Pte Ltd, which sets out:

(i) The Singapore income tax implications of the expenditure incurred by the company on the renovation and refurbishment works undertaken in its retail shops; (12 marks)

(ii) The company's obligations with regard to withholding tax in respect of the design fees paid to Mr Kong. (3 marks)

Professional marks will be awarded in part (a) for the appropriateness of the format and presentation of the notes and the effectiveness with which the information is communicated. (2 marks)

(b) In relation to Mr P. Kong:

(i) Assuming that withholding tax is applicable to the design fees paid to Mr Kong by Eternally Precious Pte Ltd, explain whether he will be obliged to file a personal tax return in Singapore; (3 marks)

(ii) Advise whether or not the rental income derived by Mr Kong from his property in Singapore will be subject to Singapore tax. (3 marks)

(23 marks)

2 Kong Soon Holdings Pte Ltd (KSH) is an investment holding company. KSH owns all of the shares in Kong Soon Asia Pte Ltd (KSAsia) as well as various real estate properties in Singapore. Both KSH and KSAsia are incorporated in Singapore and tax residents in Singapore.

KSAsia is in the business of manufacturing furniture and is a goods and services tax (GST) registered trader. It has agreed unabsorbed trading losses and wear and tear allowances brought forward from prior years of $84,000 and $59,000 respectively. The management of KSAsia projects that the company's poor manufacturing results will persist in the near future.

The directors of KSH have approved the acquisition of the waste treatment consultancy division of WasteConsult Pte Ltd (WAC) for $3m (excluding GST). WAC is a Singapore incorporated company that operates in Singapore. It is also a GST registered trader. The transfer consideration will essentially cover the transfer of customer listings, customer accounts and key personnel of the waste treatment consultancy division of WAC. The division is expected to generate annual consultancy revenue and profits (before loan financing costs and tax) of about $850,000 and $500,000 respectively.

The directors of KSH are considering the following business structures to hold the waste treatment consultancy business.

Structure A

To set up a newly incorporated Singapore company, to be called Kong Soon Waste Consultants Pte Ltd, (KSWaste) to house the new business. KSWaste will be wholly owned by KSH.

Structure B

To acquire the business through KSAsia and set up a separate division, called Kong Soon Waste Treatment Consultants (KSWTC) within KSAsia.

To finance the acquisition, the Singapore branch of the Hongkong and Shanghai Banking Corporation, (HSBC) has proposed the following five-year loan options for the consideration of KSH's directors. The Singapore branch of HSBC is tax resident in the United Kingdom (UK).

Loan plan I

HSBC to lend $3m to KSWaste (or KSWTC through KSAsia) with the shares in KSWaste (or KSAsia) pledged as collateral. The annual interest rate will be fixed at 2·75% and calculated on a straight-line basis.

Loan plan II

HSBC to lend $3m to KSH which will then inject such funds into KSWaste (or KSWTC through KSAsia) as additional equity. The shares in KSH will be pledged as collateral. The annual interest rate will be fixed at 2·5% and charged on a straight-line basis. The bankers prefer this plan.

As the waste treatment consultancy will be a new business focus for the group, KSH has decided to engage Safewaste (SW) to provide a report on the potential of the new business and the future direction for the group. SW is a well-known company that specialises in waste treatment operations in the UK and elsewhere. SW is incorporated and tax resident in the UK.

Required:

As tax consultant to the Kong Soon Holdings Pte Ltd group, prepare a report to advise the directors of Kong Soon Holdings Pte Ltd on the following:

(i) – The Singapore tax implications and the withholding tax implications of bank Loan plan I and Loan plan II,

– the reason why the bankers prefer Loan plan II,

– your recommendation as to which plan (Loan plan I or Loan plan II) the group should use.

