

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Singapore Taxation (TXF)

EXAMINATION DATE: 10 June 2022

Section 1

General comments

The examination is conducted online, and Candidates have adapted well to online examinations and the e-Examination platform ("Cirrus"). The examination format remained largely similar, a restricted open-book format with an Appendix containing information relating to tax rates, rebates, personal reliefs, and allowances was provided. In addition, Candidates were allowed to bring in 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. Candidates' performance on the computational type questions like Questions 1(a) and 2(a) and GST question (Questions 3(a) and (b)) were mostly competent. However, answers still showed gaps in the Candidates' basic knowledge in those taxes.
- Performance for the qualitative questions (Questions 1(b), 2(b), 3(c) and 4) was poor, evidently showing the Candidates' limited knowledge and understanding of the topics tested. Apart from stating the tax rules and conditions, it was observed that there was a lack of depth and completeness in the answers given.
- Many Candidates have incorporated workings in their answers, making it easier for markers to award marks for the correct application despite their 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). It can be overwhelming to sieve through all the information available, 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 up to date by checking to 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 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

Part (a)

Almost all Candidates could prepare the computation in the correct format to arrive at adjusted trade profit. Most Candidates correctly treated Section 14Q (now known as Section 14N) deductions on renovations as part of adjusted trade profit instead 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. And the special deduction goes towards determining the adjusted trade profit. However, many Candidates did not seem familiar with the following:

- The manner of Section 14N claim during the pre-commencement period
- The tax treatment of pre-commencement expenses (i.e. expenses incurred during the period before the 1st dollar of sale was made).

Many Candidates seem to be overly influenced by the option to claim 2-year accelerated capital allowances in Year of Assessment ("YA") 2022, and this was extended to capital allowances claim for the computer equipment when the accelerated claim should be over one year to maximise deduction, as instructed in the question. In addition, many Candidates do not seem familiar with the capital allowances claim on the qualifying plant and machinery purchased during the pre-commencement period.

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:

Non-trade and non-taxable receipts to be removed from net profit

- The branch profits are sourced in Country X as the profits are derived through a fixed place of business (i.e. the branch office) in Country X. This is a non-trade foreign income and should not form part of adjusted trade profit derived from Singapore-sourced business. A number of Candidates did not remove this item from the net profit. As the profits were not remitted to Singapore in the basis period to YA 2022, the foreign income will not be subject to Singapore income tax.
- Interest income from UOB is a taxable income from the non-trade source. Most Candidates correctly excluded it from net profit to derive adjusted trade profit before bringing it to tax after net trade taxable income.
- The interest income from fixed deposit placement in Country X is another foreign-sourced income that is required to be removed from net profit. Most Candidates did so. It is not remitted to Singapore and thus not subject to Singapore income tax.
- The provision for debt impairment is not taxable as the provision created in the previous financial year would not have been allowed for deduction as the provision was in relation to the overseas branch business, and nothing to do with the business of Singapore operations. Thus, the provision written back should be excluded from the net profit.
- For foreign exchange differences, we need to analyse the underlying transactions that gave rise to the exchange differences. The gain of \$8,000 resulting from the revaluation of trading accounts is taxable as it is revenue in nature. Adjustment is required of the exchange difference arising from the revaluation of retained earnings as this is capital in nature. Some Candidates did not seem to be aware of the tax adjustment required.

Expenses

- Expenses incurred before the first dollar of sales derived are generally viewed as expenses incurred to get the business into the position of making sales. It is not viewed as incurred in the production of income. Thus, no deduction should be allowed for expenses incurred during the period prior to the date of first sales. In the case of Marque Pte Ltd (“MPL”), this would mean all expenses incurred in the financial year ended 31 December 2020, as well as expenses incurred in the financial year 2021 from 1 January 2021 to 14 February 2021 (i.e. the pre-

commencement period) should not be allowed for tax deduction. However, Section 14U (now known as Section 14R) was enacted to allow the deduction of **revenue** expenses incurred during the said period.

