

# Examiner's report

## P6 (SGP) Advanced Taxation

### June 2016

The ACCA logo consists of the letters 'ACCA' in a bold, white, 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 2 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 attempted only three or even two questions. These scripts reflect poor preparation of the candidates rather than due to time pressure.

Overall candidates performed well in Question 1(i), Question 2 and Question 3. Conversely, candidates had difficulty with Question 1(ii), 1(iii), Question 4(a) and Question 5.

#### Specific Comments

##### Question One

This 35-mark question tested candidates on their knowledge on a wide range of different tax principles which included utilisation of prior years' loss items, deductibility of expenses, including special rules for claiming benefits under the mergers and acquisitions (M&A) scheme, R&D expenses and management fees which arise from dealings with related parties.

Many candidates were familiar with and had little problems with the M&A scheme although there were a few who answered based on the outdated rules no longer applicable from 1 April 2015. Candidates were also well-prepared to answer the parts on the utilisation of loss items and the details of the productivity and innovation credit (PIC) scheme which are relevant in connection with the claim for R&D expenses. However, the majority of candidates failed to elaborate on whether the expenditure satisfies the conditions required of qualifying R&D expenditure based on the facts provided in the question before discussing the enhanced claims under PIC. Seeking reimbursement of the R&D expenses from Company B may jeopardise Company A's claim as doing so will fail the requirement that the claimant company must be the one bearing the financial burden of carrying out the R&D. This was notably left out by all candidates. Apart from this, only a handful of candidates managed to discuss adequately the other conditions for claiming deduction for R&D.

Another common mistake made by a number of candidates is to wrongly conclude that Company A may be able to claim a higher expenditure cap under the PIC+ because the company's revenue is less than \$100 million and its staff strength is less than 200. These two criteria should have been based on the group's revenue and staff strength which, if applied correctly, would preclude Company A from qualifying as it fails both tests.

Part (iii) of the question required candidates to discuss the transfer pricing requirements and this was generally lacking in many scripts where candidates only wrote on the general deductibility rules for management fees and at most mentioned briefly that they need to satisfy the benefits test and must be transacted at arm's length price. They should have discussed the applicability of the

safe harbour rules as well as the extent of documentation required under dealings with related parties.

### **Question Two**

This compulsory question was generally well attempted.

Many students were able to explain correctly the different taxable components of the individual's employment package and how the tax resident status could affect her individual tax liability. They were also aware of the employer's obligations in relation to the employment of staff.

Part (d) of the question was more open-ended and the better candidates were able to explain correctly the different tax planning ideas that may be applicable to the individual based on the facts provided. Mixed results were observed based on the extent of coverage by different candidates.

### **Question Three**

This question was well attempted. Majority of the candidates demonstrated a good understanding of the different withholding tax implications applicable to the different components of payments in the question given. Common mistakes were failing to identify the correct nature of the expense or using the wrong withholding tax rates for certain payments.

### **Question Four**

This question contained two parts with most candidates struggling with part (a).

Part (a) tested the candidates on whether the overseas entity is "trading in" or "trading with" Singapore based on the facts provided. There were only a few scripts that discussed the relevant factors before coming to a meaningful conclusion.

Part (b) deals with the GST implications on different payments. Most candidates were able to explain the general rules for claiming input tax and correctly apply them to the expenses identified in the question. Where they involved the provision of fringe benefits, candidates were also required to comment on whether the company needs to deem an output tax, but this expected answer was generally lacking.

### **Question Five**

This question was the least attempted and results were not satisfactory for those who attempted it.

Most candidates could identify the types and rates of taxes and why the given structure was not tax efficient, as required under parts (a)(i) and (b) of this question.

But candidates struggled with parts (a)(ii) and (c) of the question. Under part (a)(ii), besides concluding that the dividends paid from the foreign entity failed to meet all the required conditions, candidates were also expected to discuss whether Section 13(12) may be applicable and the steps they need to take. There are both tax and related non-tax arguments favouring the use of intermediate holding companies, as opposed to employing a direct holding structure, which is tested part (c).