

Examiner's report

F6 Taxation (SGP)

December 2012

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General Comments

The examination consisted of five compulsory questions (Question 1 for 30 marks, Question 2 for 25 marks and three other questions for 15 marks each). Approximately 70 percent of the marks were awarded for computational skills and the remaining 30 percent of the marks were awarded for essay based questions.

The time allotted for this paper appears sufficient as the majority of candidates were able to attempt all 5 questions.

Candidates were generally more confident in dealing with the computational questions than the discursive-type questions. Hence, they were able to do well in the calculations for Questions 1, 2(a) and 5(a). On the other hand, many could not cope with the tax concepts tested in Questions 3 and 4.

Overall, the results were satisfactory.

Specific Comments

Question One

Many candidates did well in identifying the common tax adjustments and calculating correctly the capital allowances. The more common errors made by the weaker candidates included the following:

- not adding back the allowance for stock obsolescence and compensation paid on the rescinding of the partnership agreement;
- incorrectly disallowing the interest expense incurred to raise working capital for the company, and external staff training expenses;
- not deducting the interest expense of \$50,000 against the interest income from the fixed deposit; and
- incorrectly claiming the section 14Q deduction on a 100% basis instead of over three years.
- not calculating the IBA claims correctly
- incorrectly claiming capital allowances for laptops and printers as well as chairs over three years instead of one year.

Question Two

For part (a), common mistakes made included the following:

- incorrectly computing the taxable benefit from the stock option;
- incorrectly bringing to tax the full amount of the royalty income instead of only 10% of the gross amount; and
- not adding back the cost of the new air-conditioning system to the rental income.

For part (b), most candidates were able to state the difference in tax rates and entitlement to personal reliefs but quite a few omitted to mention that only resident individuals are able to avail themselves of tax treaty benefits.

Question Three

In respect of part (a)(ii), many candidates erroneously indicated that the payment for purchase of the machine was within the scope of section 12(7) and incorrectly concluded that there was a withholding tax liability.

For part (b), many candidates merely stated the withholding tax deadline of 15 January 2012 without giving reasons to support this conclusion, as instructed in the requirement.

For the tax computation required in part (c), a number of candidates did not take into account the partial tax exemption. Some candidates also did not claim the tax previously withheld.

Question Four

Part (a) was poorly attempted. Instead of discussing Section 24 election in relation to the transfer of plant and machinery, many candidates interpreted the question as requiring a discussion of the Shareholdings Test for the carry forward/back of unabsorbed items or the Ordinary Shareholding Requirement for the purposes of group relief.

Part (b)(i) was similarly poorly attempted as many candidates discussed the requirement for furnishing an estimate of chargeable income (ECI) rather than the requirement to give notice of chargeability.

Part (b)(ii) was well attempted.

In respect of part (c), many candidates discussed the late payment penalties and/or the penalties for filing incorrect tax returns rather than the provisions of section 93A governing relief for error or mistake.

For part (d), a number of candidates mentioned the old rule of allowing expenses incurred from the beginning of the same year (rather than the year prior to the year) in which the first dollar of sales was earned.

Question Five

This question was generally well answered, especially part (a) where the bulk of the marks were allocated. However, some candidates failed to identify the club subscription fees as standard-rated supplies. For those candidates who were aware that there had been GST paid/payable on the club subscription fee, a number of them did not treat the input tax as blocked.

Parts (b) and (c) were generally well-attempted.