The Institute of Chartered Accountants of Pakistan

Taxation

Intermediate Examinations – Autumn 2010 — September 4, 2010
Module C — 100 marks - 3 hours

Q.1 Mr. Zameer Ansari is working as a Chief Executive Officer in Wimpy (Private) Limited (WPL). Following are the details of his income / receipts during the tax year 2010:

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

	Rupees
Basic salary	200,000
Medical allowance	30,000
Utilities allowance	10,000

(b) In addition to the above, he was also provided the following benefits in accordance with his terms of employment:
   (i) Medical insurance for hospitalization and surgery, limited to Rs. 1,500,000 per annum.
   (ii) Payment of his children's school fees of Rs. 15,000 per month. The fee is deposited directly into the school's bank account.
   (iii) Rent free furnished accommodation on 1000 square yards. The accommodation is located within the municipal limits of Karachi.
   (iv) Two company-maintained cars. One of the cars was purchased by WPL for Rs. 3,000,000 and is exclusively for his business use. The second car was obtained on lease on February 1, 2009 and is used partly for official and partly for personal purposes. The fair market value of the leased vehicle at the time of lease was Rs. 1,800,000.
   (v) Leave encashment amounting to Rs. 100,000 was paid to Mr. Zameer on July 5, 2010.
   (vi) An amount equal to one basic salary was paid by WPL to an approved pension fund.

(c) Mr. Zameer had received 15,000 shares of WPL on December 1, 2006 under an employee share scheme. He had the option to transfer the shares on or after January 1, 2009. However, he sold all the shares on April 1, 2010.

   Fair value of the shares were as follows:
   - Rs. 35 per share on December 1, 2006
   - Rs. 42 per share on January 1, 2009
   - Rs. 48 per share on April 1, 2010

(d) An apartment owned by Mr. Zameer was rented on July 1, 2009 to Mr. Abdul Ghaffar at a monthly rent of Rs. 22,000. He received a non-adjustable security deposit of Rs. 150,000 which was partly used to repay the non-adjustable security deposit amounting to Rs. 90,000 received from the previous tenant in July 2007. He also incurred Rs. 20,000 on account of repairs to the apartment.

(e) He earned profit amounting to Rs. 750,000 on fixed deposit account maintained with a bank. The bank withheld income tax amounting to Rs. 75,000 and Zakat amounting to Rs. 250,000.

(f) Tax deducted at source from his salary, amounted to Rs. 650,000.

Required:
Compute the taxable income, tax liability and tax payable by Mr. Zameer Ansari for the tax year 2010. ***(21 marks)***

Q.2 (a) Mr. Abid has received a notice from the Income Tax Department for the payment of outstanding tax dues. However, due to liquidity problems he wants to delay the payment.

Required:
Advise Mr. Abid about the actions which the Department may take to recover the tax dues, if the payment is not made within the time specified in the notice. ***(05 marks)***

(b) List down the circumstances under which an original assessment can be amended or an amended assessment can further be amended, by the Commissioner of Income Tax. ***(05 marks)***

Q.3 (a) State the procedures to be followed when a person intends to make payment to a non-resident person without deduction of tax. ***(08 marks)***

(b) Mr. Faisal is a resident taxpayer and has been providing consultancy services to local and foreign clients since 2003. A friend has informed him that under the Income Tax Ordinance, 2001 he can claim a tax credit against any foreign income tax paid by him on his foreign source income.

Required:
Explain the provisions of the Income Tax Ordinance, 2001 pertaining to foreign tax credit available to a resident taxpayer. ***(06 marks)***

(c) Every employer is required to deduct tax from salary paid to the employees.

Required:
In the above context,
(i) explain the term "Employee's average rate of tax".
(ii) list the adjustments which the employer should consider while withholding the tax from salary. ***(06 marks)***

Q.4 (a) What is the difference between a public company and a private company within the meaning of the Income Tax Ordinance, 2001? ***(05 marks)***

(b) You are the tax consultant of Ideal Associates who are engaged in the business of manufacture and sale of electronic goods for the last twenty years. The firm has requested for your opinion in respect of the following:
(i) Provision for bad debts.
(ii) Payment against a liability which was outstanding since 2006 and had been added back into the taxable income of the firm in 2009.
(iii) Initial depreciation allowance on a three-year old plant, which has been imported from China. The remaining useful life of the plant is 7 years.

Required:
Advise the management on the treatment of the above transactions, under the Income Tax Ordinance, 2001. ***(07 marks)***

Q.5 (a) Mr. Hyder is the legal representative of his deceased uncle since January 5, 2010 and manages his estate worth Rs. 10 million approximately. On August 10, 2010, he received two notices from the Income Tax Department requiring him to:
- submit details of his uncle's income for the tax year 2009.
- make payment of Rs. 12 million against his uncle's income for the tax year 2007 and 2008.

