

Examiner's report

P6 Advanced Taxation (SGP)

December 2012



General Comments

The candidates were required to attempt two compulsory questions in Section A with 32 marks (including 4 professional marks) allocated to Question 1 and 28 marks for Question 2. In addition they were required to attempt two out of three 20-mark questions in Section B.

Almost all the candidates attempted the required maximum of four questions. The time allotted for this paper appears sufficient as there was no evidence of time pressure from the scripts marked. The occasional blank answers for parts of certain questions are likely due to lack of knowledge and not because of insufficient time.

As in previous sessions, candidates were generally well prepared for the two compulsory questions although not many scored well due to the lack of depth in the answers. Out of the three optional questions, most candidates attempted Question 3, in which they did reasonably well, particularly part (a). On the other hand, the results for Questions 4 and 5(b) were poor and this was for a number of reasons.

The overall performance was moderately satisfactory.

Specific Comments

Question One

This question covers three independent scenarios. However, some candidates did not pay attention to the allocation of marks for each scenario.

Instead, some scripts were too brief particularly for the first scenario where the most marks were allocated. To earn more marks, they should have applied the various facts given in the question and demonstrate more analysis before providing their conclusion on the application of the six badges of trade. Most candidates were able to discuss correctly the applicability of the industrial building allowance (IBA) as well as the GST and stamp duty implications. However, the weaker candidates erroneously stated that the transaction does not amount to a sale and that the company can continue to claim IBAs.

The second scenario involving the tax implications arising from the purchase of equity investments was generally well handled.

As for the last scenario which involves the outright purchase of trade secrets, not all candidates managed to conclude that this is a capital expenditure incurred in acquiring a qualifying intellectual property right which entitles the acquirer to claim writing down allowances and productivity and innovation credit. As the company is in a loss position, a discussion of the alternative of electing for a cash payout in lieu of the enhanced deduction was expected. Instead, some construed the item as a royalty payment and accordingly incorrectly stated that withholding tax was applicable.

Question Two

This question tested candidates on a number of related tax concepts such as the rules pertaining to the application of group relief as well as the carry forward and carry back of tax loss items. Candidates were also expected to know the circumstances when a section 24 election should or should not be made based on the facts given. Those candidates with good grasps of these tax concepts managed to collect sufficient points for a decent pass.



The common mistakes made included the wrong identification of the relevant dates for the carry forward and carry back of certain tax loss items as well as the wrong election for Section 24.

Question Three

The majority of candidates scored very well for part (a) when they stated correctly that dividend income qualifies for tax exemption but not for branch profits and royalty income. Only the stronger candidates managed to further state correctly that subjecting the dividend income to foreign tax credit (FTC) pooling will achieve a better outcome than seeking Section 13(8) exemption. Part (b) yielded mixed results as some candidates were able to compute the FTCs correctly whilst others could not. For part (c), many candidates were not able to identify the scenarios where FTC pooling were not allowed, but fortunately only two marks were at stake here.

Question Four

This question was generally poorly answered.

Many candidates gave only brief responses to the tax implications for employees who were granted stock options. In order to gain more marks, candidates should have elaborated on the detailed rules for the deemed exercise rule as well as the alternative tracking option. Quite a number of candidates incorrectly concluded that the company can claim a tax deduction for any share option expenses when in actual fact, it can do so only if an actual cash outlay is involved and only in the case of treasury shares.

Question Five

Part (a) was well attempted as many candidates managed to identify correctly the deductibility and withholding tax implications for the royalty payment. Except for a few scripts, the correct GST treatment had also been discussed.

On the other hand, part (b) was poorly attempted. The key concept tested for this part of the question was anti-tax avoidance and only a few picked this up. The vast majority of candidates managed to salvage some marks when they correctly pointed out that the withholding tax rate accorded under the treaty will prevail over domestic rules, subject to proof of resident status.