PP

Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

8 December 2023

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-FIVE (25)** 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 ACRA's regulations. Please note that smart 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 is the property of the Accounting and Corporate Regulatory Authority.

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.

ACRA Accounting And Corporate Regulatory Authority

ISCA Institute of Singapore Chartered Accountants

e-Exam Question Number

1

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.

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 6865 9365

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

Appendix A - Tax Rates and Allowances - Year of Assessment 2023

Goods and Services Tax

Standard rate	8.0%
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 1st $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

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 summarised in the table below:

Date or 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	15.0%
	More than 1 year and up to 2 years	10.0%
	More than 2 years and up to 3 years	5.0%
	More than 3 years	No SSD payable

Corporate Income Tax Rate

Year of Assessment 2023	17.0%

<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	95,000
Total	102,500

<u>Start-up tax exemption</u>	
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

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	22.0%
Non-resident professional	15.0% of gross income or 22.0% 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 2023

Personal Income Tax Rates for the Year of Assessment 2023 (Resident)

Chargeable Income	Rate (%)	Gross Tax Payable ($)
First $20,000 Next $10,000	0.0 2.0	0 200
First $30,000 Next $10,000	- 3.5	200 350
First $40,000 Next $40,000	- 7.0	550 2,800
First $80,000 Next $40,000	- 11.5	3,350 4,600
First $120,000 Next $40,000	- 15.0	7,950 6,000
First $160,000 Next $40,000	- 18.0	13,950 7,200
First $200,000 Next $40,000	- 19.0	21,150 7,600
First $240,000 Next $40,000	- 19.5	28,750 7,800
First $280,000 Next $40,000	- 20.0	36,550 8,000
First $320,000 Above $320,000	- 22.0	44,550

Personal Income Tax Rates for the Year of Assessment 2023 (Non-resident)

General Rate: 22.0%

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.

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 *(until 31 August 2023)*	$6,000
Maximum annual ordinary wages (OW) attracting CPF *(until 31 August 2023)*	$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 net trade income of above $18,000.

Below 35 years of age	8.0%; $5,760 (max)
35 to below 45 years of age	9.0%; $6,480 (max)
45 to below 50 years of age	10.0%; $7,200 (max)
50 years of age and above	10.5%; $7,560 (max)

Personal Income Tax Reliefs for the Year of Assessment 2023

With effect from YA 2018, the overall personal income tax reliefs 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

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) • First child • Second child • Third and subsequent child • Maximum cumulative WMCR • Maximum relief per child (including QCR/HCR)	% of mother's earned income 15% 20% 25% 100% $50,000
Grandparent caregiver relief	$3,000
Life insurance relief	Capped at $5,000 less CPF contributions or 7% of insured value, whichever is lower.
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 (for the first domestic worker)	$7,200 (max)
Supplementary Retirement Scheme • Singapore citizens and PRs • Foreign citizens	 $15,300 (max) $35,700 (max)
CPF Cash Top-up Relief • 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)

SingCo is a company incorporated in Singapore (in 2013) and is in the business of selling spare parts for home electronic appliances. It is owned by 3 individuals who are Singapore tax residents. SingCo is a resident of Singapore for income tax purposes.

The Profit and Loss Statement of SingCo for the financial year ended 31 December 2022 is as follows:

	$	Note
Revenue	**32,010,450**	
<u>Less:</u> Cost of sales	(17,407,315)	
Gross profit	**14,603,135**	
Add: Other income		1
- Rental income from shophouses located at Sims Avenue, Singapore	1,500,000	
- Interest income from funds placed in an Australian bank account	100,000	2
- Dividend income from SingCo's wholly-owned subsidiary in British Virgin Islands (BVI)	50,000	3
- Dividend income from SingCo's wholly-owned subsidiary in Philippines	75,000	4
- Uncollected refunds due to customers	14,000	5
Sub-total	**16,342,135**	
<u>Less:</u> Expenses		
- Salaries, CPF and wages	(3,670,000)	6
- Staff benefits	(300,000)	7
- Medical expenses	(56,000)	8
- Professional fees	(300,000)	9

- Foreign exchange gain (net)	240,000	10
- Marketing and promotions	(138,000)	11
- Travel expenses	(261,000)	12
- Depreciation	(2,000,000)	
Net profit before tax	**9,857,135**	13

Notes:

