Institution **CIOT - CTA**
Course **Adv Tech Human Capital Taxes**

Event **NA**

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Exam ID

Count(s)	Word(s)	Char(s)	Char(s) (WS)
Section 1	**913**	**3974**	**5053**
Section 2	**887**	**3789**	**4668**
Section 3	**1347**	**6120**	**7429**
Section 4	**777**	**3275**	**4048**
Section 5	**810**	**3438**	**4233**
Section 6	**812**	**3501**	**4307**
Total	**5546**	**24097**	**29738**

Answer-to-Question-_1_

Maya

The shares provided to Maya are employment related securities as they relate to her employment with Duggee Ltd.

She has been provided with restricted securities under Part 7 Ch2 ITEPA03 as there is a restriction on the market value.

The restriction is a forfeiture restriction of more than 5 years at 6 years and so there is charge on the acquisition of the restricted securities.

No s.341 election has been made so the charge will be on the restricted value of the shares at acquisition less the price paid for them.

If Maya had entered into a s.431 election within 14 days of acquiring the restricted securities - there would not be any further charges on the lifting of any restrictions.

The employment income would simply be the unrestricted market value of the shares less what she bought them for = 2,000 x 12 = £24,000.

<u>NIC position - readily convertible assets</u>

These are shares in an unquoted company but there are trading arrangements in place at the outset that the shares can be sold back to the EBT within six years if she leaves employment. They can also be brought by the EBT subsequent to this too.

As there are trading arrangements in place, the shares are readily convertible assets. They will need to therefore be subject to PAYE and there will be a s.222 charge if Maya does not pay the tax due by 90 days following the end of tax year in question.

Duggee Ltd will pay class 1 secondary NICs at 13.8% of the employment income as a result.

Charge on acquisition

The tax charge on acquistion will be the restricted market value of the shares = £10 x 2,000 = £20,000.

This is subject to PAYE, class 1 NICs by Maya and class 1 secondary NICs by Duggee Ltd.

class 1 secondary NIC for company = 20,000 x 13.8% = £2,760

Charge on lifting of restriction

The charge on the lifting of the restriction is on the market value at the date of restriction with the percentage charged the amount of the initial unrestricted market value which has not been taxed nor paid up.

The amount of the initial UMV which has not been taxed is £2/£12 = 16.6%

So the charge at the lifting of the restriction will be = £14 x 2,000 x 16.6% = £4,666.

Again this will be subject to PAYE and class 1 primary and secondary NICs.

class 1 secondary NIC by company = 4,666 x 13.8% = £643

September 2024 - artificial increase of the shares

There has been an artifical increase of the value of the shares so this falls under Part 7 Ch3B ITEPA03.

There is a charge on the increased amount of the shares due to the addition of the dividend rights.

The charge will be 2,000 x £1 = £2,000. Agsin this will be subject to PAYE and NICs.

Class 1 secondary NIC = 2000 x 13.8% = £276

Capital gains tax

Upon the sale in October 2024, there will be a charge to capital gains tax on the disposal.

The base price is the employment income charged initially. Ordinarily this would include the initial amount paid as well but in this case, this is nil.

Business Asset Disposal relief will be available if Maya has had a 5% interest in the company for the last two years, has been an employee for the last two years and the company is a trading company. This would give a tax rate of 10% up to a lifetime maxumum of £1million rather than a 20% rate. The £6,000 annual exempt amount will be applicable to reduce the taxable gain.

Here the taxable gain is;

Proceeds 2,000 x 16 32,000

Less: EI 2,000 + 4,666 + 20,000 (26,666)

Gain 5,334

Less: AEA (6,000)

TAXABLE GAIN nil

CGT nil

Maya will need to report this disposal on her 24/25 UK tax return. No NIC due by the company on this of course.

Had Maya have entered into the s.431 election, the proceeds would have been £32,000 - £24,000 = £8,000.

