The Chartered Institute of Taxation

Advanced Technical Human Capital Taxes

May 2026

Suggested answers

<u>Answer 1</u>

<u>Requirement 1</u>

As Jeff:

- Is Non-UK domiciled
- Has claimed the remittance basis in 2023/24 and 2024/25
- Was Non-UK tax resident in the three tax years prior to 2023/24

he was entitled to Overseas Workday Relief (OWR) on assignment earnings arising from his overseas work in 2023/24 and 2024/25. This relief applies to earnings paid to a non-UK (e.g. Jersey) bank account and retained outside the UK.

From 2025/26, the remittance basis of taxation was abolished. However, Jeff is a qualifying new resident for 2025/26 as he was:

- UK resident in the 2023/24 UK tax year
- Non-UK resident for the 10 tax years prior to 2023/24 UK tax year

Jeff will remain a qualifying new resident for the first four tax years from 2023/24, i.e., until the end of 2026/27. Therefore, he can continue to claim OWR on non-UK sourced earnings during 2025/26 and 2026/27 by making an election and claim for his foreign employment income to be exempted under the Foreign Income and Gains regime each relevant tax year. The deadline for making an election is the anniversary of 31 January following the relevant tax year, ie 31 January 2028 for 2025/26.

From 2025/26, OWR will be limited to the lower of 30% of qualifying employment income or £300,000. However, under transitional arrangements, Jeff will not be subject to these limits.

From 2025/26, there is no longer a requirement to have earnings paid into a non-UK bank account. However, for earnings relating to a period before 2025/26 (e.g., part of the bonus), OWR will only apply if paid to a non-UK bank account.

Calculation of OWR is a personal tax matter and can be claimed through self-assessment, but Pink Ltd can support Jeff by making a s690D notification to HMRC. Once acknowledged by HMRC, PAYE does not need to be operated on the notified percentage of earnings attributable to overseas workdays. This would cover the salary payments for 2026/27 to aid with cash flow, potentially providing relief on 40% of salary (£200,000 for the full year). This can be revoked if HMRC gives direction under s690E, ITEPA 2003, or if Pink Ltd submits another application. Jeff would still need to submit a self-assessment tax return to ensure any difference between the reduced PAYE and actual tax due is reconciled.

Regarding the bonus payment, the tax point will be in 2026/27. However, as the payment relates performance in previous tax years, the sourcing of the payment needs to be considered for each tax year:

- 2023/24 – 2 months worked wholly in the UK, 1 month on a 60/40 UK/Overseas split. Therefore, a reasonable apportionment would be 13% with respect to overseas work 0.4 months/3 months = 13%
- 2024/25 and 2025/26 – given there was an expectation to continue the 60/40 arrangement throughout, 40% is a reasonable apportionment

With respect to 2023/24 and 2024/25 non PAYE income can be estimated without a formal notification from HMRC under s690C, ITEPA 2003, as:

- It relates earnings arising before 2025/26
- It is reasonable for Pink Ltd to assume Jeff was eligible for OWR in 2023/24 and 2024/25 and that he claimed the remittance basis in those tax years.

For 2025/26, as no notification was made, no relief from PAYE will be available on earnings arising for this tax year, albeit Jeff may still be able to claim relief via Self Assessment..

A reasonable approach to non-PAYE income is therefore:

Tax year	Months in performance period	Apportionment	Overseas percentage	Overseas earnings
2023/24	3	£87,500	13%	£11,375
2024/25	12	£350,000	40%	£140,000

<u>Requirement 2</u>

Social security

Under the UK/US reciprocal agreement, Jeff should remain subject to social security in the US and not National Insurance during his assignment.

The extension to four years is allowable under the agreement. Pink Ltd should arrange for a Certificate of Continuing Liability from the US authorities to cover the updated period of assignment.

Class 1 NIC should then be recovered via payroll adjustments, which will sit as a credit against Pink Ltd's overall PAYE and NIC liability. The Primary Class 1 NIC deducted should be repaid to Jeff, but Pink Inc will need to consider their obligations in the US and what social security payments are due as part of any reconciliation.

Visa

As no specific exemption exists and the visa renewal is not an incidental cost of travel that would otherwise be exempt or deductible, the general rule for deductions requires an expense to be incurred wholly, exclusively and necessarily in the performance of the duties of the employment. As the cost was incurred to put Jeff in a position to perform his duties and not in the performance of such duties, the general rule will not apply.

The benefit will need to be reported on Jeff's form P11D for 2025/26, due by 6 July 2026. Jeff will be subject to tax on the taxable value at his marginal rate of tax. However no Class 1A NIC will be due given position outlined earlier.

