# TREASURY AND TAX MANAGEMENT

**Professional 2 examination**
**10 December 1999**

From 10.00 am to 1.00 pm
plus ten minutes reading time from 9.50 am to 10.00 am

***Instructions to candidates***

*Answer **four** questions in total. **Two** questions from Section **A**, and **two** from Section **B**. The marks available for each question are shown in italics in the right-hand margin.*

*All workings should be shown. Where calculations are required using formulae, calculators may be used but steps in the workings must be shown. Calculations with no evidence of this (for example, using the scientific functions of calculators) will receive no credit. Programmable calculators are not permitted in the examinations room.*

*Formula sheets, statistical tables, graph paper and cash analysis paper are available from the invigilator, where applicable.*

 

## SECTION A (Answer two questions)

# 1

You are a trainee accountant in the London Borough of Brownfield. The Chief Executive has just received performance indicators that show that the authority collected 82% of council tax due in 1997/98. The average collection rate for London boroughs was 91%. Scrutiny of the aged debtor analysis of all outstanding invoices shows 50 % of invoices remain unpaid after 60 days.

- **Requirement for question 1**

You have been asked to prepare a report on debt collection for the Chief Executive.

(a) Identify possible reasons why the collection rate for council tax and debts is low and suggest ways in which this could be improved. *15*

(b) The Chief Executive is considering outsourcing the collection of all debt. Describe the options for outsourcing this function and identify the advantages and disadvantages associated with each alternative. *10*

*(25)*

# 2

The Private Finance Initiative makes use of the following techniques:

- Needs analysis;
- Objective setting;
- Business planning;
- Investment and options appraisal.

- **Requirement for question 2**

(a) Explain how each of these can be used to improve the likelihood of a successful outcome to a project funded through the Private Finance Initiative. *20*

Leasing may be seen as treating capital expenditure as revenue expenditure and thereby avoiding capital accounting controls.

(b) Evaluate the validity of this statement. *5*

*(25)*

# 3

Asset Management Plans are increasingly becoming an important element of overall management systems within organisations. Capital accounting and its associated requirements, eg asset registers, have re-emphasised the importance of asset management within organisations. It is stated that assets are only of value if they can be used for their intended purpose. The requirement to hold information on which assets are owned by an organisation, and what value those assets are to the organisation, are vital elements of information that is required to make effective decisions on asset management. A number of other elements are also of importance.

- **Requirement for question 3**

(a) Identify four risks encountered by organisations in respect of the value of their assets, describing measures that can be taken to minimise these risks. *8*

(b) Identify the main management controls that organisations should consider in relation to managing assets effectively. *6*

(c) Asset registers are central to any asset management plan. Describe the detail you would expect to find within an organisation's asset register to enable effective management of these assets. *6*

(d) Risk management is increasing in importance for public sector organisations. Briefly explain the other main areas that could be referred to within an organisation's overall risk management plan. *5*

*(25)*

**SECTION B (Answer two questions)**

# 4

Jack and John have successfully completed their CIPFA qualification.

Jack has been offered a job in the private sector and John has been offered a more senior position with his current employer, a Health Authority, both commencing 6 April 1998. Both are currently earning £32,000 pa with no benefits package.

The packages offered to each man are as follows:

**Jack**

(a) Annual salary £32,000.

(b) Brand new company car, Rover 75 2000cc, list price £24,000. However the company requires Jack to pay an amount of £15 per month towards his private fuel. Jack is expected to travel 10,000 business miles each year.

(c) Jack's new job is in Leicester and his company has offered him rent free accommodation for the first year. The house has a gross annual value of £1,000 and cost the company £150,000 to buy in 1997. Jack will be expected to meet all the expenses of the accommodation.

(d) The company will pay all his removal expenses which are estimated to be £9,000.

(e) He will be given a mobile phone which will be transferable between his car and office.

(f) His children will be entitled to use the workplace nursery rather than a private nursery which would cost Jack £1,200 per annum.

(g) There are sporting facilities on site which cost non-employees £800 per annum, but are free to staff.

(h) The company operate a non-contributory private health scheme which costs the company £700 per annum per employee.

**John**

(a) Annual salary £40,000.

(b) A car allowance for the use of his own 2500cc car on official Health Authority business at the rate of 45p per mile. It is expected that business miles would be in the region of 3,600 miles per annum. Most business travel will consist of John attending meetings in another hospital 25 miles from John's home; he will travel there from his home and drive a further 10 miles back to his office. It is Health Authority policy to reimburse all of the 35 miles driven. His journey from home to office is 15 miles.

- **Requirement for question 4**

(a) What are the tax and National Insurance implications for Jack and John and their respective employers with regard to the packages on offer? *20*

(b) Discuss the current philosophy inherent in benefit-in-kind legislation and the effect of the tax 'perks' for employees both qualitatively and quantitatively. *5*

*(25)*

Apply 1998/99 Income tax and NIC rates and ignore personal allowances.

'Official' rate of interest should be taken as 7½ %.

# 5

The following are all trading companies resident in the UK. The issued share capital of each company consists of ordinary shares only.

