

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 21 June 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:

- Most Candidates attempted all four (4) questions, although some did not attempt Question 4 or some parts of it, likely due to insufficient time to complete the paper. Additionally, some Candidates did not attempt the qualitative questions in Questions 1, 2 and 3. Candidates' performance on computational questions such as 1(a), 2(a), and 3(a) was mostly competent. However, answers also showed gaps in Candidates' basic knowledge and understanding of those taxes.
- Performance for the qualitative questions, particularly in Questions 4(a) and (b) was rather poor with less than 50% of the Candidates attaining a pass grade in this June exam session. The Examiner would like to emphasise that qualitative questions seek to assess the 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 insufficient, as demonstrated by the answers submitted for Question 4(a). Candidates must apply the rules and conditions to the information provided, explaining how those rules and conditions are either met or not met in the given scenarios.
- 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). Sieving through all the information available can be overwhelming, especially when taxation is not part of the daily work routine. For easier

understanding, 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, Candidates need to ensure that their 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. Candidates should 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 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

Question 1 is a 2-part question with the main question centred on the determination of the net chargeable income of a company tax resident in Singapore, including a minor question related to the withholding tax implications arising from one of the payments made by the company. Overall, this question was done well by most Candidates. The tax computation in part (a) was competently put together by many Candidates, and most could identify correctly the items that needed tax adjustments. However, the performance on the qualitative question was less satisfactory (see comments below).

Part (a)

Almost all Candidates were able to prepare the corporate tax computation in the correct format to arrive at the adjusted trade profit, and many Candidates scored 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 faltered on the following adjustments:

Receipts

Both the bad debt recovered and write-back of provision are not taxable for the following reasons:

- The debt recovered did not arise from CCPL's trade; it arose from a business taken over by CCPL. Therefore, the recovery is on a capital account (purchase of business) and not taxable.
- The provision written back was in respect of trade debt arising from CCPL's business. However, as the originating provision created was denied a deduction by the Comptroller of Income Tax ("CIT"), as CIT was not convinced then that the sale was irrecoverable, the subsequent write-back should not be brought to tax.

Of the total interest income of \$70,000, \$11,000 relates to interest derived from overdue accounts owing by trade debtors and will be taxable as part of trade income; no tax adjustment is required as it will be taxable as part of trade income. \$25,000 is Singapore sourced as it is received from a bank in Singapore and will be taxable as interest income from non-trade source (arose from passive investment of excess cash reserves). Tax exemption is not applicable as an exemption is only given to individuals or companies with no operations in Singapore. The remaining \$34,000 is derived from Country Q, making the income foreign-sourced. We will need to ascertain whether the foreign income was received in Singapore and the applicable tax treatment (see comments further on). Most Candidates were able to make this distinction.

The dividend and rental income are clearly not related to CCPL's business of designing digital games. As such, they are treated as non-trade-related receipts. Their taxability depends on whether they qualify for any tax exemptions and whether there are related expenses incurred specifically to generate the non-trade income, which should be deducted directly from these income (see comments further on).

Expenses

For the expenses included in the accounting net profit of \$1,050,000, we need to analyse whether the expenses highlighted qualify for tax deduction. The following expenses require adjustment for the following reasons:

- Depreciation relates to capital expenditure on fixed assets and is therefore, capital in nature. Additionally, it is not incurred in the basis period, as the write-off is over the asset's accounting useful life.
- Of the staff costs listed, all are deductible as they are incurred in the production of income. However, in respect of the total medical expenses incurred of \$105,000, we need to ascertain whether the actual amount spent of \$105,000 is within the amount allowable calculated at 1% of total cash remuneration paid to staff.
- Travelling and transportation expenses incurred on the use of passenger motor cars (vehicles used for the carriage of not more than 7 passengers excluding the driver) in Singapore will not be allowed under Section 15(1)(k) apart from taxis, cars hired for use exclusively outside Singapore and cars used for specified business purposes. Chauffeured private hire cars where both the driver and car are hired together are allowed for deduction by concession when used for business purposes. Therefore, for the overtime travelling expenses reimbursement, only the car rental charges of \$6,900 should be disallowed.
- Both the legal and professional fees should be excluded from the net profit for the following reasons:
 - The office tenancy renewal of \$17,800 was incurred to generate rental income and not for the sale of digital games. It is a non-trade-related expense which is deductible from rental income.
 - The costs incurred to apply for a grant for the IT upgrade are in relation to a subsidy for capital expenditure and should not be deductible.
- Of the foreign exchange differences, only the exchange loss of \$18,600 is to be excluded from the net profit as it is capital in nature. Since it relates to the acquisition costs of the computing equipment purchased, the exchange loss should be included in the capital allowances claim on the computing equipment.
- Both the repair and maintenance expenses are non-trade in nature and were incurred to generate rental income. Both costs are deductible under Section 14(1)(c) but only against rental income.
- The interest expense attributed to the office area rented out should be excluded from the net profit as it was incurred to generate rental income. The amount relating to the rented area should be determined based on the proportion of the floor area occupied for business purposes compared to the floor area occupied by the tenant.
- Of the various sponsorship expenses incurred, only the cash donation, which was not used to generate income, will have to be disallowed. However, the same donation qualified for a deduction at 2.5 times its amount from statutory income derived. The donation of apparel is a sponsorship expense incurred to publicise CCPL to the general public. The cost of lucky draw prizes was incurred to ensure employees had an enjoyable experience at the company-sponsored event. It is a staff welfare expense and should be deductible.

