

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 23 June 2023

Section 1

General comments

The examination format remained broadly similar; a restricted open-book format with an Appendix containing information relating to tax rates, rebates, personal reliefs, and allowances was provided. In addition, Candidates were allowed to bring in one (1) A4-sized double-sided cheat sheet and a blank scratch paper to the examination.

The following were noted for the current cohort:

- All four (4) questions were attempted by most Candidates, although some Candidates did not turn in answers to some parts of Question 4. This was likely due to a lack of time to complete the paper. Candidates' performance on computational questions like 1(a), 2(b), and GST were mostly competent. However, answers also showed gaps in Candidates' basic knowledge and understanding of those taxes.
- Performance for the qualitative questions (Questions 1(b), 2(a) & 4(b)) were reasonably well attempted in the current sitting. The Examiner would like to emphasize that qualitative type questions seek to test Candidates' ability to apply the relevant tax rules and concepts to the case scenario posed. Simply regurgitating the conditions and rules in their answers is not sufficient. Candidates have to apply the rules and conditions to the information provided to explain how those said rules and conditions were/were not met. There were more Candidates who seem to be able to substantiate their conclusions in the current sitting.
- Many Candidates have incorporated workings in their answers, making it easier for markers to award marks for the correct application despite careless computational or transposition errors.

Candidates are reminded to 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 related regulations, and iii) the Inland Revenue Authority of Singapore (IRAS) e-Tax guides.

There is much tax-related information in the public domain (for example, the IRAS website). It can be overwhelming to sieve through all the information available, especially when taxation is not part of the daily work routine. Attending tax courses will help alleviate some of the stress of understanding this information and bridge

any gaps in tax knowledge. If the self-study route is taken, Candidates should ensure that their tax knowledge is up to date by checking to IRAS website.

Candidates must also put in enough time and effort to reinforce and clarify their understanding. Rote learning should be avoided as much as possible. Before cross-checking the suggested solutions, past-year examination questions should preferably be attempted independently. This is especially important for Candidates who are switching from a non-accounting background.

Candidates are also reminded to seek to learn and understand all areas of taxation 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 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

Part (a)

Almost all Candidates could prepare the corporate tax computation in the correct format to arrive at adjusted trade profit, and many Candidates scored well on this part of Question 1. Some Candidates continued to treat Section 14N (previously known as Section 14Q) deductions on renovations as part of capital allowances claim. Deductions for non-structural renovation and refurbishment expenses are allowed under Section 14N, even though such expenses are capital in nature and the special deduction goes towards determining the adjusted trade profit. The deduction is not made under Capital Allowances.

As before, the tax computation question tested Candidates' understanding of tax principles and rules relating to the taxation of income from various sources (trade vs non-trade sources) and deductibility of expenses (in general and against the respective income source), including special deductions and capital allowances claims.

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

Receipts

- The actual interest income accrued (and therefore included) in the profit for the year of \$1,650,000 is \$42,000 although the actual interest received from the fixed deposit placement that matured during the year is \$45,000. The difference is due to the different reference periods – accounting year vs deposit placement period. As the interest is from a non-business source, \$42,000 must be removed from the accounting net profit. Some Candidates removed \$45,000 while others removed the difference of \$3,000.
- The Enterprise Development Grant should be removed from net profit as it is to subsidise capital transactions relating to the acquisition of investments.

Expenses

- Most Candidates could compute the deductible medical expense limit correctly; the deductible rate of 1% or 2% is to be applied to cash wages and allowances, apart from allowance given to staff to cover their medical and dental expenses incurred. Some Candidates did not include transport or per diem allowances.
- Private hire cars used exclusively outside Singapore are excluded from Section 15(1)(k) prohibition. Some Candidates did not seem to be aware of this and disallowed the deduction of \$13,400. The remaining expenses under “Travelling and transportation expenses” have to be removed from net profit for the following reasons:
 - Private hire cars used in Singapore – prohibited under Section 15(1)(k).
 - Overseas business travelling expenses – not incurred in the production of income from the sale of eco-friendly refuse bags.
 - Delivery charges – incurred in relation to the acquisition of warehouse equipment; capital expense. As the equipment is used for purposes of the principal trade activity, the equipment will qualify for Section 19/19A capital allowances and the qualifying cost will include the delivery charges. See also comments under “Capital Allowances”.
- Expenses in relation to the acquisition of investments were capital in nature and not deductible. Some Candidates omitted to disallow the search fees and feasibility study expenses.
- Of the foreign exchange differences, only the exchange loss from the purchase of the warehouse equipment (\$10,400) and the loss on translation of branch retained earnings (\$20,600) were to be disallowed as both were capital in nature. Some Candidates excluded the exchange gain on trading accounts.
- Only the interest on loan used for purposes of the branch operations is to be disallowed as it was incurred in the production of foreign income. Some Candidates also disallowed the interest on the loan to acquire the warehouse equipment. The latter is deductible under Section 14(1)(a) as the loan was used to acquire an asset that produced income from the principal trade activity.

