THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations   Autumn 2008

September 6, 2008

TAXATION **(MARKS 100)**

Module C **(3 hours)**

Q.1 Mr. Ali Raza is working as a Senior Executive in DD Pakistan Ltd. The details of his income/receipts during the tax year 2008 are as follows:

(i) He received basic salary of Rs. 65,000 per month.
(ii) He was provided with furnished accommodation for which DD Pakistan Limited paid a rent of Rs. 25,000 per month.
(iii) A company owned car was provided to him which was used partly for official and partly for private purposes. The car was purchased at a cost of Rs. 500,000 but had a fair market value of Rs. 520,000.
(iv) Medical allowance of Rs. 150,000 was paid to him during the year. The actual medical expenses incurred by him amounted to Rs. 40,000.
(v) He earned an income of Rs. 45,000 on the sale of jewellery but incurred a loss of Rs. 28,000 on sale of an antique.
(vi) An apartment owned by him was rented on July 1, 2007 at a monthly rent of Rs. 10,000. He received a non-adjustable security deposit of Rs. 100,000, which was partly used to repay the non-adjustable security deposit received from the previous tenant in July 2005, amounting to Rs. 70,000.
(vii) He incurred the following expenses on the apartment:

	Rupees
▪ Repairs	8,000
▪ Share of rent to House Building Finance Corporation	15,000

(viii) Gross dividend of Rs. 12,000 was received from a listed company.
(ix) Provident fund was deducted @ 12% of his basic salary. An equal amount was contributed by the company.
(x) He withdrew cash from the bank on which the bank deducted tax of Rs. 400.
(xi) Tax deducted by the company amounted to Rs. 170,000.

Compute his taxable income, total tax payable and tax payable with the return. **(15)**

Applicable tax rates are as follows:

Where the taxable income exceeds Rs. 950,000 but does not exceed Rs. 1,050,000	10.0%
Where the taxable income exceeds Rs. 1,050,000 but does not exceed Rs. 1,200,000	11.0%
Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,500,000	12.5%
Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 1,700,000	14.0%

Q.2 (a) List the persons who are required to file a return of income under the Income Tax Ordinance, 2001. **(06)**

(b) Explain the term “long term contract” and the method of computing the income from long term contract, under the Income Tax Ordinance, 2001. **(06)**

Q.3 (a) Mr. Henry is a UK national and provides independent consultancy services in his individual capacity, to United Autos Limited, a Pakistani company. Mr. Henry has entered into a contract with the company. The company's accountant has treated payments under this contract as being under an employment contract with the company.

Mr. Henry stayed in Pakistan for eight months during the tax year 2008. During the said period, he was only involved in providing in-house independent consultancy services to different departments of the Company. Mr. Henry is of the view that:

(i) Being a UK national, he will be a non-resident for Pakistan tax purposes;
(ii) His income from consultancy services provided by him under the contract of employment should be classified as 'fees for technical services' and shall be chargeable to tax at 15% of the gross amount of the consideration received by him;
(iii) No tax was deducted from his remuneration. However, United Autos deposited an amount of Rs. 275,000 in the government treasury on his behalf. Mr. Henry believes that taxes deposited on Mr. Henry's behalf does not attract any additional tax incidence for him as he has not received the amount in cash, from the company.
(iv) Since his remuneration was agreed to be paid in Pound Sterling, the rate of conversion for tax purpose shall be the rate applicable on the date of agreement. Any increase in value of Pound Sterling against Pakistan Rupee should be non-taxable.

Briefly explain whether or not Mr. Henry's assumptions in (i) to (iv) above are in accordance with relevant provisions of the Income Tax Ordinance, 2001. **(08)**

(b) Discuss the procedure required to be followed by a resident company if it intends to make payments to a non-resident individual without deduction of tax. **(08)**

Q.4 Mr. Sajid is a sole proprietor involved in the distribution of fans manufactured by a Pakistani Company. He is in the process of computing his business income for tax year 2008 but is not clear about the tax treatment of the following items:

(i) Commission of Rs 20,000 was paid to his employee but no tax was deducted by him on the presumption that individuals are not required to deduct tax from commission payments.
(ii) In his books of accounts, an expense of Rs 50,000 has been charged on account of various household expenses.
(iii) During the year, he purchased a car at a cost of Rs 1,200,000 which has been used for personal as well as business purposes. Mr. Sajid wants to claim depreciation (including initial allowance) on the full amount of cost.
(iv) Computer software was purchased on January 1, 2008 at a cost of Rs. 900,000. The software is likely to be used for twelve years.
(v) His business assets worth Rs. 500,000 were destroyed by the earthquake in October 2005. He claimed the loss in his return for tax year 2006 but an amount of Rs. 150,000 was disallowed by the Taxation Officer. In tax year 2008, the Government gave him a compensation of Rs. 400,000 on this account.
(vi) Professional tax of Rs. 100,000 was paid to the Government of Punjab. Such tax is to be paid by every person who is engaged in the trading business in the territory of Punjab. He considers it inadmissible as it is a tax paid to a provincial government.

Explain the correct tax treatment of the above items under the Income Tax Ordinance, 2001. **(12)**

Q.5 (a) Explain the term “Small Company” and the privileges available to it under the Income Tax Ordinance, 2001. **(06)**

(b) Quarterly advance tax payable under section 147 is computed on the basis of estimated taxable income. Prepare a list of various types of income which are not taken into consideration while calculating the amount of advance tax. **(07)**

(c) State the circumstances when two companies shall be considered as associates, under the Income Tax Ordinance, 2001. **(04)**

Q.6 (a) Mr. Kazim has recently started a business and has been registered under the Sales Tax Act, 1990. You are required to explain to him the provisions of Sales Tax Act, 1990 relating to maintenance and retention of records. **(10)**

(b) Certain food items supplied by Pakistan Distributors (Pvt.) Ltd. (PDL) have been returned by the customers after the expiry date. PDL wishes to destroy them. Specify the procedure which would have to be followed in this regard. **(04)**

Q.7 (a) Explain the concept of ‘Value of Supply’ under the Sales Tax Act, 1990. **(08)**

(b) Under the Sales Tax Rules, 2006 the Federal Board of Revenue has prescribed certain rules for filing the electronic return. You are required to briefly explain these rules. **(06)**

(THE END)