



Advanced Taxation Singapore (ATX SGP) December 2022 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

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General Comments

Format of exam

The examination consisted of a three-hour-15-minute exam containing two sections with all four questions being compulsory. In Section A, Question 1 carried 35 marks and Question 2 was for 25 marks, while in Section B, Questions 3 and 4 were for 20 marks each. Four professional marks were awarded in Question 1 for logical approach, appropriate presentation of the letter and effective communication.

This report should be used in conjunction with the published exam which can be accessed via the [ACCA website](#).

Approach and guidance

The purpose of the advanced taxation examination is to test candidates' ability to apply tax laws and principles, consider the different perspectives of employer and employee, client and tax adviser, taxpayer and tax authorities, in the context of the scenarios provided in each question.

The examining team would like to remind future candidates of the importance of studying all aspects of the syllabus, reading the tax technical articles published for candidates, and practise answering as many past exam questions as possible in preparation for the ATX SGP examination.

When answering the questions, candidates should not waste time addressing issues which have not been asked for. Marks are awarded for satisfying the requirements and not for other information even if they are technically correct. Similarly, there will be no marks available for simply copying out the facts of the question, which many did. Candidates must direct their minds to apply "what" they have learned to "why" or "how". Merely regurgitating what they have learned will earn them minimal marks, if any at all.

Successful candidates generally answered all questions in a satisfactory manner. However, where candidates did not perform, this was due to inadequate preparation, inability to apply tax principles, and not reading the requirements carefully, rather than due to pressure of time.

Out of the first two questions that command higher marks, candidates performed slightly better for Question 2 compared to Question 1. They appeared to find parts (b) and (c) in Question 1 the most challenging. Overall, the results were satisfactory for both questions. On the other hand, candidates fared better in Questions 3 and 4, particularly Question 4 which produced the best results.

Comments on individual questions

Question 1

Requirements

You should assume that today's date is 1 December 2022.

Prepare the letter as requested in the email from your manager. The following marks are available:

(a) Restructuring Exercise on 1 October 2020

(i) Individual income tax implications for Aaron and Louis (2 marks)

(ii) Stamp duty implications and any penalties for non-compliance (2 marks)

(b) Tax liability of Accounting Legal Holding Pte Ltd (ALHPL)

(i) Basis of assessment for the year of assessment 2022 (4 marks)

(ii) Compliance with the transfer pricing regulations (3 marks)

(c) Utilisation of loss items of Accounting Services Pte Ltd (ASPL) (11 marks)

(d) Legal Services Pte Ltd (LSPL)'s investment in Foreign Legal Services Limited (FLSL)

(i) Tax implications for LSPL upon receipt of the dividend from FLSL in Singapore (3 marks)

(ii) Corporate tax, goods and services tax (GST) and stamp duty implications arising from the potential purchase of the additional 15% stake in FLSL (6 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format, presentation and structure of the letter, the effectiveness with which the information is communicated and its logical flow.

(4 marks)

This was a 35-mark question testing candidates on a wide spectrum of tax issues encompassing corporate and personal income tax, stamp duty and Goods and Sales Tax (GST) issues arising from a proposed restructuring exercise and further acquisition of equity stakes of an investee company.

Candidates generally did well for parts (a) and (d). They scored well on the individual income tax and stamp duty implications tested in part (a). The majority were also able to identify the related tax issues arising from LSPL's investment in FLSL tested in part (d), although some erroneously concluded that either tax exemption or unilateral tax relief were available.

Parts (b) and (c) produced less than satisfactory results though. For part (c), a number of candidates lost precious marks when they either failed to identify the different possible options of utilising the loss items or to show the calculations of the tax savings from each option, when these are clearly stated in the requirements. Also, time was wasted in explaining the conditions for each method when these were again expressly stated as not required. For part (b), many candidates seem to be unfamiliar with the difference between the "cost plus mark-up" and "normal trading company" bases of assessment, as evident from their answer scripts.

