

UK Capital Gains Tax Guidance Notes - PA Shares

These guidance notes, prepared by PA's internal tax team, are provided to assist you in completing your personal obligations, to understand your gains from PA shares and, where necessary, to report these to HM Revenue & Customs ("HMRC").

The notes are divided into two main sections:

Average base cost period

For PA shares sold on or after 6 April 2008 UP until 30 June 2015

Taper relief period

For PA shares sold before 6 April 2008

Carlyle investment into PA in December 2015

All PA Ordinary shares were exchanged for new consideration (mix of cash, new shares and Vendor Loan notes on 10 December 2015). If you held or acquired PA shares in December 2015, you should use the [UK notes](#) AND [UK Calculator 2015/16 year](#) to help you calculate and report your gains in the 2015/16 tax year.

Glossary:

CGT = Capital Gains Tax

PA shares = These shares have evolved a number of times through the years. In this document, PA shares represent:

- [PA Holdings Limited](#) Ordinary shares, which existed from 1988 until to the date of the Ipex ventures demerger on 24 June 2008;
- [PA Consulting Group Limited \(PACG\)](#) Ordinary shares, which are the successor shares in the on-going consulting business from there on until 7 December 2012;
- [PA Consulting Group Limited \(PACG2\)](#) Ordinary shares from 7 December 2012, following the 2012 Reorganisation; and
- [PA Consulting Group Limited \(PACG2\)](#) Redeemable shares from 7 December 2012.

Please note that PACG2 was the interim name of the new PA parent company during the share reorganisation which took place early December 2012 and created new Ordinary Share and Redeemable shares in PACG2 limited. On 17 December 2012, the name of the parent company was changed from PACG2 to the old parent company name of PA Consulting Group Limited. This didn't change your shares, only the name of the company for a short while during the reorganisation.

Disclaimer:

These guidance notes have been prepared by PA, based on our understanding of the applicable tax legislation in force at the date of publishing. While PA has made every effort to ensure the accuracy of these notes, we cannot accept any responsibility for errors or omissions or for any tax reporting that you make based on the guidance contained herein. The responsibility for ensuring your personal tax affairs are reported accurately remains at all times with you, the Taxpayer. If you have any concerns about your tax position, or you do not fully understand your personal tax reporting obligations, you should engage an independent tax adviser.

Note: We can only provide you with our current understanding of the capital gains tax consequences on the sale or transfer of PA shares. We cannot give personal tax advice and PA accepts no responsibility for reliance on the contents of this note. If you have any doubts about your own position you should consult your own adviser.

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Average base cost period – for PA shares sold on or after 6 April 2008

A substantially revised CGT regime ('average based cost period') commenced in the UK with effect from 6 April 2008. The key features of the average base cost period regime are set out below and apply to all PA share transactions from 6 April 2008. Specifically, this period excludes the sales of PA shares in the 30th Dealing Period (in March 2008), which was settled on 3 April 2008 (unrestricted share sales), and those sold in the special opportunity to sell restricted shares, on 4 April 2008.

The new rules apply to any **PA Holdings Limited** ordinary shares you:

- held on 6 April 2008
- sold on 8, 11, 14 April 2008 to cover loan repayments due to Capita Trustees
- sold on 20 June, which you acquired by exercising 2004 share options on that date.

The new rules apply to **PA Consulting Group Limited** ordinary shares:

- you acquired on 24 June 2008 in exchange for your PA Holdings Limited shares cancelled on that date
- all transactions in PA Consulting Group Limited shares after 24 June 2008. The main transactions will be purchases and sales of PA shares in the September and March Dealing Periods each year, awards of Restricted shares (usually made in May each year), and exercise of vested share options in any dealing period.

The new rules will apply to **PA Consulting Group Limited** Ordinary shares:

- you acquired on 7 December 2012 in exchange for your PA Consulting Group Limited shares cancelled on that date
- all transactions in PA Consulting Group Limited shares after 7 December 2012. The main transactions will be purchases and sales of PA Ordinary shares in the March and September dealing periods each year, awards of Restricted shares (usually made in May each year), and exercise of vested share options in any dealing period.

The new rules will apply to **PA Consulting Group Limited** Redeemable shares:

- you acquired on 7 December 2012 in exchange for your PA Consulting Group Limited shares cancelled on that date
- all transactions in PA Consulting Group Limited redeemable shares after 7 December 2012. Note the only transactions are expected to be redemption of your redeemable shares

The March Dealing Period is whenever possible, and has for the last few years, been settled by Capita Trustees Limited (the Administrator of the PA internal share market) on or before 5 April each year. However, settlement by this date cannot be guaranteed.

The notes below are intended to explain the CGT position for PA shares from 6 April 2008 until 30 June 2015. Following this, you need to use our Carlyle investment period notes to help you understand and report the exchange of shares in December 2015.

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Key features of CGT with effect from 6 April 2008:

- If you buy and sell shares on same day, these are matched to determine any gain or loss on that day. *This applies to Share Options you buy, where you then immediately sell some, or all, of the purchased shares to fund the option cost.*
- If you buy shares within 30 days of selling shares, these are matched to determine any gain or loss. *This is unlikely to apply to any PA share transactions unless for some reason you both buy and sell shares in a single share Dealing Period. For example you sell shares to repay a share purchase loan but also take part of your current bonus in PA shares.*
- For all other share sales, the base cost of shares is to be calculated on a pooled average cost basis for all holdings of the same class of shares. These pools are known as **Section 104 Holdings**. *For PA ordinary shares, you will have two Section 104 Holdings, one for Restricted shares and one for Unrestricted shares. You need to update each Section 104 Holdings where:*
 - *you buy or sell Unrestricted shares (including shares kept after option exercise and any current bonus you receive in unrestricted shares)*
 - *a set of your Restricted shares come to the end of their restricted period (3 or 5 years) and become Unrestricted shares*
 - *where you are awarded a new set of restricted shares under the Bonus Share Purchase Plan.*
- The capital gain made is calculated by deducting the cost of your shares from the proceeds received. The cost of your shares includes any stamp duty cost in acquiring the shares.
- A flat tax rate of 18% applied on capital gains made between 6 April 2008 and 22 June 2010. From 23 June 2010, the 18% rate applies to gains falling within a person's basic rate tax band (first £32,010 of income for the 2013/14 year) and a rate of 28% applies to gains above the basic rate band.
- An Annual Exempt amount (£10,900 for 2013/14) is deductible before the 18%/28% rates are applied

