Capital Gains Tax – UK Guidance Note

The following information does not constitute tax advice and is intended to apply only as a general guide to the position under current UK tax law as of March 2024 and the published practice of HMRC, either of which is subject to change at any time (possibly with retrospective effect). The information relates only to certain limited aspects of the UK tax treatment of shareholders and is intended to apply only to individual shareholders who are resident and domiciled or deemed domiciled in (and only in) the UK for UK tax purposes (unless the context otherwise requires) and to whom split-year treatment does not apply, who hold their shares as investments (other than in an individual savings account, self-invested personal pension or as carried interest), and who are the absolute beneficial owners of their shares.

Any person who is in any doubt as to their tax position or who may be subject to tax in any jurisdiction other than the United Kingdom should consult an appropriate professional tax adviser as soon as possible.

The information below contains various links to relevant HMRC guidance. In relation to shares and capital gains tax generally, see also HMRC's Helpsheets here:

HS284 Shares and Capital Gains Tax (2023) - GOV.UK (www.gov.uk)
HS287 Capital Gains Tax and employee share schemes (2023) - GOV.UK (www.gov.uk)

The information below relates to ordinary shares in Rolls-Royce and does not address the position if you are also holding C shares.

1. **What is Capital Gains Tax (CGT)?**
   - CGT is a tax that is payable on the profit (or "gain") when you sell (or 'dispose of') something that HMRC considers is taxable (an 'asset') that has increased in value.
   - Shares are an asset, and so you may need to pay CGT when you sell shares
   - You pay CGT on the gain you make according to relevant tax rules, not the amount of money that you receive from the sale of the asset.
     - For example, if you buy 100 shares at £5 each, you will have spent £500 on the shares. If you later sell them all for £6 each, you will receive £600 for the shares. The gain will be £100 (£600 minus £500).
   - For more information about CGT visit: Capital Gains Tax: what you pay it on, rates and allowances: Overview - GOV.UK (www.gov.uk)

2. **What is the CGT tax-free allowance?**
   - In the UK there is a currently a capital gains tax-free allowance for each tax year
   - You only have to pay capital gains tax on your overall gains (gains less any allowable losses) above your tax-free allowance.
   - For the 2023/24 tax year the capital gains tax-free allowance is £6,000. This will fall to £3,000 for the 2024/25 tax year.
   - For up to date information about the capital gains tax free allowance visit: Capital Gains Tax: what you pay it on, rates and allowances: Capital Gains Tax allowances - GOV.UK (www.gov.uk)

3. **Can I gift assets to my spouse or civil partner and therefore reduce my CGT liability?**
   You do not pay CGT on assets you give or sell to your husband, wife or civil partner so long as certain conditions are met. For more information see:
      - Capital Gains Tax: what you pay it on, rates and allowances: Gifts to your spouse or charity - GOV.UK (www.gov.uk)
      - Capital Gains Tax, civil partners and spouses (Self Assessment helpsheet HS281) - GOV.UK (www.gov.uk)

4. **How does CGT apply to shares?**
   - You may have to pay CGT if you make a profit ('gain') when you sell ('dispose of' shares)
   - You will need to work out your gain to find out whether you need to pay CGT – this will depend on various factors including whether you are above your CGT tax-free allowance for the tax year, and whether you have any available capital losses.
   - Find out how to calculate your gain here: Tax when you sell shares: Work out your gain - GOV.UK (www.gov.uk)

5. **I have shares in Rolls-Royce that I've acquired at different times – what CGT rules apply to these? Note that the Rights Issue in October 2020 may have impacted the base price – see the Rights Issue section at the bottom of this Q&A for more information**
   - The rules around calculating gains when you sell shares that you've acquired at different times are complex and depending on the timing of when you buy and then sell those shares different rules may apply. For up to date rules please always refer to the HMRC website (Tax when you sell shares: Selling shares in the same company - GOV.UK (www.gov.uk)), and if you have any doubts please contact a tax advisor
   - If you own shares in a company that you've bought at different times, in most situations, you'll **usually** need to work out the **average cost** of your shares. The average cost is the **base price**. You then deduct the base price from the price at which you sell them to calculate the gain. For example:
      - November 2022 – you buy 100 shares for £1 each
      - January 2023 – you buy an additional 100 shares in the same company for £1.20

  - In total you have 200 shares and the total price you paid was £220
  - The average cost of each share is £1.10 (£220 divided by 200 shares). This is the **base price**.
  - If you then sell 50 shares for £1.50 each, the gain is 40p per shares (£1.50 - £1.10), so the gain is £20
- Note that different rules may apply where you sell shares on the same date as you acquire them, or within 30 days of acquisition.

