

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 12 June 2019

Section 1

General comments

Candidates had gotten more familiar with using the online examination portal even though this mode of examination was only implemented in the previous exam session. It was also noted that many Candidates included workings in their answers and this helped Markers with the award of application marks and in some instances, better understand the thought processes of the Candidates.

The examination continued to be a restricted open book format where Candidates are able to bring in a double-sided A4 page of personal notes for reference. An appendix with relevant tax rates, reliefs, and allowances was also attached to the question paper. There was also no change made to the format of the question paper and the suggested solutions to past examination papers continue to be released.

This cohort produced high percentage of passes and the Candidates are to be commended for putting in a very good attempt. Nonetheless, the following shortcomings continue to be noted:

- The computational and GST questions were well attempted but attempts at the qualitative questions were not so well done. In fact, a fair number of Candidates did not attempt the lower weightage qualitative questions. These qualitative questions were largely testing on basic knowledge in the subject area. However, the answers that were given to these questions showed gaps in the Candidates' knowledge and understanding.
- Incorrect application of tax law.
- Lack of depth and completeness in answering qualitative type questions. It was insufficient to just regurgitate rules and conditions. Candidates also needed to explain why those rules and conditions were not met. For example, it was better to state that an expense was not deductible because it was capital in nature since the outlay was used to acquire an investment or fixed asset for the long-term benefit of the business instead of just stating that the expense was not deductible as it was capital in nature.
- Careless computational errors.
- Not using the information provided in Appendix A to the question paper and thus resulting in certain claims being omitted or incorrect rates being used.

It is essential that Candidates prepare well for the examination through reading, comprehending, and applying the relevant sections from i) the *Income Tax Act* and associated regulations applicable to the TFX syllabus, ii) the *Goods and Services Tax Act* and associated regulations, and iii) the Inland Revenue Authority of Singapore (IRAS) e-Tax guides.

There is a lot of tax information in the public domain (for example, the IRAS website) and it can be overwhelming to sieve through all the information available especially when taxation of any kind is not part of the daily work routine. Attending tax courses will help to alleviate some of the stress from trying to understand these information, as well as bridge any gaps in your tax knowledge.

However, Candidates must also put in enough time and effort to reinforce and clarify their understanding. Please avoid rote learning as much as possible. Past examination questions should preferably be attempted on their own before cross checking to the suggested solutions. This is especially important for those Candidates who are switching from a non-accounting background.

Candidates are reminded to seek to learn and understand all areas of taxation that are covered in the syllabus. The examination tests Candidates' understanding and ability to **apply** their tax knowledge. In our bid to be good tax preparers, professional accountants, consultants, or key business decision makers, a solid foundation and clear understanding of the rules will help us to avoid costly mistakes or make inferior decisions. We should strive to understand the principles of what we are doing instead of merely carrying out our tasks mechanically and by rote.

Candidates are strongly encouraged to explore the IRAS website and make good use of the resources available. For instance, Candidates can improve their knowledge by undertaking the free online courses offered by IRAS at <https://elearn.iras.gov.sg/iraslearning/content/iras/startpage/index.aspx#>.

Section 2

Analysis of individual questions

Question 1

Question 1 required Candidates to calculate the minimum tax liability of a Singapore incorporated company that was in its second year of operations. It was in the business of providing consultancy and project management services and it commenced its first sale in the second year of operations. The company was also wholly owned by another entity tax resident outside Singapore.

Again, one of the key areas that Candidates were being assessed on was whether they could determine if the subject company could qualify for the full (also referred to start-up tax scheme) tax exemption scheme. The company in question did not qualify for the start-up tax scheme as it did not satisfy the criteria which required the shareholders of the claimant company to be individuals or individual shareholders holding at least 10% of the shares in the claimant company throughout the basis period. The sole shareholder was another company. Another area being tested in

the question was on the claim for pre-commencement expenses under Section 14U. The performance of Candidates on these two areas was rather patchy. Please see below for further comments on Section 14U.

