



## Taxation

Intermediate Examination  
Spring 2014  
Module C

4 March 2014  
100 marks - 3 hours  
Additional reading time - 15 minutes

- Q.1 Qamar is engaged in the business of manufacturing and repair of electric motors. His accountant has prepared the following tax computation for the tax year 20X4:

	----- Rs. in 000 -----	
Sale of manufactured motors		45,000
Less: Cost of sales and administrative expenses (excluding depreciation for the year)		(33,000)
Income before depreciation		12,000
Less: Tax depreciation for the year		(9,000)
		3,000
Less: Brought forward business loss from tax year 20X3 (Total business loss was Rs. 4 million)		(3,000)
Business income after adjusting business loss		-
Add: Interest income received from a commercial bank	500	
Income from other sources	850	1,350
Taxable income		1,350
<b>Computation of tax</b>		
Tax liability		125
Less: Tax deducted by bank on interest income (500,000 × 10%)		(50)
Tax payable	-	75

Following expenses are included in the cost of sales and administrative expenses:

Description	Rs. in 000
Travelling expenses include travel and hotel expenses of Qamar's visit to Malaysia for attending a trade fair	100
Electricity charges paid for Qamar's residence	150
Damages paid to a distributor for delayed supplies	200
Donations to a non-profit organization	300
Salary paid to Bari who is Qamar's brother. Advance tax has been deducted from the salary	720
Fine paid to the Ministry of Environment for infringement of environmental and safety laws	200
Unabsorbed depreciation brought forward from previous tax year	500

Qamar is not satisfied with the tax return prepared by his accountant and has requested you to review the return.

**Required:**

- (a) Compute the revised taxable income of Qamar and tax payable by or refundable to him for the tax year 20X4. (11)
- (b) Briefly comment on treatment of the above items of expenses in your tax computation. (06)

- Q.2 Under the provisions of Income Tax Ordinance, 2001:
- Identify the persons who may be appointed as 'Authorized Representative' of a taxpayer. Also list the persons who cannot act as authorized representative of a taxpayer. (05)
  - Explain the term 'Associates'. State the circumstances under which a shareholder in a company and the company may be regarded as associates. (05)
  - State the requirements which a person should comply with, on discontinuing a business. (03)

- Q.3 Best Foods (Private) Limited (BFPL) is an industrial undertaking. It is considering to increase its production capacity by installing a plant alongside its existing plant. The CFO of the company has informed the Board that BFPL can claim tax credit equal to 100% of the tax payable on profits attributable to the new plant.

**Required:**

Under the provisions of the Income Tax Ordinance, 2001 narrate the conditions that BFPL would need to comply with, in order to be eligible to claim the above tax credit. (06)

- Q.4 Bashir and Jameel jointly own a house in Karachi. Bashir has 75% share in the house. On 1 September 20X3, the house was let out at an annual rental value of Rs. 6,500,000. This amount includes Rs. 186,000 per month for utilities, cleaning and security.

During the tax year 20X4, the owners incurred the following expenditures in relation to the house:

	Rupees
Utilities, cleaning and security	650,000
Repair and maintenance	810,000
Insurance premium	240,000
Collection charges	25,400
Mark-up on amount borrowed for extension of the house	840,000

Bashir and Jameel have no other source of income. All the above expenses were incurred by them jointly.

**Required:**

Calculate taxable income of Bashir and Jameel under appropriate heads of income for the tax year 20X4. (10)

- Q.5 Under the provisions of Income Tax Ordinance, 2001, certain persons are required to pay minimum tax at the rate of 1% of their turnover.