The next section is relevant only if you held PA Shares at 6 April 2008

1. Establish your Restricted and Unrestricted Share Section 104 Holdings at 6 April 2008 / update it to 24 June 2008

You are recommended to take the time as soon as possible to establish your Restricted and Unrestricted share Section 104 Holdings at 6 April 2008, then to update these for any share purchases or sales made in these (PA Holdings Limited) shares until the date of the Ipex Ventures demerger on 24 June 2008.

Current PA employees can use the [PA Share History](#) report to check the details of any share transactions you undertook in the period 6 April to 24 June 2008, found on Pyramid.

At the date of demerger, you will have one or two Section 104 Holdings. For example, for a non-partner this could be:

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Example: Unrestricted Section 104 Holding:

	Shares	Price	Purchase Cost
2004 Bonus Shares (unrestricted 1 March 08)	2,000	£4.30	£8,600
2006 Bonus in Shares	3,000	£6.38	£19,140
2004 Performance Options (shares purchased and kept)	1,000	£4.30	£4,300
Totals	6,000		£32,040
Average Price:		£5.34	

Note that if you sold any PA shares pre-6 April 2008, you will need to have used the LIFO rules (set out below in the Taper Relief section) to determine which shares you continue to hold at 6 April 2008.

Example: Restricted Section 104 Holding:

	Shares	Price	Purchase Cost
2005 Bonus Shares (restricted to 1 March 09)	500	£5.00	£2,500
2006 Bonus Shares (restricted to 1 March 2010)	2,000	£6.38	£12,760
Totals	2,500		£15,250
Average Price:		£6.10	

2. PA base cost apportionment as a result of demerger on 24 June 2008

On 24 June 2008, each PA Holdings Limited share you held (restricted or unrestricted) was valued at £8.42. For each PA Holdings Limited share held, you received:

- one PA Consulting Group Limited ("PACG") share valued at £5.49
- one Ipex Holdings Limited ("IPEX") share valued at £2.93

Where your PA Holdings share was a restricted share i.e., a share held under the Bonus Share Purchase plan with a restriction on the sale of the share until the end of a three or five year restricted period, you received a restricted PACG share.

For each unrestricted PA Holdings share you held, you received one unrestricted PACG share.

As a private (unlisted) company, the apportionment of the base cost of shares held in your Section 104 Holdings is determined **at the time you first sell* either a PACG or an Ipex share**. Relevant legislation is TCGA 1992 Section 129. As a formula, this is:

$$\text{PAH Shares} \quad \times \quad \frac{\text{PACG share sale price}}{\text{PACG share sale price} + \text{IPEX share value}}$$

Average Cost

*Sale includes the transfer of shares to a third party e.g. Your spouse

Ipex Holdings Limited Share value

As above, at demerger on 24 June 2008, each Ipex share had a face value of £2.93. Re-valuations of Ipex were subsequently undertaken by BDO Stoy Hayward which valued the assets of Ipex Holdings at 1 January 2010 at £1.88, at 1 January 2011 at £1.92. These valuations essentially represented the Ipex cash asset (the remainder of the £60 million cash PA passed to Ipex in June 2008) plus the typically small value of the Ipex Holdings interests in the venture companies it invests in.

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In order to determine an appropriate Ipex share value you want to use in your base cost apportionment calculation which could be as high as the £2.93 initial valuation or as low as zero if you consider the shares themselves are worthless (these shares being in a company investing in high risk venture companies and committing to return any profits on sale of ventures to shareholders through dividend not share price). We suggest you take into consideration the above company valuations as well as the following factors:

- Ipex's performance and financial status as shown in its accounts for, say, the last three years, and any other information normally available to shareholders (available on the Ipex shareholder website);
- Ipex's dividend policy (their stated intent is to pay out all the cash they receive in dividends) ;
- The size of your shareholding (the smaller your holding the less influence you have on the company), and
- your shareholders' rights (these are very limited for all Ipex shareholders);
- Ipex's commercial and economic background (they have not returned any cash nor have any immediate prospect of doing so at date of this update).
- Ipex Holdings Limited was liquidated in December 2013. No cash was paid out to shareholders, only an interest in the ongoing venture company fund (the Ipex Fund) which may or may not deliver any returns in the future. Prior to liquidation and issue of LPU2s, Ipex diluted it's share capital by 60% through £3.3 million cash injection at a price of £0.10 per share.

We would suggest where you have not already placed a value on Ipex Holding shares in your tax returns that the most appropriate value to use is £0.10 per share.

As you may be aware from the [demerger tax information](#) documentation provided to shareholders, the intention is that the Ipex Holdings Limited shares acquired at demerger will continue in existence until Ipex has spent all its assets (and returned any profits via dividend). The Ipex Holdings shares were never tradeable nor redeemable.

As a result of the December 2013 liquidation, you can realise any loss you have made on the shares, for example if your base cost was £1.00 and you consider their liquidation value to be zero, you will have £1.00 per share held in December 2013 as a loss to offset against any PA or other gains you make in the 2013/14 tax year, or to carry forward to future tax years.

Note: PA is not responsible for any actions that Ipex may take from the June 2008 demerger as Ipex is a legally separate company from PA with separate management..

It will be the first sale (if before the December 2013 liquidation of Ipex shares) of any of your PA shares which includes the PACG2 Ordinary or Redeemable shares exchanged for Ordinary share held at 4 December 2012, that triggers the base cost apportionment between the PACG shares and Ipex Holdings Limited shares.

