SINGAPORE CA QUALIFICATION EXAMINER’S REPORT

MODULE: Taxation (TX)

EXAMINATION DATE: 13 December 2017

Section 1
General comments

The Taxation module was a fully open-book examination. This was a change from prior examination sessions (previously, Candidates were restricted to one A4 cheat sheet and clean copies of the relevant pieces of legislation). Nevertheless, an appendix containing relevant tax rates and allowances was attached to the question paper.

A general observation made during the marking of the examination scripts was the tendency of quite a number of Candidates reproducing in verbatim the provisions of the statute and/or other reference materials in their answers to some of the questions. For some of these Candidates, they did not extend any analysis based on the facts of the case presented to them in the question. Candidates need to realise that in an open-book examination, credit cannot be given for merely reproducing or regurgitating content from reference sources. To earn the marks, they need to apply the tax laws and principles specifically to the facts of the case and to arrive at a reasoned conclusion or recommendation.

Section 2
Analysis of individual questions

Question 1

Part 1(a) required Candidates to advise on the tax mitigating claims and elections that may be made by two related taxpayers (Mdm Yee and XPL) in filing their annual income tax returns. Essentially, Candidates had to make two recommendations. The first concerned the deferral of a claim of capital allowances by Mdm Yee in respect of Machine #1 for the Year of Assessment (YA) 2017. Only a few Candidates made this recommendation and among those who did, most were able to justify the recommendation on the basis that a claim of capital allowances for YA 2017 would have resulted in the loss of a substantial part of Mdm Yee’s personal reliefs for that year. However, not many Candidates considered the tax saving arising from the marginal tax rate effect associated with the recommendation.

The second recommendation would be for both Mdm Yee and XPL to make a section 24 election for YA 2017 in respect of the transfer of Machine #2 from the sole proprietorship to XPL. Relatively more Candidates managed to identify this tax mitigation measure and they were also more comprehensive in their answers in justifying their recommendations with appropriate explanations of the resultant tax saving.
Part (b) was a straightforward question requiring Candidates to state the amounts of the various personal reliefs to which Mdm Yee was entitled for YA 2017. This part was generally well attempted with the only common error made being the claim for the life insurance premium, which Mdm Yee was not entitled to given that her relief for medisave contributions exceeded $5,000.

Question 2

Part 2(a) involved a group of companies from whose perspective Candidates had to advise on a tax-efficient utilisation of their unabsorbed capital allowances and business losses. Generally, Candidates’ answers could have been better if:

- they had adopted a more organised approach to answering the question. In particular, the question would have been comprehensively answered by addressing three main issues, i.e.: (1) the carry forward of S2 Co’s YA 2015 unabsorbed capital allowances to YA 2017, subject to the Business Continuity Test and the Shareholdings Test; (2) the carry forward of S2 Co’s YE 2014 unabsorbed business loss to YA 2017, subject to the Shareholdings Test; and (3) the potential uses of S1 Co’s current year unabsorbed capital allowances. For item (3), Candidates should have evaluated the possibility and, if so, the tax efficiency of: (i) a carry back of the allowances; (ii) a carry forward of the allowances; and (iii) a transfer of the allowances under the Group Relief scheme; and

- in the case of some Candidates, they had not merely reproduced the various qualifying conditions for carry forward, carry back, and/or Group Relief transfer but had also applied these to the specific circumstances of the three companies in the corporate group.

Part (b) required Candidates to advise from an income tax perspective as to which existing company (F Co or S1 Co) in the corporate group should be the immediate holding company of a newly incorporated company (S3 Co) that is anticipated to be loss-making in the initial years of operation. Candidates’ performance was mixed and depended on whether they realised that having F Co as the immediate holding company of S3 Co would have disqualified S3 Co from being a transferor company for the purposes of the Group Relief scheme.

Part (c) entailed advising on the Goods and Services Tax (GST) implications of various proposed transactions to be undertaken by S3 Co. Candidates’ performance for this part was generally satisfactory except that a few Candidates were not able to deal with the time of supply and GST absorption issues relating to the technical assistance fee.

Question 3

For Part (a), Candidates were required to advise on an individual’s personal income tax residence status and the consequential treatment of his Singapore employment income. Most Candidates were generally able to apply the tests of residence
Question 4

Question 4 was a multi-part question examining a variety of issues. For Part I, these issues were stamp duty liability on the transfer of shares, corporate tax residence and its implications on the source of dividends and directors’ fees paid by the company, and deemed source rules and withholding tax. Generally, this question part was well attempted.

Part II tested Candidates on the potential tax benefit that could be obtained from the Investment Allowances (IA) tax incentive (Part (a)) and on the recommendation of a more tax-efficient incentive that the company could apply for (Part (b)). Part (a) was generally well attempted with most Candidates able to apply the main features of the incentive to the facts given to derive the maximum tax saving possible. For Part (b), many Candidates were able to identify the Development and Expansion Incentive (DEI) as the appropriate tax incentive and covered adequately the main features of the incentive. What was lacking in many answers, however, was a thorough explanation as to why the DEI was superior to the IA in view of the company’s circumstances. In this regard, Candidates needed to highlight the anticipated high incremental profits of the company and its relatively low fixed capital expenditure. Unfortunately, many answers merely reproduced the features of the
incentive from their reference sources without application to the specific circumstances of the company.