THE CHARTERED INSTITUTE OF TAXATION

ADVANCED TECHNICAL

Human Capital Taxes

November 2025

TIME ALLOWED

3 HOURS 30 MINUTES

- 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 required by the question, candidates may answer the question using Scottish Income Tax rates or Income Tax rates applying elsewhere in the UK.
- Unless otherwise indicated by the provision of additional information in the question, you may assume that 2024/25 legislation (including rates and allowances) continues to apply for 2025/26 and future years. Candidates answering by reference to more recently enacted legislation or tax cases will not be penalised.
- Additional marks may be awarded for presentation.
- You must type your answer in the space on the screen as indicated by the Exam4 guidance.

1. Widget Ltd is a UK resident close company in which all shares are held by individuals. The board has recently appointed Preeti as a non-executive director. Preeti is tax resident and domiciled in India.

Preeti is required to dedicate 16 days per annum to the role, which requires her attendance at all UK board meetings held at the UK head office. There are four meetings per year. For each board meeting, two days will be spent in India preparing for the meeting. Preeti will then travel directly to the UK on the third day, continuing to prepare for the meeting at the airport and on the flight. She will stay overnight at a hotel near to the UK head office and attend the board meeting on the fourth day. Preeti will travel back to India immediately after each meeting.

Preeti expects to spend no other time in the UK and has never previously resided in the UK. She has no other roles that require her attendance in the UK.

Preeti's remuneration package is as follows:

1) A fee of £80,000 per annum paid in quarterly instalments.

2) An award of 15,000 ordinary shares in Widget Ltd. No restrictions are in place on the shares aside from the ability to sell per the company's Articles of Association. The shares have a par and market value of £1 each on acquisition. However, Preeti will give no consideration for them but an obligation remains to pay the par price if Widget Ltd calls for it. The shares are not deductible for Corporation Tax purposes and Preeti will not hold more than 5% of the shares in Widget Ltd.

3) An award of 10,000 phantom shares. These shares offer no legal or beneficial right to shares or securities. Instead, their value is linked to the market value of the ordinary shares in Widget Ltd. If the market value of the ordinary shares reaches a pre-determined threshold at a date set by the board every year, their value above the threshold will be paid to Preeti in cash.

4) Reimbursement for flights to the UK and hotels for the purposes of attending the board meetings.

Widget Ltd has a PAYE scheme in operation and pays their other employees monthly. An Appendix 4 agreement is also in place with HMRC and Widget Ltd sends returns annually.

The UK does not have a reciprocal agreement in place with India for social security contributions.

An extract from the UK/India Double Tax Treaty is below.

Requirement:

Explain the employment tax reporting requirements for Widget Ltd in respect of Preeti's remuneration package including any reliefs or exemptions that may be available at source.
(20)

<u>Extract From the Uk/India Double Tax Treaty In Force</u>

<u>Article 16 — Dependent personal services</u>

Subject to the provisions of Articles 17 (Directors' fees), 18 (Artistes and athletes), 19 (Governmental remuneration and pensions), 20 (Pensions and annuities), 21 (Students and trainees) and 22 (Teachers) of this Convention, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

Notwithstanding the provisions of paragraph (1) of this Article, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall not be taxed in that other State if:

a) he is present in that other State for a period or periods not exceeding in the aggregate 183 days during the relevant fiscal year;

b) the remuneration is paid by, or on behalf of, an employer who is not a resident of that other State; and

c) the remuneration is not deductible in computing the profits of an enterprise chargeable to tax in that other State.

Notwithstanding the preceding provisions of this Article, remuneration in respect of an employment exercised aboard a ship or aircraft in international traffic may be taxed in the Contracting State of which the person deriving the profits from the operation of the ship or aircraft is a resident.

<u>Article 17 — Directors' fees</u>

Directors' fees and similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other State.

End of Question

2. Lannister Inc is a manufacturing business based in the fictional country of Westeros. The following employees will work at its UK subsidiary, Stark Ltd, during 2025/26:

   1) Jaime will work for eight weeks at Stark Ltd from 1 January 2026 supporting the finance team with internal processes and during this period he will report directly to the UK finance manager.

   2) Tywin will work for four months at Stark Ltd from 1 November 2025 to cover for an employee who is on maternity leave.