For the purposes of these tax guidance notes, the [examples below](#) assume that you sold 1,000 PA shares in the September 2009 Dealing Period (PA share price £7.16) in order to illustrate how you apportion the base cost. We also assume the highest possible Ipex Holdings share price of £2.93 per share.

Apportioning the base cost for your PA Consulting Group Limited shares

Using the Unrestricted Section 104 Holding example above:

$$\text{PAH Average cost of } \pounds 5.34 \times \frac{\pounds 7.16}{\pounds 7.16 + \pounds 2.93} = \pounds 3.79$$

Using the Restricted Section 104 Holding example above:

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$$\text{PAH Average cost of } \pounds 6.10 \times \frac{\pounds 7.16}{\pounds 7.16 + \pounds 2.93} = \pounds 4.33$$

The shareholder in the above example then has the following cost basis for their PA shareholding:

1) Unrestricted Section 104 Holding:

	Shares	Price	Purchase Cost
Totals pre-demerger	6,000	£5.34	£32,040
Totals b/f at 24 June 2008 <i>following base cost split</i>	6,000	£3.79	£22,740

2) Restricted Section 104 Holding:

	Shares	Price	Purchase Cost
Totals pre-demerger	2,500	£6.10	£15,250
Totals b/f at 24 June 2008 <i>following base cost split</i>	2,500	£4.33	£10,825

Apportioning the base cost for your Ipex Holdings Limited shares

Using the Unrestricted Section 104 Holding example above:

$$\begin{array}{l} \text{PACG Average cost} \\ \text{of } \pounds 5.34 \end{array} - \begin{array}{l} \text{PACG base cost of unrestricted shares} \\ \text{of } \pounds 3.79 \end{array} = \pounds 1.55$$

Using the Restricted Section 104 Holding example above:

$$\begin{array}{l} \text{PACG Average cost} \\ \text{of } \pounds 6.10 \end{array} - \begin{array}{l} \text{PACG base cost of restricted shares} \\ \text{of } \pounds 4.33 \end{array} = \pounds 1.77$$

The shareholder in the above example then has the following cost basis for their Ipex shareholding:

	Shares	Price	Purchase cost
Unrestricted	6,000	£1.55	£9,300
Restricted	2,500	£1.77	£4,425
Total pooled	8,500		£13,725

$$\frac{\text{Total pooled purchase cost of } \pounds 13,725}{\text{Total pooled shares of } 8,500} = \pounds 1.61 \text{ base cost of each Ipex shares}$$

You will in the 2013/14 tax year have a loss on your Ipex shares which can be used to offset against PA share gains or other gains in the year of the loss / future years. In order to illustrate see the example below.

The Ipex shares are redeemed for £0.10p. You would have £12,835 (8,500 x £1.51 (£1.61 less £0.10)) of losses to offset against your gains in the 2013/14 tax year or to carry forward.

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3. Shares moving from Restricted to Unrestricted Section 104 Holding

On 1 March 2009, the sale restriction on the 2005 year (awarded April 06) restricted shares lifted, and those 500 shares move from the Restricted to the Unrestricted Section 104 holding at their average price of £4.33 per share.

The Restricted Section 104 holding would then look like this:

	Shares	Price	Purchase Cost
Totals b/f	2,500	£4.33	£10,825
1 March 2009 Restrictions lift on 2005 Bonus shares	-500	£4.33	-£2,165
Totals c/f	2,000	£4.33	£8,660

The Unrestricted Section 104 holding then looks like this:

	Shares	Price	Purchase Cost
Totals b/f	6,000	£3.79	£22,740
Add: unrestricted 2005 Bonus Shares	500	£4.33	£2,165
Totals / Average Price:	6,500	£3.83	£24,895

Sales of shares, including those to repay loans due in respect of bonus shares (originally issued as restricted shares) are always made from your Unrestricted share pool.

4. Disposal of unrestricted shares in September 2009 dealing period

In the September 2009 dealing period, you sell 1,000 PACG unrestricted shares at the dealing period price of £7.16 per share.

Your restricted Section 104 holding would remain unchanged:

	Shares	Price	Purchase Cost
Totals b/f	2,000	£4.33	£8,660
Totals c/f	2,000	£4.33	£8,660

Your unrestricted Section 104 holding then looks like this:

	Shares	Price	Purchase Cost
Totals b/f	6,500	£3.83	£24,895
Less: unrestricted shares sold	- 1,000	£3.83	£3,830
Totals c/f	5,500	£3.83	£21,065

If the disposal of 1,000 shares is your only capital gain transaction in the fiscal year, your capital gain is:
 $1,000 \text{ shares} \times (\text{£}7.16 \text{ sale price} - \text{£}3.83 \text{ apportioned base cost}) = \text{£}3,330$

This gain is covered by your £10,100 annual exemption, so no tax is due. If the capital gain had been £11,000, then £900 would have been the taxable gain amount, taxed at a flat rate of 18% = £162 tax due.

Taxable capital gains must be reported on your Personal Tax Return for the tax year in which the sale is made. Tax Returns for the 2012/13 tax year must be filed with HMRC by 31 October 2013 (if you file a paper form) or 31 January 2014 (for online filing). The capital gains tax liability must be paid to HMRC by 31 January 2014 at the latest.

Leaving PA employment – prior to August 2015

If you leave PA employment and your Restricted Shares are sold in your notice period or shortly after leaving or in the first dealing period after leaving (depending when a share price is available), the disposal is treated as a sale of your entire restricted S104 holding. Separately you may have a disposal of your full unrestricted holding, or the shares in this holding may be sold down over a number of dealing periods at PA discretion.

5. PA shares base cost apportionment as a result of 2012 PA Share Reorganisation

On 7 December 2012, each PA Consulting Group Limited share you hold (restricted or unrestricted, both valued at the £9.76 September 2012 determined dealing period price) will be exchanged for:

- one new PA Consulting Group Limited (PACG2) Ordinary Share at a value of £5.4512; and
- one new PA Consulting Group Limited (PACG2) Redeemable Share at a value £4.3088

Where your PA Consulting Group Limited Ordinary Share was a restricted share i.e. a share held under the Bonus Share Purchase plan with a restriction on the sale of the share until the end of a three or five year restricted period, you will receive one restricted new PA Consulting Group Limited Ordinary Share and one Redeemable Share.

