



## Taxation

Intermediate Examination  
Autumn 2013  
Module C

3 September 2013  
100 marks - 3 hours  
Additional reading time - 15 minutes

Q.1 Mrs. Aslam was employed with Sahal Limited (SL) as a Marketing Manager. On 30 June 2012 she resigned from her employment with SL. On 1 July 2012, she joined Hassan Pakistan Limited (HPL), a quoted company, as a Marketing Director. She has provided you the following information in respect of the tax year 2013:

- (i) In July 2012, she received following amounts from SL in final settlement:
  - Leave encashment amounting to Rs. 95,000.
  - Gratuity of Rs. 500,000 from an unrecognized gratuity fund maintained by SL.
  - Reimbursement of Rs.100,000 against a health insurance policy. The insurance claim was lodged by SL on behalf of Mrs. Aslam in January 2012.
- (ii) In accordance with the terms of her employment, income tax related to her salary and benefits is to be borne by HPL. Her emoluments/benefits during the tax year were as follows:
  - Basic salary of Rs. 200,000 per month.
  - Medical allowance of Rs. 60,000 per month.
  - Rent free accommodation with annual letting value of Rs. 480,000.
  - Travelling allowance of Rs. 50,000 per month. 60% of the amount was spent in the performance of official duties.
  - Provident fund @10% of basic salary. An equal amount was contributed by HPL.
- (iii) Under an employee share scheme, Mrs. Aslam was awarded 5,000 shares in HPL on 1 January 2013. Under the scheme she was not allowed to sell the shares up to 31 March 2013. She sold all the shares in HPL on 1 May 2013. Fair value of the shares on the above dates was as follows:
  - Rs. 20 per share on 1 January 2013
  - Rs. 28 per share on 31 March 2013
  - Rs. 32 per share on 1 May 2013
- (iv) On 31 December 2012, she received a loan of Rs. 400,000 from HPL. The loan carries a mark-up of 4% per annum. The prescribed benchmark rate is 10%.
- (v) She won the best executive employee award of HPL and received a laptop having a fair market value of Rs. 100,000.
- (vi) An amount of Rs. 355,000 was received from her spouse as support payment, under an agreement to live apart.
- (vii) She paid Rs. 105,000 as zakat under the Zakat and Ushr Ordinance, 1980.
- (viii) Donation of Rs. 70,000 was paid to an approved organization.

**Required:**

Compute the taxable income, tax liability and tax payable for the tax year 2013.

(21)

*Note: Show all relevant exemptions, exclusions and disallowances. Tax rates are given on the last page.*

Q.2 (a) Zia has discovered an error in his annual income tax return submitted by him and intends to file a revised return voluntarily.

**Required:**

Under the provisions of Income Tax Ordinance, 2001:

- (i) narrate the conditions which Zia has to comply with in order to submit a valid revised return. (04)
- (ii) state the benefits which Zia could derive by filing the revised return voluntarily. (02)

- (b) Beena is engaged in the business of interior designing for the last many years. For the tax year 2013, her tax consultant had determined that income tax amounting to Rs. 345,000 was required to be paid with her annual return which was due for filing on 31 August 2013.

On the date of filing of return, Beena was not present in Pakistan. Therefore, the consultant filed her return manually by signing it on her behalf. He also applied to the Commissioner for extending the date of payment of tax by 15 days.

**Required:**

Comment on the steps taken by Beena's consultant, in the light of Income Tax Ordinance, 2001. (04)

- Q.3 (a) Explain the term 'Capital asset' as referred to in the Income Tax Ordinance, 2001. (04)
- (b) Gulzar is a Pakistani resident and operates various businesses. He disposed of the following assets during the tax year 2013:

- (i) An immovable property was sold for Rs. 50 million. The cost of the immovable property was Rs. 25 million. Tax depreciation of Rs. 4 million had been allowed on the immovable property up to the tax year 2012. (02)
- (ii) A car was disposed of for Rs.1.2 million. The car was acquired on 1 July 2011. The tax written down value of the car at the beginning of tax year 2013 was Rs. 0.9 million. The car was being used partly (70%) for business purposes. The rate of depreciation for tax purposes is 20%. (02)
- (iii) An antique sculpture was purchased for Rs. 350,000 on 30 August 2000. It was sold for Rs. 1,500,000 on 28 February 2013 through auction. The auctioneer was paid a commission of Rs. 150,000. Tax was deducted and paid by Gulzar from the amount of commission within due date. (02)
- (iv) Listed securities were sold as follows:

Securities	Date of Purchase	Purchase cost (Rs.)	Date of sale	Sale proceeds (Rs.)
A	20 November 2012	500,000	17 March 2013	400,000
B	05 August 2012	320,000	08 June 2013	600,000
C	01 June 2012	650,000	17 June 2013	700,000

(03)

**Required:**

Compute the amount of capital gain/loss arising on the above transactions under the provisions of the Income Tax Ordinance, 2001.

