

**The Chartered Institute of Taxation**

**Advanced Technical**

**Human Capital Taxes**

**November 2025**

**Suggested answers**

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## Answer 1

Preeti will be non-resident in the UK under the Statutory Residence Test as she will spend less than 46 days in the UK in any UK tax year and has never been UK tax resident.

### PAYE

Under s5 ITEPA 2003, income for duties performed as a statutory director is treated as employment earnings and therefore subject to PAYE. Therefore, Widget Ltd should deduct PAYE from the fees paid to Preeti via their regular payroll.

Preeti should complete a Starter Checklist and Widget Ltd should include Preeti's information on an FPS and process her remuneration in full to PAYE via RTI submissions.

They should provide a P60 by 31 May after the end of each tax year.

Preeti cannot be included on the Appendix 4 agreement as the exemption under Article 16 of the UK/India double tax treaty will not apply. The payments to Preeti are derived from her activity as a board member of a UK resident company, and so Article 17 of the treaty will apply. The UK will therefore retain the right to tax all income arising from such duties as a board member.

Nevertheless, as a non-resident of the UK, Preeti is only liable to UK tax on the earnings arising from days worked in the UK. Three out of the four days for each board meeting take place in India and therefore only a quarter of the £80,000 annual fee is UK taxable. If Widget Ltd operates PAYE on the total fees, the PAYE will be overstated and Preeti will need to file a UK tax return to reclaim the excess tax. Preeti could ask Widget Ltd to apply for a s690 directive from HMRC to apply PAYE to only 25% of the fees. However, Preeti would still be required to complete a self-assessment tax return to confirm her actual UK workday proportion and thus that the correct amount of earnings has been taxed.

The s690 directive would need to be applied for on a current tax year basis but can be requested to apply for either or both of the next two tax years.

### National Insurance

Preeti will be deemed an employed earner as she is gainfully employed in the UK as an office holder and will be present in the UK. Therefore, her employment earnings from Widget Ltd will be subject to Class 1 NIC. Both secondary and primary contributions will be due.

However, as an administrative concession, as Preeti will attend no more than 10 board meetings in any tax year, and each visit will last no more than 2 nights, no liability to Class 1 NIC will arise for either Preeti or Widget Ltd. The concession is strict in its application. If any visit goes beyond 2 nights the exemption will not apply for that tax year and her earnings will be subject to Class 1 NIC in full.

### Phantom shares

As the phantom shares do not confer any legal or beneficial right to the shares that underpin their value, they will not be deemed a security and therefore are not employment related securities. The cash payments, however, are earnings and Widget Ltd must include them in the payroll and account for PAYE income tax (subject to any s.690 direction in force) and potentially Class 1 NIC.

### Ordinary shares

The ordinary shares are securities and as the award is related to office holder duties, will be caught as employment related securities. Widget Ltd will be required to report the award of the shares on an annual ERS return, which will be due by 6 July each year.

As the shares are not deductible for corporation tax purposes, they are deemed to be a readily convertible asset. Widget Ltd will have an obligation to operate PAYE and potentially Class 1 NIC. However, the money's worth value of the shares on acquisition will be nil given the call value equals the market value, as such no charge will arise under ITEPA 2003, s62 on acquisition.

Notwithstanding this, a notional loan will arise on the unpaid amount under ITEPA 2003 Part 7, Chapter 3C. As the loan value is over £10,000 and no interest is paid, a beneficial loan charge will arise at HMRC's official rate of interest for each tax year the notional loan remains. As Preeti does not

work full time for Widget Ltd nor does she own more than 5% of the shares, the close company exemption will not apply.

Widget Ltd will therefore be required to report the deemed interest attributable to UK workdays on a just and reasonable basis, on form P11D. Class 1A NIC will not arise however, if Preeti is not subject to Class 1 NIC in the respective tax year.

#### Flights and accommodation

Travel and accommodation in connection with necessary attendance at a temporary workplace is exempt from income tax and Class 1 NIC under s.338 ITEPA 2003. However, Preeti may spend only a handful of days in the UK, the UK office is the location where Preeti is expected to undertake her role for Widget Ltd for the duration of her appointment. Therefore, the UK office is not a temporary workplace and this exemption will not apply.

