



September 05, 2006

**TAXATION**

(MARKS 100)

**Module C**

(3 hours)

- Q.1 (a) Describe the term 'rent' in the context of income from property. (02)
- (b) Through Finance Act, 2006 income from property has been subjected to final tax regime. However, the provisions relating to taxability of income from property shall not apply to taxpayers who meet certain conditions. State these conditions. (03)
- (c) Specify under which head of income, following amounts of rent would be chargeable to tax:
- (i) Rent in respect of lease of a building together with plant and machinery.
- (ii) Amount included in the rent of a building for the provision of amenities, utilities or any other service connected with the renting of such building. (02)
- Q.2 (a) Explain the different types of tax years as enumerated in the Income Tax Ordinance, 2001. (06)
- (b) Mr. Dollar has been working as a senior engineer in a local company. The detail of his monthly emoluments is as under:

	<b>Rupees</b>
Basic salary	100,000
Medical allowance	15,000
Utilities allowance	10,000

In addition to the above cash emoluments, he is entitled to the following perquisites:

- (i) A car for his personal and official use, having cost of Rs. 700,000 to the employer.
- (ii) Rent free accommodation having monthly rent of Rs 20,000 or cash in lieu thereof. However he has opted to take rent free accommodation.
- (iii) Special allowance of Rs 15,000 to meet traveling, boarding and lodging expenses to be incurred by him in the normal course of his employment duties.

You are required to compute the amount of tax to be deducted each month, from his salary for tax year 2007. Extracts from the First Schedule to the Income Tax Ordinance, 2001 are given below: (10)

<b>Taxable Income (Rs.)</b>	<b>Rate of Tax (%)</b>
1,050,001 – 1,200,000	11.00
1,200,001 – 1,500,000	12.50
1,500,001 – 1,700,000	14.00
1,700,001 – 2,000,000	15.00
2,000,001 – 3,150,000	16.00
3,150,001 – 3,700,000	17.50

(2)

Q.3 (a) Every tax payer, whose income was charged to tax for the latest tax year, is liable to pay advance tax in accordance with the Income Tax Ordinance, 2001. You are required to list down the incomes which are excluded for the purpose of calculating advance tax. (07)

(b) One of your clients, Japan and Company, a partnership having three partners, has sent you its financial statements for the year ended June 30, 2006. Following items are appearing under the head 'Other income':

- (i) Accounting profit on disposal of fixed assets.
- (ii) Reversal of provision for doubtful debts pertaining to the year ended June 30, 2004.
- (iii) Dividend received from a listed company.
- (iv) Profit on debt.

You are required to explain with reasons as to how the above items will be treated in the computation of taxable income. (04)

(c) A taxpayer can be represented by an Authorized Representative in a proceeding before any Income Tax Authority.

You are required to list down the persons who can act as an Authorized Representative under the Income Tax Ordinance, 2001. (03)

Q.4 (a) A company may account for income chargeable to tax under the head 'income from business' on cash basis or on accrual basis.

Briefly discuss the rules relating to accrual of income and expenditure as explained in the Income Tax Ordinance, 2001. (04)

(b) Describe the conditions mentioned in the Income Tax Ordinance, 2001 under which a loan will be classified as a 'consumer loan'. (04)

(c) Explain the relevant provisions of the Income Tax Ordinance, 2001 regarding applicability of minimum tax. (05)

Q.5 (a) Any income arising from any asset transferred by a person to his spouse is to be treated as income of the transferor. Describe the circumstances under which this rule shall not be applicable. (03)

(b) A transfer deed has been executed by Mr. Euro in favour of Mr. Dirham. The deed contains a clause under which the assets will be given back to Mr. Euro after three years. Explain the tax obligation in respect of income generated by the transferred assets during this period. (02)

(c) A literary work was completed by an author in thirty months. He received a lumpsum amount of Rs. 3.0 million as royalty, on March 31, 2006. Explain the tax implication for the author. (03)

Q.6 (a) One of your clients has received a notice from the Taxation Officer demanding payment of tax in respect of an order issued by the Commissioner against which your client intends to file an appeal before the Income Tax Appellate Tribunal.

You are required to explain the provisions contained in the Income Tax Ordinance, 2001 regarding stay of demand by the Income Tax Appellate Tribunal. (06)

(3)

- (b) Under what circumstances, an assessment made can be amended or an amended assessment can be further amended by the Commissioner of Income Tax? **(05)**
- (c) The Income Tax Ordinance, 2001 empowers the Commissioner of Income Tax to select a person for audit of his tax records.

You are required to list down the criteria under which the Commissioner of Income Tax can select a person for tax audit. **(05)**

- Q.7 (a) Where goods supplied are returned, the supplier is required to issue credit note. The buyer responds by issuing a debit note.

You are required to specify the particulars to be mentioned on the debit note issued by the buyer. **(06)**

- (b) Describe the circumstances under which a registered person shall not be able to claim or deduct input tax? **(06)**

- Q.8 (a) What is the difference between zero-rated and exempt supplies? **(04)**

- (b) A registered person is required to maintain certain records under the Sales Tax Act, 1990. You are required to:

- (i) explain the provisions relating to maintenance of records.
- (ii) list down the records that are required to be maintained.
- (iii) specify the minimum period for which the records are required to be retained. **(10)**

**(THE END)**