Fundamentals Level – Skills Module

Taxation (Pakistan)

Tuesday 4 December 2012

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (PKN)

ACCA

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.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the tax year 2012 are to be used in answering all questions on this paper.

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

Taxable income	Rate of tax on taxable income
Up to Rs. 350,000	0%
Rs. 350,001 – Rs. 400,000	1·50%
Rs. 400,001 – Rs. 450,000	2·50%
Rs. 450,001 – Rs. 550,000	3·50%
Rs. 550,001 – Rs. 650,000	4·50%
Rs. 650,001 – Rs. 750,000	6·00%
Rs. 750,001 – Rs. 900,000	7·50%
Rs. 900,001 – Rs. 1,050,000	9·00%
Rs. 1,050,001 – Rs. 1,200,000	10·00%
Rs. 1,200,001 – Rs. 1,450,000	11·00%
Rs. 1,450,001 – Rs. 1,700,000	12·50%
Rs. 1,700,001 – Rs. 1,950,000	14·00%
Rs. 1,950,001 – Rs. 2,250,000	15·00%
Rs. 2,250,001 – Rs. 2,850,000	16·00%
Rs. 2,850,001 – Rs. 3,550,000	17·50%
Rs. 3,550,001 – Rs. 4,550,000	18·50%
Over Rs. 4,550,000	20·00%

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

Taxable income	Rate of tax on taxable income
Up to Rs. 350,000	0%
Rs. 350,001 – Rs. 500,000	7·50%
Rs. 500,001 – Rs. 750,000	10·00%
Rs. 750,001 – Rs. 1,000,000	15·00%
Rs. 1,000,001 – Rs. 1,500,000	20·00%
Over Rs. 1,500,000	25·00%

C. Tax rate for associations of persons

On taxable income	25% of taxable income

D. Tax rates for companies

Small company	25% of taxable income
Public company/private company	35% of taxable income

E. Tax rates on capital gains on the disposal of securities

Where the holding period of a security is

– less than six months	10·0%
– more than six months but less than 12 months	8·0%
– more than one year	0%

F. Tax rates for income from property

(i) For individuals and associations of persons

Up to Rs. 150,000	0%
Rs. 150,001 to Rs. 400,000	5% of the amount exceeding Rs. 150,000
Rs. 400,001 to Rs. 1,000,000	Rs. 12,500 plus 7·5% of the amount exceeding Rs. 400,000
Above Rs. 1,000,000	Rs. 57,500 plus 10% of the amount exceeding Rs. 1,000,000

(ii) For companies

Up to Rs. 400,000	5%
Rs. 400,001 to Rs. 1,000,000	Rs. 20,000 plus 7·5% of the amount exceeding Rs. 400,000
Above Rs. 1,000,000	Rs. 65,000 plus 10% of the amount exceeding Rs. 1,000,000

G. Other tax rates

On dividends received from a company	10%

H. Rates of deduction/collection of tax at source

Sale of goods (general)	3·5%
Services (other than transport)	6%
Contracts	6%
Commission or brokerage	10%
Profit on debt	10%
Import of goods (general rate)	5%

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

Eligible depreciable asset	50% of cost

K. Pre-commencement expenditure

Amortisation rate for pre-commencement expenditure	20%

L. Benchmark rate

Interest free loans to employees	14% per annum

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Question 1 begins on page 5.

ALL FIVE questions are compulsory and MUST be attempted

1 For the purpose of this question, you should assume that today's date is 15 July 2012.

Noor (Pvt) Ltd (NPL) is a Pakistan resident company, with a paid up capital of Rs.30,000,000. NPL's audited income statement for the year ended 30 June 2012 shows an accounting profit before tax of Rs. 2,000,000, after taking into account the following items:

	Note	Rs.
Expenses/deductions		
Depreciation		1,100,000
Fees paid to legal advisers	1	600,000
Impairment of financial assets	2	100,000
Profit paid on debt	3	400,000
Salaries expense	4	2,000,000
Lease rentals	5	700,000
Purchase of computer software	6	900,000
Loss on the sale of a computer	9	10,000
Others expenses	7	1,000,000
Income		
Dividend received	8	300,000
Gain on sale of office building	9	1,200,000

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

All the goods manufactured by NPL are exempt from sales tax.

