

**PA CONSULTING GROUP LIMITED**

**2015 Carlyle Investment**

**TAX INFORMATION – UK**

**PREPARED: 6 November 2015**

**LAST UPDATED: 07 February 2020**

**This document is intended for:**

- **People who held legacy PA Ordinary shares who were not directors, employees or linked shareholders (spouse/ trust etc.) of any member of the PA Group as of 1 August 2015 or who had 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 not employees of any member of the PA Group as of 1 August 2015 or who had 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 tax resident in the UK. 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.**

**Disclaimers:**

PA gives no undertaking to update this document. The issue of the document shall not be deemed to be any form of commitment on the part of PA to proceed with any Investment.

This communication is for information purposes only and is not intended to be, and is not, an offer or invitation to sell, or to purchase or subscribe, any shares or other securities.

Nothing in this document constitutes legal, tax or financial advice. If you do not understand anything in this document or if you require legal, tax or financial advice in respect of your specific circumstances it is strongly recommended that you seek professional advice from an appropriately authorised independent adviser.

The information in this document in respect of taxation is general in nature. The information in this document has not, therefore, been tailored to your personal circumstances and the actual tax consequences for you may be different than as set out in this document. The information in this document applies in respect of an individual who is and has been resident and domiciled for tax purposes in the country to which this document applies (as stated in the title of this document) during the period from the first date on which any PA shares or share options were acquired until the final disposal of any securities referred to in this document. For the avoidance of doubt, if you decide to transfer your shares to any other person, or if any of your options lapse, the information in this document will not take account of this transfer or lapse. The information in this document is based on information provided to PA on the basis of tax laws in force at the time such information was provided to PA. PA has sought to ensure that the information in this document is accurate, but cannot be responsible for any inaccuracies.

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.

This document is being made available in reliance on Article 62 (Sale of a body corporate) and Article 60 (Participation in employee share schemes) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

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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>Gifted shares</b>	The PA EBT owned circa 5 million of PA's 25 million Ordinary shares. The trust gave (via nil cost options or by gift) to current and former employee shareholders its Ordinary PA shares.
<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.
<b>Nil cost option</b>	The EBT, for the purposes of allocating surplus shares to those resident in the UK, satisfied nil cost options granted by PACG2 Limited (a subsidiary of PACG) to eligible holders (current and former employee share and or existing option holders).

## 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 National Insurance on the nil cost options.](#)
2. [You had a special opportunity to use your share options before the Investment. The tax treatment depended on which options were used.](#)
3. [Capital gains tax treatment applied on the new consideration you received on exchange of your current PA shareholding.](#)
4. [There was no tax charge on any Loan Note you acquired at exchange.](#)
5. [Future tax charges on your Loan Note](#)

## 1. You paid Income Tax and National Insurance on the nil cost options.

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. This trust held approximately five million 'excess' PA shares with current and former employees holding the remaining 20 million shares either directly or as options over shares.

The EBT Trustees delivered the surplus PA shares to you by transferring surplus shares in order to satisfy the Nil cost options granted to you on Friday 20 November 2015. The surplus share value you received by using the nil cost options was subject to income taxes due through the payroll (in a special payroll run on 31 December 2015).

As a result of leavers from PA, additional surplus shares became available and that is why you received a small gift of shares in addition to the nil cost options. Specifically, the surplus shares you receive through the Nil cost option (and gift of share) in respect of your existing PA shareholding receive Scheme 'Class 2' consideration (cash and loan notes), and the surplus shares you receive from Nil cost options in respect of any options you already hold receive the Scheme 'Class 4' consideration (cash and loan notes).

### Example 1

You hold 400 PACG Ordinary shares.

Nil cost options over 100 (1 for 4 held) PACG Ordinary shares are gifted to you by PA's EBT.

Those 100 options are automatically used to buy 100 PACG Ordinary shares at nil cost to you before the Investment goes ahead.

Once the options are used you will have 100 PACG Ordinary shares.  
 $100 \times \text{£}23.89$  Investment value per share =  $\text{£}2,389$  total value of gifted nil cost options that are used to buy PACG Ordinary shares.

$\text{£}2,389 \times 40\%$  tax and  $\times 2\%$  National Insurance =  $\text{£}1,003$  estimated payroll taxes cost you will pay as a result of using the 100 options to buy 100 PACG Ordinary shares.

