

Examiner's report

F6 Taxation (SGP)

June 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 75 percent of the marks were awarded for computational skills and the remaining 25 percent of the marks were awarded for essay based questions.

The time allotted for this paper appears sufficient as almost all candidates were able to attempt all the 5 questions. Only a handful left out parts of Question 5 which they must have attempted last and ran out of time.

Candidates were generally weak in the essay questions, but scored well in the computational questions. In particular, they did well in the calculations for Questions 1(a), 2(a) and 4(a). On the other hand, they generally fared poorly in Questions 2(b) and 5(a).

The overall performance was satisfactory.

Specific Comments

Question One

This question was divided into two parts. Question 1(a) for 22 marks, tested candidates on the taxability of income, deductibility of expenses and claim for capital allowances on fixed assets. Most performed well in identifying the common tax adjustments and calculating correctly the capital allowances. The more common errors made included the following:

- treating the managing director's tax borne by the company and interest on refinancing of loan as non-deductible expenses;
- treating as deductible the 'non-compete payment';
- wrongly claiming section 14Q deduction for the non-qualifying renovation works; and
- claiming 100% capital allowances for the executive filing cabinets.

For part (b), several candidates incorrectly deducted non-deductible expenses of penalties/fines and private car expenses. A number did not claim the revenue expenses incurred in the previous year under the concessionary tax treatment.

All candidates attempted this question and majority passed with flying colours.

Question Two

This was also a largely computational question and was divided into two parts. Question 2(a) for 20 marks, required candidates to calculate the various taxable employment income for a foreigner working in Singapore and some personal reliefs that could be claimed.

For part (a), common mistakes made included incorrectly bringing to tax payments under the staff suggestion scheme, failing to apportion the taxable car benefit, not restricting the LLP losses to the contributed capital and not applying the correct cap on the personal relief for life insurance premium.

For part (b), many candidates did not properly apply the section 40B relief for non-resident employees, confusing between this relief and the section 45F relief for non-resident professionals. Of those who were aware of the section 40B relief, a number of them did not proceed to compute the tax liability of the non-resident employee.

Question Three

This question for 15 marks had 2 independent parts.



For part (a), many candidates incorrectly applied the 15% final withholding tax rate to the interest on inter-company loan even though the non-resident recipient of the interest had a permanent establishment in Singapore to which the loan was effectively connected. A handful of candidates erroneously applied the deemed source rules in section 12(6)/(7) to the income from rental of immovable property. There were also a considerable number of candidates who were not sure if withholding tax was applicable in each of the independent scenarios.

For part (b), a number of scripts showing the computation of a sole proprietor did not take into account any claim for personal earned income relief. The computation of a corporate entity was generally well done.

Question Four

This 15 mark question was divided into two parts, the bulk of it testing candidates on the correct computation of input tax and output tax. This did not pose a problem for the majority of candidates who managed to score high marks. Common errors made included not treating the rental of furniture and fittings as a standard-rated supply and not claiming the correct input tax relating to the annual dinner and dance expenses. Certain candidates also did not claim input tax in respect of the gift hampers and/or did not apply the deemed supply rules in respect of these items.

For part (b), many candidates gave correctly only one situation where deemed output tax is not applicable for gifts.

Question Five

Many candidates incorrectly applied full tax exemption in the corporate tax computation of SPL for part (a)(i). On the other hand, some candidates applied only the partial exemption (rather than the full exemption) in the case of TPL. Additionally, in the case of SPL, many candidates incorrectly claimed capital allowances in respect of the purchase of new furniture.

In respect of part (a)(ii), a few candidates were careless in using the tax adjusted loss of \$60,000 for the year ended 31 December 2011 (instead of the amount of \$80,000 for the year ended 31 December 2010) as the starting point of their tax computation for the year of assessment 2011. Some were also careless in adding to (instead of reducing from) the amount of the loss the tax adjustments for incorporation expenses and consultancy fee.

Due to errors from parts (a)(i) and (ii), many students also were not able to provide the required answers to part (iii).

For part (b)(i), a number of students did not answer the question posed. Instead, they discussed the conditions for the carry forward of the unabsorbed tax loss items of a company. Of those who understood the requirements of the question, some were not aware that the restriction for the set-off of partnership unabsorbed losses and capital allowances applied only to the limited partners (and not to the general partners) of a limited partnership.

Part (b)(ii), being a straightforward question, was generally well-attempted.