

# UNITED KINGDOM OPTION

**ADIT**



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**GLOBAL**

**CHALLENGING**

**PRACTICAL**

**VALUED**

**RECOGNISED**

**ADVANCED**

**UP-TO-DATE**

**STRUCTURED**

**FLEXIBLE**

**EMPOWERING**

**RENOWNED**

**SPECIALIST**

**THOROUGH**

**CURRENT**

**INTERNATIONAL**

**MODERN**

**UNIQUE**

**GLOBAL**

**ADVANCED**

## United Kingdom option

### What you'll cover and what you'll gain

The United Kingdom module is one of fourteen elective modules available to ADIT students. Introduced on ADIT's launch in 2004, and one of the most popular options among ADIT students, this module appeals to professionals engaged in international tax practice in relation to UK-resident companies and individuals, and provides a portable benchmark of expertise in cross-border UK tax issues.

#### What you'll cover

The United Kingdom module gives candidates in depth knowledge of the UK tax regime in an international context. Key topics include:

- UK CFC legislation
- Double tax relief
- Thin capitalisation
- Reorganisations
- Transfer pricing
- Application of corporation tax to cross-border situations
- Anti-avoidance provisions

#### What you'll gain

- A thorough grounding in current international tax issues in the UK context
- A robust understanding of theory coupled with practical application, giving you the confidence to apply these principles to your daily work
- Up to date knowledge of fast-changing developments in tax law, as exams are regularly updated to cover current tax laws and emerging trends

# United Kingdom option

## Syllabus

<b>I</b>	<b>Income Tax, Corporation Tax and Capital Gains Tax</b>	
<b>A</b>	<b>Basic jurisdictional rules</b>	<b>10%</b>
<b>B</b>	<b>The application of corporation tax to cross-border situations</b>	<b>25%</b>
<b>C</b>	<b>The UK Double Taxation Treaty network (including double taxation relief)</b>	<b>15%</b>
<b>D</b>	<b>Transfer pricing (to include thin capitalisation)</b>	<b>15%</b>
<b>E</b>	<b>Anti-avoidance</b>	<b>20%</b>
<b>II</b>	<b>Inheritance Tax</b>	
<b>III</b>	<b>Stamp Taxes</b>	
<b>IV</b>	<b>National Insurance Contributions</b>	
<b>V</b>	<b>Value Added Tax and customs duties</b>	
<b>VI</b>	<b>The impact of EU law</b>	<b>15%</b>

### I Income Tax, Corporation Tax and Capital Gains Tax

<b>A</b>	<b>Basic jurisdictional rules</b>	
	1. Jurisdictional rules applying to the various categories of income and to capital gains tax	3
	2. Meaning of residence for individuals, corporations and other bodies	3
	3. Determination of UK source or situs for various categories of income and property: trading in the UK; UK permanent establishment	3
	4. The imposition of tax on non-resident persons: UK tax representatives of non-resident persons; withholding at source	3
	5. Domicile	3
	6. Remittance basis	3
	7. Administrative and compliance requirements	1
<b>B</b>	<b>The application of corporation tax, etc. to cross-border situations</b>	
	1. The taxation of the foreign income of UK-resident corporations	3
	2. The determination and taxation of the UK-source income of non-resident corporations	3
	3. Entity characterisation: the characterisation of foreign entities for various purposes	3
	4. Cross-border payments of dividends, interest and royalties out of the UK	3
	5. Cross-border payments of dividends, interest and royalties into the UK	3
	6. Restrictions on the deductibility of interest	3
	7. Forex rules	2
	8. Cross-border reorganisations	3
	9. Tax consequences of change of corporate residence	3
	10. Tax issues of employees: stock options, NICs, tax equalisation arrangements	2
	11. UK partnerships trading abroad; non-resident partners in UK partnerships	2
<b>C</b>	<b>The UK Double Taxation treaty network (including double taxation relief)</b>	
	1. The legal basis for negotiating and implementing Double Taxation Conventions in the UK	2
	2. The approach to interpreting Double Taxation Conventions in the UK	3
	3. An overview of the UK treaty network (candidates are not expected to know the details of the entire network, but are expected to know where UK treaty practice departs regularly from the OECD Model. Some understanding of the major UK treaties – with the US, Netherlands, France and Germany, in particular – is expected)	2
	4. Double taxation relief	
	i. The basis for double taxation relief: unilateral and treaty relief	2
	ii. The rules for determining double taxation relief: the credit code	3
	iii. Practical administration of DTCs and foreign tax credit relief	2

# United Kingdom option

## Syllabus

D	Transfer pricing (to include thin capitalisation)	
	1. The legal basis for transfer pricing adjustments in the UK	3
	2. The UK approach to transfer pricing	3
	3. Other transfer pricing provisions	2
	4. Thin capitalisation provisions	3
	5. The UK approach to thin capitalisation	3
E	Anti-avoidance	
	1. Transfers of assets abroad	2
	2. Controlled Foreign Companies	3
	3. Offshore funds	1
	4. International movement of capital – reporting requirements	3
	5. Treaty abuse	2
	6. Capital Gains Tax	3
	7. Hybrid mismatch rules	3
	8. Worldwide debt cap	3
	9. Diverted Profits Tax	3
	10. Unallowable purpose rule	3
	11. General Anti-Abuse Rule	2
<b>II</b>	<b>Inheritance Tax</b>	
A	Basic jurisdictional rules	
	1. Domiciled individuals, non-domiciled individuals, deemed domicile	2
	2. Situs of assets	2
B	Double Taxation	
	1. The UK's network of estate taxation conventions	1
	2. Measures for relieving Double Taxation	1
<b>III</b>	<b>Stamp Duty, Stamp Duty Reserve Tax, Stamp Duty Land Tax</b>	
A	Basic jurisdictional rules	2
B	Extension of stamp duty reliefs to cross-border situations	2
<b>IV</b>	<b>National Insurance Contributions</b>	
A	Application of NIC rules in cross-border situations	2
B	The UK's network of social security agreements	1
<b>V</b>	<b>Value Added Tax and Customs Duties</b>	
A	The application of VAT to cross-border acquisitions, importations and supplies	2
B	The application of VAT to non-UK resident entities	2
C	The liability to and collection of customs duties in the UK and available reliefs	1
<b>VI</b>	<b>The impact of EU law</b>	
	1. The implementation of the Directives relating to direct taxation: Parent-Subsidiary Directive; Mergers Directive; Arbitration Convention; Mutual Assistance Directives; Interest; Royalties; Savings Income	2
	2. The impact of the jurisprudence of the CJEU	2

# United Kingdom option

## Recommended ways to prepare for the exam

### Course Provision

There are study options to suit everyone, from classroom learning to self-study. Whatever your preference, you'll find a method and providers that work for you. Find out more at [www.adit.org.uk/courses](http://www.adit.org.uk/courses)

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LexisNexis (Tolley Exam Training) offers full course notes, books and guidance for this module to the level of detail specified in the syllabus. For details of how to obtain the course, see page 29 of the [Prospectus](#).

What is essential is a thorough understanding of the relevant parts of the UK tax legislation and cases, to which candidates will need direct access.

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### Tax Legislation

CCH. *British International Tax Agreements* (CCH, updated weekly)  
Online version available from CCH: [www.cch.co.uk](http://www.cch.co.uk)

*Finance Act 2017*  
Available from [legislation.gov.uk](http://legislation.gov.uk):  
[www.legislation.gov.uk/ukpga/2017/10/contents/enacted/data.htm](http://www.legislation.gov.uk/ukpga/2017/10/contents/enacted/data.htm)

OECD, Committee on Fiscal Affairs. *Model Tax Convention on Income and on Capital* (Paris: OECD, 2017) [ISBN: 9789264287945]  
**Candidates may take a copy of this text into the examination.**  
Available from the OECD:  
[www.oecd-ilibrary.org/taxation/model-tax-convention-on-income-and-on-capital-condensed-version-2017\\_mtc\\_cond-2017-en](http://www.oecd-ilibrary.org/taxation/model-tax-convention-on-income-and-on-capital-condensed-version-2017_mtc_cond-2017-en)  
Or available from Turpin Distribution:  
<http://ebiz.turpin-distribution.com/products/348283-model-tax-convention-on-income-and-on-capital-condensed-version-2017.aspx>

OECD, Committee on Fiscal Affairs. *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* (Paris: OECD, 2017) [ISBN: 9789264262737]

**Candidates may take a copy of this text into the examination.**

Available from the OECD:  
[www.oecd-ilibrary.org/taxation/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-2017\\_tpg-2017-en](http://www.oecd-ilibrary.org/taxation/oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-2017_tpg-2017-en)  
Or available from Turpin Distribution:  
<http://ebiz.turpin-distribution.com/products/338729-oecd-transfer-pricing-guidelines-for-multinational-enterprises-and-tax-administrations-2017.aspx>

