

Certified Accounting Technician Examination
Advanced Level

Preparing Taxation Computations (Singapore)

Tuesday 11 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FOUR questions are compulsory and MUST be attempted.

Tax rates and allowances are on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet 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)

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest \$.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates should be used when answering the questions

Selected reliefs/rebates for Year of Assessment 2007

Earned income allowance

| Age | Normal | Handicapped |
|--------------|---------|-------------|
| Below 55 | \$1,000 | \$2,000 |
| 55 to 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 2006 up to a maximum of \$7,080.

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 \$25,245 for contributions made in 2006.

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

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 1987 (other than 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 |

Parenthood tax rebate (PTR)

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

The 2nd to 4th children must be Singapore citizen babies born or legally adopted on or after 1 January 2006.

Personal income tax rates – Part A

| | Chargeable income | Tax rate | Tax |
|--------------|-------------------|----------|---------------|
| | \$ | % | \$ |
| On the first | 20,000 | 0 | 0 |
| On the next | <u>10,000</u> | 3·50 | <u>350</u> |
| On the first | 30,000 | | 350 |
| On the next | <u>10,000</u> | 5·50 | <u>550</u> |
| On the first | 40,000 | | 900 |
| On the next | <u>40,000</u> | 8·50 | <u>3,400</u> |
| On the first | 80,000 | | 4,300 |
| On the next | <u>80,000</u> | 14·00 | <u>11,200</u> |
| On the first | 160,000 | | 15,500 |
| On the next | <u>160,000</u> | 17·00 | <u>27,200</u> |
| On the first | 320,000 | | 42,700 |
| Above | 320,000 | 20·00 | |

Corporate tax rates

Year of Assessment

2005 to 2007

Tax rate

20%

Partial tax exemption up to Year of Assessment 2007

Up to the first \$10,000

75% exemption

On the next \$90,000

50% exemption

ALL FOUR questions are compulsory and MUST be attempted

1 Danny Teo, a Singapore citizen, is the financial manager of a Singapore company. He also sits on the Board of Directors of the company.

Danny's wife, Mrs Sally Teo, also a Singapore citizen, is the sole-proprietor of a management consultancy firm. During the year ended 31 December 2006, the adjusted trade profits from this sole-proprietorship business, as agreed with the Comptroller of Income Tax were \$110,000. In addition to receiving the above trade income, Mrs Teo was a part-time lecturer at the Singapore Polytechnic. The lecture fees received by her from Singapore Polytechnic for the year ended 31 December 2006 were \$25,000.

The following details relate to the income and expenditure of Mr and Mrs Teo (other than as given above) for the year ended 31 December 2006:

| Year of birth | Mr Danny Teo | Mrs Sally Teo |
|---|--------------|---------------|
| | 1949 | 1950 |
| | \$ | \$ |
| Salary and bonus | 120,000 | – |
| Director's fee for the financial year ended 30 September 2005 | | |
| – voted for payment at the AGM of the company held on 28 March 2006 | 20,000 | – |
| Net rental income from properties adjusted for taxation purposes: | | |
| – jointly owned properties | 12,200 | 12,200 |
| – apartment owned by Mrs Teo | – | 10,600 |
| Singapore dividends – per CDP statement (gross) | – | 1,600 |
| – tax deducted | – | (320) |
| – tax exempt – one-tier | 500 | 1,800 |
| Interest from UOB Bank (approved bank) | 800 | 1,080 |
| Statutory CPF contributions | 8,250 | 4,320 |
| Voluntary CPF contributions | – | 24,000 |
| Levy paid for the hire of a Filipino maid | 3,540 | – |
| Donations to approved institutions of a public character | | |
| – Moral Society for the Disabled | – | 2,000 |
| – Community Chest of Singapore | 500 | – |

Mr and Mrs Teo have three children, who are all Singapore citizens, as follows:

- William, born in 1982, is working as a legal assistant with a legal firm and qualifies for NSman relief.
- Vera, born in 1986, was pursuing a course in the Singapore Management University during the year 2006.
- Zoe, born in 1990, is still at school.

Mr Teo maintains his elderly mother who resides at their apartment.

Required:

(a) Prepare the income tax computations for Mr and Mrs Teo respectively for the Year of Assessment 2007. (28 marks)

(b) State the conditions that must be satisfied for the claim of grandparent caregiver relief. (7 marks)

(35 marks)

- 2 TRI Pte Ltd is an exempt private company, which has been incorporated in Singapore since July 2003. The principal activity of the company is that of exhibition and fair organisers.