MARKING GUIDE

TOPIC	**MARKS**
Requirement 1	
Outline requirements for entitlement to OWR for 2023/24 and 2024/25 and whether Jeff is entitled to OWR	1
Outline requirements for being a qualifying new resident for 2025/26 onwards and for what tax years are relevant for Jeff.	1
Outline FEI election process and deadlines	1
Limits on relief will apply, but Jeff will not be caught by limits due to transitional arrangements	1
Relief on earnings arising prior to 2025/26 retain the requirement to have them paid to a non-UK bank account	0.5
Bonus taxable on Jeff in 2026/27, but sourced between 2023/24 to 2025/26 tax years	0.5
s690D relief not available for bonus arising in 2025/26 as no notification given. Tax relief still be potentially available via self-assessment however	1
s690D relief will be available for salary payments in 2026/27 should notification be given, including percentage and amount	1
s690C relief for bonus arising in 2023/24 and 2024/25 can be provided without directive from HMRC with reason	1
Reasonable apportionments as below for bonus. Marks also available if candidate suggest another method of reasonable apportionment	
£87,500 relates to 2023/24 with £11,375 relating to overseas work	1
£350,000 relates to 2024/25 with £140,000 relating to overseas work	1
Requirement 2	
Social security	
Jeff should not have been subject to NIC under the UK/US agreement, including with respect to the extension	1
A certificate of continuing liability should be applied for from the US authorities	0.5
Pink Ltd should recover overpayment of Class 1 NIC via adjustments to the payroll	1
Separate advice may be necessary with respect to the social security obligations in the US	0.5
Visa	
No specific exemption and not connected with travel	0.5
Outline general rule for deductions	0.5
Apply to visa cost	0.5
Reportable on P11D, taxable on Jeff but will not be subject to Class 1A NIC	0.5
TOTAL	**15**

Answer 2

Option grant

The grant of the share option to Alinta had no employment income tax or NICs implications. However, the EBT set aside the shares required to exercise the option. This constituted earmarking of the shares, which normally generates a charge to income tax and Class 1 NICs, under the disguised remuneration regime, on the market value of the shares. However, there is a specific exclusion where shares in an employer company are earmarked to satisfy a share option that is only exercisable on conditions being met within 10 years.

Acquisition of shares

The acquisition of Jedda Ltd shares under the option generated a charge to income tax under Chapter 5 of the employment-related securities regime. The chargeable amount was the market value of the shares less the price paid (£nil). The market value was the restricted, not unrestricted, market value of the shares, because the election under ITEPA 2003 s.431(1) was made more than 14 days after Alinta's acquisition of the shares and, accordingly, was invalid. Therefore, the amount that counted as employment income was their restricted market value (£45,000). However, the taxable amount was reduced, under the internationally mobile employee provisions in ITEPA 2003, Pt 2, Ch 5B ("IMEP"), to reflect Alinta's non-UK residence over the relevant period from option grant (6 April 2020) to vesting (5 April 2022). As such, subject to just and reasonable override, the proportion of the income gain relating to overseas workdays in her second year is unchargeable foreign securities income and is not subject to UK income tax.

The £45,000 is subject to Class 1 NICs, as the put option amounts to trading arrangements, making the shares readily convertible assets. However, during her secondment to Germany Alinta would have been treated as a multi-state worker under Article SSC12(1)(a) Social Security Protocol, and because she is habitually resident in Germany and pursuing a substantial part of her employment there, would only pay social security there (provided the German authorities so determine, as to which Jedda Ltd or Alinta can request a certificate of coverage. Consequently, UK NIC is only payable in respect of the 50% of the employment income which does not relate to her time in Germany. Article SSC11 did not apply, because Jedda Ltd seconded Alinta to its German subsidiary to replace the current secondee.

Sale of shares

Alinta sold the shares to Jedda Inc under her put option for £100,000, when their unrestricted market value ("UMV") was £80,000. This sale generated an amount counting as employment income under the restricted securities regime equal to the UMV of the shares, multiplied by the initial untaxed percentage ("IUP"). The IUP is the percentage of the initial unrestricted market value of £50,000 that was not taxed or paid, that is 10%. The amount counting as employment income was also liable to Class 1 NICs. Subject to just and reasonable override, the relevant period for the purposes of the IMEP was the period from share acquisition (1 June 2022) to chargeable event (1 June 2025), during which Alinta was UK resident. Accordingly, the chargeable amount was not reduced.

A further amount (£20,000) counted as employment income under the "disposal for more than market value" regime, because Alinta's put option enabled her to sell the shares above their market value. That amount was also liable to Class 1 NICs. Subject to just and reasonable override, the IMEP performance period was the tax year (2025/26) in which the chargeable event occurred. Alinta was UK resident for that tax year and, accordingly, the chargeable amount was not reduced.

