

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

Event **NA**

Exam Mode **OPEN LAPTOP + NETWORK**

Exam ID

Count (s)	Word (s)	Char (s)	Char (s) (WS)
Section 1	469	2142	2608
Section 2	431	2063	2490
Section 3	709	3352	4021
Section 4	54	293	344
Section 5	548	2366	2890
Section 6	657	3306	3932
Total	2868	13522	16285

Answer-to-Question- _1_

The phantom stock units are not employment related securities, and the cash bonus is treated as any other cash bonus, general earnings. The amount of bonus is 20,000 x the value on 5 April. This amount should be processed through payroll and included within RTI and the FPS for April. PAYE and Class 1 NIC (Primary due by employee and also secondary due by the employer) should be withheld on the bonus. The PAYE and Class 1 NIC should be paid to HMRC by 19 April, or 22 April if paid electronically.

As Max is presumably non UK domiciled and has not been UK tax resident in any of the three preceding tax years, he will be able to claim OWR if claiming the remittance basis for the three tax years in the UK. 20% (overseas workdays) can be excluded from tax provided the amount is not remitted to the UK. However, this must be done via the self assessment tax return and PAYE/NIC must be operated on the entire amount as he is UK tax resident and does not have an Appendix 5 agreement in place.

As Delft plc is publicly listed, shares are readily convertible assets. This means the shares can be easily exchanged for cash and are treated as general earnings, subject to PAYE and NIC. As they are RCAs, the usual 50% limit on PAYE withholding does not apply. Therefore, Max's net pay could be reduced to nil to cover the PAYE/NIC liabilities. However, using sell-to-cover, Max will sell the minimum amount of shares required to cover the tax/NIC liabilities.

As there is forfeiture restriction attached to the shares, the actual market value is suppressed, i.e. lower than the unrestricted market value (£1). As the forfeiture restriction applies less than 3 years from award. There is no income tax on the award of the shares in January 2022. Instead, there is tax/NIX once the restrictions are lifted. This will be due on the unrestricted market value of shares acquired in Jan 22 (£1 x 50,000 = £50,000). Max

did not pay any consideration so it is due on the whole amount. This amount should be put through payroll subject to PAYE/Class 1 NIC (RCAs). As income tax is becoming due on the unrestricted market value, there is no RSC on the uplift of value on the removal of restriction. If Max is claiming the remittance basis, foreign service relief will be available on 20% of the employment income (i.e. £10,000) provided this amount is not remitted to the UK.

As the forfeiture provision is less than 3 years, there is no tax due on the grant on the options. Instead, tax/NIC is due on market value acquired on exercise (i.e. £3.50 x 60,000 = £210,000). This is collected in the same way as discussed above.

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

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

Answer-to-Question- 2

Firstly, as a recharge occurred and Alex's remuneration was ultimately borne by the UK entity, Alex cannot be included within STBV reporting, on an Appendix 4 or Appendix 8 agreement. Alex will have been close to the 183d limit anyway based on 2 weeks per month in the UK. The UK entity therefore has an obligation to operate PAYE from Day 1. As a certificate of coverage is in place, no UK NIC is due. As Alex is not actually being paid in the UK, a shadow payroll must be set up to withhold PAYE. Despite being statutory resident, due to being treaty non-resident, SurePharm may wish to apply for a section 690 directive to limit PAYE withholding to the percentage of UK workdays (i.e. only operate PAYE on 50% of Alex's earnings). Once Alex becomes treaty resident this will no longer be possible.

As the UK company was Alex's workplace for a period not expected to exceed 24 months, it is therefore deemed a temporary workplace. As a result, temporary workplace relief is available for any costs suffered in relation to his attendance at the London office. It's important to note that relief is only available for expenses incurred in relation to Alex only and does not extend to his family. As a result, relief is available on accommodation and utility costs, subsistence, travel expenses. If SurePharm paid directly for these, or reimbursed Alex, no taxable benefit would arise. If SurePharm did not pay for these, Alex can claim the relief on his tax return for costs incurred. If SurePharm paid an allowance to cover these costs, this would be wholly taxable, although Alex could still claim relief via the tax return.

