PP

Singapore CA Qualification Examination

23 June 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.

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 6100 0518

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

Goods and Services Tax

Standard rate	8%
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 1st $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 2023

Corporate Income Tax Rate

Year of Assessment 2023	17%
Partial Tax Exemption	**$**
First $10,000 of chargeable income is 75% exempt	7,500
Next $190,000 of chargeable income is 50% exempt	95,000
Total	102,500
Start-up tax exemption	
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%
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 income or 22% of net income

Non-residential property tax

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

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

Chargeable Income	Rate (%)	Gross Tax Payable ($)
First $20,000 Next $10,000	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%

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 2023

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 2023

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

Other reliefs

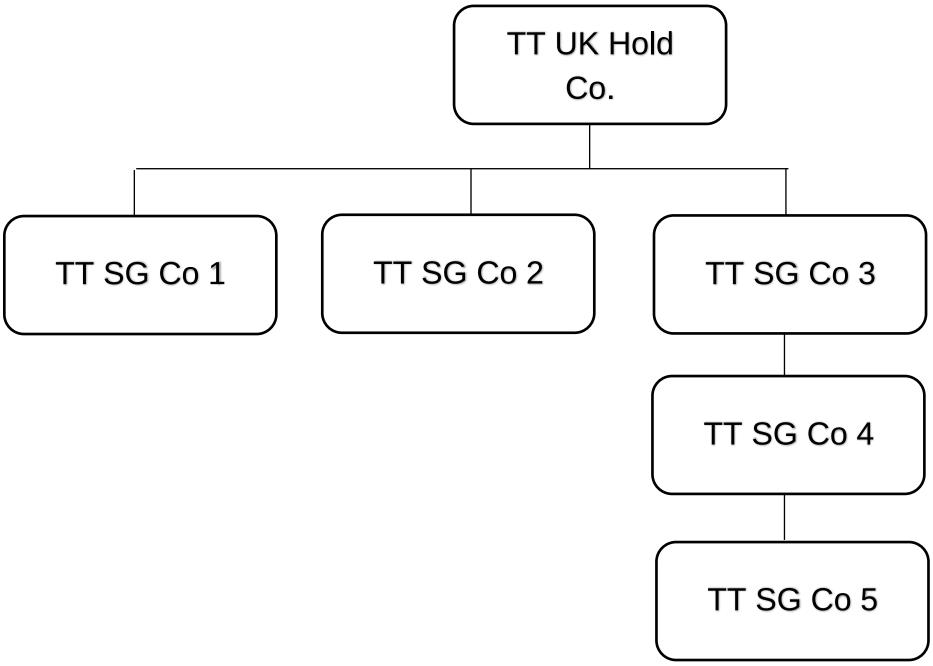
Spouse relief	$2,000
Handicapped spouse relief	$5,500
Qualifying child relief (per child) (QCR)	$4,000
Handicapped child relief (per child) (HCR)	$7,500
Handicapped sibling relief (per sibling)	$5,500
Parent relief - Staying with dependant - Not staying with dependant	 $9,000 $5,500
Handicapped parent 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	$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	$7,200 (max)
Supplementary Retirement Scheme • Singapore citizens and PRs • Foreign citizens	 $15,300 (max) $35,700 (max)

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)

The Twintrees (TT) Group is in the business of food production, packaging and distribution. A snapshot of the corporate structure in Singapore is as follows:



All the subsidiaries held by TT UK Hold Co. that are shown above (i.e. TT SG Co 1, TT SG Co 2, TT SG Co 3, TT SG Co 4 and TT SG Co 5) are all companies incorporated and resident in Singapore. The Group has a December year-end.

