

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 4 December 2019

Section 1

General comments

The format of the current examination remained the same, a restricted open book format with Candidates being 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.

However, the performance of this exam session was poorer than the previous exam session. The following were noted:

1. The computational (Question 1a) and GST questions (Question 3a) were well-attempted, although there were still gaps in Candidates' basic tax knowledge. This could be partly due to Candidates not reading the information given completely or not comprehending what they have read.
2. Poor attempts at the qualitative questions and this is consistent with the performance of the past cohorts'. A fair number of Candidates did not attempt the qualitative questions of lower weightage. These qualitative questions test Candidates on basic knowledge in subject areas e.g. determination of an individual's tax residence status (Question 2a), tax administration (Question 2c) and withholding tax (Question 3b). However, the answers that were given to these questions showed that Candidates' knowledge and understanding of these subject areas is very superficial. Consequently, there was a lack of depth and completeness in the answers given apart from regurgitating rules and conditions.
3. Incorrect application of tax law. This can be seen in answers given to Questions 2(a) and 2(b). See further comments below under the individual questions.
4. Careless computational errors coupled with lack of workings in answers made it difficult for markers to award marks for correct application.
5. Topics tested were those required under the TXF syllabus, but it appears that many Candidates did not study sufficiently. This could be an issue of Candidates spotting questions and consequently not going through all topics covered in the syllabus.
6. Question 4 was the worst performing question. Other than repeating the rules and conditions, there appears to be an inability to apply these rules and

conditions.

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 TXF 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 their 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 manufacturing company.

Unlike past questions where there was a net tax payable, it was hinted in the question that the company might not be in a tax-paying position. Consequently, there was a need to state clearly and separately the various loss items incurred in the current Year of Assessment. Not many Candidates were successful in achieving the expected answer; there were a few incomplete answers submitted as clearly, Candidates found themselves in unfamiliar territory.

Almost all Candidates could prepare the computation in the correct format and most Candidates correctly treated Section 14Q deductions on renovations as part of adjusted trade profit instead of capital allowances claim. To reiterate, 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.

The tax computation question tested Candidates' understanding of tax principles and 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 deductions and capital allowances claims.

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

1. The rental income of \$20,000 was derived from the 4-month period from 1 January to 30 April 2018. As the income was used to settle expenses incurred by the representative office in Country K, most Candidates correctly treated the income as remitted back to Singapore.

However, in relation to the related expenses (property tax in Country K and property maintenance fee), many Candidates faltered. Many Candidates incorrectly disallowed the total expenses incurred of \$21,600. For the period from 1 May 2017 to 31 December 2017, the property was used as staff accommodation at the representative office. The representative office being the company's liaison office was an extension of the Singapore company in Country K and consequently, its expenses would be allowed deduction against Singapore sourced income insofar as they relate to generating trade income for the Singapore company.

Thus, only the property expenses relating to the 4-month period of January to April 2018 requires tax adjustment as they relate directly to generating rental income which was sourced in Country K and which could only be deducted against the rental income derived.

2. The application for Land Intensification Allowance ("LIA") on the factory extension was a capital expenditure as it is related to seeking approval for deduction in relation to a capital expenditure.
3. The building plans and preliminary study expenses relating to the factory extension were correctly treated as capital expenditure by most Candidates. However, this was also a qualifying expenditure for LIA. Since approval was granted on the LIA status, initial allowance at the rate of 25% on this expenditure should be claimed. Not many Candidates claimed the allowance.
4. Many Candidates did not seem to know that medical insurance, as well as cash allowance given in lieu of medical expense reimbursement were also subject to

the capping limits of 1% or 2% of staff remuneration. The latter should be viewed as part of medical expenses instead of staff remuneration.

