

Singapore CA Qualification Examination**2 December 2025****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-NINE (29)** 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 ISCA's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam.
4. 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.
5. This examination paper and all video recordings of this exam are the property of the Accounting and Corporate Regulatory Authority.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.

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.

****VERY IMPORTANT NOTICE****

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.

Other important information:

3. 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.
4. You are **NOT ALLOWED** to access any websites during the exam.
5. You are **NOT ALLOWED** to print the question paper.
6. **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 6028 9811

7. **You do not need to fill in an answer to this instruction question.**

Appendix A - Tax Rates and Allowances - Year of Assessment 2025

Goods and Services Tax

Standard rate	9.0%
Compulsory Registration threshold	\$1 million

Stamp Duty

Category	% rates
a. Conveyance, assignment, or transfer of immovable non-residential properties (on or after 15 February 2023)	Percentage of the higher of the market value or the consideration
- Up to the 1 st \$180,000	1.0%
- Up to the next \$180,000	2.0%
- Up to the next \$640,000	3.0%
- Up to the next \$500,000	4.0%
- Over \$1,500,000	5.0%
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% of the loan amount granted on the mortgage, 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 average rent calculated is \$1,000 and below	Exempt
- Annual average rent calculated exceeds \$1,000	Lease period of 4 years or less: 0.4% of the 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 2025

Stamp Duty (Cont'd)

The rates of Seller Stamp Duty (SSD) payable on industrial property acquired on and after 12 January 2013 and disposed of within certain duration, are summarized in the table below:

Date of purchase/ acquisition or date of change of zoning/ use	Holding period	SSD rate (on the actual price or market value, whichever is higher)
On or after 12 January 2013	Up to 1 year	15%
	More than 1 year and up to 2 years	10%
	More than 2 years and up to 3 years	5%
	More than 3 years	No SSD payable

Corporate Income Tax Rate

Year of Assessment 2025 17.0%

Corporate Income Tax (CIT) Rebate for Year of Assessment 2025

50% of the corporate tax payable (capped at \$40,000). Companies that have employed at least one local employee in 2024 (referred to as “local employee condition”) will receive \$2,000 in cash payout (referred to as “CIT Rebate Cash Grant”). Where the company meets the local employee condition and receives CIT Rebate Cash Grant of \$2,000:

- If CIT Rebate \leq \$2,000, no CIT Rebate to be given.
- If CIT Rebate $>$ \$2,000, CIT Rebate (capped at \$40,000) less \$2,000 to be given.

<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>

Appendix A - Tax Rates and Allowances - Year of Assessment 2025

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	15.0%
Royalty or other lump sum payments for the use of, or the right to use, movable properties	10.0%
Payment for the use of, or the right to use, scientific, technical, industrial, or commercial knowledge or information	10.0%
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	15.0%
Payment to Non-Resident Director	24.0%
Non-resident professional	15.0% of gross income or 24.0% of net income

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 2025

Personal Income Tax Rates for the Year of Assessment 2025 (Resident)

Chargeable Income	Rate (%)	Gross Tax Payable (\$)
First \$20,000	0.0	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
Next \$180,000	22.0	39,600
First \$500,000	-	84,150
Next \$500,000	23.0	115,000
First \$1,000,000	-	199,150
In excess of \$1,000,000	24.0	

Personal tax rebate for YA 2025: 60% of tax payable (capped at \$200)

Personal Income Tax Rates (Non-resident)

General Rate: 22.0% (YA 2023 and before) / 24.0% (YA 2024 onwards)

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 15.0% or on a resident basis, whichever results in a higher tax amount.

Appendix A - Tax Rates and Allowances - Year of Assessment 2025

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	20.0%
Employer	17.0%
Maximum monthly ordinary wages (OW) attracting CPF <i>(until 31 August 2023)</i>	\$6,000
Maximum monthly ordinary wages (OW) attracting CPF <i>(from 1 September 2023 to 31 December 2023)</i>	\$6,300
Maximum monthly ordinary wages (OW) attracting CPF <i>(from 1 January 2024 to 31 December 2024)</i>	\$6,800
Maximum annual ordinary wages (OW) attracting CPF <i>(from 1 January 2023 to 31 December 2023)</i>	\$73,200
Maximum annual ordinary wages (OW) attracting CPF <i>(from 1 January 2024 to 31 December 2024)</i>	\$81,600
Maximum annual additional wages (AW) attracting CPF	\$102,000 less OW subject to CPF

Mandatory MediSave contributions of a self-employed person with net trade income of above \$18,000.

