THE CHARTERED INSTITUTE OF TAXATION

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

May 2005

PAPER II

ADVANCED INTERNATIONAL TAXATION

A – UNITED KINGDOM

Answers

Question 1

1)

Branch of UK resident company within scope of UK corporation tax. Subsidiary incorporated abroad not generally within UK tax unless treated as resident by virtue of central management and control. (1)

Subsidiary may be subject to controlled foreign company rules but likely to be able to establish exempt activities exemption if full trading presence including management structure in overseas location. Will not apply if main activity is providing services to other group companies – this would disqualify a distribution company receiving commission payments. (1)

Branch assessable on trading activities under either Case I or Case V Schedule D. Case V only if whole trade carried on abroad which would include the effective management thereof. Losses available against other income if within Case I but only available for carry-forward against profits of same activity if within Case V. (1)

Losses of overseas branch not available for group relief to any other members of the UK group unless there are no provisions for relief in the overseas country. (1)

Double tax relief for overseas branch tax available in UK against UK tax on profits derived from the same activity. If this exceeds the UK tax, the excess may be carried forward indefinitely or carried back up to three years, only against UK tax on profits of the same branch or another branch in the same overseas country. (2)

Unless CFC rules apply, subsidiary profits only taxed in UK on distribution by way of dividend. Relief available for underlying tax and such tax may be mixed with other underlying tax from subsidiaries directly held by UK (subject to an overriding limit of 45% tax rate in the case of any single dividend source). (1)

Disposal of subsidiary would probably be exempt from tax on chargeable gains under substantial shareholder exemption. This would also prevent relief for any loss. A liquidation would be treated as a disposal for this purpose. Disposal of a branch could only be by way of disposal of assets and no chargeable gains exemption would be available. (1)

If losses expected in early years, branch may be preferable with subsequent conversion to subsidiary. Balancing charges would arise on plant and machinery or qualifying buildings but not so as to exceed any capital allowances given. Chargeable gains may be deferred under S 140 TCGA 1992 provided relevant conditions met. Alternatively, gains on qualifying assets may be deferred under the roll-over relief provisions. (2)

Financing subsidiary by way of loan will give rise to interest income in UK. Interest will require to be charged at appropriate arm's length rate. If subsidiary unsuccessful and loan has to be written off, no relief available as connected person under UK loan relationship rules. (1)

Treasury consent issues to be considered. Consent needed for a non-UK company under UK control to create or issue any shares or debentures. Creation covered by general consent as is issue of shares to a UK resident company. A similar general consent exists in relation to debentures. (1)

Foreign exchange. If branch operates in a foreign currency and company uses sterling as its functional currency and prepares its accounts using sterling, all transactions will require to be translated into sterling for UK corporation tax calculations. This may create foreign exchange gains or losses. (1)

Transfer pricing rules will apply to transactions between a UK company and overseas subsidiaries. This requires all transaction to be carried out on an arm's length basis for tax purposes and appropriate documentation to be maintained to show how intra-group pricing has been determined. (1)

Total – 14

2)

Employee's tax residence will determine position. Non-resident if overseas employment covers complete tax year and UK visits less than 91 days average per year over period of overseas employment. (1)

If still resident in UK, taxable in UK and, potentially, overseas. Double tax relief available for overseas tax up to amount of UK tax. If not resident, UK tax only on duties performed in the UK (S27 ITEPA – formerly Sch E Case II). (1)

Even if still within UK tax, travel to and from foreign location at start and end of assignment not a taxable benefit, including family journeys. (1)

PAYE requires to be applied to UK taxable remuneration provided still with UK employer – no PAYE if seconded to overseas employer with no UK presence. If withholding also applies in overseas country, may apply to Inland Revenue for net of tax credit scheme to apply. (1)

If with UK employer, national insurance applies for first 52 weeks of absence from UK. May be extended under totalisation agreement with host country. Alternatively, voluntary contributions (Class 2 or Class 3) may be paid to protect benefits. (2)

Total – 6

3)

Exports of goods are zero-rated provided that certain conditions are satisfied. These include the need to obtain documentary evidence of removal from the UK and, if the goods are being sold to another company within the European Union, that the goods are being obtained by a customer registered for VAT in the European Union and that the customer's VAT number is obtained. (2)

Supplies of international services are outside the scope of VAT if the place of supply is deemed to be outside the UK. Certain supplies are treated as made where the customer receives them. (1)

