THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2019

MODULE 2.08 – SINGAPORE OPTION

ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

TIME ALLOWED – 3¼ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **The** question in **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- All workings should be made to the nearest month and in Singapore Dollars, unless otherwise stated.
- Start each answer on a new page and clearly indicate which question you are answering. If you are using the on-screen method to complete your exam, you must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- The first 15 minutes of the exam is reading time. You will be allowed to annotate the question paper during this time; however, you will **not** be permitted to start writing or typing your answer. The Presiding Officer will inform you when you can start answering the questions.

PART A

You are required to answer BOTH questions from this Part.

1. Hofberg Pte Ltd (Hofberg) is a company incorporated in Singapore. Hofberg supplies high-end home stereo equipment, which it manufactures at its factory in Country B. Raw materials are also sourced in Country B, while product design is conducted by staff in Singapore.

   Hofberg operates a website, hosted in Country C, through which sales are conducted. The website is managed by Hofberg's staff in Singapore. Sales are approved by the staff in Singapore, and orders are then sent to the customer directly from the factory in Country B. All monies collected through the website are banked in Hofberg's account in Country C. When required, amounts from these funds are transferred to Singapore or Country B. Hofberg's directors are all based in Singapore.

   Country B taxes all income of non-residents sourced there at 25%. Country B has a double taxation agreement with Singapore, modelled on the OECD standard. Country C imposes no income taxes at all.

   You are required to advise Hofberg of the Income Tax implications of the above scenario, providing reasons and legal references in support of your assertions. If any aspects are unclear, you should fully explore the issues and explain how such aspects would be clarified. (25)

2. Joan was born and has spent her life in Country X. Joan holds share investments in companies in Country X, Country Y and Singapore, and also holds real estate in Country X and Country Y. Joan earns rent from the real estate and dividends from the shares. In addition, Joan earns interest from bank accounts in all three countries. From time to time she sells shares and makes a gain or loss as a result. Joan is a highly trained professional and earns a large salary from her employer in Country X.

   Joan has received an opportunity to take up a new employment position with a company in Singapore. It will be a two-year contract, with potential for a one-year extension. Joan will be paid $250,000 per year before tax, and will also be provided with an apartment in Singapore where she will stay for the full duration of her contract. Joan's work will, however, require trips to other states in the region for periods of up to a week and totalling no more than five weeks per year. Country X is one of the states she will visit on this basis. Joan will give up her apartment in Country X if she takes up the position in Singapore.

   Country X taxes residents on their worldwide income at a rate of 25%. Due to her domicile, Country X will regard Joan as a resident under its domestic tax law at all times even if she takes up the Singapore position. Country X has a double taxation agreement (DTA) with Singapore that follows the OECD standard. Country Y imposes no taxes at all, and has no DTAs with other countries.

   You are required to advise Joan of the Income Tax implications of taking the position in Singapore, providing reasons and legal references in support of your assertions. If any aspects are unclear, you should fully explore the issues and explain how such aspects would be clarified. (25)

PART B

You are required to answer THIS question.

3. Bigmin Ltd is a company based in Country P, with a subsidiary in Country Q (QSub). Country P has a tax rate of 25% and no double tax agreements. Country Q has a 25% tax rate and imposes dividend withholding tax on dividends paid by QSub at a rate of 20%. Country Q has a standard form double taxation agreement with Singapore that reduces dividend withholding tax rates to 5% in the case of wholly owned subsidiaries.

   Bigmin plans to incorporate a new subsidiary in Singapore (SingSub). It will then transfer its shares in QSub to SingSub. SingSub will employ two qualified accountants based in Singapore, who will act as directors of SingSub and provide financial management services to QSub on behalf of SingSub. SingSub will charge QSub for these services.

   You are required to advise on the Income Tax implications of the above scenario. Consider what the taxpayers are trying to achieve and the associated tax benefits, together with any risks associated with their plans. You should provide reasons for your assertions and legal references. If any aspects are unclear, you should fully explore the issues and explain how such aspects would be clarified. (20)

PART C

You are required to answer TWO questions from this Part.

4. “A primary purpose of double taxation agreements (DTAs) is to eliminate double taxation. As Singapore has such a narrow, essentially sourced-based, Income Tax-based tax system, there is not a substantial risk of double taxation. Therefore, Singapore does not need DTAs in relation to the issue of double taxation.”

   You are required to critically assess this statement. (15)

5. LegalCo is a law firm incorporated and centrally manage and controlled in Singapore. It provides legal advice to a wide range of customers, including the following advice:

   a) A Singapore company, in relation to its employee disputes at its overseas branch.

   b) An Australian company, on property law issues relating to its planned property development in Singapore.

   c) The same Australian company, in relation to its employee disputes in another country in the region.

   d) A Japanese company, on Singapore company law issues that will arise should the company establish a subsidiary in Singapore. The Japanese company currently has no business in Singapore.

   e) A Singapore company, relating to its planned takeover of a company listed on a foreign stock exchange.

   You are required to advise LegalCo of the Goods and Services Tax implications of the above scenarios, providing reasons and legal references in support of your assertions. If any aspects are unclear, you should fully explore the issues and explain how such aspects would be clarified. (15)

6. “Singapore’s low tax rates, narrow tax base, incentives and double taxation agreement network mean that it facilitates Base Erosion and Profit Shifting (BEPS) by multinational enterprises.”

   You are required to critically assess this statement. (15)

7. Peter is a Singaporean citizen in his fifties, who owned a substantial collection of toy action figures. Requiring money for an apartment, Peter approached a dealer and enquired about how much his collection was worth. Peter was surprised to find out that his collection was worth a significant amount of money. He sold some prime pieces and received $30,000, Realising that his friend Bob owned similar pieces and was unaware of their value, Peter offered to buy Bob’s collection for $2,000, an offer which Bob accepted. Peter immediately sold Bob’s collection on for $40,000.

   Deciding he no longer needed to sell to a dealer, Peter set up a website and sold additional pieces of his original collection directly to other collectors. After nine months, Peter had depleted a large portion of his collection and made a further $200,000. He then realised that he could source further items from markets and friends and sell them at a higher price on the website. He began doing this and has carried on making money.

   You are required to advise Peter of the Income Tax and Goods and Services Tax implications for him, providing reasons and legal references in support of your assertions. If any aspects are unclear, you should fully explore the issues and explain how such aspects would be clarified. (15)