As Preeti is non-domiciled in the UK, the reimbursement of her flight costs will be exempt from tax and Class 1 NIC under s.373 ITEPA 2003 if:

- The journey ends during a period of 5 years beginning with a qualifying arrival date. As Preeti never expects to become UK tax resident, the qualifying arrival date will reset at the beginning of each visit to the UK and the exemption will apply for each journey.
- The journey is from the country where Preeti normally lives (India) to the UK and back again. Exemption would not apply if the journey was not wholly to attend the board meetings or between another country and the UK.

This exemption will only apply to costs connected with her flights. The hotel is not connected with the flight. As the hotel cost is met by Preeti and reimbursed, it will be subject to PAYE and potentially Class 1 NIC and must be included in the payroll.

## MARKING GUIDE

TOPIC	MARKS
Non-resident under 2 <sup>nd</sup> automatic test	0.5
Automatically deemed an employee as an office holder	1
Remuneration in relation to director duties via payroll	1
Starter checklist required and remuneration subject to PAYE via RTI	1
Double tax treaty gives UK right to tax earnings derived from UK board member activity	1
UK legislation will limit taxable income to duties undertaken physically in the UK	0.5
Cannot be included on Appendix 4 with reason	1
s690 directive could be considered along with process and implications	1.5
Subject to Class 1 NIC on earnings as gainfully employed in UK as an office holder	1
Administration concession for non-resident directors may apply with reason	1
Implications if concession criteria not met in tax year	0.5
Phantom shares not ERS but cash payments are caught as employment earnings	1
The ordinary shares are ERS	0.5
Award of shares need to be reported on ERS return with due date	1
The ordinary shares are an RCA, but no PAYE or Class 1 NIC will arise on award with reason	1
Unpaid par value of shares deemed a notional loan and beneficial interest benefit will arise	1
Close company exemption will not apply with reason	1
Interest arising from UK workdays reportable on P11D with Class 1A NIC dependent on Class 1 NIC position	1
Reason why UK workplace is not a temporary workplace	1
Flights exempt under separate exemption for non-UK domiciled individuals with reason	1.5
Accommodation cannot fall under this exemption as not in connection with flight and will be subject to PAYE and potentially Class 1 NIC	1
<b>TOTAL</b>	<b>20.0</b>

## **Answer 2**

### **DTA Relief**

The individuals working may be able to exclude the portion of their employment income relating to their UK workdays under Article 15(2) of the UK/Westeros DTA. The individuals must:

- spend fewer than 183 days in the UK in any twelve-month period starting or ending in the tax year,
- have their remuneration paid by the overseas entity and not be borne by a UK permanent establishment.

A UK day for the purpose of the treaty is any day on which the individual is present in the UK at any time. They are not required to be present in the UK at midnight as is the case for the Statutory Residence Test. Days on which the individual is in the UK in transit between two non-UK places, or days during a period which the individual is UK treaty resident and not treaty-resident abroad need not be considered.

The OECD interpretation of whether the remuneration is borne in the UK is a test of 'economic employment'. Consideration is given to the facts and circumstances surrounding an individual's UK working time to determine whether the UK entity operates as their economic employer. A recharge of costs from the overseas entity to the UK entity is a factor in determining economic employment however it is not conclusive.

Relevant factors to be considered per the OECD Model Tax Convention commentary are:

- Who has the authority to instruct the individual regarding the manner in which the work has to be performed;
- Who controls and has responsibility for the place at which the work is performed;
- The remuneration of the individual is directly charged by the formal employer to the enterprise to which the services are provided;
- Who puts the tools and materials necessary for the work at the individual's disposal;
- Who determines the number and qualifications of the individuals performing the work;
- Who has the right to select the individual who will perform the work and to terminate the contractual arrangements entered into with that individual for that purpose;
- Who has the right to impose disciplinary sanctions related to the work of that individual;
- Who determines the holidays and work schedule of that individual.

