



# Examiner's report

## P6 Advanced Taxation (SGP) December 2009

### 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 3 and 5. Students might have been put off by the deferred tax concepts and the statutory obligations required in Question 4.

The performance of candidates was below my expectation. A significant number of candidates appeared to be unprepared for the examination or did not appear to have the tax foundation.

### 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 to a business which breached the conditions of the investment allowance scheme and consequently, it had to seek advice, including on alternate financing option to help it to alleviate its tight cash flows. These issues are relevant especially in an economic downturn.

Many candidates were able to provide the salient features of the investment allowance scheme and the tax consequence of breaching the condition of the incentive scheme. However, they failed to provide relevant tax computations, which was clearly required in the question and hence, were unable to advise on the additional income tax liability. Further some candidates did not compute the balancing charge and perhaps did not understand the implication of an operating lease. It was also noted that a large number of students did not restrict the balancing charge to the amount of capital allowances previously claimed.

In Part (c), while candidates knew that the monthly rental was subject to withholding tax, most were unable to explain why it was deemed derived from Singapore. Some did not get the withholding tax rate correct and many did not comment on the applicability of the provisions in the double taxation agreement with Korea, although relevant information was given in the question.

The majority of candidates struggled with Part (d), suggesting that they were not familiar with FRS 39 and s34A of the Income Tax Act.

Some candidates did Part (e) well. However, some did not know the basic concept of "capital" and "income", and concluded that the gains would be capital in nature and yet would be taxed in Singapore as remittance of foreign income. Not many candidates were aware of the temporary relief available.

#### **Question Two**

This question was on the choice of a business vehicle for an individual who wanted to set up a business and remain employed.

Candidates were able to explain the tax implications of a partnership versus a company but some were unable to correctly deal with the numerical evaluations of the two structures.

Performance on this question was good, and quite a large number of candidates did well, especially those who were familiar with the NOR scheme.

### **Question Three**

Part (a) sought candidates' understanding on the meaning of 'supplies made in Singapore under the Goods and Services Tax (GST) Act. It was a straight forward question; reaffirmed by the fact that the majority of candidates chose this question. However, many did not realise that the supplies were out-of-scope. Instead, candidates took them as supplies made in Singapore and explained on zero-rating and the need for Multivalued GmbH to pay GST at the Customs upon arrival of the goods in Singapore. Additionally, due to the wrong concept, candidates explained that Multivalued GmbH was required to register for GST rather than apply for voluntary registration.

There were also candidates who did not correctly explain that the supply of residential property was exempt from GST and that in general, GST did not increase the cost of doing business in Singapore for GST registered persons.

In Part (b), candidates were able to comment on the deductibility of the funding costs against dividend income. However a common weakness was failing to add that the deduction was against a tax-exempt sourced income. There were also candidates who did not seem to understand a rights issue.

### **Question Four**

Few candidates attempted this question. The question asked for tax implications of the items mentioned. But some candidates gave answers beyond this requirement. For example, they wrote about tax planning ideas which were not asked for. Candidates also explained the tax treatment of the items but without regard to the tax effect of these items on the effective tax rate of Dragon Trading Pte Ltd (DTPL)

Part (b) was on the action that DTPL had to take when it discovered that it had filed an incorrect return. It is an administrative compliance matter, however many candidates did not attempt this part.

### **Question Five**

This question was on investment options available to an individual. Performance on this question was disappointing.

Candidates were unable to explain the tax implications of investing in a real estate, specifically, the provisions contained in s10E and s10 (1) (f). They were unaware that Alex Cheong could claim industrial building allowance. For those who did, they did not compute qualifying expenditure correctly, and a common error was including land cost in the qualifying expenditure.

Part (b) required candidates to provide computations to support their recommendation. Most candidates did not provide correct computations, and some did not compute the return for the five-year period required in the question. When recommendations were made, they were often too general and were not supported with computations.