Below 35 years of age	8.0%; \$5,856 (max)
35 to below 45 years of age	9.0%; \$6,588 (max)
45 to below 50 years of age	10.0%; \$7,320 (max)
50 years of age and above	10.5%; \$7,686 (max)

Personal Income Tax Reliefs for the Year of Assessment 2025

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

Appendix A - Tax Rates and Allowances - Year of Assessment 2025

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

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 - Not staying with dependant	\$9,000 \$5,500								
Handicapped parent relief - Staying with dependant - Not staying with dependant	\$14,000 \$10,000								
Working mother's child relief (WMCR) <ul style="list-style-type: none"> • First child • Second child • Third and subsequent child • Maximum cumulative WMCR • Maximum relief per child (including QCR/HCR) <ul style="list-style-type: none"> • First child • Second child • Third and subsequent child 	% of mother's earned income For qualifying child born or adopted before 1/1/2024 <table style="margin-left: 20px; border: none;"> <tr><td>15%</td></tr> <tr><td>20%</td></tr> <tr><td>25%</td></tr> <tr><td>100%</td></tr> <tr><td>\$50,000</td></tr> </table> For qualifying child born or adopted on or after 1/1/2024 <table style="margin-left: 20px; border: none;"> <tr><td>\$8,000</td></tr> <tr><td>\$10,000</td></tr> <tr><td>\$12,000</td></tr> </table>	15%	20%	25%	100%	\$50,000	\$8,000	\$10,000	\$12,000
15%									
20%									
25%									
100%									
\$50,000									
\$8,000									
\$10,000									
\$12,000									
Grandparent caregiver relief	\$3,000								
Life insurance relief	Capped at \$5,000 less CPF contributions or 7% of insured value or actual insurance premium, whichever is lowest.								

Appendix A - Tax Rates and Allowances - Year of Assessment 2025

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 (lapse with effect from YA 2026)	\$5,500 (max)
Supplementary Retirement Scheme <ul style="list-style-type: none"> • Singapore citizens and PRs • Foreign citizens 	\$15,300 (max) \$35,700 (max)
CPF Cash Top-up Relief <ul style="list-style-type: none"> • Below \$8,000 • \$8,000 or more 	Exact amount of cash top-up \$8,000

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), (b) and (c)

Audrey Fong, a Singapore citizen, has been employed by Telmax Ltd, a manufacturing company in Singapore, as its regional Chief Technology Officer for the past ten years. She has been appointed as Executive Director of the company since 2023.

Audrey and her husband, Alex Chong, were 45 and 47 years old, respectively, as at 31 December 2024. Alex's 70-year-old widowed mother lived with his family and helped to look after his two children, aged 13 and 15 respectively as at 31 December 2024. Alex's mother derived dividend and interest income of \$5,000 in the year 2024. The two children are both Singapore citizens and study in a secondary school in Singapore.

Audrey derived the following employment benefits in the year 2024:

- Annual salary of \$180,000 at \$15,000 per month.
- She is entitled to a contractual bonus based on two months of her salary. The bonus was credited to her bank account in Singapore on 15 January 2025.
- Audrey was granted a share award of 5,000 shares of Telmax Ltd on 1 November 2023 and the shares would be vested 6 months from the grant date i.e. on 1 May 2024. The open market price per share was \$1.10 and \$1.20 on 1 November 2023 and 1 May 2024, respectively.
- Audrey was reimbursed for her airfares and hotel accommodation for overseas business travel of \$20,000 and \$15,000 respectively. In addition, she was paid a per diem allowance of \$9,000 (based on the IRAS's prescribed rates) to cover her subsistence expenses while on overseas business trips during the year.
- Audrey obtained an interest-free car loan from the employer. Such an interest subsidy is available to all employees, including directors like Audrey. The interest subsidised per annum was \$3,000 based on IRAS's prescribed interest rates.

