

PP

## Singapore CA Qualification Examination

6 June 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 **TWENTY-ONE (21)** 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.

## Appendix A - Tax Rates and Allowances - Year of Assessment 2019

### 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 1 <sup>st</sup> \$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

## Appendix A - Tax Rates and Allowances - Year of Assessment 2019

### Corporate Income Tax Rate

Year of Assessment 2019 17%

<u>Partial Tax Exemption</u>	<b>\$</b>
First \$10,000 of chargeable income is 75% exempt	7,500
Next \$290,000 of chargeable income is 50% exempt	<u>145,000</u>
Total	<u>152,500</u>

### Start-up tax exemption

First \$100,000 of chargeable income is 100% exempt	100,000
Next \$200,000 of chargeable income is 50% exempt	<u>100,000</u>
Total	<u>200,000</u>

**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)**

<b>Chargeable Income</b>	<b>Rate (%)</b>	<b>Gross Tax Payable (\$)</b>
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.

## Appendix A - Tax Rates and Allowances - Year of Assessment 2019

### Central Provident Fund (CPF) – from 1 January 2018 to 31 December 2018

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 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

## Appendix A - Tax Rates and Allowances - Year of Assessment 2019

### 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 • 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) and (b)

PB Pte Ltd (PB) is a Singapore incorporated company resident in Singapore. Its principal business is in the printing of niche customised brochures for various businesses based in Singapore. PB is registered for Goods and Services Tax (GST) in Singapore.

The management of PB embarked on a new business line in addition to the existing printing business, in the form of 3D printing.

PB purchased an industrial 3D printing machine in January 2019 from a manufacturer of 3D printing machines based in the United States of America (USA). The total package cost included the following items:-

- **Software cost** – \$40,000. The software was installed in PB's computer which is linked to the industrial 3D printing machine. The purpose of the software is to feed the images generated by the computer to the printing machine and facilitate the printing process. Under the terms of the agreement, PB is not allowed to reproduce, modify or adapt and distribute the software, and the software is to be exclusively used by PB for its own business of 3D printing.
- **Setup, installation and commissioning costs** – \$30,000. The US company sent a technician to Singapore who arrived on 8 January 2019 to set up, install and perform commissioning tests on the printing machine to ensure that it is operationally ready. The entire process was completed on 10 January 2019.
- An invoice dated 15 January 2019 amounting to \$370,000 for the cost of machine, software cost and setup costs was sent to PB. In addition, out of pocket expenses relating to the technician's airfare, hotel accommodation and local transportation (assumed that it does not include S-plate car expenses) of \$3,200 was charged at cost to PB. PB paid the invoice within the 30 days credit term. The 3D printing machine is a prescribed automation equipment and will be depreciated over 5 years for accounting purposes.

- **Maintenance and servicing costs** – \$20,000. A year on from installing the machine, the US company will send a technician to Singapore to perform maintenance and servicing to ensure the smooth running of the 3D printer.

The US company manufacturing the 3D printing machine set up a subsidiary in the United Kingdom (UK) in July 2019 as there were substantial UK customers who purchased the 3D printing machines. The UK subsidiary provides setup, installation, commissioning and maintenance services, and employs local qualified staff to perform these services. The US company is considering having the maintenance and servicing for PB to be conducted by staff from its UK subsidiary, due to the subsidiary's closer proximity to Singapore.

**Exemplify  
Question  
Number**

**1**

**Question 1 required:**

- (a)** You have been engaged by the Finance Manager of PB to advise on the Singapore corporate tax (tax deductibility and capital allowance claims) and withholding tax implications for the purchase of the 3D printing machine and all associated costs, and the tax benefit of having the UK company provide the maintenance and servicing. For purposes of computing any penalties, use 1 June 2019 as the date of filing or payment to IRAS. Singapore has a tax treaty with the UK but not the US. **(18 marks)**



The 3D printing machine arrived in Singapore in early January and the shipping terms state that PB is responsible for import clearance.

The pro forma bill lists the following items:-

- Cost of machine – \$300,000.
- Insurance – \$2,300.
- Freight charges for shipping from US to Singapore – \$1,900.

The Finance Manager of PB inquired if PB could avail of GST schemes, specifically the Major Exporter Scheme or the Zero GST Warehouse Scheme to mitigate any GST cost.

**Exemplify  
Question  
Number**

**2**

**(b)** Advise PB on the GST treatment relating to the importation of the 3D printing machine, and if PB can avail of the Major Exporter Scheme or the Zero GST Warehouse Scheme for the importation.

