

# Examiners' report

F6 Taxation (SGP)

December 2007

ACCA

## General Information

This is the first examination conducted under the new syllabus. It consisted of five compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks and the three remaining questions, each for 15 marks). Approximately 65% of the total marks was on computational skill and 35% on narrative skill.

Most candidates attempted all five questions and were clearly better focused with all questions being compulsory. Where candidates did not attempt all five questions, Questions 4 and 5 were most frequently omitted.

Generally, candidates did exceedingly well on Questions 2 and 3 relating to computational requirement in the field of individual taxation. There were weaknesses in the areas of goods and services tax (GST) and the taxation of share options. Valuable marks were lost when workings were not shown especially in answering Question 1. Overall performance was satisfactory.

There was no improvement in the presentation of answers to the questions attempted. Candidates must be encouraged to start a question on a new page and avoid continuing a question several pages later. Questions should also be clearly labeled.

## Question 1 (30 marks)

This three-part question was on the taxation of corporations.

The first part (5 marks) was a test of the candidates' ability in distinguishing revenue gain from capital gain on the sale of an investment by employing the badges of trade. Generally, candidates were not explicit in their answers and many were unable to provide the various badges of trade.

The second part (4 marks) required the candidates to state the actions that must be taken to claim group relief. There was some misinterpretation of the requirement. Rather than stating the actions necessary to claim group relief, some candidates were stating the conditions that would qualify for a claim of group relief.

The third part of the question (21 marks) was computational and required the candidates to identify the various sources of income that were taxable and expenses that were deductible for tax purposes. In addition, the candidates were required to compute industrial building allowances and capital allowances and to demonstrate the tax effects of group relief claim. The performance of the candidates was satisfactory although some candidates lost valuable marks for not showing workings in arriving at the industrial building allowances and capital allowances.

## Question 2 (25 marks)

This question on individual taxation was divided into two parts.

The first part (4 marks) required the candidates to distinguish the differences in treatment relating to the taxation and the tax deductibility of contractual and non-contractual bonuses. Whilst most candidates were able to explain the basis of taxation of the two types of bonuses, they were less certain on their tax deductibility.

The second part of the question (21 marks) was computational in nature requiring the candidates to compute the minimum tax liabilities of a husband and wife in an environment where combined assessment was no longer permitted. On the whole, the candidates did extremely well with a number of candidates scoring full marks. Weaknesses were detected in identifying the types of losses that were capable of being transferred between spouses and in the organisation of the information pertaining to that of the husband and the wife.

**Question 3 (15 marks)**

This question was also on individual tax and required the candidates to identify the various items of employment income that were taxable (10 marks) and to provide reasons as to why some of these income items were not taxable (5 marks).

The question was structured to test candidates' knowledge on updates to changes introduced to streamline the taxation of benefits-in-kind. It was encouraging that the candidates were well prepared in this area as most did exceedingly well. For those who did not score well, it was clearly a lack of preparedness for the examination.

**Question 4 (15 marks)**

There were two parts to Question 4.

The first part (10 marks) was a test on share options and share award schemes. Candidates were required to state the amount and when a benefit from the exercise of share options and grant of share awards would be subject to tax. In addition, candidates were required to state the amount and when the expenses relating to the grant of share options and share awards would be tax deductible for the employer. Candidates who were well prepared did very well but a fairly large percentage of the candidates lacked the ability to apply the rules relating to the taxation share options and share awards.

The second part of Question 4 (5 marks) on goods and services tax required the candidates to state the differences between an exempt supply and a zero-rated supply. Whilst most candidates were able to state that the two supplies did not involve an output tax, they were not able to explain the difference and many failed to state the impact on input tax claim. Generally candidates did not do well on this part of the question.

**Question 5 (15 marks)**

This was a three-part question.

The first part (3 marks) required the candidate to state the six types of taxes and duties collected by the Inland Revenue Authority of Singapore. Candidates did not score well due perhaps to the fact that this was a new area that became examinable under the new syllabus.

The second part (5 marks) was on withholding tax on royalty payment made to a non-resident of Singapore and the penalties for failing to comply with the withholding tax requirements. Generally the candidates did well although there was some confusion on the rate of withholding tax to be applied.

The third part (7 marks) was a goods and services tax question on the rental of a furnished and unfurnished residential property. Candidates were required to apply the rules applicable in a rental of a furnished residential property where no distinction was made to the rental amount relating to the premise and that of the furnishing. Candidates fared inadequately, probably due to the fact that such transactions were not commonly encountered and less coverage were given to them in their preparation for the examination.