Chartered Institute of Taxation
Excellence in Taxation

The Chartered Tax Adviser Examination

May 2019

Application and Professional Skills

Human Capital Taxes

TIME ALLOWED – 3 ¼ HOURS

- The first 15 minutes is designated as reading time. During this time you may read your question paper and legislation, annotate your question paper and use your calculator. You are not permitted to start writing your answer. The Presiding Officer will inform you when you can start writing.

- In order to secure a pass in this paper, 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.

- Write on one side of the paper only. Do not write in the margins.

- 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 tick the appropriate box on the cover sheet.

- 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 table information, you may assume that 2018/19 rates and allowances continue to apply for 2019/20 and future years. Candidates referring to actual or pending rates and allowances for 2019/20 and future years will not be penalised.

You are Tom Smith, a tax manager in a firm of Chartered Tax Advisers.

You have had a discussion with your tax partner, Janet Green, regarding her client, Grange Stevens Group Ltd.

Grange Stevens Group Ltd is an international furniture manufacturer and wholesaler whose headquarters are in Oxford. The Group is renowned for its cutting-edge design and is expanding rapidly. Currently the Group has almost 3,000 employees globally.

Janet recently met with John Gardener, the Group HR Director, who explained that he is planning the HR side of a project to design and roll out a new IT system which covers many areas of the Group's business both in the UK and internationally.

The project is expected to start on 1 January 2020 and requires staff for seven months, although there is the potential for an over-run of up to one month. Staff for the project will be drawn from within the group and new staff will be recruited on a temporary basis to cover the usual work done by these staff. John would like advice on how best to proceed.

Janet has asked you to prepare a draft report for her review advising John on the options he is considering.

The following exhibits are provided to assist you:

EXHIBIT A: Email from John Gardener to Janet Green

EXHIBIT B: Grange Stevens Group Ltd's workings for IT project

EXHIBIT C: OECD Model Double Tax Treaty Article 15 2014 and a list of countries with which the UK has concluded double tax treaties and social security agreements

EXHIBIT D: Pre-seen information

Requirement:

Prepare a draft report to John Gardener, for Janet's review, advising on the staffing of the project for the new IT system.

Continued

EXHIBIT A

Email from John Gardener to Janet Green

From: John Gardener
To: Janet Green
Date: 25 April 2019
Subject: Grange Stevens Group Ltd Tax Advice

Dear Janet

It was lovely to see you yesterday and thank you for your time.

As promised, I am providing a summary of our plans and the various options available regarding the staffing of our forthcoming IT project at our Oxford head office. We expect this to start on 1 January 2020 although we do have the flexibility to delay the project start until after 6 April 2020 so would like some advice as to whether a later date would be beneficial.

As I mentioned, we will need 34 full-time staff from various parts of the business to be assigned to our IT project and are considering whether to use staff from our UK offices or from our overseas offices.

We have carried out HR and operational analysis and think that using staff from our overseas offices would be cheaper and this meets our objective to have input from a diverse group. Taking account of tax, we would like your input as to whether using staff from our overseas offices would be more cost effective than using staff from our UK offices.

My attached workings (**EXHIBIT B**) set out the estimated average cost per employee for using UK and overseas staff based on an expected seven month project (although as discussed, there is the possibility of an over-run of up to one month). My calculations tell me that, despite the obvious logistical difficulties, an overseas team is going to be a cheaper option for us.

For tax, as the project is for seven months and starting in January 2020, I assume that the overseas employees would be exempt from UK tax and the majority of expenses paid over and above salary will be tax-free. In the event that any UK tax is triggered, we will pay the tax for the employees and offer tax equalisation so that employees only suffer tax on their basic package (which we consider should be salary, car allowance and medical insurance only). I have estimated that the average effective income tax rate for employees on employment income in their home countries is 10% for all countries apart from Sofaland which is 40%.

I have taken advice already from my overseas colleagues that typically the costs to the business for the travel to the UK for any of our overseas employees will not be treated as taxable in their home locations. Also I'm expecting the overseas employees to remain resident in their home countries and that double tax relief will be available for any tax which is paid here in the UK.

I am not expecting overseas or UK tax returns to be needed for any of the international employees but, if they are, you mentioned you could provide this service for the UK returns and coordinate the overseas returns through your international associate network at an estimated cost of £600 plus VAT per tax return.

For social security we talked about Certificates of Coverage which are likely to be needed and charges for these are likely to be around £500 per certificate. I have estimated that the average rate of overseas social security rates across our international population is 10% for employees and 20% for employers; both are uncapped on all employment income and benefits.

In summary, we would like some help from you to help us decide which staffing option would be better from a tax perspective and when the best start date would be.

Many thanks and best regards

John

Continued

Continuation

EXHIBIT B

Grange Stevens Group Ltd's workings for IT project

Effective tax rates on employment income in each country where we have an office:

Location	Effective Tax Rate
Sofaland	40%
Deskland	10%
Tableland	10%
Rugland	10%
Chairland	10%

Average cost per team member for seven months of the project:

UK Team

	£
Salary	48,500
Employer Pension	4,000
Car Allowance	5,000
Accommodation	7,500
Travel	1,200
Flight Allowance	0
Travel Insurance	0
Telephone	0
Medical Insurance	500
UK Employer NIC	6,600
Total	£73,300

Overseas Team

	£
Salary	32,000
Employer Pension	3,000
Car Allowance	2,500
Accommodation	7,500
Travel	2,000
Flight Allowance	1,200
Travel Insurance	1,000
Telephone	600
Medical Insurance	500
UK Employer NIC	0
Total	£50,300

Continued

Continuation

Notes

Salary

All employees will remain on their home location payrolls and be paid in their home currency. Sofaland allows tax withholding to stop for employees expecting to work outside Sofaland for more than three months. All other countries require payroll tax withholding to continue.