1) All foreign-sourced income were remitted into Singapore during the year ended 31 December 2022.
2) Interest from the Australian bank account has been subjected to a 10% withholding tax in Australia (recorded after net profit before tax). The amount recorded here is at gross (i.e., before the deduction of 10% withholding tax). The headline tax rate in Australia is 30%.
3) The headline tax rate in BVI is 0%. BVI also does not impose any withholding tax on dividends.
4) The headline tax rate in Philippines is 25%. The amount recorded here is before the deduction of 15% withholding tax (recorded after net profit before tax) that SingCo suffered on the Philippines dividend income, and after the imposition of 25% underlying corporate tax that the Philippines subsidiary suffered on its profits.
5) These related to sales refunds that were due to customers but were eventually not collected by the customers. As three years had passed since the customers were eligible to collect the refunds, and it is unlikely that the refunds will be collected, SingCo has decided to record them as other income.
6) SingCo has a full-time headcount of 35 local employees. Employer's CPF contributions were made at the statutory rate.
7) Included meal cash allowances of $80,000 and medical cash allowances of $30,000.
8) SingCo has not provided any portable medical benefits to its employees and has also not implemented any transferable medical insurance schemes.
9) Inter alia, comprised the following:
   - Corporate income tax compliance fees: $9,800

- Corporate secretarial fee for reduction of share capital: $1,500
- Routine maintenance of shophouses located at Sims Avenue: $80,000
- Financial due diligence fee on new overseas investment**: $45,000

***SingCo eventually acquired 100% of the ordinary shares in this Indonesian company (IndoCo) on 12 December 2022 for $20,000,000. SingCo has never owned shares in IndoCo before. IndoCo is an active trading company and has a local headcount of 15 employees.*

10) Included unrealised exchange gains re: trade of $10,000 and unrealised exchange gains re: capital of $60,000.
11) Included qualifying expenses incurred on local trade fair (approved by Enterprise Singapore) amounting to $21,250.
12) Included S-plated car expenses of $10,900.
13) Assume all other incomes and expenditures are revenue in nature, unless stated otherwise.

The list of fixed assets in SingCo's balance sheet as at 31 December 2022 is as follows:

Asset	**Year purchased**	**Cost ($)**	**Note**
Computers	2018	40,000	
Computer software	2019	42,000	
Office furniture	2021	66,000	14
Renovation costs	2021	210,000	15
Renovation costs	2022	180,000	

14) SingCo had claimed capital allowances over a 2-year write-off on the office furniture.
15) The relevant 3-year period for renovation and refurbishment deduction claims under Section 14N is Years of Assessment 2021 to 2023. SingCo had claimed 1-year deduction claim on the renovation costs incurred in the year 2021.
16) SingCo had always been in a tax paying position and had therefore always maximised the claim of capital allowances. There is no unabsorbed capital allowance brought forward from prior Years of Assessment to Year of Assessment 2023.

e-Exam Question Number	Question 1 required:
2	**(a)** Explain the taxability of the foreign-sourced **interest income** which has been remitted into Singapore. Also, explain if any relief for the Australian withholding tax may be available to SingCo in Singapore and if there are any conditions to be met. Also, comment if there is any additional relief scheme that SingCo may need to consider if it derives multiple sources of foreign-sourced income (which do not qualify for income tax exemption), and if there are any additional conditions to be met, based on its income tax profile in Singapore over the years. Candidates are not required to present calculations or show how the reliefs above are to be calculated. **(5 marks)**
3	**(b)** The CFO of SingCo attended an industry talk and understood that Singapore has a Mergers & Acquisition (M&A) Scheme that seeks to encourage Singapore companies to grow through strategic acquisitions. Evaluate whether the above-mentioned scheme is applicable in the case of SingCo in relation to its acquisition of IndoCo, and if so, explain to SingCo **(i)** the tax benefits under the M&A Scheme and **(ii)** if there are any conditions specific to SingCo and IndoCo which must be met. Calculations are not required. **(5 marks)**

e-Exam Question Number	**Question 1 required:**
4	**(c)** Compute the net income tax payable of SingCo for the Year of Assessment 2023. Show all workings. In arriving at the above, please consider and maximise the deductions, capital allowances and reliefs under the law. **(25 marks)** **(Total: 35 marks)**

Question 2 – (a), (b), (c) and (d)

Jon is an Australian citizen and has been living in Australia all his life. He is a business owner who has successfully operated a chain of restaurants in Sydney.

As part of his long-term business plans, he has decided to expand his business regionally, starting with Singapore. As his Australian operations have reached a steady state, and in order to better manage his business in Singapore, he has decided to relocate to Singapore with his wife for the next few years, starting from 1 September 2022. As his wife is a Singapore citizen, he has applied for and has been granted permanent resident (PR) status in Singapore from 1 October 2022 onwards.

Despite relocating to Singapore, Jon continues to keep his Australian personal bank account (with ANZ Sydney Branch) open. In end 2022, he also opened a Singapore personal bank account with ANZ Singapore.

