

# Examiner's report

F6 Taxation (SGP)

December 2014

The ACCA logo consists of the letters 'ACCA' in a white, bold, sans-serif font, centered within a dark square background.

## General Comments

The examination consisted of five compulsory questions, comprising 30 marks for question 1, 25 marks for question 2 and 15 marks each for questions 3, 4 and 5.

The time allotted for this paper appeared sufficient as the majority of candidates were able to attempt all the five questions. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

Candidates generally appeared more comfortable when dealing with the computational questions compared with the narrative questions. Hence, most candidates dealt satisfactorily with the calculations in questions 1, 2 and 3.

As regards the narrative question, candidates' lack of technical knowledge appeared to be the prime cause of their inability to deal with the topics tested. In some cases, even if the candidate could handle the technical aspect of the question, they could not apply their analysis to their response. For example, a candidate may have correctly concluded that unabsorbed capital allowances may be carried forward in question 1(a) but then did not show the requisite unabsorbed capital allowances carried forward in their answer to question 1(b).

A number of common issues arose in candidates' answers as follows:

- Failing to understand the question requirement clearly and therefore providing irrelevant answers;
- Poor time management between questions; some candidates spent far too much for some questions and this put them under time pressure to finish remaining questions;
- Providing inadequate response to the question; and
- Illegible handwriting and poor layout of answers.

## Specific Comments

### Question One

In Part (a), many candidates were able to cite and apply the same business test and the continuity of shareholding test. However, some candidates, having cited the correct rule, then proceeded to use the incorrect comparative date (for example, 31 December of the year of assessment rather than the calendar year for the carry forward relating to the incurrence of the loss). Other candidates, having concluded with the correct analysis in part (a) did not flow through this analysis to their calculation in part (b).

For the corporate tax computation in part (b), most candidates performed reasonably well in identifying the required tax adjustments. The most common errors made by candidates in their computations included the following:

- Not including the insurance premium of \$2,000 relating to staff hospitalisation and surgery as medical expenses for the purpose of restricting the medical expense deduction;
- Not adding back the group term life insurance premium of \$6,000;
- Incorrectly adding back \$4,000 relating to gifts to staff and \$750 relating to the Singapore withholding tax on interest paid to a bank in Hong Kong;
- Not claiming the productivity and innovation credit (PIC) enhanced deduction in respect of the training expenses of \$8,000 in respect of training materials used for internal courses;
- Claiming Land Intensification Allowance (LIA) in respect of the land cost and/or claiming annual allowances even though the building was not yet in use;
- Setting off the brought forward unabsorbed loss even though the conclusion arrived at in part (1) (a) was that the loss would be forfeited due to a substantial change in the shareholdings in the company;
- Not setting off the unabsorbed capital allowances even though the conclusion in part 1(a) was that unabsorbed capital allowances can be carried forward; and
- Either claiming the PIC bonus for the year of assessment 2014 or failing to explicitly mention that no such claim was available for that year.

Almost all the candidates attempted this question and the performance of the majority of candidates was satisfactory.

## Question Two

This 25-mark question covered the taxation of an individual who had various sources of income, i.e., employment income, share of partnership income and deductions, rental income, interest income and other income; and a short question part on the elements of a valid objection against a notice of assessment.

Part (a) was generally well-attempted, except for the following common errors:

- Failing to show the different sources of income separately;
- Claiming a 250% deduction in respect of the share of partnership donations of \$12,000 even though the amount of \$12,000 would have already included the 250% effect in the partnership computation/ allocation;
- Allowing a deduction for the S-plate car expenses against the transport allowance;
- Failing to deduct the employee's rental contribution of \$24,000 against the 10% of employment income figure of \$19,000 when computing the housing benefit;
- Failing to deduct the interest expense of \$20,000 against the related interest income of \$25,000;
- Failing to show stock option #2, which was not taxable in the current year; and
- Calculating the Central Provident Fund (CPF) personal relief as 20% of total wages of \$85,000 without regard to the distinction between ordinary wages and additional wages.

In part (b)(i), many candidates were unable to deal with the tax treatment of the transport allowance (as mentioned in part (a) above). For those who correctly brought the full amount of the allowance

into the charge to tax, their explanations for the treatment were generally not satisfactory, with many candidates merely stating that allowances are taxable in full.

Part (b)(ii) was generally well-attempted, with the majority of candidates proving able to explain the concession for the interest subsidy.

In Part (c), a few candidates were unable to state the correct time frame for lodging a valid objection against a notice of assessment.

### **Question Three**

In part (a), a few candidates answered the question from the perspective of the supplier, Queenie Pte Ltd, rather than from the perspective of the recipient of the service, Pegasus Pte Ltd, as stated in the requirement.

A number of candidates made the fundamental error of failing to show whether the goods and services tax (GST) in question was input or output tax.

Some of the common errors made in answers to part (b) were as follows:

- Failing to account for output tax in respect of the non-refundable deposit and the cost recovery relating to the staff secondment;
- Failing to recognise and claim an input tax credit for the importation GST on the consumables purchased from the supplier in Indonesia;
- Claiming input tax credit in respect of the airfares to Bangkok even though this was a zero-rated purchase; and
- Either failing to account at all for the input tax repayable of \$700 or incorrectly deducting the amount of \$700 from the output tax payable. This was frequently done by candidates even where their analysis in part 3 (a) was correct.

### **Question Four**

This question tested candidates on the withholding tax concept (in relation to the 'right-based approach') and tax administration matters (in relation to the filing of the estimated chargeable income (ECI)). A number of candidates presented disorganised answers to this question, which were very difficult to follow.

In part (a), quite a number of candidates confused the filing of ECI with the filing of the annual corporate tax return, thereby stating the incorrect filing deadline and providing irrelevant conditions for the filing exemption.

In part (b)(i), only a minority of candidates were able to explain the rights-based approach and distinguish between the tax treatment of the transfer of a copyright right and the transfer of a copyrighted article.

Similarly, many candidates were not able to satisfactorily answer parts (b) (ii) (1) and (2) due to a lack of technical knowledge in this area. Some candidates characterised the payments as know-how payments or show-how payments. Answers presented to part (b) (ii) (3) were more satisfactory as most candidates appeared familiar with the withholding tax implications for the technical services rendered in Singapore and outside Singapore.

### **Question Five**

Part (a) was generally well-attempted although some candidates were unable to provide all five conditions.

In part (b)(i), some candidates failed to appreciate that the question was on the tax treatment of a non-resident professional (“NRP”) and not a non-resident employee.

When considering Option B (20% tax on net professional income), a number of candidates claimed deductions for the airfare (even though this was not borne by the NRP) and for meal expenses (even though these were private expenses). Candidates must learn to use the information as provided in the question.

In part (b)(ii), only a few candidates were clear about the scope of the concession in relation to the accommodation cost borne by the company, MPL. Candidates who thought the question concerned a non-resident employee often applied the 10% rule in quantifying a taxable benefit.