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### Books

Baker, P. *Double Taxation Conventions* (London: Sweet & Maxwell, 3rd edition, 2001) [ISBN: 9780421673601]  
Available from Sweet & Maxwell:  
[www.sweetandmaxwell.co.uk](http://www.sweetandmaxwell.co.uk)

Cordara, R. *Tolley's Orange Tax Handbook 2017-2018* (LexisNexis, 2017) [ISBN: 9781474304061]  
**Candidates may take a copy of this text into the examination.**  
Available from LexisNexis: [www.lexisnexis.co.uk](http://www.lexisnexis.co.uk)  
(Discount available for registered ADIT students)

Dixon, J. and Finney, M. *Tolley's International Corporate Tax Planning* (LexisNexis, 5th edition, 2002) [ISBN: 9780754513391]  
Available from Amazon: [www.amazon.co.uk](http://www.amazon.co.uk)

Dodwell, B. and Prosser, K. *CCH Green Book 2017-2018* (CCH, 2018) [ISBN: 9781788870290]  
**Candidates may take a copy of this text into the examination.**  
Available from Croner-i: [www.croneri.co.uk](http://www.croneri.co.uk) (Discount available for registered ADIT students)

Dodwell, B. and Prosser, K. *CCH Red Book 2017-2018* (CCH, 2018) [ISBN: 9781788870344]  
**Candidates may take a copy of this text into the examination.**  
Available from Croner-i: [www.croneri.co.uk](http://www.croneri.co.uk) (Discount available for registered ADIT students)

## United Kingdom option

### Recommended ways to prepare for the exam

Kessler, J. *Taxation of Non-Residents and Foreign Domiciliaries 2015-2016* (Key Haven Publications, 14th edition, 2015) [ISBN: 9781901614657]  
Online version available from TFD Online:  
[www.foreigndomiciliaries.co.uk](http://www.foreigndomiciliaries.co.uk)  
Hard copy version available from Key Haven Publications: [www.khplc.co.uk](http://www.khplc.co.uk)

Lee, N. *Revenue Law: Principles and Practice* (Bloomsbury Professional, 34th edition, 2016) [ISBN: 9781784513801]  
Available from Bloomsbury Professional:  
[www.bloomsburyprofessional.com](http://www.bloomsburyprofessional.com)  
Or available from Amazon: [www.amazon.co.uk](http://www.amazon.co.uk)

Miller, A. and Oats, L. *Principles of International Taxation* (Bloomsbury Professional, 5th edition, 2016) [ISBN: 9781780437859]  
Contents catered to ADIT syllabus.  
Available from Bloomsbury Professional:  
[www.bloomsburyprofessional.com](http://www.bloomsburyprofessional.com)

Munro, A. *Tolley's Double Taxation Relief* (LexisNexis, 8th edition, 2005) [ISBN: 9780754528906]  
Available from LexisNexis: [www.lexisnexis.co.uk](http://www.lexisnexis.co.uk)  
Or available from Amazon: [www.amazon.co.uk](http://www.amazon.co.uk)

Redston, A. *Tolley's Yellow and Orange Finance Act 2017* (LexisNexis, 2017) [ISBN: 9780754555445]  
**Candidates may take a copy of this text into the examination.**  
Available from LexisNexis: [www.lexisnexis.co.uk](http://www.lexisnexis.co.uk)  
(Discount available for registered ADIT students)

Redston, A. *Tolley's Yellow Tax Handbook 2017-2018* (LexisNexis, 2017) [ISBN: 9781474304092]  
**Candidates may take a copy of this text into the examination.**  
Available from LexisNexis: [www.lexisnexis.co.uk](http://www.lexisnexis.co.uk)  
(Discount available for registered ADIT students)

Saunders, R. *International Tax Systems and Planning Techniques 2011-2012* (London: Sweet & Maxwell, 2011) [ISBN: 9780414022683]  
Available from Sweet & Maxwell:  
[www.sweetandmaxwell.co.uk](http://www.sweetandmaxwell.co.uk)  
Or available from Wildy & Sons: [www.wildy.com](http://www.wildy.com)

Schwarz, J. *Booth and Schwarz: Residence, Domicile and UK Taxation* (Bloomsbury Professional, 19th edition, 2016) [ISBN: 9781784513825]  
Available from Bloomsbury Professional:  
[www.bloomsburyprofessional.com](http://www.bloomsburyprofessional.com)  
Or available from Amazon: [www.amazon.co.uk](http://www.amazon.co.uk)

Schwarz, J. *Schwarz on Tax Treaties* (CCH, 4th edition, 2015) [ISBN: 9781785400742]  
Available from CCH: [www.cch.co.uk](http://www.cch.co.uk) (Discount available for registered ADIT students)

Tolley Exam Training. *ADIT International Materials for 2018* (LexisNexis, 2018)  
**Candidates may take a copy of this text into the examination.**  
Available from LexisNexis:  
[examtraining@lexisnexis.co.uk](mailto:examtraining@lexisnexis.co.uk)

Van Raad, K. *Materials on International, TP and EU Tax Law 2018-2019*. Volume A (Leiden: International Tax Centre, 2018) [ISBN: 9789082585414]  
**Candidates may take a copy of this text into the examination.**  
Candidates with a pre-2016 edition may instead take Volume 1 of the earlier edition into the examination.  
Available from the International Tax Centre at Leiden University:  
[www.itc-leiden.nl](http://www.itc-leiden.nl) or [b.bosman@itc-leiden.nl](mailto:b.bosman@itc-leiden.nl)  
Or available from Wildy & Sons: [www.wildy.com](http://www.wildy.com)

## United Kingdom option

### June 2017 examination questions

#### Transparent and accessible past papers

Real questions and answers from previous exams are available to ADIT students to help with their study. Practice with previous exams helps students become familiar with the format of the exam, identify areas for further study and focus on exam technique.

#### Other papers available

PRINCIPLES OF INTERNATIONAL TAXATION	
AUSTRALIA	IRELAND
BRAZIL	MALTA
CHINA	SINGAPORE
CYPRUS	TRANSFER PRICING
EU DIRECT TAX	UNITED KINGDOM
EU VAT	UNITED STATES
HONG KONG	UPSTREAM OIL & GAS
INDIA	

## THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2017

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### PAPER 2.09 – UNITED KINGDOM OPTION

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#### ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

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TIME ALLOWED – 3¼ HOURS

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This paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

#### Further instructions

- All workings should be made to the nearest month and in Pound Sterling, unless otherwise stated.
- Start each answer on a new page and clearly indicate which question you are answering. 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.
- Marks may be allocated for presentation.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering Parts B and C.
- The first 15 minutes of the exam consists of reading time. You will be allowed to annotate the question paper during this time; however, you will **not** be permitted to start writing or typing your answer, or use a calculator. The Presiding Officer will inform you when you can start answering the questions.

For your information this paper is accompanied by:

- **ADIT Examinations 2017 Tax Tables**

**PART A**

**You are required to answer BOTH questions from this Part.**

1. Radcliffe, Inc. is incorporated and tax resident in the United States, and is the parent of a multinational group which manufactures computer and smartphone components.

Its US finance director has recently attended a conference on base erosion and profit shifting (BEPS), and is aware that many countries are bringing in laws to tackle hybrid mismatches. He is concerned that the United Kingdom's rules may affect the following group transactions:

- 1) Chloe Ltd (a UK-resident company) has borrowed money on arm's length terms from another company within the group, resident in a foreign territory. For UK tax purposes the loan is treated as a debt instrument, but due to the terms of the loan it is regarded as equity in the foreign territory. The foreign territory provides a 90% exemption for dividend income.
- 2) Radcliffe, Inc. has made a loan to a UK-resident subsidiary, Sita Ltd. Under US law, Radcliffe, Inc. has elected to treat Sita Ltd as a branch.
- 3) A UK group company, Swinton Ltd, pays royalties to another group entity in Ruritania. Ruritania has a tax rate of 1%.
- 4) Radcliffe, Inc. has a permanent establishment (PE) in the UK. Radcliffe, Inc. has borrowed money from a third party bank, a portion of which it has used to fund its PE in the UK. As a result, the UK authorities allow a portion of the interest expense to be allocated to the PE.

**You are required to draft a report to the finance director, setting out:**

- 1) **A high level summary of the scope of the new UK anti-hybrid rules, covering the types of situation in which the hybrid rules may apply and their effect.** (8)
- 2) **Your comments on whether you regard the anti-hybrid rules as applicable to the above transactions and, if so, what the effect will be.** (17)

**If you believe any other UK anti-avoidance provisions may apply, you should mention this, but you are not required to go into detail regarding such provisions.**

Total (25)

2. JS is an entrepreneur, resident in the Netherlands, who is considering moving with his family to the United Kingdom. He owns the entire share capital of Telesis (BVI) Ltd, the holding company of a large group engaged in the development of innovative software designed to be integrated into robotic systems. Telesis (BVI) Ltd is incorporated in the British Virgin Islands, where its nominee directors hold quarterly directors' meetings.

