



March 7, 2009

TAXATION

(MARKS 100)

Module C

(3 hours)

Q.1 Mr. Manto worked as an employee in Berlin Hotel, Germany for a period of five years. During the said period he did not visit Pakistan for a single day. He returned to Pakistan on July 1, 2008 and immediately joined as a General Manager in a well-reputed hotel, based in Karachi.

Assume that the details of his income for the tax year 2009 are as follows:

(i)

Basic salary (per month)	Rs. 100,000
House rent allowance (per month)	Rs. 30,000
Medical allowance (per month)	Rs. 10,000

- (ii) Besides medical allowance, he is also entitled to free medical treatment at approved hospitals.
- (iii) He has been provided a company maintained 1600cc car which was used partly for official and partly for personal purposes. The hotel has leased the car from a bank. The gross lease rentals payable over the period of lease amount to Rs. 2,700,000. The fair market value of the car at the time of lease was Rs. 1,600,000. The total lease rentals paid by the hotel during the year amounted to Rs. 800,000.
- (iv) He is entitled to lunch at the hotel's restaurants where the usual charges are Rs. 400 per person. He is entitled to concessional rate of Rs. 40 per day which is deducted from his salary. Assume that there are 300 working days in the year.
- (v) He went for a training course to Islamabad where boarding and lodging cost amounting to Rs. 150,000 was borne by the hotel. He incurred a further expense of Rs. 125,000 which was reimbursed by the hotel.
- (vi) Provident fund was deducted @10% of his basic salary. An equal amount was contributed by the hotel. Interest credited to his provident fund account amounted to Rs. 48,000.
- (vii) As per terms of employment agreed with Mr. Manto, tax payable on salary will be borne by the hotel.
- (viii) During the year, he also received an amount of Rs. 94,000 (net of withholding tax) from a local university where he gave lectures on hotel management.
- (ix) On July 15, 2008, he received a lump sum amount of Rs. 4,000,000 through a normal banking channel as final settlement from Berlin Hotel.
- (x) On August 1, 2008, he inherited 25,000 shares of a private limited company. The estimated fair market value of the shares, on the date of inheritance, was Rs. 42 per share. He sold all the shares on February 28, 2009 at Rs. 62 per share.
- (xi) He paid zakat amounting to Rs. 200,000 to an approved organization, through cross cheque.

Required:

- (a) Compute Mr. Manto's taxable income and tax payable for the tax year 2009.
- (b) Briefly explain the treatment of items which are not considered in the above computation.

(18)

Applicable tax rates are as follows:

Where taxable income exceeds Rs. 1,200,000 but does not Rs. 1,500,000	12.5%
Where taxable income exceeds Rs. 1,500,000 but does not Rs. 1,700,000	14.0%
Where taxable income exceeds Rs. 1,700,000 but does not Rs. 2,000,000	15.0%
Where taxable income exceeds Rs. 2,000,000 but does not Rs. 3,150,000	16.0%

- Q.2 (a) Hijazi Limited is a multinational unquoted company. Presently, the company closes its financial year on June 30. The company is now considering to change its income year from June 30 to March 31.

Required:

Mr. Safi is the tax consultant of the Company. Write a memorandum on his behalf, explaining the following:

- (i) Requirements of the Income Tax Ordinance, 2001 regarding change in tax year from normal to special.
- (ii) The tax year corresponding to the income year ended on March 31, 2009 and the due date for filing the return of income. **(09)**
- (b) Briefly discuss the residential status of the following persons under the Income Tax Ordinance, 2001 for the tax year 2009:
- (i) Asif is an employee of Balochistan Government, who has been sent to United Kingdom for an official assignment on December 1, 2007 for two years.
- (ii) Messrs. Akhtar Abbas & Co. is a partnership firm, doing business of financial consultancy in Pakistan as well as United Arab Emirates (UAE). The management and control of its affairs is situated partly in UAE and partly in Pakistan. **(04)**
- Q.3 (a) Advance tax collected by the Collector of Customs is considered as final tax on the income of the importer arising from imports except in certain situations. You are required to list such exceptions. **(04)**
- (b) Mr. Qasmi is in the business of manufacturing of leather products. The financial results of the business for the tax year 2009 are as follows:

	Rupees
Sales	12,000,000
Cost of sales	10,000,000
Gross profit	2,000,000
Selling, administrative and other expenses	2,500,000
Net loss	(500,000)

He had rented out the ground floor of his house and received Rs. 300,000 as rent thereof. No tax was deducted by his tenant. Advance tax paid during the year includes the following:

	Rupees
Import of raw materials	200,000
Electricity bills	70,000
Telephone bills	50,000

Required:

Compute the tax payable/refundable by Mr. Qasmi for the tax year 2009. **(05)**

- Q.4 (a) Mr. Bukhari is a resident person and owns a property abroad. During the year, he received rent amounting to Rs. 3 million from that property. The tax on rental income has been duly paid abroad and there is no tax treaty between Pakistan and the country in which the property is situated.

Explain the tax treatment of rental income received by Mr. Bukhari in Pakistan. **(03)**

- (b) Discuss the provisions of the Income Tax Ordinance, 2001 regarding non-adjustable amount received from a tenant by the owner of a building. (05)

Q.5 (a) What do you understand by the term “definite information” as described in the Income Tax Ordinance, 2001? (03)

- (b) Nomani Industries (Pvt.) Limited filed their return of income for the year ended June 30, 2007 on December 31, 2007. On January 15, 2009, the Taxation Officer issued a notice requiring the company to file the audited financial statements. The Taxation Officer has also identified certain errors in the return of income filed for the year and has shown his intention to amend the assessment of the Company for the year.

Required:

- (i) When is a return of income regarded as ‘incomplete’ for tax purposes?
 (ii) Is the taxation officer justified in issuing the above notice? Explain.
 (iii) Discuss the circumstances under which taxation authorities may amend the assessment order of a company.
 (iv) Identify the specific date up to which the taxation authorities may amend the assessment of Nomani Industries (Pvt.) Limited. Assume that the return of income was complete on December 31, 2007 when it was filed. (11)

Q.6 (a) Briefly explain the term “legal representative” with reference to the Income Tax Ordinance, 2001. What are the obligations of a legal representative? (06)

- (b) Discuss the provisions of the Income Tax Ordinance, 2001 regarding set off and carry forward of losses under the heads “Income from Business” and “Capital Gains”. (07)

Q.7 (a) Discuss the provisions of the Sales Tax Act, 1990 with regard to the following:
 (i) Filing of return.
 (ii) Voluntary revision of return.
 (iii) Revision of return during or after issuance of a notice of audit. (08)

- (b) With reference to the Sales Tax Act, 1990, identify the situations under which a registered person shall not be entitled to claim or deduct input tax. (08)

Q.8 Mr. Azad is a registered person and engaged in the manufacture of consumable goods. The following information for the month of February 2009 is available:

	Value excluding Sales Tax	Sales Tax @ 16%	Value including Sales Tax
	Rupees	Rupees	Rupees
Sales			
- Taxable	6,000,000	960,000	6,960,000
- Exempt	4,000,000	-	4,000,000
	10,000,000	960,000	10,960,000
Purchases			
- Raw materials	9,200,000	1,472,000	10,672,000
- Fixed assets	1,700,000	272,000	1,972,000
	10,900,000	1,744,000	12,644,000

Required:

Work out the sales tax liability of Mr. Azad along with input tax to be carried forward (if any) in his sales tax return. (09)

(THE END)