Once the intention/expectation is that the assignment will extend beyond 24 months, temporary workplace relief will cease to be available. Any costs being reimbursed to Alex will become taxable, although accomodation costs cannot be voluntarily payrolled, so must be included on P11D, subject to Class 1A. This intention change will likely be before the date he officially became a permanent employee.

From 1 January 2025, PAYE can no longer be restricted to UK workdays as he becomes treaty resident. However, as the UK has a DTA in place with the US, and Alex is not a director, SurePharm could apply for an Appendix 5 agreement, by which Alex is paid in the UK net of foreign tax credit. Essentially, FTC relief is given by reducing ALEX's PAYE income in real time as opposed to via the tax return. SurePharm must wait for HMRC approval before applying the relief.

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

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

Answer-to-Question- _3_

i) As John is offered the choice to surrender some cash for a taxable benefit, the Optional remuneration rules apply. John is charged to tax on the higher of the cash equivalent of the benefit provided, or, the amount given up. The benefit is claculated for each vehicle seperately.

Petrol car

Amount given up is $600 \times 3 \text{ months} = £1,800$

List price: 26,000

Emissions percenage: $20\% + 4\% = 24\%$

Cash equivalent: $26,000 \times 24\% \times 3/12 = £1,560$.

Therefore the charge arising from the provision of the petrol car is £1,800. As this is being payrolled, £600 per month Apr - Jun is subject to PAYE within RTI. Despite the payrolling of benefits, Class 1A NIC is still due via the Form P11D(b) at the end of the tax year.

Electric car

Amount given up is $600 \times 9 \text{ months} = £5,400$

List price: 28,000

Emissions percentage: 2%

Cash equivalent: $28,000 \times 2\% \times 9/12 = £420$

Therefore the charge arising from the provision of the electric car is £5,400. As this is being payrolled, £600 per month Jul - Mar is subject to PAYE within RTI. Despite the payrolling of benefits, Class 1A NIC is still due via the Form P11D(b) at the end of the tax year.

Fuel benefit

Provided John is not reimbursed private fuel, or business mileage above the HMRC approved rates, no fuel benefit will arise. Cactus may wish to keep mileage records to ensure a fuel benefit charge does not arise.

No fuel benefit arises on the provision of electricity for an electric car. As the card cannot be used for any other vehicle, no taxable benefit arises.

Accommodation

Living accommodation cannot be payrolled and therefore must be included in the end of year reporting, P11D.

The cash equivalent of the benefit depends on if the accommodation is owned or rented by the employer. Where the accommodation is rented, the cash equivalent is the higher of the annual value or rent paid by the employer (including any premium), less amount made good by the employee.

The bathrooms are a capital improvement so is therefore ignored. The asset provided for use by the employee, the furniture, is included. The benefit is the market value when provided divided by 5, i.e. $\text{£}1,000/5 = \text{£}200$.

Annual value: $\text{£}2,000$

Rent paid: $400 \times 12 = \text{£}4,800$

Premium: $90,000/8 = \text{£}11,250$

Total: $\text{£}16,050$

Therefore the amount to be included on the P11D for accomodation is:

Cash equivalent: $\text{£}16,050$

Less: e'ee contributions: $(4,800)$

$\text{£}11,250$

Loan

Cheap loans can also not be payrolled. Here, John receives an interest free-loan.

However, where the aggregate of all loans provided to an employee does not exceed $\text{£}10,000$, no taxable benefit arises. Therefore, the loan can be provided without deductions and there is no reporting required.

