Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: TAXATION (TX)

EXAMINATION DATE: 21 July 2026

Section 1
General comments

From the Candidates' responses to the questions, Candidates generally performed better in computational questions involving individual and corporate taxation, particularly where familiar tax principles and calculations were required.

Candidates were generally less successful in questions requiring them to explain the tax implications of transactions based on the given case facts. While many Candidates demonstrated sound technical knowledge, some did not apply the relevant tax principles to the facts provided and instead reproduced general textbook knowledge. Candidates should pay close attention to the specific question requirements and ensure that their answers are supported by appropriate application and explanation.

Section 2
Analysis of individual questions

Question 1

Part (a) required Candidates to determine the tax residency of an individual by applying the qualitative test and to explain the tax treatment of foreign-sourced employment income.

This question was generally well attempted. Most Candidates correctly concluded that Collin remained a Singapore tax resident as his overseas posting constituted a temporary absence from Singapore. Most Candidates were also able to explain that the employment income derived from Thailand was foreign-sourced and exempt from tax upon receipt in Singapore.

Some Candidates incorrectly applied the quantitative test by referring to the 183-day rule instead of considering the qualitative tax residency test. A few Candidates also did not explicitly identify the income as foreign-sourced, although appropriate credit was given where the overall explanation demonstrated a correct understanding of the tax treatment.

Part (b) required Candidates to compute the individual income tax liabilities based on the facts provided.

Overall, this part was reasonably well attempted, and most Candidates were able to identify the taxable and non-taxable employment benefits and correctly compute the employment income.

Common mistakes are as follows:

- Did not distinguish between revenue and capital expenditure and therefore failed to add back the cost of the microwave oven and claim capital allowance.
- Incorrectly claimed principal loan repayments as deductible expenses in the computation of rental income.
- Omitted deductible expenses such as loan interest, maintenance fees and agent's commission in the rental income computation.
- Did not correctly apply the conditions for parent relief.
- Failed to allocate the Qualifying Child Relief to the spouse with the higher chargeable income in order to minimise the couple's overall tax liability.

Part (c) required Candidates to explain the tax treatment of a general partner and a limited partner in a limited partnership, including the relevant deduction restrictions.

This question was moderately attempted. Most Candidates were able to explain the restriction on the amount of limited partnership losses and capital allowances that may be set off against a limited partner's other sources of income.

However, some Candidates incorrectly identified Amy as a limited partner or did not clearly distinguish between the tax treatment applicable to a general partner and a limited partner. Common weaknesses also included failing to explain both the carry forward and carry back treatment of unabsorbed losses and capital allowances, and incorrectly applying the shareholders' test instead of the business continuity test. Some Candidates also did not fully explain the tax implications arising from changes in the limited partner's contributed capital.

Question 2

Part (a) required Candidates to discuss the applicability of Foreign Tax Credit (FTC) pooling in respect of the foreign-sourced income based on the facts provided.

This question was generally not well attempted. Many Candidates focused only on concluding whether the foreign-sourced income qualified for FTC pooling and did not discuss all the relevant conditions required for each category of foreign-sourced income. Some Candidates correctly identified that FTC pooling was not applicable but did not explain why the relevant conditions were not satisfied.

Candidates are advised to read the question requirements carefully and ensure that all aspects of the requirement are addressed. Presenting the analysis in a structured format would also help Candidates demonstrate that each condition has been considered.

Part (b) required Candidates to evaluate whether the company should elect for the cash payout or claim deductions under the Enterprise Innovation Scheme (EIS).

This question was generally well attempted. Most Candidates were able to perform the necessary computations and correctly concluded that the company should claim the deduction rather than elect for the cash payout.

Some Candidates did not identify that the professional fee qualified as expenditure under the Enterprise Innovation Scheme. A number of Candidates also limited their answers to the numerical computation and did not adequately explain the basis for their conclusion.

Part (c) required Candidates to prepare a corporate income tax computation.

This question was generally quite well done. Common mistakes are as follows:

- Computed the foreign tax credit on a pooled basis despite the question stating that the company had neither elected nor qualified for FTC pooling.
- Failed to read the question requirements carefully and therefore applied an incorrect basis for the foreign tax credit computation.
- Did not provide sufficient workings to support the tax computation, with some Candidates making reference to workings that were not included in their answer scripts.

