Suggested solution

Section A

Question 1

Memorandum for client file

To: Tax manager
From: Tax assistant
Date: 1 November 2026
Subject: Tax issues arising from activities of Sem Train Pte Ltd (Sem Train)

Our advice on the respective issues is as follows:

(a) Dealing with the transposition error by the Comptroller

Even though the error was made by the Comptroller and not Sem Train, we should inform Sem Train to contact the Inland Revenue Authority of Singapore (IRAS) immediately to rectify the error. This is to minimise any interest or penalties which may otherwise be imposed by the IRAS. Making an incorrect return by claiming the excessive unabsorbed losses and giving incorrect information in relation to any matter affecting the company's liability to tax constitutes an offence under the Income Tax Act.

In addition, contrary to James's view, it will be unethical for Sem Train to delay informing the IRAS beyond 31 December 2026 thinking that the IRAS will be time-barred from raising any assessment beyond four years after the end of the relevant year of assessment (YA). This violates parts of ACCA's Code of Ethics and Conduct, namely the principles of integrity and professional behaviour. Moreover, Sem Train incurred a trade loss for the YA 2022 so the error can be rectified by raising assessments for YA 2026 onwards (i.e., without raising additional assessments for the time-barred years).

Unless Sem Train informs the IRAS of the error without further delay, we have to consider ceasing to act for them. We should also inform the IRAS that we will no longer act for the company. Separately, we should also evaluate whether we have any professional obligations to make a report of any form of money laundering or serious tax offences.

Unabsorbed trade losses

To utilise its prior years' unabsorbed trade losses for the years ended 31 December 2021, 2022, 2023 and 2024 against Sem Train's 2025 assessable income, Sem Train must satisfy the shareholding test. To pass this test, there must be no substantial (defined as more than 50%) change in the ultimate beneficial shareholders and their shareholdings as at the relevant dates. The relevant dates are the last day of the year in which the trade losses were incurred and the first day of the year of assessment (YA) in which the unabsorbed trade losses are to be claimed. There is no need to ensure that there is no change in Sem Train's trade or principal activities (also known as the

© ACCA 2027-2028 All rights reserved.

business continuity test) when considering losses carried forward, unless a waiver of the shareholding tax is obtained.

At all relevant dates, Joseph and Alex are the common shareholders of Sem Train. When Joseph transferred 40% of his shareholding in Sem Train to Alex on 1 January 2023, he continued to own 10%, while Alex then owned 90% of Sem Train. Hence there is in fact no substantial change in the ultimate beneficial shareholders and therefore the shareholding test is met for all relevant dates. Consequently, Sem Train can fully utilise its prior years' unabsorbed trade losses amounting to $249,000 (i.e. $189,000 + $10,000 + $20,000 + $30,000) to set off its assessable income for the year ended 31 December 2025.

As regards the capital allowances, the Income Tax Act provides that a person carrying on a trade or business incurring capital expenditure on plant and machinery for the purpose of that trade or business may, on due claim, be given the allowance. On the understanding that Sem Train continues to undertake the seminar activities and that the office equipment and furniture have been purchased for that purpose and continue to be used in the digital training material trade, Sem Train is entitled to claim capital allowances on the said assets. Additionally, the Income Tax Act allows a 100% allowance for low-value assets (LVAs) costing less than $5,000 each up to a maximum annual cap of $30,000 per YA. Having deferred the claim for capital allowances for office equipment and furniture acquired for each of the YAs from YA 2022 to YA 2025, Sem Train can therefore claim a deduction for capital allowances of $19,600 (i.e. 4 x $4,900) in one go in YA 2026, as these are low value assets of less than $5,000 each and the total sum does not exceed $30,000 per YA.

(b) (i) Tax implications for Sem Train of payments

Payment of honorarium of $100,000 to Jessica

Sem Train can claim a tax deduction for the honorarium of $100,000 and airfare of $10,000 paid to Jessica as these amounts were wholly and exclusively incurred in the production of income, revenue in nature and are not specifically prohibited under the Income Tax Act.

Jessica is a foreign professional as she is an individual with a foreign nationality and performing work of an independent nature in Singapore under a contract for service. She is a non-resident as she is not physically present in Singapore for at least 183 days in any calendar year.

