THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2025

MODULE 2.01 – AUSTRALIA OPTION

ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

TIME ALLOWED – 3¼ HOURS

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

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

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 in Australian Dollars, unless otherwise stated. Any monetary calculations should be made to the nearest whole Australian Dollar. 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 half of your time answering Part A, and the other half answering questions in Parts B and C.
- 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 BOTH questions from this Part.

1. Grande Pty Ltd (Grande) is an Australian incorporated company that has been in business for more than five years, specialising in the manufacture of educational toys for Australian children. It is a fully owned subsidiary of Multinational plc, a tax resident of Singapore.

Grande's board of directors has made the decision to change the constituent documents of the company to formally relocate Grande's company headquarters from Sydney to Singapore, in order to gain better access to global markets and take advantage of manufacturing expertise available overseas.

The board is also motivated to complete a country move because, despite the company consistently generating profits of more than $4 million per year for the last five years, it predicts a substantial increase in net operating profits due to a series of groundbreaking interactive game products, created in 2023 and ready to be launched into the global market in 2026. This change in tax residence to a lower tax jurisdiction is financially beneficial, as it is expected to greatly reduce future tax liabilities with a concessional tax rate reduction.

To date the board broadly agrees that the corporate relocation should only necessitate the transfer of management operations to Singapore, as it does not seek a major reorganisation. To achieve this, the board plans to move some daily operational managers to Singapore and add one Singapore-based director to the five-person board, who will chair the meetings remotely via the internet.

For various legal and financial reasons, the planned date for the country move is scheduled for 1 January 2026. Some business operations will remain in Australia with associated companies, although precise details are still being considered.

In the current tax year ending 30 June 2025, the company estimates that it will make a tax loss, for income tax purposes, due to high research and development expenses, for which an incentive tax offset is being claimed. Grande then expects to lodge a small profit for company tax purposes in its final tax return on 31 December 2026, after using carry forward losses.

Grande's board seeks your guidance and advice on moving the company's tax residence as proposed, and the associated company taxation implications of other accounting issues related to the proposed company relocation to Singapore.

You are required to advise Grande's board on the tax issues for the current tax year and the future 2026 tax year. Your advice should comprise the following matters:

1) **What income tax considerations are required for a simple change of company tax residency, in the circumstances outlined?** (10)

2) **Explain the risk of the general anti-avoidance provisions being applied to the relocation, and how Grande's board can obtain greater administrative certainty as to the tax treatment of its proposed arrangements.** (10)

3) **Explain the tax consequences for Grande's business assets, once the company has successfully changed its place of residency.** (5)

You should include relevant tax law provisions and case law in support of your answer, and disregard double tax agreements, the OECD's Multilateral Instrument and transfer pricing provisions.

Total (25)

2. As a 30 year old, single Australian resident taxpayer, Xena is employed on a contract basis within the tourism industry and earns an annual income of $100,000. For 200 days of the 2025 tax year, Xena worked remotely from Norfolk Island (an external territory of Australia) and occupied a house on Christmas Island (also an Australian external territory) as her usual place of residence.

In addition to her employment, Xena wholly owns a rental property in Queensland, Australia, which she rented to her parents for the full tax year at $100 per week less than the comparable market rental rate, generating passive income and creating an overall net rental tax loss. Xena also prepaid $7,000 for property insurance premiums in the current tax year, which are not due until 30 June 2026, on the rental property.

In her spare time, Xena actively participates in the stock market through trading in speculative shares, employing strategies that include short-term trading to enhance her profitable returns. As part of her portfolio management strategy, she also has one long-term holding of investment shares in a listed company, Publico Pty Ltd, which pays franked dividends of $3,000, allowing her to benefit from tax credits associated with these distributions. These long-term shares, purchased fifteen years ago, were sold by Xena at the end of May 2025 for a profit of $8,000.

Xena has recently been informed that, as a discretionary beneficiary of her parents' family trading trust, she will receive a share of net trust income for the current tax year, amounting to a trust payment of $12,000, as well as a separate distribution of $5,000, paid out of trust corpus, due to a deficiency of trust income.

In addition, Xena took out a loss of income insurance contract and wants to claim both the current year's premium of $3,500 (paid on 1 July 2024) and next year's premium of the same amount (payable on 30 June 2025).

To maximise her tax deductions, Xena contributes personal concessional contributions to her superannuation fund and has ensured that her superannuation contribution cap is not exceeded for the current tax year.

