

Certified Accounting Technician Examination
Advanced Level

Preparing Taxation Computations (Singapore)

Tuesday 10 June 2008

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)

ACCA

CATS

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 and allowances should be used when answering the questions.

Selected Reliefs/Rebates for Year of Assessment 2008

Earned income relief

Age	Normal	Handicapped
Below 55	\$1,000	\$2,000
55 to 59	\$3,000	\$5,000
60 and above	\$4,000	\$6,000

Wife relief \$2,000

Handicapped dependant spouse relief \$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 handicapped sibling relief \$3,500

Foreign maid levy

The relief is two times the amount of foreign maid levy paid in 2007 up to a maximum of \$6,720.

Nsman relief

	Key command and staff appointment holder	Non-key command and staff appointment holder
Active Nsman	\$5,000	\$3,000
Non-active Nsman	\$3,500	\$1,500
For wife of operationally ready Nsman		\$750
For each parent of operationally ready Nsman		\$750

Provident fund

Compulsory contributions to Central Provident Fund (CPF)/approved pension or provident fund by Singaporeans and Singapore permanent resident employees, subject to not more than the statutory contributions under the Central Provident Fund Act.

CPF top-up scheme \$7,000

Voluntary CPF contributions made by self-employed persons

34.5% of s.10(1)(a) assessable trade income up to a maximum of \$26,393 for contributions made in 2007.

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 relief**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 (excludes child adopted before 1 January 2004)	25% of mother's earned income
Maximum per child (total of WMCR+QCR/HCR)	\$25,000

Parenthood tax rebate (PTR)

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

The 2nd, 3rd or 4th child must be Singapore citizen babies born or legally adopted on or after 1 January 2004.

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	Tax rate
2008 onwards	18%

Partial tax exemption

From the Year of Assessment 2008 onwards

Up to the first \$10,000 of chargeable income:

75% exemption

On the next \$290,000 of chargeable income:

50% exemption

ALL FOUR questions are compulsory and MUST be attempted

- 1 Mr Martin Yeung, an Australian born in 1970, has been recruited by a Singapore company as its Information Systems Manager. His contract of employment covers the period 1 August 2007 to 31 July 2009 and he was issued with an employment pass for a two year period, starting from 1 August 2007.

Mr Yeung arrived in Singapore on 28 July 2007. His wife, Mrs Lisa Yeung arrived in Singapore on 6 August 2007 together with their two children, Anna and Benny, and his mother.

Mrs Yeung, an Australian born in 1972, is an Arts graduate. During 2007 she conducted music lessons at a music school in Singapore for which she was issued with a work permit. Anna, who was born in 1995 and Benny, who was born in 1997 are also Australians and are attending schools in Singapore. Mr Yeung has obtained a dependant pass for his elderly mother who is residing with them in their apartment.

For the period 1 August 2007 to 31 December 2007 Mr Yeung received the following payments in Singapore:

	\$
Salary	32,500
Bonus	6,000
Incentive allowance	5,000
Reimbursement of expenses for his trip to Singapore in May 2007 to attend an interview at the company	800

Benefits-in-kind provided to Mr Yeung during the period 1 August 2007 to 31 December 2007 as indicated on the 2008 Form IR8A were:

	\$
House rental paid by employer for the unfurnished apartment provided to him and his family	12,500
Value of utilities	1,665
Air passage costs paid by the company for him and his family to return to Australia during his leave in December 2007 (excluding the airfare for his mother).	3,000

The following additional information relates to other income received and expenditure incurred by Mr and Mrs Yeung in Singapore during the year ended 31 December 2007:

	Mr Martin Yeung	Mrs Lisa Yeung
	\$	\$
Commissions from sales of health products	–	8,000
Fees from music lessons	–	15,000
Interest from HSBC (approved bank)	80	50
Life insurance premiums paid	1,900	1,400
Capital sum of respective insurance policies (the insurance company has an office in Singapore)	80,000	40,000
Donation in cash to Community Chest of Singapore (an approved institution of public character)	100	–

Required:

- (a) **State the conditions for individuals to qualify as ‘resident’ in Singapore for income tax purposes and state whether Mr Martin Yeung would qualify as a ‘resident’ for the Year of Assessment 2008.** (5 marks)
- (b) **Assuming that Mr and Mrs Yeung are treated as residents for the Year of Assessment 2008:**
- (i) **Compute Mr Yeung’s employment income assessable to tax.** (8 marks)
- (ii) **Compute the minimum tax liabilities of Mr and Mrs Yeung.** (18 marks)
- (c) **State how Mr and Mrs Yeung will be assessed to tax if they are treated as ‘non-resident’.** (4 marks)

(35 marks)

- 2 YYS Pte Ltd is an exempt private company which has been incorporated in Singapore since June 1990. The principal activity of the company is the trading of Chinese traditional medicinal products and herbs and the provision of traditional Chinese medical consulting services.

