

## SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

**MODULE:** Singapore Taxation (TXF)

**EXAMINATION DATE:** 6 December 2024

### Section 1

#### General comments

Candidates have adapted well to online examinations and the e-Examination platform ("Cirrus"). 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. In addition, Candidates were allowed to bring one (1) A4-sized double-sided cheat sheet and a blank scratch paper to the examination.

The following were noted for the current cohort:

- Candidates continued to perform better in the quantitative questions with many Candidates leaving the short essay questions in **Question 1(b), 4(a) and (b)** blank. Candidates' performance on computational questions like **Question 1(a) and 2(b)**, and GST was mostly competent. However, answers also showed gaps in Candidates' basic knowledge and understanding of those taxes.
- Performance for the qualitative questions **Question 4(a) and (b)** was rather poor with low pass rate in this December exam session. The Examiner would like to emphasise that qualitative 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 was insufficient, as demonstrated by answers submitted for **Questions 2(a), 4(a) and 4(b)**. Candidates must apply the rules and conditions to the information provided to explain how those rules and conditions are met or not met in the scenarios posed.
- Many Candidates 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). Sieving through all the information available can be overwhelming, 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 Candidates tax knowledge. If the self-study route is taken, please ensure that Candidates' tax knowledge is current 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. 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 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**

Question 1 is a 2-part question with the main question centred on the determination of the net tax payable by a company tax resident in Singapore, and a minor question related to the withholding tax implications arising from the interest payment made to an overseas non-resident bank by the company. Overall, this question was done well by most Candidates. The tax computation was competently put together by many Candidates, and most could identify correctly the items that needed tax adjustment. However, the performance of the qualitative question was less satisfactory (see comments further on).

#### **Part (a)**

Almost all Candidates prepared the corporate tax computation in the correct format to arrive at adjusted trade profit and were able to score well on this question part.

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 Candidates faltered on the following adjustments:

### Receipts

In the current paper, the income from non-trade sources comprised of foreign sourced interest income and rental income. The interest income was remitted to Singapore in the basis period to Year of Assessment (“YA”) 2024. For the rental income, 80% was used to settle expenses relating to the foreign property and should not be treated as remitted back to Singapore. The remaining 20% of rental income was remitted to Singapore but in basis period to YA 2025. Some Candidates failed to realise that the entire rental income was not from a business source and should be removed completely from accounting net profit regardless of any amount that is remitted back to Singapore.

### Expenses

For the expenses included in the accounting net profit of \$2,320,800, we need to analyse if the expenses highlighted qualify for tax deduction. Most Candidates could make the correct identification of non-deductible expenses apart from the following:

- Interest expense on 70% of the loan is a non-trade expense as it was used to generate the non-trade rental income.
- The professional fees relating to the factory lease renewal is not deductible as the lease period exceeded 3 years.
- The professional fees paid to seek advice on compliance with regulations is deductible under Section 14V as it is a compliance expense and not related to any actual penalty imposed.
- Both the cash and non-cash donations are not deductible under expenses. Only the cash donation qualifies for enhanced tax deduction at 2.5 times of the donated amount. Some Candidates did not disallow both types of donations.
- The cost of shelves expensed off of \$10,000 is capital in nature and not deductible. Many Candidates did not include the item as a non-deductible expense.
- The installation cost of the parquet flooring is a capital expense and not deductible as it is of a different and better material over the old flooring.

In relation to the costs capitalized to the Balance Sheet, we need to segregate costs that qualify for capital allowances claim and those that qualify for special deduction under Section 14N.

### **Section 14N special deduction**

The qualifying costs should be deducted to form part of adjusted trade profit. In the event the Section 14N deduction is not fully utilized, it will form part of unabsorbed trade losses, of which the utilization in other Years of Assessment is subject to satisfying the shareholders' test. Many Candidates incorrectly treated Section 14N deduction as part of capital allowances claim.

It should be noted that only renovation and refurbishment expenses incurred on business premises and in respect of works done to the building structure (e.g., fixed partition, flooring, plumbing works and electrical installation) qualify for deduction under Section 14N. The fire sprinkler system qualifies for capital allowances under Section 19/19A as it performs a specific function and will thus be viewed as plant and machinery. Some Candidates incorrectly included the cost of the sprinkler system for Section 14N deduction.

### **Capital allowances**

Many Candidates did not include the cost of shelves expensed off under capital allowances. In addition, the exchange gain was not included in determining the qualifying cost of the packing equipment.

### **Income from non-trade sources**

Only the interest income was remitted to Singapore in the basis period to YA 2024 as the foreign income was used to settle debts arising from the Singapore business. The rental income was remitted in the basis period to YA 2025 and so, not taxable in YA 2024.

### **Chargeable income and corporate tax rebate**

Tax exemption under the start-up tax exemption scheme is not available in YA 2024 following the sale of shares to Quartz Pte Ltd, as none of the individual shareholders held at least 10% throughout the basis period for YA 2024. Some Candidates did not seem aware of the application of this condition.

While most Candidates were aware of the corporate tax rebate available for YA 2024, many did not know how to account for the CIT rebate cash grant.