The trading, profit and loss account of the company for the financial year ended 31 December 2006 is as below:

| | Notes | \$ |
|-------------------------------------|-------|-----------------------|
| Income | | |
| Exhibition services | | 850,000 |
| Consignment sales | | 35,000 |
| | | <u>885,000</u> |
| Less: Cost of sales | | |
| Exhibition project costs | | 506,500 |
| Consignment costs | | 28,000 |
| | | <u>534,500</u> |
| Gross profit | | 350,500 |
| Add: Other income | 1 | 2,700 |
| | | <u>353,200</u> |
| Less: | | |
| General and administrative expenses | 2 | 54,000 |
| Staff expenses | 3 | 106,000 |
| Selling and promotion expenses | 4 | 48,000 |
| Other expenses | 5 | 23,000 |
| | | <u>231,000</u> |
| Net profit before tax | | <u><u>122,200</u></u> |

Notes:

| | |
|--|--------|
| 1. Other income comprises: | \$ |
| Insurance claims | 1,900 |
| Interest | 800 |
| 2. General and administrative expenses include: | \$ |
| Office rental | 24,000 |
| Insurance | 2,200 |
| Depreciation | 3,300 |
| Legal fee re: trademark application | 4,500 |
| Legal fee re: defending trade creditors claims | 1,200 |
| 3. Staff expenses include: | \$ |
| Directors' salaries | 48,000 |
| Staff salaries | 16,000 |
| CPF and related costs | 8,400 |
| Directors' fee | 15,000 |
| Medical fees | 500 |
| 4. Selling and promotion expenses include: | \$ |
| Publicity and promotions | 4,900 |
| Club membership – entrance fee for golf club in Malaysia | 8,000 |
| Club membership subscriptions | 2,400 |
| Annual trademark licensing fee | 5,000 |
| Rental of motor cars – outside Singapore | 4,200 |
| Reimbursements of taxi fares | 2,500 |
| Reimbursements of motor car expenses to directors | 6,600 |

- | | |
|--|-------|
| 5. Other expenses include: | \$ |
| Bad debts written off (arising from the sale of services) | 2,800 |
| Realised exchange loss on the settlement of trade debts | 1,300 |
| Penalty for late payment of income tax | 500 |
| Cash donation to Assissi Hospice (an approved institution of a public character) | 2,000 |
6. Capital allowances:
Capital allowances for the Year of Assessment 2007 have been computed at \$6,000.

Required:

- (a) **Compute TRI Pte Ltd's chargeable income and tax liability for the Year of Assessment 2007. 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.** (20 marks)
- (b) TRI Pte Ltd received a notice of additional assessment for the Year of Assessment 2006 with additional tax payable of \$8,000. The notice of additional assessment was issued on 3 December 2007.

Required:

- (i) **State the due date of payment for the additional tax assessed.** (1 mark)
- (ii) **Assuming the company wishes to object to the notice of additional assessment, state in what manner and by when the objection should be lodged.** (3 marks)

(24 marks)

- 3 (a) BBS Pte Ltd is an exempt private company, which has been incorporated in Singapore since August 2000. The company's financial year-end is 31 December.

During the year 2006 the company renovated its business premises and the following assets were acquired:

| | Cost \$ |
|---|------------|
| Leasehold improvement: | |
| Fixed partitions | 40,000 |
| Motor vehicles: | |
| Motor car | 120,000 |
| Van | 24,000 |
| Equipment and furniture: | |
| Spa equipment | 108,000 |
| Air-conditioners with accessories | 12,000 |
| Computer system with accessories | 15,000 |
| Furniture – each item costing less than or equal to \$1,000 | 5,000 |
| Furniture – each item costing more than \$1,000 | 15,000 |

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 | 20,000 |
| | 1 | 15,000 |

Required:

Compute the maximum capital allowances claimable by BBS Pte Ltd for the Year of Assessment 2007, together with the written down values at 31 December 2006. (16 marks)

- (b) **State the conditions for the utilisation of carried forward trade losses by a company.** (4 marks)

(20 marks)

4 (a) Tom and Sandy, who are both Singapore citizens, got married on 8 August 2005.

Tom had been residing at property B, which is solely owned by him, for several years. Sandy had been residing at property C, which was solely owned by her, since 1998 until the date of her marriage to Tom, when she moved to reside with Tom at property B.

Property C was vacant from 8 August 2005 until it was sold on 31 July 2006. Sandy made a gain of \$100,000 from the sale of property C.

Tom and Sandy jointly acquired property A in June 2005 and this property was let out for rent from 1 October 2005.

The following information relates to the income and expenses in respect of the three properties for the year ended 31 December 2006:

| | Property A | Property B | Property C |
|---|----------------------|------------|------------|
| Income: | | | |
| Rental received | \$3,800 per month | | |
| | \$ | \$ | \$ |
| Gross annual value (as assessed by the Comptroller of Property Tax) | | 42,000 | 36,000 |
| Expenses: | | | |
| Annual property tax | 4,200 | 1,680 | 1,440 |
| Annual maintenance contributions | 4,800 | 3,600 | 2,400 |
| Annual fire insurance premium | 120 | 100 | 120 |
| Annual bank interest | 18,000 | – | – |

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 Tom and Sandy in respect of the three properties for the Year of Assessment 2007.** (4 marks)
- (iii) **State, giving reasons, whether the gain on the sale of property C is taxable.** (2 marks)

(b) For the purposes of goods and services tax (GST):

- (i) **State who must register for GST. As part of your answer define the terms 'taxable person' and 'taxable supplies'.** (5 marks)
- (ii) **Explain the circumstances in which application may be made for exemption from registration and the subsequent obligations of a person who has been so exempted.** (3 marks)

(21 marks)

End of Question Paper