PP

Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

28 December 2020

Taxation

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **TWENTY-FOUR (24)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. Assume that all dollar amounts are in Singapore dollar (S$) unless otherwise stated.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. This examination paper and all video recordings of this examination are the property of the Singapore Accountancy Commission.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

SINGAPORE ACCOUNTANCY COMMISSION

Examplify Question Number	Pre-exam instructions
1	**Instructions on Question Paper and Appendices, if any:** i. Download the document(s) via this link - https://bit.ly/3oU9kWT ii. These file(s) is/are to remain on your desktop throughout the entire exam. iii. Printing of the Question Paper is only allowed at the start of the exam and via a printer located in the same room. iv. If you are unable to download the document(s) via the link provided above or if you have been provided with incorrect file(s) for the exam, please contact SAC at (a) 6325 0515; (b) 6325 0535; or (c) 6325 0529. v. If you need to go for toilet breaks, please mention "toilet break" to the webcam.

Goods and Services Tax

Standard rate	7%
Compulsory Registration threshold	$1 million

Stamp Duty

Category	**% rates payable on the amount of value of consideration**
a. Conveyance, assignment, or transfer of immovable non-residential properties	
- Up to the 1st $180,000	1%
- Up to the next $180,000	2%
- Over $360,000	3%
b. Conveyance, assignment, or transfer of stocks or shares	0.2% of the higher of the net asset value or the consideration
c. Mortgage of stocks, shares or immovable properties	0.2% or 0.4% up maximum duty of $500
d. Gift of immovable non-residential properties	Same as a.
e. Gift of stocks and shares	Same as b.
f. Lease of immovable properties	
- Annual rent and other consideration calculated is $1,000 and below	Exempt
- Annual rent and other consideration calculated exceeds $1,000	Lease period of 4 years or less: 0.4% of total rent for the period of the lease
	Lease period of more than 4 years (or for an indefinite term): 0.4% of 4 times the average annual rent for the period of the lease

Corporate Income Tax Rate

Year of Assessment 2020	17%

Partial Tax Exemption	**$**
First $10,000 of chargeable income is 75% exempt	7,500
Next $190,000 of chargeable income is 50% exempt	95,000
Total	102,500

Start-up tax exemption	
First $100,000 of chargeable income is 75% exempt	75,000
Next $100,000 of chargeable income is 50% exempt	50,000
Total	125,000

Note: There is a 25% corporate tax rebate capped at $15,000 for YA 2020

Withholding tax rates

Nature of income	% rates payable
Interest and other payments in connection with loan or indebtedness	15%
Royalty or other lump sum payments for the use of, or the right to use, movable properties	10%
Payment for the use of, or the right to use, scientific, technical, industrial, or commercial knowledge or information	10%
Technical assistance and service fees	Prevailing Corporate Tax rate
Management fees	Prevailing Corporate Tax rate
Rent or other payments for the use of movable properties	15%
Payment to Non- Resident Director	22%
Non-resident professional	15% of gross or 22% of net

Non-residential property tax

Non-residential buildings and land are taxed at 10% of the annual value.

Personal Income Tax Rates for the Year of Assessment 2020 (Resident)

Chargeable Income	Rate (%)	Gross Tax Payable ($)
First $20,000 Next $10,000	0 2.0	0 200
First $30,000 Next $10,000	- 3.5	200 350
First $40,000 Next $40,000	- 7.0	550 2,800
First $80,000 Next $40,000	- 11.5	3,350 4,600
First $120,000 Next $40,000	- 15.0	7,950 6,000
First $160,000 Next $40,000	- 18.0	13,950 7,200
First $200,000 Next $40,000	- 19.0	21,150 7,600
First $240,000 Next $40,000	- 19.5	28,750 7,800
First $280,000 Next $40,000	- 20.0	36,550 8,000
First $320,000 Above $320,000	- 22.0	44,550

Personal Income Tax Rates for the Year of Assessment 2020 (Non-resident)

General Rate: 22%

Section 40B Relief for Non-resident Employees

Tax payable on the Singapore employment income of a non-resident individual is calculated at a flat rate of 15% or on a resident basis, whichever results in a higher tax amount.

Central Provident Fund (CPF)

Contributions for individuals of ages 55 years or below and earning at least $750 per month.

