

D22 ATX SGP Draft Q&A

Question 1

You should assume that today's date is 1 December 2022.

Your manager has just had a meeting with Aaron Chan, the managing director of Accounting Legal Holding Pte Ltd (ALHPL), a potential new client, in relation to its corporate tax matters. Extracts from the memorandum prepared by your manager following the meeting, a group structure diagram, a note of the group financial results, and an email from your manager detailing the work you are required to do are included in the exhibits.

The following **exhibits**, available on the left-hand side of the screen, provide information relevant to the question:

1. Memorandum extract from your manager – dated 1 December 2022.
2. Group structure diagram.
3. Financial results of the group.
4. Email extract from your manager – dated 1 December 2022.

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

Exhibit 1

Aaron Chan, a Singapore accountant, incorporated a Singapore company, Accounting Services Pte Ltd (ASPL), on 1 April 2019 as the sole shareholder to provide accounting services to both local and foreign companies.

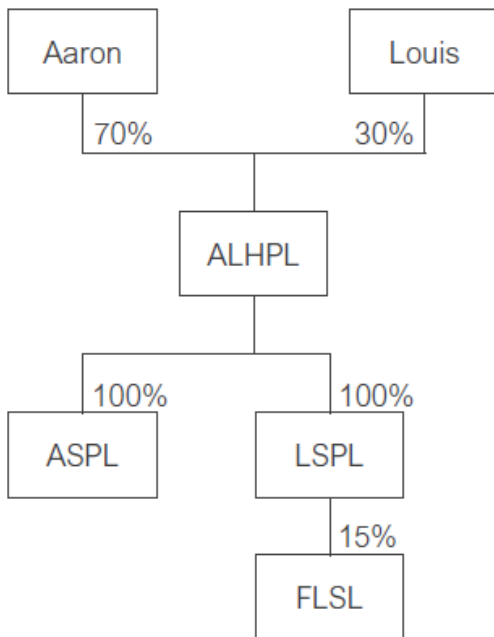
Separately, Louis Goh, a Singapore lawyer, incorporated a Singapore company, Legal Services Pte Ltd (LSPL), as the sole shareholder on 1 January 2018 to provide legal services to Singapore companies.

On 1 January 2018, LSPL bought a 15% stake in Foreign Legal Services Limited (FLSL), a company incorporated in Country F, to provide legal services to companies in Country F, a country which has not signed a comprehensive tax treaty with Singapore. Country F operates a one-tier corporate tax system similar to Singapore, with a single corporate tax rate of 12.5%.

Following a restructuring exercise effected on 1 October 2020, Aaron and Louis contributed their respective stakes in ASPL and LSPL to Accounting Legal Holding Pte Ltd (ALHPL), a new Singapore company incorporated on the same date, in return for proportionate shares in ALHPL, which are fairly valued at \$10 million in total. The group structure of ALHPL and its subsidiaries, after the restructuring, is depicted in exhibit 2.

Exhibit 2

Group structure from 1 October 2020



ALHPL, ASPL and LSPL have the following similar features:

- All adopted an accounting year end of 30 September.
- All hold their annual board meetings in Singapore since incorporation.
- There has been no change in their principal activities since incorporation.

ALHPL

While ASPL and LSPL focus on providing accounting and legal services respectively, ALHPL serves as the holding company which provides the following services to ASPL and LSPL:

- Accounts receivable and accounts payable
- Employee benefits administration
- General administration
- Payroll and recruitment
- Training and employee development

Exhibit 3

ALHPL

On 31 December 2021, ALHPL had submitted an estimated chargeable income of \$100,000 for the year ended 30 September 2021 on the basis that the total cost it incurred in providing services to its subsidiaries totalled \$2 million and a 5% mark-up on total cost is adopted to arrive at the total fees charged to ASPL and LSPL. The cost of \$2 million includes the following expenses:

- \$20,000 depreciation (based on the cost of \$50,000 for new computers purchased during the year);
- \$1,000 loss on disposal of a capital asset (the asset was thrown away – no capital allowances claimed previously); and
- \$30,000 provision for leave.

ASPL

Despite deriving an adjusted trade profit of \$100,000 for the year ended 30 September 2020, ASPL had opted to defer claiming plant and machinery allowances of \$170,000 for prescribed automation equipment acquired during the year.