Pension

Contributions to a qualifying pension scheme are a tax free benefit (provided contributions do not exceed annual allowance). Written agreement must be made between Cactus and the employees, to contractually reduce the salary of the employees who

contribute via salary sacrifice.

ii) Form P11D filed by 6 July for John. P11D(b) will also need to be filed by the same date with accompanying Class 1A NIC due. Late payment interest of 7.75% will begin to accrue. Must provide copy to employee. £100 late filing penalty. This is increased to £300 if more than 3 months late, i.e. after 6 October. If over six months late, daily penalties of £10 per day start to accrue up to a maximum of £900. 5% of any tax due will also be levied as a penalty in addition to late payment interest.

iii) For a 21 year old worker, NMW, is £11.44.

In April 2025, a new calculation year began and John was paid £1,920 (£2,000 less 4% pension contribution) at the end of the month. In April John worked 180 hours:

Contracted hours (2,040/12): 170

Additional hours: 10

Total: 180

$$1,920/180 = £10.66$$

Therefore Cactus did not meet their NMW obligations for April 2025 in respect of John. Cactus need to disclose the error to HMRC and inform John. £140.40 ((11.44 - 10.66) x 180) needs to be paid to John. Failure to correct the error within a reasonable time period may result in penalties and potentially criminal prosecution.

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

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

Answer-to-Question- _4_

PAYE withholding is the obligation of the UK entity. As there isn't one here, (and one is not being created), Vasquez has no reporting obligations. HMRC need a UK estbalishment/address for PAYE correspondence. Without any UK presence, no PAYE obligations arise

Albert is responsible to account for PAYE himself.

I'm clearly missing something here

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

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

Answer-to-Question- _5_

Amelia is in the UK from 6 April - 30 June, which is $24 + 31 + 30 = 85$ days. For the next 39 weeks, Amelia is in the UK for 3 days per week, total 117 (39×3). Therefore total UK days for the 2025/26 tax year is 202.

For the statutory residence test, Amelia will not meet the first, second, or third automatic overseas tests as days in the UK exceed 91. Amelia will meet the first automatic UK test as days in the UK exceed 183. Therefore Amelia is UK resident for 2025/26. This means she is taxable on worldwide income and gains.

That being said, Amelia will be eligible for split year treatment. As the family home is being kept in the UK, the split year case for ceasing to have a family home in the UK does not apply.

Case 1 takes priority over Case 2 which takes priority over Case 3.

Amelia will be able to split the year under the starting full time work overseas case. As the 4/5 days a week will be performed overseas, this is above 75% so satisfies the sufficient work overseas condition. The split year date will be the day before the conditions of the split year are met, (i.e. 30 June 2025). Therefore from 1 July, Amelia is taxed on UK sourced income only. Her employment income will only be taxable to the extent it is sourced from UK workdays, i.e one fifth.

The bonus is taxed on its sourcing period, i.e. Jan25 - Dec25.

If the assignment is expected to have a duration of less than 24 months, the accomodation will be tax free benefit due to temporary workplace relief. Assuming it's not as there is no mention of it, 9 months is taxable income apportioned for UK workdays.

2025/26 taxable income:

Apr-June salary ($80,000 \times 3/12$): 20,000

Bonus sourced whilst UK resident ($24,000 \times 6/12$): 12,000

Jul-Mar salary apportioned for UK workdays ($80,000 \times 9/12 \times 1/5$): **12,000**

Bonus sourced whilst non resident ($24,000 \times 6/12 \times 1/5$): 2,400

Accomodation ($3,000 \times 9 \times 1/5$): **5,400**

PMI whilst resident ($5,000 \times 3/12$): 1,250

PMI whilst non-resident ($5,000 \times 9/12 \times 1/5$): **750**

Total: £53,800

Less PA: (12,570)

41,230 liable to income tax

Amelia will have use of the personal allowance for the entire year due to being a UK national.

Amelia will be a higher rate taxpayer in the UK.

