

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	<b>697</b>	<b>3212</b>	<b>3887</b>
Section 2	<b>475</b>	<b>2095</b>	<b>2553</b>
Section 3	<b>790</b>	<b>3733</b>	<b>4486</b>
Section 4	<b>383</b>	<b>1719</b>	<b>2096</b>
Section 5	<b>497</b>	<b>2128</b>	<b>2609</b>
Section 6	<b>483</b>	<b>2301</b>	<b>2775</b>
Total	<b>3325</b>	<b>15188</b>	<b>18406</b>

### Answer-to-Question- \_1\_

As a UK resident and domiciled individual, Maya will be taxable on her UK based income on arising basis. All the UK based income received by Maya will be taxable. The shares are provided to Maya as a result of her employment and therefore they will be employment related securities. Any income relating to these shares is employment income and needs to be reported through PAYE.

The shares provided to Maya are Restricted securities. They are subjected to forfeiture restriction of more than 5 years. The shares will be forfeited if she leaves the employment.

The shares will therefore be taxed on the exercise and an additional charge will arise when the restriction is lifted.

The dividend value change is not a restriction condition, therefore there will be no effect of change in dividend value on the Maya's Income Tax liability.

As an arrangement was in place when the shares were awarded for the sale of shares either at price independently valued after restriction is lifted or a fixed price before the restriction is lifted. The shares would be considered as Readily Convertible assets. There is a sale arrangement in place for May to sell the securities to EBT, therefore the shares can be considered as Readily COnvertible Asset and will be subject to PAYE and NIC.

The sale of shares on 31 October 2024 will be a gain for capital gains tax purpose. The base value of the shares for CGT will be price paid by the individual and any amount chargeable to tax till date. As Maya did not pay any price for the shares the base cost for her shares will be the income chargeable to Tax.

## PAYE

The shares should have been reported as employment income at the date of award and. The value to be reported would be difference between Restricted Market value of the share after decuting any price paid by the employee.

As Maya did not pay anything for the shares, the value for PAYE purpose would be  $10 \times 2000 = 20000$ . This would be subject to Income tax and PAYE. The actual value of shares is taken as the restricted market value on which the tax charge would arise.

This should have been reported in the month of February 2018 and Income tax and NIC should have been withheld from Maya.

The percentage of market value that was not charge on award is  $(12-10)/12 \times 100 = 16.67\%$

The additional charge will be levied on lifting of restriction in February 2024.

Taxable income =  $14 \times 2000 = 28000 \times 16.67\% = 4667.6$

The PAYE should have been withheld at the Marginal rate.

## NIC

Class 1 primary and secondary NIC is due when shares provided are Readily Convertible Assets.

All the taxable income calculated above will be subject to Class 1 primary NIC at (2%) and secondary NIC at (13.8%) provided it exceeds the Upper Earnings limit for the month.

#### Employer Reporting obligations

The PAYE and NIC need to be reported to payroll on or before the shares are awarded or any restrictions are lifted. The reporting needs to be done on any taxable event.

As EBT will be administering the grant of shares on behalf of the employer, the 'disguised remuneration' rules apply. Share schemes are an exemption to application of 'Disguised remuneration' rules and therefore PAYE and NIC need to withheld by EBT.

A report needs to be provided to the employee of any taxes paid and taxable amount reported.

The reporting was not done on award of shares and therefore there may be late filing penalty and interest.

#### Election under S 431

The election has to be made within 14 days of grant of shares. The election had to be made jointly by employer and employee.

The election under s 431 leads to tax and NIC liability due on unrestricted market value

on the date of award. There is no additional tax charge on the lifting of restriction.

The amount chargeable in case of S 431 would be  $12 \times 2000 = 24000$ .

Without the election the chargeable income for Maya is  $(20000 + 4667) 24667$ . There is an increased tax and NIC liability.

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-----ANSWER-1-ABOVE-----  
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-----ANSWER-2-BELOW-----  
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Answer-to-Question- 2

### **2023/24 Tax compliance**

For the 2023-24 UK tax year, Rikka (R)'s UK tax residence will be determined under the Statutory Residence Test. She will not be considered as an overseas resident because she has been in the UK for 16 days in the curretn tax year. She will be a UK resident under the first automatic UK resident test as she was present in the UK for 183 days in the 2023-24 tax year (6th APril 2023 to 5th December 2023).

