THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

December 2025

MODULE 1

PRINCIPLES OF INTERNATIONAL TAXATION

TIME ALLOWED – 3¼ HOURS

This exam paper has **two** parts: **Part A** and **Part B**.

You need to answer **four** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **At least two** questions in **Part A** (25 marks each)
- **At least one** question from **Part B** (25 marks each)

You should therefore answer either all three questions in Part A and one question in Part B; or two questions in Part A and two questions in Part B.

Further instructions

- You must use the appropriate currency, unless otherwise stated. Any monetary calculations should be made to the nearest whole unit of currency. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- 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 clarity of presentation of your answers.
- 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 a quarter of your time answering each of your four selected questions.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

PART A

You are required to answer AT LEAST TWO questions from this Part.

1. **You are required to prepare a report that outlines the function of the Principal Purpose Test within the OECD Model Tax Convention 2017 (OECD MTC 2017) or the UN Model Double Taxation Convention 2021 (UN MDTC 2021).**

   Your answer must address either the OECD MTC 2017 or the UN MDTC 2021. (25)

2. **You are required to critically evaluate whether the dominance of model-based drafting results in minimal genuine negotiation and therefore undermines the legitimacy of double tax agreements as agreements between contracting states.**

   Your answer must include appropriate reference to the OECD Model Tax Convention 2017 and/or the United Nations Model Double Taxation Convention 2021. (25)

3. **You are required to prepare a brief for a government department, outlining the main considerations for countries when considering options for nexus tests under double tax agreements.**

   Your brief must include appropriate references to relevant provisions of the OECD Model Tax Convention 2017 and/or the UN Model Double Taxation Convention 2021. (25)

PART B

You are required to answer AT LEAST ONE question from this Part.

4. New Start Up Ltd (NSU) is incorporated and tax resident in Auburnium. NSU manufactures and installs solar panels for the Auburnium market. NSU has won a significant public tender from the government of Bronzia to build a large solar farm in a remote region of Bronzia.

Due to political instability in Auburnium, NSU will set up a new company (NewCo) with minimal share capital in StarCity, a special economic zone in Bronzia. Once incorporated, NewCo will be tax resident in Bronzia.

NSU aims to ring-fence profits from the project and reinvest them in future projects. StarCity is marketed as a financial hub with flexible commercial and banking rules that provide broad contractual freedom to structure investments and financial instruments. However, there are no StarCity-specific tax exemptions. All relevant payments sourced in Bronzia are subject to domestic withholding tax of 20% on both dividends and interest.

NewCo is considering the following options to raise funds to finance the project:

<u>Option A</u>

- On incorporation, NewCo will issue ordinary shares.
- NSU will subscribe for 50% of the ordinary shares; Solar Inc., a third-party business partner, will subscribe for the remaining 50%.
- Under this option, NSU intends that NewCo will pay dividends twice per year, with the first dividend intended to be distributed no later than six months after incorporation.

<u>Option B</u>

- NSU will wholly own NewCo as a 100% shareholding.
- NSU will provide a loan to NewCo at a commercial interest rate.
- NSU will obtain the loan funds from a bank owned by the Auburnium government, under an agreement that will also apply a commercial interest rate.
- No dividend distributions are contemplated under this option.

<u>Option C</u>

NewCo will issue to NSU 100% of its ordinary shares and 100% of its ‘share certificates’. The share certificates will have the following features:

- The certificates will form part of NewCo’s share capital but will carry no voting rights.
- NSU will be entitled to a 5% annual payment on the nominal (par) value of the certificates.
- The 5% payment will rank ahead of any dividends to any other investors.
- No payment will be due in any loss year.
- There will be no right of redemption: NSU will not be able to demand repayment.
- On liquidation, the certificates will rank equally with the ordinary shares.

The Auburnium-Bronzia double tax agreement (DTA) is identical to the OECD Model Tax Convention 2017 (OECD MTC 2017). While both countries’ domestic tax regimes are broadly aligned with the BEPS Actions, NSU has yet to receive any detailed tax advice about the domestic tax impacts of the three proposed options.

For each of the three options, you are required to advise NSU on the likely allocation of taxing rights under the Auburnium-Bronzia DTA, should NSU receive income generated under the arrangements as the beneficial owner. Your report must consider any relevant advantages or disadvantages of NSU selecting each option and must include references to any relevant provisions of the OECD MTC 2017 and BEPS Actions. (25)

5. As an international tax specialist, your advice has been sought on two scenarios.

Scenario A

SeaLine Capers (SC) is a company that is incorporated in Country S. SC operates a freight business, transporting various commodities by sea from Port S in Country S to Port T in Country T. SC schedules routes to Port T and back three times per week, at set times.

SC also provides an onward delivery service to destinations in Country T. While most of SC's Country T customers prefer to take delivery at Port T, SC occasionally delivers, by road, goods already landed at Port T to other locations in Country T.

When SC's Country T customers choose to add onward delivery of their freight to these locations, SC issues separate invoices for the sea carriage and the onward delivery, at the customers' request.

Country S and Country T have a double tax agreement (DTA), which is identical to the UN Model Double Taxation Convention 2021.

Scenario B

Leila is a resident of Country L and works as a pilot on aircraft operated by Air-Float (AF), a company resident in Country N which transports passengers between airports in Country L and Country M. Leila is paid an annual salary of $300,000 by AF.

Countries L, M and N each have DTAs with the others that are identical to the OECD Model Tax Convention 2017.

You are required to write a brief report for each scenario, outlining:

1) **The most likely allocation of taxing rights between Country S and Country T, in relation to any profits generated by SC in Scenario A.** (13)

2) **The most likely allocation of taxing rights between Country L, Country M and Country N, in relation to Leila's income in Scenario B.** (12)

Total (25)