Strategic Professional – Options

Advanced Taxation – Singapore (ATX – SGP)

Tuesday 3 December 2019

ATX SGP ACCA EN

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) & (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 December 2018.**

You have recently attended a meeting with your clients, Simon and Hamilton, who are the two directors of Simon Hamilton Corporation Pte Ltd (SHCPL). SHCPL was incorporated in Singapore on 1 January 2011. Since incorporation, Simon and Hamilton have been attending annual general meetings in Singapore.

SHCPL incorporated three wholly-owned subsidiaries in Singapore – Justin Sinclair Pte Ltd (JSPL) on 1 January 2013, Great Titanic Pentagon Pte Ltd (GTPPL) on 1 January 2014 and Simon Isaac Hamilton Pte Ltd (SIHPL) on 1 January 2015. All three companies hold their annual general meetings in Singapore and have done so since incorporation. SIHPL holds a 100% stake in Shanghai Luxurious Properties Ltd (SLPL), a company which was also incorporated on 1 January 2015. SLPL was incorporated and is treated as tax resident in China.

JSPL

JSPL was granted a pioneer certificate by the Singapore Economic Development Board (EDB) for manufacturing green products with high technological content for a period of five years commencing from 1 January 2018. During this five-year period, income derived from this pioneer trade is wholly exempt from tax. With EDB's permission, JSPL carries on a non-manufacturing trade on which it pays corporate tax at the normal rate. JSPL also derives rental income from sub-letting part of its office premises to a tenant.

JSPL's results for the year ended 31 December 2018 were as follows:

	Gross revenues	Tax adjusted profit before capital allowances
	$	$
Pioneer trade	2,400,000	400,000
Non-manufacturing trade	1,200,000	40,000
Rental income	60,000	4,000

On 30 December 2018, JSPL made a cash donation of $20,000 to an approved institution of a public character.

During the year ended 31 December 2018, JSPL incurred $60,000 for acquiring machinery used for the pioneer trade (which has a tax useful life of six years), and $330,000 was incurred for acquiring office furniture and equipment which were used for all activities (which have a tax useful life of ten years).

GTPPL

GTPPL is an approved global trading company under the global trading programme (GTP) incentive as conferred by the then International Enterprise Singapore. For a period of five years, back-dated to 1 January 2014 (the date of incorporation), GTPPL was taxed at a concessionary tax rate of 10% on all its qualifying income derived from trading in petroleum products.

Although GTPPL benefited from the concessionary tax rate of 10% for each of the years 2014 to 2017, the market suffered a sudden temporary decline which negatively impacted GTPPL's performance during the year 2018. As a result, GTPPL incurred a net adjusted trading loss of $1 million in 2018. The finance director of GTPPL expects a significant turnaround from the year 2019 onwards.

SIHPL

SIHPL was set up as an intermediate holding company to hold shares in SLPL. SLPL owns a commercial building in Shanghai which yields rental income which is taxable in China at the corporate tax rate of 25%. The market value of this building constituted about 70% of SLPL's total value. Periodically, SLPL also pays dividends to SIHPL. So far these dividends have not been onward-paid to SHCPL.

SIHPL is currently considering a proposal to acquire either a 15% or 55% stake in Company A which is valued at $10 million. Company A's fixed asset category comprises only Singapore residential properties which are worth $20 million in total. As at 31 December 2018, half of this amount was funded by a bank loan from Singapore.

Future plans for SHCPL

Simon and Hamilton are considering whether to expand SHCPL beyond its current group of three companies – JSPL, GTPPL and SIHPL – and are unsure whether SHCPL will be treated as a passive investment holding company or an active investment dealing company.

Required:

As the external tax adviser to Simon Hamilton Corporation Pte Ltd (SHCPL), write a letter to the board of directors advising them on the following matters:

(a) **Assuming the company is not exempted from a potential adjustment to its non-pioneer profit, compute the pioneer profits and assessable income of Justin Sinclair Pte Ltd for the year of assessment 2019, with a view to minimising its overall tax liability.** (6 marks)

(b) **Discuss the options available to Great Titanic Pentagon Pte Ltd (GTPPL) to utilise its trade loss of $1 million through carry back and/or carry forward, taking into account the merits of continuing or discontinuing with the global trader programme incentive.** (6 marks)

(c) **Explain the Singapore income tax implications, if any, for Simon Isaac Hamilton Pte Ltd (SIHPL) arising from the dividend income received in Singapore from Shanghai Luxurious Properties Ltd (SLPL) and any potential capital gains implications arising from a future sale of its investment in SLPL.** (6 marks)

(d) **Compute the stamp duty (including any additional conveyance duties) payable by SIHPL if it acquires the following stakes in Company A:**

 (i) **15% stake; and**
 (ii) **55% stake.** (6 marks)

(e) **Explain the Singapore tax implications for SHCPL if it is treated as a passive investment holding company or an investment dealing company.**

 Note: Your answer should include an explanation of the deductibility of expenses and the relief available for unabsorbed loss items for each type of company. (7 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 Jason, a 50-year-old British national, worked in Singapore from 1 July 2010 to 30 June 2014. Due to his extensive travelling, he applied for and was accorded the benefits under the not ordinarily resident (NOR) scheme for the years of assessment (YAs) 2011 to 2015.

Almost four years after he moved back home to London, he returned to Singapore to commence employment as a sales director with a different Singapore firm from 1 January 2018. His new employment contract is for a period of three years during which he will receive a basic salary of $500,000 per year. He is also required to travel overseas frequently to carry out some of his Singapore employment duties. During the year 2018, Jason spent a total of 92 days working in China and India to attend to his regional sales duties.