Computations

<u>Acquisition of shares</u>

Amount counting as employment income		£45,000
Deduct: amount attributable to German workdays	£45,000 x 207/460 workdays	-£20,250
Amount chargeable to income tax		**£24,750**
Pre-disregard earnings for Class 1 NICs		£45,000
Disregard: amount attributable to German social security period	£45,000 x 365/730 days	-£22,500
Earnings for Class 1 NICs		**£22,500**

<u>Sale of shares</u>

IUP	£5,000/£50,000	10%
Amount counting as employment income for income tax and Class 1 NICs under restricted securities regime	£80,000 x 10%	£8,000
Amount so counting under disposal for more than market value regime	£100,000 - £80,000	£20,000
Amount chargeable to income tax and Class 1 NICs		**£28,000**

Employer's obligations

<u>Share option</u>

Unless already registered, Jedda Ltd had to register an online ERS scheme with HMRC. It was then required to file electronically, on or before 6 July in the following tax year, an ERS annual return containing prescribed information about the share option grant.

<u>Acquisition and sale of shares and grant of put option</u>

On or before (i) Alinta's acquisition of the Jedda Ltd shares, and (ii) the sale of those shares (or as soon as reasonably practical after that event and not later than 14 days after the end of the following tax month), Jedda Ltd was required to file an FPS containing prescribed information about the acquisition or sale, including the amount which, on the basis of the best estimate that could reasonably be made, was likely to be chargeable to income tax on the acquisition or sale.

Jedda Ltd was required to deduct income tax and employee Class 1 NICs on the share acquisition and sale from actual payments of PAYE income to Alinta in the remainder of the same tax month, disregarding the usual 50% limit on deductions.

If the amounts so deducted were less than income tax on the reasonable best estimate of the chargeable amount and NICs on the chargeable amount, Jedda Ltd was required to account to HMRC for the balance. If paid electronically, this amount was required to be paid within 17 days after the end of the relevant tax month.

Jedda Ltd was required to account for employer Class 1 NICs on the amounts chargeable on the share acquisition and sale.

Jedda Ltd was required to file electronically, on or before 6 July in the following tax year, an ERS annual return containing prescribed information about the acquisition of the Jedda Ltd shares by Alinta, the grant of the put option and the sale of the shares.

Jedda Ltd should have sought reimbursement from Alinta of the amount of income tax paid under PAYE on the acquisition and sale of the shares. If Alinta did not make good that amount by 4 July in the next tax year, that amount would have been treated as earnings from Alinta's employment (s.222 ITEPA 2003) and would have been reportable as a P11D benefit. Furthermore, Jedda Ltd would have been liable to account for primary and secondary Class 1 NICs on the section 222 amount.

MARKING GUIDE

TOPIC	MARKS
Part 1 – Liability of transactions to Income Tax and NICs	
No tax on grant of share option over Jedda Ltd shares	0.5
No earmarking charge on EBT earmarking of Jedda Ltd option shares	1.0
Shares charged on restricted market value, as s.431 ITEPA 2003 election invalid	1.0
Reduction in charge due to non-UK residence in second year of the option	1.0
Acquisition of Jedda Ltd shares chargeable to Class 1 NICs, as they are RCAs	1.0
Liability to NICs reduced by year in which German social security applies	1.0
Restricted securities charge on sale of Jedda Ltd shares on UMV x IUP	1.0
No reduction in chargeable amount under internationally mobile employee provisions, with reason	0.5
Disposal for more than market value charge on sale of Jedda Ltd shares	1.0
No reduction in chargeable amount under internationally mobile employee provisions, with reason	0.5
Sub-total	**8.5**
Part 2 – Computations	
Amount chargeable to income tax on acquisition of Jedda Ltd shares	1.0
Amount chargeable to NICs on acquisition of Jedda Ltd shares	1.0
Taxable amount for income tax/NICs per restricted securities regime on share sale	1.0
Taxable amount for income tax/NICs per sale at overvalue regime on share sale	1.0
Sub-total	**4.0**
Part 3 – Employer compliance	
ERS annual return re grant of share option	0.5
File an FPS for acquisition and sale of shares, with best estimate of PAYE tax	1.0
Deduct income tax/NICs from cash payments to Alinta in same tax month	1.0
Jedda Ltd to account for balance on reasonable best estimate of chargeable amount	1.5
Jedda Ltd to account for employer NICs on chargeable amount	1.0
ERS annual return re acquisition and sale of shares and grant of put option	1.0
Alinta to make good PAYE payments, or s.222 income tax/NICs liability	1.5
Sub-total	**7.5**
TOTAL	**20**

Answer 3

In the absence of any specific reliefs, the NIC treatment of the taxable benefits provided to employees will depend on which party contracts for them. Where the contract for provision of the benefit is held by the employer, the benefit will be subject to Class 1A NIC whereas for benefits contracted by the employee will be subject to Class 1 NIC as the employer is deemed to be settling the employee's 'pecuniary liability'.