Both the honorarium and airfare paid to a non-resident professional is ordinarily subject to a final withholding tax (WHT) payment at the rate of 15% on the gross amount of fee/income of $110,000, i.e. $16,500, on the services performed in Singapore.

The WHT of $16,500 is due to be paid to IRAS by the 15th day of the second month following the earliest of either when the payment is due and payable to the non-resident, when the payment is credited to the non-resident's account or when the payment is made. Here, we know that Jessica only became entitled to the payment on successful completion of the work, which was 30 September 2025. This was also the

 © ACCA 2027-2028 All rights reserved.

date she was paid anyway and is therefore the applicable date, meaning that the due date for the WHT is 15 November 2026. Failure to account for WHT will result in a late payment penalty of up to 20% of the WHT due, i.e. a maximum penalty of $3,300 (20% of $16,500).

Payment of semi-annual royalty of $200,000 to Neil

Sem Train is able to claim a tax deduction for the royalty of $200,000 paid to Neil as this amount was wholly and exclusively incurred in the production of income, revenue in nature and not specifically prohibited under the Income Tax Act.

Neil is a foreign citizen who owns the copyright of a number of books. He is a non-resident as he is not physically present in Singapore for at least 183 days in any calendar year.

As the royalty amount is borne by Sem Train, a Singapore resident company claiming a deduction, it is deemed to be sourced in Singapore. WHT based on 10% of the gross amount of $200,000, i.e. $20,000, is applicable as the payment was made to a non-resident.

Given that there is no contractual due date, the WHT is due by 15 December 2026, the 15th of the second month following the month of actual payment, failing which a late payment penalty may be imposed on Neil.

Lump sum payment of $1 million to Neil

The lump sum payment made by Sem Train does not qualify for deduction under s.14 of the Income Tax Act because it is capital in nature.

However, writing down allowances (WDA) shall be granted to Sem Train under s.19B of the Income Tax Act based on 100% of the capital expenditure incurred to acquire the copyright, which is a qualifying intellectual property right (IPR).

Additionally, under the Enterprise Innovation Scheme (EIS), Sem Train is eligible for an additional 300% enhanced deduction for the first $400,000 of the lump sum because it is acquiring qualifying intellectual property rights IPR i.e. the copyrights. In total, this would mean a claim of $2.2m ((300% x $400,000) + (100% x $1m)). Since this would be an acquisition of IPR, the total $2.2m would need to be spread on a straight-line basis over either five, ten or fifteen years, depending on the writing down period that Sem Train chooses when filing its tax return.

To claim the WDA, Sem Train must also acquire both the legal and economic ownership, which is implied here.

WHT is not applicable for payment in relation to an alienation of the copyright (i.e., capital receipt, not royalty income from Neil's perspective). The nature of this payment does not fall within the ambit of the WHT obligations in Singapore.

© ACCA 2027-2028 All rights reserved.

(ii) Personal tax implications for recipients of the payments

Payment of honorarium $100,000 and airfare of $10,000 to Jessica

As a non-resident professional, Jessica is subject to a final WHT payment of 15% on the *gross* income/fee of $110,000 derived from services performed in Singapore since the cost of the airfare borne by Sem Train is taxable together with the fee. The period of her engagement in the calendar year itself is irrelevant.

However, Jessica may opt to be taxed at 24% on the *net* income instead, i.e. gross income less allowable expenses. Only expenses which are wholly and exclusively incurred by the non-resident professional in the production of the Singapore-sourced income, and not private or capital in nature, are tax deductible. Private expenses such as value of food are not deductible.

The costs of airfare incurred by the non-resident professional in respect of income is deductible in full against the gross income of the non-resident professional, regardless of the period of engagement in a calendar year, on the premise that the following conditions are all met:

- The non-resident professional's principal place of business is outside Singapore. This is the case for Jessica, who is a citizen and resident of Farland.
- The non-resident professional was carrying on the same activity prior to their trip to Singapore. This condition is also met for Jessica, who is a visiting professor from a foreign university.
- The sole purpose of the non-resident professional's trip to Singapore is to perform the services in Singapore. This condition is also met as we are not given any information to suggest that Jessica had any other purpose for being in Singapore.