More information on the Singapore subsidiaries are as follows:

Subsidiary	Comments
TT SG Co 1	• 100% subsidiary of TT UK Hold Co. • It has been in a loss position for the past 5 years. Unabsorbed capital allowances and trade losses as at Year of Assessment (YA) 2022 were S$850,000 and S$200,000 respectively. • Its principal business is related to food packaging. • From 1 January 2022 to 31 May 2022, the food packaging business continued to be loss-making. • On 1 June 2022, the food packaging business division was sold to TT SG Co 2 and TT SG Co 1 became dormant briefly. On 1 November 2022, management decided that TT SG Co 1 be used to pursue a new business venture in plastics molding.
TT SG Co 2	• 100% subsidiary of TT UK Hold Co. • Its principal business is related to food packaging. • It has been in a profitable position for the past 3 years – the assessable income for YAs 2020, 2021 and 2022 were S$60,000, S$80,000 and S$90,000 respectively. • It experienced its first loss in YA 2023 and had unabsorbed current year capital allowances and trade losses of S$40,000 and S$70,000 respectively. • Further losses are expected to be incurred in the next few YAs, and there is no certainty that SG Co 2 may be able to eventually use these losses in the future.
TT SG Co 3	• 100% subsidiary of TT UK Hold Co. • Its principal business is related to food distribution. • For YA 2023, it continued to be profitable as per the prior years and derived an assessable income of S$290,000.

Subsidiary	Comments
TT SG Co 4	• Its principal business is related to food production. • TT SG Co 4 was previously owned by TT UK Hold Co. (85% shareholding). On 1 July 2022, TT UK Hold Co. transferred all of its shares in TT SG Co 4 to TT SG Co 3. • Accordingly, TT SG Co 4 became a 85% subsidiary of TT SG Co 3 as at 1 July 2022. • It has significant unabsorbed trade losses and the amounts as at YA 2023 are as follows: <u>Unabsorbed trade losses as at YA 2023</u> Trade losses incurred in YA 2022 S$260,000 <u>Add:</u> YA 2023 current year trade losses <u>S$140,000</u> Total unabsorbed trade losses c/f <u>S$400,000</u>
TT SG Co 5	• Its principal business is related to food production. • TT SG Co 4 purchased 90% of the ordinary shares in TT SG Co 5 on 1 January 2019. As of to-date, 10% of the ordinary shares in TT SG Co 5 continues to be held by its original founder. • In YA 2023, the chargeable income of TT SG Co 5 was S$135,000. • On 30 November 2022, 40% of the ordinary shares in TT SG Co 5 were sold to a non-related Singapore company for a gain of S$80,000. • TT SG Co 5 does not hold any residential property.

Presently, there is no expected change to the ultimate shareholders of TT Group.

e-Exam Question Number	Question 1 required:	
2	**(a)**	State which of the above Singapore companies (if any) are considered to be a group for Singapore Group Relief purposes in YA 2023 <u>and</u> which are not. Provide explanations for the above, with reference to the relevant conditions under the Group Relief rules. **(5 marks)**
3	**(b)**	Discuss whether TT SG Co 1 may be able to utilise its unabsorbed capital allowances and trade losses brought forward from YA 2022 for set-off against its future taxable income. **(3 marks)**
4	**(c)**	Suggest how TT SG Co 2 may deal with its YA 2023 unabsorbed tax loss items to reduce its overall tax liability and discuss if there are any specific conditions to be met. **(6 marks)**
5	**(d)**	Explain the tax treatment of the unabsorbed trade loss items in TT SG Co 4, with the objective of maximising the tax reliefs available in Singapore, namely group relief, loss carry-back relief and carry-forward of losses. In your explanation, state the amounts which may qualify for each kind of relief. Where relevant, state the relevant dates to be met for the shareholding test. **(6 marks)**
6	**(e)**	Explain the income tax, GST and stamp duty implications from TT SG Co 4's perspective which may arise on the sale of the 40% of the shares in TT SG Co 5. **(5 marks)** **(Total: 25 marks)**

Question 2 – (a), (b), (c) and (d)

SG Co is a pure investment holding company that is incorporated and resident in Singapore. It is wholly owned by a China company that is resident in China.