There would then have been CGT to pay on the £2,000 gain in excess of the AEA.

So the max CGT charge would have been = £400.

Duggee Ltd would have saved class 1 secondary NIC however - so the position would be more beneficial for EE and ER as Maya would only have been subject to income tax and NICs on £24,000 instead of £26,666 with the capital gains tax rate being much more favourable too.
= (26,666 - 24,000) x 13.8% = £367

this is something Duggee Ltd should be cognizant to as the s.431 election is a joint election between EE and ER so will save them NICs in the long run and involves their

participation.

Reporting obligations

Reports will be needed to report the acquisitions, lifting of restrictions, artificial increase in the value of the shares by the 6 July following the end of the tax year even though this is not when the PAYE and NIC will be due.

July 6 2018 - reporting acquisition of security
Juy 6 2024 - deadline for reporting lifting of restriction
July 6 2025 - deadline for reporting increase in value due to dividend rights
July 6 2025 - deadline for reporting disposal

The PAYE and the NIC will be due by 22nd of the following month reported on the FPS which is due by 19th of the following month.

--------------ANSWER-1-ABOVE---------------

--------------ANSWER-2-BELOW---------------

Answer-to-Question-_2_

Rikka

We shall first look at the UK residence position for Rikka in relation to her assignment to Switzerland for three years.

The UK residency rules are governed by the statutory residence test as introduced in FA2013.

UK residents pay tax on their worldwide income and gains whereas non-residents pay tax on their UK sourced income and gains only.

Rikka is departing the UK in 23/24.

<u>Rikka - residence position 23/24</u>

Rikka does not meet any of the automatic NR tests as she is present in the UK for more than 16 days in the tax year and has more than 30 workdays in 23/24.

She will however be resident under the first automatic test in 23/24 as she spends more than 183 days in the tax year.

Option 1 - takes the redundancy in January 2025 and returns in May 2025

She will be resident in 24/25 and not qualify for split year - this is on the basis that when she is made redudant in January 2025, she will have a significant break from overseas work in the period Jan 25 to 5 April 2024 - ie. more than 31 days in which she has no overseas work. Her intention of course is to take a career break.

This is all despite meeting the other case 1 conditions:

- Riika is UK resident in 23/24
- Riika was UK resient in 22/23
- she will also satisfy the relevant overseas work criteria as she will be working full time (more than 35 hours per week)and will not have enough days/workdays to go over the NR thresholds.

The impact here is that she is UK resident all along.

BlueCo Ltd will not be able to operate the NT code. She will be taxable in the UK on worldwide income and gains until her redundancy where the employment income will fall out.

She will be treaty resident in the UK until her children and hubsand join her so a credit for Swiss taxes would be possible on a return and BlueCo Ltd may want to consider an Appedix 5 admin easement to help her cash flow as she will be subject to Swiss taxes. The other option is for BlueCo Ltd to equalise the assignment.

Under option 2, she will return to the UK on 15 March. This will mean in the tax year she has around 19 workdays (5-7 before she returns and then another 15 or so post her return)

so this is less than 30 workdays. She will also be in the UK for less than 90 days so even though she will not satisfy the first NR test as she has more than 16 days in the UK, she will qualify as FTWA for 24/25 - there won't be 31 days between 15 March and 5 April for a significant break from overseas work.

Treaty position - Article 15 on employment income

Option 2:

In 2024/25, she will have 5-7 workdays in the UK. We first need to look to see whether these are incidental or not. The other alternative is to look at Article 15 of the UK/Swiss treaty.

She will satisfy clause 15(2)(a) in the fact that she will be present in the UK for periods not exceeding 183 days in a 12 month period. The 12 month period will be from say: 6 December 2023 - 5 December 2024 as she will not have

She will also satsfy clause 15(2)(b) in the fact that the costs of the assignment will be covered by the Swiss entity which is its own subsidiary so she will be economically employed overseas.