As category A individuals are seconded abroad for less than 24 months, they should remain within the scope of UK NIC under the UK/EU agreement. Category B individuals are seconded for more than 24 months and work wholly in the UK so should not meet the posted worker or multistate conditions and should be subject to NIC throughout their secondment.

Temporary Workplace Relief (S339 ITEPA 2003)

A workplace is temporary if an employee attends it for the purpose of performing a task of limited duration or for a temporary purpose and does not exceed or be expected to exceed 24 months. Travel and subsistence costs related to the attendance at a temporary workplace are exempt from UK tax and NIC.

Category A secondees should meet the conditions of S339 and as such, the accommodation costs and travel/subsistence expenses for individuals travelling unaccompanied are exempt from UK tax, NIC and reporting.

Only the costs relating to the employee are exempt and amounts relating to the employee's family are not eligible for relief. HMRC have not provided precise guidance on how to determine the portion of costs that relate to spouse/family. However a marginal cost basis is acceptable and therefore a reasonable basis would be to allocate the additional cost incurred by accompanied individuals in comparison with those who are unaccompanied i.e. £3,000 - £2,000 = £1,000.

This amount is subject to tax however the partial exemption only applies to tax and the full £3,000 is subject to Class 1A NIC.

Similarly, amounts relating to the family's travel and subsistence are not eligible for this relief and a reasonably apportioned amount is subject to Class 1 NIC where contracted by the employee. Itemised costs such as flights can be allocated between the employee and their family members and therefore the exact amount relating to the employee can be excluded. The amounts relating to the family may however be excludable under the following.

Travel Costs for Family Visits (S371 ITEPA 2003)

S371 ITEPA 2003 provides an exemption for travel costs of visiting family if the following conditions are met:

- The employee's earnings from the employment are taxable under S15 ITEPA 2003 i.e., the employee is UK tax resident.
- The travel cost of the employee's family (spouse, civil partner or minor child*) is borne by the employer.
- The employee is absent from the UK for a continuous period of at least 60 days for the purpose of performing the employment duties.
- The journey is between a place in the UK and a place outside the UK where the employment duties are performed.
- The employee's family is either:
    - accompanying the employee at the beginning of the period;
    - visiting the employee during the period;
    - returning to the UK after accompanying or visiting the employee.

*A minor child is one who is under 18 at the start of the outward journey.

Relief for travel only is available for up to two outward journeys and two inward journeys by each family member in the tax year. Accompanied employees in category A should be eligible for this relief however it will be limited if they exceed two return trips per year which is available under the company policy.

Inbound Travel (S373-374 ITEPA 2003)

Category B individuals are seconded to the UK for more than 24 months and therefore not eligible for relief under S339. Relief for employee travel is available under S373 ITEPA 2003 if the following conditions are met:

- The employee is UK non-resident or a 'qualifying new resident' (an individual who has not been UK tax resident for the previous 10 years is a qualifying new resident for their first four years of UK residence).
- The employee has earnings relating to UK duties taxed on a receipts basis and the employer bears the costs of the travel.
- The employee is travelling from their home country to the UK to carry out their employment duties, or returning to their home country after completion of the duties.

Relief is available for 5 years from the 'qualifying date' on which they arrive in the UK and either:

- The employee has not visited the UK for any purpose during the two years prior to their arrival; or
- The employee was not UK tax resident in either of the two tax years prior to their arrival.

As the employees are seconded to the UK for 36 months, the above relief should be available for this entire period provided they have not previously been seconded to the UK and been UK tax resident which may invalidate the conditions above.

Travel costs include immigration/visa costs and these should therefore also be exempt.

Relief for the employee's family may also be available under S374 if, in addition to the above, the employee also works in the UK for 60 or more continuous days.

