

Singapore CA Qualification Examination
10 December 2021
Taxation

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **TWENTY-EIGHT (28)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. This examination paper is the property of the Singapore Accountancy Commission.

IMPORTANT NOTICE:

If you are not feeling well, please do not press "Start Assessment". If you have started and leave during the exam, you would be deemed to have attempted the paper.

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****VERY IMPORTANT NOTICE****

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1. Your question paper is attached under the "**Resources**" tab found at the bottom right of **EACH** question.
2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal.
3. Please download the relevant required Appendices in Question 1 of the e-Exam portal.

Other important information:

4. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.
5. You are **NOT ALLOWED** to access any websites during the exam.
6. You are **NOT ALLOWED** to print the question paper.
7. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any websites, or if you cheat or attempt to cheat, you will be liable to severe disciplinary action.**

Should you encounter any issues during the exam, please call the following numbers:
+65 6100 0516

8. **You do not need fill in an answer for this question.**

Appendix A - Tax Rates and Allowances - Year of Assessment 2021

Goods and Services Tax

Standard rate	7%
Compulsory Registration threshold	\$1 million

Stamp Duty

Category	% rates payable on the amount of value of consideration
a. Conveyance, assignment, or transfer of immovable non-residential properties	
- Up to the 1 st \$180,000	1%
- Up to the next \$180,000	2%
- Over \$360,000	3%
b. Conveyance, assignment, or transfer of stocks or shares	0.2% of the higher of the net asset value or the consideration
c. Mortgage of stocks, shares or immovable properties	0.2% or 0.4% up to maximum duty of \$500
d. Gift of immovable non-residential properties	Same as a.
e. Gift of stocks and shares	Same as b.
f. Lease of immovable properties	
- Annual rent and other consideration calculated is \$1,000 and below	Exempt
- Annual rent and other consideration calculated exceeds \$1,000	Lease period of 4 years or less: 0.4% of total rent for the period of the lease
	Lease period of more than 4 years (or for an indefinite term): 0.4% of 4 times the average annual rent for the period of the lease

Appendix A - Tax Rates and Allowances - Year of Assessment 2021

Corporate Income Tax Rate

Year of Assessment 2021 17%

<u>Partial Tax Exemption</u>	\$
First \$10,000 of chargeable income is 75% exempt	7,500
Next \$190,000 of chargeable income is 50% exempt	<u>95,000</u>
Total	<u>102,500</u>

Start-up tax exemption

First \$100,000 of chargeable income is 75% exempt	75,000
Next \$100,000 of chargeable income is 50% exempt	<u>50,000</u>
Total	<u>125,000</u>

Withholding tax rates

Nature of income	% rates payable
Interest and other payments in connection with loan or indebtedness	15%
Royalty or other lump sum payments for the use of, or the right to use, movable properties	10%
Payment for the use of, or the right to use, scientific, technical, industrial, or commercial knowledge or information	10%
Technical assistance and service fees	Prevailing Corporate Tax rate
Management fees	Prevailing Corporate Tax rate
Rent or other payments for the use of movable properties	15%
Payment to Non-Resident Director	22%
Non-resident professional	15% of gross or 22% of net

Non-residential property tax

Non-residential buildings and land are taxed at 10% of the annual value.

Appendix A - Tax Rates and Allowances - Year of Assessment 2021

Personal Income Tax Rates for the Year of Assessment 2021 (Resident)

Chargeable Income	Rate (%)	Gross Tax Payable (\$)
First \$20,000	0	0
Next \$10,000	2.0	200
First \$30,000	-	200
Next \$10,000	3.5	350
First \$40,000	-	550
Next \$40,000	7.0	2,800
First \$80,000	-	3,350
Next \$40,000	11.5	4,600
First \$120,000	-	7,950
Next \$40,000	15.0	6,000
First \$160,000	-	13,950
Next \$40,000	18.0	7,200
First \$200,000	-	21,150
Next \$40,000	19.0	7,600
First \$240,000	-	28,750
Next \$40,000	19.5	7,800
First \$280,000	-	36,550
Next \$40,000	20.0	8,000
First \$320,000	-	44,550
Above \$320,000	22.0	

Personal Income Tax Rates for the Year of Assessment 2021 (Non-resident)

General Rate: 22%

Section 40B Relief for Non-resident Employees

Tax payable on the Singapore employment income of a non-resident individual is calculated at a flat rate of 15% or on a resident basis, whichever results in a higher tax amount.

