

THE CHARTERED INSTITUTE OF TAXATION

APPLICATION AND PROFESSIONAL SKILLS

Human Capital Taxes

TIME ALLOWED
3 HOURS 30 MINUTES

- In order to secure a pass in this exam, you will be required to demonstrate competence in each of three skills.

You will be assessed across your answer as a whole for Structure. A pass or fail grade will be awarded.

You will be assessed for competence in a number of broad topics for the following skills:

- Identification and Application
- Relevant Advice and Substantiated Conclusions

For each topic for each of these two skills, a grade will be awarded. The grades for those topics will be weighted and averaged to produce a final grade for each skill of 0, 1, 2, 3 or 4. A grade of 3 or 4 is required to demonstrate competence.

- All workings should be shown and made to the nearest month and pound unless the question specifies otherwise.
- Candidates who answer any law elements in this paper in accordance with Scots law or Northern Ireland law should indicate this where relevant.
- Scots Law candidates may provide answers referring to Land and Buildings Transaction Tax rather than Stamp Duty Land Tax.
- Unless otherwise indicated by the provision of additional information, you may assume that 2019/20 legislation (including rates and allowances) continues to apply for 2020/21 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

You are Tanvi Shah, a tax manager in Brennan-Pierce, a firm of Chartered Tax Advisers. Your partner, Clive Parker, has received an email (**EXHIBIT A**) from Bethany Frank the group HR Director of Greenson Group Ltd, one of his longstanding clients.

Greenson Group Ltd is a multinational engineering consultancy with subsidiaries in South Africa (Greenson Africa Ltd) and in Brazil (Greenson Americas Ltd). They are currently reviewing the effectiveness of their global graduate trainee programme and Bethany has been asked to do a review of two proposals for revisions to the programme. She has asked your firm to support her. Clive Parker has asked you to prepare a draft report to Bethany considering the two proposals and advising which should be adopted.

The following exhibits are provided to assist you:

EXHIBIT A: Email from Bethany Frank

EXHIBIT B: Details of current graduate trainee rotation programme

EXHIBIT C: Proposals for new graduate trainee programme

EXHIBIT D: Summary of Double Taxation Treaties and Social Security Agreements in place between countries in which the Greenson Group operates

EXHIBIT E: Pre-seen information

Requirement:

Prepare a draft report to Bethany Frank, for review by Clive Parker. The report should review the current scheme and both proposals and recommend how Greenson Group should proceed.

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Continuation

EXHIBIT A

Email from Bethany Frank

From: B.Frank@Greenson.com
To: Clive.Parker@Brennan-pierce.co.uk
Date: 5 November 2020
Subject: Tax review of graduate trainee programme

Dear Clive

I hope you are well. I have a project I would like your assistance with.

In April 2019 we started our first graduate training programme. Suitable trainees are hired by the various Greenson group companies according to the long-term recruitment plans in that location. The trainees spend the two-year programme on a series of 12-week assignments rotating around different departments and countries.

I haven't consulted you on the scheme before as no-one has ever been in a rotational post for longer than 12 weeks. It didn't seem necessary at the time. Our tax director has challenged me to review this. He is concerned because Brazilian and South African trainees undertake two 12-week UK assignments in the same tax year. Please can you tell me if this is a problem.

As we are approaching the end of the first full round of the programme we have been taking feedback from the business. So far, the key message has been that longer rotations (ideally six months at a time) would be more meaningful for the trainees and less disruptive for the business. Additionally, some parts of the business have expressed confusion about how much it costs them to take on a trainee and would like this aspect simplified.

We have two options under consideration for a revised longer rotational programme which would start from April 2021. The first keeps the trainee linked to a specific home country throughout. The second considers the trainees as global resources and they will move from location to location as short-term local employees for each rotation.

In the attachments you will find details of both proposals and the current scheme. Whichever proposal we adopt we intend to continue to recruit one graduate trainee in each of the UK, Brazil and South Africa each year.

Each proposal contains a costing for a six-month UK assignment. We consider that the costs of the non-UK rotations would be roughly similar under each of the options and do not need you to consider this further. For the purposes of any calculations please assume that the trainees will have no other sources of UK income and that they will not be subject to tax in their home country while on assignment to the UK.

