

# Preparing Taxation Computations (Singapore)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION  
ADVANCED LEVEL

TUESDAY 14 DECEMBER 2004

## QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and **MUST** be answered

Tax rates and allowances are on pages 2–5

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

Certified Accounting Technicians (Singapore) Ltd

Paper T9(SGP)



CATS

The following tax rates should be used when answering the questions

**Selected Reliefs/Rebates from the Year of Assessment 2004**

**Earned Income Allowance**

Age	Normal	Handicapped
Below 55	\$1,000	\$2,000
55–59	\$3,000	\$5,000
60 and above	\$4,000	\$6,000

**Wife allowance** \$2,000

**Handicapped spouse allowance** \$3,500

**Parents/Handicapped parent relief**

	Normal	Handicapped
Parent NOT staying with taxpayer	\$3,500	\$6,500
Parent staying with taxpayer	\$5,000	\$8,000

**Dependant relief** \$3,500

**Foreign maid levy**

The relief is two times the amount of the foreign maid levy paid in 2003. The levy is \$345 per month.

**Nsman relief**

Nsman Relief (Active)	\$3,000
Nsman Relief (Non-active)	\$1,500
Nsman Relief (Wife)	\$750
Nsman Relief (each parent)	\$750

**CPF toppings scheme** \$6,000

**Voluntary CPF contributions made by self-employed persons**

36% of s.10(1)(a) assessable trade income from 1 January 2003 to 30 September 2003.  
 33% of s.10(1)(a) assessable trade income from 1 October 2003 to 31 December 2003.  
 With the change in CPF contribution rate from 36% to 33% on 1 October 2003, the contributions for 2003 will be capped at \$25,380.

**Life Insurance**

Premiums paid on own life and wife's life insurance policies restricted to – (1) 7% of the capital sum insured  
 – (2) no claim if CPF contributions claimed exceeds \$5,000

**Child allowance**

**Qualifying Child Relief (QCR) –**

1st child	\$2,000
2nd child	\$2,000
3rd child	\$2,000
4th child (born on or after 1 January 1988)	\$2,000

**Handicapped child relief (HCR) –**

Handicapped child's annual income shall not exceed \$2,000 \$3,500

**Double child relief (DCR) –**

With effect from the Year of Assessment 2004, the double child relief (DCR) of up to \$3,000 is no longer available.

<b>Enhanced child relief (ECR)</b>	<b>Below 12 years on 1.1.2003</b>	<b>12 years and above on 1.1.2003</b>
1st child	5% of earned income	5% of earned income
2nd child	15% of earned income	10% of earned income
3rd child	20% of earned income	15% of earned income
4th child (born in 1987)	\$1,500 + 25% of earned income	\$1,500 + 15% of earned income
4th child (born on or after 1 January 1988)	25% of earned income	15% of earned income
<i>Maximum per child (total of ECR + QCR/HCR)</i>	\$15,000	\$10,000



### Corporate Tax Rates

Year of Assessment	Tax Rate	Partial tax exemption
2003	22%	Up to the first \$10,000: 5% exemption
2004	22%	Up to the next \$90,000: 50% exemption

**ALL FOUR questions are compulsory and MUST be attempted.**

**1** Mr Zhao Wen, a national from the People’s Republic of China has been recruited by the ACES Sports Club in Singapore as its Senior Swimming Manager.

The following information relates to the year 2003:

1. He arrived in Singapore on 29 January 2003. His appointment commenced on 1 February 2003. He was issued with an employment pass for two years from 1 February 2003.
2. His wife Mrs Zhao-Li Yan together with their children and his mother arrived in Singapore on 18 March 2003. Mr and Mrs Zhao have two children, Zhao Wan born in 1990 and Zaho Wei born in 1994.
3. For the period 1 February 2003 to 31 December 2003 Mr Zhao received the following payments:

	\$
Salary	55,000
Bonus	5,000
Incentive allowance	6,000
Reimbursement of expenses for his trip to Singapore in November 2002 to attend an interview with the Club	1,300

4. The Club provided him with housing in an unfurnished apartment from 1 February 2003.

The 2004 Form IR8A indicated the following benefits-in-kind were provided to him during the eleven month period in 2003:

	\$
Annual rent paid by employer	13,200
Value of utilities	2,228

Mr Zhao together with his family returned to the People’s Republic of China during his leave in December 2003. The Club paid their total air passage (excluding the airfare for his mother) of \$3,900.

