



**THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF
PAKISTAN (ICPAP)**

(Suggested Solution)

Stage	Specialization	Course Code	SP-601
Examination	Summer-2012	Course Name	Advanced Taxation
Time Allowed	03 Hours	Maximum Marks	100
NOTES: 1) All questions are to be attempted. 2) Answers are expected to be precise, to the point and well written. 3) Neatness and style will be taken into account in marking the papers.			

Question No 1:-

What are the proposed amendments in Finance Bill 2012 in respect of income tax ordinance 2001 and sales tax 1990?

25 Marks

Answer No 1:-

Income Tax

- Deemed income on concessional loans to salaried tax payers shall not be computed for loans upto Rs. 500,000. Further, benchmark rate for computing such deemed income capped at 10%
- Exempt income threshold for individuals and Association of Persons enhanced from Rs. 350,000 to Rs. 400,000 and slabs revised having effect of reduction in tax
- AOPs to be taxed at progressive rates applicable to non-salaried individuals instead of flat rate of 25%
- Dividend received by banks from money market funds and income funds to be taxed @ 25% for tax year 2013 and @ 35% for tax year 2014 onwards instead of @ 10%
- Petroleum E&P companies may opt to pay tax @ 40% of profits and gains net of royalty for tax year 2012 onwards subject to withdrawal of pending appeals etc, and payment of outstanding tax liability upto tax year 2011 by 30 June 2012
- Rate of initial allowance on building reduced from 50% to 25%

- Limit of investment in shares and life insurance policy enhanced for the purpose of tax credit. Further, holding period of shares reduced from three to two years
- Tax credit @ 10% of amount invested for BMR also available against minimum tax and final tax
- Tax credit for BMR allowed to industrial undertakings set up upto 30 June 2011 @ 20% of amount invested
- Tax credit @ 100% of tax payable allowed to new industrial undertakings for corporate dairy farming
- Tax credit @ 100% of tax payable, including minimum tax and final tax liability, allowed to existing company investing 100% new equity through new shares for industrial undertaking including corporate dairy farming
- Gain on disposal of immovable property held for up to one year to be taxed @ 10% and held for upto two years @ 5%
- Manufacturers to collect tax @ 1% from sales to distributors, dealers and wholesalers which shall be adjustable against tax payable by such persons
- Threshold for withholding tax on daily cash withdrawals increased from Rs. 25,000 to Rs. 50,000
- No more withholding of tax by stock exchanges on carryover trades - NCCPL to collect withholding tax @ 10% on margin financing in share business
- Commercial importers, exporters and suppliers may opt out of final tax regime provided their tax liability under normal tax regime is not less than 60%, 50% and 70% of tax collected / deducted at source respectively
- Compensation / additional payment for delayed refund to be paid @ 15% per annum instead of KIBOR per annum
- Default surcharge for delayed payment of tax, advance tax and withholding tax to be calculated @ 18% per annum instead of KIBOR plus three percent per quarter
- Amendments made through Finance (Amendment) Ordinance 2012 regarding taxation of capital gains on shares and securities to be incorporated into the statute through the Act of Parliament
- Income exempt under any provision of the Ordinance including Second Schedule to be included in the scope of "total income" for tax rate purposes
- Additional payment on delayed refunds to be taxed as "income from other sources"
- Tax paid or payable as final tax to be excluded for the purpose of computing minimum tax
- Return of income cannot be revised to declare taxable income less than or loss more than that determined by a best judgment order, a revised order, a provisional order, an amended order, an appeal effect order or a rectified order