Appendix A - Tax Rates and Allowances - Year of Assessment 2021

Central Provident Fund (CPF)

Contributions for individuals of ages 55 years or below and earning at least \$750 per month.

Rates of CPF contributions (effective from 1 January 2016 onwards)

Employee 20%

Employer 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

Mandatory medisave contributions of a self-employed person with annual s10(1)(a) assessable income of above \$18,000

Below 35 years of age 8%; \$5,760 (max)

35 to below 45 years of age 9%; \$6,480 (max)

45 to below 50 years of age 10%; \$7,200 (max)

50 years of age and above 10.5%; \$7,560 (max)

Personal Income Tax Reliefs for the Year of Assessment 2021

With effect from YA 2018, the overall personal income tax relief available to resident individuals, as detailed below, will be capped at \$80,000.

Earned income

Age	Normal (able-bodied) maximum	Handicapped maximum
Below 55 years	\$1,000	\$4,000
55 to 59 years	\$6,000	\$10,000
60 years and above	\$8,000	\$12,000

Appendix A - Tax Rates and Allowances - Year of Assessment 2021

Other reliefs

Spouse relief	\$2,000
Handicapped spouse relief	\$5,500
Qualifying child relief (per child) (QCR)	\$4,000
Handicapped child relief (per child) (HCR)	\$7,500
Handicapped sibling relief (per sibling)	\$5,500
Parent relief	
- Staying with dependant	\$9,000
- Not staying with dependant	\$5,500
Handicapped parent relief	
- Staying with dependant	\$14,000
- Not staying with dependant	\$10,000
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 (including QCR/HCR)	\$50,000
Grandparent caregiver relief	\$3,000
Life assurance relief	\$5,000 (max)
Voluntary CPF contribution of self-employed	Capped at \$37,740 or 37% of s10(1)(a) net trade income assessed less any trade losses from prior years or actual amount contributed by the taxpayer, whichever is lowest.
Course fee relief	\$5,500 (max)
Foreign domestic worker levy relief	\$6,990 (max)
Supplementary Retirement Scheme	
• Singapore citizens and PRs	\$15,300 (max)
• Foreign citizens	\$35,700 (max)

Appendix A - Tax Rates and Allowances - Year of Assessment 2021

National Service Man (NSman) relief

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

Question 1 – (a) to (e)

SingCo Pte Ltd (SingCo) is a company incorporated and tax resident in Singapore. The principal activity of SingCo is the manufacturing of high-tech electronic components. In addition, SingCo conducts research and development (R&D) which is related to its manufacturing business in Singapore. SingCo bears the financial burden of carrying out the R&D activities, effectively owns and is entitled to commercially exploit the know-how, intellectual property and other results of the R&D activities.

Refer to SingCo's Profit and Loss account for the financial year ended 31 December 2020 below:

SingCo Profit & Loss Account	\$	\$
Revenue:		
Sales	25,000,000	
Less: Cost of sales	<u>(18,000,000)</u>	
Gross profit		7,000,000
Other income:		
Singapore dividends	200,000	
Interest from Singapore banks	<u>50,000</u>	
		250,000
Less: Expenses		
Accounting fees	10,000	
Professional fees	300,000	
Utilities	70,000	
Repairs and maintenance	20,000	
Employee remuneration	1,200,000	
R&D expenses	800,000	
Depreciation – plant and equipment	400,000	
Other general and admin expenses	700,000	
Medical expenses	20,000	
Interest expense	<u>300,000</u>	

		(3,820,000)
Net profit before tax		3,430,000

Note:

1. Assume all income and expenses are revenue in nature unless otherwise indicated.
2. Professional fee of \$4,000 included therein is capital in nature.
3. Repairs and maintenance with improvements include qualifying renovation and refurbishment expenses of \$15,000 that qualify for deduction under Section 14Q.
4. Interest expense of \$300,000 arose from borrowed funds which were wholly used to generate taxable income.
5. SingCo does not implement any portable medical insurance or benefits scheme.
6. Other general and admin expenses of \$25,000 included therein are capital in nature.
7. R&D expenses relating to staff costs and consumables amount to \$300,000, and are included in the total amount of \$800,000. Assume that the remaining \$500,000 do not include any other capital items which are non-tax deductible.
8. Capital allowances claim on qualifying plant and machinery for YA 2021 is \$300,000.
9. Assume that there is no carried forward unabsorbed item.

