Answers

Notes:
1. The suggested answers provide detailed guidance on the subject for use as a study aid to the question paper. Students were not expected to produce answers with this extensive detail, which would not be possible in a three hour exam.
2. All references to legislation shown in square brackets are for information only and do not form part of the answer expected from candidates.

Marks

1 Sheesham Ltd (Sheesham)

(a) Taxable income for the tax year 2012 (accounting year ended 30 June 2012)

	Note	Rs.	Rs.	Marks
Income from business				
Profit before tax	(1)		1,620,000	0·5
Less:				
To be treated separately under the head 'Income from other sources'				
– Bank profit	(2)	45,000		0·5
– Income from the lease of manufacturing unit	(3)	690,000		0·5
			(735,000)	
Add:				
Accounting depreciation	(4)	1,000,000		0·5
Legal and professional fees	(5)	96,000		0·5
Repair and renovation	(6)	50,000		0·5
Miscellaneous expenses	(7)	120,000		2·0
Accounting loss on sale of fixed asset	(8)	35,000		0·5
Taxable gain on sale of fixed asset	(8)	70,000		1·0
Finance charges paid	(9)	150,000		1·0
Profit paid to debenture holders	(9)	250,000		1·0
			1,771,000	
Less:				
Profit paid on running a finance facility	(2)	645,000		1·0
Bank charges	(2)	10,000		0·5
Lease rentals paid	(9)	600,000		1·0
Miscellaneous income	(10)	40,000		2·0
Initial allowance	(11)	250,000		1·5
Tax depreciation	(11)	925,000		2·5
Pre-commencement expenditure	(12)	70,000		1·0
			(2,540,000)	
Income from business			116,000	
Income from other sources				
Profit from saving accounts	(2)	700,000		1·0
From leasing of manufacturing unit	(3)	590,000		2·5
Income from other sources			1,290,000	
Total/Taxable income			1,406,000	

Items not included in the computation of taxable income.

(i) Legal and professional fees
The accountancy and audit fee of Rs. 64,000 and legal fee of Rs. 30,000 paid for the filing of statements with the ISE are in the normal course of business and admissible under the law. [s.20] 1·0

(ii) Repairs and renovations
The amount of Rs. 30,000 spent on the running and maintenance of a truck, being revenue in nature and for the purposes of business, is allowable expenditure. [s.20] 0·5

(iii) Miscellaneous expenses
Expenditure of Rs. 56,000 on refreshment for shareholders at the annual general meeting of the company is admissible being for the purpose of business. [s.21(d) read with Rule 10 of the Income Tax Rules, 2002] 1·0

The amount of Rs. 100,000 paid to the FRI for help in improving the method of seasoning wood used by the company is admissible scientific research expenditure. [s.26 (1)] 1·0

	Marks
The loss on the unfit wood of Rs. 74,000, being stock-in-trade, is incidental to the nature of business of the taxpayer and allowable. [s.20 and general principle of taxation]	1·0
(iv) Leased manufacturing unit Expenditure of Rs. 20,000 incurred on whitewashing the building and the property tax paid at Rs. 140,000 in respect of building given on lease to earn income assessable under the head 'Income from other sources' are admissible. [s.40]	1·0
	27·0

Notes:

Note 1

Profit before tax is taken for tax calculation purposes as the income tax paid is not an admissible expenditure. [s.21(a)]

Note 2

Earning of profit on bank accounts is not the business of Sheesham, hence, the amount of profit (Rs. 700,000) earned from saving accounts maintained with banks is assessable under the head 'Income from other sources' under normal law and not as business income. [ss.39(1) (c) & 151(3)]

Since the expenditure deducted (profit paid (Rs. 645,000) on running the finance account and related bank charges at Rs. 10,000) has been incurred to earn business income, the same shall be allowed against the head 'Income from business' and not against the head 'Income from other sources'. [ss.10 & 20]