MARKING GUIDE

TOPIC	MARKS
Outbound employees subject to NIC as assignment less than 24 months	0.5
Inbound assignees subject to UK NIC as assignment longer than 24 months and not multistate workers	1.0
Benefits contracted by the employer subject to tax and Class 1A NIC	0.5
Settlement of pecuniary liability subject to tax and Class 1 NIC	0.5
Definition of temporary workplace	1.0
Conclude that category A individuals meet conditions of S339	0.5
All costs for unaccompanied individuals are exempt	0.5
Costs relating to family members of accompanied employees are not exempt	0.5
Reasonable apportionment for accommodation excess	0.5
Full amount still subject to Class 1A NIC and reportable	0.5
Itemised costs (flights) for family members are not excludable under S339	0.5
Reasonable apportionment of subsistence costs	0.5
5 conditions of S371	2.0
Define minor child	0.5
Relief available for 2 journeys per year	0.5
3 conditions of S373	1.5
Qualifying date definition	1.0
Potential for conditions not to be met if employee was previously seconded to the UK	0.5
Relief for family under S374 if employee works for 60 continuous days in UK	1.0
UK visa costs exempt under S373	1.0
TOTAL	**15**

Answer 4

Jo's residence

Jo was non-UK resident in 2023/24, because, before 6 April 2024, she made no visits to the UK since childhood.

In 2024/25, Jo was seconded by Buzz Ireland Ltd to its UK branch in October 2024. She had 20 UK midnights on secondment, 6 midnights in January 2025 looking for a UK house, and 18 midnights working for Buzz UK Ltd, a total of 44 days in the UK in 2024/25. Jo was not UK resident for any of the 3 tax years preceding 2024/25. Accordingly, Jo met the second automatic overseas test and was not UK resident for 2024/25.

In 2025/26, Jo spent significantly more than 183 days in the UK. She was, therefore, resident in the UK for that year, as she met the first automatic UK test and none of the automatic overseas tests.

Relocation expenses

As Jo was resident in the UK for 2025-26, the relocation expenses reimbursed to her were chargeable to income tax as earnings, unless exempt.

The reimbursement of qualifying removal expenses reasonably provided for a change in an employee's residence is exempt to a maximum amount of £8,000. Any amounts reimbursed in excess of £8,000 are taxable.

The exemption applies where:

- the employee changes their main residence;
- the change results from a new employment;
- the change is made wholly or mainly to allow the employee to reside within reasonable daily travelling distance of the employee's normal place of work after the employment change;
- the employee's former residence is not within a reasonable daily travelling distance of that place; and
- the removal costs are incurred no later than the 'limitation day', 5 April of the tax year following that in which the place of employment changed.

Jo met all of the above conditions.

Qualifying removal expenses include travelling and subsistence looking for a new residence, so the £3,000 for flights and hotel accommodation and £600 for meals and taxis incurred in January 2025 were qualifying removal expenses. However, the train fare to attend a home exhibition event was not exempt, as it was not for a "visit to the new area".

Qualifying removal expenses include legal and estate agent fees, so the £6,000 reimbursement of fees incurred in selling Jo's Irish house was a qualifying removal expense.

The costs of transporting domestic belongings from the former to the new residence were qualifying removal expenses, so the £500 shipping costs qualified.

The exemption covers the cost of temporary living accommodation if there is a gap between the disposal of the old and acquisition of the new home. So, the £2,500 rent for such accommodation qualified.

However, the reimbursement of the cost of rewiring the kitchen was not a qualifying removal expense.

The first £8,000 of the above qualifying relocation expenses was exempt from income tax and disregarded for NICs, but the excess of £4,600 was taxable as earnings. Buzz UK Ltd has to provide the relevant details of the excess on Jo's P11D on or before 6 July 2026 but was not required to deduct income tax from payment of the excess under PAYE. It has to account for Class 1A NICs on the amount of the excess on or before 19 (or, if paying electronically, 22) July 2026 and file form P11D(b) on or before 6 July 2026.

The reimbursement of the two non-qualifying expenses was chargeable to income tax as earnings on general principles or was treated as earnings under the expenses payments provisions of the benefits code. It was also liable to Class 1 NICs as earnings on general principles. Accordingly, Buzz UK Ltd had to make the reimbursement under deduction of PAYE and Class 1 NICs, file an FPS reporting the amount of the reimbursement and account for employer Class 1 NICs on that amount.

Painting

The painting did not meet the definition of replacement domestic goods for the new residence, as it did not replace a good used at her Irish home unsuitable for use at her new home. Accordingly, the provision of the painting was taxable in full, as it was not a qualifying removal expense. The market value of the painting (£2,200) was chargeable to income tax as earnings. The difference (£2,800) between that amount and the cost to Buzz UK Ltd of acquiring the painting (£5,000) was not taxable under the benefits code, because the painting was "used" by Buzz UK Ltd before its transfer to Jo.

The painting is not an RCA, because trading arrangements did not exist for it. Accordingly, Buzz UK Ltd had to provide details of the gift on Jo's P11D and account for Class 1A NICs on the value of the painting (£2,200).

