



## Taxation

Mock Exam Spring 2013  
Module : C

(Additional reading time - 15 minutes)

February 23, 2013  
100 marks – 3 hours

Q.1 Mr. Waqar Anwar is a senior professional and worked as CFO at a Leading Banking Company having its head office in Germany, eventually got retired during the year. Following is the details of his income during the year;

- Monthly Salary and perks;

	Rs.
1) Basic Salary	420,000
2) Medical Allowance	67,500
3) Utilities Allowance	67,500
4) Rent free Accommodation	180,000
5) Others	37,500

- On the date of his retirement on April 01, 2013, he received an amount of Rs 4.0 Million from his company as gratuity. The fund is not yet recognized.
- He sold his personal inherited plot for Rs 7,500,000. The fair Market value of the plot at the time of inheritance is Rs 1,500,000. (Holding period is more than 10 year)
- He paid Rs 500,000 as donation to Recognized University during the tax year.
- He incurred a loss of Rs 50,000 on sale of manuscript purchased by him during the year.
- He paid Rs 300,000 Mark up on a bank loan obtained from HBFC.
- He rented out one of his flat in Karachi to a Stock Broker for a monthly rent of Rs 300,000 per month on July 01, 2012 and received advance for two years.
- He is also entitled to receive a monthly pension of Rs 70,000 per month from his company.
- He is currently 62 years old.

**Required:**

Compute the taxable income and tax liability for the tax year 2013. *(18 marks)*

Q.2 A person is not required to give notice to Commissioner Income Tax while making payment to Non-Resident person with no tax deductions. What are the provisions of Income Tax Ordinance related to such case? Kindly give the exception of the rule, if any described by Law. *(08 marks)*

Q.3 Explain the correct tax treatment in each of the following situations: *(12 marks)*

- (i) In August 2000, Miss. Benish inherited a rare sculpture of Statue of Liberty which had a fair market value of Rs. 2,200,000 on the date of inheritance. In December 2012, the sculpture was sold by her at Rs.500,000.
- (ii) In November 2012, Mr. Badar Khan received an amount of Rs 2.0 Million as an arrear of last year and is now worried about his current year tax liability.
- (iii) Messrs Cecil wants to sell goods at a peak season. They got an offer from one of the partners' real brother. The Principal partner Mr. C showed his concern about the Arm's Length transaction. Is his concern is genuine?

- (iv) Mr. Ali bought a motor vehicle for his business for Rs 3.0 Million in Tax year 2010. However the restricted value of the vehicle is Rs 2.5 Million. He sold the vehicle in tax year 2013 for Rs 2.6 Million. He is not sure about the tax depreciation and Tax loss / gain.
- (v) Miss Asma worked as Scientist and due to her nature of job; she has to travel out of country very often. She has a residential property in Lahore. Due to a special assignment from her office, she left Pakistan on 14 August 2012 for 6 months. On October 29, Commissioner Income Tax served a notice of one month time to file a return on her Income. The notice was received by her watchman in informed her. She is not sure about the validity of this notice.
- (vi) Mr. Jamshed is a member of Board of Directors of SAGA company private limited. He is also a major shareholder of the company. The board has approved a loan of Rs 5.0 Million to Mr. Jamshed in the latest of BOD meeting held at its head office. Mr. Jamshed is confused about the correct tax treatment.

- Q.4 (a) What is meant by Special Purpose Vehicle (SPV)? Briefly explain it in the light of the Income Tax Ordinance 2001. **(07 marks)**
- (b) According to Income tax Ordinance, what are the provisions related to the small company related to Turnover, taxability, fixed assets, minimum tax liability or any other. **(07 marks)**
- (c) Under the Income Tax Ordinance, 2001, a deduction for capital loss is allowed when consideration received on disposal of a capital asset is less than its cost. What are the exceptions to this rule? **(07 marks)**

- Q.5. For the purpose of this part question, you should assume today's date is 1 October 2012. Uzair Enterprises Ltd (UEL), a registered person under the Sales Tax Act, 1990, is engaged in the production of a variety of goods. UEL's business transactions for the month of September 2012 were as below:

		<b>Rs.</b>
Sale of taxable goods to registered persons		10,000,000
Sale of taxable goods to unregistered persons	6,000,000	
Less: Trade discount at 10%	<u>(600,000)</u>	5,400,000
Exports of goods to a buyer in Kuwait		22,000,000
Sale of exempt supplies		4,000,000
Payments to registered persons for the purchase of raw materials		15,000,000
Payments to unregistered persons for the purchase of raw materials		4,000,000

**Additional information:**

- (1) The figures for the sales of all goods are stated exclusive of any applicable sales tax.
- (2) The sale of taxable goods to registered persons includes goods sold to an associated company of UEL at Rs. 200,000, the open market price of which at the time of sale was Rs. 400,000.
- (3) The figures for the purchases of raw materials are stated inclusive of any applicable sales tax.
- (4) All payments were made through crossed cheques.
- (5) Free replacement of defective parts is made in the case of taxable goods, which have been sold under warranty. During the month of September 2010 the market value of such replacement parts was Rs. 500,000 exclusive of sales tax.
- (6) The raw materials purchased from registered persons are utilised for the making of both taxable and non-taxable supplies.
- (7) The rate of discount is in conformity with the normal business practice in the industry but was not shown on the tax invoices.
- (8) Goods with the value of Rs. 100,000 were given free of cost to the Chief Executive of the company in accordance with his terms of employment.

- (9) Payment on account of the purchase of a new machine for the manufacture of goods meant for export only, of Rs. 10,000,000 (inclusive of sales tax) was made during May 2010. The machine was used for the first time in September 2010.
- (10) Input tax of Rs. 100,000 pertaining to the raw materials purchased for the manufacture of taxable goods in March 2012 could not be claimed due to an oversight.

**Required:**

Calculate the sales tax payable or refundable to Uzair Enterprises Ltd, for the month of September 2012.  
*(14 marks)*

Q.6 List down the persons who are required to be registered under the Sales Tax Rules, 2006. *(05 marks)*

Q.7 (a) What are the exceptions of rule of deducting of withholding tax on supply of goods and rendering of services? *(06 marks)*

(b) What is a tax treatment on sales made by manufacturers to the distributors, wholesalers and dealers? *(02 marks)*

(c) All business transactions exceeding Rs 10,000 need to be made thru crossed banking instruments. What are the exceptions of this rule? *(04 marks)*

Q.8. Explain with reasons, Tax treatment on below items in the light of Income Tax Ordinance, 2001: *(10 marks)*

- (a) Income of Mr Jawad who is a full time teacher and Researcher in a private school.
- (b) Mr Agha Saleem is a senior citizen, having an age of 63 years and working as an employee in Semi Government organization, drawing a salary of Rs 100,000 per month.
- (c) Carry forward of depreciation in loss making organization.
- (d) Rs 300,000 paid by Mr Saleem to a recognized charity organization thru a bearer cheque.
- (e) Ms Shazia drawing a lump sum salary of Rs 40,000 per month joined the office on first day of September 2012 with no previous employment experience.

**Note:**


**\*\* In some cases, tax may be calculated by using Rs 242,500 instead of Rs 420,000**

**(The End)**