



Examiners' report

P6 Advanced Taxation (SGP)

June 2008

The examination consisted two compulsory questions in Section A totalling 64 marks (Question 1 for 39 marks and Question 2 for 25 marks) and two questions in Section B, each question of 18 marks. Candidates had a choice of three questions in Section B.

Most candidates attempted all four questions although there was some evidence of poor time management, particularly affecting Section B. In these cases, the candidates spent excessive time on Question 1.

A very high percentage of the candidates attempted Question 3 and almost similar number attempted either Question 4 or Question 5.

The performance of candidates was below expectation with a large number appearing to be unprepared for the examination.

General paper comments

If you are preparing to sit Paper P6 in the future, you should pay particular attention to the following in order to maximise your chances of success.

Know your stuff

- Successful candidates are able to demonstrate sufficient, precise knowledge of the Singapore tax system.
- Knowledge and understanding of the technical content of Paper F6 is vital if you are to be successful at paper P6.

Address the requirement

- Read the requirement carefully – then read it again; it is important.
- The requirement of each question is carefully worded in order to provide you with guidance as regards the style and content of your answers. You should note the command words within the requirement (calculate, explain etc), any matters which are not to be covered and the precise issues you have been asked to address.
- Apply your knowledge to the facts by reference to the requirement. Do not merely regurgitate what you know about the topics.
- Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend.

Be brave

- Don't be put off by a situation that you have not seen before.
- Follow the instructions in the question and the requirement and apply your knowledge of the tax system to the facts of the situation.

Manage your time

- Ensure that you allow the correct amount of time for each question.
- Presentation of answers
- Display your answers in numerical sequence, with a clear labelling to indicate which questions are being attempted.
- Each question should start on a new page.
- Give plenty of thought to the layout and organisation of your answers.

Marks available in respect of professional skills

Marks were available for professional skills in questions 1 and 2. In order to earn these marks candidates first had to satisfy the requirement in relation to the format of the document requested. Further marks were then available for the clarity of the answer, including the ease with which it could be marked and the degree to which the conclusions reached followed logically from the explanations provided. These latter marks were more likely to be earned by those candidates who thought about the manner in which they intended to satisfy the requirement such that there was a sense of purpose and a coherency to their answers.

Question 1

This 39 -mark question tested candidates' ability to identify the taxation issues in respect of each of the four companies.

In the case of Bright Vision Pte Ltd, candidates were unable to relate how the taxation of the gains from the earlier disposal could affect the eventual disposal of the two office units. This is based on the application of the badges of trade test.

Bright Star Investment Pte Ltd (BSIPL) held the investments in a UK listed and a Thai company through an intermediate holding company in Hong Kong. Most candidates missed this point and answered the question on the basis that these investments were directly held by BSIPL. As a result, candidates did not suggest that these be held directly in order to benefit from the exemption under s13 (8), required in part (b) of the question.

A number of candidates described the reimbursement of car running expenses provided by Bright Light Pte Ltd as being deductible or non-deductible without mentioning whether these expenses related to public transportation or to private motorcars. Their answers could have been clearer if they had specifically mentioned the specific types of car running expenses they had in mind. Few made the distinction between the reimbursement of car running expenses incurred by the employees for business purposes and private purposes. This distinction is important in terms of its implication as to whether the employee derives taxable benefits or not.

As for the losses incurred by Bright Water Pte Ltd (BWPL), a number of candidates suggested the election for group relief in order to surrender the losses of BWPL to the other profitable companies. Based on the information given in the question, Mr Paul Tan and his siblings are the only shareholders of the four companies mentioned in the question. If this were the case, group relief would not be relevant as none of the companies can be members of the same group for the purpose of group relief.

None of the candidates suggested that the current shareholders of BWPL review the sale and purchase agreement for any tax indemnity clause to allow them to make a claim from the seller(s).

Only some candidates realised that under the one-tier system, interest incurred by shareholders will only be deductible against exempt income, which will not help in reducing the personal income tax liability.

Question 2

This question tested candidates' ability to structure an income tax efficient package and to understand the different tax implications of holding investments in a personal capacity or through a private limited company.

Many candidates commented that retirement benefits were exempt from tax. Some did not know that non-contractual bonus is taxable upon receipt. Consequently, candidates were unable to comment on the applicability of the anti tax avoidance provisions. Further, many wrongly suggested the inclusion of the non-contractual bonus and the provision of two round-the-world tickets as part of the retirement gratuity, which they incorrectly thought to be completely tax exempt.

Most candidates incorrectly treated the 500,000 shares that OTL held in RML as a stock option and their answers were therefore based on the tax treatment of stock option. This is not the case.

Instead of commenting on the estate duty implications of the two options, some candidates computed the estate duty liability of Mr Ong, assuming that he holds the investments in his personal name.

Question 3

This question largely required candidates to comment on the options available to an individual who is on short-term assignment in Singapore.

Part (a) was generally well done. Most candidates were able to demonstrate their knowledge of the tax exemption available to short-term visiting employees and hence were able to suggest the most tax efficient date for commencement of Mr Peter Ridley's employment in order to take advantage of this tax exemption.

In Part (b), most candidates were not cognisant of the two tax options that Mr Ridley has if he chooses to be an independent consultant.

Most candidates showed their understanding of the Singapore tax treatment of foreign-sourced income remitted by both resident and non-resident individuals in Part (c).

A number of candidates did not attempt Part (d) well, largely because they appeared not to understand structured products.

Question 4

This question largely tested candidates' understanding of withholding tax implications of charges by overseas company.

Generally, candidates did not do well on this question. They did not know why the income was deemed to be derived from Singapore and were unaware of the administrative concession.

Similarly, the income tax implication of the 1% based on turnover was not addressed.

As regard Part (b) on good and services tax, none of the candidates commented on the reverse charge. Instead, they gave some general comments on GST.

Question 5

This question required candidates to understand the differences between the two most common legal entities in Singapore. In addition, it required candidates to comment on related party transactions and the goods and services tax implications of the different business transactions.

A number of candidates were not aware that the basis of taxation and tax rates are the same for both a Singapore branch and a Singapore incorporated company except that a Singapore branch is usually treated as a non-resident, whereas a Singapore incorporated company can be a resident depending on where its control and management is. In addition, few candidates commented on the tax implications of related party transactions.