

Examiner's report

F6 Taxation (SGP)

September 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 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 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 topics covered by the specific questions selected.

Example

Superb Furniture (SF), a goods and services tax (GST) registered trader, sold some office furniture to a customer for \$46,000. SF also gave an oven worth \$4,000 free-of-charge to the customer. To entice early payment, SF further offered a 5% discount for payment within 15 days. However, the customer only paid after 30 days.

What is the output GST which Superb Furniture should account for on the above transaction?

- A** \$3,220
- B** \$3,059
- C** \$3,500
- D** \$3,325

The correct answer is **B** \$3,059 being $(\$46,000 \times 95\% \times 7\% \text{ GST})$. Most candidates chose either option A or C.

This question tests candidates' understanding of the taxable value for calculating output Goods and Services Tax (GST). The free oven is treated as being sold as a package together with the furniture

at \$46,000. GST is chargeable on the net price after the prompt payment discount regardless whether or not the customer takes up the discount offer.

For candidates who chose Option A, they have correctly identified the taxable value as \$46,000 but have excluded the prompt payment discount. For candidates who chose option C, they have incorrectly identified the taxable value as (\$46,000 + \$4,000) and excluded the prompt payment discount.

Section B

Question One

This was a 10-mark question on goods and services tax (GST). Candidates were required to identify the nature of each of the supply or purchase and compute the output or input tax, where applicable.

This question was well done. Candidates were generally able to identify the correct GST treatment involving export of goods and blocked purchases. On the scenario where a GST registered trader allowed its related company to use a portion of its office space free of charge, most candidates were able to correctly identify the need to reduce the input GST claim proportionately. An alternative treatment would be to claim the input GST in full and to deem output GST on the portion of the office space used free of charge.

Question Two

This was a 10-mark question on computation of personal income tax for a foreign employee relocating to work in Singapore. Candidates performed well for this question and were able to apply the correct tax treatment for most remuneration items including joining bonus, relocation cost and other benefits in-kind (BIK).

A common error was in the calculation of taxable BIK value of an apartment given to the employee. Some candidates did not apply an apportionment factor to reflect that the apartment was co-shared and occupied on a part-year basis. Another learning point is that fees paid for a course that was not related to his employment, would not be eligible for tax deduction or personal relief claim.

Question Three

This was a 10-mark question on withholding tax and was split into two parts of five marks each. The first part examined how the date of payment is determined for withholding tax purpose and the related penalty for late payment. Candidates appeared to have a high-level awareness of the date of payment and late payment penalty involved but lacked the understanding required to score well in this question.

The second part involved three different scenarios on computation of withholding tax and penalty, where applicable. Candidates were generally able to compute the withholding tax, where applicable. However, most candidates were not able to apply the correct penalty rate as they were not able to identify the correct payment date for withholding tax purpose. On an overall basis, candidates were able to score some marks but did not do as well in this question.

Question Four

This was another 10-mark question which examined the computation of capital allowance involving hire purchase instalment payments, qualifying productivity and innovation claim (PIC) asset disposed within 12 months of acquisition as well as renovation and refurbishment (R&R) deduction claims. This question was fairly attempted.

In a hire-purchase instalment payment scenario, capital allowances is computed based on the instalments paid, including deposits. Candidates appeared to have difficulty in computing the correct capital allowance claim under this scenario.

Where the qualifying PIC equipment was disposed within 12 months of acquisition, a deemed income to claw-back the PIC previously claimed would arise. Few candidates recognised the PIC claw-back.

However, most candidates were able to identify the relevant costs qualifying for R&R deduction claims.

Question Five

This was a 15-mark question. The first part examined the differences in income tax treatment between a sleeping partner and a salaried partner in a partnership. Few candidates were able to correctly state the differences between the assessment basis under trade income versus employment income and the related availability of capital allowances claim (where income is assessed as trade income) or personal relief (where income is assessed as employment income).

The second part covers computation of a partnership adjusted profit, divisible profit and capital allowances, and flow through computation of a partner's assessable income. Candidates did relatively well in this part of the question.

Question Six

This was a 15-mark question split into two parts. The first part involved the relevant test to apply in utilising unabsorbed tax losses, unabsorbed capital allowances and unabsorbed donations brought forward. Candidates did well in this part of the question. However, not all candidates recognised that the utilisation of unabsorbed donations is also subject to a time limit of up to five years of assessment.

The second part required the computation of a company's chargeable income. Candidates generally recognised when foreign dividend income qualifies for tax exemption in Singapore and availability of a tax deduction claim for input GST disallowed on blocked expenses. Candidates should note the order of claim for future examinations. For example, donation is not to be claimed as part of adjusted trade profit; utilisation of unabsorbed trade loss brought forward is to be claimed before assessment of non-trade income.