Note 3

Income from a building together with plant or machinery given on lease is assessable under the head 'Income from other sources'. [s.39(1)(f)] Expenditure which has been incurred to earn income under the head 'Income from other sources' is admissible, as discussed below:

Income is computed as below:

	Rs.	Rs.
Lease income declared		690,000
Add:		
Accounting depreciation [s.22]		350,000
Less:		
Tax depreciation on building (3,000,000 x 10%) [s.22 read with s.40(3) (a) and 3rd sch.]	300,000	
Tax depreciation on plant and machinery (1,000,000 x 15%) [s.22 read with s.40(3) (a) and 3rd sch.]	150,000	
		(450,000)
Taxable income from lease		590,000

Tutorial note:

Alternative method of calculation:

	Rs.	*Rs.*
Gross lease rentals		*1,200,000*
Less:		
Whitewashing	*20,000*	
Property tax	*140,000*	
Tax depreciation [as calculated above]	*450,000*	
		(610,000)
Taxable income from leasing		*590,000*

Note 4

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 & 23] of the Ordinance.

Note 5

Legal fee of Rs. 96,000 paid in connection with purchase of land is a capital expenditure, hence not allowable. Other fees are admissible.

Note 6

Reconstruction of a car park is a structural improvement eligible for tax depreciation and not for straight deduction as expenditure. Hence the amount of Rs. 50,000 is added back. [s.22(15) & 23(5)].

Note 7

(i) Tax law only allows a deduction where a bad debt is irrecoverable and has been written off in the books of account. [s.29(1)] The conditions having not been fulfilled in the given case, the amount of Rs. 70,000 must be added back having been provided for likely bad debts in future.

(ii) Rs. 50,000 paid for infringement of the Federal health and safety regulations is a fine, in nature, hence not admissible. [s.21(g)]

Note 8

The accounting profit or loss on the disposal of a depreciable asset is ignored for tax purposes. Therefore, the accounting loss of Rs. 35,000 on the sale of the fixed asset is added back.

For tax purposes, the difference between the consideration received and the tax written down value (TWDV) of the asset is taken as profit where the consideration is higher than the TWDV, and a loss where the consideration is less than the TWDV. Thus, the profit or loss for tax purposes on the disposal of the fixed asset is calculated as below:

	Rs.
Sale consideration received	100,000
TWDV of the asset	(30,000)
Taxable gain on the disposal of the asset	70,000

[s.22(8)(a)]

Note 9

Instead of finance charges, lease rentals paid in respect of the assets taken on finance lease from an approved leasing company are admissible. Therefore, the finance charges are added back and the lease rentals allowed as a deduction. [s.28 (1)(b)]

Due to the non-deduction of tax from the profit paid to the debenture holders, the amount of Rs. 250,000 has become inadmissible. [s.21(c)]

Note 10

(i) The exchange gain of Rs. 25,000 is not taxable as US dollars have not been disposed of. Hence deducted from taxable income being a notional gain only. [s.18 and 34]

(ii) The gain of Rs. 15,000 arising from the revaluation of the sawing machine is also not taxable. [s.22 and 34]

Marks

Note 11

Initial allowance and tax depreciation:

Asset	TWDV on 1 July 2011	Addition during the year	Initial allowance at 50% of addition of eligible assets	TWDV for depreciation	Rate of depreciation	Depreciation
(1)	(2)	(3)	(4) = (3) x 50%	(5) = (2) + (3) – (4)	(6)	(7)
	Rs.	Rs.		Rs.		Rs.
Land		1,000,000 (see (a))	–	–	–	–
Building	4,000,000	500,000 (see (b))	250,000	4,250,000	10%	425,000
Car park		50,000 (see (c))	–	50,000	10%	5,000
Truck for delivery of furniture		2,500,000		2,500,000 (see (d))	15%	375,000
Furniture and fixture	600,000			600,000	15%	90,000
Technical design books	200,000			200,000	15%	30,000
Total			250,000			925,000

