

Examiner's report

P6 Advanced Taxation (SGP)

June 2010



General Comments

The examination consisted of two compulsory questions in Section A totalling 70 marks (Question 1 for 39 marks and Question 2 for 31 marks) and two questions in Section B, each question of 15 marks. Candidates had a choice of three questions in Section B.

Most candidates attempted all four questions. In this sitting, there was little evidence of poor time management.

A high percentage of the candidates attempted Questions 4 and 5. Candidates might have been put off by the limited liability partnership concepts required in Question 3, though this topic was quite often examined in the F6 paper.

The performance of candidates was poor. A significant number of candidates appeared to be haven forgotten the basic tax concepts, which they ought to revise and apply in the P6 paper.

Specific 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.

1. 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.
2. 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, support etc), any matters which are not to be covered and the precise issues you have been asked to address.
 - Follow the instructions in the question and the requirement and apply your knowledge of the tax system to the facts of the situation.
 - Apply your knowledge to the facts by reference to the requirement. Do not merely write everything that 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.
3. Manage your time
 - Ensure that you allow the correct amount of time for each question.
4. Presentation of answers
 - Display your answers in numerical sequence, with a clear labelling to indicate which questions or parts are being attempted.
 - Each question should start on a new page.
 - Give plenty of thought to the layout and organisation of your answers. Where appropriate, make clear reference to the supporting computations within the requirement.

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 understood 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 One

This question tested the candidates' ability to provide appropriate advice on the benefits of the two most common tax incentive schemes in Singapore, namely the pioneer and investment allowance incentive schemes. The requirements included application of s14 and s15, which were intended as giveaways for candidates and yet many candidates failed to score. For example, housing allowance provided to full-time directors is clearly tax deductible and yet, candidates lost marks on this.

Many candidates failed to compute the projected accounting profits for Years 2 to 10 correctly. It was provided in the question that these were projected to increase as a percentage of the Year's 1 results but candidates computed based on 'Adjusted profits'. It was also stated in the question that the expenses highlighted were expected to remain at the same level throughout the ten-year period.

There was a large number of candidates who did not get the qualifying expenditure for industrial building allowance (IBA) correct; they did not exclude the 15% used by management and administrative staff and include costs of lifts, air conditioning system and electrical/cables for production facility as qualifying costs for IBA when they should be treated as 'plant', qualifying for allowance under s 19.

Part (ii) was quite well-answered. For part (iii), most could not identify the tax issues arising from the deferment of the investment plan. In fact, they discussed about loss on disposal of plant and machinery, which was relevant for a disposal of business undertaking. Quite a number of candidates left this part unanswered. For those who did this part, most were able to point out the non-deductibility of the pre-operating expenses incurred. However, the majority did not handle the GST aspects of it well.

In Part (iv), candidates failed to see the need for related party transactions to be conducted on an arm's length basis. It was also apparent that candidates were not aware of the Singapore Inland Revenue e-guide on the subject, released in February 2009. It was disappointing to note that candidates commented on the need to withhold tax on repayment of the interest-free loan.

Question Two

This question was on the taxation of offshore income under Singapore's and Hong Kong's territorial bases of taxation. Majority of the candidates did well on the provisions in s13(8) and 13(9) required in part (i).

In part (ii), majority was able to advise correctly the applicability of the tax exemption for dividends received in Singapore from the proposed Singapore holding company's investments in China, Thailand and Australia. However, most of the erroneous explanations given for the Singapore tax exemption granted for dividends received from China were the same as that for the Singapore tax exemption granted for dividends received from Thailand and Australia. Very few in fact mentioned that although no tax was paid in China, it was due to a concession that the "subject to tax" condition was deemed to be satisfied because the tax exemption in China is a direct consequence of China granting a tax incentive for carrying out substantive business activities in Singapore. Some said dividends are exempt but due to the fact that the withholding and underlying tax qualified for tax credit relief under Double Taxation Agreements (DTA). No candidate ever mentioned about Thailand's lower domestic withholding tax rate as compared with the withholding tax rate provided in the DTA between Singapore and Thailand. In all their answers, the applicable withholding tax rate was the one provided in the treaty.

Question 2(iii) was generally well done. A number of students focused their answer only on individual investors; they left out non-individual investors. So they lost two to three marks here.

Quite a handful of candidates left this 2(iv) unanswered. For those who did this part, answers were generally not satisfactory. Probably, this was area that most were quite ill-prepared; examined for the first time.

Question Three

Part (a) sought candidates' understanding on the similarities and differences between a general partnership and a limited liability partnership (LLP). While the majority of candidates were able to explain the tax treatment of a general partnership, quite disappointingly, almost all candidates treated a LLP as a taxable entity. Consequently, they lost marks.

Question 3(b) was very poorly done. All candidates did not explain correctly that despite the take-over of DE Partnership by DEF LLP, it did not result in a cessation of trade by the DE Partnership. Hence, all their answers were erroneously on the basis that a cessation of trade has occurred. They overlooked that the loss and unabsorbed capital allowance belonged to the old partners and, thus, wrote about the business and shareholders' tests to determine whether these could be utilised under LLP.

Question Four

Almost all candidates chose this question. It tested candidates' understanding on tax deduction, claim for capital allowances and withholding tax implication under various financing schemes.

On the whole, this was the best performing question in Section B. Candidates displayed their basic understanding of the deductibility principle and withholding tax implication arising from payments made to non-resident person. However, some overlooked to discuss the impact on capital allowances and most did not mention about the tax implication on exchange fluctuation.

For Question 4(c), some candidates commented on the four options and recommended the best option for Sun Scaffolding Pte Ltd (SSPL) when the question asked to comment on the preferred option of K-Marine Limited (KML)

Question Five

This question was on group relief and carry back provisions and recommendation to improve on the group's tax efficiency.

Candidates generally were able to explain the eligibility requirements for group Relief and carry-back provisions. However, majority of them incorrectly explained that subsidiary B's loss could be transferred to Subsidiary A under the group relief provisions or that it could be carried back when the loss was not a qualifying deduction. Some even incorrectly pointed out that for group relief provisions to be applicable, Subsidiary C and Subsidiary A must be carrying out the same trade/business. Quite a number of candidates got the relevant dates for carry-back provisions incorrect; they used the carry forward dates.

In question 5(b), while a majority were able to suggest merging Subsidiary A and Subsidiary B as a way of improving tax efficiency, many failed to mention about the stamp duties implication arising from the transfer of immovable properties from one company to the other.