StudentBounty.com

The Institute of Chartered Accountants of Pakistan

Advanced Taxation

Final Examination	7 June 2012
Summer 2012	100 marks - 3 hours
Module F	Additional reading time – 15 minutes

Q.1 (a) Saturn Limited (SL), an unlisted public company, is engaged in the manufacture and sale of Talc both locally and in international markets. The company has two overseas branches located in Korea and China. Following information has been extracted from company's records for the year ended 31 March 20X2:

	Pakistan Operation		**Overseas Branches**	
	Local	**Export**	**Korea**	**China**
	---------------Amount in Rupees---------------			
Sales	10,000,000	7,000,000	6,000,000	8,000,000
Profit before taxation	4,000,000	3,500,000	800,000	1,000,000
Taxes paid during the year	1,600,000	70,000	250,000	400,000

SL's net profit from local operation includes the following:

(i) Profit on debt amounting to Rs. 1,000,000 paid by SL to a Swiss bank against a short term loan obtained to meet the working capital requirements of its China branch.

(ii) Rs. 100,000 written back on account of excess provision for bad debts, made last year.

A donation of Rs. 600,000 deposited to Prime Minister's Flood Relief Fund 2010 has been erroneously excluded from the computation of income.

Required:
Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax payable / refundable for the tax year 20X2. Give brief reasons for the treatment of the items excluded from computation or for which no expense deduction is allowed. ***(12 marks)***

(b) Identify the authority and briefly describe the methods by which SL may be selected for the audit of its Income Tax affairs in the tax year 20X2. Also state whether SL can again be selected for audit in tax year 20X3 if nothing was found during its audit in the tax year 20X2. ***(06 marks)***

Q.2 Mr. Abid is a recently qualified chartered accountant. He wants to establish a sales tax practice and intends to become an e-intermediary for the purpose of electronically filing the returns and other prescribed documents on behalf of his clients. Under the provisions of Sales Tax Rules, 2006 advise Mr. Abid on the following:

Required:

(a) Procedure for appointment as e-intermediary. ***(05 marks)***

(b) Responsibilities of an e-intermediary. ***(03 marks)***

(c) Cancellation of appointment as an e-intermediary. ***(05 marks)***

Q.3 Briefly describe the provisions of Federal Excise Act, 2005 with respect to the liability for payment of excise duty in case of following:

(a) Discontinued business enterprise. ***(04 marks)***

(b) Transfer of ownership of a business to another person as an ongoing concern. ***(05 marks)***

www.StudentBounty.com
Homework Help & Pastpapers

Q.4 Sun Limited (SL), a listed company, owns 100% ordinary share capital of an unlisted public company Venus Limited (VL). Both SL and VL are engaged in the manufacturing and supply of chemicals.

VL holds 85% ordinary share capital of Mars Limited (ML), who is engaged in the trading of packing materials and sells its products to individual customers. Following information has been extracted from the records of the above companies for the period ended 31 March 20X2:

(i)

	SL	VL	ML
	Rs. in '000		
Sales	17,000	6,000	3,500
Profit/(loss) before taxation	3,700	(1,400)	1,300

(ii) The above profit/(loss) for each company has been arrived at after inclusion/adjustment of the following:

In case of SL:

- Rs. 1,000,000 paid by SL towards a scientific research conducted in Belgium. The research helped SL in improving the quality of its products.
- Income of Rs. 150,000 on account of profit on debt.
- Gain of Rs. 100,000 on sale of machinery to VL. The cost of machinery was Rs. 300,000 and its tax written down value at the time of transfer to VL was Rs. 200,000.

In case of VL:

- Rs. 80,000 written off against a loan provided to an employee.
- Sales promotion expenses of Rs. 600,000 paid by VL to Moon Advertisers. The benefits are expected to extend to three years.
- A loss of Rs. 500,000 on disposal of shares in a private company. These shares were acquired by VL on 31 March 20X0.

In case of ML:

- Net income of Rs. 600,000 from a goods transportation business. ML started this business during the year and earned gross revenue of Rs. 1,500,000. Withholding tax of Rs. 30,000 was deducted by customers from ML's gross receipts.
- A gain of Rs. 400,000 on disposal of shares in a private company. These shares were acquired by ML on 01 April 20X0.
- Income of Rs. 300,000 on account of profit on debt.

(iii) Accounting depreciation of SL, VL and ML amounted to Rs. 760,000, Rs. 660,000 and Rs. 100,000 respectively.

(iv) A delivery truck costing Rs. 1,500,000 was purchased by ML during the year for its new transportation business.

(v) The tax written down values of the plant and machinery of SL, VL and ML as at 01 April 20X1 were Rs. 4,500,000, Rs. 4,200,000 and Rs. Nil respectively.

(vi) Tax depreciation on all assets, other than plant and machinery and delivery truck, of SL, VL and ML amounted to Rs. 495,000, Rs. 330,000 and Rs. 135,000 respectively.

(vii) The assessed losses brought forward from tax year 20X1 were as follows:

	SL	VL	ML
	Rs. in '000		
Business loss	200	500	50
Unabsorbed tax depreciation	250	500	100
Capital loss	750	250	200

(viii) Following taxes were deducted / paid during the year:

	SL	VL	ML
	Rs. in '000		
Advance tax u/s 147, 148 and 153	789	275	-
Motor vehicle tax under u/s 234	-	-	40

www.StudentBounty.com
Homework Help & Pastpapers

Required:
Assuming SL wants to avail the benefits of group relief as envisaged under the Income Tax Ordinance, 2001, compute the taxable income, net tax payable / refundable and unabsorbed losses, if any, to be carried forward for each of the above three companies for the tax year 20X2.
Note: Show all relevant exemptions, exclusions and disallowances. Tax rates are given on the last page.
(22 marks)

Q.5 Ummeid Limited (UL) is registered under the Sales Tax Act, 1990. The company is engaged in the manufacture and sale of a range of fibre glass products. Following information has been extracted from UL's records for the month of May 2012.