The financial results for the year ended 31 December 2022 are as follows:

Profit and loss statement	**S$**	**Note**
Dividend income	740,000	1, 9
Interest income	10,000	2, 9
Rental income	150,000	3
<u>Less: Expenses</u>		
Professional fees	(80,000)	4
Courier and stationery	(6,000)	5
Foreign exchange loss on interest income	(500)	6
Management fee re: rental units	(20,000)	7
Fair value loss on investment (unrealised)	(64,000)	8
Net profit before tax	**729,500**	

<u>Note:</u>

1) The above comprised dividend income received from a Singapore resident subsidiary amounting to S$540,000 and dividend income from a Cayman Islands subsidiary amounting to S$200,000. There is no tax suffered in Cayman Islands, given that there is no corporate income tax or withholding tax regime there.

2) Interest income was derived from cash deposits placed in a Hong Kong bank account. Hong Kong does not impose withholding tax on interest income.

3) The rental income above was derived from the letting of 2 units located in an industrial property in Singapore. The 2 units were acquired by SG Co on 1 May 2014 and are the only real property acquisition transactions since its incorporation

in 2010. The acquisition was financed entirely using equity contribution by its China holding company.

4) The above comprised:

		S$
-	Statutory audit fees	32,000
-	Tax compliance fees	7,000
-	Professional fees to perform due diligence on a prospective investment	38,000
-	Corporate secretarial fees (routine matters)	3,000
		80,000

All of the above are paid to Singapore tax residents.

5) The above did not include any capital/disallowable items.

6) Due to weakening of HKD, SG Co suffered a small foreign exchange loss on the interest income amounting to S$500.

7) SG Co paid S$20,000 to the industrial property manager for the overall management and maintenance of the 2 units.

8) An unrealised fair value loss on a long-term investment was recorded in SG Co's books.

9) All foreign-sourced income derived during the year 2022 were retained in the Hong Kong bank account.

10) SG Co does not own any fixed assets.

e-Exam Question Number	Question 2 required:
7	**(a)** SG Co is intending to pay a dividend to its China holding company and envisages the use of the foreign-sourced interest and dividend income (total: S$210,000) to settle the said dividend payable. Explain the tax implications of the payment of such dividend. Also, comment if there is any risk that the foreign-sourced income of S$210,000 may be taxed in Singapore, with specific reference to each subsection in Section 10(25) of the Income Tax Act 1947. Where relevant, state the necessary safeguards needed to avoid any adverse tax implications. **(5 marks)**
8	**(b)** Prepare the Singapore corporate income tax computation for SG Co for YA 2023. Explain the tax treatment of the expenses (if any) that may be attributable to the foreign-sourced income derived by SG Co in 2022. **(13 marks)**
9	**(c)** In the financial year 2023, SG Co is expected to receive an increase in income, which is likely to comprise S$900,000 of foreign dividend income, S$10,000 of foreign interest income and S$200,000 of rental income. Explain to SG Co, the conditions for GST registration in Singapore and if it is required to compulsorily register for GST in 2023. **(4 marks)**

e-Exam Question Number	**Question 2 required:**
10	**(d)** Separately, SG Co has been asked to consider the sale of the 2 industrial units in late 2023. The objective of this is to pivot the business to be focused on the pure holding of equity investments. Based on the facts of the case, discuss 3 relevant badges of trade which may help support SG Co in asserting that such gain on sale is not derived from a trade. Also, explain to SG Co whether it may be subject to any seller's stamp duty upon such sale based on the Third Schedule of the Stamp Duties Act 1929. **(4 marks)** **(Total: 26 marks)**

Question 3 – (a), (b), (c) and (d)

China Co is a company incorporated and resident in China. The company's inventory (i.e. computer spare parts) is manufactured in China and subsequently exported for sale in the Asia region.