After hearing about the benefits of the supplementary retirement scheme (SRS) from his colleague, Tom, Jason opened an SRS account with a local bank and contributed $20,000 to this account on 1 December 2018. However, he was later advised by another colleague, Jill, that he should have applied for Singapore citizenship before contributing to his SRS account, because tax relief for SRS contributions is not granted to foreigners.

On 1 July 2019, Jason married Jennifer, a 45-year-old Singapore citizen, who has a Singaporean child, Mia (aged 17), from her previous marriage. Jennifer's mother, who is not working, has been taking care of Mia since birth, although she does not live in the same household as Jennifer and Mia.

Since 1 January 2019, Jennifer has been employed as a procurement manager for Elementary Pte Ltd (EPL), a Singapore company, with a gross monthly salary of $28,000. To entice her to join EPL, she was promised a sign-on bonus of $84,000 which is equivalent to three months' salary. This bonus will be paid to Jennifer within one week of completing one full year of service, provided she is still employed with EPL at the date of payment. Due to Jennifer's excellent performance, an additional special bonus, equivalent to one month's salary, will be paid to her on 31 December 2019.

Other information relevant to Jennifer for YA 2020 is as follows:

– She will earn interest of $36,000 from a deposit placed at a reputable pawnshop in Singapore, but she will not withdraw this amount during YA 2020.

– She pays a monthly levy of $265 for a maid she employs from Myanmar.

Jennifer is aware of the $80,000 cap on total personal reliefs which a tax resident individual can claim for any year of assessment. She therefore wishes for her husband, Jason, where possible, to claim any personal reliefs which she would be unable to claim herself due to the $80,000 cap.

Required:

(a) Explain why Jason qualifies to be taxed under the not ordinarily resident (NOR) scheme for the year of assessment (YA) 2019 and the implications for him of being taxed under this scheme.

Note: Your answer should include a calculation of Jason's individual income tax liability for YA 2019.

(13 marks)

(b) Compute the minimum income tax liability of Jennifer for YA 2020, explaining the most tax efficient way for her to manage the $80,000 cap on total personal reliefs.

Note: You should assume that the tax rates and allowances for the year of assessment 2019 will continue to apply. (12 marks)

(25 marks)

Section B – BOTH questions are compulsory and MUST be attempted

3 **(a)** Leonard and Philip are both Singapore citizens and have been business partners for many years. An opportunity has been presented for each of them to acquire the business of an unrelated company, Blue Bell Pte Ltd (BBPL), which is incorporated and tax resident in Singapore. BBPL has a substantial accumulation of unabsorbed capital allowances, trade losses and donations from prior years which remain unutilised. Leonard and Philip plan to form a limited liability partnership (LLP) to take over the business of BBPL, such that BBPL could possibly become a partner of the new LLP in future.

Required:

(i) **Explain how Blue Bell Pte Ltd's (BBPL's) prior years' unabsorbed capital allowances, trade losses and donations could be utilised by BBPL once its business has been acquired by the new LLP.** (9 marks)

(ii) **Explain the similarities and differences in the tax treatment of a limited liability partnership compared to if Leonard and Philip had instead set up a general partnership.** (3 marks)

(b) You recently had a conversation with your client, Arnold, who stated the following:

'Based on Singapore domestic tax rules, regardless of the availability of tax treaties, certain foreign income earned by Singapore tax resident companies may not be subject to tax in Singapore due to either the tax exemption under the foreign source income exemption regime or the availability of unilateral tax credit. Therefore, in essence, tax treaties do not provide any additional tax benefits for a Singapore tax resident company which earns foreign income.'

Required:

Explain to what extent the statement made by Arnold is correct. (8 marks)

(20 marks)

4 You should assume today's date is 1 April 2019.

Maximus United Pte Ltd (MUPL) is a trading company incorporated and registered for goods and services tax (GST) in Singapore. MUPL has a wholly-owned subsidiary, Red Devils Pte Ltd (RDPL). RDPL was incorporated in Singapore but is not currently registered for GST in Singapore.

With effect from 1 July 2019, MUPL will second five of its staff members to RDPL for a special project which will last for two years. During this period, these five staff members will only work for RDPL which will have complete control over each of their duties. Based on a total monthly salary cost of $50,000 for all five staff members, MUPL will charge a 5% mark-up in addition to recovering the actual salary costs from RDPL.

Since 1 January 2018, RDPL has mainly derived rental income from leasing out office units at a monthly rent of $60,000. It is proposed that on 15 July 2019, RDPL will make a one-off sale of goods for $500,000 to a customer in Malaysia. These goods will be sourced from Malaysia and then sold to the customer on the same day. RDPL expects to make a quick profit of $50,000 from this sale. Apart from the secondment costs payable to MUPL, the other major expense incurred by RDPL is the salaries and bonuses of its other staff members. RDPL is currently experiencing cash flow liquidity problems.

Required:

(a) Explain the goods and services tax (GST) implications for both Maximus United Pte Ltd (MUPL) and Red Devils Pte Ltd (RDPL) arising from the secondment arrangement. (7 marks)

(b) Explain the circumstances in which RDPL would be (i) obliged to register for GST and (ii) able to voluntarily register for GST and conclude on whether GST registration would be beneficial for RDPL. (7 marks)

(c) Assuming RDPL registers for GST with effect from 1 July 2019, explain the conditions which must be met for MUPL and RDPL to apply for GST group registration and explain the advantages of doing so. (6 marks)

(20 marks)

End of Question Paper