

# Preparing Taxation Computations (Singapore)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 14 JUNE 2005

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Time allowed **3 hours**

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

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Tax rates and allowances are on pages 2–4

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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)

The ACCA logo consists of the letters 'ACCA' in a stylized, outlined font.The CATS logo features the letters 'CATS' in a bold, sans-serif font, positioned between two horizontal lines.

The following tax rates should be used when answering the questions

**Selected Reliefs/Rebates from the Year of Assessment 2005**

**Earned income allowance**

<b>Age</b>	<b>Normal</b>	<b>Handicapped</b>
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**

	<b>Normal</b>	<b>Handicapped</b>
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** \$6,000

**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, the working mother's child relief (WMCR) will replace the enhanced child relief (ECR) and the further tax rebate (FTR).

**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 and cannot be a child adopted before 1 January 2004)	25% of mother's earned income
<i>Maximum per child (Total of WMCR+QCR/HCR)</i>	\$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 parenthood tax rebate (PTR) replaces the current special tax rebate (STR).

**Parenthood tax rebate**

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

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

Unutilised STR balances and the rebate can be carried forward to the following Year of Assessment based on existing STR rules. The rebate can be used according to existing rules governing the carry forward of unutilised STR balance.

**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**
1. Alex Chua, a Singapore Citizen is the General Manager of a Singapore company. He also sits on the Board of Directors of the company.
  2. His wife Mrs Kathy Chua, also a Singapore Citizen is an insurance agent. During the year ended 31 December 2004 her trading results from commissions earned adjusted for taxation purposes resulted in profits of \$68,000.
  3. The following details relate to the income and expenditure of Mr and Mrs Chua for the year ended 31 December 2004.

Year of Birth	Mr Alex Chua	Mrs Kathy Chua
	1953	1958
	\$	\$
Salary and bonus	100,000	–
Director’s fee for the financial year ended 31 May 2004 – voted for payment at the AGM of the company held on 28 November 2004	36,000	–
Net rental income from properties adjusted for taxation purposes:		
– Jointly owned properties	40,200	40,200
– Property owned by Mrs Chua	–	32,000
Singapore dividends – per CDP statement (gross)	15,500	23,200
(tax deducted)	(3,100)	(4,640)
Interest from POSB	600	800
Statutory CPF contributions	18,700	–
Voluntary CPF contributions	–	21,780
Levy paid for the hire of a Filipino maid	4,140	–
Donations to approved institutions		
– Singapore Chung Hwa Medical Institution	–	1,000
– Community Chest of Singapore	2,000	–

4. Mr and Mrs Chua have three children who are all Singapore Citizens:
  - Harry Chua born in 1982 is working as an associate realtor with a real estate agency company and qualifies for Nsman relief for the Year of Assessment 2005.
  - Irene Chua born in 1985 is pursuing a course in the Singapore Management University.
  - Jay Chua born in 1988 is studying at the Catholic Junior College.

**Required:**

- (a) **Prepare the tax computations for Mr and Mrs Chua for the Year of Assessment 2005 on the separate assessment basis. Show all workings.** (29 marks)
  - (b) **State the conditions to be satisfied for the claim of child relief.** (5 marks)
- (34 marks)**

- 2 F & F Trading Pte Ltd is a private exempt company incorporated in Singapore since September 2001. The principal activity of the business is that of trading in fashion wear and garments.

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

	Notes	\$
Sales		1,008,000
Less: Cost of goods sold	1	(573,000)
Gross profit		435,000
Add: other income	2	20,000
		<hr/> 455,000 <hr/>
Less:		
General and administrative expenses	3	48,000
Staff expenses	4	206,000
Selling and promotion expenses	5	63,000
Finance and other expenses	6	28,000
		<hr/> 345,000 <hr/>
Net profit before tax		<hr/> 110,000 <hr/>

Notes to accounts:

1. Cost of goods sold of \$573,000 included:		
Purchases		326,000
Consignment costs		284,000
Freight and handling charges		8,200
2. Other income comprised:		
Rental from subletting		18,000
Commissions		2,000
		<hr/> 20,000 <hr/>
3. General and administrative expenses of \$48,000 included:		
Depreciation of equipment		9,200
Rental of premises		30,000
Fire and burglary insurance		600
Legal fee re: lease of new outlet		1,300
Storage of equipment		1,800
4. Staff expenses of \$206,000 included:		
Staff salaries and bonuses		108,000
CPF and related costs		35,600
5. Selling and promotion expenses of \$63,000 included:		
Exhibitions and fashion shows		22,000
Commissions		9,800
Entrance fee re: golf club in Johore		5,000
Clubs membership subscriptions		1,800
Singapore Retailers Association subscription		600
Upkeep of motor vehicles – vans		3,100
Reimbursements of upkeep of motor cars to directors		6,300
Donation to Singapore Cancer Society (all approved institution of a public character)		2,000