For the year ended 30 September 2021, the adjusted trade profit before the capital allowances claim amounted to \$10,000. No new assets were acquired during the year. ASPL had made a cash donation of \$40,000 to an approved institution of public character on 31 December 2020. ASPL had decided not to defer its claim of plant and machinery allowances for the year of assessment 2022.

LSPL

LSPL had applied and was awarded the development and expansion incentive (DEI) with a concessionary tax rate of 10% for five years from 1 October 2020. The agreed base income based on the financial statements for the previous three years was \$250,000. It employs more than ten staff who are Singapore citizens.

All its service income for the year ended 30 September 2021 qualified as DEI income and its adjusted trade income after the capital allowances claim and before base income amounted to \$650,000.

On 1 October 2021, LSPL received, in Singapore, dividend income of \$87,500 from FLSL.

As at 30 September 2020, FLSL employed more than 20 employees who are citizens in Country F.

On 1 December 2022, LSPL is contemplating doubling its shareholding in FLSL by purchasing another 15% stake for a consideration of \$10 million.

Exhibit 4

Write a letter to the board of directors of Accounting Legal Holding Pte Ltd (ALHPL) on the following matters:

(a) Restructuring exercise on 1 October 2020

- (i) Explain whether there are any individual income tax implications for both Aaron and Louis arising from the restructuring exercise.
- (ii) Explain whether there are stamp duty implications arising from the restructuring and any penalties for non-compliance, assuming no stamp duties have been paid so far.

(b) Tax liability of ALHPL

- (i) Discuss whether ALHPL's basis of assessment, adopted in its computation of the estimated chargeable income, is acceptable when filing the actual tax computation for the year of assessment 2022 and whether it should adopt a 'normal trading company' basis of taxation. Show your tax computations under both methods.
- (ii) Explain whether using a 5% mark-up on total cost to arrive at the fees chargeable to ASPL and LSPL is in compliance with transfer pricing regulations.

(c) Utilisation of loss items of Accounting Services Pte Ltd (ASPL), arising in year of assessment 2022

Discuss the tax consequences arising from different possible options for ASPL to apply group relief and/or tax loss carry back provisions from the group's perspective and conclude which is the most tax efficient option.

Support your answer using calculations to show the tax savings for each option identified. You do not need to address in your answer how conditions for group relief and loss carry back relief are met.

You can assume that ASPL will be incurring losses in the near future.

(d) Legal Services Pte Ltd (LSPL)'s investment in Foreign Legal Services Limited (FLSL)

- (i) Explain the tax implications for LSPL upon receipt of the dividend from FLSL in Singapore.
- (ii) Explain the corporate tax, goods and services tax and stamp duty implications arising from the potential purchase of the additional 15% stake in FLSL.

Requirements

You should assume that today's date is 1 December 2022.

Prepare the letter as requested in the email from your manager. The following marks are available:

(a) Restructuring Exercise on 1 October 2020

(i) Individual income tax implications for Aaron and Louis

(2 marks)

(ii) Stamp duty implications and any penalties for non-compliance

(2 marks)

(b) Tax liability of Accounting Legal Holding Pte Ltd (ALHPL)

(i) Basis of assessment for the year of assessment 2022

(4 marks)

(ii) Compliance with the transfer pricing regulations

(3 marks)

(c) Utilisation of loss items of Accounting Services Pte Ltd (ASPL)

(11 marks)

(d) Legal Services Pte Ltd (LSPL)'s investment in Foreign Legal Services Limited (FLSL)

(i) Tax implications for LSPL upon receipt of the dividend from FLSL in Singapore

(3 marks)

(ii) Corporate tax, goods and services tax (GST) and stamp duty implications arising from the potential purchase of the additional 15% stake in FLSL

(6 marks)

Professional marks will be awarded in question 1 for the appropriateness of the format, presentation and structure of the letter, the effectiveness with which the information is communicated and its logical flow.

(4 marks)

Question 2

You should assume that today's date is 1 December 2021.

Your manager has had a meeting with Sharon Lopez, the marketing director of Basic Trading Private Limited (BTPL), a company tax resident in Singapore. Background information, extracts from an email from Sharon and extracts from an email from your manager detailing the work you are required to do are included in the exhibits.

The following **exhibits**, available on the left-hand side of the screen, provide information relevant to the question:

1. Background information.
2. Email extract from Sharon Lopez – dated 1 December 2021.
3. Email extract from your manager – dated 1 December 2021.

