

Fundamentals Level – Skills Module

# Taxation (Singapore)

Tuesday 2 December 2014



**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 2–4.

**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.**

**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 2014	17%
Corporate tax rebate (capped at \$30,000)	30%

### 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	20%	16%
Maximum monthly ordinary wages (OW) attracting CPF		\$5,000
For the year 2013 (i.e. from 1 January 2013 to 31 December 2013)		
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 2014

	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 2014

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)	
Handicapped spouse relief	\$3,500 (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 WMCR	100%	
Maximum relief per child	\$50,000	
Parent relief	Normal (max)	Handicapped (max)
Not living in the same household	\$4,500	\$8,000
Living in the same household	\$7,000	\$11,000
Grandparent caregiver relief	\$3,000	
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)	

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Question 1 begins on page 6.**

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Dax Pte Ltd (DPL) is a company incorporated in Singapore. It was assessed for the year of assessment 2013 as having unutilised capital allowances and losses of \$30,000 and \$200,000 respectively to be carried forward.

At its incorporation in 2000, the shareholders of DPL were David, the founding shareholder, who owned 60% and his son, Xavier, who owned the remaining 40%. There were no changes in DPL's shareholding until 31 July 2013, when David retired and transferred his 60% shareholding equally to Xavier and Alex, David's grandson. After the transfer, Xavier and Alex owned 70% and 30% of the shares in DPL, respectively. DPL has carried on the same business before and after the share transfer.

For the year ended 30 September 2013, DPL made a net accounting profit of \$1,480,000 before income tax. The following items were (credited)/charged to the statement of profit or loss account in arriving at the net accounting profit:

	\$
Interest received from DBS on maturity of a fixed deposit	(3,200)
Fixed deposit interest accrued as at 30 September 2013	(1,800)
Interest on an outstanding trade receivable from a US customer deposited into a bank account in New York	(1,200)
Insurance recovery for trading stock destroyed in a fire on 1 April 2013	(28,000)
One tier tax exempt dividend from a Singapore listed company	(6,800)
Net dividend from a listed company in Hong Kong – Hong Kong imposes tax of 16.5% on corporate profits but does not impose withholding tax on dividends	(5,600)
Obsolete stock written off	22,000
Salary, bonus and statutory CPF contributions	320,000
CPF contributions in excess of statutory limits	2,000
Wage credit scheme receipts	(4,800)
Directors' fees	30,000
Medical expense – DPL has implemented a portable medical insurance scheme for all its staff	5,500
Rent – staff accommodation	60,000
Group term life insurance premium – DPL is the beneficiary of the insurance policy and there is no contractual obligation for DPL to pass on any insurance payout to the employees or their next of kin	6,000
Insurance premium- workmen's compensation	3,000
Insurance premium – staff hospitalisation and surgical	2,000
Interest expense – net interest paid to a bank in Hong Kong for trade financing	4,250
Legal fee – pursuing recovery of a non-trade debt	2,000
Legal fee – regarding insurance recovery on trading stock damaged by the fire on 1 April 2013	5,000
Gifts for staff	4,000
Maintenance of S-plated cars	6,000
Training – external courses attended by staff	12,000
Training – training materials for internal courses	8,000
Property tax on the private residence of David – David is neither a director nor employee of DPL	5,000
Singapore withholding tax on interest paid to a bank in Hong Kong	750
Penalty for late filing of DPL's income tax return	800
Depreciation	5,000
Loss on disposal of computers on 1 May 2013	1,200

The following additional information relates to DPL's assets/capital expenditure:

- (1) The computers disposed of on 1 May 2013 had been purchased at a cost of \$30,000 in the year ended 30 September 2009. The net book value and tax written down value on 1 October 2012 were \$2,000 and nil respectively.

(2) DPL incurred the following capital expenditure in the year ended 30 September 2013:

	\$	\$
Computers		60,000
Sofa		4,000
Best Industrial Building:		
Land cost	2,000,000	
Piling and construction cost	800,000	2,800,000
Total		2,864,000

DPL's application for the Land Intensification Allowance claim on the Best Industrial Building has been approved by the Economic Development Board. Construction commenced in June 2013 and it is expected to be completed in December 2015.

(3) DPL has fully claimed the productivity and innovation credit (PIC) bonus of \$15,000 in the year of assessment 2013 on its only PIC qualifying expenditure of \$50,000. For the year of assessment 2014, DPL does not want to opt for the PIC cash payout option.

