

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

**MODULE:** Singapore Taxation (TXF)

**EXAMINATION DATE:** 8 December 2023

### **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 Candidates did not attempt Question 4 or some parts of Question 4. This is likely due to a lack of time to complete the paper. Some Candidates also did not turn in answers to the qualitative questions in Questions 1 and 3. Candidates' performance on computational questions like 1(a), 2(a), and GST were mostly competent. However, answers also showed gaps in Candidates' basic knowledge and understanding of those taxes.
- Performance for the qualitative questions (Question 4(b)) was reasonably well attempted 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 is not sufficient. Candidates must apply the rules and conditions to the information provided to explain how those rules and conditions are met or not in the scenarios posed. More Candidates seem to be able to substantiate their conclusions in the current exam session.
- 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. Attending tax courses

will help alleviate some of the stress of understanding this information and bridge any gaps in your tax knowledge. If the self-study route is taken, please ensure that your 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 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.

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

Almost all Candidates could prepare the corporate tax computation in the correct format to arrive at adjusted trade profit, and many Candidates scored well on this question part. Unlike previous cohorts, current Candidates seem to have noted that Section 14N (previously known as Section 14Q) deductions on renovations should not be treated as part of capital allowances claim. Deductions for non-structural renovation and refurbishment expenses are allowed under Section 14N, even though such expenses are capital in nature. The special deduction determines the adjusted trade profit; the deduction is not to be made under Capital Allowances.

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

- As the interest income is from a deposit placement with a foreign bank, most Candidates correctly treated it as a foreign-sourced non-trade income and brought to tax only the amount deemed remitted back to Singapore, i.e., the interest income used to settle a trade liability.
- Similarly, the dividend income is also foreign-sourced but was used to pay a dividend to the foreign shareholder, CK Fragrances Limited. Many Candidates do not seem to be aware that the Comptroller does not treat the use of foreign income to pay dividends to foreign shareholders to be remitted to Singapore. The foreign dividend income should not be brought to tax.
- Candidates correctly treated the profit from the sale of motor car to be capital gain and thus, not taxable. However, many Candidates also failed to realise that the car is being used outside Singapore for the purpose of generating income for the Singapore company. The car was used by the liaison office to provide market information to the Singapore company to enable the latter to sell effectively in Country B. Thus, the car will qualify for capital allowances claim since it is used exclusively outside Singapore. As such, balancing adjustment will be required at its disposal.
- Only the provision written back that relates to the loan owing by the associated company is not taxable as the original provision would not have been allowed for deduction, being a non-trade debt. On the other hand, the provision written back with respect to accounts receivable, which are the company's trading accounts, requires no tax adjustment on the basis that the originating provision would have been allowed for deduction.

### Expenses

- Some Candidates did not include allowances in the computation of the deductible medical expense limit.
- Private hire cars used exclusively outside Singapore are excluded from Section 15(1)(k) prohibition. Some Candidates do not seem to be aware of this and disallowed the deduction of \$5,400. Lease of motor cars for use in Singapore would be prohibited under Section 15(1)(k) even where the lease was taken up as part of benefits given to employees.
- Expenses incurred to obtain tax benefits are not allowed for deduction as they are not incurred in the production of income. Hence, the fees relating to the

application for land intensification allowance are not deductible. On the other hand, where costs are incurred to ensure compliance with laws relevant to the business, they would be deductible under Section 14V.

- The exchange gain relating to the purchase of manufacturing equipment is not taxable as it is capital in nature. Further, the cost for the said equipment qualifying for capital allowances will have to be reduced by the exchange gain. Many Candidates failed to consider the exchange gain when working out the capital allowance claim on the said equipment. Some Candidates added the gain to the capitalised cost when it should be deducted from the cost.
- Only the interest on loan used for purposes of the branch operations is to be disallowed; incurred in the production of foreign income. Some Candidates also disallowed the interest on the loan to acquire the warehouse equipment. The latter is deductible under Section 14(1)(a) as the loan was used to acquire an asset that produced income for the principal trade activity.
- The replacement cost of the sanitary fittings and tiles is deductible under Section 14(1)(c); thus, no adjustment is required. Many claimed the cost as part of Section 14N deduction. This is incorrect, as renovation and refurbishment costs relating to staff accommodation are excluded from Section 14N deduction.

