PP

# Singapore CA Qualification Examination

## 3 December 2024

# 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-SEVEN (27)]** 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 smartwatches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.

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

5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.

6. This examination paper and all video recordings of this examination are 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.

**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 number:

   +65 6028 9811

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

 

## 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 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:<br>0.4% of the total rent for the period of the lease |
| | Lease period of more than 4 years (or for an indefinite term):<br>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 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 2024 | 17.0% |

**Corporate Income Tax (CIT) Rebate for Year of Assessment 2024**

50% of the corporate tax payable (capped at $40,000). Companies that have employed at least one local employee in 2023 (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 ≤ $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.

| 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 | 15.0% |
| 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.

## Personal Income Tax Rates for the Year of Assessment 2024 (Resident)

| Chargeable Income | Rate (%) | Gross Tax Payable ($) |
|---|---|---|
| First $20,000<br>Next $10,000 | 0.0<br>2.0 | 0<br>200 |
| First $30,000<br>Next $10,000 | -<br>3.5 | 200<br>350 |
| First $40,000<br>Next $40,000 | -<br>7.0 | 550<br>2,800 |
| First $80,000<br>Next $40,000 | -<br>11.5 | 3,350<br>4,600 |
| First $120,000<br>Next $40,000 | -<br>15.0 | 7,950<br>6,000 |
| First $160,000<br>Next $40,000 | -<br>18.0 | 13,950<br>7,200 |
| First $200,000<br>Next $40,000 | -<br>19.0 | 21,150<br>7,600 |
| First $240,000<br>Next $40,000 | -<br>19.5 | 28,750<br>7,800 |
| First $280,000<br>Next $40,000 | -<br>20.0 | 36,550<br>8,000 |
| First $320,000<br>Next $180,000 | -<br>22.0 | 44,550<br>39,600 |
| First $500,000<br>Next $500,000 | -<br>23.0 | 84,150<br>115,000 |
| First $1,000,000<br>In excess of $1,000,000 | -<br>24.0 | 199,150 |

Personal tax rebate for YA 2024: 50% 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.

## 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 monthly ordinary wages (OW) attracting CPF *(from 1 September 2023 to 31 December 2023)* | $6,300 |
| Maximum annual ordinary wages (OW) attracting CPF *(from 1 January 2023 to 31 December 2023)* | $73,200 |
| 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 2024

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<br>- Staying with dependant<br>- Not staying with dependant | <br>$9,000<br>$5,500 |
| Handicapped parent relief<br>- Staying with dependant<br>- Not staying with dependant | <br>$14,000<br>$10,000 |
| Working mother's child relief (WMCR)<br>• First child<br>• Second child<br>• Third and subsequent child<br>• Maximum cumulative WMCR<br>• Maximum relief per child (including QCR/HCR) | % of mother's earned income<br>15%<br>20%<br>25%<br>100%<br>$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<br>• Singapore citizens and PRs<br>• Foreign citizens | <br>$15,300 (max)<br>$35,700 (max) |
| CPF Cash Top-up Relief<br>• Below $8,000<br>• $8,000 or more | <br>Exact amount of cash top-up<br>$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 new company incorporated in Singapore on 21 November 2022, and its principal activity is that of publishing of books and periodicals. SingCo is a subsidiary of a Japanese company.

In order to help in the initial set-up of SingCo, the Japanese parent company sent a Japanese employee, Mr Kusumoto, to Singapore to oversee operations of SingCo from 1 December 2022 to 28 February 2023 (i.e. 3 full months). Mr Kusumoto is single and a non-resident of Singapore for income tax purposes. During his stay in Singapore, Mr Kusumoto received the following benefits:

- His monthly salary was $4,500. Half of his monthly salary was paid into his Singapore bank account and the other half into his Japanese bank account.

- A 1.25 month guaranteed bonus which amounted to $5,625.

- Hotel stay in Singapore near SingCo's office: nightly hotel charge was $80/ night for 89 nights and was fully paid by SingCo.

SingCo's general manager is Mr Chew who is a 48 year old Singaporean. He commenced his employment with SingCo on 1 January 2023. He is a NS Key Command and Key Appointment Holder who has completed his National Service Duty. He did not perform any NS activities in 2023.

His remuneration package consists of a monthly salary of $10,000 and a 2 months contractually guaranteed bonus payable on 31 January annually following the year of service. He is also provided with a new company car from 1 January 2023 onwards. This is a BMW 525 that cost $260,000, inclusive of COE of $65,000. The PARF rebate of the car is $50,000. The running cost of the car in 2023 of $10,500 was initially borne by Mr Chew, after which SingCo reimbursed 80% of the running expenses. Out of the total 12,000km travelled in 2023 by Mr Chew, 60% was for private purposes.

