Answers

1 (a) Mr and Mrs Koo – Income tax computations for the Year of Assessment 2007

	Mr Benny Koo $	Mrs Lisa Koo $	Marks
Trade			
Year ended 31 December 2006 –			
– Sole-proprietorship adjusted profits	–	58,000	1·0
– NUS – Consultancy fees	–	23,000	1·0
10 May 2006 to 8 June 2006 –			
Project consulting fees	4,800	–	1·0
Employment			
(1) 1 January 2006 to 30 April 2006 –			
Salary	24,000	–	1·0
Retrenchment benefits (1)	0	–	1·0
(2) 1 July 2006 to 31 December 2006 –			
Salary and bonus	26,000	–	1·0
Rental			
– Mrs Koo's apartment	–	17,800	1·0
Dividends			
– Singapore (Tax exempt – one-tier)(2)	0	0	2·0
– Singapore (gross)	–	500	1·0
Interest			
– DBS Bank (3)	0	0	1·0
	54,800	99,300	
Less: Donations (4)	200	5,000	2·0
Assessable income	54,600	94,300	
Less: Personal reliefs			
Earned income	3,000	1,000	2·0
Child – Sarah (QCR) (5)	0	2,000	1·5
Sarah (WMCR 5% of earned income)	0	4,050	1·5
Trina (QCR) (5)	0	2,000	1·5
Trina (WMCR 15% of earned income)	0	12,150	1·5
Parent	3,500	5,000	2·0
CPF	5,500	16,000	2·0
Foreign maid levy	0	7,080	1·0
	12,000	49,280	
Chargeable income	42,600	45,020	
Tax on 1st $40,000	900·00	900·00	1·0
Tax on next $2,600 at 8·50%	221·00	–	0·5
Tax on next $5,020 at 8·50%	–	426·70	0·5
	1,121·00	1,326·70	
Less: Tax deducted from dividends		(100·00)	1·0
Tax payable	1,121·00	1,226·70	
			29·0

Notes:
(1) Retrenchment benefits – compensation for loss of employment is not taxable.
(2) Tax exempt – one-tier dividends are not taxable in the hands of shareholders.
(3) Interest income from approved banks received by resident individuals is exempt from tax.
(4) Donations claimed – Mr Benny Koo ($100 × 2) $200
Mrs Lisa Koo ($2,500 × 2) $5,000
(5) QCR claim to be made by Mrs Koo to obtain optimum tax benefit.

		Marks
(b)	**Claim of working mother's child relief (WMCR)**	
	A working mother with earned income, who is married, divorced or widowed can claim the WMCR for her 1st to 4th qualifying child if the child is:	1·5
	(1) unmarried and a Singapore citizen as at the end of the year preceding the year of assessment of claim; and	1·5
	(2) her legitimate child, stepchild or legally adopted child; and	1·0
	(3) below the age of 16 or receiving full-time education at any educational institution or handicapped; and	1·0
	(4) not receiving annual income of more than $2,000 in the year preceding the year of assessment of claim.	1·0
		6·0
		35·0

2 (a) EZY Pte Ltd

Tax computation for the Year of Assessment 2007

	$	$	
Net profit per accounts		310,300	
Less: Other income – Insurance claims		0	0·5
		310,300	
Add: Wages – production	0		0·5
CPF & related costs – production	0		0·5
Lease rental of production equipment	0		0·5
Depreciation	18,600		1·0
Valuation fee of company's equipment	2,800		1·0
Legal fee re: recovery of trade debts	0		0·5
Rental of business premises	0		0·5
Salaries – administrative staff	0		0·5
CPF and related costs – administrative staff	0		0·5
Insurance	0		0·5
Directors' fees	0		0·5
Medical fees – 11,400 – (1% x 66,800 + 10,700 + 159,000 + 25,400)	8,781		2·0
Staff loans written off	2,200		1·0
Composition fine to CPF Board	1,000		1·0
Loan interest for financing a special business project	0		0·5
Rental of motor cars – Singapore	6,500		1·0
Reimbursement of taxi fares	0		0·5
Realised exchange loss on settlement of trade debts	0		0·5
Bad debts written off	0		0·5
Donation to approved institution	2,500		1·0
		42,381	
Adjusted profits		352,681	
Less: Capital allowances – current year		(33,000)	1·0
Unutilised capital allowances brought forward		(22,000)	1·0
Assessable income		297,681	
Less: Donations (2 × $2,500)		(5,000)	1·0
Total income		292,681	
Less: Exemption on 1st $10,000 at 75%		(7,500)	0·5
Exemption on next $90,000 at 50%		(45,000)	0·5
Chargeable income		240,181	
Tax thereon at 20%		48,036·20	1·0
			20·0

