

Preparing Taxation Computations (Singapore)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 DECEMBER 2006

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 for Year of Assessment 2006

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 dependant 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 2005 up to a maximum of \$7,380.

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
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Voluntary CPF contributions made by self-employed persons

33% of s.10(1)(a) assessable trade income up to a maximum of \$28,050 for contributions made in 2005.

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

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 1 January 1988 (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
Year of Assessment 2006**

	Chargeable income \$	Tax rate %	Tax \$
On the first	20,000	0	0
On the next	<u>10,000</u>	3·75	<u>3·75</u>
On the first	30,000		375
On the next	<u>10,000</u>	5·75	<u>575</u>
On the first	40,000		950
On the next	<u>40,000</u>	8·75	<u>3,500</u>
On the first	80,000		4,450
On the next	<u>80,000</u>	14·50	<u>11,600</u>
On the first	160,000		16,050
On the next	<u>160,000</u>	18·00	<u>28,800</u>
On the first	320,000		44,850
Above	320,000	21·00	

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 to 4th child must be Singapore citizen babies born or legally adopted on or after 1 January 2005.

Special tax rebate (STR)

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 and 2006	20%
Partial tax exemption	
First \$10,000:	75% exemption
Next \$90,000:	50% exemption

ALL FOUR questions are compulsory and MUST be attempted

- 1 (1) Stanley Li, a stockbroker is self-employed and a Singapore citizen.
 During the year ended 31 December 2005, his trading result adjusted for taxation purposes was a loss of \$9,500.
 He is an operationally ready Nsman but was a non-active reservist during the year 2005.
- (2) His wife Mrs Lilian Li, also a Singapore citizen, is employed as an administration manager with a Singapore company.
- (3) The following details relate to the income and expenditure of Mr and Mrs Li for the year ended 31 December 2005.

	Mr Stanley Li	Mrs Lilian Li
Year of Birth	1965	1966
	\$	\$
Salary and bonus	–	70,000
Singapore dividends – per CDP statement (gross)	2,800	–
(tax deducted)	(560)	–
Tax exempt – one-tier	–	200
Interest from DBS Bank (approved bank)	–	300
Statutory CPF contributions	–	14,000
Donations to approved institutions		
– Singapore Children’s Society	–	200
– Community Chest of Singapore	500	–

- (4) Mr and Mrs Li have two children who are both Singapore citizens. Penny born in 1996 and Rachel born in 1998.
- (5) Mr and Mrs Li maintain Mr Li’s elderly mother who resides at their apartment. As Mr Li’s mother has no income and is dependent on Mr and Mrs Li, she takes care of their daughters.

Required:

(a) Prepare the income tax computations for Mr and Mrs Li for the Year of Assessment 2006 on the basis that:

- (i) Mr and Mrs Li are assessed on their own individual income separately; and**
- (ii) Mr and Mrs Li have elected to transfer the qualifying deductions between themselves.**

Show all workings. (23 marks)

(b) (i) State the conditions and the time limits for the transfer of qualifying deductions between spouses. (8 marks)

(ii) Explain whether or not it will be advantageous for Mr and Mrs Li to make an election for the transfer of qualifying deductions for the Year of Assessment 2006. (3 marks)

(34 marks)

2 RAGS Trading Pte Ltd is a private exempt company which has been incorporated in Singapore since April 1993. The principal activity of the company is that of general retail trading and related services.

The trading, profit and loss account of the company for the financial year ended 31 December 2005 is provided below:

	Notes	\$
Sales		2,333,000
Less: Cost of sales		1,516,400
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Gross profit		816,600
Add: Other income	1	21,000
		<hr/>
		837,600
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Less:		
General and administrative expenses	2	105,000
Staff expenses	3	283,000
Selling and promotion expenses	4	171,000
Other expenses	5	25,000
		<hr/>
		584,000
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Net profit before tax		253,600
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Notes to the accounts:

(1) Other income comprised:	\$
Interest	4,000
Dividends	8,700
Commissions	8,300
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	21,000
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Dividends comprised Singapore dividend income from unquoted equity investments as follows:

Date of payment	Taxable dividend	Tax-exempt-one-tier
	\$	\$
20 April 2005 PPN Laboratory Pte Ltd	4,500	4,200
– Tax deducted at 20%	(900)	–
(2) General and administrative expenses of \$105,000 included:		\$
Depreciation of equipment		10,400
Rental of business premises		60,000
Legal fee re: renewal of tenancy agreement for lease of business premises		1,100
Insurance		900
(3) Staff expenses of \$283,000 included:		\$
Directors' salaries		96,000
Staff salaries and bonuses		114,000
CPF and related costs		37,000
Medical expenses		2,000
(4) Selling and promotion expenses of \$171,000 included:		\$
Commissions to third parties		33,000
Singapore Retailers Association subscriptions		500
Hire of motor cars in Malaysia		6,000
Upkeep of motor cars		3,500
(5) Other expenses of \$25,000 included:		\$
HP interest – motor car		3,400
NETS transfer/credit card charges		16,000
Composition fine for late filing of annual return to ACRA		300
Donation to Assisi Home Hospice (an approved institution of public character)		2,000

- (6) Capital allowances:
Capital allowances for the Year of Assessment 2006 as agreed with the Comptroller of Income Tax are \$14,000.

