

# Examiner's report

## F6 Taxation (SGP)

June 2013

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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) with an approximate 2:1 split for computation and narrative respectively.

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

Candidates were generally more confident in dealing with the computational questions than the narrative-type answers. Hence, many candidates scored well for Questions 1 and 2. While many candidates did not cope well with the tax concepts tested in Questions 3 and 4, most scored fairly well for the Goods and Services Tax question i.e., Question 5.

Overall, the results were satisfactory.

### Specific Comments

#### Question One

Most candidates performed reasonably well in identifying the necessary tax adjustments and correctly computing the capital allowances. Common errors made include the following:

- incorrectly applying the cap for deduction of medical expenses, especially in the calculation of the remuneration based on which the restriction is applied;
- failing to claim a deduction for the road tax expense relating to the goods van;
- incorrectly applying a cap of \$400,000 to the capital expenditure on prescribed automation equipment (instead of applying the cumulative cap of \$1.2 million) for the purpose of the 300% enhanced allowance under the productivity and innovation credit scheme;
- in respect of the US-sourced interest income from the bank deposit in New York, many candidates did not pick up the right amount to be subject to tax – the candidates either brought to tax the entire amount of \$25,000 or did not bring to tax any amount of the income;
- incorrectly claimed industrial building allowance on the extension to factory building; and
- incorrectly claiming 250% deduction for the donation of shares.

#### Question Two

As with Question 1, most candidates performed well for this question. For part (i), common mistakes include the following:

- incorrectly disallowing the salary of the sole proprietor's son;
- incorrectly disallowing the training expense incurred for the accountant and failing to claim enhanced deduction for this expense under the productivity and innovation credit scheme;
- failing to split the net rental income relating to the property at Parkway Parade equally to each spouse;
- failing to effect the transfer of the rental deficit from the wife; and
- failing to claim the appropriate amount of earned income relief.

For part (ii), common mistakes include the following:

- many candidates mistakenly assumed that the further share award of 8,000 shares was received under the original stock option plan and therefore incorrectly computed the taxable benefit per share based on the difference between \$4.50 and \$3.00;

- failing to bring to tax the benefit of \$4,000 from the reimbursement of taxi fares;
- failing to split the net rental income relating to the property at Parkway Parade equally to each spouse;
- incorrectly claiming a deduction for the donation to China earthquake victims.

### Question Three

For part (a), candidates were generally able to distinguish between the carry-back and group relief systems. However, there was some confusion on the comparison dates to apply for the shareholding test under the tax loss carry-back system. Also most candidates did not appreciate that the question only asked about the carry-back of tax losses and hence they included the discussion on the carry-back of capital allowances.

For part (b)(i), many candidates appear to have confused the concepts of residence and permanent establishment, incorrectly stating that “withholding tax is only applicable if the payment is made to a permanent establishment outside Singapore”. For part (b)(iii), a significant number of candidates applied the old withholding tax remittance deadline of “15<sup>th</sup> of the (first) month following the month of payment”. For part (b)(iv), some candidates did not appear to understand the concept of final tax and the possibility of claiming tax deduction for expenses where the withholding tax is not a final tax.

### Question Four

Most candidates did not do well on the partnership question, in particular part (a). However, a few did well and scored high marks.

In respect of part (a), many candidates were not able to lay out the correct presentation format and many were confused about the difference between adjusted profit and divisible profit, and incorrectly applied the profit sharing ratio to the adjusted profit instead of to the divisible profit. Some were not aware that divisible profits should be computed for the period before and after the change in profit sharing ratio.

In respect of part (b), candidates’ explanations were generally not clear. Many in fact discussed the general legal implications of contributed capital for a limited liability partnership rather than the income tax implications. Some candidates who did discuss the income tax implications of contributed capital were aware that the availability of tax losses is restricted to the amount of capital contributed. However, most candidates were not able to elaborate further on what constitutes contributed capital and the income tax consequence where the past relevant deductions exceed the contributed capital.

### Question Five

Most candidates were well prepared for the Goods and Services Tax question and hence scored reasonably well for this.

However, for part (a)(i), some candidates were confused about the terminology “out of scope” versus “exempt” supplies, and “zero rated” versus “exempt” supplies and have appeared to incorrectly use such terms interchangeably.

For part (a)(ii), some candidates did not include zero-rated supplies as part of taxable supplies for the purpose of determining the liability to register for GST.

Part (b) was generally well-attempted, except that some candidates were not able to provide up to five conditions as requested by the question.