Examiner's report
P6 Advanced Taxation (SGP)
June 2014

General Comments

The 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 were required to attempt two questions in Section B. Three questions were provided in Section B, each for 20 marks.

Almost all candidates attempted all four questions. For Section B, Questions 3 and 4 were the most popular and Question 5 the least. Looking at the scripts, there was little evidence of time pressure. In the few occasions where parts of the questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor examination technique, as opposed to time pressure.

Overall, candidates performed relatively well for Questions 1, 3(a) and 5(a) but generally did not fare so well in Questions 2, 4 and 5(b).

Specific Comments

Question One

This 35-mark question tested candidates on their knowledge of the different types of taxes applicable to the given business scenario. Many candidates had little problems and scored well in the segment for corporate tax relating to taxability of income and deductibility of expenses. Many were well-prepared and conversant with the productivity and innovation credit rules, as well as the knowledge required for the individual tax component. There were quite a few scripts which elaborated on tax incentives which are not applicable to the business of organising conferences. The answers for the GST component were satisfactory, though many did not state that the business should have applied for exemption from GST registration in view of its huge zero-rated supplies.

This was the best attempted question for the whole paper and the decent results probably secured a pass for some candidates who fared less well on the other questions.

Question Two

Unlike Question 1, this other compulsory question was not well attempted.

For part (a), many students omitted to mention that the gift of shares did not create a tax exposure while others left out the additional buyer's stamp duty when computing the stamp duty exposure. Only a few scripts managed to conclude correctly that the deductibility of the interest will be lost when a new bank loan was taken to repay the existing loan, in the absence of genuine commercial reasons. A logical conclusion on the tax inefficiency of the proposed transaction was also often missing.

Many students lost precious marks in Part (b) when they concluded incorrectly that personal reliefs such as earned income relief, spouse relief and working mother's child relief were applicable. Also, the workings and presentations of the computations were largely unsatisfactory.

For part (c), the higher stamp duty arising from the higher consideration was not mentioned by most candidates, nor the fact that there is added income tax exposure on the gains from the sale of the shares due to the short holding period and the frequency factors.

Question Three

This question was generally well attempted, particularly part (a). The majority of candidates demonstrated a good understanding of the concept of the foreign tax credit pooling and were familiar with the calculations involved.

Those who did not score well made mistakes such as subjecting the net foreign income (when it should be the gross income) to tax in the computations or due to casting errors. Rather than the country-by-country and source-by-source concept, quite a few scripts erroneously lumped the two different sources of income within the same country when computing the applicable foreign tax credits.

Question Four

This question was not well answered.

For the first part which dealt with income tax implications, a discussion on the tax resident status of the two companies was generally lacking. The resident status in turn impacts on the withholding tax implications. Many did not conclude the nature of the payment being that of technical fees nor the fact that withholding tax is not applicable for technical services provided entirely from outside Singapore.

For the second part on GST, the belonging concept for services was not adequately discussed. Many were unsure of the differences in the GST implications for Structure 1 as opposed to Structure 2, and consequently were not able to provide a logical conclusion as to which structure was more tax efficient.

Question Five

This question was the least attempted and produced mixed results for those who attempted it.

Students were generally familiar with the tax rules regarding the utilisation of tax loss items, though a discussion on the shareholding test and the possibility of obtaining a waiver of this test was missing. Group relief was not useful in this scenario and there was a preferred entity to liquidate in view of the circumstances. Both these points were hardly addressed.

In contrast, most students were not prepared to discuss the new tax framework. Only a handful of candidates managed to discuss the rules involved, including the two scenarios where the statutory voluntary amalgamation could be achieved.