Support your advice with relevant calculations assuming that the corporate tax rate for all years is 17% and the Singapore–UK tax treaty rate is 10%; (10 marks)

(ii) The Singapore income tax, stamp duty and goods and services tax implications of using Structure A and Structure B as the business structure to house the waste treatment consultancy business and your recommendation as to which business structure (Structure A or Structure B) should be adopted by the group. Clearly identify the reasons for your recommendation; (23 marks)

(iii) The Singapore income tax implications including the withholding tax implications of the fees payable (assuming they are not a royalty) to Safewaste, together with how any potential tax exposure(s) can be mitigated. (6 marks)

Professional marks will be awarded in question 2 for the appropriateness of the format and presentation of the report and the effectiveness with which the information is communicated. (2 marks)

(41 marks)

Section B – TWO questions ONLY to be attempted

3 uNiQ Concepts Pte Ltd (uNiQ) is wholly owned by Ngo Garments Pte Ltd (NGarments). Both companies are goods and services tax registered traders with a financial year ending 31 December. As part of a group restructuring exercise, the management of NGarments have decided to transfer its entire wholesale garment business to uNiQ for $1,300,000.

The transfer was effected on 1 January 2010, when the wholesale garment business comprised the following assets:

Trading stocks	$1,000,000
Trade receivables	$0
Goodwill	$300,000

One of the directors of NGarments was concerned that the transfer value of the trading stocks of $1m, which was its net book value at the date of transfer, may not represent the market value of the stocks prevailing at that date. In response to this query, the director was advised that the '$1m valuation would not be a problem for Singapore tax purposes'.

Just before the transfer of the entire garment business, NGarments wrote off trade receivables of $1·2m to arrive at the nil net book value as at 31 December 2009. The directors of NGarments are of the opinion that the $1·2m write off (or impairment loss) made in the financial year ended 31 December 2009 represented trade debts, largely due from third party unrelated customers, that were bad and uncollectable. On this basis, the write off (impairment loss) was claimed as a tax deduction. The management of NGarments has yet to decide whether to adopt Financial Reporting Standard 39 – *Financial Instruments: Recognition and Measurement*.

To date during 2010, the management of NGarments was able to collect $740,000 from the unrelated customers in respect of the trade receivables transferred from NGarments at nil value on 1 January 2010. The monies collected have been credited to the profit and loss account of uNiQ.

Required:

(a) Comment on the appropriateness of the advice provided to the director of Ngo Garments Pte Ltd in respect of the valuation of the trading stocks transferred to uNiQ Concepts Pte Ltd. (2 marks)

(b) Explain the Singapore income tax implications of the transfer of assets and subsequent transactions for both Ngo Garments Pte Ltd and uNiQ Concepts Pte Ltd. (10 marks)

(c) Explain whether the proposed transfer of assets will meet the conditions necessary for the transfer not to be subject to goods and services tax. (6 marks)

(18 marks)

4 Benny Kam owns a sprawling freehold residential property in Siglap, Singapore. Siglap Developments Pte Ltd (SDPL), a Singapore incorporated and tax resident property development company, proposes to develop five new leasehold bungalows after tearing down the existing building sitting on Benny's property. SDPL is a goods and service tax (GST) registered trader.

Benny will not be paid any consideration for the transfer of his property to SDPL. Instead SDPL will give him free of charge one of the five new bungalows that the company will be developing on the site. Kenny's wife is a minority shareholder in SDPL.

Required:

Explain the Singapore income tax, stamp duty and goods and services tax implications for Benny Kam and Siglap Developments Pte Ltd arising from the above proposed transactions.

(18 marks)

5 The MCY Trust was created several years ago by Mr MC Yam for the benefit of Charles Yam and Dominic Pty Ltd. Dominic Pty Ltd, a company incorporated and tax resident in Australia, is wholly owned by Dominic Yam. Charles and Dominic, both of whom are Singapore tax residents, are the children of Mr MC Yam.

When the trust was set up, Mr MC Yam transferred his interest in a fish breeding partnership into the trust and also injected $1m in cash. During the financial year ended 31 December 2009, the MCY Trust derived and received in Singapore the following income :

	Total
Share of fish breeding profits (trading)	$100,000
Malaysian dividends (net of Malaysian tax)	$50,000
Interest from a Hong Kong bank (received on 5 January 2010)	$30,000
Singapore tax exempt dividends	$40,000

The trustees of the MCY Trust, all of whom are Singapore tax residents, proposed to distribute all the available 2009 income to the beneficiaries in the following proportions:

Charles	50%
Dominic Pty Ltd	50%

Required:

Explain the Singapore tax treatment of each of the items of income of the MCY Trust for the year of assessment 2010, in respect of:

(i) the trust and/or the trustees; and
(ii) the beneficiaries (Charles Yam and Dominic Pty Ltd).

(18 marks)

End of Question Paper