The UK applies a concession to the concept of economic employment known as the '60 day rule' stating that where an individual spends fewer than 60 days in the UK during the year and that period does not form part of a more substantial period of presence in the UK (a 'linked period'), they will not be considered as economically employed in the UK provided they remain on an overseas payroll. A linked period is any period during which the individual's duties in the UK are connected and the individual can expect to be required to return to the UK for a connected purpose. Linked periods can therefore span multiple tax years and HMRC have not defined a maximum period over which linked periods can span.

### **Reporting Requirements**

The tax exemption afforded by the UK/Westeros DTA applies to tax and this does not automatically remove the PAYE withholding requirement, if one exists. HMRC have therefore created the Appendix 4 Short Term Business Visitor scheme to align the tax relief afforded by a DTA to the UK PAYE withholding requirements. The scheme must be applied for by 5 April in the tax year in question, and an annual report declaring the position of STBVs to the UK must be submitted to HMRC by 31 May

following the end of the tax year. The amount of information required to be submitted to HMRC in respect of each STBV is as follows:

**1-30 days and meet the 60 day rule:**

No requirements to fulfil.

**31-59 days and meet the 60 day rule:**

Confirm

- a. there is no formal contract of employment with the UK employer.
- b. the 59 days do not form part of a more substantial period.

**1-90 days and do not meet the 60 day rule:**

Provide personal details of the employee including their name and address.

**91-150 days:**

Provide all information for the 1-90 day category and provide a Certificate of Residence from the overseas authority

**151-183 days:**

Provide all information for the 1-90 and 91-150 day categories and provide a statement by the employee giving reasons why they consider themselves to be treaty resident in the treaty partner country as soon as it can be reasonably anticipated they will exceed 150 days in the UK.

Application

**Jaime**

As he will only spend 8 weeks in the UK (56 days), he should meet the conditions of the 60 day rule and will not be economically employed in the UK. He should therefore be eligible for treaty exemption and does not need to be specifically named on the STBV report.

**Tywin**

Tywin will spend more than 60 days in the UK and cannot rely on the 60 day rule. As he is backfilling a role that exists in the UK, he is likely to be economically employed in the UK since he will be under the supervision of the UK entity and meet the conditions outlined above. Furthermore, the UK entity will bear the cost of his remuneration.

Tywin should therefore be included on a UK payroll from his first UK workday.

**Robert**

Statutory directors of UK entities are deemed to be economically employed in the UK due to their significance to the entity. They cannot benefit from the 60 day rule and attendance at the UK entity's board meeting will be substantive duties. Robert will therefore not be eligible for relief under the UK/Westeros DTA and a UK payroll obligation will exist from his first UK workday.

## MARKING GUIDE

TOPIC	MARKS
<u>DTA Relief</u>	
Individual must be treaty resident overseas	1.0
Individual must remain employed and paid overseas	1.0
Definition of a day of presence for treaty purposes	1.0
Cost recharge is no longer conclusive factor	1.0
Explain economic employment and its relevance	1.0
Existence of 60 day rule	1.0
Fewer than 60 days over linked periods	1.0
Define linked period	1.0
<u>Reporting Requirements</u>	
Appendix 4 scheme must be in place	1.0
Annual report required by 31 May	1.0
Individuals do not need to be named if they meet 60 day rule	1.0
Personal data required for 1-90 day category	1.0
Certificate of Residence required if over 90 days	1.0
Statement required if over 150 days	1.0
<u>Application of Technical Position</u>	
Jaime meets the conditions of the 60 day rule	1.0
Eligible for inclusion on STBV report and PAYE does not apply	1.0
Tywin's role is managed in the UK and costs are recharged resulting in UK economic employment.	1.0
No treaty relief available and PAYE should be operated.	1.0
NRDs not eligible for relief under DTA	1.0
Cannot be included on STBV report and PAYE obligation exists from day 1.	1.0
<b><u>TOTAL</u></b>	<b><u>20</u></b>

### **Answer 3**

#### **Requirement 1**

Automatic enrolment obligations require employers in England and Wales to operate a workplace pension for their workers. Employers must determine which staff are 'eligible jobholders' and must be enrolled. They must also pay the correct amount of mandatory contributions (8% in total of which a minimum of 3% must be employer) and operate a suitable workplace pension.

