The Institute of Chartered Accountants of Pakistan

Taxation

Intermediate Examination	10 September 2011
Autumn 2011	100 marks – 3 hours
Module C	Additional reading time – 15 minutes

(All questions are compulsory)

Q.1 Mr. Khursheed, a Pakistani national, was employed as the chief financial officer in Zulfiqar Gas Company (ZGC), since 1990. Following information pertains to his income for the tax year 2011:

(I) **Income from ZGC**

Khursheed was employed with ZGC up to 31 December 2010. During this period he received the following emoluments:

- Basic salary of Rs. 400,000 per month, medical allowance of Rs. 75,000 per month and utility allowance equivalent to 10% of basic salary.
- A company-maintained car for official and private use. The car was purchased two years ago at a cost of Rs. 5 million. According to the company's policy, ZGC deducted Rs. 10,000 per month from his salary, for private use of the car.

On 31 July 2010, Khursheed had undergone a major surgery and incurred an expenditure of Rs. 1,500,000. ZGC reimbursed the entire amount as a special case as it was not covered under the terms of employment.

Due to poor health, Khursheed opted for early retirement on 31 December 2010 under the company's voluntary retirement scheme. He received the following benefits on his retirement:

- Rs. 7,500,000 as a golden handshake under the voluntary retirement scheme.
- Rs. 9,100,000 from an unapproved gratuity fund maintained by ZGC.
- Transfer of company's car for Rs. 2,600,000. The amount was deducted from his final settlement. The fair market value of the car as of 31 December 2010 was Rs. 2,800,000.

The tax deducted at source for the tax year 2011 amounted to Rs. 3,750,000.

(II) **Other Information**

- On 1 January 2011, Khursheed commenced business of marketing of horticultural plants and related items. However, due to intense competition, he had to wind-up this venture on 31 May 2011. During this period, he had incurred a loss of Rs. 750,000.
- He purchased 5000 shares for Rs. 500,000 from initial public offering of a new listed company on 1 June 2010. He claimed a tax credit of Rs. 60,000 on such investment, against the tax payable for the tax year 2010. On 15 June 2011, he sold these shares for Rs. 700,000.
- He incurred a loss of Rs. 500,000 on the sale of his shareholdings in a private limited company.
- He sold his personal car at a profit of Rs. 300,000.
- On 1 March 2011, he purchased an apartment for Rs. 5,000,000. 60% of this amount was financed by a scheduled bank. During the tax year 2011, he paid markup amounting to Rs. 127,500. On 1 April 2011, he rented out the flat to Mr. Abdul Sattar at a monthly rent of Rs. 25,000 and received advance rent for eight months.
- His average tax rate for the preceding three years is 18%.

Required:

(a) Compute the amount of taxable income, tax liability and tax payable / (refundable), if any, for the tax year 2011. ***(13 marks)***

(b) Briefly comment on the items which are not considered by you in the above computation. ***(06 marks)***

(Tax rates are given on the last page)

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Q.2 (a) Mrs. Hina has been living in USA for the last twenty years. She is the owner of two residential properties in Karachi and Islamabad measuring 750 square yards and 1,000 square yards respectively.

On 1 September 2011, the Commissioner served a notice on her residential property located at Karachi, for filing of return within 20 days from the date of receipt of notice for the tax year 2010. Mrs. Hina's servant informed her about this notice over telephone.

Required:
Discuss the validity of the notice in the light of provisions contained in the Income Tax Ordinance, 2001. ***(04 marks)***

(b) On 9 September 2011, Mr. Yaqoob received a notice from the Income Tax Department requiring him to make payment of the outstanding tax demand in compliance of an assessment order issued by the Commissioner. Presently, Mr. Yaqoob is experiencing cash flow difficulties and is therefore not able to pay the amount as required in the notice.

Required:
As a tax consultant, advise Mr. Yaqoob about the due date for payment of tax and recourse available to him if he is not in a position to make payment of the tax on time. ***(05 marks)***

Q.3 (a) 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:
(i) Explain the term 'Turnover' for the purpose of minimum tax. ***(05 marks)***
(ii) List the persons who are required to pay minimum tax. ***(03 marks)***
(iii) Discuss the rules relating to carry forward of minimum tax paid to the subsequent years. ***(02 marks)***

(b) Under the Income Tax Ordinance, 2001 the loss surrendered by a subsidiary company may be claimed by the holding company for set off against its business income in that tax year and following two tax years, subject to certain conditions.

Required:
List the conditions which are necessary for claiming the subsidiary's losses. ***(08 marks)***

Q.4 (a) Briefly discuss the residential status of the following persons for the tax year 2011 under the Income Tax Ordinance, 2001.

