The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examinations

9 September 2014
3 hours – 100 marks
Additional reading time – 15 minutes

Principles of Taxation

Q.1 Sultan is working as electronic engineer with Ansari Electrical Company Limited (AECL). He has provided you with the following information for the tax year ended 30 June 2014:

(a) His monthly cash remuneration in AECL is as follows:

	Rupees
Basic salary	480,000
Medical allowance	48,000
Utilities allowance	55,000
Market value of rent free accommodation	75,000

(b) He was also provided the following benefits in accordance with the terms of his employment:

(i) Leave encashment amounting to Rs. 300,000.
(ii) Hospitalization cost is covered by an insurance policy upto the amount of Rs. 1.5 million. The insurance premium relating to this benefit amounted to Rs. 55,000.
(iii) He is allowed to use his personal car for office use. Reimbursement of car running and maintenance expenses amounted to Rs. 550,000. 15% of these expenses pertain to personal use.

(c) Rs. 200,000 were received from a private limited company for attending board meetings.
(d) A lump sum amount of Rs. 1.2 million was received as the author of a literary work. Sultan took three years to complete this literary work.
(e) Sultan is also a part time singer and owns a studio. He sold the premises in which the studio was situated for Rs. 10 million and shifted his musical instruments to new premises which he purchased for Rs. 15 million. He received Rs. 2.5 million from his father in cash as loan to pay for his new studio. The previous premises was purchased several years ago for Rs. 1.4 million and had a tax written down value of Rs. 600,000 at the time of disposal.
(f) The net income from the studio for tax year 2014 was Rs. 990,000. The expenses include salaries of two workers at Rs. 15,000 and Rs. 18,000 per month and utility bills amounting to Rs. 110,000. All expenses were paid in cash.
(g) He won a car, in a competition held by Star Motor Limited for promotion of its sales. The fair market value of the car was Rs. 850,000.
(h) He gifted 40 fans having a fair market value of Rs. 100,000 to an approved charitable organisation.
(i) An amount of Rs. 500,000 was paid by him as contribution to an approved pension fund.

Required:
Under the provisions of the Income Tax Ordinance, 2001 compute the taxable income and tax thereon for the tax year 2014. ***Tax rates are given on the last page.*** **(20)**

Q.2 Briefly discuss the provisions of Income Tax Ordinance, 2001 in respect of the following situations:

(a) Farhan received Rs. 960,000 as his share of profit from AOP, during the tax year 2014. He also earns income from other sources. **(05)**

(b) ABC (Private) Limited has decided to provide a loan of Rs. 5 million to one of its shareholders, for the purchase of a house. **(04)**

Q.3 Zaman is working as the Chief Executive Officer in Yasir Limited (YL). Following are the details of sale and purchase relating to his capital assets during the tax year 2014.

(a) Under an employee share scheme, 25,000 shares of YL were allotted to Zaman, on 1 December 2011 for Rs. 25 each. According to the scheme, he was not allowed to sell/transfer the shares before completion of two years from the date of transfer. The face value of each share is Rs. 10 per share. Fair market value of the shares was as follows:
- Rs. 40 per share on 1 December 2011
- Rs. 48 per share on 30 June 2012
- Rs. 55 per share on 30 November 2013
- Rs. 61 per share on 30 June 2014

(b) He sold 24,000 shares of HQ (Pvt.) Limited on 30 June 2014 for Rs. 200 per share. He had acquired these shares as follows:
- 18,000 shares were purchased at Rs. 55 per share on 25 June 2013.
- 6,000 shares were allotted as bonus shares on 28 February 2014.

(c) A gain of Rs. 300,000 was realized on the sale of shares of Zeeshan Industries Limited (ZIL), a public listed company, in June 2014. The shares were acquired on 31 May 2013.

(d) Zaman sold a painting to his brother on 23 March 2014 for Rs. 1,800,000. Zaman had purchased this painting for his residence, in an auction for Rs. 2,000,000 on 10 July 2011.

(e) He sold his old furniture to Furqan for Rs. 285,000 on 25 June 2014. The furniture was purchased in 2012 for Rs. 250,000.