Rates of CPF contributions (effective from 1 January 2016 onwards)

Employee	20%
Employer	17%

Maximum monthly ordinary wages (OW) attracting CPF	$6,000
Maximum annual ordinary wages (OW) attracting CPF	$72,000
Maximum annual additional wages (AW) attracting CPF	$102,000 less OW subject to CPF

Mandatory Medisave contributions of a self-employed person with annual s10(1)(a) assessable income of above $18,000

Below 35 years of age	8%; $5,760 (max)
35 to below 45 years of age	9%; $6,480 (max)
45 to below 50 years of age	10%; $7,200 (max)
50 years of age and above	10.5%; $7,560 (max)

Personal Income Tax Reliefs for the Year of Assessment 2020

With effect from YA 2018, the overall personal income tax relief available to resident individuals, as detailed below, will be capped at $80,000.

Earned income

Age	Normal (able-bodied) maximum	Handicapped maximum
Below 55 years	$1,000	$4,000
55 to 59 years	$6,000	$10,000
60 years and above	$8,000	$12,000

Other reliefs

Spouse relief	$2,000
Handicapped spouse relief	$5,500
Qualifying child relief (per child) (QCR)	$4,000
Handicapped child relief (per child) (HCR)	$7,500
Handicapped sibling relief (per sibling)	$5,500
Parent relief - Staying with dependant - Not staying with dependant	 $9,000 $5,500
Handicapped parent relief - Staying with dependant - Not staying with dependant	 $14,000 $10,000
Working mother's child relief (WMCR) • First child • Second child • Third and subsequent child • Maximum cumulative WMCR • Maximum relief per child (including QCR/HCR)	% of mother's earned income 15% 20% 25% 100% $50,000
Grandparent caregiver relief	$3,000
Life assurance relief	$5,000 (max)
Voluntary CPF contribution of self-employed	Tax relief will be capped at the lower of: • 37% of net trade income assessed; or • CPF relief cap of $37,740; or • Actual amount contributed in basis period.
Course fee relief	$5,500 (max)
Foreign domestic worker levy relief • Up to 31 March 2019 • Effective from 1 April 2019	 $6,360 (max) $7,200 (max)
Supplementary Retirement Scheme • Singapore citizens and PRs • Foreign citizens	 $15,300 (max) $35,700 (max)

National Service Man (NSman) relief

	Normal appointment	Key appointment holder
Active NSman	$3,000	$5,000
Non-active NSman	$1,500	$3,500
Wife/widow/parent of NSman	$750	$750

Question 1 – (a) to (f)

ABC Pte Ltd (ABC) is a company incorporated and tax resident in Singapore. Its financial year end is 31 December. ABC borrowed $10 million on 1 January 2019 from an unrelated lender, UK Co, a company which is incorporated and tax resident in the United Kingdom. The borrowed funds were brought into Singapore and used by ABC for its working capital. The interest charged by UK Co on the loan given to ABC is 5% per annum. The interest is due and payable each year on 31 December under the loan agreement, but payment is only made on 30 January of the following year. The loan is also guaranteed by the parent company of ABC, US Co, which is incorporated and tax resident in the United States. US Co has no presence in Singapore. ABC pays a guarantee fee of $200,000 to US Co on 31 December each year.

An excerpt of Article 11 of the Singapore-United Kingdom double taxation agreement is as follows:

1. *Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.*

2. *However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the recipient is the beneficial owner of the interest the tax so charged shall not exceed 5 per cent of the gross amount of interest.*

As part of its software business operations, ABC makes payments to China Co, a company incorporated and tax resident in China. There are two types of payments.

The first type of payment is for end user licence to access financial information for ABC's internal use. The information is used by ABC's finance and corporate planning departments to access real-time financial data for financial planning, budgeting and forecasting purposes.

The second type of payment to China Co is for the access to proprietary software codes belonging to China Co. ABC uses the proprietary codes of China Co to produce software programs that are sold to customers. China Co intends to issue ABC an invoice of $300,000 annually. The invoice of $300,000 includes $30,000 which is attributable to off-site support services which is provided remotely by China Co in China. However, this $30,000 will not be separately shown on the invoice.