### **Special deductions**

- There was only one special deduction to be claimed under Section 14N in the current paper. Most Candidates could identify the 3-year blockings as YA 2017 to 2019 (no more qualifying costs to be claimed in YA 2023), YA 2020 to 2022 and YA 2023 to 2025. However, errors were still committed as some candidates capped the total amount deductible to \$100,000. This is incorrect. The capping is to be applied to determine the total qualifying costs for each 3-year block, i.e. cap on qualifying costs to \$300,000 for each block. Where there are concurrent Section 14N deductions from different blocks, the total deductible may exceed \$100,000, which is not incorrect.
- Some Candidates continue to treat Section 14N deduction as part of capital allowances; this is incorrect.

### **Capital allowances**

- As more than 10% of the industrial building was used for non-qualifying purposes (12% for office and showroom), only 88% of the cost of the qualifying building would qualify for an annual allowance claim at 3%. Candidates did not compute the allowance correctly.
- Capital allowances on the lorry should be calculated based on the original costs incurred as the asset was taken over from a related party, and Section 24 provisions were elected. A few Candidates could not work out the capital allowances correctly.

- As the extension works on the new building are not completed, only an initial allowance can be claimed on the qualifying new building. Some Candidates claimed annual allowance and some others claimed Section 14N deduction. Some included the LIA application fees as part of costs qualifying for allowances. This is incorrect, as the fees do not relate to the construction costs of the building.

### **Non-trade income**

- Only the foreign interest income is taxable; the foreign dividend is not.

### **Part (b)**

This question part tested Candidates' understanding and knowledge of the deeming provisions under Section 12(7). The royalty payment is for information not covered under the rights-based approach; it is neither a software payment nor payment for the use of digitised goods, nor is it a payment for the use of specified information as defined under Section 12(7)(7B).

### **Question 2**

Question 2 required Candidates to compute the tax liability of a non-resident individual who derived Singapore-sourced income from three activities – employment, letting of his investment property and share of business income derived through a partnership. As the individual is not a tax resident in Singapore, the flat rate of 22% is applicable to the net taxable income from each source except for employment income. Tax on the latter is to be calculated based on Section 40B provisions – higher of 15% of net employment income or tax payable as a tax resident on the same employment income. Many Candidates do not seem to understand that the provisions of Section 40B are to be applied to employment income only and should not include income from non-employment sources.

Other errors were noted in their answers:

### **Employment income**

- Many Candidates did not know how to determine the taxable benefit arising from accommodation provided to employee using company-owned property. As there is no rental payable to third-party landlords, the annual value of the property will be used as a proxy to ascertain the taxable benefit. As the accommodation is fully furnished, the taxable benefit will be equivalent to 150% of the annual value of the property and further pro-rated to the period of use by the employee.
- Not all Candidates pro-rated the annual running expenses to the actual period of use (153 days) before applying the private usage factor of 3/7.
- A number of Candidates determined the private usage of the driver using the rate of 60% instead of 40%.

- The expenses claimed for deduction by many Candidates included car expenses, which is incorrect as it is prohibited under Section 15. Some Candidates failed to claim a deduction of chauffeured private hire cars, which is permissible as such cars are viewed as taxis.

### Rental income

- Some Candidates failed to read or register that the expenses are to be claimed based on actual costs incurred. Instead, they claimed deduction using the simplified basis.
- Many Candidates claimed deduction of the replacement cost of the air-conditioners without registering the fact that the new air-conditioners are energy-saving models. This means the new equipment has improvements over the original equipment and thus would not be deductible under Section 14(1)(c).

### Personal relief

The following errors were noted in the personal relief claim:

- Spouse relief is available as the wife does not have income exceeding \$4,000; the gain of \$45,000 is capital gain and should not be considered.
- Parent relief is unavailable as his aged parents are not living in Singapore.
- Child relief is available only to the elder child as the younger child was not studying full time in the basis period.

