Chartered Accountant SINGAPORE

**SINGAPORE CA QUALIFICATION EXAMINER'S REPORT**

**MODULE:** Taxation (TX)

**EXAMINATION DATE:** 10 December 2019

## Section 1
## General comments

The Taxation module is an open-book examination with an appendix containing relevant tax rates and allowances given in the question paper.

There has been a recurring observation at each examination, despite reminder in the exam study tip, where some Candidates have the tendency to reproduce in verbatim the provisions of the statute and/or other reference materials in their answers for some of the questions without extending any analysis based on the facts of the case presented to them in the question. Candidates need to realise that in an open-book examination, credit will not be given for merely reproducing or regurgitating content from reference sources. To earn the marks, Candidates need to apply the tax laws and principles specifically to the facts of the case and to arrive at a reasoned conclusion or recommendation.

## Section 2
## Analysis of individual questions

### Question 1

Question 1 presented a scenario on the withholding tax and GST implications of a Singapore incorporated company in the interior design services industry.

**Part (a)** was not well attempted by the Candidates. Even though the question clearly stated the GST implications for the purchases and expenditures were incurred by Interior Design Pte Ltd (ID), many Candidates did not cover all the different expenses for Project A in their answers. Some Candidates did not realise that the local transportation in Singapore and the cost of shipment back to Australia are separate and each transportation cost has different GST implications, and Candidates only covered either one of the expenses.

Most Candidates were able to correctly identify that the interior design fee for Project A is a standard rated supply and hence liable to GST at 7%.

The answers presented by Candidates for Projects B and C were varied. Some Candidates were able to correctly state the GST treatment for the interior design services provided, while an equal number of Candidates applied the incorrect GST treatment.

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For Project C, many Candidates failed to point out that the fee of $2,000 for the interior design work for Singapore cafes is inclusive of GST. As such, ID has to report standard rated taxable supplies of $1,869.16 ($2,000/1.07) and output GST of $130.84 on this transaction.

Most Candidates scored well for **Part (b)** by correctly identifying the Double Tax Deduction Scheme for Internationalisation (DTDi).

**Part (c)** was fairly well attempted, and tested Candidates on withholding tax implications for various payments made to overseas vendors. While most Candidates correctly covered the 15% withholding tax on rental of the drones, some Candidates provided a different withholding tax rate and lost marks on this answer. Some Candidates completely omitted the withholding tax on the interest charged by the vendor on the overdue payment.

Most Candidates pointed out that the due date for withholding tax on the rental. However, they did not secure additional marks as they did not relate to the case whereby ID did not pay the invoice and the withholding tax for more than 2 months (which triggered the interest charge), penalties and interest will be applicable on the outstanding withholding tax.

Most Candidates mentioned that the payment for software does not involve the transfer of the copyright rights embedded in the goods and will be considered as payments for copyrighted articles and therefore withholding tax is not applicable. The technical support or training provided by US vendor in Singapore will be subjected to Singapore withholding tax at 17%.

**Question 2**

Question 2 covered the transfer pricing implications of an Austrian MNC operating a South East Asia regional headquarter (HQ) in Singapore and have various related party transactions with various operating companies in Malaysia, Thailand and Vietnam.

Even though it was clearly stated in the exam study tip that there has been an increased emphasis on transfer pricing whereby Candidates need to be familiar with the Transfer Pricing Guidelines issued by the Inland Revenue Authority of Singapore for this examination. It was quite clear that many Candidates did not read up on the Transfer Pricing Guidelines as many Candidates struggled with this question.

For **Part (a)**, many Candidates were able to identify that South East Asia HQ team's staff and other related costs, which were borne by the Singapore holding company,

should be charged out. As the centralised corporate functions (general accounting, legal, HR and IT support) are routine support functions, the Singapore holding company can use the safe harbour rate, for example 5%, to charge out its costs to its affiliates. Lastly, for transactions that were not in compliance with the arm's length principle, IRAS can make adjustments and a 5% surcharge will apply on the adjustments made.

