

PA CONSULTING GROUP LIMITED

## 2015 Carlyle Investment

# TAX INFORMATION – GERMANY

PREPARED: 6 November 2015

LAST UPDATED: 30 November 2017

This document provides guidance for:

- People who held legacy PA Ordinary shares who were directors, employees or linked shareholders (spouse/ trust etc.) of any member of the PA Group as of 1 August 2015 and who had not given or received notice of termination of their employment prior to 1 August 2015.
- People who held Options over legacy PA Ordinary shares who were employees of any member of the PA Group as of 1 August 2015 and who had not given or received notice of termination of their employment prior to 1 August 2015.

This document summarises the information that PA has received from external lawyers and tax advisers in relation to the personal tax implications of the Carlyle Investment which completed on 11 December 2015 when all legacy PA shares were purchased in exchange for a mix of cash, Vendor Loan Notes and new equity.

The information contained herein assumes you are employed and tax resident in Germany. Whilst every effort has been made to ensure the accuracy of the tax information provided, PA does not take any responsibility for personal tax obligations which remain with you the taxpayer and with your personal tax adviser if you have one.

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References in this document to the value of securities are to the value of such securities for the purposes of the Scheme of Arrangement implementing the proposed Carlyle investment only. The value for which such securities may be able to be disposed of may be different, and can fall as well as rise.

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## ABBREVIATIONS

<b>PACG</b>	PA Consulting Group Limited. This was the company in which legacy PA shares were held. It was renamed PA Consulting Holdings Limited on 11 December following the Carlyle investment.
<b>PACG Ordinary share</b>	The legacy Ordinary shares in PA Consulting Group Limited
<b>Investment</b>	The proposal from the Carlyle Group to purchase all issued PACG Ordinary shares through a UK court approved scheme of arrangement.
<b>Loan Note (VLN)</b>	This is your vendor (i.e. seller) loan to the new PA group.
<b>Preference shares</b>	These are shares in the new PA group top company to be issued to ongoing employees and option holders in the new PA group top company. They are 'stapled' to the B Ordinary shares held by PA people.
<b>B Ordinary shares</b>	The B shares in the new PA group parent company are also issued to ongoing employees. They are 'stapled' to the Preference shares. Together one B and 3.8543 (rounded) Preference shares are known as a 'Share Unit'.
<b>EBT</b>	The PA 2004 ESOP. This is PA's Jersey employee benefit trust which held the PACG Ordinary shares not currently held by employees.

## SUMMARY

The Investment was approved by legacy PACG Ordinary shareholders and the court, and became effective on 11 December 2015.

You can review your Personal communication (attached to the email set to you by PA's Share Plans team on 17 December 2015) of what your legacy share and/or share options delivered as a result of the Investment happening on 11 December.

1. [You paid income tax and Social Security on the shares gifted to you by PA's Employee Benefit Trust.](#)
2. [You had a special opportunity to use your share options before the Investment.](#)
3. [Capital gains tax treatment applied on the new consideration you received on exchange of your legacy PA shareholding.](#)
4. [Tax was due on the Cash and Loan Note elements of your consideration at the time of the Investment.](#)
5. [There was no tax charge on any Preference shares or B Ordinary shares you acquired at the time of the Investment](#)
6. [Future tax charges on your Loan Note, Preference shares and B Ordinary shares](#)
7. [What happens if you leave PA employment before a share realisation event](#)

**1. You paid income tax and Social Security on the shares gifted to you by PA's Employee Benefit Trust.**

Legacy PA shares which were not held directly by employees or covering share options and therefore could be regarded as 'excess' under a 100% employee ownership model, were held in an EBT. The EBT gave current and former employee shareholders one of its shares for every four PA shares and options (in your name or linked holding) you held. As you did not pay anything for these shares, you paid income tax and Social Security on the full value (£23.89) of each share gifted to you.