Under the provisions of Section 14R, a business is deemed to commence its business on the first day of the accounting year (“deemed commencement date”), during which its first dollar of sales was derived. This thus allows the business to claim a deduction of all revenue expenses incurred during the accounting year instead of from the date of actual first sales. MPL's actual commencement of business is 15 February 2021 but will be deemed to commence its income-generating business from 1 January 2021 under Section 14R. There is thus no necessity to disallow the expenses incurred of \$30,000 from 1 January 2021 to 14 February 2021. Many Candidates disallowed the amount as mentioned earlier.

Further, under Section 14R, all **revenue** expenses incurred up to 1 year ahead of the deemed commencement date will be allowed the deduction in the commencement YA. MPL can therefore claim a special deduction of the revenue expenses incurred in the financial year 2020 in YA 2022; the deduction will go towards making up the adjusted trade profits for YA 2022. In this regard, of the 3 expenses incurred in the financial year 2020 (see Note 2), only the salary of \$42,000 is deductible under Section 14R.

- The medical and hospitalisation insurance premium of \$10,000 requires adjustment as the amount exceeded 1% of staff remuneration incurred by MPL. Staff remuneration does not include directors' fees which most Candidates exclude, but it includes contributions to the pension or provident funds, which are allowable under the Income Tax Act. Thus the contribution to an overseas pension scheme of \$6,200 should be included, which many Candidates omitted.
- Of the legal and professional fees listed, the fees relating to the application of the equipment grant (\$5,000), the initial tenancy agreement for staff accommodation (\$1,800) and the purchase of the office unit (\$18,400) are not deductible, being capital in nature. However, many Candidates did not completely identify the non-deductible expenses in this category.
- Of the two transportation expenses, only \$3,200 is not deductible as it relates to expenses incurred on S-plated cars. However, chauffeured private hire cars are deductible as the Comptroller of Income Tax views it as a mode of public transportation instead of hiring a private car.
- The corporate club subscription fees are deductible as a recurring payment made to enable MPL to have access to premises to carry out activities that will enable it to generate income for its business. However, a number of Candidates disallowed the deduction.
- Most Candidates correctly disallowed the total donation of \$10,000. Still, some Candidates incorrectly computed the amount claimed for deduction at 2.5 times

as they included the cost of food supplies donated of \$4,000. Therefore, this non-cash donation is a non-qualifying donation.

- Of the interest paid to the non-resident company, only the amount relating to the working capital loan used by the Malaysian branch is not deductible. This is because the loan was not used to acquire Singapore-sourced income. On the other hand, interest relating to the purchase of the office unit is deductible as the loan was used to acquire an asset used to generate Singapore-sourced trade income.

Special and further deductions

- There are two special deductions to be claimed; capital expenses allowed under Section 14N (renovation and refurbishment expenses that are non-structural in nature and do not require approval from the Commission of Building and Control), as well as pre-commencement expenses allowed under Section 14R. The pre-commencement expenses have been discussed in the earlier section.
- The non-structural renovation and refurbishment expenses to be considered for claim under Section 14N are those relating to the hacking and debris removal (\$24,000), re-configuration of office and staff recreation area (\$183,000 and \$72,000) and installation of ramps and modifications to cater to physically impaired employees (\$30,000). The interior designer fees were correctly excluded by many Candidates as such fees are non-qualifying costs under Section 14N.

The renovation and refurbishment costs incurred in the pre-commencement period (15 May 2020 to 31 December 2020) are not deductible as they are not incurred in the production of income but to get the business ready to commence production of income. Therefore, these expenses will not qualify for deduction under Section 14R as they are capital expenditures. Nonetheless, under Section 14N(4), renovation and refurbishment expenses incurred in the pre-commencement period will be deemed incurred on the first day the trade, business, profession or vocation commences. Therefore, for MPL, those costs incurred in the financial year 2020 will be deductible in YA 2022. Although for YA 2021 and 2022, qualifying taxpayers can claim Section 14N deduction on the enhanced (or accelerated) basis, i.e. over 1 year instead of 3, it is stated in the question that MPL does not wish to claim deduction on an accelerated basis.

The installation of ramps and modifications to cater to physically impaired employees should be claimed for deduction under Section 14N and not 14H (now 14F) as deductions under Section 14F requires prior approval of the expenditure. As it is stated clearly that no approval was sought from any authority, the said expense should be claimed for deduction under Section 14N, which means it will be restricted to \$21,000 to meet the qualifying cost limit of \$300,000 under Section 14N.