Eligible jobholders are workers who are aged between 22 and the state pension age and earn more than £10,000 a year.

Contributions are based on qualifying earnings between £6,240 and £50,270.

Maria:

As Maria is working in the UK she would be treated as a worker. As she is aged 30 and earning more than £10,000 she is an eligible jobholder for automatic enrolment purposes.

There is an available exclusion for workers who are employed overseas and assigned to work for a company in the UK for a temporary period and therefore does not ordinarily work in the UK. As a result of this exclusion Bangor Ltd would not need to enrol Maria into a qualifying pension scheme.

Sergio:

Sergio is an eligible jobholder as he is employed (a 'worker'), is aged between 22 and the state pension age and is earning more than £10,000 a year.

Bangor Ltd have an obligation to review, at three yearly intervals, each eligible jobholder and re-enrol them into a qualifying pension scheme.

Sergio can choose to opt out again if that is his wish. It is important that Bangor Ltd do not induce Sergio to opt out. Inducement by an employer to opt out is a breach of the rules and punishable with fines.

Baz:

Baz is an eligible jobholder as he is employed (a 'worker'), is aged between 22 and the state pension age and is earning more than £10,000 a year.

He must be automatically enrolled in a qualifying pension scheme. A qualifying scheme must be either a UK registered pension scheme or a scheme established in the EEA which has similar characteristics as a UK registered scheme. It can be either occupational or a personal pension scheme.

The BTUP is a UK pension scheme but it is not a UK registered pension scheme. This means it could not be a qualifying scheme. As Spain is in the EEA, the Spanish pension scheme of Enio S.A (ESAPS) could potentially be a qualifying scheme if it meets certain characteristics.

In order to be compliant Bangor must pay the contributions into the BLOP.

It may be possible on further investigation to show that ESAPS meets the conditions to be a qualifying scheme. The auto enrolment rules do allow pension schemes in the EEA to qualify but as the UK auto enrolment rules are UK rules, most do not qualify. It is however, possible for Baz to opt out and then Bangor can make the contributions to ESAPS as desired. This would be a way to ensure Baz gets the contributions into the ESAPS whilst ensuring Bangor complies with its obligations.

## **Requirement 2**

Maria will receive contributions into ESAPS.

In general, an employee pension contribution can only obtain income tax relief for the employee if they are made to a UK registered pension scheme. An employee contribution out of employment income to a non-registered pension scheme (an employer financed retirement benefit scheme) would remain general earnings and subject to PAYE as normal. Employer contributions to an EFRBS would be treated as taxable specific income and subject to PAYE. The 'disguised remuneration' rules (Part 7A) are likely to treat an employer contribution as taxable specific income.

If Bangor Ltd applied to HMRC for Migrant Member Relief it could be possible for both employee and employer contributions to be exempted from an income tax charge and PAYE would not need to be applied.

The ESAPS would need to be a 'qualifying overseas pension scheme' which requires both a regulatory test and a tax recognition test to be satisfied.

In order to obtain tax relief, the scheme manager (likely Bangor Ltd unless it has been delegated) must apply to HMRC for migrant member relief and agree to provide regular information to HMRC. Bangor Ltd would need to report contributions, transfers and instances where benefits are paid.