6. Are there any options to reduce the amount of CGT payable?

- Under UK rules you could look into transferring shares to your spouse or civil partner – see Question 3.
- You could think about the timing of selling shares, to take advantage of your tax-free allowance in more than one tax year.
- You could think about opening a stocks and shares ISA
  - Stocks & shares ISAs: find the best platform - MSE (moneysavingexpert.com)
- If you are selling shares from SharePurchase or ShareSave, you may consider whether you wish to transfer these into a stocks and shares ISA, or pension:
  - Tax and Employee Share Schemes: Save As You Earn (SAYE) - GOV.UK (www.gov.uk)
  - Tax and Employee Share Schemes: Share Incentive Plans (SIPs) - GOV.UK (www.gov.uk)Individual Savings Accounts (ISAs): How ISAs work - GOV.UK (www.gov.uk)
  - Tax and Employee Share Schemes: Transferring your shares to an ISA - GOV.UK (www.gov.uk)

7. I have an LTIP vest coming up – is CGT payable?

- CGT is not payable at the point of an LTIP vest. When an LTIP vests you will pay income tax and national insurance (NICs) on the market value of the shares when they vest.
- When your shares vest you will be given two options:
  - Sell All. If you choose this option Equiniti will sell all of your shares immediately when they vest. If you choose this option and all of your shares are sold on the same day you acquire them, you will not have any capital gains tax to pay, as all of the market value of the shares at that time will have been subject to income tax and NICs.
  - Sell to cover. If you choose this option Equiniti will sell sufficient shares to cover your estimated tax and social security liability, and the remaining shares will be transferred to you. If you keep the LTIP shares, capital gains tax may be payable in future when you subsequently sell them. The "cost" of the shares which you take into account to calculate the base price, and any gain, for CGT purposes will be the value which was subject to income tax and NICs at vesting. The examples below illustrate how this might be calculated.

<u>Example 1</u> (if you own no other Rolls-Royce shares)

- 500 shares vest in March 2024 with a vesting price of £3 per share. You will pay income tax/NICs on the total value of the shares that vest (500 shares x £3 = £1,500)

- If you sell the 500 shares in December 2024 for £4 per share, there will be a capital gain. As you own no other shares in the same company the gain will be calculated as follows; £2,000 (being £4 x 500 shares) less £1,500, so £500 in total.

Example 2 (if you own other shares in Rolls-Royce) then you will need to calculate the average **base price** to establish the gain – see question 5 above. For example:

- November 2022 – you buy 100 shares for £1 each
- March 2024 – you acquire 500 shares when your LTIP vests, with a vesting price of £3 per share. You will pay income tax/NICs on the total value of the shares that vest (£500 x £3 = £1,500)
    - In total you have 600 shares and the total amount to take into account in calculating the base price of the shares is the £100 paid in November 2022, plus the £1,500 value which has been subject to income tax in March 2024.
    - The average cost (or "base price") of each share is £2.67 (£1,600 divided by 600 shares).
    - December 2024 – you sell 500 shares for £4 per share, there will be a capital gain: £2,000 (being £4 x 500 shares) less £1,333.33 (£2.67 x 500 shares), so £666.67 in total.

8. CGT and SharePurchase / ShareBonus*

- Our SharePurchase plan is operated under the HMRC Share Incentive Plan (SIP) legislation
- You will not pay any CGT on SharePurchase or ShareBonus shares that you sell directly from the plan
- If you take them out of the plan (for example transfer them to a broker) you might have to pay CGT on a sale of the shares in future if their value has increased. You could also consider other tax planning arrangements if this might apply to you – see question 6.
  * Note that ShareBonus is a plan which was offered between c. 2002 and 2016, and allowed participants to take part of their annual bonus in shares. The shares were delivered into SIP Trust. This arrangement terminated in 2016 and will not be reintroduced.