**(7 marks)**

**(Total: 25 marks)**

## **Question 2 – (a), (b) and (c)**

An Australian headquartered multi-national company (MNC) and tax resident in Australia deployed 3 of its Australia employees to Singapore on short term assignments to oversee a project for a customer located in Singapore. All 3 employees have their permanent residence in Australia. The revenues for this project are booked by the Australian company.

Employee A arrived in Singapore on 1 January 2019 and as it was a public holiday, he only commenced work the following day. Employee A took a flight back to Australia on 4 March 2019 after completing his assignment.

Employee B reached Singapore on 31 January 2019 and concluded her assignment on 2 March 2019. During her stay in Singapore, Employee B, who is also a director of the Australian MNC's Singapore subsidiary, attended a Board meeting and she was remunerated with director's fees. She extended her stay in Singapore as her family is in Singapore, and she took vacation leave until 4 April 2019 before she returned to Australia.

The Australian MNC's Singapore subsidiary is tax resident in Singapore.

Employee C arrived with Employee A on 1 January 2019, but had to return to Australia on 16 February 2019 due to work commitments back in Australia. Employee C made another trip to Singapore on 27 February 2019, and wrapped up the project in Singapore on 11 July 2019, before taking a flight back on 17 July 2019.

In addition, Employee D was sent to Singapore from 1 February 2019 to 30 April 2019 for training, which entailed on-the-job training.

The Human Resource (HR) manager of the Australian MNC remarked that with public holidays in Singapore as well as the weekends, there would be fewer working days to take into account for the purpose of determining the employees' Singapore tax residency.

Since the employees' duties are performed in Singapore for the benefit of the Australian company, all staff costs relating to the 4 employees are borne by the Australian company, and not the Singapore subsidiary. All 4 employees are Australia residents for purposes of the Avoidance of Double Taxation Agreement between Singapore and Australia.

An excerpt of Articles 11 and 12 of the Avoidance of Double Taxation Agreement between Singapore and Australia is reproduced below for reference:-

#### **ARTICLE 11**

*1. Subject to this Article and to Articles 12, 13 and 14, remuneration or other income derived by an individual who is a resident of one of the Contracting States in respect of personal (including professional) services shall be subject to tax only in that Contracting State unless the services are performed or exercised in the other Contracting State. If the services are so performed or exercised such remuneration or other income as is derived therefrom shall be deemed to have a source in, and may be taxed in, that other Contracting State.*

*2. In relation to remuneration of a director of a company derived from the company, the provisions of this Article and of Article 12 shall apply as if the remuneration were remuneration in respect of personal services. Director's fees and similar payments derived by a resident of one of the Contracting States in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State shall be deemed to be derived in respect of personal services performed in, and may be taxed in, that other Contracting State.*

#### **ARTICLE 12**

*1. Remuneration or other income derived by an individual who is a resident of one of the Contracting States in respect of personal (including professional) services performed or exercised in the other Contracting State shall be exempt from tax in the other Contracting State if -*

- (a) the recipient is present in the other Contracting State for a period or periods not exceeding in the aggregate 183 days in the year of income or in the basis period for the year of assessment as the case may be of that other Contracting State;*
- (b) the services are performed or exercised for or on behalf of a person who is a resident of the first-mentioned Contracting State; and*
- (c) the remuneration or other income is not deductible in determining the profits for tax purposes in the other Contracting State of a permanent establishment in that other Contracting State of that person.*

The Finance Manager of the Australian company was concerned that the length of stay of the various Australian employees in Singapore might have Singapore corporate tax implications.

The Australian employees (Employee A, B and C) were in Singapore to supervise a construction project for a Singapore customer. The supervision work was under a contract entered into by the Australian company and the Singapore customer.

An excerpt of Article 4 of the Avoidance of Double Taxation Agreement between Singapore and Australia is reproduced below:-

#### **ARTICLE 4**

*1. For the purposes of this Agreement, the term "permanent establishment", in relation to an enterprise, means a fixed place of business through which the business of the enterprise is wholly or partly carried on.*

*2. The term "permanent establishment" includes but is not limited to -*

- (a) a place of management;*
- (b) a branch;*
- (c) an office;*
- (d) a store or other sales outlet;*
- (e) a factory;*
- (f) a workshop;*

*(g) a warehouse except where it is used solely for any of the purposes mentioned in paragraph 4;*

*(h) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources; and*

*(i) a building site, or a construction, installation or assembly project, but only where such site or project or any combination of them continues for a period aggregating more than 6 months within any 12-month period.*