	\$
6. Finance and other expenses of \$28,000 included:	
Credit card charges	2,300
Composition fine for late submission of GST Return	200
Penalty for late payment of GST	500
Realised exchange loss re: settlement of trade debts	1,800
Loss on disposal of equipment	1,900

Capital Allowances

Capital allowances for the Year of Assessment 2005 as agreed with the Comptroller of Income Tax are \$13,000.

Unutilised losses at 31 December 2004 brought forward and agreed with the Comptroller of Income Tax are \$9,000.

There has been no substantial change in the shareholders or their shareholdings on the relevant dates.

Due to losses incurred by the company since its incorporation in September 2001, the company had not paid any income tax for the Years of Assessment 2002 to 2004. Consequently, the company has no s.44 balance.

**Required:**

- (a) **Compute F&F Trading Pte Ltd's chargeable income and tax liability for the Year of Assessment 2005. 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.**  
(24 marks)
- (b) **State why F&F Trading Pte Ltd will be within the one-tier corporate tax system and explain the effects of being within this system.**  
(3 marks)
- (27 marks)**

- 3 ENA Pte Ltd has been carrying on the business of making furniture since 1996. The business was originally carried on in premises rented from JTC. During the year 2003, the company purchased a piece of land on which it built a factory. The factory was completed and put into use in 2004. The company's financial year-end is 31 December.

The following expenditure was incurred:

		\$
March 2003	cost of land	280,000
March 2003	legal fees and stamp duty re: purchase of land	12,000
July 2003	piling and foundation works	140,000
August to December 2003	progress payments for construction of building	700,000 (1)
January to November 2004	progress payments for construction of building	900,000 (1)
October 2004	architect's fee	60,000 (1)
December 2004	installation of air-conditioning system with chillers and AHU in the building	150,000 (2)

During the year 2004, the company acquired the following fixed assets:

	Cost \$
<b>Motor Vehicles</b>	
One van	34,500 (3)
<b>Machinery &amp; equipment</b>	
One processing machine with accessories (fully automatic)	42,000
<b>Office Equipment</b>	
Office furniture	18,000
Computer system with accessories	12,000
Telephone & fax system (fully automatic)	6,000

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	20,000
	1	5,000

Notes:

- (1) The cost of construction of the building was financed through overdraft facilities from a bank. The bank overdraft interest incurred was as follows:  
 August 2003 to December 2003 \$22,000  
 January 2004 to December 2004 \$43,000
- (2) The cost of the air-conditioning system was financed through a term loan from a bank. The term loan repayments of \$3,400 per month commenced in December 2004. Term interest of \$800 was incurred for the financial year ended 31 December 2004.
- (3) The van was purchased under a hire-purchase agreement with terms as follows:
- |  |         |
|--|---------|
| Down payment in 2004                         | \$6,900 |
| Instalment per month (excluding HP interest) | \$1,150 |
- Six instalments were paid during the year from July 2004 to December 2004.

**Required:**

- (a) **Compute the industrial building allowances claimable by ENA Pte Ltd for each of the Years of Assessment 2004 and 2005.** (7 marks)
- (b) **Compute the maximum capital allowances claimable by ENA Pte Ltd for the Year of Assessment 2005. Show all relevant workings.** (13 marks)
- (20 marks)**



- 4 (a) Madam Tina Wang, a widow has owned two shop units A and B in a Shopping Complex in Chinatown for several years.

The following details relate to the income and expenses in respect of the two properties for the year ended 31 December 2004.

	Property A	Property B
<b>Income:</b>		
Rental received	1.01.2004 to 31.12.2004 \$4,000 per month	1.01.2004 to 31.12.2004 \$3,500 per month
<b>Expenses:</b>	<b>\$</b>	<b>\$</b>
Annual property tax	4,800	4,200
Repainting	–	2,800
Annual maintenance contributions	4,900	4,600
Repairs and replacements	3,800	2,900
Annual fire insurance	260	230
Annual bank interest	–	18,000
Loan repayments made	–	24,000

**Required:**

**Compute Madam Tina Wang's net rental income assessable to tax for the Year of Assessment 2005.**

(9 marks)

- (b) **For the purposes of goods and services tax (GST), state what are the obligations of a taxable person.**

(10 marks)

**(19 marks)**

**End of Question Paper**