



Taxation

Intermediate Examination
Autumn 2012
Module C

8 September 2012
100 marks – 3 hours
Additional reading time – 15 minutes

- Q.1 Beena Sikandar is a lawyer and owns a law firm under the name Beena & Co. She is also Director Legal Affairs at Ayesha Foods Limited. Details of her income for the tax year 2012 are as follows:

(A) INCOME FROM BEENA & CO.

Income Statement

	Note	Rupees
Revenue	(i)	8,500,000
Less: Expenses		
Salaries	(ii)	2,000,000
Gifts and donations	(iii)	400,000
Lease charges	(iv)	900,000
Professional fee	(v)	400,000
Property expenses	(vi)	350,000
Travel expenses		150,000
Other expenses	(vii)	600,000
Tax withheld by clients		200,000
		5,000,000
Net profit		3,500,000

Notes to the Income Statement

- Revenue includes Rs. 750,000 recovered from Rafia in respect of bad debts that had been written off while calculating the taxable income for the tax year 2010. The amount was receivable against professional services rendered to Rafia.
- Salary expenses include amounts of Rs. 50,000 and Rs. 75,000 per month paid to Beena and her brother respectively. Her brother looks after administration and financial matters of the firm.
- Gifts and donations include gifts to clients, gift to her son and donation to Edhi Foundation amounting to Rs. 100,000, Rs. 50,000 and Rs. 250,000 respectively.
- A vehicle was obtained solely for official purposes on operating lease, from a bank. The lease commenced on 1 March 2012. Lease charges include Rs. 500,000 paid as security deposit to the bank.
- The professional fee includes an amount of Rs. 150,000 paid to a legal firm for defending a law suit filed against Beena, in a family court.
- Beena lives in an apartment situated above her office, and two-fifths of the total property expenses relates to this apartment.
- Other expenses include an amount of Rs. 150,000 paid for Beena's Golf Club membership which she exclusively used to promote her business interests. The payment to the club was made in cash.

(B) DIRECTOR'S REMUNERATION FROM AYESHA FOOD LIMITED (AFL)

- Beena received monthly remuneration of Rs. 100,000 from AFL.
- During the year, she also received two bonus payments of Rs. 100,000 each. One of the bonus pertains to tax year 2011. It was announced last year but disbursed to her in the current year.
- Beena has also been provided a vehicle, by AFL, for her personal as well as business use. The car was acquired by AFL in May 2007 at a cost of Rs. 2,000,000. The fair market value of the car as at 30 June 2012 was Rs. 1,500,000.
- She received a fee of Rs. 150,000 from AFL for attending the meetings of the Board of Directors (BOD).

(v) Details of tax deducted by AFL are as follows:

	Rupees
From salaries	390,000
From fee received for attending the meetings of BOD	9,000

Required:

Compute the taxable income, tax liability and tax payable by Beena Sikandar for the tax year 2012. Provide appropriate comments on the items appearing in the notes which are not considered by you in your computations. *(Tax rates are given on the last page)* **(17 marks)**

- Q.2 (a) What do you understand by the term “Royalty” as described in the Income Tax Ordinance, 2001? **(06 marks)**
- (b) Tax imposed at the rate of 15% on every non-resident person who receives Pakistan source royalty is considered to be a final tax on the amount in respect of which the tax is imposed.

Identify the exceptions to the above rule, according to the Income Tax Ordinance, 2001.

(03 marks)

- Q.3 (a) State the provisions of the Income Tax Ordinance, 2001 with regards to the residential status of individuals and companies. **(05 marks)**
- (b) Margaret, a German national was employed as a Technical Manager of Faiza Chemicals Limited, a resident company, on 1 October 2010 for a term of two years. Under the terms of employment, she was allowed to deliver lectures at various professional organizations. During tax year 2012, she conducted three workshop sessions, the details of which are as follows:
- *Workshop Session in Lahore:* A fee of US\$ 15,000 in equivalent Pak Rupees was received from a local event manager. The fee was credited to her bank account maintained in Karachi.
 - *Workshop Session in Munich:* A fee of US\$ 25,000 was received in Germany in her Munich bank account.
 - *Workshop Session in Dubai:* A fee of US\$ 20,000 was remitted to her bank account in Karachi.

Required:

Discuss the taxability of the amounts received by Margaret for conducting the workshop sessions during tax year 2012. **(06 marks)**

- (c) Explain the provisions of the Income Tax Ordinance, 2001 pertaining to foreign tax credit available to a resident taxpayer. **(06 marks)**

- Q.4 (a) In the light of Income Tax Ordinance, 2001, state how a matter would be decided in case of difference in opinion on any point amongst the Members of a Bench constituted by the Chairperson of an Appellate Tribunal. **(05 marks)**
- (b) Zubaida is operating a business as a Wedding Event Planner since past 12 years. She had filed her complete return for the tax year 2007 on 20 August 2007. On 1 September 2012, Commissioner Inland Revenue (CIR) served a Show Cause Notice, requiring her to explain certain receipts which were credited to her account during the tax year 2007.

Zubaida is uncertain as to whether CIR is empowered to issue such a notice after a lapse of so many years.