Required:
Advise Mr. Hyder about the extent of his tax liability in respect of the income earned by his uncle before January 5, 2010. Also advise him about his obligations relating to the tax assessment proceedings pending/arising against his uncle. ***(05 marks)***

(b) List the situations referred to in Income Tax Ordinance, 2001 where an expenditure is required to be apportioned for the purpose of claiming a deduction. ***(04 marks)***

Q.6 Mr. Abdul Ghaffar is registered as a manufacturer, under the Sales Tax Act, 1990. He carried out the following activities during the month of August 2010:

	Rs. in '000'
Supplies	
Manufactured goods	
▪ Local – taxable goods	22,000
▪ Local – exempt goods	3,000
▪ Exports	5,000
Commercial goods	14,000
Purchases	
Local purchases of raw material	8,000
Import of raw material	17,000
Commercial import of finished goods	10,000

Other relevant information is as follows:

(i) All the above amounts are exclusive of sales tax.
(ii) Commercial imports are stated at C&F value and are subject to customs duty at the rate of 15%.
(iii) In July 2010, an amount of Rs. 365,000 was carried forward as sales tax credit.
(iv) Sales tax is payable @ 16% except commercial imports which are charged @ 18%.

Required:
Compute the following for the month of August 2010:
(a) Sales tax payable / refundable.
(b) Input tax credit to be carried forward, if any. ***(11 marks)***

Q.7 (a) State the situations when a registered person shall not be entitled to claim or deduct input tax under the Sales Tax Act, 1990. ***(06 marks)***

(b) Mr. Rizwan, a sales tax registered person, is carrying on business in the name of Rizwan Enterprises. On February 15, 2010, he sold certain goods to his customer against which he intends to issue a credit note in the month of September 2010.

Required:
Explain whether Mr. Rizwan can issue the credit note in the month of September 2010, under the Sales Tax Rules, 2006. ***(04 marks)***

(c) Explain the provisions of Sales Tax Act, 1990 with regard to the following:
(i) Change in rate of tax during a tax period ***(04 marks)***
(ii) Excess tax collected from the customer ***(03 marks)***

(THE END)

EXTRACT FROM THE FIRST SCHEDULE OF THE INCOME TAX ORDINANCE 2001

RATES OF TAX
Division I
Rates of Tax for Salaried Individual

S. No.	Taxable Income	Rate of Tax
(1)	(2)	(3)
1.	Where the taxable income does not exceed Rs. 200,000	0%
2.	Where the taxable income exceeds Rs. 200,000 but does not exceed Rs. 250,000	0.50%
3.	Where the taxable income exceeds Rs. 250,000 but does not exceed Rs. 350,000	0.75%
4.	Where the taxable income exceeds Rs. 350,000 but does not exceed Rs. 400,000	1.50%
5.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 450,000	2.50%
6.	Where the taxable income exceeds Rs. 450,000 but does not exceed Rs. 550,000	3.50%
7.	Where the taxable income exceeds Rs. 550,000 but does not exceed Rs. 650,000	4.50%
8.	Where the taxable income exceeds Rs. 650,000 but does not exceed Rs. 750,000	6.00%
9.	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 900,000	7.50%
10.	Where the taxable income exceeds Rs. 900,000 but does not exceed Rs. 1,050,000	9.00%
11.	Where the taxable income exceeds Rs. 1,050,000 but does not exceed Rs. 1,200,000	10.00%
12.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,450,000	11.00%
13.	Where the taxable income exceeds Rs. 1,450,000 but does not exceed Rs. 1,700,000	12.50%
14.	Where the taxable income exceeds Rs. 1,700,000 but does not exceed Rs. 1,950,000	14.00%
15.	Where the taxable income exceeds Rs. 1,950,000 but does not exceed Rs. 2,250,000	15.00%
16.	Where the taxable income exceeds Rs. 2,250,000 but does not exceed Rs. 2,850,000	16.00%
17.	Where the taxable income exceeds Rs. 2,850,000 but does not exceed Rs. 3,550,000	17.50%
18.	Where the taxable income exceeds Rs. 3,550,000 but does not exceed Rs. 4,550,000	18.50%
19.	Where the taxable income exceeds Rs. 4,550,000 but does not exceed Rs. 8,650,000	19.00%
20.	Where the taxable income exceeds Rs. 8,650,000	20.00%

Provided that where the total income of a taxpayer marginally exceeds the maximum limit of a slab in the table, the income tax payable shall be the tax payable on the maximum of that slab plus an amount equal to -

(i) 20% of the amount by which the total income exceeds the said limit where the total income does not exceed Rs. 550,000.
(ii) 30% of the amount by which the total income exceeds in each slab but the total income does not exceed Rs. 1,050,000.
(iii) 40% of the amount by which the total income exceeds in each slab but the total income does not exceed Rs. 2,250,000.
(iv) 50% of the amount by which the total income exceeds in each slab but the total income does not exceed Rs. 4,550,000.
(v) 60% of the amount by which the total income exceeds in each slab but the total income exceeds Rs. 4,550,000.

Division VI
Income from Property

S.#	Gross amount of rent	Rate of tax
1.	Where the gross amount of rent does not exceed Rs. 150,000	Nil
2.	Where the gross amount of rent exceeds Rs. 150,000 but does not exceed Rs. 400,000	5 percent of the gross amount exceeding Rs. 150,000.
3.	Where the gross amount of rent exceeds Rs. 400,000 but does not exceed Rs. 1,000,000	Rs. 12,500 plus 7.5 percent of the gross amount exceeding Rs. 400,000
4.	Where the gross amount of rent exceeds Rs. 1,000,000	Rs. 57,500 plus 10 percent of the gross amount exceeding Rs. 1,000,000