Mr Edwin Logan, aged 45, is an expatriate who has been seconded from the headquarters of ABC in the United Kingdom (UK) to work as a General Manager of ABC for 2 years. He arrived in Singapore on 15 February 2019 and commenced his employment with ABC on 1 March 2019. Edwin's family, comprising his wife and 2 children, joined him in Singapore on 20 February 2019. Edwin's wife did not work in Singapore in year 2019. His 2 children, aged 8 and 10, attended an international school in Singapore. Edwin was provided with the following remuneration package in year 2019:

Mr Edwin Logan's remuneration package	**2019**
Salary and bonus	$220,000
Service apartment provided from 15 February to 28 February 2019	$3,000
Rental of accommodation (from 1 March 2019)	$6,000 per month; Rent paid by ABC per month = $5,000; Rent paid by employee per month = $1,000; Annual value of property = $25,000
Relocation allowance	$15,000
New car provided for Edwin's use	Cost of car = $200,000; PARF* rebate = $30,000; Actual running and maintenance costs = $12,000
Children's school fees	$20,000 per child
Personal insurance policy paid by ABC (employee is policyholder)	$6,000
Group medical insurance policy for employee and his family (available to all employees)	$3,000
Other income:	
Foreign dividends received in 2019	$10,000
Foreign interest received in 2019	$5,000
Interest from deposits with a Singapore bank, DBS Ltd, earned in 2019	$3,000

*PARF – Preferential Additional Registration Fee

Examplify Question Number	Question 1 required:
2	**(a)** If the loan agreement states that the withholding tax is to be borne by ABC, calculate the tax to be withheld by ABC on the interest payment made to **(i)** a country which does not have a tax treaty with Singapore; and **(ii)** UK Co. **(4 marks)**
3	**(b)** Assume ABC realised on 12 June of the year in which payment was made that it has failed to withhold tax on the interest payment. If ABC settled the withholding tax on 12 June, calculate the late payment penalties applicable for **(a).** **(5 marks)**
4	**(c)** Advise on whether tax is required to be withheld on the guarantee fee and, if applicable, calculate the amount of the withholding tax. **(3 marks)**
5	**(d)** Advise on whether the first and second types of payments made by ABC to China Co are subject to Singapore withholding tax under the Singapore domestic tax law. There is no need to consider the Singapore-China tax treaty. **(4 marks)**
6	**(e)** For the second type of payment, suggest how any applicable withholding tax may be mitigated. **(5 marks)**

Examplify Question Number	Question 1 required:
7	**(f)** Compute Mr Edwin Logan's personal income tax liability for the Year of Assessment 2020. Show all workings.
	(12 marks)
	(Total: 33 marks)

Question 2 – (a), (b) and (c)

XYZ Pte Ltd (XYZ), a company incorporated in Singapore, is the ultimate holding company of a group of companies in Singapore and its principal activity is the manufacturing of heavy equipment. XYZ is tax resident in Singapore with a 31 December accounting year-end.

In the financial year ended 31 December 2019, XYZ acquired the following:-

i. the entire shares of an unrelated Singapore incorporated and tax resident company for $50 million in cash consideration;
ii. a non-automated industrial processing machine for $18 million and computer software for $1,000,000 (it has not incurred expenditure on other qualifying assets in prior years); and
iii. intellectual property rights (IPR) for $50 million which are used in its business.

Assume that the conditions required for making claims in respect of the above are met.

Additionally, XYZ has two Singapore incorporated and tax resident subsidiary companies, Subsidiary A Co and Subsidiary B Co, which have incurred current year tax losses of $300,000 and $500,000 respectively. XYZ owns 65% of the ordinary shares of Subsidiary A Co and 80% of the ordinary shares in Subsidiary B Co. XYZ, Subsidiary A Co and Subsidiary B Co have the same financial year end.

XYZ's net income tax payable was in excess of $120,000 for each of the past 5 years of assessment.

On 15 January 2020, there was a change of shareholdings in XYZ as follows:

	Shareholdings as at 31 December 2019 (%)	Shareholdings as at 15 January 2020 (%)
Mr W	25	15

Mr X	20	10
Mr Y	25	15
Mr Z	30	15
Company A	-	20
Company B	-	25

Assume that the shareholdings of XYZ since its incorporation has remained the same and the only change took place on 15 January 2020 as shown above.

Examplify Question Number	Question 2 required:
8	**(a)** If XYZ's adjusted profit for the Year of Assessment 2020 is $20 million, calculate XYZ's tax liability if it maximises its tax-related claims. **(11 marks)**
9	**(b) (i)** XYZ expects that it may have minimal profits or even incur losses for the next 2 years, and thereafter become profitable again. It foresees that it may not be able to meet the conditions for carry forward of unabsorbed allowances within the next 2 years. Assume that the waiver of shareholding test is not likely to be given, advise what XYZ could do to mitigate the risk that any future unabsorbed allowances may be forfeited in respect of its capital expenditure incurred in financial year 2019 as described above. **(3 marks)**

