

Fundamentals Level – Skills Module

Taxation (Singapore)

Monday 2 June 2008

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

ACCA



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 (GST)

Standard rate	
Up to 30 June 2007	5%
From 1 July 2007	7%
Registration threshold	\$1 million

Partial tax exemption for the year of assessment 2008

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>

Corporate income tax for the year of assessment 2008

Corporate income tax rate	18%
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Central Provident Fund (CPF) contributions for individuals below the age of 50 years and having ordinary wages in excess of \$1,500

	Employee	Employer
Rates of CPF contributions up to 30 June 2007	20.0%	13.0%
Rates of CPF contributions from 1 July 2007	20.0%	14.5%
From 1 January 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 for the year of assessment 2008

	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 2008

	Normal (max)	Handicapped (max)
Earned income		
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 or after 1 January 1988		\$2,000
Handicapped child relief		\$3,500
Working mother's child relief		
		(% of mother's earned income)
First child		5%
Second child		15%
Third child		20%
Fourth child (born on or after 1987)		25%
Maximum relief per child		\$25,000
Life assurance		\$5,000 (max)
Voluntary CPF contribution of self-employed		
Capped at		\$26,393 or 34.5% 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		\$6,720 (max)

ALL FIVE questions are compulsory and MUST be attempted

1 Stand Firm Pte Ltd (SFPL), a Singapore incorporated company, is in the manufacturing business. SFPL holds its board meetings and annual general meetings in Singapore. At its annual general meetings, all fifteen (15) individual shareholders (some of whom reside in countries outside Singapore and are non-citizens of Singapore) attend the meetings. The fifteen (15) individual shareholders have remained the same since SFPL was incorporated in 1999.

For the financial year ended 31 December 2007, SFPL acquired/sold the following assets:

- (a) SFPL purchased an industrial building for the sum of \$1 million from a seller who builds industrial buildings for sale. The industrial building was immediately put to use for the purpose of the manufacturing business.
- (b) SFPL purchased a moulding machine for the sum of \$50,000 under an interest-free deferred payment scheme. Under the scheme, SFPL made a down payment of \$10,000 and the balance is to be settled by forty equal monthly instalment payments of which five instalments were paid in 2007.
- (c) SFPL purchased a new converter machine for the sum of \$15,000 to replace an old converter machine that had been purchased in 2003 for \$14,000 and was sold in 2007 for \$9,000. SFPL indicated its intention to elect for the replacement treatment under s.21 of the Singapore Income Tax Act.

SFPL prepared its profit and loss account for the year ended 31 December 2007 as follows:

	Note	\$	\$
Revenues			
Sale of goods		3,000,000	
Sale of services		1,230,000	
Other revenue	1	270,000	4,500,000
Costs and expenses			
Cost of goods sold		(750,000)	
Cost of services	2	(350,000)	
Depreciation		(100,000)	
Rental and service charges		(230,000)	
Salaries and employee benefits	3	(810,000)	
Other operating expenses	4	(300,000)	
Finance costs	5	(660,000)	(3,200,000)
Profit before income tax			1,300,000
Income tax			(234,000)
Profit after income tax			1,066,000

Notes:

1 – Other revenue \$270,000

This comprises:

	\$
Dividend received from investment in a Singapore tax resident company incorporated on 15 February 2005	80,000
Interest on deposits placed with an approved bank in Singapore	70,000
Net interest (after 20% withholding tax) received in Singapore from deposits placed with a bank in a country that does not have a tax treaty with Singapore	120,000
Total	270,000

2 – Costs of services \$350,000

Included in the above was the sum of \$50,000 paid as compensation to a US corporation for rescinding an agreement to enter into a partnership with the US corporation to provide services to a Chinese company.

3 – Salaries and employee benefits \$810,000

Included in the above were:

CPF contributions of \$16,000 in respect of Mr Maurice, a citizen of Ireland, who is employed under an employment pass.

Payment of \$6,500 made to an employee in lieu of the notice period on termination of his employment.

4 – Other operating expenses \$300,000

Included in the above were:

Repair costs of \$2,500 incurred on a motor car and a loss of \$4,500 on the subsequent sale of the same motor car. The motor car had been purchased in 2001 at a cost of \$68,000.

The cost of \$40,000 incurred to replace the entire roof of the newly purchased industrial building referred to in (a) above, with new improved roof tiles.

Capital expenditure of \$15,000 incurred on alterations to the newly purchased industrial building that are incidental to the installation of the moulding machine referred to in (b) above.

