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The information provided is understood to be correct as of 18 July 2024. Changes in legislation or practice after this date may affect the tax treatment.

## Tax - Employee Notes - Your Shares: Gifted

United States	
<b>When will I be taxed in relation to my plan benefits?</b>	<b>Award:</b> No income tax. No FICA taxes. <b>Unlocking:</b> Income tax and social security. <b>Sale by participant:</b> Capital gains tax on the increase in value since the income tax point at long-term or short-term rates depending on the holding period. No additional FICA taxes.
<b>What is the maximum rate of income tax payable in relation to my plan benefits?</b>	37% (2024). Any change in tax rates usually takes effect from 1 January.
<b>Income tax rates</b>	Progressive tax rates apply. The maximum income tax rate applies to income over USD609,350 (single taxpayer for 2024) and USD731,200 (married filing jointly for 2024). In addition, state and/or local (municipal) taxes may also be payable on income and/or investments.
<b>Will my employer withhold income tax in relation to my plan benefits?</b>	Yes <b>Supplemental wages tax treatment:</b> Rolls-Royce will withhold tax on income from share awards at a flat rate of 22%, which applies to supplemental wages paid to an employee up to USD1million per year. Supplemental wages in excess of USD1million are subject to tax withholding at the highest marginal tax rate (currently 37%). The supplemental withholding tax rates are applied without reference to the amount of normal wages or any relevant withholding allowances. If applicable, the employee would be liable to pay any extra income tax when filing their annual tax return.
<b>Are my plan benefits subject to social security contributions?</b>	Yes, employer and employee FICA taxes (social security tax and Medicare tax).

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<b>Will my employer withhold social security contributions in relation to my plan benefits?</b>	Yes.
<b>Employee social security</b>	<p><b>Employee FICA:</b></p> <ul style="list-style-type: none"> <li>• Social security tax: 6.2% on employee's wages up to 'wage base';</li> <li>• Medicare tax: 1.45% of employee's wages; and</li> <li>• additional 0.9% Medicare tax (for a total of 2.35%) on wages above certain thresholds (e.g. USD250,000 for 'married filing jointly' taking into account both the employee's and spouse's wages). The employer withholds the additional Medicare tax (if relevant). Although the applicability of the additional Medicare tax is determined based on the filing status of the individual and includes the spouse's wages (if any), the tax withholding is applied to the employee's wages in excess of USD200,000 regardless of whether the employee files their tax return as single, married filing jointly or married filing separately, and without consideration to the spouse's wages.</li> </ul> <p><b>Employee FICA (cap):</b> social security tax is capped on wages up to 'wage base' (USD168,600 for 2024); and no upper earnings limit for Medicare tax or additional Medicare tax.</p>
<b>What is the maximum rate of capital gains tax?</b>	<p><b>Short term gain rate (shares held for 12 months or less since unlocking):</b> 37% plus 3.8% Net Investment Income Tax for high earners.</p> <p><b>Long term gain rate (shares held for more than 12 months since unlocking):</b> 20% plus 3.8% Net Investment Income Tax for high earners.</p>

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	<p><b>Net Investment Income Tax:</b> an additional 3.8% Net Investment Income Tax applies for high earners on capital gains from the sale of shares, unless:</p> <ul style="list-style-type: none"><li>• the participant is a non-resident alien, i.e. not a US citizen, no US tax residency, no green-card; or</li><li>• if married to a US citizen or resident, the participant makes an election under Section 6013(g) of the Code and a similar election under Section 1411 of the Code.</li></ul>
<b>How will I be taxed on shareholder distributions?</b>	<p>In Rolls-Royce, if a decision is taken to make shareholder distributions, these are currently paid in the form of 'C Shares'. You will only be eligible to receive C Shares on Your Shares: Gifted once they unlock. After that, you will receive C Shares on your unlocked shares, whenever we pay them, until you choose to sell your shares. Whilst you hold your unlocked shares in your Equiniti share account, your C Shares will be redeemed for cash which will automatically be reinvested into ordinary shares.</p> <p><b>Issue of C Shares:</b> since the C Shares are paid as a dividend, and dividends are not paid on unvested ordinary shares, the value of the C Shares will be taxable as dividend income at the time of issue. This tax will not be collected by Rolls-Royce*. Nonqualified dividends are taxable at a maximum rate of 37% and qualified dividends are taxable at a maximum rate of 20%. Generally, for a dividend to be treated as a qualified dividend, the shareholder must have owned the stock for a period of more than 60 days during the 121-day period that began 60 days prior to the ex-dividend date. Fidelity will issue a Form 1099-DIV which indicates whether the dividend income is qualified or unqualified. High earners are also subject to a 3.8% net investment income tax on dividend income (both qualified and nonqualified dividends). No FICA taxes.</p>

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	<p>*- Backup withholding may be required in limited circumstances, this is a form of tax withholding that may apply when, for example, the payee has not provided a valid taxpayer ID number or provided an incorrect one, or because they have underreported interest or dividends on their tax return.</p> <p><b>Redemption of C Shares and reinvestment into ordinary shares:</b> no FICA or capital gains tax.</p> <p><b>Sale of reinvested ordinary shares:</b> taxed as a capital gain and subject to capital gains tax. This tax will not be collected by Rolls-Royce. No FICA taxes.</p>
<b>Do I have to report any income in relation to the plan to my local tax authority?</b>	<p>An employee is required to file a federal tax return. There is no separate filing in relation to share related incentives. The employee should report foreign assets by 15 April to the IRS on Form 8938 (FATCA) and to the office of Financial Crimes Enforcement Network (FinCEN) on Form 114 (FBAR).</p> <p><b>Report name:</b> U.S. Individual Income Tax Return (Form 1040). Capital gains and dividends are reported on the same return. The return can be filed online. The tax return can be downloaded from the website <a href="#">here</a>. The employer will provide employees with a copy of the Form W-2 (Wage and Tax Statement) and (if applicable) the additional information returns for tax-qualified Section 422 incentive stock options (Form 3921) and Section 423 employee stock plan purchases (Form 3922) by 31 January of the following year.</p> <p><b>Tax period:</b> 1 January to 31 December.</p> <p><b>Reporting deadline:</b> 15 April, with an extension until 15 October.</p> <p><b>Payment of tax:</b> any unpaid federal tax is due by 15 April and no extension is available for payment. If the individual has significant income which is not subject to withholding, they are generally required to make quarterly payments (15 April, 15 June, 15 September and 15 January) of estimated tax due.</p>

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	<b>State tax:</b> employees may also be required to file state and/or local (municipal) tax returns and make payments of state and/or local (municipal) tax on income.