Pension

All pension schemes are company schemes and are non-contributory by the employees so amounts detailed above are employer contributions only. The international pension schemes are flexible and allow employees to take loans and pre-retirement withdrawals at any point in their careers.

Cars

Employees of the grade likely to be included in this project would all be entitled to a car allowance as part of their regular pay.

Accommodation

Accommodation will be arranged for anyone on the IT project. There are some staff whose home office is Oxford but we will provide hotel accommodation for any who wish to stay overnight as hours on the project will be long with late nights and early morning starts. Contracts for accommodation will be in Grange Stevens Group Ltd's name and will be paid directly to landlords/hotels and/or rental agents. All expenses will be claimed through the home country's expense process.

Flight Allowance

All overseas employees would be provided with an additional allowance in their pay for flights for family members to visit them during the project; no receipts are needed. I assume this will qualify for tax relief under home leave arrangements.

Travel Insurance

This is the employer's travel insurance policy which provides cover to Grange Stevens Group Ltd for costs of delayed or cancelled travel by employees for business.

Telephone

All overseas employees will be provided with a round sum allowance for use of their mobile telephones whilst seconded to the UK.

Assignment Allowance

For any existing employees coming from overseas, an assignment allowance of £5,000 will be paid over the seven month period. It is assumed this is exempt under the relocation provisions.

Medical Insurance

Employees will remain in their home country private medical insurance schemes.

Continued

Employer NIC

We are not expecting to pay UK employer NIC on any of the overseas costs as we assume they will be covered by the 52 week exemption.

Cost Allocation

All above listed allowances and benefits will be delivered to the relevant employees by their home country employers through payroll or their home country expenses system as appropriate. Costs will then be recharged from the various overseas offices to the UK Head Office at cost.

Recruitment

Employees recruited to cover existing employees' positions will be employed for seven months only. Recruitment costs are thought to be around 20% of salary for both UK and non-UK candidates for the seven month period. Where such recruitment costs are incurred by a non UK office these will be recharged to the UK Head Office.

Contracts

All contracts of employment will remain with employees' home offices and employees will be assigned to the IT project. With either a UK or overseas team, all employees would be at the same staff grade.

Management

All staff will be under the management of the UK IT project leader in Oxford who will, for the duration of the project, operate as their line manager responsible for supervision, appraisals, feedback plus input for pay increases.

Location

The project will be at our head office in Oxford.

Visas/work permits

The cost of a UK work permit for the project is £2,000 per person. Our immigration solicitors can arrange these.

Continued

EXHIBIT C

OECD Model Double Tax Treaty Article 15 2014 and a list of countries with which the UK has concluded double tax treaties and social security agreements

ARTICLE 1 - INCOME FROM EMPLOYMENT

1) Subject to the provisions of Articles 16, 18 and 19, 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.

2) Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in Respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

    (a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in any twelve month period commencing or ending in the fiscal year concerned, and

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

    (c) the remuneration is not borne by a permanent establishment which the employer has in the other State.

3) Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic, or aboard a boat engaged in inland waterways transport, may be taxed in the Contracting State in which the place of effective management of the enterprise is situated.

List of countries with which the UK has concluded double tax treaties and social security agreements

Chairland
Curtainland
Deskland
Tableland
Rugland

None of these treaties give the residents and/or nationals of these countries the right to a UK personal allowance if non UK resident for tax.

Continued

EXHIBIT D

Pre-seen information

Client

Grange Stevens Group Ltd

Ownership

A private limited company founded in 1965 by design graduates and friends George Grange and Tony Stevens. All shares in Grange Stevens Group Ltd are owned by the Grange and Stevens families, many of whom work in the business in various locations around the world.

Group Structure

Grange Stevens Group Ltd is incorporated and tax resident in the UK. It is the sole trading entity in the UK. It has a number of overseas subsidiaries, all of which are wholly owned.

Business

All companies in the group are involved in the design, manufacture and wholesale of furniture, although some specialise more in certain areas of the design, testing, supply chain and production stages.

UK locations

The company has premises in Oxford (head office), Birmingham, Liverpool, Newcastle and Plymouth. At 1 May 2019, the numbers of employees at each location was:

Oxford	413
Birmingham	171
Liverpool	84
Newcastle	123
Plymouth	113

Subsidiaries

Name	Date of Incorporation	Country of Incorporation and tax residence	Number of Employees
Grange Stevens Tableland Ltd	1 March 2000	Tableland	175
Grange Stevens Supply Chain Deskland Ltd	1 May 1972	Deskland	449
Grange Stevens Design Chairland Ltd	1 June 2007	Chairland	284
Grange Stevens Sofaland Ltd	1 September 2015	Sofaland	68
Grange Stevens Curtainland Ltd	1 August 1980	Curtainland	533
Grange Stevens Rugland Ltd	1 February 1985	Rugland	525

Continued

Continuation

All subsidiaries have a fixed establishment in their country of residence and all countries are outside the EU.

The supply chain hub is based in Deskland and this acts as a central purchasing entity for all global entities.

VAT

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

Financial

Accounts are made up to 31 March each year. Accounts to 31 March 2018 showed group-wide turnover of £347 million with profits of £35 million. Preliminary results for the 31 March 2019 year end show an increase in both turnover and profit of around 7%.