Income streams and costs incurred are itemised by Xena for the current tax year as follows:

a) Salary: $100,000 and work related expenses of $3,000;

b) Trust distributions: $12,000 and $5,000;

c) Rental loss: gross rental income of $5,200, less property tax deductions of $10,400 and a prepayment of property insurance of $7,000;

d) Share sales: net profits of $30,000 from the short term sale of speculative shares in the tax year and sale of long-term shares of $10,000, purchased for $2,000 in 2010;

e) Xena has private health insurance and pays a premium of $4,000 per annum on a monthly basis;

f) Superannuation contributions: personal concessional superannuation contributions of $10,000 during the year; and

g) Fully franked dividends from Publico Pty Ltd of $3,000.

In the current financial year, Xena has recognised that her personal tax affairs have become increasingly difficult to work through on her own. Xena seeks your advice to assist in the preparation of her tax return for the current year and advise her on the tax treatment of each class of income.

You are required to advise Xena on her tax liability for the current tax year, specifically in the following areas:

1) Provide a calculation of taxable income claimable by Xena for the current tax year, outlining any assumptions you make in deciding the character or treatment of income or outgoings and including the decision by Xena to charge her parents a rent below market rates. You may present your taxable income calculation in a table format, identifying each item of income and deductible expense. (19)

2) Advise Xena of applicable tax law provisions and rules that determine the tax offsets, including rebates, that she is entitled to claim, based on the information provided. (6)

Total (25)

PART B

You are required to answer ONE question from this Part.

3. Zedco Finance Pty Ltd (Zedco) is a private company resident in Australia. It intends to provide an advance of money to two shareholders, Leeco Pty Ltd (Leeco) and Loco Pty Ltd (Loco), prior to the conclusion of the current tax year.

Zedco currently possesses a distributable surplus over net profits of $20,000 in the current year, but needs to raise additional finance to fund payments of $40,000 to each of its two shareholders. A third-party private company financier, Lendco Pty Ltd (Lendco), is prepared to lend the necessary $60,000 required by Zedco, provided the loan is formally guaranteed.

The chief financial officer (CFO) of Zedco has formulated a plan, in collaboration with an associated private company, Yanco Trading Pty Ltd (Yanco), a resident in Australia in the same group. Under the plan, Yanco will offer a guarantee for the loan amount by putting its operating assets up as collateral and, in case of a default, Lendco will have the right to liquidate these operating assets. An alternative is to borrow from an external bank, although this is not presently part of the planned approach.

Lendco sees no need to enter into any written loan agreement with Zedco. Lendco sets no benchmark rate of interest and there is no undertaking to repay any part of the loan amount. Zedco plans to forgive the shareholders the debts.

You are required to advise the CFO of Zedco on whether the Australian Tax Office will have any concerns with the proposed financial arrangements, and how the payments to shareholders will be treated for tax purposes.

1) **Describe how the nature of payments made to the two shareholders of Zedco, Leeco and Loco, and how are they treated for tax purposes.** (10)

2) **How would the tax risk outcomes differ if the intercompany loans were made legally binding?** (5)

3) **To what extent would the tax risk outcomes differ if the external lender was a bank rather than the private company financier Lendco.** (5)

Total (20)

4. Veda, a travelling salesperson, was given a loan of $35,000 on 1 April 2025 by her employer, Oralie Pty Ltd (Oralie), to purchase a car for work purposes. Oralie also provided Veda with a car allowance of $5,000 for the income tax year ending 30 June 2025.

In the quarterly Fringe Benefits Tax (FBT) period of 1 April 2025 to 30 June 2025, Veda estimated that 80% of her total car usage was for business purposes. Veda has not maintained adequate travel diaries to support this estimate, although she does have some client account details that record the addresses of business locations visited and the dates of her work trips. Veda pays a modest rate of interest on her loan, which is below market bank rates.

Ramesh is another Oralie employee. He is a trainee in Oralie's Australian administration office in Melbourne, but is ordinarily located elsewhere in Australia, in Perth. Ramesh has held a temporary working visa under Australian immigration laws for the past two years. Ramesh has spent twelve weeks in the Melbourne office on a training course, teaching staff how to operate a newly acquired operating system which uses artificial intelligence to simplify sales data and accounting records. During this time Ramesh was paid a living away from home allowance, and also received $9,000 in foreign sourced dividends from Ora Ltd, Oralie's United Kingdom parent company.