- Notice for pointing out deficiency in return may be issued within 182 days from the end of financial year in which the return is furnished instead of by the end of such financial year
- Best judgment assessment made for non-filing of statement of final taxation or wealth statement to prevail over deemed assessment on the basis of return or revised return filed by the tax payer
- Provisional assessment can also be amended by the Commissioner
- The Commissioner empowered to conduct enquiries for amendment of assessment order considered as erroneous and prejudicial to the interest of revenue
- Provisional assessment will be treated as final assessment if a company fails to file return of income alongwith audited or final accounts electronically within sixty days
- Appeal not permissible against provisional or final order under section 122C
- The Commissioner (Appeals) may grant stay against recovery of tax only upto 30 days after affording opportunity of being heard to the Commissioner
- Time limit to decide appeal by Commissioner (Appeals) within four months withdrawn
- The Commissioner, Commissioner (Appeals) or Collector having three years' experience as Commissioner or Collector may be appointed as Member of Appellate Tribunal
- Accountant Member may be appointed as Chairperson of the Appellate Tribunal even in normal circumstances
- The Appellate Tribunal may stay recovery of tax upto one hundred and eighty days excluding the period for which recovery was stayed by High Court
- Tax payable as a result of provisional assessment may be paid prior to expiry of sixty days from the date of service of notice of demand
- Tax required to be collected, instead of tax collected, at import stage to be treated as final tax or minimum tax as the case may be
- Tax deductible, besides tax deducted, from profit on debt, payments to non-residents, export proceeds, prizes and winnings, commission or discount allowed to petrol pump operators and brokerage and commission to be treated as final tax
- Withholding tax @ 5% not to apply to insurance premium and re-insurance premium paid to permanent establishment in Pakistan of a non-resident person
- Tax deductible at source, which has not been deducted or short deducted, may be recovered from the recipient
- The Board empowered to make scheme for introduction of tax payer honour card for individual taxpayers who fulfill criteria to be prescribed

- Option given to the taxpayer to pay the amount of penalty voluntarily
- Default surcharge not to apply on payment of tax due after first appeal and non-filing of second appeal
- The Board and other authorities can exercise powers of subordinate authorities
- The Board may condone time limit for any act or thing to be done both by the taxpayer and by the tax authorities
- Rate of tax for retailers having turnover upto 5 million reduced from 1% to 0.5%
- Rate of advance tax on goods transport vehicle enhanced from Re. 1 per kg to Rs. 5 per kg
- Rate of advance tax on passenger transport vehicles plying for hire enhanced from Rs. 100 to Rs. 500 per seat per annum
- Advance tax on purchase of motor vehicle with engine capacity of 1301 cc to 1600 cc enhanced from Rs. 16,875 to Rs. 25,000
- Amounts received from income payment plan out of accumulated balance of pension accounts with a fund manager and / or other funds exempted from tax
- Any income of Citizens Foundation exempted from tax and donations made to the Citizens Foundation eligible for straight deduction
- Profits and gains of venture capital company and fund exempted from tax upto 30 June 2024
- Reduced rate of 3% for withholding tax at import stage for industrial undertaking importing raw material for its own use subjected to production of certificate from the Commissioner
- Inter-corporate dividend and inter-corporate profit on debt exempted from withholding tax
- Electronic media also exempted from withholding tax on advertising services
- Collective investments schemes, modarabas, approved pensions funds, income payment plans, REIT schemes, private equity and venture capital funds, recognized provident funds, approved superannuation funds and approved gratuity funds exempted from tax on capital gains on disposal of securities
- Rates of tax on gain on sale of securities for insurance companies revised downwards upto tax year 2015

Sales Tax

- Higher sales tax rates at 22% and 19.5% slashed to standard rate of 16%
- Sales tax rate on import of soya-bean seed reduced from 7% to 6%
- Sales tax rate on import of rapeseed, sunflower seed and canola seed slashed to 14% from 15%
- Supply of waste paper exempted from sales tax

- Sales tax on steel sector enhanced from Rs. 6 / Kwh to Rs .8 / Kwh
- Remeltable scrap, sprinkler & drip equipments, spray pumps, etc. exempted from sales tax instead of zerorating
- Supplies against international tenders exempted instead of zero-rating
- Provisions relating to assessment and recovery of tax consolidated

