



ADVANCED TAXATION

(MARKS 100)

(3 hours)

- Q.1 XYZ Limited's accounting year begins on July 1. Income tax return for tax year 2003 and the assessment order for the tax assessment year 2002-2003 received on August 31, 2004 show the following:

	Assessment order 2002-2003	Return for tax year 2003
	R u p e e s	
Tax liability in respect of business income	16,900,000	18,900,860
Final tax liability for income covered under the Presumptive Tax/Final Tax Regime	1,800,000	2,650,000
Tax liability in respect of property income	120,000	130,000
Tax liability in respect of sale of shares of unlisted companies	6,100,000	-
Turnover	375,556,000	480,000,000
Gross rental receipts	3,750,000	3,940,000

The company estimates that tax liability for the tax year 2005 will be approximately Rs. 15,000,000 which includes Presumptive Taxation of Rs.1,900,000 and tax liability in respect of property income of Rs. 125,000.

You are required to advise XYZ Limited about:

- (a) The advance tax payable for tax year 2005 with the relevant dates.
 - (b) The additional tax payable if advance tax is not paid as provided in the Ordinance.
 - (c) Any other relevant matter. (14)
- Q.2 Please explain the special features of securitization of assets by special purpose vehicle from tax point of view with respect to allowability of expense and tax deductions from payments. (06)
- Q.3 Conglomerate Group plc of United Kingdom had made a major investment (approx 95%) in shares of ABC Limited a Pakistani unquoted public company. The investment was made in 1955 and the company invested UK Pound Sterling (£) 1,250,000. The Conglomerate Group was allotted 100000 shares of Rs.100 each. The currency parity, prevalent at that time, was £ 1 = Pak Rs.8.00.

In July 2003, the Conglomerate Group decided to dispose the shares and started negotiations with local and foreign investors and finally struck a deal with a Pakistan based company. It was decided that Conglomerate Group would be entitled to the interim dividend of Rs.50,000,000 for the year 2003-2004 of ABC Limited out of its current and accumulated profits. The buyer will pay Rs. 475 per share resulting in a receipt of £ 500,000 and a loss of £ 750,000 to the Conglomerate Group based on current currency parity.

Required:

- (a) Please compute the tax liability of Conglomerate Group under the Income Tax Ordinance 2001. **(04)**
- (b) Please quantify the effect on tax liability if the transaction is not acceptable to the Commissioner, in terms of section 109. **(04)**

Q.4 Mr Awais is a resident individual who owns a private business. He has provided you with the following data:

	<u>Rs. in 000</u>
Sales	
• Imported finished goods	20,000
• Manufactured goods	
• supplies	150,000
• others	75,000
• exports	50,000
• Cost of sales	200,000
• Administration and selling expenses	35,000
• Other income	1,250
• WPPF	3,600
• WWF	1,250
• Provision for tax	
Normal	5,000
Deferred	1,220
Net Profit	50,180

During the year, one of the export customers closed down his business and has defaulted on payment of Rs. 1,000,000.

Cost of imported goods Rs. 15,000,000

Assume no opening and closing debtors.

Trading Liability outstanding for more than 3 years Rs. 100,000

Other Income includes:

- | | |
|---|-------|
| • Dividend from a company enjoying tax holiday. | 1,000 |
| • Profit on sale of shares of listed company | 250 |

Mr. Awais provided the following additional information:

- (a) Special US\$ bonds purchased during the year Rs.5,000,000 and profit earned Rs. 500,000.
- (b) FEBC encashed during the year Rs.2,000,000
- (c) Purchased agricultural land Rs.10,000,000
- (d) Drawings from business Rs.5,000,000
- (e) Foreign remittance received (PRC available) Rs. 5,000,000
- (f) Donations made during the year Rs.200,000
- (g) Personal expenses Rs.7,590,000
- (h) Business capital at the beginning of tax year Rs.24,425,000
- (i) Cash in hand at the beginning of tax year Rs.120,500
- (j) Tax paid with last year return Rs.2,000,000

Mr. Awais owns a house property which he has given on rent. On June 30, 2004 the house property was transferred by him to his second wife for a consideration of Rs. 400,000. She has received Rs.500,000 during the year as share of inheritance.

