THE CHARTERED INSTITUTE OF TAXATION

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

May 2007

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 UK tax regime is described as being extremely favourable for non-UK domiciled individuals.

   You are required to:

   1) Describe how the domicile status of an individual is determined for UK tax purposes, how this differs from the determination of residence and ordinary residence status and what action can be taken to agree the domicile status. (15)

   2) Prepare a memorandum detailing how persons resident but non-UK domiciled are taxed in the UK, clearly showing the benefits of non-domiciled status. (10)

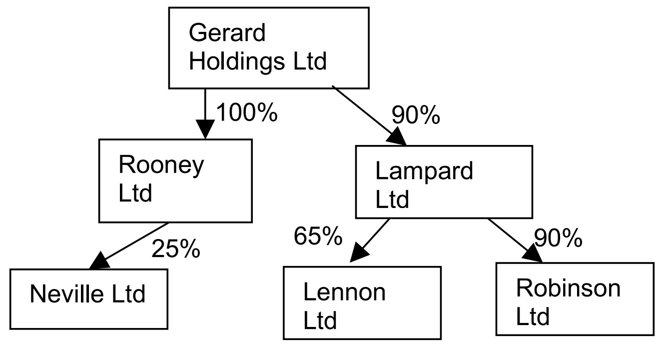
   Total (25)

2. The Income Tax (Trading and other Income) Act 2005 (ITTOIA 2005) is an example of the ongoing process of "The Tax Law Rewrite project" and the rewriting of existing tax legislation and the bringing together of the relevant sections of existing legislation, case law and practice. It is also a movement away from the historic Schedular system of taxation.

   You are required to prepare a memorandum explaining how the UK tax system has developed, the various sources of tax law and practice and the UK Schedular tax system. The memorandum should also include a discussion of the problems of rewriting existing tax law in a clearer and easier to use form. (25)

3. The Gerard Holdings Group of companies is structured as follows:

All companies are resident in the UK and are trading companies.



Lampard Ltd disposed of its trading premises with contracts being exchanged on 31 January 2007 and completion on 28 February 2007. The property had originally cost £200,000 many years earlier and was sold for £900,000 with £700,000 paid at completion and £200,000 12 months later. Additionally further consideration of £100,000 will be paid if residential planning permission is obtained by the purchaser of the site within the following two years. The Gerard Holdings Group of companies intends to use the monies to purchase new trading premises.

1) **You are required to explain the basis of the tax calculation on disposal of the trading premises by Rooney Ltd. You are also required to discuss how any such gain could be mitigated with regard to the new trading premises and in which company such a purchase should be made. Detailed calculations are NOT required.** (10)

On 1 May 2007 the directors of Rooney Ltd received an offer to acquire its 25% shareholding in Neville Ltd for £500,000. This shareholding had originally cost £100,000 approximately 10 years ago.

2) **You are required to explain to the directors the potential tax implications of any sale of these shares and what possible reliefs may be available to mitigate such liabilities. Detailed calculations are NOT required.** (8)

The minority 35% holding in Lennon Ltd is held by the majority shareholder in Gerard Holdings Ltd. The directors of Lampard Ltd now wish to acquire this minority holding for cash.

3) **You are required to explain any potential tax issues arising for both the company and the minority shareholder.** (7)

Total (25)

4. You have been approached by a potential new client, Mr Jackson, who is intending to set up a new trading venture in the UK. Mr Jackson has recently moved to the UK from the overseas state of Lotstana. His new venture will be involved in the development of a new process for the production of Widgets. As soon as the development work has been completed he will proceed to manufacture the Widgets on a national and hopefully international scale. The production process will require specially constructed premises and will be extremely capital intensive and require a large workforce. It is expected that the venture will make losses in years one and two, break even in year three and achieve profit in years four and thereafter.

   A meeting has been arranged with the potential client to discuss these plans.

   You are required to prepare a memorandum for discussion at the meeting considering the UK tax implications including how the venture should be structured, specific reliefs available for costs and funding and all other relevant issues. (25)

5. The 1,000 ordinary £1 shares, representing the entire issued share capital in Galvet Ltd, a company resident in the UK, have been held as follows for many years:

   - 250 shares held by Mr Davids, a resident of the overseas state of Bahada. Mr Davids had previously lived in the UK for many years before leaving two years ago.
   - 50 shares held by Deca Ltd, a UK resident investment company.
   - 550 shares held by Mr Alison, a UK resident individual. Mr Alison is also the managing director working full time for the company earning £60,000 per annum.
   - 150 shares held by Watson Inc, a company resident in the overseas state of Toleda.

   On 1 March 2007 Galvet Ltd paid a dividend of £50 per share.

   1) You are required to explain the UK tax implications for each of the shareholders on receipt of this dividend. (15)

   The shareholders have also now received an offer from South West Industries Ltd, a UK resident trading company, to acquire the shares in Galvet Ltd on the basis of £2,500 per share. The shareholders have been offered the option to take any part of the consideration in the form of loan notes or shares in South West Industries Ltd.

   2) You are required to explain the UK tax implications for each of the shareholders if they accept this offer and the effect of the various combinations of possible consideration. (10)

   Total (25)

6. Coade Holdings Inc is a manufacturing company resident in the overseas state of Nalati and a subsidiary of a large multinational group of companies. The directors of the company are considering the expansion of its trade into the UK. This may involve the purchase of premises in the UK.

   1) **You are required to prepare a memorandum for the directors advising them of the UK tax implications of their proposals and any specific areas of UK tax legislation that they should be aware of as directly affecting them.** (10)

   The individual components of the goods to be sold will be provided by its fellow European subsidiary and the cash funding of the project will be via a US$ loan from the US holding company. The UK operation will be manned by a combination of new UK employees and Nalati residents sent to the UK on short and long-term secondment.

   2) **You are required to prepare a memorandum for the directors advising them of the UK tax implications of these arrangements and any action that will be required on the basis that the business operates from premises in the UK.** (15)

   Total (25)

7. UK source income and gains can be liable to taxation both in the UK and in another overseas state for individuals not resident in the UK.

   1) **Explain under what circumstances and to what extent UK source income and gains arising to non-UK resident individuals are liable to UK taxation. This should include details of any reliefs available against the liability to UK tax or its collection.** (10)

   Similarly overseas income and gains can be liable to taxation both in an overseas state and in the UK for individuals resident in the UK.

   2) **Explain under what circumstances, how and to what extent, credit can be given in the UK for any overseas tax that has been suffered on this overseas income and gains.** (15)

   Total (25)