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Question 1 required:

2 **(a)** State the characteristics of R&D expenditure as defined in the Income Tax Act. **(3 marks)**

3 **(b)** Compute SingCo's income tax liability for YA 2021. Assume the R&D expenditure is incurred on qualifying R&D project (i.e. qualifying R&D expenditure), and SingCo would like to minimise its tax liability for YA 2021. Show all workings. **(11 marks)**

4 **(c)** Assume the qualifying R&D expenditure incurred by SingCo is trade-related and comprise the following:

- R&D expenditure incurred in Singapore - \$500,000; out of which \$200,000 was incurred on staff costs and consumables.
- R&D expenditure incurred on payments to the outsourced R&D service provider in Singapore - \$300,000; out of which \$150,000 was incurred on staff costs and consumables.

Based on the above, amend the income tax computation for YA 2021 in part **(b)**. Show your calculation by revising the computation from the adjusted profits onwards. **(7 marks)**

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Question 1 required:

5 **(d)** If SingCo incurs qualifying R&D expenditure on payments to outsourced R&D service provider outside Singapore where the R&D is carried out by the same R&D service provider entirely outside Singapore, discuss the deductibility of the R&D expenditure if the R&D is: (i) trade-related and (ii) non-trade related. **(2 marks)**

6 **(e)** Assume the qualifying R&D conducted in Singapore by SingCo resulted in intangible assets. The intangible assets fall within the definition of intellectual property rights for the purpose of Section 19B writing-down allowance. SingCo had claimed tax deduction on R&D expenditure incurred in developing the intellectual property. SingCo intends to sell the intellectual property to its related company in Singapore, A Co, and the gains on the sale are not taxable on the basis that they are capital in nature. Comment on whether A Co will be able to claim Section 19B writing-down allowances on the expenditure incurred to acquire the intellectual property from SingCo.

(2 marks)

(Total: 25 marks)

Question 2 – (a), (b), (c) and (d)

SingCo Pte Ltd (SingCo) is a company incorporated and tax resident in Singapore. It is the headquarters for a group of companies which include companies outside Singapore. The principal activities of SingCo are trading, manufacturing and investment holding.

SingCo has a wholly owned Indian subsidiary company, India Co. As a result of certain restructuring within the group, SingCo intends to dispose all the ordinary shares it holds in India Co. The principal activity of India Co is manufacturing and it does not hold property in India.

The relevant excerpts of the double tax agreement between Singapore and India are provided below:

Article 12 - Royalties and Fees for Technical Services

1. *Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.*
2. *However, such royalties and fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the royalties or fees for technical services, the tax so charged shall not exceed 10%.*
3. *The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use:*
 - a) *any copyright of a literary, artistic or scientific work, including cinematograph films or films or tapes used for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience, including gains derived from the alienation of any such right, property or information;*

b) *any industrial, commercial or scientific equipment,.....*

4. *The term "fees for technical services" as used in this Article means payments of any kind to any person in consideration for services of a managerial, technical or consultancy nature (including the provision of such services through technical or other personnel) if such services:*

a) *are ancillary and subsidiary to the application or enjoyment of the right, property or information for which a payment described in paragraph 3 is received; or*

b) *make available technical knowledge, experience, skill, know-how or processes, which enables the person acquiring the services to apply the technology contained therein; or*

c) *consist of the development and transfer of a technical plan or technical design, but excludes any service that does not enable the person acquiring the service to apply the technology contained therein.*

For the purposes of (b) and (c) above, the person acquiring the service shall be deemed to include an agent, nominee, or transferee of such person.

5. *Notwithstanding paragraph 4, "fees for technical services" does not include payments:*

a) *for services that are ancillary and subsidiary, as well as inextricably and essentially linked, to the sale of property other than a sale described in paragraph 3(a);*

b) *for services that are ancillary and subsidiary to the rental of ships, aircraft, containers or other equipment used in connection with the operation of ships or aircraft in international traffic;*

c) *for teaching in or by educational institutions;*

d) *for services for the personal use of the individual or individuals making the payment;*

- e) *to an employee of the person making the payments or to any individual or firm of individuals (other than a company) for professional services.....;*
- f) *for services rendered in connection with an installation or structure used for the exploration or exploitation of natural resources.....;*

