

# THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2024

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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)
- **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. Locus PL is a company centrally managed, controlled and incorporated in Handia, a country with no income tax and no double tax agreements (DTAs).

Locus PL plans to start a manufacturing and sales business in Xeno, through a subsidiary company incorporated and resident there. Xeno is a country with a 30% income tax rate and a DTA network that includes Singapore.

Locus PL's management team have considered establishing another subsidiary in Singapore, to provide accounting, manufacturing, finance, insurance, research, and marketing services to the subsidiary in Xeno. These services would be delivered from the Singapore offices of the Singapore subsidiary.

Under the proposal, a market value fee will be charged by the Singapore subsidiary to the Xeno subsidiary for all of these services. The Singapore subsidiary will also own all shares of the subsidiary in Xeno. Locus PL will own all the shares in the Singapore subsidiary.

**You are required to:**

- 1) **Explain the likely Singapore income tax implications of the proposal, including reasons and legal references in support of your answer.** (15)
- 2) **Explain why, in your view, Locus PL is likely to be considering the establishment of a Singapore subsidiary in the manner proposed.** (5)
- 3) **Outline any risks relating to the proposal, and how Locus PL should act to reduce these.** (5)

Total (25)

2. Kodo PL is a company that produces and sells clothing; it is incorporated in Singapore, where all of its directors live and work.

Kodo PL's facilities consist of the following:

- 1) a rented factory in the country of Lodo, where all clothing items are manufactured;
- 2) a design studio in Singapore, where clothing is designed and prototypes are made;
- 3) a marketing and management office in Singapore;
- 4) a shop in Singapore;
- 5) a shop in the country of Zaro; and
- 6) a website hosted on a server located in a zero-tax jurisdiction.

The overall volume of Kodo PL's sales is split into equal thirds, between the two shops and the website. One third of production is sent directly to each of the Singapore and Zaro shops from the factory.

Sales through the website are generally to Western European customers; items sold via the website are sent directly from the factory to the customers.

All sales from the website and the shop in Zaro are banked in offshore bank accounts. Sums of money are then transferred to Singapore if needed.

Lodo and Zaro each have a double tax agreement with Singapore, and both countries levy income tax at a rate of 20%.

**You are required to explain the Singapore income tax implications for Kodo PL of the facts presented, providing reasons and legal references in support of your assertions.** (25)

**PART B**

**You are required to answer ONE question from this Part.**

3. Rebecca was born and raised in Vernia, a country that has a double tax agreement with Singapore. Due to her domicile, Vernia always regards herself as a resident of Vernia for domestic law tax purposes. Vernia taxes its residents on all of their worldwide income.

Rebecca has been offered a work contract in Singapore, which will require her to stay in Singapore for at least two years. She will receive a very large salary, and will be provided with a luxury apartment and a vehicle to use.

Rebecca has decided that, should she take up this opportunity, she will vacate her current home in Vernia and rent it out to a tenant.

Rebecca currently earns the following forms of income at present, which are expected to continue if she moves to Singapore:

- 1) interest on bank accounts in Vernia and in a zero-tax jurisdiction;
- 2) dividends from companies in Vernia and Singapore;
- 3) rent from an apartment in Vernia and a house in a zero-tax jurisdiction; and
- 4) royalty payments from a book she published in Vernia three years ago.

**You are required to explain the income tax implications for Rebecca of the facts described, including reasons and legal references in support of your assertions.** (20)

4. Tang Ltd is a company managed and controlled in Singapore. Tang Ltd runs a large exclusive sports goods shop from its Orchard Road premises.

Bang Ltd, an international sports retailer, is seeking to set up a shop in Singapore, close to Tang Ltd's shop, so that it can attract and benefit from Tang Ltd's customer base. Upon discovering that a neighbouring shop was planning to close and sell its premises, Tang Ltd's directors were very concerned that Bang will likely buy and occupy the shop premises.

Tang Ltd's directors therefore sought to buy the premises for \$15 million in order to prevent them from being bought by Bang Ltd, but they needed to decide what to do with the premises. Fortunately, they found that Sang Ltd, a friendly furniture retailer, was keen to have a shop in the location. As a result, Tang Ltd was able to sell the premises on to Sang Ltd for \$20 million. They have banked this money less than eight months after buying the premises.

**You are required to explain the Singapore income tax implications for Tang Ltd of these activities, providing reasons and legal references in support of your answer.** (20)

**PART C**

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

5. “Pillar Two of the OECD BEPS project will have a significant impact on the Singapore income tax system.”

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

6. “Singapore’s double tax agreements are a critical part of the position Singapore has in multinational enterprise tax structuring.”

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

7. “Individuals resident in Singapore never need to rely on double tax agreements to prevent double taxation because Singapore doesn’t tax their foreign source income to any significant extent.”

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

8. Tombo PL is a company based in Singapore. Tombo PL undertakes the following activities:

- 1) repairing computer equipment;
- 2) manufacturing equipment from imported parts;
- 3) trading computer equipment;
- 4) importing equipment and parts;
- 5) providing online computer advice through a paid service to Singapore and overseas clients;
- 6) sales of manufactured equipment locally and to overseas customers through its website; and
- 7) sales of purchased equipment locally and overseas through the website.

**You are required to explain the relevance of the information provided, in determining Tombo’s Goods and Services Tax obligations in Singapore. You should provide legal references in support of your assertions.** (15)