**Example 1**

You hold 400 PACG shares

100 (1 for 4 held) PACG shares are gifted to you by PA's EBT

100 x £23.89 Investment value per share = £2,389 total value gifted

£2,389 x 47.5% tax = £1,134 estimated payroll taxes cost you will pay as a result of you receiving the 100 shares

Income tax was withheld through PA's payroll. The final income tax you will pay on receiving share value from the EBT will depend upon your marginal tax rate of up to 47.5% (income tax plus Solidarity Surcharge) for 2015 year. Church taxes of 8% or 9% (depending on the federal state) of the income tax liability may also be applicable. The Social Security you pay was calculated through payroll in the month it is taxed.

As you paid income tax on the £23.89 value of each share given to you by the EBT, the £23.89 amount becomes the base cost of these new shares and is added to your total base cost for all PACG shares you hold.

**Example 1 continued**

Your 400 PACG shares have an average base cost of £4.00\*.

Your 100 gifted shares have a base cost of £23.89.

Your new base cost per share held is a weighted average of the 2 prices:  
 $(400 \times £4.00) + (100 \times £23.89) / (500 \text{ shares}) = £7.98$

\*In this example the average base cost used is £4.00. Each shareholder will have a different average base cost.

For reference, we investigated with external advisers and wrote a detailed submission to HMRC (the UK tax authority) requesting their agreement that the transfer of value from the EBT could be subject to capital gains tax treatment rather than Income tax. This was ultimately not agreed by HMRC who relied on complex provisions of UK tax law to deny such treatment to us.

## 2. You had a special opportunity to use your share options before the Scheme became effective.

You can normally only use any vested options (those which have reached their three year waiting period) you hold in a PA share dealing period, which have traditionally taken place every March and September.

As a result of the Investment, you had a special opportunity to use all options you old, i.e. including any not held for three years.

If you held share options, the purchase cost you needed to pay to acquire legacy PACG Ordinary shares (which were then subject to the Investment) will be deducted from the upfront Cash consideration due to you. In general, share option holders received sufficient Cash from the Investment to cover both the option purchase cost (for example £7.30 for options issued in March 2014) and also the taxes due on their option gain (for most legacy options, this will be Income tax and National Insurance on the £23.89 Investment per share value less option cost e.g. £7.30).

The tax charge for the use of options is Income Tax treatment. You will be liable for income tax at your marginal rate of up to 47.5% (depending on the level of your earnings and including Solidarity Surcharge), on the difference between the amount paid for the option and the value of the share when you use your option. Church taxes of 8% or 9% (depending on the federal state) of the income tax liability may also be applicable.

This gain should be reported on your annual tax return ("Einkommensteuererklärung") which must be filed with the German tax authority by 31 May following the year of use. Extensions until the 31 December are available for returns prepared by a tax advisor. Separate reporting will not be necessary as the option gain will already be included in the figures shown on your certificate of wage tax deductions ("Lohnsteuerbescheinigung").

### Example 2

You request to use 100 share options at the share purchase cost of £2.07 each.

The option tax charge is calculated on notional income of new consideration less purchase cost. £23.89 less £2.07 = £21.82 per option

100 options x £21.82 = £2,182 total notional income

£2,182 x 47.5% = £1,036 estimated payroll taxes on option gain

Payment of the full share purchase cost (£207) is deducted from your cash proceeds.

The total cost to use the options to purchase 100 shares will therefore be £1,243 (£207 + £1,036)

#### Example 2 continued

At the date of the Investment you will receive:

- £1,688 Cash (£16.88 initial value x 100 options)
- £683 Preference shares (£6.83 initial value x 100 shares)
- £18 B Ordinary shares (£0.18 initial value x 100 shares)

Your net cash position at the date of the investment will be £445 (£1,688 cash less £1,243 total option purchase cost including taxes). You will also hold £683 of Preference shares and £18 of B Ordinary shares.

The full taxed value of your exercised option (£23.89) will be added to the base cost of your current PA shareholding in the same way as the shares gifted to you from the EBT (See Example 1).

