

# Examiner's report

## F6 (SGP) Taxation

December 2017

### 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 each worth 15 marks, each testing the candidates' understanding and application of the Singapore tax rules in more depth.

The time allotted for this paper appears sufficient as the majority of candidates were able to complete all the questions. Candidates were generally more confident in dealing with computational questions than questions requiring qualitative answers. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor examination time management technique, 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 (SGP) syllabus to be able to handle these questions. Further, as the questions in section A are standalone questions, the depth of the application of certain tax rules (e.g. the specific rule governing the remittance of foreign sourced income or 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

#### Example 1

In 2016, Investwell Pte Ltd (IPL) received interest income from a late paying customer in Country A. 10% withholding tax has been deducted from the interest and IPL has used the net amount received to on-pay a supplier in Country A.

Country A's headline tax rate is 30%.

**Which of the following best describes the treatment of the interest income received by Investwell Pte Ltd ?**

- A** The interest income is not taxable in Singapore as it is an unremitted foreign-sourced income.

- B** The interest income is taxable in Singapore as it is a foreign-sourced income deemed remitted into Singapore.
- C** The interest income is taxable in Singapore as it is a Singapore-sourced income.
- D** The interest income is not taxable in Singapore as the headline tax rate of Country A is more than 15% and withholding tax has been suffered.

The correct answer was C but most candidates went for D.

The question tested the candidates on two concepts, namely, (i) what constitutes income derived and accrued in Singapore and (ii) if so, when such income will be taxed in Singapore.

The majority of candidates believed that the interest income was a foreign-sourced income and, thus not taxable in Singapore, which was incorrect. These candidates failed to recognise that interest associated with a trade debt is considered a Singapore-sourced income as the interest income follows the characterisation of the underlying transaction. As the underlying transaction is a Singapore-sourced trade income, such income will be taxed in Singapore on an arising basis as it constitutes income derived and accrued in Singapore.

Options A, B and D were not correct. By picking these options, the candidates demonstrated the lack of understanding that the interest income on a trade receivable is considered income derived and accrued in Singapore and not a foreign-sourced income. These options have various variations on when the foreign-sourced income will be considered received or deemed received in Singapore.

### Example 2

Advent Pte Ltd (APL), is a goods and services tax (GST) registered trader. For the quarter ended 31 December 2016, APL had the following receipts:

- \$1,070 from a customer for goods to be delivered on 2 January 2017. The invoice for these goods was raised on 4 January 2017; and
- \$3,210 from a customer for an invoice raised on 30 September 2016. The goods were delivered on 1 October 2017.

Both the values above are inclusive of GST.

**What is the amount of output GST which Advent Pte Ltd must account for on these receipts in the quarter ended 31 December 2016?**

- |          |       |
|----------|-------|
| <b>A</b> | \$280 |
| <b>B</b> | \$210 |
| <b>C</b> | \$70  |
| <b>D</b> | \$0   |

The correct answer was C (\$70 (1,070 x 7/107)).

The time of supply is triggered at the earlier of:

- when payment in respect of the supply is received; or
- when an invoice in respect of the supply is issued.

For the \$1,070 received in the 31 December quarter, the time of supply is in that quarter. The time of supply for the \$3,210 (GST of \$210) is in the quarter ended on 30 September 2016 when the invoice was issued.

## **Section B**

### **Question One**

This 10-mark question covered GST.

Part (a) for eight marks required the description of the type of supply made / purchased and the amount of the output tax / input tax, if any.

Part (b) for two marks tested on the conditions that must be met for a GST registered trader to satisfy the *de minimis* rule and claim full input tax credit.

Part (a) was generally well attempted. The common errors made were:

- Categorising the out-of-scope supplies of \$200,000 as zero-rated supplies;
- Not recognising that GST is payable on the importation of the computer equipment;
- Claiming an input tax credit in respect of the sports club subscription fee; and
- Referring to the motor car expenses as an out-of-scope or exempt supply made to PPL (rather than as a standard-rated supply in respect of which an input tax credit is blocked).

Part (b) was not well attempted. Many candidates did not appear to know what the *de minimis* rule is. Often, they provided answers that were irrelevant, such as stating the general conditions for the claim of an input tax credit.

### **Question Two**

This question tested the conditions that must be met for the carry back of unabsorbed capital allowances and losses as well as the order of set-off for group relief and carry back of unabsorbed capital allowances and losses.

Part (a)(i) for three marks required the explanation of the conditions that have to be satisfied in order to carry back unabsorbed capital allowances and losses.

