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Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

10 December 2018

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-ONE (21)** pages (including this instruction sheet and the tax rates appendix). 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 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. This examination paper is the property of the Singapore Accountancy Commission.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS
SINGAPORE ACCOUNTANCY COMMISSION

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 to 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 2018	17%

Partial Tax Exemption	$
First $10,000 of chargeable income is 75% exempt	7,500
Next $290,000 of chargeable income is 50% exempt	145,000
Total	152,500

Start-up tax exemption	
First $100,000 of chargeable income is 100% exempt	100,000
Next $200,000 of chargeable income is 50% exempt	100,000
Total	200,000

Note: There is a 40% corporate tax rebate capped at $15,000 for YA 2018

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% (20% prior to Year 2016)
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 2018 (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

Note: There is no tax rebate for resident individuals for YA 2018

Personal Income Tax Rates for the Year of Assessment 2018 (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) – from 1 January 2017 to 31 December 2017

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

Rates of CPF contributions

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 2018
(Total personal reliefs 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	Capped at $37,740 or 37% of s10(1)(a) assessable income or actual amount contributed by the taxpayer, whichever is lower
Course fee relief	$5,500 (max)
Foreign domestic worker levy relief	$6,360 (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), (b) and (c)

You are a tax advisor specialising in Singapore individual income tax, and have recently received the following cases:

Question 1 (a)

John is a 40-year-old Singapore citizen. He is single and stays at his mother's HDB flat. His father has passed on, and his mother turned 65 in 2017. John has been working in various roles involving Information Technology in a Multinational Company since he graduated from university. John has always e-filed his individual income tax returns and has never had to input any additional income in his online returns as he has never taken on any other work outside of his employment. Furthermore, he has not had to key in any additional reliefs or claims other than those already included in the online form. John regularly attends an annual conference for Information Technology professionals for which he paid a yearly fee of $3,000 out of his own pocket as his company does not have a budget for such external seminars. His total contributions to CDAC, an approved Institution of a Public Character, amount to $24 per year. He is not a key appointment holder for National Service and is also no longer required to be called up for in-camp training.

John's friend runs a small firm dealing with Information Technology products and services. His friend asked him to quit his current job and invited him to join his friend's company as a manager. As the company is a small family run business, there are only 10 employees and there is no standard remuneration package applicable.

John's friend has informed him that his annual compensation package is $90,000. John can choose a compensation structure based on either a fixed monthly salary of $7,500 over 12 months, or a $5,625 fixed monthly salary over 12 months with a bonus equivalent to 4 months of his monthly salary to be paid at the end of the calendar year. The 4-month bonus component will be stipulated in the employment contract so John will not need to worry that the bonus component is variable.

John has asked for your advice if there is any tax advantage in selecting either the fixed monthly salary compensation package or the fixed monthly salary plus bonus compensation package. He would also like to ascertain what his expected tax liability for the Year of Assessment 2019 will be, assuming he commences work at his friend's company on 1 January 2018.

Examplify Question Number	Question 1 required:
1	**(a)** Advise John as to which remuneration package is more tax beneficial and compute his expected tax liability for the Year of Assessment 2019 based on the more tax efficient remuneration package. Assume that the tax laws for the Year of Assessment 2019 are the same as those for the Year of Assessment 2018. **(12 marks)**

Question 1 (b)

The Human Resource (HR) manager of an SME has approached you for advice on tax matters concerning a selected group of employees who will be retrenched due to the loss of several key customers and subsequent downsizing of the business. The HR manager has drawn up a list of compensation items which will make up the retrenchment package given to the staff, and has asked for your advice on which items are taxable or not taxable in the hands of the employees, in order for the HR manager to inform the affected employees.

The list will contain the following items for all employees affected:

1. Salary;

2. Payment in lieu of notice of termination;

3. Pro-rated 13th month pay;

4. Compensation for loss of employment (1 month for each year of service, capped at 12 months); and

5. Unconsumed leave pay.

Examplify Question Number		
2	**(b)**	Advise the HR manager if each item is taxable or not taxable when received by the affected employees, stating your reason(s). **(5 marks)**

Question 1 (c)

The HR manager of a Singapore incorporated company is seeking your advice on the requirement to obtain tax clearance from IRAS for staff employed in Singapore who will be sent overseas to China and India for short term assignments ranging from one month to six months' duration. Her assertion is that these staff members will still be employed by the Singapore company and their services are for the benefit of the Singapore company as their roles are to manage projects in China and India which were subcontracted by the China and India subsidiaries to the Singapore company. The Singapore staff are not seconded to the subsidiaries in China and India. The staff members sent to these subsidiaries include Singapore citizens, Singapore permanent residents and foreigners on a Singapore work pass.

