

Singapore CA Qualification (Foundation) Examination**12 June 2019****Singapore Taxation****INSTRUCTIONS TO CANDIDATES:**

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **TWENTY-FOUR (24)** pages (including this instruction sheet, Appendix A and Appendix B). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. 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.
4. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
5. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.

Question 1 – (a)

GPS Consultancy Pte Ltd (GPS) was incorporated on 15 October 2016 and its first set of accounts was for the period ended 30 September 2017 (**Note 1**). It is wholly owned by G-Mobility Inc (GMI), a company tax resident in Country X. GPS provides consultancy services and project management services in the area of telecommunications and security to clients in South East Asia. The directors hold their meetings in Singapore.

GPS made its first sale in January 2018 and for the financial year ended 30 September 2018. GPS made a net profit before tax of \$620,000 on turnover of \$5,000,000. The profit was arrived at after taking into account the following income and expenses:

Income	S\$
Rental income from renting out excess office space at \$3,000 per month for 6 months. There was no such income derived in the first financial period ended 30 September 2017.	(18,000)
Dividend income received on 16 July 2018 from shares held in Scorpion Telecommunications Limited, a company tax resident in Country Z which has a headline tax rate of 10%. Country Z does not impose dividend withholding tax. The proceeds from the dividend, paid out of after-tax profits in Country Z, were used on 25 July 2018 to settle the trade liabilities incurred in Country Z by i-Like Media Consultancy Pte Ltd (i-Like Media), another Singapore subsidiary company of GMI. i-Like Media repaid GPS in December 2018 and the funds were credited into GPS's bank account with HSBC Singapore. GPS is not entitled to relief for any foreign underlying tax suffered in relation to the dividend.	(35,000)
Foreign exchange (gain)/loss derived from the following: <ul style="list-style-type: none">• Translation of investment in Scorpion Telecommunications Limited: \$8,500• Settlement of trade debts owing to/by GPS: (\$10,500)	(2,000)

Grant from Infocomm Media Development Authority for acquisition of accounting software program (see also Note 2 below).	(3,500)
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Expenses	S\$
Annual direct expenses related to excess office space rented out.	30,000
Depreciation	170,000
Legal fees for: <ul style="list-style-type: none"> • Advice and vetting of client service agreements • Vetting of initial office lease agreement Consultancy fees for advice on GST implications of cross-border project management contracts.	8,000 3,000 13,000
Contribution to the Central Provident Fund (CPF). Included therein is CPF contribution of \$13,000, which is in excess of the statutory contribution limits. The contribution was made under the terms of the employment contract with the company's general manager who holds the status of a Singapore permanent resident.	181,000
Staff salaries and bonus	1,800,000
Transport allowance given to staff to cover the mileage expenses incurred on cars owned/leased by employees which are used for business purposes in Singapore.	25,000
Voluntary top-up of Medisave accounts of Singapore citizen and permanent resident employees @ \$2,300 per employee for each of its 15 qualifying employees. The company does not provide any other medical benefits to its employees. The top-up was made on 31 December 2017.	34,500
Rental charges on motor car leased for general manager's use in Singapore.	45,000
Expenses for the general manager and 2 employees who participated in a trade mission to Vietnam @ \$4,500 per person.	13,500
Accommodation expenses incurred by general manager who extended his stay in Vietnam for meetings with potential customers.	2,800

Note 1

The net loss of \$125,000 recorded in its first set of accounts for financial period ended 30 September **2017** comprise the following expenses:

- Incorporation expenses: \$20,000
- Staff recruitment expenses: \$15,000
- Salaries and statutory CPF contributions of management and finance personnel: \$90,000

The following capital expenditure (capitalized to the Balance Sheet) was incurred in the same period ended 30 September **2017**:

Item	\$
Computers and laptops	90,000
Renovations (non-structural) carried out at office premises:	
• Demolition and hacking works;	25,000
• Interior designers' fees;	45,000
• Flooring and tiling works, plumbing and sanitary works, and electrical installation;	125,000
• Partition works (demountable) and air-conditioners; and	85,500
• Modular workstations (each costing \$4,500).	90,000

Note 2

For the year ended 30 September **2018**, the following capital expenditure (capitalized to the Balance Sheet) was incurred:

Item	\$
Accounting software programme; and	15,000
Non-structural modification works to premises for the benefit of disabled employees. Approval under Section 14H (relating to deduction for expenditure on building modifications for benefit of disabled employees) was not sought.	30,000

Note 3

The company's policy is to maximize its capital allowances claim.