*3. An enterprise of a Contracting State shall be deemed to have a permanent establishment and to carry on trade or business through that permanent establishment in the other Contracting State, if -*

*(a) it carries on supervisory activities in that other State for a period or periods aggregating more than 6 months within any 12-month period in connection with a building site, or a construction, installation or assembly project or any combination of them which is being undertaken in that other State; or*

*(b) substantial equipment is being used in that other State by, for or under contract with the enterprise.*

*4. An enterprise shall not be deemed to have a permanent establishment merely by reason of -*

*(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 of collecting information, for the enterprise;*

*(e) the maintenance of a fixed place of business solely for the purpose of activities which have a preparatory or auxiliary character for the enterprise, such as advertising, the supply of information or scientific research.*

**Exemplify  
Question  
Number**

**Question 2 required:**

**3**

**(a)** Advise the Finance Manager if the Australian company has a permanent establishment in Singapore by virtue of its employees' presence in Singapore, and the related income tax implications. **(5 marks)**

**4**

**(b)** Advise how the Australian company could have structured the arrangements relating to the supervision of the construction project to mitigate its Singapore income tax risks. **(2 marks)**

**5**

**(c)** Regardless of your answer to part (a) and (b), assume that the Australian company does not have a permanent establishment in Singapore. Advise the Australian MNC on the Singapore individual income tax residency of its 4 employees, including the HR manager's comment on how the number of days are counted for determining tax residency. Advise also on the taxability in Singapore of the Singapore employment income of the employees, including any applicable exemptions or reliefs, and consider the tax treaty provisions where applicable.

**(18 marks)**

**(Total: 25 marks)**

### **Question 3 – (a), (b) and (c)**

Mr and Mrs Tan are entrepreneurs who have incorporated 2 companies in the business of distribution of goods several years ago. The shares of the Malaysia incorporated entity (MayCo) are 100% owned by Mr Tan, while Mrs Tan is the sole shareholder for the Singapore incorporated company (SingCo). Both Mr and Mrs Tan are executive directors of both MayCo and SingCo.

Both MayCo and SingCo sell to third party customers in Malaysia and Singapore respectively. From inception, SingCo has been purchasing a certain product line X from a third party manufacturer in Singapore. As this product cannot be found in Malaysia, SingCo has been selling this product to MayCo, who then resells to its third party customers in Malaysia at a small profit.

As the profit margin on sale of goods for MayCo is very thin, since incorporation several years ago, MayCo has been in a net loss position each year after including staff costs and other operational costs. SingCo has been selling product line X to MayCo at a mark-up of 5%. If SingCo had sold product line X to MayCo at cost, MayCo would have been profitable.

Last year, for financial year ended 31 December 2018, SingCo started to sell product line X to MayCo at a 5% discount to its purchase price to address the recurring losses in MayCo. There was no change in functions performed, risks assumed or assets held in relation to product line X from year to year. As a result, MayCo's net losses were reduced and SingCo's net profit before tax was correspondingly lowered.

As MayCo required funds for its operations, there was an outstanding accounts receivable on SingCo's balance sheet as at 31 December 2018 relating to invoices not yet paid by MayCo for the purchase of product line X. These invoices were dated from several years ago. SingCo's credit terms to its customers are typically 30 days, and SingCo's agreement with its third party customers are to charge a 1% interest per month after the credit period for late payment.

In addition, SingCo extended an interest free loan to MayCo 2 years ago and the loan has not been repaid to date. Both the intercompany receivable from MayCo and the loan owing from MayCo are less than \$1 million in total.

The corporate support functions such as Human Resource, Finance and Information Technology (IT) reside in SingCo, and these corporate functions also support MayCo's operations. These corporate functions are within the definition of routine support services specified in the First Schedule of the Income Tax (Transfer Pricing Documentation) Rules 2018. SingCo has never charged MayCo for these corporate support functions.

SingCo's gross revenue derived from their trade or business is less than \$10 million for every financial year since incorporation. Therefore, SingCo does not need to prepare transfer pricing documentation under Section 34F of the Income Tax Act.

Mr and Mrs Tan remarked that they are not concerned about Singapore transfer pricing implications for SingCo, since both SingCo and MayCo have totally different shareholders and are therefore not related parties.

**Exemplify  
Question  
Number**

**Question 3 required:**

**6**

**(a) (i)** Discuss the validity of Mr and Mrs Tan's statement that MayCo and SingCo are not related parties.

**(2 marks)**

**(ii)** Advise on the various Singapore transfer pricing implications for all the transactions, including safe harbour rules or penalties where applicable. **(12 marks)**



### Question 3 (b)

Following on from Question 3(a), Mrs Tan, as the shareholder and director of SingCo, was inquiring on the most tax efficient method of extracting income from SingCo. Mrs Tan is a Singapore resident for tax purposes. Mrs Tan's personal chargeable income from earned income before considering her income from her capacity as shareholder and director of SingCo is \$170,000.