**Required:**

- (a) **State, giving reasons, whether Dax Pte Ltd (DPL) can carry forward its unutilised losses and capital allowances for the year of assessment 2013.** (4 marks)
- (b) **Compute the minimum tax liability of Dax Pte Ltd (DPL) for the year of assessment 2014, identifying all applicable productivity and innovation credit (PIC) claims.**

Note: You should start your computation with the net accounting profit of \$1,480,000 and indicate by the use of zero (0) any items which do not require adjustment. (26 marks)

**(30 marks)**

- 2 Mr Barry Lai, a Singapore tax resident, is 50 years old and married. He is currently working with Leisure Land Ltd ('LLL'), a company listed on the Stock Exchange of Singapore ('SGX'). Mrs Lai is a homemaker. The couple have a daughter who is 23 years old and studying full-time at the National University of Singapore. Barry has been exempted from National Service in Singapore for medical reasons.

Details of benefits from Barry's employment with LLL for the year ended 31 December 2013 are as follows:

1. Gross basic salary of \$12,000 a month.
2. Contractual bonus equal to one month's salary, payable on 5 February 2014.
3. Transport allowance of \$1,000 per month. Barry expended all of the allowance on the maintenance of his car, SJV 6333G. Barry's total mileage for this car in the year 2013 was 30,000 km, 30% of which was for business purposes.
4. Interest subsidy of \$3,000. A loan was made to Barry in accordance with the terms and conditions of LLL's general staff loan scheme which is available to all LLL's staff. The interest subsidy is the difference between the amount of interest which would be payable based on market interest rates and the amount of interest paid by Barry.
5. A fully furnished apartment for which Barry paid a monthly rent of \$2,000. LLL rented the apartment at a cost of \$8,000 per month.
6. For exceeding LLL's expectation, Barry has been granted the following stock options:
  - Stock option #1: 20,000 shares on 31 December 2012 at an exercise price of \$1.90
  - Stock option #2: 30,000 shares on 31 December 2013 at an exercise price of \$2.10

Barry exercised stock option #1 on 30 September 2013.

LLL's relevant share prices listed on the SGX are as follows:

Date	Price per share (\$)
31 December 2012	2.50
30 September 2013	3.00
31 December 2013	2.90

Barry also has the following income from other sources:

#### **Share of partnership profits**

Barry is a partner in Harvest & Co, a general partnership in Singapore. Based on the Notice of Allocation of Profit/Loss issued by the Inland Revenue Authority of Singapore for the year ended 31 December 2013, his allocations from Harvest & Co are as follows:

- \$48,000 as his share of the partnership profits,
- \$58,000 as his share of capital allowances; and
- \$12,000 as his share of donations deductions in respect of cash donations made to an institution of public character.

In addition, he was paid interest income of \$25,000 by Harvest & Co for a loan which he has extended to the partnership.



### Rental income

Barry reported the following rental income and expenditure on a condominium which he bought in 1999 for the year ended 31 December 2013:

	\$	\$
Rental income		36,000
Less:		
Interest expense (Note)	20,000	
Property tax	4,800	24,800
Net rental income		<u>11,200</u>

**Note:** The interest expense was incurred on the remortgage of the condominium and the proceeds from the remortgage were loaned to Harvest & Co.

### Other income

	\$
Interest income from a fixed deposit with DBS which matured on 31 December 2013	1,000
Interest income received in Singapore from a Hong Kong bank	2,000
Consultancy fee received from a Singapore company	5,000

### Required:

- (a) For the year of assessment 2014, compute the minimum tax payable by Barry Lai, indicating by the use of zero (0) any items which do not require adjustment or are not claimable. (20 marks)
- (b) State the basis of the tax treatment which you have adopted for:
- (i) the transport allowance of \$1,000 per month; and
  - (ii) the interest subsidy of \$3,000. (2 marks)
- (c) State the THREE elements of a valid objection against a notice of assessment issued to an individual. (3 marks)

**(25 marks)**

- 3** Pegasus Pte Ltd (PPL) is a Singapore incorporated company and is a goods and services tax (GST) registered trader. Except for the consumables, which were imported from Indonesia, all PPL's remaining purchases were from GST registered traders.

For the quarter ended 30 September 2014, the income and expenditure statement of PPL showed the following itemised amounts before the imposition of GST.