As its sales to Singapore and its neighbouring countries have been steadily increasing over the years, it is deciding to store its inventory closer to the market and is contemplating the following:

- After the finished products are manufactured by China Co's factory in Nanjing, the inventory will be shipped to Singapore and stored in a Singapore standard warehouse that is owned and managed by a third-party warehouse owner.

- Based on China Co's discussions with the warehouse owner, China Co understands that there is no storage area that is designated for China Co's inventory – the exact storage location will be decided by the warehouse owner.

- Whenever required, China Co may opt to send personnel down to the Singapore warehouse to perform periodic stock-take or quality checks on the inventory. Based on best estimates, China Co expects to perform this every 4 months and the relevant personnel are expected to be in Singapore only for a period of 1-1.5 weeks per visit. For security reasons, China Co has to inform the warehouse owner in advance of such visits and the relevant personnel will be escorted to the designated storage area by the warehouse staff.

Separately, China Co has also been considering providing engineering consultancy services to its larger customers within the region. It managed to clinch a consulting contract with a Singapore customer in early 2023. The bulk of the project will be performed in China, and will comprise preparation work, review of documents and back-end analysis. However, towards the end of the project, China Co's engineers will be expected to spend a maximum of 3 months in Singapore (from September 2023 to November 2023) in Singapore for implementation and ongoing project monitoring.

A breakdown of the agreed service fee for the project that will be chargeable to the Singapore customer is as follows:

- Work performed in China: S$630,000
- Work performed in Singapore: S$150,000

The entire project is expected to end before December 2023 at the latest.

The relevant excerpts of the Singapore – China 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 through 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; and
   (f) a mine, an oil or gas well, a quarry or other place of extraction of natural resources.

3. *The term "permanent establishment" likewise encompasses:*

   (a) a building site, a construction, assembly or installation project or supervisory activities in connection therewith, but only where such site, project or activities continue for a period of more than 6 months;
   (b) the furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose, but only if such activities of that nature continue (for the same or a connected project) within a Contracting State for a period or periods aggregating more than 183 days within any twelve-month period.

4. *Notwithstanding the preceding provisions of this Article, 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 carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;

(f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

…

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.

…

e-Exam Question Number	**Question 3 required:**
11	**(a)** Based on Singapore domestic income tax law <u>and</u> treaty provisions under the Singapore/China tax treaty, evaluate and discuss whether China Co may have a taxable presence in Singapore with respect to the storage of inventory in Singapore and the sending of personnel down to the Singapore warehouse to perform periodic stock-take or quality checks on the inventory. **(5 marks)**
12	**(b)** China Co was informed that withholding tax should apply on the entire payment of service fee of S$780,000 payable in December 2023, by the Singapore customer to China Co. Please evaluate the accuracy of this statement from a Singapore domestic income tax perspective. Next, please discuss whether there may be any reliefs/ exemptions under the Singapore/ China treaty [see relevant excerpts of Articles 5 and 7(1) above] and make reference to the specific article and paragraph. Where applicable, explain the relation between the two Articles above. Lastly, advise further on whether China Co is required to comply with any administrative steps to obtain such relief. **(8 marks)**

e-Exam Question Number	Question 3 required:
13	**(c)** Given that China Co's business presence in Singapore is expected to grow, it is considering between setting up a Singapore branch and incorporating a Singapore company (i.e. China Co will be the sole shareholder). Please explain to China Co the similarities and differences between the 2 forms of business structure from a Singapore corporate income tax perspective – in particular, China Co is interested to understand the following: • how these 2 forms of business may be taxed; • whether there are any differences in terms of the reliefs and exemptions that they may enjoy; and • taxes on repatriation of profits from the Singapore branch/ company to China Co. **(4 marks)**