She will also satisfy 15(2)(c) because BlueCo SA does not have a fixed base in the UK nor a creation of a permanent establishment.

Therefore, the 5-7 workdays will be exempt under the treaty.

However, as Riika is still an employee of BlueCo Ltd, she will need to remain on UK payroll as BlueCo Ltd has a PAYE presence through its UK place of business. The NT code operation is correct on the basis that she is non-resident.

Pension scheme

Riika will be able to receive relief in the UK for her pension contributions up to the maximum of £3,600 or her relevant UK earnings and this should be last for up to five tax years. She does not need to be UK resident to receive this relief but does need to have chargeable earnings in the UK.

Investments

Any disposals of shares would not be subject to capital gains tax when Riika is a non-resident.

This being said, she could be caught by the temporary non-residence rules as she has been resident in the UK for 4 of the previous 7 tax years before departing. Any sales of pre-departure assets held would be subject to tax if Riika returned to the UK before 6 December 2028 (ie. five calendar years from the split year). This is expected as she will return in 2025 and so any disposals of the investments would be taxed in the year of return subject to the £6,000 annual exempt amount.

Incidental workdays

Riika is not a director so the incidental workdays in a non-resident period will not be UK taxable. Incidental workdays are days which are subordinate and ancillary to main the UK

duties.

Voluntary NICs

--------------ANSWER-2-ABOVE---------------

--------------ANSWER-3-BELOW---------------

Answer-to-Question-_3_

Robert

<u>Tax residence</u>

Robert will be UK resident as confirmed in the question under split year case 5 - when he starts full time work in the UK.

Robert is also a non-domiciled individual so is eligible to file under the remittance basis of taxation.

Robert if he so chooses to file under the remittance basis of taxation will only be subject to UK tax on his UK sourced income and gains plus any foreign income and gains which are remitted to the UK.

The remittance basis needs to be claimed if Robert's unremitted income and gains for the tax year exceed £2,000. Otherwise, the remittance basis will be automatic.

Note that the personal allowance and annual exempt amounts are lost when claiming the remittance basis - this will be of no effect to Robert as his gross salary of £600,000 (even apportioned to UK 80%) is well above £125,140 and therefore Robert is not eligible for the personal allowance anyway.

As Robert has been non-resident in three consecutive years in the previous five tax years, overseas workday relief will be available to exempt any income from non-UK workdays from UK tax to the extent the income has been kept outside of the UK.
This will be available for the first three tax years of Robert's secondment - 25/26, 26/27 and 27/28 so will in fact cover his whole period in the UK. The UK will only seek to charge 80% of his salary to UK tax as long as he keeps at least 20% of his earnings outside the UK.

Note that benefits are deemed remitted for the purposes of OWR so there is no apportionment on these.

Robert's pay will be paid into a US bank account so the income will not be remitted. However, the US bank account is not likely to be qualifying as it will have more than £10 in it when the first UK sourced employment income is paid into it. This means that the special mixed fund rules will not apply and any remittances are likely to be dealt with transaction by transaction as it will be a mixed fund.

Robert should set up a new qualifying overseas bank account for every tax year. It should only include employment income and any interest on it. Can be a current/savings account but needs to be nominated by 31st January 2027 which will be the deadline of his first 25/26 UK return.

Social security position - Robert

Under the provisions of the EEA SSC Protocol 2021, Robert is working at least 5% of his time in a second jurisdiction in the EU so he is classed as a multi-state worker.

Under the multi-state worker provisions, social security is due in the country in which an individual is habitually resident if they work a substantial amount of time there - being at least 25% of the time.

Robert whilst on his UK assignment is habitually resident in the UK - this is where he returns to. He does work around 80% of his time in the UK so has substantial workdays here.

We can therefore say on first principles that he will be subject to UK national insurance.