Since all three conditions are met, Jessica could choose to pay 24% income tax on the net amount of $100,000, but since this would give rise to a tax burden on $24,000 rather than the WHT of $16,500, this would not be a sensible choice.

Payment of semi-annual royalties of $200,000 to Neil

As a non-resident, Neil is subject to a final WHT of 10% on the gross royalty income of $200,000 which he earns from granting to Sem Train the use or the right to use the copyright which is a type of IPR.

However, Neil does not have the option to be taxed on a net basis.

Lump sum payment of $1 million to Neil

Neil should not be subject to Singapore tax on any profit arising from the sale of the copyright to Sem Train as he is merely trading with Singapore and did not derive a taxable income, whether on an actual or deemed basis.

Moreover, the gain is likely to be construed as a capital gain if Neil does not have a record of trading in such copyrights.

© ACCA 2027-2028 All rights reserved.

(c) Goods and services tax (GST) matters

As a GST-registered entity, Sem Train will have to collect output tax of 9% of the monthly rental which it received from its tenant for the duration of the lease period, including the last three months. However, Sem Train can claim bad debt relief after ascertaining that the tenant became insolvent in September 2026. For the future sale of the non-residential property, Sem Train will likewise have to collect output tax of 9% on the sales proceeds from the buyer as long as Sem Train is still GST-registered.

Sem Train could apply for GST deregistration if it was certain of and could substantiate that its taxable turnover, excluding any sale of capital assets, would not exceed $1 million for the next 12 months. However, upon deregistration from GST, Sem Train would still have to account for output tax of 9% on the value of any business assets (for which input tax had been claimed when the assets were bought) held on the last day of registration if the total value were to exceed $10,000, which it would do, since this includes the commercial property. Once it was deregistered, it would then not have to collect output tax of 9% on the sales proceeds from the buyer.

Given that Sem Train's future annual revenue is estimated to be $950,000, it cannot say with certainty that it will not exceed $1m, as it could easily go up by $50,000 from the estimate, especially given the success of the sale of digital training materials so far. Also, since the GST would already have been paid at 9% on the value of the commercial property if Sem Train did deregister, deregistration would not actually lead to a reduction in GST unless there is a dramatic fall in the value of the property between deregistration and its subsequent sale, which is unlikely. Additionally, Sem Train will have to bear GST on future purchases without the ability to claim input tax upon deregistration. Sem Train should not therefore try to reduce GST for the buyer by deregistering. Moreover, if the buyer is GST registered, the 9% input tax will likely be a recoverable cost.

© ACCA 2027-2028 All rights reserved.

Section B

Question 2

(a) Income tax implications of remuneration package for YA 2026

Income from employment is generally taxable unless exempted under the Income Tax Act or granted an administrative concession. Each element of her remuneration is dealt with in turn below.

The total salary of $150,000 ($12,500 x 12 months) is taxable in the year of assessment (YA) 2026, as it is not exempted, nor does it fall within an administrative concession.

As regards the sign on bonus, this is a non-contractual bonus which is only taxable when the employee becomes entitled to the payment, i.e. the date on which the bonus is paid. In this case, the bonus is only paid in 2026 and will therefore only become taxable in YA 2027.

The taxable car benefit for YA 2026 is $9,000 ((3/7 x [($200,000 – $40,000)/10 + $5,000])). Such amount is lower than $12,000 ($1,000 x 12 months) benefit which would have arisen had the transport allowance been chosen instead. When both choices yield the same utility to Avril, the choice of car benefit is more tax beneficial.

Employee stock options are generally taxable when they are exercised by the employee. In this case, since the exercise date is in 2025, the taxable stock option gains for YA 2026 amount to $100,000 [([$4 – $2] x 50,000)].

Finally, the $8,000 contributions to the supplementary retirement scheme (SRS) account by the employer are taxable benefits for Avril in YA 2026 but the same amount could be claimed by her as SRS relief. She will also get tax relief for SRS contributions she makes on her own behalf. As a foreigner, the maximum total relief she can claim will be $35,700 per year, so if she contributed $8,000 herself, the total relief for both her own and her employers' contributions will only be the full $16,000. However, when Avril secures her Singapore permanent resident status, the SRS relief will be capped at $15,300 for subsequent YAs.