Ginger Ltd is a company with many wide and diverse shareholdings in a number of companies. It owns 75% of the ordinary share capital of Crown Ltd and also owns 50% of the ordinary share capital of Hanover Ltd. Ginger Ltd owns 3% of the ordinary share capital of Princeton Ltd and 0.5% of the ordinary share capital of Battinger Ltd.

The remaining shares in Crown Ltd are owned by individual members of the general public.

The remaining ordinary shares in Hanover Ltd are owned as follows: 25% by Castro Ltd , 15% by Chivers Ltd and 10% by Chapman Ltd, none of which is connected with Ginger Ltd or with each other.

Crown Ltd owns 75% of the ordinary share capital of Princeton Ltd. Princeton Ltd owns 75% of the ordinary share capital of Battinger Ltd. The remaining ordinary share capital of Princeton Ltd and Battinger Ltd are owned by individuals members of the general public, none of whom owns more than 5%.

- **Requirement for question 5**

(a) Group loss relief is available in certain situations. Describe the criteria for relieving group losses and state which of the above companies outlined in the case study could take advantage of its benefits. How much loss can be surrendered and when are there restrictions to the losses surrendered? *15*

(b) Under what circumstances may certain companies form a group for capital gains tax purposes? Is this a possibility in the situation outlined above, and for which companies? Describe the advantages of being a member of a capital gains tax group. *7*

(c) What are the rules for group capital gains tax purposes when companies join and leave a group? *3*

*(25)*

# 6

For the quarter ended 31 March 1999, George Ltd had the following transactions:

| | £ |
|---|---|
| Purchases at standard rate | 850,000 |
| Purchases at zero rate | 250,000 |
| Sales at standard rate | 2,500,000 |
| Sales at zero rate | 650,000 |
| Exempt sales | 1,000,000 |
| Salaries and wages | 750,000 |
| Plant sold in UK | 450,000 |
| Plant sold to Zambia | 200,000 |

The amounts listed above do not include any VAT.

- **Requirement for question 6**

(a) Calculate the amount of VAT which George Ltd would be required to pay to HM Customs and Excise for this quarter. *8*

(b) Discuss the penalties applicable in the following situations:

(i) Mr Smith should have registered for VAT in January 1999. It is now October 1999 and he has just become aware of his error. What penalty will be imposed? Can he offer any excuses or mitigating circumstances which would cause HM Customs and Excise to forego the penalties? *6*

(ii) Mr Jones has been issuing VAT invoices although he is not a VAT registered trader. What penalties can be imposed on him? Why would anyone wish to issue VAT invoices if they are under the VAT threshold and how do HM Custom and Excise deal with this situation? *5*

(iii) Mr White has repeatedly sent his VAT return in late. What penalty will HM Custom and Excise have imposed on Mr White? *6*

*(25)*

## TAXATION RATES

| Corporation Tax | Financial Year (FY) 1994 | FY 1995 | FY 1996 | FY 1997 | FY 1998 | FY 1999 |
|---|---|---|---|---|---|---|
| Full rate | 33% | 33% | 33% | 31% | 31% | 30% |
| Small companies | 25% | 25% | 24% | 21% | 21% | 20% |
| *Small companies profit levels:* | | | | | | |
| Lower relevant amount | £300,000 | £300,000 | £300,000 | £300,000 | £300,000 | 300,000 |
| Higher relevant amount | £1,500,000 | £1,500,000 | £1,500,000 | £1,500,000 | £1,500,000 | 1,500,000 |
| *Small companies* | | | | | | |
| Marginal relief fraction | 1/50 | 1/50 | 9/400 | 1/40 | 1/40 | 1/40 |

Small companies marginal relief formula: (UL-P) x (B/P) x MRF

where UL = Higher relevant amount
P = Profits chargeable to corporation tax plus FII
B = Basic profits
MRF = Marginal relief fraction.

| **Fuel benefit tables** | **1998/99** | | **1997/98** | |
|---|---|---|---|---|
| | **Diesel** | **Petrol** | **Petrol** | **Diesel** |
| | **£** | **£** | **£** | **£** |
| 0 - 1400 cc | 1010 | 800 | 740 | 1280 |
| 1401 - 2000 cc | 1280 | 1010 | 740 | 1280 |
| 2001 cc and above | 1890 | 1490 | 940 | 1890 |
| No cylinder capacity | 1890 | 1490 | | 1890 |

**Fixed profit car scheme 1998/99 rates**

| **Size of car engine** | **on first 4000 miles** | **on each mile over 4000** |
|---|---|---|
| Up to 1000 cc | 28p | 17p |
| 1000 cc – 1500 cc | 35p | 20p |
| 1501 cc – 2000 cc | 45p | 25p |
| over 2000 cc | 63p | 36p |

**Income Tax Rates**

| **1998/1999** | | **1997/1998** | |
|---|---|---|---|
| Lower rate: £1-£4300 | 20% | Lower rate: £1-£4100 | 20% |
| Basic rate: £4301-£27,100 | 23% | Basic rate: £4,101-£26,100 | 23% |
| Higher rate: £27,101 and above | 40% | Higher rate: £26,101 and above | 40% |
| Personal allowance £4,195 | | Personal allowance £4,045 | |

‘Official’ rate of interest should be taken as 7½ %