



March 8, 2008

TAXATION

(MARKS 100)

Module C

(3 hours)

Q.1 Saleem, Rashid and Moin are partners in a partnership concern carrying on the business of manufacturing and sale of consumer goods. They share profit and loss in the ratio 2:3:5 respectively. The results of operations of the firm are as follows:

	Rs. '000'
Sales (including rental income)	76,000
Cost of sales	53,000
	23,000
Selling, administrative and other expenses	16,250
Profit before tax	6,750
Tax deducted at source on import of raw material	900
Tax deducted at source on sale of goods	1,750
	2,650

Other information:

- (i) The firm has rented out a vacant portion of its factory to a company at an annual rental of Rs.1 million. Tax was duly deducted by the lessee.
- (ii) Mr. Saleem has earned income of Rs. 325,000 from another business as a sole proprietor. He also sold his personal car for a loss of Rs. 50,000.
- (iii) Mr. Rashid earned a gross income of Rs. 200,000 from another partnership firm where he is entitled to 25% of the total profit of the firm. He also earned dividend of Rs. 50,000 from a listed company.
- (v) Mr. Moin has no other source of income.

Required:

Assuming that the above data pertains to the tax year 2008, compute the tax liability of the firm and each of its partners and the amount of tax payable by them alongwith the return of income.

Applicable tax rates are as follows:

Where the taxable income exceeds Rs.175,000 but does not exceed Rs.200,000	4.00%
Where the taxable income exceeds Rs.200,000 but does not exceed Rs.300,000	5.00%
Where the taxable income exceeds Rs.300,000 but does not exceed Rs.400,000	7.50%
Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	10.00%
Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000	12.50%
Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000	15.00%
Where the taxable income exceeds Rs.800,000 but does not exceed Rs.1,000,000	17.50%
Where the taxable income exceeds Rs.1,000,000 but does not exceed Rs.1,300,000	21.00%
Where the taxable income exceeds Rs.1,300,000	25.00%
Tax on rental income from property	5.00%
Tax on dividends	10.00%

(17)

- Q.2 (a) Mr. Anil is constructing his house and for the purpose of meeting construction expenses, he intends to take a personal loan of Rs. 500,000 from Mr. Kamran who is in the business of money lending. He has been advised by one of his friends that such a loan may be included in his taxable income, under certain circumstances.
- You are required to advise Mr. Anil about the circumstances under which the loan may be included in his taxable income. **(04)**
- (b) Mr. Waseem received an amount of Rs. 50,000 as arrears of salary pertaining to the tax year 2007 in the tax year 2008. Discuss the options available with Mr. Waseem under the Income Tax Ordinance, 2001 and what matters should he consider in deciding the best option. **(04)**
- Q.3 (a) AAS (Pvt.) Ltd was incorporated on July 1, 2006 and commenced commercial operations in the same month. It suffered losses in the first year of its operations.
- Briefly explain how the company should determine the amount of advance tax to be paid (if any) in the tax year 2008. **(05)**
- (b) A company intends to launch an Employee Share Scheme for its employees and for the purpose of educating its employees in this regard, the management wants to prepare a summary containing the taxability of the following:
- (i) Option granted to an employee.
 - (ii) Disposal of the option to acquire shares under the employee share scheme.
 - (iii) Shares issued to an employee under the option that are subject to restriction on transfer.
- Explain the timing and valuation aspects in respect of the above, with reference to the Income Tax Ordinance, 2001. **(09)**
- (c) Under what circumstances, the Commissioner of Income Tax can require a person to furnish a return of income for a period of less than twelve months? **(04)**
- Q.4 (a) Discuss the taxability of the following under the Income Tax Ordinance, 2001:
- (i) Bad debts **(05)**
 - (ii) Non-adjustable rent **(04)**
 - (iii) Speculation business **(04)**
- (b) Certain types of payments by a private company to their shareholders can be treated as “dividend” under the Income Tax Ordinance, 2001. State the conditions necessary for the application of this rule and the exceptions to it. **(05)**
- Q.5 (a) Mr. Zulqarnain intends to make donations to certain charitable institutions. You are required to advise him on the following:
- (i) The types of institutions to whom the donation(s) would entitle him for tax credit.
 - (ii) The method of calculation of tax credit. **(08)**

(b) There are various situations in the Income Tax Ordinance, 2001 when the rules applicable to Companies are different from those applicable to other assesseees. Briefly discuss the differences in the tax laws for an Individual and a Company in the following cases:

- (i) Dividend income
- (ii) Rental income
- (iii) Method of accounting
- (iv) Payment for sale of goods or rendering of services **(08)**

Q.6 (a) Explain the following terms as given in the Sales Tax Act, 1990:

- (i) retailer **(02)**
- (ii) distributor **(02)**
- (iii) cottage industry **(02)**

(b) Narrate the circumstances under which, it becomes obligatory for a person to get registered under the Sales Tax Act, 1990. **(04)**

(c) Under what circumstances can a person registered under the Sales Tax Act, 1990, be de-registered? **(04)**

Q.7 (a) A registered person making a taxable supply has to issue a tax invoice at the time of supply of goods. What are the particulars that are required to be mentioned on the invoice? **(03)**

(b) Sales Tax Act, 1990 places certain restrictions on adjustment of input tax. You are required to explain the related provisions in respect of the following:

- (i) Extent of restriction on admissibility of input tax;
- (ii) The conditions under which the amount of input tax which had been so restricted, may subsequently be allowed;
- (iii) Treatment of sales tax paid on acquisition of fixed assets. **(06)**

(THE END)