



# Examiners' report

## P6 Advanced Taxation (SGP)

### June 2009

#### General Comments

The examination consisted two compulsory questions in Section A totalling 68 marks (Question 1 for 39 marks and Question 2 for 29 marks) and two questions in Section B, each question of 16 marks. Candidates had a choice of three questions in Section B.

Most candidates attempted all four questions although there was some evidence of poor time management, particularly affecting Section B. In these cases, the candidates spent excessive time on Question 1. There were also cases where the candidates attempted Section B first, leaving less time for Section A.

A high percentage of the candidates attempted Questions 4 and 5. Students might have been put off by the restructuring element required in Question 3.

The performance of candidates was below my expectation, and there was a clear suggestion that candidates were unprepared for the examination.

If you are preparing to sit Paper P6 in the future, you should pay particular attention to the following in order to maximise your chances of success.

- *Know your stuff*  
Successful candidates are able to demonstrate sufficient, precise knowledge of the Singapore tax system. Knowledge and understanding of the technical content of Paper F6 is vital if you are to be successful at paper P6.
- *Address the requirement*  
Read the requirement carefully – then read it again; it is important.  
The requirement of each question is carefully worded in order to provide you with guidance as regards the style and content of your answers. You should note the command words within the requirement (calculate, explain, support etc), any matters which are not to be covered and the precise issues you have been asked to address.  
Apply your knowledge to the facts by reference to the requirement. Do not merely write what you know about the topics.  
Pay attention to the number of marks available – this provides you with a clear indication of the amount of time you should spend.
- *Be brave*  
Don't be put off by a situation that you have not seen before.  
Follow the instructions in the question and the requirement and apply your knowledge of the tax system to the facts of the situation.
- *Manage your time*  
Ensure that you allow the correct amount of time for each question.
- *Presentation of answers*  
Display your answers in numerical sequence, with a clear labelling to indicate which questions or parts are being attempted.  
Each question should start on a new page.  
Give plenty of thought to the layout and organisation of your answers. Where appropriate, make clear reference to the supporting computations.

Marks available in respect of professional skills

- Marks were available for professional skills in Questions 1 and 2. In order to earn these marks candidates first had to satisfy the requirement in relation to the format of the document requested. Further marks were then available for the clarity of the answer, including the ease with which it could be marked and the degree to which the conclusions reached followed logically from the explanations provided. These latter marks were more likely to be earned by those candidates who thought about the manner in which they intended to satisfy the requirement such that there was a sense of purpose and a coherency to their answers.

### Specific Comments

#### Question One

This question tested the candidates' ability to provide appropriate advice to a business planning to set up its operations in Singapore. It covered the frequently asked questions about doing business in Singapore including the recommended tax incentives, the financing options and the goods and services tax implications.

Many candidates were able to provide the salient features of the two investment incentives. However, few actually tried to make comparison between the two incentives in terms of the impact they have on the value of the tax benefits to SingCo. There were also candidates who merely regurgitated what they know about the two incentives which do not impact the value of the tax benefits.

Part (b) was quite straight forward and but candidates failed to address all the requirements. For example, many candidates did not make use of the information on rates contained in the double taxation agreements and/or suggest ways to mitigate withholding tax liabilities.

- Quite a number of candidates did not answer part (c). For those who did, they had difficulties determining the relevant items to be included in computing the minimum profits required in order for SingCo to achieve similar tax benefits under both the incentive schemes. Some candidates did not factor in the investment allowance and the capital allowances claims and only computed the interest costs under the three financing options.
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- In part (d), very few were able to recommend ways in which a reduction in the group's overall tax liability could be achieved other than describing the income tax implications if Halo plc were to accept the loan from Standard Chartered Bank plc UK under Option II. Instead, they provided the same comments as in part (b)
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- Some candidates were able to handle part (e) well recommending a voluntary GST registration to take advantage of the ability to claim a substantial input tax that SingCo would have to incur.

#### Question Two

This question was on the kinds of activities that constitute a 'permanent establishment' and if there were exclusions under administrative concessions and double taxation agreements, and taxation of employment income.

Some candidates attempted part (a) quite well and were able to determine some of the tax implications of Toyo's tender for a piece of job advertised by LTA and suggest how its tax liabilities could be mitigated. There were many candidates who were not aware of the administrative concession and hence attributed the designing and planning work done in Japan to the permanent establishment in Singapore. With regard to the representative office, few made reference to the exclusions in the Singapore-Japan double taxation agreement.

For part (b), most candidates merely explained the taxation of employment income generally. With regard to Mr Uno's stock options, few were able to describe correctly the non-taxability of gains derived from the exercise of such stock options. Similarly, few candidates were aware of the area representative basis of taxation. Some talked about the non-ordinarily resident basis of taxation.

### **Question Three**

This question was on corporate restructuring and it also required the candidates to consider if election of the group relief provisions were most tax efficient. In addition, there was a small part on the accountant's failure to claim certain expenses. It was intended to be a 'bonus' but unfortunately, candidates did poorly. For example, many candidates commented that mileage claims reimbursed to the sales executives ought to be tax-deductible.

Candidates also gave general comments on the carry forward of tax losses without making specific reference to the facts given in the question. A few candidates commented on registration and group registration requirements which were not relevant here.

### **Question Four**

This question sought candidates' view on the goods and services tax (GST) treatment of the different kinds of supplies. It should be regarded as a straight forward question and yet performance from some candidates was not as well as expected. However, there were candidates who scored high marks.

Quite a number of candidates omitted to mention the documents required to be retained for GST audit purposes.

### **Question Five**

Part (a) asked the candidates on the provisions of s12 (6), which is a 'MUST KNOW' provision for any tax professional. This part was very poorly done. Most candidates were not able to explain the nature of income deemed derived from Singapore under s12(6) and also the income excluded from such deeming provision although most were able to explain John's obligations when making such deemed payments to non-residents.

Some candidates commented on s10 (25), which is on the meaning of 'received in Singapore', including income deemed received in Singapore.

Part (b) only carried three marks, testing candidates' comments on the validity of a statement on taxation of offshore income received by individuals and companies tax resident in Singapore. Most candidates answered well though there were candidates who did not know the distinction between 'individuals' and 'persons'.