



# Examiner's report

## F6 Taxation (SGP)

June 2015

### General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 two marks multiple choice questions which covered a broad range of syllabus topics comprising narrative and computational questions. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of corporate income tax, personal income tax and goods and services tax (GST) in more depth. This is the first 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

Candidates preparing for the next examination of F6 (SGP) are advised to work through the specimen paper and sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus and specific application of the law, and future candidates should aim to revise all areas of the F6 (SGP) syllabus, rather than attempting to question spot.

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

Startlet Pte Ltd (SPL), was incorporated on 1 April 2012. After months of hard work, SPL secured its first sales on 1 April 2014. SPL's financial results from the 1 April 2012 to 31 Dec 2014 are as follows:

	Nine month period ended 31 December 2012	Financial year ended 31 December 2013	Financial year ended 31 December 2014
	\$	\$	\$
Sales	0	0	100,000
<i>Less:</i>			
Cost of incorporation	(5,000)	-	-
Staff cost	(13,000)	(26,400)	(34,400)
Staff training costs	-	-	(2,000)
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	(18,000)	(26,400)	63,600

What is Startlet Pte Ltd's chargeable income for the year of assessment 2015?



- A. \$37,200
- B. \$18,200
- C. \$19,200
- D. \$31,200

To answer this question, a candidate had to recognise that it is a test of concept of the deduction of revenue expenses incurred one year before the first day of the basis period in which the company earns its first dollar of business receipt (i.e. the deemed date of commencement of business) and the availability of PIC enhanced deduction for training expenses.

The correct answer is **D** computed as follows:

Net profit per accounts (financial year ended 31 December 2014)	\$63,600
Less:	
PIC training expense (\$2,000*3)	(\$6,000)
Pre commencement expenses	<u>(\$26,400)</u>
Chargeable income	<u>\$31,200</u>

Answer A was not correct as PIC for training had not been claimed ( $\$37,200 = \$31,200 + \$6,000$ ). Answer B was not correct as the non-qualifying expenses for period 1 April 2012 to 31 December 2012 of \$13,000 had been claimed ( $\$18,200 = \$31,200 - \$13,000$ ). Answer C was not correct as PIC for training was not claimed and all expenses for the period 1 April 2012 to 31 December 2012 were claimed ( $\$19,200 = \$37,200 - \$18,000$ )

### Example 2

Global Pte Ltd incurred the following expenses to market its products in the year ended 31 December 2014:

	\$
<b>Trade fair in China</b>	
Travel and accommodation cost for four staff	20,000
Rental of exhibition booth	<u>15,000</u>
	<u>35,000</u>
<b>Trade fair in Singapore</b>	
Samples and promotional materials	<u>7,000</u>

The Singapore trade fair was approved by IE Singapore as qualifying for a double tax deduction.

**What is the maximum tax deduction Global Pte Ltd can claim in respect of the above expenditure in the year of assessment 2015?**

- A. \$84,000
- B. \$74,000



- C. \$49,000
- D. \$64,000

This question tested the concept of double deduction for overseas and local trade expense. For staff costs, a double deduction is only allowed for up to two staff. For the Singapore trade fair, it must be approved by IE Singapore.

Answer A was not correct as it assumed that ALL costs qualified for double deduction (  $\$35,000 + \$7,000$ )\*2. Answer C was not correct as it was been calculated on the basis that only the Singapore trade fair cost qualified for double deduction ( $\$35,000 + (\$7,000*2)$ ). Answer D was not correct as it assumed that only the rental of the exhibition booth and the Singapore trade fair costs qualified for double deduction ( since the question stated that it was approved by IE Singapore) (  $\$20,000 + (\$15,000 + \$7,000)*2$ ).

## Section A

### **Question One**

This 10-mark question covered the goods and services tax (GST) treatment of supplies and purchases of a GST registered trader.

Part (a) was a relatively standard question on the net GST payable for a period. The majority of candidates performed well in this question part.

In contrast, part (b) was either not attempted or, for those who did attempt it, they provided a myriad of reasons that were not valid reasons that the Comptroller of GST would accept for the granting of an extension of time for the filing of a GST return.

### **Question Two**

This 10-mark question covered the transfer of loss items under the group relief system.

In part (a), many candidates merely stated the amounts of BPL's loss items but omitted to work out the continuous period for the purpose of apportioning the items for group relief.

This error in part (a) was carried over to APL's tax computation in part (b), with many candidates not apportioning the loss items of BPL that were transferred in under the group relief scheme. Some candidates opted to transfer the loss items to CPL despite the question stating that the group had elected to transfer the maximum amount of loss items to APL. Another common error was that many candidates awarded the start-up exemption to CPL even though that company was not a newly incorporated company.

### **Question Three**

This 10-mark question covered the concepts of claw back of capital allowances, land intensification allowance (LIA), productivity and innovation (PIC) allowance and PIC bonus, where applicable.

A number of candidates appeared not to understand the requirement of this question. They failed to recognise that balancing adjustments needed to be made as the assets for which capital allowances had been claimed were no longer in use by the company at the end of the basis period.

The most common errors made in part (a) were as follows:



- Including the land cost as qualifying expenditure for LIA;
- Claiming LIA annual allowance at 3% instead of 5%;
- Claiming a 3-year write-off for the automated conveyor system instead of a 100% claim;
- Not clawing back the PIC allowance and the PIC bonus; and
- Not calculating a balancing adjustment on the disposal of the furniture.

Only a minority of candidates were able to answer part (b), which was a 2 mark question and many candidates did not attempt this part at all.

#### **Question Four**

This was a question involving an individual who has different sources of income, namely, partnership income, employment income and rental income. Most candidates appeared confident in dealing with this question.

The most common errors made by candidates in preparing Alice's personal income tax computation were as follows:

- Not deducting the reimbursement of tuition fee from the partnership adjusted profit to arrive at the divisible profit;
- Not disallowing the mortgage interest expense despite the question stating that the funds were NOT used for the purchase of the property;
- Setting off her husband's China business loss against her taxable income; and
- Not claiming spouse relief.

#### **Question Five**

Most candidates were able to apply the tests of residence and the 3-year or 2-year administrative concession in answering part (a).

For part (b), the most common errors were:

- Failure to impute 50% of the annual value for furniture and furnishings provided as part of the housing benefit;
- Treating the home leave passage as an initial passage to take up employment in Singapore and therefore not subjecting the cost of the passage to tax at all; and
- Using the car benefit formula applicable to a car owned by the employer even though the car in question was a leased car.

#### **Question Six**

For the corporate tax computation in part (a), most candidates performed reasonably well in identifying the common tax adjustments. The more common errors made included the following:

- Incorrectly adding back the hire purchase interest relating to the extrusion machine;
- Incorrectly adding back the legal fee to defend against the leakage claim;
- Claiming 100% base and enhanced allowances for the hire purchase principal payments relating to the extrusion machine; and
- Not performing a balancing adjustment calculation for the computers that were donated.

The majority of candidates performed satisfactorily on this part of the question.



In part (b), candidates who did not read the question properly wrote about other conditions which must be met for the full exemption. This was despite the question clearly asking for the shareholding conditions only. Candidates are reminded of the importance of careful reading of the question requirements.