- Audrey was paid a director's fee of \$20,000 for her services rendered for the year ended 31 December 2024. The fee was voted and approved at the company's annual general meeting on 1 June 2025.
- Other information
Audrey has been contemplating to invest in an industrial property. She has also been considering upgrading her family home to a bigger house. She has received an offer to acquire a car workshop located in Kranji Industrial Park in Singapore. She plans to acquire the workshop first while looking for the house. If need be, she may sell the workshop subsequently to fund the purchase of the house.

Alex Chong is a national serviceman (NSman) and not a key appointment holder. He was an inactive NSman during the period from 1 April 2024 to 31 March 2025. He was retrenched in December 2023. He received a retrenchment benefit of \$200,000 based on 10 months of his last drawn monthly salary of \$20,000. In addition, he was paid a discretionary gratuity (non-contractual and not legally binding) of \$60,000 based on 3 months of his last drawn salary as a reward for his past services. The retrenchment benefit and gratuity were credited to his bank account on 31 January 2024.

Alex is a savvy investor and derived the following investment income in 2024. He expects to derive similar passive income for the next 3 years (2025 to 2027) and will have no other passive income besides the following income:

- Dividend income from investment in shares listed overseas - \$30,000
- Dividend income from investment in shares listed in Singapore - \$10,000
- Distribution from unit trusts and REITS in Singapore - \$20,000
- Distribution from unit trusts overseas - \$5,000

All the above income from overseas have been credited to Alex's Singapore bank account in 2024.

- Other information

Alex has been contemplating setting up a café as it is his dream to be a barista. He plans to rent a shop in a neighbourhood shopping mall in 2025, with himself as the barista and employing one or two employees. He expects the business to be incurring losses in the first two years of operations in 2025 and 2026 in view of the acquisition of a coffee barista machine, renovation of the cafe and other set-up costs. He expects the café to turn in a profit from the third year of operations i.e. 2027 onwards.

Alex has not decided whether he should conduct the café business under a sole proprietorship or a company. If he were to incorporate a company, he plans to incorporate the company on 1 January 2025 and he would be the sole shareholder and director.

**e-Exam
Question
Number**

Question 1 required:

2

(a) Explain whether there are any stamp duty implications on the acquisition and subsequent disposal of the industrial property and whether Audrey can mitigate the stamp duty. You need NOT comment on the stamp duty implications concerning the house.

(2 marks)

3

(b) Prepare Audrey's and Alex's Singapore income tax computations for the Year of Assessment (YA) 2025. Where certain items are not taxable (or exempt) or not deductible (or not claimable), please state so. The couple wishes to minimise their total income tax liability.

(15 marks)

4

(c) Advise Alex on the differences between operating the café under a sole proprietorship and a company from an income tax perspective. In your advice, you should ONLY take into consideration Alex's projection of the business profit/loss for the first 3 years of operation (YA 2026 to YA 2028), the acquisition of the machine, incurrence of renovation cost as well as the passive income he will derive in YA 2026 to YA 2028.

You should assume the prevailing tax laws for YA 2025 would apply in YA 2026 to YA 2028.

(8 marks)

(Total: 25 marks)

Question 2 – (a) and (b)

Comex Pte Ltd (CPL) is a company incorporated in Singapore in 2007. It is a Singapore resident company and is GST-registered in Singapore. It is in the business of manufacturing components and peripherals for transport vehicles, cranes and cars. CPL and its group of companies derived revenue of \$200 million and \$250 million in the financial years 2023 and 2024 respectively. It has 100 employees.

CPL's Profit and Loss statement for the financial year ended 31 December 2024 is as follows:

	(\$)	Notes
Revenue	9,500,000	
<u>Less:</u> Cost of sales	<u>(5,970,000)</u>	1
Gross profit	3,530,000	
<u>Add:</u> Other income		
- Dividend income	70,000	2a
- Gain on sale of shares	100,000	2b
- Gain on sale of Patent A	200,000	3
- Interest income	500	4
- Net interest income	8,500	5
- CIT rebate cash grant	2,000	
<u>Less:</u> Operating expenses		
- Audit fees	(40,000)	
- Depreciation	(600,000)	
- Foreign exchange loss (net)	(2,000)	6
- Insurance	(70,000)	7
- Interest expenses	(8,000)	8
- Cash allowance in lieu of medical expenses for staff	(10,000)	9
- Professional fees	(90,000)	10
- Renovation expenses	(100,000)	11
- Miscellaneous expenses	(300,000)	12
- Salaries and statutory CPF	(1,400,000)	

- Entertainment and travelling expenses (50,000) 13

Net profit before tax 1,241,000

Notes:

- 1) Included impairment loss amounting to \$90,000 in respect of specific inventory which was obsolete.
- 2) **(a)** The above comprised dividend income amounting to \$10,000 from a Singapore resident company. The dividend was paid out of tax-exempt pioneer profits of the Singapore company which has been granted pioneer tax incentive.

