**SINGAPORE CA QUALIFICATION EXAMINER’S REPORT**

**MODULE:** Taxation (TX)

**EXAMINATION DATE:** 14 June 2017

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The Taxation module was a restricted open-book examination. Candidates were allowed to bring the following unmarked Statutes into the examination hall:

- *Income Tax Act, Cap 134;*
- *The Goods and Services Tax Act, Cap 117A; and*
- *The Goods and Services Tax (General) Regulations, Cap 117A.*

Candidates were also permitted to bring into the examination hall one A4-sized double-sided “cheat sheet” for reference. An appendix containing relevant tax rates and allowances was attached to the question paper.

Overall, Candidates’ performance in the examination was satisfactory. Performance was markedly better for structured computational questions, such as Question 1(d), as compared to questions requiring reasoned and numerical analysis, such as Question 2(a).

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**Question 1**

Question 1 involved the case of a manufacturing company in receipt of various sources of foreign income and with potential uses for such income.

One potential use of the foreign income was to invest some part of it in productive equipment for the purposes of the company’s manufacturing business. In this regard, **Part (a)** tested Candidates on their ability to maximise capital allowance and investment allowance claims for the investment. Generally, Candidates were knowledgeable about the two categories of allowances and the basis of computing the claims for these allowances. However, it was often the case that Candidates did not know that the most tax-efficient claim would have involved maximising the claim under the Productivity and Innovation Credit + (PIC+) scheme (up to the $1.8 million expenditure cap) and allocating the balance of $0.2 million of expenditure under the less generous Investment Allowance scheme.

The other parts of Question 1 concerned the tax treatment of the various items of foreign income.

**Part (b)** tested Candidates’ ability to apply the meaning of ‘received in Singapore’ in section 10(25) of the *Income Tax Act* (ITA) and it was generally well attempted.
**Part (c) required Candidates to advise on which items of foreign income to apply to the proposed uses in order to minimise Singapore tax exposure.** Only a few Candidates appeared to understand the tax mitigation issue raised in **Part (c).** This issue is relevant only if the proposed use involved the foreign income being deemed received (and taxable) in Singapore, i.e. only for the proposed use of $1 million to pay the business consultant in Country B for advice relating to the Singapore business. The foreign income to be applied to this use is therefore the one that will result in zero or minimal Singapore tax payable if deemed received in Singapore, i.e. the Country A branch profit (which will qualify for the exemption in section 13(8) ITA).

**Part (d) was a computational question requiring Candidates to prepare comparative computations to support their recommendation as to whether foreign tax credit (FTC) pooling should be elected and if so, in respect of which items of foreign income.** On the whole, this part was well attempted although two common errors made were the incorrect extensions of foreign tax credit for the Country C underlying tax and tax sparing relief in respect of the Country E royalty.

**Question 2**

Question 2 contained a single part that required Candidates to advise a group of companies on the most tax-efficient use of their unabsorbed items. Many Candidates were able to cover the fundamental issues such as identifying the various pairs of companies that were members of the same group for the purposes of the Group Relief scheme, and the conditions for the carrying forward or back of unabsorbed items. However, some Candidates merely regurgitated the general qualifying conditions for the various schemes without much application to the facts of the case. What was also lacking in many Candidates’ answers was a methodical approach to consider all the potential uses of the unabsorbed items and a reasoned and numerical analysis as to why some of these uses either could not be effected because the qualifying conditions were not met or were not tax-efficient due to the low associated tax savings. Many answers provided no recommendations whatsoever.

**Question 3**

Question 3 had two parts, (a) and (c), that required computational answers. In **Part (a),** Candidates had to calculate the adjusted and divisible losses, capital allowances, and deduction for approved donations of a limited liability partnership (LLP) for allocation to the respective partners. **Part (c) focused on one of the partners of the LLP and required the preparation of her personal income tax computation.**

Common mistakes made in Candidates’ answers to **Part (a) included the following:**

- Lack of, or otherwise improper, apportionment of the divisible loss for the 18-month accounting period to two separate basis periods, i.e. a 12-month period to 30.9.2015 for the Year of Assessment 2016 and a 6-month period to 31.3.2016 for the Year of Assessment 2017;
- Not properly claiming capital allowances for the two years of assessment involved based on the respective basis periods mentioned above;

- Treating the items relating to the salaried partner as appropriation items rather than as expense items;

- Confusing between adjusted loss and divisible loss and therefore improperly treating the partners’ appropriation items; and

- Treating part of the foreign exchange gain as relating to revenue account even though the amount related entirely to the repayment of capital financing.

Concerning the personal income tax computation for Part (c), it was evident from Candidates’ answers that many either were not aware of, or did not know how to apply, the rules for the restriction of the deduction of the share of an LLP’s capital allowances and trade losses in the case of a limited partner. Apart from this, Candidates generally were able to deal with the other items in the computation such as the employment and other income items and the claims for personal reliefs.

The remaining part of the question (Part (b)) required Candidates to consider the tax treatment of a sum derived from the assignment of a literary copyright. Candidates should have discussed both possibilities of the item being income or capital in nature. However, many Candidates took one position or the other without an adequate explanation of the factors to take into account to determine the character of the sum. Few Candidates were aware of the treatment provided for in section 10(14) ITA, which would have applied if the sum was an income receipt.

Question 4

Question 4 comprised two independent parts. In Part I, Candidates were asked to advise on the appropriate course of action to take on the discovery of errors that had been made in prior years’ tax return submissions. How well Candidates performed for this part largely depended on their familiarity with the Inland Revenue Authority of Singapore (IRAS) Voluntary Disclosure Programme and the relief available in section 93A ITA for errors or mistakes made in tax returns.

Part II comprised three sub-parts concerned with stamp duty and Goods and Services Tax (GST) implications. Sub-part (a) was reasonably well attempted except that some Candidates had the misconception that the issuance of new shares attracted stamp duty. Sub-part (b) concerned the application of the Prospective Test for determining liability to register for GST and it was also reasonably well attempted. Sub-part (c) required Candidates to consider the GST treatment of various transactions. Although a relatively straightforward question, performance was somewhat disappointing with Candidates making elementary errors such as confusing an out-of-scope supply with an exempt supply, and not being conversant with applying the rules for input tax credit claims.