

Fundamentals Level – Skills Module

Taxation (Singapore)

Monday 3 December 2007

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 2–3.

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



Paper F6 (SGP)

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.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions:

Goods and services tax

Standard rate	
From 1 January 2004 to 30 June 2007	5%
Registration threshold	\$1 million

New corporate tax regime

Up to year of assessment 2007	
First \$10,000 of chargeable income is 75% exempt	\$7,500
Next \$90,000 of chargeable income is 50% exempt	\$45,000
	\$52,500

Corporate income tax

Year of assessment	Tax rate
2007	20%

**Central Provident Fund (CPF)
contributions for individuals below the age of 50 years**

	Employee	Employer
Rates of CPF contributions	20%	13%
1 January 2006 to 31 December 2006		
Maximum annual ordinary wages (OW) attracting CPF		\$54,000
Maximum annual additional wages (AW) attracting CPF		\$76,500 less OW subject to CPF

Personal income tax rates for resident individuals

	Year of assessment 2007		
	Chargeable income	Tax rate	Tax
	\$	%	\$
On the first	20,000	0	0
On the next	10,000	3·5	350
	30,000		350
On the first	30,000	5·5	550
On the next	10,000		900
	40,000		3,400
On the first	40,000	8·5	900
On the next	40,000		3,400
	80,000		4,300
On the first	80,000	14·0	11,200
On the next	80,000		15,500
	160,000		27,200
On the first	160,000	17·0	42,700
On the next	160,000		42,700
	320,000		42,700
On the first	320,000	20·0	42,700
Above	320,000		42,700

Personal income tax reliefs

Year of assessment 2007

Earned income	Normal (max)	Handicapped (max)
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)

Normal/Qualifying child relief

1st, 2nd, or 3rd child \$2,000

4th child born on/after 1 January 1988 \$2,000

Handicapped child relief \$3,500

Working mother's child relief

Year of assessment 2007
(% of mother's earned income)

First child 5%

Second child 15%

Third child 20%

Fourth child (born in or after 1987) 25%

Maximum relief per child \$25,000

Life assurance \$5,000 (max)

Voluntary CPF contribution of self-employed

Year of assessment 2007 Cap: \$25,245 or 33% of s.10(1)(a) assessable income whichever is lower

Course fees \$3,500 (max)

NSman

Active NSman \$3,000

Non-active NSman \$1,500

Wife/widow \$750

Foreign maid levy \$7,080 (max)

ALL FIVE questions are compulsory and MUST be attempted

- 1** Mount Vale Pte Ltd (Mount Vale), a Singapore resident company was incorporated in 2001 as a manufacturer of diesel engines. In 2003, Mount Vale incorporated Mount Vision Pte Ltd (Mount Vision) as its wholly owned subsidiary in Singapore to carry on the business of importing granites and supplying granites to the local construction industry.

For the financial year ended 31 December 2006, Mount Vale reported a net profit of \$51,700 after charging/(crediting) the following items:

Investment income

- \$50,000 dividend income received from Singapore resident companies. Included in the \$50,000, were franked dividends of \$16,000.
- \$10,000 of accrued interest on a twelve-month term deposit placed with a bank in Singapore on 1 April 2006.

Employment costs

- \$2,800 paid to the CPF Board for the late payment of CPF contributions.
- \$5,700 contributed to a provident fund constituted outside Singapore in respect of one expatriate employee under the terms of his employment contract.

Professional fees

- \$90,000 paid to a consultancy firm for undertaking a study into the feasibility of setting up a manufacturing plant in China.
- \$25,000 paid to a law firm for legal action to recover an outstanding non-trade debt.
- \$36,000 paid to an accounting firm for the service of conducting a due diligence exercise on a company that Mount Vale was interested in acquiring.

Foreign exchange losses

- \$15,000 realised foreign exchange losses on trade receivables.
- \$65,000 realised foreign exchange losses on the repayment of a long-term foreign currency loan.

Depreciation and loss on the sale of fixed assets

- A loss of \$1,500 on the sale of a computer that was purchased in 2002 for \$7,000 and sold in 2006 for \$1,000.
- \$120,000 was provided for the depreciation of all fixed assets, including buildings.

