

TREASURY AND TAX MANAGEMENT

Professional 2
December 1999

MARKING SCHEME

The logo for CIPFA, consisting of the letters 'CIPFA' in a serif font. The letter 'P' is stylized with a large, elegant loop that extends upwards and over the 'I'.

Question 1

- (a) Identification of factors affecting payment and solutions.

Issues:

- Incorrect billing.
- Delay in sending bills and reminders.
- Failure to state clearly payment methods acceptable.
- Low take up of direct debit and standing orders.
- Few facilities for local payment – payment counters/local offices.
- No discount for prompt payment.
- No clear debt recovery policy/failure to instigate policy.
- Legal action delayed/not taken.
- Lack of debt counselling.
- Failure to bank payments quickly and update records.

Remedies:

- Clear and accepted debtor policy.
- Analysis of all invoices and correspondence, and re-design if necessary to ensure all relevant details and payment options clearly communicated.
- Campaign to increase direct debit and standing order payments (mailshots, local press).
- Consider impact of offering discounts for prompt payment.
- Clear policy and monitoring of banking of receipts.

*1 mark per issue identified
up to 2 marks per suggested remedy to a maximum of 15*

- (b) Identification of outsourcing facilities.

Factoring: transfer for all responsibility for credit management.

Factor buys invoices – advances cash to % of total value.

Payment of “interest” charge plus factoring charge.

Invoice discounting: advance against invoices – no service elements.

*10 marks for identification of features
(25)*

Question 2

- (a) Explanation of PFI that recognises the sharing of risks between the public and private sectors with the latter providing the facility for the former to use allowing for an appropriate return on investment.

Needs Analysis

The justification for the investment must be systematically determined by consultation with all interested parties using reliable survey techniques, analysis of the results and the drawing of conclusions that aids in the identification of strategic choices.

Objective Setting

The factors affecting each choice will need to be developed to allow for comprehensive analysis. Each choice will then be the subject of rigorous evaluation (where possible) providing a guide to decision making.

Business Planning

The development of detailed plans, following the strategic direction above, in conjunction with the private sector partner selected after the tendering process. The team must demonstrate that they can combine the key elements of finance, marketing, technical and human resource management issues.

Investment and Options Appraisal

Use of variety of evaluation techniques that recognise the need for quick payback and the recognition of the time value of money to aid decision making including DCF, opportunity cost and risk/sensitivity analysis. (20)

- (b) Explanation of Finance leases that require capitalisation and therefore are avoided where possible to make it easier to achieve Return on Investment targets.

The use of Operating leases allows for financing and reporting of asset purchases through revenue. Future regulations are likely to limit this form of arrangement following the debate among accounting regulators. (5)

(25)

Question 3

(a)

RISK	MEASURES TO BE TAKEN
Theft	Security locks/alarms/patrols; inventory control; insurance.
Vandalism	Locks/alarms/patrols; prompt repair of damage; insurance.
Damage (flood, fire, storm)	Fire prevention/well maintained; prompt repair of damage.
Breakdown	Regular repairs and maintenance; preventative maintenance.
Obsolescence	Regular inspections; asset replacement programme.
Fitness for use (Health & Safety)	Regular inspections; prompt repairs.

(½ mark per risk identified and ½ mark per measure with max 2 marks per risk)

(8)

(b)

- Asset replacement;
- Insurance;
- Security/fire prevention;
- Health and Safety;
- Prompt repair of damage;
- Regular service/maintenance;
- Planned maintenance.

(½ mark for identifying with max 2 marks for full description of each control)

(6)

(c) **Information**

- Description of asset;
- Location of asset;
- Cost centre responsibility;
- Valuation @ 1.4.9x;
- Annual increase/decrease;
- Accumulated depreciation;
- Annual depreciation charge;
- Notional interest charge;
- Insurance –yes/no;
- Insurance valuation;
- Repairs/maintenance costs;
- Enhancement – Yes/No:
 - Valuation
 - Date of completion
- Disposal of asset – date/valuation
- Funding of asset – receipts/revenue grant/loan.