For each unrestricted PA Consulting Group Limited share you held, you received one new unrestricted PA Consulting Group Limited Ordinary Share and one Redeemable Share. None of the Redeemable shares you acquire have any restrictions attached to them. As a result, they form a single Section 104 holdings pool with an average base cost. Your new PA Consulting Group Limited Ordinary Shares form two separate Section 104 holdings (restricted and unrestricted holdings)

As a private (unlisted) company, the apportionment of the base cost of shares held in your Section 104 Holdings is determined **at the time you first sell* a PACG2 Ordinary Share or redeem a PACG2 Redeemable Share**. Relevant legislation is TCGA 1992 Section 129. As a formula, this is:

The calculation of your the base cost of your PACG2 Ordinary Shares (by Restricted Section 104 holdings pool and separately by Unrestricted Section 104 holdings pool) is set out below:

PACG Ordinary Share average price	x	$\frac{\text{PACG2 Ordinary share price}}{\text{PACG2 Ordinary share sale price} + \text{Redeemable Share price}}$
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The calculation of your the base cost of your PACG2 Redeemable Shares (by Restricted Section 104 holdings pool and separately by Unrestricted Section 104 holdings pool which are then joined together) is set out below:

PACG Ordinary Share average price	x	$\frac{\text{PACG2 Redeemable share proceeds**}}{\text{PACG2 Ordinary share sale price} + \text{Redeemable Share price}}$
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*Sale includes the transfer of shares to a third party (typically your spouse) or redemption of your Redeemable shares.

** The PACG2 Redeemable share proceeds will be less than the PACG2 Redeemable share price if you request redemption of your PACG2 Redeemable shares in December 2012 or May 2013 as you will receive your cash proceeds in two stages. This represents a part disposal for capital gains tax purposes.

Note that where you receive the redemption cash in two stages there will be two tax points; one tax point at each stage.

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PACG2 Redeemable Share Redemption Price

PACG2 Redeemable shares acquired on 7 December 2012 have a fixed value of £4.3088.

The Redeemable share price to be used in your base cost apportionment calculation will then be £4.3088.

The Redeemable share proceeds to be used in your base cost apportionment calculation will be either £3.1749 for proceeds received in January 2013 or July 2013 and £1.1339 for proceeds received in January 2014; or £4.3088 for redemptions requested from December 2013 onwards.

For the purposes of these tax guidance notes, the examples below assume that you request to redeem 1,000 PACG2 Redeemable shares in December 2012 in order to illustrate how you apportion the base cost.

Example of apportioning of the base cost of your PACG2 Ordinary shares

Using the Unrestricted Section 104 Holding example above:

$$\text{PACG average cost of } \pounds 3.83 \times \frac{\pounds 5.4512}{\pounds 5.4512 + \pounds 4.3088} = \pounds 2.14$$

Using the Restricted Section 104 Holding example above:

$$\text{PACG average cost of } \pounds 4.33 \times \frac{\pounds 5.4512}{\pounds 5.4512 + \pounds 4.3088} = \pounds 2.42$$

The shareholder in the above example then has the following:

Apportioned base costs of their PACG2 Ordinary shares.

1) Unrestricted Section 104 Holding:

	Shares	Price	Purchase Cost
Existing Ordinary Shares held at 3 December 2012	5,500	£3.83	£21,065
PACG2 Ordinary Shares held at 4 December 2012 <i>following base cost split</i>	5,500	£2.14	£11,770

2) Restricted Section 104 Holding:

	Shares	Price	Purchase Cost
Existing Ordinary Shares held at 3 December 2012	2,000	£4.33	£8,660
PACG2 Ordinary Shares held at 4 December 2012 <i>following base cost split</i>	2,000	£2.42	£4,840

Apportioned base costs of their PACG2 Redeemable shares (for redemption proceeds received in January 2013).

$$\text{PACG average cost of } \pounds 3.83 \times \frac{\pounds 3.1749}{\pounds 5.4512 + \pounds 4.3088} = \pounds 1.25$$

Using the Restricted Section 104 Holding example above:

$$\text{PACG average cost of } \pounds 4.33 \times \frac{\pounds 3.1749}{\pounds 5.4512 + \pounds 4.3088} = \pounds 1.41$$

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The shareholder in the above example then has the following cost basis for their PACG2 Redeemable shares:

Derived from PACG	Shares	Price	Purchase cost
Unrestricted Ordinary Shares	5,500	£1.25	£6,875
Restricted Ordinary Shares	2,000	£1.41	£2,820
Total pooled	7,500	£1.29 (average)	£9,695

For the example shareholder, their total pooled purchase cost is £9,695 = £1.29 base cost for each PACG2 Redeemable Share held (£9,695 / 7,500 shares).

Apportioned base costs of their PACG2 Redeemable shares (for redemption proceeds received in January 2014).

$$\text{PACG average cost of } \pounds 3.83 \times \frac{\pounds 1.1339}{\pounds 5.4512 + \pounds 4.3088} = \pounds 0.44$$

Using the Restricted Section 104 Holding example above:

$$\text{PACG average cost of } \pounds 4.33 \times \frac{\pounds 1.1339}{\pounds 5.4512 + \pounds 4.3088} = \pounds 0.50$$

The shareholder in the above example then has the following cost basis for their PACG2 Redeemable shares :

Derived from PACG	Shares	Price	Purchase cost
Unrestricted Ordinary Shares	5,500	£0.44	£2,420
Restricted Ordinary Shares	2,000	£0.50	£1,000
Total pooled	7,500	£0.46 (average)	£3,420

For the example shareholder, their total pooled purchase cost is £3,420 = £0.46 base cost for each PACG2 Redeemable Share held (£3,420 / 7,500 shares).

