



FAKULTÄT FÜR
WIRTSCHAFTSWISSENSCHAFT

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**Exam in „International Taxation“
Winter Term 2011/12**

Course Number 20389
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Instructions: *Your working time takes 60 minutes, where you can reach a maximum of 60 points. Please be aware that the number of points you can receive per question is correlated to the time you need for answering it. The exam consists of 3 parts. All parts have to be answered. You are allowed to use a non-programmable calculator, translation device and the OECD Model Tax Convention.*

Part I (double taxation avoiding mechanism) (21 Points)

A taxpayer realizes a total income (y) of 2,000,000 EUR. This amount is earned from business operations conducted in the country of residence and a foreign country. Total income is earned as follows:

- 1,300,000 EUR in the country of residence,
- 700,000 EUR in the foreign country

The following progressive tax rate is applied in the country of residence. To calculate the tax burden add up the tax payment of the different tax brackets (income y in EUR):

0	<	y	≤	5,000	→	15%
5,000	<	y	≤	7,500	→	25%
7,500	<	y	≤	10,000	→	34%
10,000	<	y	≤	33,500	→	39%
33,500	<	y	≤	1,000,000	→	34%
1,000,000	<	y	≤	1,500,000	→	35%
1,500,000	<	y	≤	1,833,333	→	38%
1,833,333	<	y			→	35%

In the foreign country a flat tax of 40% is applied. Determine the total tax burden provided that:

1. no double taxation mechanisms is applied;
2. the limited credit method is applied;
3. the deduction method is applied.

Part II (OECD Double Tax Convention)

(23 Points)

The German corporation INU-GmbH conducts business activities in country S through a permanent establishment (PE). This PE holds a stake of 100% in corporation E-Inc. also located in S. In 2011, E-Inc. distributes profits of 100,000 EUR to the PE whereas the PE transfers the cash equal profits after taxes to the INU-GmbH immediately. Additionally, INU-GmbH holds a stake of 5% in X-Inc. which is also located in country S. In 2011 INU-GmbH receives dividends to the amount of 75,000 EUR from X-Inc.

In 2011 the INU-GmbH derives taxable income of 150,000 EUR in Germany excluding the profits from PE and X-Inc. and faces a German marginal corporate tax rate of 35%.

Hint: Double taxation is prevented between Germany and country S by applying the OECD Model Tax Convention (MTC) with the highest tax rates allowed by the MTC. Please provide the exact references according to the MTC! (Note: Germany allows a credit for the foreign taxes paid!)

Questions:

1. To which country is the taxing right of the dividends of E-Inc attributed according to the OECD MTC?
2. Determine the withholding tax on the dividends distributed by X-Inc.
3. What is INU-GmbH's tax liability in Germany in 2011 if the income derived by the PE is tax exempt in Germany?

Part III (International Tax Planning)

(16 Points)

Hint: Please use the template provided on p. 3. Don't forget to note your name and student number on p. 3.

Mr. Bond is the sole shareholder of the Britain Secure Corp. Secure Corp. holds stakes of 100% in permanent establishments (PE) located in country A and in country B. The expected cash equal profits of the three companies for the financial years 1 to 4 are presented in the following table:

t	1	2	3	4
PE-A	40	70	100	30
PE-B	60	20	30	200
Secure Corp.	100	50	20	250

The marginal tax rate is 50% in country A and 20% in country B. The Britain Secure Corp. faces a marginal tax rate of 35%. Assume that free cash flow is always reinvested in fixed assets; therefore no interest income is earned neither on the level of the branches nor in the British head office.

Calculate the worldwide tax burden by applying the credit method for foreign taxes and taking overall limitation into account. (Note: Not creditable FTCs can be carried back 1 year and carried forward 10 years!)

name:

student number:

t	1	2	3	4
country A				
profit				
taxes				
country B				
profit				
taxes				
Great Britain (GB)				
profit (GB)				
total profit (GB+A+B)				
taxes on world income				
foreign taxes				
british taxes on foreign income				
foreign tax credit (FTC)				
additional tax credit in t				
not creditable in t				
tax credit carry forward				
tax credit carry back				
credit from carry forward				
credit from carry back				
total FTC				
tax liability in GB				
worldwide tax burden				