(½ mark per item)
(6)

(d) **Overall risk management plan:**

Examples include:

- Professional negligence eg clinical risk (health service);
- Environmental risk;
- IT risk eg Year 2K problems;
- Financial risk.
- Disaster Recovery

(½ mark per risk identified)
(½ mark per prescription)

(5)
(25)

Question 4

Jack

Salary		<u>£32,000</u>		<i>1</i>
Therefore 40% (Identifying the marginal rate of tax)				
Car				
35% x £24,000	£8,400			
Business Mileage 10,000	<u>2,800</u>	5,600		<i>1</i>
Petrol/Diesel				
2000cc (no reduction £15)		1,280	Or 1,010	
<i>Only ½ marks if contribution deducted</i>			<i>Based on rates in question paper</i>	
Accommodation				
GAV	1,000			<i>1</i>
Expensive house (150-75) @ 7½%	<u>5,625</u>	6,625		<i>1</i>
Removal (£9,000- £8,000)		1,000		<i>1</i>
Mobile phone (as was)		200		<i>1</i>
Nursery (explain)		---		
Sports facilities (explain)		---		<i>1</i>
BUPA		<u>700</u>		<i>1</i>
Total		<u>15,205</u>		
Taxation @ 40% (figures or descriptive acceptable)		<u>£6,082</u>		<i>1</i>
National Insurance				
Employee £32,000	£3,328@			
<i>Or discussion of implications</i>	2%	66.56		
	£21,892 @			
	10%	<u>2,189.20</u>		
		<u>2,255.76</u>		<i>2</i>

John

Marginal Salary 8,000 @ 40%		£3,200		<i>1</i>
(above basic rate threshold after personal allowances)				
Car (non-taxable)				
Tax		<u>£3,200</u>		
NI over £25,000 therefore no change				<i>1</i>
Claim – excess of scale rate over payment received				
Car expenses:				
3,600 @ 63p - 45p	£648 @ 40%		£(259)	
½ ½	<i>1</i>			
				<i>(Total of 2)</i>

Employer

Jack

Cost to employer

Salary	£32,000 + 10% NI	
Car	Capital allowances Max £3,000	1
	NI Class 1A 10% x £5,600 + £1,280	1
Petrol		
House, phone, nursery, sports facilities, BUPA (capital cost cash flow implication)		1

Sch D deductibility

John (additional salary 40,000-32,000)

Salary	+ £8,000	
NI (additional NI on above)	+ £800	1

(20)

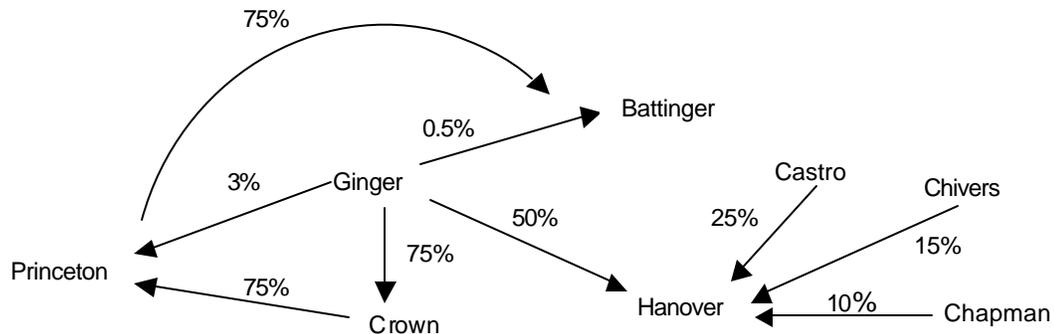
(b) General Points

Taxing perks more heavily	1
Trying to discourage company cars....	1
Encourage sport, back to work mums...etc.	1

Discussion on the triangular travel work to home etc.	2
	(5)

(25)

Question 5



1

- (a) Criteria for group relief
The holding company must have:
at least 75% of the ordinary share capital of the subsidiary;
a right to at least 75% of the distributable income of the subsidiary;
a right to at least 75% of the net assets of the subsidiary were it to be wound up; and
UK resident.