 

Mr Chew was also provided with a monthly entertainment allowance of $500, out of which 80% was incurred for business purposes. Mr Chew was also given an annual holiday travel budget limit of $8,000 to purchase air tickets to bring his family for overseas vacation. In 2023, Mr Chew brought his family to Japan and incurred $7,200 on air tickets purchased from Singapore Airlines.

Upon joining SingCo, Mr Chew was granted a stock option to purchase 40,000 shares in the Japanese holding company at an exercise price of $2.50 per share. On 15 September 2023 and 30 September 2023, Mr Chew exercised the option to purchase 25,000 and 10,000 shares respectively. On 20 December 2023, Mr Chew sold all his shares in the Japanese holding company. The share prices of the Japanese holding company on the relevant dates are as follows:

| **Date** | **Market price per share** |
|---|---|
| 1 January 2023 | $2.50 |
| 15 September 2023 | $5.50 |
| 30 September 2023 | $4.50 |
| 20 December 2023 | $6.20 |
| 31 December 2023 | $6.00 |

Mr Chew’s wife (aged 47) is employed as a marketing manager with a Singapore subsidiary of a US MNC. Mrs Chew is paid a monthly salary of $6,200 with a contractually guaranteed 3 months bonus payable in December annually.

She is also a partner of a Singapore general partnership (“GP”) with her best friend. The agreed profit-sharing ratio of the GP between Mrs Chew and Mrs Chew’s best friend is 1.5 : 1.

For the year of 2023, the results of the GP are as follows:

| For the financial year ended 31 December 2023 | $ |
|---|---|
| **Trading revenue** | **220,000** |
| Partners' salaries | |
| - Mrs Chew | (54,000) |
| - Mrs Chew's best friend | (36,000) |
| Depreciation (Note 1) | (20,000) |
| Miscellaneous expenses re: trade | (10,000) |
| Rental of office | (50,000) |
| **Net profit** | **50,000** |

*Note 1:* *In 2023, computer software costing $45,000 was purchased for the business. Mrs Chew and her best friend have decided to claim capital allowances at the most beneficial rate.*

Separately, Mr and Mrs Chew also co-own a condominium in Bukit Panjang for investment. They had rented out the condominium for $5,000 per month to an expatriate couple since 2022. On 31 August 2023, the expatriate couple completed their lease, and the condominium was then rented out to another expatriate couple for $5,500 per month immediately after.

The following costs were incurred on the property:

- Property tax of $3,500.
- Condo maintenance fee of $600/ month.
- Mortgage interest paid to DBS of $15,600 [note: this loan was used to purchase the property].

Before the new tenants moved in, and to reinstate the property, repainting works were done at $1,200 and the air-conditioner was replaced for $2,500. The new tenants requested for a new dishwasher at a cost of $1,850, which the Chews agreed to.

Mr and Mrs Chew have 3 children, Joe (male, aged 19), Mary (female, aged 15) and Johnson (male, aged 10) who are all Singaporeans. Joe finished his junior college education in 2022 and was enlisted for National Service on 1 May 2023, while Mary and Johnson are still studying full-time in a Singapore secondary and primary school respectively.

Mrs Chew’s widowed mother (above 70 years old, but healthy) stays together with the family and helps to take care of Mary after school every day. Her mother’s only source of income is derived from annual bank interest of $2,000 from her savings account with a Singapore bank. No one else has claimed grandparent caregiver relief on Mrs Chew’s mother. Mr Chew also employed a maid to take care of his household, at a monthly salary of $800 and a monthly levy of $60.

Mr Chew’s parents have migrated overseas a few years back and do not stay in Singapore.

Mr Chew also made the following donations in 2023:

| | |
|---|---|
| - Donation to NKF# | $10,000 |
| - Donation to Young PAP of the People’s Action Party** | $3,000 |

*# Approved IPC*
*** Political party*

| e-Exam Question Number | **Question 1 required:** |
|---|---|
| 2 | **(a)** Advise Mr Kusumoto on his personal income tax implications or considerations (if any) for both Years of Assessment 2023 and 2024. **(3 marks)** |
| 3 | **(b)** Compute the share of adjusted profit and capital allowances for each partner in the GP for the Year of Assessment 2024. Show all workings. Also, state whether the GP is subject to Singapore income tax and state the tax filing obligations in relation to the partnership income. **(4 marks)** |
| 4 | **(c)** Prepare the Singapore income tax computations for both Mr and Mrs Chew for the Year of Assessment 2024. Where certain items are not taxable (or exempt) or not deductible (or claimable), please state so. **(21 marks)** **(Total: 28 marks)** |

**Question 2 – (a), (b) and (c)**

Wittel Pte Ltd ("WPL") is a company that is incorporated in Singapore. It is owned by 2 individuals who are Singapore citizens. The principal business of WPL is that of trading of home appliances and the company has about 25 full-time employees in 2023. It has been profitable since its incorporation in 2020.