Supplies to which this relates include the services of consultants, lawyers, accountants and similar services. This would cover the professional in-house teams but it does not extend to general management charges. (2)

Total – 5

Total - 25

Question 2

1)

General principle is that gains on unapproved share options are liable to income tax at the time that the option is exercised under Section 476 ITEPA 2003. (1)

Section 474 ITEPA 2003 exempts employee from that tax on share option gain unless the employee was resident and ordinarily resident in the UK on the date of grant. (1)

The converse of this is that there is a UK tax charge if the employee is non-resident at the time of exercise if he was resident and ordinarily resident at the time of grant. (1)

UK employer at the time of grant will still have a PAYE obligation in respect of the employee. PAYE needs to be accounted for on the gain and the Group will require to ensure arrangements are in place for the employee to make good the PAYE to that employer as a condition of exercising the option. (1)

In Tax Bulletin 55 the Inland Revenue set out its views on the application of double tax conventions to share option gains. If the employee is not resident in the UK at the date of exercise and the option gain is assessable both in the UK and the other country in which the employment has been exercised, the UK will relieve the proportion of the gain, on a time-apportioned basis, relating to the period of exercise of employment in the other country. A change of employer within the same group of companies will be regarded as a continuing employment for this purpose. (2)

Under the Exchange of Notes on the Double Taxation Convention between the UK and the USA, there is a specific provision which applies the principles set out in Tax Bulletin 55. It is specified that the country of non-residence at the date of exercise will tax only the proportion of the gain which relates to the exercise of the employment in that country. (1)

If there is no double taxation convention, unilateral double tax relief will be available if the gain is taxed in both countries. This will be by way of credit relief, limited to the UK tax on the gain, rather than by any reduction in the taxable gain. (1)

Total – 8

2)

General principle is that an ex gratia payment made in connection with the termination of employment will be taxable in the UK to the extent that it exceeds £30,000. (1)

The ex gratia payment is exempt from income tax under Section 413 ITEPA 2003 if any one of three conditions is satisfied:

1. Three-quarters or more of the whole period of service was foreign service.
2. If the period of service exceeded 10 years, the whole of the last 10 years.
3. If the period of service exceeded 20 years, one-half or more of that service including at least 10 of the last 20 years. (3)

Foreign service broadly means service which was not chargeable to tax in the UK (including by reason of the various foreign earnings deduction rules which have existed over the years). (1)

If there has been foreign service but it does not meet these limits, there is an exclusion from the taxable amount of the ex gratia payment by reference to the proportion of the total service represented by the foreign service. (1)

Total – 6

3)

Certain property is excluded property for inheritance tax purposes, ie a transfer of value relating to such property is not taken into account in calculating the tax. Excluded property includes property situated outside the UK if the person beneficially entitled to it is an individual domiciled outside the UK. (1)

Domicile is ordinarily a legal concept but Section 267 IHTA 1984 sets out additional tests of deemed domicile solely for inheritance tax purposes. The first is that an individual remains domiciled in the UK for three years after he would ordinarily cease to have been so domiciled as a matter of law. The second is that he will be treated as domiciled in the UK if he has been resident for at least seventeen of the twenty years of assessment ending in the year in which the transfer of value or other event takes place. (2)

There is an exclusion from the deemed domicile rules for diplomats and members of visiting forces and they may also be superseded by a double taxation convention. (1)

If one spouse is UK domiciled and the other is not, the normal inter-spouse exemption is not available. The total exemption between two such spouses is limited to £55,000. (1)

The close company inheritance tax rules are affected by domicile. In a provision analogous to the excluded property provision, the share of any close company transfer which would be allocated to a non-domiciled individual and relates to assets outside the UK would be ignored and not allocated to the relevant participator. (1)

There are special rules for trust property. Trust property is treated as excluded property if it is situated outside the UK and the settlor was not domiciled in the UK when the settlement was made. (2)

If further assets are added to the settlement after the settlor has become UK domiciled or there is more than one settlor, the settlement property is split into separate settlements to determine what is to be regarded as excluded property. (1)

There are certain gilts which are treated as excluded property. Gilts may be issued subject to such conditions as the Treasury imposes and these conditions generally include an exemption from UK tax if the holder is neither ordinarily resident nor domiciled in the UK. For these purposes the deemed domicile rules do not apply and it is only actual legal domicile which will be considered. (2)

Total – 11

Total – 25

Question 3

1)

Under Section 66 FA 1998 any company incorporated in the UK is automatically tax resident in the UK. (1)

