

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 15 June 2020

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.

This current cohort produced a higher percentage of passing rate as compared to the previous cohort. The questions with the highest average marks were in the order of question 1, question 2, question 3 and question 4 respectively. **Part (c)** of question 4 was poorly answered.

Candidates were advised to take note of the following:

- The quantitative questions, i.e. company's and personal income tax and Goods and Services Tax (GST) questions were well-attempted. Nevertheless, Candidates should always countercheck their answers for errors and use the information provided in Appendix A of the question paper to ensure certain claims / reliefs / exemption are not being omitted, or incorrect rates were being used.
- Candidates must have a good knowledge of the tax terminology used, e.g. adjusted profit (AP), statutory income, assessable income (AI) etc. as a lack in the understanding of the tax terminology used may result in the incorrect tax computation.
- The average mark achieved for personal income tax question was lower than the corporate tax question despite being more straightforward than the corporate tax question. Candidates should endeavour to perform better at the personal income tax question as such knowledge will help them plan and compute their future income tax payment. Such tax planning should hopefully lead to a lower tax cash outflow.
- The qualitative questions largely tested the Candidates on the **basic** tax knowledge were not so well-done. The answers provided showed a lack of knowledge and understanding. Candidates are advised to read thoroughly, understand and apply the relevant sections from the following:

- i) The Income Tax Act (ITA) and associated regulations applicable to the TXF syllabus.
- ii) The Goods and Services Tax (GST) 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 (e.g. the IRAS website) and it may 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 this information, as well as bridge any gaps in their tax knowledge. While it is not easy to read the statutes and the tax guides, but as future professionals, Candidates should acquire such skills to enable them to provide the authority for the information.

Candidates must read the questions **carefully** to answer the question correctly in their first attempt. Failure to do so may, consequently, lead to spending additional time redoing their answer.

Lastly, to perform well, Candidates are encouraged to practice, practice and practice. Past examination questions should be attempted and subsequently crosschecked to the suggested solutions. This is especially important for those Candidates who are switching from a non-accounting background. Candidates must also put in enough time and effort to reinforce and clarify their understanding. Please avoid rote learning as much as possible.

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 your 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 you to avoid costly mistakes or make inferior decisions. You should strive to understand the principles of what you 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

For Question 1, Candidates were required to calculate the minimum tax liability of a Singapore plastic waste recycling company.

The errors made by the Candidates were as follows:

- Wrongly included the amount for workman's compensation expenses as part of medical expenses. To determine the capping of medical expenses, some Candidates failed to include transport allowances and incorrectly included director's fees as part of the employees' remuneration.
- While candidates correctly deducted National Environment Agency grant for the purchase of the recycling and extrusion machine as it was not treated as income, some Candidates failed to deduct this amount from the recycling and extrusion machine to determine the cost of the machine for capital allowances (CA) purposes.
- Candidates used the wrong amount of donation to determine the AP. They did not use the value of the sculpture assessed by the National Heritage Board to obtain the 2.5 times deduction for approved donations.
- Did not cap section 14Q's renovation and refurbishment amount to \$300,000 for the relevant three-year period.
- For the three water heaters, each costing \$4,800, some Candidates erroneously claim the CA over 3 years instead of a year as the water heaters are not more than \$5,000 per unit and the total claim did not exceed the cap of \$30,000 per year of assessment (YA).
- For the 19 lockers (costing not more than \$5,000 per unit) which were purchased in the Financial Year 2018, CA for 13 lockers have been fully claimed in YA 2019. The balance of the 6 lockers has claimed CA over 3 years in YA 2019. Hence the tax written down value (TWDV) not claimed for the 6 lockers is \$9,200. As the balance of \$9,200 for the 6 lockers together with the 3 water heaters as aforesaid was still within the cap of \$30,000, the TWDV of \$9,200 for the 6 lockers can be claimed within one year for YA2020. However, some Candidates merely claimed the balance of CA over the remaining 2 years instead of writing off over one year as the question states that the company's policy is to maximise its CA claim.
- Candidates used an incorrect amount for the proceeds from the sale of the truck even though it was clearly stated in the question. Consequently, the balancing charge was wrongly determined.
- Candidates did not deduct the interest expense after the AP related to the interest income from the Singapore corporate bond investment.

Question 2

For Question 2, Candidates were required to calculate the minimum tax payable for the Year of Assessment 2020.

The errors made by the Candidates were as follows:

- Candidates did not deduct the sole proprietor's medical expense from medical expenses as it was treated as a personal expense of the sole proprietorship. In addition, some Candidates failed to exclude the sole proprietor's salary to determine the employees' remuneration for the purpose of capping the medical expenses.
- For laptop computers which are capital expenditure charged to the income statement (perhaps due to immateriality for accounting purposes), some Candidates did not add back this disallowed expenditure to determine the AP.
- Candidates did not allocate rental expenses as the property was rented out for 10 months in the accounting year. But when the rental expenses were allocated, some Candidates incorrectly used number of days instead of the number of months which should be easier to compute.
- Wrongly claimed CPF for the sole proprietorship "income" when the question clearly states there was no CPF paid for the sole proprietorship. Some Candidates did not claim the CPF relief for Josie's employment income from the pharmaceutical company when it should be claimed.
- Failed to claim the earned income (EI) relief even though Josie has EI from both trade & employment income. Other personal reliefs omitted were parent's relief and child relief for which only two children were claimed instead of three.
- Wrongly claimed foreign maid levy (FML) relief when the FML was not paid by Josie.
- Wrongly claimed NS men relief twice instead of once.