5. Mileage claims usually refers to reimbursement of expenses relating to the use of motor cars. Thus, the mileage claims by staff of \$45,000 was not deductible as the claims were on private motor cars.
6. Although many Candidates correctly did not bring to tax the exchange gain on the purchase of manufacturing equipment, they failed to take the exchange gain into account when calculating the wear and tear allowances on the same equipment. The gain should be adjusted against the purchase price, and wear and tear allowances calculated based on the net price.
7. In itself, the tiles costing \$15,000 was capital in nature and therefore not deductible. However, where the costs were incurred on replacing similar tiles (i.e. there were no improved features over old tiles being replaced or the replacement was not part of an overall improvement to premises), the replacement costs should be deductible in full (Section 14(1)(c)). There was thus no need for any tax adjustment with regard to the \$15,000 cost.
8. The entire cost of the existing factory building of \$5,000,000 qualified for industrial building allowance ("IBA") as the area occupied for non-qualifying (office and showroom) use is only 9%. The rate of annual allowance for an IBA factory is 3%.
9. The cost incurred on a motor car used exclusively outside Singapore for purposes of a Singapore trade, business, profession or vocation qualifies for accelerated wear and tear allowances over 3 years. Likewise, the running expenses for such motor cars would also qualify for tax deduction. A number of Candidates did not seem to be aware of this.
10. The unabsorbed trade loss of \$2.1m could be deducted in YA 2019 and the correct order of deduction should be against statutory income. Many Candidates did not claim the deduction in the correct order.

Question 2

There were three parts to this question. **Part (a)** required Candidates to determine the tax residence status of the individual. This part was poorly attempted by many Candidates due to the following:

1. Many Candidates did not read the information provided completely. The answers were based on the information provided in the opening paragraph, which stated that the individual was in Singapore on a 2-year employment contract. However, at the end of the information fact sheet, it was stated that the individual terminated her contract prematurely after 5.5 months. This latter piece of information changed the initial scenario.

2. Some Candidates did not seem to know how to count the number of days of physical presence nor the number of days in an employment period.

Under the quantitative test, the individual needs to be physically present in Singapore or exercising employment in Singapore for at least 183 days in the calendar year preceding any Year of Assessment. Physical presence requires the individual to be present in Singapore for any part of a day. Hence, the date of departure and arrival back from overseas (either for holiday or work) will be counted as days physically present in Singapore and the entire period when the individual is overseas for holiday or work would be counted as days not physically present in Singapore. On the other hand, for employment, “the number of days of employment in Singapore includes weekends and public holidays. Any absences from Singapore that are temporary (e.g. overseas vacation leave) or incidental to employment (e.g. business trips) are still counted in the total days of employment for the purpose of determining the tax residency status” (IRAS website). If the 2-year administrative concession is applicable, the 183-days minimum employment period straddling 2 years can take into consideration the individual’s physical presence immediately before/after the employment period.

Many Candidates could not correctly calculate the number of days in Singapore, whether under physical presence or employment period or 2-year administrative concession because physical presence and employment period were used interchangeably.

3. Incomplete answers were given. Many Candidates did not clearly state the year being considered in determining whether the 183-days was met. Neither did they address the Year of Assessment that the individual was tax resident.
4. Answers provided need to be precise. This is not a quirk required simply for examination purposes; this is also required in the business environment as application of rule and law is exacting. Business owners and senior management also need clear answers to guide them in making informed decisions.

The preparation of tax computation required under **part (b)** was for a married non-Singaporean female (subject taxpayer) with four children, one of whom was studying and living overseas. It was quite clear that many Candidates did not understand how the tax should be calculated for individuals who are non-residents:

5. The non-resident individual will be subject to tax at a flat non-resident tax rate, currently 22%. However, there are prescribed concessionary tax rates for certain income derived by these non-resident individuals.
6. Consequently, the tax payable by a non-resident is determined source-by-source because of the different flat-rate tax applicable. In this case,
 - a) for employment income, the individual is subject to tax at the minimum floor rate of 15% but the tax payable may be higher if the tax calculated on the

resident basis (to be applied only to employment income) is higher. This is prescribed under Section 40B and therefore, for the employment source, they need to determine the **net taxable employment income**. The flat rate tax of 15% is then applied to this net income and compared against the tax payable on the same income after deducting personal reliefs, if such an individual was considered tax resident in Singapore.

b) For interest income from loans to Singapore companies, the non-resident is subject to tax at the flat rate of 15%.

c) For rental income, the prevailing non-resident rate of 22% will be applied.

Many Candidates applied the non-resident employment income tax rate of 15% to the statutory income (i.e. including interest and rental income). Others merely ignored the requirement and calculated the tax on the basis that the individual was tax resident in Singapore.

7. The following errors were also noted:

a) Employment source:

- (i) Some Candidates only subjected half the upfront bonus to tax as the question stated that the individual had to repay half of the bonus in January 2019. Since the full cash sum was received upfront, the full sum received would be taxable in the relevant Year of Assessment relative to the basis year when the full sum was received. Any repayment of this upfront bonus would be given deduction in the Year of Assessment relative to the basis year the repayment was made. In this case, Year of Assessment 2020.

