

THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2023

MODULE 3.05 – BANKING OPTION

SUGGESTED SOLUTIONS

PART A

Question 1

Candidates are expected to address the following points and topics:

- Holding companies
- Functional currency
- Rates of exchange
- Accounting for exchange gains
- Principle of hedging
- Designated/non-designated hedges
- Types of hedging
- Accounting treatment of hedging
- Tax treatment of hedging
- Loan relationship rules
- Capital gains/income profits
- Capital losses

Question 2

Candidates are expected to address the following points and topics:

- Regulatory capital
- Relationship between capital and lending
- Tier 1 capital
- Tier 2 capital
- Presentation of answer
- Classification of redeemable preference shares
- Classification of convertible bonds
- Servicing of securities
- Taxation of investors
- Effect of redemption of preference shares
- Tax treatment of hedging
- Additional lending

PART B

Question 3

Candidates are expected to address the following points and topics:

- Loan relationship rules
- Amount of interest deduction
- Situs of interest
- Functional currency
- Attribution of profits to PE
- KERB (Key Entrepreneurial Risk-Taking) analysis
- Obligation to deduct withholding tax
- Quoted Eurobond interest
- Beneficial entitlement to interest
- Application of double taxation agreement

Question 4

Candidates are expected to address the following points and topics:

- Concept of liability driven investment (LDI)
- Defined benefit (DB) pensions schemes
- Reasons for adoption by DB schemes
- Use of derivatives to provide leverage (borrowing)
- Margin payments
- Gilt market
- Government bond yields/prices
- Commercial problems
- UK mini-budget of 23 September 2022
- Bank of England intervention

PART C

Question 5

Candidates are expected to address the following points and topics:

- Meaning of loan note
- Loan relationship rules
- Purpose of a loan note programme
- Parties to loan note programme
- Legal documentation
- Quoted Eurobonds
- Accounting treatment

Question 6

Candidates are expected to address the following points and topics:

- Purpose of capital adequacy rules
- Basel Accords
- Reasons for changing Basel II
- Increase in Tier 1 capital
- Capital buffers
- Role of national regulators
- Methods of increasing regulatory capital

Question 7

Candidates are expected to address the following points and topics:

- Withholding tax on dividends
- Cum div and Ex div
- Double dividend for one distribution of profits
- Manufactured dividends
- Stock lending
- Repayment of tax credits
- Reforms

Question 8

Candidates are expected to address the following points and topics:

- Need to comply with religious principles
- Nature of religious principles
- Prohibition of interest
- Alternatives to interest
- Purchase of private residences
- Validation as Sharia-compliant
- Security of finance provider
- UK tax issues