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

Sub-notes to Note 11

(a) Land is not eligible for depreciation or initial allowance. [s.22 (15) & 23(5)]

(b) A canteen building is used for the purposes of business, hence it is eligible for initial allowance as well as tax depreciation. TWDV of the addition for tax depreciation is worked out after deducting the allowable initial allowance [s.22(5)(a)]

(c) The cost of reconstruction of a car park [structural improvement] is not eligible for initial allowance but is eligible for tax depreciation after being capitalised. [s.23(1)]

(d) The cost of a truck is not restricted to Rs. 1,500,000 for tax depreciation purposes, the restriction clause applies only to passenger transport vehicles not plying for hire. [s.22(13)(a)] However, a second-hand truck is not eligible for initial allowance.

Note 12

Expenditure on feasibility studies is included in 'pre-commencement expenditure' and allowable at 20% annually. Total expenditure on this account was Rs.350,000. The disallowance of pre-commencement expenditure during the last tax year in excess of 20% was in accordance with the law but it is admissible again this year at 20% at Rs. 70,000. [s.25]

(b) Tax liability for the tax year 2012

	Rs.	Rs.	Marks
Taxable income for the tax year 2012 (from (a))		1,406,000	
Tax at 35%		492,100	0·5
Less tax credit for enlistment on ISE Tax credit at 15% of tax payable is admissible in the tax year in which a company is enlisted on any registered stock exchange in Pakistan. [492,100 x 15%] [s.65C]		(73,815)	1·5
Balance tax payable		418,285	
Less already paid			
(i). Tax deducted by banks on profit (700,000 x 10%) [s.168]	70,000		0·5
(ii). Advance tax during the tax year 2012 [s.168]	500,000		0·5
		(570,000)	
Tax refundable to Sheesham [s.170]		(151,715)	
			3·0
			30·0

Marks

2 Mr Musa

Taxable income for the tax year 2012 (accounting year ended 30 June 2012)

				Rs.	Marks
Income from salary					
Basic salary (125,000 x 6)	[s.12(2)(a)]			750,000	0·5
Electricity allowance (10% x 125,000 x 6)	[s.12(2)(c)]			75,000	1·0
Commission from employer	[s.12(2)(a)]			120,000	1·0
Payment of loan on behalf of Musa	[s.13(10)]			158,000	1·0
Salary paid to Musa's house keeper (15,000 x 6)	[s.13(5)]			90,000	1·0
Bonus	[s.12(2)(a)]			100,000	0·5
Perquisite representing concessional loan	(working-1)			10,000	1·5
Perquisite under employee share scheme	(working-2)			20,000	2·0
Reimbursement of medical charges	[Cl. (139) of Pt. I of 2nd Sch.]			80,000	1·0
Income under the head 'salary'				1,403,000	
Income from Business					
		Rs.	**Rs.**		
Gross receipts			3,000,000		0·5
Less:					
Salaries paid		100,000			0·5
Rent paid		400,000			0·5
Deduction for computer software (working-3)		24,863			1·5
Lease rentals paid (working-4)		100,000			1·0
Other expenses		200,000			1·5
Initial allowance (working-5)		250,000			1·0
Tax depreciation (working-5)		135,000			1·0
			(1,209,863)		
Income from business				1,790,137	
Total income				3,193,137	
Less Zakat [s.60]				(100,000)	1·0
Taxable income				3,093,137	
Tax on taxable income at 25%				773,284	0·5
Tax on income covered under the final tax regime (FTR)					
Tax on prize won on a prize bond at 10% (700,000 x 10%) [s.169(1)(b) read with s.156]				70,000	1·0
Total tax payable				843,284	
Tax already paid					
Tax deducted by the employer:					
On commission paid [ss.12, 149 & 168]			12,000		0·5
On other salary [ss.12, 149 & 168]			240,000		0·5
Tax deducted from prize money [ss.169 & 156]			70,000		0·5
Tax deducted at the time of cash withdrawals [ss.168 & 231A]			5,000		0·5
Tax collected on landline telephone bills [ss.168 & 236]			4,000		0·5
Total tax paid				(331,000)	
Tax payable with return/statement of FTR				512,284	

