Certificate in Accounting and Finance Stage Examinations

The Institute of Chartered Accountants of Pakistan

7 March 2015
3 hours – 100 marks
Additional reading time – 15 minutes

Principles of Taxation

Q.1 On 1 July 20X4, Tahir commenced business of manufacturing garments. Income statement of the business for the year ended 30 June 20X5 is as follows:

	Notes	Rs. in 000
Sales		49,330
Less: Cost of sales	(i)	(39,150)
Gross profit		10,180
Less: Administrative and selling expenses	(ii)	(9,140)
Financial charges	(iii)	(2,500)
Other charges	(iv)	(1,358)
		(2,818)
Add: Other income		3,875
Profit before taxation		1,057

Notes to the income statement:

(i) On 15 July 20X4, used machinery was imported from China valuing Rs. 1,500,000. Depreciation @ 15% was charged on machinery for the whole year and is included in cost of sales.

(ii) Administrative and selling expenses include:
- Rs. 975,000 paid for the purchase of computer software. The software is likely to be used for twelve years.
- Cost of preparation of a feasibility study amounting to Rs. 250,000 which was issued prior to the commencement of business.
- Salary of Rs. 50,000 per month was paid to Tahir's brother who handles the financial matters of the business.

(iii) Financial charges include Rs. 80,000 pertaining to a vehicle obtained on lease from a leasing company. The cost of vehicle was Rs. 1,300,000. Depreciation of Rs. 260,000 has been included in administrative and selling expenses. Lease rentals paid during the year amounted to Rs. 300,000.

(iv) Other charges include:
- running and maintenance expenses of vehicle amounting to Rs. 295,450. Use of vehicle for personal purposes was approximately 20%.
- provision for bad debts amounting to Rs. 25,000.

Other information:

(i) Tahir was working in UAE for the past five years and had come back to Pakistan in April 20X4. He received an amount equivalent to Rs. 150,000 from his ex-employer as differential amount on his final settlement in August 20X4.

(ii) He sold a plot for Rs. 3,500,000 which was inherited from his father in 20X1. Fair market value of the plot at the time of inheritance was Rs. 1,500,000.

(iii) 5,000 shares were purchased for Rs. 600,000 from initial public offering of a new listed company.

(iv) Premium of Rs. 300,000 was paid on Tahir's life insurance policy.

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute the taxable income and tax liability of Tahir for the tax year 20X5. Provide comments in respect of items which do not appear in your computation. ***(Tax rates are given on the last page)*** **(18)**

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

(b) Specify the circumstances under which the Commissioner has powers to issue notice demanding a return of income from certain person(s) for less than one year. **(03)**

(c) State the powers of the Commissioner if a taxpayer fails to furnish return as required under part (b) above, within the specified time. **(04)**

Q.3 Munir resigned from his employment with Ali Industries Limited (AIL) with effect from 31 December 2014. He received following amounts in final settlement:

- Rs. 150,000 as Leave Encashment.
- Rs. 4,000,000 under a Golden Handshake Scheme.

Munir had received a salary of Rs. 350,000 per month for a period of six months upto December 2014. His taxable income and tax liability during the preceding five tax years were as under:

Tax year	2010	2011	2012	2013	2014
Total taxable income (Rs)	2,000,000	2,450,000	2,700,000	3,100,000	3,650,000
Total tax paid (Rs)	300,000	392,000	472,500	542,500	650,000

Required:
As a tax consultant, advise Munir about the amount of income tax payable by him for the tax year 2015, under the Income Tax Ordinance, 2001. ***(Tax rates are given on the last page)*** **(06)**

Q.4 (a) (i) Explain the term 'Rent' in context of 'Income from property'. **(02)**

(ii) Specify the head of income under which the following amounts would be chargeable to tax:
- rent from sub lease of a building.
- amount included in rent for the provision of amenities, utilities and any other service connected with renting of the building. **(02)**

(b) On 1 July 2014, Fahim agreed to rent out a house to Mirza at a monthly rent of Rs. 180,000 with effect from 1 August 2014 and received one year's rent in advance. He also received Rs. 800,000 as a security deposit which was partly used to repay the security deposit amounting to Rs. 400,000 received from the previous tenant in July 2010 and partly used for renovation of the house.

Fahim also incurred the following expenses in respect of the above house:
(i) property tax of Rs. 15,000.
(ii) payment of interest amounting to Rs. 200,000 to his friend against amount borrowed for renovation of the house.
(iii) insurance premium of Rs. 110,000.
(iv) Rs. 5,000 per month to Wasif for collection of rent.

