THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2017

PAPER 2.08 – SINGAPORE OPTION

ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

TIME ALLOWED – 3¼ HOURS

This 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 presentation.
- 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 Parts B and C.
- The first 15 minutes of the exam consists of 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, or use a calculator. 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. Sing Ltd (Sing) is a coffee bean trading company incorporated under the law of Singapore, and centrally managed and controlled in Singapore. Sing sources coffee beans in various locations in Africa and South America. It does so by employing staff who are based in each continent and travel to lesser-known growing areas where they arrange to purchase the beans. The employees then arrange for the beans to be sent to Sing's rented storage facilities in each continent.

   Sing has three employees based in a zero-tax jurisdiction, who maintain Sing's website through which all sales are made. The three employees also receive orders and process credit card payments in the zero-tax jurisdiction. When they receive an order, they process the payment and then email the staff at the storage facilities. The staff at the storage facilities then mail the beans to each customer, in whichever country the customer is located. Customers include cafes in thirty countries, including Singapore itself.

   Sing's directors determine where the staff in Africa and South America should travel to, in order to source the beans. They research the buying market from Singapore, instruct the buyers on how much to purchase, and set the purchasing prices. They also decide how much the beans should be sold for, and notify the staff in the zero-tax jurisdiction. Overall strategic decisions are made by the directors in Singapore.

   Cash business proceeds are generally retained in Sing's accounts in the zero-tax jurisdiction; however, each year $100,000 is remitted to the Singapore based account to supplement Sing's cash flow.

   You are required to explain the Singapore income tax consequences for Sing of its worldwide operation.

   If your answer is uncertain due to a lack of information, you should explore the different possibilities and explain what different tax consequences may arise from each. You should provide appropriate reasons and legal references in support of your answer. (25)

2. Bill lives in Xodaria, a country with a comprehensive tax base that taxes residents at relatively high rates (30% to 45%) on their worldwide income. Xodaria has a double taxation agreement (DTA) with Singapore. This DTA is similar to Singapore's DTAs with other countries.

Bill currently receives the following income:

1) Dividends from companies in Singapore, Xodaria and a zero-tax jurisdiction. Xodaria taxes all of this dividend income, and provides a tax credit for foreign taxes paid on the dividends.

2) A professional salary from his employer in Xodaria. Bill's work takes him to Singapore and the zero-tax jurisdiction for about one month each, every year. Xodaria taxes Bill on his salary and will provide a tax credit for any foreign taxes paid on this income.

3) Rental income from an apartment which Bill owns and rents out in Singapore. Bill also owns an apartment in Xodaria, in which he lives. Xodaria taxes him on his rental income and will provide a tax credit for foreign taxes paid on this income.

Bill is offered a new employment position that will see him based in Singapore for ten months per year, with a month each in Xodaria and the zero-tax jurisdiction. If he accepts, he will be based in Singapore for at least four years with the possibility of renewal.
If he accepts the new position, Bill intends to rent out his apartment in Xodaria and live in his apartment in Singapore. His salary will be paid by a Singapore company and he will no longer be paid by the company in Xodaria. His month spent in Xodaria and the zero-tax jurisdiction will be considered part of his work duties.

Under its domestic law, Xodaria will regard Bill as a resident for tax purposes subject to the operation of the DTA.

You are required to explain how Bill will be taxed if he takes up the new position in Singapore. Your answer should explain the changes to Bill's current taxation in all countries, and should include a comparison of how Bill will be taxed in Singapore both before and after the move.

If your answer is uncertain due to a lack of information, you should explore the different possibilities and explain what different tax consequences may arise from each. You should provide appropriate reasons and legal references in support of your answer. (25)

PART B

You are required to answer THIS question.

3. Bollie Ltd (Bollie) is a company formed in Country M, with central management and control in Country M. Bollie's management has identified a piece of land in Singapore which it plans to purchase and build luxury townhouses onto. Bollie expects to build a total of five townhouses, which together will sell for significantly more than the cost of the land and construction. Bollie has never undertaken a project of this nature in Singapore, but has completed similar projects in Country M.

Country M has a comprehensive tax base which taxes resident companies at 35% on their worldwide income. Resident companies are determined on the basis of central management and control under Country M's law. Country M has a double taxation agreement (DTA) with Singapore. This DTA is similar to Singapore's DTAs with other countries. Country M does not have controlled foreign company (CFC) rules.

After talking to a planner, Bollie incorporates a subsidiary company in Singapore (Sollie) to carry out the real estate transactions. It appoints two Singapore-based accountants to be the directors of the company. They are instructed to follow instructions from Bollie in all matters, and do so. Sollie is successful in purchasing the land, carrying out the necessary construction and selling the townhouses within two years. All profits are deposited in a Singapore bank account.

You are required to explain the Singapore and Country M tax consequences of the above activities, for all relevant taxpayers.

If your answer is uncertain due to a lack of information, you should explore the different possibilities and explain what different tax consequences may arise from each. You should provide appropriate reasons and legal references in support of your answer. (20)

PART C

You are required to answer TWO questions from this Part.

4. “Through its administration of tax residence for companies, Singapore ensures that it does not facilitate base erosion and profit shifting by multinational groups.”

   Critically assess this statement. (15)

5. Prinz Ltd (Prinz) is a company centrally managed and controlled outside of Singapore. Prinz sells calculators internationally. It makes the calculators in its home country. Its home country has a double taxation agreement (DTA) with Singapore. Prinz has a website in its home country, through which it sells its product. It also has a store front in Singapore through which it sells its calculators.

   Prinz makes calculator sales of approximately $300,000 to customers in Singapore each year. One third of these are sold through its store front, while the rest are sold through the website.

   You are required to advise Prinz on both the income tax and GST consequences of its calculator sales to Singapore customers.

   If your answer is uncertain due to a lack of information, you should explore the different possibilities and explain what different tax consequences may arise from each. You should provide appropriate reasons and legal references in support of your answer. (15)

6. “Singapore’s approach to granting tax incentives for large multinational business lacks transparency and is highly problematic in view of the Base Erosion and Profit Shifting initiatives of the OECD.”

   Critically assess this statement. (15)

7. Pow Pte Ltd (Pow) is a company formed under the laws of Singapore. Pow’s directors reside in Singapore and all meetings are held in Singapore. Pow holds the following shares as assets belong to Pow:

   - 10% of Clow, a company resident in Country A; and
   - 5% of Glow, a company resident in Country B

   Country A has a general company tax rate of 20%. However, Clow has been granted a special tax exemption by Country A and has paid no company tax at all. Country A does, however, impose a 1% tax on Pow on any dividends remitted to POW from Clow.

   Country B has a general company tax rate of 10%, and Glow’s profits have been taxed at 10%. Glow also taxes Pow on any dividends remitted to POW from Glow at 10%.

   Neither Country A nor Country B has a double taxation agreement (DTA) with Singapore.

   You are required to explain how Singapore will tax Pow on the dividends it receives from Clow and Glow.

   If your answer is uncertain due to a lack of information, you should explore the different possibilities and explain what different tax consequences may arise from each. You should provide appropriate reasons and legal references in support of your answer. (15)