

## SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

**MODULE:** Taxation (TX)

**EXAMINATION DATE:** 10 June 2022

### **Section 1**

#### **General comments**

From the Candidates' responses to the questions, Candidates were only familiar with common topics that involved standard corporate tax computation (for example, in Question 2(b)), carry-forward of unabsorbed tax loss items, and withholding tax obligations.

When the questions required less straightforward computations (e.g. the individual tax computation which tested on a tax-on-tax concept), or deeper analysis (e.g. the interplay between domestic tax concepts and treaty concepts, transfer pricing or reverse charge mechanism), Candidates were unable to handle the question and performed poorly. These questions generally required the Candidate to apply tax knowledge to the facts of the case.

Candidates also did not perform well for the qualitative questions, which required identifying several issues (e.g. income tax, GST, and stamp duty implications on a restructuring). Candidates were unable to identify the key issues or missed answering certain parts of the question.

### **Section 2**

#### **Analysis of individual questions**

##### **Question 1**

This question covered mainly ascertaining the deemed date of commencement and group relief. Overall, most Candidates correctly identified the date of commencement and accordingly worked out the correct amount of unabsorbed trade losses to be carried forward. That said, many Candidates did not understand the question correctly and focused on the shareholder's test instead of the pre-commencement expenses. The subsequent question on group relief was done fairly well.

Candidates did poorly for **part (d)**, and many were unable to comment on the income tax and GST treatment of a share transfer. Instead, many Candidates discussed the Mergers & Acquisitions (M&A) allowance, which was irrelevant to this case. Most Candidates managed to identify the stamp duty exposure but failed to mention the possibility of relief. As for the GST implications, most Candidates arrived at the correct conclusion but not the analysis leading to that conclusion.

For **part (e)**, most Candidates could identify the need for a Section 37A adjustment but failed to mention the other relevant conditions, such as the limit of the

transferable losses only to the period of time where both companies are part of the same Group.

### Question 2

Overall, Candidates performed the best in Question 2.

**Part (a)** was well attempted, with almost all Candidates scoring 2.5 or 3 out of the full marks of 3.

For **part (b)**, most adjustments to the corporate income tax computation were in order, but it was surprising that some Candidates did not understand how medical expense restriction was calculated and/ or left out the transport allowance. In addition, not many Candidates managed to arrive at the correct conclusion that capital allowances should be deferred where possible since the Company was in an adjusted loss position – likely this may be due to Candidates not being familiar with tax-loss positions.

**Part (c)** was generally well attempted. However, a small number of Candidates went off tangent and commented on tax implications of stock option/award plans, badges of trade, or even stamp duty. Some did not attempt this question.

### Question 3

The question covered mainly interest payments between related companies and the transfer pricing, withholding tax and corporate tax implications.

Overall, this was the worst-performing question for this paper.

Out of the three parts in this question, Candidates scored the best for **part (a)** as the facts were relatively simple and did not require deep analysis to arrive at the answer.

**Part (b)** was generally not well attempted and the majority failed this question. None of the Candidates were able to appreciate that given Singapore is the borrower, it is unlikely that IRAS will adjust the rate upwards. This may suggest that Candidates' level of knowledge is limited to technical knowledge found in the study materials, whilst practical, real-life questions may be too difficult for them.

**Part (c)** was a practical qualitative application question. Most Candidates identified the tax deduction issue (thereby earning some marks) but only a minority of Candidates raised the possibility of changing the purpose of the loan from capital to revenue, in order to mitigate the deductibility issue.

**Part (d)** tested both domestic and treaty concepts. Based on the responses, it was evident that Candidates were unsure about treaty application and how it interacted with domestic law/ exemptions. As a result, some Candidates did not even attempt this question.

Candidates did very poorly for **part (e)**, which was also the worst performed question part as they were unaware of the reverse charge mechanism, resulting in most responses being out of point.

#### Question 4

**Part (a)** was not well attempted. It was surprising that most Candidates only mentioned the quantitative test for residency and not the qualitative test. Many Candidates failed to identify the Section 13(6) exemption, and among those who managed to, some of them had incorrectly applied the exemption.

Candidates generally performed well for the first half of **part (b)**, and many were at least able to complete some parts of the notional tax computation. However, the majority could not complete the actual tax computation as they could not calculate the tax borne by the employer and the tax-on-tax amount.

Many Candidates did not attempt **part (c)** at all. Those who attempted the question generally did well for the first part but not the second part. For the second part, Candidates either did not complete the question or discuss the taxability of cash payments received as part of the phantom share plan and marks were not awarded.