e-Exam Question Number	**Question 3 required:**
14	**(d)** Assuming China Co decides to set up a Singapore subsidiary company (New Sing Co), New Sing Co will register for GST purposes in Singapore immediately as its sales value is expected to reach approximately S$15 million very quickly within a year. New Sing Co will be the trading hub in South-East Asia (SEA) whereby it will import all finished goods from China Co and sell/ export such goods in Singapore and to the rest of SEA. Based on preliminary estimates, 85% of New Sing Co's sales will consist of exports to SEA. It is expected to set up its own Singapore warehouse given the substantial sales. Discuss the GST implications which may apply to New Sing Co for the import and sales/ export of the inventory. Where applicable, please outline if there are any GST schemes/ incentives (state 2) which New Sing Co may apply for. **(8 marks)** **(Total: 25 marks)**

Question 4 – (a), (b) and (c)

Sam is a Singapore citizen and is currently a marketing manager of SG Co. He is based in Singapore. Sam is single, 35 years old and an active NSman who had served as a key appointment holder during his NS days. His mother (aged 65) who is staying with him, is retired and does not derive any income except for CPF payouts of S$800/ month.

For the year 2022, Sam derived the following income:

- His monthly salary is S$5,500.
- He has a 2-month guaranteed bonus, but such bonus is only paid on 1 March 2023.
- Sam has also been informed that he is due to be granted a non-contractual bonus for his service in 2022, but such amount (expected to be 3 months) will be declared payable on 1 March 2023. He received a similar 3-month non-contractual bonus on 1 March 2022 for his service in 2021. The bonus declared payable on 1 March 2022 was based on his previous pay of S$5,250.
- In 2022, Sam received a reimbursement of business expenses of S$30,000 from SG Co. S$18,000 of this amount pertained to business entertainment expenses while the remaining related to his private motor car expenses which he incurred for business purposes.
- He also obtained a reimbursement of his personal medical expenses from SG Co amounting to S$1,500. Based on SG Co's HR policy, this reimbursement policy is available to all employees, up to a cap of S$2,000.

Apart from the above, Sam is also employed by a small local training company to conduct bi-weekly marketing seminars/ courses online. For 2022, Sam was paid a monthly salary of S$2,000.

Separately, Sam also received the following other income:

- Distribution from a Singapore REIT of S$2,700.
- Interest income from OCBC Singapore of S$350.
- Dividend income from a Malaysia company of S$1,000 (remitted into Singapore).

Given the booming property market in Singapore, Sam applied for and obtained the relevant licenses to be a freelance real estate agent. In late November 2022, he managed to successfully conclude a rental of his client's residential unit and obtained commission revenue of S$5,000 from the transaction. Based on his records, he incurred the following:

- Telecommunications: S$250
- Public transport: S$200
- Posters, stationery and collaterals: S$150
- Website development costs: S$1,000

In year 2022, he also made cash donations of S$5,000 to the Singapore Government, S$4,000 to the Singapore Buddhist Lodge (a charity but not an approved institution of a public character (IPC)) and S$1,000 to the World Wide Fund for Nature (a foreign charity).

e-Exam Question Number	**Question 4 required:**
15	**(a)** Describe the difference(s) in tax treatment (if any) between Sam's income derived from SG Co and the small local training company, versus his commission income. **(2 marks)**
16	**(b)** Prepare the YA 2023 individual income tax computation for Sam. Where certain gains are not taxable or certain personal reliefs are not applicable, please state so. **(15 marks)**
17	**(c)** As mentioned above, Sam has been reimbursed by SG Co for all his business expenses. S$18,000 of this amount pertained to business entertainment expenses while the remaining S$12,000 related to his private motor car expenses. For ease of administration, SG Co has proposed that going forward, Sam be paid a monthly allowance of S$2,500 (i.e. total S$30,000 for the year) instead of SG Co reimbursing him for the expenses. From a Singapore income tax perspective, please outline the differences between the present and proposed scheme for both the company and Sam. In addition, advise Sam if he should take up the proposal. **(7 marks)** **(Total: 24 marks)**

END OF PAPER