Many Candidates seem to have trouble determining the taxable benefit arising from the children's international school fees borne by the employer. The fees were paid upfront by the individual at \$20,000 per child and there were three children. Since there was no refund of fees, the 75% of \$20,000 refunded by the employer was taxable and it must be multiplied by 3.

- (ii) Personal reliefs available if the individual was tax resident in Singapore:
 - As the spouse derived only capital gains of \$95,000, the taxpayer should be able to claim spouse relief of \$2,000. Many Candidates omitted this claim.
 - To claim handicapped sibling relief, the sibling must be living in Singapore. As the sibling was residing in a nursing home in the U.S., the relief was not available.
 - The individual should be entitled to basic child relief at \$4,000/child for four children, including the child who was studying in the U.S. However, she was not entitled to Working Mother's Child Relief as the

qualifying child had to be a Singapore citizen. This was not a requirement for the basic child relief.

- As long as the working woman is entitled to claim basic child relief, foreign maid levy relief could be claimed at twice the maid levy paid in the basis period for one maid. Since the levy paid in the basis period was \$1,325, she could claim relief of \$2,650.
- Since the individual was a foreigner (not Singapore citizen nor Permanent Resident), there was no need to consider CPF relief. CPF is payable only if the employee or self-employed is a Singapore citizen or a Singapore Permanent Resident.

b) Income from other sources:

(i) Rental

- Some Candidates could deduce that they should consider the simplified basis of claiming expenses against rental income. Thus, they should consider claiming expenses at 15% of gross rental of \$15,000 or actual expenses tracked by the individual of \$2,300. Many Candidates did not consider the simplified basis of claim at 15% while others claimed on the simplified basis as well as the actual property tax incurred of \$2,300. This is incorrect. If claiming on the simplified basis, they should take deduction of expenses at 15% of gross rental plus actual interest expense incurred on the property loan. Since there was no interest expense incurred during the year, and the deemed 15% expenses was higher than the actual property tax expense of \$2,300, deduction should be claimed based on the simplified basis. The net rental income was to be subject to tax at the flat rate of 22%.

(ii) Interest

- The interest income of \$15,000 should be taxable at the non-resident tax rate of 15%.
- Some Candidates treated the interest income as tax exempt. Tax exemption is primarily applicable to individuals who derive interest income from deposit placements with approved financial institutions like banks and finance companies in Singapore.

Part (c) tested Candidates' knowledge of the administrative requirements with regard to the respective income derived by the Candidate. It was quite clear most Candidates were not familiar with this topic. Although this question does not carry a high weightage, it is important to know the administrative obligations as the obligation to account or assist in the collection of income tax rests with the employer of the non-resident (tax clearance whenever a foreigner, and in some instances, a Permanent Resident, resigns) or the payer of certain income (e.g. interest, royalty, right to use intellectual property, services or rental of moveable property) to non-residents.

Question 3

This question comprises two parts. The GST analysis of transactions given in **part (a)** was well-attempted. The majority could answer in the format required. To reiterate, 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 chargeable (Standard-Rated "SR" or Zero-Rated "ZR" supplies) or not (exempt supply or out of scope supply). In other words, where there was a supply made in respect of the transaction given, 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. Where there is clearly no supply of goods and services (e.g. cash donation), then it would be acceptable to state "NA" for components 2 and 3.

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

1. The sale of old newspapers to a secondhand goods dealer was GST inclusive but quite a few Candidates did not seem to realize that the price of \$500 was GST inclusive.
2. Output tax is chargeable on sales/receipts, where applicable. Thus, in the case of the interest income from deposit placement with an offshore bank, the analysis should be as follows – the Singapore GST-registered company was charging interest on a "loan" to a party belonging outside Singapore and so the interest income of \$30,000 would constitute a zero-rated supply. Some Candidates did not get this correct. On the other hand, where interest was charged to parties belonging to Singapore, for e.g. interest charged on loans to staff, the consideration would constitute an exempt supply.
3. When a final settlement amount is received from a debtor for a debt that was previously written off, this amount recovered is usually inclusive of GST. Hence, Comptroller takes the position that amounts recovered from debts written off previously is inclusive of GST and not just the sales value recovered.
4. The payment of \$35,000 for an accounting software was made to the same vendor which was not GST-registered (it was an overseas vendor and did not have any Singapore operations). Consequently, the entire amount was out of scope and no input GST was payable to the vendor. Some Candidates wrongly identified it as a zero-rated supply.
5. The purchase of new office furniture involved old office furniture that was traded in. There are two transactions here – an input tax consideration on the purchase

of the new furniture and an output tax consideration on the sale of the old furniture to the supplier. The GST implications on the two transactions need to be assessed separately. Some Candidates combined the two transactions into one, which is wrong.