Almost all Candidates could prepare the computation in the correct format although there continued to be some confusion among some Candidates between treating Section 14Q deductions on renovations as part of adjusted trade profit or as part of capital allowances claim (it should be the former). As a guide, where deductions are allowed under Section 14 (including special and further deductions under Section 14) or disallowed under Section 15, such adjustments would go towards forming part of adjusted trade profit. Please also refer to further comments on Section 14Q adjustment below.

The tax computation question tested Candidates' understanding of tax principles and current rules relating to taxation of income from various sources (trade vs non-trade sources), deductibility of expenses (in general as well as against the respective income source) including special and further deductions (specifically Section 14B), and capital allowances claims. On capital allowances, Candidates were also tested on the commencement of capital allowances claim in respect of qualifying assets acquired in the pre-commencement period.

Whilst Candidates could generally determine the taxability of the various receipts and deductibility of most expenses, many faltered on the following adjustments:

- Most Candidates could identify that the rental income was from a non-trade related source. The expenses relating to the rental source – annual direct expense of \$30,000 and legal fees for vetting of initial lease agreement of \$3,000 were also correctly identified by many Candidates. The expenses were correctly removed from net profit first in order to determine the adjusted profit from the trade source. However, when determining the net rental income to be brought to tax, many did not claim the deductible expenses which should only be 6 months of the annual expenses of \$30,000 or \$15,000 only. The legal fees of \$3,000 was not deductible being capital in nature as it was to enable the subject company to access a new source of income. Of those Candidates who correctly claimed deduction, a number of Candidates claimed deduction for the full year's expenses which was incorrect as only 6 months' rental was derived.
- Like rental income, the dividend income should be treated as income from a non-trade related source and removed from net profit first. A few Candidates failed to treat the dividend as separate sourced income. As the proceeds from the dividend was not used to settle the trade liabilities of the subject company; it was lent to a related company, the dividend income should not be treated as remitted to Singapore during accounting year 2018 but when the loan was repaid in the following financial year.
- The net foreign exchange gain of \$2,000 was not properly analysed by many Candidates. Only the amount relating to the translation of investment required tax adjustment as it was capital in nature being valuation loss arising from a long-

term non-trade asset. The loss was not deductible. Many Candidates either adjusted the overall gain charged to Profit and Loss Account or they failed to realise that the non-deductible item was a loss and not a gain.

- The grant from Infocomm Media Development Authority related to the acquisition of an operating fixed asset. It was a capital receipt and thus not taxable. However, since it related to a qualifying plant and machinery, the grant should be adjusted against the qualifying cost of the accounting software program and the net cost thereafter claimed for capital allowances. This was not done by many Candidates.
- A few Candidates treated the consultancy fees for advice on GST implications of cross border transactions as not deductible. The fee was deductible as it was to ensure compliance with the Goods and Services Tax Act of Singapore or any other country – Section 14(1)(X).
- Quite a few Candidates treated the transport allowance as not tax deductible because it was stated that the allowance was used to cover the mileage expenses incurred on employees' privately-owned cars. **Fixed sum** allowances formed part of cash remuneration paid to staff to enable staff to discharge their employment duties. It was no different from salaries paid to staff and would therefore be deductible. How the allowances were being utilized by staff did not have an effect on its deductibility.
- Many Candidates did not seem to be aware that there was a deduction cap put on employers' voluntary top-up to the Medisave accounts of qualifying employees (i.e. Singapore citizens and Singapore permanent residents). The deduction cap was set at \$1,500 for voluntary contributions made up to 31 December 2017. The cap has been increased to \$2,730 for contributions made on 1 January 2018 and thereafter. This information was also included in Appendix A of the Question Paper.
- The trade mission expenses incurred on the 3 employees of \$13,500 was fully deductible as it was revenue in nature, being incurred in the search for a wider market penetration. In addition, such expenses qualify for further deduction without the need to seek prior approval although further deduction would be restricted to qualifying expenses incurred on not more than 2 employees taking part in the trade mission. Many Candidates did not claim the further deduction and some Candidates disallowed the actual expenses incurred altogether. It would appear Candidates were not familiar with this tax benefit.
- Many Candidates were aware of the deduction given to pre-commencement expenses under Section 14U but forgot or did not realize it was still subject to the general deduction rule and do not seem to know how the claim was made. Only expenses that were revenue in nature were admissible and thus the incorporation expense of \$20,000 was not deductible as it was capital in nature. The remaining expenses of \$105,000 were deductible but deduction was taken in the Year of Assessment when the business had commenced. Specifically, the deductible