This being said, Robert has been assigned by his employer in the US to work in the UK and we need to consider the reciprocal agreement the UK holds with the US. Under clause 2 of the US/UK recip agreement, Robert is being sent to the UK for a period of less than 5 years and therefore, Robert will still be subject to US social security.

A certificate of continuing liability should be obtained for Robert as evidence to HMRC and the EU country tax authorities that no UK national insurance nor social security in the EU is due.

This also means that TJCB Ltd will not be subject to any class 1 secondary nor class 1A NICs either. No P11D and P11D(b) will be required in relation to the relocation benefits.

<u>Relocation</u>

Under s.272 ITEPA03, £8k of relo expenses are exempt. This includes transporation of domestic belongings and the provision of temporary accommodation in the hotel whilst Robert is unable to move into the UK property.

Expenses are allowable for the first two years of tax residence. The end of the 26/26 tax year will be when the expenses will no longer be claimable.

The amounts need to include VAT.

Furnishings does not fall under s.272. The furnishing is a 20% private use asset.

The cash relocation allowance of £5,000 is taxable as earnings and subject to PAYE - it does not fall under s.272

Pension contributions

Under the provisions of Article 3 and Article 18, it is clear that a 401k retirement scheme is generally exempt from income taxation in the US and provides retirement benefits.

It is also a recognised overseas pension scheme for HMRC's purposes.

On the basis of Article 18 and the fact that Robert has contributed to his 401k prior to working in the UK - by himself and his employer - and where HMRC has agreed that a 401k works in much the same way as a UK registered pension scheme, the employee contributions are treated as deductible and the employer contributions are exempt from tax.

This is much easier than having to apply for migrant member relief for ER exemption and EE deductibility and is more advantageous than a s.307 claim (which would also stand

here as a 401k provides retirement benefits) on the return as this would only exempt the ER contributions though is an automatic claim with no application needed.

Note that a 401k is a qualifying overseas pension scheme as it satisfies the tax recognition test and the regulatory requirements test (it mirrors UK schemes).

The 401k is regulated by a regulator in the US, is open to US residents, has a system of taxing personal income, provides relief on contributions into the scheme and is recognised by the US tax authorities.

UK schemes need to have ER contributions of at least 3% and this is satisfied in this case. The contributions in total would need to be at least 8% so it may well be that the ER or EE need to up their contributions slightly to get to this figure.

The usual annual allowance factors are at play for a US scheme - this follows UK domestic rules.

Note that given Robert's employment income level, his annual allowance will be tapered to the minimum £10,000 and so contributions between EE and ER of 6% may well create an annual allowance charge. The annual allowance charge would be a charge at 45% of the excess over the tapered annual allowance and Robert should seek advice on this.

2)

Calculation for PAYE on year of arrival

Salary	600,000 x 9/12	450,000	apportioned for 9 months
Hypothetical tax		(75,000)	apportioned for 9 months
Less: pension		(9,000)	
Relocation allowance		5,000	
Furnishings		2,000	
Relocation	7,500 + 2,400 - 8,000	1,900	
Less: OWR	20% x 450,000	(90,000)	
Net income		284,900	
Gross up (working below)		206,378	

Gross up calculation:

Net	Gross up tax	Gross	
30,160	30,160 x 20/80 = 7,540	37,700	
54,464	54,464 x 40/60 = 34,976	87,440	
200,276	200,276 x 45/55 = 163,862	364,138	

The OWR can be claimed in real time on the Appendix 6

The benefits are deemed remitted so are not subject to 20% deduction.

So the PAYE for the year of arrival is £206,378. The cost of the equalised assignment for the company will be this less the hypo tax they collect in the tax year.