Additional information

- Mount Vale invested in the shares of a company listed on the Singapore Exchange. The shares were acquired shortly after Mount Vale was incorporated. Mount Vale sold these shares in March 2007 and made a substantial gain.
- Mount Vale has claimed industrial building allowance in the previous years of assessment on qualifying capital expenditure of \$2 million on an industrial building that was still in use at the end of 2006.
- The fixed assets register showed that as at 31 December 2006, the following assets were still owned and in use by Mount Vale:
 - Machinery purchased in 2001 at a cost of \$99,000.
 - Motor car purchased in 2003 at a cost of \$110,000.
 - Equipment purchased in 2005 at a cost of \$120,000.
 - Computer purchased in 2006 at a cost of \$5,000.
- In October 2006, Mount Vale purchased a second industrial building at the cost of \$3,000,000 from a company which had used the building as an industrial building immediately before it was sold. The newly acquired industrial building was immediately put to use as an industrial building by Mount Vale.
- For the financial year ended 31 December 2006, Mount Vision, the wholly owned subsidiary of Mount Vale, computed its tax adjusted loss from trading to be \$260,000 and claimed capital allowances of \$28,000.

Required:

- (a) State the test that Mount Vale Pte Ltd would employ to determine whether the gain realised from the sale of its investment in 2007 would or would not be chargeable to Singapore income tax for the year of assessment 2008. (5 marks)
- (b) State the actions that must be taken in order for Mount Vale Pte Ltd and Mount Vision Pte Ltd to take advantage of the group relief provisions. (4 marks)
- (c) Compute the minimum chargeable income of Mount Vale Pte Ltd and Mount Vision Pte Ltd respectively for the year of assessment 2007, clearly identifying any losses and/or capital allowances to be carried forward. (21 marks)

(30 marks)

2 Mr and Mrs Tan Joo Seng were married in the year 2000 when they were both forty years old. They have two sons; Benjamin is 14 years old and James is 13 years old. Mr Tan is an operationally ready national serviceman and had performed operationally ready national service in 2006. On 1 March 2006, Mrs Tan employed a foreign maid to help with her domestic chores. Mrs Tan paid the maid's salary and the standard foreign maid levy of \$295 per month.

Mr Tan is a sole-proprietor of an engineering service firm. Mrs Tan is an administrative executive of a bank operating in Singapore. As an employee, Mrs Tan has to contribute to the CPF in accordance with the statutory requirements.

For the year of assessment 2007, Mr and Mrs Tan filed separate tax returns. In their respective tax returns, the following information was furnished:

	Mr Tan \$	Mrs Tan \$
Sole proprietorship		
Tax adjusted loss	(34,000)	
Capital allowances	(15,000)	
Employment income		
Salary		180,000
Contractual bonus		30,000
Investment income		
Singapore one-tier dividend	5,000	
Singapore franked dividend (net)		8,000
Interest received from an approved bank in Singapore	2,000	
Interest received from a bank outside Singapore	3,000	
Income from properties		
Owner occupied property (net annual value)		200,000
Net rental income of property owned by Mr Tan	12,000	
Net rental loss of property owned by Mrs Tan		(25,000)
Other information		
Cash donations made to institutions of public character	3,500	7,000

Required:

- (a) **State the difference in tax treatment between a contractual bonus and a non-contractual bonus from the point of view of both the employee and the employer.** (4 marks)
- (b) **Compute the minimum tax liabilities of Mr and Mrs Tan Joo Seng for the year of assessment 2007, clearly identifying the amounts of any tax losses and/or capital allowances to be carried forward.** (21 marks)

(25 marks)

3 On 1 January 2006, Potter Singapore Pte Ltd (Potter) introduced a range of staff benefits with the objective of retaining worthy members of staff.

