

## HUMAN CAPITAL TAXES

### **Paper aim**

To enable candidates to apply the legislation and gain the detailed technical knowledge and professional skills to identify and resolve tax issues that arise for employers. The paper primarily covers Income Tax and National Insurance. Whilst the focus of the paper is primarily from the perspective of the employer rather than the employee, an understanding of the tax implications of employment income for the employee is required.

Candidates will be required to use technical knowledge and professional judgement to identify, explain and evaluate alternative tax treatments and to determine the appropriate solutions to taxation issues, giving due consideration to the needs of clients.

### **Prior knowledge**

The paper is aimed at students who have had two or three years' practical experience working in human capital taxes, together with the appropriate level of private study and/or tuition.

### **Method of assessment**

The Human Capital Taxes paper will be examined by a traditional paper based assessment. The examination paper will be 3 hours 15 minutes in length of which 15 minutes will be reading time. This examination will contain questions requiring the use of communication, judgement and evaluation skills as well as an ability to understand and apply technical skills to scenarios which may affect the taxation of employers.

The questions will be for 10, 15 or 20 marks and there will normally be five or six questions.

The only printed material that candidates may take into the exam hall is a copy of the legislation (see below). Candidates will be provided with tax tables.

The pass mark is 50%.

### **Syllabus**

The syllabus for this paper comprises three elements:

- 1) Income Tax on employment income including the PAYE system.
- 2) Employers' and Employees' National Insurance.
- 3) Other taxes in so far as applicable to employers and employees.

The detailed syllabus grid for this paper can be found at:

<http://www.tax.org.uk/students-and-qualifications/cta-qualification/cta-prospectus-and-syllabus>

At least 70% of the Human Capital Taxes paper will comprise material highlighted in the detailed syllabus grid as “core”. As inbound and outbound assignments are a significant part of the work of most human capital specialists, an international bias may be expected on this paper.

Employment law and company law surrounding shares and share schemes, so far as it is within the Law Computer Based Examination (CBE) syllabus, may be specifically examined on this paper.

The following learning outcomes should be read in conjunction with the detailed syllabus grid.

### **Learning outcomes**

Candidates will be able to analyse, evaluate and calculate the tax consequences of actions for employers in given scenarios. This will involve advising and assisting clients in adhering to the requirements of tax statute and relevant regulations.

In the assessment candidates may be required to demonstrate:

#### *1) Communication skills*

- a. Communicate complex tax issues in a format appropriate to the recipient who may be an external client, a fellow professional, or an internal colleague.
- b. Prepare suitable advice to explain tax liabilities with supporting calculations.
- c. Recommend appropriate tax-planning advice.
- d. Identify further information required to complete tax computations and finalise tax advice.
- e. Give advice which is appropriate, technically correct and within the law. Whilst ethics is not specifically examined in this paper, candidates are expected to produce solutions which meet the ethical guidance of the CIOT.
- f. Interpret and communicate UK tax legislation and apply it to a scenario.

#### *2) Technical skills*

The detailed requirements are set out in the grid referred to in the syllabus section above. In summary, the key technical skills to be assessed on this paper are to be able to:

- a. Understand, explain and calculate the tax liabilities arising for both the employer and the employee. This will include:
  - a. the scope and assessment of employment income including benefits in kind and expenses.
  - b. the operation of the PAYE system including benefit reporting.
  - c. the different classes of National Insurance applicable to an employee and employer
- b. Understand, explain and apply knowledge of regulatory matters including:
  - a. the administration of employer taxes including filing deadlines
  - b. the penalty regime for non-compliance.
  - c. the DOTAS rules and/or anti-avoidance legislation may apply to a scenario.



- c. Understand, explain and calculate the charge to Capital Gains Tax on employees in relation to shares and options in their employing company, on their main residence and on the effect of residence and domicile.
- d. Understand the different types of pension schemes, including unapproved and offshore schemes, and advise on the tax implications for employers and employees and on practical and regulatory issues for employers including auto-enrollment.
- e. Understand the difference between employed and self-employed individuals and identify the taxation issues involved including alternative engagement situations including agency workers, IR35 and MSCs.
- f. Understand and explain tax issues surrounding employee mobility including the effect of double tax treaties and tax equalisation.
- g. Understand and explain the different share schemes available to reward employees including the tax treatment of the various alternatives for employers and employees. This includes:
  - a. Income tax, National Insurance and PAYE obligations for the employer and employee relating to the award of shares or options and changes in the rights attaching to those shares.
  - b. Approved and unapproved schemes
  - c. Disposals of shares and options to the employer (including to an EBT and company purchase of own shares) and to third parties.
  - d. An understanding of other tax implications of employee share transactions including Capital Gains Tax for employees, Corporation Tax relief, VAT on costs and Stamp Duty.
  - e. Matters relating to the administration of schemes.
- h. Understand and explain overseas tax matters including:
  - a. an individual's residence and domicile status
  - b. the implications of individuals leaving and coming to the UK.
  - c. the impact of residence and domicile on UK Capital Gains Tax including the temporary non-residence rules.
- i. Be familiar with with the OECD double tax treaty in so far as it applies to employment matters. Be able to review and apply country specific double tax treaties to specific scenarios (extracts of relevant treaties will be provided in the exam paper).
- j. Understand and explain the Construction Industry Scheme.
- k. Understand statutory payments including SMP, SRP, SSP as well as AEOs and DEOs.
- l. Understand and explain legal issues relating to employment and to shares and share schemes from the perspective of the employer (but only within the e-assessment syllabus).
- m. Explain and apply significant cases and developments as they affect employers.

### 3) Tax planning skills

Candidates will be able to advise on alternative tax treatments to defer or minimise tax liabilities. Candidates will also be able to understand the interaction of taxes in given scenarios and to identify and discriminate between tax evasion and tax avoidance.

In the assessment candidates may be required to:

- a. identify legitimate tax planning measures to minimise tax liabilities.
- b. evaluate and advise on tax strategies to meet personal objectives.

- c. evaluate and advise on alternative tax strategies relating to individuals.
- d. recognise, explain and communicate opportunities to use alternative tax treatments.

## Reference Materials

Candidates may bring into the examination any volumes from the following:

- Tolley's Yellow Tax Handbooks and Tolley's Orange Tax Handbook
- CCH Tax Statutes and Statutory Instruments Red book, including the index volume, and the CCH Green Book (VAT)
- HMSO copies of taxing statutes

Publications brought into the examination must be bound copies. They can be underlined and highlighted. Annotating, use of "post-its", tagging and folding pages is NOT allowed.