### **3. Capital gains tax treatment applied on the new consideration you received on exchange of your legacy PA shareholding.**

Each legacy PACG Ordinary share you held (including those given to you by the EBT) was exchanged for the following consideration:

- £9.581940 Cash (value)
- £7.301361 Loan Note (value)
- £6.832863 Preference share (initial value which were issued in £1.00 per share units)
- £0.177281 B Ordinary share (initial value which were issued in £0.10 per share units)

Your Cash proceeds were delivered to you in Euro. The market rate on the date the Scheme became effective was applied to convert your Cash proceeds to Euro.

### **4. Tax was due on the Cash and Loan Note elements of your consideration at the time of the Investment.**

Capital Gains tax was due on the Cash consideration at the time of the Investment.

With regards to your Loan Note, the advice PA received from external lawyers is that the safe tax filing position is for you to pay tax immediately on the gain arising on the issue of the Loan Note to you.

However, you could personally consider taking a more aggressive position that the Loan Note is a 'receivable', and as such should be subject to capital gains tax only when it is paid out. This is an unclear area in law which is ultimately determined by your regional tax office. If you wish to pursue the 'receivable' route, you should seek independent advice on this.

Our notes below are then based on you taking the safe position of your Loan Note being taxable at the time of the Investment.

At the date of the Investment the following will be triggered:

- a. the apportionment of your legacy PACG shares base cost between your Cash, Loan Note and new PA shares; and

- b. a capital gain on the Cash and Loan Note value of your consideration on which a capital gains tax liability may arise.

**a. the apportionment of the base cost between your Cash, Loan Note and new PA shares**

The apportioned base cost will be determined as follows.

(A) Consideration:	(B) Cash	(C) Loan Note	(D) Preference share	(E) B Ordinary share
£23.89 split to:	£9.57	£7.31	£6.83	£0.18
Existing base cost x	B/A	C/A	D/A	E/A
Continuing with Example 1 above, this leads to base cost of £7.98 being allocated as follows:	£3.19	£2.44	£2.28	£0.07

Important: each shareholder will have a different average base cost of their existing PACG shares. You must calculate your existing base cost before you can allocate this to the new consideration.

Please note that any shares you held prior to 31 December 2008 are not included in your base cost calculation as these shares are not subject to capital gains tax. The new Preference shares and B Ordinary shares you receive which replace any PACG shares you acquired prior to 31 December 2008 remain exempt from capital gains tax on sale.

**b. a capital gain on the Cash and Loan Note elements of your consideration on which a tax liability may arise.**

The taxable gain on the Cash and Loan Note consideration will then be:

*(Cash consideration (£9.57) - the apportioned Base cost applicable to your Cash consideration* x *the number of shares exchanged*

*(Loan Note consideration (£7.31) - the apportioned Base cost applicable to your Loan Note consideration* x *the number of shares exchanged*

#### Example 1 continued

You have a pool of 500 PACG shares (which includes 100 shares gifted to you) with an average base cost of £7.98. All these shares were acquired after 31 December 2008.

At the date of the Investment you will receive:

- £4,785 Cash (£9.57 initial value x 500 shares)
- £3,655 Loan Note (£7.31 initial value x 500 shares)
- £3,415 Preference shares (£6.83 initial value x 500 shares)
- £90 B Ordinary shares (£0.18 initial value x 500 shares)

Your gain per share on your Cash consideration will be:

£9.57 Cash consideration per share

-£3.19 Apportioned base cost: £7.98 x (£9.57 / £23.89)

£6.38 Gain: £9.57 - £3.19

£6.38 x 500 = £3,190 total capital gain

Please note that the full £9.57 of Cash consideration is taken into account when computing the gain even though you will repay any outstanding share purchase loans from the Cash consideration value.

Your gain per share on your Loan Note consideration will be:

£7.31 Loan Note consideration per share

-£2.44 Apportioned base cost: £7.98 x (£7.31 / £23.89)

£4.87 Gain: £7.31 - £2.44

£4.87 x 500 = £2,435 total capital gain

A total of £5,625 of gain (£3,190 + £2,435) will then be subject to capital gains tax.