Federal Excise

- FED abolished from 15 types of goods including lubricating oil, base lube oil, perfumes and toilet waters, beauty and make up preparations, preparation for use on the hair, pre-shave, shaving or after shave preparations, personal deodorants, filter rods for cigarettes etc.
- Rate of duty enhanced on locally produced cigarettes
- Rate of duty on cement proposed to be slashed from Rs. 500 PMT to Rs. 400 PMT
- FED on domestic and international travelling proposed to be enhanced at varied rates
- FED on international travelling proposed to be restricted to embarking on journey from Pakistan only
- Live stock insurance proposed to be exempted from FED
- Asset Management Companies proposed to be exempted from FED with effect from 01 July 2007

Customs

- Duty on certain sectors / industries is proposed to be reduced from 35% to 30%
- Duty on 88 pharmaceutical raw materials reduced
- Duty on printing, stationery and self-adhesive paper reduced
- Duty incentive to indigenous industry given

Capital Value Tax

- CVT on immovable property in Islamabad Capital Territory introduced
- CVT introduced vide Finance (Amendment) Ordinance, 2012 on purchase of listed shares to be enacted

Question No 2:-

- a) **Who may be regarded a short term resident under income tax ordinance 2001? Discuss the provisions relating to taxability for foreign source of income?**

Answer:-

Foreign-source income of short-term resident individuals:

Short- term resident individual is an individual who is:-

- (i) a resident solely by reason of his employment; and

- (ii) present in Pakistan for a period or periods not exceeding three years.

The foreign source income of such individuals shall be exempt from tax under the Ordinance.

However, the following incomes are not covered under this exemption provision:

- (i) any income derived from a business of the person established in Pakistan;
or
- (ii) any foreign-source income brought into or received in Pakistan by the person.

- b) Describe the benefits available under income tax ordinance 2001 to persons who are registered under sale tax Act 1990, Please also state the conditions which persons are required to fulfill in order to be eligible for claiming such benefits.**

Answer:-

Tax credit to a person registered under the Sales Tax Act, 1990:

A registered manufacturer under the Sales Tax Act, 1990 shall be entitled to a tax credit of two and a half percent of tax payable for a tax year. Subject to the following conditions:

- (i) Ninety percent of its sales during the said tax year are to persons who are registered under the Sales Tax Act, 1990.
- (ii) The person shall provide complete details of the persons to whom the sales were made.
- (iii) The income is not covered under final tax or minimum tax.
- (iv) Any unadjusted tax credit for the tax year shall not be carried forward to the next year.

- c) David Foods a firm is engaged in the business of manufacturing of synthetic Juices. It was not registered under sales tax Act 1990, but the firm made taxable supplies to local shop keepers. The intelligence wing of the sales tax Department (FBR) confiscated the two trucks of juices supplied to local shop keeper. What should the owners of David Foods do?**

Answer:-

The simple solution to the problem is that David Foods should immediately get itself registered under Sales Tax Act 1990, after fulfilling the necessary requirements laid down under sales tax act 1990.

Usually the Sales Tax staff visits the premises where the juices are manufactured. After due verification David Foods would registered and thereafter they can file online sales tax returns.

Question No 3:-

a) In the light of the provisions of Federal Excise Act, 2005, fill in the following blanks with the appropriate answers.

- (i) Every person who for any reason whatever has collected any duty in excess of the duty actually payable and the incidence of which has been passed on to the consumer, shall pay the amount so collected to _____
- (ii) _____ means Azad Jammu and Kashmir, Northern Areas and such other territories or areas to which the Federal Excise Act does not apply.
- (iii) _____ includes an undertaking, firm or company, whether incorporated or not, an association of persons and an individual.
- (iv) _____ means a person appointed by a manufacturer in or for a specified area to purchase goods from him for sale to a wholesale dealer in that area.