When to update your Section 104 holdings for PACG / PACG2 Ordinary Shares

Each 1 March, you need to update both your restricted and unrestricted Section 104 holdings as noted above if you have any restricted shares reaching the end of their restricted period on 1 March.

Each April and each October, you need to update your unrestricted Section 104 holding if you purchased or sold any shares in the March / September dealing periods, including any share option exercises when you have kept some or all of the resulting shares. (Shares acquired through an option but immediately sold are matched on the same day rule – see below).

Each April / May, you need to update your restricted Section 104 holding if you acquired any new restricted shares under the Bonus Share Purchase Plan.

Performance Share Options

Where you exercise 2004, 2005 or 2006 bonus year share options in September 2008 and later Dealing Periods, you must use the matching rule above to cancel out the share purchases you have made matched against any immediate share sales made to fund the exercise cost (Sell All / Sell Sufficient choices on exercise).

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As the 2004, 2005 and 2006 shares are “unapproved options”, this means that you pay income tax on the difference between the option exercise price and the sale price. For example if you exercised in September 2008 (share price £5.50) 1,000 of your 2004 year options (price £1.37) you paid income tax on the difference (£5.50-£1.37 x 1,000). For capital gains tax, you match the 1,000 shares purchased against the 1,000 shares sold and no gain is made as the sale price equals the purchase price of £5.50.

If you exercise your share option and choose to keep some or all of the shares, they join your Unrestricted Section 104 holding with a cost price equal to the market price at the date of exercise. For example, if you exercised 1,000 share options in September 2008 when the price was £5.50, and kept 400 of these shares, then the 400 shares are added to your Unrestricted Section 104 holding with a base cost of £5.50 per share.

2007 options (awarded 16 Sept 2008 at £5.50) and most 2008 options (awarded 30 June 2009 at £6.88) were awarded under a HMRC approved share option plan to UK employees. When these options are exercised, from September 2011 onwards, the base cost of the shares is the respective option exercise price, and shares kept join the unrestricted section 104 holding. Shares sold immediately are matched with option exercise purchases and the gain subject to capital gains tax in the year of exercise. A small number of 2008 options, a some future options may be unapproved, which is where the total unexercised options exceed £30,000 HMRC limit, and are a result treated as unapproved options which receive the same treatment as set out above for the 2004,05,06 year options.

Updating your Unrestricted Section 104 Holding for Share Option purchases or direct purchases in the Dealing Period

Where you acquire PA shares by exercising a ‘tax approved’ share option (and keep some or all of shares), or you directly purchase shares in a dealing period then these shares are added to your Unrestricted Section 104 Holding as set out in below example.

	Shares	Price	Purchase Cost
Totals b/f	5,500	£2.17	£11,935
Add: share option shares kept in March 2013 dealing period	3,000	£5.50 (price of 2007 tax approved options)	£16,500
Totals / Average Price:	8,500	£3.35	£28,435

Note that any PA shares you acquired after 24 June 2008 (including those relating to options awarded before that date) are not subject to base cost apportionment - this applies only to any PA shares you held at 24 June 2008.

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Taper relief period

For PA shares sold before 6 April 2008

This note explains the UK CGT implications in connection with the purchase and sale of PA shares on or before 5 April 2008. The note has adapted the detailed UK tax legislation in force to that date to reflect only those implications which are relevant to PA shares. The note must not be used as a basis for working out the gains or losses attached to any other capital assets.

Specifically, the note covers the sale of Unrestricted and Restricted PA shares in the March 2008 internal market. Unrestricted shares were sold on 3 March 2008 and Restricted shares on 4 March 2008.

In addition, the note assumes that there are no other capital asset disposals which have taken place during the year and also ignores capital losses, international issues, hold over reliefs etc.

This document addresses the issues concerning the calculation of capital gains arising on the disposal of PA shares in the following order:

- 1. Calculating the CGT liability arising from the sale of shares**
- 2. Identification of shares sold and calculation of base cost**
- 3. Taper relief**
- 4. The PA Bonus Share Purchase Plan**
- 5. Shares acquired following the exercise of a share option**
- 6. Shares acquired via nil paid quasi options**
- 7. 1994 Share issue**
- 8. Shares acquired via the original December 1988 Share Equity Scheme**
- 9. Transfer of PA shares to a spouse and with effect from 5 December 2005 to a Civil Partner**
- 10. Leavers provisions - implications for PA shares transferred to spouse/civil partner**

If you held PA shares in December 2015, you need to use the special Carlyle investment guidance notes and calculator to assess any gains you made at that time.

There are Appendices to the note which cover the following points in more detail:

- Appendix 1 Section 104 Holdings**
- Appendix 1a Indexation rates (table)**
- Appendix 2 Taper Relief rates (table)**

Note: We can only provide you with our current understanding of the capital gains tax consequences on the sale or transfer of PA shares. We cannot give personal tax advice and PA accepts no responsibility for reliance on the contents of this note. If you have any doubts about your own position you should consult your own adviser.

1. Calculating the CGT liability arising from the sale of shares (the basics).

For 2007/08, individuals are entitled to an annual CGT exemption of £9,200. This means that there is no CGT to pay unless your total net chargeable gains arising from the disposal of assets in the tax year exceed £9,200.

To calculate any chargeable gain made on the disposal of PA shares you must deduct the allowable costs, plus indexation allowance (pre-1998 held shares), from the proceeds which you receive on the disposal. There are special rules for identifying the shares sold and working out the gain arising, which are dealt with below.

2. Identification of shares sold and calculation of base cost

Many employees have built up their current PA share holding through acquisitions made over a number of years. Where this is the case, and there is a part disposal of the total holding, the share certificate(s) submitted when making the disposal do not necessarily correlate to the shares that are sold for CGT purposes. This is because HM Revenue & Customs ('HMRC') consider all PA ordinary shares to be identical and there are specific rules for identifying the order in which shares are sold. In these circumstances, to calculate the capital gain on the disposal of PA shares, you need to know which shares you have sold and their associated cost. In addition you need to know how long you have held the shares that you have sold in order to work out how much taper relief (see below) is due.

