

Examiner's report

F6 Taxation (SGP)

September 2016

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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 type of deductions to be taken) may be 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.

Sample Questions for Discussion

Example 1

Youngstar Pte Ltd incurred the following professional fees in relation to its income tax matters in the financial year ended 31 December 2015:

Objection to Notice of Assessment raised by the Inland Revenue Authority of Singapore (IRAS)	\$3,000
Appeal to Income Tax Board of Review on its tax matters	\$12,000
Review of the company's internal control for withholding tax purpose	\$4,000

What is the amount of Youngstar Pte Ltd's tax deductible professional expenses in the year of assessment 2016?

- A \$0
- B \$19,000
- C \$4,000
- D \$7,000

This question reviews the candidates understanding of the type of professional fee expenses that are tax deductible. Under s.14X, tax deductions are allowed for costs incurred to promote good corporate governance and voluntary compliance with statutory and regulatory requirements. Expenses in relation to appeals to the courts or any quasi-judicial body are not tax deductible.

In this regard, the correct answer is D (\$7,000 = \$3,000 + \$4,000). Candidates selected across all the other options, indicating unfamiliarity with this area. It would be good to enhance their understanding in this area by referring to the IRAS' e-guide - Deduction for Statutory and Regulatory Expenses (published 12 September 2014).

Example 2

Venus Design Services Pte Ltd (VDS) is a goods and services tax (GST) registered trader. On 20 March 2016, VDS received a customer order worth \$10,000 (excluding GST). The customer paid an upfront deposit of \$3,000 on the condition that the deposit would be refundable in full if VDS did not meet the delivery timeline. VDS delivered the order within the specified time and invoiced the customer on 1 May 2016 and offered a 2% prompt payment discount to entice payment by 15 May 2016. However, VDS did not receive payment until 30 May 2016.

What is the amount of output goods and services tax (GST) which Venus Design Services Pte Ltd should account for on the above transactions?

- A** \$686 in the quarter April to June 2016
- B** \$700 in the quarter April to June 2016
- C** \$210 in the quarter January to March 2016; and \$490 in the quarter April to June 2016
- D** \$210 in the quarter January to March 2016; and \$480 in the quarter April to June 2016

This question tests the time and value of supply for GST purposes. When a deposit is used as a security and is refundable, it is not a supply and GST is not chargeable. Further, when a prompt payment discount is offered to a customer, GST is chargeable on the net price after the Prompt payment discount, regardless of whether it is taken up.

Hence, the correct answer is A; $\$686 = \$10,000 \times (100\% - 2\% \text{ prompt payment discount}) \times 7\%$ in the quarter April to June 2016. It is noted that candidates generally ignored the 2% prompt payment discount and picked either option B or C.

Section B

Question One

This 10-mark question covered two parts:

- (a) the distinction between an individual working as an employee or being self-employed;
- (b) implications arising from a reduction of a partner's contributed capital in a limited liability partnership.

In answering part (a), candidates were generally able to list a few differences between a self-employed person and an employee. Some candidates were confused between the consequences

versus the factors that distinguish between an employee and a self-employed person. For example, an employee is not entitled to claim capital allowances but a self-employed is entitled to do so is a consequence of the two individuals' income being subject to tax under different sub-sections of the Singapore income tax act. The relevant factor in this case would be whether the necessary equipment is being provided to the individual for the performance his work.

Part (b) - Most candidates were able to correctly compute the share of assessable income from the partnership for the year. To do well in this question, candidates would need to show an understanding of the tax implications arising from a reduction of a partner's contributed capital. Where the partner's past relevant deductions exceeds his reduced contributed capital at the end of the basis period, the excess of his past relevant deduction is a deemed income. At the same time, this is treated as his trading loss which can be set-off against his share of partnership profits, not rental income.

Question Two

This was a 10-mark question on the goods and services tax (GST) treatment of supply of goods under common export scenarios as well as scenarios where input tax may be claimable or blocked.

Candidates performed relatively well in this question. Future candidates should note the GST treatment for goods involving third country sales (ie. goods shipped from point A to point B, both outside Singapore) and cash sponsorship where a tangible benefit is being provided in return to the sponsor.

Question Three

This 10-mark question is split into two topics:

(a) the computation of land intensification allowance (LIA), capital allowance and enhanced productivity and innovation credit (PIC) allowance thereon.

(b) withholding tax on payment for technical services rendered in Singapore, travelling and accommodation expenses.

Part (a) was reasonably well done. Whilst most candidates recognised that land acquisition costs do not qualify for LIA, some candidates did not recognise that the annual allowance is not claimable where the factory building is not in use as at the end of the basis period.

Part (b) - this question appeared to be more challenging to candidates. Candidates need to be familiar with the withholding tax implications of technical services rendered in Singapore and outside Singapore. Where candidates identified the correct withholding tax rate, most candidates did not apply a re-gross factor in view that the withholding tax cost is borne by the payer.

Question Four

This last 10-mark question required candidates to do a corporate income tax computation including medical expense restriction, capital expenditure, pre-commencement expenses and capital allowances.

This question is fairly well attempted. To perform well in this question, candidates need to be familiar with the computation of medical expense restriction; items deductible as pre-commencement expense and items qualifying for one-year capital allowance claim (such as low value items and website setup cost). In addition, candidates generally omitted to claim productivity and innovation credit (PIC) on leasing of printers and website setup cost.

Question Five

Part (a) is a 12-mark question relating to a normal trading corporate income tax computation. Candidates were generally able to correctly identify most of the non-taxable receipts or non-deductible expenses. Common errors include not making the relevant tax adjustment on medical expense restriction, movement in allowance for inventory obsolescence; renovation and refurbishment deduction claim and computation of balancing allowance/charges. Most candidates also did not recognise a claw-back of previously claimed enhanced productivity and innovation credit (PIC) allowance when the minimum ownership period is not met.

Part (b) is a 3-mark question required an explanation of the GST registration conditions. Most candidates were able to state the prospective and retrospective test. Candidates would need to clearly explain how the tests are to be applied to do well in this part of the question.

On an overall basis, candidates' performance was fair on this question.

Question Six

This 15-mark question covers a scenario of a foreigner relocating to work in Singapore straddling two calendar year periods. The question is broken down into two parts, requiring candidates to first state with reasons whether the foreigner will be treated as a Singapore tax resident and then, compute his personal tax liability on the various items in his remuneration package.

For the first part, candidates were generally able to identify the 183-day test that distinguishes whether a foreigner is to be treated as a tax resident for Singapore income tax purpose. However, not all candidates were able to state and explain whether the two-year administrative concession would apply in this scenario.

For the individual income tax computation, most candidates were able to apply the correct tax treatment to a joining bonus and restrictive covenant payment. The items that appeared to be challenging to candidates were the tax treatment of relocation expenses and housing benefit-in-kind where it was provided for part of the year. In addition, not all candidates were able to correctly recognise that as a non-tax resident, the individual would be taxed at the higher of resident rates or 15% non-resident tax rate.