

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations Spring 2007



March 8, 2007

## TAXATION

(MARKS 100)

### Module C

(3 hours)

- Q.1 (a) Briefly explain the taxability or exemption of the following allowances or perquisites:
- (i) Free passage provided by a transporter to its employees;
  - (ii) Leased motor vehicle provided to an employee, exclusively for his personal use. Running and maintenance cost and driver's salary is also borne by the employer.
  - (iii) Medical allowance paid at 10 percent of basic salary. (06)
- (b) Explain the principles of taxation and filing of return relating to members of association of person where the association is:
- a professional firm
  - other than a professional firm.
- Also discuss the rules relating to set off and carry forward of association's losses. (08)
- Q.2 (a) Explain the correct tax treatment in each of the following situations:
- (i) In 1998, Mr. Hamid inherited a rare sculpture of Buddha which had a fair market value of Rs. 200,000 on the date of inheritance. In February 2007, the sculpture was sold by him at Rs. 500,000.
  - (ii) In December 2006, Mr. Yahya entered into an agreement for sale of his residential plot to Mr. Moosa, who paid an advance of Rs. 500,000. According to the agreement, Mr. Moosa was required to pay the balance by February 28, 2007. However, instead of paying the balance amount, he terminated the sale agreement. Mr. Yahya forfeited the advance of Rs. 500,000 in accordance with the terms of the agreement.
  - (iii) In September 2006, Mr. Saleem sold his personal car, Toyota Corolla, to one of his cousins at a price of Rs. 50,000 whereas the fair market value of the car was Rs. 200,000. The car was purchased by him in the year 2000 at a cost of Rs. 300,000.
  - (iv) Mr. Ibrahim was working as a Chief Financial Officer in Dawood Pakistan (Pvt) Limited, which is a wholly owned subsidiary of Dawood AG, Germany. According to the Company's policy, Mr. Ibrahim was sent on secondment to Germany on January 1, 2007 for a period of five years. During this period, half of his salary will be credited to his bank account in Pakistan, whereas the remaining portion will be received by him in Germany.
  - (v) Mr. Zubair provided consultancy services to a listed company. In consideration for his services, he received a net amount of Rs. 47,000 after tax deduction of Rs. 3,000. (12)

(2)

- (b) Discuss the provisions of the Income Tax Ordinance, 2001 relating to the computation of opening and closing stock. (04)

- Q.3 (a) Explain the following terms with reference to the Income Tax Ordinance, 2001:  
(i) Income  
(ii) Profit on debt (06)

- (b) The income of Mr. Yousuf during the tax year 2006 amounted to Rs. 120 million which included capital gains of Rs. 10 million and dividend income of Rs. 12 million. The tax liability for 2006 was Rs. 32 million out of which Rs. 4 million related to tax on capital gains and dividend income.

The following information is available for the quarter ended December 31, 2006:

	<b>Rupees in million</b>
Tax deducted at source by the customers	3
Tax paid on import	2

Compute advance tax liability for the quarter ended December 31, 2006. (05)

- Q.4 (a) Mr. Hamza intends to donate Rs. 5 million in cash to the following institutions:
- An institution whose name is listed in the 2nd Schedule to the Income Tax Ordinance, 2001; and
  - a non profit organization working for the promotion of education in rural areas of Pakistan.

Explain the impact of the above donations on the tax liability of Mr. Hamza. (07)

- (b) What do you understand by the term “speculation business” as referred to in the Income Tax Ordinance, 2001? Briefly discuss the rules relating to set off and carry forward of losses arising out of speculation business. (04)

- Q.5 (a) The residential status of a taxpayer may either be ‘resident’ or ‘non-resident’. State the relevant provisions contained in the Income Tax Ordinance, 2001, for determining the residential status of a taxpayer. (08)

- (b) Under the Income Tax Ordinance, 2001, the Commissioner may serve upon the taxpayer, a notice requiring him to pay any tax due within such time as may be specified in the notice.

Describe the modes of recovery available to the Commissioner, if the taxpayer fails to pay the amount of tax within the time specified in the said notice. (04)

- Q.6 (a) Under the Income Tax Ordinance, 2001, a deduction for capital loss is allowed when consideration received on disposal of a capital asset is less than its cost. What are the exceptions to this rule? (06)

- (b) Every resident taxpayer whose last declared or assessed income is five hundred thousand rupees or more is required to furnish a wealth statement for that year along with the income tax return.

State the main particulars that are required to be included in the wealth statement. (04)

(3)

- Q.7 (a) There shall be charged, levied and paid a tax known as sales tax at the rate of 15% of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him; and goods imported into Pakistan.

Explain the term “taxable supply” and “taxable activity” used in the above statement describing the scope of sales tax. (08)

- (b) List down the persons who are required to be registered under the Sales Tax Rules, 2006. (05)

Q.8 Mr. Adam is a registered person and engaged in the supply of various types of appliances for last many years. He has provided you the following information for the month of February 2007:

- (i) Supplies made during the month amount to Rs. 95 million. Details of supplies made are as follows:

	<b>Rupees in million</b>
Exports	50
Exempt supplies	10
Supplies to registered person	30
Supplies to unregistered person	5
	<hr/> 95

- (ii) During the month, he has made an adjustment of Rs. 500,000 through credit note in a registered person's balance.

- (iii) Following purchases were made during the month:

	<b>Rupees in million</b>
- From registered persons	45
- From unregistered persons	15
	<hr/> 60

- (iv) All goods purchased from unregistered persons are exclusively used for making taxable supplies.

- (v) An amount of Rs. 3,000,000 is payable to a registered person since December 20, 2006. The input tax on the purchase was accounted for in the relevant tax period.

- (vi) Mr. Adam is also required to pay the following:

	<b>Rupees</b>
Arrears	500,000
Surcharge	70,000
Penalty	30,000

Compute Mr. Adam's sales tax liability.

(13)

(THE END)