Examplify Question Number		
3	**(c)**	Advise the HR manager on the tax clearance responsibilities of the Singapore company as an employer, and the responsibilities of the employer in reporting the earnings of the employees affected by tax clearance. **(8 marks)**
		(Total: 25 marks)

Question 2 – (a), (b) and (c)

Project Advisory Pte Ltd (PA) is a Singapore incorporated company resident in Singapore and is in the business of managing projects for its customers. Several years ago, PA identified potential customers in Country Z who were keen on engaging PA's expertise. However, due to local content requirements imposed by Country Z which requires customers in Country Z to contract with a local subsidiary in Country Z, PA set up a wholly owned subsidiary, PA (Z) Co Ltd (PAZ), in Country Z to service these customers. PAZ is a resident of Country Z. Sales to customers in Country Z are reflected in the financial accounts of PAZ and PAZ has hired local employees in Country Z to provide the required services.

Although PA's sales in Singapore has been growing during the past few years, profitability has not been growing at the same rate due to rising costs. To take advantage of the comparatively lower wages of project advisory professionals in Country Z, PA is contemplating subcontracting routine project management work for projects with its Singapore customers to PAZ.

While a major part of the subcontracted work performed by PAZ for PA is performed in Country Z, PAZ will periodically send its staff to Singapore for meetings with customers in connection with the subcontracted work, and for PAZ's staff to receive training from PA. Country Z has an Avoidance of Double Taxation Agreement (DTA) with Singapore, and the following is an excerpt from the DTA pertaining to permanent establishment:

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 an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially:
   a) a place of management;
   b) a branch;

c) an office;
d) a factory;
e) a workshop; and
f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. The term “permanent establishment” also encompasses a building site, a construction, assembly or installation project or supervisory activities in connection therewith, but only if such site, project or activities last more than six months.

4. The furnishing of services, including consultancy services, by an enterprise of a Contracting State through employees or other personnel engaged by the enterprise for such purpose constitutes a permanent establishment only if activities of that nature continue (for the same or a connected project) within the other Contracting State for a period or periods aggregating more than 183 days in any twelve-month period commencing or ending in the fiscal year concerned.

PAZ has been profitable since its incorporation, and there are substantial revenue reserves and cash reflected in its balance sheet. PA intends for PAZ to declare a dividend to PA. Country Z’s domestic withholding tax rate on dividends to an overseas holding company is 10%. Country Z’s DTA with Singapore provides that the withholding tax on dividends does not exceed 15%.

The headline corporate tax rate of Country Z is under 15% and accordingly, the dividend from PAZ will not meet the conditions for tax exemption in Singapore if the dividend is received in Singapore. The Finance manager has asserted that if the dividend is kept offshore and used for payment to PAZ for the routine project management work subcontracted to the subsidiary, the dividend will not be subject to tax in Singapore.

Examplify Question Number	**Question 2 required:**
4	**(a)** For the routine project management work to be subcontracted by Project Advisory Pte Ltd to PA (Z) Co Ltd, advise on the Singapore income tax and transfer pricing implications that need to be considered for the proposed transaction. **(10 marks)**
5	**(b)** For the subcontracted work to PA (Z) Co Ltd, Project Advisory Pte Ltd intends to send a few of its senior level management staff to Country Z for more than 6 months to manage the project. Advise on the income tax implications of this arrangement for Project Advisory Pte Ltd and suggest any possible arrangement to mitigate the tax risk. **(4 marks)**
6	**(c)** **(i)** State, with reason, the appropriate Country Z withholding tax rate for the dividends to be paid by PA (Z) Co Ltd.
	(ii) Discuss the validity of the Finance manager's assertion that the dividends will not be subject to Singapore tax if retained in Country Z and used for payment to PA (Z) Co Ltd for the subcontracted work. You are <u>not</u> required to discuss any issues relating to reliefs from double taxation. **(6 marks)** **(Total: 20 marks)**

Question 3 – (a) and (b)

BCC Pte Ltd (BCC) is a Singapore incorporated company and its principal activities are the provision of consultancy services and corporate training services.

