

Preparing Taxation Computations (Singapore)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

TUESDAY 12 JUNE 2007

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 2007

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 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.

Personal tax rates – Part A

	Chargeable income	Tax rate	Tax
	\$	%	\$
On the first	20,000	0	0
On the next	<u>10,000</u>	3·50	<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	

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 2006.

Any unutilised STR balances will continue to be available for deduction against the tax payable for the Year of Assessment 2007 or any subsequent year of assessment until the rebate is fully utilised.

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 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>	<i>\$25,000</i>

Corporate tax rates

Year of assessment	Tax rate
2004	22%
2005, 2006 and 2007	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) Benny Koo, a Singapore citizen was the marketing manager of a Singapore company for more than 8 years. During the year 2006, he was retrenched by the company. He ceased employment with the company on 30 April 2006 and received the following:
- | | |
|---|----------|
| Salary from 1 January 2006 to 30 April 2006 | \$24,000 |
| Retrenchment benefits – | |
| Compensation for loss of employment | \$48,000 |
- He was engaged by another Singapore company as a consultant for a special project from 10 May to 8 June 2006 and received consulting fees of \$4,800.
- Thereafter, an event-organising company employed him as the events marketing manager with effect from 1 July 2006. The salary and bonus received by him from 1 July 2006 to 31 December 2006 was \$26,000.
- (2) His wife Mrs Lisa Koo also a Singapore citizen is the sole-proprietor of a legal 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 was \$58,000.
- In addition to receiving the above trade income, Mrs Koo renders consulting services to the National University of Singapore (NUS). The consultancy fees received from NUS for the year ended 31 December 2006 were \$23,000.
- (3) The following details relate to the income and expenditure of Mr and Mrs Koo for the year ended 31 December 2006 other than those stated above -

	Mr Benny Koo	Mrs Lisa Koo
Year of birth	1950	1960
	\$	\$
Net rental income from properties adjusted for taxation purposes:		
– apartment owned by Mrs Koo	–	17,800
Singapore dividends – per CDP statement (gross)	–	500
(tax deducted)	–	(100)
Tax exempt – one-tier	200	600
Interest from DBS Bank (approved bank)	200	300
Statutory CPF contributions	5,500	4,320
Voluntary CPF contributions	–	11,680
Levy paid for the hire of a Filipino maid	–	3,540
Donations to approved institutions of a public character		
– Breast Cancer Foundation	–	2,500
– Community Chest of Singapore	100	–

- (4) Mr and Mrs Koo have two children who are both Singapore citizens:
Sarah born in 1988 was pursuing a course in the Singapore Management University during the year 2006. Trina was born in 1992 and is still at school.
- (5) Mrs Koo maintains her elderly mother who resides at their apartment. Mr. Koo also maintains his elderly mother who is residing at a nursing home. He incurred more than \$2,000 during 2006 for her maintenance.

Required:

- (a) **Prepare the income tax computations for Mr and Mrs Koo for the Year of Assessment 2007. Show all workings.** (29 marks)
- (b) **State the conditions to be satisfied for the claim of working mother’s child relief.** (6 marks)

(35 marks)

2 EZY Pte Ltd is an exempt private company which has been incorporated in Singapore since September 2003. The principal activity of the company is that of the processing of aluminium products.

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

	Notes	\$
Sales		3,582,000
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<i>Less:</i> Cost of goods sold		
Purchases		1,276,100
Processing costs	1	1,052,200
		<hr/>
		2,328,300
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Gross profit		1,253,700
<i>Add:</i> Other income	2	1,400
		<hr/>
		1,255,100
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<i>Less:</i>		
General and administrative expenses	3	686,000
Finance expenses	4	62,000
Selling and promotion expenses	5	160,800
Other expenses	6	36,000
		<hr/>
		944,800
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Net profit before tax		310,300
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Notes to the accounts

1. Processing costs of \$1,052,200 included:	\$
Wages – production	66,800
CPF & related costs – production	10,700
Lease rental of production equipment	864,000
2. Other income comprised:	\$
Insurance claims	1,400
3. General and administrative expenses of \$686,000 included:	\$
Depreciation of equipment	18,600
Valuation fee for company's equipment	2,800
Legal fee re: recovery of trade debts	1,300
Rental of business premises	144,000
Salaries – administrative staff	159,000
CPF and related costs – administrative staff	25,400
Insurance	6,200
Directors' fees	30,000
Medical fees* (see note below)	11,400
Staff loans written off	2,200
Composition fine to CPF Board	1,000

Note: The company did not implement the portable medical benefits scheme or the transferable medical insurance scheme.

