The Institute of Chartered Accountants of Pakistan

Principles of Taxation

Certificate in Accounting and Finance
Model Paper
100 marks – 3 hours

Q.1 (a) State the meaning of the term 'Tax evasion' and 'Tax avoidance' giving an example in each case. **(06)**

(b) Briefly explain the main principles of levy of the taxes by the government. **(06)**

Q.2 What is meant by Direct and Indirect taxes? Briefly explain any **two** kinds of such taxes prevailing in Pakistan. **(08)**

Q.3 (a) Briefly explain the duties of National Finance Commission? **(04)**

(b) Identify the taxes which Federal Government and Provincial Government are empowered to impose under the Constitution of Pakistan. ***(identify any six taxes in each case)*** **(06)**

Q.4 Briefly discuss the residential status of the following persons for the tax year 20X4 under the Income Tax Ordinance, 2001.

(i) Mr. Saeed has been working as an Information Analyst in the Ministry of Foreign Affairs. On 1 September 20X3, he was posted to Pakistan Embassy in Canada for three years.

(ii) Abrar Learning Center is a partnership concern, providing IT training to professionals in Pakistan, UAE and Saudi Arabia. Up to 31 July 20X3, the management and control of its affairs was situated partly in Pakistan. However, with effect from 1 August 20X3, the entire management and control of the affairs of the partnership was shifted to Dubai.

(iii) Mr. Arsalan was sent to Pakistan on a special assignment by his UK-based company on 1 March 20X3. He left Pakistan on 9 September 20X3.

(iv) Zeeshan Trading LLC was incorporated as a limited liability company in UAE. The management and control of its affairs are situated wholly in Pakistan. **(08)**

Q.5 (a) State the provisions of Income Tax Ordinance, 2001 pertaining to foreign tax credit available to a resident taxpayer. **(06)**

(b) Khalid Industries Limited has been selected for the audit of its income tax affairs. The management is of the opinion that since their tax affairs were audited last year also, they should not have been selected for audit this year.

Required:
Discuss the management's point of view in the light of Income Tax Ordinance, 2001. **(05)**

Q.6 Mr. Rehmat is working as Director Human Resources at Arabian 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) Five years ago, Mr. Rehmat 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.

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

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

(e) 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. Rehmat had claimed a tax credit of Rs. 40,000 on this investment.

(f) Apart from his employment with ATL, Mr. Rehmat also organized events for private clients. He received a total of Rs. 1,000,000 from such clients. No tax was deducted from such receipts. However, he incurred an overall loss of Rs. 350,000 on organizing these events.

(g) He also received a share of profit from a business in Malaysia equivalent to Pak. Rs. 535,000. He paid Rs. 130,000 in taxes in Malaysia on such income.

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

(i) 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. **(19)**
(Tax rates are given on the last page)

Q.7 (a) Identify the due dates for filing of income tax return in each of the following cases:

   (i) A company whose income year ended on 31 March 20X3.
   (ii) A company whose income year ended on 30 September 20X3.
   (iii) A company whose income year would end on 31 December 20X3.
   (iv) A member of an association of persons (AOP) if the income year of the AOP ended on 30 June 20X3. **(03)**

(b) Under what circumstances, the Commissioner of Income Tax can require a person to furnish a return of income for a period of less than twelve months? **(04)**

Q.8 (a) Briefly explain the procedure for de-registration as specified by the Sales Tax Rules, 2006. **(03)**

(b) Under the provisions of Sales Tax Act, 1990 and Rules made thereunder, identify the last date for filing of sales tax return in each of the following cases:

(i) On 1 August 20X3, Saba registered herself under the Sales Tax Act, 1990.
(ii) Fareeda filed the return for the month of July 20X3 on 10 August 20X3. She wants to revise her return to correct certain errors.
(iii) Samina Engineering Limited (SEL) is registered under the Sales Tax Act, 1990. SEL wants to file annual sales tax return for the financial year ended 30 June 20X3.
(iv) Salma wants to deregister herself with effect from 30 September 20X3. **(04)**

(c) Comment whether the following persons are required to be registered under the Sales Tax Act, 1990 and Rules made thereunder.
(i) Mr. Yawar is a wholesaler and his annual business turnover is Rs. 4.9 million.
(ii) Mr. Saeed is operating a general store and his monthly average turnover is Rs. 0.4 million.
(iii) Mr. Irfan is planning to import raw materials for business use. The annual imports are estimated at Rs. 3.0 million.
(iv) Mr. Masood is a commercial exporter. All his business purchases are either exempt supplies or from unregistered suppliers.
(v) Mr. Farhan is a distributor of consumer goods and his annual turnover is Rs. 15 million.
(vi) Mr. Kashif is a manufacturer of candles. His turnover in last twelve tax periods was below Rs. 5 million. His utility bills during the same period were Rs. 550,000. **(06)**

Q.9 Mr. Fareed is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of home appliances. Following information has been extracted from the records of Mr. Fareed for the month of August 20X3.

	Rupees
Purchases – Local	
▪ From registered suppliers	70,250,000
▪ From un-registered suppliers	15,750,000
Supplies:	
▪ Local taxable supplies to registered persons	72,870,000
▪ Local taxable supplies to un-registered persons	9,850,000
▪ Exports to Canada and USA	12,700,000

Following additional information is also available:

(i) A new machine purchased for Rs. 12 million was commissioned into operations during August 20X3.
(ii) Sub-standard supplies amounting to Rs. 4,500,000 were returned to vendors. Proper debit/credit notes were raised in this regard.
(iii) Goods worth Rs. 7,200,000 were returned by different customers. Proper debit/credit notes were raised within the specified period.
(iv) An amount of Rs. 820,000 on account of purchases made from a registered supplier is outstanding since January 20X3. The related input tax was accounted for in the relevant tax period.
(v) Sales tax credit brought forward from previous month amounted to Rs. 910,500.

Sales tax is payable at the rate of **17%**. All the above figures are exclusive of sales tax.

Required:
Compute sales tax payable/refundable and input tax credit to be carried forward, if any. **(12)**

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.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 750,000	5% of the amount exceeding Rs. 400,000
3.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,400,000	Rs. 17,500 + 10% of the amount exceeding Rs. 750,000
4.	Where the taxable income exceeds Rs. 1,400,000 but does not exceed Rs. 1,500,000	Rs. 82,500 + 12.5% of the amount exceeding Rs. 1,400,000
5.	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 1,800,000	Rs. 95,000 + 15% of the amount exceeding Rs. 1,500,000
6.	Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000	Rs. 140,000 + 17.5% of the amount exceeding Rs. 1,800,000
7.	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,000,000	Rs. 262,500 + 20% of the amount exceeding Rs. 2,500,000
8.	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 3,500,000	Rs. 362,500 + 22.5% of the amount exceeding Rs. 3,000,000
9.	Where the taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 4,000,000	Rs. 475,000 + 25% of the amount exceeding Rs. 3,500,000
10.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 7,000,000	Rs. 600,000 + 27.5% of the amount exceeding Rs. 4,000,000
11.	Where the taxable income exceeds Rs. 7,000,000	Rs. 1,425,000 + 30% of the amount exceeding Rs. 7,000,000

(THE END)