(3)

The following data has been provided regarding the house property

	<u>Rs.</u>
Monthly rental	6,250
Expenditure on renovations and upkeep of house property.	56,000
Property Tax paid.	5,000

Unadjustable rent Rs. 150,000 received at the time the property was let out two years ago. Mr Awais had at that time refunded Rs.50,000 to the previous tenant who had vacated the property after 5 years and had paid initially Rs. 100,000 as unadjustable rent.

Mr Awais owns another house property valued at Rs. 0.5 million. During the year he divorced his first wife Mrs Shehnaz and settled that house property in lieu of haq mehr of Rs. 150,000.

Required:

Compute the taxable income and tax liability of Mr Awais and prepare his wealth statement for the tax year 2004.

(25)

- Q.5 ABC Limited, a foreign controlled resident company, is a manufacturing concern financed by its Group Company through its Associates. The details of debt owed to its associated companies are as follows:

	Debt as at July 1, 2003	Debt received		Debt repaid		Debt as at June 30, 2004
	(Rs. in million)	Date	(Rs. in million)	Date	(Rs. in million)	(Rs. in million)
Debt from associated company -A	50	Jan 1, 2004	15	Apr 1, 2004	20	45
Debt from associated company - B	18	-	-	Jan 1, 2004	10	8
Debt from non- associated company.	35	Feb 1, 2004	10	Jan 1, 2004	15	30

All the above debts carried simple interest rate of 10%. Non-associated company owes the same amount of debt to another associated company which ABC Limited owes to non-associated company. Profit on debt of associated company A and non-associated company are taxable in Pakistan at lower rate as compared to corporate rate of tax applicable in Pakistan because of Double Taxation Treaties.

Details of shareholders equity of ABC Limited is as follows:

	As at July 1, 2003	Increase	As at June 30, 2004
	Rupees in million		
Share capital	8	4	12
Accumulated profits	6	3	9

Please note that share capital was increased on January 1, 2004. Group company through its associated companies owns 75% shareholding of ABC Limited. Another associated company owed Rs. 5 million to ABC Limited as at July 1, 2003 which was repaid during the year.

Required:

Compute interest payable and allowable for tax purposes for the tax year 2004 with reference to the provisions of Income Tax Ordinance 2001, relating to Thin Capitalization.

(13)

- Q.6 Karakorum (Pvt) Limited has hired Standard Courier Services to deliver all its inter branch and external mails as well as shipment and delivery of any goods/parcels. The courier company in their invoice for the first month has charged sales tax @ 15% on gross delivery service charges. The finance manager of Karakorum (Pvt) Limited has disputed that since the courier company is not engaged in the supply of any taxable goods therefore they cannot charge sales tax.

You are required to explain whether sales tax is applicable in the above scenario and explain the relevant provisions of the Sales Tax Act 1990.

(04)

- Q.7 A registered person is entitled to deduct input tax paid or payable during the tax period from the output tax subject to compliance of section 7 and 73 of the Sales Tax Act. Section 8 of the Act however places certain restrictions on goods on which input tax is not deductible.

You are required to specify those goods on which input tax is not allowable under section 8.

(08)

- Q.8 State with reasons in brief, how the following matters can be analyzed under the Sales Tax Act?

- (a) Sale of goods under hire purchase agreement. **(02)**
- (b) Sales tax collected on certain items on which exemption is allowed through a notification that is enforced through a back date. **(02)**
- (c) Sales tax rate on goods entered for home consumption and in case of import where bill of entry is presented in advance. **(02)**
- (d) 'A' being a contractor of a turnkey contract with 'B' has agreed that B can make a direct import of machinery and equipments from A's associated company in Singapore. B has authority of such import and also has privilege of exemption from tax. **(02)**
- (e) Supplies of items falling under the Sixth Schedule by a person who resides in tribal areas (i.e. FATA/PATA) and opts for voluntary registration. **(02)**

- Q.9 Sales tax regime is based on the concept of self-assessment. The main recourse available to retrieve loss of tax revenue is audit and then issuing show-cause notices. In this context what is the time limit for initiating recovery of sales tax?

(04)

- Q.10 (a) List the persons required to take out a licence to conduct business under the Central Excise Act 1944. **(05)**
- (b) Briefly state the provisions regarding the applicability of excise duty on such excisable goods as are used internally by the manufacturer. **(03)**

(THE END)