Telesis (BVI) Ltd holds its group through a complex chain of intermediary holding companies, some of which are incorporated in countries with which the UK has entered into tax treaties containing the OECD standard residency tie-breaker clause. The intermediate holding companies have little substance in their respective countries of incorporation; however, the group's main operating company is located in Hamburg, Germany, where it has a substantial presence including a large, purpose-built office where its key personal are located.

The group includes other significant subsidiaries, located in the UK and Ireland, all with strong local boards. JS acknowledges that the group is effectively controlled out of Hamburg where its directors meet regularly to determine group policy, including finance and major investment and disinvestment decisions.

JS is a director of various group companies, including Telesis (BVI) Ltd, and takes an active role in the group's key strategic management decisions and contract negotiations.

A friend of JS has cautioned him against making the move to the UK, explaining that, while the UK might offer certain advantages to non-domiciled individuals, there is a significant risk regarding corporate residence. JS is sceptical of his friend's advice, as he only intends to remain in the UK for three-to-five years and has no previous connections with the UK.

**You are required to explain to JS the implications, should he become UK-resident, for the corporate residence status of:**

- 1) **Telesis (BVI) Ltd.** (9)
- 2) **The intermediary holding companies.** (5)
- 3) **Telesis GmbH.** (4)

**Your explanation should also include a summary of the determinants of corporate residency, including any case law, and advice regarding any steps which may be put in place to preserve the non-UK residence status of those companies.**

- 4) **JS has asked you to briefly explain the beneficial tax regime applying to a newly UK-resident, non-UK domiciled taxpayer.** (7)

Total (25)

**PART B**

**You are required to answer ONE question from this Part.**

3. Janet Palmer, finance director of Ace Group, has sent you an e-mail requesting advice on a proposed secondment and certain other matters:

From: Janet Palmer  
To: Tax Specialist  
Subject: Proposed secondment and tax issues

Hello

Bob Ronson will be seconded from our United Kingdom company, Ace Developments (UK) Ltd, to Ace Developments (Canada) Ltd, a Canadian incorporated and tax resident wholly owned company, for an initial period of one year from 6 April 2016 to coincide with the commencement date of his Canadian work permit, although it is likely that he will be located in Calgary for up to three years. The UK company will continue to pay his wage, and invoice the Ace Developments (Canada) Ltd.

Bob will be working full-time in Canada and will definitely not do more than 30 days of UK duties annually. Indeed he expects to spend no more than three weeks in the UK each year to visit friends and perform essential UK work for the company.

We have agreed with Bob that his relocation package will provide an amount to cover his UK mortgage as he wishes to retain his property in the UK for the foreseeable future. The package will also include a subsistence allowance to cover the expense of the family move to Canada.

We have been advised by our Canadian adviser that the most tax-efficient way is to initially second Bob to Ace Developments (Canada) Ltd, and for Bob to remain a UK resident. He would pay Canadian income taxes and UK National Insurance (NI). In this regard the Canadian adviser has confirmed that Canadian social security contributions are calculated at a higher rate than their UK equivalent and that there is a bilateral social security agreement in place between Canada and the UK.

Finally, various other seconded employees regularly visit the firm's London offices to report and perform necessary UK duties.

Please can you advise on the taxation implications of Bob's secondment to Canada, and also explain how HMRC's short term business visitors' rules operate?

Many thanks  
Janet

Following Janet's email, you have spoken briefly on the telephone with her to further clarify the advice required.

**On the basis that Bob is seconded by Ace Developments (UK) Ltd to Ace Developments (Canada) Ltd for a 12 month period commencing on 6 April 2016, you are required to provide Janet with the following advice:**

- 1) **A commentary on Bob's UK residence position for the 2016/17 tax year.** (3)

Continued

3. Continuation

- 2) **A summary of Ace Developments (UK) Ltd’s obligation to operate PAYE and NI on Bob’s monthly salary.** (2)
- 3) **Bob’s liability to UK income tax, including the taxation of his relocation package.** (2)
- 4) **Your comments on whether Bob may remain subject to UK NI, rather than Canadian social security, during the period.** (2)

**On the alternative basis that Bob is employed directly by Ace Developments (Canada) Ltd, you are required to provide Janet with the following advice:**

- 5) **Bob’s liability to UK income tax, including the taxation of his relocation package.** (2)
- 6) **Your comments on whether Bob may remain subject to UK NI, rather than Canadian social security, during the period.** (2)
- 7) **Bob’s options if the bilateral social security agreement between Canada and the UK does not preserve benefit entitlements in the UK.** (2)

**Janet has also requested your advice regarding the short term business visitor (STBV) regime.**

- 8) **You are required to advise Ace Developments (UK) Ltd on the operation of the STBV regime.** (5)

Total (20)

4. Sebastian plc is a United Kingdom-incorporated and resident trading company, with trading operations in the UK and branches in France, the United States and Hungary which are agreed to be taxable permanent establishments. Each of the branches carries on trading activity in its local jurisdiction.

The French branch has been profitable for several years and is predicted to continue making profits in the future. It pays tax in France at a rate of 33.33%. The company owns the freehold property from which it trades in France.

The US branch has been lossmaking in recent years, but is predicted to turn a profit in four years' time. It pays tax in the US at a rate of 35%.

The branch exemption anti-diversion rules should not apply to the French and US branches, as they qualify for the Excluded Territories Exemption (ETE).

The Hungarian branch has been profitable for several years and is predicted to remain in the future. It pays tax in Hungary at a rate of 9%.

The taxable profits and losses of the branches over the last six years are as follows:

Year ending	<u>Taxable profits/(losses) attributable to branches:</u>		
	<u>France (£)</u>	<u>US (£)</u>	<u>Hungary (£)</u>
31 December 2017 (projected)	100,000	(20,000)	10,000
31 December 2016	75,000	(25,000)	5,000
31 December 2015	85,000	(80,000)	15,000
31 December 2014	110,000	(20,000)	12,000
31 December 2013	90,000	(120,000)	13,000
31 December 2012	100,000	(50,000)	10,000

Sebastian plc has not made a 'branch exemption' election under s18A CTA 2009.

**You are required to:**

- 1) **Comment on whether making an election under s18A CTA 2009 is likely to be beneficial for Sebastian plc. For the purposes of this part of the question, you may assume all the necessary conditions have been met and ignore the historical losses recorded by the US branch. No calculations are required for this part of the question.** (7)
- 2) **Show what impact the US branch's previous losses could have on the application of the branch exemption. Can anything be done to change this?** (7)
- 3) **Explain how the future sale of the French freehold property would be treated in the UK, if an election were made under s.18A CTA 2009.** (2)
- 4) **Comment on whether any of the anti-diversion rules could apply to the Hungarian branch, to prevent a branch exemption election from taking effect.** (4)

Total (20)

## PART C

**You are required to answer TWO questions from this Part.**

5. Mr Dawson, a United Kingdom-resident high net worth individual, has recently been approached with a proposal to invest in trading activities outside the UK. It is proposed that these activities would be carried out through a new form of overseas Limited Liability Partnership (LLP).

Mr Dawson has been provided with the following information by his lawyers:

- 1) Under local law, the overseas LLP can in its own name:
  - (a) Trade;
  - (b) Acquire, hold and dispose of assets and property; and
  - (c) Hold a bank account and take out loans.
- 2) Under the LLP agreement:
  - (a) All partners will be jointly and severally liable for the debts and liabilities of the LLP.
  - (b) Each partner will initially invest a fixed amount into the LLP, which will be included in a 'partner share' register.
  - (c) The LLP will issue certificates to partners for their 'partnership shares', and there are restrictions on transfer.
  - (d) All profits of the LLP are allocated to, and accrue to, the partners' individual capital accounts as they arise, though they will only be physically paid over once per year when the accounts of the LLP have been finalised.

**You are required to answer the following questions:**

- 1) **How might this overseas LLP be classified for UK tax purposes?** (12)
  - 2) **What relevance will the classification of the LLP have for Mr Dawson?** (3)
6. HWC plc is a company incorporated and tax resident in the United Kingdom. It is the head of a large trading group with a number of subsidiaries throughout the world. The subsidiaries are currently funded by a combination of equity contributions from HWC plc and loans from fellow group companies which have excess cash reserves.

The directors of HWC plc would like to centralise their group finance function by setting up a dedicated finance company. The finance company would be responsible for monitoring funding requirements around the group, and lending funds as needed. The finance company will initially be equity funded by HWC plc. It will use these funds to make loans to group companies in the UK and other territories.