When you sell PA shares, you can only work out the capital gain if you have matched the shares disposed with shares you acquired (i.e. you need to ensure that your PA share pool has been 'constructed correctly')*. For CGT purposes, share *disposals* made after 5 April 1998 are identified with *acquisitions* in the following order:

1. Acquisitions after 5 April 1998, on a last in / first out basis (note: unfortunately, this makes it more difficult to get the 10% relief e.g. where an employee retires aged 60); and then
2. Shares acquired before 5 April 1998. These form a "Section 104 holding" which consists of acquisitions of PA shares during the period to 5 April 1998. The cost of the shares which form this holding are uplifted to account for the effects of inflation from the period from purchase to April 1998. This is known as indexation relief. The calculation of a Section 104 holding is explained in Appendix 1.

Where you voluntarily offered shares for sale in the March 2008 market, your Unrestricted shares were sold first on 3 April 2008. Any shares you sold through the special opportunity to sell Restricted shares were sold on 4 April 2008 and should be treated as individual sales based on their original purchase cost and date.

3. Taper Relief

The Chancellor's March 1998 budget included two reforms to CGT:

- the abolition of "indexation relief" with effect from 6 April 1998. Indexation still runs up to that date but no further.
- the introduction of a new taper relief which in its basic form exempted up to 40 per cent of the gain on the sale of PA shares from CGT. Details of taper relief rates are set out in Appendix 2.

In broad terms, the longer you hold PA shares the less tax (as a percentage) you are likely to pay on gains.

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The Chancellor's March 2000 Budget had a **major positive impact** on the capital gains tax treatment applicable to shares held by PA employees. In particular, a far more beneficial operation of CGT taper relief became applicable for gains arising post 6 April 2000. From this date, shares in unquoted trading companies (shares in PA Holdings Ltd are included) fall into the definition of business assets for CGT purposes.

Business Assets

With effect **from 6 April 2002**, the 2002 budget changes mean that if you dispose of a business asset that has been held for more than 2 years then 75% of the capital gains post 5 April 2000 will be exempt and only the 25% balance will be taxed. In effect, this means the actual tax payable is 10% of the total gain (i.e. 40% of the 25% taxable gain). For PA Bonus Share Purchase Plan purposes, ownership starts when the loans are taken.

Non-Business Assets

Post 5 April 1998 and up until 5 April 2000, PA shares held by employees are considered as non-business assets and the taper relief up to 5 April 2000 is less beneficial. The maximum relief on any **gains attributable to the period to 5 April 2000** applies to shares held for 10 years or more, where 40% of the gain will be exempt. In effect this means the actual tax payable is 24% of the gain (i.e. 40% of the 60% taxable gain, rather than the 10% payable for gains post 5 April 2000). An exception arises where the shares are sold after **6 April 2010**, in which case the gain attributable to the period post 5 April 1998 to 5 April 2000 will also qualify for 10% treatment i.e. as if the shares were business assets from the start.

Indexation relief

Pre 5 April 1998, taper relief does not apply but indexation relief is applied to uplift the base cost of shares for the effects of inflation up to 5 April 1998 (see examples for more details)

Assets that are business assets for only part of the period of ownership

If the employee acquires PA shares **prior to 5 April 2000 and continues to hold them beyond** this date then they are classed as business assets for part of the relevant period of ownership post 6 April 2000. Consequently, part of the capital gain is taken to be a gain on disposal of a business asset and the remainder taken to be a gain on disposal of a non-business asset. Different rates of taper relief apply accordingly to each part by reference to the period of holding as if they were two separate gains accruing on separate disposals of separate assets for the same period of time.

Example

- X, an employee receives an interest free loan as part of his 1998 deferred bonus
- To acquire 5,000 shares in June 1999
- He sells the shares in September 2006
- Realising a chargeable capital gain of £20,000

The relevant period of ownership is the 7.25 years from June 1999 to September 2006. During that period, the asset is a non-business asset for the 9 months and a business asset for 6.5 years (i.e. April 2000 to September 2006).

Therefore 0.75/7.25 of the gain i.e. £2,068, qualifies for non - business assets taper and 25% of the attributed gain is exempt (see Appendix 2 for taper relief rates).

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The balance of the total chargeable gain (£17,932) qualifies for business asset taper. As a result, 75% of the attributed gain is exempt.

	Non - business	Business	Total
	£	£	£
Chargeable gain	2,068	17,932	20,000
Less: Taper relief	(517)	(13,449)	(13,966)
Taxable gain	£1,551	£4,483	£6,034

4. The PA Bonus Share Purchase Plan

Please note that, **for share identification purposes**, shares acquired through the PA Bonus Share Purchase Plan are deemed to be bought at the date of original purchase but only once they have come out of the relevant restricted period. For example, once vested, the shares acquired by staff for the 2005 deferred bonus have an acquisition date of 21 April 2006.

For **taper relief purposes**, the relevant acquisition date is also the date at which the shares were purchased via the interest free loan from the PA Employee Trust.

Interest free loans in respect of the 1995, 1996 & 1997 bonus years commenced on 2 November 1998 and this is the relevant date when computing Taper Relief. For subsequent years, the date of purchase of shares is typically April to June following the end of the relevant bonus year e.g. 2004 bonus shares were awarded in June 2005.

5. Shares acquired following the exercise of a share option

This section covers share acquired via the following schemes:

- 2003 options (exercise price £3.78)
- 1993 & 1994 Partner options (exercise price 40p & 50p respectively)
- December 1994 (Christmas) options (exercise price 50p)
- New Recruits options (exercise price depends on date of grant)
- PA Employee Trust Bonus options for 1995 (exercise price 75p) & 1996 (exercise price 93.5p), for those who have not substituted these options for awards under the PA Bonus Share Purchase Plan.
- Summer 1996 options (exercise price 75p)

2003 Options:

2003 options were acquired under the HMRC Approved Share Option Plan. No tax was due on exercise when you acquired the shares in January 2007 or April 2007. On sale of these shares, you pay capital gains based on the increase in value from £3.78 to sale price, with the purchase date being the January or April 2007 that you acquired the shares.

