

**UNIVERSITY OF SYDNEY
FACULTY OF LAW**

**MASTER OF LAWS
MASTER OF TAXATION**

COMPARATIVE CORPORATE TAXATION (INTENSIVE)

EXAMINATION 2003 SEMESTER 1

READING TIME: 20 MINUTES

If you submit a 1/3 essay you must answer two of the following three exam questions (you can choose whichever questions you like). If you submit a 2/3 essay you must answer only one of the following three exam questions (you can choose whichever question you like). Each exam answer will form 1/3 of your assessment.

WRITING TIME: If you are answering TWO QUESTIONS you have 2 HOURS, if you are answering ONE QUESTION you have 1 HOUR

OPEN BOOK EXAMINATION: Candidates may take into the examination room any materials except University of Sydney library books.

QUESTION 1 (1/3 of your assessment)

Compare the tax treatment of dividends, share buy-backs and liquidation distributions under the income tax laws of **THREE** of the following countries: Australia, Germany, the UK and the US. Are these different types of distributions treated consistently? Should they be? Provide reasons for the position you take.

QUESTION 2 (1/3 of your assessment)

Decades ago Dipsy and LaLa Tubby founded a small resident media corporation, Tele Co. After years of success Dipsy and LaLa sold 81% of the shares in Tele to a large resident media corporation, Big Brother Co, which is listed on the stock exchange. Tele is profitable but most of its profits are derived from foreign sources. Big Brother is going through difficult times and reporting losses.

Big Brother has retained profits but these are tied up in long-term investments and it has no ready cash to distribute. It feels it needs to distribute dividends during the current year in order to maintain a healthy return on its shares and thereby support its share price in the market. To this end it proposes two courses of action. First, through its control of Tele, it will cause Tele to offer its shareholders the choice of receiving a substantial cash dividend or bonus shares. It is confident that Dipsy and LaLa will accept the bonus shares (which will give them a substantial increase in shareholding in Tele) and it will choose to accept the cash dividend. Second, Big Brother intends to borrow funds from a resident bank in order to have a cash supply to distribute as dividends.

Outline the tax consequences of these proposed courses of action under the income tax laws of **THREE** of the following countries: Australia, Germany, the UK and the US. In what way might these actions impact on the use of Big Brother's losses? How would your answer differ in the following circumstances:

- (a) Tele will issue bonus shares to all its shareholders without a cash alternative; **and**
- (b) Instead of borrowing money from the bank, Big Brother will issue the bank with redeemable preference shares under which it agrees to pay dividends each year equal to the bank's current interest rate discounted by two percentage points.

QUESTION 3 (1/3 of your assessment)

Frieda Fox left university five years ago and started a business as a computer software consultant. Last week when she was having a pint of beer at the "Stop and Whistle" pub, a colleague told her "you have to set up your own corporation and provide your services through it, they are the best tax dodge." But Frieda has also heard that corporations are subject to "double taxation".

Frieda sees her tax adviser seeking preliminary advice on the relevant income tax / corporation tax factors that she should take into account in deciding whether to incorporate her business. Write a memorandum comparing how the advice will differ under the income tax laws of **THREE** of the following countries: Australia, Germany, the UK and the US. Would your answer differ if Frieda was not conducting a business but merely holding investments?