Foreign incorporated company only resident in UK if its central management and control is located in the UK. (1)

This is generally a question of fact, to be established on the basis of the evidence available. (1)

This is based on De Beers Consolidated Mines Ltd v Howe, establishing the principle that a company is resident where its real business is carried on and that is where the central management and control actually abides. (1)

In Calcutta Jute Mills v Nicholson the Court considered central management and control to be situated where the governing body meets to exercise the powers conferred upon it by statute and the Articles of Association. (1)

Central management and control is distinguished from the day-to-day activities of management. In American Thread Company v Joyce the daily business was run from New York but these managers were appointed by a board in the UK. It was the UK board which was answerable to the shareholders and, therefore, where central management and control lay. (1)

It is not enough merely to look at the ostensible actions of the directors, especially of subsidiary companies. In Bullock v Unit Construction Co Ltd, the directors of three Kenyan subsidiaries could only meet outside the UK under the companies' Articles. However, a trading crisis meant that all major decisions were being made by the parent board in the UK with no real participation at the subsidiary level. The subsidiaries were accordingly held resident in the UK. On the other hand, in Untelrab Ltd v McGregor, the court accepted that, although the subsidiary carried out the parent's will, the subsidiary's board would have refused to carry out any proposal that was improper or unreasonable. (2)

Inland Revenue approach is set out in Statement of Practice 1/90. Emphasis is placed on the location of the meetings of the company's board of directors. (1)

However, some companies may not actually be controlled and managed by the whole board of directors. The Inland Revenue note that the chairman or managing director may in practice exercise all the powers with the other directors being mere ciphers and in that case one would look at where that controlling individual exercises his powers. (1)

General approach is to determine whether directors in fact exercise control, then, if so, to determine where they exercise this control (which may not be where they meet) or, if not, to determine by whom and where control is exercised. (2)

There is currently no precedent or practice to take account of modern technology and the possibility of boards meeting internationally by conference calls or video conferencing. (1)

Total – 13

2)

OECD Model convention says that where a person, other than an individual, would be a resident of both states, it shall be treated as a resident only of the state where its "place of effective management" is situated. (1)

UK view is that this is not necessarily the same as the place of central management and control (see Statement of Practice 1/90). (1)

Example which UK gives is company which is run by executives based abroad but with final directing power resting with UK-based non-executive directors. Central management and control would be in UK but place of effective management would be abroad. (1)

Place of effective management is where the head office is, ie where one would expect to find the managing director, finance director, etc. (1)

Total - 4

3)

Section 130 Finance Act 1988 requires company to give certain information to the Inland Revenue before it ceases to be resident in the UK:

1. Notification of its intention including the timing of the cessation of residence.
2. A statement of the amount of tax which is or will be payable in respect of periods beginning before the date of cessation of residence.
3. The particulars of the arrangements which it proposes to make for securing payment of that tax. (2)

This covers all tax payable by the company including PAYE and tax withholdings. (1)

The penalty for non-compliance is capped at the amount of tax which is or will be payable in respect of the periods beginning before the cessation of residence which has not been paid when residence ceases. This may be levied on any company which controls the migrating company or any director of the migrating company or of any company which controls the migrating company. (1)

If any tax is not paid within six months of its due date, this may be recovered from any member of the same group of companies (with group treated as meaning 51% subsidiaries of the mutual parent) or any director of the migrating company or of any company which controls the migrating company. (1)

Section 185 TCGA 1992 provides that, when a company migrates from the UK, it is treated as disposing of all its assets and reacquiring them at market value immediately before the cessation of residence. This ensures that they will be subject to a capital gains charge on the growth in value while resident. (1)

This excludes assets used for the purposes of an ongoing trade carried on through a permanent establishment in the UK as they will remain within the UK tax net. (1)

Relief is available under Section 187 TCGA 1992 where the migrant company is a 75% subsidiary of a UK company. The companies may jointly elect to postpone the gain (worked out as a single figure of total gains less total losses) and bring it into charge on the UK company in respect of any migrant company disposals in the next six years on a proportionate basis. If the subsidiary relationship is broken or the parent also becomes non-resident, the whole of the postponed gain is brought into charge. (1)

Total – 8

Total - 25

Question 4

Step 1

1.	Capital gains:	B Ltd should obtain base cost of €200m in the X SA shares unless value of those shares is lower	(1)
2.	Treasury consent:	Treasury consent needed for issue of shares under s765(1)(c) ICTA 1988	(1)
		General consent for issue of shares to UK resident group company	(1)
		Or s765A ICTA 1988 notification only as issue of shares between companies resident in different EU Member States	(1)
		S765A notification needs to be made within 6 months of transaction	(1)