Income tax and National Insurance was withheld through the payroll at HMRC's dictated tax withholding rates. For former employees who have already been issued with a P45 this was at the basic, higher and additional rates, according to the amounts concerned with no personal allowance given.

The final income tax you will pay on receiving share value from the EBT will depend upon your marginal rate of tax for the 2015/16 tax year. The relevant effective rates are found in the below table.

Your annual income	Marginal rate of tax	Marginal rate of National Insurance	Combined marginal rate of tax and National Insurance
To $\text{£}31,785$	20%	12%	32%
$\text{£}31,786$ to $\text{£}100,000$	40%	2%	42%

£100,001 to £121,200	60%	2%	62%
£121,201 to £150,000	40%	2%	42%
Above £150,000	45%	2%	45%

As you pay Income tax on the £23.89 value of each nil cost share option used, the £23.89 amount becomes the base cost of these new shares and is added to your total base cost for all PACG Ordinary shares you hold.

Example 1 continued

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

Your 100 shares which you acquired by using your nil cost options 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. If the Investment goes ahead PA's Employment Tax team will publish UK Capital Gains Tax guidance notes and Excel Calculator to help you calculate the average base cost of your existing PACG Ordinary shares. Please email PA's Share Plans team if you would like to request a copy.

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 and National Insurance. This was ultimately not agreed by HMRC who relied on complex provisions of UK tax law to deny such treatment to us.

## **2. A special opportunity was made available for you to use your share options before the Investment. The tax treatment is dependent on which options were used.**

As a result of the Investment, you had a special opportunity to use all options you held.

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).

How your options have been treated for tax purposes will depend upon the year in which you acquired your options. Option holders were sent a detailed personal communication setting out how they could use their options to acquire PA shares.

### **Use of 2005 and 2006 bonus year share options**

All 2005 and 2006 year share options were unapproved, meaning any gain made when the options were used was subject to Income tax and National Insurance. An example of the calculation of the option tax charge is set out below.

### 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 (40% + 2% + 13.8%\*) = £1,217 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 £1,424 (£207 + £1,217)

\*As a PA requirement of your participation in the Share Option Plan you are required to bear the cost of any employer National Insurance which might arise through your acquisition of shares. This is the 13.8% you see in the example.

### Example 2 continued

At the date of the Investment you will receive:

- £1,688 Cash (£16.88 initial value x 100 options)
- £701 Loan Note (£7.01 initial value x 100 options)

Your net cash position at the date of the investment will be £264 (£1,688 cash less £1,424 total option purchase cost including taxes). You will also hold £701 of Loan Notes.

Income tax and National Insurance will be withheld through the payroll at HMRC's dictated tax withholding rates. For former employees who have already been issued with a P45 this will be at the basic, higher and additional rates, according to the amounts concerned with no personal allowance given

The final rate of income tax and National Insurance you will pay will depend upon your marginal rate of tax for the 2015/16 tax year based on the below table.

Your annual income	Marginal rate of tax	Marginal rate of National Insurance	Combined marginal rate of tax and National Insurance
To £31,785	20%	12%	32%
£31,786 to £100,000	40%	2%	42%
£100,001 to £121,200	60%	2%	62%
£121,201 to £150,000	40%	2%	42%
Above £150,000	45%	2%	45%

The full taxed value of your exercised option (£23.89) is added to the base cost of your legacy PA shareholding in the same way as the shares gifted via a nil cost share option to you from the EBT (See Example 1).

PA's Employment Tax Team provided a UK Capital Gains Tax Excel Calculator to help you calculate the average base cost of your Restricted and separately Unrestricted section 104 share pools. We recommend you review these for detailed examples of section 104 pools and how base cost is apportioned. If you would like a copy of this calculator please email [Shareplans](#).

### **Use of 2007 and 2008 bonus year share options, and 2011 and 2012 granted new joiner and promotion share options**

The below listed share options have been mostly granted as HMRC 'approved' options, and as such benefit from a beneficial capital gains tax treatment provided that you submitted an online Option Exercise Notice by 27 November 2015.

Using the option will not trigger any immediate tax charge. Instead the aggregate shares purchased and aggregate purchase cost is added to your other unrestricted legacy shares held (in your section 104 holding).