**Exemplify
Question
Number**

1

Question 1 required:

(a) Calculate the minimum tax liability of GPS for Year of Assessment 2019. Show all relevant workings in relation to the following:

- Further and special deductions under Sections 14B, 14H, 14Q and/or 14U of the Singapore Income Tax Act, where applicable (see **summary** below); and
- Capital allowances (The business did not commence in the basis period relating to Year of Assessment 2018).

Summary

- *Section 14B relates to further deduction for expenses relating to approved trade fairs, exhibitions or trade missions or to maintenance of overseas trade office.*
- *Section 14H relates to deduction for expenditure on building modifications for benefit of disabled employees.*
- *Section 14Q relates to deduction for renovation or refurbishment expenditure.*
- *Section 14U relates to deduction for expenses incurred before first dollar of income from trade, business, profession or vocation.*

(30 marks)

(Total: 30 marks)

Question 2 – (a) and (b)

Rosnah Sulaiman, 50-year old and Singapore Citizen, is the Chief Financial Officer of Amazing Sunrise Holdings Limited with effect from 1 May 2018 and remains so to-date. She was the Financial Controller at Whole Foods Holdings Limited up till 31 March 2018. For the year ended 31 December 2018, Rosnah derived the following income/benefits from her respective employers:

Whole Foods Holdings Limited

- Monthly salary of \$15,000.
- A non-contractual performance bonus of \$45,000 relating to employment year 2017 which was paid to Rosnah on 15 January 2018.

Rosnah tendered her resignation on 20 March 2018 and the company agreed to let her work till 31 March 2018 without fulfilling the requisite one-month notice period. In return, Rosnah made compensation in lieu of notice to the company amounting to \$9,000 and which was deducted from her March salary.

Amazing Sunrise Holdings Limited (ASHL)

- Monthly salary of \$23,000, commencing from 1 May 2018.
- Air passage and accommodation on the following overseas trips:
 - \$4,000 for a trip to New Zealand to attend the final round of her employment interviews at the parent company of ASHL in February 2018. She need not reimburse the cost of the trip regardless of the outcome of her interview.
 - \$10,000 for a second trip to New Zealand in April 2018 to attend a 4-day training cum senior management meeting at the parent company. Rosnah brought along her 15-year old daughter, Ruzanah, and extended their stay for another 10 days. The breakdown of the costs borne by ASHL is as follows:
 - Flight cost = \$6,000 (\$3,000/person)
 - Accommodation = \$4,000 (the cost of a 4-day stay, whether single or double room, would be \$1,100)

The second trip was made after Rosnah signed the employment contract with ASHL and it was agreed that she will commence work on 1 May 2018 instead of 1 April 2018. The costs of the second trip need not be reimbursed by Rosnah so long as she remains employed with the company for at least 6 months.

- Rosnah negotiated for both her children to be covered under ASHL's staff medical insurance scheme and she has to pay a discounted premium of \$600 per child. The actual premium is \$1,800 per child. The company medical scheme is generally not extended to family members of employees.
- Reimbursement of Rosnah's annual subscription fees payable to Institute of Singapore Chartered Accountants (ISCA) (\$450) and Singapore Institute of Accredited Tax Professionals (SIATP) (\$200). Both ISCA and SIATP are professional membership bodies to facilitate Rosnah's access to professional updates, knowledge and networking.