Other Options

The CGT cost of shares, which have been acquired through the exercise of PA share options, is equal to

- Their market value at the time the option is exercised; **PLUS**
- Any amount chargeable to income tax on exercise

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Before the decision in *Mansworth v Jelley* (12 December 2002), the CGT base cost of the shares would have been their market value at the time the option is exercised.

The uplift applies to new issue as well as market purchased shares.

Example

An employee was granted 1994 Partner Options over 1000 shares at an exercise price of £0.50 per share. In June 2000, the employee exercised his option when the share was worth £2.61 per share. The amount subject to income tax is unchanged. It will be £2,110 (i.e. $1,000 \times £2.61 - £0.50$).

The CGT base cost of the shares will be £4,720 (i.e. £2,610 market value plus £2,110 subject to income tax).

The employee, if he immediately sold the shares, can claim a capital loss of £2,110, which could be offset capital gains in the same year and/or carry any surplus forward to future years.

Alternatively, where he has held on to the shares, he could sell them at a later date. He would not have to pay CGT on the sale provided the shares are worth no more than £4.72 at that date. If they are worth more, then he only has to pay CGT on the excess.

For **Taper Relief purposes**, the date of acquisition of the shares is the i.e. June 2000 in the example.

6. Shares acquired via nil paid quasi options

Between 1989 and 1992, nil paid share awards were made to PA senior management. Although the awards were termed as quasi options, their tax treatment is not the same as conventional share options. In fact, these awards are better described as nil paid shares with an obligation on the employee to pay an unpaid amount of share capital.

The **CGT cost** of these shares is equivalent to the unpaid share capital on the share awards.

Indexation relief is available from the date the individual pays up the unpaid share capital until 5 April 1998.

For **Taper relief** purposes, the shares will be deemed to be acquired prior to 5 April 1998, regardless of whether the share capital has been paid at that point.

7. 1994 Share issue

In order to raise new capital, new shares were issued in May 1994, which were available for purchase at 40p per share. These shares were payable in 2 instalments:

- the first instalment of 20p per shares was due on 27 May 1994
- the second instalment of 20 p was due in May 1995

These shares enter the Section 104 Holding in May 1994 at a cost of 40p each. For indexation purposes, on the basis that the second instalment of 20p was paid within 12 months of the first instalment, the total cost of 40p can be indexed from May 1994.

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8. Shares acquired via the original December 1988 Share Equity Scheme

In December 1988, share equity in PA first became available to PA employees through a number of alternatives:

- 400 free shares. For CGT purposes, these enter the Section 104 Holding in Dec 1988 with at the market value of shares at that date of 28p. The free shares should have been subject to income tax on an equivalent amount at the time they were acquired.
- up to 680 shares made available under a Buy One Get One Free (“BOGOF”) offer.

Under this offer PA matched the purchase of each share by an employee by awarding an additional share free. Once again the shares acquired under this scheme enter the Section 104 Holding at Dec 1988 with have a cost of 28p. Indexation relief is available from Dec 1988.

9. Transfer of PA shares to a spouse and with effect from 5 December 2005 to a Civil Partner

The transfer of shares to a spouse or Civil Partner is regarded as a nil gain/nil loss disposal, i.e. effectively the transferee is deemed to receive the shares at the same cost and on the same date, as when the transferor originally acquired them. No CGT liability arises on the transferor.

On the eventual disposal of the shares the total CGT liability will be assessed on the transferee. For Taper Relief purposes, it is necessary to consider whether the shares qualify as a business asset in relation to the transferee’s circumstances throughout the total period of their deemed ownership*.

* As PA is an unlisted company, PA shares will be regarded as a business asset in the hands of the transferee from 6 April 2000, irrespective as to whether they are an employee of PA.

10. Leavers provisions - implications for PA shares transferred to spouse/civil partner

Where an employee is allowed to hold onto their PA shares after leaving the company, but is required to sell back a proportion of their shareholding each year, any shares which they have transferred are taken into consideration when determining the sell back.

For example, a partner has a shareholding of 70,000 PA shares - he decides to transfer 20,000 shares to his wife. On retirement he is required to sell back a minimum of 10,000 shares per year over a 7 year period, of which 7,143 ($50/70 \times 10,000$) will be sold from shareholding and the balance of 2,857 ($20/70 \times 10,000$) from his wife's.

Summary

You will appreciate that the CGT legislation governing the sale of PA shares is very technical and complex. This note represents PA’s current understanding of their operation and is strictly a guide only. You remain, entirely, personally responsible for the accuracy and completeness of your Personal Tax return. If you are in any doubt about how to complete your Personal Tax return, or are unclear on any technical aspects, either discussed above or otherwise, you are strongly recommended to seek professional Tax advice.

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Appendix 1

Pre 5 April 1998 acquisitions - Section 104 Holding

The Section 104 Holding consists of two pools of expenditure:

1. the actual cost of PA shares; and
2. the indexed cost (which uplifts the actual cost to account for inflation)

Both of these pools are updated each time a purchase of shares (if pre - 5 April 1998) or a sale of shares takes place.

The basic steps are as follows:

1. Your Section 104 holding was opened when you first acquired PA shares between December 1988 and 5 April 1998. At this stage the actual cost and indexed cost is the same.
2. When you dispose of PA shares, or next acquire shares before 6 April 1998 you first add indexation to the pool of indexed cost by multiplying the pool of indexed cost by the indexation factor for the period between Step 1 and Step 2 and by adding this figure to the pool of indexed cost. If the event is a disposal, the two pools are reduced by the fraction, which relates to the shares disposed of. The fraction is : Number of shares sold divided by total number of shares in the pool.
3. Complete the indexation process up to 5 April 1998 when indexation was frozen and replaced by taper relief.