As at 1 January 2023, WPL owns 35% of the ordinary shares in another Singapore company ("Target Co"). Target Co has a similar principal business activity as WPL and has 10 full-time employees in 2023. Target Co has a year-end of 31 December.

Both WPL and Target Co are residents of Singapore.

On 1 July 2023, WPL decided to acquire the remaining (i.e. 65%) shares in Target Co for a cash consideration of $12.5 million. As part of this Mergers and Acquisition (M&A) exercise, it also incurred the following expenses from 1 July 2023 to 31 December 2023:

- Financial due diligence fees of $50,000
- Legal fees of $15,000
- Valuation fees of $20,000
- Interest expenses of $17,500 on loans taken from DBS bank for the share acquisition in Target Co

The financial results of WPL for 2023 are as follows:

| **For the year ended 31 December 2023** | **($)** | **Notes** |
|---|---|---|
| Revenue | 15,022,000 | |
| **<u>Less:</u>** Cost of sales | (10,900,000) | 1 |
| **Gross profit** | **4,122,000** | |
| | | |
| **<u>Add/ (Less):</u> Other income** | | |
| - Dividend income from Target Co | 120,000 | 2 |

| | | |
|---|---|---|
| - Interest income from OCBC Singapore bank account | 10,000 | 3 |
| - Loss on sale of packing machine | (5,000) | 4 |
| | | |
| <u>**Less:**</u> **Operating expenses** | | |
| - Audit fees | 60,000 | |
| - Professional fees and interest expenses in relation to the acquisition of Target Co | 102,500 | 5 |
| - Depreciation and amortisation | 400,000 | 6 |
| - Foreign exchange loss | 120,000 | 7 |
| - Insurance | 60,000 | 8 |
| - Medical expenses for staff | 35,000 | 9 |
| - Miscellaneous expenses | 168,000 | 10 |
| - Salaries and CPF | 920,600 | 11 |
| - Staff benefits | 168,000 | 12 |
| - Travelling expenses | 72,000 | 13 |
| | | |
| **Net profit before tax** | **2,140,900** | |

<u>Notes:</u>

1) Included a general provision for warranties of $86,000.

2) The dividend income was declared by Target Co and paid to WPL on 1 March 2023.

3) The interest income was derived from fixed deposits placed with OCBC Singapore. The full interest of $10,000 was earned during the year 2023.

4) The packing machine was acquired in the year 2020 for $50,000. Its net book value at the time of disposal was $15,000.

5) The breakdown of expenses between 1 July 2023 to 31 December 2023 is provided above.

6) Depreciation and amortisation were recorded for the following assets:

| Description | Year in which the asset was purchased | Cost ($) |
|---|---|---|
| Computer software and hardware | 2020 | 80,000 |
| Office furniture and movable fixtures | 2020 | 100,000 |
| Wrapping and moulding machines | 2021 | 600,000 |
| Delivery trucks | 2021 | 120,000 |
| Air-conditioning | 2022 | 27,000 |
| Patent | 2023 | 320,000 |

7) Included unrealised exchange losses re: trade of $30,000 and realised exchange gain re: capital of $(32,000).

8) Comprised the following:

- Fire insurance: $28,000
- Insurance for delivery trucks: $13,000
- Medical and dental insurance: $19,000

9) WPL has not provided any portable medical benefits to its employees and has also not implemented any transferable medical insurance schemes.

10) Included the following:

- Utilities : $50,000
- Fridge for pantry (2 units): $6,000
- Penalty for late payment to IRAS: $2,500
- Legal fees re: patent registration*: $7,500
- Staff salary review report: $25,000
- Rental of automation equipment: $40,000

**Upon registration with the Singapore Registry of Patents, both the legal and economic ownership of the patent belonged to WPL.*

11) CPF contributions were made at the statutory rates and within the prescribed wage limits.