### **Part (b)**

This question part tested Candidates' understanding of withholding tax in Singapore. Some Candidates failed to note that the proceeds from the loan from the foreign bank were received in Singapore. Some Candidates submitted poorly structured answers. Many Candidates also did not attempt the question.

## Question 2

Question 2 required Candidates to address the tax residence status of the female taxpayer and then compute her tax liability on her Singapore sourced employment and rental income, on the basis that she is not tax resident in Singapore.

### Part (a)

While most Candidates could arrive at the correct conclusion, many answers submitted were brief and poorly structured.

### Part (b)

This part of the question was generally done well by many Candidates apart from the following error adjustments:

- Many Candidates did not perform the correct tax treatment on the sign-on bonus returned in the basis period. Since the full bonus was brought to tax in the previous YA 2023, the bonus returned in the basis period for YA 2024 should be deducted from the employment income assessable in the same Year of Assessment (i.e. YA 2024).
- Many Candidates did not pro-rate the taxable rental benefit by the number of days used in the basis period.
- The transport allowance is fully taxable. Many Candidates treated the allowance as “car running expenses” relating to the rental car and applied the private usage factor of 3/7.
- Most Candidates could identify correctly the expenses that the taxpayer could claim for deduction (i.e. business entertainment expenses and taxi fares) although some also erroneously claimed deduction for the rental car running expenses for business travels.
- The personal reliefs available to the taxpayer if she was a tax resident in Singapore were generally correctly identified by most Candidates:
  - I. Child relief including Working Mothers’ Child Relief was correctly computed based on the taxpayer’s earned income from employment.
  - II. Parent relief can be claimed for the dependent mother-in-law.
  - III. The foreign maid levy relief cannot be claimed as the foreign maid was hired to look after the mother-in-law.
- As the taxpayer is not a tax resident in Singapore, the income tax payable on income from each source should be computed separately as the rates of tax applicable is different. In this case, the minimum tax payable on the employment income is 15% but this should be compared to the notional tax payable on the same employment income if the individual was considered tax resident. The final tax payable on employment income would be the higher of 15% or the

notional tax. The rental income should not be included in the comparison. Many Candidates were able to correctly identify this.

- The net rental income is subject to tax at the prevailing non-resident tax rate of 24%. Many Candidates did not seem aware of this.

### Question 3

The GST analysis of transactions given in the question 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, explanations should be provided as to 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 (viii) – 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 (i-3) – where sales are made to overseas customers and shipped out within a week of receiving orders.

It is stated in the opening paragraphs that all expenses, sales and income values given are exclusive of GST. However, when reference is made to cash received/recovered or cash paid, the amounts would usually be inclusive of GST. Many Candidates did not take into consideration GST when involving actual cash receipts or cash deposits. The cash values given in transactions (iv) – deposits of \$30,000 and \$20,000 and transaction (v) - \$2,700 should be inclusive of GST if GST is applicable.

The following errors were also noted:

- A few Candidates did not seem aware that goods imported into Singapore will be subject to GST at the standard rate applied to cost of goods purchased, as well as any insurance and freight charges incurred. A number of Candidates incorrectly identified the freight charges as out-of-scope supply. Input GST is



payable on the supplies imported at the total cost of \$535,000 which included the freight charges of \$45,000.

- Reverse charge needs to be accounted on the consultancy fees paid to the lawyer in Country Z. Some Candidates did not seem to be aware of the need to account GST on imported services.
- The business goods given away during the month-long promotion is considered as deemed supply. As the value of business goods given away to each recipient is not more than \$200, no output tax needs to be accounted. Many Candidates did not consider this but instead computed the input tax on the purchase of the items given away.
- As the bad debt written off was based on a sale made in year 2023 when the rate of GST 8%, the claim for bad debt expense should likewise be made at the same rate of 8%.

#### **Question 4**

Overall, the performance on this question was the least satisfactory of the 4 questions as some Candidates did not attempt the question or gave incomplete or incorrect answers to Parts (a) and (b). Of the 3 sub-parts, Part (c) was the best performed with those attempting this part securing at least a pass. The qualitative questions under Parts (a) and (b) were not well attempted as answers largely regurgitated conditions without contextualising to the entities' loss items available for group relief.

#### **Part (a)**

Most Candidates who attempted this question could highlight the conditions for group relief. Candidates are expected to identify which entity had loss items to be utilised as well as the entities that could receive the loss items for deduction. This will allow for pairings to be made to determine if they meet the requirements for group relief. However, many Candidates made the pairings in a random manner. Many Candidates also did not highlight that any pairings with Green will result in loss items being pro-rated.

#### **Part (b)**

This part required Candidates to ascertain if the carry back of unabsorbed capital allowances arising in YA 2024 could be done. Candidates who attempted this question could provide an explanation to varying degrees of completeness. Conditions were narrated but no attempts were made to explain if those conditions were met or not. Identification of common shareholders were either not made or incorrectly identified.

**Part (c)**

Candidates who attempted this question part could produce some of the tax computation required. The common error made was not pro-rating the loss item from Green before transferring to the claimant company as well as not identifying the amount of remaining loss item available for carry forward.