

Examiner's report

F6 Taxation (SGP)

December 2013

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General Comments

The examination consisted of five compulsory questions. Question 1 is for 30 marks and question 2 is for 25 marks and questions 3 to 5 are 15 marks each.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or inadequate exam technique, as opposed to time pressure.

Candidates need to work on the clarity of their presentation. For example, for question 1, sometimes it is not clear if the candidate is deducting or adding back an item. As for question 4, whether the goods and services tax (GST) computed is an input or output GST, is also not stated. A number of candidates attempted question 1 last. Leaving a 30 marks question until last can be a risky strategy with inadequate time management and/or lack of knowledge. A number of answers presented were incomplete or appeared rushed. There is also a small minority of candidates who did not calculate the GST payable for each item, where applicable, for question 4.

Candidates performed particularly well on the computational aspects of questions 1, 2 and 4. The questions candidates found most challenging were question 3 and the non-computational question 5. This is mainly due to candidates not understanding important syllabus areas well enough; a lack of technical knowledge, inadequate writing skill and failure to understand the question requirements carefully.

A number of common issues arose in the answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers.
- Inadequate time management between questions, some candidates spent far too much time on some questions and this put them under time pressure to finish remaining questions.
- Not answering the issue tested in the question and merely stating what the candidate knows about the concept being asked and
- Inadequate layout of answers.

Specific Comments

Question One

1(a)

This 30-mark question tested the candidate's understanding of fundamental concept of a tax computation, namely, treatment of foreign sourced income, deductibility of expenses, Production and Innovation Credit (PIC) claim, section 14Q claims, etc. A small minority of candidates attempted to prepare a tax profit and loss account which is contrary to the usual method of preparing a tax computation.

Generally, most candidates performed well on most of the issues tested in this question. Some of the common mistakes made that showed a lack of fundamental understanding of certain concepts, such as:

- not identifying the foreign interest income deemed received
- incorrectly treating the interest received from overseas trade receivables as a separate source income
- incorrectly treating the foreign dividend as tax exempt income
- incorrect calculation of non-deductible portion of medical expense

- wrongly treating the capital expenditure (items 14 & 15) as expenses debited in the profit and loss account and putting through unnecessary adjustments;
- incorrect calculation of PIC enhanced allowance (applying a cap of \$400,000 to the capital expenditure on prescribed automation equipment instead of applying the cumulative cap of \$1.2 million);
- incorrect calculation of the special deduction in respect of the renovation and refurbishment works and not claiming capital allowances on items qualifying as plant

In relation to the 5-mark for the group relief question, most candidates performed well on this. For those who have lost marks on this question, it is due to candidates not reading and responding to the question as tested, instead, candidates merely provided information about group relief based on what they knew.

Question Two

This 25-mark question covered the topics of a sole proprietor, employment income with benefits in kind and spousal transfer of qualifying deductions and an explanation of PIC qualifying training expenditure.

Most of the candidates performed well on the computation of Brendon and Alice. In relation to the set off of qualifying deductions, some candidates ignored the sequence of setoff (i.e., rental loss against rental income only)

In relation to the question on training expenditure, most of the answers did not mention about external training nor the requirement for WSQ certification for internal courses, or the cap of \$10,000 for internal courses. Instead, the candidates merely stated what components of training could qualify for the PIC claim instead (e.g. trainer fees / expenses etc)

On the question on the procedures for election for the transfer of qualifying spousal deductions, many answers outlined what could and could not be transferred, and not the process / requirements of the transfer. Again, these candidates have misread the requirement.

Question Three

This 15-mark question tested the candidates on the tax treatment of limited liability partnership.

For part (a), many candidates have only briefly mentioned that the contributed capital of a partner of a limited liability partnership included the amount which the partner has contributed to the limited liability partnership, and could not elaborate further.

Part (b) was inadequately attempted. Candidates did not correctly identify the relevant deductions and restricted deductions for Years of Assessment 2012 and 2013. For the tax computation for the Year of Assessment 2013, candidates have failed to calculate or correctly calculate the deemed profits, and identify the correct values for losses carried forward and capital allowances.

For part (c), many candidates missed the issue tested, i.e., how the restricted deduction will be relieved.

Question Four

This 15-mark question tested the candidates on GST.

Part (a) has been generally well attempted by candidates. Common errors made by candidates included the following:

- Incorrect calculation of output tax for sales to employees. Many candidates missed out the 30% discount.

- Incorrect explanation for the GST treatment for realised foreign exchange loss on settlement of trade debt and donation.
- Incorrect calculation of input tax for public liability insurance.

For part (b), some candidates were able to identify expenses where the input tax incurred is not reclaimable. However, most candidates did not provide clear and detailed answers. For example, many candidates have only stated club subscription fees and made no mention that the said fees include transfer fees and that they are charged by sporting and recreational clubs.

Question Five

This 15-mark question tested the candidates on a number of concepts, namely, Singapore sourced versus foreign sourced income, deductibility, compliance obligation of individual, tax residency test.

For a candidate who cannot handle this question, the profound lack of knowledge is clearly evident. For example, a number of candidates did not know that foreign sourced employment income of individuals are exempt, regardless of whether it has been remitted to Singapore or not. Most candidates answered satisfactorily on the non-taxability of the gain on the disposal of the property at the surface level. A number of them could not make use of the facts provided in the question to illustrate key indicia of a not trading (e.g. no intention to sell at the point of acquisition, lack of frequency of such transaction). Similarly, a number of candidates also failed to pick up the qualitative factors provided in the question on why Jean will pass the qualitative tax residency test.