Special deductions

- There was only one special deduction to be claimed under Section 14N in the current paper. The qualifying 3-year period within which the maximum cost allowed for deduction of \$300,000 is from YA 2022 to 2024. The qualifying cost incurred of \$180,000 in YA 2022 has been fully deducted in YA 2022 as the company opted for enhanced deduction in one year; there will not be any further deduction on this cost in YA 2023.
- Of the non-structural renovation works incurred in YA 2023, the costs relating to the reinforcement of warehouse floor can be claimed under capital allowances as it is incurred to enable the equipment to be installed on site and used for the trade activity. The costs should not be claimed under Section 14N even though it qualifies, as its inclusion would result in the breach of the \$300,000 limit and result in some costs being denied deduction. Not many Candidates seemed to be aware of this.
- Some Candidates continue to treat Section 14N deduction as part of capital allowances which is incorrect.

Capital allowances

- Except for the capital allowances on the warehouse equipment, most Candidates computed the allowances on the other qualifying machinery correctly. However, some Candidates failed to note that the machinery acquired in YA 2022 was claimed under the 2-year write-off basis. This means only 25% of the cost will be deductible in YA 2023.
- The qualifying cost of machinery for capital allowances claim under Section 19/19A includes not just the purchase price of the machinery but also any exchange differences (which impacts the final price paid) and other costs like those related to delivery and installation, as well as grants received to help relieve the overall costs incurred on the purchase of the asset. Thus, in the current paper, the delivery charges, exchange loss and the floor reinforcement costs have to be included in the determination of the capital allowances claim on the warehouse equipment. Many Candidates omitted the additional costs to be included.

Non-trade income

- Interest on fixed deposit placement is earned only on maturity of the fixed deposit. Thus, the amount of interest to be brought to charge should be \$45,000, the actual amount received during the financial year.
- The dividend from Country B is taxable as it is received in Singapore during the financial year. It is deemed remitted since the income was used during the year to settle a liability arising from the company's business in Singapore. The income

also does not qualify for tax exemption as the “headline tax rate” condition was not met. Many Candidates omitted to bring the income to charge.

- The branch profits were remitted after the financial year end of 31 October. It will be taxable in YA 2024 instead.

Part (b)

This question part clearly showed Candidates’ understanding and knowledge of the deeming provisions under Section 12(6). As the proceeds from the loan from the non-resident company entered Singapore (it was remitted into the company’s Singapore bank account), none of the exclusions under Section 12(6) can be applied. Singapore withholding tax at the rate of 15% will be applicable. Candidates either scored a borderline pass or full marks as most could explain the basis of the deeming provisions under Section 12(6).

Question 2

Question 2 is a 2-part question centred on a foreign national female (Kate Fernandez) who moved to Singapore when her Singaporean spouse returned to live and work in Singapore.

Part (a) required Candidates to determine the tax residence status of Kate using the information provided. Most could identify that Kate will be treated as a tax resident for YA 2023 under the 2-year administrative concession since she exercised employment in Singapore continuously from 1 November 2021 till 31 May 2022, which comprises at least 183 days over two consecutive years. It is also commendable that many Candidates addressed her ability to clear the tax residence test under the qualitative as well as the quantitative test. Although a 5-mark question, many of these points can be addressed in a clear, concise and succinct manner.

Part (b) required Candidates to work out the income tax liability of the individual for YA 2023. The individual derived employment income from 2 employers during the basis period for YA 2023. However, it is clear that one of the employments is foreign sourced. The following errors were noted in Candidates’ answers:

Employment income

- Only the income from C & C Singapore is sourced in Singapore and thus subjected to Singapore tax. The income from HHI in Country X is foreign sourced, and even though part of the income from the latter was received in Singapore, it will not be subjected to Singapore as tax exemption under Section 13(7A) was to be applied. A few Candidates were unaware of the tax exemption or did not realise that the income from HHI is foreign-sourced.
- Not all Candidates pro-rated the annual running expenses to the actual period of use (151 days) before applying the private usage factor of 3/7.