Explanation of items not included in the computation of taxable income

(i) Gratuity from gratuity fund – Rs. 200,000
The amount received from the gratuity fund approved by the Commissioner Inland Revenue is exempt from tax. [Cl. (13)(ii) of Pt. I of the 2nd Sch.] 1·0

(ii) Salaries paid to staff by Musa – Rs. 800,000
Any salary exceeding Rs. 15,000 per month, if paid otherwise than by a crossed cheque or direct transfer of funds to the employee's bank account, is not an allowable expenditure. Therefore, Rs. 700,000 paid in cash is inadmissible. [s.21(m)] 1·0

Marks

(iii) Zakat paid to indigent relatives and neighbours – Rs. 120,000
Zakat paid to indigent relatives and neighbours is not an allowable deduction being not covered under the provisions of the Zakat and Ushr Ordinance, 1980. [s.60] 1·0

25·0

Workings:

Working 1
Perquisite provided to Musa's son is on account of Musa's employment.

Although employment ended on 31 December 2011, the facility of the concessional loan continued until 30 June 2012. The value of the perquisite is, therefore, calculated for the full year. The concessional loan has been provided at 10% below the bench mark rate; hence, the value of the perquisite is determined as below:

(100,000) x (14 – 4)% = Rs. 10,000 [s.13(7) & (14)(a)(ii)]

Working 2
Musa has paid Rs. 20 per share as the cost of the shares. Although the shares were not sold during the year ended 30 June 2012, the restriction on the sale of the shares was removed on 10 September 2011 (before actual disposal), when the fair market value was Rs. 40 per share. The perquisite includable in the salary income is calculated with reference to this value as below:

	Rs.
Market price of shares on the date of removal of restriction (1,000 x 40)	40,000
Cost of the shares (1,000 x 20)	(20,000)
Amount treated as salary income	20,000

[s.12 (2)(g) read with s.14(3)(a)]

Working-3
Computer software is an intangible asset on which deduction is allowable as below:

Total cost	Rs. 300,000
Normal useful life	6 years
Per year deduction (300,000/6)	Rs. 50,000
Proportionate allowable deduction for 182 days during the tax year 2012 (182/366 x 50,000)	Rs. 24,863

[s.24(3), (6) and (11)]

Working-4
On the basis of 50% usage for business, the allowable lease rentals paid are also restricted to 50% of the amount paid. Hence Rs. 100,000 is admissible. [s.28(1)(b) read with s.20(1)]

Working-5
Initial allowance and tax depreciation

Asset	Cost of the asset	Initial allowance at 50% of the cost	TWDV for tax depreciation = (2) – (3)	Rate of depreciation	Tax depreciation
(1)	(2)	(3)	(4)		(5)
	Rs.	Rs.	Rs.		Rs.
Office furniture	400,000	Not eligible	400,000	15%	60,000
Computer hardware	500,000	250,000	250,000	30%	75,000
Total		250,000			135,000

Marks

3 Mr Abdullah

(a) **Tax payable on gains for the tax year 2012 (accounting year ended 30 June 2012)**

Taxable gains/loss	Note		Rs.	
Sale of machinery used for manufacturing goods exported last year	(1)		37,500	1·5
Sale of shares of BCL	(2)		108,750	1·5
Sale of securities in OFL	(3)		123,900	2·0
Sale of antique watch	(4)		93,750	1·5
Sale of capital assets 'A' and 'B'	(5)		135,000	2·0
Sale of machinery acquired at subsidised cost	(6)		700,000	1·5
Gift of shares of Multitech Ltd.	(7)		160,000	1·5
Sale of licence	(8)		1,000,000	1·5
Total capital gain			2,358,900	
Less capital gain to be treated separately:		Rs.		
– on sale of OFL shares		123,900		0·5
– on gift of Multitech Ltd		160,000		0·5
			(283,900)	
Total/Taxable income			2,075,000	