Required:
Compute the amount to be included in the taxable income of Zaman for the tax year 2014 and specify the head of income under which the income would be classified. **(10)**

Q.4 In Income Tax Ordinance, 2001 the term "disposal" has a wider connotation than sale because it includes exchange, relinquishment, and extinguishment.

List the situations under which an asset owned by a person shall be treated to have been disposed of. **(05)**

Q.5 (a) Under the Sales Tax Act, 1990 and Rules made thereunder:

(i) List the persons who are required to be registered. **(05)**
(ii) Change in rate of tax during a tax period **(04)**

(b) There are certain food items in the inventory of XY Limited (XYL) which were returned by the customers after the expiry date. Specify the procedure which must be followed under the Sales Tax Rules, 2006 if XYL wishes to destroy these items. **(03)**

Q.6 Ali Trading Company (ATC) is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and supply of consumer goods. Following information has been extracted from the records of ATC for the month of August 2014.

	Rupees
Supplies	
Local supplies to wholesalers	14,500,000
Local supplies to distributors	10,254,980
Exports	18,650,000
Local supplies to registered retailers	980,000
Supply of exempted goods	5,500,000
Purchases	
Local purchases from registered persons	50,982,000
Local purchases from un-registered persons	9,200,000

Following additional information is also available:

(i) Supplies amounting to Rs. 540,000 were returned by registered retailers.
(ii) An early settlement discount of Rs. 250,000 was given to local distributors.
(iii) An amount of Rs. 500,000 was received from Imran Associates, representing 25% advance payment in respect of supply of a special order. ATC will supply this order in November 2014.
(iv) Goods pledged with a bank, were disposed of by the bank for Rs. 4 million in satisfaction of debt owed by ATC.
(v) Sales tax credit brought forward from previous month amounted to Rs. 854,700.
(vi) Proper debit and credit notes have been issued wherever necessary.

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

Required:
Under the provisions of the Sales Tax Act, 1990 compute sales tax payable/refundable and input tax credit to be carried forward, if any, for August 2014. **(14)**

Q.7 The primary objective of a taxation system is to collect revenue. You are required to list the other objectives (non-revenue) which a taxation system can achieve. **(10)**

Q.8 Briefly explain the ethical responsibilities of the tax implementing authorities. **(10)**

Q.9 (a) List the taxes which can be imposed by the Federal Government. **(06)**

(b) Briefly describe the duties of National Finance Commission. **(04)**

(THE END)

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

RATES OF TAX
Division I
Rates of Tax for Individuals

S. No. (1)	Taxable income (2)	Rate of tax (3)
1.	Where taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.750,000	5% of the amount exceeding Rs. 400,000
3.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,400,000	Rs. 17,500 + 10% of the amount exceeding Rs. 750,000
4.	Where the taxable income exceeds Rs.1,400,000 but does not exceed Rs.1,500,000	Rs. 82,500 + 12.5% of the amount exceeding Rs. 1,400,000
5.	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.1,800,000	Rs. 95,000 + 15% of the amount exceeding Rs. 1,500,000
6.	Where the taxable income exceeds Rs.1,800,000 but does not exceed Rs.2,500,000	Rs. 140,000 + 17.5% of the amount exceeding Rs. 1,800,000
7.	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.3,000,000	Rs. 262,500 + 20% of the amount exceeding Rs. 2,500,000
8.	Where the taxable income exceeds Rs.3,000,000 but does not exceed Rs.3,500,000	Rs. 362,500 + 22.5% of the amount exceeding Rs. 3,000,000
9.	Where the taxable income exceeds Rs.3,500,000 but does not exceed Rs.4,000,000	Rs. 475,000 + 25% of the amount exceeding Rs. 3,500,000
10.	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.7,000,000	Rs. 600,000 + 27.5% of the amount exceeding Rs. 4,000,000
11.	Where the taxable income exceeds Rs.7,000,000	Rs. 1,425,000 + 30% of the amount exceeding Rs. 7,000,000