9. If I sell shares do I have to report this to HM Revenue & Customs (HMRC)?

- You need to work out if you have made a capital gain (across all sales of shares and other capital assets during a tax year) and if that gain (less any allowable capital losses) exceeds your annual capital gains tax-free allowance before you consider whether this needs to be reported to HMRC. In certain situations even where your capital gain does not exceed your tax-free allowance you may still need to report details to HMRC.
- For more information about CGT and reporting visit:
    - Tax when you sell shares: Work out your gain - GOV.UK (www.gov.uk)
    - Report and pay your Capital Gains Tax: What you need to do - GOV.UK (www.gov.uk)

    - [Report and pay your Capital Gains Tax: If you have other capital gains to report - GOV.UK (www.gov.uk)]

10. CGT and ShareSave

- Our ShareSave plan is operated under the HMRC Save As You Earn (SAYE) legislation.
- As of February 2023 we have two ShareSave plans in operation – the 2019 five year plan, and the 2021 three year plan. Both of these plans will mature in February 2025.
- When your ShareSave matures you will have three options:
    - Option 1: Buy shares with your savings and sell them straight away. If you take this option you may have to pay CGT (see 'what happens when I sell my ShareSave shares' below)
    - Option 2: Buy shares and keep them. If you take this option you will not have to pay CGT at the point of purchase, but if you sell these shares at any point in the future you may have to pay CGT (see 'what happens when I sell my ShareSave shares' below)
    - Option 3: Take your money back. If you take this option there are no CGT considerations as you have opted not to purchase the shares.

- What happens when I Sell my ShareSave shares:
    - When you sell the shares that you acquired through a ShareSave plan you might have to pay CGT if their value is greater than the price you paid for them, and your overall gains for CGT purposes are more than your available tax free allowance in the relevant tax year (£3,000 for the 2024/25 tax year). For example:

        - The option price for the 2021 ShareSave was 96.6 pence. You decide to buy shares with your savings and purchase 500 ShareSave shares at 96.6 pence per share. You have spent a total of 500 x £0.966 = £483.

        - When you sell the shares (whether this is immediately when the plan matures, or at a point in the future), you will need the purchase price and the sale price to calculate the capital gain. If for example the share price that you sell the shares at is £3, you will calculate the gain as follows:
            - 500 shares x £3 = £1,500
            - less what you paid for the shares (£483)
            - The gain is: £1,017
    - This may be covered by your annual tax-free allowance, or you could also consider other tax planning arrangements in relation to your ShareSave shares – see question 6.

Rights issue questions:

(As any Rights Issue can be a complex matter for most shareholders, you may decide to seek financial or tax advice from an independent advisor.)

11. **I have shares in Rolls-Royce that I acquired before the Rights Issue in 2020. How does the Rights Issue impact the base cost?**

The following provides an example of how the base cost in your shares for Capital Gains Tax purposes would be calculated. For the purposes of the example, we have assumed you:

1. purchased 300 shares in the open market on 30 September 2020 (the "Existing Shares");
2. acquired additional shares by virtue of your full participation in the 2020 rights issue (the "New Shares");
3. disposed of 650 shares on 19 September 2023; and
4. have not otherwise acquired, or disposed of, any shares in Rolls-Royce Holdings plc.

Base cost of Existing Shares

Assuming the Existing Shares were purchased at the market closing price on 30 September 2020 of 130 pence per share, prior to the rights issue, your base cost in the Original Shares would have been £390.

Acquisition cost of New Shares

As the rights issue ratio was 10 shares for every 3 shares held by shareholders at the rights issue record date, you would have been entitled to acquire 1,000 shares. For the purposes of this example, we have assumed you exercised your rights to acquire all 1,000 shares.

Based on the rights issue price of 32 pence per share, your acquisition cost in respect of the New Shares would be £320.

Base cost of combined holding of Existing Shares and New Shares

As the New Shares are treated for Capital Gains Tax purposes as the same asset, acquired at the same time as the Existing Shares, the acquisition cost of those New Shares (in this case £320) is added to the base cost of the Existing Shares when computing any gain or loss on any subsequent disposal.

Therefore, your base cost in your combined holding of Existing Shares and New Shares would be £710 (calculated by adding the £390 paid for the Existing Shares to the £320 paid for the New Shares).

Disposal of shares

Assuming you dispose of 650 shares at the market closing price on 19 September 2023 of 226 pence per share, the proceeds of the disposal would be £1,469.

As this amounts to a disposal of half of your shares, the relevant base cost to be apportioned to such a disposal is £355 (calculated by dividing the total base cost of £710 by two).

Therefore, for Capital Gains Tax purposes you would have a gain of £1,114 (calculated by deducting the £355 base cost from the disposal proceeds of £1,469) which, depending on your circumstances and subject to any available exemption or relief, may give rise to a liability for Capital Gains Tax.

