Strategic Professional – Options

Advanced Taxation – Singapore (ATX – SGP)

Tuesday 4 June 2019

ATX SGP ACCA

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – BOTH questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–6

Do NOT open this question paper until instructed by the supervisor.

This question paper must not be removed from the examination hall.

ATX – SGP

Think Ahead ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances for the year of assessment 2019 will continue to apply for the foreseeable future.
2. All apportionments should be made to the nearest month.
3. Calculations and workings need only be made to the nearest $.
4. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions

Goods and services tax

Standard rate	7%
Registration threshold	$1 million

Corporate income tax

Rate – Year of assessment 2019	17%
Corporate income tax rebate (capped at $10,000)	20%
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
Tax exemption for new start-up companies	$
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

Central Provident Fund (CPF)
Contributions for individuals below the age of 55 years and earning more than $750 per month
(1 January 2018 to 31 December 2018)

	Employee	Employer
Rates of CPF contributions	20%	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	
Voluntary CPF contribution of self-employed	Capped at $37,740 or 37% of assessable trade income whichever is lower	

Personal income tax for the year of assessment 2019

	Chargeable income $	Tax rate %	Tax $
On the first	20,000	0	0
On the next	10,000	2·0	200
On the first	30,000		200
On the next	10,000	3·5	350
On the first	40,000		550
On the next	40,000	7·0	2,800
On the first	80,000		3,350
On the next	40,000	11·5	4,600
On the first	120,000		7,950
On the next	40,000	15·0	6,000
On the first	160,000		13,950
On the next	40,000	18·0	7,200
On the first	200,000		21,150
On the next	40,000	19·0	7,600
On the first	240,000		28,750
On the next	40,000	19·5	7,800
On the first	280,000		36,550
On the next	40,000	20·0	8,000
On the first	320,000		44,550
Above	320,000	22·0	

Personal income tax reliefs for the year of assessment 2019

Earned income	**Standard (max)**	**Handicapped (max)**
Below 55 years	$1,000	$4,000
55 to 59 years	$6,000	$10,000
60 years and above	$8,000	$12,000
Spouse relief	$2,000	$5,500
Qualifying child relief (per child)	$4,000	$7,500

Working mother's child relief (WMCR)	**% of mother's earned income**
First child	15%
Second child	20%
Third and subsequent child	25%
Maximum cumulative WMCR	100%
Maximum relief per child	$50,000

Parent relief	**Standard (max)**	**Handicapped (max)**
Parent not living in the same household	$5,500	$10,000
Parent living in the same household	$9,000	$14,000

Grandparent caregiver relief	$3,000
Dependent handicapped sibling relief	$5,500
Life assurance relief	$5,000 (max)
Course fees	$5,500 (max)

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

Foreign maid levy relief	$6,360 (max)
Supplementary retirement scheme	
Foreigners	$35,700 (max)
Singaporeans and Singapore permanent residents	$15,300 (max)
Total amount of personal income tax reliefs	$80,000 (max)

Buyer's stamp duty for purchases of all properties from 1 January 2018 and residential properties from 1 January 2018 to 19 February 2018

Purchase price or market value	
First $180,000	1%
Next $180,000	2%
Remaining amount	3%

Buyer's stamp duty for purchases of residential properties on or after 20 February 2018

Purchase price or market value	
First $180,000	1%
Next $180,000	2%
Next $640,000	3%
Remaining amount	4%

Additional buyer's stamp duty for purchases of residential properties from 1 January 2018 to 5 July 2018

Foreigners and entities buying a first and subsequent residential property	15%
Singapore permanent residents buying a first residential property	5%
Singapore permanent residents buying a second and subsequent residential property	10%
Singapore citizens buying a second residential property	7%
Singapore citizens buying a third and subsequent residential property	10%

Additional buyer's stamp duty for purchases of residential properties on or after 6 July 2018

Entities buying first and subsequent residential property	25%
Foreigners buying first and subsequent residential property	20%
Singapore permanent residents buying a first residential property	5%
Singapore permanent residents buying second and subsequent residential property	15%
Singapore citizens buying a second residential property	12%
Singapore citizens buying third and subsequent residential property	15%

Seller's stamp duty for residential properties

Property disposed of within one year of purchase	12%
Property disposed of within more than one year and up to two years of purchase	8%
Property disposed of within more than two years and up to three years of purchase	4%

Seller's stamp duty for industrial properties

Property disposed of within one year of purchase	15%
Property disposed of within more than one year and up to two years of purchase	10%
Property disposed of within more than two years and up to three years of purchase	5%

Stamp duty on transfer of shares

Purchase price or net asset value of the shares	0·2%

Acquisition/disposal of equity interest in Type 1 property-holding entities (PHE)

Table A1: Additional conveyance duties for buyers (ACDB) rates: acquisition of equity interest

Market value of the underlying residential property			ACDB is the sum of (i) and (ii)
(i)	**Before 20 February 2018**	**On or after 20 February 2018**	
	On first $180,000	On first $180,000	1% x U/V x W
	On next $180,000	On next $180,000	2% x U/V x W
	Exceeding $360,000	On next $640,000	3% x U/V x W
		Exceeding $1,000,000	4% x U/V x W
(ii)	Z% on the entire value		Z% x U/V x W

Table A2: Additional conveyance duties for sellers (ACDS) rates: disposal of equity interest

ACDS
12% x U1/V x W

Notes:

U is (i), (ii) or (iii) as described below.