Notes:

Note 1 – Legal adviser expenses comprise:

	Rs.
Lawyer's annual retainer fee	250,000
Fees for drafting an agreement with distributors for a period of five years	150,000
Fees for an increase in the company's share capital	200,000
	600,000

Note 2 – Impairment of financial assets

The impairment of financial assets is on account of the reduction in the value of 50,000 shares of the Bank of Punjab, which were purchased on 1 July 2007 for Rs. 350,000. The market value of these shares on 30 June 2012 was Rs. 250,000.

Note 3 – Profit paid on debt

The debt on which the profit was paid was utilised by an associate of NPL from whom no profit was charged as per the policy of the group companies.

Note 4 – Salaries expense consisted of:

- Rs. 100,000 contributed to an unrecognised provident fund;
- six months' salary of a temporary worker, at Rs. 20,000 per month, paid in cash; and
- Rs. 1,780,000 paid by direct transfer to employees' bank accounts.

Note 5 – Lease rentals

A machine was taken by NPL, from an approved leasing company, on a finance lease for a term of five years and put to use for business on 1 August 2011. The following payments were made to the leasing company during the year ended 30 June 2012:

- Rs. 20,000 documentation charges
- Rs. 200,000 finance charges
- Rs. 480,000 towards cost of the asset

The assets detailed in note 9 do not include this machine.

Note 6 – Computer software

NPL purchased computer software at a cost of Rs. 900,000 on 15 February 2012 and put it to use for business on 1 March 2012. The useful life of the software is estimated to be five years.

Note 7 – Other expenses consisted of:

- Electricity bills of Rs. 700,000, including Rs. 39,000 income tax.
- Professional tax paid at Rs. 200,000 to the Government of Punjab. The tax is payable annually irrespective of the income of the company.
- A fine of Rs. 50,000 paid for violation of the regulations issued by the Securities and Exchange Commission of Pakistan (SECP).
- A payment of Rs. 50,000 to the social security hospital established for the treatment of low paid workers. NPL's employees get treatment from the hospital free of charge.

Note 8 – Dividend received

The dividend received is from a mutual fund which only invests in debt securities. No tax at source has been deducted by the mutual fund. NPL made this investment out of its accumulated profits over the years.

Note 9 – Fixed assets used for business

Sr. No.	**Description of asset**	**Tax written down value (TWDV) on 1 July 2011**	**Added on 1 January 2012**	**TWDV of the assets sold on 31 March 2012**	**Sale proceeds**
		Rs.	**Rs.**	**Rs.**	**Rs.**
1	Land	3,000,000	–	–	–
2.	Office building	1,000,000	–	100,000 (see (a))	2,000,000
3.	Computers	200,000	100,000	30,000	65,000
4.	Furniture	300,000	50,000	–	–
5.	Cars for officials	1,000,000	1,800,000 (see (b))	–	–
6.	Plant and machinery	1,000,000	–	–	–

Sub-notes to note 9:

(a) The cost of the building sold was Rs. 800,000.
(b) This represents the cost of one car purchased during the year.

Note 10 – Taxes paid by NPL or withheld at source

Taxes withheld at source/paid during the year ended 30 June 2012 by NPL are as below:

- Rs. 39,000 paid with electricity bills (refer to note 7);
- Rs. 12,000 paid at the time of registration of the car (refer to note 9); and
- Rs. 1,500,000 in four equal instalments.

Note 11 – Other information

(i) In the tax year 2010, against a total bad debt claim of Rs. 200,000, the Commissioner of Inland Revenue allowed a deduction of Rs. 180,000. In the year ended 30 June 2012, NPL recovered Rs. 50,000 from the above amount of Rs. 200,000.