	\$	\$
Revenue (70% local customers and 30% overseas customers)		200,000
Revenue (non-refundable deposit from a local customer)		2,000
Recovery of the cost of staff seconded to a related company (with mark-up)		2,200
		<hr/> 204,200
Less: Cost of production		
Consumables (purchased from a supplier in Indonesia)	(30,000)	
Depreciation of plant and machinery	(10,000)	
Production staff wages	(5,000)	
Public utilities cost	(1,000)	(46,000)
		<hr/>
Gross profit		158,200
Less: Operating costs		
Rental of factory premises	(20,000)	
Lorry repair costs	(2,000)	
Motor car expenses	(1,000)	
Rental of residential apartment for staff	(8,000)	
Interest paid on bank borrowings	(3,000)	
Brokerage fee on the purchase of shares	(2,000)	
Purchase of computer	(1,200)	
Airfares to Bangkok for business purpose	(1,800)	(39,000)
		<hr/>
Net profit		119,200

PPL has a dispute over an invoice raised by its supplier, Queenie Pte Ltd ('QPL'). QPL issued the said invoice for \$21,400 (inclusive of GST) on 1 July 2013 and the due date for payment was 30 July 2013. PPL claimed the input tax on this invoice in its GST return for the quarter ended 30 September 2013. As at 1 August 2014, PPL has only settled half the amount due and is refusing to pay the remaining balance.

**Required:**

- (a) Explain how Pegasus Pte Ltd (PPL) should deal with the input GST which it has claimed in relation to the invoice raised by Queenie Pte Ltd. (2 marks)
- (b) Compute the amount of goods and services tax (GST) which is payable by or refundable to PPL for the quarter ended 30 September 2014. For each of the items listed in the question, identify the type of supply and state whether the input tax can be claimed or not. (13 marks)

**(15 marks)**

- 4 (a) **State the date by which the estimated chargeable income of a company has to be filed and list the TWO conditions which must be met for exemption to file the estimated chargeable income.** (3 marks)

- (b) Brainy Pte Ltd (BPL) is a Singapore incorporated company and tax resident in Singapore. In 2014, BPL entered into a master agreement with Genius Ltd ('GL'), a company incorporated and tax resident in Country G. Singapore does not have any double taxation agreement with Country G.

Amongst others, the master agreement provides for the following:

- (1) Distribution of GL's software, 'Quicker', in Singapore

BPL is granted an exclusive right to sell 'Quicker' in Singapore either in its shrink-wrapped version or online. BPL cannot modify or reproduce 'Quicker'. GL will invoice BPL on a monthly basis for all units sold.

- (2) Acquisition of a financial modelling software

GL will install a financial modelling software on BPL's server. BPL cannot alter or modify the codes. The total charge of \$100,000 payable for the use of this software includes the maintenance and support services to be provided in the first year.

- (3) Development of add-on applications for the financial modelling software

BPL requires GL to develop two additional modules as add-on applications for the financial modelling software. To understand BPL's requirements, GL sent its software engineer to Singapore for five days in June 2014. The total cost for the development of the add-on applications was \$20,000, comprising \$5,000 for the work performed in Singapore and \$15,000 for work done in Country G.

**Required:**

- (i) **Explain how the 'rights-based approach' is used to ascertain if Singapore withholding tax is applicable to software payments.** (6 marks)
- (ii) **For each of the above transactions (1) to (3), state, giving reasons, whether Singapore withholding tax will apply.** (6 marks)

**(15 marks)**

- 5 (a) **State the conditions which must be satisfied before plant and machinery can be transferred at its tax written down value.** (5 marks)

- (b) Mr Fraser Betchler is single and a tax resident of Country L. Fraser is a valuation expert, and a sole proprietor of a valuation firm in Country L. Country L does not have any double taxation agreement with Singapore.

Fraser was engaged by Mercury Pte Ltd (MPL), a company incorporated and tax resident in Singapore, to value some target companies which MPL intends to acquire. He was in Singapore for a continuous period of 65 days in 2013 to do the valuation, and he was paid a fee of \$1,000 for each day that he was in Singapore. In addition, MPL paid his hotel accommodation costing \$20,000 and return air ticket costing \$5,000.

Fraser incurred the following expenses in Singapore:

- \$2,000 – Meal expenses at the hotel
- \$1,000 – Taxi fares to attend meetings
- \$12,000 – Valuation services provided to him by a local valuation firm in respect of specific valuation issues of MPL's targets

**Required:**

- (i) **State the options available to Fraser Betchler for the taxation of his Singapore income and calculate his minimum Singapore income tax liability payable for the year of assessment 2014 for each of the options and identify which is the best option.** (8 marks)
- (ii) **Explain your treatment of the hotel accommodation and airline ticket costs for each option.** (2 marks)

**(15 marks)**

**End of Question Paper**