	Rupees
Purchases:	
Local:	
▪ raw material from registered suppliers	25,000,000
▪ raw material from un-registered suppliers	10,000,000
Import of raw material	4,000,000
Supplies:	
Local:	
▪ taxable supplies to registered persons	20,500,000
▪ taxable supplies to un-registered persons	9,000,000
▪ exempt goods	6,000,000
Export to Portugal	12,500,000

Additional information:

(i) Raw materials purchased from a registered supplier in April 2012 were destroyed by fire. However, UL received full insurance claim of Rs. 1,000,000 against such loss. Input tax paid on such raw material was however adjusted by UL in its April 2012 return.

(ii) On scrutiny of the company's previous sales tax returns, the internal auditor has pointed out that input tax on raw materials of Rs. 200,000 purchased in October 2011 from a local registered supplier has not been claimed / adjusted by UL.

(iii) UL under misapprehension collected additional sales tax of Rs. 64,000 from one of its customers. 70% of the goods on which additional sales tax was collected are still lying with the customer as unsold stock.

(iv) Taxable supplies to registered persons include the following:
- Goods worth Rs. 500,000 supplied to AB Limited which is registered as an exporter with the Large Taxpayer Unit.
- Supplies of Rs. 2,000,000 to a domestic airline for regular maintenance of an aircraft weighing 8,500 kilograms.

(v) Raw materials purchased from local registered suppliers include an invoice of Rs. 100,000 which was issued in the name of a director of UL.

All the above amounts are **exclusive** of sales tax, wherever applicable. Sales tax is payable at the rate of **16%**. The value of imported raw material is inclusive of custom duty and federal excise duty. However, other goods are not subject to duty under the Federal Excise Act, 2005.

Required:
In the light of the provisions of Sales Tax Act, 1990 and Rules made thereunder, calculate the sales tax payable by or refundable to UL for the tax period May 2012. Give brief reasons for the treatment of:

– goods destroyed by fire;
– the input tax not claimed in the return for the month of October 2011; and
– additional sales tax collected from the customer. ***(18 marks)***

www.StudentBounty.com
Homework Help & Pastpapers

Q.6 Under the provisions of Income Tax Ordinance, 2001 discuss the tax treatment in case of each of the following independent situations.

(a) Khalq Limited (KL) is engaged in the manufacture and supply of polio vaccines. In order to meet the increasing demand for vaccines, KL expanded its manufacturing facilities in July 20X1. This expansion project involved a capital expenditure of Rs. 75 million including a cost of Rs. 50 million which was spent on the acquisition of new plant and machinery.

The Federal Government, realising the importance of the project, voluntarily paid a grant of Rs. 20 million to KL towards the cost of new machinery. KL transferred the amount of grant to capital reserve in its financial statements for the year ended 31 March, 20X2. The management is of the view that Rs. 20 million should be claimed as exempt from tax in the return of income for the tax year 20X2. ***(05 marks)***

(b) Moon Limited (ML), an unlisted public company, engaged in the manufacture of sports goods, remitted US $ 30,000 to JH Hospital in Boston, USA for the medical treatment of its CEO. According to the terms of his employment the CEO is entitled to free provision of medical treatment and hospitalization. The amount was remitted on 1 March 20X2 in compliance with the regulations of the State Bank of Pakistan. The management of ML is of the view that the expenditure would not be allowed as a deductible expense in tax year 20X2 as no tax was withheld from the payment to JH Hospital in Boston, USA. ***(06 marks)***

(c) Mr. Pansari, a resident taxpayer, is operating a departmental store in Lahore. He received a dividend of Rs. 45,000 from Rasila Farms Limited (RFL) for the year ended 31 March 20X2. The amount received was credited to his capital account. Mr. Pansari is of the view that since RFL derives its entire income from agriculture, which is exempt from tax, the dividend of Rs. 45,000 being paid from an exempt income is also not chargeable to tax. ***(03 marks)***

(d) Gadget Limited (GL) is a public company engaged in the manufacture and sale of electrical appliances. During tax year 20X2, GL launched an advertising campaign for the promotion of a new product. An Indian artist was hired for making a TV commercial at an agreed remuneration of Rs. 10 million. GL's management is of the view that in order to claim the expense as deductible, payment of Rs. 10 million should be made through normal banking channel and no tax should be deducted from the payment as the entire advertisement was produced in India. ***(06 marks)***

(THE END)

EXTRACTS FROM THE FIRST SCHEDULE OF THE INCOME TAX ORDINANCE, 2001

Division II
Rates of Tax for Companies

1. The rate of tax imposed on the taxable income of a public/private company shall be 35%.
2. The rate of tax imposed on the taxable income of a small company shall be 25%.

The Third Schedule
Depreciation Rates

1.	Building (all types)	10%	2.	Furniture and fittings	15%
3.	Plant and machinery	15%	4.	Motor vehicles (all types)	15%
5.	Computer hardware	30%			

www.StudentBounty.com
Homework Help & Pastpapers