(b) Property transactions

Personal income tax exposure

Assuming the two properties were purchased as planned, then whether the gains from the future sales of the properties are treated as capital or revenue in nature is determined with regard to the facts or circumstances of each case and with reference to the principles established in case law, commonly referred to as 'the badges of trade'. These are dealt with in turn below.

© ACCA 2027-2028 All rights reserved.

Firstly, Avril's motive for the purchases will be considered. Applying this to the facts, there would be a strong inference that Avril is trading if she was to actively engage property agents to source her potential en-bloc properties with a view to selling them for a quick profit when the en-bloc process is successful.

Secondly, the subject matter of the transactions must be considered, in this case being properties. Properties can be purchased with a view to realising quick profits and can also be held as long-term investments to generate rental income. Therefore, this factor is neutral in indicating whether or not she is trading.

Thirdly, the period of holding will be considered– a short holding period is not favourable to any claim that a transaction has given rise to a capital gain rather than being indicative of carrying on a trade.

Similarly, there is a badge of trade considering the frequency of transactions. Whilst this is a one-off transaction, there are two properties which may be sold, so this factor does not work in her favour.

Next, the circumstances leading to the transaction will be considered when deciding if a trade is being carried out. The sales may be prompted by the en-bloc process (i.e., unsolicited sale), which arguably may be favourable to Avril only if it can be demonstrated that Avril is not keen to vote in favour of the en-bloc. In contrast, the risk that she would be deemed to be trading would be high if this assumption was to be reversed.

Finally, whether any supplementary work has been carried out in connection with the sale of the properties would also be considered. However, since this is not applicable in this case, there is no inference here towards her trading.

On balance, Avril has a weak case to argue for a capital gain position since she has no intent of purchasing the properties for long-term investment holding. This is especially so if her motive is evident from the instructions given to her real estate agent.

Stamp duty implications

Avril will be liable to pay buyer's stamp duty (BSD) for the purchase of both the Singapore commercial and residential properties. The BSD for the commercial property works out to be $44,600 (i.e. $1,800 + $3,600 + $19,200 + $20,000) and $69,600 (i.e. $44,600 + $25,000) for the residential property.

Whilst there will be additional buyer's stamp duty (ABSD) for the purchase of the residential property, there is no ABSD for the purchase of the commercial property. If Avril were to buy the residential property solely in her name as a foreigner, the ABSD rate is 60% (i.e. $1·2 million). However, the ABSD rate would be reduced to 5% (i.e. $100,000) if Avril managed to obtain her Singapore permanent resident status before she bought

© ACCA 2027-2028 All rights reserved.

the residential property.

In addition to ABSD, Avril will be liable to pay seller's stamp duty (SSD) if she sells the residential property within four years of acquisition. The SSD rate will depend on when she sells the property, varying from as high as 16% if she sells it within one year to as low as 4% if she sells it after three years. If she were to wait until after four years, there would be no SSD to pay. There is no SSD for the sale of the commercial property, assuming it is not an "industrial property".

Measures Avril can take to minimise her tax liabilities

To reduce the risk of exposure to personal income tax on potential gains from the sale of the properties, Avril could take any of a number of measures. Firstly, she could make sure that she does not actively engage property agents to source only properties with en-bloc potential. She could also rent out the properties to demonstrate that the properties are bought for long-term investment. Finally, she could substantiate that she votes against the en-bloc decision.

To reduce the stamp duty burden, Avril could also take a number of measures. Firstly, she could buy the residential property only after acquiring the Singapore permanent resident (SPR) status to reduce the ABSD exposure significantly from 60% to 5%. Secondly, she could buy the property in her husband's sole name as there is no ABSD for Singapore citizens purchasing their first residential property. Finally, she could avoid selling or try to delay the en-bloc process with a view to reducing the SSD to 4% or even zero, as referenced in (b) above.

© ACCA 2027-2028 All rights reserved.