Furthermore, many Candidates deliberated on the purchase from Austrian HQ, how it was not priced at arm's length basis and what should the arm's length price be, based on the interquartile range provided.

Candidates generally fared better for **Part (b)** and Candidates who lost marks did not include the interest income on trade receivable from Thailand subsidiary of $5,000.

Most Candidates did well for **Part (c)** even though there were some Candidates who did not state that the foreign income had been subjected to tax in the foreign jurisdiction from which they were received since there was Thailand withholding tax of 10% on the dividends.

**Question 3**

**Part (a)** tested Candidates on the application of group relief for various Singapore companies held through a UK incorporated entity.

Candidates were generally able to comment that both Co A and Co B are held by a foreign incorporated company, the losses of Co B and its subsidiaries cannot be set off against Co A and its subsidiary, and vice versa. However, there were Candidates who failed to state this and incorrectly applied group relief between Co A and Co B.

Most Candidates were able to correctly state that Co F's losses can be transferred to Co A. Co F's brought forward unabsorbed capital allowances of $200,000, brought forward unabsorbed tax losses of $150,000, and unutilised investment allowances of $535,000 is a non-qualifying item for Group relief, which cannot be set off against Co A's assessable income. Candidates rightly computed the total losses available for set off against Co A's chargeable income as $150,000, which made up of current year unabsorbed capital allowances of $100,000 and current year unabsorbed tax losses of $50,000.

Candidates failed to mention that as Co A is taxed at 10% incentive rate, section 37B adjustment factor will need to be applied to losses transferred under Group Relief. Only a few Candidates stated that Co A qualifies for the mergers and acquisitions allowance.

Although Co B's shareholding in Co D is less than the 75% threshold, some Candidates incorrectly applied group relief between these 2 entities.

While Candidates were able to identify Co C's and Co E's losses are available as qualifying group relief, Candidates lost marks when they incorrectly identified non-qualifying loss items as qualifying loss items, and vice versa.

For **Part (b)**, Candidates were required to advise on Singapore individual income tax treatment of a UKCo employee sent to Singapore to work for a duration of up to 3 months. Generally, Candidates were able to advise that the UK employee will be considered as a non-resident and subjected to individual income tax in Singapore, and will be taxed on all income earned while in Singapore. The treatment thereon for employment income will be taxed at a flat rate of 15% or as a resident based on the progressive resident rates, whichever resulted in a higher tax amount.

Most Candidates were able to identify one of the two ways that the tax can be mitigated. One of the ways to mitigate any individual income tax in Singapore is to send the UK employee to Singapore for a period not exceeding 60 days in a calendar year to avail of the exemption from tax for short term employment in Singapore not exceeding 60 days. Alternatively, the UK company can consider straddling the UK employee's assignment to Singapore from the end of one calendar year to the beginning of the next calendar year in order not to cross the 60 day threshold.

**Question 4**

This question covered the Singapore tax implications for a professional trainer, based in the US, who conducts a series of conferences in Singapore.

**Part (a)** required Candidates to advise on the taxability and deductibility on the various components of his Singapore training engagement for Singapore income tax purposes.

Candidates who scored well were those who were able to systematically list down the various costs provided in the question and apply the correct tax treatment to each of the costs. On the other hand, Candidates who did not score well approached the question haphazardly and missed out on advising on certain costs.

Candidates were able to identify the 15% rate on gross income and 22% rate on net income, but Candidates who lose marks had difficulty with the various costs.

**Part (b)** tested Candidates on the computation of the income tax liability. Most Candidates were able to work out the 15% on gross income, whereas most Candidates stumbled when computing the 22% on net income, as Candidates were confused on which costs were deductible.

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Almost all the Candidates missed out on computing the scenario where the Singapore customer bears the withholding tax.

For **Part (c),** Candidates who identified the setting up of companies were able to secure most of the marks available. However, they did not consider the tax rates differential implications between the 22% on net income, 15% on gross income and 17% tax rate for a company. Some Candidates made other incorrect recommendations such as sole proprietorships, Representative Offices, online training etc.

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