Buzz Ireland Ltd bonus

The liability of Buzz Ireland Ltd to operate PAYE, or account for NICs, on any part of the £25,000 bonus depended on Jo's residence in the tax years (2023/24 and 2024/25) in which the bonus period fell and on where she was insured for social security purposes at the time of its payment.

As Jo was not UK resident in 2023/24 or 2024/25, she was only liable to income tax on the bonus attributable to UK workdays. Accordingly, Jo was liable to income tax on £1,979 of the bonus (£25,000 x 19/240 workdays), subject to any claim that Jo might make under the UK/Ireland DTC to exempt the UK part of her bonus.

Although Buzz Ireland Ltd is not a UK resident company, it had to deduct income tax from the bonus under PAYE, as it has a trading presence in the UK. The deduction had to be made from the amount that, based on the best estimate that could be reasonably made, was likely to be PAYE income. If, by 28 June 2025, Buzz Ireland Ltd had all necessary information about Jo's residence and workdays and confirmation that no treaty claim had been made or accepted, it should have treated £1,979 of the bonus as PAYE income for deduction purposes.

The second issue is whether Jo was subject to UK social security legislation when she received the bonus on 28 June 2025. As, at that date, she had taken up a full time, permanent position at Buzz UK Ltd, she was, under the principle in the UK/EU SSC Protocol of a single social security legislation applying at any given time, exclusively subject to UK social security legislation. In fact, the UK and Ireland have their own Social Security Convention but it contains the same exclusivity principle. The Convention applies this principle when the social security legislation of a contracting state applies, generally at the date of payment. If the exclusivity principle applies by reference to the date of payment, Buzz Ireland Ltd was liable to deduct employee NICs from, and to account for employer NICs in respect of, the full amount of the bonus (£25,000). This is because the Convention provides that a multi-state worker within the scope of the Convention is to be treated, for the purposes of the social security legislation determined by the Convention to apply to the worker, as though they were pursuing all their activities as an employed person, and were receiving all their income, in the state to whose legislation they are subject.

However, HMRC's practice (not expressly applied to the UK/EU Protocol) is to apply reciprocal social security conventions at the time when the remuneration is earned (not at the time of payment). When Jo was seconded to work in Buzz Ireland Ltd's UK branch in October 2024, she did not replace another posted worker and, accordingly, she remained subject to Irish social security legislation for the calendar year 2024, during which she earned the bonus. If the exclusivity principle in the Convention applies by reference to the period in which the remuneration is earned (not when it is paid), no part of the bonus was liable to NICs.

MARKING GUIDE

TOPIC	MARKS
Relocation expenses	
Identify removal expenses exemption, up to £8,000	1.0
Conditions for exemption to apply	1.0
Travel and subsistence when looking for a new home	1.0
Disposal costs	1.0
Transport of domestic belongings	1.0
Temporary living accommodation	1.0
PAYE/P11D treatment of excess over £8,000	1.0
Class 1A NICs on excess over £8,000	1.0
Two non-qualifying expenses and PAYE treatment	1.5
Painting not a qualifying removal expense	1.0
Chargeable amount is market value, not original cost	1.0
PAYE/P11D treatment of painting	1.0
Class 1A NICs on painting	1.0
Sub-total	**13.5**
Buzz Ireland Ltd bonus	
Liability of bonus to income tax depends on Jo's residence in 2024-25	1.0
She was non-UK resident in 2024-25 by virtue of an automatic overseas test	1.0
Computation of the taxable portion of the bonus (£1,979)	1.0
Buzz Ireland has a trading presence in the UK for PAYE purposes	0.5
PAYE must be operated on reasonable best estimate of taxable amount	1.0
Bonus liable to NICs in full, as Jo subject to UK social security legislation when she received it or a reasoned argument as to why Jo not liable to NICs on any part of the bonus, per HMRC practice	1.0
Company must deduct employee NICs and account for employer NICs on full bonus	1.0
Sub-total	**6.5**
TOTAL	**20**

Answer 5

Antonfin Ltd

Brokerage service

Hugo paid a discounted amount for using Antonfin Ltd's brokerage service, which is a potential benefit in kind. If there was no additional cost to Antonfin Ltd in providing this service, the benefit had no taxable value (see the in-house benefit in *Pepper v Hart*). However, if there was a marginal cost to Antonfin Ltd which exceeded the price paid by Hugo for the service within the time permitted for "making good" the cost of a benefit, then it has to report the amount of the excess marginal cost on form P11D on or before 6 July 2026 (unless it payrolled benefits in kind) and pay Class 1A NICs.

Issue of shares

The issue of its shares by Arno Ltd to Hugo was not earnings under s.62 ITEPA 2003 or for NICs purposes, because the payment in shares did not arise from Hugo's employment. It arose from the alleged negligence of the company's brokerage department and was in the nature of compensation, not employment reward.