### Question 3

This question comprises two parts. The GST analysis of transactions given in **part (a)** 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, 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, e.g., transaction (ix) – 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 (xi-2) – bad debt relief on an export sales.

It is stated in the opening paragraphs that all expenses, sales and income values given are exclusive of GST. However, where reference is made to cash received/recovered or cash paid, the amounts given would be inclusive of GST (this corresponds to our own personal experience making payments to vendors/suppliers). Thus, transactions under (iv) – bad debt recovered would be inclusive of GST where GST at the standard rate is applicable. Further, the tax rate should follow the rate applicable when bad debt relief was claimed – 7%.

The following errors were also noted:

- Volume rebate is like a discount given on sales. Thus, the adjustment should be on the output tax column as a tax reduction since the value of the sales is now reduced by the rebate.
- There is no supply of goods or services rendered by shareholders in return for the dividends paid. It should be denoted as “No Supply”.
- Many Candidates do not seem to be aware that there is no deemed supply arising from giving away commercial samples, which are business goods clearly earmarked (Sample only; not for sale) to be given away to potential or current customers.
- As the value of the health supplements given to each employee is more than \$200, there is a need to account for the output tax on the deemed supply arising from the benefit given to employees.
- The training fees constitute the import of services; thus, a reverse charge is applicable. Many Candidates do not seem to be able to recognise this transaction as an import of services and thus could not apply a reverse charge.
- The purchase of a new point-of-sale system involving the trade-in of existing equipment was largely done correctly, i.e., as two separate transactions. However, many Candidates failed to understand that the trade-in price of \$5,000 includes GST.
- The taxi fares reimbursed do not include GST as the taxi drivers are not GST-registered suppliers.

**Part (b)** required Candidates to address if the remittance of funds from overseas arising from the sale of shares will be subject to Singapore income tax. Candidates

are expected to explain why the share sale should be treated as a capital transaction – divestment not profit-motivated, the company does not have a history of trading in shares, etc.

However, as part of the share investment was funded from the use of foreign dividend income, Candidates must address if the dividend income now remitted back to Singapore will be subject to Singapore income tax. Not many Candidates were able to address the above points.

#### Question 4

The last question comprises two parts, with **part (a)** requiring Candidates to compute the chargeable income of an individual incorporating business income from a partnership business as well as employment income. **Part (b)** required Candidates to determine if a new equity investment should be held directly by the individual or through a corporate entity.

For the partnership business income in **Part (a)**, Candidates are required to determine the adjusted trade profit based on the overall divisible profits given as well as various information provided. Candidates are thus required to identify from the information provided which are the partner's appropriation items to be added on to the individual's share of the divisible profit. It is clear that many Candidates were too used to working out the adjusted and divisible profits from accounting net profit, and in the absence of the latter, their computation of the adjusted partnership profits was incomprehensible. The following are the appropriations by partners that Candidates identified to varying degrees of accuracy:

- Reimbursement of car running expenses for private travels of \$2,600.
- Salary paid to the partner of \$120,000. The salary paid to the son of the partner is a business expense as the son is providing employment services to the partnership. The son's salary is not to be considered in the determination of the adjusted partnership profits attributable to the partner.
- Payment of the partner's medical and hospitalisation insurance premium of \$12,500.
- Interest payable on the capital contribution by the partner of \$14,800.

The unabsorbed loss items from YA 2020 arising from the partnership business are to be deducted from the partnership's taxable income. Most Candidates did include in their answers.

The unabsorbed trade loss (\$14,000) arising from a company wholly owned by the individual cannot be considered as group relief, which is not available to individuals.



Many Candidates did not compute the excess CPF contribution made on the bonus paid to the individual by the company. It may be that Candidates did not read or comprehend the information given.

The personal relief claims were largely correctly made, apart from CPF relief on the bonus.

**Part (b)** was completed competently by Candidates who submitted an answer. Candidates were able to identify the availability of group relief claims if the investment was held via a company.