Potter identified Mr Benny Hyde, a sales supervisor, as one of the members of staff it wishes to retain. In addition to an annual salary of \$120,000 and a year-end bonus of \$20,000, Potter granted Benny the following benefits for the year ended 31 December 2006:

- (1) Transport allowances of \$2,800.
- (2) Reimbursed a sum of \$2,400 for the cost incurred in repairing Benny's car, which was damaged in an accident whilst travelling from office to home.
- (3) Reimbursed a sum of \$1,630 for taxi fares for Benny's travelling from home to office to attend business meetings.
- (4) Meal allowances of \$1,100 were paid to Benny for working beyond his normal hours of work. The same allowance was paid to other staff members who worked overtime.
- (5) Benny was in China for a total of ten days during the year to attend business meetings. Although the acceptable per diem rate for China is \$128, the company paid Benny a per diem of \$138, which was totally expended by Benny.
- (6) In addition to the \$138 per diem allowance, the company reimbursed Benny an amount of \$1,800 for business entertainment while he was in China.
- (7) The China trip was undertaken by Benny during the winter months and the company paid Benny a warm clothing allowance of \$500.
- (8) Benny, having completed five years of service with the company, was given a branded watch that cost \$210. The company's logo was engraved on the watch.
- (9) Benny attended a marketing course and paid the course fee together with the examination fee totalling \$1,200. The company subsidised 50% of the fees incurred by Benny under a scheme that is available to all employees.
- (10) The company took an insurance policy on the life of Benny with the company named as the beneficiary. The company paid an annual insurance premium of \$2,500 on this policy.

Required:

- (a) **Calculate the total amount of gains or profits from employment on which Benny Hyde will be chargeable to Singapore income tax for the year of assessment 2007.** (10 marks)
- (b) **For each of the above items of benefit that you have considered to be not taxable as employment income, state the reasons for your conclusion.** (5 marks)

(15 marks)

- 4 (a) Firefly Ltd (Firefly) is a listed Singapore incorporated company with annual sales in excess of \$100 million. On 15 February 2006, it purchased 50,000 treasury shares at the cost of \$150,000 to fulfil its obligations under the employee stock option (ESO) scheme.

The ESO scheme was implemented on 1 January 2005 when the eligible employees were granted a total of 20,000 share options at the exercise price of \$2.20 per share, with a three months selling restriction imposed from the date of exercise. Firefly charges an administrative fee of \$50 every time an employee exercises his options. Since 1 January 2005, no further share options have been granted.

Mr James Law, one of the eligible employees, was granted 5,000 share options. On 1 June 2006, he exercised 2,000 share options and on 1 August 2006, he exercised his remaining 3,000 share options. For these exercises of options, James Law paid Firefly a total administrative fee of \$100.

The company provided the following historical data on the price movements of Firefly shares:

Dates	Prices (\$)
1 January 2005	2.80
15 February 2006	3.00
1 June 2006	3.50
1 August 2006	3.80
1 September 2006	4.20
1 November 2006	4.50

Required:

- (i) State the dates on which the benefits from the exercise of the share options accrued to James Law, together with the amount of the benefits chargeable to tax at each of the respective dates. (5 marks)
- (ii) State the dates on which Firefly Ltd will be considered to have incurred the expenses in fulfilling its obligations to James Law under the employee stock option scheme, together with the amount qualifying for tax deduction at each of the respective dates. (5 marks)
- (b) Firefly Ltd made exempt supplies for the purpose of goods and services tax (GST) when it issued shares under the employee stock option scheme.

Required:

Compare and contrast the treatment of an exempt supply and a zero-rated supply, and give another example of an exempt supply. (5 marks)

(15 marks)

- 5 (a) State any six of the seven types of taxes and duties collected by the Inland Revenue Authority of Singapore (IRAS). (3 marks)
- (b) State the obligations of a Singapore incorporated company in making royalty payments to a US corporation that does not carry on any business in Singapore and the penalties for non-compliance. (5 marks)
- (c) Fame Properties Pte Ltd (Fame) is a goods and services tax (GST) registered trader. It owns an apartment that is leased to an expatriate couple. The lease agreement states that the monthly rental for the furnished apartment is \$3,500. The annual value of the apartment according to the Valuation List is \$36,000 for the year 2006.

Required:

- (i) State the types of supplies made by Fame Properties Pte Ltd in respect of the lease agreement. (2 marks)
- (ii) State the amount of output goods and services tax (GST) chargeable by Fame Properties Pte Ltd on the monthly rental in the year 2006. (3 marks)
- (iii) Explain how your answer in (ii) would differ if the annual value of the apartment according to the Valuation List is \$45,000 for the year 2006. (2 marks)

(15 marks)

End of Question Paper