

Singapore CA Qualification (Foundation) Examination

18 June 2018

Singapore Taxation

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**, including 15 minutes of reading time. Only annotations are allowed on the question paper during the reading time.
2. This examination paper has **FOUR (4)** questions and comprises **TWENTY (20)** pages (including this instruction sheet and appendices A and B). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. Only calculators that comply with the SAC's regulations may be used during the examination. However, computers, mobile phones, tablets, and other electronic devices **MUST NOT** be used during the examination.
4. The number of marks allocated is shown at the end of each question.
5. Write legibly in black/blue ink only.
6. All answers must be written in the answer booklets with the exception of Question 3 (a), which **MUST BE** written on the **TEMPLATE** provided, and attached to the answer booklets. Answers written on any other attachment will not be graded.
7. Begin your answer to each question in a separate answer booklet.
8. This question paper **MUST NOT** be removed from the examination room.
9. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

10. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
11. This is a restricted open book examination. This means that you are allowed to only bring the following materials into the examination hall:
 - One A4-sized double-sided cheat sheet.

Question 1 – (a), (b), and (c)

Enviro Plastics Limited (EPL) was incorporated in Singapore in year 2001. It is in the business of manufacturing environmentally-responsive plastic products and packaging ware out of a factory in Singapore. The company is privately owned by brothers Cheong Kok Leong and Cheong Heng Leong who have been in the plastic recycling business for decades. All Board meetings of EPL are held in Singapore.

For the year ended 30 June 2017, EPL had a net accounting profit of \$700,000 on a turnover of \$10,500,000. The following items were (credited)/charged to the Profit or Loss Account in arriving at its accounting profit:

	S\$
Income	
Interest earned on Singapore corporate bonds	(45,000)
Dividend income derived from Singapore resident companies	(30,000)
Insurance compensation in respect of losses suffered on the following damaged assets in a warehouse fire during the year:	
• Stock (inventory);	(100,000)
• Automated warehousing equipment; and	(40,000)
• Warehouse building.	(250,000)
Profit from sale of Singapore shares. These shares were acquired two years ago for long-term investment purposes. They were sold during the year to fund the construction of a new warehouse building.	(15,000)

Expenses	S\$
Depreciation	236,000
Medical and dental insurance premiums. The company has not implemented any Portable Medical Benefits Scheme (PMBS) or Transferable Medical Insurance Scheme (TMIS)	120,000
Voluntary contribution to Medisave account of 50 Singaporean employees at \$2,000 per employee for the year	100,000
Staff remuneration, comprising salaries, bonuses, and related employer's statutory Central Provident Fund (CPF) contributions, and directors' fees of \$240,000	10,800,000
Professional fees: <ul style="list-style-type: none"> - Accounting fees for review of sales and purchasing cycles to ensure Goods and Services Tax (GST) compliance; - Brokerage fee on sale of shares; and - Surveyors' fees for assessment of rectification and reconstruction costs of warehouse damaged by fire. 	38,000 2,500 45,000
Gifts to business associates (including input GST of \$1,500 for gifts where the value of each gift exceeded \$200. No output GST was deemed on the aforementioned gifts). Included therein is also an artwork valued at \$10,000 that was acquired in Vietnam and gifted immediately to a customer based in Vietnam for the latter's celebration of 25 years of business operations.	65,000
Travelling and transportation expenses: <ul style="list-style-type: none"> - Mileage claims by staff (for use of personal cars for business purposes); - Car hire charges on overseas business trips; and - Bus hire charges to ferry employees to a staff appreciation event in Johor, Malaysia. 	18,000 23,000 15,000
Stock (inventory) lost through fire written off	120,000
Net book value of the warehouse written off following the fire. The building was a second-hand building acquired at a cost of \$400,000	

Expenses	S\$
in financial year 2009 for storage of goods manufactured by the company and was put to use in the same year. The warehouse qualified for industrial building allowance.	260,000
Net book value of automated warehousing equipment written off when it was destroyed in the warehouse fire. The equipment was acquired at a cost of \$75,000 on 20 April 2016 (financial year 2016) before being destroyed in the fire 8 months later. It was qualifying equipment under the Productivity and Innovation Credit (PIC) scheme and qualified for capital allowances on the 3-year write-off basis.	65,000
Interest expense on late payment of suppliers' invoices	10,000
Hire purchase interest on purchase of delivery vans	17,000
Management training expenses: - Training fees paid to external trainer; - Trainer's air ticket and hotel accommodation in Singapore; and - Hire of training room including refreshments of \$800.	15,000 8,000 2,300
Exchange differences: - Loss on revaluation of trade debtor balances; - Gain on settlement of the amount owing on the purchase of the artwork which was gifted to a customer (see above); and - Gain on settlement of the amount owing on the purchase of artwork which was bought overseas and brought into Singapore and placed in the company's reception area (see Note 2).	13,600 (1,900) (4,000)
Donation made to an Institution of Public Character (IPC) on 15 August 2016 comprise the following: - Cash donation of \$16,000; and - Old stock (inventory) of plastic wares costing \$5,000.	21,000

