



Examiners' report

P6 Advanced Taxation (SGP)

December 2008

The examination consisted of two compulsory questions in Section A totalling to 66 marks (Question 1 for 36 marks and Question 2 for 30 marks) and two questions in Section B, each question for 17 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. Candidates appeared to spend excessive time on Question 1.

A high percentage of the candidates attempted Questions 4 and 5. Students may have been discouraged by the tax case study set out in Question 3.

Candidates' performance was still below expectation though there has been an improvement in the quality of answers. A notable proportion of candidates scored 30 marks or below, which suggests that candidates were unprepared for the examination.

General paper comments

Particular attention to the following is required 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 to 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.
- 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 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.

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 question tested candidates' ability to recommend a tax efficient location to site the production facility. The question presented two locations, namely Singapore and Shanghai, China.

In part (a), although most candidates were able to provide a basic format showing the computation of accounting profit and taxable profit, many candidates did not compute the value of any deferred tax asset and/or liability as clearly required by the question. Hence, the four marks specifically allocated to this part of the answers were lost. It is fundamental that candidates factor in deferred tax asset/ liability in the tax advice otherwise your advice will be incomplete and not totally useful to clients.

Surprisingly, quite a number of candidates claimed capital allowances/ tax depreciation on capital expenditure incurred on the production equipment based on s19 instead of s19A. The net tax effect was the same (provided that the candidates took into account deferred tax asset and liability). Candidates should ensure their answers are easy to understand.

Candidates failed to tabulate the comparison of the two locations and conclusions were not based on the computations. Only generic comments were provided.

In part (b), some candidates interpreted the interest on the credit facility as being incurred by the new venture rather than by TSPL as cost of investment (capital contribution) in the new venture. Incorrect answers included whether TSPL qualified for tax deduction on the interest incurred from this perspective.

In part (d), many candidates had little knowledge on the different income tax implications of payment for the acquisition of a patent and payment for the right to use patent. A majority of answers incorrectly interpreted this was a patent right granted to the new venture company by the Chinese consortium and therefore the new venture company had to pay royalty to the Chinese consortium.

Very high marks were awarded to a small number of candidates for this question.

Question 2

This question was on the subject of acquisition of business, either by acquiring a business undertaking or acquiring of shares and the income tax benefits of choosing a new company for the combined business.

A number of candidates failed to understand the nature of the acquisition of the business undertaking. These candidates interpreted it as an acquisition of shares in MSPL, just as in part (b). Hence, part of the answers which they provided to (a) were more relevant to (b).

In part (b), candidates could only identify the income tax implications of the ownership test. This would only be relevant if indeed MSPL had a tax loss. Candidates are reminded to first review the provided facts and then to ascertain if there was a tax loss.

Parts (c) and (d) were generally well-answered.

Question 3

This question focussed on the need to understand the badges of trade test and application of the test in tax planning as well as the importance of tax planning at the outset. Few candidates chose this question.

Candidates were only able to explain some of the badges of trade test. In some cases, answers to part (b) and (c) were repetitive.

Question 4

This question largely required candidates to understand the basis of taxation of and the options available to an individual who rendered professional services in Singapore for a short period.

Many candidates took the contract for service as contract of service, resulting in lost marks in parts (a) and (b).

Part (c) was generally well done.

Question 5

Part (a) of this question was on goods and service tax while part (b) was on the income tax implications of investment options.

Most candidates lacked knowledge on goods and services tax and many did not comment on the major exporter scheme.

Candidates generally did well in part (b). Most candidates did not comment on the tax treatment of the potential loan written off in option 4.