Question 3

There were three parts to this question. For Question **Part (a)**, Candidates were required to analyse the GST transactions. Many of the Candidates 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 received 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.

Candidates should take note of the following points:

1. For sales to a Malaysian couple, there were no proper export documents. Therefore, such sales cannot be zero-rated, and the company will have to charge 7% GST. Consequently, Candidates who indicated zero-rated for these sales did not account for the 7% output tax.
2. Many Candidates did not split the supply between the bare property and the furnishings. Hence only one part of the answer was provided, leading to a loss in marks awarded. Many Candidates also obtained the wrong value on furnishings as they allocated the value between the rental of the bare residential unit which was exempt from the monthly rental of the furnishings which was a standard supply liable to GST incorrectly. The monthly rental value of the furnishings is the difference between the monthly gross rent (i.e. the total rental charged) and 1/12 of the annual value of the property.
3. For cleaning services, no GST can be claimed as the cleaning relates to the residential property which was an exempt supply.
4. Loan given to ex-manager was an exempt supply, and therefore the related bad debts written off cannot claim bad debts relief.

Part (b): For income to be chargeable with tax in Singapore, the income must be **sourced** in Singapore for which many Candidates did not indicate this in their answers. Training fees are technical assistance and service fees, and the withholding tax rate indicated in the Appendix is 17%. However, some Candidates indicated 10% or 15%, which showed that they did not make use of the information provided in the Appendix.

Part (c): Terms such as “not subject to tax” and/or “not taxable” were used as if they were similar to “tax-exempt”. “Not subject to tax” or “not taxable” may not be similar to “tax-exempt” because the income may fail the source principle or the remittance principle and hence will “not be subject to tax” (not “tax-exempt”) until a later date. “Tax-exempt” means even though the income is sourced in Singapore or remitted to Singapore, they are still not taxable as such income may be exempt under section 13 of the ITA.

For the employment income of the CBL’s employees, many Candidates merely indicated the employees spent only 6 days in Singapore and concluded that the employment income is exempt from tax. This answer is insufficient as there were no mention of 60-day rule pursuant to section 13(6) of the ITA. Section 13(6) further requires the CBL’s employees not be tax resident in Singapore to obtain tax exemption. Some Candidates use the term “less than 60 days” in their answers which was incorrect. The proper phrase should be “not more than 60 days” which has a different meaning from “less than 60 days”.

Question 4

There were three parts to Question 4.

Part (a) required Candidates to compute the AP and divisible profit (DP) for Arts and Homes Partnership (AHP) for the YA 2020. The common errors were as follows:

- Not accounting for the sponsorship of lucky draw prizes incurred for Luxe Homes Pte Ltd (LHPL), a partner, which was mandated under the partnership agreement;
- Not accounting as a partner's appropriation for the partner's petrol and parking charges incurred as it was for his personal use;
- Not adding back carpet and wall coverings expenses which are capital expenses and omitting Section 14Q claim for the said expenses.

Part (b): Candidates were required to explain whether LHPL can deduct the AHP's unabsorbed CA brought forward from YA 2017 to YA 2020. Most Candidates manage to state the conditions for carrying forward of unabsorbed CA (business continuity test and shareholdings test) and correctly identifying the relevant comparison dates. Nevertheless, Candidates should take note of the following points:

- None of the Candidates managed to clearly explain how the business continuity test is met. As the unabsorbed CA arose from the AHP's partnership, the business continuity test will only be met if the AHP's business is still ongoing and LHPL continues to remain as a partner of AHP.
- For the substantial shareholders' test, shareholders should be traced up to the individual shareholder (i.e. Tom, Rory and Kenneth) and not to the corporate shareholder, Luxington and Sons Limited. Whether the substantial shareholders' test were met or not will depend on whether **at least** 50% of the total number of issued shares of the company are held by or on behalf of the same persons.
- A handful of Candidates did not read the question carefully and proceeded to discuss and apply group relief (GR). This was irrelevant as GR transfer was only applicable for Singapore incorporated companies which has current year unabsorbed qualifying deductions (QD).

Part (c): Most Candidates failed to attempt or complete this part of the question, perhaps due to poor time management. Common errors were as follows:

- Candidates did not include LHPL's portion of AHP's income in deriving the total net trade income in the business.

- Candidates did not account for the share of income from AHP **separately** from LHPL's business.
- Candidates used AP instead of DP to divide the profits amongst the partners.
- Failed to include the interest income after the AP.
- Wrongly added back LHPL's donation to compute the AI when the question has provided the LHPL's AP (i.e. donation was already excluded).
- Included AHP's brought forward CA as part of the QD for GR purposes.
- Did not limit the QD transferred to the lower of AI of the transferee or the QD of the transferor.
- Intermingle the net trade income of AHP and LHPL. The income should be determined separately as if there was a trade loss, there was an order of setoff specified in section 37(4) of the ITA.