The Advanced Diploma in International Taxation

Principles of International Taxation – Paper I

Specimen question - Part B (from May 2007 examination)

Pine Firs Ltd. (PF) is a multinational enterprise that manufactures and sells furniture. It was incorporated in State A. Its managing director and principal shareholder lives in State B from whence he keeps in regular contact, usually through a video link, with PF's other directors, who live in other states. Board meetings are rarely held, and most decisions about the running of the company are made following discussions between the directors via the video link. One such decision relates to a planned expansion of PF's business and involves the selling of furniture made by PF in State C. To this end, contact has been made with a distribution company based in State C, namely Home Supplies Ltd (HS).

It is proposed that, initially, HS will provide PF with information about the market for furniture in State C in order to facilitate the launch of an advertising campaign, which will be funded by PF, in that State. The advertising campaign and the related promotion of PF's products is to be overseen in State C by PF's marketing Director. Thereafter, orders are to be processed by HS and then confirmed by PF before the despatch by HS of furniture to customers in accordance with those orders from stocks of PF's furniture held on its premises.

PF's managing director seeks your advice about the fiscal consequences, if any, of these facts.

You should assume that the double taxation agreements between the respective states follow the current OECD Model Tax Convention on Income and on Capital.