



## Advanced Taxation

Final Examination  
Winter 2012  
Module F

6 December 2012  
100 marks - 3 hours  
Additional reading time - 15 minutes

- Q.1 Mr. Yaqeen, a Pakistani citizen, returned to Pakistan on 30 June 20X1 after residing for six years in Norway. On 1 July 20X1 he joined a private hospital KKHU and received following emoluments:

	Rupees
Basic salary (per month)	500,000
Medical allowance (per month)	60,000
Leave fare assistance	240,000

On 1 January 20X2 Mr. Yaqeen resigned from the hospital and joined Dil (Private) Limited (DPL), a company engaged in health care and production of dental products. Mr. Yaqeen received Rs. 3,000,000 from DPL as consideration for joining the company. DPL agreed to pay following emoluments to Mr. Yaqeen for the tax year 20X2:

	Rupees
Basic salary (per month)	800,000
Medical allowance (per month)	80,000
Utilities allowance (per month)	100,000

On 1 January 20X2 DPL provided him with refrigerator, cooking range and washing machine for his use at home. The book value of these appliances was Rs. 200,000 and these were returnable to the company after four years. 15% depreciation was charged by DPL on these appliances.

On 31 March 20X2 he was given an option to purchase 2,000 shares of DPL at Rs. 50 per share. The breakup value of the company on that date was Rs. 150 per share.

On 1 April 20X2 he received a loan of Rs. 5,000,000 from DPL for the purchase of a house. The profit on loan was payable at the rate of 8% per annum. The prescribed bench mark rate is 10% per annum.

Other information relevant to Mr. Yaqeen for the tax year 20X2 is as under:

- On 15 April 20X2 he fell ill and was admitted to KKHU where he had been working during his employment. The hospital incurred Rs. 50,000 on his treatment but charged nothing to him.
- On 30 April 20X2 he received salary arrears of Rs. 900,000 from his ex-employer in Norway.
- Mr. Yaqeen had 30 acres of agricultural land in Dheer which he did not cultivate himself. During tax year 20X2 he received annual rent of Rs 600,000 from the tenant cultivating the land.
- On 1 May 20X2 he spent Rs. 800,000 on the renovation of his residential house. The entire amount was obtained as a loan from a scheduled bank on which a profit of Rs. 20,000 was paid to the bank during the tax year 20X2.
- On 15 June 20X2 he received insurance claim of Rs. 600,000 against theft of a painting which was stolen on 31 May 20X2. The painting was purchased by him on 1 January 20X1 for Rs. 350,000. He had paid insurance premium of Rs. 24,000 and also paid lawyer's fee of Rs. 50,000 who represented him in the settlement proceedings.
- On 15 July 20X1 Mr. Yaqeen received 20,000 shares in AB (Private) Limited (ABL), a company incorporated under the Companies Ordinance, 1984 as a dividend in specie. On 30 June 20X2 he sold 15,000 shares in ABL for Rs. 425,000. The fair market value of these shares, on the date of issue, was estimated at Rs. 25 per share.

**Required:**

Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax payable for the tax year 20X2. Give brief reasons for the treatment of items in (v) and (vi) above. Also explain the treatment of any items that are not appearing in your computation.

*Note: Tax rates are given on the last page.*

(25)

Q.2 (a) Who may be regarded as the representative of the following under the provisions of Sales Tax Act, 1990?

- (i) Individual with legal disability
- (ii) Association of persons
- (iii) Federal Government

Also identify the circumstances when such representative becomes personally liable for the payment of any tax due by the above registered persons.

(08)

(b) In view of the provisions of Sales Tax Act, 1990 when does a notice served by the commissioner on a non-resident individual is treated as properly served?

(04)

Q.3 Under the provisions of Income Tax Ordinance, 2001:

(a) Identify the persons and the conditions subject to which such persons paying taxes under Presumptive tax regime may opt for Normal tax regime.

(05)

(b) What is meant by "Associates"? State the circumstances under which the following may be regarded as associates:

- A member of an association of persons and the association
- A shareholder in a company and the company

(07)

(c) State the meaning of the terms "Tax evasion" and "Tax avoidance" giving example of the situation when each can occur.

(04)

Q.4 (a) Mr. Sohail, a resident individual, owns a building in Clifton area of Karachi. On 1 October 20X1 he rented out the building to Mr. Baqir at an annual rent of Rs. 1,200,000. This amount included Rs. 15,000 per month for arranging two security guards for the building. Following expenses were incurred by Mr. Sohail on the building during the tax year 20X2.