- The total transport allowance for the 5-month period is fully taxable. Separately, Candidates were to consider which of the actual transport expenses incurred by Kate can be claimed for deduction from her Singapore-sourced employment income which was only the taxi fares. The car running expenses are either prohibited under Section 15 (business-related car expenses) or private in nature (daily commute expenses).
- Many struggled to determine the taxable value of the accommodation benefit provided by Kate's Singapore employer. Kate's employer is to bear 70% of the monthly rental payable to the landlord for the duration of her employment with C & C. As her employment was only for 5 months in year 2022, the rental benefit will be equivalent to the rental borne by her employer for the 5-month period.
- Most Candidates were aware that medical expenses paid for Kate's children would be taxable as this is not available to all employees in the company and is a benefit that Kate successfully negotiated into her employment contract with C & C. What tripped many Candidates was the determination of the amount taxable. The maximum reimbursement for medical expenses for her children is \$3,000 per child per employment year. Her actual reimbursement for both children for YA 2023 is \$4,600. Thus, only \$4,600 is taxable on Kate. Many Candidates computed the taxable value at \$6,000.
- The bonus taxable in YA 2023 should be pro-rated to her 7-month employment period (1 November 2021 to 31 May 2022) with C & C. Many Candidates failed to understand the information given.

Rental income

- Many Candidates failed to understand that the rental values given were the total rental income derived for the respective rental period in year 2022. Instead, they calculated the total rental income on the basis that the values provided were monthly rental receipts for the respective periods.
- Many Candidates claimed deduction of the replacement cost of the air-conditioners without registering the fact that the new air-conditioners are energy-saving models. This means the new equipment has improvements over the original equipment and thus would not be deductible under Section 14(1)(c).

Personal relief

The personal reliefs deductions were largely claimed correctly except for the following:

- Spouse relief is available as the husband's overall income fell below the threshold of \$4,000 after taking into account his trade loss of \$6,500.
- No CPF relief is to be considered as Kate is not a Singaporean nor hold the Singapore Permanent Resident status.

- NSwife relief is not available to Kate as she is not a Singaporean.

Question 3

This question comprises two parts. The GST analysis of transactions given in **part (a)** was mostly well-attempted. Most Candidates could answer in the new format required. To be clear,

- The three columns under “Value of Supply” are meant to capture values relating to sales or income received by the GST-registered trader. Thus, where the output tax is \$0, there should be a value of supply under columns marked “ZR” or “EX” or insert “OS” (out of scope supply made) or “NS” (no supply made) under the column marked “Others”.
- The “Value of Taxable Purchases” is meant to capture the value of supply in respect of purchases made where the input GST is claimable. Where the input GST is not claimable, you need to explain why there is no input tax claim by denoting under the column marked “Others” as follows:
 - “EX” for purchases exempted from GST, e.g., transaction (ix) – interest paid to OCBC Bank.
 - “EXS” for purchases where the input tax credit is not allowed as the purchase was made to generate sales exempted from GST.
 - “BL” for blocked input tax claim.
 - “NS” where there is no supply in respect of the payment made.
 - “OS” where the purchase is out of scope.
 - “ZR” where the purchase qualifies for zero-rating e.g. transaction (xi-2) – bad debt relief on an export sales.

Although it is stated in the opening paragraphs that all expenses, sales and income values given are exclusive of GST, there are also transactions given where it is stated clearly that the GST is absorbed, e.g. transaction (i-1).

Further, many Candidates did not seem to be able to comprehend the information given in the question resulting in loss of marks to varying degrees. The following errors were noted:

- Transaction (i-1) was correctly identified as a standard-rated transaction. However, the value of supply was incorrectly stated by many Candidates as they failed to note that the discounted price was inclusive of GST.
- It was stated clearly that the online sales made to a customer with a foreign IP address had the goods purchased delivered to the Singapore address. The sale should be treated as a standard-rated sale as the goods sold were delivered within Singapore.
- Actual cash receipts as well as payments were not the same as sales or purchase value. Actual cash receipts and payments would comprise both the sales or

purchase value as well as the GST. Hence, the deposit received from the customer would be inclusive of 7% GST.