In addition, foreign dividend income amounting to \$60,000 was received from ZQT Inc, a company resident in Country H, which is a tax haven country. There was no tax suffered on the dividend as Country H does not impose corporate tax as well as withholding tax on dividend.

(b) CPL acquired a 20% shareholding in ZQT Inc in 2013 and disposed of its entire stake in ZQT Inc in June 2024. The divestment in ZQT Inc was intended to channel the funds from the divestment into the construction of the factory extension (mentioned in Note 15 below) to support its business expansion.

The dividend income and the proceeds representing the gain from the sale of shares were credited to CPL's bank account in Singapore in December 2024. Singapore does not have a tax treaty with Country H.

- 3) CPL acquired Patent A at a cost of \$500,000 on 1 September 2023 from a non-related party. Patent A was sold to a related party at arm's length in July 2024 for \$550,000. No registration cost was incurred for Patent A. The sale of Patent A and subsequent acquisition of Patent B (refer to Note 17 below) are to align with CPL's business plan to focus on the manufacture of components and peripherals for electric vehicles.

- 4) The above comprised late interest income charged to a few delinquent customers for late payment. Out of the \$500 accrued in the financial year ended 31 December 2024 for accounting purposes, only \$300 was received.
- 5) The interest was derived from a deposit placed with Union Bank, a bank resident in Country Y and has been subject to 15% withholding tax in Country Y. The net amount stated in the accounts is after deduction of the foreign withholding tax. Country Y's corporate tax rate is 25% in 2024, and the interest, together with the principal, was credited to CPL's bank account in Singapore in May 2024 upon maturity of the deposit. Country Y has a tax treaty with Singapore.
- 6) Included realised exchange gain of \$1,000 upon the divestment in ZQT Inc in Country H and realised exchange loss of \$3,000 on the withdrawal of the principal amount of the deposit placed with Union Bank in Country Y (see Notes 2 and 5).
- 7) Insurance comprised the following:

- Keyman insurance premium:	\$30,000
- Medical insurance premium:	\$40,000
- 8) The interest expenses were incurred on loans used to fund the construction of the factory extension mentioned in Note 15 below.
- 9) CPL has provided portable medical benefits to its employees.
- 10) Professional fees, inter alia, included the following:

- Registration fees for Patent B (refer to Note 17):	\$10,000
- Fee paid to an accounting firm to review the company's internal controls for GST filing and reporting as the company has been penalised by IRAS for errors in the GST returns:	\$20,000

11) Renovation of office premises comprised the following:

- Designer fee: \$10,000
- Hacking work on premises: \$5,000
- Installation of new flooring and false ceiling: \$70,000
- Installation of demountable partitions: \$15,000

The first time CPL carried out renovation works to its office was in 2021, during which qualifying expenditure of \$250,000 was incurred.

12) Miscellaneous expenses, inter alia, included the following:

- Cash donations to the Salvation Army, an approved Institution of a Public Character: \$5,000
- Team building retreat to Batam, Indonesia for employees: \$90,000
- Penalty for errors in the GST returns: \$8,000

13) Entertainment and travelling expenses, inter alia, included the following:

- Entertainment allowance to sales staff: \$20,000
- Reimbursement of S-plated car expenses to employees for business travelling: \$7,000

Fixed assets reflected in the balance sheet as at 31 December 2024 included the following:

Description	Year in which the asset was purchased	Cost (\$)
Factory premises (Note 14)	2008	600,000
Factory extension (Note 15)	2024	200,000
Machinery (Note 16)	2023	100,000
Patent B (Note 17)	2024	700,000
Computer hardware and software	2023	30,000

14) The factory's construction was completed in 2008, and it was put into use the same year for manufacturing. The cost relates entirely to the construction of the factory, excluding the office premises which is in a separate building.