6. Supplies relating to the transportation of goods or passengers from a place in Singapore to another place outside Singapore and vice versa qualifies for zero-rating. Some Candidates identified the supply as out of scope; this is not correct as the supply was made by a party belonging in Singapore and it was not stated that Singapore Airlines was not GST registered.
7. In respect of the transactions relating to the donation of \$13,000. There were effectively three transactions that needed to be addressed:
 - (i) The cash donation of \$7,000 which did not involve any supply of goods and services; no supply or out of scope could be accepted.
 - (ii) The purchase of the two Microsoft Surface Pro 6 (the devices were purchased during the same quarter when the donation was made).
 - (iii) The donation of the abovementioned machine to the charitable organization.

Part (b) was quite poorly attempted as many Candidates were not familiar with the topic of withholding tax. Many Candidates could narrate the conditions under which withholding tax is applicable. However, not many Candidates could identify that the software payment was for the use of a copyrighted article and hence withholding tax was not applicable. As for the payment for the modification work, some Candidates could not determine that the payment was for services and the place where the services rendered would have an impact on the withholding tax implication.

Question 4

There were three parts to Question 4 and all three parts were poorly attempted. **Part (a)** required Candidates to address if the two entities could qualify as members of the same group under group relief provisions as well as to explain how the amount that qualifies for transfer under group relief was to be determined. Most Candidates could answer the first part, correctly identifying the common parent and stating the minimum shareholding required of the common parent for group relief purposes. However, not many Candidates stated how the amount transferrable was arrived at and even fewer Candidates could state that the amount transferable related only to the period where the minimum shareholding of 75% was maintained continuously till the end of the basis period.

Part (b) required Candidates to address the conditions to be satisfied under the carry back provisions. Many Candidates lost marks as the following were not addressed adequately:

1. As there were two types of loss items under consideration, unabsorbed capital allowances and unabsorbed trade losses, the conditions needed to be addressed separately. The separate conditions were not discussed clearly in many answers – business continuity test and shareholdings test for unabsorbed capital allowances and shareholdings test only for unabsorbed trade losses.
2. Many Candidates could not identify the shareholdings comparison dates correctly. Many Candidates also failed to correctly identify the shareholder(s) to be considered for shareholdings comparison purposes. The shareholder should be traced up to the ultimate individual shareholder. In this case, it should be Mr Hari Kumar for utilization of the unabsorbed capital allowances and Ms Sunshine Wong and Mr Hari Kumar for the utilization of unabsorbed trade losses.
3. Unfortunately, the minimum shareholding required of 50% was not given in many answers.
4. Like **part (a)**, not many Candidates addressed how the amount to be carried back was to be determined.

Part (c) required partial tax computations to be prepared for the two companies on the basis that group relief and carry back provisions would be opted. Candidates should know that group relief transfers are to be performed first before any remaining loss items can be carried back. The following errors were noted:

1. Many Candidates did not seem to aware that there was an order of set-off to be observed. For the transferor company, its capital allowances should be set off against its non-trade income (i.e. interest income) first before utilizing the trade losses. As such, there was unabsorbed capital allowances remaining in addition to the unabsorbed trade loss.
2. The amount of loss items that could be transferred had to be pro-rated to the continuous period where the minimum 75% shareholding was maintained by the common parent company in both transferor and transferee companies till the end of the basis period. As this was not carried out, most answers ended up with both loss items being transferred out. This is not correct. Further, the order of transfer is capital allowances first and then followed by trade losses.
3. As a result of the foregoing, answers did not include the quantum that could be carried back in the transferor company.
4. Very few Candidates indicated that the unabsorbed trade loss remained with the transferor company to be carried forward. It cannot be carried back for reasons addressed in **part (b)**.