   3) Robert, who is a director of Stark Ltd, will be in the UK from 5 December 2025 to 15 December 2025 to attend Stark Ltd's annual board meeting.

   They will all remain employed and paid by Lannister Inc and will be domestically tax resident in Westeros.

   None of the individuals will be UK tax resident during the 2025/26 UK tax year. Costs relating to all individuals' remuneration will be recharged from Lannister Inc to Stark Ltd.

   The UK has a double tax agreement with Westeros, which follows the OECD Model Tax Convention.

   Requirement:

   Explain the UK tax treatment of the above individuals under the UK/Westeros double tax agreement and the UK's short term business visitor rules including details of the UK reporting requirements. (20)

3. Bangor Ltd is a UK company based in Wales. Bangor Ltd owns 100% of the share capital of Enio SA, a company incorporated and tax resident in Spain. Several employees of Enio SA have been transferred or seconded to work for Bangor Ltd in the UK.

Bangor Ltd has two occupational pension plans that are available to employees. The first is the Bangor Ltd Occupational Plan ('BLOP'), which is a UK registered pension scheme held in trust. The second is the Bangor Top Up Plan ('BTUP'), which is not a UK registered pension scheme.

Enio SA has an occupational pension scheme ('ESAPS') that provides retirement and death benefits for all staff. It is regulated in Spain and registered for tax purposes with the Spanish tax authorities.

Three employees of Enio SA began working for Bangor Ltd:

1) Maria is 30 and earns an annual salary of £60,000. On 30 October 2025, she will be sent to work for Bangor Ltd on a three year secondment. She will remain on her Spanish benefit package that includes a 6% employer contribution to ESAPS.

2) Sergio is 60 and earns an annual salary of £50,000. He was transferred to become an employee of Bangor Ltd on 1 November 2022. His fixed term employment contract with Bangor Ltd has been extended by a further three years. When he originally started working for Bangor Ltd he declined to join the pension scheme.

3) Baz is 45 and earns an annual salary of £260,000. He will be transferred to become an employee of Bangor Ltd on 1 November 2025. His employment contract entitles him to 10% employer pension contribution. He has requested that this is paid into either the BTUP or to the ESAPS.

Requirement:

1) **Explain how the automatic enrolment rules apply to Bangor Ltd in respect of these three individuals and what must be done in order to be compliant with these employer pension obligations.** (10)

2) **Explain how Bangor Ltd should treat any employer and employee contributions to ESAPS for PAYE purposes and set out any reliefs that may be available**. (5)

Total (15)

4. In 2019 Dazzle plc recruited Mrs Malde as its Chief Operations Officer. It also recruited Mr Richards as her Personal Assistant. Dazzle plc is a UK resident company listed on the London Stock Exchange. Mrs Malde and Mr Richards are both UK tax resident.

As part of their remuneration package, they were granted the following share options on 1 January 2020:

1) Mrs Malde was granted two options to purchase a total of 20,000 shares in Dazzle plc at their market value at grant, which was £3 a share. One option was granted over 10,000 shares under the Dazzle plc Company Share Option Plan. The other option was granted over 10,000 shares under the Dazzle plc unapproved Share Option Plan.

2) Mr Richards was granted an option under the Dazzle plc Save As You Earn scheme. The option was granted over ordinary shares at a 20% discount to market value (£2.40 per share). Mr Richards will save £200 per month over a five-year contractual period. The SAYE bonus rate set by HMRC for this period is 3.2.

Mrs Malde and Mr Richards exercised their options on 1 January 2025 when the share price was £6.

Requirement:

1) Explain the PAYE and National Insurance Contribution implications for Dazzle plc of the grant and exercise of the above share options. (8)

2) Explain what information Dazzle plc must provide to employees and to HMRC in respect of their operation of their Company Share Option Plan and Save As You Earn scheme. (7)

Total (15)

5. TopHat Ltd is a UK company based in Edinburgh which specialises in the creation and manufacture of board games which it sells in its own stores as well as to other customers. In 2024/25, they had 100 employees and staff costs of £2.5 million.

TopHat are looking to expand their presence in the north of England and leased a new office space in Manchester (200 miles south of Edinburgh). They have asked an Edinburgh-based employee to lead the new operations in the north of England.