Notes:

1. Capital allowances on qualifying assets acquired in previous years have been fully claimed apart from the automated warehousing equipment and the warehouse that were destroyed in the fire.
2. The company incurred the following capital expenditure (capitalised to the Balance Sheet) for the year ended 30 June 2017:

Item	S\$
Two delivery vans purchased on hire purchase terms: <ul style="list-style-type: none">- Deposit paid: \$100,000; and- Capital repayment per month from November 2016: \$10,000. The tax useful life of vans under the 6 th schedule is 6 years. The vans also do not qualify as “New vehicle” under Section 19A(9) for 100% wear and tear allowances claim.	500,000
Downpayment for construction of new warehouse to commence in July 2017.	300,000
Artwork at reception area	25,000
Renovations (non-structural) were carried out at the leased factory premises to improve the facilities for its disabled employees: <ul style="list-style-type: none">- Flooring works;- Plumbing; and- Electrical installation. The above works were new additions to previous modification works incurred of \$110,000, which were approved for claim under Section 14H - Expenditure on building modifications for benefit of disabled employees. The claim was capped at \$100,000. Section 14Q compliant renovations were first carried out in the basis period for the Year of Assessment (YA)	10,000 7,000 10,000

Item	S\$
2013 at a cost of \$240,000. The last qualifying renovation was carried out in the basis period for YA 2017 at a cost of \$180,000.	

3. The company does not intend to opt for PIC cash payout on qualifying PIC activities undertaken during the year.

Question 1 required:

- (a)** Determine the deductible medical expenses within the statutory limit, showing your workings clearly. **(2 marks)**

- (b)** Compute the minimum tax liability of Enviro Plastics Limited for Year of Assessment 2018 on the assumption that the company maximises its capital allowances claim each year.

Show all workings in relation to the following:

- Special deductions under Section 14Q;
- Productivity and Innovation Credit (PIC) claims; and
- Capital allowances including any balancing adjustments.

(23 marks)

- (c)** As a result of a compliance review, the company found that posting errors resulted in tax overstated of \$20,000 for Year of Assessment 2014 and tax understated of \$5,000 for Year of Assessment 2015. The tax affairs for these Years of Assessment have been finalised with the Comptroller of Income Tax and no objection had been lodged against the Notices of Assessment issued based on the tax returns submitted. Advise the company on the course of action that can be taken. **(5 marks)**

(Total: 30 marks)

Question 2 – (a) and (b)

Fiona Walker is a 48-year old Australian citizen. She is also a single parent to two children following the passing of her spouse. She has signed a two-year employment contract as the Chief Investment Officer at Treasures Investment (Singapore) Limited (TIL). This is her first employment in Singapore.

She entered Singapore on 10 August 2017 to settle her domestic affairs before commencing employment on 1 September 2017. For the year ended 31 December 2017, she derived the following benefits from her Singaporean employer:

- Monthly salary of \$30,000.
- TIL agreed to pay for her hotel accommodation before she moved into rental accommodation provided by the company. However, the amount payable by the company was capped at \$5,000 and Fiona had to bear an additional amount of \$2,500.
- TIL provided Fiona with fully furnished accommodation at a monthly rental of \$10,000, commencing 1 October 2017. The annual value of the property is \$75,000.
- TIL paid Fiona a relocation allowance of \$20,000, that Fiona used to defray relocation expenses incurred which included the following (in addition to the hotel accommodation expenses borne by Fiona):
 - One-way tickets of \$10,000 for herself and her younger child (aged 6 years old) to relocate to Singapore;
 - Freight charges of \$5,000 to transport her personal belongings to Singapore;