The appendix 6 reporting:
- 1/12 of the annual amounts should be reported each month
- can take a deduction for the 401k code
- should be on a OT code
- estimates are ok on an Appendix 6 because there will be a month 12 true up

- self-assessment return is required to reconcile over/under wittholding
- no penalties for incorrect FPSs
- the company should still submit the FPS by 19th of following month each month and pay tax over via RTI by 22nd (if electronic)

--------------ANSWER-3-ABOVE---------------

--------------ANSWER-4-BELOW---------------

Answer-to-Question-_4_

Dawn

<u>Bonus</u>

The earnings period for directors is the earliest of:

1) the date the payment is made - in this case 30 April 2026

2) the date the individual is beneficially entitled to the payment - 30 April 2026

3) the earlier of:
a) the time when sums on account are credited in company accounts or records
b) the time a period ends if the amount is determined by the end of the period
c) the time when the amount is determined by the board if after the end of the period date.

In this case, the amounts are determined after the end of the period so we are in condition 3(c). The earnings date for the bonus will therefore be 31 March 2026 which falls in 25/26 rather than 26/27 when the monies are actually received.

The bonus will need to be subject to PAYE and class 1 primary and secondary NICs.

The PAYE and NICs will be due by 22nd April 2026 with the FPS return due by 19th April 2026.
Class 1 secondary NICs will be due by the company by the same date.

The extent to which there is not enough net pay to fund the tax may bring us into s.222 charge where Dawn would need to settle the tax to the company by 4 July 2026. This is unlikely to be the case as she will receive the monies in the April pay run. This being said, any EE liability covered by the ER and not paid by 90 days from the end of the tax year will be treated as earnings for NICs and should be inputted on Dawn's P11D form.

As Dawn is a director, she will have an annual earnings period for the purposes of NIC and therefore the NIC will either need to be calculated on a cumulative basis with 1/12 of the annual bandings given each month or there will need to be the normal calculation (monthly thresholds as paid monthly) for eleven months of the tax year with a

reconciliation in the twelth to ensure that the annual NIC thresholds are used. These rules came about to ensure that large bonuses were not paid in individual months and thus less NIC actually paid on the bonus.

Leaving gift

This is a retirement benefit - it does not come under s.401 ITEPA03 on terminations or anything of the sort.

This leaving gift is a benefit in kind and will not be subject to an exemption.

The tax and NIC treatment will solely depend on the underlying nature of the gift. If the gift is a cash voucher or readily convertible, PAYE will be required as well as payroll. Class 1 NICs would be due by employer and company via the usual RTI process.

If the gift is a non-cash voucher, we would be looking at payroll for NIC and a P11D for tax (option to voluntarily payroll and just do P11D(b) too). Class 1 NICs would be due by Dawn and the company.

If this is an outright gift of a good, this is a benefit in kind and subject to class 1A NICs by the company and would need to be inputted on the P11D and P11D(b) due by 6 July 2026 with the class 1A NIC due by 22nd July 2026.

The class 1A NIC amount = 50,000 x 13.8% = £6,900.

Restrictive undertakings

The provision of the shares is not a restrictive undertaking under s.225 ITEPA03 as no actual payment is made.

But what we have here is a contingent share award. She would not become legally entitled to those shares until three years' time. The amounts would not be credited in the company accounts until three years when the shares are granted and as this has already been determined, we would need to wait until the three year end period anyway for the earliest of earnings under s.18 ITEPA03.

But as Dawn will not actually pay anything for the shares, in three years, this will be employment income for the purposes of tax at the market value of the shares at the date of grant (ie. the discount she is offered which is a full discount here is the taxable element)

This share award will be subject to tax and NIC as well as PAYE given that Spotlight plc

is a listed company on the LSE. This is to say that the shares will be readily convertible assets.

Class 1 secondary will be due at 13.8% by Spotlight.

Spotlight plc will get a corporation tax deduction for the shares granted to Dawn in three years given that the company is quoted.