Required:

Advise Zubaida about the validity of the Show Cause Notice issued by CIR under the Income Tax Ordinance, 2001. **(04 marks)**

- Q.5 (a) In May 2012, Hameeda sold certain personal assets at the following prices:

	Rupees
Plot in DHA Karachi	10,000,000
Paintings	2,000,000
Jewellery	5,000,000

Additional information:

- Plot in DHA Karachi was inherited by her from her father in May 2006. It was purchased by her father for Rs. 4,000,000 and market value at the time of inheritance was Rs. 5,000,000.
- Paintings were inherited from her mother in July 2011. These paintings were purchased by her mother for Rs. 1,000,000 and market value at the time of inheritance was Rs. 2,350,000.
- Jewellery costing Rs. 3,000,000 was purchased and gifted to her by her husband in March 2009.

Required:

Discuss the taxability of Hameeda in respect of the above gains/ losses on sale of assets in the context of Income Tax Ordinance, 2001. (06 marks)

- (b) On 1 July 2010, Kashmala and Shumaila formed an Association of Persons (AOP) with the objective of providing information technology support services to corporate clients. They contributed Rs. 1.2 million and Rs. 0.8 million respectively in their capital accounts and agreed to share profits and losses in the ratio of their capitals.

For the year ended 30 June 2011, business loss and unabsorbed depreciation of Rs. 0.4 million and Rs. 0.3 million respectively were assessed and carried forward. The total turnover of the AOP in 2011 was Rs. 40 million.

During the year ended 30 June 2012, the AOP incurred a net loss of Rs. 0.8 million on a turnover of Rs. 50 million. The cost for the year was arrived after adjustment of the following:

- Salaries amounting to Rs. 0.5 million and Rs. 0.3 million were paid to Kashmala and Shumaila respectively.
- Accounting depreciation on office assets amounted to Rs. 0.3 million.

The taxes withheld by the clients, for the year ended 30 June 2012 amounted to Rs. 0.55 million. AOP is entitled to claim tax depreciation of Rs. 0.25 million in respect of the office assets.

Required:

Calculate the taxable income, net tax payable and unabsorbed losses (including unabsorbed depreciation), if any, to be carried forward by the AOP for the year ended 30 June 2012. (08 marks)

- Q.6 In the context of Income Tax Ordinance 2001,

- state the meaning of "Intangible". (04 marks)
- discuss the rules relating to claiming of amortization deduction on intangibles. (07 marks)

- Q.7 (a) Identify the goods that shall be charged at the rate of zero per cent under the Sales Tax Act, 1990. (03 marks)
- (b) List the situations in which the type of goods identified in (a) above would **not** be eligible for zero rating. (03 marks)

- Q.8 (a) Under the provisions of Sales Tax Act, 1990 and Rules made thereunder, identify the last date for filing of sales tax return in each of the following cases:
- On 1 August 2012, Sara registered herself under the Sales Tax Act, 1990.
 - Fatima filed the return for the month of July 2012 on 10 August 2012. She wants to revise her return to correct certain errors.
 - Amna Engineering Limited (AEL) is registered under the Sales Tax Act, 1990. AEL wants to file annual sales tax return for the financial year ended 30 June 2012.
 - Abida wants to deregister herself with effect from 30 September 2012. (03 marks)

- (b) While carrying out the sales tax audit of Haleema, the Officer of Inland Revenue identified a deficiency in the amount of sales tax deposited by her. She acknowledged this deficiency but failed to deposit the balance amount. A show cause notice was issued to her for the payment of the balance amount.

Determine Haleema's liability in the above situation. Also explain whether it would have been to her advantage if she had paid the amount before issuance of the show cause notice.

(03 marks)

- Q.9 Zainab is registered under the Sales Tax Act, 1990 and is engaged in the manufacture and supply of Products A and B. Following information has been extracted from her records for the month of August 2012:

	Product A	Product B
	-----Rupees-----	
Supplies		
Local supplies	5,350,000	1,010,000
Exports to Thailand	2,550,000	3,950,000
Purchases		
Local materials from registered persons	6,000,000	
Local materials from unregistered persons	850,000	

Additional information:

- Product A is exempt from the charge of sales tax.
- Sales tax credit brought forward from previous month amounted to Rs. 262,500.
- Substandard supplies worth Rs. 150,000 were returned to the registered vendors and proper debit and credit notes were issued.
- An invoice dated 5 February 2012 amounting to Rs. 100,000 had not been claimed inadvertently. This oversight was detected in the month of August 2012.
- Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax.

Required:

In the light of Sales Tax Act, 1990 and Rules made thereunder, calculate the following for the month of August 2012:

- Sales tax payable / refundable
- Input tax to be carried forward, if any.

(11 marks)

(THE END)

Extracts from the First Schedule of the Income Tax Ordinance, 2001

Part I - Rates of Tax

Division I

Rates of Tax for Individuals

Table

S. No.	Taxable income	Rate of tax
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs. 350,000	0%
2.	Where the taxable income exceeds Rs. 350,000 but does not exceed Rs. 500,000	7.50%
3.	Where the taxable income exceeds Rs. 500,000 but does not exceed Rs. 750,000	10.00%
4.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,000,000	15.00%
5.	Where the taxable income exceeds Rs. 1,000,000 but does not exceed Rs. 1,500,000	20.00%
6.	Where the taxable income exceeds Rs. 1,500,000.	25.00%

Division IB

Rate of Tax for Association of Persons

The rate of tax imposed on the taxable income of Association of Persons for the tax year 2010 and onward shall be 25%.