- A bed for her younger child of \$1,000 bought in Singapore; and
- Monthly storage charges of Singapore dollar equivalent \$800 commencing from August 2017, paid to an Australian storage facility to store personal belongings left behind in Australia.
- TIL provided a leased car for her use from 1 October 2017 onwards. The monthly leasing charges and petrol expenses, which were borne by the employer, were \$3,000 and \$300 respectively. The total mileage travelled from 1 October to 31 December 2017 was 60,000km of which 40,000km was for private purposes. Prior to 1 October 2017, TIL reimbursed Fiona for the following transport expenses:
 - Taxi fares for daily commutes between home and office within official working hours - \$540; and
 - Taxi fares for client visits - \$200.
- TIL will bear 75% of the school fees of \$12,000 for the months of September to December for her younger child who started attending an international school in Singapore from 1 September 2017.
- Fiona's older child remained in Australia to continue his education. TIL paid for his return air ticket of \$5,000 to spend the December holidays in Singapore with his mother and younger sibling.
- TIL bears the monthly salary of \$700 for the foreign domestic worker employed by Fiona to help with household and childcare duties. The monthly levy of \$60 is borne by Fiona. The domestic worker commenced employment with Fiona on 1 September 2017.

Other information

- Fiona derived net rental income of \$25,000 from letting her Australian property through the AirBnB platform. She remitted the net rental income to Singapore on 6 December 2017 to help defray her settling in expenses.
- Fiona derived interest income of \$500 from an interest-bearing account held with the Singapore branch of ANZ Bank, an approved bank. The interest was credited to her bank account at the end of each month.
- Fiona's parents, who are in their sixties, live in Australia and help look after Fiona's older child who is 15-years old. Both parents did not derive any income in year 2017 and Fiona gives both parents a monthly allowance of \$2,000 each.

Question 2 required:

- (a) Explain the tax residence status of Fiona for the relevant Years of Assessment including the use of any relevant administrative concessions. **(10 marks)**
- (b) Compute Fiona's minimum tax payable for the Year of Assessment 2018, showing the net taxable income from each source separately. **(20 marks)**
- (Total: 30 marks)**

Question 3 – (a) and (b)

Mimmo Pte Ltd (Mimmo) is a Goods and Services Tax (GST) registered company which is owned by Gabriel Mimmo, a well-known and highly regarded Italian chef. The company runs Mimmo @ Sunset Way, a very popular restaurant where Gabriel is the Head Chef.

Question 3 required:

(a) Complete the Goods and Services Tax (GST) return for the quarter ended 30 June 2017 using the template provided based on the information given below for transactions (i) to (ix), stating clearly if GST is payable to or refundable from the Inland Revenue Authority of Singapore (IRAS). You are to consider all relevant GST implications, including deemed supplies, in the completion of the GST return. For purchases, where no input tax is claimable, please state why (e.g. out of scope supply, exempt supply, blocked). Please round off to the nearest dollar. Every transaction is to be accounted for in the template provided. All amounts are **exclusive** of GST, unless otherwise stated.

(i) The company made the following sales during the quarter:

(a) Sale of food and beverages (excluding the wine retail sales in (ii) and (vi) below): \$400,000;

(b) Service charge: \$40,000; and

(c) Wine corkage charge: \$1,500 (This is a flat fee of \$50 charged per bottle brought in by customers and the fee is inclusive of GST.)

(ii) Mimmo brought in a new line of Italian wines in the previous quarter. Each bottle retails at the current promotional price of \$80. A regular customer bought 20 bottles and Mimmo gave two bottles away for free.

(iii) Ten '\$100 dining vouchers at Mimmo' were sold to The Singapore American School. The vouchers were sold inclusive of GST.

- (iv)** Two of the \$100 vouchers mentioned in (iii) above were used to settle meals at the restaurant at the following values (inclusive of service charge but not including GST):

(a) \$88 (Meal 1); and

(b) \$150 (Meal 2).

No refunds are given where the total value of the meal (inclusive of GST) is below the face value of the voucher. Where the total value of the meal exceeds the face value of the voucher, the customer pays the difference.

- (v)** A non-refundable deposit of \$2,000 was received from Miss Diva during the quarter for a function tentatively scheduled to be held in July 2017.
- (vi)** Mimmo sold three bottles of wine retailing at \$100 each to the company's external accountant, a business associate, at a 50% discount. Generally, only a 10% discount on non-promotional wines is given to regular customers and business associates.
- (vii)** Mimmo brought in a guest chef from Tuscany, Italy to cook in the restaurant for three days. The guest chef invoiced Mimmo \$10,000 for services rendered as well as the cost of his return air ticket to Singapore (\$3,000). The company arranged for the chef's accommodation at the Hyatt Hotel Singapore, which amounted to \$1,500. The Hyatt is a GST-registered hotel. This is the first working assignment in Singapore for the guest chef.
- (viii)** Late payment interest of \$800 was incurred on late settlement of supplier invoices.
- (ix)** Purchase of food supplies worth \$74,000 from a GST-registered supplier. Of these, supplies costing \$500 were provided as meals to staff.

