PP

Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

10 December 2019

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 **NINETEEN (19)** 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. This examination paper is the property of the Singapore Accountancy Commission.

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 2019	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 20% corporate tax rebate capped at $10,000 for YA 2019

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 2019 (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: All resident individuals will enjoy a personal income tax rebate of 50%, capped at $200, for Year of Assessment 2019.

Personal Income Tax Rates for the Year of Assessment 2019 (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 2019

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	Capped at $37,740 or 37% of s10(1)(a) net trade income assessed less any trade losses from prior years or actual amount contributed by the taxpayer, whichever is lowest.
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), (b) and (c)

Interior Design Pte Ltd (ID) is a Singapore incorporated company resident in Singapore. It provides interior design services for various clients in the commercial and residential property sector. ID is registered for Goods and Services Tax (GST) in Singapore, and is not registered under any GST Schemes.

ID's customer base comprises of Singapore based entities and individuals, and it has recently begun to market its services overseas in order to grow its business. ID's overseas marketing bore fruit when it secured several maiden contracts with its overseas customers.

- **Project A**: The contract was signed with an Australian company to provide interior design services. The Australian company is the main contractor for a residential property development in Singapore, and ID was engaged to provide interior design services for the Singapore residential property. The Australian company required certain special props to be used in ID's interior design, and it has requested for ID to be responsible for the importation of the special props into Singapore. The Australian company will not bear any GST costs on importation of the props. The value (cost, insurance and freight) of the props is more than S$400 and the props will be used for a maximum period of 3 months in Singapore before they are shipped back to Australia. ID will invoice the Australian company for the interior design services, the local transportation of the props in Singapore, and the shipment cost to transport the props back to Australia.

- **Project B**: ID contracted with an Indonesian individual to provide interior design services for the Indonesian individual's existing residential property located in Jakarta, Indonesia. ID purchased a specialised software for residential properties from a local Singapore software company for S$1,000, plus 7% GST. ID claimed the input GST when the tax invoice was issued more than a year ago. However, to date, ID has only paid $700, plus 7% GST, out of the invoiced amount of $1,000. This is because there was a separate line item in the invoice amounting to $300 which is still in dispute as one of the applications did not work and ID is still waiting for the software vendor to fix the bug in the application before ID can use it in its business.

- **Project C**: The scope of work for ID's contract with a UK company covered the feasibility studies on interior design artwork for various cafes that the UK company intended to set up in various locations in South East Asia, such as Indonesia, Malaysia, Thailand, Vietnam and Singapore. The portion of ID's scope of work and fees relating to Singapore cafes amounts to 20% of the total scope of work and fees. The UK company has a newly set up wholly owned subsidiary in Singapore, which is not registered for Singapore GST. Although the contract was entered into between ID and the UK company, the contract stipulates that ID invoice the Singapore subsidiary for the entire scope of work performed, amounting to $10,000. The contract states that the agreed price of $10,000 is inclusive of Singapore GST, where applicable.

Examplify Question Number	**Question 1 required:**
1	**(a)** Advise on the GST treatment for the various charges to ID's customers for the 3 projects and the GST implications for the purchases and expenditure incurred by ID. Quantify the GST amounts and minimise any GST cost, where relevant. Please ignore GST filing requirements. **(14 marks)**
2	**(b)** Advise ID on possible income tax incentives available for its marketing efforts overseas, or to attend overseas trade fairs to generate more business opportunities in calendar year 2019. **(2 marks)**

The following are items contracted and paid by ID to vendors in the United States (US) to increase its portfolio of expertise and focus on certain niche areas:-

- Rental of special drones for landscape design – ID's staff inadvertently missed the invoice from vendor A, and vendor A charged interest on the overdue amount 2 months after the expiry of the credit period.

- Purchase of software from vendor B – Software was downloaded from the cloud and ID will use the software to churn out images for its interior design work. ID cannot reproduce, modify or adapt and distribute the software. Vendor B will provide technical support, software maintenance and upgrades remotely from the US. Vendor B will also provide training and technical support in Singapore, as it has several Singapore based customers and a technical support staff who travels to Singapore quarterly to provide such onsite services in Singapore.