BCC invested in a 40% stake in the ordinary shares of a start-up company, OT Pte Ltd (OT), which manages an online platform to provide training to subscribers for a fee. The management of BCC was convinced that the stake in OT will facilitate cross-selling of its corporate training services on OT's online platform and OT will benefit from additional training content on its platform. In addition, OT was profitable and was projected to substantially increase its net profit after tax for the next few years. The management of BCC assumed that BCC will benefit from the dividend income from OT in the coming years, although the dividend payout was neither documented in the sale and purchase agreement nor in any written document. BCC also planned to list OT's shares on the Singapore Stock Exchange via an Initial Public Offering (IPO) after 5 years, which would provide further benefits in holding shares in OT.

This was BCC's first investment in a company and a directors' resolution was passed to acquire the 40% investment in OT based on the above strategic benefits. However, BCC had an issue with cash flow because several of its key customers had yet to settle their invoices which amounted to a few hundred thousand dollars. As such, BCC had to take up a short term loan in order to finance the acquisition of the 40% investment in OT.

Subsequently, BCC's corporate training programmes were sold on OT's online platform. After a period of time, the management of BCC realised that BCC's online corporate training programmes were not selling well on OT's online platform. This was because OT was promoting its own training courses on its platform, which were gaining popularity while BCC's online training was neither featured nor promoted on OT's website. OT had also not paid any dividends since BCC invested in its shares, and it was communicated to the management of BCC that the plan for OT's IPO had to be shelved permanently due to a change in strategic direction by the major shareholders of OT.

A new business opportunity was presented to BCC's management in the form of a trading business. BCC required funds to purchase inventory for this new business. BCC's management decided to exit the investment in OT and sell its investment in OT back to the existing shareholders of OT. This would allow BCC to redeploy its funds from the divestment to the new trading business as well as to pay off the short term loan.

OT made substantial profits during the time when BCC was its shareholder, so the management of BCC negotiated for a sale price for the shares higher than its investment cost. Due to the protracted negotiations, the sale of the shares in OT took place in several tranches.

The following is a timeline of all the events and key transactions that have taken place:

- **15 June 2016** – BCC paid $250,000 for 40,000 ordinary shares in OT, and stamp duty was borne by BCC. BCC managed to negotiate for this purchase price as OT had difficulty finding suitable investors at that point in time. As at the date of BCC's purchase of the shares, OT's total assets and liabilities were $800,000 and $100,000 respectively and its share capital comprised 100,000 ordinary shares of $1 each that were fully paid. BCC took a short term loan of $200,000 to partly finance the acquisition, with the remaining purchase cost financed from its existing cash reserves.

- **26 May 2018** – BCC disposed of 10,000 ordinary shares of OT at $7.50 per share. The proceeds were used to pay off part of the short term loan.

- **6 July 2018** – BCC sold a further 15,000 ordinary shares of OT at $7.75 per share. The proceeds were used to pay off another part of the short term loan.

- **8 August 2018** – BCC sold the remaining 15,000 ordinary shares of OT at $7.75 per share. Part of the proceeds were used to pay off the remaining short term loan, and the balance was earmarked to fund the new trading business.

Total legal fees incurred by BCC for the sale of the OT shares across the 3 tranches amounted to $3,000. The total interest incurred on the short term loan amounted to $18,500.

BCC has been in a tax-paying position for the past few years. It is almost certain to generate approximately $800,000 in profits for the coming year ending 31 December 2018. BCC's tax liability is at the prevailing corporate tax rate of 17%.

The management of BCC comprises of 3 individuals who are also the shareholders of BCC. They were aware of the tax exemption for new start-up companies when reviewing the financials and tax returns of OT during the period of BCC's investment in OT. They are contemplating whether to create 3 new companies, with each company having the same 3 individuals as shareholders, to perform each of BCC's existing and proposed activities (consultancy services, corporate training services and trading business) and to liquidate BCC, the existing company. This would maximise the available tax exemption for start-up companies. BCC currently operates with a very lean headcount, with the same employees involved in performing both the consultancy and training activities. The new trading business requires employees with a different skill set as it involves trading in a specialised industry, and the hiring of new employees will be needed to conduct this business.

