THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

PROFESSIONAL EXAMINATIONS   WINTER 2001

December 05, 2001

ADVANCED TAXATION (MARKS 100)

PE-2 (PAPER-3) (3 HOURS)

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

SECTION 1
(INCOME TAX ORDINANCE, 1979)

Q.1(a) What do you understand by the concept of "territorial jurisdiction" for taxation of "business income" in Pakistan. **(05)**

(b) In the context of "cross border transactions", how would you determine the territorial nexus for the purpose of taxation of "business income" in Pakistan. **(05)**

Q.2 Does corporate merger of two or more companies, under the Companies Ordinance, 1984, in Pakistan gives rise to any tax implications. Please elaborate your response in the light of the provisions of the Income Tax Ordinance, 1979. **(08)**

Q.3 Can assessment once finalized be re-opened or modified? Discuss. **(12)**

Q.4 Mr A established a manufacturing concern in 1995. He commenced commercial operation in the income year ended on 30 June 1996. He suffered huge losses and consequently discontinued his business in the income year ended 30 June 1998. He sold the following assets during the income year ended 30 June 2000.

	Cost Rupees	Tax written down value Rupees	Sales proceed Rupees
Land	500,000	500,000	1,000,000
Building	500,000	350,000	1,000,000
Plant and machinery	500,000	300,000	1,000,000

Required: (a) Please compute gain on sale of the above assets to be included in the total income for the assessment year 2000-2001. **(04)**

(b) Please state under what head of income such gains, if any, would be subjected to tax. **(02)**

Q.5(a) Explain the provisions contained in the Income Tax Ordinance, 1979 relating to allowability of 'bad debts' as an expense. **(02)**

(b) B Company Limited has claimed bad debts written off of Rs.4,000,000. Please discuss the conditions need to be satisfied to successfully contest the claim of "bad debts" as an expense. **(06)**

Q.6 First ABC Modaraba, a client of your office, is a perpetual, multipurpose and multidimensional modaraba engaged in providing finance on morabaha and musharika arrangements, leasing, commodity trading and dealing in listed and non-interest bearing securities. Following is an extract from the profit and loss account of the modaraba for the year ended 30 June 2000:

Revenue From	**Rupees**
Leasing operation	21,844,000
Mushrika	700,000
Investments	7,000,000
Other sources	656,000
	30,200,000

Expenditure	
Administrative expenses	1,500,000
Amortization on leased assets	14,000,000
Financial charges	8,000,000
	23,500,000
	6,700,000
Provision for	
Diminution in the value of investments	1,550,000
Doubtful debts	200,000
	1,750,000
Profit from operations	4,950,000

In addition the following additional information is available:

i. This is the fourth year of operation of the modaraba.
ii. No provision for tax has been made in the accounts.
iii. The modaraba is required to transfer appropriate amount to statutory reserve as required under the Modaraba Companies and Modaraba (Flotation and Control) Ordinance, 1980 and the Rules framed thereunder which has to be worked out.
iv. Modaraba Company's management fee at 10 percent has not been incorporated in the accounts.
v. Lease rental are recorded under "Operating Lease Method".
vi. Following are the break up of leasing operations, investments income and income from other sources:

Leasing Operations	**Rupees**
Lease rental	21,200,000
Front-end fee	544,000
Gain on disposal of leased assets	100,000
	21,844,000
Investment Income	
Dividend income	3,000,000
Bank profit	4,000,000
	7,000,000
Other Sources	
Documentation charges	250,000
Gain on disposal of fixed assets-owned assets	200,000
Misc. income	206,000
	656,000

vii. Administrative expenses include the following:

Accounting depreciation – owned assets	150,000
Provision for gratuity	30,000

viii. Tax depreciation on

Owned assets	65,000
Leased assets	10,000,000

ix. Tax loss on disposal of

Owned assets	25,000
Leased assets	1,700,000

x. Unabsorbed depreciation from leasing operation brought forward. 13,000,000

Required:

a) Compute the amount of modaraba company's management fee. **(02)**

b) Compute the amount of statutory reserve and the minimum distributable amount of 90 percent. **(02)**

c) Calculate the total income of the modaraba and income tax thereon assuming that:

i. Modaraba has not distributed 90% of its profits to its certificate holders.
ii. Modaraba has duly distributed 90% of its profit to its certificate holders. **(16)**

SECTION 1I
(SALES TAX ACT 1990 AND CENTRAL EXCISE ACT, 1944)

Q.7(a) Discuss the concept of chargeability of sales tax under the Sales Tax Act, 1990. **(03)**

(b) One of the clients of your office, a bank, intends to dispose of certain old and used motor vehicles through tender.

Required: Prepare a write up detailing whether the client is required to charge sales tax on such disposal. **(05)**

Q.8(a) Define the term "time of supply" under The Sales Tax Act, 1990. **(02)**

(b) Please discuss whether Sales Tax is required to be charged on "advances" received against future supply of taxable goods? Can there be any exception to the general rule? **(05)**

Q.9(a) Explain what is understood by the term "value of supply" under the Sales Tax Act, 1990. **(02)**

(b) Discuss whether Sales Tax is chargeable on the freight/delivery charges recovered at different rates from the customers who are located at different parts of Pakistan. **(04)**

(c) Please explain whether Sales Tax is payable on discounted price or on gross sale price of taxable goods. **(04)**

Q.10 Please discuss whether further Sales Tax under Section 3 (1A) of the Sales Tax Act, 1990 would be chargeable by a manufacturer on supply made to unregistered customers who are the ultimate consumers of taxable goods. **(07)**

Q.11 Define the term "defaulter" and "non-tariff area" under the Central Excise and Salt Act, 1944. **(04)**

(THE END)