- | | | |
|----|---|--------|
| 4. | Finance expenses of \$62,000 included: | \$ |
| | Interest on short-term loan for financing a special business project | 23,000 |
| 5. | Selling and promotion expenses of \$160,800 included: | \$ |
| | Rental of motor cars – Singapore | 6,500 |
| | Reimbursements of taxi fares | 10,800 |
| 6. | Other expenses of \$36,000 included: | \$ |
| | Realised exchange loss on settlement of trade debts | 2,300 |
| | Bad debts written off (arising from the sale of goods) | 12,000 |
| | Donation to CDAC Endowment Fund (an approved institution of public character) | 2,500 |
| 7. | Capital allowances – | |
| | Capital allowances for the Year of Assessment 2007 as computed are \$33,000. | |
| | Unutilised capital allowances brought forward and agreed with the Comptroller of Income Tax are \$22,000. | |
| | There has been no substantial change in the shareholders or their shareholdings on the relevant dates. | |
| 8. | The company had paid income tax of \$40,000 for the Year of Assessment 2007 based on the estimated chargeable income furnished on 30 March 2007. The board of directors have agreed to recommend payment of a final dividend of \$100,000 to the shareholders at the forthcoming annual general meeting to be held on 28 June 2007. | |

Required:

- (a) Compute EZY 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. Show all workings.
 (20 marks)
- (b) State the tax effects of the payment of the dividends proposed to be paid at the forthcoming annual general meeting.**
 (3 marks)
- (23 marks)**

- 3 (a) VINO Pte Ltd is an exempt private company, which has been incorporated in Singapore since April 1999. 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	
Renovation works – breaking sidewall with an opening and installing an aluminium gate	32,000
Motor vehicles – one van	21,000
Equipment and furniture –	
Air-conditioners with accessories	9,000
Computer system with accessories	8,000
Office furniture – each item costing less than or equal to \$1,000	3,000
Office furniture – each item costing more than \$1,000	6,000

The written down values of the company's assets at 31 December 2005, excluding the van disposed of during 2006, as agreed with the Comptroller of Income Tax were:

Section 19A claim	Remaining years	\$
	2	30,000
	1	10,000

During the year 2006 the company disposed of a van originally purchased in 2001 details of which are as follows –

	\$
Cost	24,000
Written down value brought forward – section 19 claim	3,200
Sales proceeds	4,000

Required:

Compute the maximum capital allowances claimable by VINO Pte Ltd for the Year of Assessment 2007 together with the written down values carried forward at 31 December 2006.

Show all relevant workings.

(16 marks)

- (b) The Human Resource (HR) manager of the company furnished you with the information that VINO Pte Ltd had recruited three foreign employees from Malaysia during May 2007 and now seeks your advice.

Required:

State the tax compliance obligations of VINO Pte Ltd with respect to the three new employees recruited by the company.

(4 marks)

(20 marks)

4 (a) For the purposes of goods and services tax (GST), explain the deduction a trader can claim for input tax credits and the effect of such credits on any GST payable. (11 marks)

(b) (i) Mr Andy Li acquired his first property, a shop unit in a shopping complex in Chinatown during the year 2005.

The following information relates to the income and expenses in respect of the property:

	15 November 2005 to 31 December 2005	1 January 2006 to 31 December 2006
	\$	\$
Income:		
Rental received	6,000	48,000
Expenses:		
Property tax	600	4,800
Maintenance contributions	750	6,000
Fire insurance premium	30	240
Bank interest	4,800	28,000
Repairs to ceiling	–	300

Required:

Compute Mr Li's assessable net rental income from property for the respective years of assessment.

(7 marks)

(ii) Rent for the period 15 November 2005 to 31 December 2005 was paid to Mr Andy Li in January 2006. Andy had not reported this rental income in his income tax return (Form B) for the Year of Assessment 2006, as he had incurred a deficit on the rental.

Required:

State giving reasons whether Mr Andy Li needs to report the rental income received in January 2006 to the Comptroller of Income Tax, stating the relevant year of assessment applicable.

(4 marks)

(22 marks)

End of Question Paper