THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations Autumn 2009

September 12, 2009

TAXATION (MARKS 100)
Module C (3 hours)

Q.1 Mr. Zulfiqar, a senior executive of Mirza Petroleum Limited (MPL), retired on March 31, 2009 after completion of nineteen years of dedicated service. The details of Mr. Zulfiqar's income for the tax year 2009 are given below:

Income from MPL

(i) Monthly remuneration:

	Rupees
Basic salary	280,000
Medical allowance	45,000
Utilities allowance	45,000
Cost of living allowance	25,000
Total monthly salary	**395,000**
Market value of rent free accommodation provided	120,000

(ii) As per terms of employment, tax liability of Mr. Zulfiqar to the extent of Rs. 200,000 is to be borne by MPL.

(iii) On his retirement, he received gratuity of Rs. 2,660,000 from an unrecognized gratuity fund maintained by MPL.

(iv) He is receiving pension amounting to Rs. 50,000 per month from the date of his retirement.

Other Information

(v) He is also receiving pension amounting to Rs. 12,000 per month from a multinational company where he worked from 1975 to 1990.

(vi) A plot inherited from his father was sold for Rs. 5,000,000. Fair market value of the plot at the time of inheritance was Rs. 1,000,000.

(vii) On January 1, 2009, he rented out one of his residential bungalows to a private school for Rs. 100,000 per month and received advance rent for two years.

(viii) Rs. 500,000 were invested in new shares offered by a listed company.

(ix) He paid mark up amounting to Rs. 250,000 on a house loan obtained from a scheduled bank.

(x) He incurred a loss of Rs. 20,000 on sale of a painting.

Required:

(a) Compute taxable income and tax liability of Mr. Zulfiqar for the tax year 2009.

(b) Briefly comment on the items which are not considered in the above computation. **(21)**

(Tax rates are given at the last page)

Q.2 (a) A company engaged in manufacturing activities has decided to provide loan to one of its shareholders. Explain the tax implication on the company as well as the shareholder if the Company:

(i) is registered under the Companies Ordinance, 1984 as a private limited company.

(ii) is an unlisted public company. **(06)**

(b) State the provisions of Income Tax Ordinance, 2001 pertaining to foreign tax credit available to a resident taxpayer. **(06)**

Q.3 (a) State the conditions which a tangible asset should meet to qualify as a depreciable asset. **(04)**

(b) During the tax year 2009, Ishaq Enterprise disposed off the following assets:

(i) an immovable property was sold for Rs. 200 million. The cost of immovable property was Rs. 100 million. Up to tax year 2008, tax depreciation of Rs. 10 million had been allowed on the immovable property.

(ii) a plant was exported to Nepal. The export proceeds amounted to Rs. 28 million. The cost and written down value of the plant was Rs. 25 million and Rs. 18 million respectively.

(iii) three trucks were disposed off for Rs. 2.5 million. They were acquired in tax year 2008. The tax written down value of trucks at the beginning of tax year 2009 was Rs. 2.4 million. The trucks were being used partly i.e. 60% for business purposes. The rate of depreciation for tax purposes is 20%.

Required:
Compute the tax gain or loss on disposal of each of the above assets. **(06)**

Q.4 (a) State the provisions of the Income Tax Ordinance, 2001 with regards to rectification of mistakes. **(05)**

(b) Ayub Industries Limited has been selected for the audit of its income tax affairs. The management is of the opinion that since their tax affairs were audited last year also, they should not have been selected for audit this year.

Required:
Discuss the management's point of view in the light of Income Tax Ordinance, 2001. **(05)**

Q.5 Mr. Abdullah, an employee of a Malaysian based company, has been assigned to work in Karachi, in its subsidiary company which is registered under the Companies Ordinance, 1984. The initial assignment of two years commenced on March 1, 2009 and would be extended subject to mutual agreement.

Mr. Abdullah's remuneration will be paid in Malaysia, details of which are given below:

Nature of Income	Amount in Equivalent Rupees
Pakistan source salary income for the tax year 2009	5,750,000
Pakistan source salary income for the tax year 2010	17,250,000
Foreign source salary income for the tax year 2009	12,000,000
Foreign source salary income for the tax year 2010	3,000,000

Required:

(a) Explain the residential status of Mr. Abdullah under the Income Tax Ordinance, 2001 for the tax year 2009 and 2010. **(02)**

(b) Compute taxable income of Mr. Abdullah for the tax years 2009 and 2010. Support your computation with appropriate comments. **(08)**

Q.6 (a) Mr. Zia's father expired in March 2009. Being the only heir, he received all his father's business and assets. In August 2009, a notice was received from the income tax department in the name of his father to pay unpaid tax liabilities along with penalty and additional tax. Mr. Zia is of the view that since his father expired, the notice is irrelevant.

Required:
In the light of Income Tax Ordinance, 2001, explain the correct legal position of Mr. Zia with regard to his father's income tax liabilities and the related income tax proceedings. **(06)**

(b) List the prescribed persons as specified by the Income Tax Ordinance, 2001 who are required to deduct tax while making payment for supply of goods. **(03)**

Q.7 (a) Identify the situations under which a person registered under the Sales Tax Act, 1990 is liable to be de-registered. **(04)**

(b) Briefly explain the procedure for de-registration as specified by the Sales Tax Rules, 2006. **(03)**

(c) Comment whether the following persons are required to be registered under the Sales Tax Act, 1990.