Exemplify Question Number
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7
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|---|
| <p>(b) Advise Mrs Tan on the Singapore individual and corporate income tax implications of extracting income from SingCo in her capacity as a director (to analyse only director's fees and not director's remuneration) and shareholder, and recommend the most tax efficient method. <b>(7 marks)</b></p> |
|---|

### Question 3 (c)

Mr Tan has a brother who runs a separate business through another Singapore incorporated entity called SingCo B. In order to leverage on discount on bulk orders, Mr Tan placed orders with an IT vendor to purchase computers for both SingCo and SingCo B. This was done through SingCo, i.e. the contract for the purchase of the computers was between SingCo and the IT vendor. SingCo then invoiced SingCo B for the computers relating to SingCo B's business.

SingCo's Finance team assisted in filing certain documents on behalf of SingCo B to Accounting & Corporate Regulatory Authority (ACRA) and paid upfront the fees to ACRA. SingCo subsequently recovered the fees from SingCo B.

SingCo is registered for GST.

**Exemplify  
Question  
Number**

**8**

**(c)** Advise SingCo on the Singapore GST implications of the 2 transactions.

**(4 marks)**

**(Total: 25 marks)**

#### **Question 4 – (a) and (b)**

A UK headquartered multi-national company (UKCo) has 3 directly held wholly owned subsidiaries in Singapore with various principal activities:

- Singapore subsidiary A (SingSub A) – manufacturing, sales and distribution
- Singapore subsidiary B (SingSub B) – manufacturing, sales, marketing and distribution (ceased in Financial Year (FY) 2019 as operations were transferred to SingSub A)
- Singapore subsidiary C (SingSub C) – investment holding and holds several related companies in ASEAN countries

UKCo transferred a patent to SingSub A in FY 2019 as it was a patent relevant to SingSub A's manufacturing operations. The transfer of the patent to SingSub A meant that SingSub A need not pay royalties to UKCo. The withholding tax rate under the royalty article of the Avoidance of Double Taxation Agreement between Singapore and UK is the same as the withholding tax rate on royalties under the Singapore Income Tax Act. An independent valuation of the patent was obtained and the patent was transferred at S\$3 million to SingSub A.

As UKCo was required to retain legal ownership of the patent due to registration reasons, therefore only the economic ownership of the patent was transferred to SingSub A.

The following are the major assets transferred from SingSub B to SingSub A in FY 2019 upon cessation of SingSub B's business:-

- Machines relating to manufacturing operations – transferred at net book value of S\$240,000 and the net book value is reflective of open market value. Capital allowances which were previously claimed over 3 years have been fully claimed.
- Inventory (raw materials and finished goods) transferred at cost - S\$500,500.
- Production staff – employment contracts were transferred to SingSub A.

The following are key points from SingSub B's and SingSub A's tax computations:-

<b>Financial Year (FY)</b>	<b>2018 S\$</b>	<b>2019 S\$</b>
SingSub A chargeable income before partial exemption, impact of patent transfer and asset transfer from SingSub B	350,000	430,000
SingSub B cumulative carried forward tax losses before impact of asset transfer to SingSub A	180,000	320,000

There is no substantial change in shareholders as at the relevant dates.

SingSub B is expected to commence liquidation in 2020.

**Exemplify  
Question  
Number**

**Question 4 required:**

**9**

**(a)** With regard to the Singapore income tax implications for SingSub A and SingSub B:

**(i)** Advise the Group on the various Singapore income tax implications for SingSub A and SingSub B, and minimise its Singapore income tax liabilities by making elections for appropriate tax treatment and maximising tax claims.

**(10 marks)**

**(ii)** Compute the tax liabilities for SingSub A for YA2019 and YA2020 and SingSub B for YA2020 based on your recommendations.

**(11 marks)**

SingSub C is about to receive dividend income from its Indonesian subsidiary. The headline corporate tax rate in Indonesia is 25%. The Indonesian subsidiary is subject to tax based on 10% of its gross revenues. There is a 15% Indonesia withholding tax on the dividends to be paid to SingSub C.

**10**

**(b)** Advise on the Singapore income tax treatment of the dividends received by SingSub C.

**(4 marks)**

**(Total: 25 marks)**

**END OF PAPER**