(i) Mr. Shah has been working as an Information Analyst in the Ministry of Foreign Affairs. On 1 November 2010, he was posted to Pakistan Embassy in Canada for three years.
(ii) Asif Learning Center is a partnership concern, providing IT training to professionals in Pakistan, UAE and Saudi Arabia. Up to 31 July 2010, the management and control of its affairs was situated partly in Pakistan. However, with effect from 1 August 2010, the entire management and control of the affairs of the partnership was shifted to Dubai.
(iii) Mr. Liaquat was sent to Pakistan on a special assignment by his UK-based company on 1 March 2011. He left Pakistan on 9 September 2011.
(iv) Farooq Trading LLC was incorporated as a limited liability company in UAE. The management and control of its affairs are situated wholly in Pakistan. ***(08 marks)***

(b) Explain the following as specified in the Income Tax Ordinance, 2001.
(i) Industrial Undertaking ***(05 marks)***
(ii) Fair Market Value ***(03 marks)***
(iii) Apportionment of Expenditures ***(04 marks)***

Q.5 Mr. Feroz has been the CEO of Aziz Foods Pakistan Limited (AFPL) for several years. He was given 2000 shares on 1 June 2009 by Aziz AG, Germany (the parent company of AFPL) at a price of €2.5 per share. The market price on that date was €8.2 per share. The shares were transferable on completion of one year of service, from the date of issue of shares.

The market price of the shares as on 1 June 2010 was €12.5 per share. On 10 April 2011, Mr. Feroz sold all shares at €13 per share. He paid a commission of €50 to the brokerage house.

The relevant exchange rates are as follows:

1 June 2009	€1 = Rs. 118.10
1 June 2010	€1 = Rs. 121.40
10 April 2011	€1 = Rs. 123.90

Required:
Compute the amount to be included in the taxable income of Mr. Feroz for tax years 2009, 2010 and 2011 and specify the head of income under which the income would be classified. ***(07 marks)***

Q.6 Mr. Agha is registered under the Sales Tax Act, 1990. He is engaged in the supply of household appliances and has provided you the following information for the month of August 2011:

(i) Supplies made during the month were as follows:

	Rupees
Local taxable supplies to registered persons	35,500,000
Local taxable supplies to unregistered persons	1,700,250
Exports to USA and Canada	25,500,000
Supplies of exempt goods	5,235,000

Goods worth Rs. 1,500,000 were returned by a registered person. Proper debit/credit notes have been issued in this regard.

(ii) Following purchases were made during the month:

	Rupees
Purchases from registered persons	54,550,000
Purchases from unregistered persons	10,600,000

Goods purchased from unregistered persons were exclusively used for making taxable supplies. An amount of Rs. 750,000 is payable to a registered person since 1 February 2011.

(iii) Sales tax credit of Rs. 610,000 has been brought forward from previous month.
(iv) Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax.
(v) Agha is also required to pay a penalty of Rs. 10,000 under the Sales Tax Act, 1990 on account of certain defects in the maintenance of records.

Required:
Compute the sales tax payable/(refundable) by/to Mr. Agha along with input tax to be carried forward, if any, in the sales tax return for the month of August 2011. ***(12 marks)***

Q.7 (a) Under what circumstances, a registered person becomes liable to be de-registered under the Sales Tax Act, 1990. Also state the procedures for deregistration as enumerated in the Sales Tax Rules, 2006. ***(07 marks)***

(b) Mr. Gohar has recently been registered under the Sales Tax Act, 1990. He is engaged in the export and distribution of consumer products. Before filing the first return, he wishes to obtain advice on the following matters:

(i) Eligibility for a refund if input tax paid is in excess of the output tax payable for the month.
(ii) Consequences of non-payment of the entire amount of tax due as indicated in the return.
(iii) Concept of provisional and final adjustment.

Required:
Comment on each of the above matters. ***(08 marks)***

(THE END)

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

RATES OF TAX
Division I
Rates of Tax for Salaried Individuals

S. No.	Taxable Income	Rate of Tax
(1)	**(2)**	**(3)**
12.	Where the taxable income exceeds Rs. 1,450,000 but does not exceed Rs. 1,700,000	12.50%
13.	Where the taxable income exceeds Rs. 1,700,000 but does not exceed Rs. 1,950,000	14.00%
14.	Where the taxable income exceeds Rs. 1,950,000 but does not exceed Rs. 2,250,000	15.00%
15.	Where the taxable income exceeds Rs. 2,250,000 but does not exceed Rs. 2,850,000	16.00%
16.	Where the taxable income exceeds Rs. 2,850,000 but does not exceed Rs. 3,550,000	17.50%
17.	Where the taxable income exceeds Rs. 3,550,000 but does not exceed Rs. 4,550,000	18.50%
18.	Where the taxable income exceeds Rs. 4,550,000.	20.00%

Division VI
Income from Property
Rate of tax for Individual and Association of Person

S. No.	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.