Marks

(b) Tax exempt dividends – one-tier

(1) As the company was incorporated in September 2003, the company will automatically be under the one-tier corporate tax system. 1·0

(2) Under the one-tier corporate tax system, income tax payable on the normal chargeable income is the final tax. This means the company can issue the one-tier exempt dividends. 1·0

(3) In this case, the proposed dividends to be paid at the forthcoming annual general meeting to be held will be tax exempt in the hands of the shareholders. 1·0

3·0

23·0

3 (a) VINO Pte Ltd
Capital allowances computation

	Section 19A Claim					Section 19 Claim	Non-claim	
Number of years to run	1 (A)	1	2	3	Total	6		
	$	$	$	$	$	$	$	
Written down value brought forward		10,000	30,000					1·0
Additions during the year 2006 –								
Leasehold Improvement								
Renovation works							32,000	1·0
Motor Vehicles								
One van						21,000		1·0
Equipment and furniture								
Air-conditioners with accessories				9,000				1·0
Computer system with accessories		8,000						1·0
Office furniture	3,000			6,000				2·0
	3,000	18,000	30,000	15,000		21,000	32,000	
Year of Assessment 2007								
S19 – IA 20% × 21,000						4,200		1·0
AA80% × 21,000/6						2,800		1·0
S19A – AA	3,000	18,000	15,000	5,000	41,000			2·0
Written down value carried forward	0	0	15,000	10,000		14,000		2·0
Disposals during the year 2006 –								
Motor Vehicles								
Written down value brought forward					3,200			
Sales proceeds					4,000			
Balancing allowance/(Balancing charge)					(800)			2·0

Total capital allowances claim –

	$	
Section 19A – AA	41,000	
Section 19 – IA	4,200	
AA	2,800	
BC	(800)	
	47,200	1·0
		16·0

Note:
(A) Items of furniture costing less than or equal to $1,000 per item qualify for a 100% write-off.

	Marks
(b) Employers' obligations for new employees	
An employer is required to notify the Comptroller of Income Tax of the commencement of employment of new employees. This notice is required under the provisions of the Income Tax Act, and is to be given in writing not later than 3 months after the date of commencement of the employment.	2·0
In this case, the company will have to notify the Comptroller of Income Tax of the commencement of employment of the new employees before the end of August 2007.	1·0
Under the provisions of the Income Tax Act, a person who fails to comply with the provisions of the Income Tax Act or the rules or regulations made thereunder is guilty of an offence and a penalty may be imposed.	1·0
	4·0
	20·0

4 (a) GST – Input tax credit

As goods and services tax (GST) is a tax on final consumption, a registered GST trader will be able to claim credits for GST paid on:	
(1) goods or services supplied to him;	1·0
(2) the importation of any goods.	1·0
The claimable credits are called input tax to the registered GST trader	1·0
The total input taxes paid are then deducted from the total output taxes that the registered GST trader has collected from his sales or turnover during the same accounting period.	1·0
The net GST amount is the tax figure which the registered GST trader would either pay to, or claim as a refund from the Comptroller of GST.	1·0
If the figure is positive, the net GST amount is payable to the Comptroller of GST	0·5
If the figure is negative, the amount is claimable as refund from the Comptroller of GST	0·5
Only a taxable person, that is a registered GST trader is able to claim input tax credits and	1·0
satisfy the Comptroller of GST that:	
(1) the input tax is paid for supplies of goods and services used for the making of taxable supplies;	1·0
(2) tax invoices for all claimable credits are available when claims are made.	1·0
Output tax and input tax need not involve matching supplies for the reporting period.	1·0
Input tax attributable to exempt supplies is not claimable.	1·0
	11·0

(b) (i) Andy Li

Assessable income from properties for Year of Assessment	**2006**	**2007**	
	$	**$**	
Rental income –			
15 November 2005 to 31 December 2005	6,000		1·0
1 January 2006 to 31 December 2006		48,000	1·0
Less: Expenses			
Property tax	600	4,800	1·0
Maintenance contributions	750	6,000	1·0
Insurance	30	240	1·0
Bank Interest	4,800	28,000	1·0
Repairs to ceiling	–	300	1·0
	6,180	39,340	
Net rental	(180)	8,660	
			7·0

		Marks
(ii)	The rental and the deductible expenses have to be reported for each calendar year; and assessed in the respective Years of Assessment.	1·0
	As long as the rental is accrued in 2005, the rental for the period 15 November 2005 to 31 December 2005 should be assessed to tax for the Year of Assessment 2006. It does not matter that the rent is received in January 2006.	1·0
	Although a deficit has been derived from rental for the calendar year 2005, the rental income and expenses incurred has still to be reported to the Comptroller of Income Tax.	1·0
	In this case, Andy should inform the Comptroller of Income Tax in writing of the rental for 2005 received in January 2006.	1·0
		4·0
		22·0