

Strategic Professional – Options

Advanced Taxation – Singapore (ATX – SGP)

Tuesday 8 December 2020



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.

Please note that you are not expected to make any reference to Covid 19 or the global economic crisis as a result of this pandemic in your exams. None of the temporary financial or legislative measures implemented as a result of Covid are examinable.

SGP
—
ATX

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 2020 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 2020	17%
Partial tax exemption	\$
First \$10,000 of chargeable income is 75% exempt	7,500
Next \$190,000 of chargeable income is 50% exempt	95,000
Total	<u>102,500</u>
Tax exemption for new start-up companies	\$
First \$100,000 of chargeable income is 75% exempt	75,000
Next \$100,000 of chargeable income is 50% exempt	50,000
Total	<u>125,000</u>

Central Provident Fund (CPF)

Contributions for individuals below the age of 55 years and earning more than \$750 per month
(1 January 2019 to 31 December 2019)

	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 2020

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

Personal income tax reliefs for the year of assessment 2020

Earned income relief	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 relief		\$5,500 (max)
NSman relief		
	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		\$6,990 (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 non-residential properties

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

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

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%
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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) On first \$180,000	1% x U/V x W
On next \$180,000	2% x U/V x W
On next \$640,000	3% x U/V x W
Exceeding \$1,000,000	4% x U/V x W
(ii) 30% on the entire value	30% x U/V x W

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

$$\text{ACDS} \\ 12\% \times U1/V \times W$$

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).

**This is a blank page.
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 January 2019.

Integrated Development Co (IDC) is a company incorporated and tax resident in Country C. IDC is wholly-owned by Victor Han, a citizen of Country C. Country C has concluded a comprehensive tax treaty with Singapore which follows the OECD model. IDC is a diversified company and its principal activities are the development and sale of pharmaceutical products and trading in real estate (commercial and residential properties).

In addition to corporate income tax, which is levied at a flat rate of 25%, Country C taxes capital gains arising on the disposal of properties and shares at the same rate of 25%.

To mitigate the high tax burden in Country C, IDC is planning to set up three wholly-owned subsidiaries by 31 March 2019 – SingCo1, SingCo2 and SingCo3. These companies will be tax resident in Singapore and will carry out the following activities:

SingCo1

SingCo1 will be an intermediate holding company of IDC. It will be used as an investment vehicle to acquire between 10% and 25% of ordinary shares in several trading companies incorporated in various countries in Asia during the year 2019. The headline tax rate in each of these countries is expected to be 20% or more. SingCo1 expects to receive dividends from these trading companies, but only in the year 2020 and some of these equity stakes may be divested after 2020.

Two such acquisitions have been contemplated and presented to the board for consideration. One is a proposed acquisition of a 19% stake in a company incorporated in Malaysia which is planned to take place before the end of the year 2019. SingCo1 plans to hold this investment for at least five years. The other is a proposed acquisition of a 22% stake in a company incorporated in Thailand by 1 July 2019 and SingCo1 may sell this investment in the year 2021. The headline tax rates in Malaysia and Thailand are 24% and 20% respectively.

SingCo2

SingCo2 will attempt to replicate the successful pharmaceutical business of IDC in Singapore. It is envisaged that IDC will transfer some of its business assets from its existing business in Country C to SingCo2. The assets/key personnel transferred will be certain pharmaceutical patents, as well as scientists who are renowned for their research in particular products. These scientists will spend most of their time developing new products in Singapore, including improving products which have already been developed in Country C. SingCo2 will not undertake any research work on behalf of IDC.

Once successful, SingCo2 will attempt to commercialise its research by rolling out the production of the pharmaceutical products for sale to the Singapore market. SingCo2 is expected to generate trading income for its first financial period ended 31 December 2019.

SingCo3

SingCo3 will attempt to replicate the successful real estate business of IDC in Singapore. It will focus on acquiring and selling both residential and commercial properties located in Singapore only. It will register for goods and services tax (GST) by 31 March 2019.

Two such acquisitions have been contemplated and presented to the board for consideration. One is a proposed acquisition of a good class bungalow. The other is a proposed acquisition of office units located on the entire floor of an office complex. Once approved, the acquisitions will proceed on 1 July 2019. At the right price, SingCo3 will consider divesting all these investments.

Required:

As the tax adviser to Integrated Development Co, write a letter to the board of directors to advise on the following matters:

- (a) Explain the Singapore income tax implications for SingCo1 of the receipt of dividends from the trading companies in Asia and the subsequent divestment in these companies. (6 marks)
- (b) Discuss whether or not SingCo2 may be eligible to apply for the following tax incentive schemes in Singapore and explain the tax benefits of each:
 - (i) Pioneer incentive;
 - (ii) Writing down allowances for intellectual property rights;
 - (iii) Research and development incentive;
 - (iv) Intellectual property development incentive. (16 marks)
- (c) Explain the goods and services tax (GST) and stamp duty implications for SingCo3 which may arise from the acquisition and subsequent sale of residential and commercial properties in Singapore. (6 marks)
- (d) Explain how the stamp duty implications in (c) will differ if Victor Han personally acquires and disposes of the properties instead of SingCo3. (3 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 You should assume today's date is 1 January 2019.

