

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 10 December 2021

Section 1

General comments

The examination performance of this cohort is satisfactory.

The following were noted from the performance of the current cohort:

- Most Candidates attempted all four (4) questions. Candidate's performance on the computational type questions like Questions 1(b) and 2(b) and Goods & Services Tax ("GST") question (Questions 3(a) and (b)) were mostly competent. However, many answers still showed gaps in Candidates' basic tax knowledge.
- The answers to the qualitative questions (Questions 1(a), 2(a) and 3(c)) continue to be poor, showing clearly that Candidates' knowledge and understanding of the subject areas tested were very superficial or very muddled. Consequently, there was a lack of depth and completeness in the answers given, apart from regurgitating rules and conditions.
- Many Candidates incorporated workings in their answers, making it easier for markers to award marks for correct application as some Candidates continued to commit careless computational or transposition errors.
- Topics tested were those required under the TXF syllabus, including updates up to Budget 2021. However, it appeared that many Candidates did not study adequately. This could be seen in the performance for Questions 1(b) and 3(a), as many Candidates were unfamiliar with the tax treatment granted to the Job Support Scheme payout nor the reverse charge implemented for imported services.
- Despite being a computational type of question, Question 4 was poorly answered. This mainly stemmed from the Candidates' poor understanding of the difference between divisible and adjusted profits.

Candidates must 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 a lot of tax information in the public domain (for example, the IRAS website). 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 alleviate some of the stress of understanding this information and bridge any gaps in your tax knowledge. If the self-study route is taken, please ensure that your tax knowledge is up to date by checking the IRAS website.

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 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) required Candidates to demonstrate their understanding of the conditions and application of the carry back provisions, including those of the enhanced carry back provisions, which is currently available to loss items arising from Years of Assessment (YA) 2020 and 2021. Candidates need to explain clearly if the conditions to allow for carry back, whether to the immediate preceding YA or the earliest of the three (3) immediate preceding YA, have been met. In the case of carry back of capital allowances, there were two (2) conditions to be met. Since the business continuity test was not met, the allowances cannot be carried back at all; there is no necessity to discuss the other condition – the shareholdings test. It was noted that many Candidates spent unnecessary time and effort to discuss both conditions for the utilisation of capital allowances.

For the shareholdings test, it was necessary for Candidates to show clearly their understanding of the test. Candidates were required to clearly state the two comparison dates for carry back to the relevant YA and identify the common ultimate individual shareholders and their percentage shareholdings on both dates. Many Candidates do not seem to understand how the comparison dates were arrived at although they could identify the common individual shareholders. Since the assessable income for the immediate three (3) preceding YA were provided, Candidates were to state the amount that can be carried back. Even though the

components and amount of loss items available for carry back were not given, Candidates should be able to deduce the amounts to be carried back to each YA under the relevant carry back provisions (normal and enhanced) since the maximum allowed for carry back utilisation is capped at \$100,000. Not many Candidates specified that there would not be any loss items carried back to YA 2020 under the enhanced provisions since the available loss items would be fully utilised by YA 2019.

Part (b)

Nearly all Candidates could prepare the computation in the correct format to arrive at adjusted trade profit. Most Candidates correctly treated Section 14Q deductions on renovations as part of adjusted trade profit instead of capital allowances claim.

To reiterate, deductions for non-structural renovation and refurbishment expenses are allowed under Section 14Q even though such expenses are capital in nature, and the special deduction goes towards determining the adjusted trade profit.

However, many Candidates do not seem to be able to distinguish between Section 14A deduction given to expenses relating to registration of Intellectual Property Rights (IPR) vs Section 19B writing down allowances which was given to the cost of acquisition of IPR. The former (i.e. Section 14A) goes towards the determination of adjusted trade profits and it should include the further deduction given to IPR registration expenses, capped at \$100,000. The latter (i.e. Section 19B writing down allowances) was computed based on the acquisition cost of the IPR and the allowances deductible were to be included together with capital allowances on plant and machinery, buildings and other qualifying capital expenditures. Many Candidates do not seem to be aware of the difference in the claim.

The correct computation would show that the company has incurred unabsorbed trade losses and capital allowances. Since there was taxable income from non-trade sources (foreign dividend remitted and Singapore rental income), Candidates were expected to demonstrate that the capital allowances were to be fully utilised first. Many Candidates seemed to be unaware of the correct order of set-off, and instead wrongly combined the amounts of unabsorbed trade loss and capital allowances. Very few Candidates knew that the two loss items were to be utilised in the correct order and clearly segregated so that the amount of the unutilised capital allowances and trade losses could be separately identified.

