

Fundamentals Level – Skills Module

Taxation (Pakistan)

Specimen questions for June 2015

This is not a full specimen paper, it is a selection of specimen questions to give an indication of the style of the questions. It includes three multiple choice questions and one long question.

The full exam will consist of the following:

Section A – 15 multiple choice questions for 2 marks each

Section B – Four 10 mark questions and two 15 mark questions

All questions are compulsory.

To see an example of the full specimen exam, please refer to the F6 (UK) Specimen Paper.

The Association of Chartered Certified Accountants

Paper F6 (PKN)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

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SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest rupee.
2. All apportionments should be made to the nearest month except where the exact number of days is given in the question.
3. All workings should be shown when answering Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the tax year 2015 are to be used in answering the questions.

A. Tax rates for salaried individuals – where salary income exceeds 50% of taxable income

Taxable income	Rate of tax on taxable income
0 to Rs. 400,000	0%
Rs. 400,001 to Rs. 750,000	5% of the amount exceeding Rs. 400,000
Rs. 750,001 to Rs. 1,400,000	Rs. 17,500 plus 10% of the amount exceeding Rs. 750,000
Rs. 1,400,001 to Rs. 1,500,000	Rs. 82,500 plus 12·5% of the amount exceeding Rs. 1,400,000
Rs. 1,500,001 to Rs. 1,800,000	Rs. 95,000 plus 15% of the amount exceeding Rs. 1,500,000
Rs. 1,800,001 to Rs. 2,500,000	Rs. 140,000 plus 17·5% of the amount exceeding Rs. 1,800,000
Rs. 2,500,001 to Rs. 3,000,000	Rs. 262,500 plus 20% of the amount exceeding Rs. 2,500,000
Rs. 3,000,001 to Rs. 3,500,000	Rs. 362,500 plus 22·5% of the amount exceeding Rs. 3,000,000
Rs. 3,500,001 to Rs. 4,000,000	Rs. 475,000 plus 25% of the amount exceeding Rs. 3,500,000
Rs. 4,000,001 to Rs. 7,000,000	Rs. 600,000 plus 27·5% of the amount exceeding Rs. 4,000,000
Rs. 7,000,001 and above	Rs. 1,425,000 plus 30% of the amount exceeding Rs. 7,000,000

B. Tax rates for associations of persons and non-salaried individuals to whom the rates given in A are not applicable

Taxable income	Rate of tax on taxable income
0 to Rs. 400,000	0%
Rs. 400,001 to Rs. 750,000	10% of the amount exceeding Rs. 400,000
Rs. 750,001 to Rs. 1,500,000	Rs. 35,000 plus 15% of the amount exceeding Rs. 750,000
Rs. 1,500,001 – Rs. 2,500,000	Rs. 147,500 plus 20% of the amount exceeding Rs. 1,500,000
Rs. 2,500,001 – Rs. 4,000,000	Rs. 347,500 plus 25% of the amount exceeding Rs. 2,500,000
Rs. 4,000,001 – Rs. 6,000,000	Rs. 722,500 plus 30% of the amount exceeding Rs. 4,000,000
Rs. 6,000,001 and above	Rs. 1,322,500 plus 35% of the amount exceeding Rs. 6,000,000

C. Corporate tax rate for companies

Small company	25% of taxable income
Public company/private company	33% of taxable income
Tax rate for foreign direct investment in industrial undertakings by companies	20% of taxable income

D. Alternative corporate tax rate

For all companies	17% of accounting income
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E. Tax rates on capital gains on the disposal of securities (other than debt securities held by a company)

Where the holding period of a security is	
– up to one year	12·5%
– more than one year but not more than two years	10%
– more than two years	0%

F. Tax rates on capital gains on the disposal of immovable properties

Where the holding period of immovable property is

- up to one year 10%
- more than one year but not more than two years 5%
- more than two years 0%

G. Other tax rates

General rate on dividends received from a company by

- a filer 10%
- a non-filer 15%

H. Rates of deduction/collection of tax at source

Sale of goods (general rate)

- where the payment is being made to a company 4%
- where the payment is being made to a taxpayer other than a company 4.5%

