Examiner’s report
F6 (SGP) Taxation
March 2017

ACCA

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 Singapore tax rules in more depth.

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

Specific Comments

Section A

Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 syllabus, 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) may be tested.

The following question is 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 topic covered by the specific question selected.

Example

Jaunty Pte Ltd was incorporated on 1 December 2014 and commenced its business in February 2016. In the financial year ended 31 December 2016, the only asset purchased by Jaunty Pte Ltd was an automated conveyor system. The system costs $980,000 and qualifies for a one-year Productivity and Innovation Credit (PIC) enhanced allowance. The company does not qualify for PIC+ scheme.

What is the maximum Productivity and Innovation Credit (PIC) enhanced allowance available to Jaunty Pte Ltd in the year of assessment 2017?

A. $3,600,000
B. $2,400,000
C. $2,940,000
D. $1,200,000

This question tests candidates' understanding of how PIC enhanced allowance is combined for the years of assessment (YA) 2016 to 2018. To enjoy the combined expenditure cap, a taxpayer must carry on a trade or business in the basis period for the relevant YA. Otherwise, an annual or adjusted combined expenditure cap will be adopted.

In the above scenario, the combined expenditure cap is reduced by $400,000 as the company did not carry on a business in YA 2016. Thus, the correct answer is B ($2,400,000 = 300% x $400,000 x 2 years).

Most candidates chose either option C or D. Candidates who chose option C ($2,940,000 = $980,000 x 300%) did not cap the PIC at $400,000 per year, whereas those who chose option D ($1,200,000 = $400,000 x 300%) did not seek to combine the expenditure cap across the two years. A smaller proportion of candidates who chose option A ($36,000,000 = $400,000 x 300% x 3 years) did not consider the fact that the company did not carry on business throughout the three-year period.

Section B

Question One

This 10-mark question tested the computation of adjusted profit and capital allowances of a partnership as well as computation of a partner's assessable income.

Most candidates were able to identify the common adjustments required to arrive at the partnership's adjusted profit/loss. Some candidates had added back depreciation to net profit/loss to compute the partner's share of profit/loss from the partnership. Whilst this gave the same numerical result, candidates failed to show an understanding of the technical difference between adjusted profit/loss and divisible profit/loss in computing a partner's share of profit/loss from the partnership.

With regards to capital allowances, candidates should note that section 19A accelerated allowances (rather than section 19 allowances) is claimable for vans and capital allowances are not available where Productivity Innovation Credit (PIC) cash payout has been claimed on the same computer equipment. Candidates should also note that any unabsorbed capital allowances are forfeited upon a partner's withdrawal from the partnership and cessation of his trade.

Question Two

This 10-mark question was on goods and services tax (GST). Candidates were required to identify the nature of each of the supplies/purchases and compute the output/input tax where applicable.

This question was generally well attempted with most candidates being able to distinguish between standard rated and zero-rated supplies. Common errors were in the treatment of free gifts given to customers, recovery of stamp duty paid on behalf of a customer and classification of foreign exchange differences for GST purposes.

A GST registered trader must account for output tax based on the open market value of goods given away for free, except when the cost of the gift is not more than $200 or when no credit for input tax was allowed on the purchase of those goods.

The GST treatment for the recovery of expenses depends on whether the expense is incurred by the GST registered trader as a principal or an agent (i.e. incurred on behalf of a customer). As stamp duty is levied on the customer and the GST-registered trader had incurred it as an agent, the subsequent recovery from the customer is a disbursement and is out-of-scope for GST purposes.

It should also be noted that foreign exchange differences are exempt supplies and the absolute value (i.e. drop negative sign, if any) of the net foreign exchange gain/loss should be used for GST reporting purposes.

Question Three

This 10-mark question is split into two parts.

The first part is on the computation of section 19 initial and annual allowances. Candidates were generally able to score some marks for this question part. Candidates who did not gain full marks had either incorrectly applied 25% (instead of 20%) in computing initial allowances or had claimed an annual allowance when the asset was not in use as at the end of the relevant basis period.

The second part is on utilisation of brought forward unabsorbed losses, capital allowances and donations. Candidates who did well in this part were able to identify the relevant dates correctly in applying the shareholdings test. Further, candidates were able to gain marks where they had correctly noted that unabsorbed donations could be carried forward for up to five years of assessment whereas unabsorbed capital allowances and losses could be carried forward indefinitely.

Question Four

This is another 10-mark question which examines the Singapore withholding tax implications on different payments made to non-residents. Most candidates did not perform well in this question.

Most candidates were aware that withholding tax is applicable on interest payments and payments for copyright. The scenarios which appeared challenging to candidates were the payment for equipment rental used at an overseas representative office and management fees paid to the Singapore branch of a foreign company. Candidates need to be aware that the Inland Revenue Authority of Singapore (IRAS) has granted a withholding tax exemption for payments made under these instances. In contrast, where the (guarantee) service was provided outside of Singapore by a non-resident who did not carry on a business or have a permanent establishment in Singapore, withholding tax is not applicable.

Question Five

This is a 15-mark question with the first part requiring the preparation of a corporate income tax computation and the second part requiring candidates to list the conditions for group relief. Most candidates performed well in this question.

Common errors in the tax computation included disallowing blocked input GST on an annual club subscription fee, disallowing an ex-gratia payment incurred in the course of improving business operation efficiency and not deducting a government grant amount received in computing the PIC enhanced deduction for training expenses. For the donation of the used computer, few candidates had correctly computed the balancing charge based on the open market value assessed on the donated computer and its tax written down value.

For the second part, candidates incorrectly listed the place of a company's tax residence rather than its place of incorporation as one of the conditions for group relief. In addition, some candidates were of the impression that the 75% shareholding threshold is required to be maintained throughout the year. This shareholding threshold is only required to be met at the financial year end.

Question Six

This 15-mark question dealt with:
(a) the personal income tax computation of a Singaporean who left Singapore during the year for a two-year work assignment overseas; and

(b) how the tax residency of a foreign individual working in Singapore is determined.

Candidates' performance for this question was satisfactory.

Common errors in the personal income tax computation included subjecting to tax compensation for loss of employment; claiming a tax deduction for the cost of laptop purchased and claiming a deduction or personal relief for a life insurance premium paid when the individual's CPF contribution exceeded $5,000.

Part (b) was well-attempted with most candidates being able to explain the two-year and three-year administrative concession in determining the tax residency of a foreign individual working in Singapore.