You are required to;

1) **Advise on the tax provisions applying to Veda's car allowance and the loan provided by Oralie to purchase the car, including applicable record keeping requirements.** (12)

2) **Advise Oralie on the tax treatment of the living away from home allowance paid to Ramesh as well as his foreign source dividends, disregarding any double tax agreements.** (8)

Total (20)

PART C

You are required to answer TWO questions from this Part.

5. Tatrum Pty Ltd (Tatrum) manufactures and sells car navigation system software and is registered for Goods and Services Tax (GST). The Ausco Family Trust owns 70% of the shares in Tatrum and has a trustee who is a resident of Australia. During the same applicable 2025 tax year, Tatrum and the Ausco Family Trust engaged in the following transactions:

   a) Tantrum sold products totalling $500,000, with purchases of $100,000.

   b) The Ausco Family Trust rented out half its commercial property warehouse to Tatrum for $60,000 (exclusive of GST) for a period of one quarter, and rented the other half of the warehouse property to an unrelated third party for $90,000

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   c) The Ausco Family Trust purchased office equipment for $40,000 (exclusive of GST) for administrative purposes.

   You are required to advise both Tatrum and the Ausco Family Trust, by explaining their GST responsibilities relating to their respective business activities, carried on in Australia. You should explain:

   1) The GST registration requirements for Tatrum and the Ausco Family Trust, and whether they can report GST together. (5)

   2) The process by which GST should be accounted for in transactions and calculated, involving both Tatrum and the Ausco Family Trust, and the implications of GST for trusts. (10)

   Total (15)

6. JayKo Pty Ltd (JayKo), an Australian resident taxpayer, is a fully owned and controlled subsidiary of the Jointco Pte Ltd multinational group (Jointco), headquartered in Singapore. JayKo obtained loan funding of $1 million from its parent on 1 July 2024, to buy machinery for its printing business.

   JayKo has existing debts owed to Jointco, all at commercial interest rates, for business acquisitions in earlier tax years. While JayKo will record a profit of $150,000, it also has prior year tax losses of $200,000, in the tax year ending 30 June 2025.

   As an international tax adviser, you have been engaged to provide advice to JayKo's tax director concerning any applicable tax rules that might affect its claims for full interest deductions on its accounting debt, which consists solely of parent company loans.

   You are required to provide key points on the operation of applicable tax rules around debt that might affect JayKo's allowable interest expense deductions for the year ending 30 June 2025, and advise on the optimal approach. You should disregard double tax agreements and transfer pricing provisions. (15)

7. Mediclear Pty Ltd is a provider of prosthetic services to hospitals, in partnership with its sole director, Eddie and his wife, Rose.

   The partnership also conducted a small horse breeding business which has made assessable income of $60,000 and deductions of $72,000, leaving a taxable loss of $12,000, for the year ending 30 June 2025. The prosthetic services business has achieved a taxable income of $180,000 in the same tax year.

   You are required to advise the partnership of the tax law treatment of the business activity loss, and whether it is available for the partners to claim in the tax year ended 30 June 2025. (15)

8. Mineco Ltd (Mineco) is the head company of a multiple entry consolidated (MEC) group which was formed with two tier-1 companies and has been accepted for Australian tax purposes. The MEC group tier 1 companies are part of a foreign-owned multinational. Mineco has both wholly owned Australian resident and foreign resident subsidiaries.

On 1 July 2020, Mineco acquired a parcel of coastal land in New South Wales, Australia, from a resident third party entity, through one of its wholly owned Australian resident subsidiaries, Minework Pty Ltd (Minework). The intention was to build a shopping centre on the land.

Minework subsequently had difficulties raising sufficient finance for the shopping centre development, due to a downturn in the financial markets and resulting lack of assets to raise the necessary funds. Minework transferred the complete parcel of land to one of its parent companies Developco Inc. (Developco), in the tax year ending 1 January 2024 for market value and at a profit. Then, in the applicable tax year on 1 May 2025, Developco transferred the land to a different resident company member of the MEC group.

Minework made a large capital gain on the initial intra-group sale and the transfer. Mineco seeks to claim rollover relief on both sales of the same parcel of land.

You are required to advise Mineco and its subsidiaries on the Capital Gains Tax (CGT) implications of this activity, including whether CGT is declared on the two sales of the land or whether either transaction qualifies for rollover relief. (15)