Sale of immovable property by

- a filer 0.5%
- a non-filer 1%

Purchase of immovable property having a value of more than Rs. 3,000,000 by

- a filer 1%
- a non-filer 2%

Services (other than transport)

- where the payment is being made to a company 8%
- where the payment is being made to a taxpayer other than a company 10%

Contracts other than a contract by a sports person

- where the payment is being made to a company 7%
- where the payment is being made to a taxpayer other than a company 7.5%

Contract by a sports person 10%

Commission or brokerage received by

- advertising agents 7.5%
- other than advertising agents 12%

Profit on debt received by

- a filer 10%
- a non-filer where the amount of profit does not exceed Rs. 500,000 10%
- a non-filer where the amount of profit exceeds Rs. 500,000 15%

Import of goods (general rate)

- in the case of industrial undertakings 5.5%
- in all other cases of companies 5.5%
- in the case of other taxpayers 6%

On domestic electricity bills of Rs. 100,000 or more per month

7.5% of the bill

On international air-ticket of non-economy class

4%

On the fee received by a director of a company for attending a meeting etc

20%

I. Depreciation rates

Buildings (all types)	10%	} of the tax written down value
Furniture and fittings	15%	
Plant and machinery (not otherwise specified)	15%	
Motor vehicles (all types)	15%	
Computer hardware	30%	

J. Initial allowance on eligible assets being

- a building	15%	} of cost
- plant and machinery	25%	

K. Pre-commencement expenditure

Amortisation rate for pre-commencement expenditure	20%
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L. Benchmark rate

Interest free loans to employees	10% per annum
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Section A – ALL 15 questions are compulsory and MUST be attempted

Note: Only three specimen questions provided. For full specimen exam, see F6 (UK) Specimen paper

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet. Each question is worth 2 marks.

- 1 Mr Sohail has incurred Rs. 250,000 in respect of repairs to a building which he rented out to a company for an annual rent of Rs. 3,000,000 during the tax year 2015.

What amount is allowable as a deduction when computing his income under the head 'Income from property' in respect of the building?

- A Rs. 250,000
- B Rs. 600,000
- C Rs. 750,000
- D No amount is allowable

- 2 Mr Zaheer has acquired a new machine under a finance lease from an approved leasing company. Mr Zaheer uses the machine for the purposes of his business taxable under the Income Tax Ordinance, 2001.

Which deduction(s) will he be eligible for when computing his income under the head 'Income from business'?

- A Lease rentals
- B Depreciation
- C Initial allowance
- D Depreciation and initial allowance

- 3 The Federal Board of Revenue ('FBR') has been given powers to issue a circular setting out its interpretation of the Income Tax Ordinance, 2001.

On which of the following is a circular issued by the FBR not binding?

- A Chief Commissioner of Inland Revenue
- B Commissioner of Inland Revenue
- C Commissioner of Inland Revenue (Appeals)
- D A chartered accountant appointed to conduct audit of a taxpayer

Section B – ALL SIX questions are compulsory and MUST be attempted

Note: Only one specimen question provided. For full specimen exam, see F6 (UK) Specimen paper

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 For the purpose of this question, you should assume that today’s date is 15 July 2015.

Faisal Industries Limited ('FIL') is an unlisted company incorporated under the Companies Ordinance, 1984. FIL does not fall within the definition of a 'small company'. The goods manufactured by FIL are exempt from sales tax. The company prepares its financial statements to 30 June each year.

The following are the audited financial results for the year ended 30 June 2015:

	Note	Rs.
Sales	1	85,000,000
Cost of sales	2	(50,000,000)
Gross profit		<u>35,000,000</u>
Administrative expenses	3	(10,000,000)
Distribution and selling costs	4	(3,000,000)
Other operating expenses	5	(2,000,000)
		<u>(15,000,000)</u>
Profit/(loss) from operations		20,000,000
Finance cost	6	(4,000,000)
Net profit		<u>16,000,000</u>

Unless stated otherwise, FIL paid for all the expenditure through crossed cheques and tax was deducted and deposited by FIL as required under the law.

Notes

Note 1

Sales include goods, having a fair market value of Rs. 800,000, which were sold for Rs. 600,000 to a director of FIL.