Article 13 – Capital Gains

1. *Gains derived by a resident of a Contracting State from the alienation of immovable property,, and situated in the other Contracting State may be taxed in that other State.*
2. *Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such a permanent establishment (alone or together with the whole enterprise) or of such fixed base, may be taxed in that other State.*
3. *Gains from the alienation of ships or aircraft operated in international traffic or movable property pertaining to the operation of such ships or aircraft shall be taxable only in the Contracting State of which the alienator is a resident.*
- 4A. *Gains from the alienation of shares acquired before 1 April 2017 in a company which is a resident of a Contracting State shall be taxable only in the Contracting State in which the alienator is a resident.*
- 4B. *Gains from the alienation of shares acquired on or after 1 April 2017 in a company which is a resident of a Contracting State may be taxed in that State.*
- 4C. *However, the gains referred to in paragraph 4B of this Article which arise during the period beginning on 1 April 2017 and ending on 31 March 2019 may be taxed in the State of which the company whose shares are being alienated is a resident*

at a tax rate that shall not exceed 50% of the tax rate applicable on such gains in that State.

- 4. Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3, 4A and 4B of this Article shall be taxable only in the Contracting State of which the alienator is a resident.*

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Question 2 required:

- 7** **(a)** SingCo disposes all the shares in India Co on 31 December 2020 and realises a gain on the disposal. Discuss the Singapore and India tax implications to SingCo arising from the proposed disposal if all shares in India Co were acquired by SingCo on (i) 1 January 2016, or (ii) 30 June 2019. In discussing the Singapore tax implications, elaborate on the factors to be considered, as well as discuss any relevant statutory provisions in the Income Tax Act. Your response on the India tax implications may be confined to the excerpts of the Singapore-India double tax agreement which has been provided in the question. **(6 marks)**
- 8** **(b)** Will the Singapore tax implications for the disposals made on (i) 1 January 2016 and (ii) 30 June 2019 change if SingCo had realised a loss on the disposal of the shares in India Co? **(2 marks)**
- 9** **(c)** If SingCo made a royalty payment of \$100,000 to India Co on 15 August 2020, compute the tax to be withheld on the payment. If the withholding tax was only accounted and paid on 28 December 2020, compute the late payment penalties. Discuss how your answer would change if the agreement between SingCo and India Co states that the royalty is due and payable on 15 July 2020 and the withholding tax is to be borne by SingCo. **(7 marks)**

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Question 2 required:

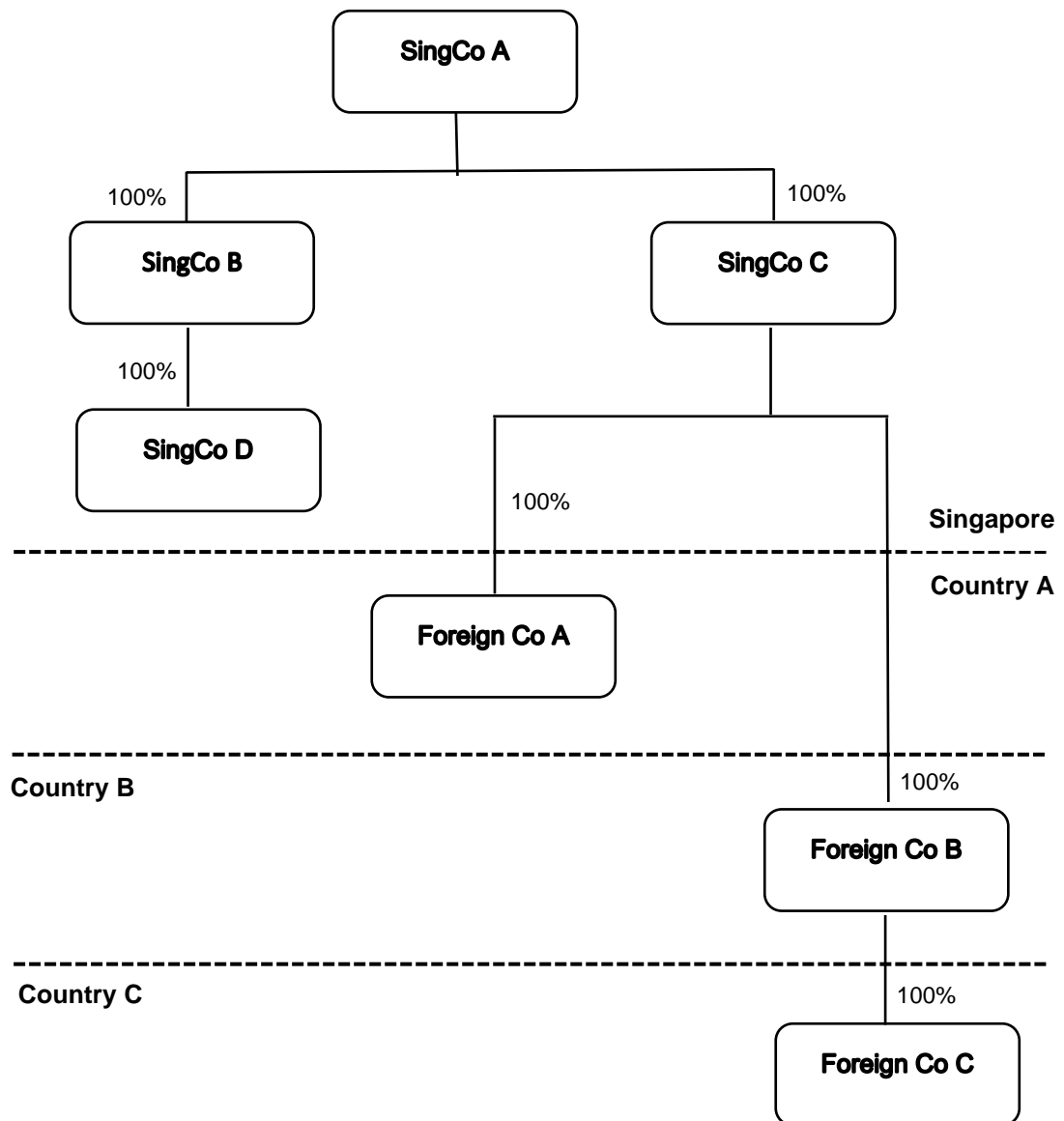
Assuming that SingCo in part **(c)** accounted and paid the withholding tax on 30 April 2021, advise SingCo how it can reduce the penalties applicable for late payment and discuss the relevant conditions to be met. State how your answer would change if the withholding tax was accounted and paid on 30 November 2021.

