The Institute of Chartered Accountants of Pakistan

Advanced Taxation

Final Examination	6 June 2013
Summer 2013	100 marks - 3 hours
Module F	Additional reading time – 15 minutes

Q.1 (a) What is meant by "Securities" under the provisions of Income Tax Ordinance, 2001? Briefly describe "Holding period" in relation to securities as provided under the Income Tax Rules, 2002. **(05)**

(b) Mr. Parekh acquired and disposed of 3,500 shares of a listed company, Big Limited (BL). The details are as follows:

Dated	Acquisition		Disposal	
	No. of shares	Rate	No. of shares	Rate
31-03-2012	1,400	20	-	-
15-09-2012	700	22	-	-
01-04-2013	900	18	-	-
01-05-2013	-	-	600	17
07-05-2013	-	-	800	19
21-05-2013	-	-	700	18
31-05-2013	500	23	400	25
31-05-2013	-	-	1,000	27

Required:
Under the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, calculate the amount of capital gain / loss and tax thereon, if any, on the above transactions. Ignore incidental expenses on cost of **acquisition** of securities.
Note: Tax rates are given on the last page. **(16)**

Q.2 (a) Under the provisions of Sales Tax Act, 1990 and Rules made thereunder, briefly explain whether the persons under each of the following situations are required to be registered with Inland Revenue Department. Also compute the amount of sales tax, if any, payable by or refundable to such persons. The rate of sales tax is **16%**.

(i) A manufacturer whose annual turnover during the last twelve months ended 31 March 2013 is Rs. 4,500,000 and the amount of his annual utility bills for the same period is Rs. 700,000.
(ii) A distributor whose annual turnover during the last twelve months is Rs. 3,000,000.
(iii) An importer whose annual turnover is Rs. 12,000,000.
(iv) A commercial exporter who intends to claim a refund of Rs. 200,000. **(13)**

(b) Aroma Limited (AL), a company registered under the Sales Tax Act, 1990 is engaged in the business of production and supply of assorted blend of tea in the local market. Mr. Pali, the sales director, requested the finance manager to issue a credit note in favour of one of AL's customers, who had bought 50 kg of a special blend of tea on 4 December 2012. Finance manager issued the credit note on 5 June 2013.

Required:
In view of the Sales Tax Rules, 2006 explain whether AL can adjust the amount of its output tax in relation to the above credit note in its return for June 2013. **(04)**

Q.3 Pills (Pvt.) Limited (PPL) is engaged in the business of manufacturing wide range of pharmaceutical products for both local and overseas markets. Following is an extract from PPL's profit and loss account for the year ended 31 December 20X2:

	Rs. in '000
Sales	39,150
Cost of sales	(25,700)
Gross profit	13,450
Administrative and selling expenses	(5,350)
Financial charges	(1,500)
Other charges	(2,000)
Other income	900
Profit before taxation	5,500

Additional information:

(i) 20% of the above sales are made to customers in Indonesia and Singapore. Export sales are stated after deduction of foreign withholding tax of Rs. 1,170,000.

(ii) Local sales are inclusive of 16% sales tax. All the above expenses, other than cost of sales, are related only to the company's local sales.

(iii) On 1 January 20X2, Capsule plc. a Malaysian company which owns 60% of the share capital in PPL, granted a loan of Rs. 8,500,000 to PPL at a mark-up of 12% per annum. The loan was given for the production of Hepatitis vaccines in Swat, a project fully approved by the Federal Government. The principal repayment is due to commence from July 20X3. Mark-up on above loan, included in financial charges, amounted to Rs. 1,020,000. PPL's equity at the beginning of the year amounted to Rs. 4,000,000.

(iv) On 15 June 20X2, Capsule plc., under a group scheme, awarded its own shares to some of the senior employees of PPL. As the shares were vested immediately, PPL recognised an expense of Rs. 1,758,000 at a grant date fair value of the award, with a credit recognised in equity. The expense is included in other charges.

(v) Administrative and selling expenses include the following:
- Rs. 800,000 paid against professional books purchased from a website of a company in UK. No tax was withheld by PPL from such payment.
- Rs. 200,000 paid as donation to a hospital established under a private trust.
- Rs. 600,000 payable as rent to the landlord for PPL's parking area. Withholding tax has not been deducted from this amount.