**Required:**

- Explain the term 'Turnover' for the purpose of minimum tax. (05)
  - List the persons who are required to pay minimum tax. (03)
  - Discuss the rules relating to carry forward of minimum tax paid to the subsequent years. (02)
- Q.6
- State the provisions of Income Tax Ordinance, 2001 relating to foreign-source salary of resident individuals. (03)
  - Explain the term 'Foreign losses'. State the provisions relating to set off and carry forward of foreign losses, under the Income Tax Ordinance, 2001. (04)

Q.7 Certain payments made by a private limited company to its shareholders can be treated as 'dividend'. Explain the above in the context of Income Tax Ordinance, 2001. Also identify the exceptions to this rule. (07)

Q.8 Beta & Co. is an association of persons. A partner in the firm has approached you to calculate the advance tax liability of the firm for the fourth quarter. The following information has been provided to you:

		Information from Tax Return for 20X3	Information pertaining to Tax Year 20X4
----- Rs. in million -----			
Turnover	- Normal tax regime	600	625
	- Final tax regime	200	240
Tax liability	- Normal tax regime	13	-
	- Final tax regime	14	17

The firm's turnover under normal and final tax regime, up to third quarter of the tax year 20X4 was Rs. 450 million and Rs. 140 million respectively.

During the fourth quarter, total tax withheld amounted to Rs. 4 million out of which Rs. 1 million pertains to final tax regime.

**Required:**

Compute the advance tax payable for the fourth quarter pertaining to tax year 20X4. (Ignore minimum tax) (05)

Q.9 Zaheer is registered under the Sales Tax Act, 1990. He is engaged in the manufacture and supply of spare parts. Following information has been extracted from the records for the month of February 2014.

	Rupees
Local purchases of raw-material:	
from registered suppliers	23,000,000
from un-registered suppliers	9,000,000
Supplies of manufactured goods:	
local taxable supplies to registered persons	12,000,000
local taxable supplies to un-registered persons	4,000,000
local exempt supplies to registered persons	3,000,000
exports to Malaysia	11,000,000

Following additional information is also available:

- Raw materials of Rs. 1.5 million were purchased from a registered supplier. Invoice was received on 15 November 2013. However, the input tax on this invoice could not be claimed in the relevant period.
- Taxable supplies amounting to Rs. 1.2 million were returned by different customers. Proper debit/credit notes were raised in respect of such supplies.
- Raw materials purchased from registered suppliers include an amount of Rs. 2.5 million against which 100% advance was paid in the month of January 2014. However, due to a dispute, sales tax invoice was delayed and was received by the company after filing of return.
- Sales tax credit of Rs. 1.2 million was brought forward from previous month.

Sales tax is payable at the rate of 17%. All the above figures are exclusive of sales tax.

**Required:**

Compute the sales tax payable by or refundable to Zaheer along with input tax to be carried forward, if any, in the sales tax return for the month of February 2014. (13)

- Q.10 Under the provisions of Sales Tax Act, 1990:
- (a) Identify the situations under which a debit or credit note may be issued by a registered person. (03)
- (b) Discuss the conditions under which a registered person may file a revised return. (03)
- Q.11 Under the Sales Tax Act 1990, 'Taxable activity' means any economic activity carried on by a person whether or not for profit. You are required to specify the activities that are specifically included and excluded from the above definition. (06)

(THE END)

**EXTRACTS FROM THE FIRST SCHEDULE OF THE INCOME TAX ORDINANCE, 2001**

**RATES OF TAX**  
**Division I**  
**Rates of Tax for Individuals**

<b>S. No.</b>	<b>Taxable income</b>	<b>Rate of tax</b>
1.	Rs. 0 to Rs. 400,000	0%
2.	Rs. 400,000 to Rs. 750,000	10% of the amount exceeding Rs. 400,000
3.	Rs. 750,000 to Rs. 1,500,000	Rs. 35,000 + 15% of the amount exceeding Rs. 750,000
4.	Rs. 1,500,000 to Rs. 2,500,000	Rs. 147,500 + 20% of the amount exceeding Rs. 1,500,000
5.	Rs. 2,500,000 to Rs. 4,000,000	Rs. 347,500 + 25% of the amount exceeding Rs. 2,500,000
6.	Rs. 4,000,000 to Rs. 6,000,000	Rs. 722,500 + 30% of the amount exceeding Rs. 4,000,000
7.	Rs. 6,000,000 and above	Rs. 1,322,500 + 35% of the amount exceeding Rs. 6,000,000