Examplify Question Number	Question 2 required:
10	**(b) (ii)** Assume there is no change in XYZ's trade since its incorporation, and XYZ has unabsorbed allowances of $2 million arising in Year of Assessment 2020. Advise what tax planning XYZ can do to reduce its overall tax burden either for the current year, or for prior years. What is the maximum tax savings that can be realised? Comment if there has been a substantial change in shareholdings for this purpose. **(2 marks)**
11	**(c)** XYZ received in Singapore in the financial year 2019 foreign-sourced interest, dividends and royalties from Country X. The amounts of the income (before foreign tax) are $350,000, $400,000 and $300,000 respectively. Under the tax treaty between Singapore and Country X, the above income was subject to withholding tax rates of 15%, 20% and 20% respectively. Assume XYZ's adjusted profit net of all allowances is $5 million for the Year of Assessment 2020. The headline tax rate in Country X is 25%. Compute the most tax-efficient claim of foreign tax credits that XYZ can claim in the Year of Assessment 2020. Please show all workings. **(10 marks)** **(Total: 26 marks)**

Question 3 – (a), (b) and (c)

SingCo is the ultimate parent company of a Singapore headquartered group that owns subsidiaries in Singapore as well as overseas.

SingCo intends to embark on a restructuring exercise where certain companies in the group will be re-positioned within the group. While some parts of the restructuring exercise will fully involve the local Singapore companies, other parts of the restructuring will involve the foreign subsidiary companies.

SingCo currently wholly owns the ordinary shares in a foreign company, FCo, whose principal activity is the manufacturing of equipment, since 3 years ago. For one part of the restructuring exercise, SingCo intends to transfer the shares of FCo to a wholly owned Singapore subsidiary, SingCo 2. There is also the intention to move other foreign companies to SingCo 2 and as a result, SingCo 2 may wholly own shares in multiple companies.

An excerpt of the Singapore-Indonesia double taxation agreement is as follows:

Article 5 – Permanent establishment
1. For the purposes of this Agreement, the term "permanent establishment" means a fixed place of business through which the business of the enterprise is wholly or partly carried on.

2. The term "permanent establishment" shall include especially:
(a) a place of management;
(b) a branch;
(c) an office;
(d) a factory;
(e) a workshop;
(f) a farm or plantation;
(g) a mine, an oil or gas well, a quarry or other place of extraction of natural resources;
(h) a building site or construction, installation or assembly project which exists for more than 183 days;

(i) the furnishing of services, including consultancy services, by an enterprise through an employee or other person (other than an agent of an independent status …) where the activities continue within a Contracting State for a period or periods aggregating more than 90 days within a twelve-month period.

3. The term "permanent establishment" shall not be deemed to include:
(a) the use of facilities solely for the purpose of storage or display of goods or merchandise belonging to the enterprise;
(b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage or display;
(c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
(d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or for collecting information for the enterprise;
(e) the maintenance of a fixed place of business solely for the purpose of advertising, for the supply of information, for scientific research or for similar activities which have a preparatory or auxiliary character, for the enterprise.

Article 7 – Business Profits

1. The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

Article 10 - Dividend

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the law of that State, but

if the recipient is the beneficial owner of the dividends the tax so charged shall not exceed:
(a) 10% of the gross amount of the dividends if the recipient is a company which owns directly at least 25% of the capital of the company paying the dividends;
(b) 15% of the gross amount of the dividends in all other cases.

The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of these limitations.

The provisions of this paragraph shall not affect the taxation of the company on the profits out of which the dividends are paid.

SingCo is a Goods and Services Tax (GST) registered business. SingCo, as the ultimate parent company, has incurred certain data analysis expenses for its group of companies, including SingCo 2. SingCo procured the data analysis service from a Singapore service provider and is charged GST for the data analysis service. SingCo intends to recover the proportionate cost from SingCo 2, as well as the rest of the group of companies that received and benefited from the service.

In addition, SingCo also provided a service to SingCo 3, a wholly owned Singapore subsidiary company. The service took the form of SingCo paying on behalf of SingCo 3 the charges levied by Accounting & Corporate Regulatory Authority (ACRA) for SingCo 3's change of company name. SingCo charged SingCo 3 a service fee for the service provided, in addition to recovering the payment made to ACRA from SingCo 3.