Tax payable				
1. On taxable income at 25% (2,075,000 x 25%)			518,750	0·5
2. Tax on separate block of capital gains on disposal of		Rs.		
– shares of OFL (123,900 x 10%)		12,390		0·5
– shares of Multitech Ltd (160,000 x 8%)		12,800		0·5
			25,190	
Total tax			543,940	
Tax already paid on shares of OFL [ss.168 & 233]			(100)	0·5
Tax payable with return			543,840	

Items not included in the computation of taxable income

1. Sale of horse
   The horse sold by Mr Abdullah was not a business asset and in personal use of his dependent son. A moveable asset in the personal use of the taxpayer is not a capital asset. Therefore, the gain is not taxable. [s.37(5)(d)] 1·0

2. Amount received from an insurance company regarding the theft of his personal car
   The loss of an asset is also treated as its disposal. [s.75(1)(b)] The amount received as compensation, from an insurance company, is treated as part of the consideration received. However, since the car was in the personal use of Mr Abdullah, it does not fall within the definition of capital asset, hence no capital gain or loss arises. [s.77(2)(a) read with s.37(5)(d)] 1·0

18·0

Note 1

	Rs.
Sales proceeds	550,000
Cost	(500,000)
Capital gain	50,000

The taxable gain will be reduced to 75% [Rs. 37,500] as the machinery was disposed of after more than one year. [s.37(2) and (3)]

Tutorial note:
The machinery was used for manufacturing goods covered under the final tax regime, hence, no depreciation was allowed on the machinery. The machinery in such situations is a capital asset and any gain or loss on its disposal treated as a capital gain or capital loss, respectively. Any asset on which depreciation is allowed is not a capital asset and the gain or loss on disposal of such an asset is treated under the head 'Income from business.'

Marks

Note 2

	Rs.
Sale proceeds of 5,000 shares of BCL	200,000
Cost of 5,000 shares (440,000/40,000 x 5,000)	(55,000)
	145,000

The shares are of an unquoted company, hence not included in the definition of a 'security'. The taxable gain will be reduced to 75% [Rs. 108,750] as the shares were disposed of after one year. [s.37(2) and (3)]

Note 3

Organic Fertilizers Ltd (OFL) is listed on the Lahore Stock Exchange; hence its shares are treated as 'securities'. Any gain or loss on such security is to be treated separately from other capital gains. [s.37A]

	Rs.	Rs.
Sale proceeds of 7,000 shares of OFL		675,000
Cost of the asset		
Consideration paid	550,000	
Brokerage and other expenses (1,200 – 100)	1,100	
		(551,100)
Taxable gain		123,900

Rs. 100 is advance tax withheld at source and is adjustable against the final tax liability.

Note 4

An antique is a capital asset. However, whereas any gain arising on its disposal is taxable, a loss will not be recognised. [s.37(5)(d) and 38(5)(f)] Since the antique watch was acquired as a gift from Mr Abdullah's father, its fair market value at the time of gift shall be treated as the cost of the asset. [s.37(4)(a)]

Capital gain is computed as below:

	Rs.
Consideration received	300,000
Deemed cost of acquisition	(175,000)
Capital gain	125,000

The taxable gain will be reduced to 75% [Rs. 93,750] as the antique was disposed of after one year.

