Assume today's date is 29 October 2026.

HMRC is investigating Alex's PAYE Income Tax and NIC position in relation to payments made to him by Rain Ltd from 2016/17 to 2023/24 during which period he was an employee of the company. Rain Ltd ceased trading on 31 March 2024 because it became insolvent.

Alex has always been UK resident and has never worked outside of the UK.

Alex has retained bank statements and some invoices, but does not have complete records for all the expenses he incurred.

Partner's concern

Alex's tax partner has sent him an email containing the following comment.

> "I am very concerned that before proceeding, we need to gather further information as well as evaluate the reliability of the information already given. So far Alex has been difficult to elicit information from. This may just be because he has not engaged an adviser before and is not very familiar with tax compliance. I hope that after our first meeting he has realised the importance of providing us with the information requested and either brings relevant paperwork to future meetings or provides copies promptly thereafter."

Alex's employment status

A junior member of staff prepared the following note after researching Alex's employment status in relation to his employment by Rain Ltd.

> "I have reviewed Alex's employment status during the period he worked through Rain Ltd.
>
> Based on my research, I believe Alex was self-employed rather than employed. Alex worked as an IT contractor and carried out assignments for a range of end clients over a number of years. Newspaper reports about the contractor market and umbrella companies indicate that contractors are typically self-employed and operate independently from the businesses for which they perform work. This suggests that Alex should be regarded as self-employed for tax purposes.
>
> I also used generative AI to research the issue. The AI explained that employees generally work for a single employer, whereas self-employed individuals often perform work for a variety of customers. As Alex worked on different projects and at different locations during the period, this appears more consistent with self-employment.
>
> The AI also suggested that self-employed individuals generally have specialist skills and a greater degree of independence than employees. Alex worked in a highly specialised area of information technology and therefore appears to have been providing his expertise on a consultancy basis rather than acting as an employee.
>
> Further support for self-employment can be found from the fact that Alex incurred travel and training expenses. Employees are not usually able to claim tax relief for these costs, whereas self-employed individuals can often deduct business expenses when calculating their taxable profits. The fact that Rain Ltd treated many of Alex's expenses as deductible therefore indicates that he was probably operating as a self-employed contractor.

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In addition, Rain Ltd sat between Alex and the end clients. This suggests that Rain Ltd merely acted as an intermediary or payment company rather than a genuine employer. As Alex was effectively providing services to the end clients, it seems likely that the contractual arrangements do not reflect the true position.

Overall, I conclude that Alex should be regarded as self-employed rather than employed. This means that PAYE should not have applied and HMRC's current enquiry may therefore be based on an incorrect understanding of Alex's status. As both the newspaper article and AI reached broadly similar conclusions, I am reasonably confident that this analysis is correct."

Requirements

1. Explain, from a UK perspective:

   - what HMRC means when it refers to the terms "tax planning", "tax avoidance" and "tax evasion"; and
   - how the courts determine whether arrangements constitute legitimate tax planning or unacceptable tax avoidance.

   Your answer should be structured as a reasoned discussion. You should refer to the Ramsay principle and other relevant authorities where appropriate You may use examples from any area of UK tax law to illustrate your answer.

   (45 minutes)

2. In relation to the so-called reimbursement of Alex's expenses by Rain Ltd:

   - briefly explain why HMRC will consider Rain Ltd's operation of the PAYE regime in relation to the expenses incurred by Alex as being non-compliant;
   - whether HMRC is able to recover the underpaid Income Tax direct from Alex; and
   - the options available to Alex for resolving the dispute, including any appeal or alternative dispute resolution routes. State any further information or clarifying information you require from Alex.

   For the purposes of this requirement, you should assume Alex was an employee of Rain Ltd.

   (60 minutes)

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3. Critically evaluate the research undertaken by the junior member of staff into Alex's employment status at Rain Ltd. You should identify any weaknesses in the sources used, additional sources that should have been consulted and any limitations in the conclusions reached.

(22 minutes)

4. Explain whether and if so how Alex could claim tax relief for the IT equipment purchased and paid for by him assuming it was used in the course of his employment with Z plc.

(23 minutes)

Total 150 minutes

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