	Rupees
Repairs and renovation	35,000
Property tax	20,000
Insurance premium	10,000
Rent collection charges	3,000

Mr. Sohail also paid a salary of Rs. 4,000 per month to each of the two security guards at the building.

**Required:**

Under the provision of Income Tax Ordinance, 2001 calculate the taxable income of Mr. Sohail under the appropriate heads of income for the tax year 20X2.

(06)

(b) Under the provisions of **Income Tax Rules, 2002** briefly describe the following:

- (i) Derivative Products
- (ii) Wash Sales
- (iii) Tax Swap Sales

(03)

(03)

(03)

Q.5 Under the provisions of Federal Excise Act, 2005 and Rules made thereunder, explain:

(a) "Due date" and "Duty due"

(04)

(b) "Establishment" and "Person"

(04)

(c) How and under what circumstances a collector may suspend a person's registration.

(04)

- Q.6 Mazboot Furnishers (MF), a retailer, has been in operation for a number of years but was not registered with Inland Revenue Department due to low turnover. However, after engaging in engraving process of household furniture, MF was compelled to register with the sales tax authorities and got registration as a manufacturer-cum-retailer. The application for registration was made on 1 November 2012 and the certificate of registration was issued on 7 November 2012.

Following information has been extracted from MF's records for the month of November 2012:

	Rupees
Sales	700,000
Less: Cost of sales	
Opening stock	125,000
Purchases	250,000
	375,000
Less: closing stock	(95,000)
	280,000
Add: engraving charges	50,000
	(330,000)
Gross profit	370,000
Less: Operating expenses	
Salaries and wages	(45,000)
Rent	(25,000)
Insurance	(30,000)
Bank charges	(15,000)
General expenses	(25,000)
Depreciation	(15,000)
	(155,000)
Net profit	215,000

Additional information:

- 20% of the sales relates to goods purchased locally and exported to customers in Iran whereas 5% of the sales were made against international tenders.
- Opening stock is verifiable and consists of purchases made in different months as follows:
  - 15 August Rs. 50,000 (import)
  - 10 September Rs. 25,000 (local)
  - 4 October Rs. 50,000 (local)
- Rent was payable to Dir Furnishers, a local vendor.
- Insurance expense includes Rs. 25,000 paid against fire and theft insurance whereas Rs. 5,000 relates to staff's health insurance policies.
- General expenses comprises of charges paid against inland carriage of furniture by air, purchase of shoes for field staff, expenses incurred on the purchase of printed stationery and staff entertainment expenses in the ratio of 40:25:20:15 respectively.
- 65% of the depreciation relates to a car which was acquired for Rs. 780,000 whereas 25% depreciation pertains to a wood engraving machine purchased for Rs. 300,000. The car as well as engraving machine was acquired at the beginning of November 2012.
- All purchases, unless otherwise mentioned, are from local registered suppliers against prescribed sales tax invoices.

All the above figures are **exclusive of federal excise duty (FED) and sales tax**, wherever applicable. Sales tax is payable at the rate of **16%**. The goods supplied by MF are not subject to duty under the Federal Excise Act, 2005.

#### Required:

Under the provisions of Sales Tax Act, 1990, Federal Excise Act, 2005 and Rules made thereunder, calculate the following for filing the sales tax-cum-federal excise return for November 2012.

- Sales tax and FED payable/refundable/carried forward, if any, assuming the rate of duty is **10%** on all excisable items/services. (16)
- Give brief reasons for the treatment accorded to opening stock. (04)

(THE END)

**EXTRACTS FROM THE FIRST SCHEDULE OF THE INCOME TAX ORDINANCE, 2001****PART I****Division I – Rate of Tax for Salaried Individuals**

<b>S. #</b>	<b>Taxable Income</b>	<b>Rate of Tax</b>
1.	Rs. 0 to 400,000	0%
2.	Rs. 400,000 to Rs. 750,000	5% of the amount exceeding Rs. 400,000
3.	Rs. 750,000 to Rs. 1,500,000	Rs. 17,500+10% of the amount exceeding Rs. 750,000
4.	Rs. 1,500,000 to Rs. 2,000,000	Rs. 95,000+15% of the amount exceeding Rs. 1,500,000
5.	Rs. 2,000,000 to Rs. 2,500,000	Rs. 175,000+17.5% of the amount exceeding Rs. 2,000,000
6.	Rs. 2,500,000 and above	Rs. 420,000+20% of the amount exceeding Rs. 2,500,000

**Division III****Rate of Dividend Tax**

The rate of tax imposed on dividend received from a company shall be 10%.