



June 09, 2001

ADVANCED TAXATION

(MARKS 100)

PE-2 (PAPER-3)

(3 HOURS)

Instructions: use separate answer sheets for section I and section II

**SECTION I
(INCOME TAX ORDINANCE, 1979)**

- Q.1 Discuss the salient features of advance payment of tax under section 53 of the Income Tax Ordinance, 1979 as are applicable to companies and registered firms. Do you consider the above provisions rational? (06)
- Q.2 XYZ Limited has announced “Golden Hand Shake Scheme” which proposes lump sum payments to the employees opting for the Scheme. Discuss the chargeability and admissibility of such lumpsum amount in the hands of the employees as well as the employers respectively. (06)
- Q.3 With respect to various provisions of the Income Tax Ordinance, 1979 including deeming provisions, state taxability of the followings:
- salary income;
 - any income of a non-resident from business in Pakistan;
 - interest payable by a resident, on debts used for business abroad;
 - expenditure actually incurred by an assessee, for which no explanation exist of its sources; and
 - assets purchased by an assessee from the company at lower than the fair market value. (10)
- Q.4(a) Mr Y of Mac Ltd has asked you for providing him a brief outline of the appellate process for adjudicating tax litigations under the Income Tax Ordinance, 1979. You are requested to draft a suitable reply. (08)
- (b) Please discuss in brief the significant issues governing taxation of income from exploration and production of petroleum in Pakistan as provided for under the Fifth Schedule to the Income Tax Ordinance, 1979. (10)
- Q.5 The Finance Manager of XYZ Limited a public quoted company, engaged in the business of leasing has sent you information stated below which he considers relevant to his case together with a copy of the financial statements of the company as at June 30, 2000 for preparing the computation of income and tax thereon for the assessment year 2000-2001

(2)

Rs. (000)

Revenues

| | |
|-------------------|------------|
| • Finance lease | 8,000 |
| • Operating lease | 400 |
| • Other income | <u>800</u> |
| | 9,200 |

Less expenses

| | |
|--|--------------|
| Finance and bank charges | 5,000 |
| Selling, general and administration expenses | 1,400 |
| Direct cost of lease: | |
| • Finance lease | 400 |
| • Operating lease | 300 |
| Allowance for potential lease losses | <u>200</u> |
| | 7,300 |
| Profit before taxation | <u>1,900</u> |

The company follows the “financing method” in accounting for recognition of leases.

In addition to the above the following additional information is available:

| | | |
|-------|---|---------------|
| i) | rent received and receivable, The above includes receipt of security deposits against leases | 12,800 800 |
| ii) | Accounting depreciation: -on operating assets -on owned assets | 1,600 300 |
| iii) | excess perquisites as per working. In computing the excess perquisites no affect has been taken for interest free loan to executives aggregating Rs.400 thousand. The average finance cost to the company is 12 percent and daily product basis interest works out to Rs.48 thousand, | 500 |
| iv) | donation to approved institution, | 100 |
| v) | return and exchange gain on foreign currency deposits accounts included in other income, The foreign currency deposits were created in 1998 as a hedge against exchange risk associated with foreign exchange borrowings of the company, | 200 |
| vi) | tax depreciation as per schedule: -on operating assets -on leased assets | 400 2,000 |
| vii) | provisions for gratuity Rs. 190 thousand and net of payments The company operates an unfunded gratuity scheme covering all its permanent employees. | 170 |
| viii) | other income includes dividend from an associated company, | 150 |

- ix) finance charges includes Rs.1000 thousand which represents exchange loss on foreign currency loans. Rs.200 thousand of such loss is translation loss of year-end loan balance;
- x) taxes paid are as under:
- | | Rs.(000) |
|--------------------|----------|
| • under section 53 | 2,078 |
| • under section 50 | 60 |

Required: Compute the total income and tax thereon of the company for the assessment year 2000-2001. **(18)**

SECTION II
(SALES TAX & WEALTH TAX & CAPITAL VALUE TAX)

- Q. 6 Discuss under the provisions of the Sales Tax Act 1990:
- a) when further tax of 1.5% is not required to be charged; **(03)**
- b) “enlistment tax” **(03)**
- Q.7 a) How is the tax liability determined under the Sales Tax Act 1990? **(03)**
- b) Please explain whether sales tax can be claimed in respect of the following:
- i) sales tax paid on electricity bills which are not in the name of the company being a tenant; and **(03)**
- ii) sales tax paid under the Sales Tax Ordinance, 2000 on services provided by courier and clearing agents. **(03)**
- Q.8 a) What is understood by the term “manufacturer” under the Sales Tax Act 1990? **(03)**
- b) XYZ Limited purchase yarn and provides the same to weavers for converting it into fabric on behalf of the company. The fabric thereafter is exported by the company. Please establish the status of XYZ Limited under the Sales Tax Act 1990. **(03)**
- Q.9 What is meant by the following terms under the Central Excise act 1944?
- i) Club **(02)**
- ii) Excisable goods **(02)**
- iii) Wholesale dealer **(02)**
- Q.10 Mr. Saeed’s assets and liabilities on 30th June 2000 are as under. Compute his net wealth under the Wealth Tax Act 1963 and calculate his net wealth chargeable to tax.
- | | | |
|--|-----|---------|
| 1. Bungalow under self-occupation (250Sq.yds.located within the limits of Municipal Corporation) | Rs. | 863,000 |
| 2. Advance against agreement for purchase of a plot generated from remittance received from abroad | | 250,000 |

(4)

| | | |
|----|--|---------|
| 3. | Shop having cost of let out on monthly rent of Rs. 10,000 (annual value Rs. 60,000) | 550,000 |
| 4. | Car for personal use(acquired in May 1999) | 350,000 |
| 5. | House furniture and electrical appliances | 80,000 |
| 6. | His saving account shows a balance on which Zakat has been deducted | 15,000 |
| 7. | Advance from House Building Finance Corporation for self occupied house | 100,000 |
| 8. | Encashment of private foreign currency account | 100,000 |

(10)

Q.11 List down the items and the basis of their valuation, on which capital value tax is applicable?

(05)

(THE END)