(i) Mr. Yahya is a wholesaler and his annual business turnover is Rs. 4.9 million.

(ii) Mr. Fazal is operating a general store and his monthly average turnover is Rs. 0.4 million.

(iii) Mr. Ishaq is planning to import raw materials for business use. The annual imports are estimated at Rs. 3.0 million.

(iv) Mr. Pervez is a commercial exporter. All his business purchases are either exempt supplies or from unregistered suppliers.

(v) Mr. Farooq is a distributor of consumer goods and his annual turnover is Rs. 15 million.

(vi) Mr. Rafiq is a manufacturer of candles. His turnover in last twelve tax periods was below Rs. 5 million. His utility bills during the same period were Rs. 550,000. **(06)**

Q.8 (a) Where for any valid reason the value of supply or the amount of sales tax mentioned in the sales tax invoice issued has changed, the supplier shall issue Debit Note or a Credit Note.

Required:
Discuss the rules relating to adjustment of input and output tax on issuance of Debit or Credit Note, as specified in the Sales Tax Rules, 2006. **(06)**

(b) Mr. Asif is registered under the Sales Tax Act, 1990. Following information for the month of August 2009 has been extracted from his business records:

(i) Supplies made during the month were as follows:

		Rupees
-	to registered persons	5,000,000
-	to unregistered persons	3,000,000
-	export supplies	11,000,000
-	exempt supplies	2,000,000

(ii) Goods costing Rs. 8,000,000 were purchased from registered persons.

(iii) Goods purchased from unregistered persons amounted to Rs. 2,000,000 and were used exclusively for making taxable supplies.

Required:
Compute the sales tax payable and/or to be carried forward by Mr. Asif in the return for the month of August 2009. **(09)**

(THE END)

EXTRACT FROM THE FIRST SCHEDULE OF THE INCOME TAX ORDINANCE 2001

RATES OF TAX
Division I
Rates of Tax for Salaried Individual

S. No.	Taxable Income	Rate of Tax
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs. 180,000	0%
2.	Where the taxable income exceeds Rs. 180,000 but does not exceed Rs. 250,000	0.50%
3.	Where the taxable income exceeds Rs. 250,000 but does not exceed Rs. 350,000	0.75%
4.	Where the taxable income exceeds Rs. 350,000 but does not exceed Rs. 400,000	1.50%
5.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 450,000	2.50%
6.	Where the taxable income exceeds Rs. 450,000 but does not exceed Rs. 550,000	3.50%
7.	Where the taxable income exceeds Rs. 550,000 but does not exceed Rs. 650,000	4.50%
8.	Where the taxable income exceeds Rs. 650,000 but does not exceed Rs. 750,000	6.00%
9.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 900,000	7.50%
10.	Where the taxable income exceeds Rs. 900,000 but does not exceed Rs. 1,050,000	9.00%
11.	Where the taxable income exceeds Rs. 1,050,000 but does not exceed Rs. 1,200,000	10.00%
12.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,450,000	11.00%
13.	Where the taxable income exceeds Rs. 1,450,000 but does not exceed Rs. 1,700,000	12.50%
14.	Where the taxable income exceeds Rs. 1,700,000 but does not exceed Rs. 1,950,000	14.00%
15.	Where the taxable income exceeds Rs. 1,950,000 but does not exceed Rs. 2,250,000	15.00%
16.	Where the taxable income exceeds Rs. 2,250,000 but does not exceed Rs. 2,850,000	16.00%
17.	Where the taxable income exceeds Rs. 2,850,000 but does not exceed Rs. 3,550,000	17.50%
18.	Where the taxable income exceeds Rs. 3,550,000 but does not exceed Rs. 4,550,000	18.50%
19.	Where the taxable income exceeds Rs. 4,550,000 but does not exceed Rs. 8,650,000	19.00%
20.	Where the taxable income exceeds Rs. 8,650,000	20.00%

Provided that where the total income of a taxpayer marginally exceeds the maximum limit of a slab in the table, the income tax payable shall be the tax payable on the maximum of that slab plus an amount equal to –

(i) 20% of the amount by which the total income exceeds the said limit where the total income does not exceed Rs. 500,000.
(ii) 30% of the amount by which the total income exceeds in each slab but the total income does not exceed Rs. 1,050,000.
(iii) 40% of the amount by which the total income exceeds in each slab but the total income does not exceed Rs. 2,000,000.
(iv) 50% of the amount by which the total income exceeds in each slab but the total income does not exceed Rs. 4,450,000.
(v) 60% of the amount by which the total income exceeds in each slab but the total income exceeds Rs. 4,450,000.

Division VI
Income from Property

S. No.	Gross amount of rent	Rate of tax
(1)	Where the gross amount of rent does not exceed Rs. 150,000	Nil
(2)	Where the gross amount of rent exceeds Rs. 150,000 but does not exceed Rs. 400,000	5 percent of the gross amount exceeding Rs. 150,000.
(3)	Where the gross amount of rent exceeds Rs. 400,000 but does not exceed Rs. 1,000,000	Rs. 12,500 plus 10 percent of the gross amount exceeding Rs. 400,000
(4)	Where the gross amount of rent exceeds Rs. 1,000,000	Rs. 72,500 plus 15 percent of the gross amount exceeding Rs. 1,000,000