HWC plc would prefer to incorporate the finance company in Ireland, which has a 12.5% tax rate, as they currently have offices in Ireland including some administrative staff and a sales team.

**You are required to provide:**

- 1) **A controlled foreign companies (CFC) analysis for the finance company under the proposed arrangements.** (13)
- 2) **A commentary on what the withholding tax position might be for interest paid to an Irish finance company.** (2)

Total (15)

7. Mrs Wortley is non-United Kingdom domiciled individual who is tax resident in Spain. She is considering investing in some properties in the UK, including:
- A house in Reading, which will be let out to individual tenants through a UK letting agency; and
  - A hotel in Brighton, which will be run by her son.

In addition, Mrs Wortley inherited a house in London in June 2012. This has remained empty to date, but following renovations will shortly be let out to tenants via an agency.

Mrs Wortley has no intention of moving to the UK at any time in the future.

**You are required to advise on:**

- 1) Whether Mrs Wortley would have any UK tax liabilities or filing obligations if she sold any of the three UK properties at a gain in the future. (8)**
- 2) Whether Stamp Duty Land Tax (SDLT) will be payable on the purchase of the Reading and Brighton properties, and what rates will apply. (3)**
- 3) How the rental income from the houses in Reading and London will be treated for UK tax purposes. (4)**

Total (15)

8. Giuseppina arrived in London on 1 August 1990 from Dublin, Ireland, to take up a training contract with an international firm of accountants. Her parents originally emigrated from Italy to Dublin in the 1970s, where they established a small family business and have remained.

Giuseppina has lived in London since 1990, with the exception of a two-year secondment to the firm's Czech Republic office in Prague. She regularly visits Dublin and remains in contact with her school and university friends via the internet. In 2000 Giuseppina purchased a London property where she lives with her husband Pedro and her two teenage children.

Although she feels settled in London, Giuseppina carries an Irish passport and expects to acquire property in Dublin sometime in the future.

- 1) Giuseppina has always filed her tax returns on the basis that she is non-domiciled and pays the annual remittance basis charge. However, she has recently received a letter from HMRC enquiring into her domicile status and has asked you to advise. (10)**
- 2) Giuseppina owns a highly valuable portfolio of foreign shares, as a personal holding, which she recently inherited from her uncle.**

**Giuseppina has asked you to explain the UK Income Tax, Capital Gains Tax and Inheritance Tax implications of transferring this portfolio into a non-resident discretionary trust. (5)**

Total (15)

9. Your client, Roberto Rossi, a United Kingdom-resident but non-domiciled individual, has requested your advice regarding his proposed emigration to Italy.

In advance of the scheduled meeting, he has emailed you the following facts:

- Roberto is 66 years old and has been employed by a London university since 2000.
  - In 2012 Roberto took partial retirement (see below).
  - Roberto wishes to move back to Italy, where he has a home and where his wife, three daughters and two grandchildren all live. He has no relatives in the UK.
  - Roberto wishes to retain his UK flat for use while in the UK, and for occasional visits by other family members.
  - Roberto has recently taken on a non-paying, part time engagement at a top Italian research institute.
  - Roberto's UK income going forward will be, as now, his employment income and UK pension.
  - Roberto currently works three days a week at the university but wishes to reduce this to one day a week.
  - Roberto has pointed out that staff at the university have several weeks of paid holiday, so if he reduces his role to one day a week he will only have to physically attend on about 35 days per year. Research and preparation for lectures can be undertaken while abroad.
  - In addition to his role at the university, Roberto is a director of two UK start-up companies. He considers that he will spend perhaps seven days working in the UK each year, in connection with these directorships.
- 1) **Roberto has asked you to explain how he may become classed as non-UK resident. He is particularly keen to learn how many days he may spend in the UK each year, and to what extent it is possible to continue in his role with the university, while qualifying to be treated as non-resident.** (10)
- 2) **Roberto also seeks to understand, for the purpose of Income Tax and Capital Gains Tax, what the tax consequences would be if he continued living in the UK until 31 July and delayed his departure to Italy until 1 August.**

**In this regard, Roberto would remain working for three days per week from April until 31 July 2017 and resign completely from his UK university employment effective 1 August 2017.** (5)

Total (15)



## THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2017

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### PAPER 2.09 – UNITED KINGDOM OPTION

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**SUGGESTED SOLUTIONS**

## **PART A**

### Question 1

#### Part 1

The UK anti-hybrids legislation can be found in Part 6A TIOPA 2010, which was introduced by Finance Act 2016 and takes effect from 1 January 2017.

The rules replaced the previous anti-arbitrage rules in Tax Arbitrage rules in Part 6 TIOPA 2010, and are much wider in scope.

The legislation addresses arrangements using hybrid arrangements that give rise to a tax mismatch, and is based on the OECD's recommendations in relation to BEPS Action 2.

There are two types of tax mismatches:

- Double deductions for the same expense: for example in a branch / hybrid subsidiary and its parent.
- Deduction / non-inclusion cases: where a deduction is given for an expense and the corresponding income isn't fully taxed.

Hybrid arrangements can include:

- Hybrid financial instruments: e.g. where one party sees them as equity, and the other as debt.
- Hybrid entities: i.e. entities which are treated as transparent in one country but opaque in another.
- Certain arrangements involving permanent establishments (PEs) and dual resident companies.
- Hybrid transfers: mismatches arising from different approaches to arrangements such as stock loans and repos.

The various combinations of mismatches and hybrid arrangements are set out in Chapters 3 to 10.

The legislation aims to neutralise the tax mismatch created by altering the tax treatment of the deduction or receipt:

- For deduction / non-inclusion cases the primary response is to deny a deduction to the payer. If this doesn't occur (e.g. because the payer is in a territory without anti-hybrid rules) then the secondary response is to tax the receipt in the recipient.
- In double deduction cases, the primary response is to deny a deduction for the parent / investor. If this does not occur, then the secondary response is to deny a deduction to the PE or hybrid entity.

The legislation also includes rules to target attempts to circumvent the main anti-hybrid rules by routing a mismatch outcome through a third country, so that the UK is not directly involved in the mismatch. These are known as 'imported mismatches'.

There is also an anti-avoidance provision which allows for a just and reasonable counteraction if, as a result of avoidance arrangements, a person avoids the application of the anti-hybrid rules.

#### Part 2

Looking at the transactions you are concerned about:

### *Chloe Ltd*

The interest paid by Chloe Ltd is likely to fall within Chapter 3 ‘Hybrid and other mismatches from financial instruments’

Per s.259CA, for that Chapter to apply conditions A to D must be met:

- Condition A: the payments of interest are made under, or in connection with, a financial instrument. This condition will be met as the loan is a financial instrument.
- Condition B: either the payer or the payee are within the charge to corporation tax. This conditions will be met: the payer (Chloe Ltd) is within the charge to corporation tax.
- Condition C: it is reasonable to suppose that there would be a hybrid or otherwise impermissible deduction / non-inclusion mismatch in relation to the payments. This condition will be met: Chloe Ltd will deduct 100% of the interest expense but the recipient will only be taxed on 10% of the amount received.
- Condition D: the two companies are related, or the loan is a structured arrangement. This condition will be met as the two companies are in the same group.

It therefore appears likely that Chapter 3 will apply.

Under s.259CD Chloe Ltd’s allowable deduction in relation to the interest will be reduced by the amount of the mismatch. As the lender is only taxed on 10% of the income it receives, Chloe Ltd will only be allowed a deduction for 10% of its interest expense, with the remaining 90% disallowed.

### *Sita Ltd*

The interest paid by Sita Ltd is likely to fall within Chapter 5 ‘Hybrid payer deduction/non-inclusion mismatches’.

Per s.259EA, for that Chapter to apply conditions A to E have to be met:

- Condition A: The payments are made under, or in connection with, an arrangement: This condition will be met as the loan from Radcliffe Inc will be an ‘arrangement’.
- Condition B: The payer is a hybrid entity. This condition will be met: Sita Ltd is an opaque company in the UK, but a transparent branch in the US.
- Condition C: The payer or payee is within the charge to corporation tax. This condition will be met: Sita Ltd is within the charge to corporation tax.
- Condition D: It is reasonable to suppose that there would be a hybrid payer deduction /non-inclusion mismatch in relation to the payment. This condition will be met: it is assumed that Sita Ltd will claim a UK tax deduction for the interest it pays to Radcliffe Inc. As Radcliffe Inc sees Sita Ltd as a branch, it is also assumed that it will not tax the interest income as it sees the payments as taking place within the same company.
- Condition E: The payer and payee are in the same control group, or there is a structured arrangement. This condition will be met: Radcliffe Inc and Sita Ltd are in the same group.

It therefore appears likely that Chapter 5 will apply.