Question 3

(a) Research and development (R&D) benefits

Pursuant to s. 14C(1)(c) of the Income Tax Act, in ascertaining the income of any person carrying on any trade or business, deduction is allowed in respect of payments made during the basis period for any year of assessment (YA) between the YA 2009 and the YA 2028 (both years inclusive) by that person to a R&D organisation for undertaking on that person's behalf in Singapore R&D not related to that trade or business.

To qualify for R&D tax benefits, the project itself must satisfy a number of conditions to be regarded "research and development" as defined under s. 2 of the Income Tax Act. The extent to which it does so is set out below.

Firstly, it must involve a systematic, investigative and experimental (SIE) study in a field of science or technology. This condition is met, as the proposed project entails a series of planned activities to test or find out something which is not known or readily deducible in the field of science or technology.

Secondly, it must have as its objective the acquisition of new knowledge, the creation of new products or processes, or the improvement of existing products or processes. This condition is also met, as the objective in Global 's case is to develop the thinnest gaming laptop which will run the latest range of games at high performance settings.

Thirdly, it must involve novelty or technical risk. This condition is met since there is technical uncertainty as to whether the project will be successful. Moreover, the new product is the first of its kind in Singapore.

Finally, it must not fall into one of the categories on the excluded list. This condition is also met, as the R&D activities planned by Global do not fall within the scope of these exclusions, which essentially relate to routine activities in respect of quality control, testing of materials, devices or products and data collection; or post-manufacturing activities, such as efficiency surveys or management studies and market research or sales promotion.

As Global is carrying on an active business, it can potentially benefit from the enterprise innovation scheme (EIS). Under this scheme, the company can claim a total of a 400% tax deduction on qualifying R&D expenditure incurred on qualifying R&D activities undertaken in Singapore from year of assessment (YA) 2024 to YA 2028, subject to an expenditure cap of $400,000 for each YA, comprising of a 100% base deduction, a 150% additional deduction and a 150% enhanced deduction. Qualifying R&D expenditure incurred on qualifying R&D activities exceeding the cap will still enjoy a 250% tax deduction, comprised of a 100% base deduction and 150% additional deduction.

Considering now the R&D expenditure of $900,000 that has already been incurred by

 © ACCA 2027-2028 All rights reserved.

Global in the year ended 31 December 2025. Firstly, the amount of R&D expenditure qualifying for deduction excludes any cost subsidised by any grant or subsidy provided by the government. So, the $900,000 expenditure will be reduced to $700,000 by the grant. Secondly, because the work has been outsourced to an external R&D organisation rather than relating to Global's own internal costs, whilst the full $700,000 qualifies for the 100% base deduction, only 60% of it qualifies for the 150% additional deduction. Thirdly, since $420,000 (60% x $700,000) is higher than the cap of $400,000 for the 150% enhanced deduction, only $400,000 of it will qualify for it.

Pursuant to s. 14C(4)(c) of the Income Tax Act, if Global only derives concessionary income which is subject to tax at a single concessionary rate of tax, a "specified amount" of the R&D deductions must be made against the concessionary income. For this purpose, the "specified amount" refers generally to an amount computed as follows:

R&D deductions x 17% / Applicable concessionary tax rate

Otherwise, pursuant to s. 14C(4)(a), R&D deductions must so far as possible be applied against the normal income, and any remaining balance of the amount is treated as part of the unabsorbed losses in respect of the normal income to be deducted against the concessionary income in accordance with section 37A.

The objective of the gross-up is to preserve the tax value of the R&D deductions.

Therefore, the total deduction for Global is calculated as follows:

	$
1. 100% base deduction ($900,000 - $200,000)	700,000
2. 150% additional deduction on all qualifying R&D expenditure ($700,000 x 60% x 150%)	630,000
3. 150% enhanced deduction on qualifying R&D expenditure capped at maximum of $400,000 ($400,000 x 150%)	600,000
Total deductions claimable against normal income	**1,930,000**
Since the concessionary income is taxed at 10% rather than the normal corporate tax rate of 17%, the specified amount of the R&D deductions is computed as follows: ($1,930,000 x (17%/10%))	**3,281,000**

(b) Goods and services tax (GST) implications

The visiting employees of the Australian parent company are not employees of the Singapore company, Global. Hence, the expenses incurred for the visiting employees are not fringe benefits and the administrative rules and concessions do not apply to them.

