The Institute of Chartered Accountants of Pak

Taxation

Intermediate Examination | 9 March 2013
Spring 2013 | 100 marks - 3 hours
Module C | Additional reading time - 15 minutes

Q.1 Mr. Creative is working as Director Human Resources at Artistic Technologies Limited (ATL). Following are the details of his income/receipts during the latest tax year:

(a) Monthly cash remuneration from ATL:

Basic salary	Rs. 300,000
Utility allowance	15% of basic salary
Medical allowance	12% of basic salary

(b) In addition to above, he was also provided the following benefits in accordance with his terms of employment:
(i) Rent-free furnished accommodation in a bungalow situated on a 500 square yard plot of land. Rent for a comparable accommodation facility in the vicinity is Rs. 150,000 per month.
(ii) An 1800cc company-maintained car. The car was purchased two years ago at a cost of Rs. 1,600,000 and is used both for official and personal purposes.

(c) A house owned by Mr. Creative had been leased-out by him at a monthly rent of Rs. 50,000. The lease expired on 31 December. Mr. Creative refused to renew the lease in spite of the tenant's offer to renew the lease after increasing the rent by 10%. He returned the non-adjustable deposit of Rs. 300,000 to the tenant, which was received two years ago.

The house was immediately leased to his cousin without any security deposit on a monthly rent of Rs. 48,000.

(d) Five years ago, Mr. Creative had purchased 20,000 shares of Rs. 10 each, of an unlisted public company at the rate of Rs. 140 per share. After one year of acquisition, he received 8,000 bonus shares from the company. During the latest tax year, he sold 75% of the bonus shares at a price of Rs. 145 per share.

(e) During the latest tax year, following investments were made:

	Rupees
Approved voluntary pension fund	600,000
Open-end mutual fund	1,100,000

(f) During the latest tax year, he redeemed 4,000 units of an open-end mutual fund at Rs. 58.60 per unit. These units were purchased at the beginning of the previous tax year at Rs. 50 per unit and Mr. Creative had claimed a tax credit of Rs. 40,000 on this investment.

(g) Donations of Rs. 50,000 were paid to charitable institutions listed in the Second Schedule of the Income Tax Ordinance, 2001.

(h) Tax deducted at source from his salary was Rs. 737,000.

Required:
Compute the taxable income, tax liability and tax payable for the latest tax year. **(20)**
(Tax rates are given on the last page)

Q.2 (a) Discuss when a notice required to be served on a resident individual under the Income Tax Ordinance, 2001 shall be treated as properly served. **(05)**

(b) Mr. Dynamic has received a notice from the Commissioner in which he identified certain errors and deficiencies in the return filed for the last tax year.

Required:
(i) State the deficiencies on account of which the return submitted by Mr. Dynamic may be regarded as 'incomplete' for tax purposes. **(05)**
(ii) Narrate the circumstances under which the Commissioner may amend Mr. Dynamic's assessment order. **(04)**

Q.3 (a) State the provisions of the Income Tax Ordinance, 2001 for determining the residential status of an Association of Persons. **(02)**

(b) Imaginative Enterprises (IE) is an Association of Persons and was formed two years ago. During the latest tax year, IE's Pakistan source income amounted to Rs. 2,500,000 and tax payable thereon amounted to Rs. 722,500.

Following are the details of its foreign source incomes, tax paid thereon and foreign losses brought forward for the latest tax year:

Heads of income	Foreign income	Foreign tax paid	Foreign losses brought forward
	--------------------Rupees--------------------		
Speculation business	500,000	125,000	(250,000)
Non-speculation business	(1,000,000)	-	-
Capital gains	750,000	75,000	(1,500,000)
Other sources	1,250,000	187,500	-

The foreign tax credit relating to income from other sources which remained unadjusted during the last tax year amounted to Rs. 50,000.

Required:
Calculate total tax payable and foreign tax losses to be carried forward to next year (if any). **(08)**

Q.4 (a) Inspired Pakistan Limited (IPL) wants to change its accounting year from 30 June to 31 December as the income year of its parent company in USA ends on 31 December.

Required:
Advise IPL about the requirements of the Income Tax Ordinance, 2001 regarding the change of tax year from normal to special. **(03)**

(b) What do you understand by the term 'Dividend' as referred to in the Income Tax Ordinance, 2001? Briefly discuss the provisions relating to imposition of tax on dividend. **(09)**

Q.5 (a) Describe the methods of accounting that may be adopted under the Income Tax Ordinance, 2001 by the following persons deriving income chargeable to tax under the head 'Income from Business'.
(i) A company
(ii) Any person other than a company
(iii) An AOP deriving business income from a 'Long Term Contract' **(04)**

(b) State the provisions of the Income Tax Ordinance, 2001 relating to the change in method of accounting for income chargeable to tax under the head 'Income from Business'. **(03)**

Q.6 (a) Explain the term 'Value of Goods' in the context of collection of advance tax from an importer of goods under the Income Tax Ordinance, 2001. **(02)**

(b) Under the Income Tax Ordinance, 2001 the amount of tax required to be collected by the Collector of Customs from an importer of goods at the specified rate shall be the final tax. What are the exceptions to this provision of the Ordinance? **(05)**

(c) Details of income chargeable to tax for the last tax year, relating to four taxpayers are tabulated below:

Name of taxpayers	**Income from**				**Total income**
	Salary	**Property**	**Business**	**Other sources (Dividend)**	
	-----	-----	**Rupees**	-----	-----
Mr. Brilliant	-	60,000	375,000	80,000	515,000
Miss Educated	250,000	350,000	-	200,000	800,000
Motivated & Co. (An AOP)	-	-	150,000	-	150,000
Confident Services Limited	-	240,000	245,000	35,000	520,000

Required:
In respect of each of the above taxpayers, explain whether they are required to pay advance tax under the Income Tax Ordinance, 2001. **(05)**

Q.7 (a) Identify the persons who are considered as manufacturers under the Sales Tax Act, 1990. **(06)**

(b) Mr. Clever, a manufacturer of household appliances, is registered under the Sales Tax Act, 1990. Following information has been extracted from his records for the month of February 2013:

	Rupees
Supplies	
Local supplies of manufactured goods to registered persons	26,860,000
Local supplies of manufactured goods to unregistered persons	3,550,000
Local supplies of zero-rated goods	1,250,000
Exports to Malaysia	15,000,000
Local purchases	
Registered persons	40,550,000
Unregistered persons	5,000,000

Following additional information is also available:

(i) Supplies worth Rs. 1,300,000 were returned by different registered persons. Proper debit/credit notes were raised within the specified time.
(ii) Local purchases from registered persons include an invoice of Rs. 60,000 which was issued in the name of Mr. Clever's uncle.
(iii) A new machine amounting to Rs. 3,000,000 was imported from China and put into operation during the same month.
(iv) Sales tax credit of Rs. 410,000 was brought forward from previous month.

Sales tax is payable at the rate of 16%. All the above amounts are **exclusive** of sales tax.

Required:
Compute the sales tax payable by/refundable to Mr. Clever along with input tax to be carried forward, if any, in the sales tax return for the month of February 2013. **(12)**

Q.8 Under the Sales Tax Rules, 2006:
(a) Identify the situations in which a registered person is liable to be deregistered. **(04)**
(b) State the steps involved in case of de-registration of a person on his own initiative. **(03)**

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 VI
Income from Property
Rates of tax for Individual and Association of Person

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.

(THE END)