SINGAPORE CA QUALIFICATION (PROFESSIONAL) EXAMINER'S REPORT

MODULE: TAXATION (TX)

EXAMINATION DATE: 8 December 2023

Section 1
General comments

From the Candidates' responses to the questions, Candidates scored better for more familiar/ common topics such as deemed remittance of foreign-sourced income, tax residency tests and preparation of a tax computation.

However, where the questions were more qualitative or open-ended, such as those which required the Candidate to explain the potential tax implications arising from a certain transaction or compare the tax differences between two options, Candidates did not score that well on those. In particular, Candidates who did not perform well failed to provide an explanation/ elaboration/ conclusion for their answers.

Candidates also performed unsatisfactorily on the special categories of capital allowances (such as industrial building allowances) and non-income tax topics, especially stamp duty and the interaction of domestic tax and international tax. Candidates either did not attempt the question or provided responses that were irrelevant to the questions asked.

Section 2
Analysis of individual questions

Question 1

This question required Candidates to consider the taxation of foreign-sourced income and the different types of reliefs that may be available upon remittance/ deemed remittance of such foreign-sourced income.

Candidates' attempts for income tax computation question in **part (c)** were mixed in performance. Most Candidates were able to identify the common tax adjustments, present separate source income under a different line and included partial tax exemption in their tax computation. However, the calculation for medical expense restriction was wrongly computed for many as Candidates did not manage to compute both the amount of medical expenses and remuneration. Also, while Candidates could state the conditions for foreign tax credit pooling in **part (a)**, many Candidates could not apply the concept in their computation. Also, some Candidates failed to consider the double deduction on due diligence fees under the M&A Scheme.

Therefore, despite Question 1 being mostly a corporate income tax computation question, Candidates did not score particularly well overall.

Part (b) required Candidates to explain the key features of the M&A Scheme and the conditions required for the acquiring and target companies. Many Candidates were able to state these conditions and performed well for this.

Overall, Question 1 was the best-performing question of this paper.

Question 2

For **part (a)**, many Candidates could only identify one of the residency tests for individuals and missed out on the other. In addition, a number of Candidates identified that Jon did not satisfy the quantitative test due to his length of stay not exceeding 183 days but failed to identify the administrative concession which allows him to be treated as a tax resident for the year.

For **part (c)**, most Candidates did not manage to identify that losses from a restaurant can be offset against overall profits from other restaurants by running under one company. A number of Candidates focused the discussion on setting up three companies as constituting tax avoidance, which is incorrect.

A significant number of Candidates gave "cookie-cutter" responses to **part (d)** by doing a 'cut and paste' of pre-prepared responses without any modification to their responses. For example, certain Candidates responded with "A single claim of SUTE/PTE will be allowed on the entire trade income from the provision of *medical* services and the incidental expenses" despite the question asking about advice given to Jon's *restaurant* business. Several Candidates also "cut and paste" the entire Section 33 Act without clearly specifying its relevance to the question. Overall, part (d) was the weakest performing part of this question.

Question 3

Part (a) required Candidates to comment on domestic income tax concepts. Most Candidates failed to address the YA in which deduction can be claimed and the non-deductibility of general provision. Some Candidates also discussed (irrelevantly) a claim of writing down allowances for the royalty payment, or other R&D related deduction claims. Lastly, a fair number of Candidates also discussed entirely the withholding tax treatment of the payments, which was not required under Part (a) for this question part. Overall, **part (a)** was the weakest performed part of this question.

Part (b) was better attempted and saw higher scores than **part (a)**. Although some Candidates failed to comment on source rules in Singapore, they were generally still able to score fairly well.

Part (c) tested the treaty application and was mostly well-answered. Notably, a number of Candidates did not comment on payments (ii) and (iiii).

Question 4

This is the paper's weakest-performing question.

Part (a) was done very poorly. Several Candidates erroneously indicated 3% as the rate of annual allowance (instead of 5%). Overall, many Candidates appeared uncertain over the rules of claim under the industrial building allowance and land intensification schemes.

While most Candidates could explain the arm's length principle in **part (c)** and conclude that the provision of free rental was not in line with the aforementioned, they did not assess the risk of transfer pricing adjustment or explain the potential denial of interest expense claim.

The responses for **part (d)** were mixed. For **part (d)(i)**, while many Candidates could identify the application of SSD rules and explain the mechanics, they did not obtain full credit as they did not state the effective date of the relevant SSD rules. For **part(d)(ii)**, many Candidates did well and obtained either full or most credit. However, none of the Candidates could identify the timing at which the BSD would apply. For **part(d)(iii)**, many Candidates got credit for explaining the mechanics of the stamp duty that was payable. However, most did not get full credit for the question because they did not specify that stamp duty would apply on the dutiable transfer document or identify that ACD would not apply.