



THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

May 2006

PAPER III

PRINCIPLES OF CORPORATE AND INTERNATIONAL TAXATION

C – UNITED KINGDOM OPTION

TIME ALLOWED – 3 HOURS

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

1. The 'residence' of a company is a major factor in determining its liability to UK taxation.

You are required to explain:

1) **How the residence of a company is determined for UK tax purposes and the effect on its liability to UK taxation.** (15)

2) **Under what circumstances a company not resident in the UK can be liable to UK taxation.** (10)

Total (25)

2. 1) The entire issued share capital of Regent Ltd is owned by Mr and Mrs Owen who have always been resident and ordinarily resident in the UK. The company operates a manufacturing business from premises it owns in the UK. The shareholders have been approached by a third party limited company to acquire the business and assets. The purchaser will be acquiring the stock, property, plant and equipment and goodwill of the company.

You are required to prepare a memorandum summarising the tax implications, both direct and indirect, for the company and for Mr and Mrs Owen. (10)

- 2) Mr and Mrs Owen have also received a separate offer from a different purchaser to acquire the entire issued share capital of Regent Ltd.

You are required to prepare a memorandum summarising the tax implications for Mr and Mrs Owen of this separate offer. (7)

- 3) Mr and Mrs Owen have asked you to consider if the liabilities arising under the share sale option can be mitigated by them leaving the UK.

You are required to prepare a memorandum summarising the tax implications of Mr and Mrs Owen leaving the UK. (8)

Total (25)

3. You have been approached by three individuals who are in the process of starting the following three distinct but connected business activities:

- 1) The manufacture and sale of telecommunications equipment
- 2) The provision of finance to customers to enable them to purchase the telecommunications equipment noted at 1) above.
- 3) The purchase of business premises for the purposes of the two businesses noted above. It is likely however that approximately 50% of the premises will be rented to unconnected third parties.

(All three of the individuals are resident and ordinarily resident in the UK.)

You are required to draft a letter to the three individuals detailing the various structures that can be considered, corporate or otherwise, to deal with the above, and the advantages and disadvantages of each. (25)

4. The UK transfer pricing legislation contained in Schedule 28AA Income and Corporation Taxes Act 1988 seeks to ensure that transactions between connected parties are carried out on an arms length basis.

You are required to prepare a memorandum detailing when the legislation will apply and the effects on the different types of inter company transaction. (25)

5. During the year to 31 December 2005 Alberton (Holdings) Ltd, the UK resident holding company of a large international group of companies, was involved in the following financing arrangements:

- 1) Borrowed £2 million for the purchase of an investment property to be let to unconnected third parties.
- 2) Borrowed 3 million Eudos from the Eudostan National Bank for the purchase of new premises from which one of its subsidiary companies will trade. The exchange rate at the date the loan was taken out was 4 Eudos to the pound.
- 3) The company loaned £2 million interest free to a subsidiary company.
- 4) The company loaned \$4 million at the rate of 20% per annum to a new US subsidiary which was in the process of commencing to trade. The share capital of the subsidiary was \$1,000.

You are required to prepare a memorandum detailing the corporation tax implications of each of the above transactions both in terms of relief for interest, foreign exchange and financing costs. (25)

6. 1) The distinction between 'revenue' and 'capital' items is important for UK tax purposes as regards the timing and method of giving tax relief on the amounts spent.

You are required to prepare a memorandum detailing how the distinction between revenue and capital items is made and how tax relief is given for capital items. (13)

- 2) The accounting treatment of revenue costs incurred can have a fundamental effect on the timing and basis of tax relief on such costs.

You are required to prepare a memorandum detailing how the accounting treatment of revenue costs including capitalisation and the accruals basis can affect the method of tax relief. (12)

Total (25)

7. International Marketing plc and its subsidiary companies are an international group of marketing companies operating worldwide. Employees of the group are regularly transferred between different countries on short and long-term assignments.

The new human resources director has asked you for general guidance on the tax and National Insurance implications for the various employees and for the company. This should cover issues such as the effect of the employees' residence, ordinary residence and domicile status, salary and travel costs and length of assignments.

You are required to prepare a memorandum for discussion with the human resources director outlining the UK tax and National Insurance implications of overseas assignments both for the employees concerned and the company. (25)