In relation to the costs capitalised to the Balance Sheet, we need to differentiate between those 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 the adjusted trade profit. In the event the Section 14N deduction is not fully utilised, the unutilised amount will form part of the adjusted trade losses, the utilisation of which in other Years of Assessment is subject to satisfying the shareholding' test. Many Candidates treated Section 14N deduction as part of a capital allowances claim which is incorrect.

It should be noted that only renovation and refurbishment expenses incurred on business premises, as long as they do not affect the structure of the business premises, will be allowed deduction under Section 14N. Therefore, the renovation costs of \$50,000 relating to the rental area will not qualify for the special deduction. As the accelerated write-off over 1 year was not opted for (as indicated in the information given), the Section 14N compliant costs incurred are to be claimed over 3 consecutive years.

Capital allowances

Many Candidates did not seem to register that the 10 units of cabinets were acquired in YA 2023 where capital allowance is to be claimed over 3 years. As the unit cost of each cabinet is not more than \$5,000, the tax written down value ("TWDV") of the cabinets can be claimed over 1 year, rather than the remaining 2 years of useful life. This is provided that the TWDV claimed together with the claim for 1-year write-off on new low-value assets acquired in YA 2024 (i.e., the meeting chairs) do not exceed the limit of \$30,000 per YA. Many Candidates do not seem to be aware of this.

Many Candidates also did not include the exchange loss arising from the purchase of the computing equipment in their capital allowance claim on the said equipment.

Income from non-trade sources

The dividend income from Epic Games Inc., was remitted during the basis period for YA 2024 as the dividend was used to settle a debt arising from CCPL's Singapore business. The dividend income was omitted from many answers.

The interest income from Citibank Singapore is taxable as the tax exemption is not extended to companies with operations in Singapore.

The total interest income from the overseas deposit placements accumulated over the years totalling \$154,000 was remitted to Singapore during the basis period for YA 2024 and will be taxable. Many Candidates did not subject \$154,000 to tax and only included \$34,000 in their computations.

The expenses relating to the rental income were either not deducted from the rental income or not fully accounted for in many answers submitted.

Part (b)

Many Candidates appeared unaware of the circumstances under which rental paid for the use of movable property outside Singapore is not covered by the deeming provisions under Section 12(7)(d) – use of movable property outside Singapore in relation to an overseas business trip. Additionally, many Candidates scored zero marks for this question part.

Question 2

This question required Candidates to compute the tax liability of a female taxpayer who derived Singapore-sourced income from three activities – employment, royalty and a sole proprietorship business. Overall, the performance of this question was similar to Question 1, with most Candidates being able to prepare the tax computation competently. However, the answers submitted for **part (b)** were notably poor.

Part (a)

This part of the question was generally well-handled by many Candidates apart from the following errors:

- Many Candidates incorrectly subjected the severance compensation of \$357,000 to tax. This compensation is a capital receipt as it was paid to Linh Nguyen for loss of employment even though the compensation was based on her last drawn salary. The compensation is not for employment services rendered, or to be rendered, by her.
- Many Candidates do not seem to be aware that the taxation of per diem allowances given to employees to cover their daily living expenses during overseas business trips, is dependent on whether the allowance given by the employer is within the prescribed daily rate provided by CIT. Where the actual rate of allowance given by the employer is within the CIT's prescribed rate, it will not be taxable. However, if it exceeds the prescribed rate, only the excess amount will be taxable.
- Of the expenses incurred by Linh, only the business entertainment and the chauffeured private hire car expenses are deductible. Many Candidates claimed a deduction of car expenses of \$2,500, despite Section 15(1)(k) specifically prohibited deductions for expenses related to passenger cars used in Singapore, with exceptions only for taxis and chauffeured private hire cars.
- With respect to the business profits derived from her tax consulting business, some Candidates made adjustments to the salary paid to her husband. No adjustment was required as his remuneration was within the market rate for similar duties.