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

Exhibit 1

Basic Trading Private Limited (BTPL) is a wholly-owned Singapore subsidiary of Basic Ultimate Corporation Limited (BUCL), a company incorporated in Country B.

Sharon Lopez was initially employed as a marketing director of BUCL from 1 January 2019. She was later seconded to work as the marketing director of BTPL from 1 January 2021 for an initial period of three years. As part of the group's employee share option plan, Sharon was granted the option to purchase 100,000 shares of BUCL for a period of three years at a price of \$10 when she started employment with BTPL. The shares of BUCL were last valued at \$9 on 31 December 2020.

Due to substantial losses incurred in 2021, BTPL has to down-size its scale of trading activities and engage in cost-cutting measures in the coming year. As part of this plan, BTPL will terminate Sharon's employment on 28 February 2022 and a lump sum of \$100,000 will be paid to her on 31 December 2021 for her early release. In recognition of her hard work during the year, a one-month bonus will also be paid to her on 31 December 2021.

Exhibit 2

Personal information

I am a citizen of Country B. I am currently single, and I celebrate my 55th birthday today. I have a boyfriend, who is a Singapore citizen, and I plan to get married and apply for Singapore citizenship within five years. We are contemplating purchasing a landed property worth \$5 million as our matrimonial home in Singapore to be held in either or both of our names. Neither of us have owned any Singapore residential properties previously.

I first started working for a Singapore firm from 1 January 2017. After working for two complete years, I returned to Country B to take up the post of marketing director from 1 January 2019 with Basic Ultimate Corporation Limited (BUCL). After serving two complete years, on 1 January 2021, I was posted to Singapore to work for Basic Trading Private Limited (BTPL), for an initial period of three years.

Unfortunately, I have just been informed today that I have been retrenched. I believe that all the payments from BTPL to me from now on should not be taxable, but please confirm.

My employment details are as follows:

- Monthly basic salary of \$50,000.
- One-off cash relocation allowance of \$20,000.
- Paid air tickets to Singapore worth \$5,000.
- Monthly transport allowance of \$500 to cover my private car expenses.
- BTPL contributed \$40,000 to my supplementary retirement scheme (SRS) account during the year 2021, and I am not required to return any excess contribution above the contribution cap.
- Partially furnished apartment provided, which was rented and fully borne by BTPL for \$8,000 monthly. This rent included the rental of furniture and fittings.
- Granted some employee stock options but I believe I should not be taxed as I will not be exercising these by my last day of employment on 28 February 2022.
- I will receive some compensation from the company, the details of which I believe have been provided to you.
- I will go back to Country B immediately after cessation of my employment with BTPL and will return to Singapore only in the year 2023.

Other information

- My SRS account was first opened in the year 2017 and so far I have contributed \$30,000 in each of the years 2017 and 2018. I have been shrewd in my investments using the funds in my SRS account and it is my goal that my investment will grow to \$200,000 by the time I can make a penalty-free withdrawal.
- I bought a life insurance policy from an insurance company with a branch in Singapore on my own life since 2017. The capital sum insured was \$100,000 and I pay a premium of \$500 every month.

Exhibit 3

Please carry out the following work:

(a) Corporate tax issues relevant to Basic Trading Private Limited (BTPL)

Discuss the corporate tax filing and reporting obligations, together with deductibility issues relevant to BTPL arising from the employment of Sharon Lopez.

(b) Tax computation of Sharon for years of assessment (YAs) 2022 and 2023

Discuss Sharon's tax resident status and compute Sharon's minimum tax payable for YA 2022 and YA 2023. If any of her employment items are not taxable, please indicate clearly.

Note: You should assume that the rates for YA 2022 will continue to apply for YA 2023.

(c) Tax planning for Sharon

With regard to the supplementary retirement scheme (SRS) and the future purchase of the residential property, detail the advice you would give Sharon to minimise both her individual tax and stamp duty exposures.

Requirements

You should assume that today's date is 1 December 2021.

Carry out the work as requested in the email from your manager. The following marks are available:

(a) Corporate tax issues relevant to Basic Trading Private Limited (BTPL)

(7 marks)

(b) Tax computation of Sharon for years of assessment (YAs) 2022 and 2023

(12 marks)

(c) Tax planning for Sharon

(6 marks)

Question 3

Melanie Wong, the finance manager of First Chance Properties Pte Ltd (FCPPL), requires advice on the goods and services tax (GST) treatment for certain transactions.