Candidates are reminded to present clear and complete workings, as these assist in demonstrating their understanding and may be awarded partial credit where appropriate.

Question 3

Part (a) required Candidates to comment on the income tax implications of various payments made by COPL from COPL's perspective. This question was generally quite well done.

Most Candidates were able to identify the tax treatment of interest expense, capital allowance on the acquisition of equipment, operating lease payments and hire purchase arrangements. Most Candidates also recognised that capital allowance is not available on equipment acquired under an operating lease.

Common mistakes are as follows:

- Not many Candidates commented on the tax treatment of the foreign exchange differences arising from the foreign currency denominated loan and lease payment.
- Some Candidates did not explicitly state that tax deduction is only available on the hire purchase interest.

- Some Candidates provided comments relating to withholding tax, GST and stamp duty despite the question specifically requiring only the income tax implications.

Part (b) required Candidates to comment on the withholding tax implications of various payments made by COPL. This question was generally quite well done.

Most Candidates were able to identify the relevant deeming provisions and correctly determine the withholding tax treatment of the interest payment, operating lease payment and payment made to the Singapore branch.

Some Candidates incorrectly applied a withholding tax rate of 10% instead of 15% on the operating lease payment as they referred to the wrong provision of the Income Tax Act.

Part (c) required Candidates to evaluate whether their answers to Part (b) would change under the Singapore–Finland tax treaty. Generally, this question was well attempted.

Most Candidates correctly identified that the withholding tax rates on the interest and lease payments would be reduced under the tax treaty and that withholding tax would not apply to payments made to the Singapore branch.

Some Candidates confused the concept of a permanent establishment and concluded that withholding tax would still apply because the payment was ultimately made to a non-resident company, notwithstanding that the payment was made to its Singapore branch.

Part (d) required Candidates to discuss the income tax implications of the given transactions. This question was not well done.

Most Candidates did not adequately apply the badges of trade to the case facts and instead provided general explanations without demonstrating why the sale of the shares and property was capital in nature.

Candidates should note that marks are awarded for applying the relevant tax principles to the facts provided rather than reproducing textbook knowledge.

Part (e) required Candidates to explain the stamp duty implications arising from the transfer of shares and industrial property. This question was not well attempted.

Most Candidates were not aware that the purchase of shares in a foreign company is not subject to buyer's stamp duty in Singapore. Some Candidates also failed to distinguish the stamp duty treatment applicable to the different transactions presented in the question.

Question 4

Part (a) required Candidates to discuss the income tax implications of the given transactions. This question was not well done.

A fair number of Candidates did not attempt the question. Common mistakes include failing to address the various forms of permanent establishment, the concept of "trading with" Singapore and the relevant deeming provisions. Some Candidates also discussed the GST implications instead of the income tax implications despite the question requirement specifically referring to income tax.

Part (b) required Candidates to discuss the income tax implications of setting up a subsidiary in Singapore. This question was not well done.

Some Candidates incorrectly concluded that tax residency is determined by the place of incorporation rather than the place where the control and management of the company is exercised. Some Candidates also failed to identify that the subsidiary was not eligible for the Start-up Tax Exemption Scheme as it was wholly owned by another company.

Part (c) required Candidates to explain the GST implications and registration requirements under the Overseas Vendor Registration (OVR) regime.

This question was reasonably well attempted. Most Candidates recognised that the OVR regime applied and were able to identify the relevant registration requirements.

However, many Candidates did not mention the 30-day application deadline or the Pay-Only regime. Only a handful of Candidates explained that N Co was not making taxable supplies of goods in Singapore. Some Candidates did not attempt the question.

Part (d) required Candidates to explain the GST implications and registration requirements under the normal GST registration rules.

Most Candidates who attempted the question were able to identify the correct GST treatment of the supplies and recognised that GST registration was required.

However, many Candidates did not mention the 30-day application deadline from the determination date. A number of Candidates also did not attempt this question, most likely due to insufficient time to complete the paper.