The Arno Ltd shares are employment-related securities ("ERS"), because the right or opportunity to acquire them was made available by a person (Arno Ltd) connected with Hugo's employer (Antonfin Ltd). The shares are deemed to be acquired by reason of Hugo's employment. However, no liability to income tax or NICs arose from the share issue under the ERS regime, because Hugo paid full value for the shares by releasing his claim for damages.

Antonfin Ltd would be advised to report the acquisition of the Arno Ltd shares by Hugo on its ERS annual return, though strictly the reporting requirement only applies to shares acquired, not deemed to be acquired, by reason of employment.

Inducement payment

The transfer by Arno Ltd of bottles of wine worth £50,000 to Hugo did not constitute earnings under s.62 or for NICs purposes, because it was made to facilitate the sale of Antonfin Ltd.

As cost of the wine was recharged to Antonfin Ltd the benefit was, provided by Hugo's employer and deemed to be provided by reason of his employment. The cost (£50,000) was chargeable to income tax. As the wine was not a readily convertible asset ("RCA"), PAYE did not apply. Antonfin Ltd has to report the cost as a benefit on form P11D on or before 6 July 2026, and account for Class 1A NICs on the amount of the cost.

Arno Ltd had to pay Hugo an amount equal to the income tax that he incurred on the wine. This payment was not liable to employment tax, as it was made to remove an obstacle to the sale of Antonfin Ltd.

Arno Ltd and Robert

The payment by Sofia to Robert in recognition of his personal qualities and his contribution, 12 years' ago, to turning the business around was not earnings under s.62 or the benefits code. The source of the payment was not Robert's former employment but Sofia's desire to recognise his personal qualities and his contribution to turning the business around.

However, a charge to income tax arose instead under the disguised remuneration regime (ITEPA 2003 Part 7A). This is because:

(i) there was an arrangement to make the payment,

(ii) the arrangement was a means of providing recognition in connection with Robert's former employment, and

(iii) the payment was made under the arrangement by a person (Sofia) other than Arno Ltd or any company in the same group.

On or before the time when Sofia made the payment to Robert, Arno Ltd had to file an FPS containing prescribed information about the payment. Although the payment was made by Sofia, Arno Ltd was treated as making the payment for PAYE purposes (a notional payment) and, accordingly, had to account to HMRC for income tax on the payment, using the 0T code as Robert is a former employee. In addition, Arno Ltd had to account to HMRC for Class 1 NICs on the payment.

Arno Ltd should have sought reimbursement from Robert of the amount of income tax paid under PAYE. If Robert does not make good that amount by 4 July 2026, that amount will be treated as earnings from Robert's former employment (s.222 ITEPA 2003) and is reportable as a P11D benefit. Furthermore, Arno Ltd will be liable to account for Class 1 NICs on the section 222 amount. If it wished, Arno Ltd could also have sought repayment of the employee Class 1 NICs from Robert, though that does not affect the amount of the s.222 charge.

MARKING GUIDE

TOPIC	**MARKS**
Brokerage service	
Benefit of brokerage service taxed at cost less Hugo's payments made in time	1.0
Cost is marginal cost, which for in-house benefit may be nil (Pepper v Hart)	1.0
Any benefit arising reported on P11D and chargeable to Class 1A NICs	0.5
Issue of shares	
Arno Ltd shares not s.62 earnings, as compensation for alleged negligence	1.0
Arno Ltd shares are ERS under the deeming rule	1.0
Advisable to report share acquisition on Antonfin Ltd's ERS annual return	0.5
Inducement payment in the form of bottles of wine	
Transfer of wine is not s.62 earnings, as sole reason is to facilitate share sale	0.5
Transfer of wine deemed to be earnings, as cost falls on Antonfin Ltd	1.0
Payment equal to tax on wine is not earnings, as sole reason is to facilitate share sale	0.5
Wine not an RCA, so cost reported on P11D and charged to Class 1A NICs	1.0
Arno Ltd and Robert	
Payment by Sofia not s.62 earnings, as recognises Robert's personal qualities, support and contribution many years ago	1.0
Payment meets the first gateway condition for a DR charge	0.5
Payment meets second gateway condition for a DR charge	0.5
Payment meets third gateway condition for a DR charge	0.5
Payment by Sofia treated as notional payment by Arno Ltd for PAYE purposes	1.0
Arno Ltd must file an FPS re Sofia's payment to Robert	0.5
Arno Ltd must account for income tax on the payment, using the 0T code	1.0
Arno Ltd must account for Class 1 NICs on the payment	1.0
Robert to make good PAYE payment, or s.222 income tax/NICs liability	1.0
TOTAL	**15**

Answer 6

UK Tax and NIC Treatment

1) Provision of staff entertaining is typically subject to tax and NIC however there is a specific exemption for social functions and parties where:
    a. all staff are invited; and
    b. the event is annual; and
    c. the total cost does not exceed £150 per head.