Any gains made should be added to other savings and gains made in the 2015 year before deduction of the non-taxable savings allowance of €801 (€1,602 for married taxpayers filing jointly). Your taxable total savings and gains will be taxed at a fixed rate of 25% plus solidarity tax of 5.5% of the tax (totalling 26.375%) plus church tax (if applicable).

This gain should be reported on your annual tax return ("Einkommensteuererklärung") which must be filed with the German tax authority by 31 May 2016. Extensions until the 31 December are available for returns prepared by a tax advisor.

You are reminded that any shares you held prior to 31 December 2008 are not subject to capital gains tax. An individual can choose which shares they are selling (i.e. if they are selling shares from the pre 31 December 2008 holding or the post 31 December 2008 holding). The cash you receive from shares you held prior to 31 December 2008 is not subject to capital gains tax.

#### **5. There was no tax charge on any Preference shares or B Ordinary shares you acquired at exchange.**

The base cost attributed to your Preference shares and B Ordinary shares will be available for you to offset against any gains made in the future.

## **6. Future tax charges on your Loan Note, Preference shares and B Ordinary shares**

### **Future tax charges on your Loan Note**

#### **Interest**

Interest is payable on your Loan Note amount each September at a fixed annual rate of 5% and also on the amount of any repayment of Loan Note at the time it is repaid.

Any interest payments made in respect of the Loan Note will be subject to UK withholding tax at basic rate, currently 20%, and reconciled to your home marginal rate of tax for the year through your tax return.

As an alternative, our [VLN interest tax guidance notes](#) provide information by country and set out how it may be possible for you to seek exemption from the UK withholding tax and how you can apply for a refund of any withholding tax we have paid to HMRC on this and future payments of interest.

#### **Capital repayment**

From the total £200 million total issued Vendor Loan Notes,

- £20 million was repaid on 31 March 2017
- £30 million was repaid on 15 December 2017

Together these payment equates to 25% of each holder's total Loan Note amount.

There will be no additional taxes due when the Loan Note is paid out as you would have already paid capital gains tax in 2015 up to the £7.31 Loan Note value. Noting this assumes you did not take an aggressive filing position that the Loan Note is a 'receivable'.

### **Future tax charges on your Preference shares and B Ordinary shares**

At the point your Preference shares and B Ordinary shares 'Share Units' are sold, (either by you as a current employee following a 'matched market' being operated in Share Units, or on a share realisation event, such as a controlling interest of PA being acquired by a new investor into PA), you will be required to compute a capital gain, report this on your tax return and pay any taxes that may be due.

## **7. What happens if you leave PA employment before a share realisation event**

Once you give or are given notice to leave PA's employment you are no longer able to offer your Share Units for sale, but instead that right has passed to the Company and this is operated using a 'Call Option' placed over your Share Units.

The following steps then take place in connection with your Share Units:

- a) Your leaver status for Share Units is determined by PA's Succession and Compensation Committee. The leaver section of our [Guide to PA shares](#) provide detail on leaver status.
- b) The Call option price for your Share Units is set. Until your shares have been sold there is no gain to consider for capital gains tax purposes. Having a 'Call Option' placed over your Share Units does not trigger any tax reporting or liability.
- c) Your Share Units will be sold either at the all option price in order to satisfy employee demand, typically in a share market each April, or sold at lower of the call option price and price offered (to all shareholders) by a third party buyer of PA.
- d) You will be paid out your sale proceeds in accordance with PA's articles.

For Normal and Competing leavers the sale proceeds will become payable on the earlier of:

- i) A share realisation event (when Carlyle exit from PA); and
- ii) 10 December 2023.

For Exceptional and Staged Value exceptional leavers the sale proceeds will become payable as follows:

- i) 50% on 10 December 2017 (or any later Share Unit sale date)
- ii) The balance on the earlier of a share realisation event and 10 December 2023.

For capital gains tax purposes the point that taxes are assessed is the date you receive your proceeds. There is nothing to report until you have received your proceeds.