<u>Philippa Mustard</u>

Philippa is the Head of Marketing and previously lived in Edinburgh. She relocated to Manchester on 1 August 2025 and does not expect to spend any further time in Scotland for the remainder of the tax year. She will be primarily based in the Manchester office but will occasionally visit stores and potential customers across the north of England. She sold her Scottish property on 1 October 2025. She informed HMRC of her move to England and her tax code was updated accordingly. TopHat Ltd provided the following relocation package:

1) £8,000 relocation allowance to be paid with her November 2025 salary.

2) £5,000 to cover temporary accommodation for two months. TopHat Ltd contracted with and paid the rent directly to the landlord on 1 August 2025.

3) £1,700 for professional fees related to the sale of her Edinburgh property, which was reimbursed via an expense claim on 15 October 2025.

4) £2,000 to move belongings from Edinburgh to Manchester. TopHat Ltd contracted with and will pay the removal company on 1 November 2025.

5) £300 for new fitted curtains and blinds for her Manchester apartment, which will be reimbursed on 1 November 2025 via an expense claim.

6) £2,400 for school fees for her daughter for the first term in Manchester, which will be reimbursed on 1 November 2025 via an expense claim.

In addition to her relocation to Manchester, Philippa has been asked to travel to Leeds to oversee the opening of a new store. The new store is approximately 45 miles northeast of Manchester. Philippa is expected to spend three days a week in Leeds for the first three months of the store's opening from 1 January 2026. TopHat Ltd have agreed to provide the following additional support:

1) Up to £30 per day meal allowance for each day spent in Leeds (expected to be 36 in total), to be reimbursed via an expense claim with accompanying receipt.

2) A fully electric car (zero emission) to facilitate any work travel. The car's list price is £90,000 and will be made available to Philippa from 1 January 2026. Philippa will not make any private contributions. The cost of the car rental lease from 1 January 2026 to 5 April 2026 for TopHat Ltd is £2,400.

3) An electric car charging point near the Manchester office is available to all TopHat Ltd employees at no cost. Philippa's expects to only charge the car at this point and the personal usage cost of the electricity is expected to be £300 from 1 January 2026 to 5 April 2026.

TopHat Ltd does not have a Pay As You Earn Settlement Agreement in place. TopHat Ltd has agreed to meet any Income Tax or National Insurance liabilities in relation to the above benefits and payments. Philippa is an additional rate taxpayer and is not a director of the company.

Requirement:

Explain the Income Tax and National Insurance treatment of the benefits and payments and calculate the cost to TopHat Ltd of their provision during 2025/26. (15)

6. WellBeing LLC is a New Zealand company with a UK subsidiary called WellBeing UK Ltd. They plan to second Sophie, their Head of Marketing, to WellBeing UK Ltd. Sophie will work in England on a three year secondment.

Sophie is a non-UK domiciled New Zealand citizen who has never previously lived in the UK and has worked for the company for two years. Sophie left New Zealand and became UK tax resident on 1 July 2025. Sophie remains on the New Zealand payroll and has a Certificate of Coverage in place meaning that she remains subject to New Zealand Social Security.

WellBeing UK Ltd does not want Sophie to be negatively impacted from a tax perspective and will tax equalise Sophie to New Zealand, with the following remuneration package:

1) Salary = £500,000 (per annum).
2) Hypothetical Tax on Salary = £150,000 (per annum).
3) Cost of Living Allowance = £60,000 (per annum).
4) Travel allowance to return to New Zealand = £5,000 (per annum).

Sophie also receives/received the following non-cash benefits:

1) Company car for private use only = £15,000 (taxable cost per annum).
2) Private Medical Insurance = £7,000 (per annum).
3) Provision of flight from New Zealand to the UK at start of secondment = £500 (one-off).
4) VISA application costs = £2,500 (one-off).
5) Company paid rent on living accommodation = £5,000 (per month).

Requirement:

1) Calculate the total Income Tax equalisation cost for WellBeing UK Ltd for the first UK tax year of this secondment. (8)

2) Describe the payroll reporting requirements for WellBeing UK Ltd and how these could be simplified. (7)

Total (15)