(ii) A trading liability of Rs. 240,000 was allowed in the tax year 2006 on an accrual basis. However, since it remained unpaid, the Commissioner disallowed it in the tax year 2010. The said trading liability has been paid in the tax year 2012.

(iii) The company received share deposit money of Rs. 1,500,000 in cash from its existing shareholders on 15 April 2012. The shares were issued on 1 July 2012.

Required:

(a) Compute the taxable income of Noor (Pvt) Ltd (NPL) for the tax year 2012 under the appropriate heads of income, giving brief reasons/explanations for the inclusion in or exclusion from the computation of each of the items listed in the question.

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. (28 marks)

(b) Calculate the tax payable by/refundable to NPL for the tax year 2012.

Note: Ignore minimum tax payable on the basis of turnover. (2 marks)

(30 marks)

2 For the purpose of this question, you should assume that today's date is 15 July 2012.

Ms Fauzia, a resident in Lahore, Pakistan, has worked as an internal auditor for Star Products (Pvt) Ltd (SPPL) for many years. For the year ended 30 June 2012, her income/receipts are as detailed below:

(a) Her basic salary during the year was Rs. 100,000 per month. Other perquisites given in cash or kind were as below:

(i) A medical allowance at 15% of her basic salary. The terms of her employment do not provide for free medical treatment or hospitalisation or any reimbursement of such expenses.

(ii) SPPL provided her with a car for official and personal use. SPPL had obtained the car by way of a finance lease and its fair market value at the time of the lease was Rs. 1,600,000. The lease rentals paid during the year were Rs. 200,000.

(iii) She had received 50,000 shares in SPPL on 1 January 2008 under an employee share scheme at Rs. 10 per share against a fair value of Rs. 30 per share. She had the option to transfer the shares on or after 1 January 2009 on which date the fair value was Rs. 40 per share. However, she sold all of the shares on 1 April 2012 at Rs. 50 per share.

(iv) SPPL reimbursed her Rs. 20,000 per month, being the school fees of her child.

(v) SPPL gave her a loan of Rs. 500,000 on 1 July 2011 at 5% mark-up. Ms Fauzia, however, waives the interest on her account with SPPL.

(vi) SPPL paid her Rs.100,000 in lieu of her unavailed recreational leaves.

(vii) She won the best employee award of SPPL in the form of a laptop having a fair market value of Rs. 140,000.

(viii) SPPL contributed Rs. 10,000 per month to the account of Ms Fauzia in the recognised provident fund of the company.

(ix) Due to the escalation of food prices, a lump sum amount of Rs. 50,000 was paid to her in June 2012.

Additional information about employment

(i) Apart from the above emoluments, a bonus of Rs. 300,000 for the year ended 30 June 2012 was approved on 15 June 2012, but was not paid to her until 2 July 2012.

(ii) Ms Fauzia paid Rs. 50,000 for attending a training workshop to equip her with the latest audit techniques. SPPL did not reimburse this amount.

(iii) SPPL deducted tax of Rs. 200,000 from her salary paid during the year.

(b) Ms Fauzia won the first prize of Rs. 1,000,000 in a television quiz programme. The prize paying authority deducted tax at the prescribed rate of 20% of the prize money.

(c) On 1 March 2012, Ms Fauzia took a shop on a rent of Rs. 20,000 per month to establish and run a trading business of imported products. She paid Rs. 50,000 to acquire possession of the premises.

In May 2012, Ms Fauzia imported beauty products valued at Rs. 1,000,000 from France and sold the same to a ladies club in Lahore for Rs. 1,300,000. The custom authorities collected advance tax of Rs.50,000 at the import stage. Her net income from the import and sale of the products was Rs. 70,000. Unfortunately, in June 2012, the owner of the shop decided to give the shop to another tenant. The owner, however, paid Rs. 150,000 to Ms Fauzia as consideration for vacating the possession on 30 June 2012.

Other information

(i) Travel agents collected tax of Rs. 10,000 at the time of selling air tickets to Ms Fauzia on her multiple personal visits to Karachi.

