Examiner's report
F6 (SGP) Taxation
June 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 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

<u>Section A</u>

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 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

JanCo Pte Ltd recorded the following income in its financial year ended 31 October 2016:

Interest from Customer A in Country A of **$1,800 received net of withholding tax of $200**. The interest was levied because Customer A was late in paying a trade invoice.	$1,800
Dividend income from an investment in shares in Country A.	$5,000

Both amounts were kept in JanCo Pte Ltd's bank account in Country A and not remitted to Singapore.

What is the total amount of taxable income of JanCo Pte Ltd in the year of assessment 2017?

A $0
B $7,000
C $2,000
D $1,800

The correct answer was C, the gross amount of the interest received, but most candidates selected A.

The question tested candidates on two concepts, namely, (i) what constitutes income derived and accrued in Singapore and (ii) if the income is not derived or accrued in Singapore, what constitutes income received or deemed received in Singapore.

Option A was not correct. By picking Option A, candidates demonstrated the lack of understanding that the interest income on a trade receivable is in fact income derived and accrued in Singapore and not a foreign sourced income even though it is paid by an overseas customer. The nature of the income is tied to the originating transaction.

In choosing Option B, candidates demonstrated a lack of understanding of what constituted Singapore sourced and foreign sourced income.

Candidates that have chosen Option D understood the concept that the interest income on the trade receivable is considered a Singapore sourced income but missed the point that such interest income would be subject to tax on the gross amount and not the amount net of withholding tax.

Example 2

Far East Pte Ltd disposed of the following assets in its financial year ended 31 December 2016:

	Sales proceeds $
Graphic processing equipment (purchased in 2013, on which a productivity and innovation credit (PIC) cash payout was claimed)	5,000
Lighting for the office (purchased in 2014, on which a s.14Q refurbishment work deduction was claimed)	500
Computers (purchased in 2014, on which a PIC enhanced capital allowance was claimed)	1,000

What is the maximum balancing charge on which Far East Pte Ltd will be subject to tax in the year of assessment 2017?

A $ 6,000
B $ 1,500
C $ 1,000
D $ 6,500

The correct answer was C.

A balancing adjustment is not required for the section 14Q claim ("the 14Q point") as well as assets where a PIC cash payout has been claimed ("the cash payout point"). Once candidates are clear on these concepts, the only balancing adjustment calculation is for the computers. By picking Option A, candidates understood the section 14Q point but not the cash payout point. By picking Option B, candidates understood the cash payout point and missed the section 14Q point. By picking Option D, candidates missed both the 14Q and cash payout point.

Specific Comments

Section B

Question One
This 10-mark question covered Goods and Services Tax.

Part (a) for two marks tested the goods and services tax treatment (output and input tax) of the parts used for the repair and service provided during a warranty period.

Part (b) for eight marks required the calculation of the net goods and services tax payable or refundable including descriptions of the type of each supply made / purchased and the applicable goods and services tax.

Part (a) was not well-attempted.

The most common error made for part (a) was to treat the warranty repairs as deemed supplies even though the repairs were already included in the price of the original sale. Quite a number of candidates demonstrated the lack of understanding that the input tax on the cost incurred to provide the warranty can be claimed.

Part (b) was generally well attempted. The common mistakes were:
- treating the input tax on the rental of furniture used by the director as claimable; and
- treating the IDD calls as standard-rated purchases.

Question Two
This question tested the concept of withholding tax on interest expense and how the penalties for late payment should be calculated. It also tested the conditions that must be met for a company to avail itself of the reduced penalties under the voluntary disclosure programme.

Part (a) for four marks required the candidate to explain whether the Singapore withholding tax obligations have been triggered for loans taken to fund the purchase of a piece of equipment in Singapore and the purchase of an office unit in Hong Kong.

Part (b) for three marks required the candidate to apply the concepts explained in part (a) and calculate the applicable withholding tax.

Part (c) tested the conditions to be met under the voluntary disclosure programme.

For part (a) and in respect of the interest on Loan #2, many candidates were not aware that as the loan was used to fund the purchase of an immovable property outside Singapore, the interest paid would not be deemed a Singapore source. Thus, they continued to discuss the Singapore withholding tax implications.

Withholding tax penalties in part (b) were often incorrectly calculated by applying the penalty rates to the amount of the interest rather than the amount of the withholding tax. Furthermore, candidates also incorrectly applied the additional 1% penalty to three (or even four) complete months, rather than just two.

As for part (c), some candidates did not answer the question correctly – Instead of stating the conditions as required in the question, they discussed the reduced penalty rates for disclosure made to the Inland Revenue Authority of Singapore (IRAS) by a certain time and/or the acceptable causes leading to the reporting error.

Question Three
This question comprised 3 parts. Parts (a) and (c) were poorly answered.

Part (a) for four marks tested the effect of a section 24 election on the transferee at the point of transfer and transferor at the point of disposal.

Part (b) for two marks required the candidate to calculate the enhanced and base capital allowance for assets purchased on hire purchase that qualifies for productivity and innovation credit claim over three years.

Part (c) tested the carry back of unabsorbed capital allowances.

For part (a), some candidates did not understand the implications of a section 24 election and continued to compute the capital allowances as though no such election had been made. As a result, they continued to calculate a balancing adjustment at the transfer on the transferor. On the disposal of the equipment by the transferee, they did not take into account the balancing allowance claimed by the transferor in the computation.

Some candidates did not know how to calculate the principal amount for capital allowances claims. Others ignored the instruction in the question that the equipment in question qualified for a productivity and innovation credit claim over three years.

For part (c), some candidates did not claim any carry-back relief or if they did, failed to cap the amount to $100,000. For the year of assessment (YA) 2016 computation, candidates did not compute the tax refund associated with the carry-back.

Question Four
This question was on partnerships.

Part (a) for seven marks tested the candidate on how the adjusted and divisible profits of the partnership are calculated.

Part (b) for three marks tested the candidate on how the assessable income of a partner is calculated.

For the calculations in part (a), many candidates were confused with the concepts of adjusted profits and divisible profits. Candidates struggled to identify adjustments that affected the divisible profit and adjusted profit computation only. For example, the rent paid for Bernard's apartment is a form of distribution to Bernard and thus should not be added back for the computation of the divisible profits. Candidates did not know that legal fee relating to the law suit for the trademark infringement was a tax deductible expense.

Part (b) was generally well-attempted. Most candidates could calculate the share of the partnership income.

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

Part (a) for two marks required the candidate to explain the tax point for director's fees.

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

For part (a), a number of candidates incorrectly treated the directors' fees approved in advance as taxable based on the date they were approved at the annual general meeting.

For part (b), some candidates had difficulty determining when the director's fees for the year ended 30 September 2017 would be taxable on the director. The other common mistake included taxing only 20% of the car allowance. Most candidates could handle the other aspects of the question (i.e. stock option, housing benefits in kind etc).

Question Six

This question was on the taxation of company.

Part (a) for three marks tested the candidate on the conditions to be met for the gains on disposal of the ordinary shares of a company to be automatically exempted from tax.

Part (b) for 12 marks tested the candidate on the preparation of a tax computation for a company.

Part (a) was not well-attempted. Most candidates were not familiar with this exemption. Quite a few candidates launched into an unnecessary discussion on the badges of trade.

Most candidates could handle part (b). The common errors made included:

- adding back directors' fees;
- not apportioning the interest cost and not attributing it to the rental income;
- not claiming further deduction on expenses relating to the overseas trade fair, and if claimed, not restricting the further deduction claim for travelling costs to two employees; and
- not reading the requirement carefully, and computing the tax payable instead of the chargeable income.