Examplify Question Number		
3	**(c)**	Advise ID on the Singapore withholding tax implications, including due date for withholding tax, for the various payments to overseas vendors. Advise how vendor B can present the scope and charges relating to its products on its invoice to ID to mitigate the Singapore withholding tax cost. Ignore fines and penalties in your answer. **(9 marks)**
		(Total: 25 marks)

Question 2 – (a), (b) and (c)

An Austrian headquarter (HQ) is the ultimate holding company in a group of companies in the business of manufacturing and selling luxury furniture.

To better serve its end customers and other distribution channels in various countries in South East Asia, a wholly owned Singapore operating company and a separate Singapore holding company were set up several years ago. Both Singapore companies are tax resident in Singapore.

Operating companies in Malaysia, Thailand and Vietnam were set up in the respective countries, and these are all wholly owned subsidiaries of the Singapore holding company. The Singapore holding company is also the employer of the South East Asia regional HQ team, which provides services to the operating companies in Malaysia, Thailand and Vietnam, comprised of the following functions: -

- Marketing and sales support
- Supply chain and centralised logistics (these services are also provided to third party customers)
- Centralised corporate functions (general accounting, legal, human resource and information technology support)

The South East Asia regional HQ team's staff and other related costs have been borne by the Singapore holding company.

For sale and distribution of furniture, the Austrian HQ will sell to each of the operating companies directly, and each local operating company will subsequently resell the furniture to its third party customers in its own country.

On 1 June 2018, the Singapore operating company sold $1 million of goods to its Thailand subsidiary, which was conducted on an arm's length basis. This arose due to Singapore operating company's customer cancellation of a sales order, where the goods were shipped to Singapore, and there was a corresponding order by a Thailand customer. To save on shipping costs, the Thailand operating company purchased the goods from the Singapore operating company instead of the Austrian HQ. Towards the end of December 2018, the $1 million trade receivable on the Singapore operating company's balance sheet from its Thailand subsidiary remains unpaid. There is a Group policy where third party customers may be charged overdue trade interest at 1% per annum on such balances, where the interest will be triggered after a 30-day credit period. No interest has been charged on overdue balances between related companies within the Group.

It is now nearing the end of December 2018, and the Singapore operating company will be closing its accounts, and the following profit and loss account has been prepared:-

	S$
Sales to third party customers and related party (related party sales were conducted on an arm's length basis)	15,000,000
Less: Cost of sales of furniture products from Austrian HQ	10,500,000
Gross profit	4,500,000
Less: Operating expenses	4,300,000
Net profit before tax	200,000
Less: Provision for current year tax (note: non-deductible operating expenses of $60,000 were added to net profit before tax to arrive at the current year tax)	17,340
Net profit after tax	182,660

A transfer pricing study was prepared for the Singapore operating company, which reported that the interquartile range for arm's length operating margin is 5% to 10% for the luxury furniture business.

Examplify Question Number	Question 2 required:
4	**(a)** Advise on the Singapore transfer pricing implications for the Singapore operating and holding companies and determine the arm's length amounts for the related party transactions, minimising any Singapore corporate tax payable. Highlight safe harbour rules, penalties, and the income tax treatment for penalties, where applicable. There is no requirement to comment on Mutual Agreement Procedure nor Advance Pricing Agreements for this question. **(14 marks)**
5	**(b)** Recompute the current year tax for the Singapore operating company for the year ended 31 December 2018, while achieving objectives of complying with Singapore transfer pricing laws and guidelines and taking into account exemptions and rebates, where applicable. **(7 marks)**
6	**(c)** The Singapore holding company's wholly owned Thailand subsidiary is planning to pay dividends. Thailand corporate tax rate is 20% but the Thailand subsidiary has a 0% tax holiday incentive from the Thailand Board of Investment that applies to profits derived from substantive manufacturing operations conducted by the subsidiary in Thailand. The Thailand withholding tax on dividends is 10% and this is imposed on dividends paid by the Thailand subsidiary. Advise if the dividends received by the Singapore holding company can be tax exempt when remitted to Singapore. **(3 marks)**
	(Total: 24 marks)

Question 3 – (a) and (b)

A United Kingdom (UK) incorporated company (UKCo) has the following shareholdings in various Singapore companies, based on various legacy acquisitions. All the Singapore companies are incorporated and tax resident in Singapore, with 31 December financial year ends, and all the Singapore companies have substantial headcount employed.

