

Examiner's report

F6 (SGP) Taxation

June 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 the questions. Candidates were generally more confident in dealing with computational questions than questions requiring qualitative answers.

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. 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) is usually 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

Sample question 1

Alice bought an apartment from the developer in 2014 with a mortgage loan. Alice took possession of the property with effect from 1 July 2015 and it was immediately tenanted at a rental of \$4,000 per month.

Details of the rental income in the year 2015 are as follows:

Rental	24,000
Less:	
Mortgage interest	(16,000)
Maintenance charges	(2,000)
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Net rental income	6,000
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What is the minimum rental income on which Alice will be subject to tax in the year of assessment 2016?

A \$4,400

- B \$14,000
- C \$15,000
- D \$12,400

The correct answer was D but a number of candidates chose B or C.

This question tested the new tax deduction rule for the claiming of deductible expenses against passive rental income earned from residential property by an individual with effect from the year of assessment 2016.

Under the new tax deduction rule, an individual may opt on a yearly basis to deduct an amount of deemed expenses (based on 15% of the gross rental income) against its passive rental income, in lieu of the actual amount of deductible expenses incurred (excluding interest expense) in producing such income.

Option D was the correct answer - $((0.85 \times 24,000) - 8,000)$

Option A applied the new tax deduction rule correctly; however, it had treated the full year interest expense as deductible when only half of the mortgage interest was tax deductible.

Option B ignored the new tax deduction rule and had only disallowed half of the mortgage interest (\$8,000) as the apartment was not income producing for the first half of 2015.

Option C, as in Option B, had ignored the new tax deduction rule. Further, Option C had assumed that half of the maintenance charges was not tax deductible. This was an incorrect adjustment as the maintenance charges were only payable after Alice took possession of the property on 1 July 2015.

Sample question 2

Peter ceased the operations of his sole proprietorship business on 31 December 2015.

As at 31 December 2015, the business had agreed unutilised losses and unabsorbed capital allowances of \$100,000 and \$200,000 respectively.

Which of the following correctly describes the tax consequences of the cessation of Peter's sole proprietorship business?

- A Both the unutilised losses and unabsorbed capital allowances can be carried forward
- B Only the unabsorbed capital allowances can be carried forward
- C Only the unutilised losses can be carried forward
- D Neither the unutilised losses nor the unabsorbed capital allowances can be carried forward

The correct answer was C but a number of candidates selected D.

The unabsorbed capital allowances cannot be carried forward as Peter had ceased his trade, therefore, the “same trade” test would not be met. However, as an individual, the trade losses would always be available for carry forward as Peter is the ultimate beneficial owner of these losses. Accordingly, C was the correct answer.

Given the cessation of trade, unabsorbed capital allowances cannot be carried forward. Option A and B were clearly wrong as both included the carry forward of unabsorbed capital allowances. Option D was wrong as unutilised losses can be carried forward.

Section B

Question One

This question tested on the Singapore withholding tax implications on certain payment made to non-residents of Singapore.

For part (a), candidates generally were able to deal with the withholding tax implications on licence fee and software usage fee, although quite a few candidates incorrectly applied the 15% (rather than 10%) withholding tax rate to the licence fee. For the software usage fee, many candidates were aware that the software usage fee would be exempt from the Singapore withholding tax provision but could not provide satisfactory explanations as to why this was so.

For candidates who do not understand the Singapore withholding tax provisions, the most common mistake was to treat the payment for equipment purchase to be subject to withholding tax and the failure to distinguish the withholding tax implications on technical services provided in and outside Singapore.

For part (b), while many candidates were aware of the deadline for complying with the Singapore withholding tax obligation, however, they did not apply the rule specifically to the facts of the case. Instead, many of them engaged in an unnecessary discussion of penalties for not complying with the Singapore withholding tax obligations on a timely basis.

Question Two

This 10-mark question covered Goods and Services Tax.

