

# Preparing Taxation Computations (Singapore)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 13 JUNE 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 from the Year of Assessment 2006**

**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 dependant 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 2005.

**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 \$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

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>	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	

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 to 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%
Onwards	
<b>Partial tax exemption</b>	
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. Peter Pang, a Singapore citizen is the marketing manager of a Singapore company.
2. His wife Mrs Tina Pang also a Singapore citizen is the sole-proprietor of a management consultancy firm. During the year ended 31 December 2005, the adjusted trade profits from this sole-proprietorship business as agreed with the Comptroller of Income Tax was \$43,000.
- Mrs Pang also sits on the board of directors of a Singapore company and received a director's fee of \$12,000 for the financial year ended 30 November 2004, which was voted for payment at the AGM of the company held on 30 April 2005.
3. In addition to the income mentioned above, Mr and Mrs Pang had the following items of income and expenditure for the year ended 31 December 2005.

Year of Birth	Mr Peter Pang 1951 \$	Mrs Tina Pang 1959 \$
Salary and bonus	65,000	–
Employees' share option granted and exercised by Mr Peter Pang on 30 June 2005. The market price of the shares at the time of the exercise of the option was \$9,000. The share option price paid was \$3,000.		
Net rental income from properties adjusted for taxation purposes:		
– Jointly owned properties	3,400	3,400
Singapore dividends – per CDP statement (gross)	2,200	3,800
– (tax deducted)	(440)	(760)
– Tax exempt – one-tier	0	400
Interest from DBS Bank (approved bank)	100	200
Statutory CPF contributions	13,000	3,000
Voluntary CPF contributions	–	11,190
Levy paid for the hire of a Filipino maid	3,000	–
Donations to approved institutions		
– Singapore Cancer Society	–	1,500
– Community Chest of Singapore	1,000	–

4. Mr and Mrs Pang have two children who are both Singapore citizens:  
Nellie born in 1986 was pursuing a course in the National University of Singapore during the year 2005. Olivia was born in 1990 and is still at school.
5. Mr Pang also maintains his elderly mother who resides at his apartment.

**Required:**

- (a) **Prepare the income tax computations for Mr and Mrs Pang for the Year of Assessment 2006 on the separate assessment basis. Show all workings.** (29 marks)
- (b) **State the conditions to be satisfied for a claim of relief for life insurance premiums paid.** (5 marks)

**(34 marks)**

- 2 PPC Polyclinic Pte Ltd is a private exempt company which has been incorporated in Singapore since June 1996. The principal activity of the company is the provision of medical consulting services and sales of drugs and medical supplies.

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

	Notes	\$
Sales of medicines and medical supplies		3,320,000
Consultation fees		3,563,000
		<hr/>
		6,883,000
Less: Cost of sales		2,867,000
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Gross profit:		4,016,000
Add: Other income	1	30,400
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		4,046,400
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Less:		
General and administrative expenses	2	536,000
Staff expenses	3	2,687,000
Communication expenses	4	38,000
Other expenses	5	75,000
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		3,336,000
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Net profit before tax		710,400
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Notes to the accounts:		
1. Other income comprised:		\$
Rental from subletting business premises		30,000
Insurance claims		400
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		30,400
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2. General and administrative expenses of \$536,000 included:		\$
Depreciation of equipment		103,000
Rental of business premises		284,000
Legal fee re: tenancy agreement for lease of premises for a new branch		1,200
Insurance		6,500
		<hr/>
3. Staff expenses of \$2,687,000 included:		\$
Directors' remuneration		830,000
Staff salaries and bonuses		658,000
CPF and related costs		69,000
Medical expenses		18,000
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4. Communication expenses of \$38,000 included		\$
Professional subscriptions		6,600
Technical information systems		1,300
Upkeep of motor cars		3,200
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5. Other expenses of \$75,000 included		\$
Application for medical licence for new branch		700
Nets transfer/credit card charges		56,000
Bad debts written off (trade debts)		8,200
Donation to The Yellow Ribbon Fund (an approved institution of public character)		3,000