As usual, the corporate tax computation question tested Candidates' understanding of tax principles and rules relating to the taxation of income from various sources (trade versus non-trade sources), deductibility of expenses (in general, and 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 given in the question, many Candidates faltered on the following adjustments:

Non-trade and non-taxable receipts to be removed from net profit

- Many Candidates were unaware that the payout under the Job Support Scheme is not taxable. Specifically, it was exempted from income tax under Section 13X.
- As the government grant is in respect of a capital expenditure – registration of an IPR, the receipt should be treated as capital in nature and not taxable (see below under Expenses as well). A few Candidates failed to make the tax adjustment.

Expenses

- The loss on revaluation of investment of \$10,000 was a capital loss and thus not deductible. Many Candidates did not disallow the loss.
- Some Candidates could not identify the amount of property tax and maintenance expenses relating to the Singapore property that was used for non-trade purposes or left idle.
- Some Candidates treated the cash allowance of \$90,000 part of staff remuneration in determining the quantum of medical expenses allowable. This was incorrect. Cash allowance for staff medical expenses should be considered part of medical expenses to be subjected to cap limits.
- Some Candidates disallowed the retrenchment payout of \$450,000. As the company's business operations is still ongoing, the payout is deductible.
- The review of labour law was incurred to ensure statutory compliance and should be deductible. Some Candidates treated it as non-deductible.
- The property agent fee was incurred to generate rental income. Since it was not incurred for trade purposes, it should be removed from net profit as it is a non-trade related expense and deduction claim against rental income instead.
- The debt written off is in respect of a non-trade debt and thus deduction is not allowed.
- Interest expense in relation to the non-trade usage of the Singapore property requires tax adjustment and deduction claimed against rental instead.

Special and further deductions

- The registration expenses in respect of the intellectual property is allowed special deduction under Section 14A as well as further deduction up to costs incurred of \$100,000. As there was a grant given in respect of the registration costs, only the net amount incurred after taking into account the grant money will be allowed

special deduction (i.e. \$210,000 - \$50,000 = \$155,000) and the amount of further deduction will be restricted to \$100,000.

- Only the non-structural renovation costs of \$87,000 incurred on the re-configuration of premises used for trade purposes will qualify for Section 14Q special deduction. The other costs were incurred for non-trade purposes and will not qualify the special deduction. In addition, for costs incurred in YA 2021 (and YA 2022), the qualifying Section 14Q compliant costs can be deducted over 1 year instead of 3 years.

Capital allowances

- Although Candidates could compute the writing down allowances in respect of the IPR, the allowances were wrongly claimed as part of adjusted trade profits instead of as part of capital allowances.
- Many Candidates failed to take into account the exchange gain made on the purchase of the computers.

Income from non-trade sources

- Many Candidates did not treat the dividend income to be remitted in YA 2021. The foreign income was used to settle a debt in relation to the purchase of fixed assets for purposes of the Singapore business and thus would be treated as remitted.
- Many Candidates failed to take deduction of the various expenses incurred in relation to the rental source – property tax and maintenance expenses, property agent fees, interest expense as well as the replacement of broken tiles.

Order of set-off

- As there was an adjusted trade loss, the capital allowances should be set off against the non-trade income first.

Question 2

Question 2 is a 2-part question centred on an Australian lady with a Singaporean spouse.

Part (a) required Candidates to determine if her performance bonus would be subject to Singapore tax. Most Candidates could ascertain that the bonus is foreign-sourced income but failed to realise that the bonus remitted to Singapore qualifies for tax exemption.

Part (b) required Candidates to work out the income tax liability of the individual (Gayle Taylor) for YA 2021. The computation was prepared competently by many Candidates, although the following errors were noted in many of their answers:

Taxable employment income

- The relocation allowance is a cash allowance taxable on Gayle. The actual relocation expenses incurred on freight and hotel accommodation will be allowed for deduction but capped at the amount of allowance received. In this case, the excess expenses incurred will not be allowed for deduction against other employment income and benefits. Many Candidates did not make the tax deduction. Some Candidates did not seem to understand the information given and somehow concluded that the expenses were reimbursed by the employer and brought the expenses to tax instead.
- Many Candidates did not bring to tax the contribution to the overseas pension fund.
- Of the expenses incurred by Gayle in the discharge of her employment duties, the internet connection charge and the home office printer were not deductible, being capital in nature.

