

# THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2021

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## MODULE 2.08 – SINGAPORE OPTION

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### ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

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TIME ALLOWED – 3¼ HOURS

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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)
- **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.
- As you are using the online 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.
- 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. Jubba PL is a company incorporated in Singapore, whose directors live in Singapore. Jubba PL manufactures and sells smartphones. The phones are manufactured in a factory which Jubba PL rents in Country X. Jubba PL conducts business strategy, market planning and phone design and planning in its office in Singapore, and rents a shop in Country Y in which it sells the phones.

Jubba PL also has staff in Country P, who maintain a website through which it sells phones on the international market. It has a large number of customers in Country Z who buy the phones via the website.

Country P has no income tax and no double tax agreements (DTAs). Countries X, Y and Z each have a DTA with Singapore, and each taxes non-residents at 25% on net income sourced in their territory.

Half of the revenue generated from website sales and from the shop in Country Y has been transferred to Jubba PL's Singapore bank account, while the rest remains in its foreign bank account.

**You are required to explain the Singapore income tax consequences of the activities described for Jubba PL. You should assume that all DTAs follow the OECD Model Tax Convention, and that the source rules used in Countries X, Y and Z are the same as those used in Singapore. In the event of any uncertainties, your answer should explain what additional information would help provide certainty. Provide reasoning and legal references in support of your assertions.** (25)

2. Sloman PL is a company incorporated in Singapore. All of Sloman PL's shares are owned by Pink Ltd, a company incorporated in Country X. Sloman PL holds all shares in Hiro PL, a company incorporated in Country Y.

Countries X and Y each have a double tax agreement (DTA) with Singapore, and each taxes non-residents at 25% on net income sourced in their territory. They each tax residents on their worldwide income, and treat companies as resident when they are either incorporated or centrally managed and controlled in their territory. Under their respective domestic laws, Countries X and Y each charge a withholding tax on dividends paid and interest paid by resident companies to non-residents. Country X does not have a DTA with Country Y.

The directors of each of the three companies are based in the corresponding country in which the company is incorporated.

Sloman PL has loaned money to Hiro PL and receives interest on this loan. Employees of Sloman PL carry out a number of services that are provided to Hiro PL. The work is undertaken in Singapore and includes accounting, management, planning, marketing and legal compliance. Hiro PL pays a fee for these services.

Hiro PL manufactures and sells widgets in Country Y; this is its only business. From time to time Hiro PL pays a dividend to its sole shareholder from its profits.

Sloman PL does not pay many dividends, but is considering a small one. Sloman PL has no borrowings. Its only business is the provision of services and funds to Hiro PL as explained above.

**You are required to:**

- 1) **Explain the Singapore income tax implications of the activities described. You should assume that all DTAs follow the OECD Model Tax Convention, and that the rules in Countries X and Y for locating the source of income are the same as in Singapore. In the event of any uncertainties, your answer should explain what additional information would help provide certainty. Provide reasoning and legal references in support of your assertions.** (16)
- 2) **Briefly outline what you see as the rationale for the way the companies are set up, and note the risks and benefits of this structure.** (9)

Total (25)

## PART B

**You are required to answer THIS question.**

3. Renee was born and raised in Country X. Until recently she lived with her parents in Country X, before receiving and accepting an offer to work as a specialist accountant in Singapore. The job has a fixed, three-year contract period, commencing on 1 January 2021. Renee has moved to Singapore, where she rents an apartment. Her parents allow her room at home to remain as it is, with many of her belongings. Renee returns home for four weeks each year and stays in the room.

Renee earns a significant salary for her job in Singapore, in addition to the following income sources:

- Share trading. Before and during her time in Singapore, Renee has regularly bought and sold shares. She is very active in her share trading, and rarely holds any share for more than three weeks. The shares are in companies located in Country X, Singapore and a number of other countries.
- Dividends from her shares.
- Interest from a Singapore bank account, a bank account in Country X, and a bank account in Country P.
- Income from a subscription website which Renee runs, giving share trading and investment advice. She has maintained this site before and during her time in Singapore, earning money from subscriber fees. The site is hosted in Country P and Renee deposits the money earned into her account in Country P.

Country X has a double tax agreement (DTA) with Singapore, based on the OECD Model Tax Convention. It taxes non-residents at 25% on net income sourced in its territory, and taxes residents on their worldwide income. Country P has no income tax and no DTAs. Country X will treat Renee as a resident at all times.

**You are required to explain the Singapore income tax consequences to Renee of the activities described. Give reasons for your answer as well as legal references. In the event of any uncertainties, your answer should explain what additional information would help provide certainty. Provide reasoning and legal references in support of your assertions.** (20)

## PART C

**You are required to answer TWO questions from this Part.**

4. “The assertion that Singapore taxes the foreign source income of Singapore resident taxpayers does not meaningfully describe reality, as it only ever happens in very unlikely circumstances.”

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

5. Boa Ltd manufactures cutting-edge televisions. Boa Ltd has its central management and control outside Singapore and conducts its business outside Singapore. It wants to sell these to Singapore customers, and is considering three ways of doing this:

1. Sending its employees to Singapore for short periods of time to convince individuals and retailers to buy Boa Ltd’s products. Potential customers are advised to contact Boa Ltd overseas to make an order, as the Singapore-based employees will not have the power to conclude sales.
2. As above, but with the addition of a warehouse which Boa Ltd will rent in Singapore to store televisions and allow quick delivery if customers wish to go ahead with their orders.
3. As above, but the Singapore-based employees will be permitted to conclude the sales contracts.

**You are required to explain the Singapore income tax consequences of the different options to Boa Ltd, in both the case of Boa Ltd’s residence country having a double tax agreement (DTA) with Singapore and it not having a DTA with Singapore. In the event of any uncertainties, your answer should explain what additional information would help provide certainty. Provide reasoning and legal references in support of your assertions.** (15)

6. “Singapore is a tax haven.”

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

7. Ern PL is an accounting and business consultancy company based in Singapore. Ern PL was contacted by Dodum Ltd (Dodum), a company based in Australia, requesting business advice in relation to Dodum’s plan to begin operating in Southeast Asia (but not in Singapore). Following a teleconference, Ern PL prepared an initial memorandum of advice for Dodum. The advice was sent by email to Dodum’s headquarters in Australia. Ern then invoiced Dodum for its fees.

Three months later, an executive from Dodum travelled to Singapore and spent two days in face-to-face meetings with Ern PL, in which Ern PL delivered further advice. Shortly after this, Ern PL emailed an invoice to Dodum for the advice given at the meetings. It related to the same business issues as the earlier advice.

A year later, as an unrelated matter, Dodum became interested in a property development project in Singapore. Again it sought and obtained advice from Ern PL via teleconference and email. Ern PL once again issued an invoice to Dodum for these advisory services.

Finally, Poppin PL (Poppin), a company based in Singapore, has received business advice from Ern PL on its plan to expand overseas. Ern PL has invoiced Poppin for these services.

**You are required to explain the Goods and Services Tax (GST) implications of each of the above services and invoices provided by Ern PL. You should provide reasons and legal references in support of your answer. If you believe the tax treatment is uncertain, then the reason(s) why should be explained in full.** (15)