The Institute of Chartered Accountants of Pakistan

Taxation

Intermediate Examination	10 March 2012
Spring 2012	100 marks - 3 hours
Module C	Additional reading time - 15 minutes

Q.1 Dr. Sona is a leading Eye Specialist and is listed on the panels of two hospitals. He also manages a private clinic. A summary of his receipts and payments for the latest tax year is as follows:

Receipts	Note	Rupees	Payments	Note	Rupees
Consultation fees			Rent of clinic		300,000
- Hospitals	(i)	1,880,000	Household expenses		1,960,000
- Clinic		2,400,000	Purchase of motor car		640,000
Income from surgery			Surgical equipment		500,000
- Hospitals	(i)	1,504,000	Salary to assistant		180,000
- Clinic		2,350,000	Clinic running expenses		240,000
Property income	(ii)	1,012,000	Car expenses	(iv)	200,000
Other income	(iii)	75,000	Donation	(v)	300,000

Notes to the receipts and payments are presented below:

(i) The amount received from hospitals is net of withholding tax.

(ii) Dr. Sona owns a commercial building which he has rented out. Details of net receipts is as follows:

	Rupees
Rent for the year	870,000
Non-adjustable security deposit:	
- received from a new tenant	700,000
- paid to old tenant (received three years ago)	(500,000)
Tax withheld	(50,000)
Property tax on building	(8,000)
Net receipts	1,012,000

(iii) The amount was received for writing an article in an international magazine on World Health Day.

(iv) 60% of the motor car expenses were incurred in connection with his personal use.

(v) Donation was given to a Government medical college for upgrading its library.

(vi) Depreciation on motor car and surgical equipment, under the 3rd Schedule of the Income Tax Ordinance, 2001 is Rs. 96,000 and Rs. 75,000 respectively.

Required:
Compute the taxable income, tax liability and tax payable by Dr. Sona for the latest tax year. Provide appropriate comments on the items which are not relevant for your computations.
(Tax rates are given on the last page) ***(20 marks)***

Q.2 (a) Briefly discuss the concepts of 'Public Company' and 'Small Company' as explained in the Income Tax Ordinance, 2001. ***(07 marks)***

(b) Identify the due dates for filing of income tax return in each of the following cases:

(i) A company whose income year ended on 30 September 2011.
(ii) A company whose income year ended on 31 December 2011.
(iii) A company whose income year would end on 31 March 2012.
(iv) A member of an association of persons (AOP) if the income year of the AOP would end on 30 June 2012. ***(03 marks)***

Q.3 (a) On 1 January 2012, Peetal Limited (PL) signed an annual contract with Mr. Heera for the maintenance of IT equipment for Rs. 20,000, payable on the 7th day of each month. The payments for January and February were made as per the agreement.

On 1 March 2012, PL received a notice from the Commissioner of Inland Revenue to pay income tax of Rs. 300,000 which is due from Mr. Heera.

Required:
Discuss PL's position in respect of the notice issued by the Commissioner. ***(04 marks)***

(b) A company formed for establishing and operating a new industrial undertaking for manufacturing in Pakistan is allowed a tax credit equal to 100% of the tax payable on the taxable income arising from such industrial undertaking for a period of five years.

Required:
Narrate the conditions which must be satisfied for availing the above tax credit. ***(05 marks)***

Q.4 (a) Under the Income Tax Ordinance, 2001 every prescribed person is liable to deduct tax while making payments on account of sale of goods, rendering of services and execution of contracts.

Required:
State **six** exceptions to the above rule. ***(06 marks)***

(b) Yaqoot and Loha are joint owners of a bungalow which has been rented out for Rs. 70,000 per month.

Required:
Discuss the taxability of Yaqoot and Loha in respect of above income, in the light of Income Tax Ordinance, 2001. ***(03 marks)***

Q.5 (a) Tamba Pakistan (Pvt.) Limited is engaged in the manufacture of pharmaceutical products. Its board of directors has approved a 3-year loan to one of its major shareholders.

Required:
Explain the tax implications of the above transaction on the company as well as the shareholder. ***(04 marks)***

(b) In a proceeding before the Income Tax Authority, a taxpayer can be represented by an Authorized Representative.

