



The Chartered Tax Adviser Examination

Sample Paper

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.
- Unless otherwise indicated by the provision of additional table information, you may assume that 2017/18 rates and allowances continue to apply for 2018/19 and future years. Candidates referring to actual or pending rates and allowances for 2018/19 and future years will not be penalised.

You are Anne Adviser, a tax manager in OJAA Tax Consultants, a firm of Chartered Tax Advisers. Your client is Skateways plc, a listed company resident in the UK.

Last week, you accompanied Owen James, a partner in your firm, to a meeting with Ethan Reece, the Chairman of Skateways plc. The purpose of the meeting was to discuss the proposed appointment of a new CEO.

Subsequently, further information was received in relation to historic stock options held by the proposed new CEO and other matters.

Owen has asked you to draft a report covering the advice requested by Ethan.

The following exhibits are provided to assist you:

EXHIBIT A: Notes of a meeting with Ethan Reece of Skateways plc on 6 January 2019

EXHIBIT B: Draft Offer Letter to Phoebe Sutherland

EXHIBIT C: Memo from Owen James to Anne Adviser

EXHIBIT D: Pre-seen Information

Requirement:

Prepare a draft report to Ethan Reece, for review by Owen James, advising on the areas requested and any other relevant implications of the matters raised.

EXHIBIT A

Notes of a meeting with Ethan Reece of Skateways plc on 6 January 2019

Date: 30 April 2019

Present: Ethan Reece (Chairman, Skateways plc)
Andy Clifford (Head of Compensation and Benefits, Skateways plc)
Owen James (Partner, OJAA Tax Consultants)
Anne Adviser (Manager, OJAA Tax Consultants)

The current CEO of Skateways plc is leaving at the end of May 2019.

As Chairman, Ethan has taken on the task of leading the appointment of a new CEO. Andy, who works with the remuneration committee, is responsible for the practical day to day handling of executive appointments and remuneration.

A potential new CEO has been found: Phoebe Sutherland who is currently the CEO of Real Wheels AG, a wholly owned subsidiary of Skateways plc. Real Wheels AG is incorporated and tax resident in Germany and conducts all its business within Germany. Phoebe has been the CEO of Real Wheels for four years. Phoebe was born in Germany to German parents and has always lived there.

If Phoebe accepts the role, she will move to the UK and commence work for Skateways plc on 1 June 2019. Discussions with Phoebe have indicated that she will buy a property to live in whilst she is in the UK. She has already found somewhere suitable near the office of Skateways plc and is expected to complete on this just prior to her move to the UK.

It has been agreed that she will only be required to be based in the UK for three years as she has made it clear that she does not wish to leave Germany long term. Skateways plc are comfortable with this as they believe three years will give enough time to execute their plan to expand into Europe and if all goes well, it will not matter where she is based in the future.

In those first three years, Phoebe's time will be split approximately 80% in the UK, 10% in Germany and 10% in other countries in Europe.

Phoebe will relinquish her position as CEO of Real Wheels AG and will become a director of Skateways plc and will have a UK employment contract direct with Skateways plc.

Ethan provided a proposed offer letter to Phoebe (**EXHIBIT B**).

Ethan is comfortable with the package. Informal talks with key shareholders and the remuneration committee have indicated they are broadly happy to proceed. However, this is a big appointment for Skateways plc and therefore it has been decided that formal tax advice in the form of a report should be obtained on the proposed offer and related matters.

Ethan has confirmed that there is some flexibility on restructuring the package to make it more tax efficient provided it doesn't significantly alter the overall cost to Skateways plc. However, as the share plan is standard for all employees, he confirmed that there is no opportunity to make any changes to this.

Ethan has also confirmed that Phoebe is opting out of auto-enrolment as she prefers to contribute to her German personal pension scheme. Whilst Ethan appreciates that this must be kept under review, he does not need us to cover auto-enrolment in our report as this is a matter which will be dealt with by Skateways plc's pension advisers.

Ethan specifically made the point that they do not want Phoebe to be distracted by tax issues or problems whilst she is settling into her new role. Our report should therefore cover any points that we may think may be useful for her to know. Skateways plc will cover any additional fees generated as a result of considering this.

It was agreed that we will start work on the report immediately. Andy will provide us with the details of Phoebe's existing awards under the group's LTIP in case we need this.

O James

EXHIBIT B

Draft Offer Letter to Phoebe Sutherland

Phoebe Sutherland
145B Rottstrasse
Hamburg

Skateways plc
Sunny Business Park
Leicester

[] 2019

Dear Phoebe

Offer of Appointment as Chief Executive Officer of Skateways plc

I am delighted to formally offer you the position of Chief Executive Officer of Skateways plc to commence on 1 June 2019.

As discussed, the position requires you to be based at our head office in Leicester UK for a minimum of three years. After that we confirm you may switch your base back to Germany if you require.