The amount of relief available will be the lower the amount taxed in Genovia, or the amount taxed in the UK on the same income. As Genovia has taxed a flat rate of 43% on salary PMI and accomodation, it is clear this will be higher than the amount taxed on these amounts in the UK over the same period (July-MAr). Therefore DTR will be

available on total of the amounts emboldened, i.e. $12,000 + 750 + 5,400 = \pounds 18,150$.

$$3,530 (41,230 - 37,700) * 0.40 = 1,412$$

$$14,620 * 0.2 = \underline{2,924}$$

There will be no double taxation relief for the bonus as it has not been taxed in Genovia.

An Appendix 5 agreement will allow the UK company to pay Amelia net of foreign tax credit relief in real time, as opposed to Amelia claiming via the tax return.

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

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

Answer-to-Question- _6_

CIS was introduced to challenge perceived tax avoidance in the construction industry. Contractors pay subcontractors net of CIS tax which is then paid over to HMRC by the contractor. It is a way to collect income tax on employment income of people working in constructions. If CIS tax is withheld, the contractor must issue the subcontractor a payment deduction statement which outlines the amount deducted. This can be credited against further income tax liabilities to avoid double taxation. CIS only applied to the labour element of construction expenditure, i.e. materials are excluded. Although, profit on materials is included.

Contractors are required to register under CIS if certain conditions are met. Contractors may be a mainstream contractor, or a deemed contractor. A deemed contractor meets the conditions to register if construction expenditure exceeds £3m in any rolling 12 month period. If expenditure falls below £3m and is not expected to rise above £3m in the next 12 months, a deemed contractor may deregister.

As Propman's primary trading activities do not include construction operations, they are not a mainstream contractor.

A LLP: Architect services are not within the scope of CIS so these costs are ignored for CIS purposes.

B Ltd: Scaffolding is within the scope of CIS.

C Ltd: Alteration and demolition is within the scope of CIS. These installments are included.

D Ltd: The wiring and power supply installation will be within the scope of CIS but the security system will not.

Prior to November 2025, construction expenditure is zero. On 1 November, the expenditure is:

1,250,000

20,000

1,270,000

On 1 February 26, another 1.25m is spent, bringing rolling total to:

1,270,000

1,250,000

2,520,000

On 1 May 26, another 1.25m is spent, rolling 12m total:

2,520,000

1,250,000

3,750,000

Therefore Propman become a deemed contractor and must register as a CIS contractor. From this date all payments within the scope of CIS paid to subcontractors must be reported on CIS returns. For each subcontractor, Propman must verify them. Upon verification, each subcontractor will fall into one of three categories. The subcontractor may not be registered for CIS, in which case payments within scope of CIS made to

unregistered subcontractors must be paid net of a 30% deduction. A payment deductions statement must be given to the subcontractor. If the subcontractor is registered, and has gross payment status, the payments can be made gross with no deductions. If the subcontractor is registered but without gross payment status, a 20% deduction is applied to payments within CIS. Again, a payment deduction statement must be provided.

CIS returns are required by the 22 of every tax month (for the month ended the 5th). Late filing penalties of £100 are issued for late returns. This increased to £200 after two months, £300 after 3 months etc... to a maximum of £600. Where no payments within CIS have been made in the tax month, a return is not required. Although the contractor should submit a nil return to avoid an issuing of a late filing penalty by HMRC. Once HMRC are notified no payments within CIS were made, any penalty will be removed.

As Propman will not have any construction expenditure other than this project, we may only consider the mill project for CIS pruposes. Management services are not within the scope of CIS.

By 1 Aug 26, rolling total is:

3,750,000

300,000

4,050,000

On 2 November 26, provided the project has not been completed, rolling total:

4,050,000

(1,270,000)

2,780,000

However, if the project is expected to be completed before 1 Feb 27, the rolling total will

again exceed £3m, and Propman cannot yet deregister as a CIS contractor. If expected to be completed after 1 Feb 2027, even the £1,270,000 to be paid B Ltd and C Ltd on completion will not exceed the £3m rolling limit at any point, so they may deregister on 2 November 2026. If completion before Feb 27, they will have to wait until May 2027.