Note 5

If two or more assets are disposed of in a single transaction and the consideration received for each asset is not specified, it shall be apportioned among the assets disposed of in proportion to their fair market value determined at the time of their disposal. [s.77(5)]

Although the cost of acquisition of both the assets was the same, the consideration received is apportioned according to the fair market value of each asset. Hence, the capital gain is determined as below:

	Asset A Rs.	Asset B Rs.
Sale proceeds	200,000	300,000
Cost of acquisition	(180,000)	(180,000)
Capital gain	20,000	120,000

The taxable gain of asset 'A' will be reduced to 75% [Rs. 15,000] as it was disposed of after one year; however, the capital gain on asset 'B' will be fully taxable, being disposed of within one year of its acquisition. Total taxable gain is therefore Rs. 135,000.

Note 6

	Rs.
Consideration received	1,700,000
Subsidised cost of the machinery	(1,000,000)
Taxable capital gain	700,000

The subsidised cost actually incurred is taken for the calculation of capital gains and not the market price of the asset at the time of acquisition. [s.76(10)]

	Marks

Note 7

Since his daughter was non-resident under the tax laws of Pakistan, the non-recognition rule, under which no gain or loss is recognised on a gift of an asset from a taxpayer to a resident person, is not applicable. [s.79(1)(c) and (2)] The fair market value of the asset on the date of its disposal is treated as the consideration received on the disposal. The capital gain is computed as below:

	Rs.
Consideration received on disposal of 10,000 shares of Multitech Ltd (25 x 10,000)	250,000
Cost of acquisition (9 x 10,000)	(90,000)
Capital gain	160,000

Since the shares of Multitech qualify under the definition of 'security', the gain shall be treated as a separate block, along with any gains or losses arising on other securities. [s.37A]

Note 8

	Rs.
Consideration received	3,000,000
Cost of the licence	(2,000,000)
Taxable capital gain	1,000,000

The renewal fee is not includable in the cost of the licence as it neither alters nor improves the asset nor was it incurred in acquiring or disposing of the asset. [s.76(2)]

(b) Advance tax in four quarterly instalments

Advance tax is not payable where the latest assessed taxable income of an individual, excluding salary income and any other income chargeable to tax under the final tax regime (FTR), is less than Rs. 500,000. As his latest assessed taxable income is below this threshold, Mr Abdullah was not required to pay advance tax [u/s 147] in the tax year 2012. 1·5

Further, the provisions relating to the payment of advance tax on gains on securities are not applicable to individual taxpayers. [s.147(5B)] 0·5

2·0

20·0

4 (a) Tax implications of non-deduction of tax

The tax implications of non-deduction of tax by Data Industries (Pvt) Ltd (DIPL) are as below:

(i) The tax not deducted can be recovered from DIPL. [s.161]
(ii) A default surcharge can be imposed on DIPL for non-deduction of tax. The rate of default surcharge shall be equal to KIBOR plus 3% per quarter on the amount of tax required to be deducted and paid. The period of default is computed from the date it was required to be deducted to the date it was paid to the Commissioner. [s.205]
(iii) The rent on which tax was not deducted and paid (either by the payer or the payee) is not an admissible expenditure. [s.21(c)]
(iv) DIPL will be liable to pay a penalty of Rs. 25,000 or 10 % of the amount of tax required to be deducted, whichever is higher. [Sr. No. 15 of table to s.182(1) 4·0

(b) Late filing of the return of income

(i) If a person fails to file their return of income in time, such person shall pay a penalty equal to 0·1% of the tax payable for each day of default subject to:

(a) a minimum penalty of Rs. 5,000; and
(b) a maximum penalty of 25% of the tax payable in respect of that tax year. [Sr. No. 1 of table to s.182(1)] 2·0

(ii) Penalty payable by Rose Petals (Pvt) Ltd

	Rs.
Tax payable	1,750,000
Penalty (0·1% x 1,750,000 x 20)	35,000

Since the amount calculated is more than the minimum penalty of Rs. 5,000, and less than 25% of tax payable, Rs. 35,000 will be payable by Rose Petals (Pvt) Ltd as the penalty for late filing of the return of income by 20 days. [Sr. 1 of the table to s.182(1)] 1·0

