

Examiner's report

F6 (SGP) Taxation

December 2016

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.

The majority of candidates were able to complete all of the questions in the time allotted, suggesting that the exam was not overly time pressured. Candidates were generally more confident in dealing with computational questions than questions requiring narrative answers. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor time management in the exam, as opposed to time pressure.

The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

Section A questions cover the syllabus broadly, and future candidates should aim to revise all areas of the F6 syllabus to be able to handle these questions, 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 types of deductions to be taken) is usually tested. Most candidates attempted all of the questions.

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.

Sample Questions for Discussion

Question 5

Excellent Pte Ltd (EPL), a goods and services tax (GST) registered company, incurred the following expenses in the quarter ended 31 March 2016:

	Net cost	GST
	\$	\$
Wreath for an employee on the passing of her father	100	7
Food for the office pantry for all employees	500	35

What is the amount of input GST that Excellent Pte Ltd can claim for the quarter ending 31 March 2016?

- A \$0
- B \$42
- C \$35
- D \$7

The correct answer was B (total of \$7 and \$35) but most Candidates went for C.

The question tested if input GST incurred on gifts provided and staff fringe benefits (in the form of food in the pantry) can be claimed.

GST incurred on fringe benefits can be claimed if the benefits are incurred for the purpose of the business. Thus, input tax on food for employees is claimable.

As for gifts, the company can claim the input tax and need not account for output tax on gifts given to its employees if the cost of the gift is not more than \$200 (amount exclusive of GST). As the wreath costs less than \$200, the input GST may be claimed.

Option A was not correct. Candidates who chose option A may have made the assumption that output tax has not been accounted for on these items. Candidates are reminded that they need to answer the question based on the fact patterns provided. In addition, there were no requirements to account for the output tax in the abovementioned scenarios.

Candidates who chose Option C or D may have mixed up the rules pertaining to the input GST claims on fringe benefits and gifts (below \$200) given to employees.

Question 8

Henry relocated to Singapore from London in 2015. He was given a relocation allowance of \$10,000, which he expended on the following:

	\$
Airfare for Henry and his pet dog	5,000
Language immersion class	800
Meals and laundries	600

What is the total taxable relocation allowance (after claiming all available deductions) of Henry for the year of assessment 2016?

- A \$4,200
- B \$3,600
- C \$4,400
- D \$10,000

The correct answer was A, but most candidates selected option D.

Relocation allowance is taxable. As an administrative concession, the following expenses can be deducted against the relocation allowance:

- Airfare to relocate to Singapore with his pet dog
- Language immersion class

Meal and laundry expenses cannot be deducted against the relocation allowance.

Candidates who chose option D did not know about the administrative concession. Candidates who chose B or C knew that certain items are deductible, but have mixed them up.

Section B

Question One

This 10-mark question covered GST.

Part (a) for 8 marks required candidates to calculate the net GST payable by or refundable to a company, providing a description of the type of supply made / purchased and the output tax / input tax which is chargeable /payable.

Part (b) for 2 marks tested the conditions that must be met in order for GST to be claimed by a GST registered trader.

Part (a) was generally well attempted. The main errors pertained to incorrectly treating the input tax on the compulsory medical insurance premium as blocked and not knowing that input tax has been paid (and thus can be claimed) on the importation of goods from Japan.

Part (b) was also generally well attempted. However, quite a number of candidates included conditions such as the claimant business must be registered for GST and the purchase must be a taxable purchase from a GST-registered supplier, even though the question stated that the company is GST-registered and input taxes were incurred on the purchases.

Question Two

This question tested the conditions that must be met for the transfer of losses between members of the same Singapore tax group and how such transfer can be affected.

Part (a) for 4 marks required candidates to explain whether the three Singapore incorporated companies would qualify for group relief and the steps to be taken to effect the transfer.

Part (b) for 6 marks required candidates to apply the concepts explained in part (a).

Candidates who performed poorly in this question did so mainly because they had not excluded Western Inc. (a foreign incorporated company) when determining whether the various companies were members of the same corporate group for group relief. As a result, they concluded incorrectly that Western Singapore 2 could participate in the group relief scheme and this affected their computations in part (b). Many candidates also did not state in their answers that an election has to be made for group relief transfer of losses to occur.

Some candidates answered part (a) correctly but failed to apply the concepts to Part (b).

Question Three

This question comprised 2 parts.

Part (a) for 8 marks tested the concept of private and business expenses of a sole proprietor.

Part (b) for 2 marks required candidates to explain the benefits of being self-employed versus being an employee.

For part (a), a number of candidates appeared to have difficulty in identifying the private and business expenses and the correct tax treatment to be accorded to such expenses.

For part (b), many candidates were aware of the ability of a self-employed person to carry forward/back his unutilised trade loss, but fewer candidates mentioned the same benefit in respect of unutilised capital allowances. A few candidates discussed the different personal reliefs and tax rates applicable to self-employed persons vis-à-vis employees, but this was not relevant.

Question Four

This question is on the taxation of individual.

Part (a) for 8 marks tested candidates on how a non-resident employee should be taxed on his employment income.

Part (b) for 2 marks tested candidates on the reporting requirements of a Singapore employer on the cessation of the employment of a foreign employee whose income is more than \$20,000.

Common mistakes made in part (a) included the following:

- Not knowing how a non-resident employee will be taxed, i.e., at the higher of tax on a resident basis or at a flat rate of 15%;
- Confusing the tax treatment of a non-resident employee with that of a non-resident professional;
- Not understanding the 60 days short term visiting employee rule and applying it to exempt the employment income from tax for the year of assessment 2018; and
- Treating the individual as a Singapore resident as a result of an erroneous application of the 2-year administrative concession.

For part (b), some candidates confused the tax clearance process for employees with the withholding tax obligation.

Question Five

This question is on the taxation of company.

Part (a) for 3 marks tested candidates on the conditions for the foreign sourced income exemption rule.

Part (b) for 12 marks required candidates to prepare a tax computation for a company.

Part (a) was generally well attempted. Most candidates were able to explain the conditions for the foreign sourced income exemption rule.

Most candidates were able to handle part (b). Some of the common mistakes made in the tax computation were as follows:

- Claiming on a 100% basis the base and enhanced allowances in respect of the automated conveyance system which does not qualify for a one year claim (as stated in the question);
- Treating the carpet as a low-value item and claiming a 100% allowance in respect of it; and
- Claiming a deduction for the donation of shares.

Question Six

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

Part (a) for 13 marks required candidates to calculate the minimum amount of Singapore tax payable.

Part (b) for 2 marks required candidates to explain the tax treatment of the sale of an antique vase, a one-off transaction.

Most candidates were able to handle part (a). Common mistakes made included the following: Computing the housing benefit using the old '10% rule' or multiplying the annual value by either 50% or 100% (instead of 150%);

- Not treating the childcare fees of \$24,000 as part of employment income;
- Subjecting the full amount of the chauffeurs remuneration to tax even though only 20% thereof was attributable to private use;
- Not deducting the mortgage interest of \$18,000 to arrive at the taxable rental income of the office unit; and
- Claiming NSman relief of \$1,500 only, when the question stated that Tony was a key command and staff appointment holder.

Some candidates did not attempt part (b).