(i) if, as a result of the conveyance, the grantee becomes a significant owner of the PHE, and this is the first time the grantee becomes a significant owner since the effective date, U is the difference between A and B as described immediately below:

(A) the sum of the equity interests in the PHE beneficially owned by the grantee following the conveyance, and the equity interests in the PHE beneficially owned by each of the grantee's associates, acquired on or after the effective date; and

(B) the lowest of the sum of BA and BB which relate to any time in the period between the effective date and the time of conveyance:

(BA) the equity interests in the PHE beneficially owned by the grantee; and

(BB) the equity interests in the PHE beneficially owned by each of the grantee's associates.

(ii) if, as a result of the conveyance, the grantee becomes a significant owner of the PHE at any time other than that mentioned in sub-paragraph (i), U is the difference between A and B as described immediately below:

(A) the sum of the equity interests in the PHE beneficially owned by the grantee following the conveyance, and the equity interests in the PHE beneficially owned by each of the grantee's associates; and

(B) the lowest of the sum of BA and BB which relate to any time in the period between the date of the most recent conveyance by which the grantee ceased to be a significant owner and the time of the conveyance:

(BA) the equity interests beneficially owned by the grantee; and

(BB) the equity interests in the PHE beneficially owned by each of the grantee's associates.

(iii) if, after the conveyance, the grantee remains a significant owner of the PHE, the total number of all equity interests in the PHE conveyed under the conveyance to the grantee.

U1 is the amount of equity interests specified in s.23(8) which are comprised in the conveyance.

V is the total amount of all equity interests in the PHE.

W is the market value, at the time of execution of the conveyance, of the underlying property of the PHE under paragraph (a) of the definition of 'underlying property' in s.23(21).

Z% is 15% on an instrument which is executed on/after 11 March 2017 but before 6 July 2018; or 30% on an instrument which is executed on/after 6 July 2018.

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Question 1 begins on page 8.

Section A – BOTH questions are compulsory and MUST be attempted

1 You should assume today's date is 1 October 2018.

You are the tax adviser to Lobang King Pte Ltd (LKPL), a company incorporated and tax resident in Singapore. LKPL requires tax advice in respect of a proposed new acquisition of ordinary shares in an unrelated company, Singapore United Conglomerate Pte Ltd (SUCPL).

SUCPL

Eric Teo and Thomas Moo are the founder shareholders of SUCPL, a company incorporated and tax resident in Singapore since 1980. SUCPL is registered for goods and services tax (GST).

SUCPL's principal activities consist of trading in computer products and leasing residential properties. As at 1 October 2018, the combined market value of the leased-out properties is $12 million, which constitutes 60% of the company's total tangible assets. Both principal activities have always been profitable except for during the financial year ended 31 December 2016 when the company's computer business suffered a loss. After offsetting available capital allowances against the rental income earned in the year ended 31 December 2017, SUCPL had unutilised capital allowances remaining of $2 million, arising from the financial year ended 31 December 2016, as agreed by the Comptroller. Since 1 January 2017, its staff strength had to be cut to 80 individuals, of whom the majority are Singapore citizens.

Due to the current state of the industry, SUCPL does not expect its computer business to improve in the next five years. However, its leasing activity is expected to remain profitable.

Previous changes to the ordinary shareholders of SUCPL and their respective shareholdings at the relevant dates are as follows:

	Number of issued ordinary shares fully paid up as at	
	1 January 1980	**1 January 2016**
Eric Teo	1	1
Thomas Moo	1	1
Eric Felix Pte Ltd (EFPL)		50,000
Tom Sally Pte Ltd (TSPL)		50,000
Total	2	100,002

EFPL and TSPL are companies incorporated and tax resident in Singapore. They are both wholly-owned by sole shareholders, Felix Teo and Sally Moo respectively. Felix Teo is the son of Eric Teo and Sally Moo is the daughter of Thomas Moo.

EFPL and TSPL are both investment holding companies, set up on 1 January 2016, and only derive dividend income from SUCPL.

LKPL and the proposed share acquisition

LKPL is a very profitable trading company which trades in computer peripherals. Since its incorporation in 2016, its staff strength has consistently exceeded 50 individuals, of whom the majority are Singapore citizens. LKPL's chargeable income for the year of assessment 2018 is $5 million and this level of chargeable income is expected to continue in future years.

