Professional Level – Options Module

Advanced Taxation (Singapore)

Thursday 9 June 2016

Paper P6 (SGP)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This question paper is divided into two sections:

Section A – BOTH questions are compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Tax rates and allowances are on pages 2–4

Do NOT open this question paper until instructed by the supervisor.
During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.
This question paper must not be removed from the examination hall.

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 2016 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

Buyer's stamp duty for all properties

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

Additional buyer's stamp duty for residential properties

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%

Seller's stamp duty for residential properties

Property disposed of within one year of purchase	16%
Property disposed of within more than one year and up to two years of purchase	12%
Property disposed of within more than two years and up to three years of purchase	8%
Property disposed of within more than three years and up to four 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%

Corporate income tax

Rate – Year of assessment 2016	17%
Corporate income tax rebate (capped at $20,000)	30%

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

Full 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 50 years and earning more than $750 per month

	Employee	**Employer**
Rates of CPF contributions	20%	17%
Maximum monthly ordinary wages (OW) attracting CPF	$5,000	

For the year 2015 (i.e. from 1 January 2015 to 31 December 2015)

Maximum annual ordinary wages (OW) attracting CPF	$60,000
Maximum annual additional wages (AW) attracting CPF	$85,000 less OW subject to CPF

Personal income tax for the year of assessment 2016

	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	17·0	6,800
On the first	200,000		20,750
On the next	120,000	18·0	21,600
On the first	320,000		42,350
Above	320,000	20·0	

Personal income tax reliefs for the year of assessment 2016

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)**
Not living in the same household	$5,500	$10,000
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)	
Voluntary CPF contribution of self-employed	Capped at $31,450 or 37% of assessable trade income whichever is lower	
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	$6,360 (max)	
Supplementary retirement scheme		
Foreigners	$29,750 (max)	
Singaporeans and Singapore permanent residents	$12,750 (max)	

Section A – BOTH questions are compulsory and MUST be attempted

1 **You should assume that today's date is 1 December 2015**

Company A is a trading company in the food industry. Since its incorporation in 2001, Company A has always been tax resident in Singapore. For the year ended 31 December 2015, its chargeable income is expected to be about $200,000 based on a turnover of $30 million. Company A currently employs 180 permanent staff who are all Singaporeans working entirely in Singapore.

Company B is the ultimate holding company of Company A. Like Company A, it has also been tax resident in Singapore since its incorporation in 2001. Company B derives mainly management fee income from providing management services to Company A, as well as trading income. For the year ended 31 December 2015, its chargeable income is expected to exceed $10 million, based on a turnover of $90 million. Company B currently employs 30 permanent staff who are all Singaporeans working entirely in Singapore.

Due to expansion, Company A is contemplating acquiring a 30% stake from the existing shareholders in Company C, an unrelated company also in the food industry, by the end of the year 2015. Company C was incorporated in the year 2012 with two individual shareholders who will have each held a 50% stake in the company continuously from its incorporation until this transaction.

Company C has accumulated unutilised capital allowances of $300,000 for the year ended 31 December 2013 and unutilised trade losses of $200,000, for the year ended 31 December 2014.

To fund the acquisition of Company C, Company A proposes to take up a bank loan and expects to incur an interest cost on this loan. Company A has engaged a tax law firm to undertake both financial and legal due diligence and incurred fees of $25,000. After factoring in goodwill, Company A is expected to offer $4 million for the 30% stake in Company C.

Company A believes in innovating its products in order to achieve continued sustainable future growth. To this end, it has employed researchers to attempt to develop special feeds which will change the rearing process of chickens so that they can be free of antibiotics. If successful, this will revolutionise chicken rearing in Singapore. Company A expects to conduct a series of experiments for this project, some of which will be carried out overseas. Company A expects to incur $1 million expenditure on staff costs and consumables in Singapore, and twice this amount (i.e. $2 million) outside Singapore on this research project. Company A will hold the legal ownership of any intellectual property (IP) which is created from any new technology successfully developed. In addition, it will be able to commercially exploit the IP by manufacturing and selling the new product, and have full discretion on the number of the units to manufacture for sale. Company A is contemplating seeking reimbursement of all the research and development expenditure incurred in this project from Company B.

Company B currently provides routine support services to Company A, for which it has been recovering its costs plus a mark-up of 5%. It is contemplating a request by Company A to lower the mark-up to 4%. At present, the annual management fees paid fall in the range of $1,200,000 to $1,500,000. Company A is concerned about transfer pricing as it has heard that the Inland Revenue Authority of Singapore has recently laid down stringent rules on documentation.

Required:

As the tax adviser to Company A, write a letter to the board of directors to advise on the tax implications for Company A of the following matters:

(i) **The proposed acquisition of the shares in Company C.** (12 marks)

(ii) **The research and development (R&D) activities in Company A.** (12 marks)

(iii) **The corporate income tax issues relating to the management services provided to Company A by Company B.** (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 You should assume that today's date is 1 August 2015

Cheryl Elizabeth is an Australian citizen, aged 35. She is married to John, aged 38, who is also an Australian citizen. The couple currently have only one child, who was born in Australia in the year 2013, but plan to have more children.