pre-commencement expenses were deemed incurred on the day business was treated to have commenced, in this case 1 October 2017. The special deduction goes towards determining the adjusted trade profit for YA 2019. Many Candidates treated the pre-commencement expenses as unabsorbed losses brought forward.

- Similarly, for the capital expenditure incurred in the pre-commencement financial year, they would be treated as incurred on the day business had commenced. Thus, for capital expenditure that qualified for deduction under Section 14Q (i.e. \$25,000 and \$125,000), the first deduction would be claimed in YA 2019 together with the qualifying costs incurred in the commencement financial year (i.e. \$30,000). As for the capital expenditure qualifying for capital allowances instead, the first allowances would be claimed in YA 2019.
- The identification of capital expenditure that qualifies for Section 14Q deduction or qualifies as plant and machinery for capital allowances has always posed a problem for Candidates and it remains so in the current paper. Generally, where the costs relate to fixed premises – flooring, tiling, plumbing, sanitary and electrical works (these are usually carried out to make the building or fixed premises functional), the costs should qualify for Section 14Q deduction unless the building qualifies for Land Intensification Allowances. Where the costs relate to mechanical equipment (air-conditioners) and furniture (demountable partitions), it should qualify as plant and machinery for capital allowances claim. Special deduction under Section 14H for building modifications for the benefit of disabled employees requires prior approval before deduction can be taken. In this case, since it is stated that prior approval had not been sought, deduction should be claimed under Section 14Q for expediency.
- As stated above, capital expenditure incurred in the pre-commencement period would be treated as incurred on the day business had commenced. The failure to understand this or the lack of awareness of this provision probably explained why quite a few Candidates did not claim capital allowances on the computers and laptops acquired in financial year 2017. For some of the Candidates who did claim the allowance, it was not clear why the claim was made on a 3-year write-off basis when computers qualified for 100% write-off.
- Candidates should take note that the Productivity and Innovation Credit (“PIC”) would no longer be available and the last year of claim was YA 2018. A few Candidates claimed PIC on the computers and laptops (not available as claim on the asset was taken in YA 2019) as well as the accounting software purchased in financial year 2018.

Question 2

There were 2 parts to this question. The tax computation required to be prepared under **part (a)** was for a Singaporean female (subject taxpayer) who was married to another Singaporean and together they had 2 children. Most Candidates could prepare the tax computation competently, detailing the taxable income from employment source viz other sources. The following errors were noted:

- Almost all Candidates claimed deduction of the compensation in lieu of notice made by the taxpayer. Only expenses incurred in the discharge of employment duties would be allowed for deduction from employment income. The compensation was not incurred in the production of employment income and thus not deductible. The compensation should not be seen as an adjustment to salary as the compensation was to settle a personal liability owed by the subject taxpayer to her former employer.
- The air passage to attend the job interview was not taxable since the benefit did not arise out of employment since there was no compensation required of the job candidate.
- For the business trip to New Zealand for training and management meeting, the costs relating to the daughter's share of the overall cost of the trip was a taxable benefit. Whilst most could determine accurately the daughter's share of the cost of the air passage, her share of the accommodation costs as well as the accommodation costs beyond the 4 business days could not be determined by a number of Candidates.
- The annual subscriptions paid to ISCA and SIATP enable the member to access professional updates, knowledge as well as for networking. It had an element of personal benefit. Hence, Inland Revenue requires the reimbursement by employers to be reported as a taxable benefit. However, where the professional membership enabled the member to carry out their employment duties properly, the employee was allowed tax deduction. So, overall the employee was effectively not subject to tax on the reimbursement. Bearing in mind that the benefit was to be reported by the employer and it was up to the employee to make the deduction claim in their personal tax return, Candidates were expected to do likewise in their answers. This aspect of the computation was not correctly done by almost all Candidates. Whilst some Candidates did bring the benefit to tax, they did not subsequently claim the tax deduction. A few Candidates claimed course fee relief on the subscriptions.
- A number of Candidates claimed NS wife relief when it was stated that the husband was exempted from NS duties previously. Instead, NS parent relief should be claimed as the eldest child had completed his NS duties. This was not claimed by many.
- The CPF calculations were not computed correctly by many Candidates. Some Candidates calculated the CPF relief on ordinary wages based on full year's salary when the individual only worked for 11 months. This in turn would have an impact on the CPF relief for the additional wages earned.
- Some Candidates omitted to cap the total reliefs claimed to \$80,000. This despite the cap being mentioned in Appendix A.
- A few Candidates also omitted to claim the personal tax rebate of \$200. Candidates sitting for tax papers should make it a point to take note of