12. What impact did the Rights Issue in October 2020 have on….

- **In-flight LTIPs**
  - If you had any unvested LTIP awards when the Rights Issue took place in 2020, then the number of shares awarded was adjusted to reflect the impact of the Right Issue.
  - The Rights Issue did not impact the tax treatment of unvested shares. You will have paid income tax and NICs on any shares that subsequently vested, and the normal CGT rules apply.

- **In-flight ShareSave**
  - If you had any unvested ShareSave options when the Rights Issue took place in 2020, then options were adjusted to reflect the impact of the Right Issue.
  - The Rights Issue did not impact the tax treatment of unvested shares. The normal CGT rules apply on sale of shares acquired under ShareSave.

- **Shares that I held in the SharePurchase (SIP) Trust ("Trust")**
  - If you held shares in the Trust when the Rights Issue took place in 2020, then you will have had various choices open to you at the time. The shares that you held in the Trust may have been shares that you purchased via the SharePurchase plan, or shares which you were awarded via the ShareBonus plan (the last issue under the ShareBonus plan was 2016).
  - More information about the choices which were available to you at the time is given below. Whichever action you took then, the CGT position for any shares held in the SharePurchase Trust now is the same as for all other SharePurchase shares (as set out in question 8).

    - You will not pay any CGT on SharePurchase shares that you sell directly from the plan
    - If you take them out of the plan (for example transfer them to a broker) you might have to pay CGT on a sale of the shares in future if their value has increased. You could also consider other tax planning arrangements if this might apply to you – see question 6.

Please note this section does not cover the income tax treatment on the sale of any shares out of the Trust, nor any tax implications you might have had at the time of the Rights Issue itself.

- Choice 1 – you used your rights to buy new shares, using your own funds

    - If you took this option you will have used your own funds to buy the additional shares offered to you during the Rights Issue, at the price of 32 pence per share. If you took this option the shares that you purchased will have been transferred into your Computershare Share Plan Account (and will since have been transferred to your nominee account with Equiniti – either the Global Nominee if you elected for this, or the Corporate Sponsored Nominee if not).
    - The shares you purchased are held **outside** the Trust and are subject to normal CGT rules (i.e., the special tax regime for SharePurchase shares will not apply). When you come to sell shares, how you calculate your gain will depend on your personal circumstances, including whether you own any other shares in Rolls-Royce. The "cost" of the shares which you take into account to calculate the base price for CGT purposes will be the price you paid for them - being the rights issue price (32 pence). See question 11 for more information about this.

- Choice 2 – you sold some rights and bought shares with the proceeds (this was the default option for shares acquired via the SharePurchase plan)

    - If you took this option some of your 'rights' were sold, and the money which was made through the sale of the rights was used to purchase shares at a price of 32 pence
    - The shares which were purchased went into the SharePurchase Trust, and so for CGT purposes are treated in exactly the same way as any other SharePurchase shares (see question 8). There is no distinction for these purposes between rights issue shares and other shares in the Trust.

- Choice 3 – you sold all your rights or did nothing
    - If you sold all your rights, you will not have acquired any Rights Issue shares.
    - If you did nothing, then:
        - rights in respect of any ShareBonus shares will have been sold and you will have been sent the funds;

    - for SharePurchase shares the default will have applied – see Choice 2 above.

- **Shares that I owned at the point of the Rights Issue:**
    - At the point of the Rights Issue (October 2020) you may have owned shares in Rolls-Royce – these may have been shares purchased through a ShareSave plan; vested LTIP or APRA shares; or shares that you've purchased privately. (For any SharePurchase shares, see above). If you took up the rights to buy new shares, this will be taken into account in calculating the "base price" of the shares you own, when you come to sell them. Based on the rights issue price of 32 pence per share, the acquisition cost for each new share you acquired in the rights issue would be 32 pence.

      See question 11 for more information about this.

      If you did not take up the rights to buy new shares, and sold or otherwise disposed of them for cash, the proceeds would generally have been treated as a capital distribution at the time of the Rights Issue and you may have realised a taxable capital gain at that time, depending upon your personal circumstances.

      However, if the proceeds resulting from a lapse or disposal of rights were "small" as compared with the market value of your shareholding on the relevant date, you may not have been treated as making a disposal for capital gains tax purposes at the time of the Rights Issue. The proceeds will instead potentially reduce the "base price" used to calculate any gain on a subsequent sale of shares. You should seek specific advice if you are in this situation.