12) Included the following:

| | | |
|---|---|---|
| - | Cash allowances paid to staff: | $10,000 |
| - | Staff training**: | $6,000 |
| - | Celebratory dinner for staff: | $9,800 |

*** The above pertained to course fees paid directly by WPL to a SkillsFuture Singapore ("SSG")-funded course provider.*

13) Included the following:

| | | |
|---|---|---|
| - | Upkeep of lorry: | $19,000 |
| - | Public transport claims: | $5,800 |
| - | Parking fines incurred by staff: | $1,400 |

14) WPL has always been in a tax-paying position and has therefore always maximised the claim of capital allowances. There are no unabsorbed tax loss items brought forward from prior years of assessment to Year of Assessment 2024.

15) Based on the final Notice of Assessment issued for Year of Assessment 2024, Target Co has the following:

- Unabsorbed capital allowances of $100,000 brought forward from Year of Assessment 2023; and
- Current year unabsorbed capital allowances of $80,000.

| e-Exam Question Number | **Question 2 required:** |
| --- | --- |
| 5 | **(a)** Evaluate whether the M&A scheme is applicable to WPL's acquisition of the remaining shares in Target Co on 1 July 2023, and if so, state how the conditions specific to <u>both</u> WPL and Target Co have been met. Where the conditions have been met, calculate the tax benefits under the M&A scheme which are available to WPL in Year of Assessment 2024. **(7 marks)** |
| 6 | **(b)** Evaluate whether Target Co is able to transfer unabsorbed tax loss items to WPL (assuming that WPL has sufficient assessable income to absorb the said tax loss items) under the Group relief scheme for Year of Assessment 2024, and if so, state how the conditions under the Group relief scheme have been met. Where the conditions have been met, calculate the amount of tax loss items that can be transferred to WPL in Year of Assessment 2024. **(5 marks)** |
| 7 | **(c)** Prepare the Singapore corporate income tax computation for WPL for Year of Assessment 2024.<br><br>Show all workings and take into account your responses in **parts (a)** and **(b)** above. Where certain items are not taxable (or exempt) or not deductible (or claimable), please state so. In arriving at the above, maximise the possible reliefs and make the most beneficial claim of capital allowances and tax benefits under the Enterprise Innovation Scheme. **(20 marks)**<br>**(Total: 32 marks)** |

**Question 3 – (a), (b), (c) and (d)**

Santhe Private Limited ("SPL") is a company incorporated and resident in Singapore that is in the business of manufacturing spare parts for the aerospace industry. SPL has an annual revenue of about $30 million in 2023.

As part of the Santhe Group's overall expansion plans in Asia, SPL plans to expand the range and extent of its spare parts manufacturing operations in Singapore.

In order to facilitate the above, it entered into the following transactions during the year 2023:

(i) To finance the purchase of additional machinery which will be used in the manufacturing operations, SPL will obtain a loan from its parent company in Finland ("FinCo"). In 2023, SPL paid interest amounting to $35,000 to FinCo.

(ii) SPL paid a royalty of $45,000 to FinCo for the use of certain patents owned by FinCo. The patents are crucial to SPL's manufacturing operations.

(iii) SPL engaged a third-party vendor to design and create an inventory tracking and quality monitoring system that will enable SPL to reduce inventory wastage and improve the overall manufacturing process.

The total service fee paid to the third-party vendor was $60,000. The service fee was billed to SPL in 2 invoices. The first invoice was for the amount of $52,000 and was for design services specifically performed outside of Singapore. The second invoice for the amount of $8,000 pertained to the installation services performed by the third-party vendor in SPL's factory after the system was completed.

Where withholding tax is applicable, such tax will be borne by the foreign company (i.e. FinCo and the third-party vendor).

Both FinCo and the third-party vendor are residents of Finland for tax purposes, and do not have any business operations in Singapore except for the installation services performed by the third-party vendor which was for a period of 1 week in mid-October 2023.

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

*“**Article 5 – Permanent Establishment***

1. *For the purposes of this Agreement, 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, oil well or gas well, a quarry or other place of extraction of natural resources*

3. *The term "permanent establishment" also includes:*

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

2. *…, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment..*

***Article 11 – Interest***

1. *Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.*

2. *However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the recipient is the beneficial owner of the interest, the tax so charged shall not exceed 5 per cent of the gross amount of the interest.*

*…*

7. *Interest shall be deemed to arise in a Contracting State when the payer is a resident of that State…*

***Article 12 – Royalties***

1. *Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.*

2. *However, such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the recipient is the beneficial owner of the royalties, the tax so charged shall not exceed 5 per cent of the gross amount of the royalties.*

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 literary, artistic or scientific work including software, cinematograph films, and films or tapes for radio or television 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.*

   *…*

5. *Royalties shall be deemed to arise in a Contracting State when the payer is a resident of that State...*