6. Capital allowances:  
Capital allowances for the Year of Assessment 2006 as agreed with the Comptroller of Income Tax are \$95,000.  
Unutilised capital allowances at 31 December 2005 brought forward and agreed with the Comptroller of Income Tax are \$15,000.  
There has been no substantial change in the shareholders or their shareholdings on the relevant dates.
7. The company furnished an estimate of income for the Year of Assessment 2006 of \$600,000 to the Comptroller of Income Tax on 31 January 2006.  
On 15 February 2006, the Comptroller of Income Tax issued the company with a notice of assessment based on the estimated income furnished. The estimated tax liability of \$120,000 had been paid by the company at 30 April 2006.
8. As at 1 January 2006 the company had a s.44 balance of \$500 brought forward from prior years.  
The company has proposed a payment of an interim dividend of \$100,000.

**Required:**

- (a) Compute PPC Polyclinic 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 'O' those items for which no adjustment is necessary. Show all workings.

(18 marks)

- (b) Compute the maximum gross dividends that can be franked by the company using the s.44 balance available.**

Show how the company will pay the proposed dividend of \$100,000 clearly indicating the amount applicable to the taxable dividend and the amount applicable to the tax exempt – one-tier dividend.

(5 marks)

**(23 marks)**

3 (a) Speedy Pte Ltd is a private exempt company, which has been incorporated in Singapore since March 2001.

The company carries on the business of transportation and delivery services and its financial year-end is 31 December.

During the year 2005 the company moved to new premises and the following assets were acquired:

	Cost \$
<b>Motor Vehicles</b>	
1 mini-bus (see note)	54,000
1 van	24,000
<b>Equipment &amp; furniture</b>	
Air-conditioners with accessories	12,000
Computer system with accessories	13,000
Office furniture	9,000

Note

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

Down payment made in 2005	\$10,800
Instalment per month (excluding HP interest)	\$1,200

Two instalments were paid during the year 2005.

The written down values of the company's assets at 31 December 2005 as agreed with the Comptroller of Income Tax were:

Section 19A claim	Remaining years	\$
	2	5,000
	1	1,000

During the year 2005 the company disposed of a van originally purchased in 2001 details of which are as follows:

	\$
Cost	27,000
Written down value b/f – s.19 claim	7,200
Sales proceeds	6,000

**Required:**

**Compute the maximum capital allowances claimable by Speedy Pte Ltd for the Year of Assessment 2006 together with the written down values at 31 December 2006.**

Show all relevant workings. (17 marks)

(b) Three foreign employees of Speedy Pte Ltd have resigned and will be returning to their home country in July 2006.

**Required:**

**State the tax compliance obligations of Speedy Pte Ltd with respect to the non-Singapore citizen employees, who have tendered their resignations and intend to leave Singapore.** (4 marks)

**(21 marks)**



4 (a) Mr S Y Ang and his brother T Y Ang have jointly owned two properties A and B for several years.

Mr S Y Ang resides at property C, which is solely owned by him, whilst his brother T Y Ang resides at property B.

The following information relates to the income and expenses in respect of the three properties for the year ended 31 December 2005:

	Property A	Property B	Property C
Income:			
Rental received	1 January 2005 to 31 December 2005 \$1,500 per month		
Gross annual value (as assessed by the Comptroller of Property Tax)		\$12,600	\$13,200
	\$	\$	\$
Expenses:			
Annual property tax	1,800	400	500
Annual maintenance contributions	7,200	2,400	3,000
Annual fire insurance premium	120	100	100
Annual bank interest	9,500	–	–

**Required:**

- (i) **Compute the net rental income or the net annual value arising from each of the above properties (A, B and C)** (7 marks)
  - (ii) **State, giving reasons, the amount assessable to tax on Mr S Y Ang in respect of the three properties for the Year of Assessment 2006.** (6 marks)
- (b) **State the general rules that apply for determining the time of supply of goods or services for the purposes of goods and services tax (GST).** (9 marks)

**(22 marks)**

**End of Question Paper**