

# Preparing Taxation Computations (Singapore)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 DECEMBER 2005

## QUESTION PAPER

Time allowed **3 hours**

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

Tax rates and allowances are on pages 2–4

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 2005**

**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

**Grandparent caregiver relief (GCR)** \$3,000

**Dependant relief** \$3,500

**Foreign maid levy**

The relief is two times the amount of foreign maid levy paid in 2004.

**Nsman relief**

Nsman relief (active)	\$3,000
Nsman relief (non-active)	\$1,500
Nsman relief (wife)	\$750
Nsman relief (each parent)	\$750

**Provident fund**

Compulsory contributions to CPF/approved pension or provident fund by Singaporeans and Singapore permanent resident employees, subject to not more than the statutory contributions under the CPF Act.

**CPF toppings scheme** \$7,000

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

33% of s.10(1)(a) assessable trade income up to a maximum of \$21,780 for contributions made in 2004.

**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) –** \$3,500

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

With effect from the Year of Assessment 2005, a working mother who is married, divorced or widowed may claim

**Working mother's child relief (WMCR) –**

1st child 5% of mother's earned income

2nd child 15% of mother's earned income

3rd child 20% of mother's earned income

4th child born on or after 1987 (other than a  
child adopted before 1 January 2004) 25% of mother's earned income

*Maximum per child (Total of WMCR+QCR/HCR)* \$25,000

### 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	

With effect from the Year of Assessment 2005, the special tax rebate (STR) is replaced by parenthood tax rebate (PTR).

#### Parenthood tax rebate (PTR)

2nd child	\$10,000
3rd child	\$20,000
4th child	\$20,000

The 2nd and 4th child must be Singapore Citizen babies born or legally adopted on or after 1 January 2004.

Any unutilised STR balances will continue to be available for deduction against the tax payable for the Year of Assessment 2005 or any subsequent year of assessment until the rebate is fully utilised.

### Corporate Tax Rates

Year of Assessment	Tax rate
2004	22%
2005	20%

#### Partial tax exemption

Up to the first \$10,000:	75% exemption
Up to the next \$90,000:	50% exemption

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

1. Donald Loo, a Singapore Citizen is the Managing Director of a Singapore company.
2. His wife, Mrs Daisy Loo is also a Singapore Citizen and an active partner in a partnership business. During the year ended 31 December 2004, her share of profits derived from the partnership as agreed with the Comptroller of Income Tax was as follows:  
 Share of adjusted trade profits \$58,000  
 Share of interest from non-approved banks \$300
3. The following details relate to the income and expenditure of Mr and Mrs Loo for the year ended 31 December 2004.

Year of Birth	Mr Donald Loo	Mrs Daisy Loo
	1948	1958
	\$	\$
Salary and bonus	86,000	–
Housing provided by employer – unfurnished apartment which is owned by the company. The annual value of the apartment is \$24,000.		
Net rental income from properties adjusted for taxation purposes:		
– Jointly owned properties	32,000	32,000
Singapore dividends – per CDP statement (gross)	7,800	8,400
(tax deducted)	(1,560)	(1,680)
Interest from DBS Bank (approved bank)	800	600
Statutory CPF contributions	10,750	–
Voluntary CPF contributions	–	19,140
Levy paid for the hire of a Filipino maid	4,140	–
Donations to approved institutions		
– National Council of Social Services	–	2,000
– Catholic Welfare Services Singapore	4,000	–

4. Mr and Mrs Loo have three children who are all Singapore Citizens:  
 Kenny Loo born in 1981 is pursuing a course in the Singapore Management University and qualifies for Nsman relief for the Year of Assessment 2005.  
 Lena Loo born in 1983 is working as a marketing executive with a Singapore Company.  
 Mark Loo had Down's syndrome when he was born in 1988. He is studying in a vocational institute.

**Required:**

- (a) **Prepare tax computations for Mr and Mrs Loo for the Year of Assessment 2005 on the separate assessment basis. You should show all your workings.** (30 marks)
- (b) **State the conditions to be satisfied for the claim of expenses as a deduction against employment income and give three examples of the type of expense which qualify for deduction for tax purposes.** (4 marks)

**(34 marks)**

- 2 KPI Engineering Pte Ltd is a private exempt company incorporated in Singapore in August 1999. The principal activity of the company is that of manufacturing and trading in machinery and machine tools.

The trading, profit and loss account of the company for the financial year ended 31 December 2004 is provided below:

	Notes	\$
Sales		10,452,000
Less: Cost of goods sold	1	8,350,000
Gross profit		<u>2,102,000</u>
Add: Other income	2	315,000
		<u>2,417,000</u>
Less:		
General and administrative expenses	3	473,000
Staff expenses	4	454,000
Distribution & selling expenses	5	810,000
Finance and other expenses	6	69,000
		<u>1,806,000</u>
Net profit before tax		<u><u>611,000</u></u>

Notes to accounts:

	\$
1. Cost of goods sold of \$8,350,000 included:	
Repairs & maintenance of machinery	77,400
Depreciation of machinery	688,000
Rental of factory premises	189,800
HP interest – machinery	38,000
	\$
2. Other income comprised:	
Rental from subletting office premises	24,000
Gain on disposal of fixed assets	291,000
	<u>315,000</u>
	\$
3. General and administrative expenses of \$473,000 included:	
Depreciation of office equipment	106,000
Rental of office premises	66,000
Legal fee re: claim of trade debts	2,300
	\$
4. Staff expenses of \$454,000 included:	
Staff salaries and bonuses – administration office	304,000
CPF and related costs – administration office	43,000
Staff loans written off	3,300
	\$
5. Distribution and selling expenses of \$810,000 included	
Commissions	526,000
Rental of distribution office in Malaysia	27,000
Upkeep of motor cars – Singapore	5,200
Upkeep of motor cars – Malaysia	2,800
Bad debts written off (trade debts)	126,000

