THE CHARTERED INSTITUTE OF TAXATION

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

Specimen Examination Paper

PAPER III

PRINCIPLES OF CORPORATE AND INTERNATIONAL TAXATION

C - UNITED KINGDOM OPTION

TIME ALLOWED - 3 HOURS

Candidates should answer any **four** out of seven questions.
Each question will carry equal marks.
Start each answer on a fresh sheet.
Marks are specifically allocated for good presentation.

1. The UK taxation of individuals on their income and capital gains is dependent on their ‘residence’, ‘ordinary residence’ and domicile’. These terms, however, are not defined under UK tax legislation.

   Prepare a memorandum detailing how the residence, ordinary residence and domicile of an individual is determined for UK tax purposes and the effect on their income and capital gains of their status. (25)

2. Mr Urmgardt is a resident of the country of Kanyo and has approached you for tax advice on two ventures in the UK that he is considering.

   From an initial meeting you have gathered the following information:

   1) The first venture he is considering is the purchase of a cottage in Cornwall at a cost of £200,000 partially funded by a 75% loan repayable over 10 years at 7% per annum. The cottage will need a further £20,000 to renovate and will then be let as furnished holiday accommodation via a UK letting agent.

   2) The second venture will be the starting of a manufacturing business in the UK. This will require the purchase of trading premises and of machinery. The business will need 10 staff and is expected to make losses for the first two years before becoming profitable.

   You are required to prepare a memorandum for discussion with Mr Urmgardt detailing the UK tax issues, direct and indirect, that will need to be considered and dealt with for each venture. This should include if a Corporate structure should be used or not. (25)

3. Amberonics Inc is the Australian holding Company of a large multinational group involved in the manufacture, distribution and sale of electronic components. The directors have decided to form a UK subsidiary to distribute the components in the UK. The UK subsidiary, which will have an initial share capital of 100 Ordinary £1 share, will be primarily funded by a loan from the Australian Holding Company of 4,000,000 Australian dollars at an interest rate of 20% per annum repayable over 10 years. For the first two years components will be ‘sold’ to the UK subsidiary at cost.

   You are required to prepare a memorandum advising the directors on the UK tax implications as regards Transfer Pricing, interest and foreign exchange matters. (15)

   The directors have also advised that the UK subsidiary will also be involved in researching and developing an innovative new electronic component. They have heard that the UK government offers tax incentives to such businesses.

   You are required to prepare a further memorandum detailing the UK tax incentives that may be available and the rules to qualify. (10)

4. You have been approached by a potential new client who is considering commencing a new business venture which will trade partly in the UK and partly abroad. He is considering the two alternatives of using a company incorporated abroad or using a UK incorporated company.

You are required to write a letter advising the potential UK tax implications of each alternative and what other factors will affect any exposure to UK tax. (15)

In addition to the normal rules for the taxation of trades in the UK there are also special rules which apply to the taxation of overseas entertainers in the UK if they are "of a prescribed description performing activities of a prescribed description in the UK in a year of assessment in which they are non-resident"

You are required to prepare a memorandum outlining these special rules and their extension from the normal rules. Also outline the impact on the UK tax and national insurance liabilities including the implications of any Double Tax Agreement with the UK. (10)

Total (25)

5. Simon who is resident and ordinarily resident in Codatia, a country with which the UK does not have a double tax treaty, together with Alan, a UK resident, own the entire issued share capital of John Holdings Ltd a UK trading company. John Holdings Ltd has two other UK trading subsidiaries, Paul Ltd and George Ltd holding 85% and 70% of the shares respectively. The remainder of the shares are held by other UK resident individuals. (The diagram below shows the share structure in detail).

All companies have traded for many years preparing accounts to 31 March each year. The results for the year ended 31 March 2005 are as follows:

		£
John Holdings Ltd	Trading Profit	300,000
Paul Ltd	Trading Loss	100,000
George Ltd	Trading Loss	50,000

You are required to consider and advise how the group structure will affect the tax liability of John Holdings Ltd for the year ended 31 March 2005 and detail any elections that are available. Also advise with reasons how your advice would change if Alan also held the majority of shares in 5 other trading companies, 4 in the UK and 1 in the US. (8)

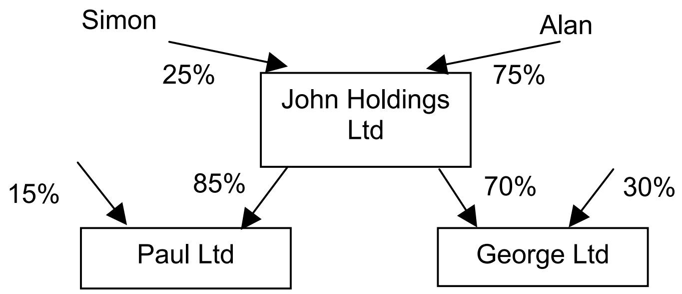
John Holdings Ltd is considering paying a dividend to shareholders totalling £50,000.

You are required to advise each shareholder of the UK tax implications of the dividend and any formalities the company must comply with. (7)

Finally Simon and John have now received an offer to acquire all of their interests in the trades either by an acquisition of their entire shareholding in John Holdings Ltd or by the acquisition of all the assets of the company including the shareholdings in the subsidiaries.

You are required to advise each shareholder on the UK tax implications of each offer. (10)

Total (25)



6. The UK tax legislation contains special anti-avoidance legislation for foreign companies controlled in the UK and also on the emigration of UK companies.

You are required to describe the anti-avoidance legislation for "Controlled Foreign Company" and how the effect of that legislation can be mitigated. (13)

You are also required to describe the anti-avoidance legislation on the emigration of a UK company. (12)

Total (25)

7. Alex, who is UK resident and ordinarily resident has approached you for specific advise on a pending sale of his UK resident trading company. He has provided you with the following information:

   1) His company has been valued at £5,000,000 and contracts are to be signed and exchanged tomorrow, 25 March 2005.

   2) He will receive £3,000,000 cash on completion, which will take place in one months time (on 24 April 2005) with a further £1,000,000 payable 12 months later. The balance will be paid if future profits reach an agreed level in 24 months time.

   3) He has been offered the alternative of taking shares in the purchasing company instead of the future cash payable.

   4) The shares in his company cost £150,000 exactly 10 years ago.

   5) He is willing to leave the UK if this would help but can't leave until 7 April 2005 at the earliest. Long term however he would like to return to the UK.

   6) Approximately £2,000,000 of the sale monies will be needed by his other UK trading company in six months time to purchase a new property.

   You are required to prepare a memorandum for discussion with Alex detailing all relevant UK Capital Gains Tax implications and methods of mitigation in respect of the above. You are not required to prepare detailed Capital Gains Tax computations. (25)