--------------ANSWER-4-ABOVE---------------

--------------ANSWER-5-BELOW---------------

Answer-to-Question-_5_

Income tax and NIC implications of cash tips

Current:

Any cash tips which are given to the beautician will not be subject to PAYE or class 1 NICs. This will be the same for the receptionist on the basis that she keeps the cash tips to herself. However, if the receptionist is then responsible for distributing the cash tips she receives to the beauticians, she will be treated as a troncmaster and PAYE should be operated by the troncmaster or related business. There would be no NIC if there is no allocation of the pooled tips and there doesn't appear to be any pooled tips currently anyway.

Proposals:

PlanA

Where Nelo is collecting the tips, he is the troncmaster and he via B Ltd needs to operate PAYE.

He is also distributing them and allocating amounts, so class 1 NIC will be due as well.

PlanB

Under plan B, as Beauface would collect the tips themselves and distribute, B Ltd would be a troncmaster and would need to operate PAYE on the cash tips. They would then need to report this via their monthly full payment submissions and pay tax over to HMRC. FPS return by 19th of following month and payment by 22nd if electronic or 19th otherwise. They have a choice as under 250 EEs.

From a NIC perspective, there would be no NIC if Nelo is not allocating the tips. Otherwise, if he is, there would be class 1 NICs to pay as the tips would be earnings.

Reporting: Where tax and NIC are due, collected via RTI on FPS submissions.

National Living Wage - 23/24

Tips do not count as earnings for National Living Wage purposes.

We are looking at basic pay and the hours worked.

Yinka is 23 since 23 March 2024 so she becomes eligible to the £10.42 per hour national living wage towards the end of the tax year.

We shall assume that she has two weeks working at NLW and she has two weeks of the tax year working at the 21-22 rate of £10.18.

National minimum wage is looked at on the basis of the pay period and not necessarily in months.

Weeks 1 and 2: she is paid 206/20 = £10.30 per hour. This is above £10.18 so compliant.

Weeks 3 and 4: she is paid 206/20 = £10.30 per hour. This is below £10.42 national living wage.
There is an underpayment of £0.12 per hour. So this is 40 hours x £0.12 = £4.80 underpayment.

Beauface Ltd should rectify this immediately or face a potential 200% penalty for underpayment. They need to regularly monitor when EEs go to a new national minimum wage band. Yinka's payment per week will now need to be at least £10.42 x 20 = £208.40

Auto enrolement processes

Yinka's annual salary if we extrapolate out is now going to be (if they start meeting NLW requirements) for 52 weeks - £208.40 x 52 = £10,836.

As she is between 22 and state pension age and earning in excess of £10,000, she is an eligible jobholder.

Beauface must automatically enrol her in a qualifying pension scheme as a result. It will be for Yinka to opt out should she wish. Cyclical 3 year auto enrolment also in place.

Total cost to Beauface of the annual emoluments under Plan A

		Class 1 secondary NICs per month	Class 1 secondary NICs per annum
		£	£
Monthly salary	2,383 per month	(2,383 - 758) x 13.8% = 224	224 x 12 = 2,688
Smart phone	52 per month	52 x 13.8% = 7	7 x 12 = 84
Skin products	40 x 1.2 = £48	Class 1A 48 X 13.8% = 6	6 X 12 = 72

There is no deduction for earnings for NICs based on pension contribution.

The increased salary of £300 per month will be greater earnings for class 1 secondary NICs.

Smart phone - this is a reimbursement so this is earnings and not a benefit in kind. The contract is not between the salon and the provider so is not a work related mobile phone. So not exempt and subject to class 1 secondary at 13.8%.

Skin products - these are a benefit in kind. I see these as being rewards for services so not a trivial benefit and there may be some contractual entitlement from the wording so taxable. Subject to class 1A at cost to employe of £48 per month to include 20% VAT.

Assuming no apprenticeship levy in play here due to class 1 bill being lower than £3million.

Costs of ER pension contributions for Nelo = 5% x 2,083 x 12 = £1,249 per annum.

Salaries are deductible for CT so there would be a deduction of £2,083 x 12 x 25% = £6,249.