Required:
In the light of Income Tax Ordinance, 2001 list down the persons who:

(i) can act as an Authorised Representative.
(ii) are not allowed to represent a tax payer in any proceedings before the Income Tax Authority. ***(05 marks)***

Q.6 (a) After completion of the audit of Chandi Enterprise (CE) under the Income Tax Ordinance, 2001, the Commissioner has ordered the following amendments in the income tax return filed by CE.

(i) Payment of minimum tax at the rate of 0.5% on its total turnover of Rs. 45 million.
(ii) Disallowance of the following expenditures:
- Rs. 27,000 spent on Annual Eid-Milan Party arranged by the firm for its employees and their families.
- Penalty for late delivery amounting to Rs. 60,000 which had to be paid to a client on account of negligence on the part of the Shipment Manager.
- Donation of Rs. 150,000 paid to the National Institute of Cardio Vascular Diseases (NICVD), established by the Federal Government.
- Salary of Rs. 850,000 paid to the Managing Director, who is also a partner in the firm.

Required:
Comment on the above amendments ordered by the Commissioner, in the light of Income Tax Ordinance, 2001. ***(10 marks)***

(b) Under the Income Tax Ordinance 2001, where a person is reasonably expected to act in accordance with the intentions of another person, both persons are considered as associates.

Required:
(i) Explain the term "person" in the above context. ***(03 marks)***
(ii) State the circumstances in which a company and its shareholder shall be considered as associates. ***(04 marks)***

Q.7 Mr. Folad is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of home appliances. Following information has been extracted from the records of Mr. Folad for the month of February 2012.

	Rupees
Purchases – Local	
▪ From registered suppliers	70,250,000
▪ From un-registered suppliers	15,750,000
Supplies:	
▪ Local taxable supplies to registered persons	72,870,000
▪ Local taxable supplies to un-registered persons	9,850,000
▪ Exports to Canada and USA	12,700,000

Following additional information is also available:

(i) A new machine purchased for Rs. 12 million was commissioned into operations during February 2012.
(ii) Sub-standard supplies amounting to Rs. 4,500,000 were returned to vendors. Proper debit/credit notes were raised in this regard.
(iii) Goods worth Rs. 7,200,000 were returned by different customers. Proper debit/credit notes were raised within the specified period.
(iv) An amount of Rs. 820,000 on account of purchases made from a registered supplier is outstanding since July 2011. The related input tax was accounted for in the relevant tax period.
(v) Sales tax credit brought forward from previous month amounted to Rs. 910,500.

Sales tax is payable at the rate of **17%**. All the above figures are exclusive of sales tax.

Required:
Compute sales tax payable/refundable and input tax credit to be carried forward, if any. ***(12 marks)***

Q.8 Ms. Zamarrud is engaged in the manufacture and sale of taxable as well as zero-rated products.

Required:
As a tax consultant, advise Ms. Zamarrud on the following matters:

(a) The conditions that need to be satisfied for the adjustment of input tax against the output tax liability. ***(05 marks)***

(b) ***Any seven*** situations in which input tax is not allowed to be adjusted against the output tax liability. ***(07 marks)***

(c) The remedy available to her if she fails to adjust input tax in the period in which it is paid. ***(02 marks)***

(THE END)

Extracts from the First Schedule of the Income Tax Ordinance, 2001
Part I - Rates of Tax
Chapter-II - 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%

Chapter-II - Division VI
Income from Property

The rate of tax to be paid under section 15, in the case of individual and association of persons, shall be –

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 7.5 percent of the gross amount exceeding Rs. 400,000.
4.	Where the gross amount of rent exceeds Rs. 1,000,000.	Rs. 57,500 plus 10 percent of the gross amount exceeding Rs. 1,000,000.

Part III
Deduction of Tax at Source
Division III
Payments of Goods or Services

2. The rate of tax to be deducted from a payment referred to in clause (b) of sub-section (1) of section 153 shall be -
   (i) in the case of transport services, two percent of the gross amount payable; or
   (ii) in any other case, six percent of the gross amount payable.