(vi) On 1 July 20X2, PPL granted an interest free loan of Rs. 500,000 to one of its shareholders.

(vii) Financial charges include interest of Rs. 180,000 on account of machinery obtained on finance lease. Total lease rentals paid during the year amounted to Rs. 500,000. At the end of the lease term which expired on 31 August 20X2, the machinery was transferred to PPL at a residual value of Rs. 640,000. The market value of the machinery on the date of its transfer amounted to Rs. 760,000.

(viii) Other income includes gain on sales of delivery van of Rs. 130,000. The van was acquired on 1 January 20X1 at a cost of Rs. 900,000 and was depreciated at the rate of 20% per annum. No depreciation is charged by PPL in the year of disposal.

(ix) Accounting depreciation charged to cost of sales and administrative and selling expenses amounted to Rs. 1,440,000 and Rs. 810,000 respectively.

(x) Tax depreciation on assets acquired before January 20X2 amounted to Rs. 1,800,000.

(xi) Tax paid u/s 147 amounted to Rs. 400,000 whereas tax deducted u/s 154 by banks from export proceeds amounted to Rs. 78,300.

Required:
Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax payable for the tax year 20X3. Give reasons for the treatment of items in (iii) and (vii) above. Also explain the treatment of items not appearing in your computation.
Note: Tax rates are given on the last page. **(25)**

Q.4 (a) Under the provisions of Federal Excise Act, 2005 describe the circumstances under which a person is liable to pay default surcharge. What would be the period of default under the above circumstances? **(06)**

(b) Under the provisions of Federal Excise Act, 2005 explain the following:
(i) Special excise duty **(04)**
(ii) KIBOR **(02)**

Q.5 (a) Under the provisions of Income Tax Ordinance, 2001 briefly describe the method(s) under which a person accounting for income under the head "Income from Business" may compute the cost of stock-in-trade. **(03)**

(b) In the light of the provisions of Income Tax Ordinance, 2001 narrate the circumstances under which salary received by an employee of a foreign government shall be exempt from tax. **(04)**

Q.6 Tender Pops Limited (TPL) is registered under the Sales Tax Act, 1990. The company is engaged in the business of manufacture and supply of consumer goods. Following information has been extracted from TPL's records for the month of May 2013:

	Rupees
Purchases:	
Raw material from local registered suppliers	20,000,000
Local items governed under third schedule (75,000 @ Rs. 150 each)	11,250,000
Packing material from a local cottage industry	2,000,000
Supplies:	
Taxable supplies to registered persons	19,000,000
Taxable supplies to un-registered persons	8,000,000
Local third schedule items to wholesalers (55,000 @ Rs. 180 each)	9,900,000
Taxable supplies against international tender for Afghan refugees.	3,000,000

Following information is also available:

(i) TPL has entered into a hire purchase agreement with Web Limited for the supply of goods worth Rs. 459,000 inclusive of 2% mark-up.
(ii) Goods worth Rs. 200,000 were supplied to a creditor against final settlement of his debt of Rs. 175,000.
(iii) Taxable supplies to registered persons include the sale of old stock at a discounted price of Rs. 350,000. TPL allowed an unusually high discount of 30% to the customer. The discount amount was however reflected on the invoice.
(iv) Sales tax paid on electricity bill was Rs. 25,000.
(v) TPL received advance of Rs. 100,000 for the supply of goods to one of its customers.
(vi) Third schedule items are sold in the market at a retail price of Rs. 200 per unit.
(vii) Supplies against international tender were made to WFP in full compliance with the procedures laid down by State Bank of Pakistan and foreign exchange regulations.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of **16%**.

Required:
Under the provisions of Sales Tax Act, 1990 and Rules made thereunder, calculate the sales tax payable by or refundable to TPL for the tax period May 2013. **(18)**

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

The First Schedule

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%.

Division VII
Capital Gains on disposal of Securities

S.No.	Period	Tax Year	Rate of Tax
1.	Where holding period of a security is less than six months.	2012	10%
		2013	10%
2.	Where holding period of a security is more than six months but less than twelve months.	2012	8%
		2013	8%
3.	Where holding period of a security is twelve months or more.	-	0%

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%			

Initial Allowance and First Year Allowance

The rate of initial allowance for eligible depreciable assets shall be 50%.