

March 07, 2006

**TAXATION**

(MARKS 100)

**Module C**

(3 hours)

Q.1 Ms. Fatima Hasan was working as a Marketing Head with Consumer Products Limited (CPL) at following emoluments:

- (i) Basic salary Rs. 100,000 per month
- (ii) House rent allowance Rs. 40,000 per month
- (iii) Utilities allowance Rs. 15,000 per month

In addition to the above cash emoluments, she was provided with a Honda Civic car, exclusively for official use. The cost of car to the Company was Rs. 1,000,000. As per Company's policy, the car was sold to Fatima in January 2005 at the written down value of Rs. 100,000 whereas the fair market value of the same at the time of sale was Rs. 300,000.

In May 2005, Fatima was approached by Pharma Industries (Pvt.) Limited (PIL). They offered her employment at a higher salary and some extra benefits, alongwith a one time payment of Rs. 200,000 as an inducement to accept their offer. Fatima accepted PIL's offer by resigning from CPL with effect from June 1, 2005. She joined PIL from July 1, 2005. The amount of Rs 200,000 was, however, paid to her on June 29, 2005.

During the year, Fatima has also undertaken the following transactions:

- (i) Shares in Queens Pakistan (Pvt.) Limited were sold for Rs. 500,000. These shares were acquired in the year 1999 at a cost of Rs. 200,000.
- (ii) A residential plot inherited in the year 2000 was sold for Rs. 1,000,000. The fair market value of the plot at the time of inheritance was Rs. 200,000.
- (iii) A painting purchased at a cost of Rs. 100,000 was sold for Rs. 75,000.
- (iv) She had won a cash prize of Rs. 250,000 in a quiz show. Tax of Rs. 50,000 was deducted from the prize money under section 156.
- (v) Dividend of Rs. 50,000 was received on account of shareholding in a listed Company. Tax of Rs. 5,000 was deducted under section 150.
- (vi) She received a fee of Rs. 100,000 in consideration for preparing a research paper for a foreign University. Fatima incurred Rs. 10,000 on the printing of research paper and courier charges for sending the paper abroad.
- (vii) An amount of Rs. 50,000 was donated to an approved charitable institution.

In the light of above information, compute the taxable income of Ms. Fatima for the tax year 2005 by giving brief explanation for the items not included in the taxable income.

(15)

Q.2 Define the following with reference to the Income Tax Ordinance, 2001:

- (a) Depreciable Assets (05)
- (b) Turnover for the purpose of computing minimum tax liability (05)

- Q.3 (a) Explain with reasons, as to whether or not the following expenses are admissible business expenditures:
- (i) Penalty paid by a banking company on contravention of State Bank of Pakistan's regulations. (01)
  - (ii) Freight charges to forwarding agent amounting to Rs 60,000 paid in cash (01)
  - (iii) Payment of salary to an employee from which tax was not deducted by the employer. However, the employee paid the tax himself. (01)
  - (iv) Tax deducted under section 153 from payments received by a resident person on account of services rendered. (01)
- (b) What is the basis of stock-in-trade computation under the Income Tax Ordinance, 2001 when the taxpayer follows the cash basis of accounting? (02)
- (c) Explain the provisions of section 29 with regard to the recovery of bad debts in subsequent years. (05)
- Q.4 (a) Under the Income Tax Ordinance, 2001, tax imposed on non residents in respect of their incomes from Fees for Technical Services and Royalty shall be a final tax on the amount in respect of which the tax is imposed.
- State under what circumstances, such incomes of a non resident are not considered to be final tax liability. (04)
- (b) Mr. Ali, a Pakistani Citizen, returned to Pakistan in November 2004 after completing his employment contract in United Arab Emirates (UAE). He worked till October 2004 in UAE where there was no tax on salaries. Mr. Ali is in Pakistan since then and has been employed by a local company.
- Explain the tax implication on Mr. Ali's income, earned in UAE and Pakistan, for the tax year 2005. (04)
- Q.5 (a) One of your clients, Mr. Nadir who is the legal representative of his deceased uncle Mr. Ather, has approached you seeking your views with regard to his legal obligations under section 87 on the following matters:
- (i) Taxation of income earned by Mr. Ather prior to his death and the extent of tax liability of Mr. Nadir in respect of such income.
  - (ii) Legality of the tax assessment proceedings pending against Mr. Ather at the time of his death. (04)
- (b) What are the circumstances in which two or more persons shall be considered as "associates" under the Income Tax Ordinance, 2001? (08)
- Q.6 Describe the circumstances under which the Commissioner of Income Tax is empowered to issue a notice requiring a person to furnish a return of income for a period of less than twelve months. (04)

- Q.7 (a) Mr. Ahmed is a senior executive of a company and has opted for an 'Employee Share Scheme', announced by the company. As per the scheme, the shares are compulsorily retained in a Trust and time of free right to transfer has not arrived. However, the shares have been issued and he enjoys all rights of ownership. During the retention period, he has received dividends and bonus shares.

Comment on the chargeability of income tax on dividends and bonus shares received by him. (03)

- (b) The records of Mr. A show the following results:

Particulars	Rupees
Loss under the head 'income from other source' after setting off dividend income of Rs. 30,000	(20,000)
Income from speculation business	10,000
Capital gains on disposal of shares of private limited companies	20,000
Loss from business of textiles after considering tax depreciation of Rs. 290,000	410,000

You are required to work out the following:

- (i) taxable income;
  - (ii) tax liability; and
  - (iii) amount of loss that can be:
    - adjusted against any other head of income;
    - carried forward for a maximum of six years;
    - carried forward for indefinite period.
- (06)

- Q.8 What are the time limits prescribed by the Income Tax Ordinance 2001, within which the Commissioner is required to pass an order to give effect to the decision of Income Tax Appellate Tribunal under the following circumstances?

- (a) The ITAT has set aside the assessment and order of the ITAT was received by the Commissioner on November 30, 2004. (03)
- (b) The ITAT has deleted the additions made by the assessing officer and the order of the ITAT was received by the Commissioner on December 15, 2004. (03)

- Q.9 List down the exports which are outside the purview of zero rating under section 4 of the Sales Tax Act, 1990. (03)

- Q.10 Explain the provisions of section 26 of Sales Tax Act, 1990 with regard to the following:

- (a) Change in rate of tax during a tax period (02)
- (b) Voluntary revision of return (04)
- (c) Revision of return during audit or after issuance of a show cause notice by the department. (04)

(4)

Q.11 Which date shall be considered as the date of payment of sales tax in the following cases:

- (a) Payment through cash or cheque (01)
- (b) Payment through pay order or bank draft (02)

Q.12 With reference to Sales Tax Rules 2005 relating to the apportionment of input tax, explain the following:

- (a) Residual input tax (03)
- (b) Manner of computation of residual input tax credit on taxable supplies (03)
- (c) Concepts of provisional and final adjustment (03)

**(THE END)**