(ii) Zakat of Rs. 340,000 was paid under the Zakat and Ushr Ordinance, 1980.

(iii) Ms Fauzia acquired 70,000 new shares in a listed company for Rs. 700,000 on their initial public offer on 20 June 2012.

Required:

Compute Ms Fauzia's taxable income and income taxable under the final tax regime (FTR), and her total tax payable for the tax year 2012. Give brief reasons for the treatment of any items excluded from taxable income or for which no expense/deduction is allowed.

Note: Ignore the marginal relief admissible in the computation of the tax liability of salaried persons.

(25 marks)

3 For the purpose of this question, you should assume that today's date is 15 July 2012.

The following information is furnished to you by Mr Hussain relating to his accounting year ended 30 June 2012.

(1) 1 July 2011: Sold a residential house for Rs.7,000,000. He had purchased the house on 25 June 2003 for Rs. 5,000,000. The house had remained on rent throughout the period from its purchase until its sale.

(2) 5 August 2011: Sold 7,000 shares in Snowland Ltd (SLL) for Rs. 750,000. He had originally purchased these shares on 1 January 2011 for Rs. 550,000. SLL is a non-listed company incorporated under the Companies Ordinance, 1984. 50% of the shares of SLL are held by the Canadian government.

(3) 5 September 2011: Sold 5,000 Modaraba certificates in Fidelity Leasing Modaraba (FLM) for Rs. 200,000. He had purchased these certificates on 25 June 2011 for Rs. 150,000.

(4) 15 October 2011: Sold 10,000 ordinary shares in Zaheer Textile Ltd (ZTL) for Rs. 300,000. He had purchased these shares for Rs. 400,000 from the Lahore Stock Exchange on 15 October 2010. On 1 July 2011, ZTL was de-listed from all the stock exchanges of Pakistan and remained de-listed up to 30 June 2012.

(5) 20 November 2011: Exchanged 5,000 shares in Balochistan Gas (Pvt) Ltd (BGPL) acquired by him on 20 October 2011 for Rs. 450,000. In exchange, he received a car having a fair value of Rs. 750,000. He paid Rs. 25,000 to the broker who arranged this deal.

(6) 10 January 2012: Sold a rare manuscript for Rs. 10,000 after it was partly damaged by termites. The manuscript had been acquired for Rs.100,000 on 1 July 2002. It is the hobby of Mr Hussain to collect rare manuscripts.

(7) 15 February 2012: Gifted an antique having a fair market value of Rs. 500,000 to his nephew, who has been living in Qatar since 15 April 2009 in connection with his employment with the Federal Government of Pakistan. He had acquired the antique on 20 April 2003 for Rs. 250,000.

(8) 15 March 2012: Gifted 5,000 shares in Greenwood (Pvt) Ltd (GPL), a company incorporated under the Companies Ordinance, 1984, to his niece who has been living in Iran since 15 January 2008. He had acquired the shares on 1 July 2010 for Rs. 75,000. The value of the shares on the date of the gift was fairly estimated to be Rs. 200,000.

(9) 20 April 2012: Sold 8,000 shares in Hybrid Technologies (Pvt) Ltd (HTPL) for Rs. 700,000. He had acquired the shares as below:

- 4,000 ordinary shares on 1 January 2006 at Rs. 50 per share;
- 4,000 right shares on 1 January 2007 at Rs. 30 per share.

(10) 1 May 2012: Sold his personal jewellery for Rs. 1,000,000. The jewellery had been gifted to him by his mother on 1 May 2006, on which date it had a fair market value of Rs. 300,000. His mother had bought this jewellery in 1980 for Rs. 100,000.

(11) 15 June 2012: Received a dividend of Rs. 50,000 on 10,000 shares in Taste (Pvt) Ltd (TPL). The shares in TPL had been acquired on 1 July 2010.

Other information:

(1) A capital loss of Rs. 550,000 relating to the tax year 2011 appears in the books of Mr Hussain. This loss had been incurred on account of the sale of shares in PEL Ltd, a company whose shares were traded on the Karachi Stock Exchange in the tax year 2011 and which remained listed on that Exchange up to 30 June 2012.

