



# Examiners' report

## P6 Advanced Taxation (SGP)

### December 2007

The examination consisted two compulsory questions in Section A totalling 62 marks (Question 1 for 35 marks and Question 2 for 27 marks) and two questions in Section B, each question of 19 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 4 and almost similar number attempted either Question 3 or Question 5.

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

The poor performance of many candidates was exacerbated by a clear failure to carefully read the content and requirements of questions. This contributed to the poor performance on narrative questions. Candidates generally did not refer to the earlier computations to arrive at their conclusions and recommendations.

Workings were generally shown but were difficult to follow. Too many candidates continue to display their answers poorly, with a lack of clear labelling to indicate which questions are being attempted. Each question should be started on a new page and candidates must give more thought to the layout and organisation of their answers. Valuable time can be easily wasted, for example by not tabulating the answer to Question 1(d).

#### **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 and calculations 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.

#### **General paper comments**

If you are preparing to sit Paper P6 in 2008 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's 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.
- Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend.

**Don't provide general explanations or long introductions.**

- There is no need to explain what you are going to do before you do it; just get on with it.
- Think before you write. Then write whatever is necessary to satisfy the requirement.
- Apply your knowledge to the facts by reference to the requirement.

**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.

**Question 1**

This 30-mark question tested candidates' ability to evaluate the tax savings under the different scenarios, including the choice of the financing options and the tax incentives. The choice of financing options needs to be taken into account when helping clients to decide on the tax incentives.

In Part (a), candidates did not gain as many marks as they were unable to explain the significance of 'production day' and the carry forward of the capital allowances and losses during and after the tax holiday period.

No candidates claimed deduction for land premium under s14N of the Income Tax Act. Instead, many candidates treated the land cost as part of the cost of building, qualifying for industrial building allowance.

It is significant that candidates compute capital allowances appropriately and not maximise the claim to 'reduce' the tax benefit under the pioneer incentive scheme. A large number of candidates computed the capital allowances based on s19A instead of s19.

Few candidates adjusted the capital allowances claim where the qualifying plant and machinery were acquired under a ninety (90) - month hire purchase arrangement.

In Part (d), the candidates knew that the investment allowance is an alternative incentive, but they did not support their advice by reference to the results computed using Finance option 1 and Finance option 2.

In Part (e), candidates failed to appreciate that only specified offshore income remitted to Singapore is exempt from tax. Some candidates were able to explain the taxation of offshore remittances but did not make specific reference to the requirements of the question. The appropriateness of the format the effectiveness with which the advice was communicated can be improved.

**Question 2**

Generally, candidates showed an understanding of the concept of withholding tax but were unaware of the administrative concessions and the scope for mitigation of withholding tax liabilities.

In Part (a), many candidates did not compute the total cost of each proposal, required in the question. They might not understand the need to 'regross' where the tax is borne by XYZ Singapore Pte Ltd.

Candidates appear to have better knowledge on individual taxation. Most scored well on this part.

IN Part (c), candidates were not specific on the GST implications of the proposals. Candidates simply provided some general comments on GST.

### **Question 3**

In Part (a), many candidates attempted it without reference to Ivan's objective, which was clearly stated in the question. They knew that s44A could be used to distribute dividends but did not explain that the dividends could be used to reduce the loan amount.

Most candidates were able to explain the elements of a shareholder's loan.

In Part (b), many candidates failed to appreciate that the anti tax provisions should be considered when a re-arrangement in (a) was proposed. Consequently, some answers were out of context.

### **Question 4**

A few candidates did very well in this question. One scored more than 85%.

In Part (a), candidates understood the implication of a substantial change in shareholdings and while they were able to explain the relevant dates provided for in the Income Tax Act, they are, however, unable to use the correct dates in their answers. In this question, the company had a 30 September year end and notwithstanding this, the relevant date for the continuity of ownership test is 31 December of the relevant year. Thus, the disposal of the shares could take place after 30 September but before 31 December.

It is pertinent that candidates understood the meaning of 'substantial' change and in this regard, a 50% changes does not constitute a substantial change in shareholders for the purposes of ss 23 and 37.

In Part (b), many candidates did not know that individuals are exempt from tax on distributions received from a real estate investment trust (REIT). Candidates were required to compute the after tax return on the investment in the two REITs.

### **Question 5**

A few candidates did well. They understood the one-tier tax system and hence understood the need to take up loans at the operating level to maximise the interest deduction.

The question also tested the candidates' understanding of s37C on group relief but was generally not included in their answers though this was highlighted in the question.

A relatively high percentage of candidates scored zero for this question because their answers were very irrelevant. Candidates could have achieved more marks by analysing the facts described in the question. For example, the question mentioned about a net rental income from one property and a net rental loss from another property, suggesting these properties can be held by the same company.