The following **exhibit**, available on the left-hand side of the screen, provides information relevant to the question:

1. First Chance Properties Pte Ltd.

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

Exhibit 1

First Chance Properties Pte Ltd (FCPPL) is an investment holding company, incorporated in Singapore, which provides management services to its subsidiaries. It has been a GST-registered company since 2010.

FCPPL holds properties both in Singapore and overseas and derives rental income from them.

It also owns shares in property holding companies which own Singapore properties, and these shares derive dividend income, payable to FCPPL.

During the quarter ended 30 September 2021, FCPPL derived the following revenue:

	\$
1. Interest income from loans to Singapore subsidiaries	100,000
2. Rental income of Singapore unfurnished residential properties	500,000
3. Rental income of Singapore commercial properties	2,400,000
4. Management fees from Singapore subsidiaries	4,000,000
5. Management fees from overseas subsidiaries	3,000,000
6. Dividend income from subsidiaries	80,000
Total:	<u>10,080,000</u>

During the same quarter, FCPPL incurred the following expenses and the value of **input tax** in relation to each expense is noted below:

Expense	Value of input tax \$
1. Service fees incurred in relation to Singapore commercial properties	14,000
2. Office rental and utilities costs incurred to operate its businesses	35,000
3. Brokerage expenses to purchase shares locally for investment	2,100
4. Running expenses for a company car used for business purposes	2,800
5. Legal fees incurred to draft an agreement for a loan to its Singapore subsidiary	3,500
6. Advertising fees incurred to advertise the lease of units in a mixed residential and commercial development	700

On 1 December 2021, FCPPL set up an overseas representative office (RO) in Country Z and incurred expenses of \$200,000, payable to an architecture firm in Country Z, for design services for the RO. The architecture firm has no legal presence or any establishment in Singapore.

Requirements

(a) Determine the value of standard-rated, zero-rated and exempt supplies made by First Chance Properties Pte Ltd (FCPPL) during the quarter ended 30 September 2021, from the six GST supplies noted in the exhibit.

(4 marks)

(b) Explain the input tax general rules when determining the amount of input tax claimable. For input tax incurred in respect of each of the six expenses by FCPPL during the quarter ended 30 September 2021, explain whether they are claimable.

(8 marks)

(c) Compute the total input tax claimable by FCPPL during the quarter ended 30 September 2021.

(4 marks)

(d) Explain whether FCPPL will be subject to reverse charge in respect of the design services in December 2021.

(4 marks)

Question 4

Sophie Lilian, the chief accountant of Universal Trading Pte Ltd (UTPL) requires advice on the Singapore tax implications arising from the receipt of foreign-sourced income from its overseas related companies and its overseas branch.

The following **exhibit**, available on the left-hand side of the screen, provides information relevant to the question:

1. Universal Trading Pte Ltd.

This information should be used to answer the question **requirements** within your chosen **response option(s)**.

Exhibit 1

Universal Trading Pte Ltd (UTPL) is a company incorporated and tax resident in Singapore. For the year ended 31 December 2021, UTPL had an adjusted Singapore trade profit of \$3,000,000. In addition, UTPL also received, in Singapore, the following foreign-sourced income during the year:

- Net royalty of \$1,000,000 from Country X. This amount is net of 3% withholding tax suffered in Country X. UTPL does not have any permanent establishment in Country X. The corporate tax rate in Country X is 20%.
- Net dividend of \$300,000 paid by UTPL's wholly-owned subsidiary company which is tax resident in Country Y. This amount is paid out of after-tax profits and net of 10% dividend withholding tax in Country Y. The corporate tax rate in Country Y is 40%.
- Net profit of \$500,000 from the business operations of UTPL's branch in Country Z. The amount is net of 5% corporate tax paid in Country Z. There is no withholding tax levied in Country Z on the remittance of branch profits.

Singapore did not conclude a comprehensive double tax agreement with Country X, Country Y, or Country Z.

Requirements

(a) Discuss whether the foreign-sourced income remitted from the three countries qualifies for tax exemption under the foreign-sourced income exemption regime in Singapore.

(6 marks)

(b) Compute UTPL's minimum income tax liability for the year of assessment (YA) 2022, assuming it makes the most tax-efficient election for foreign tax credit pooling, if applicable.

(10 marks)

(c) Briefly discuss how your answer to part (b) will differ if UTPL is not regarded as a tax resident of Singapore for YA 2022.

(4 marks)