Jon intends to open three new restaurants at the end of 2023 – these restaurants serve different cuisines and are catered to different markets (i.e., fine-dining, buffet-style and mass market). Accordingly, the type of staff to be employed and business model for each of these three restaurants are expected to be quite different from each other. Based on his preliminary financial estimates, the revenues of these three restaurants are expected to be $470,000, $390,000 and $150,000 respectively for the first 12 months of operations.

For the above purpose, Jon has incorporated a wholly-owned Singapore company (SG Co 1) under his name (i.e., he is the sole individual shareholder of SG Co 1).

He had initially intended to use SG Co 1 to run the three restaurants but later heard from a friend that it may be more beneficial to run the respective restaurants, each under one Singapore company, with Jon as the sole shareholder (i.e., SG Co 1, SG Co 2 and SG Co 3 will be set up by Jon to run one restaurant each). This same friend had also mentioned that to reduce the overall tax liabilities of all three Singapore companies, Jon can consider 'moving' some income between the companies by charging management/consultancy fees between the newly established companies. The friend is of the view that no actual services will need to be provided given that the Singapore tax authorities are unlikely to detect this due to the small amounts involved.

e-Exam Question Number	Question 2 required:
5	**(a)** Evaluate if Jon can be considered as a tax resident of Singapore for Year of Assessment 2023. **(3 marks)**
6	**(b)** Explain to Jon the Singapore income tax implications (if any) of the following: **(i)** if he were to transfer the interest income earned in his Australian personal bank account to his Singapore personal bank account; and **(ii)** if he were to derive interest income on his Singapore personal bank account balance. **(3 marks)**
7	**(c)** Explain to Jon the advantages and disadvantages of running all three restaurants under one company *as compared to* running the three restaurants under three companies (i.e., one company runs one restaurant) from a Singapore corporate income tax and GST perspective. **(8 marks)**
8	**(d)** Discuss if the two pieces of advice given by Jon's friend is sound from a Singapore corporate income tax and GST perspective. Where relevant, quote the applicable sections of the relevant Acts to support your response. **(6 marks)** **(Total: 20 marks)**

Question 3 – (a), (b) and (c)

SG Co is a company incorporated in Singapore that is in the business of providing cloud computing services to its clients.

As SG Co is a new start-up, it does not have the budget to employ full-time tax personnel in its finance team to take care of its income tax affairs. Being not tax trained, the Finance Manager is unsure of the Singapore income tax treatment of the following items in SG Co's Cost of Sales for the financial year ended 30 June 2021 and 2022:

Cost of sales		**30 June 2021 ($)**	**30 June 2022 ($)**	**Remarks**
i)	Royalty payment made to a third party for the use/exploitation of a patent [i.e., intellectual property right (IPR)]	60,000	5,000	Note 1
ii)	Payments for 1-year license for use of off-the-shelf computer software (i.e., software that cannot be modified/exploited by SG Co)	20,000	20,000	
iii)	Payments for website development services performed in the Netherlands by designers based in the Netherlands	-	15,000	Note 2
Total		**80,000**	**40,000**	

The above three payments (i) to (iii) were all paid to a Netherlands company (NL Co), which is a resident of the Netherlands for tax purposes.

Note 1: The aforementioned royalty that is payable to NL Co is calculated based on the turnover that SG Co earns from the exploitation of the IPR – based on the turnover earned by SG Co from NL Co's IPR in a particular year, NL Co will issue an invoice to SG Co for the actual royalty payable in the following year.

In the financial year ended 30 June 2021, SG Co had estimated the royalty payable to NL Co to be $60,000 and accordingly booked a general provision for the same amount in its Cost of Sales on 15 June 2021.

Subsequent to the year-end close of June 2021, NL Co then issued an invoice (Note: no contractual credit terms were indicated therein) on 1 August 2021 to SG Co for the actual royalty payable which amounted to $65,000. Accordingly, on 1 August 2021, SG Co utilised in full, the general provision made in the previous year, and recorded a further $5,000 royalty expense in its Cost of Sales.

SG Co eventually paid the full amount of $65,000 to NL Co on 1 September 2021.

Note 2: As part of an image rebranding, SG Co decided to set up a new website for itself. The website was fully designed and put in use within the financial year ended 30 June 2022.

The relevant excerpts of the Singapore – Netherlands tax treaty are as follows:

*“**Article 4 – Permanent Establishment***

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

2. *The term "permanent establishment" shall include especially:*

   (i) A place of management;
   (ii) a branch;
   (iii) an office;
   (iv) a factory;
   (v) a workshop;
   (vi) a farm or planation;
   (vii) a mine, oil well, quarry or other place of extraction of natural resources
   (viii) a building site or construction or assembly which exists for more than six months.