Per s.259EC, Sita Ltd will not be entitled to a deduction for the interest expense which is not included as income of Radcliffe Inc.

### *Swinton Ltd*

The anti-hybrid rules will not apply to these payments. This is because, although the royalty income is only taxed at a very low rate, the income is brought into account in full.

There is therefore no double deduction or deduction / non-inclusion outcome.

The Diverted Profits Tax (DPT) may however apply to the payments to Ruritania if there is little substance in that country. This would impose a tax charge of 25% on any profits deemed to be diverted out of the UK.

The UK may also be liable to withhold taxes on the royalty payments, depending on the treaty position with Ruritania.

Depending on which group companies hold the Ruritanian company, there may also be a CFC apportionment in respect of its profits.

#### *UK PE*

The interest paid by the UK branch is likely to fall within Chapter 10 'Dual territory double deduction cases'.

Per s.259JA, for that Chapter to apply conditions A and B have to be met:

- Condition A: A company is a dual resident company, or relevant multinational company. Radcliffe Inc will be a relevant multinational company, as defined at s259JA(4) as it is not resident in the UK, but is within the charge to UK tax because it carries on business here via a PE.
- Condition B: There is an amount which it is reasonable to suppose could be deducted by the company both in the UK and another territory. This condition will be met if the interest is deducted by Radcliffe Inc for US tax purposes and by the branch for UK corporation tax purposes.

It therefore appears likely that Chapter 10 will apply.

Per s.259JD, if a deduction has not been counteracted by similar anti-hybrid rules in the US, the deduction in the branch will be restricted to any amounts not deducted in the US. If Radcliffe Inc has deducted the full amount of interest in the US the UK branch will not be entitled to any deduction.

## Question 2

### Telesis (BVI) Ltd

Telesis (BVI) Ltd is the top holding company of the group. It is acknowledged that the group is effectively run out of Hamburg (via Telesis GmbH) where the key personnel reside. In order to determine the corporate residence implications to Telesis (BVI) Ltd of JS moving to the UK, it would be necessary to identify the key decisions being considered by that company. It may be that the only decisions being made by the top hold co are to retain its investment in the underlying group, determine dividend payments and perhaps enter into banking commitments.

If JS moves to the UK and instructs Telesis (BVI) Ltd board from London regarding e.g. the acceptance or rejection of a bid made by a potential purchaser, payment of dividends or the entering into of financial commitments then given that the other board members are nominee directors it is likely HMRC may argue that the company is being managed and controlled from the UK.

If however the nominee directors were replaced by more robust directors with knowledge of the company's business e.g. directors of operating subsidiaries and JS did not instruct but merely offer advice it would be less likely that HMRC would be able to successfully argue that the company was managed and controlled in the UK. It would be necessary that these directors met at least quarterly and as and when required and made decisions rather than merely rubber stamping decisions made by JS in London.

*De Beers Consolidated Mines Ltd v Howe (Surveyor of Taxes)* 5 TC 198 is often quoted as authority for the rule that a company is resident where its board of directors meet, provided that the real business of the company is carried on at those meetings. This rule has been affirmed in subsequent cases including *Wood v Holden*, [2006] STC 433, CA the last corporate residence case to reach the Court of Appeal.

The importance of holding substantive board meetings was also underscored in the *Laerstate* case. Indeed, *Laerstate BV* [2009] UKFTT 209 (TC) exhibits a catalogue of fundamental flaws which undermined the assertion that the real business of that company was being conducted at directors' meetings. For example for a substantial period, no board meetings were held, even though significant management activities were being undertaken in the UK by the UK-based director.

The following recommendations are made to ensure that central management and control is being exercised at board meetings held outside the UK, in the case of Telesis (BVI) Ltd and the intermediary holding companies.

- The companies should acquire substance in their respective countries of incorporation e.g. staff and offices.
- Key personnel should be appointed to the respective boards;
- Meetings should be held quarterly and as and when required
- Neither JS or any other director should participate in board meetings from the UK
- Actual decisions should be taken at the board meetings. i.e. the meetings should not merely rubber stamp decisions made elsewhere.
- JS should not negotiate key contracts in the UK.

Ideally the meetings would take place in the BVI but subject to local BVI advice for logistical reasons they may wish to consider moving the location to a more accessible jurisdiction. E.g. a channel island.

It would be advisable for JS to attend board meetings in person and also that other directors also physically attended.

### The intermediary holding companies

Similar comments apply to those made in respect of Telesis (BVI) Ltd. In addition, certain cases have considered the application of the case law test in the context of subsidiaries.

*Untelrab Ltd v McGregor, Unigate Guernsey Ltd v McGregor [1996] STC (SCD) 1*, was a case in which subsidiaries of a UK-resident parent were held to be resident where their boards met (in Bermuda) and their business was transacted. This was even though it was found that the boards functioned to give effect to the parent's wishes and were 'complaisant' to do the parent company's will. Nevertheless, the directors demonstrated that they were exercising decision making since if the parent had made an improper or unreasonable request the board of the subsidiary would have refused to comply.

*Wood v Holden mentioned above also acknowledged that in the case of Special Purpose Vehicles these companies do not engage in much positive outward activity, so that these companies do not need frequent and lengthy board meetings.*

HMRC in SP1/90 acknowledge that “*It is particularly difficult to apply the ‘central management and control’ test in the situation where a subsidiary company and its parent operate in different territories*”

The fact that certain of these companies are located in treaty jurisdictions with a standard residency tie-breaker clause means that for UK purposes their residence will be determined by where their place of effective management is located if they are deemed to be resident in the UK by virtue of central management and control and resident in their country of incorporation e.g. by virtue of being incorporated there. Given that it is noted that these companies have little presence in their countries of incorporation it is unlikely that the place of effective management criteria will lead to a different determination than that obtained by applying the case law test of central management and control.

As the tax residency of the intermediary holding companies may be significant to the international tax structuring of the group it would be necessary to take advice in each of the countries affected by the residency status of an intermediary holding company as each country may apply different criteria in determining corporate residency.

#### Telesis GmbH

Telesis GmbH has been described as a company of considerable substance based in Hamburg with a strong board of directors. It is unlikely that JS' move to the UK would result in that company becoming UK resident. This is provided that the local board meets regularly and decisions are taken at those board meetings relating to the key strategic decisions of that company.

Even if central management and control was demonstrated to be exercised in the UK, the German-UK tax treaty would apply the treaty tie-breaker test so that residence would be determined by reference to Telesis GmbH's place of effective management.

It is very unlikely in practise that HMRC would challenge the residence status of an operating company such as Telesis GmbH with substantial presence located in a high tax country, as the UK would be required to give credit for the foreign tax suffered on its profits. Prima facie no benefit to the UK exchequer would arise even in the unlikely event HMRC were successful.

#### Non-UK Domiciled tax regime

- UK resident but non-domiciled taxpayers may elect to pay tax on the remittance basis.
- The election for the remittance basis is made on the individual's tax return
- Where a non-domiciled individual is taxed on the remittance basis they are assessed on their UK income and chargeable capital gains on an arising basis, however they are only taxed on their foreign income and capital gains to the extent these are remitted to the UK.
- An individual may elect for the remittance basis without charge for the first 7 years of their UK tax residency.
- Where an individual elects for the remittance basis they lose their personal income and capital gains tax allowance.

- Subject to certain conditions a non-domiciled taxpayer may benefit from overseas workdays relief (OWR) for the first 3 years of their UK tax residency.
- If OWR applies then the non-domiciled employee is not subject to tax on their employment income to the extent it relates to foreign workdays and provided the relevant income is not remitted to the UK.
- A non-domiciled taxpayer is subject to UK inheritance tax on their UK assets only.

## **PART B**

### Question 3

#### Part 1

From a UK perspective if Bob works full time (FTWA) in Canada he will be non-UK resident under the automatic overseas residence test. FTWA broadly equates to the standard UK concept, i.e. 35 hour week. Normal holiday leave is allowed. Bob must not work more than 30 days in the UK to qualify. Work in the context of the 30 day test means working for more than 3 hours. Any UK duties may be subject to UK tax as this represents UK source income received from a UK company. However, he will have no UK liability on his earnings if he does not perform duties in the UK.

Bob would pay no UK income tax on his Canadian earnings and under the Canada-UK NI agreement could remain within the UK NI system.

#### Part 2

Regarding the UK employer's liability to operate PAYE an exemption may be available. Unsurprisingly the rules are fairly complicated but I have summarised them below:

To be protected by the agreement to not operate PAYE, the employees must be:

- resident in a country with which the UK has a double taxation agreement under which the 'dependent personal services – income from employment' article is applicable;
- coming to work for a UK company or the UK branch of an overseas company, or are legally employed by a UK-resident employer, but economically employed by a separate non-resident entity; and
- expected to stay in the UK for 183 days or fewer in any 12-month period.