announcements made by the Minister of Finance at each year's Budget presentation. The rate of the rebate as well as the cap were also included in Appendix A to the question paper.

- Interestingly, a handful of Candidates claimed parenthood tax rebate ("PTR") in respect of the second child who was 15 years old. It should be noted that the rebate is a one-off rebate (it is not a flat annual rebate) and the quantum is based on the birth order of the child. The child must also be born on or after 1 January 2004. In this case, it is very likely that the mother would have fully claimed the PTR on her second child given her level of income.

Part (b) required Candidates to explain the source rules for interest income and the tax treatment of foreign sourced income derived by an individual. The source rules for interest income are found in Section 12(6) of the Income Tax Act. Most Candidates could state that the interest income was sourced outside Singapore but did not or could not explain why the income was foreign sourced. Once the source was identified, the Singapore tax treatment of foreign income should be stated clearly before stating if there were circumstances under which the foreign income may be exempted from Singapore tax. In this case, there is a blanket tax exemption given to all foreign income received in Singapore by individuals, regardless if the individual is tax resident in Singapore or not and provided that the foreign income remitted is not received through a partnership.

Question 3

This question comprises two parts. The GST analysis of transactions given in **part (a)** was one of the better answered questions. The majority could answer in the format required and some even elaborated with useful explanations in their answers. However, there were also some Candidates who could not complete their answers to this question and this was due in part to them not using the abbreviations given and giving their answers in the long form instead for example, standard-rated supply instead of just SR. Further, for all the transactions given, it should be indicated if the GST consideration was from the output tax ("O") or input tax ("I") perspective regardless if GST was actually chargeable (SR or ZR supplies) or not (exempt supply or out of scope supply). In other words, there was a supply made in respect of the transaction given and Candidates were to indicate if the GST implication was from the output or input tax perspective. For example, interest income from another Singapore company would be designated an "EX" supply (first component) and there is "0" GST chargeable (second component). The GST consideration is from the "O" (output tax) perspective (third component). In many of the answers given, Candidates used "NA" or not applicable. "NA" could not be accepted as an answer for the second and third component in many instances as it was not specific enough. For example, for a transaction that is ZR, the output tax chargeable should be "\$0" (there is GST chargeable but at 0%), NA is not acceptable as the answer was not specific enough.

Although well attempted, the common errors noted for **part (a)** were as follows:

- The sale of wood flooring to a Singapore couple was a zero-rated supply as the goods sold were exported out of Singapore by the GST-registered supplier. Many Candidates indicated it to be standard rated.
- For the clearance sales made during the Great Singapore Sale, the GST on the discounted sales was also absorbed by the supplier. Candidates either did not read the information given correctly or they do not know how to calculate the tax in such instances.
- Export sales where the goods sold were fulfilled from stocks kept outside Singapore and transported directly to their overseas customers were identified as zero-rated supply. This was incorrect. Only goods moved from a place in Singapore will be treated as a standard rated supply (where the goods sold are moved to another place in Singapore) or zero-rated supply (where the goods sold are exported out of Singapore).
- The freight and transport of goods imported into Singapore was actually out of scope as the supply was made by a party belonging outside Singapore (overseas supplier of the goods imported) but GST at the standard rate would be chargeable and collected by Singapore Customs together with the cost of the goods imported into Singapore.
- Input tax on the motor car was claimed by quite a few Candidates. The input tax claimable was zero (\$0) as it was blocked from input tax credit.
- The sale of floor polishing machines was a standard-rated supply as the goods sold were removed from a place in Singapore and the goods sold remained in Singapore after the sale. The GST status of the buyer had no bearing on the sale of goods by the GST-registered supplier.
- There was no supply in respect of the stocks written off due to termite infestation. There was no transfer of possession to another party. Many Candidates identified it as standard-rated supply.
- On the other hand, the stocks written off in respect of stocks installed at the director's residence constituted a standard-rated supply for output tax purposes as business goods had been put to private use (transfer of possession) at no consideration. Quite a few identified it as out of scope or no supply.
- Legal fees paid to a firm in Hong Kong was an out of scope supply since the supplier of the legal service belonged outside Singapore. Some Candidates identified it as zero-rated supply.

Part (b) was quite poorly attempted as the answers submitted showed clearly that Candidates' understanding of withholding tax was very shallow. Many Candidates indicated that withholding tax was not applicable but did not explain why this was so. Others stated that withholding tax was applicable and did not seem to aware that the place where the services were provided had an impact.

Question 4

There were 3 parts to Question 4 and all 3 parts were attempted to varying degrees of success. **Part (a)** required the adjusted and divisible profits to be computed. Although this part was well attempted by Candidates, it was also clear that many Candidates did not quite understand the difference between adjusted and divisible profits.

Adjusted profit is net accounting profit stripped of income that are not trade related (non-trade income like interest income) and receipts that are not taxable (for example, capital gains) as well as expenses that are not deductible for income tax purposes. The tax computation for partnerships is therefore quite similar to the tax computation for incorporated entities and the partners are subject to tax based on their share of the adjusted profit. However, it is not correct to apply the profit-sharing ratio to the adjusted profit as each partner is also entitled to their own separate and distinct drawings like salaries and personal expenses. (For partnerships, salaries paid to partners are viewed as personal drawings (not staff salaries) and they are not tax deductible.) It is the residual profits after deducting partners' drawings that will be divided according to the profit-sharing ratio. This residual profit is the divisible profits.

It was therefore important to identify which expenses were to be treated as partners' drawings or appropriations and which expenses were business expenses even where the expense is expended by or on a partner. For example, the overseas travel expense of \$20,000 incurred by the partner was a business expenses as it related to overseas conferences attended by the partner which was related to the partnership's business. It was deductible and no tax adjustment was required. A few Candidates treated it as a non-deductible expense. Similarly, the reimbursement of motor car expenses incurred on a partner's motor car was a business related outlay as the car was used for business related matters but it was not tax deductible as it was prohibited under Section 15. Only expenses that were the partners' personal expenses or salaries paid to them would be treated as partner's personal drawings.

Part (b) required the assessable income to be determined for one of the partners, incorporating his income from other sources. The following errors were noted:

- Many Candidates applied the profit-sharing ratio to the adjusted profit instead of the divisible profit even where the latter was computed in part (a).
- A number of Candidates did not read the instructions carefully and produced answers beyond assessable income (for example, chargeable income and tax payable).
- Some Candidates forgot to claim capital allowances.
- A number of Candidates did not subject to tax the foreign interest income received during the year. Where foreign income is received through a

partnership, tax exemption is granted subject to the provisions to Sections 13(8) and (9).

- The unabsorbed loss brought forward was not claimed in the correct order.

Part (c) tested Candidates knowledge of the tax filing deadline for partnerships and corporate entities as well as their ability to apply the provisions of Section 24 appropriately.

Many Candidates did not know the filing deadlines.

Most Candidates could detail the consequences of electing the provisions of Section 24 and almost all Candidates concluded that Section 24 should be elected but could not or did not explain why it should be so. Most answers given did not relate the impact of the election or non-election to the respective entity's actual tax position. Some Candidates equated Section 24 election to group relief while a number opted to avoid answering the question.