5 – Finance costs \$660,000

These comprise:

	\$
Interest on a bank overdraft used to finance the operations of the business	410,000
Interest on a mortgage loan used to finance the purchase of the industrial building	190,000
Interest on a bank loan used to finance the acquisition of shares in the Singapore resident company that paid the dividend referred to in Note 1 above.	16,000
Interest on loans used to finance the purchase of shares in overseas companies that have yet to pay dividends	44,000
Total	<u>660,000</u>

Other information:

SFPL's tax written down value of \$32,000 as at 31 December 2006 was entirely in respect of a delivery van that had been purchased in 2005 for \$60,000

For the year of assessment 2007, SFPL has a tax adjusted loss of \$9,380 and unutilised capital allowances of \$12,420 to be carried forward.

Required:

Compute the minimum tax liability of Stand Firm Pte Ltd for the year of assessment 2008, clearly identifying any tax losses and/or capital allowances to be carried forward.

(30 marks)

- 2 For the year ended 31 December 2007, Albert and his wife Alice, reported the following information in their respective tax returns for the year of assessment 2008:

Albert's tax return

Sole-proprietorship income

Albert operates a sole-proprietorship business that is managed by his employees. For the financial year ended 31 August 2007, the sole-proprietorship reported an accounting loss of \$85,000 after deducting depreciation of \$15,000. The sole-proprietorship acquired a computer at a cost of \$25,000 and sold an item of machinery in July 2007 at its net book value of \$8,000. The machinery had been purchased in April 2003 at a cost of \$39,000.

Employment income

Albert reported the following income and benefits derived from his employment with Clayton Trading Pte Ltd. Statutory contributions to the CPF Board were made.

	\$
(1) Salary (including 2007 bonus of \$30,000).	90,000
(2) Sales commission paid on 24 December 2007	30,000
(3) Contractual bonus paid in 2007 in respect of services performed in 2006.	35,000
(4) Payment in lieu of unutilised annual leave.	3,000
(5) Reimbursement of taxi fares from home to office.	5,000
(6) An all expenses paid holiday in Bangkok as a reward for achieving sales targets.	8,000
(7) A plasma television set won in a lucky draw at the company's annual dinner and dance.	6,500

Rental income

Albert attached the following rental income and expenditure statement for the year ended 31 December 2007 in respect of an apartment, which was rented to an expatriate.

	\$	\$
Rental income		18,000
Less		
Mortgage interest	19,500	
Property tax	4,500	
Conservancy service fee	3,000	
		<u>(27,000)</u>
Net rental income		<u>(9,000)</u>

Other income

Albert is a non-executive director of a company and was paid a director's fee of \$30,000 on 22 April 2007. The director's fee was paid for services rendered in 2006 and approved at an annual general meeting of the company held on 2 April 2007.

Albert received interest of \$4,000 from a fixed deposit placed with a licensed finance company that matured on 1 November 2007.

Alice's tax return

Partnership income

Alice is a 30% sleeping partner of a partnership which is operating a business in Singapore. For the financial year ended 31 December 2007, Alice was reimbursed \$5,000 for the repair costs of her motor car and the partnership's tax adjusted profit was \$38,000. The partnership claimed capital allowances of \$3,000.

Employment income

Alice derived an annual salary of \$45,000 for her services as a part time accountant for Gideon Shipping Pte Ltd. Statutory contributions to the CPF Board were made.

Rental income

Alice derived gross rental income of \$37,000 and incurred property tax of \$4,500 and mortgage interest of \$12,500 in respect of an apartment that she has owned since 1999.

Personal information about Albert and Alice.

- Albert and Alice are both 38 years old.
- They have a son who is 15 years old.
- Alice made a cash donation of \$3,000 to an institution of a public character on 5 November 2007.
- Albert, as a national serviceman, performed operationally ready national service in 2007.

Required:

For the year of assessment 2008, compute the minimum tax liability of:

(a) Albert; and (14 marks)

(b) Alice. (11 marks)

(25 marks)

- 3** Johnson LLP is a limited liability partnership, which has carried on a business in Singapore since 1 January 2006. The partners of Johnson LLP are Thomas and Keith, who have contributed to the capital of the limited liability partnership the sums of \$400,000 and \$100,000 respectively.