She moved to the Switzerland on 6th December 2023 and is expected to UK non-resident on departure. The split year case 1 applies in her case as she was a resident in 2022-23 tax year, she is expected to work full time overseas in 2024-25 tax year.

For the split year case to be applicable , Rikka should spend less than 30 days in the UK and only 10 of those days can be UK workdays. R is expected to spend less than the permitted days in the UK therefore the split year treatment is applicable.

Curent arrangement

Under the current arrangement, R is paid through UK payroll with NT code in place.

### Subsequent requirement

If R accepts redundancy, the split year treatment will still be applicable.

If R accepts the UK role she will no longer be a UK Non-resident in 2024-25 tax year and therefore Split year case 1 will not apply. We will not be able to apply Case 2 or Case 3 as her house is retained and we do not have information about her partner starting full time work overseas.

### **2024/25 tax compliance**

For the 2024, 25 tax year Rikka is expected to have 40 (10 per quarter 10x4)UK presence day and 28 UK workdays. In essence Rikka will qualify under the third automatic overseas test and remain overseas resident.

### Current Arrangement

Rikka will be paid through UK payroll and assuming hypo tax is withheld in the UK which will be used to pay tax in Switzerland.

R is spending more than 183 days in Switzerland during the year and the cost are being recharged to the Swiss entity, the treaty exemption will not apply

### Subsequent requirement

If R accept redundancy she will remain UK non-resident and resume residence from the 2025-26 UK tax year.

If R accepts the UK role and returns on 15th March 2025, she is likely to become UK resident. As she will have more than 30 workdays in the UK. She has a UK home available to her.

Her residence position will then be determined under the treaty, as she has a permanent home in the UK, she will be a treaty resident in the UK. As a UK resident she will be taxable on her worldwide income. However, as the treaty exemption applies the overseas income relating to Swiss workdays will be exempt.

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-----ANSWER-2-ABOVE-----  
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-----ANSWER-3-BELOW-----  
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Answer-to-Question- \_3\_

### Part 1

A UK based employer is required to report the UK taxable income of all its UK employees through the PAYE system.

As a UK resident, Robert will be taxable on his worldwide income on arising basis. However, he will be eligible to claim Remittance basis of taxation as he is a non UK domiciled. Under remittance basis Robert will be taxable on his overseas earnings only if they are remitted to the UK. A formal remittance basis claim will lead to no UK personal allowance but considering Robert's annual income, this will not be available to him in the first instance. As a result of the remittance basis claim he will be eligible to claim to Overseas Workday relief for the first three years of his assignment. The 20% EU workdays can be classified as overseas workdays. Robert needs to be instructed to obtain his UK assignment income in a separate bank account with a balance of £10 or less to obtain the overseas workday relief on special mixed fund rules.

TJCB needs to report his employment income via PAYE. They need to complete an expat starter checklist. As per Robert's income he will be taxable under the 0T code. As Robert is a tax equalised individual and is paid in US, his income will have to be reported on estimated basis.

There is no hypo tax on benefits as they are provided due to the assignment.

UK tax on the benefits

1. Transport of belongings 7500 it will be exempt as a qualifying relocation cost. The exemption is only available for a limit of 8500.
2. Purchase of new bed - This is also a qualifying relocation cost however as only 500 is remaining, the excess of 1500 will be taxable in the UK
3. Temporary accommodation - This will be a taxable benefit as the qualifying relocation has been used. The temporary workplace relief does not apply in this case as the assignment is for more than 24 months.
4. The relocation costs will also be a taxable benefit as it is a lump sum payment and does not relate to any particular relocation cost specifically.

Under Article 4 of UK-US Social Security Agreement, if an individual employed with a country and ordinarily resident in that country is sent on an assignment to another country he/she will remain liable to social security in the employing country if the assignment is less than 5 years. As Robert's assignment is less than 5 years, he will not be liable to UK National Insurance contribution. A certificate of continuing liability needs to be obtained from US.