5. During the year 2003, Mrs Zhao-Li Yan, an Arts graduate, conducted dance lessons at a dance studio. She had been issued with a permit to work in the Dance Studio.
6. The following details relate to the income and expenditure of Mr and Mrs Zhao for the year ended 31 December 2003:

	Mr Zhao Wen	Mrs Zhao-Li Yan
Year of Birth	1965	1966
	\$	\$
Fees from dance lessons	–	23,000
Interest DBS Bank – joint account	180	180
Life insurance premiums paid	1,880	1,190
on capital sum of respective insurance policies	60,000	30,000
Donations in cash to approved institutions		
– National Kidney Foundation	100	–

7. Mr Zhao also obtained a dependent pass for his elderly mother who is residing at his apartment.

**Required:**

- (a) Explain the circumstances which will result in an individual being treated as a ‘resident’ in Singapore for income tax purposes. (5 marks)
- (b) Prepare the computation of Mr Zhao’s employment income assessable to tax for the Year of Assessment 2004. Show all workings. (9 marks)
- (c) Prepare the tax computations for Mr and Mrs Zhao for the Year of Assessment 2004 on the basis that Mrs Zhao is electing for separate assessment. Show all workings. (18 marks)

**(32 marks)**

- 2 Le Gourmet Restaurants Pte Ltd is a private exempt company incorporated in Singapore since April 1998. The principal activity of the business is the sale of food and beverages and related services.

The trading profit and loss account of the company for the financial year ended 31 March 2003 is provided below:

	Notes	\$
Sales		2,065,600
Less: Cost of sales		949,900
Gross profit		<u>1,115,700</u>
Add: Other income	1	216,000
		<u>1,331,700</u>
Less: Expenses		
General and administrative	2	206,800
Staff	3	982,200
Selling & promotions	4	54,100
Other expenses	5	37,800
		<u>1,280,900</u>
Net profit before tax		<u>50,800</u>
		<u>\$</u>

Notes to accounts:

- (1) Other income comprised:

Rental from sub-letting part of the premises from 1 June 2002

– period 1.6.2002–31.12.2002	33,600
– period 1.1.2003–31.3.2003	14,400
	<u>48,000</u>
Franchise fees	168,000
	<u>216,000</u>

Further rentals were received as follows:

– period 1.4.2003–31.5.2003	9,600
– period 1.6.2003–31.12.2003	32,200
	<u>41,800</u>

- (2) General and administrative expenses of \$206,800 included:

Depreciation of equipment	29,500
Cleaning	66,000
Disposable paperware	30,500
Legal fees re: mortgage of premises	8,800
Repairs & maintenance	16,500
Replacements of crockery/utensils etc	17,600

- (3) Staff expenses of \$982,200 included:

Staff salaries & bonuses	739,400
Staff overtime	50,100
Directors' salaries	60,000
Medical expenses	4,500
Staff advances written off	3,200

- (4) Selling and promotions expenses of \$54,100 included:

Subscriptions to trade associations	1,200
Reimbursement of expenses to a director for the upkeep of a motor car	3,300
Competitive shopping – food tasting	1,500
Licence fee	6,700

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|--|-------|
| (5) Other expenses of \$37,800 included:   | \$    |
| Donations to Children's Charities Association (an approved institution of a public character) made in cash on 26 February 2003 | 1,000 |
| Composition fine for the late filing of the Annual Return  | 300   |
| Realised exchange loss re: purchase of equipment from Italy  | 1,800 |
| Loss on disposal of equipment  | 2,100 |
- (6) Capital allowances for the Year of Assessment 2004 as agreed with the Comptroller of Income Tax are \$31,000
- (7) The management accounts for the financial year ended 31 March 2004 show a net loss of \$61,000.