I believe that either proposal would meet the requests of our business teams as their key request was for longer rotations. From my team's perspective our top considerations are cost and administrative ease.

Please can you review and make a recommendation on which proposal would be preferable keeping in mind the considerations expressed above.

Many thanks

Bethany

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EXHIBIT B

Details of current graduate trainee rotation programme

Greenson Group Graduate Trainee Rotation Programme – Policy for Overseas Rotations

This document outlines the principles of the Greenson Group Graduate Trainee Rotation Programme and the support we will provide to our graduate trainees when they are on a rotation away from their home office location.

Costs during overseas rotations

Graduate trainees will remain on their home country payroll and will receive all cash items such as salary and per diems through their home country payroll.

Salary cost plus any employer payroll taxes thereon will remain with the Greenson Group entity located in their home country. Any per diems provided will be recharged to the Greenson group entity located in the country where the rotation is taking place.

Non-cash items relating to the overseas rotations such as accommodation, flight at the start and end of trip, health care cover, etc. will be organised by our destination services provider and charged to the Greenson group entity located in the country where the rotation is taking place.

Any costs relating to the provision of home country pension plans will remain with the graduate's home country employing company.

Employment contract

For the duration of the rotation programme, graduate trainees will remain on their home country employment contract with all terms and conditions continuing. In addition, where possible, trainees should remain enrolled in any home country pension plans.

Performance management

Graduate trainees will remain in their home country performance management programme and, where possible, should retain the same home country coach throughout the two year programme. During a rotation they should report into a manager in the department in which they are based for day to day instruction. This manager will be responsible for providing regular feedback to the home country coach and will submit a formal appraisal at the end of the rotation.

Annual holiday

As detailed in their employment contract, graduate trainees on the rotational programme are expected to take their annual holiday in the gaps between rotations that have been scheduled for this purpose. Any variation to this must be agreed in advance by the programme directors in both the home employing country and the country in which the scheduled rotation is taking place. Where a graduate trainee is on an overseas rotation, statutory national holidays of the country in which they are working will apply.

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Support provided while on overseas rotation

Immigration

All work visas and permits required for the graduate trainee to work in the overseas rotation location will be provided.

The graduate trainee is expected to be unaccompanied on the rotation and no support will be provided for immigration requirements of accompanying family members if applicable.

Medical requirements and insurance

Medical check-ups required as part of any immigration applications and necessary inoculations and vaccinations will be provided.

Graduate trainees will be covered by the group travel insurance policy for emergency medical and dental treatment throughout the period of their overseas rotation.

Travel arrangements to and from the overseas rotation country

Direct economy class flights to and from the overseas rotation location, reasonable taxi and public transport costs to and from airports as well as any airport taxes will be provided. All flights should be booked through the centralised travel booking system. Other expenses should be reclaimed from the Finance team in the country in which the overseas rotation is taking place.

Per diem allowance

Graduate trainees will be provided with a per diem allowance of £30 per day while on an overseas rotation. This is intended to cover increased living and subsistence expenses such as food, currency conversion charges and purchases of incidental items etc. The per diem allowance will be paid alongside the graduate trainee's regular pay in their home country currency using the average exchange rate in force on the day the overseas rotation commenced.

Accommodation

Graduate trainees will be provided with a fully furnished one bedroom serviced apartment within walking distance of the local office while on an overseas rotation.

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EXHIBIT C

Proposals for new graduate trainee programme

Under both proposals all trainees will have three months initial training at our UK headquarters. Following this, each trainee will undertake three six month rotations. In all cases there will be one rotation in each of the UK, South Africa and Brazil. Rotation order will differ between trainees.

Proposal A

We propose that the current scheme benefits and format is retained with the following amendments:

- 1) All costs of the graduate trainee should be borne by the home country throughout to reflect their ultimate benefit and to encourage the host country departments to accept requests to accommodate graduate trainees.
- 2) Where host country taxes are payable, the graduate trainee should be tax equalized to a notional home country system using a flat hypothetical tax rate of 10% to cover both income tax and social security.

