

# Examiner's report

## F6 (SGP) Taxation

December 2015

### General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of the Singapore tax rules in more depth. This is the second examiner's report since the introduction of the new exam format and question types. The following paragraphs report on each section and focus on some of the key learning points.

### Specific Comments

#### Section A

Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 syllabus, rather than attempting to question spot. Further, as the questions in section A are standalone questions, the depth of the application of certain tax rules (e.g. the specific conditions that must be met for certain type of deductions to be taken) may be tested.

The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

### MCQs for Discussion

#### Example 1

Fun Limited, a trading company, has the following credits in its profit and loss account for the year ended 31 December 2014:

	\$
Wage credit scheme	3,000
PIC Bonus	15,000
PIC cash pay out	30,000
Grants for the acquisition of automated equipment	10,000

**How much of Fun Limited's Year of Assessment 2015 receipts are taxable?**

- (A) \$18,000
- (B) \$28,000
- (C) \$48,000
- (D) \$58,000

This question tested the taxability or otherwise of the receipts listed in the question. To deal with question, the candidate has to first analyse the various tax treatment, as follows:

	Analysis
Wage credit scheme	This is given to a company to defray its wage cost. Thus, this is a taxable receipt.

PIC Bonus	The PIC Bonus helps the company to relieve operating costs (e.g. wages and rentals) and encourage productivity and innovation. It is a taxable receipt.
PIC cash payout	This is given in lieu of based and enhanced allowance claim. It is not a taxable receipt.
Grants for the acquisition of automated equipment	This is given for the acquisition of the automated equipment. It would be set off against the cost of the automated equipment.

Option A was the correct answer as only the wage credit scheme and PIC bonus are subject to tax. Option B has incorrectly included the grants for the acquisition of automated equipment as a taxable income. Option C has erroneously included the PIC cash payout as taxable income. Option D has treated all the receipts as taxable, thus, it was not the correct answer.

**Example 2** Eureka Pte Ltd (EPL) has used the total asset method to compute interest adjustment.

An extract of the key financial data for the financial year ended 31 December 2014 is as follows:

	\$
Interest free loan to Benson, a director of the Company	100,000
Interest free loan to a related company	200,000
Investment in Star Ltd, a company listed on the Singapore Exchange*	300,000
 Total assets	 1,000,000
 Interest expense	 100,000

**How much interest expense will be disallowed against Eureka Pte Ltd's trading operation for the Year of Assessment 2015?**

- (A) \$50,000
- (B) \$30,000
- (C) \$20,000
- (D) \$60,000

Note that One-tier tax exempt dividend of \$10,000 was declared and received in year 2014.

This question tested how the total asset method is to be used to compute interest adjustment, i.e., interest expense attributable to non-income producing assets / investment where tax deduction cannot be claimed.

To answer this question, the candidate must be able to recognise if the interest expense attributable to the asset listed in the question would be tax deductible and if not, why not.

	Analysis
Interest free loan to Benson, a director of the Company	Tax deductible as the cost attributable to the interest free loan is akin to cost to acquire the director service of Benson. As Benson is a director of the company, any cost associated with his provision of the director service would be considered cost incurred wholly and exclusively in the production of income.
Interest free loan to a related company	The cost attributable to the interest free loan to a related company is not tax deductible as there is no matching interest income.
Investment in Star Ltd, a company listed on the Singapore Exchange	The cost attributable to the investment in Star Ltd has no tax deduction value even if Star Ltd pays dividend as the dividend income from Star Ltd is a one-tier tax exempt dividend. Therefore, any interest expense attributable to the one-tier tax exempt dividend will have no tax deductible value.

After the above analysis has been completed, the candidate would be able to conclude that the disallowed interest expense should be attributable only to the interest free loan to a related company and the investment in Star Ltd. Thus using the total asset method, the disallowed interest expense of \$50,000 is calculated as follows:  $((200,000 + 300,000) / 1,000,000) * 100,000$

The correct answer was A.

A large number of candidates chose option B. This option was not correct as the interest expense attributable to the loan extended to Benson was tax deductible. As explained above, it is tax deductible as this is akin to a staff cost. The next popular choice was option D where all the interest expense attributable to the investment listed in the question was treated as not tax deductible. This is clearly incorrect and demonstrated the candidate lack of understanding of the calculation of the interest expense using the total asset method.

Option C tested the understanding that whilst interest expense attributable to the investment in Star Ltd is tax deductible, it can only be deducted against the one-tier tax exempt dividend. Thus, such attributable interest expense is in fact not tax deductible.

## **Section B**

### **Question One**

This 10-mark question covered the topics of taxation of a foreign individual working in Singapore.

Part (a) for 8 marks required candidates to calculate the Singapore tax payable on the employment income. Amongst others, it required the candidate to be able to identify all the taxable employment income, ranging from basic salary, benefits in kind (accommodation) provided, stock options and stock awards. Further, the candidate is also required to calculate the personal reliefs that the taxpayer can claim.

Candidates' performance was satisfactory on this question. Many candidates were able to calculate most of the taxable employment income and personal reliefs.

Where candidates did not score enough marks to pass, this tended to be because they have omitted to identify the correct employment income (e.g. unable to calculate the value of the fully furnished apartment, recognise the tax point of the stock option and stock award). Further, when calculating personal reliefs, some candidate calculated working mother's child relief when the taxpayer is not entitled to claim this as her child is not a Singapore citizen.