(4 marks)

Answer:-

- (i) Every person who for any reason whatever has collected any duty in excess of the duty actually payable and the incidence of which has been passed on to the consumer, shall pay the amount so collected to **the Federal Government.**
- (ii) **“Non-tariff area”** means Azad Jammu and Kashmir, Northern Areas and such other territories or areas to which the Federal Excise Act does not apply.
- (iii) **“Establishment”** includes an undertaking, firm or company, whether incorporated or not, an association of persons and an individual.
- (iv) **“Distributor”** means a person appointed by a manufacturer in or for a specified area to purchase goods from him for sale to a wholesale dealer in that area.

b) Explain the following with reference to the provisions of Federal Excise Act, 2005.

- (i) Applicable value and rate of duty. (04)
- (ii) Supply

(2.5 × 2 marks)

Answer:-

(i) Applicable value and rate of duty:

The value and the rate of duty applicable to any goods or services shall be the value, retail price, tariff value and the rate of duty in force.

- in the case of goods, on the date on which the goods are [supplied] for export or for home consumption;
- in the case of services, on the date on which the services are provided or rendered; and
- in the case of goods produced or manufactured outside the areas to which this Act has been applied and brought to such areas for a sale or consumption therein, the date on which the goods are brought to those areas.

(ii) Supply:

Supply includes sale, lease or other disposition of goods and shall include such transaction as the Federal Government may notify in the official Gazette from time to time.

Question No 4:-

Mr. Abid Raja is dealing in wholesale business. During the month of July 2011, his purchases and Sales as per return are as under.

	Rs.
Taxable turnover to registered persons	26,00,000
Taxable turnover to non-registered persons	1,00,000
Supplies to Charitable hospital (consists of less than 50 beds)	2,00,000
Supplies to Charitable hospital (consists of more than 50 beds)	1,00,000
Supplies to teaching hospitals of statutory universities (Consists of 200 beds)	3,00,000
Supplies to teaching hospitals of statutory universities (Consists of less than 200 beds)	5,00,000
Credit notes issued for taxable supplies	1,60,000
Taxable purchases from registered persons (tax invoices are available of Rs. 3,00,000)	4,00,000
Imported tax goods	2,00,000

Required: Determine the amount of sales tax liability.

(10 marks)

Answer No 4:-

Mr. Abbid Raja
CNIC NO. XXXXXXXX
Sales Tax Registration No.
For the Month of July 2011
Computation of sales tax payable

Output Tax

Taxable turnover to registered persons (RS. 26,00,000@ 16%)	4,16,000
Taxable turnover to Non registered persons (RS. 1,00,000@ 16%)	16,000
Supplies to charitable hospital (Consists of Less than 50 beds) Rs. 2,00,000 @ 16%	32,000
Supplies to charitable hospital (Consists of More than 50 beds)	—

	Rs. <u>1,00,000</u>	
Supplies to teaching hospitals of statutory universities (Consists of Less than 200 beds (RS. 5, 00,000@ 16%))		80,000
Supplies to teaching hospitals of statutory universities (Consists of More than 200 beds)	RS. <u>3,00,000</u>	-----
		<u>5,44,000</u>
Less Credit note adjustment in respect of sales return Rs. 1,60,000 @ 16%		<u>(25,600)</u> 5,18,400

Input tax Adjustment

Taxable purchases from registered person	<u>Rs. 4, 00,000</u>	-----
Tax invoices available of Rs. 3,00,000 @ 16%		48,000
Imported taxed goods (Rs. 2,00,000 @16%)		<u>32,000</u>
		<u>80,000</u>

Input Tax Allowed

Input tax allowed on supplies used in taxable activity	<u>71,209</u>
Total input tax/total turnover ×supplies used in tax activity 80,000/36,40,000 × 32,40,000	

Total sales tax payable

4,47,191

Notes:-

1. Credit note is issued by the supplier when the goods supplied are returned to him by the original buyer on any reason.
2. Section 8B(1) shall not apply.
3. Supplies to government hospital and charitable hospital consisting of 50 beds or more are exempted.
4. Supplies to teaching hospitals of statutory universities consisting of 200 beds or more are exempted.
5. Total turnover = Rs. 26,00,000 + 1,00,000 + 2,00,000 + 1,00,000 + 5,00,000 (1,60,000) = Rs. 36,40,000. Supplies used in taxable activity = Rs. 36,40,000 - 4,00,000 = Rs. 32,40,000.