Marks

(c) Circulars issued by the Federal Board of Revenue

(i) The Commissioner is not right in his thinking. According to the Income Tax Ordinance, 2001, a circular is binding on all Income Tax Authorities and other persons employed in the execution of the Ordinance. The Commissioner must drop the audit proceedings in compliance with the circular of the Board. 2·0

(ii) A circular is not binding on a taxpayer. Therefore, if an Income Tax Authority takes an action based on a circular, the taxpayer can challenge it at the appropriate appellate forum if the taxpayer considers the action goes against any provision of the income tax law. 1·0

(d) Advance tax liability of a company

In the case of a company, in the absence of the last assessed income or declared turnover, advance tax is estimated and paid on the basis of the quarterly turnover of the company. To avoid the levy of default surcharge, the company should pay the advance tax after:

– taking into account the minimum tax payable on the basis of turnover; and
– making any adjustment for the amount already paid, if any. [s.147(6A)] 2·0

Modern Technologies (Pvt) Ltd has a loss for the tax year 2012, so minimum tax of Rs. 500,000 (i.e. 1% of the turnover of Rs. 50,000,000) will be the basis of the advance tax to be paid. 1·0

Advance tax should therefore be paid on the following dates to avoid default surcharge:

Quarter	Last date for payment of advance tax	Amount in Rs.	
September 2011	25 September 2011	125,000	
December 2011	25 December 2011	125,000	
March 2012	25 March 2012	125,000	
June 2012	15 June 2012	125,000	
[s.147(5A)]			2·0
			5·0
			15·0

5 (a) Mr Naveed – Value of the supply

(1) Value of supply to Superior Industries Ltd (SIL)
The value of goods supplied to SIL chargeable to tax will be Rs. 500,000, being the open market price of the supply. Where the consideration is received partly in money and partly in kind, the open market price of the supply is treated as the value of the supply. Further, consideration paid in kind on the directions of the supplier is treated as consideration received by the supplier himself. [Proviso to s.2(46)(a)] 1·5

(2) Consumption of goods
Consumption of goods manufactured by a person himself is treated as a supply. Since the goods were taxable, it is incorrect to record their value as zero. The open market price of the goods consumed at Rs. 78,000 will be chargeable to tax. [s.2(33) & (46)] 1·0

(3) Goods provided to his son, an associate
The transaction is with an associate and not at arm's length. In the case of trade discounts, sales tax is levied on the discounted price excluding the amount of tax, provided that the sales tax invoice shows the discounted price and related tax. Further, the discount allowed should be in conformity with normal business practice.

In this case, the discounted price for charging sales tax will be computed by allowing a discount at 8% instead of 18% as below:

	Rs.	
Price at 18% discount	2,500,000	
Price at 8% discount (2,500,000/0·82 x 0·92)	2,804,878	
[s.2(3) and s.2(46)(b)]		2·0

(4) Goods supplied on an instalment basis
The value of goods at Rs. 900,000 includes a mark-up of Rs. 50,000. For sales tax purposes, the open market price is taken as the value of the supply and the mark-up is ignored. Therefore, the value of the supply will be taken at Rs. 850,000. [Para iii of the proviso to s.2(46)(a)] 1·5

6·0

		Marks
(b)	**Tax invoice**	
	Only a registered person or a person paying retail tax can issue a tax invoice under the Sales Tax Act, 1990.	0·5
	A sales tax invoice should contain the following particulars:	
	1. the name, address and registration number of the supplier;	0·5
	2. the name, address and registration number of the recipient;	0·5
	3. the date of issue of invoice;	0·5
	4. the description and quantity of goods;	0·5
	5. the value exclusive of tax;	0·5
	6. the amount of sales tax; and	0·5
	7. the value inclusive of tax.	0·5
	[s.23]	4·0
		10·0