Present your answers in the following format (using the abbreviations indicated in the legend and the example answer as a guide):

Transaction: **(x)** Purchase from a non-GST registered supplier.

Example answer: **(x) OS, \$0, I**

Legend for the example answer:

(x) – Is the unique line number identifying the transaction in the case;

OS – Is the **Type of Supply**

(where **SR**-standard rated, **ZR**-zero rated, **OS**-Out-of-Scope, **EX**-exempt, and **NS**-no supply);

\$0 – Is the **Amount of GST**; and

I – Indicates whether the GST amount should be shown as **Output Tax Chargeable (O)** or **Input Tax Claimable (I)**

(15 marks)

Miss Diva's function (noted in (a)(v) above) was eventually held on 2 October 2017 and a tax invoice for the value of food and services provided at \$15,500 (before GST) was issued on 2 October 2017. The amount net of the deposit placed previously was settled on 2 November 2017.

(b) If the deposit referred to in (a)(v) above was a refundable deposit and Miss Diva confirmed the reservation for the function on 24 July 2017, explain how the time of supply was determined and state in which month the relevant GST would have been accounted for. You are also required to calculate the GST to be accounted in the respective month.

(5 marks)

(Total: 20 marks)

Question 4 – (a), (b), (c), and (d)

SK Manufacturing Pte Ltd (SK), a Singapore incorporated company, is in the business of manufacturing skincare products. It is looking into financing the following acquisitions:

- A second factory building in Singapore which will be used for its manufacturing activities. The cost of the factory building is estimated to be \$3.5 million.
- An investment property in China which is intended for long term holding and which will be rented out. The cost of the property is estimated at \$600,000.

The company is considering the following two financing options:

1. Bank loan from OCBC Bank Singapore.
2. Proceeds from the sale of shares in Yadah Inc (Yadah), a company tax resident in Country X, as well as accumulated dividends from Yadah of \$92,000, which is net of dividend withholding tax of 8%. The headline tax rate in Country X is 14%. The dividend income from Yadah over the years has been held in a bank account in Country X and not brought back to Singapore. SK's 1% shareholding in Yadah was acquired at a cost of \$250,000 and has been held for more than ten years. The current value of the shares is estimated at \$1,000,000. Singapore does not have a tax treaty with Country X.

Question 4 required:

(a) Explain the deductibility of the interest expense on the debt financing option if the bank loan was used to finance the purchase of:

(i) The factory building in Singapore; and

(ii) The investment property in China.

(5 marks)

(b) Outline whether the funds received from the sale of shares in Yadah Inc will be taxable in Singapore. Give TWO reasons to support your claim. **(3 marks)**

(c) Explain the Singapore income tax implications of the dividends from Yadah Inc if it were to be used to finance the purchase of the factory building in Singapore or the investment property in China. **(7 marks)**

(d) Recommend the most tax efficient way of financing the purchase of:

(i) The factory building in Singapore; and

(ii) The investment property in China.

(5 marks)

(Total: 20 marks)

END OF PAPER

Appendix A - Tax Rates and Allowances - Year of Assessment 2018

Goods and Services Tax

Standard rate	7%
Compulsory Registration threshold	\$1 million

Corporate Income Tax Rate

Year of Assessment 2018	17%
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Partial Tax Exemption \$

First \$10,000 of chargeable income is 75% exempt	7,500
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Next \$290,000 of chargeable income is 50% exempt	<u>145,000</u>
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Total	<u>152,500</u>
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Start-up tax exemption

First \$100,000 of chargeable income is 100% exempt	100,000
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Next \$200,000 of chargeable income is 50% exempt	<u>100,000</u>
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Total	<u>200,000</u>
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Note: There is a 50% corporate tax rebate capped at \$20,000 for YA 2016 and capped at \$25,000 for YA 2017. The corporate tax rebate for YA 2018 is 40% capped at \$15,000.

Appendix A - Tax Rates and Allowances - Year of Assessment 2018 (cont.)

Personal Income Tax for the Year of Assessment 2018 (Resident)

Chargeable Income	Rate (%)	Gross Tax Payable (\$)
First \$20,000	0	0
Next \$10,000	2.0	200
First \$30,000	-	200
Next \$10,000	3.5	350
First \$40,000	-	550
Next \$40,000	7.0	2,800
First \$80,000	-	3,350
Next \$40,000	11.5	4,600
First \$120,000	-	7,950
Next \$40,000	15.0	6,000
First \$160,000	-	13,950
Next \$40,000	18.0	7,200
First \$200,000	-	21,150
Next \$40,000	19.0	7,600
First \$240,000	-	28,750
Next \$40,000	19.5	7,800
First \$280,000	-	36,550
Next \$40,000	20.0	8,000
First \$320,000	-	44,550
Above \$320,000	22.0	

Personal Income Tax Rates for the Year of Assessment 2018 (Non-resident)

General Rate: 22%

Section 40B Relief for Non-resident Employees

Tax payable on the Singapore employment income of a non-resident individual is calculated at a flat rate of 15% or on a resident basis, whichever results in a higher tax amount.