- 15) CPL commenced construction of the factory extension in September 2024 as part of its business expansion plan. The extension will be completed in 2027. The Economic Development Board has granted Land Intensification Allowance for the extension.
- 16) Not prescribed automation equipment for the purpose of a capital allowance claim.
- 17) Patent B was acquired from a non-related party, and CPL has both legal and economic ownership of the patent.

CPL has always been in a tax-paying position and has therefore always maximised the claim of capital allowances and special deductions.

**e-Exam
Question
Number**

Question 2 required:

5

- (a)** Referring to Note 2, one of CPL's founding shareholders, John Lee, also acquired a 20% shareholding in ZQT Inc in 2013 and disposed of his entire stake in ZQT Inc in June 2024 and derived a gain of \$100,000. John sold his shares in ZQT Inc to use the funds from the divestment to invest in CPL for its business expansion. Explain whether the gains on the sales of shares in ZQT Inc **derived by CPL and John Lee** are subject to income tax in Singapore.

(5 marks)

6

- (b)** Prepare the Singapore corporate income tax computation for CPL for YA 2025.

Show all workings. Where certain items are not taxable (or exempt) or not deductible (or not claimable), please state so. In arriving at the above, maximise the possible reliefs and make the most beneficial claim of capital allowances.

(25 marks)

(Total: 30 marks)

Question 3 – (a), (b), (c) and (d)

Food Empire Private Limited (“FEPL”) was incorporated in Singapore on 2 January 2023 and adopts a 31 December financial year. The company is resident in Singapore and is in the food and beverages business. It has established a chain of bakeries selling artisanal French pastries. The first bakery outlet was open for business in Singapore on 1 May 2024.

FEPL entered into the following transactions with a (third-party) foreign company, FranCo, during the year 2024. FranCo is a company resident in France that operates a chain of famous bakeries and cafes in France selling artisanal French pastries.

- (i) FEPL paid an annual franchise fee of \$240,000 to FranCo for the use of its brand name and secret recipe in the preparation of bread, cake and French pastries. The first annual fee was paid upfront on 1 May 2024 when FEPL opened its first outlet in Singapore.
- (ii) FEPL made a one-off fee payment of \$50,000 to FranCo for sending FranCo’s business development manager to Singapore to advise FEPL on the setting up of the bakery outlets in Singapore. The manager was in Singapore for two weeks in January 2024 to provide advice on the initial setup of the outlets, branding, and marketing strategy.
- (iii) FEPL reimbursed FranCo on all accommodation, meals and transportation expenses incurred by the manager during his stay in Singapore. The reimbursement amounted to \$4,000. Salary of the manager was borne by FranCo.
- (iv) FranCo sold three sets of state-of-the-art baking equipment to FEPL at a price of \$300,000. The equipment was shipped from France to Singapore in March 2024.

- (v) FEPL sent two of its chefs to France for three weeks in March 2024 to undergo training by FranCo's chefs on the use of the secret recipe in the preparation of bread, cake and pastries as well as the operation of the baking equipment. FranCo charged a training fee of \$70,000.

Where withholding tax is applicable, such tax will be borne by the foreign company (i.e. FranCo).

FranCo is a resident of France for tax purposes and does not have any business operations in Singapore, except for the above transactions with FEPL.

The relevant extracts of the Singapore–France tax treaty are as follows:

Article 5 – Permanent Establishment

1. *For the purposes of this Convention, the term "permanent establishment" means a fixed place of business in which the business of the enterprise is wholly or partly carried on.*

2. *The term "permanent establishment" shall include especially:*
 - (a) *a place of management;*
 - (b) *a branch;*
 - (c) *an office;*
 - (d) *a factory;*
 - (e) *a workshop;*
 - (f) *a farm or plantation; and*
 - (g) *a mine, oil well, quarry or other place of extraction of natural resources.*

3. *The term "permanent establishment" also encompasses:*
 - (a) *a building site, a construction, assembly or installation project or supervisory activities in connection therewith, but only if such site, project or activities lasts more than 12 months;*

- (b) *the furnishing of services, including consultancy services, by an enterprise of a Contracting State directly or through employees or other personnel engaged by the enterprise for such purpose, but only if activities of that nature continue (for the same or a connected project) within the other Contracting State for a period or periods aggregating more than 365 days within any 15-month period.*

Article 7 – Business Profits

1. *The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.*

.....