Donny, aged 26, is a recently qualified doctor. He is expected to earn \$120,000 for the year 2019 under one of the following three options:

Option 1

As an employee, Donny will be paid a monthly salary of \$8,000 with an annual bonus of \$24,000. He will make compulsory Central Provident Fund (CPF) contributions as required by law.

Option 2

As a self-employed doctor with his own clinic, his monthly income will be \$10,000 and as such he will only need to make compulsory CPF contributions to his Medisave account at the rate of 8%, up to an annual cap of \$5,760.

Option 3

By incorporating a company, the company will earn an annual income of \$120,000. As the sole shareholder, sole director and the only doctor earning income for the company, all the income will indirectly belong to Donny. The company will pay the entire after-tax profit to him as a dividend.

Additional information

Donny lives in an apartment in Singapore with his father, George, his mother, Olive, and his sister, Marie. George and Olive were singers who retired after turning 60 years of age with negligible CPF savings. The whole family are Singaporeans. George and Olive received \$300 monthly allowance from each of their two children during the year.

Marie's chargeable income for the year 2019 is expected to be \$35,000.

Required:

- (a) **Compute Donny's disposable income for the year of assessment 2020 under each of the three options.** (12 marks)
- (b) **Explain whether or not each of the three options is viable and explain which option Donny should choose by reference to the calculations of his disposable income in (a).** (5 marks)
- (c) **Assuming Donny receives an inheritance of \$100,000 in December 2019, advise him on the maximum individual income tax which he could save under each of options 1 and 2 using only CPF contributions and other savings schemes.** (8 marks)

(25 marks)

Section B – BOTH questions are compulsory and MUST be attempted

3 You should assume today's date is 1 October 2019.

Fednix Global Limited (FGL) is a company incorporated and tax resident in Country F, a country which has concluded a comprehensive tax treaty with Singapore which follows the OECD model. Its principal activity is to provide global customers with online streaming of music and videos. FGL's backroom support personnel are all located in Country F.

FGL recently appointed Mark, a citizen of Country F, as its representative who will be based in Singapore for the period from 16 October 2019 to 29 February 2020.

As FGL does not have any legal presence or office in Singapore, Mark is expected to find his own accommodation in Singapore and work from home. His duties are limited to liaising with Singapore customers, answering their queries on the various subscription plans offered by FGL and collecting customer feedback. He will take instructions from and communicate with the backroom support personnel in Country F.

FGL will pay Mark a monthly remuneration of \$10,000 which will be directly credited to his bank account in Country F. In addition to his appointment with FGL, Mark will perform similar duties for other foreign companies which have operations similar to FGL.

FGL's global turnover was \$2 million in the year 2018, 10% of which was generated from Singapore individual customers. Its global turnover, including the Singapore portion, is expected to increase in 2019 and beyond.

Required:

(a) Explain the Singapore tax obligations of Fednix Global Limited (FGL) arising from the appointment of Mark, assuming:

- (i) he is treated as an employee; and**
- (ii) he is treated as an independent contractor.**

Based on the facts, explain the most likely conclusion in respect of Mark's employment status. (6 marks)

(b) Explain, with supporting calculations, how Mark's individual income tax liability in Singapore will be computed, if:

- (i) he is treated as an employee; and**
- (ii) he is treated as an independent contractor. (4 marks)**

(c) Explain whether FGL will have any Singapore corporate income tax exposure as a result of its appointment of Mark. (4 marks)

(d) Explain whether FGL has any goods and services tax (GST) obligations in Singapore in the relevant years. (6 marks)

(20 marks)

4 You should assume today's date is 1 January 2020.

Adam and Ella are partners in A&E LLP, a limited liability partnership (LLP). A&E LLP commenced trading in goods in Singapore on 1 January 2018. Both partners agreed to share profits in the ratio of their capital contributions. On 1 January 2018, they each contributed \$300,000. On 1 July 2019, both partners reduced their respective contributed capital to \$100,000 each.

The following information relates to A&E LLP for the years of assessment (YA) 2019 and 2020 based on the partnership accounts for the years ended 31 December 2018 and 31 December 2019 respectively:

	\$
YA 2019	
Adjusted loss before capital allowances	200,000
Current year capital allowances claimed	80,000
Turnover	1,200,000
YA 2020	
Adjusted loss before capital allowances	400,000
Current year capital allowances claimed	120,000
Turnover	900,000

Besides being an active partner of A&E LLP, Adam is also a sleeping partner in a general partnership, Adam and Partners (A&P). He set up A&P in April 2019 with two other partners, James and Mary. A&P conducts the same trading activities as A&E LLP. A&P reported a turnover of \$280,000 for the period from 1 April to 31 December 2019. Adam's share of the profit from A&P during this period was \$20,000.

Adam is also a non-executive director and received fees of \$200,000 and \$250,000 for YA 2019 and YA 2020 respectively.

Required:

- (a) Calculate the assessable income of Adam for the years of assessment 2019 and 2020, stating clearly the amount of any relevant deductions. Identify any qualifying loss items and explain how these may be utilised.** (10 marks)
- (b) Explain how your answer to part (a) would differ if Adam and Ella had set up a general partnership instead of a limited liability partnership (LLP).** (4 marks)
- (c) State what constitutes the contributed capital of a partner of an LLP.** (2 marks)
- (d) Explain whether A&E LLP must register for goods and services tax (GST) in Singapore.** (4 marks)

(20 marks)

End of Question Paper