



# THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2015

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## PAPER 2.08 – SINGAPORE OPTION

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### ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

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TIME ALLOWED – 3¼ HOURS

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- You should answer **FOUR** out of the seven questions.
- Each question carries equal marks.
- Start each answer on a new sheet of paper. 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.
- All workings should be made to the nearest month and Singapore Dollar unless the question requires otherwise.
- Marks are specifically allocated for presentation.

1. Holly was born and raised in Blaavos, where she has lived for her entire life. Holly has been offered a job which will involve relocating to Singapore for a continuous period of two years. After the end of this period, Holly plans to return to Blaavos. Under the domestic tax law of Blaavos, Holly will remain a Blaavos resident at all times, including her time in Singapore. Blaavos taxes residents on their worldwide income, and taxes salary income and interest income. Blaavos has concluded a Double Taxation Agreement (DTA) with Singapore, which follows the OECD model. Holly will earn a salary from her job in Singapore. She will also earn interest income from a Singapore bank account, interest income from a bank account in Blaavos, and interest income from a third country, Pentos. Pentos imposes no income taxes on interest at all. While in Singapore, Holly will maintain her own apartment. She will have no accommodation back in her home country.

**You are required to explain to Holly the likely worldwide taxation of her income during the two year period in which she will live and work in Singapore. You should fully explore all issues, explain any uncertainties, and provide reasons and legal references in support of your conclusions. You should consider how the DTA may impact upon Blaavos's attempt to tax Holly's salary and worldwide interest income.** (25)

2. Prinz Ltd (Prinz) manufactures chilli sauce at a factory in Singapore. Prinz runs a sales outlet in each of the following countries: Singapore, Abruria and Besquoia. Abruria has a Double Taxation Agreement (DTA) with Singapore. Abruria has a comprehensive tax base and imposes tax at a rate of 30% on corporate profits sourced in Abruria. Besquoia does not impose any income tax. Prinz pays an amount equal to 0.01% of all sales in the year to Ms Lang, who originally developed the sauce recipe. Ms Lang is not a resident of Singapore; she is instead resident in another country, Pelagia, which has no DTA with Singapore. Prinz is incorporated in Singapore, and all directors stay in Singapore at all times.

**You are required to explain all the tax implications of the above scenario for both Prinz and Ms Lang. You should fully explore all issues, explain any uncertainties, and provide reasons and legal references in support of your conclusions.** (25)

3. "Tax residence is effectively irrelevant to Singapore income tax outcomes for individuals."

**You are required to explain and critically discuss this statement.** (25)

4. Capital Ltd (Capital) is a Singapore tax resident company. It owns all the shares in MaxxedOut Ltd (MaxxedOut), a company resident in Australia for Australian tax purposes and non-resident in Singapore for Singapore tax purposes. In the current year, MaxxedOut declared a dividend. The dividend was partly paid into Capital's Australian bank account, and partly paid into its Singapore bank account. MaxxedOut also paid interest to Capital on a loan made by Capital to MaxxedOut in support of its operations. The Australian tax authority has imposed a withholding tax of 10% on the interest paid. Part of the interest was paid to Capital in Singapore; the other part was capitalised into the loan from capital to MaxxedOut. No direct tax has been imposed on the dividend by the Australian tax authority, as half of it was subject to full Australian taxation and the other half was earned through MaxxedOut's offshore branch. These offshore profits are not subject to any tax at the corporate level, or when paid out under the Australian Income Tax Act. Australia generally taxes income of residents at 30%; however, in MaxxedOut's case, there is no tax due as a result of to the exemption for branch profits.

**You are required to describe the Singapore tax treatment of the amounts that Capital earns from MaxxedOut. Fully explore all issues and explain any uncertainties. You should provide reasons and legal references for your conclusions.** (25)

5. Klak Pte Ltd (Klak) is a company incorporated in Singapore. Its directors reside and meet in Singapore. Klak's only issued shares have a nominal value and are held by Ben, a person resident in Singapore. Klak holds the legal title to all the shares in Gee Co, a company registered in Ghis.

Ghis and Singapore have a Double Taxation Agreement (DTA); you can assume that the DTA follows a standard OECD approach in relation to the treatment of dividends. Klak has no assets other than the shares in Gee Co. Through its directors, Klak has undertaken to hold the shares in Gee Co for the benefit of the James family, who reside in Hong Kong. Hong Kong has no DTA with Ghis.

The structure was established by advisers to the James family. The advisers asserted that the structure will allow the James family to take advantage of the Singapore – Ghis DTA, and the reduced rates of withholding tax imposed by Ghis on dividends paid to Singapore residents due to the DTA.

**You are required to explain whether the advisers have given correct advice, and explain the Singapore tax consequences of this arrangement. You should explore all risks and uncertainties in your answer, and provide reasons and legal references.** (25)

6. Lola is a Singapore tax resident, who earns a salary as a professional accountant. Lola owns her own apartment and two rental properties, one in Singapore and the other in a foreign country. Both rental properties generate large incomes, and the money is all banked into Lola's Singapore bank account. Lola sold another property which she owned in Singapore for \$500,000 more than she had paid for it two years previously. Lola also earns dividends from local companies.

In addition to the above, Lola's friend Clarice notified her about a dilapidated industrial property in Singapore. Lola and Clarice planned to purchase the property, and sell it within three months to a neighbouring business which they believed would want to buy the property. Lola and Clarice expected to make a substantial profit by doing this. As it turns out, this is exactly what happened and Lola herself made a profit of \$700,000 on the transaction.

**You are required to describe the Singapore tax consequences of the above activity for Lola. Fully explore all issues and explain any uncertainties. You should provide reasons and legal references in support of your conclusions.** (25)

7. "The financial arrangement in *AQQ v Comptroller of Income Tax (2012) (MSTC 70-017; [2012] SGHC 24)* was not one that fell within the scope of s33 of the Income Tax Act as shown by the taxpayer's win in the High Court."

**You are required to critically evaluate this statement.** (25)