Step 2

3.	Treasury consent:	Treasury consent needed for issue of debenture	(1)
		General consent not available	(1)
		Or S765A notification as issue of debenture between companies resident in different EU Member States	(1)
4.	CFC for X SA:	Definition of CFC – company resident outside UK, controlled by UK residents and subject to lower level of tax	(1)
		X SA will be a CFC as it is subject to LLT due to utilisation of Bergaman tax losses which would not be available under UK tax principles	(1)
		Motive test may apply to X SA as it was only recently acquired	(1)
		Definition of motive – transaction leg and existence of company leg	(1/2 each total 1)
		X SA will not qualify for motive under "period of grace" as A plc group will have injected funds into company post-acquisition	(1)

Step 3

5.	Treasury consent:	Sale of non-resident company shares needed T consent per s765(1)(d) ICTA 1988	(1)
		S765A notification available if transfer within EC	(1)

Step 4

6.	Treasury consent:	Transfer and issue of shares both subject to T consent in principle (no marks as already given marks for similar step)	
		S765A notification may be available for both	(1)
7.	Capital gains:	Sale of E SL shares is a UK capital gains disposal giving rise to either gain or loss computed as difference between market value (as related party transfer) and base cost indexed for inflation.	(1)

		Gain may be exempt under substantial shareholdings exemption (SSE) if:	
		(i) A plc group is an investing group which requires it to be a trading group	(1)
		(ii) E SL qualifies as a company invested in as it is a trading company	(1)
		(iii) At least 10% of the shares of E SL have been owned by the A plc group for at least 12 months	(1)
		Can approach Revenue under COP 10 to gain guidance/clearance on SSE status of group and investment	(1)
		Gain may instead be exempt under s135 TCGA 1992 as	
		(i) C SL is acquiring at least 25% of E SL	
		(ii) C SL is issuing shares as consideration to B Ltd	
		Provided undertaken for bona fide commercial reasons and not avoidance of tax	(1)
		Inland Revenue clearance available under s138 TCGA 1992 if needed	(1)
		SSE overrides s135	(1)
8.	Stamp duty:	Transfer of E SL shares in principle subject to stamp duty if document of transfer executed in the UK	(1)
		S42 FA 1930 relief available as transfer between related parties (at least 75% relationship) provided claim made	(1)

NOTE 26 MARKS BUT 25 MAXIMUM TO BE GIVEN

Question 5

A)

B Ltd dividend to A Inc.

Article 10(1) of the OECD Model Convention allows A Inc. to tax the dividend (1)

Article 10(2) also allows B Ltd to tax the dividend but restricts the tax to a rate of 10% of the dividend, which is typically withheld at source on payment of a dividend, provided A Inc. is beneficially entitled to the dividend. (1)

Article 23 requires A Inc. to give double tax relief in respect of the dividend paid by B Ltd. (1)

This is given either by requiring A Inc. to exempt the dividend from tax in Avvonia, or instead allowing A Inc. to tax the dividend but give credit for tax paid by B Ltd in the UK. (1)

Under the credit method the tax to be credited includes the withholding tax suffered on the dividend and also underlying tax (tax paid on profits of B Ltd in the UK) but in the latter case only if A Inc. controls at least 10% of the votes of B Ltd. (1)

Under UK domestic law there is no dividend withholding tax and therefore the treaty position is not relevant for B Ltd in respect of tax to be imposed in the UK (1)

B Ltd interest paid to A Inc.

Article 11(1) of the OECD Model Convention allows A Inc. to tax the interest. (1)

Article 11(2) also allows B Ltd to tax the interest but restricts the tax to a rate of 10% of the interest, which is typically withheld at source on payment of the interest, provided A Inc. is beneficially entitled to the interest. (1)

Article 11 only applies to the amount of interest that would have been paid by parties acting at arm's length (those without a 'special relationship'). (1)

Excess interest paid above the arm's length amount is treated as a distribution and any treaty relief granted via the dividend article. (1)

Article 23 requires A Inc. to give double tax relief in respect of the withholding tax suffered in the UK. (1)

Under UK domestic law UK source annual interest is taxed at 20% and is charged via s349 ICTA 1988. This tax is therefore reduced to 10% under the treaty (1)

Annual interest is interest payable on all loans except those that are not capable of exceeding 12 months in duration (1)