Question No 5:-

Mr. Akram is director of Noor Textile Mills Ltd (engaged in transport business). The following information is available on his record for the tax year ended 30th June 2012

	Rs.
Salary	5,00,000
Free furnished accommodation provided by the employer. accommodation allowance Rs. 1,20,000 if this accommodation was not provided to him	
Free transport facility to the employee' family	20,000
Electricity , gas and water charges paid by the company	15,000

Remuneration for literary work	16,000
Wages of watchman, gardener and sweeper at house paid by the company	25,000
Interest free loan obtained from the employer	2,00,000
Income from property	12,000
UnAdjustable advance rent received	10,000
Rent of furniture and fittings	14,000
Agricultural income	1,20,000
Investment in Shares of listed companies	28,900
Donation to Punjab University	18,000
Payment to workers welfare fund	30,000
Property Income	2,50,000
Dividend Income (Net of Tax)	4,500

You are required to work out his tax liability.

(20 marks)

Answer No 5:-

MR.Akram
CNIC NO
Tax Year: 2012
Tax year Ended June 30th 2012
Residential Status: Resident
Computation of sales tax payable

Income from Salary	Rs.	Rs.
Basic Salary		5,00,000
Rent free furnished accommodation facility	<u>1,20,000</u>	
a) Entitled amount of rent		
b) 45% of basic salary (Rs. 5,00,000@45%)	<u>2,25,000</u>	
Whichever (a) or (b) is higher		2,25,000
Wages of watchman, Gardner and sweeper at house paid by the company		25,000
Free transportation facility to the employer's family	<u>20,000</u>	
Interest free loan obtained from the employer (Rs. 2,00,000 @ 13%)	<u>2,00,000</u>	26,000
Electricity , gas and water charges		15,000
 Income from Property (Section 15)		
Rental Income from property	12,000	
Add: 1/10 the adjustable advance rent received (Rs. 10,000*1/10)	<u>1,000</u>	-----
Rent chargeable to tax (separate block)	<u>13,000</u>	-----
 Income from other Sources (Section 39)		
Remuneration for literacy work		16,000
Rent of furniture and fittings		14,000

Agriculture Income	<u>1,20,000</u>	-----
Total Income		8,21,000
Less: worker welfare fund		<u>(30,000)</u>
Taxable Income		<u>7,91,000</u>
Computation of tax Payable		
Income tax on Rs. 7,91,000 @ 7.5%		<u>59,325</u>
Tax as per rule of marginal relief tax on Rs. 7,50,000 @6%	45,000	
Tax on amount exceeding(Rs. 7,91,000-7,50,000) 41,000@30%	<u>12,300</u>	<u>57,300</u>
Tax payable (lesser amount)		<u>57,300</u>
Amount allowed for Rebate		
Donated to University of the Punjab (Restricted up to 30% of taxable income)	18,000	
Shared of listed company purchased RS. <u>28,900</u>		
Amount allowed	<u>28,900</u>	
(shares of listed companies or 10% taxable income or Rs. 3,00,000)10% of Rs. 7,91,000=RS.79100 or RS 3,00,000 or Rs. 28,900 so only Rs. 28,900 will be allowed		
	<u>49,900</u>	
Average Relief		
57,300/7,91,00*46,900 = RS. <u>3,397</u>		
Net Tax		<u>53,930</u>

