Certified Finance and Accounting Professional Stage Examination

The Institute of Chartered Accountants of Pakistan

9 December 2017
3 hours – 100 marks
Additional reading time – 15 minutes

Advanced Taxation

Q.1 For the purpose of this question, **assume that the date today is 30 September 2018**.

Loyal (Pvt) Limited (LPL) is engaged in various businesses across Pakistan. The company has a paid up capital of Rs. 52 million. Following information has been extracted from LPL's records for tax year 2018:

	Rupees
Total turnover	54,520,000
Total expenses	(47,895,000)
Other income	4,350,000
Accounting profit before tax	10,975,000

Additional information:

Total turnover include:

(i) Sale of Rs. 21,750,000 (inclusive of sales tax at the rate of 17%) to one of the customers in Balakot. A special discount of 30% of the gross value of sales was offered to the customer in defiance of normal business practices.

(ii) Sale of surgical gloves of Rs. 14,931,000 to a government hospital in China. LPL realized the entire sale proceed during the year after deduction of 1% withholding tax by the authorised dealer.

(iii) Rs. 2,000,000 for providing engineering services to Sami enterprises (SE) in Islamabad. Withholding tax was deducted u/s 153 at the rate of 8%. LPL has not submitted any undertaking under clause 94 of Part IV of the Second Schedule.

Total expenses include:

(i) Import of packing material of Rs. 900,000 for packing of surgical gloves sent to China. Tax paid u/s 148 amounted to Rs. 49,500.

(ii) Accounting depreciation of Rs. 2,520,000.

Other income includes:

(i) Prize of Rs. 300,000 on prize bond. Tax deducted u/s 156 amounted to Rs. 45,000.

(ii) Dividend of Rs. 25,000 received from a corporate agricultural enterprise from its agricultural income as specified in Second Schedule to the Income Tax Ordinance, 2001. Withholding tax was not deducted at the time of payment.

(iii) Share of profit of Rs. 3,900,000 from an associate, recognized under equity method of accounting.

(iv) Income tax refund of Rs. 125,000 related to tax year 2016.

Other information (not included above):

(i) Share of profit of an AOP amounting to Rs. 875,000. LPL holds 40% interest in the AOP. The gross turnover of the AOP during tax year 2018 amounted to Rs. 18,600,000

(ii) Total tax depreciation amounts to Rs. 4,800,000.

(iii) Assessed tax loss brought forward from tax year 2017 amounts to Rs. 475,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the amount of tax payable by LPL for tax year 2018. State the amount of tax to be carried forward, if any. **(23)**

Note:
- ***Show all relevant exemptions, exclusions and disallowances.***
- ***Tax rates are given on the last page.***

Q.2 (a) Pakiza Limited (PL), an unlisted public company, was engaged in the business of producing dairy products in Punjab. On 1 January 20X5, PL established a new factory in Badin where the Federal Government has allowed one-year tax exemption to all new businesses. PL imported plant and machinery for its new factory at a cost of Rs. 8,200,000 from Japan. PL received a Provincial grant of Rs. 1,000,000 for installing the machinery in Badin whereas the actual expenditure on installation amounted to Rs. 700,000. Transportation cost of Rs. 200,000 was paid for bringing the machinery to the factory. During installation, one of the parts was damaged which had to be replaced at a cost of Rs. 45,000. PL also paid a premium of Rs. 50,000 for insuring the machinery against fire and theft. A cost of Rs. 5,000,000 was incurred towards construction of building and Rs. 1,200,000 for the acquisition of furniture and fittings. The factory was completed by the end of June 20X5 and commercial production started on 1 July 20X5.

Required:
Under the provisions of the Income Tax Ordinance, 2001 compute tax depreciation which PL may claim as deduction in computing its taxable income for the year ended 30 June 20X7. **(06)**
Note: Depreciation rates are given on the last page.

(b) Under the provisions of the Income Tax Ordinance, 2001 who may be appointed by the Federal Government as a judicial and accountant member of the Appellate Tribunal? **(06)**

(c) Under the provisions of the Income Tax Rules, 2002 what would be considered as the date of acquisition in each of the following cases?
(i) Acquisition of a security on account of a nomination under section 80 of the Companies Ordinance, 1984 under bequest. **(02)**
(ii) Borrowed security. **(01)**

Q.3 For the purpose of this question, **assume that the date today is 15 August 2018**.

Masood and Ali Hassan established a consultancy firm, MH Associates (MHA), for providing accounting and taxation services to SMEs in Punjab. They share profits and losses in the ratio of 60:40 respectively. During the year ended 30 June 2018 MHA earned profit before tax of Rs. 6,000,000 which included of an exempt income of Rs. 800,000. MHA's tax liability for the year amounted to Rs. 1,079,500. However, MHA paid Rs. 1,100,000 as advance tax against the tax liability.

