Strategic Professional – Options

Advanced Taxation – Singapore (ATX – SGP)

Tuesday 2 June 2020

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 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	102,500
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	125,000

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
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 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%

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

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).

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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 2019.

Huckleberry Holding Pte Ltd (HHPL) is a parent company which has set up three wholly-owned subsidiaries – Subco One Pte Ltd (SOPL), Subco Two Pte Ltd (STPL) and Overseas Venture Limited (OVL). HHPL, SOPL and STPL are incorporated in Singapore, and have held their annual general meetings in Singapore since 1 January 2015. OVL is incorporated in Country A, a country with a headline corporate tax rate of 25%. Country A has not concluded any comprehensive tax treaty with Singapore.

As an approved headquarter company, HHPL was awarded with a development and expansion incentive with a concessionary tax rate of 10%. This concessionary rate was applicable from 1 January 2019 on qualifying management fee income HHPL receives from its three subsidiaries. The services provided by HHPL were rendered entirely from Singapore. For the year ended 31 December 2019, in addition to income from the sale of goods amounting to $16 million, HHPL expects to receive total annual management fees of $10,500,000 split as follows:

Subsidiary	Management fee paid to HHPL
	$
SOPL	6,000,000
STPL	3,000,000
OVL	1,500,000
Total	10,500,000

The basis of the split of management fees is the turnover of each subsidiary.

The amount of $10,500,000 was arrived at by adding a 5% mark-up to the following costs:

	$
Salary costs of key management staff to provide support services (note 1)	5,500,000
Overhead costs incurred for the provision of the support services	4,450,000
Payments on behalf of subsidiaries to external service providers	50,000
	10,000,000

Note 1 – Support services include accounting, budgeting, computer support, employee benefits administration, purchasing activities and technical services.

HHPL has not entered into any arrangements with the Inland Revenue Authority of Singapore (IRAS) for its related party transactions.

SOPL is a trading company and derives income from the sale of electrical products. For the year ended 31 December 2019, its forecast adjusted trade loss is $120,000. In addition, it will have current year unabsorbed donations amounting to $90,000.

STPL is also a trading company and derives income from the sale of pharmaceutical products. It was awarded with an investment allowance (IA) incentive at the rate of 50% for an investment period of two years commencing 1 January 2018. The following information is also relevant for STPL for the years ended 31 December 2018 and 31 December 2019:

	2018	2019 (forecast)	Total
	$	$	$
Qualifying investment expenditure incurred	600,000	200,000	800,000
Adjusted trade profit after capital allowances but before IA claim	350,000	550,000	900,000

OVL is very profitable and claims a tax deduction for management fees paid to HHPL. However, based on the tax laws in Country A, any actual payment of such fees is subject to a final withholding tax at the rate of 20%.

The board of directors of HHPL is concerned about transfer pricing. The directors have heard that IRAS has stringent rules on the need to apply arm's length pricing and prepare detailed transfer pricing documentation, which may be applicable to HHPL and its subsidiaries for the year of assessment 2020.

Required:

As the tax adviser to Huckleberry Holding Pte Ltd (HHPL), write a letter to the board of directors to advise on the tax implications of the following matters:

(a) **Explain whether or not HHPL is exempt from preparing transfer pricing documentation (TPD) for the year of assessment (YA) 2020.** (5 marks)

(b) **If TPD is required, explain what HHPL must do to comply with the TPD requirements and state the penalty for non-compliance.**

Note: You are not required to set out the detailed information to be included in the TPD. (3 marks)

(c) **Explain the arm's length principle for transfer pricing purposes and whether or not the transfer pricing policy adopted by HHPL is likely to meet the arm's length requirement, explaining the consequences if it does not.** (10 marks)

(d) **Discuss the options available to Subco One Pte Ltd to utilise its YA 2020 current year loss items.** (6 marks)

(e) **Construct the investment allowance account and compute Subco Two Pte Ltd's chargeable income for YA 2019 and YA 2020, assuming the company would like to minimise its total tax liabilities.** (3 marks)