Example: You should firstly analyse the sequence of events chronologically. Let us say that the relevant transactions were as follows:

Transaction	Date	Number of shares	Cost	Proceeds
Buy	Dec 90	2,000	£880	N/A
Buy	Nov 92	5,000	£500	N/A
Buy	Nov 96	4,000	£3,600	N/A
Sell	Nov 97	(6,000)	N/A	£7,560

The share pool would look like this:

Date	Transaction	Shares	Cost	Indexed Cost
Dec 90	Buy	2,000	£880	£880
Index. £880	(Dec 90 to Nov 92)	----	----	£66 **
		2,000	£880	£946
Nov 92	Buy	5,000	£500	£500
		7,000	£1,380	£1,446
Index. £1,446	(Nov 92 to Nov 96)	---	----	£147
		7,000	£1,380	£1,593
Nov 96	Buy	4,000	£3,600	£3,600
		11,000	£4,980	£5,193
Index. £5,193	(Nov 96 to Nov 97)	----	----	£192
		11,000	£4,980	£5,385
Nov 97	Sell	(6,000)	£(2,716)*	£(2,937)*
		5,000	£2,264	£2,448
Index. £2,448	(Nov 97 to Apr 98)	----	----	£47
Final holding at 5 April 1998		5,000	£2,264	£2,495

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* In this example, the total indexed cost of the 6,000 shares, which are sold in Nov 97, is £2,937 [(6,000/11,000 x £5,385)].

The chargeable gain on the disposal of the 6,000 shares is therefore:

Proceeds	£7,560
Less: Indexed cost	<u>(£2,937)</u>
Chargeable gain	<u>£4,623</u> (before the offset of the annual CGT exemption)

How to calculate indexation

A table showing the indexation rates is provided on Appendix 1a. You will be able to compute the indexation factor between two dates by using the table.

** For example, to compute the indexation factor in the above example from Dec 90 to Nov 92 in respect of the initial share purchase for £880, you must follow the following steps:

- look up the indexation rates from the Tax Return notes for Dec 90 and Nov 92, which are 0.252 and 0.164 respectively.
- calculate the relevant uplift multiple, as below:
1 + Dec 90 rate (to 3 decimal points only). The uplift multiple is therefore 1.076.
1 + Nov 92 rate
- minus 1 to arrive at the indexation factor. The indexation factor is therefore 0.076.
- You then uplift the Dec 90 indexed cost by the indexation factor to give you the figure to be added to arrive at the indexed cost at Nov 92 i.e. $0.076 \times £880 = £66$.

Post 6 April 1998 acquisitions

PA shares acquired after 6 April 1998 do not form part of the Section 104 holding. Instead they are kept as separate acquisitions.

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Appendix 1a
Indexation rates (table)

Year	Month											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1982			1.047	1.006	0.992	0.987	0.986	0.985	0.987	0.977	0.967	0.971
1983	0.968	0.960	0.956	0.929	0.921	0.917	0.906	0.898	0.889	0.883	0.876	0.871
1984	0.872	0.865	0.859	0.834	0.828	0.823	0.825	0.808	0.804	0.793	0.788	0.789
1985	0.783	0.769	0.752	0.716	0.708	0.704	0.707	0.703	0.704	0.701	0.695	0.693
1986	0.689	0.683	0.681	0.665	0.662	0.663	0.667	0.662	0.654	0.652	0.638	0.632
1987	0.626	0.620	0.616	0.597	0.596	0.596	0.597	0.593	0.588	0.580	0.573	0.574
1988	0.574	0.568	0.562	0.537	0.531	0.525	0.524	0.507	0.500	0.485	0.478	0.474
1989	0.465	0.454	0.448	0.423	0.414	0.409	0.408	0.404	0.395	0.384	0.372	0.369
1990	0.361	0.353	0.339	0.300	0.288	0.283	0.282	0.269	0.258	0.248	0.251	0.252
1991	0.249	0.242	0.237	0.222	0.218	0.213	0.215	0.213	0.208	0.204	0.199	0.198
1992	0.199	0.193	0.189	0.171	0.167	0.167	0.171	0.171	0.166	0.162	0.164	0.168
1993	0.179	0.171	0.167	0.156	0.152	0.153	0.156	0.151	0.146	0.147	0.148	0.146
1994	0.151	0.144	0.141	0.128	0.124	0.124	0.129	0.124	0.121	0.120	0.119	0.114
1995	0.114	0.107	0.102	0.091	0.087	0.085	0.091	0.085	0.080	0.085	0.085	0.079
1996	0.083	0.078	0.073	0.066	0.063	0.063	0.067	0.062	0.057	0.057	0.057	0.053
1997	0.053	0.049	0.046	0.040	0.036	0.032	0.032	0.026	0.021	0.019	0.019	0.016
1998	0.019	0.014	0.011									

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Appendix 2

Taper relief - how the CGT system works for PA shares

1) For gains up to 5 April 2000 (i.e. when PA Shares were regarded as non-business assets)

Complete years from 5 April 1998 which an asset is held *	Percentage of gain chargeable	Equivalent tax rate for higher rate taxpayer	Equivalent tax rate for basic rate taxpayer
0	100%	40%	23%
1	100%	40%	23%
2	100%	40%	23%
3	95%	38%	21.85%
4	90%	36%	20.7%
5	85%	34%	19.55%
6	80%	32%	18.4%
7	75%	30%	17.25%
8	70%	28%	16.1%
9	65%	26%	14.95%
10	60%	24%	13.8%

* For this purpose, the period of ownership normally commences with the date of acquisition of the shares concerned. However, in respect of shares owned as at March 16 1998, the period of ownership is effectively deemed to start on April 5 1997 i.e. these shares have one year of taper relief built in. There is no one – year addition for disposals of business assets after 5 April 2000.

2) For gains beyond 6 April 2000 (i.e. when PA shares are regarded as business assets) but before 6 April 2008.

Complete years for which an asset is held *	Percentage of gain chargeable	Equivalent tax rate for higher rate taxpayer
0	100%	40%
1	50%	20%
2	25%	10%
3	25%	10%
4	25%	10%

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