Other information:

- Rosnah and her employers make CPF contributions within the statutory contribution limits.
- Rosnah is married to Haziq who runs his own real estate agency. For financial year ended 31 July 2018, Haziq has determined that his business will turn in an adjusted tax loss of \$5,000.
- Rosnah and Haziq jointly own a property in Singapore which has always been rented out. For the year ended 31 December 2018, the net rental income from the property was \$16,000.
- Apart from his real estate agency and the joint property, Haziq derives no other income.

- Rosnah's eldest child, Rayyan, is 26-year old and started working from October 2018 after completing his full-time studies at the National University of Singapore. He draws a monthly salary of \$3,000. Rayyan has completed his National Service duties. Ruzanah, her younger child, is a student studying full-time at Singapore Chinese Girls' School.
- Haziq's widowed mother lives with the couple. She does not derive any income. Haziq has employed a foreign domestic worker to look after his mother as well as take care of the needs of the children and household. He paid for the annual foreign maid levy of \$720.
- Haziq was exempted from National Service duties.

**Exemplify
Question
Number**

Question 2 required:

2

- (a)** Compute Rosnah's minimum tax payable for the Year of Assessment 2019, showing the net taxable income from **each employer and each source separately** and maximizing the claim for reliefs available to Rosnah. All relevant reliefs available to Rosnah should be considered and included in your answer.

(21 marks)

3

- (b)** Rosnah's aunt, a resident of Thailand has approached her for a short-term loan of S\$50,000. The loan will be made to the aunt's business in Thailand and interest at 3% per annum will be charged. Explain how the interest income will be treated for Singapore tax purposes, stating clearly, with the basis for your answer, where the interest is sourced.

(4 marks)

(Total: 25 marks)

Question 3 – (a) and (b)

Timbre Pte Ltd (TPL) is in the business of manufacturing and supplying quality solid wood flooring and related products. It has a showroom and a factory in Singapore. There is also a factory in Indonesia held through an Indonesian subsidiary in which TPL has a 70% shareholding. The following TPL transactions were conducted in the quarter ended 31 August 2018 and **unless otherwise stated**, all purchases were made from GST-registered suppliers and all amounts stated are exclusive of GST (*Goods and Services Tax*).

(i) Made sales during the quarter as follows:

- (i-1) Sales of wood cladding and flooring worth \$500,000 which was supplied to a residential project in Singapore.
- (i-2) Sales of wood flooring worth \$100,000 to a Singapore couple. The wood planks were transported from the Singapore factory to the couple's holiday home in Penang.
- (i-3) Clearance sales of wood flooring during the Great Singapore Sale at a discount of 20% off their normal retail price of \$400,000. GST was absorbed by the company on the clearance sale items.
- (i-4) Export sales of \$1,000,000 to Hong Kong and China where the orders were fulfilled from stocks owned by TPL which were kept at the factory in Indonesia.

(ii) Made purchases of timber supplies during the quarter as follows:

- (ii-1) Stocks worth \$300,000 were imported into Singapore.
- (ii-2) The freight and transport of goods imported into Singapore under (ii-1) were levied by the overseas supplier of the goods at a cost of \$15,000.
- (ii-3) Stocks worth \$500,000 were bought from the subsidiary in Indonesia and kept there.

- (iii)** Bought a motor car costing \$150,000 (excluding COE, car registration fees and road tax) for business use only.
- (iv)** Sold existing parquet floor polishing machines and buffers to a non-GST registered company for \$40,000.
- (v)** Stocks, imported in previous quarters, were written off as follows:
 - (v-1)** Stocks costing \$20,000 were written off due to termite infestation.
 - (v-2)** Old stocks worth \$5,000 were installed at the director's residence.
- (vi)** Reimbursement of staff medical consultation expenses of \$1,500 under the company's medical scheme which allows staff to claim their medical consultation expenses up to a limit of \$500/person/year.
- (vii)** Legal fees of \$18,000 paid to a legal firm in Hong Kong in relation to a dispute with a customer in Hong Kong.
- (viii)** Reimbursement of mobile phone charges of \$400 to staff who used his phone for business purposes.

