The Institute of Chartered Accountants of Pakistan

Certificate in Accounting and Finance Stage Examination

2 September 2019
3 hours – 100 marks
Additional reading time – 15 minutes

Principles of Taxation

Q.1 Saeed, a citizen of Pakistan, was working on a foreign vessel belonging to Delta Shipping Company (DSL) based in Spain for the past three years. His monthly salary was USD 15,000 which was remitted to his Pakistani bank account through normal banking channel. The amount received during the tax year 20X9 was converted to Pak Rupees at an average exchange rate of USD 1 = PKR 131.

On 1 October 20X8, he resigned from DSL and joined Haris Pharma Limited (HPL) in Pakistan as a General Manager. He was offered following monthly salary and allowance in HPL:

	Rupees
Basic salary	600,000
Medical allowance	66,000

In addition to the above, he was also provided the following:

(i) Bonus equal to two monthly basic salaries. However, bonus amount was adjusted in proportion to the duration of his stay in the company. The bonus amount was paid to him on 5 July 20X9.
(ii) Two company maintained cars. Both cars were purchased on 1 October 20X8. The car costing Rs. 3,500,000 was used for official purposes whereas the car costing Rs. 1,900,000 was used for personal purposes.
(iii) Free lunch from the restaurant owned by one of HPL's directors. The fair market value of food provided to him during the year was Rs. 125,000.
(iv) A special allowance of Rs. 20,000 per month to meet expenses wholly and necessarily incurred in the performance of his official duties. Actual expenses incurred by him during the year were Rs. 150,000.
(v) Provident fund contribution of Rs. 60,000 per month. An equal amount per month was also contributed by Saeed to the fund.

Other information relevant to tax year 20X9 is as under:

(i) On 1 December 20X8, Saeed obtained a loan of Rs. 25 million from a scheduled bank at 15% mark-up per annum to acquire a residential house.
(ii) During the year, he received dividends of Rs. 575,000 from a listed company. The amount was net of withholding income tax at the rate of 15% and Zakat of Rs. 62,500 deducted under the Zakat and Usher Ordinance, 1980.
(iii) Withholding tax deducted by HPL from Saeed's salary during the tax year 20X9 amounted to Rs. 1,300,000.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the appropriate head of income, the total income, taxable income and net tax payable by or refundable to Saeed for the tax year 20X9. **(17)**

Q.2 (a) Explain the term 'Rent' with relation to 'Income from property'. **(02)**

(b) During the tax year 20X9, Amjad carried out the following transactions in respect of his properties:

(i) On 1 July 20X8, Amjad purchased a factory building in Sukkur along with the installed machinery at the price of Rs. 9 million and Rs. 3 million respectively. To manage the shortage of funds of Rs. 2,000,000, he borrowed the same on 1 July 20X8 from his friend Shamshad through a crossed cheque. The loan carries interest at the rate of 18% per annum.

On 1 January 20X9, he let out this building along with the machinery to Basit at a monthly rent of Rs. 500,000 payable in advance.

(ii) On 1 July 20X8, Amjad let out his residential property situated in DHA Karachi to Mirza Limited at a monthly rent of Rs. 300,000. Rent for the two years was received in advance on 1 August 20X8.

(iii) On 1 July 20X8, Amjad also entered into an agreement with Zeeshan for the sale of his plot situated in Quetta for Rs. 50 million. The plot had been purchased for Rs. 40 million in 20X4. Under the terms of sale agreement, he received Rs. 5 million at the time of signing the agreement and the balance was to be received on 30 September 20X8. However, due to financial difficulties, Zeeshan failed to pay the balance amount on the due date and consequently, Amjad forfeited the advance in accordance with the terms of the agreement.

On 10 April 20X9, he finally sold the plot to Jamshed for Rs. 65 million.

(iv) Following expenditures were incurred by Amjad in respect of his properties in Sukkur and Karachi:

Details of expenditures	**Property situated in**	
	Sukkur	**Karachi**
Repair & maintenance - building	270,000	70,000
- machinery	50,000	-
Ground rent	50,000	10,000
Insurance - building	150,000	20,000
Total	**520,000**	**100,000**

Required:
In view of the provisions of the Income Tax Ordinance, 2001 compute under appropriate head of income, taxable income of Amjad for the tax year 20X9. **(10)**

Q.3 Respond to the following independent scenarios, under the provisions of the Income Tax Ordinance, 2001:

(a) Jean Francois, a French designer, often visits to Pakistan for promotion of his products. During his last visit he stayed in Pakistan from 10 July 20X8 to 25 February 20X9. ***Determine the residential status of Jean Francois for tax year 20X9, assuming that the Commissioner has granted him permission to use calendar year as special tax year.*** **(02)**

(b) Haris sold two of his personal vehicles during the current year and earned profit of Rs. 550,000. ***Discuss the taxability of profit earned by Haris in the context of capital gain/loss.*** **(02)**

(c) Sikandar has revalued his factory building in accordance with International Financial Reporting Standards and consequently charged depreciation on the revalued amount. ***Explain the tax implication of the revaluation.*** **(02)**

(d) Shahbaz has acquired machinery for his new factory against a loan repayable in USD. ***Discuss what would be the cost of machinery for the purpose of depreciation deduction.*** **(02)**