Appendix A - Tax Rates and Allowances - Year of Assessment 2018 (cont.)

Central Provident Fund (CPF) – from 1 January 2017 to 31 December 2017

Contributions for individuals of ages 55 years or below, and earning at least \$750 per month.

Rates of CPF contributions

Employee	20%
Employer	17%

Maximum monthly ordinary wages (OW) attracting CPF	\$6,000
Maximum annual ordinary wages (OW) attracting CPF	\$72,000
Maximum annual additional wages (AW) attracting CPF	\$102,000 less OW subject to CPF

Mandatory Medisave contributions of a self-employed person with annual s10(1)(a) assessable income of above \$18,000

Below 35 years of age	8%; \$5,760 (max)
35 to below 45 years of age	9%; \$6,480 (max)
45 to below 50 years of age	10%; \$7,200 (max)
50 years of age and above	10.5%; \$7,560 (max)

Personal Income Tax Reliefs for the Year of Assessment 2018

With effect from YA 2018, the overall personal income tax relief available to resident individuals, as detailed below, is capped at \$80,000.

Earned income

Age	Normal (able-bodied) maximum	Handicapped maximum
Below 55 years	\$1,000	\$4,000
55 to 59 years	\$6,000	\$10,000
60 years and above	\$8,000	\$12,000

Appendix A - Tax Rates and Allowances - Year of Assessment 2018 (cont.)

Other reliefs

Spouse relief	\$2,000
Handicapped spouse relief	\$5,500
Qualifying child relief (per child) (QCR)	\$4,000
Handicapped child relief (per child) (HCR)	\$7,500
Handicapped sibling relief (per sibling)	\$5,500
Parent relief - Staying with dependant - Not staying with dependant	\$9,000 \$5,500
Handicapped parent relief - Staying with dependant - Not staying with dependant	\$14,000 \$10,000
Working mother's child relief (WMCR) • First child • Second child • Third and subsequent child • Maximum cumulative WMCR • Maximum relief per child (including QCR/HCR)	% of mother's earned income 15% 20% 25% 100% \$50,000
Grandparent caregiver relief	\$3,000
Life assurance relief	\$5,000 (max)
Voluntary CPF contribution of self-employed	Capped at \$37,740 or 37% of s10(1)(a) net trade income assessed less any trade losses from prior years or actual amount contributed by the taxpayer, whichever is lowest
Course fee relief	\$5,500 (max)
Foreign domestic worker levy relief	\$6,360 (max)
Supplementary Retirement Scheme • Singapore citizens and PRs • Foreign citizens	\$15,300 (max) \$35,700 (max)

National Service Man (NSman) relief

	Normal appointment	Key appointment holder
Active NSman	\$3,000	\$5,000
Non-active NSman	\$1,500	\$3,500
Wife/widow/parent of NSman	\$750	\$750

Appendix B - Common verbs used by the Examiners

Verb	Description
Advise / Give advice	This type of question requires you to give specific guidance, so your answer must provide specific information or make a recommendation tailored to the individual or group and justify your position.
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers.
Complete	Fill up the appropriate form.
Determine	Ascertain or conclude after analysis and evaluation the most appropriate course of action or most correct answer from a range of viable alternatives.
Explain	Explain requires you to write at least several sentences conveying how you have analysed the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
Justify	Whenever you see the word justify you <u>must</u> provide reasons for your answer, in other words, provide support for your argument or conclusion. If you fail to justify your answer, you will lose valuable marks. Justify is similar to defend .
List	Prepare an itemised list . The use of bullets is permitted.
Outline	Outline requires you to provide a general overview of the situation and indicate the main features.
Recommend	Make a statement about the most appropriate course of action. If there is more than one possible course of action, state which action you would choose and why (justify your choice). Your professional judgment and your ability to analyse and synthesise the wider situation are critical to scoring well in these types of questions. Don't forget to think about the future and the past, not just the present when making a recommendation.
State	State is similar to list , but the items require your professional judgement. For instance, " State any restrictions that apply". One of the easiest ways to make sure that you state comprehensively is to think, " list and justify ". You will note that state appears in many of the verb descriptions given.