**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**Final Examinations    Summer 2005**

**June 09, 2005**

# ADVANCED TAXATION

**(MARKS 100)**
**(3 hours)**

Q.1 Briefly explain the allowability of the following against income chargeable to tax under the Head 'Income from Business' under the provisions of the Income Tax Ordinance, 2001:

(a) Purchase of computer software.
(b) Purchase of computer hardware including printer, monitor and allied items.
(c) Acquisition of plant and machinery previously used in Pakistan.
(d) Acquisition of building.
(e) Purchase of road transport vehicle plying for hire. **(10)**

Q.2 (a) Every return filed by an assessee must be subject to a process of assessment by the tax department. Is it correct? If not, what are the relevant provisions of the Income Tax Ordinance, 2001 under which a return of income could be subject to scrutiny or audit? **(06)**

(b) For any scheme of tax audit to be effective, what in your view should be the conceptual basis and salient features of such a scheme. **(06)**

Q.3 Mr. Syed is running a business under the name and style of Syed Muhammad & Co. and he deals in imported fancy lights. He imported lights worth Rs.10 million during the year and an amount of Rs.0.6 million was deducted under section 148.

Following information is extracted from the wealth statement filed by him in tax year 2003.

| | **(Rupees)** |
|---|---|
| - Capital of Syed Muhammad & Co. | 6,000,000 |
| - Immoveable properties | 10,000,000 |
| - Moveable properties | 2,000,000 |
| - Personal Cash & Bank balance | 1,000,000 |

During the year he received an amount of Rs.30,000 and there is no satisfactory explanation for the above receipt.

He rented one of his immoveable properties to a company for an amount of Rs.15,000 per month, however, the ALV of the property is Rs.156,000. He paid an amount of Rs.60,000 for repair of the property. He also paid an amount of Rs.5,000 as ground rent for the said property.

He bought a flat at Tariq Road for his third wife who does not have any source of income, for an amount of Rs.2,000,000.

He also purchased a Toyota Corolla for Rs.1,300,000.

He invested an amount of Rs.1,000,000 in his business.
Personal expenses during the period were Rs.800,000.
During the year he received a loan of Rs.6,000,000 from his friend who lives in UAE and Mr. Syed holds proceeds realization certificate issued by the bank.

**Required:**

Prepare Wealth Statement of Mr. Syed for the tax year 2004. **(10)**

Q.4 Explain the provisions relating to the acquisition and disposal of depreciable assets. **(06)**

Q.5 A public company incorporated in Pakistan carried on business in Pakistan and also abroad through a branch office in a foreign country. The expenditure incurred relating to business activity outside Pakistan is identified. Some of the business expenditure incurred in Pakistan relates to both activities and are in line with the revenue earned from respective activities. Some other data in respect of the income year ended June 30, 2004 is given below:

| | **(Rupees)** |
|---|---|
| Sales from business activity - inside Pakistan | 105,000,000 |
| - outside Pakistan | 35,000,000 |
| Business expenditure allowable for tax purposes: | |
| - incurred inside Pakistan - common | 20,000,000 |
| - incurred outside Pakistan | 32,000,000 |
| - incurred inside Pakistan - relating to Pakistan based activity | 78,000,000 |
| Business loss brought forward from tax year 2003 (related to business activity abroad) | 5,000,000 |
| Foreign withholding tax | 2,000,000 |

Business activity in Pakistan comprises of the following:

***<u>Toll manufacturing</u>***

The company imports certain raw materials and under a toll manufacturing arrangement with another company, raw materials are processed into finished form. The company pays toll manufacturing charges as a consideration for processing raw materials. At import stage, tax is paid under section 148 at the rate of 6 per cent on the import of raw materials. Once goods are manufactured through another company, these are sold to persons who are authorized to deduct tax under section 153. Company has not filed any option for assessment under the Final Tax Regime. The data relating to toll manufacturing activity is given below:

| | | (Rupees) |
|---|---|---|
| Sales | | 50,000,000 |
| Raw material imports | * | 20,000,000 |
| Toll manufacturing charges | * | 5,000,000 |
| Other expenses | * | 3,000,000 |

* included in Rs. 78,000,000

***Trading business***

The company imports certain goods and sells them in their original shape. The company also purchases certain goods locally and sells them as a trader from which tax at supply stage is deductible under section 153. The data relating to trading business is given below:

| | (Rupees) |
|---|---|
| Sales out of imports | 45,000,000 |
| Tax paid under section 148 @ 6% | 2,250,000 |
| Sales out of local purchases: | |
| - locally produced goods | 5,000,000 |
| - imported goods | 5,000,000 |

**Required:**

Compute taxable income of the public company for the tax year 2004 and the tax payable thereon. **(18)**

Q.6 Mr. Mahmood Murad is a leading industrialist and philanthropist of the country who supports and makes donations in cash and kind to various non profit organizations. He has recently donated some property and other goods to an NGO and wishes to enquire the rules for the valuation of the same under the Income Tax Ordinance. Please advise. **(10)**

Q.7 Anwar & Co., Chartered Accountants have been appointed by CBR to conduct a special audit of the records of Gul Brothers for the financial year 2003. Gul Brothers contest that the audit for the said year has already been conducted by an officer of sales tax appointed under section 30 of the Act. Write a letter to the chief accountant of Gul Brothers explaining the relevant provisions of the Act, the scope of the special audit to be conducted by Anwar & Co. and powers in respect of access to premises, records and accounts. **(10)**

Q.8 A manufacturing concern has filed sales tax returns upto February 2005 based on the following data:

| | Input tax (Rupees) | Output tax (Rupees) | Net amount paid (Rupees) |
|---|---|---|---|
| • November 2004 | 35,000,000 | 42,000,000 | 7,000,000 |
| • December 2004 | 36,000,000 | 42,500,000 | 6,500,000 |
| • January 2005 | 32,000,000 | 41,000,000 | 9,000,000 |
| • February 2005 | 28,000,000 | 38,000,000 | 10,000,000 |

The Finance Manager of the concern realized on March 20, 2005 that input tax relating to tax period December 2004 amounting to Rs.5,000,000 was inadvertently not claimed in the sales tax return filed for that period. On April 10, 2005, he further found that:

(i) input tax relating to the tax period February 2005 amounting to Rs. 2,500,000 was not claimed in the monthly return filed for that period.
(ii) input tax relating to the month of November 2004 amounting to Rs. 1,700,000 was not claimed in the relevant return.
(iii) output tax of Rs. 41,000,000 shown in the monthly return for tax period January 2005 was infact Rs. 41,500,000 i.e. short declared by Rs. 500,000.
(iv) input tax claim made in the month of December 2004 of Rs. 1,000,000 infact related to the month of November 2004.

**Required:**

Briefly explain the remedy, if any, available under the Sales Tax Act, 1990 to account for the above errors and the resultant effect on overall tax liability of the manufacturing concern. **(15)**

Q.9 (a) Briefly explain the various types of excise duties under the Central Excise Act 1944. **(04)**

(b) Elucidate the provisions for input output adjustment as contained in proviso to section 3(11) of the said Act. **(05)**

**(THE END)**