The EU UK SSC protocol covers persons who are subject to legislation of either states. As Robert is not subject to UK social security rules, the SSC protocol will not apply. Advice needs to be obtained in relation to his social security contributions in EU on his EU workdays.

Pensions

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The contribution to US pension scheme will be exempt is it is a Qualified Overseas Pension Scheme. The 401 K is a qualified overseas pension scheme as the scheme is registered scheme and it is regulated by US pension authorities. It is also available to all the resident in the country. It has the same tax advantage as UK pension scheme.

The relief can be obtained through the treaty or migrant member relief.

The relief for contributions to US based qualifying pension scheme will be obtained under the UK-US convention. Contribution to 401K scheme qualifies as valid pension contribution and attracts the same benefit as contribution to UK based pension scheme. It will be deductible when calculating his UK taxable income.

## Part 2

The Appendix 6 agreement is used by UK based employer to report income for UK arrivals on estimate basis. The UK tax and NIC is paid on the basis of estimated monthly income.

The PAYE reports need to be submitted by 14th of the month following the payment and IT needs to be paid by 22 of month if paid electornically.

A Self-Assessment is required when individual income are reported through Appendix 6 to report the actual incoem received and taxable. The overseas earnings have been deducted in calculating

Income	600000		

Less hypo	(100,000)		
transport		20% of 600,000	
Bed	500	UK taxable 500	
Temporary accommodation	(200 x 14) = 4800		
relocation allowance	5000		
less pension	(12000)		
Total pay	498,300		
Net	Gross up	Gross Pay	Tax
30160	100/80	37700	7540
52464	100/60	87440	34976
415676	100/55	755774	340098.3
		PAYE for 2024/25	382614

The overseas workdays can be claimed as relief on the Self-Assessment Tax Return. TJCB can also apply for claiming relief for workdays through S 690 and only the portion of UK earnings will then be reported through the UK PAYE.

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 -----ANSWER-3-ABOVE-----  
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-----ANSWER-4-BELOW-----  
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Answer-to-Question- 4

#### Employment Tax obligation

As a UK resident and domiciled individual she will be subject to UK tax. The tax on her employment income will have to be reported through UK PAYE.

As she is stepping down as director the employee payment rules apply in her case. The bonus is for the performance period of 31 December 2024 during which she will be a UK employee.

The leaving gift will be treated as a payment on retirement and not a termination payment. It will be subject to UK PAYE and NIC. There will be no exemption provided under 401 as this amount relates to her retirement and not under termination.

The shares provided to Dawn act as a restrictive covenant, although there is no explicit term in her agreement. These shares will be taxable on happening of a contingent event. They will be taxable on exercise of the shares. They need to be processed through PAYE as they are Readily CONVERTIBLE Asset.

It is suggested that Spotlight should enter into an agreement with HMRC regarding processing of shares payments as they will be paid to her when she is not on UK payroll.

Dawn is expected to work until June 2025. This will be her last payroll. The payment for leaving gift is made in the same tax year. Provided this is paid before P45 is given to Dawn, it should be processed through PAYE on her normal tax code. It is provided after the P45, taxes need to be withheld on 0T code on M1 basis.

The bonus will be considered as paid in the current tax year as she would be entitled to the payment on 31st March 2025. As the bonus is paid within 90 days of being entitled to the payment it will be subject to PAYE in March 2025, as that is earlier than the receipt of payment. This needs to be processed through PAYE on similar terms as leaving gift either PAYE code or the 0T code.

#### National Insurance obligation

The Class 1 primary and secondary contributions are due on the cash payments received. The bonus and leaving gift will be subject to Class 1 primary and secondary contribution. The shares are also considered as Readily COnvertible Assets and therefore will be subject to Class 1 NIC.

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-----ANSWER-4-ABOVE-----  
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-----ANSWER-5-BELOW-----  
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Answer-to-Question- 5

### 1. Cash Tips

The cash tips are not reported through PAYE. The individual is required to declare these cash tips on the Self-Assessment. This may lead to a tax code adjustment in the subsequent year.

Currently, the employer has no liability to report or withhold tax on these cash tips and the employee directly needs to report this on their tax return. There would be no Class 1 NIC due on tips.