I believe Bob meets the above requirements.

#### Part 3

As Bob will be non-resident for 2016/17 his liability will be restricted to liability in respect of UK source income. He will therefore not be liable to UK income tax in respect of his employment income to the extent it arises from duties performed outside the UK. This is the position even though Bob is to be paid by a UK company. Bob's relocation package should therefore not be subject to tax.

#### Part 4

As there is a bilateral social security agreement in place between the UK and Canada, Bob may remain within the UK NI regime.

#### Part 5

The fact that the Canadian company will employ Bob directly does not affect the determination of Bob's residence status. Bob's liability to income tax remains the same as that applying in the scenario where he is employed by the UK company. As Bob will be non-resident his liability will be restricted to liability in respect of UK source income. He will therefore not be liable to UK income tax in respect of his employment income to the extent it arises from duties performed outside the UK. This is the position regardless of whether Bob is to be paid by the Canadian or the UK company.

#### Part 6

Bob does not qualify to remain in the UK NI regime under the bilateral UK-Canada social contribution agreement. Bob will therefore be subject to Canadian social security.

## Part 7

Bob may wish to make voluntary contributions to preserve certain UK social security benefits.

## Part 8

Part of the agreement with HMRC is an obligation to file annual reports providing details of the number of STBVs arriving in the UK each tax year. It is therefore necessary to have a system in place that records employees' movements, such as travel records, expense claims and office visitor records. HMRC requires an internal reporting system to be in place.

Reports are due to HMRC by 31 May after the end of the tax year. The requirements vary depending on the amount of time spent in the UK:

1–30 days: no reporting requirements.

31–59 days: if there is no formal contract of employment with the UK employer and the 59 days do not form part of a more substantial period (together with earlier or subsequent trips) only a list of names of such employees is required.

1–59 days not falling within the scope of the above category, and other visitors for 60–90 days: the employer must provide the following information for each relevant employee:

- full name;
- last known UK and overseas addresses;
- nature of duties undertaken;
- date work started and ended;
- to which country a tax return covering worldwide income is submitted; and
- employer statement confirming that the UK company does not ultimately bear the cost of the employee's remuneration or function as the employee's economic employer during the visit.

91–150 days: all of the above, plus a certificate of residence from the home country's tax authorities.

## Question 4

### Part 1

A 'branch exemption' election under s18A CTA 2009 excludes profits attributable to a foreign permanent establishment (PE) of a UK company from the charge to corporation tax. Similarly, any losses attributable to a PE cannot be relieved.

Currently, as Sebastian plc has not made an election under s18A, it will include the profits and losses of its PEs in its results for corporation tax purposes, and claim double tax relief by way of a credit where possible. Looking at each of the branches in turn:

- UK corporation tax will be payable on the profits of the French branch. However, as the tax rate in France is so high these are most likely to be covered in full by double tax relief.
- Sebastian plc will be able to take into account the losses in the US branch, setting these against its own profits for corporation tax purposes.
- UK corporation tax will be payable on the profits of the Hungarian branch. Double tax relief will be available for the tax paid in Hungary, but as the rate is only 9% it is likely will still be UK corporation tax to pay.

An election under s18A CTA 2009 is permanent and affects all a company's PEs. It is not possible to 'cherry pick' and apply the exemption to some branches but not others.

As a result, if Sebastian plc were to make an election:

- The position would be broadly similar for the French PE: there would be no UK corporation tax to pay as the profits would be exempt.
- The position would be worse in the short term for the US branch, as Sebastian plc would not be able to claim relief for the branch losses.
- The position would be better for the Hungarian branch, as there would be no UK corporation tax at all to pay on its profits since these would be exempt.

Whether an election would be beneficial for Sebastian plc will therefore depend on the amount of corporation tax saved on the Hungarian branch profits versus the extra corporation tax payable from forfeiting the losses of the US branch:

- If the tax saved on the Hungarian branch exceeds the extra cost of losing the tax relief from the US branch losses, then an election may be beneficial.
- If instead the value of the forfeited US losses is higher than the tax saving on the Hungarian PE then it is unlikely to be beneficial, at least in the short term.

### Part 2

When a company makes an election under s18A CTA 2009 this becomes effective from the start of the next accounting period. The exception to this is where its foreign permanent establishments are in a net loss position at the start of that period.

Where this is the case, the transitional provisions in s18J – s18O provide for a clawback of the previous relief which the company will have had for those branch losses. It does so by deferring the start of the exemption until the losses in the 6 years before the election have been matched by profits after the election.

The rules operate by looking back to see what total losses have arisen in all foreign PEs of the company in the 6 years prior to the first accounting period for which the election is made. Where there are net losses that have not been matched by subsequent profits during those 6 years there will be a loss carry forward known as the opening negative amount.

This opening negative amount has to be matched by profits post-election before the exemption can take effect.

Looking at the profits and losses of Sebastian plc's branches over time the opening negative amount will be £70,000:

Profits / (losses) attributable to:					
<u>Year ended</u>	<u>French branch</u>	<u>USA branch</u>	<u>Hungarian branch</u>	<u>Total profit / (loss)</u>	<u>Loss carried forward</u>
31 December 2012	100,000	(50,000)	10,000	60,000	0
31 December 2013	90,000	(120,000)	13,000	(17,000)	17,000
31 December 2014	110,000	(20,000)	12,000	102,000	0
31 December 2015	85,000	(80,000)	15,000	20,000	0
31 December 2016	75,000	(25,000)	5,000	55,000	0
31 December 2017 (projected)	100,000	(20,000)	10,000	30,000	0

Taking all the branches together there is no opening negative amount.

Although the branches overall made a loss in 2013, this has subsequently been matched by profits in later years.

If there were an opening negative amount then this would have to be matched by total profits from the PEs in periods from 31 December 2018 onwards.

Whilst this matching took place the profits of the PEs would continue to be subject to corporation tax, with double tax relief available in the usual way for any foreign tax paid.

Depending on the future profits and losses of the PEs this could delay exemption for some time. It may be possible to reduce this delay by making an election to 'stream' the profits and losses of the US branch. This would mean they are looked at in isolation for the purposes of the transitional rules rather than being aggregated with the results of the other two PEs.

This would mean there is no delay in exemption for the Hungarian and French branches.

The US branch losses would be looked at in isolation, and could only be matched with future profits from that branch. This is likely to mean a longer period of time before profits of that branch are exempt, though double tax relief would be available for any US tax paid.

However a streaming election is not beneficial here, as overall there is no opening negative amount.

### Part 3

Generally, an election under s18A applies to chargeable gains and losses in the same way as other profits and losses attributable to permanent establishments.

Per s18B(1) chargeable gains and losses are left out of account for UK corporation tax purposes to the extent that they are attributable to the PE under the relevant treaty.

The capital gains article of most double tax treaties based on the OECD Model include provision for gains on immoveable property (such as buildings) to be taxed by the State in which they are located.

Even if a treaty does not have this provision, s18B(2) ensures that profits attributable to a PE includes any gains or losses in respect of immoveable property used for the business of the PE in that territory.

Therefore, provided that the French branch continues to use the property in France for its business any gain or loss should be left out of account for UK corporation tax once the election under s18A takes effect.

If the building is not used solely by the PE then it may be necessary to make a just and reasonable apportionment of the gain.

#### Part 4

The branch exemption legislation contains anti-diversion rules which are based on the rules for controlled foreign companies (CFCs).

s18G states that the anti-diversion rules will apply where a UK company has:

- An adjusted relevant profits amount (i.e. PE profits that would otherwise be exempt)
- That amount includes 'diverted profits', and
- None of the exemptions set out in s18I apply.

Diverted profits are defined in s18H as any profits of the UK company which pass through the 'diverted profits gateway'. The diverted profits gateway applies the CFC gateway rules with some modifications.

Effectively, this requires you to assume that the UK company is a CFC and apply the Gateway rules in Chapters 3,4, 5,6, 7 and 9 of TIOPA 2010. If none of the company's profits would pass through the Gateway then there are no diverted profits and the anti-diversion rules won't apply. If there are any diverted profits these will not be included in the branch exemption

s18I applies the entity exemptions in Chapters 11 to 14 of the CFC rules (TIOPA 2010 Part 9A) in the context of foreign PEs. These are:

- The excluded territories exemption
- The low profits exemption (applied to taxable profits alone and not accounting profits)
- The low profits margin exemption
- The tax exemption.

In applying these rules you have to assume that the PE is a separate company that is a CFC resident in its territory of operation.

Looking at the Hungarian PE of Sebastian plc the anti-diversion rules are unlikely to apply as it should currently qualify for the low profits exemption.

If the Hungarian PE's taxable profits were to increase above the low profits threshold of £500,000 then it would be necessary to look at whether any of the profits of the PE were 'diverted profits' applying the Chapter 3 and Chapter 4 gateways.