Your remuneration package will consist of:

- 1) Signing on bonus of £15,000 to help with moving expenses.
- 2) Base salary of £260,000 per annum to be reviewed annually on 1 April each year. The first review date will be 1 April 2020.
- 3) Participation in the Executive Cash Bonus Scheme. The bonus is linked to performance in the financial year of the group as a whole against agreed targets. The bonus will be paid in the following April provided you are still in employment.
- 4) Continued participation in the Group Long Term Incentive Plan which makes annual awards at a level determined by the Remuneration Committee of Skateways plc. Your existing awards from your time as an employee of Real Wheels AG will continue and vest in accordance with their terms.
- 5) Contributions of 5% of your base salary will be made by Skateways plc to a pension scheme of your choice.
- 6) Opportunity to surrender £15,000 of your annual salary in return for the use of a Porsche Cayenne Diesel. All fuel will be provided by Skateways plc.
- 7) Payment of travel expenses for your mother to visit you in the UK up to three times a year.
- 8) Reimbursement of all travel, accommodation and subsistence expenses incurred whilst on business of Skateways plc and the wider group, including visiting overseas offices.
- 9) Provision of a mobile phone and a lap-top. All ongoing bills relating to the use of these will be discharged by Skateways plc.
- 10) Payment by Skateways plc for the preparation of your UK tax return and any associated tax advice relating to the first three years of your appointment.

In addition, you will be entitled to 30 days paid holiday per year plus UK statutory holidays.

If either Skateways plc or you wish to terminate your appointment, a minimum of six months' notice is needed from the terminating party. The exception is where you are guilty of gross misconduct in which case, Skateways may terminate your appointment without notice.

The offer is made on the basis that you agree to enter into a formal contract of employment with Skateways plc.

If you are willing to accept the offer, please sign a copy of this letter and return it to me. I can then get the contracts finalised.

May I once again say how pleased I am that you are considering being our next Chief Executive Officer.

Kind regards

Ethan Reece

Chairman
Skateways plc

EXHIBIT C

Memo from Owen James to Anne Adviser

To: Anne Adviser
From: Owen James
Date: 1 May 2019
Subject: Skateways plc

Dear Anne

I have just taken a call from Andy at Skateways plc with the details we asked for on Phoebe's awards under the Group Long Term Incentive Plan. She has the following outstanding awards:

| <u>Date of Award</u> | <u>Date of Vesting</u> | <u>No. of shares</u> |
|----------------------|------------------------|----------------------|
| 1 April 2016 | 31 March 2019 | 25,000 |
| 1 April 2017 | 31 March 2020 | 25,000 |
| 1 April 2018 | 31 March 2021 | 25,000 |

I have dug out the rules of the plan and can confirm that the awards consist of options with a nil cost exercise price. They can be exercised at any time after vesting but will lapse on the tenth anniversary of the award if not exercised before then. Options will lapse ordinarily if Phoebe leaves employment, although leaving employment with one group company to go to another does not count.

Just in case you don't know, the car offered by Skateways has a list price of £65,000 and the CO2 emissions are 173 g/km.

Kind regards

Owen

EXHIBIT D

Pre-Seen Information

Client:

Name: Skateways plc

Status: Incorporated in the UK and Listed on the London Stock Exchange

Business: Skateways plc is based in Leicester and specialises in the manufacture, wholesale and retail of skateboards. It has 800 employees in the UK.

Subsidiaries: There are three wholly owned subsidiaries: Real Wheels AG; Skateways (Italy) Srl and Skateways (France) SARL. Each subsidiary has its own management team, but there is a consistent approach to systems, processes and policies across the group.

Tax Residence: UK tax resident.

VAT: VAT registered in the UK

Accounting Period: Year ending 31 December

Corporation Tax: Taxable Trading Profit for Skateways plc (unconsolidated)

| <u>Year Ended</u> | <u>£</u> |
|-------------------|------------|
| 31 December 2017 | 12,502,014 |
| 31 December 2016 | 9,190,317 |
| 31 December 2015 | 10,643,621 |

Real Wheels AG

Status: Incorporated in Germany

Business: As well as manufacturing and retailing skateboards, it manufactures and supplies wheels to all other subsidiaries. It currently has 400 employees.

Accounting Period: Year ending 31 December

Tax Residence: Germany.

VAT: VAT registered in Germany

Corporation Tax: Taxable Total Profit for Real Wheels AG

| <u>Year Ended</u> | <u>Euros</u> |
|-------------------|--------------|
| 31 December 2017 | 4,832,011 |
| 31 December 2016 | 4,120,944 |
| 31 December 2015 | 3,555,621 |

Skateways (Italy) Srl

Status: Incorporated in Italy

Business: Wholesale and retail of skateboards focussing on the Italian market. No manufacturing capability yet and so all components acquired from Skateways plc/Real Wheels AG. It currently has 50 employees.

Accounting Period: Year ending 31 December

Tax Residence: Tax resident in Italy

VAT: VAT registered in Italy

Corporation Tax: Taxable Total Profit for Skateways (Italy) Srl

| <u>Year Ended</u> | <u>Euros</u> |
|-------------------|--------------|
| 31 December 2017 | 59,432 |
| 31 December 2016 | (121,200) |
| 31 December 2015 | Not trading |

Skateways (France) SARL

Status: Incorporated in France

Business: Wholesale and retail of skateboards focussing on the French market. No manufacturing capability yet and so all components acquired from Skateways plc/Real Wheels AG. It currently has 60 employees.

Accounting Period: Year ending 31 December

Tax Residence: Tax resident in France

VAT: VAT registered in France

Corporation Tax: Taxable Total Profit for Skateways (France) SARL

| <u>Year Ended</u> | <u>Euros</u> |
|-------------------|--------------|
| 31 December 2017 | 421,004 |
| 31 December 2016 | 90,746 |
| 31 December 2015 | (112,920) |