Examplify Question Number	**Question 3 required:**
12	**(a)** Discuss all Singapore income tax issues that are relevant for the transfer of the ordinary shares in FCo from SingCo to SingCo 2. **(8 marks)**

Examplify Question Number	Question 3 required:
13	**(b)(i)** If FCo is a Singapore company instead, what **other type of** tax would be relevant, and state if it is possible to mitigate this **other type of** tax exposure. **(3 marks)**
14	**(b)(ii)** After the restructuring, FCo will pay SingCo 2 a dividend. Assume FCo is a company incorporated and tax resident in Indonesia and carries on an active business (through its employees) which is profitable, and those profits are subject to Indonesian income tax. Comment on the taxability of the dividends received by SingCo 2 in Singapore. Based on the information provided, state also the rate at which Indonesian tax is withheld on the dividends paid by FCo. Assume that under Indonesia's domestic tax laws: (1) the withholding tax rate for dividends paid to non-residents is 20%; and (2) the profits out of which the dividends are paid are also taxed at the company level. **(6 marks)**
15	**(b)(iii)** Assume that SingCo provides certain consulting services to FCo which is incorporated and tax resident in Indonesia. Based on the tax treaty between Singapore and Indonesia, discuss whether SingCo has an income tax exposure in Indonesia if its employees physically spend time in Indonesia to perform those services. **(4 marks)**

Examplify Question Number	Question 3 required:
16	**(b)(iv)** SingCo will invoice FCo for the consulting services referred to in **(b)(iii)** above that were provided to FCo in Indonesia. Discuss the GST implications in relation to the invoice issued to FCo if SingCo is registered for Singapore GST. **(2 marks)**
17	**(c)** Comment on whether SingCo should charge GST on the recovery of expenses from SingCo 2 and SingCo 3. **(2 marks)** **(Total: 25 marks)**

Question 4 – (a), (b) and (c)

EZ Co is a company incorporated and tax resident in Singapore. It is the ultimate parent company of a regional group of companies with presence in the Asia Pacific region.

EZ Co has been rapidly expanding its operations in recent years. It has been looking to set up new companies and branches in various countries. It has also been reviewing its holding structures and looking to streamline the group structure to make it more tax efficient. It is also exploring tax efficient ways to capitalise or finance the new subsidiary companies and branches so that they have funds for their operating activities.

As a result of the expansion of the group, its turnover has exceeded S$1.125 billion in the preceding financial year.

EZ Co is aware that in recent years, there have been changes in the global tax environment. For Singapore headquartered groups operating globally or regionally, there have been additional tax reporting and compliance obligations due to new tax rules being introduced.

With this tax reporting, there has also been heightened risk that profits booked in low tax or no tax jurisdictions may come under greater scrutiny by various tax authorities in the world. EZ Co is keen to avoid such scrutiny and ensure that it is not faced with such risks. EZ Co is also concerned that the tax planning strategies it adopts may be regarded as tax avoidance, or even tax evasion.

Extracted from the article “Tax trouble brews for Starbucks, Apple as Europe takes aim at taxes”[1].

“Multinationals have come under fire yet again over their tax arrangements in some European countries, as the continent moves closer to a pan-European regime to combat tax avoidance.
The Commission has already launched in-depth tax probes into large companies they suspect of trying to avoid paying tax. In June, the Commission said EU tax probes on the low-tax arrangements – or “sweetheart deals” as they are known – of Apple, Amazon and Starbucks in some member states were at an “advanced stage”.”

EZ Co has approached you to advise on the following questions.

[1] www.cnbc.com/amp/2015/09/12europe-takes-aim-at-tax-deals-for-multinations.html

Examplify Question Number	Question 4 required:
18	**(a)** Discuss **TWO** key advantages that the Singapore tax resident company (assume that it has been incorporated for more than 3 years) has over a Singapore branch of a foreign company from a Singapore tax perspective, in respect of the taxability of foreign income received in Singapore. **(4 marks)**
19	**(b)(i)** Briefly discuss **TWO** key tax aspects or attributes that make Singapore a good location to incorporate a holding company for holding subsidiary companies in the region. **(2 marks)**
20	**(b)(ii)** EZ Co borrows funds from external lenders and incurs interest expense. EZ Co would like to use the borrowed funds to provide financing to its local subsidiary company for working capital. Discuss the tax implications on the deductibility of the interest expense if EZ Co were to do so by equity investment (i.e. subsidiary company issue shares to EZ Co) or debt financing (i.e. by giving interest-free or interest-bearing loans to the subsidiary company). **(5 marks)**

Examplify Question Number	Question 4 required:
21	**(c)** Referring to the article on the changes in the global tax environment in recent years, discuss how these changes or measures would affect Singapore headquartered companies such as EZ Co. In your discussion, include relevant tax issues and implications to reporting requirements that EZ Co would potentially face.
	(5 marks)
	(Total: 16 marks)

END OF PAPER