(f) **In view of the withholding tax levied in Country A, HHPL is considering waiving the management fees payable by Overseas Venture Limited. Explain whether or not this action would yield any net tangible tax savings for the group.** (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 Templeton Oriental Trading Limited (TOTL) is a company incorporated in Hong Kong. On 1 January 2019, TOTL seconded its employee, Juliana, to take up the post of regional managing director in its wholly-owned Singapore subsidiary, Templeton Oriental Trading Singapore Pte Ltd (TOTSPL). Juliana is aged 45 and a Hong Kong citizen. She had never worked in Singapore before. Had she remained in employment in Hong Kong, her income tax liability would have been $100,000. She will not perform any duties for TOTL whilst she is in Singapore.

Juliana worked for TOTSPL throughout the year of assessment 2020 and was required to travel frequently in the discharge of her employment duties in Singapore. Additional information regarding the salary and employment benefits Juliana received in Singapore for the year of assessment 2020 is as follows:

– A monthly basic salary of $50,000.

– A contractual bonus equal to three months' salary, paid in January 2020.

– Total *per diem* allowances of $10,000 for spending 100 days overseas in five Asian countries at rates not exceeding the rates prescribed by the Inland Revenue Authority of Singapore (IRAS) for each country travelled to.

– A partially-furnished apartment provided by TOTSPL, sourced from an external landlord at a monthly rental of $9,000. Juliana did not make any contribution toward the rental costs.

– A new company car with all of the running expenses for the car fully paid by TOTSPL. The cost of the car, inclusive of the registration fee, was $180,000 and its preferential additional registration fee rebate upon deregistration in approximately ten years' time will be $30,000. For the year 2019, TOTSPL incurred $20,000 in respect of the car's running expenses. It was also estimated that 10,000 km of Juliana's travel related to private journeys.

Required:

(a) Explain whether or not Templeton Oriental Trading Limited (TOTL) will have any potential tax liability arising from sending Juliana to take up the position in Templeton Oriental Trading Singapore Pte Ltd (TOTSPL). (4 marks)

(b) Discuss which tax incentive scheme(s) in Singapore Juliana is able to claim and how any available scheme(s) will reduce her Singapore income tax liability for the year of assessment (YA) 2020. (5 marks)

(c) Compute Juliana's minimum Singapore income tax liability for YA 2020. (6 marks)

(d) Re-compute Juliana's Singapore income tax liability under each of the following arrangements:

(i) TOTSPL agrees to bear Juliana's Singapore income tax liability for YA 2020 in full; and (3 marks)

(ii) TOTSPL agrees to put in place a tax equalisation policy for Juliana for YA 2020. (3 marks)

(iii) Explain how your answer to part (ii) would be different if TOTSPL agrees to put in place a tax protection policy instead of a tax equalisation policy for Juliana for YA 2020. (4 marks)

(25 marks)

Section B – BOTH questions are compulsory and MUST be attempted

3 Chaperon Pte Ltd (CPL) is a company incorporated and tax resident in Singapore. During the year ended 31 December 2019, CPL derived a tax-adjusted Singapore trading profit of $200,000. In addition, it also received foreign-sourced income from its wholly-owned subsidiaries in three countries: Country X, Country Y and Country Z. The following table details the foreign income received by CPL and other tax information in respect of each country:

	Country X	Country Y	Country Z
Nature of foreign income	Dividend	Royalty	Interest
Domestic withholding tax	15%	15% (Note 1)	12% (Note 1)
Permanent establishment	No	No	No
Net foreign income remitted	$67,500	$42,500	$20,000
Foreign income tax paid (Note 2)	Yes	Yes	Exempted
Headline tax rate	25%	30%	28%
Tax treaty with Singapore	Yes	No	Yes
Treaty withholding tax	10%	N/A	10%
Tax sparing article	No	N/A	Yes

Notes:

1. These domestic withholding tax rates, which are lower than the respective headline tax rates in Country Y and Country Z, apply on the premise that CPL did not have a permanent establishment in either of these countries in the calendar year 2019.
2. Foreign income tax paid refers to withholding tax and the underlying tax suffered, where applicable.