**Exemplify
Question
Number**

4

Question 3 required:

- (a) For each of the above transactions referred to by the roman numeral code, state the type of supply, calculate the amount of output tax chargeable or input tax claimable and state whether the GST amount is an output tax chargeable or input tax claimable. Round your answers to the nearest whole dollar.

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

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

Example answer: (xi) OS, \$0, I

Legend for the example answer:

(xi) – 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)** or **Not Applicable (NA)**.

(21 marks)

**Exemplify
Question
Number**

5

- (b)** With reference to Section 12(7) of the Income Tax Act on income deemed to be derived from Singapore, explain if withholding tax is applicable to the legal fees paid to the Hong Kong legal firm (refer to transaction (vii) mentioned in Question 3 above). The Hong Kong firm was referred to TPL by TPL's Singapore lawyers who had worked with the foreign firm previously. All advice was provided by the Hong Kong firm directly to TPL and communications were made via emails or conference calls. The Hong Kong legal firm does not have any office in Singapore.

(4 marks)

(Total: 25 marks)

Question 4 – (a), (b) and (c)

Chris Leong and Jacintha Koh are partners in Tax Academy General Partnership (TA), which provides international tax courses in Singapore. They have agreed to share the partnership profits and losses equally. The net accounting profit of TA for the year ended 31 October 2018 is \$128,000 after charging/crediting the following items:

Receipts

- Interest income of \$10,000 received on fixed deposit with Sanwa Bank in Country Z. The deposit matured on 30 June 2018 and thereafter the funds comprising the principal and interest were deposited into OCBC Bank, an approved bank in Singapore. Country Z does not impose taxes on any income derived in or received in Country Z from outside Country Z.

Expenses

- Reimbursement of the petrol and parking charges of \$10,000 incurred by Jacintha on her vehicle, SKP 103J which was used for business purposes.
- Reimbursement of overseas travel expenses of \$20,000 incurred by Chris for attending tax conferences overseas.
- Chris and Jacintha were each paid a monthly salary of \$5,000.
- Chris's Tanglin Club subscription of \$12,000. The club membership is enjoyed by Chris and his family only.
- Depreciation of office equipment of \$25,000.
- Tax seminar fees of \$3,000 (or \$1,000/person). The course was attended by Chris and 2 other staff members.

The partnership is entitled to maximum capital allowances of \$40,000.

**Exemplify
Question
Number**

Question 4 required:

6

- (a)** Compute the adjusted profit and divisible profit for TA (a general partnership) for the Year of Assessment 2019.

(6 marks)

7

- (b)** Compute the assessable income for Chris, showing clearly the net taxable income from each source, for Year of Assessment 2019 taking into account the following information:

(i) Chris has been an adjunct lecturer at one of the educational institutions in Singapore since 2010. His teaching fee income, before employee CPF contribution of \$4,800, for the year ended 31 December 2018 is \$24,000.

(ii) Chris derived interest income for the year ended 31 December 2018 from the following:

- Deposit placement with DBS Bank, a Singapore approved bank: \$3,000
- Loan to XYZ Pte Ltd, a company tax resident in Singapore: \$6,000

(iii) Chris has unabsorbed tax loss of \$25,000 from TA for the year ended 31 October 2017.

(7 marks)

**Exemplify
Question
Number**

8

- (c)** With the view of expanding their services overseas through locally incorporated companies in the region, Chris and Jacintha are considering transferring the Singapore partnership business to a Singapore incorporated entity with effect from 1 January 2019. The Singapore entity will be the parent company to the foreign entities and will also continue to carry out the activities conducted previously by the partnership as well as provide technical and management support to the foreign entities.

The tax written down value of the existing furniture and equipment of the business is \$20,000 (to be claimed over the remaining tax life of 1 year) immediately before the transfer, although the market value is estimated to be \$40,000. Based on their projections, the company's assessable income from its first year of operations is expected to exceed \$300,000 and will continue to grow in the years thereafter (a new business associate will be joining the company and bringing in new clients). The existing partnership's business will cease on 31 December 2018 and is expected to turn in an adjusted trade loss (before capital allowances) of \$30,000.