## Part C

### Question 5

#### Part 1

For UK tax purposes, overseas entities can be classed as either 'opaque' or 'transparent'.

How to determine whether an entity is opaque or transparent is not set out in legislation, and instead we have to look to the relevant case law and HMRC guidance for assistance.

A good starting point is HMRC's guidance. This contains a list at INTM 180030 of those entities where HMRC have been asked their view on the question of transparency / opacity. As we are not told what country the LLP has been incorporated in it is not possible to confirm whether it is on this list.

Even if a specific entity is of a type listed in HMRC's guidance this does not necessarily mean that it is certainly opaque or transparent. This is especially the case if there can be variations in the legal agreements for that type of entity.

This was highlighted in the case of *Anson v HMRC* where the UK Supreme Court ruled that a Delaware LLC should be treated as transparent for UK tax purposes, going against HMRC's guidance and long standing practice that such LLCs were opaque.

A key case in entity classification is *Memec plc v CIR*, which identified a series of factors to be considered. These factors are also set out in HMRC's guidance.

Applying them in turn to the LLP:

- 1) Does the foreign entity have a legal existence separate from that of the persons who have an interest in it?

Yes: the ability to trade, take out loans in its own name etc. indicates that the LLP is opaque

- 2) Does the entity issue share capital or something else, which serves the same function as share capital?

The 'partner shares' sound similar to share capital, in that there is a register, they have a fixed value, certificates are issued and there are restrictions on transfer. This suggests the LLP is opaque.

- 3) Is the business carried on by the entity itself or jointly by the persons who have an interest in it that is separate and distinct from the entity?

The LLP carries on business in its own name, which suggests it is opaque.

- 4) Are the persons who have an interest in the entity entitled to a share in its profits as they arise, or does the amount of profits to which they are entitled depend on a decision of the entity or its members after the period in which the profits have arisen, to make a distribution of profits?

The agreement states that the partners are entitled to profits as they accrue, which would suggest transparency. However, the fact that these are only paid over once a year following finalisation of the accounts may point more towards being opaque, particularly if a decision or vote of the partners is required first.

- 5) Who is responsible for debts incurred as a result of the carrying on of the business: the entity or the persons who have an interest in it?

The partners are jointly and severally liable which suggests transparency.

- 6) Do the assets used for carrying on the business belong beneficially to the entity or to the persons who have an interest in it?

The LLP owns its own assets which would suggest it is opaque.

To decide on the status of the LLP each of the above factors need to be weighed up. HMRC always pay particular attention to 3) and 4).

On balance these seem to indicate that the LLP is likely to be opaque, though further information should be sought on the exact mechanics by which profits are allocated and distributed. This was a key point in *Anson*.

## Part 2

Classification as transparent or opaque will dictate how and when Mr Dawson is taxed on the profits of the LLP:

- If the LLP is opaque Mr Dawson will not be taxed on its profits until they are distributed to him.
- If the LLP is transparent, any profits and gains will be taxed on Mr Dawson as they arise. This is likely to result in him paying tax earlier than if the entity is opaque.
- Double tax relief is likely to be available to Mr Dawson if the entity is transparent, meaning he can set any foreign tax paid by the LLP against his UK tax liability. No double tax relief is likely to be available if the entity is opaque.

## Question 6

### Part 1

A controlled foreign company (CFC) is defined in s.371AA TIOPA 2010 as a company which:

- Is not resident in the UK, and
- Is controlled by a UK resident person or persons.

The finance company will be a CFC as:

- It is assumed it will be Irish tax resident.
- It is controlled by HWC plc – a UK resident company.

As a result, unless the finance company can claim an exemption, or its profits do not pass through any of the CFC gateways in the legislation, its profits will be apportioned to HWC plc and subject to UK corporation tax.

It is unlikely that any of the CFC exemptions will apply to the finance company.

- Ireland is not an 'excluded territory' for the purposes of the excluded territory exemption in s.371KA.
- If the finance company has an effective tax rate similar to the headline tax rates in Ireland and the UK, the company will not qualify for the tax exemption in s.371NA as the Irish rate is less than 75% of the UK rate.

The finance company may qualify for the low profits exemption in s.371LA if its accounting or taxable profits for the period are no more than £50,000. This may be the case when it is first set up and has not made many loans. We are not given enough information to confirm this.

If the finance company does not qualify for the low profits exemption it will be necessary to look to the CFC gateways. As the finance company will only have non-trading finance profits, it will be the Chapter 5 gateway which is relevant.

Profits of the finance company will pass through this gateway if they derive from any of the following:

- Assets and risks in relation to which the Significant People Functions (SPFs) are carried out in the UK.
- Capital investment from the UK.
- Loans made in lieu of paying dividends.
- UK finance leases.

As the loans made by the finance company will be funded by equity contributions from HWC plc the second of these will apply. As the finance company will be controlled by a UK company and have UK based directors it is also possible that it will have UK SPFs.

The profits of the finance company are therefore likely to pass through the Chapter 5 gateway.

Where a CFC has non-trading loan relationship profits which pass through the Chapter 5 Gateway it can claim for them to be dealt with under Chapter 9 (exemptions for profits from qualifying loan relationships instead) instead if:

- The profits arise from 'qualifying loan relationships'
- It meets the 'business premises' condition.

The business premises condition will be met if, at all times during the accounting period, the finance company has premises in Ireland from which its activities are wholly or mainly carried on, and it does so (or intends to) with a reasonable degree of permanency. As the group has

offices in Ireland this condition should be met provided the directors and employee of the finance company have access to those offices and carry out the company's business there.

If Chapter 9 applies then 75% of the finance company's profits from its 'qualifying loan relationships' will be exempt. Any profits not from qualifying loan relationships will continue to fall within the Chapter 5 Gateway and be fully apportioned back to Sebastian plc.

A qualifying loan relationship is defined at s371IG as a creditor relationship:

- Where the ultimate debtor is a qualifying company.
- Which is not excluded by s371IH.

A qualifying company is a company which is:

- Connected with the CFC, and
- Controlled by the same UK resident which controls the CFC.

Loans from the finance company to fellow group companies should therefore be qualifying loan relationships provided they do not fall within any of the excluded categories in s371IH. The exclusions which may be relevant here are:

- A loan used for the purposes of a UK PE or UK property business.
- A loan where the ultimate debtor is a UK company (unless the loan is attributed to an exempt overseas PE)
- A loan to another CFC where the debits result in no, or a reduced, CFC charge under the low profits exemption or gateway chapters.

Applying these rules to the finance company:

- Loans to overseas group companies should be qualifying loan relationships provided they are not allocated to a UK PE and don't result in a reduced CFC charge for the borrower. As a result, 75% of the profits on these loan relationships will be exempt from a CFC apportionment and will not be taxed in the UK.
- Loans to UK group companies will not be qualifying loan relationships. As a result, 100% of the profits on these loan relationships will be apportioned to HWC plc and taxed in the UK.

S.371IB does provide a further exemption for up to 100% of non-trading finance profits if loans are funded out of 'qualifying resources'. This exemption is very narrow in focus, and generally only applies where a loan is funded from profits generated in the borrower's territory. It is therefore unlikely to be available to the finance company.

## Part 2

Depending on their local domestic laws the other group companies may be required to withhold tax on the interest payments they make to the finance company. For example, the UK companies would be required under domestic UK law to withhold tax at 20%.

It may be possible to reduce this withholding tax as far as 0% under the relevant double tax treaty with Ireland or the EU Interest and Royalties Directive.

Under the EU Interest and Royalties Directive, payments between 'associated' companies within the EU are exempt from withholding tax. To be associated:

- One company must hold at least 25% of the share capital or voting rights of the other, or
- A third company must directly hold at least 25% of the share capital or voting rights of both companies.

## Question 7

### Part 1

As Mrs Wortley is not UK resident she will not generally be subject to UK capital gains tax (CGT). The exception to this is that, from 5 April 2015, non-residents are subject to CGT on the disposal of UK residential property.

The rules on this non-resident CGT charge (NRCGT) are included in s.14B – s.14H and Sch 4ZZB TCGA 1992.

These state that NRCGT applies to non-resident individuals disposing of UK residential property.

'UK residential property' is defined in Sch B1 as being land which includes a 'dwelling'. There are exceptions for certain types of buildings, including prisons, hospitals and hotels.

Of the three properties:

- The houses in Reading and London will be 'dwellings' and therefore fall within the NRCGT charge.
- The hotel in Brighton will not be classed as a 'dwelling' and its sale will therefore not be within the scope of the NRCGT. Any gain on the sale of the hotel should not be taxed in the UK, though may be taxed in Spain.