Required:

- (a) **Compute RAGS Trading Pte Ltd's chargeable income and tax liability for the Year of Assessment 2006. 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.**

(21 marks)

- (b) As at 31 January 2006 RAGS Trading Pte Ltd has a s.44 balance of \$60,000 brought forward from prior years.

Required:

State the tax implications arising from this balance, together with any actions the company would be advised to take.

(4 marks)

(25 marks)

- 3 (a) ITCO Pte Ltd is a private exempt company, which was incorporated in Singapore on 10 October 2004. Since incorporation, the company has commenced business providing business management and consultancy services.

The company's financial year-end is 31 December and the first set of accounts was prepared for the period 10 October 2004 to 31 December 2005.

During the financial period 10 October 2004 to 31 December 2005, the company acquired the following assets:

	Cost \$
Motor vehicles:	
One van	27,000
Equipment & furniture:	
Air-conditioners with accessories	14,000
Computer systems with accessories	12,000
Key telephone system (fully automated)	4,200
One facsimile machine and copier (fully automated)	8,000
Office furniture (each item costing more than \$1,000)	7,000
Leasehold improvement	
Fixed partitions & floor tiles	11,000
Demountable partitions	3,000

Note:

The van was purchased under a hire-purchase agreement with terms as follows:

Down payment made in 2005	\$5,400
Instalment per month (excluding HP interest)	\$600

Three instalments were paid during the year 2005.

Required:

Compute the maximum capital allowances claimable by ITCO Pte Ltd for the Year of Assessment 2006 together with the written down values at 31 December 2006. Show all relevant workings.

(14 marks)

- (b) **State the general rules that apply for determining the place of supply of goods and services for the purposes of goods and services tax (GST) and how any tax due on the supply will be collected.**

(8 marks)

(22 marks)

4 (a) Leo and Martin entered into a joint venture to bid for a project to develop an e-commerce application system for a Singapore company. Following their successful bid for the project, they registered the joint venture as a partnership business ACE Consultancy Services with ACRA on 28 March 2005.

Each partner contributed \$40,000 towards the capital of the business. Both partners agreed to draw a monthly salary of \$5,000 with effect from 1 April 2005 with no deduction of CPF contributions.

The basis of profit sharing with effect from 1 April 2005 was agreed among the partners as follows:

- Leo 50%
- Martin 50%

On 1 August 2005, Leo and Martin invited Norman to join the partnership as they required additional capital to work on the project. Norman contributed \$100,000 towards the capital of the business. The partners agreed that Norman, being a passive partner, would not draw any salary, but would be paid interest on capital. Interest of \$5,000 was paid to Norman on 31 December 2005.

The partners agreed that Leo and Martin would each continue to draw a monthly salary of \$5,000 with no deduction of CPF contributions.

The basis of profit sharing with effect from 1 August 2005 was agreed among the partners as follows:

- Leo 30%
- Martin 30%
- Norman 40%

The following information has been extracted from the accounts of the partnership business ACE Consultancy Services for the financial period ended 31 December 2005:

	28 March 2005 to 31 July 2005	1 August 2005 to 31 December 2005
	\$	\$
Project consultancy fees	200,000	300,000
<i>Less: Expenses</i>		
Partners' salaries	40,000	50,000
Staff salaries and related costs	12,000	15,000
Depreciation	15,000	18,000
Partners' interest on capital	0	5,000
Other deductible expenses	50,000	117,000
	<u>117,000</u>	<u>205,000</u>
Net income	<u>83,000</u>	<u>95,000</u>
Capital allowances as agreed with the Comptroller of Income Tax for the Year of Assessment 2006	<u>12,000</u>	<u>45,000</u>

Required:

- (i) **Compute the adjusted profits and the divisible profits of the business ACE Consultancy Services for the Year of Assessment 2006.** (4 marks)
- (ii) **Compute the share of adjusted profits and capital allowances allocated to each partner for the Year of Assessment 2006.** (10 marks)

- (b) The partners have agreed to change the accounting year end of the business ACE Consultancy Services to 30 September and the next set of accounts will be made up for the period 1 January 2006 to 30 September 2006.

Required:

- (i) **State the basis of assessing partnership profits for income tax purposes and the tax compliance obligations of partnerships.** (3 marks)
- (ii) **State whether the change of accounting year end will affect the compliance obligations of ACE Consultancy Services.** (2 marks)

(19 marks)

End of Question Paper