## MARKING GUIDE

TOPIC	MARKS
<b>Requirement 1</b>	
General description given of auto-enrolment rules including the mandatory contributions (8%) on qualifying earnings (£6,240 and £50,270 needed to a qualifying pension scheme.	2
Identify that as Maria is working for a UK company she would be treated as a worker and potentially subject to automatic enrolment rules. However, this is mitigated by an available exemption for assignees.	2
Sergio and Baz are both eligible jobholders as they are employed by a UK company, earn sufficient income and are aged between 22 and the state pension age.	1
Although Sergio elected to opt out of his workplace pension, Bangor Ltd are required to reenrol him after three years unless he decides to opt out again. Bangor Ltd must not induce Sergio to opt out.	2
Baz must be automatically enrolled into a qualifying scheme which is either a UK registered scheme or a EEA scheme meeting certain characteristics.	1
As Spain is in the EEA, the Spanish pension scheme of Enio S.A could potentially be a qualifying scheme if it meets certain characteristics. The BTUP is a UK EFRBS and would not qualify regardless. This means that Bangor Ltd use either BLOP or ESASP (if it qualifies) or Baz may choose to opt out.	2
<b>Requirement 2</b>	
ESAPS is a non-UK EFRBS and employee contributions would not result in any reduction in taxable income subject to PAYE. Employer contributions would be treated as taxable specific income and subject to PAYE.	1
Identification of EFRBS as being subject to Part 7A rules making contributions taxable specific income.	1
Explanation of relief available if the ESAPS qualifies for Migrant Member Relief. MMR would allow both employee and employer contributions to be exempted from an income tax charge and PAYE would not need to be applied.	1
To obtain MMR the ESAPS must be a qualifying recognised overseas pensions scheme which requires a regulatory and tax recognition test to be met.	1
Explanation of general MMR reporting requirements to HMRC.	1
<b>TOTAL</b>	<b>15</b>

## **Answer 4**

### **Requirement 1**

#### **Mrs Malde**

On the grant of the CSOP option any potential value is not liable to income tax and therefore there is no PAYE obligation. The grant of share options is not regarded as earnings for NIC.

On exercise the CSOP option over 10,000 shares is not subject to PAYE or NIC providing the option is exercised within 3 to 10 years of grant which is the case here. Any further growth in share value will be taxed under the capital gains tax regime which is a self-assessment matter for the employee and not something that Dazzle Plc needs to administer.

The 10,000 Dazzle plc unapproved shares will be considered as employed related securities options (ERSO) because they have been acquired by reason of employment.

Like grants made under CSOP, there is no income tax and corresponding PAYE obligation for ERSO. Instead, an ERSO is subject to income tax, PAYE and NIC at the point of exercise on the difference between the exercise price and the market value of the shares acquired. An obligation to operate PAYE and Class 1 NIC arises because these are listed shares and therefore a readily convertible asset. This also means that a secondary Class 1 NIC liability arises for Dazzle Plc at 13.8% which is a cost to the employer (unless there is a joint election between employer and employee to transfer the Class 1 secondary NIC cost to the employee).

#### **Mr Richards**

The grant of the option is neither PAYE income nor earnings for NIC even though they have been awarded at a discount (the maximum discount available under SAYE being 20%).

The amount of cash savings available to purchase shares is supplemented by the SAYE bonus. The HMRC SAYE bonus multiple is calculated on monthly savings. This means the SAYE bonus is  $200 \times 3.2 = \text{£}640$ . This is income tax and NIC free. At  $\text{£}2.40$  a share this allows him to buy 5,267 shares ( $\text{£}12,640/\text{£}2.4$ )

There will be no PAYE or NIC when Mr Richards uses the cash savings of  $\text{£}12,640$  ( $\text{£}200 \times 60$  months plus  $\text{£}640$ ) to exercise the SAYE option and acquire shares. Mr Richards will need to pay capital gains tax if he disposes of the shares but this is a self-assessment matter for him and not something that Dazzle Plc needs to administer.

### **Requirement 2**

#### **SAYE**

Employees must be provided with certain minimum information at the point they are invited to participate in the SAYE scheme including:

- That they have the option to save for 3 or 5 years (depending on what Dazzle plc) offers and how much can be saved each month
- The exercise price of the options
- Details of any restrictions (for example lapse provisions if they were to leave employment)
- Details of the institution that will operate the SAYE account
- A description of the way any oversubscription for shares will be dealt with

#### **CSOP**

Employees must be given the following minimum information at the point they are granted options/invited to participate in the CSOP including:

- The exercise price of the options
- Number and description of the shares
- Details of any restrictions (for example forfeiture provisions if she were to leave employment)

- When the options can be exercised
- Circumstances under which the options lapse or can be cancelled
- Terms under which the grant can be varied

#### HMRC online reporting

An online annual report must be submitted to HMRC which details the share options granted, varied or exercised in a tax year. This report must be made even if no options are granted or exercised. The deadline for submission is the 6 July following the end of the tax year when the notifiable events occur. Although this report is separate from Dazzle Plc's PAYE obligations there are penalties for non-submission or filing after the deadline.