**Required:**

- (a) **Compute Le Gourmet Restaurant Pte Ltd's chargeable income for the Year of Assessment 2004. Start your computation with the net profit before tax, and include a list of all of the items referred to in Notes 1 to 5, indicating with a '0' those items for which no adjustment is necessary. Show all workings.** (23 marks)
- (b) **State the company's legal obligations with regards to the furnishing of the estimated chargeable income for the Year of Assessment 2005 and the consequences of failing to fulfil its obligations.** (4 marks)
- (c) **State the date by which the company must file its income tax return (Form C) and audited accounts for the year ended 31 March 2004.** (1 mark)
- (28 marks)**



- 3 (a) TMA Pte Ltd is a private exempt company incorporated in Singapore since June 1999. The financial year-end of the company is 31 December.

During the year ended 31 December 2003, the company moved its business premises from Kranji to Woodlands and the following assets were acquired:

	Cost \$
Motor Vehicles	
A van	54,000
A motor car (a private registered car with ROV)	150,000
Equipment and furniture	
Office furniture (consisting of tables, desks, chairs & cabinets)	15,000
Split-unit air-conditioner with accessories (4 units)	24,000
Computer system with accessories	12,000
Leasehold Improvement	
Fixed partitions and fixtures	30,000

The written down values of the company's assets at 31 December 2003 as agreed with the Comptroller of Income Tax were:

Section 19A claim	Remaining years	\$
	2	8,000
	1	2,000

**Required:**

**Compute the maximum capital allowances claimable by TMA Pte Ltd for the Year of Assessment 2004, together with the written down values at 31 December 2004. Show all workings.** (13 marks)

- (b) **List the types of expenditure that will constitute qualifying costs for the purposes of an industrial building allowances (IBA) claim.** (6 marks)

**(19 marks)**

4 George has been the sole-proprietor of the business Elite Publicity Service since 1998. The business activity is that of providing publicity and advertising services. The financial year-end of Elite Publicity Service is 31 December. During the year 2003, George invited Harry to join him as a partner and Harry was admitted as a partner on 1 May 2003.

When he was the sole-proprietor of the business George did not draw a salary.

George and Harry agreed to draw a monthly salary of \$3,000 each with effect from 1 May 2003. The partners confirmed that there was to be no deduction of CPF contributions.

The basis of profit sharing with effect from 1 May 2003 was agreed between the partners as follows:

- George 60%
- Harry 40%

The profit and loss account of Elite Publicity Service prepared for the year ended 31 December 2003 was as follows:

	\$	\$
Sales		800,000
Less: Operating expenses –		
Staff salaries	180,000	
Partners’ salaries	48,000	
Depreciation	28,000	
Donations	2,000	
Other tax deductible expenses	422,000	
		680,000
Net profit		120,000

The details of the donations made by the business were extracted as follows:

Date	Institution	Amount \$	Nature of donation
18 May 2003	National Kidney Foundation	1,000	Cash
22 July 2003	Singapore Cancer Society	1,000	Cash
		2,000	

Both the above are approved institutions of a public character.

The capital allowances for the Year of Assessment 2004 as agreed with the Comptroller of Income Tax are as follows:

Period 1.01.2003 to 30.04.2003	\$16,000
Period 1.05.2003 to 31.12.2003	\$18,000

**Required:**

- (a) **Compute the adjusted profits of the business Elite Publicity Service for the Year of Assessment 2004. Assume that the income and expenditure accrued evenly throughout the year ended 31 December 2003.** (6 marks)
- (b) **Compute the total statutory income and share of allowable capital allowances and donations allocated to each individual partner for the Year of Assessment 2004. Assume that George and Harry do not have any other sources of income.** (9 marks)
- (c) **The partners wish to register the partnership business as a taxable person for goods and services tax (GST). Assuming that they do not expect the business turnover to exceed \$1,000,000 for the following year, state, giving reasons, whether registration is possible and if so, the procedure for and consequences of becoming registered.** (6 marks)

**(21 marks)**

**End of Question Paper**