

# Examiner's report

F6 Taxation (SGP)

June 2014

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## General Comments

The examination consisted of five compulsory questions, comprising 30 marks for question 1, 25 marks for question 2 and 15 marks each for question 3, 4 and 5.

The time allotted for this paper appeared sufficient as the majority of candidates were able to attempt all the five questions. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

Candidates performed particularly well on the computations, in particular, questions 1(b) and 2(a). The questions candidates found most challenging were questions 3 and 4. This is mainly due to non-computational elements of these questions and the candidates' lack of technical knowledge and the consequent failure to apply the rules to issues tested in the question. Most candidates scored their marks based on their strength in the computational aspects tested.

A number of common issues arose in candidate's answers:

- Failing to read the question requirement carefully and therefore providing irrelevant answers which scored few if any marks;
- Poor time management between questions, some candidates spent far too much for some questions and this put them under time pressure to finish remaining questions;
- Providing inadequate response to the question; and
- Illegible handwriting and poor layout of answers.

## Specific Comments

### Question One

For Part (a), a common mistake made was to consider the hire purchase interest as part of the capital expenditure on the lorry qualifying for capital allowances. Question 1(a) asked for the tax treatment of monthly instalment payment on hire purchase (the interest and the principal component) but most responses did not address the issues tested specifically.

Question 1(b) was the most substantial part of question 1. It was well answered. Candidates had provided the responses in the format required. Most candidates could provide the correct tax treatment for each item. Where incorrect tax treatment was adopted, it was apparent that this was due to candidates' lack of technical knowledge.

The more common errors made were as follows:

- Excluding from tax the insurance recovery of loss of profits arising from bad publicity;
- Disallowing the interest on late payment of CPF contributions;
- Claiming capital allowances (including the PIC enhanced allowances) in respect of the computer system and failing to digest the information given on the PIC claims correctly; and
- Not deducting the related interest expense of \$5,000 against the dividend income of \$20,000.

Almost all candidates attempted this part of the question and the majority chalked up valuable marks.

Question 1(c) was a straight forward question, however, there were some candidates who did not perform well.

### Question Two

This 25-mark question covered the topics on taxation of individuals and the interaction between the commencement of business and the deductibility of expenses.

Question 2(a)(i) on the computation of the tax payable of Benson was well answered. Most candidates had provided the responses in the format required. However, the vast majority who did not score well in this question lost marks due to an inability to demonstrate their understanding of various concepts. There was a small portion of candidates who did not show items where there was no tax adjustment required, despite being instructed to do so in the requirement.

The more common errors were as follows:

- Not bringing to tax the joining fee of \$60,000;
- Bringing to tax the foreign-sourced interest income and/or the gain on sale of wine and liquor collection; and
- Claiming spouse relief and parent relief even though not eligible.

For Part (b)(i), a number of candidates incorrectly cited 1 January 2012 (rather than 2013) as the date of commencement of business.

For Part (b)(ii), the most common error made was the claiming of deduction in respect of the wages even though these were incurred before the 12-month period prior to the deemed date of commencement of the business. For some of the other items, a number of candidates merely stated whether the expenses were deductible or not deductible without furnishing any reasons to support their answers.

### Question Three

This question tested candidates on their understanding of Goods and Services Tax ("GST").

Most candidates were more or less able to deal with the requirements under Part (a).

For Part (b), many candidates merely discussed the treatment for output tax chargeability but not the eligibility to claim input tax credits.

For Part (c) Scenario (1), many candidates treated the sale of the condominium as a taxable (standard-rated) supply rather than as an exempt supply. For Scenario (3), candidates often mistook the services of the Brunei branch of SPL to be a zero-rated supply rather than an out-of-scope transaction. Most candidates were able to deal with Scenarios (2) and (4).

### Question Four

This question tested the candidates on a myriad of tax concepts, ranging from deductibility of expense to withholding tax. A number of candidates did not follow the organisation of the questions and provided answers that were very disorganised.

For part (a), many candidates did not provide comprehensive reasons for their answers to the various sub-parts. In addition, the following errors were also commonly made:

- For Scenario (ii), some candidates incorrectly regarded the liaison office as contributing to the production of non-taxable foreign-sourced income and accordingly treated the expenses as not deductible; and
- For Scenario (iii), some candidates mistakenly treated the foreign branch profits as taxable in Singapore and sought to claim relief from double taxation under a tax treaty.

For Part (b), while many candidates were able to quantify the amount of the tax deduction, they were not always clear in explaining the reasons for the tax treatment.

For Part (c), some candidates incorrectly applied a withholding tax rate of 15%. In addition, there were candidates that confused the penalties for late payment of withholding tax with the penalties for late payment of assessed tax or with the penalties for incorrect tax returns.

### **Question Five**

The question tested the candidates on calculation of partnership income and the qualifying conditions for a PIC bonus claim.

In respect of parts (a) and (b), the common mistakes were as follows:

- Excluding from tax the wage credit scheme payout;
- Treating the capital allowances on the display cabinets as a deduction to arrive at the adjusted and divisible profits, rather than calculating the allowances as a separate item for allocation to the partners;
- Treating the section 14Q deduction as a separate item for allocation to the partners, rather than as a deduction to arrive at adjusted and divisible profits; and
- Not claiming the PIC bonus.

For Part (c), many candidates appeared to have been confused between the PIC bonus scheme and the enhanced allowances for PIC IT and automation equipment.