

# Examiner's report

## P6 (SGP) Advanced Taxation

### December 2016

The ACCA logo consists of the letters 'ACCA' in a white, bold, sans-serif font, centered within a solid black square.

#### General Comments

This examination requires candidates to attempt two compulsory questions in Section A where Question 1 was for 35 marks and Question B for 25 marks, totalling 60 marks. In addition they had to attempt two questions in Section B. Three questions were provided in Section B, each for 20 marks.

Although the majority of candidates attempted the required four questions, there were a few scripts which only attempted three, two or even one question. These scripts reflect poor preparation of the candidates, as the performance on the paper as a whole was generally better than in previous sittings.

Overall candidates performed better in the two compulsory questions, Question 1 and Question 2, compared to the Section B questions.

#### Specific Comments

##### Question One

This 35 mark question tested the candidates on their knowledge of a wide range of areas encompassing interest deductibility and related transfer pricing issues, the various tax issues relating to the acquisition of assets and the tax implications arising from different modes of acquiring certain assets.

For part (i) of this question, many candidates were familiar with the general deductibility rules for interest expenses, but quite a few candidates wrongly concluded that interest is not deductible when it is incurred on loans used to acquire assets. Although interest attributable to investments that produce dividend income is deductible, some candidates did not realise that it has no deduction value. This is because the dividend income is tax exempt when received from local companies under the one-tier tax system, or may be exempted from tax if the conditions under the foreign source income exemption regime are satisfied. Candidates generally struggled in the area of transfer pricing when they were unable to explain the steps involved in arriving at an arm's length interest rate. On the contrary, those who were aware of the above tax implications did well for part (i) of this question.

Parts (ii) and (iii) of this question yielded slightly better, but also mixed results, with the majority of candidates managing to register only marginal passes. For the tax implications for the different modes of acquiring assets, many were unsure of the correct implications for the hire purchase option.

##### Question Two

This compulsory question was well attempted.

Many candidates were able to explain the correct tax treatments for the different benefits-in-kind. They were also able to provide the correct advice to Josephine in relation to her self-employment income. The area that candidates performed least well on was the advice on the goods and services tax (GST) considerations relating to the property purchase.

### **Question Three**

This question contained three parts and was not well attempted by the majority. Scripts generally demonstrated a lack of understanding on the topic of permanent establishment.

In part (a), the majority of candidates only provided limited answers when asked to explain the different circumstances in which a Singapore company may create a permanent establishment outside of Singapore, and hence lost valuable marks.

Parts (b) and (c) which required candidates to explain the steps that could be taken to reduce the risk of creating a permanent establishment and the tax implications of having an overseas permanent establishment were also not answered well.

### **Question Four**

This question contained two parts and was the most attempted of the three Section B questions.

Part (a)(i) was well answered as many candidates were able to contrast the income tax implications for an employee compared to that of an independent contractor.

Part (a)(ii) covering the corporate, GST and withholding tax issues was also well answered by the majority of candidates who attempted this question.

Relative to part (a), candidates did not perform as well on part (b) on the GST implications for a company of allowing a related company to occupy part of its business premises rent-free. However, answers to part (b) were still reasonable.

### **Question Five**

This question was the least attempted and was generally not answered well by those who did.

For those who attempted this question, many did not calculate correctly the renovation and refurbishment (R&R) deductions for the various years under part (a).

Part (b) which required candidates to explain the tax consequences arising from a qualifying amalgamation on a number of items produced slightly better results, but overall candidates performed poorly on this question.