1. Singapore Company A (Co A) is wholly owned by UKCo. Co A has received Pioneer Certificate Incentive from Singapore Economic Development Board (EDB) for carrying out global or headquarters activities, where the incentive tax rate is 10%, and for Year of Assessment (YA) 2019, Co A has assessable income (before deducting group relief and other set-offs) of $5 million.

2. Singapore Company B (Co B) is 90% owned by UKCo. Co B has assessable income (before deducting group relief and other set-offs) of $3.2 million for YA 2019.

3. Singapore Company C (Co C) is 80% owned by Co B. Co C has unutilised capital allowances of $125,000, out of which $55,000 relate to brought forward unutilised capital allowances. Co C also has brought forward unutilised donations of $40,000.

4. Singapore Company D (Co D) has current year (YA 2019) unutilised tax losses of $78,000. Co C owns 80% of shares of Co D.

5. Singapore Company E (Co E) is wholly owned by Co B. It has brought forward unutilised capital allowances of $45,000 and current year (YA 2019) tax loss of $21,000.

6. Singapore Company F (Co F) was acquired by Co A on 1 January 2018 at a purchase price of $10 million, where Co F is wholly owned by Co A. Co F has unutilised investment allowances of $535,000, unutilised capital allowances of $300,000 (including current year capital allowances of $100,000), and unutilised tax losses of $200,000 (including brought forward tax losses of $150,000). Co F was acquired for commercial reasons, as it was in a business segment in the Group's value chain.

Examplify Question Number	Question 3 required:
7	**(a)** Advise the Group on the various schemes and reliefs available for minimising the Group’s total Singapore income tax liability, and calculate the chargeable incomes (before exempt amount) for Co A and Co B for YA 2019. **(19 marks)**

Question 3 (b)

UKCo will be sending one of its employees who is a UK tax resident to Singapore to assist Co A with one of Co A's projects in Singapore. UKCo anticipates that its UK employee may spend up to a maximum of 3 months in Singapore on the project.

Examplify Question Number	
8	**(b)** Advise UKCo on the Singapore individual income tax treatment for its UK employee for the duration of the project in Singapore, and recommend how the tax can be mitigated for its UK employee. Do not consider tax treaty implications in your answer. **(5 marks)**
	(Total: 24 marks)

Question 4 – (a), (b) and (c)

A professional trainer based in the United States (US), whose principal place of business is in the US, is negotiating with a potential customer in Singapore to conduct a series of conferences to be held in Singapore. The conference is expected to be held over 5 work days, with a possible extension on a weekend.

The following are some of the fees and costs to be borne by the Singapore customer, reimbursements discussed with the Singapore customer, and expected costs (which the Singapore customer will not reimburse) to be incurred:-

- Training fee - $30,000.
- Costs incurred by trainer for producing content for Singapore training - $4,500.
- Return airfare from the US to Singapore, incurred by US trainer, reimbursed by Singapore customer - $2,500.
- Accommodation at Singapore hotel provided by Singapore customer - $1,200.
- Transportation cost for Singapore airport transfers and meals in Singapore - $350.

Examplify Question Number	**Question 4 required:**
9	**(a)** Advise the US trainer on the taxability and deductibility on the various components of his Singapore training engagement for Singapore income tax purposes, and if there are any avoidance of double taxation agreements to reduce his Singapore tax liability. **(15 marks)**
10	**(b)** Compute the US trainer's Singapore income tax liability and advise on the method of computation which minimises his Singapore income tax liability. Advise the US trainer on how he should negotiate the contract with the Singapore customer to mitigate/eliminate his Singapore tax liability, and quantify the grossed-up Singapore tax implication for the Singapore customer. **(8 marks)**

The US professional trainer's presentations are very well received and there has been an overwhelming response for his conference. The Singapore customer who organised the conference has provided the US trainer with a contract to conduct the same training over a 3-year period (one week per year). In addition, given the high demand for his training, the US trainer expects to organise other conferences and training sessions in Singapore over the next few years. He does not expect to personally conduct many of these conferences and training sessions but will employ trainers in Singapore to carry out the training in Singapore based on the content that he has developed.

11

(c) Propose a tax-efficient business form through which the business in Singapore may be carried out. In addition, advise on the Singapore income tax implication of repatriating the business profit back to the US assuming that your proposal is implemented. **(4 marks)**

(Total: 27 marks)

END OF PAPER

