

Lehman Brothers Limited (in administration) (“LBL”)

Summary of the expected tax treatment of employment related Claims

HM Revenue & Customs (HMRC) approval to the guidance provided in this note has been requested but has not yet been received. As a result, the comments in this summary may be subject to change once the HMRC response has been received.

Background

- This summary sets out the withholding rates applied to any dividends paid on unsecured or preferential claims in the 2017/18 Tax Year in respect of employment with LBL.
- Preferential claims relate to any holiday pay and the first £800 of unpaid wages claims agreed by the Joint Administrators of LBL (“Joint Administrators”)
- Unsecured claims relate to all other claims agreed by the Joint Administrators.
- This summary is based on expected United Kingdom tax withholding rates for the tax year to 5 April 2018 as of September 2017 and may be subject to change

Tax withholding rates payable on dividends in respect of preferential claims (“Pref Dividend”) based on “OT” week 1 rates:

Weekly paid
20% on the first £644
40% on £645 to £2,885
45% on £2,886 and over

- You will be required to report the Pref Dividend on your UK tax return and pay any balance of tax directly to HMRC
- Employee Class 1 National Insurance contributions on a Week 1 basis:

Weekly paid
0% on first £157
12% on next £709
2% on excess over £866

Tax withholding rates on dividends in respect of unsecured claims (“Unsecured Dividend”) for compensation for contractual notice pay and benefits owed during a notice period

- Any claims in respect of compensation for unpaid salary and benefits payable during a notice period are regarded as a “damages” claim (“Compensation Contractual Notice Pay”)
- No UK income tax withholding is due if the aggregate Unsecured Dividend* is equal to or less than £30,000
- UK income tax withholding applies when the aggregate Unsecured Dividend paid exceeds £30,000 based on the “OT” week 1 rates shown under the Preferential Claims section above.
- You will be required to report the Unsecured Dividend(s) on your UK Tax return and pay any balance of tax directly to HMRC
- No UK National Insurance withholdings are due on any Compensation Contractual Notice Pay

*Note however that the Unsecured Claim agreed by the Joint Administrators of LBL would be adjusted to reflect the fact that the first £30,000 of the Unsecured Dividend is not subject to UK income tax withholding.

Lehman Brothers Limited (in administration) (“LBL”)

Summary of the expected tax treatment of employment related Claims

Notional withholdings

- Notional UK Income Tax will be deducted before any Compensation Contractual Notice Pay is agreed by the Joint Administrators of LBL based on the basic rate (“BR”) existing at the date of your notice period in line with guidance received from HMRC. The Notional UK Income Tax rate would therefore be 20% for notice periods relating to the tax year to 5 April 2009.

Other unsecured claims

- Any Dividend(s) paid in respect of unsecured claims other than for Compensation Contractual Notice Pay will typically be liable for UK income tax and National Insurance withholding.
- UK Income Tax and National Insurance withholding applies to Unsecured Claim Dividend(s) paid based on the respective “OT” week 1 rates for tax and week 1 rates for NIC shown under the preferential claims section above.
- Certain Unsecured Dividends(s) may be non-taxable or have a different tax treatment (for example, where unsecured claims are in respect of reimbursement of business expenses and certain termination payments due under agreements negotiated and signed with LBL prior to 15 September 2008).
- All amounts paid to you in respect of a claim will be reported to HMRC in line with HMRC requirements.
- You will be given a letter showing the amount of your claim, dividend and any income tax and National Insurance amounts withheld.

The Joint Administrators have produced this summary for general guidance purposes only. This summary is based on general principles and current understanding of both applicable UK legislation and practice. As you will be aware, both tax law and practice can change. Further, the Joint Administrators do not provide tax advice and as such this summary is not intended to be and should not be used by individuals as specific tax advice. If you are in any doubt as to your personal circumstances you are advised to seek advice from an independent tax advisor.

The Joint Administrators have prepared this summary as agents for and on behalf of LBL and neither they, their firm, nor its members, partners, directors, officers, employees, nor any of their respective agents, advisers or representatives shall incur any personal liability under or in relation to this summary. The exclusion of liability set out in this paragraph shall continue notwithstanding the termination of the agency of the Administrators, and shall operate as a waiver of any claims in tort as well as under the laws of contract. Each of the Administrators, their firm, its members, partners, directors, officers, employees, and each of their respective agents, advisers and representatives shall be entitled to rely on this paragraph as if they were a party to this summary.

MJA Jervis and Z Hussain were appointed as Joint Administrators of Lehman Brothers Limited to manage its affairs, business and property as agents without personal liability. MJA Jervis and Z Hussain are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The Joint Administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>.

The Joint Administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the Administration.

Lehman Brothers Limited registered in England and Wales with registered no. 00846922. VAT registration no. 446 9315 28