Notes:-

1. Bench mark rate is 13% for the tax year 2011.
2. Agricultural income is totally exempt from tax irrespective of the amount of agriculture.
3. Rs. 1,000 will be added to the rental value of property for ten continuous tax years in case of adjustable advance rent received.
4. No tax is payable on property income as the amount of rent is less than Rs. 1, 50,000.
5. Transport facility by transport undertaking to the employee or to the members of his family free of cost or at concessional fares in any conveyance owned or chartered by the undertaking is totally exempt.
6. Rental income from property 12,000
Add: 1/10 the adjustable advance rent received 1,000
Add: Property Income 250,000
Total property income (for separate block) 273,000
Less exempted 150,000
Taxable property 123,000

Tax on property income 123,000 @ 5% **6,150**

7. Income tax has already been deducted on @ 10% = $\frac{4,500}{90\%} = 5000$

Less: Tax 5000 @ 10% 500
Dividend Income (Separate block) Net **4500**

Question No 6:-

Following is the profit and loss account of Multan Trading Company Limited for the tax year ended 30th June 2011:

	Rs		Rs
Office salaries	35,000	Gross profit	2,80,000
Rent of premises	30,000	Premium on issue of debentures	10,000
Establishment expenses	4,000	Sundry receipts	20,000
General expenses	3,000		
Litigation expenses	5,000		
Legal expenses	3,000		
Advertising expenses	8,000		
Initial expenses	10,000		
Cost of issue of shares	4,000		
Employees welfare expenses	12,000		
Fines and penalties	3,500		
Sales tax	6,600		
Loss of stock by white aunts	15,000		
Audit fee	4,500		
Interest on long term loan	9,000		
Postage and telegrams	2,500		
Provisions for tax debts	3,700		
Income tax paid	13,000		
Depreciation	15,000		
Net profit	<u>1,23,000</u>		
	<u><u>3,10,000</u></u>		<u><u>3,10,000</u></u>

Notes:

1. Depreciation allowable Rs. 11,800
2. Litigation expenses include Rs. 4,000 incurred to acquire the title of capital asset.
3. Legal expenses include Rs. 1,000 in respect of criminal prosecution against employee

4. General expenses include Rs. 2,400 on account of donations to approved institutions
5. Income of Rs. 800 accrued during the period is not recorded in the books of account
6. Provident fund is recognized in IT Deptt
7. Postage of Rs. 500 were used for director personal expenses

Required:

Find out the taxable income and tax payable. (20)

Answer No 6:-

Multan Trading Company		
Tax year 2011		
Tax year ended 30-06-2011		
Residential Status: Resident		
Computation of taxable income and tax payable		
	Rs.	Rs.
Profit as per profit and loss account		1,23,200
<i>Add Inadmissible expenses:</i>		
General expenses (Donation to approved institution)	2,400	
Litigation expenses (to acquire the title of capital asset)	4,000	
Legal expenses (criminal prosecution against the employee)	1,000	
Initial expenses	10,000	
Cost of issue of shares	4,000	
Fines and penalties	3,500	
Provision for bad debts	3,700	
Income tax paid	13,000	
Depreciation	15,000	
• Income not recorded in books	800	57,400
		1,80,600
<i>Less:</i> Premium on issue of debentures %	10,000	

Amortization of preliminary expenses Rs. 10,000 @ 20	2,000	
Allowable depreciation	<u>11,800</u>	<u>23,800</u>
Total taxable business income		<u>1,56,800</u>
Computation of Tax		
Income tax on Rs. 1,56,800 @ 35%		54,800
' Less Average relief on donation to approved institution (Restricted up to 20% of taxable income)	2,400	
	<u>54,880</u>	
	1,56,800 x 2,400	<u>840</u>
Tax Payable with return		<u><u>54,040</u></u>

Notes:-

1. Initial expenses are amortized @ 20% of the total expenditure.
2. Premium on issue of debentures is a capital receipt, so exempt from tax.
3. Donation to approved/unapproved institutions is not treated as allowable deduction. Average relief shall be allowed on donations to approved institutions only.
4. Loss of stock by white aunts is an admissible deduction against business income.