The NRCGT charge only applies to gains accruing after the rules were introduced on 5 April 2015:

- As the house in Reading will only be acquired after this date the entire gain will be taxed.
- For the house in London, only that part of the gain arising after 5 April 2015 will be subject to CGT. The gain accruing before that time will be exempt. Mrs Wortley can choose to either time apportion the entire gain over her period of ownership, or rebase the property to its market value on 6 April 2015.

Mrs Wortley will have to file a NRCGT return and pay the tax due within 30 days of completing the sale of either house.

If the disposal would also be taxable in Spain she may be able to claim relief under the UK – Spain tax treaty.

### Part 2

SDLT will be payable on both properties as they are situated in the UK.

The hotel will be subject to SDLT at the non-residential rates.

The house in Reading will be subject to SDLT at residential rates. As Mrs Wortley already owns a property in the UK (the house in London), and is not replacing a main residence, she will be subject to an extra SDLT charge of 3% above the normal SDLT rates.

### Part 3

The rental income received from the houses will be subject to UK income tax even though Mrs Wortley is not UK resident.

The rental income is likely to be subject to withholding tax under the non-resident landlords scheme.

S.971 ITA 2007 provides that the basic rate of income tax (i.e. 20%) must be withheld from any UK rental income paid to a person whose 'usual place of abode' is outside the UK.

This tax must be withheld by the letting agent and paid over quarterly to HMRC. A deduction can be claimed for any allowable expenses paid by the letting agent.

Mrs Wortley can apply to HMRC to receive her rental income gross if her UK tax affairs are up to date. She will still be subject to income tax on the rental income, and will have to file a self-assessment return.

## Question 8

### Giuseppina's domicile

At birth Giuseppina would have acquired her father's domicile as her domicile of origin. (Bell v Kennedy [1868] LR 1 Sc & Div 307) It is not clear whether at the time of her birth her father's domicile remained Italian or whether he had acquired a domicile of choice in Ireland.

In any event until Giuseppina attained the age of 16 her domicile would have followed that of her father so that if he had an Italian domicile at the date of her birth, but prior to her attaining the age of 16 had acquired a domicile of choice in Ireland, by physically residing there with the intention of remaining there permanently or indefinitely, she would have acquired a domicile of dependency in Ireland (Bell v Kennedy [1868] LR 1 Sc & Div 307).

It is therefore likely that at the point she left Dublin Giuseppina had an Irish domicile either through domicile of origin or domicile of dependency/choice.

Giuseppina's Irish domicile would remain unless she resided in London with the intention of residing there permanently or indefinitely.

Giuseppina feels settled in London and has remained there for almost 25 years apart from her two year secondment to Prague. She owns London Property (Re Flynn (No 1) [1968] 1 WLR 103) where her husband Pedro and her teenage children reside with her. Against this she carries an Irish Passport and stays connected to her Irish friends and family. In addition she also expects to acquire Irish property.

Giuseppina's domicile status is unclear and further investigatory work is required. Determination of domicile is a complex matter involving the consideration of all the facts and circumstances pertaining to that individual. For example it is necessary to establish whether she has plans to return to live in Ireland perhaps on her retirement? Does she intend to reside personally in the Irish property she contemplates she will acquire? or has she in fact formed an intention to remain permanently or indefinitely in London?

### Discretionary Trust

#### *Inheritance Tax*

- As Giuseppina has been UK resident since August 1990, i.e. 1990/91 apart from a couple of years when she was seconded to Prague, clearly she has been UK resident for not less than 17 out of 20 years of assessment and is therefore deemed domiciled for the purposes of UK inheritance tax.
- As Giuseppina is deemed UK domiciled for inheritance tax purposes she is not entitled to the excluded property regime.
- A transfer of her offshore portfolio into an offshore discretionary trust to the extent it exceeds her available nil rate threshold will therefore be a chargeable transfer which will be liable to inheritance tax at 20%.
- If Giuseppina dies within 7 years of making a transfer into the trust her estate will have to pay Inheritance Tax at the full amount of 40%.
- The offshore trust will be subject to the relevant property regime, i.e. the 10 year anniversary charge and exit charges will apply.

#### *Income tax and capital gains tax*

- Giuseppina is not deemed UK domiciled for income tax or capital gains tax purposes. Note however a HMRC enquiry into Giuseppina's domicile status is on-going.
- As Giuseppina is taxable on the remittance basis, any chargeable gains arising on the disposal of her foreign investment portfolio to the offshore trust will not be immediately chargeable to capital gains tax as the disposal will not give rise to any remittable proceeds. However if distributions received from the offshore trust are subsequently remitted into the UK any gains arising on the original transfer into trust may become liable to capital gains tax at that point.

- As Giuseppina is entitled to the remittance basis Giuseppina is not liable to income tax or capital gains tax on foreign income or foreign gains arising in the trust.
- However, if Giuseppina remits distributions she receives from the trust into the UK, these distributions may become liable to tax at that point.

Question 9

Dear Roberto

Many thanks for your email.

I note your intention to move back to Italy. I also note you already have a home in Roma, and that your wife, three daughters and two grandchildren all live there. Your residence will be determined by the statutory residence test. Within this test there are various 'tests' which may apply. The tests are hierarchical. The highest level tests are the automatic UK residence tests and the automatic overseas residence tests. The automatic overseas tests have primacy and if you satisfy any of the automatic overseas tests then you are not UK resident. The first automatic overseas residence test which I will consider is the full time working abroad test. This may apply where you are leaving the UK for full time employment abroad. Unfortunately on the facts this seems unlikely to be satisfied, since I note your employment in Italy will be non-paid. The SRT specifically provides that voluntary work does not count in determining whether the FTWA test is met. Further you intend to continue working for the London university albeit on a limited basis.

You are also unlikely to satisfy the other 'automatic' non residence test which is you spend less than 16 nights in the UK in any tax year, particularly given your continuing commitment to the university.

I assume you will retain your London home for the foreseeable future?

This leaves the ties test to determine your residence. You will be a leaver under these provisions so the following five ties are relevant.

1. Accommodation

You will have accommodation in the UK which you will retain. This counts as one tie.

2. Family

As your wife and three daughters are non-resident you will not have a tie under this condition.

3. 90 day tie

As you will have spent more than 90 days in the UK in one of the two previous tax years you will have a tie under this test.

4. Work tie

This condition is triggered by reference to a 40-day threshold. For these purposes, a person works in the UK if he does more than three hours' work in the UK. My guess is you may have a tie under this condition.

5. Country tie

I expect you will spend more days in Italy rather than the UK so that you will not have a tie under this criteria.

I estimate you are likely to have three ties. Your position will be determined by reference to the leaver provisions, i.e. those taxpayers who have been UK resident in at least one of the last three tax years. This will mean you would only be able to remain in the UK 45 days.

If you do not have the work tie you would be able to remain up to 90 days. However, in my view the longer an individual such as yourself remains in the UK the more likely it is

that they will breach the work tie. Bearing this in mind, thinking pragmatically provided you do not exceed the 40 work days tie you might spend say 60-75 days in the UK and not be UK resident.

Turning to the specific queries you have raised, I believe I have explained the framework of the SRT and the days you may spend in the UK without becoming UK resident above. With regard to the work tie, which looks at work related activities rather than personal activities e.g. managing your own investment portfolio. Writing a report in the UK, preparing work related emails, etc. would certainly seem to constitute work activities, as would lecturing or indeed preparing the material to be used in a lecture.

After you have become non-resident for three complete tax years you will be treated as an arriver under the connecting ties test. This means you will be able to spend more time in the UK and still qualify to be treated as non-resident. However the interaction between the conditions is complicated since if you spend more than 90 days in the UK in any year, for the subsequent two years this will count as a tie and will reduce the number of days you can spend in the UK for those two subsequent years.

Finally I have not mentioned the tie-breaker provisions of the UK-Italy treaty at this point.

#### Split-year

Turning to your second question the scenario where you would leave the UK in August 2017 to go and live in Italy. Under the SRT if you are resident for any part of the tax year you are treated as resident for the full tax year.

However subject to meeting qualifying conditions the tax year may be split between a UK part and overseas part. This normally will mean that an individual is not chargeable to income tax or capital gains tax in respect of any chargeable non-UK income or capital gains accruing to him in the overseas part of the year.

However on your facts you do not appear to qualify for split year treatment as you do not fall within any of the prescribed cases. In this regard there are only three cases in which an individual who leaves the UK part way through the tax year is entitled to split year treatment.

#### Case 1

Starting FTWA

As explained above you do not qualify under this criteria.

#### Case 2

The partner of someone starting FTWA.

#### Case 3

Ceasing to have a home in the UK.

As you have explained to me that you wish to retain your UK home you will not qualify under this case.

In summary you will not qualify for split year treatment so would be treated as UK resident for the full 2017/18 tax year if you left the UK in August 2017.

Best regards

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