Cheryl is employed by International Corporation Limited (ICL), a company incorporated in Australia. On 1 September 2015, she will be posted from ICL's Australian headquarters to the Singapore branch office for a period of 18 months ending 28 February 2017. Her role in Singapore will be to oversee the Asia Pacific regional sales and distribution network. John will remain in Australia, where he runs his own business.

As part of her employment package during her secondment to Singapore, Cheryl will be provided with the following benefits:

- a one-off cash relocation allowance of $100,000 as well as paid air tickets to Singapore worth $10,000;
- a monthly salary of $80,000 under the Singapore office's payroll;
- a fully furnished apartment in Singapore with an annual value of $72,000;
- continue to be granted employee stock options in ICL during the 18-month period. Cheryl envisages that she will not have any additional tax exposure due to the granting of these options as she does not expect to exercise these stock options during her stay in Singapore; and
- 20 days per year home leave, in addition to her normal leave, but with travel home at her own expense.

At the end of her 18-month secondment, Cheryl will return home to Australia to develop ICL's regional distribution network there. Travel home will be at her own expense.

Cheryl is contemplating taking up the offer of citizenship by the Singapore government and then buying a permanent apartment in Singapore.

Required:

(a) Explain the tax obligations of the Singapore branch, as employer, in respect of Cheryl. (3 marks)

(b) Set out the taxation position regarding each item of Cheryl's employment package in Singapore. (5 marks)

(c) Explain whether Cheryl will be treated as a tax resident during her stay in Singapore and how her tax resident status will impact her tax liability during her entire stay in Singapore. Support your explanations with a detailed tax calculation for the year of assessment 2016.

Note: You are not required to provide tax calculations for any other year of assessment. (8 marks)

(d) Identify and explain SIX ways in which Cheryl might minimise her tax liability, either by amending the terms of her employment package or through the use of any additional schemes or reliefs which might be appropriate for her. Assume Cheryl will travel for up to 100 days per calendar year in discharging her employment duties while on secondment in Singapore. (9 marks)

(25 marks)

Section B – TWO questions ONLY to be attempted

3 Lucky Laksa Corporation (LLC) is a company incorporated and tax resident in Country L, a country which has not concluded any comprehensive tax treaty with Singapore. Since its incorporation in 1998, LLC has established a reputation for its delicious laksa, a traditional curry noodle served with rich portions of coconut milk and complementary ingredients. Over the years, LLC has expanded rapidly by setting up outlets in the major cities of Country L.

On 15 April 2015, LLC granted an exclusive three-year franchise to Famous Noodles Pte Ltd (FNPL), a company incorporated and tax resident in Singapore since 1 January 2013. FNPL is owned by two university graduates.

The franchise agreement provides that LLC is entitled to receive the following payments from FNPL:

(1) A one-off sum of $120,000 for travelling to Singapore to advise FNPL on all business matters relating to the establishment of FNPL's outlet in Singapore payable by the end of April 2015.

(2) A sum of $60,000, payable in six monthly instalments commencing from 1 April 2015, in return for supplying FNPL with the secret recipe for preparing a delicious bowl of laksa.

(3) A lump sum of $50,000 for travelling to Singapore to demonstrate LLC's quality service standards in preparing a delicious bowl of laksa and for an instruction manual which sets out detailed training steps for preparers of laksa in FNPL's outlet, payable by the end of April 2015.

It was also agreed that LLC will send two of its employees, who are tax residents in Country L, to Singapore for ten weeks in the last quarter of 2015. During this period, FNPL will bear the total salaries and allowances of these two employees in Singapore totalling $20,000. In addition, all accommodation, meals and transportation expenses incurred by these two employees will be fully reimbursed to LLC by FNPL.

On 1 July 2015, LLC sold two machines for use in the manufacture of noodles to FNPL, at a price of $100,000 each.

Required:

Discuss the Singapore income tax implications for all relevant parties of the following :

(a) Each of the payments (1), (2) and (3) above made by Famous Noodles Pte Ltd (FNPL) to Lucky Laksa Corporation (LLC) under the franchise arrangement. (13 marks)

(b) The salaries and allowances of $20,000 borne by FNPL and the reimbursement of expenses by FNPL in respect of the two employees of LLC. (3 marks)

(c) The sale of the two machines from LLC to FNPL. (4 marks)

Note: You are not required to calculate the amount of any tax payable.

(20 marks)

4 (a) Purpleland Realty Sdn Bhd (PRSB) is a property developer company incorporated and tax resident in Malaysia. In January 2016, PRSB completed its latest luxurious condominium project in Johore, Malaysia.

On 30 March 2016, PRSB sent a team of ten sales executives to Singapore to promote the sales of the project to Singapore buyers through a soft launch. Prior to the soft launch, PRSB also ran a one-month-long campaign to advertise the project in the major newspapers in Singapore.