Note 2

Cost of sales include the following:

- Rs. 1,000,000 paid in cash for freight inwards.
- Rs. 1,500,000 paid to a German company as consideration for a non-exclusive, non-transferable right for the production of an item for a period of 12 years. Production of the item started on 1 July 2014.
- Rs. 1,000,000 claimed as depreciation.

Note 3

Administrative expenses include the following:

- Rs. 600,000 paid as wages to a personal servant of a director of the company.
- Rs. 500,000 paid as a charitable donation to individuals.
- Rs. 50,000 paid as a penalty for violation of a provincial law.

Note 4

Distribution and selling costs include Rs. 500,000 paid to an employee as a reward for achieving his high sales target. As this was a one-off payment, no tax was withheld by FIL from the reward.

Note 5

Other operating expenses include Rs. 150,000 written off as irrecoverable during the year ended 30 June 2015. The amount had been given to one of FIL's clients as a loan a year earlier.

Note 6

The finance cost includes Rs. 700,000 [Rs. 500,000 as the principal cost + Rs. 200,000 as finance charges] paid to an approved modaraba in respect of plant and machinery taken on a finance lease on 1 January 2015.

Note 7

Other information

(i) **Schedule of own fixed assets as per tax record**

Assets	Tax written down value as on 1 July 2014	Addition at cost during the year
	Rs.	Rs.
Freehold land	10,000,000	–
Building on freehold land	5,000,000	–
Plant, machinery and equipment	12,000,000	300,000
Furniture and fittings	4,000,000	100,000
Motor vehicles	7,000,000	2,700,000 (see note (a))

Sub-notes to note 7(i):

- (a) Represents the cost of an office car.
- (b) Plant and machinery of Rs. 2,000,000 taken on a finance lease on 1 January 2015 is not included in the above schedule of the fixed assets [refer to note 6].

(ii) Tax paid by or collected from FIL during the year ended 30 June 2015 was:

	Rs.
Income tax deducted from payments received for the supply of goods	40,000
Income tax paid along with electricity bills	900,000
Advance tax paid in cash in four equal instalments on the due dates	4,000,000

Required:

(a) Compute the taxable income of Faisal Industries Ltd (FIL) for the tax year 2015, giving clear explanations for the inclusion or exclusion of each of the items listed in the notes.

Note: The reasons/explanations for the items not listed in the computation of taxable income should be shown separately. Specific marks are allocated for this part of the requirement. (13 marks)

(b) Calculate the tax payable by/refundable to FIL for the tax year 2015 on the basis of taxable income computed in part (a).

Note: Ignore workers' welfare fund and the minimum tax provisions. (2 marks)

(15 marks)

Answers

Section A

1 B

Rs. 3,000,000 x 1/5 = 600,000 [s.15A(1)(a)]

2 A

On assets which are taken on finance lease from an approved leasing company for business use, only lease rentals are admissible. [s.28(1)(b)]

3 C

[s.206(1)]

1 Faisal Industries Limited ('FIL')

(a) Taxable income for the tax year 2015 (accounting year ended 30 June 2015)

	Note	Rs.	Rs.	
Income from business				
Net profit as per income statement			16,000,000	0.5
<i>Add:</i>				
Adjustment in the sales value of goods sold to a director	(1)	200,000		1.0
Accounting depreciation in the cost of sales	(2)	1,000,000		0.5
Payment made to a German company	(3)	1,500,000		0.5
Wages of a personal servant of a director	(4)	600,000		1.0
Charitable donation claimed as expense	(5)	500,000		1.0
Penalty for violation of provincial law	(6)	50,000		1.0
Payment of reward without tax deduction	(7)	500,000		0.5
Loan written off	(8)	150,000		1.0
			4,500,000	
<i>Less:</i>				
Amortisation of intangible	(3)	150,000		1.0
Initial allowance	(9)	75,000		1.0
Tax depreciation	(9)	3,923,750		2.0
			(4,148,750)	
Income from business/Taxable income			<u>16,351,250</u>	