Projected cost for a six-month rotation into the UK for a non UK based trainee:

Proposal A

	£
Gross base salary (six months' worth)	12,500
Flights (One return flight)	2,500
Immigration (Work permit application)	5,000
Travel Insurance	1,000
Per diems (26 weeks @ £30 per day)	5,460
Accommodation (26 weeks @ £540 per week)	<u>14,040</u>
Total projected cost (excluding taxes and pension costs)	<u>40,500</u>

Proposal B

We propose a number of significant changes to the current scheme as follows:

- 1) Graduate trainees will all initially be employed by Greenson Group Ltd in the UK. When they move out of the UK for overseas rotations, they will be employed by the country in which they are undertaking their rotation.
- 2) All employment contracts will be for fixed term periods to reflect the length of the rotations that they are undertaking.
- 3) All costs of the graduate trainee should be borne by the host country throughout to reflect the benefit they will be providing to the host country.
- 4) Support provided while on overseas rotation would be limited to immigration and travel arrangements to and from the overseas rotation country.
- 5) Graduate trainees would not be entitled to the per diem, medical insurance and accommodation provided under the existing scheme. Instead, they would be paid a gross salary equivalent to a local employee at the same grade (estimated as £30,000 per annum on average) plus an additional £300 per week net allowance to cover increased expenses. They would be responsible for arranging their own accommodation.
- 6) The simplifications suggested would allow us to reduce the amount of time spent by the HR team on administering the programme.

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Projected cost for a six month rotation in the UK:

Proposal B

	£
Gross base salary (six months' worth)	15,000
Flights (One return flight)	2,500
Immigration (Work permit application)	5,000
Net weekly allowance (26 weeks @ £300 per week)	<u>7,800</u>
Total projected cost (excluding taxes and pension costs)	<u>30,300</u>

EXHIBIT D

Summary of Double Taxation Treaties and Social Security Agreements in place between countries in which the Greenson Group operates

Double Tax Treaties

	<u>Brazil</u>	<u>South Africa</u>	<u>UK</u>
Brazil		Yes	No
South Africa	Yes		Yes
UK	No	Yes	

Social Security Agreements

	<u>Brazil</u>	<u>South Africa</u>	<u>UK</u>
Brazil		No	No
South Africa	No		No
UK	No	No	

It should be assumed that all the above Double Tax Treaties follow the OECD model treaty and that they don't give the residents and/or nationals of these countries the right to a UK personal allowance if non-UK resident for tax.

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EXHIBIT E

Pre-seen information

Client

Greenson Group Ltd

Ownership

A private limited company founded in 2005 by Graham Greenson.

Mr Greenson holds 80% of the shares in the Greenson Group.

Other significant shareholders are as follows:

Harriet Taylor	CFO Greenson Group Ltd	4%
Paul Soto	CEO Greenson Americas	4%
Helen Smith	CEO Greenson Africa	3%
Marianne De Vella	CFO Greenson Americas	2%
Emmanuel Bailleau	CFO Greenson Africa	2%

The remaining 5% of the shares are held by a variety of senior executives of the Greenson Group companies. No other individual holds >1% of the Greenson Group shares.

Greenson Group Ltd Board of Directors is composed as follows:

Graham Greenson	CEO and Chairman
Harriet Taylor	CFO
Neil Smith	Senior Independent Director
Frank Richards	Non-Executive Director
Yin Li	Non-Executive Director

Business

Greenson Group is a multinational engineering consultancy specialising in renewable energy. Most of its client base is in Europe but in 2015 it set up entities in Brazil and South Africa to increase global coverage.

Group structure

Greenson Group Ltd is incorporated and tax resident in the UK. The headquarters are in Manchester where the majority of its 350 employees are based.

It has two wholly owned subsidiaries:

- 1) Greenson Americas, incorporated and tax resident in Brazil. This entity has 100 employees located in Rio De Janeiro.
- 2) Greenson Africa, incorporated and tax resident in South Africa. This entity has 55 employees located in Cape Town.

VAT

All companies are registered for VAT/local equivalent in their country of residence.

Financial

Accounts are made up to 31 March each year by each group entity.

Accounts to 31 March 2020 showed group-wide turnover of £35 million with profits of £20 million.