- 2007 bonus year share options – award date 16/09/2008
- 2008 bonus year share options – award date 30/06/2009
- 2011 new joiner and promotion share options – award date 12/04/2011
- 2011 new joiner and promotion share options – award date 10/06/2011
- 2011 new joiner and promotion share options – award date 03/10/2011
- 2012 new joiner and promotion share options – award date 13/04/2012
- 2012 new joiner and promotion share options – award date 05/10/2012

PA's Employment Tax Team provided a UK Capital Gains Tax Excel Calculator to help you calculate the average base cost of your Restricted and separately Unrestricted section 104 share pools. We recommend you review these for detailed examples of section 104 pools and how base cost is apportioned. If you would like a copy of this calculator please email [Shareplans](#).

Note that if you did not submit an online Option Exercise Notice by 27 November 2015 these options will (unless you take action to cancel them) be exercised but will not benefit from the capital gains tax treatment. Instead, they generate a charge to income tax, employee National Insurance and employer National Insurance on the gain (as set out in example 2 above).

If you held unapproved options from 2008 bonus year share options, and 2011 and 2012 granted new joiner and promotion share options they were treated in the same way as 2005 and 2006 unapproved options (see example 2 above).

### **Use of 2013 granted new joiner and promotion share options**

The early use of these share options generates an immediate charge to Income tax, employee National Insurance, and employer National Insurance on the gain.

Although these options were granted as HMRC 'approved' options, the 'approved' tax treatment ceased to be available as a consequence of the Scheme becoming effective. Therefore, the early use of these options in the special opportunity before the Investment triggered the options to be treated as 'unapproved' for tax purposes as you have not held the option for the HMRC required three years at the point you use them. See example 2 above.

**3. Capital gains tax treatment applied to 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:

- £11.1234 Cash (value)
- £12.7700 Loan note (value)

Note that different treatment applies to holders of share options. Please see section 2 below for details regarding share options.

At the date of the Investment on 11 December 2015 the following was triggered:

- a. the apportionment of your legacy PACG Ordinary shares base cost between your Cash and Loan Note; and
- b. a capital gain on the Cash value of your consideration on which a capital gains tax liability may arise.

**a. the apportionment of the base cost between your Cash and Loan Note**

The apportioned base cost will be determined as follows.

(A) Consideration:	(B) Cash	(C) Loan Note Value
£23.89 split to:	£11.12	£12.77
Existing base cost x	B/A	C/A
Continuing with Example 1 above, this leads to base cost of £7.98 being allocated as follows:	£3.71	£4.27

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

**b. a capital gain on the Cash element of your consideration on which a tax liability may arise.**

The taxable gain on the Cash consideration will then be:

$$\text{(Cash consideration (£11.12) - the apportioned Base cost applicable to your Cash consideration)} \times \text{the number of shares exchanged}$$

#### Example 1 continued

You have a pool of 500 PACG Ordinary shares (which includes 100 shares gifted to you via a nil cost option) with an average base cost of £7.98.

At the date of the Investment you will receive:

- £5,560 Cash (£11.12 initial value x 500 shares)
- £6,385 Loan Note (£12.77 initial value x 500 shares)

Your gain per share on your cash consideration will be:

£11.12 cash consideration per share

-£3.71 Apportioned base cost: £7.98 x (£11.12 / £23.89)

£7.41 Gain: £11.12 - £3.71

£7.41 x 500 = £3,705 total capital gain

Please note that the full £11.12 of Cash consideration is taken into account when computing the gain even though you repaid any outstanding share purchase loans from the Cash consideration value. As set out in Section 1 above, Income Tax and National Insurance due on the gift of shares via nil cost share options from the EBT will also be deducted from your Cash consideration.

You are required to disclose in your tax return, and pay taxes due by 31 January 2017 on any gains arising from the Investment (and any other non-PA gains made) in a tax year that exceed the Annual Exempt amount (currently £11,100 for 2015/16).

Following Example 1 above, if the gain made is less than the Annual Exempt amount of £11,100 (assuming you have no non-PA gains to include), and your Cash consideration (i.e. before loan deduction) is less than £44,400 (in Example 1 £5,560 which is £11.12 per share over 500 shares), no reporting is needed on your tax return and no taxes are payable.

Where your PACG Ordinary share gains (plus any others you make in the tax year), exceed the Annual Exempt amount, these gains will be taxable at a rate of 18% for gains falling within your basic rate tax band (the first £31,785 of income for the 2015/16 year) and at a rate of 28% for gains above the basic rate tax band.

