

Preparing Taxation Computations (Singapore)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION
ADVANCED LEVEL

TUESDAY 15 JUNE 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 foreign maid levy paid in 2002. 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 up to a maximum of \$25,920 for contributions made in 2002.

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 before 1 August 1973)	\$300
(born on or after 1 January 1988)	\$2,000
5th child (born before 1 August 1973)	\$300

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

Enhanced child relief (ECR)	Below 12 years on 1.1.2003	12 years and above on 1.1.2003
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/DCR/HCR)</i>	\$15,000	\$10,000

Personal Tax Rates – Part A

	Chargeable Income	Tax Rate	Tax
	\$	%	\$*
On the first	20,000	0	0
On the next	<u>10,000</u>	4	<u>400</u>
On the first	30,000		400
On the next	<u>10,000</u>	6	<u>600</u>
On the first	40,000		1,000
On the next	<u>40,000</u>	9	<u>3,600</u>
On the first	80,000		4,600
On the next	<u>80,000</u>	15	<u>12,000</u>
On the first	160,000		16,600
On the next	<u>160,000</u>	19	<u>30,400</u>
On the first	320,000		47,000
Above	320,000	22	

*Resident individual taxpayers are entitled to the following tax rebates:

Year of Assessment	2002	2003	2004
	\$	\$	\$
(1) GST related tax rebate	250	NIL	NIL
(2) One-off rebate on tax payable	10%	NIL	NIL

Special tax rebates

3rd child born on or after 1 January 1987	\$20,000
4th child born on or after 1 January 1988	\$20,000
2nd child born on or after 1 January 1990	
Mother's age at delivery – Below 28 years old	\$20,000
Below 29 years old	\$15,000
Below 30 years old	\$10,000
Below 31 years old	\$5,000

A further rebate of 15% of the wife's earned income in the year of birth of the 3rd or 4th child is available against the wife's income tax under separate assessment. For the 3rd or 4th child born on or after 1 April 2001, the further tax rebate is subject to a maximum of:

- \$20,000 in respect of the 3rd child
- \$40,000 in respect of the 4th child

Corporate Tax Rates

Year of Assessment	Tax Rate	Partial tax exemption
1997–2000	26%	–
2001	25·5%	–
2002	24·5%	With effect from the Year of Assessment 2002 – Up to the first \$10,000: 75% exemption Up to the next \$90,000: 50% exemption
2003	22%	
2004	22%	

Corporate Tax Rebate

Year of Assessment	Tax Rebate
2001	50% on the first \$25,500 5% on the balance in excess of \$25,500
2002	5% of the tax payable
2003	–
2004	–

ALL FOUR questions are compulsory and MUST be attempted

- 1 (1) Mr Benny Tan is a remisier working with a securities company in Singapore. During the year ended 31 December 2003 his trading results adjusted for taxation purposes were profits of \$54,000.
- (2) His wife Mrs Doreen Tan is employed as an administrative supervisor with a Singapore company. In addition, she earned commissions from the sales of health products. Her highest educational qualification achieved was GCE "A" Level.
- (3) The following details relate to the income and expenditure of Mr and Mrs Tan for the year ended 31 December 2003.

Year of Birth	Mr Benny Tan	Mrs Doreen Tan
	1940	1946
	\$	\$
Salary and bonus	–	26,000
Freelance commissions	–	5,000
Interest – United Overseas Bank (joint account)	600	600
POSB (account balance maintained was below \$100,000)	–	200
Dividends – per CDP statement (gross)	3,500	1,600
(tax deducted)	(770)	(352)
Statutory CPF contributions	4,300	3,250
Levy paid for the hire of a Filipino maid	4,140	–
Donations in cash to approved institutions – Community Chest of Singapore	100	–

- (4) Mr and Mrs Tan have two children.
Harry born in 1975 is working as a marketing executive with a Singapore company. He qualifies for Nsman relief for the Year of Assessment 2004.
Irene born in 1983 was studying at Monash University in Australia during the year 2003.
- (5) Mr Tan also maintains his elderly mother who is residing at a home for the aged. He incurred more than \$2,000 per month for her maintenance.

Required:

- (a) **Prepare the tax computations for Mr and Mrs Tan for the Year of Assessment 2004 on the basis that Mrs Tan is electing for separate assessment. Show all workings.** (21 marks)
- (b) **State the meaning of 'earned income' for individuals as defined under the provisions of the Singapore tax legislation.** (5 marks)
- (c) **State the conditions to be satisfied before a donation is allowed as an income tax deduction by an individual.** (5 marks)

(31 marks)

- 2 LNL Advertising & Publicity Services Pte Ltd is a private exempt company incorporated in Singapore since July 1988. The principal activity of the business is the rendering of advertising and publicity services.