5. *Where profits include items of income which are dealt with separately in other Articles of this Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.*

Article 12 - Royalties

1. *Royalties arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State.*

2. *The term "royalties" as used in this Article means payments of any kind received as consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work, including cinematograph films and tapes for television or broadcasting, any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.*

3. *Notwithstanding the provisions of paragraph 1 of this Article, royalties received as consideration for the use of, or the right to use, any copyright of literary or artistic work, including cinematograph films and tapes for television or broadcasting or for information concerning commercial experience may be taxed in, and according to the law of, the Contracting State in which they arise.*

.....

5. *Royalties as defined in paragraph 2 of this Article shall be treated as arising from sources within the Contracting State in which the property referred to in that paragraph is used.*

**e-Exam
Question
Number**

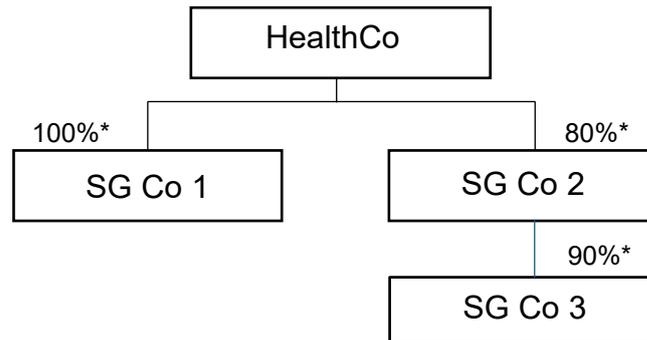
Question 3 required:

- 7 (a) Considering ONLY the Singapore domestic income tax law, discuss the **tax deductibility** of each of the above payments (i) to (v) made by FEPL to FranCo from FEPL's perspective, stating clearly the reasons for the conclusion.
(6 marks)
- 8 (b) Considering ONLY the Singapore domestic income tax law, for transactions (ii) and (iii) above, discuss whether the manager sent by FranCo has any income tax exposure in Singapore, stating clearly the reasons for the conclusion.
(3 marks)
- 9 (c) Considering ONLY the Singapore domestic income tax law, discuss the Singapore withholding tax implications and filing requirements which would arise on each of the transactions (i) to (v) stated in the case above, and calculate the amount of withholding tax which would be applicable for each transaction. Show calculations/workings, where relevant.
(8 marks)
- 10 (d) Evaluate if your answers to **Question 3(c)** above would change under the Singapore – France tax treaty and recompute the withholding tax payable, if applicable. In your explanation, make reference to the relevant Articles in the Singapore – France tax treaty.
(3 marks)

(Total: 20 marks)

Question 4 – (a), (b), (c) and (d)

The HealthCo Pte Ltd (“HealthCo”) is in the business of manufacturing and distribution of healthcare related products such as wheelchairs, hospital beds, and pharmaceutical products. All of the companies shown in the diagram below are incorporated and resident in Singapore, and they adopt a 30 June financial year-end. The corporate structure as at 1 January 2025 is as follows:



*Relate to ordinary shares

More information about the companies is as follows:

HealthCo

HealthCo was owned by three individual founding shareholders, who are all in the healthcare profession – Joy (10%), Eli (20%) and Sam (70%) since its incorporation in 2010. On 1 July 2024, Sam decided to retire and transferred his entire stake of 70% in HealthCo to his son, Mike. Joy and Eli’s shareholdings have remained unchanged. HealthCo’s shareholders have remained the same since 1 July 2024.

HealthCo is an investment holding and service company, providing support services such as accounting, budgeting, computer support, employee payroll/benefits administration to SG Co 1, SG Co 2 and SG Co 3. In the financial year ended 30 June 2024, HealthCo charged an annual management fee amounting to \$525,000 to the three companies. The management fee was determined based on staff and overhead costs incurred for the provision of support services, totalling \$500,000, plus a 5% markup. The management fee was divided among the three companies based on their respective turnovers.

Going forward, from July 2024 onwards, the group will reorganise and transfer the engineering and technical support division from SG Co 1 to HealthCo. HealthCo will provide engineering and technical support services to SG Co 1 and the other companies in the group, in addition to its existing support services. Additionally, the manufacturing of wheelchairs and hospital beds business will be transferred from SG Co 1 to HealthCo. For the financial year ending 30 June 2025, HealthCo estimates that it will charge a total annual management fee of \$945,000 (cost plus 5% markup) to the three companies. HealthCo's turnover on the manufacturing business will be around \$12 million in the financial year ending 30 June 2025.