Question 2

<p>Requirements</p> <p>You should assume that today's date is 1 December 2021.</p> <p>Carry out the work as requested in the email from your manager. The following marks are available:</p> <p>(a) Corporate tax issues relevant to Basic Trading Private Limited (BTPL) (7 marks)</p> <p>(b) Tax computation of Sharon for years of assessment (YAs) 2022 and 2023 (12 marks)</p> <p>(c) Tax planning for Sharon (6 marks)</p>

This was a 25-mark question testing candidates on the corporate tax implications for companies who employ foreign employees and the individual tax and stamp duty implications for a foreign individual working in Singapore and contemplating buying a residential property.

Overall, the results were mixed with candidates performing slightly better in the computations in part (b), relative to parts (a) and (c).

Some common mistakes included:

- erroneously stating that the deemed exercise rule will be applicable when there is no taxable gain for part (a)
- not explaining the resident status of Sharon for part (b)
- wrongly concluding that additional buyer's stamp duty cannot be reduced for part (c)

Question 3

Requirements

- (a) Determine the value of standard-rated, zero-rated and exempt supplies made by First Chance Properties Pte Ltd (FCPPL) during the quarter ended 30 September 2021, from the six GST supplies noted in the exhibit.**
(4 marks)
- (b) Explain the input tax general rules when determining the amount of input tax claimable. For input tax incurred in respect of each of the six expenses by FCPPL during the quarter ended 30 September 2021, explain whether they are claimable.**
(8 marks)
- (c) Compute the total input tax claimable by FCPPL during the quarter ended 30 September 2021.**
(4 marks)
- (d) Explain whether FCPPL will be subject to reverse charge in respect of the design services in December 2021.**
(4 marks)

This was a 20-mark question split into four parts with part (a) being a purely computational question based on different types of supplies for an investment holding company. Part (b) required candidates to discuss the input tax rules to ascertain the amount of input tax claimable and required candidates to mention the de minimis rule whilst part (c) involved a calculation based on this rule. Part (d) required candidates to explain whether the company would be subject to the reverse charge in respect of its design services.

This question was well attempted with most candidates scoring the majority of the marks in parts (a), (b) and (d) on the correct classification of the different taxable supplies and the input tax claimable. Part (d) posed a challenge with many scripts showing the lack of understanding of how reverse charge works.

Question 4

Requirements

(a) Discuss whether the foreign-sourced income remitted from the three countries qualifies for tax exemption under the foreign-sourced income exemption regime in Singapore.

(6 marks)

(b) Compute UTPL's minimum income tax liability for the year of assessment (YA) 2022, assuming it makes the most tax-efficient election for foreign tax credit pooling, if applicable.

(10 marks)

(c) Briefly discuss how your answer to part (b) will differ if UTPL is not regarded as a tax resident of Singapore for YA 2022.

(4 marks)

This was a 20-mark question that required candidates in part (a) to discuss whether foreign-sourced income from three different countries would qualify for tax exemption. In part (b) candidates were required to compute an income tax liability using a tax efficient election for foreign tax credit pooling and in part (c) there was a brief discussion of a scenario where one of the companies was not regarded as tax resident in Singapore.

This was the best attempted question as reflected in the high pass rate.

Candidates scored very well in part (a) regarding the application of the exemption rules under the foreign source income exemption regime, with a number scoring the maximum six marks available.

In comparison, the results for parts (b) and (c) were less pleasing.

Only a handful of candidates were able to get the calculations on the tax relief under the foreign tax credit pooling method completely right. For part (c), only a few candidates supported their answers with a brief calculation of how the tax will differ if the company is not regarded as a tax resident of Singapore.

Conclusion

Accountants require a comprehensive working appreciation of a range of tax issues. The ATX-SGP exam requires candidates to identify and explain the principles used in their calculations and provide cogent answers in response to the questions set.

The exam tests a wide range of issues commonly encountered in business operations. A skilful application of tax principles learned is key to doing well in this exam.

ATX-SGP will continue to encourage a comprehensive understanding of tax issues within the business environment.