(5 marks)

(Total: 20 marks)

Question 3 – (a) to (e)

SingCo A is a company incorporated and tax resident in Singapore. It is the headquarter for a group of companies incorporated both in Singapore and outside Singapore. All Singapore incorporated companies are tax residents in Singapore. All foreign-incorporated companies are tax residents in their respective countries. The group structure for the calendar year 2020 is shown in the diagram below:



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Question 3 required:

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(a) SingCo B, SingCo C and SingCo D are wholly owned Singapore operating subsidiaries of SingCo A. As part of a group rationalisation exercise, there are plans to streamline the group and reduce the layers of Singapore companies within the group. SingCo D and SingCo B carry the same business of manufacturing electronic components. Describe ways in which SingCo D can be removed from the existing group structure.

(3 marks)

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(b) Assume SingCo D has substantial unabsorbed losses and unabsorbed capital allowances, explain which of the ways identified in part **(a)** above will be more tax effective for the group and elaborate on the requirements for preserving the unabsorbed losses and capital allowances.

(7 marks)

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Question 3 required:

- (c)** SingCo C requires financing from SingCo A. SingCo A may provide the financing by:
- (i) subscribing for new shares in SingCo C, or by
 - (ii) extending a loan to SingCo C.

Assume SingCo A will borrow interest-bearing loans from a Singapore bank to finance SingCo C, discuss the tax implications to both SingCo A and SingCo C.

In the case of (ii), discuss the tax implications where the loan given by SingCo A to SingCo C is:

- (a) interest-free, and
- (b) interest bearing.

Further discuss the tax implications to SingCo C if the loan given by SingCo A is interest-bearing and the funds are specifically:

- (I) used as working capital for its business, and
- (II) used to acquire the shares in another Singapore tax resident company.

(6 marks)

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Question 3 required:

- (d)** Assume SingCo C is an operating company with more than 50 employees. It sets up a foreign subsidiary, Foreign Co A, incorporated and tax resident in Country A, which is a wholly owned holding company which does not carry on any business.

Foreign Co A acquired 100% of the shares of a target company, Target Co, on 30 June 2020 for an acquisition price of \$10 million. Target Co is an unrelated operating company with more than 100 employees in Country A.

Based on the information provided on the new transaction and current tax computation presented in the table below, recompute SingCo C's tax liability for Year of Assessment 2021 (basis period: 1 January 2020 – 31 December 2020) to take into account the above transaction.