## **MARKING GUIDE**

<b>TOPIC</b>	<b>MARKS</b>
<b>Requirement 1</b>	
No PAYE or NIC on grant of CSOP	1
On exercise of the CSOP options there will be no PAYE or NIC. Tax is self-assessment matter for the employee on disposal.	1
The unapproved options are ERSO as they were granted by reason of employment.	1
An ERSO is not subject to income tax or NIC at grant. On exercise of the option income tax and Class 1 NIC liability arises.	1
An obligation to operate PAYE arises due to the fact that these listed shares are RCA's. As they are RCA's a Class 1 NIC liability also arises that Dazzle Plc must fund.	1
The grant of options under SAYE to Mr Richards is not subject to income tax or NIC even though there is a discount included of 20%.	1
The SAYE bonus is calculated on monthly savings and it is income tax and NIC free	1
There is a description of how shares are purchased using £12,640 of savings noting that there is no PAYE or NIC at this point.	1
<b>Requirement 2</b>	
Description of information that must be provided to employees invited to join SAYE and several correct information requirements listed. It is not necessary to list all the requirements for full marks.	3
Description of why information must be provided to those invited CSOP and several correct information requirements listed with some appreciation of how this differs to SAYE. It is not necessary to list all the requirements for full marks.	2
HMRC annual online filing obligations set out	2
<b>TOTAL</b>	<b>15</b>

## Answer 5

### Relocation Benefits

The first £8,000 of qualifying relocation expenses can be provided tax free if the following conditions are met:

- a) The change of residence results from the employee becoming employed, or an alteration related to the employment duties;
- b) The change of residence is made to allow the employee to reside within a reasonable travelling distance of the place where the employee will work; and
- c) The employee's former residence is not within a reasonable travelling distance of this place.

The exemption only applies to the provision of removal benefits and to the payment or reimbursement of removal expenses. It does not apply to any cash allowances so the £8,000 cash relocation allowance will be liable to PAYE and Class 1 National Insurance (NI).

Philippa met these conditions as she moved to Manchester to be within reasonable travelling distance of the Manchester office. This means that the first £8,000 of qualifying relocation expenses are tax-free. The qualifying relocation expenses provided include temporary accommodation, legal fees in relation to the disposal of the old residence, moving belongings from the old residence to the new, and domestic goods for the new residence. This last point only applies where domestic goods intended to replace items at the old home are not suitable in the new home, which would include Philippa's fitted blinds/curtains. As the qualifying relocation expenses total £9,000, the excess of £1,000 will be subject to Income Tax and Class 1A NI.

School fees are not a qualifying relocation expense even if only provided temporarily. These are subject to Income Tax and Class 1 NI.

### Travel to Leeds

Although Philippa is responsible for operations in the north of England, she regularly attends and is primarily based in the Manchester office. This means that the Manchester office will be her permanent workplace, rather than the area of the north of England and the conditions in section 339(8) ITEPA 2003 are not met.

The new store in Leeds will qualify as a temporary workplace as Philippa will be attending for a period not expected to exceed 24 months. The £30 daily meal allowance will qualify for tax relief on the basis that this is incurred whilst travelling to the temporary workplace and is reimbursed following proof of the qualifying expenditure. No Income Tax or National Insurance will be due on the reimbursements.

The company car will be a taxable benefit subject to Income Tax and Class 1A NI. Fully electric company cars have a benefit-in-kind rate of 2%. The taxable value is therefore:

	<u>Electric Car</u>
List Price	90,000
Benefit-in-kind percentage	2%
Taxable Value (2025/26)	1,800
Less: deduction for unavailability (270 days)	(1,332)
<u>Taxable Value (1 January 2026 - 5 April 2026)</u>	<u>468</u>

There is an exemption for the provision of electric charging facilities to employees where made available for all employees so Philippa's charging costs won't be taxable.