   The cost per head is calculated as the total function cost including overnight accommodation and VAT divided by the total number of attendees. Here, the cost per head is c.£155 (£27,120 / 175) and therefore the exemption does not apply. The full amount should be reported on the PSA.

2) The cost per head of the 50th anniversary party is less than £150 however this is a one-off event and not an annual party therefore not eligible for the exemption. As such, the cost of this party is also subject to tax and NIC and should be reported on the PSA.
3) The provision of a festive hamper is a taxable benefit as it costs more than £50 and therefore not eligible for the trivial benefit exemption so should be reported on the PSA. The reportable value is the cost to the employer (£75) rather than the value of the hamper (£100).
4) Private medical insurance is a taxable benefit subject to tax and Class 1A NIC. However the benefit is not 'minor, irregular or impracticable' and therefore should be reported via the UK payroll or on Form P11D instead of via the PSA.
5) Tax return preparation costs represent a benefit to the employee and are taxable, NICable and reportable on the PSA. HMRC generally accept inclusion of tax support benefits on a PSA however it should be noted that they may not meet the definition of 'irregular' if provided consistently.
6) The provision of easter eggs is a trivial benefit as it is worth less than £50, isn't cash or a voucher, and is not a reward for services so is exempt from UK tax, NIC and reporting.
7) Vouchers are a taxable benefit provided as a reward for services and would typically be reported via PAYE in the absence of a PSA however they are eligible to be included on a PSA if preferred and should therefore be included on the PSA as this is the company's preference.
8) Long service awards provided to employees with at least 20 years of service where the total value does not exceed £50 per year of service and they have not received a long service gift in the last 10 years are exempt. As the employees have 30 years of service and the jewellery costs less than £1,500 (30 x £50), the gift is exempt.

PSA Calculation

Taxable benefits provided to each type of taxpayer:

Intermediate rate – 21% (Associates):

Hamper - £75 x 30 = £2,250

Vouchers – £25 x 30 = £750

Summer party – £27,120 x 30 /100 = £8,136

Anniversary party – £140 x 25 = £3,500

Total: £14,636

Grossed up at 21%: £14,636 x 100 / 79 = £18,527

Higher rate – 42% (Managers):

Hamper - £75 x 45 = £3,375

Summer party – £27,120 x 45 / 100 = £12,204

Anniversary party – £140 x 30 = £4,200

Total: £19,779

Grossed up at 42%: £19,779 x 100 / 58 = £34,102

Top rate – 48% (Senior Managers):

Hamper - £75 x 25 = £1,875

Tax return preparation benefit - £2,000 x 3 = £6,000

Summer party – £27,120 x 25 / 100 = £6,780

Anniversary party – £140 x 20 = £2,800

Total: £17,455

Grossed up at 48%: £17,455 x 100 / 52 = £33,567

Total benefits: £86,196

Class 1B NIC @ 15% = £12,929

Tax payable: £34,326

MARKING GUIDE

TOPIC	MARKS
Analysis	
Annual parties costing less than £150 per head are exempt	0.5
Cost includes VAT and overnight stay therefore cost per head is over £150	0.5
The 50th anniversary party is not an annual event and the cost is therefore taxable despite costing less than £150 per head	1.0
Hamper is a taxable benefit subject to tax and NIC	0.5
Taxable amount is the cost to the employer (£75)	1.0
PMI is taxable and subject to Class 1A	0.5
However, it should not be reported on the PSA as it is not irregular	0.5
Tax return preparation fee is taxable	0.5
Easter eggs are trivial benefits exempt from tax and NIC	1.0
Vouchers are taxable and should be included on the PSA	1.0
Long service awards for employees with more than 20 years of service costing less than £50 per year are exempt	1.0
Calculation	
21% rate used for associates	0.5
42% rate used for managers	0.5
48% rate used for senior managers	0.5
£75 per person for hamper	0.5
£25 for associates for voucher	0.5
£2,000 for three senior managers' tax return preparation benefit or provision of reasonable argument as to why not included	0.5
Cost of annual party correctly allocated	1.0
Anniversary party cost per head	0.5
Gross up for associates correctly calculated	0.5
Gross up for managers correctly calculated	0.5
Gross up for senior managers correctly calculated	0.5
Class 1B correctly calculated	1.0
TOTAL	**15**