Required:

(a) Explain whether or not the foreign-sourced income from Country X, Country Y and Country Z qualifies for tax exemption, foreign tax credit (FTC) and FTC pooling. (7 marks)

(b) Compute the minimum corporate tax liability of Chaperon Pte Ltd (CPL) for the year of assessment (YA) 2020, ignoring FTC pooling.

Note: You should indicate by the use of zero (0) any items which are not taxable or deductible. (7 marks)

(c) Explain, with supporting calculations, whether or not any election for FTC pooling will reduce the minimum corporate tax liability of CPL. (6 marks)

(20 marks)

4 You should assume today's date is 20 January 2020.

Stampede International Pte Ltd (SIPL) was incorporated in Singapore on 1 April 2018 and is a subsidiary of a German parent company. SIPL registered for goods and services tax (GST) in Singapore on 1 July 2019 and has so far filed only one GST return for the quarter ended 30 September 2019. Below are details of GST supplies made during the relevant quarters:

Quarter ended	Standard-rated supplies $	Zero-rated supplies $	Total supplies $
30 June 2018	180,000	50,000	230,000
30 September 2018	70,000	110,000	180,000
31 December 2018	160,000	120,000	280,000
31 March 2019	600,000	200,000	800,000
30 June 2019	300,000	200,000	500,000
30 September 2019	50,000	100,000	150,000
31 December 2019	180,000	140,000	320,000

Jack is a consultant and was contracted by SIPL on 1 January 2020 to conduct a review of its GST tax compliance. Jack made the following comments pertaining to each of the following issues:

(1) **GST registration**

'SIPL is likely to be penalised for late GST registration. Based on its standard-rated supplies for the quarter ended 31 March 2019 and the previous three quarters, its turnover would have exceeded $1 million at $1,010,000 (180,000 + 70,000 + 160,000 + 600,000). Luckily, the only consequence of late registration is a fine of up to $10,000.'

(2) **Purchase of company van**

SIPL had claimed input tax incurred on the purchase of a company van on 1 July 2019 which cost $100,000 in total, exclusive of GST (with depreciation over five years) and was used for making deliveries. During the period from 1 July 2019 to 30 September 2019, the driver solely used the van for private purposes for free, and the company incurred petrol and road maintenance costs of $500 during that same period for which the relevant input tax was claimed. From 1 October 2019, the van was used only for making deliveries.

'SIPL is entitled to claim input tax on both the purchase of the van as well as any running expenses incurred in respect of the van. However, there will be deemed output tax for letting its employee use the van for free.'

(3) **Provision of training, temporary accommodation and recreational visits to visiting employees of German parent company**

SIPL provided a one-week training course to a group of three employees from its German parent company who travelled to Singapore. During their one-week stay, these employees stayed in a serviced apartment leased by SIPL from a GST-registered landlord and also signed up for some recreational visits to tourist attractions outside office hours. SIPL paid for these two expenses (without recharging its parent company) and claimed the input tax for both. It charged its German parent company the cost of the training conducted in Singapore plus 7% GST.

'The training cost charged to the German parent company should be regarded as standard-rated supplies since the personnel are in Singapore to receive these services and therefore cannot be zero rated. The input tax incurred for both the lease of the serviced apartment and the recreational tours is claimable as these are fringe benefits incurred for business purposes.'

Required:

Discuss the validity of Jack's comments for each of the following issues:

(a) Goods and services tax (GST) registration and fines; (8 marks)

(b) Purchase of company van; (5 marks)

(c) Provision of training, temporary accommodation and recreational visits in relation to visiting employees of the German parent company. (7 marks)

(20 marks)

End of Question Paper