- The personal reliefs available to Linh were generally correctly claimed by most Candidates as follows:
 - i. Parent relief was claimed by Linh on both her parents as they are living in Singapore, and they did not derive annual income in excess of \$4,000. The lottery winnings won by her mother do not constitute income; that is a windfall gain.
 - ii. Grandparent caregiver relief is available even where the child is above 12 years old provided the child is not married and handicapped which is applicable to her youngest child, Trent.
 - iii. All three children qualify for Child Relief as well as Working Mother's Child Relief as they are all studying full-time and are Singapore citizens. However, the qualifying and handicapped child relief should be claimed by her spouse, Toby, as Linh has maximised her overall personal relief claim at \$80,000. Toby has a salary of \$36,000 and the Child Reliefs together with other reliefs applicable to him will enable him to achieve a chargeable income below \$20,000.
 - iv. The WMCR on Trent should be capped at \$42,500 as total relief on each child is capped at \$50,000.
 - v. CPF relief for contributions made on her additional wages was not calculated correctly by many Candidates.
 - vi. CPF cash top-up relief of \$4,000.

Part (b)

This question part was not well answered as most answers given were not complete. Although Candidates may be aware of the option to voluntarily disclose the error/omission in the tax return submitted by Linh, many were not aware of the actual deadline to make the voluntary disclosure to have the penalty waived – one year from the submission deadline of the relevant tax return.

Question 3

This question comprises two parts and was the best performing question overall with both parts competently answered.

Part (a)

The GST analysis of transactions given in **part (a)** was mostly well-attempted. Most Candidates were able to answer in the 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.
 - “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.

It is stated in the opening paragraphs that all expenses, sales and income values given are exclusive of GST (these are also the values usually recorded in the P & L A/C). However, where reference is made to cash received/recovered or cash paid, the amounts given would usually be inclusive of GST (this corresponds to our own personal experience when making payments to vendors/suppliers). Many Candidates stumbled in their answers on those transactions involving actual cash receipts or cash deposits. The cash values given in Transactions (iii) - \$8,000, (iv) - \$13,000 and (v) - \$2,160 are inclusive of GST.

The following errors were also noted:

- A few Candidates seem to be unaware that goods imported into Singapore will be subjected to GST at the standard rate even though the place of supply originated from outside Singapore (a number of Candidates identified the purchase as out-of-scope supply). Input GST is thus payable on the supplies imported at the total cost of \$54,000 which includes the freight charges of \$4,000.
- Deemed supply arises from the business goods given away to the charitable organisation and staff as well as the meals provided to staff. Thus, output GST at the standard rate needs to be accounted for on the above-deemed supply, except for the meals provided to staff. Food and beverages catered for employees do not require output GST to be accounted for, while input tax on the purchase of the meals can be claimed for input tax credit.

Candidates mostly lost marks due to errors or incorrect answers submitted as shared above.

Part (b)

This question part was reasonably attempted by the Candidates. Most Candidates were able to identify the correct tax rate of 8% to be applied to the equipment sold

in 2023, although a number of the Candidates could not explain the rationale behind this. Many Candidates scored zero marks for this question part.

Question 4

Overall, the performance on this question was the least satisfactory of the four questions as some did not attempt it or provided incomplete or incorrect answers to parts (a) and (b). Among the 3 sub-parts, part (c) was the best performed, with those attempting this part generally securing at least a pass. The qualitative questions under parts (a) and (b) fared poorly as most responses involved large, regurgitated conditions without demonstrating clearly how those conditions are met or to be met.

Part (a)

Of the Candidates who attempted the question part, most Candidates could highlight the condition for carry forward relief, identify at least one comparison date and the minimum shareholding required. However, many Candidates could not articulate clearly how this test will be met especially since it is not stated in the information when the loss item will be utilised.

Part (b)

Most Candidates were able to list the conditions for group relief but many did not explain when the minimum 75% shareholding is to be met – the last day of the basis period to the YA where group relief is to be applied. Many Candidates also did not point out how the amount to be transferred is to be arrived at – the lower of claimant's assessable income and transferor's total loss item available for transfer.

Part (c)

Many Candidates passed this question part as Candidates were able to start off the computation correctly. However, many also lost marks as the group relief transfer value was incorrectly computed to include the loss item from the prior YA. Many do not seem to know that loss items can be transferred for group relief only if it arises from the same YA as when assessable income is derived.