- Q.4 (a) State the procedures to be followed when a person intends to make payment to a non-resident person without deduction of tax. (06)
- (b) In view of the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, determine the residential status of the following persons for the tax year 2013:
- (i) Ramiz proceeded to Saudi Arabia on 24 December 2012 to assume responsibilities on his new job. He visited Karachi from 20 June 2013 to 24 June 2013 for presenting a paper in a seminar but due to unavoidable circumstances, the seminar was cancelled.
- (ii) Khalil, an officer working at Ministry of Foreign Affairs, since last three years, was posted to the Pakistan's mission in Geneva from 1 August 2012 to 30 June 2013.
- (iii) Ali Associates is a partnership firm and provides consultancy services in Pakistan as well as United Kingdom (UK). The management and control of its affairs is situated partly in UK and partly in Pakistan.
- (iv) Smith, a Nigerian football coach, came to Pakistan on 28 February 2013. He left the country on 31 August 2013. (07)

- Q.5 (a) Differentiate between 'Public company' and 'Private company' within the meaning of Income Tax Ordinance, 2001. (05)
- (b) One of your clients Inqalab Limited wants to change its accounting year.

**Required:**

Write a brief note to the Finance Manager of the company explaining the requirements of Income Tax Ordinance, 2001 as regards the following:

- (i) Change in tax year. (03)
- (ii) Determination of tax year and the date of filing of return in case the accounting year-end is changed from June to December. (05)
- Q.6 Ahmed is responsible for managing the property of his uncle who died on 5 February 2013. The approximate worth of the property is Rs. 7 million. In August 2013, a notice was received from income tax department in the name of his uncle requiring details of his income for the tax year 2012 along with demand for payment of tax in respect of previous year amounting to Rs. 8.5 million.

**Required:**

Advise Ahmed as regards the following:

- (a) Extent of Ahmed's liability in respect of the income earned by his uncle before 5 February 2013.
- (b) His obligations relating to the tax assessment proceedings pending/arising against his uncle. (05)
- Q.7 Faizan is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of engineering goods. Following information has been extracted from his records for the month of August 2013.

- (i) Supplies made during the month were as follows:

	Gross amount	Discounts allowed	Net amount
-----Rupees-----			
Local supplies to registered persons			
- Noori Limited	16,000,000	800,000	15,200,000
- Soori Limited	4,000,000	400,000	3,600,000
Local supplies to unregistered persons	4,200,000	210,000	3,990,000
Exports to Jordan	6,000,000	-	6,000,000

- (ii) Faizan normally allows 5% discount to all its customers. However, as a special case, a discount of 10% was allowed to Soori Limited. All the discounts were shown on the invoice.
- (iii) Supplies worth Rs. 617,500 (net of discount) were returned by Noori Limited. Proper debit and credit notes were issued in this regard.
- (iv) Following purchases were made during the month:

	Rupees
Local materials from registered persons	27,000,000
Local materials from unregistered persons	3,000,000

- (v) Records indicate that a pump and a motor were given to Faizan's friend, free of cost. The list price of the pump and motor was Rs. 33,000.
- (vi) Faizan is required to pay a penalty of Rs. 10,000 under the Sales Tax Act, 1990 on account of certain defects in the maintenance of records.
- (vii) Sales tax credit brought forward from previous month amounted to Rs. 850,280.
- (viii) Sales tax is payable at the rate of 17%. **All the above figures are exclusive of sales tax.**

**Required:**

Compute the sales tax payable by or refundable to Faizan along with input tax to be carried forward, if any, in the sales tax return for the month of August 2013. (13)

- Q.8 (a) State the provisions of Sales Tax Act, 1990 relating to maintenance and retention of records by a registered person making taxable supplies. (09)
- (b) Discuss the rules relating to filing of electronic return under the Sales Tax Rules, 2006. (03)

(THE END)

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

**RATES OF TAX**

**Division I**

**Rates of Tax for Salaried Individuals**

S. No.	Taxable income	Rate of tax
1.	Rs. 0 to Rs. 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 VII**

**Capital Gains on Disposal of Securities**

S. No.	Period	Tax year	Rate of tax
1.	Where holding period of Securities is less than six months.	2013	10%
2.	Where holding period of Securities is more than six months but less than twelve months.	2013	8%