Capital allowances

- Enhanced accelerated capital allowances on the 2-year write-off basis should be claimed on furniture acquired of \$105,000 only. The computer equipment should continue to be claimed for over 1 year.
- As part of the computer equipment was purchased in the pre-commencement period, the capital allowance claim on the computer equipment acquired in the said period should commence in YA 2022 (see Section 19(1)(1B)).

In addition, the qualifying costs of the computer equipment should include the grant given of \$80,000 but not the fee relating to the application for the grant. The grant money is intended to reduce the carrying cost of the equipment.

If done correctly, at this stage, Candidates should arrive at unabsorbed capital allowances, which will be available for set-off against income from non-trade sources, which comprise the interest income from UOB.

Order of set-off

The capital allowances should be set off against the adjusted trade profit first before the non-trade income of interest income.

Part (b)

Candidates were to explain the withholding tax implications of the interest payment to the non-resident. However, the answers provided were largely incomplete, either showing Candidates are largely unfamiliar or had a patchy understanding on the subject matter.

For interest payments, withholding tax is applicable if

- I. the loan is used to generate Singapore sourced income (this is evidenced by the requirement that the interest is claimed for deduction against Singapore sourced income); or
- II. the interest payment is borne by a person tax resident in or a permanent establishment in Singapore or
- III. the funds from the loan are being used in Singapore.

Where the funds are used outside Singapore for the purposes of a business carried on outside Singapore (as in the case of the Malaysian branch), the Singapore withholding tax will not be applicable even though the payment may be borne by a person tax resident in or a permanent establishment in Singapore. However, the funds must be channelled to the Malaysian branch from outside Singapore.

Question 2

Question 2 is a 2-part question centred on a Singaporean widow who derived both employment income and profit share from her partnership business.

Part (a) required Candidates to work out the income tax liability of the individual (Sandra Lim) for YA 2022. The computation was prepared competently by many Candidates, although the following errors were noted in many of their answers:

Taxable employment income

- Many Candidates claimed deduction of the petrol and parking charges of \$2,800, likely on the basis that the expense was for business-related travels. This is incorrect as Section 15 prohibits the deduction of any expenses incurred on S-plated cars regardless if incurred for business purposes or not. The company car provided for Sandra's use is an S-plated car.
- Some Candidates claimed deduction of the compensation paid by Sandra to her employer in lieu of serving her notice period. It should be noted that this compensation is not incurred to discharge employment duties, hence is not deductible.

Personal relief

The following errors were noted:

- Both of Sandra's children qualify for Qualifying Child Relief and Working Mother's Child Relief ("WMCR") as both were receiving full-time education during the basis period, neither child was married, and their income in the basis period did not exceed \$4,000. Many Candidates claimed both reliefs on one child only.
- For many Candidates, the WMCR was calculated based on Sandra's earned income, including the interest income. However, this is incorrect as earned income comprises net taxable income from the business and employment sources only.
- Parent relief can be claimed on both her mother and her mother-in-law, albeit at different rates, as her mother-in-law is not living in the same household as Sandra. A few Candidates claimed Handicapped Parent Relief in respect of Sandra's mother-in-law as she is living in a nursing home. Candidates are reminded that unless the information provided is clear that the dependent qualifies as a handicapped individual, such an assumption should not be made.
- Candidates omitted the claim for NS Parent Relief; her son has completed his National Service commitment.
- Some Candidates did not cap the total personal relief claim at \$80,000.

Part (b) required Candidates to determine the tax residence status of a new employee employed by Sandra for her partnership business. Perhaps influenced by the fact that the foreigner is employed on a 2-year employment contract, many Candidates wrongly assessed his tax residence status using the 2-year administrative concession instead of the 3-year administrative concession. Candidates should have drawn out the employment timeline (from start to end of the

contract), and they would have realised that the employment period straddles over 3 continuous years, not 2 years.