(2) Income tax paid by Mr Hussain during the year ended 30 June 2012 was as below:

(i) Rs. 7,000 paid on mobile phone bills;

(ii) Rs. 5,000 deducted by TPL from the dividend received (refer to (11) above);

(iii) Rs. 4,000 deducted by the bank on cash withdrawals; and

(iv) Rs. 240,000 paid as advance tax in four quarterly instalments.

Required:

Compute Mr Hussain's taxable income and income assessable under the final tax regime (FTR), and his total tax payable/refundable for the tax year 2012. Give brief reasons for your treatment of each item.

(20 marks)

4 (a) Briefly state what is meant by 'tax evasion' and 'tax avoidance', distinguishing clearly between the two. (3 marks)

(b) A non-resident company intends to enter into a transaction with a resident company in Pakistan but is not sure about its income tax implications.

Required:

(i) State how the non-resident company can obtain a ruling of the Federal Board of Revenue (FBR) in advance on the proposed transaction; (2 marks)

(ii) Explain whether, and if so on what terms, the ruling will be binding on the non-resident taxpayer and the Commissioner of Inland Revenue, respectively; (2 marks)

(iii) State the status of the ruling if any inconsistency is found between a circular and an advance ruling given by the FBR. (1 mark)

(c) With reference to the tax year 2012:

(i) State when a resident individual taxpayer is required to file his/her wealth statement along with his/her return of income; (2 marks)

(ii) List the two situations in which a non-resident individual is required to file a wealth statement. (2 marks)

(d) Mr Waqar, an individual taxpayer regularly filing his return of income, purchased a plot of land on 25 June 2011 for Rs. 5,000,000. His explanation of the sources of funds used for the purchase of this plot of land is as below:

(i) He obtained a loan of Rs. 1,000,000 through crossed cheque from his uncle on 30 April 2012. His uncle derives income from agriculture and does not pay any income tax.

(ii) He has a bank certificate which shows that he received Rs. 3,000,000 by encashment of foreign remittances received in his bank account from Saudi Arabia on 10 June 2012. Mr Waqar does not want to divulge further details of this amount.

(iii) He received a gift of Rs. 1,000,000 in cash from his relative on 20 June 2011. Mr Waqar can provide full particulars about the source of income of this relative.

Required:

State, giving reasons, whether or not the amounts mentioned in the explanations will be treated as the income of Mr Waqar chargeable to tax and, if so treated, give the appropriate head of income. (3 marks)

(15 marks)

5 For the purpose of this question, you should assume today's date is 5 July 2012.

Mr Anwar, a registered person under the Sales Tax Act, 1990, is engaged in the manufacture and supply of consumer goods. His business transactions for the month of June 2012 were:

	Rs.	Rs.
Sale of taxable goods to registered persons	10,000,000	
Less: Trade discount at 5%	(500,000)	
		9,500,000
Sale of taxable goods to unregistered persons		25,000,000
Sales of taxable goods to the provincial government against an international tender		10,000,000
Export of goods to Iran		5,000,000
Sale of exempt goods to unregistered persons		10,000,000
Payment for the purchases of raw materials for the manufacture of both taxable and exempt supplies		35,000,000

Mr Anwar's records further show that:

(1) The figures for the sales of goods (including exports) are all stated exclusive of sales tax.

(2) The rate of discount of 5% is in conformity with the normal business practice in the industry and is shown on the sales tax invoices.

(3) All payments were made inclusive of sales tax.

(4) Input tax of Rs. 500,000 pertaining to the raw materials purchased in April 2012 for the manufacture of taxable goods was not claimed due to an oversight.

Required:

(a) Calculate the sales tax payable or refundable to Mr Anwar, for the month of June 2012, giving an explanation for the treatment of the trade discount allowed to registered persons. (6 marks)

(b) Briefly explain the difference between exempt supplies and zero rated supplies. (4 marks)

(10 marks)

End of Question Paper