Required:
Under the provisions of the Income Tax Ordinance, 2001 compute the taxable income of Fahim for tax year 2015 assuming he has no other income. **(07)**

Q.5 (a) Under the provisions of the Income Tax Ordinance, 2001 state the rules relating to residential status of an Association of Person (AOP). Also explain the taxability of income of AOP, in the hands of the firm and its members. **(05)**

(b) State the rules relating to set-off and carry-forward of losses of AOP and its members. **(02)**

Q.6 Aslam is a resident taxpayer who operates his business from Lahore (LHR) and Paris (PAR). In August 2014, he established a new branch in Berlin (BER).

Following information is available in respect of his business operations for tax year 2015:

	LHR	**PAR**	**BER**
	----- Rs. in million -----		
Income / (loss) from business	29	40	(15)
Advance taxes paid in respective countries during the year	10	5	3
Income from capital gain (net of income tax of Rs. 3 million)	-	27	-
Carried forward losses:			
Loss from business	-	55	-
Capital loss	-	6	-

The following amounts paid by Aslam in respect of BER have been charged to LHR:
(i) salaries for the first three months amounting to Rs. 5 million.
(ii) rent expense for the year amounting to Rs. 7 million.

Required:
Under the provisions of the Income Tax Ordinance, 2001 calculate the tax payable by Aslam in the tax year 2015 and foreign tax losses to be carried forward to next year, if any. **(09)**

Q.7 Bashir is registered under the Sales Tax Act, 1990 and is engaged in the business of export and supply of consumer goods. Following information has been extracted from his records for the month of February 2015.

	Rupees
Supplies	
To registered persons	25,980,000
To unregistered persons	2,500,000
Exempt supplies	1,874,000
Export to USA	2,000,000
Purchases	
Purchases from registered person	21,710,000
Import of a machine	2,500,000

Following additional information is also available:

(i) supplies to registered persons include goods amounting to Rs. 300,000 which were supplied to an associated company at a special discount of 25%.
(ii) input tax amounting to Rs. 55,900 was paid in January, 2015 but inadvertently it could not be claimed in the return for January 2015.
(iii) a registered supplier had supplied goods worth Rs. 500,000 to Bashir in February 2015. However, Bashir did not receive the sales tax invoice from the supplier.
(iv) the imported machine was put into operation during February, 2015.
(v) sales tax credit of Rs. 410,000 is to be brought forward from January 2015.

Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax, wherever applicable.

Required:
Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute sales tax payable/refundable and input tax credit to be carried forward, if any, for tax period February 2015. **(13)**

Q.8 Saleem is registered under the Sales Tax Act, 1990 and is engaged in the business of export and distribution of electronic appliances.

Required:
Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, advise Saleem on the following matters:

(a) any **six** situations in which input tax is not allowed to be adjusted against the output tax liability. **(06)**

(b) exports which are outside the purview of zero rating. **(03)**

(c) eligibility for a refund if input tax is paid in excess of the output tax payable for the month. **(02)**

(d) concept of provisional and final adjustment in relation to 'Apportionment of input tax'. **(02)**

Q.9 State any **five** ways through which taxes can be used for development of the country. **(05)**

Q.10 Briefly explain any three indirect taxes applicable in Pakistan. **(05)**

(THE END)

EXTRACTS DROM THE FIRST SCHDULE OF THE INCOME TAX ORDINANCE, 2001

Rates of Tax for Non-salaried Individuals

S. No.	Taxable income	Rate of tax
3.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,500,000	Rs. 35,000 + 15% of the amount exceeding Rs. 750,000
4.	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs.2,500,000	Rs. 147,500 + 20% of the amount exceeding Rs. 1,500,000
5.	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs.4,000,000	Rs. 347,500 + 25% of the amount exceeding Rs. 2,500,000
6.	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs.6,000,000	Rs. 722,500 + 30% of the amount exceeding Rs. 4,000,000
7.	Where the taxable income exceeds Rs.6,000,000	Rs. 1,322,500 + 35% of the amount exceeding Rs. 6,000,000

Rates of Tax for Salaried Individuals

S. No.	Taxable income	Rate of tax
4.	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
5.	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
6.	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
7.	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
8.	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
9.	Where the taxable income exceeds Rs.7,000,000	Rs. 1,425,000 + 30% of the amount exceeding Rs. 7,000,000

Capital Gains on disposal of Immovable Property

S. No.	Period	Rate of tax
1.	Where holding period of immovable property is up to one year.	10%
2.	Where holding period of immovable property is more than one year but not more than two years.	5%
3.	Where holding period of immovable property is more than two year.	0%