…

| e-Exam Question Number | **Question 3 required:** |
|---|---|
| 8 | **(a)** Explain if the payments in transactions (i) and (ii) stated in the case above that were made to FinCo may be deductible for Singapore income tax purposes. **(4 marks)** |
| 9 | **(b)** Considering <u>ONLY</u> the Singapore domestic income tax law, discuss the Singapore withholding tax implications <u>and</u> filing requirements which would arise on the 3 transactions (i), (ii) and (iii) stated in the case above, and calculate the amount of any withholding tax which would be applicable for each transaction. Show calculations/ workings, where relevant. **(7 marks)** |
| 10 | **(c)** Evaluate if your answers to **Question 3(b)** above would change under the Singapore-Finland tax treaty and recompute the withholding tax payable, if applicable. In your explanation, make reference to the relevant Articles in the Singapore/ Finland tax treaty. **(5 marks)** |
| 11 | **(d)** The interest rate charged by FinCo to SPL in transaction (i) stated in the case above for 2023 was at a rate of 3.5%. This differed from the transfer pricing documentation prepared by the Group which concluded an arm’s length interest rate range of 4% - 5% for the intercompany loans (including that between SPL and FinCo). The reason for the lower interest rate charged to SPL was because SPL was facing cash-flow constraints.<br><br>Advise SPL on the Singapore transfer pricing implication(s) (if any), which may be applicable to the intercompany loan obtained from FinCo. **(4 marks)**<br>**(Total: 20 marks)** |

**Question 4 – (a), (b), (c) and (d)**

US Co is a company incorporated in the United States. One of its major customers is a Singapore incorporated company (“SG Co”) from which it derives revenue from the sale of raw materials of about $3 million a year. US Co does not have any other business operations or employees based in Singapore.

The current contractual arrangement is as such – as and when SG Co requires raw materials, it will send a purchase order to US Co. US Co will then invoice SG Co for the amounts within 3 working days. Once the invoice is issued, legal title to these raw materials (which are located in US Co’s factory) will concurrently be transferred from US Co to SG Co. The raw materials will then be released and ready to be shipped to Singapore within a week after the invoice is issued.

Due to an uptick in SG Co’s operations, SG Co is checking with US Co if it is possible to vary the current sales arrangement to a Just-in-time (JIT) basis as per the following:

- US Co will import the raw materials into Singapore, and store the raw materials at the Singapore warehouse of SG Co.
- As and when SG Co requires raw materials, it will then draw down on US Co’s inventory in the Singapore warehouse.
- SG Co will then pay US Co for the amounts drawn down at the end of every month.
- The value of inventory sold by US Co to SG Co under this arrangement is not expected to change and is still expected to be in the range of $3 million every year.
- As before, US Co will not have any other business operations and/ or send any employees to be based in Singapore.

| e-Exam Question Number | **Question 4 required:** |
|---|---|
| 12 | **(a)** Advise US Co on its Singapore GST obligations (if any) under the current contractual arrangement. **(4 marks)** |
| 13 | **(b)** Advise US Co on the Singapore GST and corporate income tax implications (if any) under the proposed JIT arrangement suggested by SG Co. **(6 marks)** |
| 14 | **(c)** As part of its future expansion plans and to increase its commercial footprint in Asia, US Co is planning to set up a trading hub in Singapore. As US Co is still in the process of setting up a presence in Singapore, US Co is intending to engage the services of a logistics provider in Singapore to handle all the storage and warehousing of raw materials. US Co will source inventory from both Singapore and overseas suppliers, which will then be stored in a third-party Singapore warehouse. The inventory will then be on-sold to both Singapore and overseas customers. These customers do not enjoy any Singapore GST incentives.<br><br>Currently, US Co has been approached by two GST-registered logistics providers, one of which has been granted the approved third-party logistics (3PL) company scheme. Please explain to US Co the GST implications (relating to the importation of raw materials and subsequent sale) under both scenarios, and the differences (if any). Assume that US Co is not registered for GST purposes in Singapore. **(6 marks)** |

| e-Exam Question Number | **Question 4 required:** |
|---|---|
| **15** | **(d)** US Co is considering between registering a Singapore branch and incorporating a company (i.e. US Co will be the sole shareholder) in Singapore. Please explain to US Co the similarities and differences between these two forms of business structure from a Singapore corporate income tax perspective only – in particular, the US Co is interested to understand the following:<br><br>• How these two forms of business may be taxed;<br>• Whether there are any differences in terms of the reliefs and exemptions that they may enjoy; and<br>• Taxes on repatriation of profits from the Singapore branch/ company to the US Co.<br><br>**(4 marks)**<br>**(Total: 20 marks)** |

**END OF PAPER**