So the total cost is likely to be £1,249 + £24,996 - £6,249 = £19,996.

--------------ANSWER-5-ABOVE---------------

--------------ANSWER-6-BELOW---------------

Answer-to-Question-_6_

Yachtmaster

As we have Yachtmaster plc providing various benefits through a third party, we must think immediately of the disguised remuneration principles and gateway in s.554 ITEPA03.

Yachmaster plc is not a close company so we are not in the realm of the close company gateway.

Chapter 2 Part 7A ITEPA03 applies where we have:
- an individual employee or a person linked to the employee who is employed
- there is an arrangement to which the employee is party to or relates to the individual
- the releveant arrangement as far as it covers the individual is provided wholly or partly by means of providing rewards, recognitions or loans in connection with the employees' employment
- a relevant step is taken by the third party; and
- it is reasonable to assume that the relevant step is taken pursuant to the arrangement or there is some other connection between the step and the arrangement

The effect of this disguised remuneration if the conditions hold and there is no exemption is to subject the remuneration to PAYE and NICs as earnings so tax and class 1 primary and secondary due.

The relevant step is a payment, loan or can even be earmarking future remuneration.

Where the EE does not pay the tax within 90 days of the end of the tax year, there is also a s.222 charge to earnings as well.

The relevant step amount is the higher of:
- the cost of the relevant step
- the market value of the asset subject to the relevant step

<u>Interest free personal loan of £100,000 for 10 years</u>

This is not an exemption to the Disguised remuneration provisions.

We are not looking at a loan under ordinariy commercial transactions here. We are also looking at an employer related loan under s.554OA which is in excess of £100,000 and is not treated as £10,000 per year so we cannot get into the s.445OA exclusion.

Therefore as this meets all the above tests, it is not the interest element but the whole loan which is subject to tax and NICs as earnings.

Yacht

The provision of the yacht does not fall under one of the exemptions. Here we have a third party which is the EBT providing a benefit to an individual who is linked to the employer under s.554ZI being a civil partner and this is clearly only being provided by way of Adrian being an employee of Yachmaster plc. We also clearly have an arragement between Yachtmaster and the EBT as the yacht was previously owned by the company. It is very reasonable to suggest that the reason the yacht is being provided now is in relation to the fact it a) used to be owned by Yachmaster b) it is provided to a person linked to a Yachmaster EE

The cost of the relevant step is the £4,000 (ie. running costs) as there is no fee to actually use the yacht.
The market value of the yacht is therefore very likely to be higher and will be the earnings for tax and NICs. It may not be £50,000 now and slightly less, but the MV of the asset will be used as the earnings.

In terms of quantum of tax and NIC, we are looking at sizeable amounts here.

Note that Ben is not an EE of Yachmaster plc so the notional income amount falls on Adrian - he will be liable to the tax and class 1 NICs and not Ben. The 90 day rule as above will apply.
Yachtmaster plc will be liable to the class 1 secondary NICs.

Option of 10,000 ordinary shares - vests on the fifth anniversary of the grant date

This is the earmarking of deferred remuneration which vests in a period not more than five years from the period in which the options are granted. This is an exemption to the DR rules under s.554H.

This being said, what we have here is an unapproved option scheme. The tax point is the exercise not the grant.

There is no tax on the grant of the option. There will however be a tax on the exercise of the option in five years. This will be on: the MV at excercise less the exercise price (nil).

They are readily convertible assets so class 1 primary and secondary NIC will be due.
The usual s.222 charge will apply if the tax has not been paid to Yachmaster by Adrian by 4 July 2029 - ie. within 90 days of the end of the tax year of exercise.

The exercise will need to be reported via PAYE in March 2029.

The granting of options will need to be reported on the ERS return by Yachtmaster plc by 6 July 2024.
The exercise will also need to be reported on the ERS return due by 6 July 2029.

END