#### Plan A

If the Plan A is used Nelo will be a troncmaster. The troncmaster needs to account for the PAYE and NIC on all the tips. This can be done through a separate PAYE code. As the employer is not involved in this transaction and the tips are distributed by Nelo Nelo would be responsible for withholding PAYE.

#### Plan B

If the tips are collected by the employer and distributed. The employer is required to withhold the PAYE on these payments. This can be done through the same payroll in which the salaries are paid.

2. The auto enrollment rules apply to all the employees in the age bracket of 22 to 65 years. The employer is required to enroll them into a pension scheme. The employee may opt out but the enrollment is compulsory and therefore the auto enrolment rules have not been complied with.

National Living wage for 22 year old employee is 10.18. Yinka was paid  $206/20 = 10.3$ . as she is paid per week. The NLW rules are adhered to from 09th to 23 MArch 2024. The position needs to be checked again after 23rd March as she would be eligible for a National Minimum wage of 10.42. Her current wages would not fulfill the National Living Wage Requirement and therefore need to be increased.

3.

Cost of the products provided to the employee - the retail value is subject to 50% markup. The benefit to the employee is the cost to the employer of the product, i.e. £10

COst to employer

Increased Class 1 secondary contribution on 300 per month. As Nelo earns more than 758 (UEL) for NIC purpose, the 300 will be subject to NIC of 13.8% = 41.4

The cost to provide skin product to Nelo is 26 per month as the retail value is marked up at 50%. This is the cost of the actual benefit to Beauface. As PSA is in place. Beauface would be responsible for paying tax and Class 1B NIC on this benefit. The benefit amount should be inclusive of VAT therefore the benefit would be  $26 \times 120\% = 31.2$

Nelo is a basic rate tax payer, the tax on the benefit will be on  $(31.2 \times 12 = 374)$ . Tax =  $374 \times 20\% = 74.8$ . Grossed up benefit =  
Class 1 B NIC will be due at 13.8% on grossed up benefit value.

The mobile phone and reimbursement provided to Nelo is an exempt benefit for tax purpose. There will be no additional cost except the 52 per month.

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-----ANSWER-5-ABOVE-----  
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-----ANSWER-6-BELOW-----  
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Answer-to-Question- 6

A UK registered and located company is required to report UK taxes and National Insurance Contributions(NIC) due for all its employees through PAYE. The Employee Benefit Trust is established as a third party arrangement to provide benefits to the employee.

These benefits will constitute as employment income if the following conditions are fulfilled

1. The benefit are provided to current/past/prospective employee.
2. There is a third party involved through whom the benefit is provided.
3. There is a relevant action by the third party .
4. If not for the third party, it would constitute as employment income.

The disguised remuneration rules apply and therefore Yachtmaster is required to withhold PAYE and NIC on the benefits provided.

The interest free loan received by Adrian is a taxable benefit. The value of taxable benefit of interest free loan can be determined by calculating the interest due on the loan at the Official Rate of Interest (2.25%). Income Tax and Class 1A NIC is required to be paid on the taxable amount. The CLass 1A NIC is due at 13.8% rate. The taxable benefit value can be calculated through the average method or the strict method. The average method is used as a default. The strict method will be recommended by HMRC if the benefit value is significantly different. The employer can also opt for the strict method if the benefit value is less than average however election needs to be made.

The yacht is a taxable benefit provided to Adrian's civil partner. The taxable benefit value will be the cost to the employer of the asset of providing the asset.As the employer is in the business of providing pleasure boats. Only the cost of maintaining the boat would be accounted for as taxable benefit.

This will need to apportioned for the period which is provided to the employee or any person related to the employee. The benefit is provided as a result of employment and therefore will be considered taxable. It also needs to be checked on how many other employees use the yacht in the EBT pool.

The award or remuneration of shares will be considered as a earmarking of funds. This would be considered as relevant action by the third party. This would trigger the PAYE and NIC requirement. The shares are readily convertible asset and therefore the difference between market value on date of exercise and any price paid will be subject to income tax. As there is no price paid for the shares, the taxable income will be the Market value of the allocated shares.

The employer may choose to pay the tax due on the taxable income relating to shares if the employee does not have enough funds to pay the tax. However, thsi needs to be paid back within 90 days in the end of the tax year. The loan would become additional taxable benefit if not repaid.