The Institute of Chartered Accountants of Pakistan

Advanced Taxation

Final Examination	5 December 2013
Winter 2013	100 marks - 3 hours
Module F	Additional reading time – 15 minutes

Q.1 Mr. Iqbal, aged 45 years, is working as a Chief Engineer in a listed company Tameer Limited (TL). The company is engaged in the manufacture of chipboards for the local market. He derived following emoluments during the tax year ended 30 June 20X4:

	Rupees
Basic salary (per month)	300,000
Cost of living allowance (per month)	50,000
Milk allowance (per month)	10,000

In addition to the above emoluments, Mr. Iqbal was also provided the following:

(i) Special bonus equal to one month's basic salary paid on 5 June 20X4.

(ii) A new company maintained car for his personal use. The car was purchased on 1 March 20X4 at a cost of Rs. 1,800,000. However, the cost of the car would have been Rs. 3,000,000 had the company obtained it on finance lease. Mr. Iqbal, in accordance with the terms of his employment, purchased his previous car from TL for Rs. 250,000. This car was provided to him solely for business purposes. The fair market value of the car at the time of sale to Mr. Iqbal was Rs. 600,000.

(iii) A reimbursement of Rs. 36,000 in respect of driver's salary. Mr. Iqbal paid Rs. 60,000 to the driver for four months.

(iv) A fully furnished accommodation in DHA, Karachi. The fair market value of the rent was estimated to be Rs. 85,000 per month.

(v) An option to acquire 4,000 shares in TL's parent company, Tameer Inc. which is listed on New York Stock Exchange was granted to him in May 20X3. Mr. Iqbal exercised the option on 5 January 20X4 at a price of USD 1.5 per share. The market value of the shares at the close of business on 5 January 20X4 was USD 2.5 per share. He sold 3,000 shares on 30 June 20X4 at a price of USD 3 per share. The dollar rupee parity on both the above dates was USD 1 = Rs.100.

(vi) On 15 May 20X4 Mr. Iqbal was provided 800 shares in TL as a reward for his excellent performance. However, he was restricted from selling or transferring these shares before 16 November 20X4. The market value of these shares at the close of business on 15 May 20X4 was Rs. 12.5 per share.

Mr. Iqbal received additional income from the following sources, for the tax year 20X4:

(i) Brokerage fee of Rs. 200,000 in connection with the transfer of two apartments in Islamabad. The brokerage fee was received in cash. Mr. Iqbal incurred an expense of Rs. 30,000 against telephone costs and air travel to Islamabad in connection with the above deal. He also paid Rs. 10,000 as a gift to his brother for showing the apartments to his clients in Islamabad.

(ii) Profit of Rs. 150,000 on a savings account maintained with an Islamic bank. The bank deducted withholding tax of Rs. 15,000 and Zakat of Rs. 25,000.

(iii) He also received an income tax refund of Rs. 225,000 related to tax year 20X2. The amount included Rs. 25,000 being compensation for delayed refund.

(iv) Annual rent of Rs. 800,000 from letting out a building to KK Enterprise. Following expenses were incurred by Mr. Iqbal in relation to the building: Repairs Rs. 200,000, Fire insurance premium Rs. 30,000, Ground rent Rs. 10,000, Watchman's salary Rs. 8,000 and Interest of Rs. 15,000 on a loan obtained for building renovation by creating first charge on the building in favour of a scheduled bank.

Other related information is as under:

- TL deducted withholding tax of Rs. 1,200,000 from Mr. Iqbal's salary during tax year 20X4.
- On 1 July 20X3, Mr. Iqbal acquired a life insurance policy and paid a premium of Rs. 500,000. He also contributed Rs. 1,600,000 to an approved pension fund.
- On 1 August 20X3, he purchased 50,000 shares in a listed company AB Limited at a price of Rs. 20 each. On 1 January 20X4, AB Limited announced 20% right shares to existing shareholders at a price of Rs. 18 per share. On 25 January 20X4, Mr. Iqbal subscribed the right issue in full.
- During tax year 20X3 his assessed taxable income was Rs. 3,000,000.

Required:
Under the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income and income tax payable by or refundable to Mr. Iqbal for the tax year ended 30 June 20X4. **(22)**

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

Q.2 (a) Describe the following with reference to the Sales Tax Act, 1990:
(i) Time of supply (ii) CREST (iii) Supply chain **(09)**

(b) Under the Sales Tax Rules, 2006 the Board or the Commissioner may appoint a Chartered Accountant for conducting special audit of the records of a registered person.

Explain the scope of special audit under the above circumstances. **(06)**

Q.3 Masawi Limited (ML) is engaged in the business of production and supply of packaged fruit and vegetable juices. ML is incorporated under the Companies Ordinance, 1984 and is duly registered with the Inland Revenue Department for sales tax purposes. Following data has been extracted from ML's records for the month of November 2013:

	Rupees
Purchases:	
Raw material:	
▪ from local registered suppliers	5,000,000
▪ from local un-registered suppliers	1,000,000
▪ import	800,000
Supplies:	
Taxable supplies to registered persons	4,675,000
Taxable supplies to un-registered persons	2,125,000
Taxable supplies to duty free shops	1,020,000
Export to Qatar	680,000

Following information is also available:

(i) Raw materials purchased from un-registered suppliers include preservatives purchased from FJ Limited at a discounted price of Rs. 380,000. ML received a normal discount of 5% on this purchase.