The trading, profit and loss account of the company for the financial year ended 31 December 2007 is provided below:

	Notes	\$
Sales of medicines and herbs		2,530,000
Consultation fees		580,000
		<u>3,110,000</u>
Less: Cost of sales		961,000
Gross profit		2,149,000
Add: Other income	1	28,200
		<u>2,177,200</u>
Less:		
General and administrative expenses	2	338,000
Staff expenses	3	966,000
Selling and distribution expenses	4	28,000
Other expenses	5	65,000
		<u>1,397,000</u>
Net profit before tax		<u><u>780,200</u></u>

Notes to the accounts:

1. Other income comprises:	\$
Interest	4,500
Dividends	12,750
Commissions	10,950
	<u>28,200</u>

Dividends comprised Singapore dividend income from unquoted equity investments as follows:

Date of payment	Details	Taxable dividend \$	Tax-exempt-one-tier \$
28 May 2007	SCM Investments Pte Ltd	12,500	2,500
	– Tax deducted at 18%	(2,250)	–
2. General and administrative expenses include:			\$
Depreciation of equipment			67,000
Rental of business premises			108,000
Legal fee re: renewal of tenancy agreement for lease of premises			1,200
Insurance			5,800
3. Staff expenses include:			\$
Directors' remuneration			300,000
Staff salaries and bonuses			488,000
CPF and related costs			58,000
Medical expenses			4,200
Staff loans written off			2,800
Seventh lunar month prayer offering			1,000

4. Selling and distribution expenses include	\$
Technical information systems	1,500
Upkeep of motor cars (S-plate)	3,500
Advertisement of company's products	18,000
5. Other expenses include:	\$
Subscriptions to Chinese Physicians Associations	600
NETS transfer/credit card charges	42,000
Penalty for late payment of goods and services tax (GST)	500
Donation to Chung Hwa Medical Institution (an approved institution of public character)	5,000
6. Capital allowances for the Year of Assessment 2008 as computed are \$62,000.	

Required:

(a) **Compute YYS Pte Ltd's chargeable income and tax liability for the Year of Assessment 2008. Start your computation with the figure for net profit before tax and include a list of all of the items referred to in Notes 1 to 5, indicating with a zero ('0') those items for which no adjustment is necessary.** (22 marks)

(b) **State the circumstances in which a company can obtain a full tax exemption on the first \$100,000 of chargeable income, together with the conditions to be satisfied.** (5 marks)

(27 marks)

- 3 (a) XI ZI Pte Ltd is an exempt private company, which has been incorporated in Singapore since October 2001. The company's financial year-end is 31 December.

The principal activity of the business is the sale of food and beverages and the provision of related services.

During the Year of Assessment 2007 the company opened a new branch and the following assets were acquired:

	Cost \$
Leasehold improvement:	
New branch:	
Fixed partitions with sliding door	8,300
Motor vehicles:	
Van	21,000
Kitchen equipment:	
New branch:	
Refrigerators and chillers	8,000
Bain-marie	4,300
Heaters and cookers – each item costing less than or equal to \$1,000	2,000
Equipment and furniture:	
New branch:	
CPU system with accessories	2,000
Cash register (fully automatic)	2,000
Furniture – each item costing more than \$1,000	12,000

The written down values of the company's assets at 31 December 2006 as agreed with the Comptroller of Income Tax were:

Section 19A claim	Remaining years	\$
	2	16,000
	1	5,000

Required:

Compute the maximum capital allowances claimable by XI ZI Pte Ltd for the Year of Assessment 2008 and the written down values as at 31 December 2007. (15 marks)

- (b) Mr TH Ong, a Singapore resident, is 48 years old. He went on a holiday trip to Europe recently for three weeks and bought an oil painting for the equivalent of Singapore Dollars ten thousand (S\$10,000) and brought it back to Singapore.

Required:

State, giving reasons, whether goods and services tax (GST) is applicable on the oil painting purchased by Mr TH Ong. (4 marks)

(19 marks)

- 4 (a) Olivia and Penny have been active partners in a business, BTC Tuition Centre, since March 2002. The partnership's financial year-end is 31 December.

Each partner contributed \$50,000 towards the capital of the business. Both partners agreed to draw a monthly salary of \$4,000 with no deduction of CPF contributions.

The basis of profit sharing as agreed among the partners is as follows:

- Olivia 50%
- Penny 50%

On 1 June 2007, Olivia and Penny invited Rosa to join the partnership as they required additional capital to expand the business. Rosa contributed \$100,000 towards the capital of the business and it was agreed that Rosa, being a passive partner, would not draw any salary, but would be paid interest on the capital she had invested. Interest of \$6,000 was paid to Rosa on 31 December 2007.

It was also agreed that Olivia and Penny would each continue to draw a monthly salary of \$4,000 with no deduction of CPF contributions.

The basis of profit sharing with effect from 1 June 2007 was agreed among the partners as follows:

- Olivia 25%
- Penny 25%
- Rosa 50%

The following information has been extracted from the accounts of the partnership business, BTC Tuition Centre, for the financial year ended 31 December 2007:

	1 January 2007 to 31 May 2007	1 June 2007 to 31 December 2007
	\$	\$
Course fees	300,000	580,000
<i>Less: Expenses</i>		
Partners' salaries	40,000	56,000
Staff salaries and related costs	40,000	75,000
Depreciation	12,000	28,000
Partners' interest on capital	0	6,000
Other deductible expenses	60,000	135,000
	<u>152,000</u>	<u>300,000</u>
Net income	<u>148,000</u>	<u>280,000</u>
Capital allowances as computed for the Year of Assessment 2008	<u>10,000</u>	<u>18,000</u>

Required:

- (i) Compute the adjusted profits and the divisible profits of the business, BTC Tuition Centre, for the Year of Assessment 2008. (4 marks)
- (ii) Compute the share of adjusted profits and capital allowances allocated to each partner for the Year of Assessment 2008. (10 marks)
- (b) State the general rule that determines the deductibility of expenses against business income and list six examples of expenses that are normally allowable. (5 marks)

(19 marks)

End of Question Paper