Personal relief

The following errors were noted:

- Many Candidates failed to claim Qualifying Child Relief on all three children, including her first-born child, who remained in Australia. The first child qualifies for the relief as Gayle is supporting the child, and he has satisfied all the relevant conditions. The Working Mother Child Relief ("WMCR"), on the other hand, is given only to eligible children who are Singapore citizen. Thus, only her second and third children will qualify and the rate of the WMCR claim follows the birth order of the children. In this case, it will be at the rate of 20% and 25%. Many Candidates did not claim the WMCR at the correct rates.
- As Gayle is not a Singapore citizen, she is not entitled to NS wife relief. Many Candidates incorrectly claimed the relief.
- Parent relief can be claimed on up to 2 parents. A few Candidates claimed on one dependent parent-in-law only.
- Grandparent Caregiver relief is available in respect of one of the grandparent-in-law caregivers.
- Some Candidates forgot to cap the total personal relief claim at \$80,000

Question 3

This question comprises three parts. The GST analysis of transactions given in **Part (a)** was generally well attempted. All Candidates could answer in the new format

required, which was used to aid Candidates to complete the GST return under **Part (b)**.

The following errors were noted:

- Many Candidates could not work out the GST included in the standard rated cash deposit of \$50,000.
- Many Candidates did not exclude the value of the deposit collected earlier from the final invoice raised for the total contract sum.
- Many Candidates do not seem to know how to ascertain the value of exempt supply in relation to the lease of residential property. The value of the exempt supply was based on the property's annual value.
- Many Candidates did not know that exchange differences were treated as exempt supply; many Candidates inserted as "No supply". Many Candidates also did not know how to report the value of the supply. Candidates were need to net off the exchange differences and the net exchange gain or loss will be reported as the value of the exempt supply, with the negative sign removed.
- Many Candidates did not report the computer purchase with trade-in included as two separate transactions. The sale by the company will attract GST since it was sold by a GST registered company to another company in Singapore while GST on the actual purchase price of the new computer will qualify for input tax credit.
- As the software payment was made to an overseas supplier, reverse charge will be applicable. This means the GST-registered importer will need to report the output GST on the software payment on behalf of the overseas supplier and concurrently claim the input tax on the purchase.
- Some Candidates did not know that there was no deemed supply arising from provision of free services.

Answers to **Part (b)** were extracted from Candidates' answers given in **Part (a)** and most Candidates could complete the GST return, although a number of Candidates failed to identify clearly if the net GST in the return was to be paid or claimed from Inland Revenue.

Candidates' attempts on **Part (c)** were largely acceptable. Most Candidates could correctly identify the nature of the payment – use of a copyright right and could explain why it is a payment for a copyright right – the Singapore party is allowed to make modifications to the software. However, some Candidates did not explain clearly why withholding tax is applicable – the payment is deemed sourced in Singapore as the payment is borne by a Singapore tax resident company, and the payment is made to a non-resident.

Question 4

This question was broken up into 2 parts.

It is clear from **Part (a)** that many Candidates do not understand the difference between divisible and adjusted profits. Therefore, the following errors were noted:

- Many Candidates did not claim the further deduction on the participation costs in the approved trade fair.
- The salary paid to the partner's spouse is deductible, but the market value determines the amount deductible.
- To determine the divisible profit of the partnership, drawings by the partners for non-business/non-trade related expenses must have to be removed. These would include payment for the partner's personal entertainment expenses as well as the contribution to the corporate partner's staff welfare fund. Many Candidates could not make the adjustment ultimately.
- Many Candidates do not seem to know the impact of the Section 21 election on the capital allowance claim on the replacement asset. Essentially, the balancing charge arising from the sale of the old asset will be set off against the qualifying cost of the replacement asset. The capital allowance will be claimed on the net cost of the replacement asset. Many Candidates also failed to note that the cost of the equipment sold is not more than \$5,000. This means that capital allowances on the said equipment would have been claimed on a one-year write-off basis.

Although the net cost of the replacement asset is less than \$5,000 after the Section 21 set-off, allowances using a one-year write off cannot be made as the original cost of the replacement equipment was more than \$5,000.

When working out the statutory income in **Part (b)**, it should be noted that capital allowances claim should be deducted from the adjusted profit of the respective trade source. Many Candidates did not seem to be aware of this.