THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2025

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 will **not** receive marks for any additional answers.

You must answer:

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

Further instructions

- All workings should be made in Singapore Dollars, unless otherwise stated. Any monetary calculations should be made to the nearest whole Singapore Dollar. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- 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.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

PART A

You are required to answer BOTH questions from this Part.

1. Baymark Ltd (Baymark) is a company incorporated, centrally managed and controlled in Country Z. The company manufactures and sells a popular herbal supplement, ZenVita, globally, including to customers in Singapore. The supplement is manufactured and stored in a warehouse in Country W.

   Baymark engages a marketing consultant based in Singapore, to manage its online advertising campaigns targeting Singapore and Southeast Asia. In addition, Baymark leases cloud computing services from a Singapore-based server farm to operate its interactive e-commerce platform.

   All customers worldwide, including those in Singapore, place orders via Baymark's website. Payments are made directly to Baymark's bank account in Country Z. Upon receiving orders, products are shipped from the Country W warehouse to customers in their respective countries.

   Sales are distributed as follows:

   1) 30% to Singapore;
   2) 15% to Country Z;
   3) 10% to Country W; and
   4) the remaining 45% to various other countries.

   Country Z and Singapore have a double tax agreement (DTA) in force, which is based on the 2010 OECD Model. Country Z has signed the Multilateral Instrument (MLI), and has opted in to Article 12 of the MLI concerning commissionaire arrangements and the dependent agent PE rule. Country W has no tax treaty with Singapore.

   You are required to discuss the Singapore income tax implications of this scenario. Your answer should consider the relevance of permanent establishment rules, source rules under Singapore tax law, and the DTA with Country Z (including the impact of the MLI).

   You should highlight any ambiguities or areas where further information would be necessary to provide a definitive answer, and provide relevant legal references in support of your arguments. (25)

2. Lionheart Ltd (Lionheart) is a company incorporated and tax resident in Singapore. The company designs and sells eco-friendly kitchen appliances. Lionheart has two key decision-makers, Kai and Mei, who make all significant strategic and operational decisions and are both based in Singapore.

   Lionheart outsources the manufacturing of its appliances to a factory located in Country A. Once manufactured, the goods are transported to Country B where they are assembled into final products and stored in a large distribution facility owned by Lionheart.

   Lionheart sells these finished products to:

   1) Greenhouse Ltd, its wholly owned subsidiary in Country A (where it is resident);
   2) Oceanview Ltd, its wholly owned subsidiary in Country B (where it is resident); and
   3) Bayfront Ltd, its wholly owned subsidiary in Singapore.

   All proceeds from Lionheart’s sales are banked into a foreign currency account held outside Singapore. Funds are periodically transferred to Lionheart’s Singapore account as required for operational expenses.

   Sales arrangements between Lionheart and its subsidiaries are informal and usually based on email and instant messaging between Kai, Mei and local managers. Pricing terms are loosely based on previous years' prices, without a formal pricing policy.

   Countries A and B both tax non-residents on locally sourced income and residents on worldwide income. Both countries have comprehensive double tax agreements with Singapore that follow the OECD Model Convention.

   You may assume that Singapore adopts the OECD Transfer Pricing Guidelines in practice.

   You are required to discuss the income tax implications of the above scenario for all relevant company taxpayers, considering issues such as residence, source, transfer pricing, permanent establishments and treaty relief.

   You should highlight any ambiguities or areas where further information would be necessary to provide a definitive answer, and provide relevant legal references in support of your arguments. (25)

PART B

You are required to answer ONE question from this Part.

3. Orchid Pte Ltd (Orchid) is a company incorporated and tax resident in Singapore. In 2015, Orchid purchased two commercial buildings: one in Singapore and the other in Country Z (a neighbouring country). Orchid held both properties passively as long-term investments without actively using them.

In 2021, Orchid decided to significantly refurbish both properties to convert them into high-end, serviced office spaces. The planning, financing, and marketing for both projects was entirely managed from Singapore by Orchid's directors.

The Singapore property was refurbished by a local construction company in Singapore, while the Country Z property was refurbished by an unrelated contractor based in Country Z.

In 2024, Orchid began leasing out both buildings to international companies. The lease agreements for both properties were negotiated and signed in Singapore, and rental income for both buildings is received into Orchid's Singapore bank account.

Orchid's management have provided you with the following additional facts:

- The buildings were both acquired in 2015, for $15 million each, and were each valued at $28 million in 2021, prior to refurbishment.
- The total refurbishment and marketing costs were $12 million, equally attributable to both properties.
- The annual rental income from each building is $9 million, starting from 2024, with multi-year lease agreements.
- The tenants of both buildings are international companies; none are resident in Singapore.

Country Z and Singapore have a comprehensive double tax agreement, based on the OECD Model Convention.