There are various criteria surrounding what constitutes 'UK source' derived from UK case law, some of which are country of residence of debtor (eg, UK), place of payment of interest (eg, UK), if debt secured on assets the UK (eg, a mortgage on UK property)
if at least 2 source examples given then (1)

The UK has transfer pricing rules governing transactions between related parties within Schedule 28AA ICTA 1988. (1)

These include financial transactions and apply where there is a participation in management, etc. of one party by the other, or in both parties by a common other person (1)

The effect of the transfer pricing rules on loans since 1 April 2004 has been that any “excessive” interest is denied as a UK deduction but is still treated as an interest payment. (1)

Prior to 1 April 2004 excessive interest was treated as a distribution under s209 ICTA 1988. (1)

Dividend from C SA to B Ltd

As above re C SA can withhold 10% tax and B Ltd can tax under UK rules the dividend income and give credit for tax suffered in country C (1)

In particular, the UK DTR rules allow underlying tax relief where B Ltd controls at least 10% of the votes of C SA and therefore does not provide additional relief for tax paid in country C other than that allowed under the treaty. (1)

However, s801 ICTA 1988 does allow additional ULT to be given for taxes paid by D BV provided C SA controls at least 10% of the votes of D BV. (1)

TOTAL MARKS FOR 5. A) 21

B)

UK treaty claims

The Centre for Non-Residents (“CNR”) deals with double tax treaty claims in respect of UK source interest payments. (1)

It is first necessary for A Inc. to complete a UK Inland Revenue form for the relevant treaty with various details about A Inc. This will need to be signed by a responsible person of A Inc. and certified by the tax authorities of country A that A Inc. is a resident of country A. (1)

When this has been done the signed and certified form is sent to the CNR who process the claim and either agree that A Inc. is entitled to benefit of the treaty (perhaps after asking further questions) or deny the benefits of the treaty. (1)

The Inland Revenue usually use this procedure to initiate a thin capitalisation or transfer pricing claim in relation to the interest received by the claimant which is intended to ensure that the Revenue are happy with the level of interest being paid by B Ltd and therefore the correct amount of tax relief is being claimed in the UK (1)

TOTAL MARKS FOR 5. B) (4)

Question 6

X SA will be a CFC as it is a non-UK resident company that is controlled by UK residents, if it is subject to a lower level of tax (1)

LLT calculation

X SA will be subject to a LLT if the tax it pays in its territory of residence (local tax) is less than 75% of the tax it would have paid had it been UK tax resident (corresponding UK tax) (1)

Corresponding UK tax is the tax the company would have paid had it been UK resident excluding tax on any chargeable gains (1) less any double tax relief the company would be entitled to other than DTR for local tax (1) – total (2)

In computing chargeable profits for this purpose the functional currency that the company prepared its first set of accounts in should be used (€ here) (1)

Chargeable profits should in particular include adjustments needed under UK transfer pricing principles (1)

However, before 1 April 2004, it was not necessary to include an upward transfer pricing adjustment for CFC purposes on a transaction with a UK resident company as it was treated as a "UK to UK" transaction (1)

Computation of chargeable profits (€m)

Y Inc interest income	30	(1/2)
Y Inc forex gain	40	(1/2)
Z BV imputed interest income	10	(1/2)
A Ltd imputed interest income	-	(1/2)
Sale of investment	-	(1/2)
Total chargeable profits	80	
Corresponding UK tax		
UK corporation tax at 30%	24	
Less: wht on Y Inc interest	(3)	(1/2)
Corresponding UK tax	21	
Local tax	5	

As local tax as less than 75% of corresponding UK tax X SA is a CFC for the period. (1)

TOTAL MARKS FOR COMPUTATION (4) SPLIT AS ABOVE

Possible CFC exemptions

Excluded Countries Regs	if resident in a country listed in regs (1) and satisfy income and gains requirement (less than 10% of commercially quantified income is non-local source income) (1) then qualify as exempt (2 total) Not qualify here due to interest income from Y Inc (1)

Exempt activities test	if have business establishment in a territory of residence and are effectively managed from that territory and do not carry on investment business then qualify for EAT (1)
	Certain holding companies qualify for exemption if more than 90% of income = qualifying dividend income or earned from subsidiary resident in same country and received in that country (1)
	Business of holding company = holding shares or securities of controlled trading companies or other holding companies (1)
	As interest income earned from company resident in different country then fail holding company test (1)
ADP	if pay a dividend of at least 90% of net chargeable profits to UK within 18 months of year end then exempt for period (1)
	Net chargeable profits = chargeable profits less tax available for credit as DTR (1)