- (i)** State the tax return filing deadlines of a company and partnership. **(2 marks)**

- (ii) Advise whether an election should be made under Section 24 of the Income Tax Act in respect of the transfer of existing office furniture and equipment to the new company in which Chris and Jacintha will have a combined shareholding of 80%.

Please explain clearly the basis of your recommendation.

(5 marks)

(Total: 20 marks)

END OF PAPER

Appendix A - Tax Rates and Allowances - Year of Assessment 2019

Goods and Services Tax

Standard rate	7%
Compulsory Registration threshold	\$1 million

Corporate Income Tax Rate

Year of Assessment 2019	17%
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<u>Partial Tax Exemption</u>	\$
First \$10,000 of chargeable income is 75% exempt	7,500
Next \$290,000 of chargeable income is 50% exempt	<u>145,000</u>
Total	<u>152,500</u>

<u>Start-up Tax Exemption</u>	
First \$100,000 of chargeable income is 100% exempt	100,000
Next \$200,000 of chargeable income is 50% exempt	<u>100,000</u>
Total	<u>200,000</u>

Note:

The corporate tax rebate for the respective years are as follows:

YA 2016 – 50% capped at \$20,000;

YA 2017 – 50% capped at \$25,000;

YA 2018 – 40% capped at \$15,000; and

YA 2019 – 20% capped at \$10,000

Appendix A - Tax Rates and Allowances - Year of Assessment 2019

Personal Income Tax effective from Year of Assessment 2017 (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	

Note: All resident individuals will enjoy a personal income tax rebate of 50%, capped at \$200, for Year of Assessment 2019.

Personal Income Tax for the Year of Assessment 2019 (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 2019

Central Provident Fund (CPF)

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

Rates of CPF contributions (effective from 1 January 2016 onwards)

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

Ad hoc Contribution to Medisave

Cap on deductible ad hoc contribution by employers to employees' Medisave accounts

- Up to 31 December 2017, \$1,500 per employee per year.
- Effective from 1 January 2018, \$2,730 per employee per year.

Appendix A - Tax Rates and Allowances - Year of Assessment 2019

Personal Income Tax Reliefs for the Year of Assessment 2019

With effect from YA 2018, the overall personal income tax relief available to resident individuals, as detailed below, will be 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

Other reliefs

Type of relief	Amount of relief
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	\$9,000
- Not staying with dependant	\$5,500
Handicapped parent relief	
- Staying with dependant	\$14,000
- Not staying with dependant	\$10,000
Working mother's child relief (WMCR)	% of mother's earned income
- First child	15%
- Second child	20%
- Third and subsequent child	25%
- Maximum cumulative WMCR	100%
- Maximum relief per child (including QCR/HCR)	\$50,000
Grandparent caregiver relief	\$3,000
Life insurance relief	\$5,000 (max)

Appendix A - Tax Rates and Allowances - Year of Assessment 2019

Type of relief	Amount of relief
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	
- Up to 31 March 2019	\$6,360 (max)
- Effective from 1 April 2019	\$7,200 (max)
Supplementary Retirement Scheme	
- Singapore citizens and PRs	\$15,300 (max)
- Foreign citizens	\$35,700 (max)

National Service Man (NSman) relief

	Normal Appointment	Key Appointment Holder
Active NSman	\$3,000	\$5,000
Nan-active NSman	\$1,500	\$3,500
Wife/widow/parent of NSman	\$750	\$750

Appendix A - Tax Rates and Allowances - Year of Assessment 2019

Withholding tax rates

Nature of income	% rates payable
Interest and other payments in connection with loan or indebtedness	15%
Royalty or other lump sum payments for the use of, or the right to use, movable properties	10%
Payment for the use of, or the right to use, scientific, technical, industrial, or commercial knowledge or information	10%
Technical assistance and service fees	Prevailing Corporate Tax Rate
Management fees	Prevailing Corporate Tax Rate
Rent or other payments for the use of movable properties	15%
Director's remuneration	22%
Non-resident professional	15% of gross or 22% of net

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 <u>must</u> 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.
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.
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 ".