You are required to answer the following questions:

1) What are the Singapore income tax implications for Orchid? (14)

2) How would your answer change if Orchid was not a tax resident of Singapore, assuming that all activities remained in the same countries? (6)

You should highlight any ambiguities or areas where further information would be necessary to provide a definitive answer, and provide relevant legal references in support of your arguments.

Total (20)

4. Evelyn, a Singapore tax resident, runs a sole proprietorship offering online design and marketing services. Her business operates from her home in Singapore, where she has converted one room into a dedicated home office. Evelyn has no employees but occasionally hires independent freelancers to assist with larger projects.

For the 2025 year of assessment, Evelyn reports gross business receipts of S$240,000, all from Singapore clients.

She also reports the following expenses:

- S$12,000 for web hosting, software subscriptions, and internet services;
- S$15,000 for upgrades to her home office (including new flooring, lighting, and air-conditioning);
- S$3,000 for airfare and accommodation, attending a digital marketing conference in Thailand;
- S$5,000 for meals and entertainment when meeting clients locally; and
- S$18,000 for the hiring of freelance designers.

Evelyn purchased a new laptop for S$4,000, which she uses 70% for business purposes and 30% for personal use.

Evelyn also drew S$30,000 from her business bank account to cover private living expenses.

Evelyn has elected to apply for the Preceding Year Basis under Section 10(1)(a) ITA. Claims under the Simplified 2-line filing system are not applicable as her revenue exceeds S$200,000.

You are require to advise Evelyn on the income tax implications of the above activities under Singapore law, including the determination of chargeable income, allowable deductions, and any relevant adjustments.

You should highlight any ambiguities or areas where further information would be necessary to provide a definitive answer, and provide relevant legal references in support of your arguments. (20)

PART C

You are required to answer TWO questions from this Part.

5. "Singapore's territorial tax system and reliance on source-based taxation mean that double taxation agreements (DTAs) have limited practical effect on reducing Singapore's taxing rights over foreign businesses operating here."

   You are required to critically assess this statement in the context of Singapore's approach to taxing non-residents, with reference to both domestic law and DTA principles. (15)

6. James is an individual born and domiciled in Country R, where residents are taxed on their worldwide income. Country R has a double tax agreement (DTA) with Singapore based on the OECD Model, but has not signed the Multilateral Instrument.

   For many years, James has:

   - held a diversified portfolio of real estate properties located in Singapore, Country R, and Country Q;
   - earned rental income from all three countries;
   - bought and sold commercial properties over the years in all three jurisdictions, sometimes making significant capital gains; and
   - provided consulting services to clients located in Singapore, Country R, and Country Q (with all work being performed remotely from James' home office).

   In 2023 James accepted a two-year role with a Singapore-based corporation as an in-house strategy adviser, earning S$250,000 annually. He sold his principal residence in Country R and relocated to Singapore, where he rents an apartment for the full two-year period.

   During this time, he continues to manage his rental properties and provides consulting services remotely from his apartment.

   James spends approximately nine weeks per year outside Singapore, visiting clients in other countries.

   Country Q does not tax foreign-source income and has no DTA with Singapore or Country R.

   You are required to explain the income tax implications for James, at all times, of the activities described.

   You should highlight any ambiguities or areas where further information would be necessary to provide a definitive answer, and provide relevant legal references in support of your arguments. (15)

7. Sage Pte Ltd (Sage) is a consultancy firm based in Singapore, providing market research and strategic advice. Its directors have presented you with the following scenarios:

<u>Scenario 1</u>

Sage is engaged by KARPA Corp (KARPA), a Hong Kong-incorporated company, to provide market research on consumer trends in Thailand and Vietnam. The research is conducted entirely from Sage's Singapore office, based on data sourced externally. The final research report is emailed to KARPA's office in Hong Kong. Sage invoices KARPA immediately after submission.

<u>Scenario 2</u>

A few months later, KARPA's chief executive officer visits Singapore for meetings. During this trip, KARPA makes a request for Sage to present additional insights and analysis in-person at Sage's Singapore office. Sage invoices KARPA for this in-person advisory service.

<u>Scenario 3</u>

One year later, KARPA asks Sage to provide advice on setting up a subsidiary in Singapore. This is done via videoconference and follow-up emails. The invoice is issued to KARPA's Hong Kong office.

<u>Scenario 4</u>

Separately, Bento Pte Ltd (Bento), a Singapore-based retail company, hires Sage to conduct market research for its expansion into Malaysia. The research is performed in Singapore and emailed to Bento's Singapore head office.

You are required to explain the GST implications of each of the services and invoices provided by Sage.

You should highlight any ambiguities or areas where further information would be necessary to provide a definitive answer, and provide relevant legal references in support of your arguments. (15)

8. **You are required to discuss the practical relevance and key challenges of applying Singapore's foreign-sourced income exemptions for dividends and branch profits**. (15)