The sales executives booked a ballroom in a hotel in Orchard Road in Singapore. During the sales sessions, the sales executives gave presentations on expected rental yields, prices of nearby properties, interest rates, and other economic data about the project. The executives also gave video presentations showing the vicinity and the award-winning interior design of the apartment units. Some staff from a Singapore bank and property lawyers from a Malaysian law firm were also present in the ballroom to address enquiries regarding financial assistance and legal and other matters.

During the soft launch, the sales executives were authorised by PRSB to grant buyers in Singapore discounts of up to 10% of the listed prices without the requirement to get PRSB's prior approval. They were also authorised to receive initial payments from buyers.

The sales sessions were a big success, and five individuals, all males in Singapore, purchased one unit each, each receiving the full 10% discount. Under the terms of the purchase and sale agreements which were signed in the Singapore hotel on the day, each of them made an initial payment equal to 20% of the discounted price.

Another two individuals, both females, successfully negotiated for a discount of 15% as they were existing owners of other Malaysian properties developed by PRSB. For those two individuals, the executives faxed their relevant details to PRSB in Malaysia, who agreed in principle to grant a higher discount. However, the executives only collected a booking fee of 1% from these two individuals, with the balance of 19% to be paid one month later. The sales and purchase agreements for these two buyers were signed in May 2016 in Johore.

Singapore has concluded a comprehensive tax treaty with Malaysia which generally follows the OECD Model Convention.

Required:

Discuss whether the initial payments which were received by the sales executives from the five male buyers and the two female buyers will be taxable in the hands of Purpleland Realty Sdn Bhd (PRSB) in Singapore.

Note: Your answer should include an analysis of the effect (if any) of the tax treaty between Singapore and Malaysia, assuming the treaty follows the current OECD Model Convention in full. (10 marks)

(b) Betterfield Holding Pte Ltd (BHPL) was incorporated in Singapore on 1 April 2015. Initially registered as an investment holding company to take equity stakes in listed property companies, BHPL was dormant for the three months to 30 June 2015. On 1 July 2015, BHPL acquired a commercial property for $3,210,000, inclusive of 7% goods and services tax (GST) from one of its directors. Before making this purchase, BHPL had sought advice on how the purchase could impact the personal tax liability of the director from Damian, who operates his own consultancy business. Upon completing his work on 2 May 2015, Damian sent BHPL an invoice for the amount of $2,140 inclusive of GST.

On 1 August 2015, BHPL managed to secure a tenant for the commercial property. The tenant is an individual and BHPL charges him a monthly rent of $15,000. Acting on the advice of Damian, BHPL applied for and was granted GST registration on 1 September 2015. Following its GST registration, BHPL started to charge the tenant a monthly rent of $16,050, inclusive of GST.

After obtaining its GST registration, BHPL incurred input tax in respect of the following expenses (all amounts inclusive of GST) in the month of September 2015:

– Mobile phone charges costing $535 incurred by a sales manager for official duties.
– Reimbursement of the full annual subscription fee of $428 paid to ACCA by the company's accountant.
– Provision of pantry food valued at $321 for staff.

Required:

Advise Betterfield Holding Pte Ltd on all of the goods and services tax (GST) implications arising from the above scenario. (10 marks)

(20 marks)

5 Singco, a company incorporated and tax resident in Singapore, has been listed on the Singapore Stock Exchange since 1 January 2007. Singco has a 100%-owned subsidiary, BeeCo, which is tax resident in Country B. BeeCo in turn owns 100% of the shares in CeeCo, which is tax resident in Country C. CeeCo has been operating a manufacturing facility and deriving taxable trading profits in Country C since 2005. From an international tax planning perspective, Singapore is the home country, Country B is the intermediary country, and Country C is the country of source where the operating profits are made. All three companies have a financial year ending 31 December.

Country B does not tax either trading profits or capital gains, nor does it have a withholding tax system. Country B has not concluded a comprehensive tax treaty with any relevant country.

Country C's corporate tax regime taxes trading profits and capital gains sourced in Country C at the rate of 25%. Under Country C's domestic law, withholding tax at the rate of 10% is applicable to the dividends paid by a Country C company out of trading profits and capital gains sourced in Country C. However, under the Singapore–Country C tax treaty, the withholding tax rate applicable to dividends is reduced to 5%.

CeeCo proposes to pay a dividend out of its trading profits to Singco through BeeCo in September 2016. This will be the first dividend which Singco has received out of the operating profits of CeeCo.

Required:

(a) (i) Identify and explain the types and rates of taxes which will arise in Country C and Country B in respect of the proposed dividend payment by CeeCo to Singco via BeeCo. (3 marks)

(ii) Explain the tax position regarding the proposed dividend payment in Singapore, including any action(s) Singco will need to take and the timeline for these. (8 marks)

(b) Explain why the current structure of the Singco group is not tax efficient in relation to the payment of dividends, state how this inefficiency might be eliminated and comment on why Singco may choose not to implement your advice. (4 marks)

(c) Discuss whether a Singapore company would generally be better off investing directly into a foreign entity rather than indirectly through an intermediate holding company.

Note: Your answer should consider relevant non-tax factors as well as the tax factors. (5 marks)

(20 marks)

End of Question Paper