2

There are three groups
Ginger and Crown;
Crown and Princeton;
Princeton and Battinger.

2

- Groups can transfer losses between members. 1
- Loss making group members do not need to use loss against other income first. 1
- Partial surrender of loss is possible. 1
- Losses can only be set against profits of corresponding accounting periods. 1
- Proportionate losses can only be surrendered to match to corresponding periods. 1
- Losses available to more than one claimant. 1
- Loss relief is available to consortiums. 1

Consortium members:

- Ginger 50%
- Castro 25%
- Chivers 15%
- Chapman 10%

1

And consortium company, Hanover.

- Proportionate transfer of Hanover loss to each member according to their shareholding. 1
- Proportionate transfer to Hanover of consortium members' losses according to shareholding. 1

Any other relevant points give credit for 1

maximum (15)

(b) Capital gains groups

Criteria

Companies may be in a group such that:

At each level, there is a 75% holding;and

The top company has an effective interest of over 50% in the group companies.

Available for UK residents only.

2

Ginger Crown and Princeton

Ginger owns 75% of Crown

Ginger owns $3\% + (75\% \times 75\%) = 59.25\%$ Princeton

1

$.5\% + (75\% \times 75\% \times 75\%) = 42.79\%$ Battinger therefore not a member

1

Transfer of assets nil gain/loss

1

Transfer of asset to become trading stock could be trading expense.

roll-over relief

1

Give credit for any relevant points

maximum (7)

(c) Problems if company transfers within 6 years prior to leaving.

1

Using date of acquisition of the asset by the co. leaving the group and treat as though they sold and immediately reacquired them at Market Value.

1

Pre-entry losses.

Capital losses brought into a group are restricted. They must be used against gains from pre entry owned assets by same member. Similar restrictions on holding company

1

Give credit for relevant points

maximum (3)
(25)

Question 6

George Ltd

(a) *1/2 marks for using VAT inclusive figures*

		VAT	
Outputs at standard rate	(2,500+450)	516,250	1
Outputs at zero rate	<u>(650+200)</u>		1
Total taxable outputs	3,800,000		
Exempt outputs	<u>1,000,000</u>		
Total outputs	<u>4,800,000</u>		
% taxable outputs $3,150/4,150 = 76\%$			1
Inputs at standard rate	850,000		1
@ $17\frac{1}{2}\%$	148,750		
x76%		<u>113,050</u>	1
VAT payable		<u>403,200</u>	1
Exempt input tax £35,700			
Reclaimable if			
	$50\% \times £148,750 = £74,375$		2
	$£625 \times 3 = £1,875$		
But does not meet these requirements			2

Up to a maximum of 8 marks

(b)

Mr Smith

Trader liable to notify. Late notification = penalty		
VAT which should have been accounted for must be paid by trader		1
no. of months late	% of VAT	
up to 9	5%	
over 9 up to 18	10%	
over 18	15%	1
Minimum £50		1
Reasonable excuse may allow mitigation.		1
Insufficiency of funds and reliance on a third party not reasonable.		1
Credit for any other relevant points		1

(6)

Mr Jones

Penalty 15% of VAT involved	1
Minimum £50	1
To dishonestly add $17\frac{1}{2}\%$ to the request for payment.	1
To appear more professional with VAT registration.	1
Customs and Excise allow voluntary registration below the threshold.	1
Criminal implications	1

Up to a maximum of 5

Mr White

Default causes surcharge liability notice.		<i>1</i>
Notice specifies a surcharge period running from date of notice to the anniversary of the end of the period for which the trader is in default.		<i>1</i>
If further default then period extended.		<i>1</i>
If default involves late payment of VAT a surcharge is also levied.		<i>1</i>
Default in surcharge period	surcharge on VAT due	
first	2%	
second	5%	
third	10%	
fourth or more	15%	<i>1</i>
Minimum £30 at 2% and 5% no demand below £200.		<i>1</i>

(25)