LKPL is wholly-owned by one ordinary shareholder, Low Beng Keong who is the university classmate of Felix Teo and Sally Moo.

LKPL has received an offer to acquire all 50,002 SUCPL ordinary shares currently owned by Eric Teo, Thomas Moo, and TSPL collectively for a total consideration of $50 million. LKPL will separately incur professional fees of $80,000 to conduct both legal and financial due diligence reviews on SUCPL. The acquisition is expected to take place on 1 December 2018 which will result in EFPL and LKPL being the only shareholders of SUCPL as follows:

	Number of issued ordinary shares fully paid up as at 1 December 2018 (tentative)
EFPL	50,000
LKPL	50,002
Total	100,002

LKPL has been advised that this offer is a more tax efficient option compared to directly buying a proportionate share of the commercial properties owned by SUCPL. This is because it will minimise stamp duty costs. Moreover, LKPL can also inject its profitable computer business into SUCPL so as to benefit from the unutilised capital allowances of $2 million.

Required:

As the external tax adviser to Lobang King Pte Ltd (LKPL), write a letter to the board of directors advising on the following matters:

(i) The income tax, goods and services tax (GST) and stamp duty implications (including any additional conveyance duties as well as any concessions where applicable) arising from the proposed acquisition of Singapore United Conglomerate Pte Ltd (SUCPL) ordinary shares on 1 December 2018 for both the buyer, LKPL, and each of the three sellers, Eric Teo, Thomas Moo and Tom Sally Pte Ltd (TSPL).

The following mark allocation is provided as guidance for this requirement:

– Income tax implications	10 marks
– GST implications	2 marks
– Stamp duty implications	6 marks

(18 marks)

(ii) How the tax implications identified in (i) would differ for Sally Moo, if she chose to sell her stake in TSPL to LKPL instead of TSPL selling its 50,000 ordinary shares in SUCPL. (3 marks)

(iii) Whether or not LKPL, as a potential new shareholder, is able to benefit from the unutilised capital allowances of $2 million, either with or without injecting its profitable computer business into SUCPL. (6 marks)

(iv) Tax planning tips to reduce LKPL's stamp duty exposure and increase the likelihood of being able to utilise SUCPL's unutilised capital allowances. (4 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format, presentation and structure of the letter, the effectiveness with which the information is communicated and its logical flow. (4 marks)

(35 marks)

2 High Flex Pte Ltd (HFPL) is a company incorporated in Singapore in January 2010. Two years after incorporation, HFPL registered as a goods and services tax (GST) trader. As a newly recruited manager of the human capital department at HFPL, Andrew Pang is unsure of the various tax treatments pertaining to staff matters and has to rely on his accountant friend, Bryson Foo, to help him. For the calendar year 2018, Andrew sought help from Bryson who advised him of the following tax treatments:

Retrenchment of staff

On 1 December 2018, Miss Olivia Lim, a foreign employee from Hong Kong, was served a retrenchment letter by HFPL due to a restructuring exercise which led to making her job redundant. Although Olivia's contract provides for a three-month notice period, Olivia agreed to be released by the company on 31 December 2018, by which date she will have been employed for eight years and six months. Although not provided for in her employment contract, both parties (i.e. HFPL and Olivia) have agreed that in return for the company paying Olivia $68,000, she will leave the company by 31 December 2018. In addition to the payments she is contractually entitled to (holiday reimbursement, commission and dental reimbursement), she will receive another two months of salary, worth a total of $16,000, in view of the early termination. The proposed payment of $68,000 was calculated internally by applying a multiplier of 8·5 to her monthly pay, 8·5 being the term of service in years. The proposed payment was termed '*ex-gratia*' to make it more enticing for Olivia to accept. Olivia was somewhat gratified by the gesture although she felt that this amount was insufficient to compensate her. Nevertheless, she accepted the offer.

Bryson advised that the payment of $68,000, in reality, is compensation owed to Olivia but it is wise for HFPL to term it as an *ex-gratia* payment so that the company can claim a tax deduction for the payment, as Olivia is taxable on such a receipt. Bryson explained further that there is reciprocality in the tax treatment of fringe benefits, e.g. in order for the company to claim a deduction for payments such as holiday reimbursement, commission and dental reimbursement, the employee must be taxed on the receipt of all these employment benefits.

Fringe benefits

HFPL incurred GST on packages purchased from Universal Studios at Sentosa for a family day event for its employees. Each employee gets a package free of charge but has to pay 50% of the cost for packages for their family members.

Separately, HFPL also gave away mobile phone accessories as door gifts and lucky draw prizes during its dinner and dance. Each door gift costs $50 whilst the costs of the goods given away as lucky draw prizes range from $100 to $1,000. HFPL had previously claimed input tax on the purchase of these goods.