Examplify Question Number	Question 3 required:
7	**(a)** For the sales of the ordinary shares of OT Pte Ltd, advise BCC Pte Ltd if the gains on the sales are subject to corporate income tax. Include in your answer: • calculations of the applicable stamp duties on BCC Pte Ltd's purchase of the shares; • calculations of the taxable gains and tax liability in the "worst-case scenario" where IRAS is of the view that the relevant gains are taxable; and • advice on what BCC Pte Ltd should do in the event that IRAS raises an assessment based on the above "worst-case scenario". **(24 marks)**
8	**(b)** Advise on the viability and consequences of implementing BCC Pte Ltd's plan to create 3 new companies to maximise the tax exemption for new start-up companies. **(6 marks)** **(Total: 30 marks)**

Question 4 – (a), (b) and (c)

Jane started an online business selling electronic components 8 years ago, and she incorporated a private limited company in Singapore to carry on the business from its inception. The electronic components are sourced and purchased from companies in Singapore, and are sold mainly to customers located outside Singapore. Jane's company achieved a milestone in its business when it crossed the million-dollar mark for revenues in the recent financial year ended 31 March 2018. The company tracks its business by quarterly periods, and the reason for the increase in revenues was due to a new customer who is projected to purchase electronic components from Jane's company for the next 2 years, Financial Year (FY)19 and FY20. Thereafter, revenues are expected to drop back to below S$200,000 per quarter assuming that there are no new customers. These are the revenues for the past 5 quarters:

Period	**January to March 2017**	**April to June 2017**	**July to September 2017**	**October to December 2017**	**January to March 2018**
Revenues (S$)	153,200	255,500	280,700	303,600	288,800

For the recent FY18, S$1,080,500 of the company's total revenues pertained to sales to overseas customers, and the proportion of total revenues relating to such sales has been quite stable over the years. The remaining sales were made to Singapore customers, all of whom are registered for Goods and Services Tax (GST). For overseas customers, the goods are shipped overseas from Singapore and for Singapore customers, the goods are delivered locally.

The following are the major expenses/payments with GST for FY18 – all figures are inclusive of GST and the expenses recur every year:

1. Audit fees - S$10,914;

2. Purchase of electronic components from Singapore suppliers - S$910,500;

3. Subscription fees to Singapore Cricket Club, where the facilities are used to entertain clients - S$1,322.52; and

4. Expenses incurred on S-plate car for business purposes - S$5,992.

Examplify Question Number	Question 4 required:
9	**(a)** Advise Jane if there are requirements to register her company for Singapore GST. In your answer, you should: • state clearly all the available options to register or not to register and whether the company satisfies the relevant conditions; • evaluate the impact of GST registration using FY18 sales and expense figures; and • provide an overall conclusion. **(17 marks)**

Assume that Jane's company is now registered for Singapore GST. The company has a new Singapore customer, and this new customer is not registered for GST. The customer has informed Jane that the electronic components purchased from Jane's company are for shipment to the customer's overseas factory for assembly with other components, and the final product will be shipped worldwide from this overseas factory.

The customer has requested that the electronic components be delivered to the customer's Singapore business premises, and the customer will arrange for the shipment overseas.

10	**(b)** Advise Jane on the GST treatment of her company's sales to the Singapore customer under the arrangement contemplated, and suggest an alternative arrangement (stating the conditions thereunder) to address the GST concerns. **(4 marks)**

Jane had certain technical issues with a particular type of electronic component. One of her contacts informed her that a United States (US) based professional engineer carrying on his business in the US has the expertise on this particular type of electronic component. The engineer is also expected to be visiting his existing customers in Singapore. Jane's contact referred her to the engineer and Jane met up with him in Singapore. Jane's company engaged his services to resolve the technical issues with the electronic components. The engineer spent 3 days in Singapore in April 2018 and successfully resolved the problem. Jane's company received an invoice dated 3 May 2018 from the engineer for his services rendered in Singapore. Jane forgot about the invoice due to various ongoing projects and only noticed the invoice at the end September 2018. There was no written agreement between Jane's company and the professional engineer for the services rendered.

Examplify Question Number		
11	**(c)**	Advise Jane on her company's withholding tax obligations, if any. **(4 marks)**
		(Total: 25 marks)

END OF PAPER