	\$
Adjusted profit	5,000,000
Capital allowances – Plant and machinery	(300,000)
	4,700,000
Add:	
Interest from Singapore banks	40,000
Chargeable income before partial tax exemption	4,740,000
Less:	
Partial tax exemption [75% of first \$10,000 and 50% of next \$190,000]	(102,500)
Chargeable income after partial exemption	4,637,500
Tax at 17%	788,375

(4 marks)

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Question 3 required:

- (e) SingCo C has another foreign subsidiary, Foreign Co B, incorporated and tax resident in Country B, which is a wholly owned holding company. Foreign Co B, in turn, holds Foreign Co C, which is an operating company incorporated and tax resident in Country C.

Foreign Co C carries on a substantive business in Country C and pays dividends to Foreign Co B out of the profits derived from carrying on the substantive business. Foreign Co B pays dividends to SingCo C out of dividends received from Foreign Co C.

No withholding tax or underlying tax is paid by Foreign Co B in Country B.

Discuss if the dividends received or deemed received in Singapore by SingCo C from Foreign Co B can qualify for exemption pursuant to Sections 13(8) and 13(12) of the Income Tax Act. Elaborate on the requirements and conditions where:

- (i) tax is paid by Foreign Co C on the profits out of which dividends are paid; and
- (ii) tax is not paid by Foreign Co C on the profits out of which dividends are paid. Assume there is no double taxation agreement between SingCo C and Foreign Co B.

(15 marks)

(Total: 35 marks)

Question 4 – (a) to (g)

Case A

A trust set up in Singapore and administered by a trustee company incorporated and tax resident in Singapore, received the following income during the Year of Assessment 2021:

	\$
Interest from bank	200,000
Interest from bonds	160,000
Dividends paid by foreign company (gross)	240,000
	600,000
Less:	
Statutory expenses	(20,000)
Direct expenses	(100,000)
Net profit before tax	480,000

Assume the trustee is not carrying on a business.

Note:

1. Headline tax rate in foreign jurisdiction from which dividends are received is 20%.
2. Dividends are subject to withholding tax in the foreign jurisdiction from which they are received.
3. Direct expenses attributable to interest (both from bank and from bonds) and dividends are \$60,000 and \$40,000, respectively.

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Question 4 required:

- (a)** State the conditions where tax is payable at the trustee level. Assume the conditions are met, compute the tax liability for the Year of Assessment 2021. In addition, describe the tax treatment of the distributions made by the trust out of income taxed at the trustee level to its beneficiaries.

(5 marks)

Case B

SingCo A is a Singapore incorporated company and its principal activity is in the trading of equipment. SingCo A registered for GST on 1 April 1994 and its prescribed accounting periods are January – March, April – June, July – September, and October – December.

The supplies made and input tax incurred by SingCo A during the prescribed period from 1 April 2020 to 30 June 2020 is shown below:

Supplies	\$
Value of standard-rated supplies	3,000,000
Value of zero-rated supplies	1,000,000
Exempt supplies from interest from Singapore bank deposits	200,000
Exempt supplies from foreign exchange	100,000
Exempt supplies from hedging of foreign exchange	100,000
Exempt supplies from sale of Singapore listed shares	80,000
Total value of all supplies	4,480,000
Input tax	\$
Input tax attributable to taxable supplies	200,000
Input tax attributable to regulation 33 exempt supplies	50,000
Input tax attributable to non-regulation 33 exempt supplies	20,000
Residual input tax	60,000
Total input tax	330,000

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Question 4 required:

- 17** **(b)** State the De Minimis rule in regulation 28 of the GST (General) Regulations. Compute and show if SingCo A satisfies the De Minimis rule. **(4 marks)**
- 18** **(c)** State if SingCo A is carrying on a business listed in regulation 34 of the GST (General) Regulations and explain its significance. **(2 marks)**
- 19** **(d)** Explain regulation 35 of the GST (General) Regulations. Compute and show if SingCo A satisfies regulation 35. **(3 marks)**

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Question 4 required:

- 20** **(e)** Compute the total amount of input tax recoverable by SingCo A for the prescribed period from 1 April – 30 June 2020. Show your workings. **(3 marks)**
- 21** **(f)** Describe the alternative available to SingCo A if it does not satisfy the De Minimis Rule for the period 1 April – 30 June 2020, and state the relevant tax year. **(2 marks)**
- 22** **(g)** Do the computations in parts **(b)**, **(d)** and **(e)** above change if SingCo A also received dividend income during the prescribed period from 1 April – 30 June? **(1 mark)**
- (Total: 20 marks)**

END OF PAPER