Bryson advised that the company can claim full tax deduction for the fringe benefits and also claim the full input tax incurred. However, the staff will be taxed fully on these benefits.

Required:

(a) Discuss the validity of the advice given by Bryson in respect of the retrenchment payment and benefits provided to Olivia. (16 marks)

(b) Explain whether or not Bryson's advice is correct in respect of the income tax and goods and services tax (GST) treatment of the fringe benefits which High Flex Pte Ltd provides to its staff. (9 marks)

(25 marks)

Section B – BOTH questions are compulsory and MUST be attempted

3 Zoro Garments China Ltd (ZGCL), a company incorporated in China, plans to engage mystery shoppers on a part-time basis as sub-contractors in Singapore.

The recruitment and assignment of work will be done electronically via the ZGCL website, which is hosted on a server located outside Singapore. The mystery shopper will visit the Singapore premises of ZGCL's clients unannounced in order to evaluate the service provided and quality of products. All data collected by the mystery shoppers will be reported back to ZGCL via its website.

The recruitment and assignment of work will be managed by Zoro Garments Hong Kong (ZGHK), a subsidiary of ZGCL. ZGHK was incorporated in Hong Kong, and has its only office located in Hong Kong. The mystery shopper results will be collated by ZGHK and sent to ZGCL's clients. ZGCL will bill its clients for work done for them. ZGHK will then bill ZGCL for costs associated with this work on behalf of ZGCL under a management agreement.

Sales generation for ZGCL is covered by the Hong Kong based sales staff of ZGHK who make frequent visits to the markets in Asia to sell on a multinational basis.

The mystery shoppers will contract with ZGCL in China as this is where the client service agreements with the primary client are at present.

ZGCL does not currently carry on any business in its own name nor have any legal entity in Singapore.

All of ZGCL's physical business operations and human activities (including provision of computer and customer support) are carried on outside Singapore. In addition, there is no marketing, servicing or delivery of goods and services being undertaken electronically in Singapore.

To prepare the mystery shoppers for their assignments in Singapore, they will each receive a one-off two-week training course in Singapore. The training will be conducted by employees from the human resource department of ZGHK who will fly in and stay at a hotel in Singapore. The training will be held in one of the seminar rooms in the hotel.

Singapore has concluded a comprehensive tax treaty with China which follows the OECD model but it has not yet done so with Hong Kong.

Required:

(a) Discuss whether or not the engagement of mystery shoppers as sub-contractors in Singapore will result in any Singapore corporate income tax liability for Zoro Garments China Ltd (ZGCL). (14 marks)

(b) Explain the withholding tax and goods and services tax (GST) implications, if any, arising from the payment of service fees by ZGCL to the mystery shoppers.

Note: You should consider the implications for both ZGCL and the mystery shoppers. (6 marks)

(20 marks)

4 Green Earth Movement Singapore (GEMS), an organisation registered as a charity under the Charities Act (Cap 37) from 1 January 2015, is set up for the advancement of environmental protection and improvement. On the same date, GEMS also became an approved institution of a public character after meeting certain conditions.

GEMS currently owns 100% of Ruby Property Investment (RPI), an entity incorporated in the British Virgin Islands (BVI). RPI has a sole director and employee, Robert Png, a Singaporean who is based in Singapore. According to the recorded minutes, RPI holds one board of directors' meeting each year in Singapore. This annual meeting is effected through passing directors' resolutions by written circulars in Singapore.

RPI does not currently engage in any operations except to hold a 50% stake in Diamond Property Investment (DPI), another entity incorporated in the BVI.

Similar to RPI, DPI does not currently engage in any operations except to hold a 40% stake in Moontec International Convention & Exhibition (MICE), an entity incorporated in Singapore. There are three directors sitting on the board of directors of MICE. Two are non-executive directors who are foreigners not based in Singapore. The third director is Robert Png, who is also the managing director with executive duties.

Through these intermediate holding companies, GEMS effectively owns 20% of MICE.

MICE generates trading income from the rental of commercial space and from organising international conferences.

MICE is contemplating whether to distribute all of its after-tax profits from its trading income as dividends to its shareholders.

There is no corporate income tax in the BVI. There is also no withholding tax on dividends paid by companies incorporated in the BVI.

Required:

(a) Explain the corporate income tax implications arising from the distribution of dividends from Moontec International Convention & Exhibition (MICE) through the chain of entities to Green Earth Movement Singapore (GEMS). (12 marks)

(b) Discuss how Ruby Property Investment (RPI) should conduct its activities to reduce the likelihood of any Singapore corporate income tax exposure. (6 marks)

(c) Explain the significance of GEMS acquiring an approved institution of a public character status from a donor's perspective. (2 marks)

(20 marks)

End of Question Paper