- The rental deposit is a security deposit and is refundable. There are no goods nor services provided in exchange for the deposit. There is thus no supply and so, no GST is chargeable. Candidates wrongly classified it as a standard-rated supply.
- Only lease of residential property will qualify as an exempt supply. The rental income is from a commercial property in Singapore and thus, GST at the standard rate is chargeable. Some Candidates do not seem to be aware of this distinction.
- The provision of a loan is treated as part of prescribed financial services for GST purposes. Thus, the interest income derived from a loan extended to a person (individual or entity) in Singapore will be exempted from GST. Likewise, any interest expense incurred on a credit or loan facility from any person in Singapore will be exempted from GST. This applies to transactions (v) and (ix).
- In respect of dividends, there is no exchange for goods or services. Thus, there was no supply made for dividends paid or received. Some Candidates denoted it as an exempt supply. This is incorrect.
- The donation of physical goods belonging to the business constitutes a deemed supply and where the value donated exceeds \$200, output GST needs to be accounted on the deemed supply. Some Candidates omitted to account for the output tax on the computers donated to the Institution of Public Character.
- In respect of bad debt relief on sales made previously, this was effectively a reversal of the output tax accounted on sales made on credit previously. For GST reporting/claim purposes, the GST relief on bad debts arising from trading transactions is to be claimed as part of input tax claim. In the GST return, the relief claim will need to be separately highlighted.

Of the 2 bad debts written off, only the local sales will attract a “refund” of the GST collected on the credit sales made previously. There is no GST to be refunded on the export sales as the sales was zero-rated.

Part (b) required Candidates to comment on the impact of the claim for input tax credit in respect of the proposed residential property acquisition.

This part was not well attempted by the Candidates. For those Candidates who attempted the question part, they were able to state that residential property rental income is an exempt supply and some could articulate that the input GST tax credit on expenses incurred to generate the GST exempt supply cannot be claimed subject to the de Minimis rule. Although at the Foundation level, you are not required to articulate the exceptions to the de Minimis rule, you should be aware of and be able to describe the de Minimis rule in respect of input tax credit relating to/attribution

to the making of exempt supplies. Some Candidates were aware of the rule while many Candidates were not.

Question 4

The last question centred on a partnership business and is split into 3 parts. **Parts (a) and (c)** are more quantitative in nature as they require the determination of the adjusted and divisible profits and the chargeable income of one of the partners. **Part (b)** required Candidates to address the utilisation of unabsorbed loss items using carry forward provisions. There were many candidates who did not submit answers submitted for part (c) of the question, which could be due to Candidates running out of time to complete the paper rather than a lack of knowledge.

Part (a) was completed competently as most could identify the items that constitute partners' appropriation in order to determine the divisible profits. However, many Candidates failed to identify the following as appropriations by partners:

- Car running expenses incurred by one of the two partners where part of the expense was for private travels - the latter should be excluded from adjusted profit to arrive at divisible profits.
- Payment to the corporate partner for non-business-related expenses – contribution to the staff welfare fund of the corporate partner.

Part (b) was completed competently by most Candidates who submitted an answer. Candidates were generally able to identify the change in business activities from managing coffeeshops to wholesale trading in coffee and tea as well as investment in food and beverage businesses, correctly concluding that business continuity test was not met and unutilised capital allowance cannot be deducted.

Most Candidates also managed to identify that setting off unabsorbed trade losses arising from prior YAs in YA 2023 is subjected to shareholdings test, correctly identifying the common shareholders and concluded that shareholdings test was met and unutilised losses could be deducted.

For Candidates who did not do well for this question, these were the common errors:-

- A handful of Candidates left this entire question part unanswered, which may be due to time pressure that Candidates faced;
- Unable to identify the business continuity test and/or shareholdings test as relevant conditions for deduction, which indicates their lack of knowledge on this topic;
 - Failure to identify the change in business activities, even though it was indicated in the question; and
 - Wrongly identifying the relevant dates for the shareholders' test.

A number of Candidates did not submit any answers to Part (c). For Candidates that attempted this question, these were the common errors:

- Did not show the net taxable income from each source when this requirement was stated clearly in the question;
- Did not follow the proper order of claim when setting off the unabsorbed trade losses brought forward arising from the coffee and tea wholesale business;
- Did not subject the interest income from bank to tax;
- Unaware that group relief needs to be considered when setting off unabsorbed capital allowances arising from Cupcakes Galore Pte. Ltd.; and
- Unaware that only unabsorbed loss items arising from **current** YA is subjected to group relief.