(ii) Juices worth Rs. 100,000 were provided to the workers at the company's workshop free of cost.

(iii) Rs. 500,000 was paid to an advertising agency through banking channels for providing advertising services on television in Pakistan.

(iv) 20% of the taxable supplies to registered persons were made to private limited companies and public sector organizations whereas the rest of the supplies were made to wholesalers / retailers.

(v) ML had no outstanding liability against purchases at the end of November 2013.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of **17%**. The goods supplied by ML are not subject to federal excise duty.

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

Q.4 (a) Maroof Limited (ML) is a resident company engaged in the business of construction for the past many years. In July 2012, the company was awarded a contract for the construction of roads in district Badin at a total contract price of Rs. 100,000,000. ML estimated to incur total cost of Rs. 60,000,000 on the project.

Work on the project started in September 2012 and was completed in November 2013. ML received following amounts after deduction of 6.5% withholding tax:

Months	Feb. 2013	May 2013	Sep. 2013	Dec. 2013
Amount received (Rs.)	12,622,000	15,760,000	35,000,000	30,118,000

The actual costs incurred by ML for the tax years 2013 and 2014 were Rs. 33,000,000 and Rs. 27,000,000 respectively.

Required:
Under the provisions of Income Tax Ordinance, 2001 calculate ML's taxable income and withholding tax credit, if any, for the tax years 2013 and 2014. **(08)**

(b) Explain the following in relation to Income Tax Ordinance, 2001:

(i) Exceptions to the rule that 'a tax shall be imposed at a specified rate on every non-resident person who receives any Pakistan source royalty or fee for technical services'. **(03)**

(ii) The term 'Prescribed person' with reference to deduction of tax from rent of immovable property. **(06)**

(iii) Significance of the Circulars issued by the Board. **(04)**

Q.5 Big Limited (BL) was incorporated in Pakistan in 1992. It holds the entire share capital of several locally incorporated companies including Zeta Limited (ZL). Following information has been extracted from ZL's records for the year ended 30 September 2013:

	Rs. in '000
Income from business	500
Capital gain	800
Income from other sources	100
Total income before tax	1,400

ZL is engaged in the business of manufacturing scaffoldings since its incorporation. Following further information is available from ZL's records:

(i) The income from business includes deemed income in respect of a loan of Rs. 85,000 received otherwise than by a crossed cheque.

(ii) Business losses brought forward from tax years 2012 and 2013 amounted to Rs. 130,000 and Rs. 200,000 respectively. ZL's tax assessment has been finalized upto tax year 2012.

(iii) Capital losses brought forward from assessment years 2007 and 2008 amounted to Rs. 50,000 and Rs. 65,000 respectively.

(iv) The amount of tax depreciation adjusted during the year against income from business amounted to Rs. 490,000. Unabsorbed tax depreciation brought forward from previous assessment years amounted to Rs. 135,000.

(v) A loss from speculation business brought forward from tax year 2012 amounted to Rs. 100,000.

(vi) One of BL's subsidiaries, which is qualified for group relief, surrendered its assessed losses of Rs. 250,000 in favour of ZL. These losses include brought forward business loss of Rs. 25,000, capital loss of Rs. 45,000 and an unabsorbed tax depreciation of Rs. 10,000.

Required:
Under the provisions of Income Tax Ordinance, 2001 compute the taxable income of Zeta Limited for the tax year 2014 and the amount of loss, if any, to be carried forward to next tax year. State the reason where any of the loss cannot be adjusted against the given income. **(13)**
Note: The order in which various deductions are to be set-off against ZL's income should be followed.

Q.6 Under the provisions of Federal Excise Act, 2005 explain the following:
(i) Conveyance **(02)**
(ii) Distributor **(02)**
(iii) Mode of recovery of duty in case of short payment **(03)**
(iv) Particulars to be stated on the invoice issued at the time of providing services **(04)**

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

THE FIRST SEHEDULE
RATES OF TAX
Division I
Rates of Tax for Salaried Individuals

S. #	Taxable Income	Rate of Tax
8.	Rs. 3,000,001 to Rs. 3,500,000	Rs. 362,500+22.5% of the amount exceeding Rs. 3,000,000
9.	Rs. 3,500,001 to Rs. 4,000,000	Rs. 475,000+25% of the amount exceeding Rs. 3,500,000
10.	Rs. 4,000,001 to Rs. 7,000,000	Rs. 600,000+27.5% of the amount exceeding Rs. 4,000,000
11.	Above Rs. 7,000,000	Rs. 1,425,000+30% of the amount exceeding Rs. 7,000,000

Division VII
Capital Gains on disposal of Securities

S. #	Period	Tax Year	Rate of Tax
1.	Where holding period of a security is less than six months.	2013	10%
		2014	10%
2.	Where holding period of a security is more than six months but less than twelve months.	2013	8%
		2014	8%
3.	Where holding period of a security is twelve months or more.	-	0%