

Examiner's report

P6 Advanced Taxation (SGP)

December 2010



General Comments

The candidates were required to attempt two compulsory questions in Section A where Question 1 was for 23 marks and Question 2 for 41 marks; totaling 64 marks. In addition they were required to attempt two questions in Section B. Three questions were provided in Section B; each for 18 marks.

Most candidates attempted all four questions. Questions 3 and 4 were most popular. Few attempted Question 5 which covered taxation of trusts. In fact Question 5 is relatively straight forward. It appears that the candidates are not familiar with this topic.

Overall, the performance of the candidates was disappointing. Many were unable to recall basic tax concepts and principles. Some were not able to identify issues that have tax implications. There was little evidence of poor time management.

Specific Comments

Question One

This question tested the knowledge of the candidates on the tax treatment of renovation and refurbishment works. Most candidates were aware of the new Section 14Q claim; however many forgot to consider the claims for normal revenue expenditure deduction and for capital allowances on qualifying fixed capital expenditure. Accordingly, many of the claims for the work done were not correct.

In addition, many candidates failed to fully appreciate the withholding tax concepts; in particular the distinction between payments made to corporates and individuals. Few candidates got the 15% or 20% withholding tax rates correct. But many were familiar with the withholding tax filing requirements.

The personal tax implications to Mr Kong on income from rental property were generally correct.

Question Two

The 41-mark question tested the candidates on their ability to understand the proposed restructuring, funding and operational requirements, identify the issues arising from each aspect and comment on the various tax implications.

On the loan financing options, a large number of candidates did not address the tax deductibility issue of the interest expense. Almost all commented on the withholding tax implications of the loan interest element. However, many candidates had incorrectly advised on the withholding tax implications on interest paid to non-resident branches of foreign entities operating businesses in Singapore and the extent of protection accorded to such entities under the double tax treaties.

With regards to the advice on business structures A and B under Part (b) of the question, many failed to mention about the tax implications of the purchase consideration, the tax deductibility of the incorporation/set-up costs, the ability to utilise the unabsorbed losses and capital allowances and treatment of current year's losses/profits. The attempts on the GST and stamp duty implications were generally good.

The withholding tax treatment on the fees payable to Safewaste were generally well attempted except many forgot to mention about the tax deductibility of the fees and the procedures that could mitigate the potential adverse tax exposures.

Question Three

Part (a) was well attempted. Most candidates provided the correct comments.

In response to Part (b), many candidates wrongly advised about the balancing allowance/charge and Section 24 implications which are applicable to transfers of qualifying fixed capital expenditure. In this case, there is no such expenditure. In addition, some candidates failed to mention about the tax consequences on the trading stocks in the hands of the transferee companies, subsequent to the transfer. Further, few mentioned about the tax treatment arising from the adoption of FRS 39.

The comments from the candidates on the tax implications of the treatment of the trade receivables, before and after the transfer, were generally appropriate. Some were able to articulate the treatment of the collections of \$740,000 well.

On the issue of goodwill, many of the candidates did not mention about the tax treatment.

Many candidates gave correct advice on the GST treatment on the transfer of business qualifying as an excluded transaction.

Question Four

This question tested candidates on the differences in the income tax implications on properties transferred for no consideration, for not-at-market-valuation consideration or if satisfied by another property given at a future date.

Many candidates commented correctly from the income tax and GST perspective on the general aspects arising from the transfers of properties. However a few good attempts were made on the need to separate the two transfers, obtain separate market valuations, potential issue stemming from Benny's wife's shareholding in the company.

From the stamp duty perspective, few mentioned about the need for market valuation and the transferee's obligation to pay the duty.

Question Five

This question covered taxation of trust in Singapore. It was straight-forward. It asked for the income tax implications on various income streams to the trust, trustees and the beneficiaries, whether resident or otherwise. Very few candidates attempted this question. For the few that attempted, many could not appreciate the distinctions from a tax perspective between the trust and the trustees and the resident and non-resident beneficiaries. Also the transparency treatment was not mentioned often.