### Calculation

TopHat Ltd have agreed to meet any tax or NI liabilities in relation to these benefits. Apprenticeship Levy is not payable as TopHat Ltd's annual pay bill does not exceed £3million.

Philippa will not be liable to Scottish tax rates as she will not have a place of residence in Scotland for most of the tax year.

Item	Cost to Employer	Amount liable to Income Tax	Amount liable to Class 1 Primary/Secondary NI	Amount liable to Class 1A NI
Relocation Allowance	8,000	8,000	8,000	
Temporary Accommodation	5,000			
Professional Fees	1,700			
Moving Costs	2,000	700		700
Fitted Curtains / Blinds	300	300		300
School Fees	2,400	2,400	2,400	
Meal Allowance	360			
Electric Car	2,400	468		468
Car Charging Costs	300			
<b>TOTAL</b>	<b>22,460</b>	<b>11,868</b>	<b>10,400</b>	<b>1,468</b>

Income Tax = £11,868 x 45% = £5,341

Class 1 Primary = £10,400 x 2% = £208

Total Income Tax and Class 1 Primary settled by TopHat = £5,549

The payment of the tax/Class 1 Primary NI on behalf of the employees is additional net earnings and should be grossed up at the employee's marginal rates of Income Tax and Class 1 Primary NI (45% and 2% respectively). This reflects both the original tax/NI paid on the individual's behalf and the subsequent further tax/NI due on this payment.

$£5,549 \times 100 / (100-47) = \underline{£10,470}$

Total Class 1 Secondary NI =  $(£10,400 + £10,470) \times 13.8\% = £2,880$

Total Class 1A NI =  $£1,468 \times 13.8\% = £203$

Total

Cost of benefits = £22,460

Gross Up Tax/NI = £10,470

Class 1 Secondary = £2,880

Class 1A = £203

Total Employment Cost = £36,013

## MARKING GUIDE

TOPIC	MARKS
Identification of £8k relocation exemption	0.5
Conditions of £8K relocation	0.5
Eligible for £8k relocation exemption	0.5
£8,000 cash payment = Income Tax + Class 1 NI	0.5
Temporary accommodation = qualifying relocation	0.5
Professional Fees = qualifying relocation	0.5
Removal costs = qualifying relocation	0.5
New curtains / blinds = qualifying relocation + explanation	1
School fees cash = PAYE + Class 1 NI	0.5
Identify £1,000 excess relocation costs liable to income tax and Class 1A	1
Manchester office = perm workplace	0.5
Leeds office = temp workplace as <24 months	0.5
Section 338(9) doesn't apply	1
Meal Allowance = not taxable	0.5
Company car = taxable	0.5
Company car BIK calculation	0.5
Electric car charging point = not taxable	0.5
Identification that Scottish tax rates will not apply to Philippa	0.5
Identify that Apprenticeship Levy is not needed due to total pay bill	0.5
Income Tax Calculation	0.5
Class 1 Primary Calculation	0.5
Class 1 Secondary Calculation	0.5
Class 1A Calculation	0.5
Explanation that the tax + NI paid by company on employee's behalf will need to be grossed up	0.5
Gross up calculation	1
Inclusion of cost to employer rather than taxable cost when totalling employment cost	0.5
<b>TOTAL</b>	<b>15</b>

## Answer 6

### Requirement 1

Sophie became tax resident in the UK on 1 July 2025 onwards, meaning that she will have nine months of income that is taxable in the 2025/26 UK tax year.