Part (a)(ii) for two marks required the explanation of the maximum amount of carry back allowed and the order of set-off for group relief and carry back of unabsorbed capital allowances and losses.

Part (b)(i) and (ii) for five marks required the application of the concepts explained in part (a) and calculation of potential tax savings arising from such application.

In respect of part (a)(i), candidates frequently stated the shareholding comparison dates for carrying forward unabsorbed items rather than for carrying back as required by the question.

In part (a)(ii), some candidates incorrectly stated the carry back limit as \$300,000 over three years of assessment rather than \$100,000 for the immediate preceding year of assessment.

Candidates also appeared not to be aware that a group relief transfer should be made first before any remaining unabsorbed items are carried back for the same year of assessment. They gave effect to the claims in the reverse order and this was the main reason for the incorrect calculations presented in part (b).

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

### **Question Three**

This question comprised two parts.

Part (a) for four marks tested the computation of divisible profit, adjusted profit and capital allowance claim calculations.

Part (b) for six marks required the candidate to calculate the assessable income for each partner.

When answering part (a), some candidates were not able to accord the correct treatment for medical expenses incurred for Brad (a partner) and the medical insurance incurred for the staff. The former is akin to a distribution of profits to Brad whilst the latter is a staff medical insurance expense that has to be subject to the medical expense claim restriction if it is more than 1% of the total staff remuneration.

In their answers to part (a), quite a number of candidates could not correctly identify the adjustments to be made to arrive at divisible profits and adjusted profits. Consequently, their answers to part (b) were affected by this lack of understanding. Furthermore, some candidates have presented the answers for each partner separately. This may have caused these candidates to waste precious time as it would have been easier for them if they had used the columnar format to present their answers.

### **Question Four**

This question comprised two parts.

Part (a) for six marks tested the concept of the “right-based approach” when Singapore withholding tax is applicable to software payments.

Part (b) for four marks required an explanation of whether Singapore withholding tax is applicable to the three scenarios presented in the question.

Some candidates handled part (a) well and explained the difference in Singapore withholding tax treatment on “copyright” and “copyrighted” payments. Others were not able to articulate the distinction between the two.

Most candidates handled part (b) well. For those who could not, the common errors made were as follows:

- in respect of the maintenance services, stating that withholding tax was not applicable or stating withholding tax at 15% instead of 17%; and
- in respect of the late interest penalty, not knowing that this is in fact an interest payment and thus, subject to Singapore withholding tax when paid to a non-resident person of Singapore.

### **Question Five**

This question is on the taxation of a company.

Part (a) for 12 marks examined the preparation of a tax computation for a company.

Part (b) for three marks tested the concept of the liberalised tax treatment of expenses incurred in Singapore to derive foreign dividend income assuming that such dividend income is not exempt from tax under the foreign source income exemption scheme.

Part (a) was generally well attempted. In computing the chargeable income, some candidates made the following mistakes:

- excluding from tax the insurance recovery for loss of profits and disallowing the associated legal fees;
- allowing a deduction for the compensation paid to the competitor;
- disallowing the interest expense on the working capital loan;
- disallowing the managing director's personal income tax liability and/or late payment penalty (although this will qualify as a deduction as a staff cost in accordance with the terms of the employment contract); and
- claiming a deduction for the donation made in kind.

For part (b), quite a number of candidates discussed the qualifying conditions for the exemption of foreign income under section 13(8) of the Income Tax Act even though the question clearly imposed the assumption that the dividend income was taxable. A few candidates considered the claim of foreign tax credit. Very few candidates addressed the actual requirements of the question. This demonstrated the candidates' attempt to regurgitate their knowledge of the issue without reference to the issue tested.

### **Question Six**

This 15-mark question examined the taxation of employment income and other income of an individual.

Part (a) for 12 marks required the calculation of the minimum amount of Singapore tax payable for an individual.

Part (b) for three marks required the explanation of the difference between the tax treatment of a contractual versus a non-contractual bonus.

The errors commonly made in preparing the personal income tax computation in part (a) were:

- extending the concessionary tax treatment for home leave passage to the second trip made by Harsh and/or not extending the concessionary tax treatment for both home leave passages for his children;
- claiming a deduction based on the actual rental expenses even though the deemed expenses based on 15% of the gross rent was higher; and
- claiming child relief for both children.

Most candidates could explain why the tax treatment accorded to a contractual bonus is different from a non-contractual bonus.