Question 3

This question comprises three parts. The GST analysis of transactions given in **part (a)** was generally well attempted. All Candidates could answer in the new format required, which was used to aid Candidates in completing the GST return form under **part (b)**. The following errors were noted:

- Many Candidates did not work out the correct GST and value of supply on the sales made to corporate customers in Singapore (the 8% discount was not incorporated) and the online sales. The latter sales included GST; thus, the amount given in the question needed to be re-grossed.
- The transaction relating to the purchase from an overseas supplier (item (iii)) comprised two components – the purchase of trading stock of \$330,000 and freight charges of \$23,000. It is unclear from the many answers provided if the answer was meant for both components or just one. Candidates are reminded that if there is more than one component to the transactions given in each line item, please indicate clearly the answer to all the components mentioned.
- The interest income derived from overdue customer accounts from Singapore customers (\$6,400) is an exempt supply as it falls within the ambit of prescribed financial services provided to persons in Singapore. On the other hand, the interest income derived from overseas customers (\$6,800) is a zero-rated supply as the services were provided to a person belonging outside Singapore.
- The share capital injection is an exempt supply; many Candidates incorrectly stated it as no supply.
- The cash recovered from trade debtor of \$15,000 includes GST; many Candidates did not seem to realise that cash recovered from debts written off is inclusive of GST.
- Many Candidates did not realise that the rental of commercial properties is not exempted from GST.
- Many Candidates did not know that exchange differences are to be treated as an exempt supply made by the GST registered company. The value of the exempt supply is the net exchange difference, i.e. exchange gain less exchange loss. If the net position is a loss, the negative sign is to be ignored, with the absolute net amount reported as the value of exempt supply. Many treated the gain as the value of exempt supply, while the exchange loss from the purchase of fixed assets was reported as part of taxable purchases.

- The deemed supply arising from the provision of beverages to staff was not addressed by many Candidates. The value of supply on the deemed supply is to be treated as zero.
- Many Candidates did not claim the input tax credit in respect of the interior designer fees of \$5,000. It is unclear why this is so, but it could be due to such fees being treated as non-qualifying expenses for special deductions under Section 14N of the Income Tax Act. For GST purposes, the input tax on designers' fees can be claimed so long as the renovation works were carried out to enable the GST-registered business to generate taxable supplies. The office premises is used to carry out administrative activities that support the making of sales that attract GST at the standard rate of 7% or zero-rated.
- The donation of the furniture written off gives rise to a deemed supply as business goods are given away at no consideration. Since the donated furniture has a market value of \$1,200, the value of the deemed supply will be \$1,200 and taxable at the standard rate.
- The input tax incurred on the purchase of the Fitbit watches qualifies for input tax credit as they are used to cultivate staff relationships at an upcoming staff event. The deemed supply arising from the gift of business goods does not occur in the current quarter as the gift has not been made yet.

Answers to **part (b)** were to be extracted from Candidates' answers given in **part (a)**, and most Candidates could complete the GST return form and identify clearly if the net GST in return was to be paid or claimed from Inland Revenue. However, some Candidates distorted the value of taxable purchases by including input tax on those purchases that are blocked from input tax credit e.g. furniture purchased for use in staff accommodation. Or they corrupted the value of exempt supply by including the value of exempt purchases.

Candidates' attempts on **part (c)** were broadly acceptable, although most Candidates did not state that the expenses are not deductible, being capital in nature. In addition, some Candidates misread the question and addressed the GST treatment (whether input tax can be claimed or not) instead of the income tax treatment as required by the question.

Question 4

This question on the utilisation of unabsorbed loss items using a combination of group relief and carry back was broken up into three parts.

Most Candidates could address in **part (a)** if group relief can be applied to the loss company or not. However, many Candidates could not explain clearly if carryback relief (both normal and enhanced basis) can be utilised by the same loss company in **part (b)**. This stems from their inability to identify the shareholdings comparison dates correctly. When identifying the common shareholders, some did not trace the common shareholders to the ultimate **individual** shareholders, while others did not

seem to understand who a common shareholder is. Such a shareholder should hold shares, directly or indirectly, in the loss company on **both** the relevant comparison dates. In their answers, only such a shareholder should be identified, and their shareholdings on both dates stated before concluding if the shareholdings test is met (50% or more holdings) or not. **Part (b)** was poorly answered by many Candidates.

The correct order of loss utilisation using both group relief and carry back should be addressed in **part (c)**.