Part (a) for 2 marks tested the “time of supply” rule for an advance payment received. Part (b) for 8 marks required the description of the type of supply made / purchased and whether the output tax / input tax which is chargeable / payable.

This question was generally well-attempted.

For part (a), given that it is a specific test of the concept of “time of supply” rule, candidates who were not familiar with the said rule did not obtain the marks.

For part (b), candidates who did performed unsatisfactorily made the following mistakes:

- Not identifying the type of supply and the reason for the applicable GST position adopted;

- Failure to accord the proper GST treatment to the rental of furniture and fittings for the residential apartment which has been provided to the general manager. In many cases, output tax under the deemed supply rules was not accounted for even though input tax credit had been claimed.
- Failure to recognise that the advance payment received was inclusive of GST.

Question Three

This question tested the calculation of the divisible profits of an LLP and how such profits are to be taxed in the hand of the partner. Further, the interaction between the adjusted loss available to be carried forward and the contributed capital was also tested.

For the calculation of the divisible and adjusted profits, there are two broad group of candidates. One group demonstrated a thorough understanding of the concepts of divisible and adjusted profit and thus, provided the correct answers. The other group had difficulty computing them and often appeared to be confused with the concepts of divisible profit and adjusted profit.

The interaction between the adjusted loss available for carried forward and the contributed capital was more challenging for the candidates. Many candidates incorrectly set off \$120,000 of the brought-forward loss against Jane's current year adjusted profit (ignoring the information provided in the answer that she had utilised the amount that she could in YA 2015), while others totally ignored the brought-forward loss.

Question Four

This question tested the concept of items that will qualify for capital allowances claim, the computation of balancing allowance and the conditions for claiming and carrying forward of donations.

In calculating the capital allowances for the Year of Assessment 2016, many candidates failed to recognise that the one-time domain name registration cost of \$2,000 qualified for capital allowance claim. A few candidates also did not claim capital allowances for the computer cabling cost of \$3,000. In the case of the computers that had been disposed of and in respect of which a PIC cash payout had been previously claimed, many candidates computed a balancing adjustment despite the fact that balancing adjustment should only be made on items where capital allowances have been claimed.

Most candidates can handle the part on the calculation of the qualifying donations. However, many candidates could not deal with the conditions for the carry-forward of unabsorbed donations.

Question Five

This 15-mark question was based on the taxation of employment income of an individual. It required the candidates to calculate the minimum amount of Singapore tax payable.

Most of the candidates performed satisfactorily on this question. The following are the list of common errors made:

- Failure to calculate the taxable amount arising from the stock option and stock award;
- Failure to apportion the interest income of \$5,000 into amounts that were Singapore-sourced and foreign-sourced;
- Claiming qualifying child relief and working mother child relief when the child has income of more than \$4,000; and
- CPF contributions not calculated or calculated incorrectly.

Question Six

This 15-mark question covered the taxation of a company in 3 parts. Most of the candidates performed satisfactorily on this question.

Part (a) tested the candidate on the deductibility of two items and part (b) required the candidates to calculate the minimum corporate tax payable (i.e., to maximise its capital allowance and PIC claims). Part (c) tested the candidates on the conditions for PIC cash payout claims.

Many candidates were unable properly explain the position that they had adopted for part (a), i.e., why the installation cost and the compensations were tax deductible. Others were of the view that the free installation and compensation for revenue loss were non-deductible capital expenditure. They based their answer on the misplaced argument that the gas meters would provide enduring benefits for the customers.

In relation to part (b), the common errors were:

- Adding back the gas meter installation costs on the basis that these costs were non-deductible capital expenditure;
- Not adding back the staff training and seminar costs in respect of which a PIC cash payout had been claimed; and
- Failing to accord the relief under the Tax Exemption Scheme for New Start-Up

For part (c), many candidates did not have the technical knowledge to answer this question and some have included aspects that were not tested in the question, e.g. the rate of 60% to convert to the cash payout and issues relating to the subsequent disposal of the PIC equipment where cash payout has been claimed.