



# Examiner's report

## F6 Taxation (SGP)

### March 2016

#### Introduction

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of Singapore tax rules in more depth. The following paragraphs report on each section and focus on some of the key learning points.

#### Specific Comments

##### Section A

Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 syllabus, rather than attempting to question spot. Further, as the questions in section A are stand-alone questions, the depth of the application of certain tax rules (e.g. the specific conditions that must be met for certain type of deductions to be taken) may be tested.

The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

##### Example 1

Ace Pte Ltd has duly filed its Year of Assessment (YA) 2014 income tax return for its financial year ended 30 June 2013.

**What is the last date that Inland Revenue Authority of Singapore (IRAS) can raise an assessment in respect of the company's YA 2014 income taxes (assuming there is no fraud involved)?**

- (A) 30 June 2017
- (B) 31 December 2017
- (C) 30 June 2018
- (D) 31 December 2018

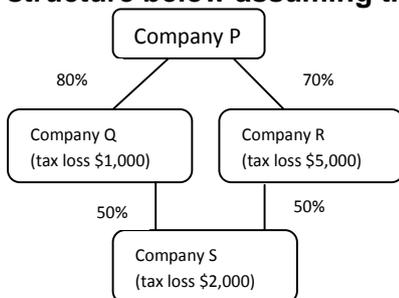
This question assesses the determination of the statutory time limit for raising an income tax assessment.

Where no fraud is involved, the statutory time limit to raise an assessment is four years after the end of that year of assessment (ie. four years after 31 December 2014). The correct answer is D. Options A, B and C are incorrect as they use different incorrect reference dates to calculate the four-year time limit. A common misconception appears to be calculating the statutory time limit with reference to the financial year end, i.e. 30 June 2017 or 2018.

##### Example 2

The diagram below depicts the shareholding structure of a group of Singapore companies and the current year tax losses of the respective subsidiaries. All four companies are incorporated in Singapore and have the same financial year end.

**What is the maximum amount of tax losses that can be transferred to Company P in the structure below assuming that all other conditions for group relief are satisfied?**



—denotes shareholding percentage

- (A) \$1,000
- (B) \$3,000
- (C) \$6,000
- (D) \$8,000

This question tests the candidates' application of the qualifying conditions for Group Relief. One of the conditions for Group Relief is that the direct and indirect shareholding must be at least 75%. Company P's shareholding in Company S is 75%, combined through company Q (80% x 50%) and company R (70% x 50%). As Company P's shareholding in Company R's is less than the requisite 75%, Company R's losses cannot be included for Group Relief purpose. Hence, total losses available for transfer is from Q (\$1,000) + S (\$2,000) and so B is the correct answer. A large number of candidates chose either A (\$1,000, i.e. Company Q only) or C (\$6,000 (\$1,000 + \$5,000, i.e. Company Q and Company R)). This may be because they have considered only Company P's direct shareholding in Company Q and R, ignoring its indirect shareholding in Company S.

## Section B

### Question One

This is a 10-mark question covering investments-related expenses and foreign sourced income received or deemed received in Singapore.

Candidates would need to correctly identify the tax adjustments relating to a branch's overseas tax expenses, professional fees, interest expense related to investments and productivity & innovation credit (PIC) relating to training.

To do well in this question, candidates need to recognize the tax exemption or deemed remittance rules as it applies to different types of foreign income. Specifically,

- (i) where the headline tax rate in the branch's country is not less than 15% and the branch has been subject to tax in the overseas country, overseas branch profits remitted into Singapore is tax exempt.
- (ii) foreign interest income is not covered by the above tax exemption.
- (iii) where foreign income is not physically remitted but applied in satisfaction of a trade debt, it constitutes deemed remittance.

### **Question Two**

This is a 10-mark question covering:

- (a) the computation of the net income from investments in properties to an individual (7 marks); and
- (b) The amount of personal reliefs available to individuals (3 marks).

In part (a), candidates were generally able to identify the expenses (such as agent's commission and property tax) that are deductible against rental income. However, candidates did not recognize that the expenses are only deductible to the extent that there is a corresponding rental income. Specifically, only the portion of property tax and interest expenses relating to the period after the lease has commenced is deductible.

In part (b), candidates were generally able to correctly identify the personal reliefs. A point to note is that course fee relief is only allowed where the course is related to the individual's employment.

### **Question Three**

This 10-mark question covers withholding taxes as applied to royalty-type payments using the rights-based approach and rental of movable property (i.e. computer terminals).

Candidates' answers to this question were generally disappointing. Candidates would need to be more familiar with IRAS' e-tax guide on "Rights-Based Approach for Characterising Software Payments and Payments for the Use of or the Right to Use Information and Digitised Goods" in answering this question.

### **Question Four**

This 10-mark question covers the goods and services tax (GST) treatment of supplies and purchases of a GST registered trader.

Candidates generally performed relatively well in this question.

Future candidates should note that output GST need not be accounted for on lucky draw cash prize or refundable deposit, and that input GST is blocked for club subscription fees.

### **Question Five**

Part (a) of this question is for 13 marks involving a change in partnership's profit sharing ratio due to an admission of new partner during the year. Candidates are required to:

- identify the common adjustments required to be made to arrive at divisible profits (such as partners' salaries, private car expense, legal fees to amend partnership agreement); and
- apply the profit sharing ratio to the respective time period.

Part (b) is a 2-mark question requiring candidates to explain the TWO difference in income tax treatment of resident and non-resident individuals. Candidates were generally able to answer this question.

### **Question Six**

Part (a) is a 12-mark question relating to a normal trading corporate tax computation.

Candidates generally did reasonably well in this part.

Common errors were:

- not computing the balancing charge on equipment disposed of; or
- not capping the balancing charge to the original equipment cost.

Part (b) is a 3-mark question on the conditions to be satisfied in order to utilise capital allowances brought forward.



In addition to articulating the “shareholders” test, candidates need to be specific about the dates to be applied in comparing the shareholders' composition. The “same trade” test condition was also commonly omitted by candidates.