Johnson LLP has not been profitable. For the years of assessment 2007 and 2008, the amount of tax-adjusted losses and capital allowances allocated to the partners are as follows:

Year of assessment	2007		2008	
	Losses	Capital allowances	Losses	Capital allowances
	\$	\$	\$	\$
Thomas (80%)	(256,000)	(22,400)	(336,000)	(30,400)
Keith (20%)	(64,000)	(5,600)	(84,000)	(7,600)
Total	<u>(320,000)</u>	<u>(28,000)</u>	<u>(420,000)</u>	<u>(38,000)</u>

Since his retirement from full-time gainful employment in 2004, Keith's only source of income is interest earned from his bank deposits which amounted to \$45,000 in each of the years 2006 and 2007.

In addition to being a partner of Johnson LLP, Thomas is employed by a multi-national corporation. For the years ended 31 December 2006 and 2007, Thomas was paid total remuneration of \$250,000 and \$300,000 respectively.

Required:

(a) State what constitutes 'contributed capital' in the context of a partner of a limited liability partnership. (4 marks)

(b) Compute the assessable income of Thomas and Keith for the years of assessment 2007 and 2008, clearly identifying any amounts of tax losses and/or capital allowances to be carried forward for each of these years of assessment. (11 marks)

(15 marks)

- 4 (a) On 8 April 2008, Global Union Pte Ltd (GUPL) received a notice of additional assessment for the year of assessment 2007. The additional tax was raised on an item of income which GUPL considered to be of a capital nature.

Required:

State the action(s) Global Union Pte Ltd has to take if it wishes to dispute the notice of additional assessment and the obligations it must comply with on being served the said notice. (3 marks)

- (b) Fraser Pte Ltd (Fraser), a Singapore incorporated company, carries on a manufacturing business in Singapore. For the year ended 31 December 2007, Fraser furnished the following information relating to the purchase and disposal of property, plant and equipment. None of the monetary values given includes goods and services tax (GST) unless stated otherwise.

Henderson industrial building

Fraser incurred capital expenditure of \$2,400,000 on the construction of the Henderson industrial building in the financial year ended 31 December 2000 and the building was immediately put to use. Out of the total floor area of the Henderson industrial building, 25% was used as an office and 75% was used for a manufacturing purpose. The Henderson industrial building was sold on 4 May 2007 for the sum of \$3,500,000.

Keppel industrial building

Fraser incurred a total of \$3,800,000 in the construction of the Keppel industrial building, which was completed in 2007 and was immediately put to use. The entire sum of \$3,800,000 qualifies for industrial building allowances, of which \$1,800,000 was incurred in the financial year 2006 and the balance of \$2,000,000 was incurred in the financial year 2007.

Extraction machine

The extraction machine was purchased on 12 November 2005 at a cost of \$250,000. A down payment of \$50,000 was paid at the time of purchase and the balance was to be settled by 20 monthly instalments payable on the first day of each month. The extraction machine was sold on 15 February 2007 for \$120,000.

Processing plant

The processing plant was purchased on 1 August 2007 at a cost of \$321,000, inclusive of goods and services tax. Modification of the processing plant was undertaken on 1 November 2007 at a cost of \$53,500, inclusive of goods and services tax.

Required:

Compute the amounts of industrial building allowances and capital allowances claimable by Fraser Pte Ltd for the year of assessment 2008, clearly identifying any balancing allowances and/or balancing charges.

(12 marks)

(15 marks)

- 5 Pixie Pte Ltd (Pixie) operates a chain of supermarkets in Singapore. It has been registered for goods and services tax (GST) since 1995. For the fourth quarter ended 31 December 2007, Pixie recorded the following transactions in monetary values before the imposition of GST:

Transactions:	\$
Sales to both GST and non-GST registered traders	
Local sales	2,500,000
Export sales	1,500,000
Purchases	
Imports of purchases	2,100,000
Expenses paid to GST registered traders	
Freight costs on goods exported overseas	50,000
Office rent	30,000
Rent of staff accommodation	15,000
Airfares on overseas business trips	5,000
Repair costs of motor cars	2,000
Club subscription fees	1,200

Required:

- (a) In the case of each of the above transactions, state whether it is standard rated, zero-rated, out-of-scope or an exempt supply, together with the amount of output/ input tax chargeable/payable. (9 marks)
- (b) Compute the amount of goods and services tax (GST) payable by Pixie Pte Ltd for the quarter ended 31 December 2007. (3 marks)
- (c) State the latest date by which the amount of goods and services tax (GST) due to the Comptroller (as calculated in (b)) must be paid and the penalty for not complying with the due date of payment. (3 marks)

(15 marks)

End of Question Paper