### Tax Cost

Remuneration				<u>£</u>
Salary				375,000
Less: Hypothetical Tax				- 112,500
Cost Of Living Allowance				45,000
Travel allowance				3,750
Benefits:				
Company Car				11,250
Private Medical Insurance				5,250
Flight to the UK (Note 1)				-
VISA application costs (Note 2)				-
Living Accommodation (Note 3)				45,000
Net Taxable Pay - 2024/25				<u>£ 372,750</u>

Personal Allowance (£0 due to income level) £ -

Tax				
£37,700.00	20%		7,540	
£87,440.00	40%		34,976	
£247,610.00	45%		<u>111,425</u>	
Tax Before Gross Up			153,941	
Gross Up at 45/55			<u>125,951</u>	
Total Tax				£ 279,892
Funded by hypothetical tax				<u>-£ 112,500</u>
Cost of tax equalisation				<u>£ 167,392</u>

### Note 1 – Flight to the UK

This will be exempt under section 373 ITEPA 2003.

### Note 2 – Visa Costs

The costs of any necessary visas required to work in the UK are also deductible costs under section 373 ITEPA 2003.

### Note 3 – Living Accommodation

Sophie's UK workplace will not be 'temporary' as Sophie's secondment exceeds 24 months and she will spend 40% or more of her working time at this workplace. As this is therefore a permanent workplace, there is no tax relief available on her accommodation costs.

## Requirement 2

WellBeing UK Ltd have a requirement to make payroll submissions to HMRC in respect of Sophie using the Real Time Information (RTI) system. This means that there is a strict payroll requirement to send details to HMRC every time they pay an employee, on or before the time of the payment, in real time. Making accurate payroll submissions under RTI can be practically difficult when an employee is paid via a non-UK payroll and when an employee is tax equalised.

As Sophie is a tax equalised inbound assignee in the UK, an EP Appendix 6 arrangement (known as Modified PAYE) could be used.

Under the Appendix 6 arrangement, WellBeing UK Ltd are required to make Full Payment Submissions (FPS) showing the estimated earnings and income tax calculated in accordance with the agreement. As this is done on an estimated basis, it provides some relaxation from the strict rules that RTI imposes, and these estimates can be reconciled in future months.

An application needs to be made to HMRC to get agreement that Wellbeing UK Ltd can operate the Appendix 6.

PAYE must be paid to HMRC in accordance with the FPS's made. When the number of employees on an Appendix 6 arrangement is five or fewer, tax payments can be made on a quarterly basis.

A Form P60 must be given to Sophie by 31 May following the end of each tax year.

As WellBeing UK Ltd are providing benefits-in-kind, these will need to be reported to HMRC on a Form P11D. Similarly, an associated Form P11D(b) will also need to be submitted to HMRC. The deadline for these forms is 31 January following the end of the tax year, which is an extension from the normal 6 July deadline.

As Sophie is not liable to UK National Insurance, WellBeing UK Ltd will need to make an adjustment on the Form P11D(b) to ensure that Class 1A National Insurance is not being paid on Sophie's benefits.

WellBeing UK Ltd must ensure that Sophie completes her self-assessment tax return properly, which is a requirement for individuals included on the EP Appendix 6 arrangement.

## MARKING GUIDE

TOPIC	MARKS
<u>Requirement 1</u>	
Identification that taxable income arises from residence start date	0.5
Salary costs included, including correct 9-month apportionment to income	1
Cost of living allowance	0.5
Hypothetical tax reducing taxable earnings	0.5
Flight allowance taxable in full	0.5
UK Accommodation taxable as a permanent workplace	1
Company car	0.5
Private Medical Insurance	0.5
Initial flight tax free under section 373 ITEPA 2003	0.5
Visa Costs tax free under section 373 ITEPA 2003	0.5
No personal allowance due to income level	0.5
Gross up calculation	1
Calculation of total tax equalisation cost (after deducting hypothetical tax)	0.5
SUB TOTAL	8
<u>Requirement 2</u>	
Normal payroll and tax submission under RTI	1
No National Insurance as A1 in place	0.5
Identification of an EP Appendix 6	1
Requirement to make an application	0.5
Monthly payroll and tax submissions	1
Tax due on a quarterly basis for fewer than 5 employees	0.5
P60s due 31 May	0.5
P11D and P11D(b) deadline 31 January for Appendix 6	1
P11D(B) adjustment for NIC	0.5
UK tax return filing requirement for employee	0.5
SUB TOTAL	7
<b>TOTAL</b>	<b>15</b>