- \$
6. Finance and other expenses of \$69,000 included:
- |  |        |
|--|--------|
| Realised exchange loss re: purchase of machinery                                       | 15,000 |
| Realised exchange loss re: settlement of trade debts                                   | 11,900 |
| Composition fine for late filing of Annual Return                                      | 400    |
| HP interest re: motor car in Singapore   | 2,300  |
| Donation to Community Chest of Singapore (an approved institution of public character) | 3,000  |
7. Capital allowances:  
Capital allowances for the Year of Assessment 2005 as agreed with the Comptroller of Income Tax are \$910,000. Unutilised capital allowances at 31 December 2004 brought forward and agreed with the Comptroller of Income Tax are \$88,000.
8. There has been no substantial change in the shareholders or their shareholdings on the relevant dates.
9. The bad debts written off per note 5 comprised:

	Amount written off per profit & loss account	Goods and services tax (GST)	Outstanding balance
	\$	\$	\$
Sales invoiced during the year 2002	78,000	2,340	80,340
Sales invoiced during the year 2003	48,000	1,920	49,920
	126,000	4,260	130,260
	126,000	4,260	130,260

The outstanding balance of \$130,260 was due from the trade debtor DDT Trading. The company had taken legal proceedings against DDT Trading, but the debt was not recovered because the debtor had moved away from the last known business address and could not be traced. This bad debt was written off on 31 December 2004.

**Required:**

- (a) Compute KPI Engineering Pte Ltd's chargeable income and tax liability for the Year of Assessment 2005.**

You should start your computation with the net profit before tax, and include a list of all of the items referred to in Notes 1 to 6, indicating with a "0" those items for which no adjustment is necessary. Show all workings. (22 marks)

- (b) State whether KPI Engineering Pte Ltd is eligible to claim bad debt relief for goods and services tax (GST) purposes and the conditions to be satisfied for such a claim.** (7 marks)

**(29 marks)**

3 NSB Pte Ltd has been carrying on the business of making moulds and machinery parts since 1992. The business was carried on in its own factory premises built in 1995. NSB's financial year-end is 31 December.

The agreed qualifying cost of the factory building for the purposes of a claim for industrial building allowances is \$2,600,000.

The floor space of the factory building was utilised as follows:

Production	80%
Administration office	20%

During the year 2004, the company had to install a generator and electricity supply transformers in order to upgrade the electricity supply for the production operations. A room annexed to the existing building had to be constructed to house the new generator and electricity supply transformers.

The following expenditure was incurred during the year 2004:

	\$
Cost of construction of the annex room	60,000
Cost of plans & fees in connection with the construction of the annex room	8,000
Cost of the generator and electricity supply transformers	600,000
Installation costs of the generator and electricity supply transformers	12,000

During the year NSB made the following additions to fixed assets:

	Cost \$
Motor Vehicles –	
1 van	27,000
1 motor-car	63,000
Equipment & furniture –	
Air-conditioning system with accessories	33,000
1 automatic cutting machine	42,000
Office furniture	15,000
Leasehold Improvement – renovation of the factory administrative office	
Fixed partitions – office	22,000

The written down values of the company's assets at 31 December 2004 as agreed with the Comptroller of Income Tax were:

Section 19A Claim	Remaining years	\$
	2	8,000
	1	3,000

**Required:**

(a) **Compute the maximum capital allowances claimable by NSB Pte Ltd for the Year of Assessment 2005 together with the written down values at 31 December 2005. You should show all relevant workings.**

(14 marks)

(b) **Compute the industrial building allowances claimable by NSB Pte Ltd for the Year of Assessment 2005.**

(4 marks)

**(18 marks)**



- 4 (a) John and Kelvin have been partners in the business Evergreen Services since 1990. The financial year-end of Evergreen Services is 31 December. The partnership agreement provides that profits will be shared between the partners after the deduction of partners' salaries but with no deduction for CPF contributions on the following basis:
- John 60%
  - Kelvin 40%

Both John and Kelvin were active partners up to 31 July 2004 and each received a monthly salary of \$3,000.

John retired as an active partner on 31 July 2004 and ceased to draw the monthly salary from that date. He remains as a passive partner with effect from 1 August 2004.

The profit and loss account of Evergreen Services prepared for the year ended 31 December 2004 was as follows:

	\$	\$
Sales		780,000
Less: Operating expenses		
Partners' salaries	57,000	
Depreciation	28,000	
Donations	3,000	
Other deductible expenses	542,000	
		630,000
Net profit		150,000

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

Date	Institution	Amount \$	Nature of donation
20 May 2004	Kidney Dialysis Foundation	1,000	Cash
28 October 2004	Singapore Chung Hwa Medical Institution	2,000	Cash

Both the above are approved institutions of a public character.

The amount of capital allowances for the Year of Assessment 2005 agreed with the Comptroller of Income Tax is \$36,000.

**Required:**

- (i) **Compute the adjusted profits of the business Evergreen Services for the Year of Assessment 2005;** (3 marks)
  - (ii) **Compute the total statutory income and share of allowable capital allowances and donations allocated to each individual partner for the Year of Assessment 2005. Assume that John and Kelvin do not have any other sources of income.** (9 marks)
- (b) **State the general rule that determines which expenses are deductible from rental income from property for income tax purposes and give six examples of expenses which are deductible.** (7 marks)
- (19 marks)**

**End of Question Paper**