To the extent that the hotel accommodation expenses borne by Global are recovered indirectly via the training fee billed to the foreign parent company, any input tax incurred

 © ACCA 2027-2028 All rights reserved.

ought to be claimable. As for the welcome gifts, given that their value exceeds S$200, Global should account for output GST on the deemed supply unless no credit was claimed on purchase of the welcome gifts.

The input tax incurred for the hotel seminar room booking fees, on the other hand, can be deductible as they are for the business purposes of Global.

The training conducted in Singapore for the foreign visitors, for which Global charges head office a fee, can still be zero rated under s.21(3)(k) of the GST Act as the following conditions are met:

- The service is supplied under a contract with an overseas person in their business capacity who belongs outside Singapore;
- The service directly benefits the overseas person in their business capacity; and
- Training (except for formal education courses) is within the list of prescribed services.

© ACCA 2027-2028 All rights reserved.

Mark scheme

Question 1

(a) Sem Train (Pte) (Sem Train) Ltd's losses

Transposition error:

Advice for client	2
Integrity and professional behaviour	2
Implications for advisers	2

Unabsorbed trade losses:

Shareholding/business continuity test	4
Capital allowance and total loss claim YA 2026	3

Maximum 12 marks

(b)

(i) Tax implications of payments for Sem Train

Payment of honorarium and airfare of $110,000 to Jessica	6
Payment of semi-annual royalty to Neil	6
Lump sum payment to Neil	6

Maximum 15 marks

(ii) Tax implications for recipients

Jessica	5
Neil – receipt of semi-annual royalty by Neil	4

Maximum 8 marks

(c) Goods and services tax (GST) matters

Output tax on rental/sale	2
Bad debt relief and deregistration	4

Maximum 5 marks

© ACCA 2027-2028 All rights reserved.

Professional skills marks:

Communication

General memorandum format and structure (use of headings, sub-headings and an introduction)

Style, language and clarity (tone of report response, presentation of calculations, appropriate use of the tools, easy to follow and substantive amount of content)

Analysis and Evaluation

Clear and logical approach taken to the corporate income tax and withholding tax implications of the payments for Sem Train

Clear and logical approach taken to the personal tax implications of the payment to Jessica and Neil

Commercial Acumen

Advice regarding the commercial property shows understanding of the key tax drivers to arrive at an appropriate recommendation

Scepticism

Advice to Sem Train on the matters related to trade losses is justified and evidenced from the information available

Maximum 10 marks

Total 50 marks

© ACCA 2027-2028 All rights reserved.

Question 2

(a) Income tax implications for Avril for the 2026 year of assessment

Salary, bonus and car	4
Stock options	2
SRS contributions	2

Maximum 8 marks

(b) Property transactions

Revenue v capital	4
Stamp duty	6
Measures	4

Maximum 12 marks

Professional skills marks:

Analysis and Evaluation

Comprehensive advice is offered covering all aspects of the tax implications of Avril's remuneration package

Comprehensive advice is offered covering the personal tax and stamp duty implications of the planned property purchased and subsequent sale transactions

Commercial acumen

Recommendations to minimise Avril's tax liabilities are viable and commercial

Maximum 5 marks

Total 25 marks

© ACCA 2027-2028 All rights reserved.

Question 3

(a) Research and development (R&D) activities

S.14C1 and application of conditions to project	5
EIS benefits, including expenditure cap	4
Deemed qualifying expenditure for R&D	1
Deduction against concessionary income	2
Computation of maximum claim	2

Maximum 12 marks

(b) Goods and service tax (GST) implications

Visiting employees' status	1
Seminar room/hotel	2
Welcome gift and training cost	6

Maximum 8 marks

Professional skills marks

Analysis and Evaluation

Structured and logical approach taken to the advice given in relation to R&D

Quantification supplied to support advice is clear and relevant

Commercial Acumen

Assessment of the GST implications of the payments to Australian employees raises commercially valid points

Maximum 5 marks

Total 25 marks

© ACCA 2027-2028 All rights reserved.