The trading profit and loss account of the company for the financial year ended 30 June 2003 is provided below:

	Notes	\$
Sales		7,533,000
Less: Cost of sales		7,081,000
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Gross Profit		452,000
Add: Other income	1	1,300
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		453,300
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Less: Expenses		
General and administrative	2	112,700
Staff	3	134,300
Selling and promotions	4	43,200
Other expenses	5	30,100
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		320,300
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Net profit before tax		133,000
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Notes to accounts:		\$
(1) Other income:		
Interest –		
Fixed deposit interest received on maturity on 15.02.2003		1,100
Fixed deposit interest accrued to 30.06.2003		200
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		1,300
		<hr/>
(2) General and administrative expenses of \$112,700 included:		
Depreciation of equipment		5,200
Lease rental of equipment		3,600
Property tax – office premises		500
Bank charges		5,300
Legal fee – claim of trade debts		4,800
URA processing fee for the change of use of the premises as office		1,200
(3) Staff expenses of \$134,300 included:		
Staff salaries and bonus		94,500
Directors' salaries		32,000
Medical expenses		1,900
(4) Selling and promotion expenses of \$43,200 included:		
Club membership – entrance fee for golf club in Batam		6,000
Club membership subscriptions		1,500
Upkeep of motor vehicles – van		3,400
(5) Other expenses of \$30,100 included:		
Bad debts write-off – EGO Pte Ltd (trade debtor)		9,800
Bad debt provision (general provision of 3% of outstanding debtors)		8,200
Donation to the National Kidney Foundation (an approved institution of a public character) made in cash on 28.01.2003		1,000
Penalty for the late filing of GST Return		400
Realised exchange gain re: settlement of trade debts		(1,900)
Gain on disposal of fixed assets		(2,200)

- (6) Capital allowances –
Capital allowances for the Year of Assessment 2003 as agreed with the Comptroller of Income Tax are \$5,500.

Required:

- (a) **Compute LNL Advertising & Publicity Services Pte Ltd's chargeable income and tax liability for the Year of Assessment 2004.**

Start your computation with the net profit before tax, and include a list of all items referred to in Notes 1 to 5, indicating with a '0' those items for which no adjustment is necessary. Show all relevant workings.

(21 marks)

- (b) **State the conditions for the utilisation of carried forward capital allowances by a company and the order in which such allowances will be utilised.**

(6 marks)

(27 marks)

- 3 (a) Mayo Restaurants Pte Ltd is a private exempt company incorporated in Singapore since March 1998. The financial year end of the company is 31 December.

During the year ended 31 December 2003, the company renovated its business premises and the following assets were acquired:

	Cost \$
Motor Vehicles	
1 van	36,000
Equipment and appliances	
Kitchen equipment	35,000
Split-unit air-conditioner (with accessories) – 2 units	10,000
POS computer system with accessories	8,000
Leasehold improvement	
Fixed partitions	16,000

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

Section 19A claim	Remaining years	\$
	2	12,000
	1	3,000

Required:

Compute the maximum capital allowances claimable by Mayo Restaurants Pte Ltd for the Year of Assessment 2004 together with the written down value at 31 December 2004. Show all relevant workings. (13 marks)

- (b) ABC Pte Ltd has been carrying on the business of making shoes and footwear since 1980. The business was originally carried on in rented premises but in 2001, the company purchased a piece of land on which it built a factory. The factory was completed and used in 2002. The company's financial year end is 31 December.

The following expenditure was incurred:

		\$
Jan 2001	cost of land	200,000
Jan 2001	legal fees re: purchase of land	9,000
Jun 2001	piling and foundation works	100,000
Aug 2001 to Dec 2001	progress payments for construction of building	700,000
Jan 2002 to Oct 2002	progress payments for the construction of building	800,000
Oct 2002	architect's fee	100,000

Required:

Compute the industrial building allowances claimable by ABC Pte Ltd for each of the Years of Assessment 2002 and 2003. (5 marks)

- (c) **For the purposes of goods and services tax (GST), state what supplies do and do not constitute taxable supplies. (4 marks)**

(22 marks)

- 4 Mr Peter Chen, a retiree and his wife Sandy have jointly owned two properties A and B for several years. In June 2001 Mr Chen acquired property C. This property is owned solely by him.

The following details relate to the income and expenses in respect of the three properties for the year ended 31 December 2003.

	Property A	Property B	Property C
Income:			
Rental received	1.01.2003 to 31.12.2003 \$7,000 per month	1.01.2003 to 31.12.2003 \$6,000 per month	1.01.2003 to 31.01.2003 \$3,800 per month 1.08.2003 to 31.12.2003 \$3,000 per month 1.02.2003 to 31.07.2003
Property C was vacant for the period	–	–	
Expenses			
	\$	\$	\$
Annual property tax	4,800	4,800	3,000
Repainting	–	–	2,800
Annual maintenance contributions	7,200	7,200	3,600
Annual fire insurance	500	500	400
Repairs and replacements	3,800	2,900	2,600
Annual bank interest	–	–	18,000
Property management fee	–	–	3,000

Required:

Compute Mr Peter Chen's net rental income assessable to tax for the Year of Assessment 2004 on the assumption that the Comptroller of Income Tax will allow the grouping basis to apply.

(20 marks)

End of Question Paper