Following further information is available about Masood for the year ended 30 June 2018:

(i) On 1 May 2016 Masood received 3,000 shares, by way of a gift from his father, in Lucky Inc., a company registered on Toronto Stock Exchange. On 1 January 2014 his father had bought these shares at a price of CAD 20 per share (equivalent to PKR 1,300 per share). The market value of each share at the time of transfer to Masood was CAD 28 (equivalent to PKR 2,100 per share).
On 15 June 2018 Masood sold 2,500 shares in Lucky Inc. to an investor for CAD 32 per share and paid a brokerage commission of CAD 0.2 per share to the stock broker. He also paid income tax of CAD 1,500 to the tax authorities in Toronto. The exchange rate at the time of above transaction was CAD 1 = PKR 90.

(ii) On 10 June 2018 Masood received royalty of Rs. 2,300,000 on publication of his book 'Slum-Dwellers' on children living in urban slums. It took him nineteen months to complete the book. The entire cost of publication was borne by the publisher. Masood's average rates of tax for the last two tax years were 17% and 19% respectively.

(iii) On 20 June 2018 Masood earned gross rent of Rs. 150,000 from a construction company for using his fork lifter on their site. The company withheld tax of Rs. 12,000 from the payment. Masood incurred Rs. 15,000 for repair of the fork lifter.

(iv) On 30 June 2018 Masood paid Rs. 50,000 in cash on account of Zakat to an approved NGO.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and tax payable by or refundable to Masood for tax year 2018. **(12)**

Note: ▪ ***Show all relevant exemptions, exclusions and disallowances.***
▪ ***Tax rates are given on the last page.***

Q.4 (a) Describe the provisions of the Federal Excise Rules, 2005 related to cancellation of registration of a person who is not registered for sales tax purposes and has ceased to provide or render excisable services. **(04)**

(b) Identify and state the authority who may and the circumstances under which any goods or class of goods or any services or class of services may be exempted from the levy of whole or any part of the excise duty under the Federal Excise Act, 2005. **(04)**

(c) Under the provisions of the Federal Excise Act, 2005 briefly describe the concept of 'Sales tax mode'. Also describe the relevant provision which specifies the type of goods and services on which excise duty is liable to be charged in sales tax mode. **(04)**
Note: List of goods and services and the manner of payment is not required.

Q.5 Quick Fox Limited (QFL) is a multinational company and is registered as a manufacturer, importer, wholesaler and retailer with the Regional Tax Office of Inland Revenue Department in Karachi. Following information has been extracted from QFL's records for the month of November 2017:

	Rupees
Purchases from registered suppliers	3,900,000
Purchases from un-registered suppliers	1,058,000
Advance from customers	117,000
Taxable supplies to registered persons	3,105,000
Taxable supplies to un-registered persons	1,210,000
Imports	852,000
Other income	215,000

Additional information:

(i) Purchases from registered suppliers include the following:
- lubricating oil worth Rs. 380,000 purchased from an oil marketing company for in-house consumption. Lubricating oil is designated as specified goods under Chapter XIII of the Sales Tax Special Procedure Rules, 2007.
- raw material of Rs. 390,000 and Rs. 225,000 purchased from SL on 6 November 2017 and 20 November 2017 respectively. On 15 November 2017 the Commissioner suspended SL's registration for claiming fraudulent refunds.
- goods covered under Third Schedule, worth Rs. 285,000 purchased from Nayab Associates (NA). QFL, upon instructions from NA, directly deposited cash amounting to Rs. 285,000 into its bank account.

(ii) Purchases from un-registered suppliers consist of the following:
- packing material of Rs. 358,000 which was purchased from a supplier who was liable to be registered with sales tax authorities.
- edible fruits, covered under Sixth Schedule, of Rs. 700,000.

(iii) Taxable supplies to registered persons include the following:
- goods worth Rs. 435,000 supplied to a manufacturer for onward sale to an exporter holding concessions under DTRE scheme.
- tyres worth Rs. 660,000. These tyres were purchased from a local manufacturer, which was a cottage industry, in October 2017. The tyres are designated as specified goods under Chapter XIII of the Sales Tax Special Procedure Rules, 2007.

(iv) Taxable supplies to un-registered persons consist of the following:
- sale of 150 bicycles, covered under Fifth Schedule, to un-registered dealers in Multan for Rs. 900,000. The bicycles were purchased in August 2017.
- sale of goods worth Rs. 310,000 to end consumers.

(v) Imports comprise of air conditioners worth Rs. 852,000. These were imported by QFL's wholesale-cum-retail division for sale through its own outlets. Air conditioners are designated as specified goods under Chapter XIII of the Sales Tax Special Procedure Rules, 2007.