3. *The term “"permanent establishment" shall not be deemed to include:*

   (a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
   (b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
   (c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
   (d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or for collecting information, for the enterprise;
   (e) the maintenance of a fixed place of business solely for the purpose of advertising, for the supply of information, for scientific research or for similar activities which have a preparatory or auxiliary character, for the enterprise.

…

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.*

…

Article 12 – Royalties

1. *…, royalties arising in one of the States and paid to a resident of the other State shall be taxable only in that other State.*

   …

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, any copyright of scientific work, 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.*

…

e-Exam Question Number	**Question 3 required:**
9	**(a)** Considering <u>only</u> the Singapore domestic income tax law, discuss the tax deductibility of the three payments made by SG Co to NL Co in the year ended 30 June 2022 from the perspective of SG Co, stating clearly the reasons for the conclusions. **(8 marks)**
10	**(b)** Without considering the Singapore/Netherlands tax treaty, advise SG Co on the Singapore withholding tax treatment (if any) of the three payments made by SG Co to NL Co. Where applicable, state specifically the amount of withholding tax due and the deadline for filing the withholding tax return. **(9 marks)**
11	**(c)** Discuss whether the answer in **part (b)** for each of the three payments above may change if the Singapore/Netherlands tax treaty were to be considered. Where applicable, make specific reference to the relevant article of the said tax treaty. **(3 marks)** **(Total: 20 marks)**

Question 4 – (a), (b), (c) and (d)

SG Co is a company incorporated in Singapore. SG Co is in the business of repairing and manufacturing aircraft components. The turnover for the past 5 years has tended to be around $20 million to $25 million. For the upcoming years, SG Co is expecting an uplift in its revenue mainly due to the strong demand of air travel across the world.

SG Co has been in talks with a seller to purchase a 3-storey industrial building that is located at Gul Street (Singapore) for $12 million. SG Co has been told that the said industrial building was first constructed in 2008 and the seller had been claiming industrial building allowance (IBA) on the said building upon completion. The purchase is expected to be completed in December 2023.

SG Co was also informed that a balancing charge would likely arise for the seller, and therefore the seller would like SG Co to reimburse, a part of the balancing charge – the seller has mentioned that SG Co would be able to similarly claim IBA on the cost of purchase of the building and thereby recover the balancing charge.

As the building is slightly dated, SG Co intends to carry out additional construction works in January 2024 – it is expected that SG Co will build 2 additional levels above the existing building to increase the storage capacity of the building. Costs to be incurred are expected to be about $1.5 million which will include design and construction fees, and legal/professional fees to obtain approval for the renovation works.

Once the renovation is completed, SG Co intends to lease out part of the new space to third parties for $4,500 per month. In addition, SG Co also intends to let out part of the space to its wholly-owned Singapore subsidiary for free – this is because the subsidiary is newly incorporated and does not have the financial capacity to pay SG Co the rental charges.

e-Exam Question Number	**Question 4 required:**
12	**(a)** Evaluate if the seller's proposal of having SG Co bear part of the balancing charge may be accepted. In particular, explain if SG Co is eligible to claim any allowances on (i) the purchased building and (ii) the additional construction works. Where relevant, state the basis/manner as to how the allowances are to be computed. Detailed calculations are not required. **(8 marks)**
13	**(b)** Explain to SG Co if there are any GST and stamp duty implications on the purchase of the industrial building. Detailed calculations and discussion on duty base and sale of the building as a going concern are not required. **(5 marks)**
14	**(c)** Soley from a Singapore income tax perspective, advise SG Co if there are any risks in leasing part of the building space to its wholly-owned Singapore subsidiary for free. **(4 marks)**

e-Exam Question Number	**Question 4 required:**
15	**(d)** As part of a comprehensive analysis, SG Co would like to know if there are any differences in the Singapore *stamp duty* implications which may arise for SG Co and for the future buyer of the building or the shares (as the case may be), in the following scenarios: (i) SG Co's sale of the industrial building <u>within</u> 3 years of its purchase; (ii) SG Co's sale of the industrial building <u>after</u> 3 years of its purchase; and (iii) Sale of the shares in SG Co after 3 years of SG Co's purchase of the industrial building (i.e., this will mean that the industrial building will be indirectly disposed of as well). Please advise the current Singapore stamp duty implications arising from the three scenarios above. Detailed calculations are not required. **(8 marks)** **(Total: 25 marks)**

END OF PAPER