(e) Farhan and Imran jointly own a building in Quetta. The building has been rented out to a company. ***Discuss the tax treatment of income from such property.*** **(02)**

Q.4 Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, briefly explain the following:

(a) Requirement of books of account to be maintained by a taxpayer who has business income upto Rs. 500,000. **(04)**

(b) General provisions/rules which may apply to income subject to Final Tax Regime. **(06)**

(c) Provisions regarding Special Audit Panel. **(05)**

Q.5 (a) Identify any **three** situations in which the fair market value of the assets shall be treated to be the cost of the asset. **(03)**

(b) During the tax year 20X9, Salman Shahid sold the following assets:

(i) A vehicle used by manager-in-charge of his garment factory for Rs. 2.8 million. The vehicle was purchased for Rs. 3.1 million in tax year 20X6. **(03)**

(ii) A machine for Rs. 350,000 on 1 June 20X9, which he had imported from Malaysia for Rs. 1,900,000 on 1 May 20X9, to start a new business. The machine was badly damaged during the shipment from Malaysia, rendering it unfit for use. He received insurance claim of Rs. 1,840,000 as damages on 15 May 20X9. Charges incurred in connection with the submission of claim with insurance company were Rs. 38,000. **(03)**

Required:
Under the provisions of the Income Tax Ordinance, 2001 compute under the appropriate head of income, the amount to be included in the taxable income of Salman Shahid for the tax year 20X9.

Q.6 (a) Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, briefly describe the treatment of the following:

(i) Recording of partial payments received in advance during a tax period in respect of both taxable and exempt supplies. **(02)**

(ii) Change in rate of tax during a tax period . **(04)**

(b) There are certain goods returned by the customer as they are unfit for consumption and the seller has no option but to destroy them.

Specify the procedure which must be followed by a registered person under the Sales Tax Rules, 2006 for the destruction of such goods. **(02)**

(c) Who is required to file the following sales tax returns? Also mention the due date of filing of these returns.

(i) Monthly return (ii) Special return
(iii) Final return (iv) Annual return **(04)**

Q.7 MH Associates (MHA) is registered under the Sales Tax Act, 1990 as a manufacturer, distributor and retailer. Following information has been provided by MHA for the month of August 20X9:

	Rupees
Supplies	
Taxable goods to registered persons	7,850,000
Taxable goods to unregistered persons	815,000
Exempt goods to unregistered persons	800,000
Purchases	
Taxable goods from registered persons	5,400,000
Exempt goods from registered persons	1,500,000
Taxable goods from unregistered persons	1,100,000

Additional information:

(i) Supplies of taxable goods to registered persons include an invoice erroneously issued to Rasheed for Rs. 270,000 whereas the correct amount of invoice was Rs. 720,000.

(ii) Supplies of taxable goods to unregistered persons include sale of Rs. 365,000 to end consumers.

(iii) Purchases from registered suppliers of taxable goods include:

- an amount of Rs. 1,800,000 paid for purchase of raw material. However, only 40% of the goods were supplied during August 20X9.
- goods worth Rs. 1,200,000 against which a discrepancy has been indicated by the CREST.

(iv) Two machines A and B costing Rs. 900,000 and Rs. 1,200,000 respectively were acquired and commissioned into operation on 15 August 20X9. Machine A has been used for taxable supplies only whereas Machine B has been used for exempt supplies only.

(v) Input tax amounting to Rs. 120,000 was paid on 15 March 20X9 but inadvertently it could not be claimed in the return for March 20X9 and thereafter.

(vi) An electricity bill of Rs. 670,000 was paid in cash which included sales tax amounting to Rs. 95,000.

(vii) Taxable supplies of Rs. 90,000 were returned by the registered customers during the period. Proper debit/credit notes were issued within the specified time.

(viii) Sales tax credit brought forward from previous month amounted to Rs. 255,000.

Except where otherwise specified, all figures are exclusive of sales tax. Rate of sales tax is **17%**.

Required:
In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to MHA and input tax to be carry forward, if any, for tax period August 20X9. **(16)**

Q.8 (a) Briefly discuss **three** broad principles for levy of taxes. **(04)**

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

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

Tax Rate for Every Individual

S. No.	Taxable income	Rate of tax
1.	Where the taxable income does not exceed Rs. 400,000	0%
2.	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 800,000	Rs. 1,000
3.	Where the taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 2,000
4.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	5% of the amount exceeding Rs. 1,200,000
5.	Where the taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 4,800,000	Rs. 60,000 + 10% of the amount exceeding Rs. 2,400,000
6.	Where the taxable income exceeds Rs. 4,800,000	Rs. 300,000 + 15% of the amount exceeding Rs. 4,800,000

Depreciation Rates under Third Schedule

3.	Building (all types)	10%
4.	Plant and machinery, Vehicles (all types)	15%

Initial Allowance and First Year Allowance

The rate of initial allowance shall be 25% for plant and machinery and 15% for building.

Capital Gains on Disposal of Immovable Property

S. No.	Period	Rate of tax
6.	Where holding period of immovable property is up to three years	5%
7.	Where holding period of immovable property is more than three years	0%