SG Co 1

SG Co 1 carry on the business of manufacturing healthcare-related products and has been profitable every year. SG Co 1 is a wholly owned subsidiary of HealthCo, having been incorporated in 2012. As mentioned above, SG Co 1's engineering and technical support division and part of its manufacturing business will be transferred to HealthCo, as part of the group's reorganisation, so that SG Co 1 will focus on its manufacturing of pharmaceutical products.

SG Co 2

SG Co 2 continues to operate as a distributor of healthcare-related products. SG Co 2 is 80% owned by HealthCo, and the remaining 20% is owned by minority shareholders. The shareholders of SG Co 2 and its business have remained the same since its incorporation in 2013.

SG Co 3

SG Co 3 was incorporated on 1 January 2024 and carries on the business of trading in pharmaceutical products. It is 90% owned by SG Co 2, and the remaining 10% is owned by minority shareholders. The shareholders of SG Co 3 have remained unchanged since its incorporation. The company is not yet GST registered in Singapore.

The company imports pharmaceutical products from Europe and the USA and exports them to countries in Southeast Asia (SEA). Majority of the goods would be sold to overseas customers. Around 20% of the goods would be sold to local hospitals, clinics

and pharmacies in Singapore. For the calendar year 2024, the company's turnover was \$600,000. 80% of the turnover comprised goods that were sold to overseas customers (\$480,000), and the remaining \$120,000 was sold to local customers. About half of the goods sold to overseas customers (\$ 240,000) were shipped directly from suppliers' warehouses in Europe and the USA to customers in SEA. SG Co 3 expects its turnover to double in the calendar year 2025.

SG Co 3 has a delivery van which it has been using in its business. It intends to sell the van for \$100,000 in January 2025.

SG Co 3 incurred a loss in its first year of operation. It expects to turn in a taxable profit of at least \$500,000 from the financial year ending 30 June 2025 onwards.

The financial position of the companies is summarised as follows:

<u>Y/E 30/6/2023</u>	HealthCo	SG Co 1	SG Co 2	SG Co 3
Adjusted trade profits	\$25,000	\$2,500,000	0	NA
Capital allowance	0	\$100,000	\$70,000	NA
Trade loss	0	0	\$100,000	NA
<u>Y/E 30/6/2024</u>	HealthCo	SG Co 1	SG Co 2	SG Co 3
Adjusted trade profits	\$35,000	\$2,800,000	\$200,000	0
Capital allowance	0	\$200,000	\$10,000	\$20,000
Trade loss	0	0	0	\$30,000

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Question 4 required:

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- (a)** Advise HealthCo on the following:
- (i)** Whether the management fee charged to SG Co 1, SG Co 2 and SG Co 3 in YA 2025 is considered arm's length and whether HealthCo is required to prepare transfer pricing documentation on the management fee for YA 2025.
(4 marks)
 - (ii)** Would your answer to **Part (i)** above change in YA 2026 when HealthCo will provide engineering and technical support to the related parties and part of SG Co 1's manufacturing business will be transferred to HealthCo.
(3 marks)

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- (b)** Any stamp duties implications on the transfer of Sam's entire 70% shareholding in HealthCo to his son, Mike.
(1 mark)

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- (c)** Advise SG Co 2 whether it can carry forward its unabsorbed capital allowance and unabsorbed trade loss from YA 2024 to YA 2025. In your answer, you should explain whether the conditions for carry forward relief are met.
(3 marks)

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- (d)** Advise SG Co 3 on the most tax efficient use of its unabsorbed capital allowance and unabsorbed trade loss in YA 2025. You should consider carry forward and/or group relief. In your answer, you should explain whether the conditions for carry forward and group relief are met.
(8 marks)

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Question 4 cont.

(e) Advise SG Co 3:

(i) Whether it is required to be registered for GST as at 31 December 2024. In your answer, you should show the relevant calculation to support your conclusion.

(3 marks)

(ii) Regardless of your answer in Part (i) above, assuming the company is not obligated to be GST registered as at 31 December 2024, explain whether the company should consider applying for voluntary GST registration.

(3 marks)

(Total: 25 marks)

END OF PAPER