Part (b) for 2 marks required candidates to explain how the interest income received from Australia will be taxed in Singapore. Many candidates failed to score marks because they simply do not know that the foreign sourced interest income received in Singapore by an individual in her own personal capacity is exempt from tax.

### **Question Two**

This 10-mark question covered Goods and Services Tax.

Part (a) for 8 marks required the description of the type of supply made / purchased and the output tax / input tax which is chargeable / payable.

Candidates' performance was excellent on this question. Many candidates were able to describe the type of supply made / purchased and the output tax / input tax which is chargeable / payable.

Some candidates did not score good marks because they omitted to identify the type of supplies and show the relevant input / output tax (e.g. not showing the zero rated supplies, not explaining why cash donations has no GST and unable to identify the blocked input tax for the annual dinner and dance (the family members' portion)). Further, a small number of candidates did not show whether the GST calculated is an input tax or output tax.

Future candidates must take note that it is important to explain the type of supply (zero rated, standard rated etc.) and show the calculation clearly as input or output tax.

Part (b) for 2 marks required an explanation of when GST is chargeable on deposits. Many candidates could not explain the difference in GST treatment between a refundable deposit and a partial payment for goods or services supplied.

### **Question Three**

This 10-mark question covered the tax treatment of a cash payout and calculation of the adjusted profit / loss and capital allowances of a partnership.

Part (a) for 2 marks required the calculation of a cash payout and an explanation of how it will be treated for tax purposes.. This part of the question was answered well by the majority of candidates.

Part (b) for 8 marks required the calculation of the adjusted profit / loss and capital allowances of a partnership. Candidates' performance was average on this question.

Where candidates did not tend to score well, this was because they were unable to

- distinguish between adjusted trading loss and divisible loss;
- recognize that the value of the groceries taken by Frank should be the cost of \$10,000 and not the sales value of \$12,000;
- recognize that no base and enhanced capital allowance can be claimed on the computerized sorting system as cash payout has been claimed; and
- recognize that the capital allowance claimed on the new van should be allocated to the respective partners.

Future candidates must take note that it is important to understand the correlation between adjusted trading loss and divisible loss and how the salary and various entitlements of partners represent their share of profits from the adjusted trading profit / loss.

### **Question Four**

This 10-mark question covered the topics of carry forward of unutilised losses and capital allowances.

Part (a) for 6 marks required an explanation of why the tax losses and capital allowances brought forward can be utilised in the year of assessment 2016, clearly identifying the dates of comparison used.

Only some candidates were able to correctly identify the dates of comparison to be used for the carry forward of the tax losses and capital allowances as well as state that the same business / trade test for the carry forward of the capital allowances must be met.

Candidates' performance was mixed with some performing exceeding well and others not achieving the pass mark. A vast majority of the candidates could not identify the dates of comparison.

Future candidates must take note that to handle such a question, the candidate must first understand the rules for the carry forward, identify the relevant comparison dates, group them together and check the table provided to ascertain if the shareholding tests are met on the relevant dates of comparison.

Part (b) for 4 marks required the candidate to extend his / her analysis in Part (a) to the computation of the chargeable income as well as to state specifically the order of claim of the loss items. For candidate who can handle Part (a), most of them can deal with Part (b) except for some the order of claim of the loss items. Some candidates were unable to extend their analysis in Part (a) to Part (b).

### Question Five

This 15-mark question was based on the taxation of employment income of an individual.

Part (a) for 11 marks required the calculation of the chargeable income. Candidates' performance was satisfactory on this question. . The following are the list of common errors made by the candidates:

- Did not calculate the salary from K Associates (1 month) and Y Associates (11 month) correctly
- Treated the 2013 contractual bonus incorrectly
- Did not bring car allowance to tax
- Brought 100% of entertainment allowance to tax
- Calculated the losses available for carry forward from Grandeur LLP incorrectly
- Treated the foreign sourced dividend income incorrectly
- Claimed parent relief on one parent only
- Claimed foreign maid levy when not entitled
- CPF contributions not calculated
- Calculate tax payable when question asked for calculation of chargeable income

Part (b) for 4 marks required the explanation of the tax treatment of a contractual bonus and a non-contractual bonus from the point of view of both the employee and employer. Most candidates provided the answer from the point of view of the employee only. For future examination, candidate must ensure that they read the question clearly.

### Question Six

This 15-mark question covered the taxation of a company. Candidates are required to calculate the minimum corporate tax payable, thus, it would have to maximise its capital allowance and PIC claims. Candidates' performance was satisfactory on this question. .

Part (a) for 13 marks required the calculation of the minimum tax liability of the company. Most of the candidates are able to correctly show the tax adjustments required and not required. Where candidates did not tend to score well, this was because of

- treating interest income received on an outstanding trade debt as a separate source interest income



- subjecting the foreign sourced dividend income that qualified for foreign sourced income exemption to tax
- claiming tax deduction on a loan to a staff member forgiven
- not calculating disallowed medical expense
- claiming based and enhanced capital allowance for automated cleaning equipment over 1 year instead of 3 years ( the question stated that the said equipment does not qualify for a 1 year claim)

Part (bi) for 2 marks required an explanation of how the country of residence of a company is determined for Singapore income tax purposes. Many candidates did not produce a satisfactory answer to this part. . This could be due the lack of the prerequisite knowledge.