ADP computation

Chargeable profits as per above	80	
Creditable tax (5 + 3)	(8)	(1)
Net chargeable profits	72	
Dividend paid	60	

As the dividend is less than 90% of the NCP the ADP test is not satisfied (1)

UK tax computation – A Ltd

Share of apportioned profits (55% of 80)		44	
UK tax at 30%		13.2	
Less: share of creditable tax (55% of 8)		(4.4)	
UK tax on apportioned profits	8.8		(1)

UK tax computation – B Ltd

Has a less than 25% interest and therefore no apportionment (1)

UK tax computation – Mr C

Not a UK company and therefore no apportionment (1)

7.

A)

DTR given against UK tax computed by reference to the same income under s790(4) ICTA 1988 (1)

S797 ICTA 1988 restricts DTR to UK tax on the relevant income or gain (1)

and s797(3) allows any deductions that can be set against more than one class of income to be allocated as a taxpayer chooses (1)

uncertainty exists on how to allocate expenses of a trade under s790(4) and s797 as it is not clear if these fall within s797(3) deductions (1)

Method 1 – "gross income"

This method treats the UK measure of income as the gross foreign royalty paid on the basis that this is the income that has suffered foreign tax as per s797(1) (1)

Restriction on relief is therefore 30% of 10 = 3m capped at foreign tax suffered of 2m (1)

Tax on taxable profits

Taxable profits	12m	
UK tax at 30%	3.6m	
Less: DTR	(2m)	
UK tax payable	1.6m	computation (0)

Method 2 – "net income of foreign source"

This method treats the UK measure of profit as the gross royalty paid less an allocated amount of DI expenses (1)

on the basis that this is the most reasonable measure of net profit from the foreign source – as DI is a measure of net profit of a trade then the measure of profit of a foreign royalty must also be a net measure (1)

There are various ways of allocating expenses but the most obvious is to pro-rate UK and non-UK gross income, although another could be just allocating direct expenses (1)

Restriction on relief is therefore foreign income of 10 less 10/30 of total expenses of 18 = 6 (1)

leaving net foreign income of 4 and capped DTR of 30% of 4 = 1.2 (1)

Tax on taxable profits

UK tax payable	3.6m	
Less: DTR	(1.2m) which is lower than 2m	(1)
UK tax payable	2.4m	

Method 3 – "Total DI profit"

This method uses the UK tax on the total DI profit as the restriction (1)

on the basis that the DI profit is the total profit computed for UK tax purposes and cannot be broken down further by looking into each individual part of that profit eg a particular foreign royalty (1)

Restriction is therefore 30% of 12 = 3.6m but capped at 2m wht suffered (1)

UK tax on DI profit	3.6m	
Less: wht	(2m)	
UK tax payable	1.6m	(0 for computation)

15 MARKS TOTAL FOR 7. A)

B)

Compute profits in £ and not € as this is the functional currency of the company (1)

All of the amounts concerned here are within the Schedule DIII computation as they are all amounts arising in relation to non-trading loan relationships (1)

Y Ltd

DIII	**2001 £m**	**2002 £m**	**2003 £m**	
Interest income Z SA	6	9	15	1/2
Fx movements Z SA	2	(5)	3	1/2
Interest income UK	5	8	3	1/2
Interest expense	(10)	(20)	(8)	1/2
Schedule D III income	3	(8)	13	(2) total (per above)
UK tax at 30%	0.9	-	3.9	
Less: DTR*	(0.6)	(0.9)**	(1.5)	
UK tax payable	0.3	-	2.4	

* relief for wht is given on an accruals basis even though interest all paid in 2003 (1)

also give 1 mark for computing the allocated wht correctly (1)

** it is <u>not</u> possible to carry forward/back or otherwise utilise excess wht from 2002. (1)

DV

Dividend ZSA	8		
Add: wht	2		
DV income	10	for gross up computation	(1)
Less: part of DIII deficit	(3.33)	elect to surrender only part of DIII deficit	(1)
Taxable profits	6.67		

UK tax at 30%	2		
Less: DTR	(2)		
Tax to pay	-		

Z Ltd

Profit	10		
Less: group relief	(4.67)		
Taxable profit	5.33		
UK tax at 30%	1.59	for computation	(1)

10 MARKS TOTAL FOR 7. B)