(vi) Other income includes gain on disposal of a truck of Rs. 105,000. The truck was sold to an active tax payer for Rs. 1,205,000. No sales tax was recorded on this transaction.

Further information:

(i) In August 2017, QFL's car rental division imported wheel alignment machine for in-house use. 3% value addition tax of Rs. 18,000 was not paid at import stage.

(ii) In July 2017 QFL sold certain taxable goods worth Rs. 535,000 to an un-registered wholesaler at a wholesale price of Rs. 50 per pack and collected further tax at the rate of 2% of the value of supplies. In November 2017, the internal auditor pointed out that these goods were covered under Third Schedule. The retail price of these goods at the time of sale was Rs. 65 per pack.

(iii) In May 2017 QFL inadvertently collected sales tax of Rs. 45,000 from a customer as against the applicable tax of Rs. 54,015. QFL had applied to the Commissioner IR for the revision of the return however, no reply has so far been received in this regard.

All the above figures are **exclusive of sales tax**, except where it is implied otherwise. Sales tax is payable at the rate of **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 QFL and input tax to be carried forward, if any, for the tax period November 2017. Also compute withholding tax, wherever applicable. **(17)**

Note: Show all relevant exemptions, exclusions and disallowances. Ignore default surcharge.

Q.6 (a) Under the provisions of Article 160 of the Constitution of Pakistan, briefly describe how National Finance Commission is constituted and who may be the member(s) of such Commission. **(03)**

(b) It is the duty of the National Finance Commission to make recommendations to the President with regard to matters relating to finance. List any **three** such recommendations. **(03)**

Q.7 (a) What do you understand by the term 'Tier-1 retailers'? State the provisions relating to payment of sales tax by such retailers under the Sales Tax Act, 1990. **(06)**

(b) Under the provisions of the Sales Tax Rules, 2006 briefly describe the following:

(i) Persons not entitled to represent a taxpayer before the Appellate Tribunal. **(02)**

(ii) The circumstances in which the Board may cancel the registration of the user authorized to use the computerized system. **(02)**

(c) Under the provisions of any of the Provincial Sales Tax on Services Acts, describe:

(i) the activity(ies) which have specifically been excluded from the ambit of 'Economic activity'. **(02)**

(ii) the term 'Person'. **(03)**

(THE END)

TAX AND DEPRECIATION RATES

Tax Rates for Every Individual and Association of Person Except for Salaried Taxpayer

S. No.	Taxable income	Rate of tax
1.	Upto Rs. 400,000	0%
2.	Exceeds Rs. 400,000 but does not exceed Rs. 500,000	7% of the amount exceeding Rs. 400,000
3.	Exceeds Rs. 500,000 but does not exceed Rs. 750,000	Rs. 7,000 + 10% of the amount exceeding Rs. 500,000
4.	Exceeds Rs. 750,000 but does not exceed Rs. 1,500,000	Rs. 32,000 + 15% of the amount exceeding Rs. 750,000
5.	Exceeds Rs. 1,500,000 but does not exceed Rs. 2,500,000	Rs. 144,500 + 20% of the amount exceeding Rs. 1,500,000
6.	Exceeds Rs. 2,500,000 but does not exceed Rs. 4,000,000	Rs. 344,500 + 25% of the amount exceeding Rs. 2,500,000
7.	Exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 719,500 + 30% of the amount exceeding Rs. 4,000,000
8.	Above Rs. 6,000,000	Rs. 1,319,500 + 35% of the amount exceeding Rs. 6,000,000

Rates of Tax for Companies

1.	The rate of tax imposed on the taxable income of a public/private company shall be 30%.
2.	The rate of tax imposed on the taxable income of a small company shall be 25%.

Rate of Dividend Tax

(a)	7.5% in the case of dividends declared or distributed by purchaser of a power project privatized by WAPDA or on shares of a company set up for power generation or on shares of a company, supplying coal exclusively to power generation project; and
(b)	15% in cases other than mentioned in clauses (a) and (c);
(c)	12.5% in case of dividend received by a person from a mutual fund if the amount of dividend is above 2.5 million and 10% if the amount of dividend is less than or equal to 2.5 million.

Minimum tax under section 113

S. No.	Person(s)	Minimum Tax
4.	In all other cases (including LPL).	1.25%

Payments to resident person for right to use machinery and equipment

Rate of collection of tax under section 236Q shall be 10% of the amount of payment.

Depreciation Rates

1.	Building (all types)	10%	2.	Furniture and fittings	15%
3.	Plant and machinery	15%	4.	Motor vehicles (all types)	15%
5.	Computer hardware	30%			

Initial Allowance and First Year Allowance

The rate of initial allowance for applicable eligible depreciable assets is 25%.