Items not included in the computation of taxable income

- (i) Freight inwards paid in cash – Rs. 1,000,000
Freight charges are not rendered inadmissible merely on the basis that they have been paid in cash. [2nd proviso to s.21(l)] 1.0
- (ii) Lease rentals paid to an approved modaraba – Rs. 700,000
A lease rental comprises the principal amount and finance charges. Since the plant and machinery were taken on a finance lease from an approved modaraba, the lease rentals paid are fully admissible. [s.28(1)(b)] 1.0
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Notes

Note 1

The price charged to the director was below the market value of the goods by Rs. 200,000. The sales are, therefore, enhanced by this amount to reflect correct value as if it were an arm's length transaction. [ss.68 and 108]

Note 2

Accounting depreciation is not a deductible charge. Tax depreciation and initial allowance are deductible at the rates prescribed in the Third Schedule and subject to the conditions mentioned in the relevant provisions [ss.22 and 23] of the Ordinance.

Note 3

The non-exclusive, non-transferable right for the production of an item is defined as an intangible in the Income Tax Ordinance, 2001. The full cost of an intangible is not allowed as deduction in any single tax year. It is to be amortised over the useful life of the intangible. An intangible asset with a normal useful life of more than ten years shall be treated as if it had a normal useful life of ten years. [s.24(4)(a)] The amount to be amortised is computed below:

Cost of the intangible		Rs. 1,500,000
Actual useful life		12 years
Deemed to have useful life		10 years
Amortised cost chargeable this year	1,500,000/10 = Rs. 150,000	[s.24(3) and (11)]

Note 4

Wages of Rs. 600,000 paid to a personal servant of a director of FIL are not for the purposes of business carried on by FIL. It is, therefore, not allowed as an expense. [s.20(1) and s.21(h)]

Note 5

The charitable donation of Rs. 500,000 paid to individuals is neither for the purposes of business carried on by FIL nor does it qualify for tax credit. [s.20(1) and s.61]

Note 6

The penalty of Rs. 50,000 paid for violation of a provincial law is not admissible under the law. [s.21(g)]

Note 7

Any amount paid in connection with employment falls in the definition of 'salary'. Since no tax was deducted from the taxable salary of the employee, it became an inadmissible expense. [s.21(c)]

Note 8

Since FIL is not a financial institution carrying on a business of lending money, the amount of loan written off as a bad debt is not allowable as a deduction. For non-financial institutions, only those amounts which first had been offered for tax are eligible for deduction as bad debt on their being written off as irrecoverable. [s.29(1)(a)]

Note 9

Initial allowance and tax depreciation:

Asset	TWDV on 1 July 2014	Addition/ (deletion) during the year	Initial allowance at 25% for plant and machinery	TWDV for depreciation	Rate of depreciation	Depreciation
(1)	(2)	(3)	(4)	5 = (2 + 3) - (4)	(6)	(7)
	Rs.	Rs.		Rs.		Rs.
Freehold land	10,000,000	-	-	-	-	-
Building on freehold land	5,000,000	-	-	5,000,000	10%	50,000
Plant, machinery and equipment	12,000,000	300,000	75,000	12,225,000	15%	1,833,750
Furniture and fittings	4,000,000	100,000	(see (a))	4,100,000	15%	615,000
Motor vehicles	7,000,000	2,500,000 (see (b))	(see (a))	9,500,000	15%	1,425,000
Total			75,000			3,923,750

[ss.22 and 23 read with 3rd Sch.]

Sub-notes to note 9

- (a) Furniture and fittings, and motor vehicles not plying for hire, are not eligible assets for the claim of initial allowance.
- (b) Although cost of the office car was Rs. 2,700,000, its value for depreciation is restricted to Rs. 2,500,000. [s.22(13)(a)]

(b) Tax liability for the tax year 2015

	Rs.	Rs.	
Taxable income for the tax year 2015 (from (a))		16,351,250	
As the company does not fall within the definition of a 'small company' tax is charged at 33%		5,395,913	0.5
Less: Tax already paid			
Tax deducted on payments received for supply of goods [Proviso to s.153(3)]	40,000		0.5
Tax collected along with electricity bills [ss.168 and 235]	900,000		0.5
Advance tax paid in cash [s.147]	4,000,000		0.5
		(4,940,000)	
Tax payable with return [s.137]		455,913	

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