PA's Employment Tax Team provided a UK Capital Gains Tax Excel Calculator to help you calculate the average base cost and gains on legacy PA shares back to 1988. We recommend you review these for detailed examples of section 104 pools and how base cost is apportioned. If you would like a copy of this calculator please email [Shareplans](#).

#### **4. There is no tax charge on any Loan Note you acquired at exchange.**

HMRC clearance has been obtained that no tax charge arises on the exchange of legacy PACG Ordinary shares for Loan Note. As a result you do not need to report the exchange of shares on your tax return.

#### **5. 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 withholding tax at basic rate, currently 20%.

If you complete a tax return, you can take a credit for the 20% withholding tax against whatever taxes are due at your marginal tax rate (0%, 20%, 40% or 45%) on this income. Please note the VLN interest does not form part of the savings allowance (introduced from the 2016/17 tax year) which covers only bank and building society 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
- £30 million was repaid on 28 September 2018
- £40 million was repaid on 11 April 2019
- £40 million was repaid on 28 June 2019
- £40 million was repaid on 6 December 2019

Together these payments equate to 100% of each holder's total Loan Note amount.

As you will have read in section 2, at the date of the Investment on 11 December 2015 the apportionment of your legacy PACG Ordinary shares base cost between your Cash and Loan Note was triggered.

### March 2017 repayment

You should now refer back to this apportionment as you can now utilise the base cost which was apportioned to your Loan Notes. You can take 10% of the base cost attributed to your Loan Notes to offset against the 10% Loan Note proceeds you receive in March 2017.

#### Example 1 continued

At the date of the Investment you received:

- £6,385 Loan Note (£12.77 initial value x 500 shares)

At the date of the Investment the base cost apportioned to your Loan Notes was:

- £2,135 Base cost (£4.27 base cost x 500 shares)

On the 31 March 2017 you receive 10% of your Loan Note Value. Your gain will be:

£638 Loan Note payment (£6,385 x 10%)

£213 Apportioned base cost (£2,135 x 10%)

£425 Gain (£638 - £213)

PA's Employment Tax Team provided a [UK Capital Gains Tax Excel Calculator](#) to help you compute any capital gains tax due and assist you with the required reporting.

You are required to disclose in your tax return, and pay taxes due by 31 January 2018 on any gains arising from the 10% Loan Note payment (and any other non-PA gains made) in a tax year that exceed the Annual Exempt amount (currently £11,100 for 2016/17).

Following Example 1 above, if the gain made is less than the Annual Exempt amount of £11,100 (assuming you have no non-PA gains to include), and your Loan Note consideration is less than £44,400, no reporting is needed on your tax return and no taxes are payable.

Where your Loan Note gains (plus any others you make in the tax year), exceed the Annual Exempt amount, these gains will be taxable at a rate of 18% for gains falling within your basic rate tax band (the first £43,000 of income for the 2016/17 year) and at a rate of 28% for gains above the basic rate tax band.

#### December 2017 repayment

This Loan Note repayment is in the 2017/18 tax year (capital gains taxes to be settled by 31 January 2019). The gain you make on this repayment is calculated in the same way as the March repayment shown above, i.e. value of Loan Note repaid less the base cost attributable to that proportion of your Loan Notes. (Note: if you have transferred any Loan notes e.g. to/from your spouse, your base would need to be recalculated). [UK Capital Gains Tax Excel Calculator](#) can help you compute any capital gains tax due and assist you with the required reporting.

#### September 2018 repayment

This Loan Note repayment is in the 2018/19 tax year (capital gains taxes to be settled by 31 January 2020). The gain you make on this repayment is calculated in the same way as the March repayment shown above, i.e. value of Loan Note repaid less the base cost attributable to that proportion of your Loan Notes. (Note: if you have transferred any Loan notes e.g. to/from your spouse, your base would need to be recalculated). [UK Capital Gains Tax Excel Calculator](#) can help you compute any capital gains tax due and assist you with the required reporting.

#### April, June and December 2019 repayments

This Loan Note repayments are in the 2019/20 tax year (capital gains taxes to be settled by 31 January 2021). The gain you make on this repayment is calculated in the same way as the March repayment shown above, i.e. value of Loan Note repaid less the base cost attributable to that proportion of your Loan Notes. (Note: if you have transferred any Loan notes e.g. to/from your spouse, your base would need to be recalculated). PA's Employment Tax team will provide updated guidance notes by early 2020 for any capital gains to be disclosed on your return. There is no reporting and payment of taxes required by you in 2019.