

Fundamentals Level – Skills Module

# Taxation (Pakistan)

Thursday 8 December 2016



**Time allowed:** 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

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

Tax rates and allowances are on pages 2–4.

**Do NOT open this question paper until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

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

Think Ahead

**ACCA**

**Paper F6 (PKN)**

The Association of  
Chartered Certified  
Accountants

## 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 in Section B.

## TAX RATES AND ALLOWANCES

The following tax rates and allowances for the tax year 2016 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. 500,000     | 2% of the amount exceeding Rs. 400,000                       |
| Rs. 500,001 to Rs. 750,000     | Rs. 2,000 plus 5% of the amount exceeding Rs. 500,000        |
| Rs. 750,001 to Rs. 1,400,000   | Rs. 14,500 plus 10% of the amount exceeding Rs. 750,000      |
| Rs. 1,400,001 to Rs. 1,500,000 | Rs. 79,500 plus 12.5% of the amount exceeding Rs. 1,400,000  |
| Rs. 1,500,001 to Rs. 1,800,000 | Rs. 92,000 plus 15% of the amount exceeding Rs. 1,500,000    |
| Rs. 1,800,001 to Rs. 2,500,000 | Rs. 137,000 plus 17.5% of the amount exceeding Rs. 1,800,000 |
| Rs. 2,500,001 to Rs. 3,000,000 | Rs. 259,500 plus 20% of the amount exceeding Rs. 2,500,000   |
| Rs. 3,000,001 to Rs. 3,500,000 | Rs. 359,500 plus 22.5% of the amount exceeding Rs. 3,000,000 |
| Rs. 3,500,001 to Rs. 4,000,000 | Rs. 472,000 plus 25% of the amount exceeding Rs. 3,500,000   |
| Rs. 4,000,001 to Rs. 7,000,000 | Rs. 597,000 plus 27.5% of the amount exceeding Rs. 4,000,000 |
| Rs. 7,000,001 and above        | Rs. 1,422,000 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. 500,000    | 7% of the amount exceeding Rs. 400,000                        |
| Rs. 500,001 to Rs. 750,000    | Rs. 7,000 plus 10% of the amount exceeding Rs. 500,000        |
| Rs. 750,001 to Rs. 1,500,000  | Rs. 32,000 plus 15% of the amount exceeding Rs. 750,000       |
| Rs. 1,500,001 – Rs. 2,500,000 | Rs. 144,500 plus 20% of the amount exceeding Rs. 1,500,000    |
| Rs. 2,500,001 – Rs. 4,000,000 | Rs. 344,500 plus 25% of the amount exceeding Rs. 2,500,000    |
| Rs. 4,000,001 – Rs. 6,000,000 | Rs. 719,500 plus 30% of the amount exceeding Rs. 4,000,000    |
| Rs. 6,000,001 and above       | Rs. 1,319,500 plus 35%* of the amount exceeding Rs. 6,000,000 |

\* in the case of a professional firm which by law is prohibited from incorporation, the rate will be 32%.

### C. Corporate tax rate for companies

|   |                       |
|---|-----------------------|
| Small company   | 25% of taxable income |
| Public company/private company  | 32% of taxable income |
| Tax rate for foreign direct investment<br>in industrial undertakings by companies | 20% of taxable income |

### D. Alternative corporate tax rate for companies

17% of accounting income

### E. Super tax for companies other than banks

3% of income

### F. 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                                   | 15%   |
| – more than one year but not more than two years   | 12.5% |
| – more than two years but not more than four years | 7.5%  |
| – more than four years                             | 0%    |

### G. 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%  |

### H. Other tax rates

General rate on dividends received from a company by a

- |             |       |
|-------------|-------|
| – filer     | 12.5% |
| – non-filer | 17.5% |

### I. Rate for profit on debt

Where profit on debt does not exceed Rs 25,000,000

10%

Where profit on debt exceeds Rs 25,000,000 but does not exceed Rs 50,000,000

Rs. 2,500,000 plus 12.5% of the amount exceeding Rs 25,000,000

Where profit on debt exceeds Rs 50,000,000

Rs 5,625,000 plus 15% of the amount exceeding Rs 50,000,000

### J. Rates of deduction/collection of tax at source

Sale of goods (general rate)

- |  |      |
|--|------|
| – where the payment is being made to a company being a                       |      |
| – filer  | 4%   |
| – non-filer  | 6%   |
| – where the payment is being made to a taxpayer other than a company being a |      |
| – filer  | 4.5% |
| – non-filer  | 6.5% |

Sale of immovable property by a

- |             |      |
|-------------|------|
| – filer     | 0.5% |
| – non-filer | 1%   |

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

- |             |    |
|-------------|----|
| – filer     | 1% |
| – non-filer | 2% |

Services (other than transport and media)

- |  |     |
|--|-----|
| – where the payment is being made to a company being a                       |     |
| – filer  | 8%  |
| – non-filer  | 12% |
| – where the payment is being made to a taxpayer other than a company being a |     |
| – filer  | 10% |
| – non-filer  | 15% |

On payment made to an electronic or print media for advertising services being a filer

1%

On payment made to an electronic or print media for advertising services being a non-filer

- |                        |     |
|------------------------|-----|
| – company              | 12% |
| – other than a company | 15% |

|  |  |                       |
|--|--|-----------------------|
| Contracts other than a contract by a sports person                           |  |                       |
| – where the payment is being made to a company being a                       |  |                       |
| – filer  |  | 7%                    |
| – non-filer  |  | 10%                   |
| – where the payment is being made to a taxpayer other than a company being a |  |                       |
| – filer  |  | 7.5%                  |
| – non-filer  |  | 10%                   |
| Contract by a sports person  |  | 10%                   |
| Commission and brokerage received by a non-filer                             |  | 15%                   |
| Commission and brokerage received by filer being                             |  |                       |
| – an advertising agent   |  | 10%                   |
| – other than an advertising agent  |  | 12%                   |
| Profit on debt received by a   |  |                       |
| – filer  |  | 10%                   |
| – non-filer where the amount of profit does not exceed Rs. 500,000           |  | 10%                   |
| – non-filer where the amount of profit exceeds Rs. 500,000                   |  | 17.5%                 |
| Import of goods (general rate)   |  |                       |
| – in the case of industrial undertakings being a                             |  |                       |
| – filer  |  | 5.5%                  |
| – non-filer  |  | 8.0%                  |
| – in all other cases of companies being a                                    |  |                       |
| – filer  |  | 5.5%                  |
| – non-filer  |  | 8.0%                  |
| – in the case of other taxpayers being a                                     |  |                       |
| – filer  |  | 6%                    |
| – non-filer  |  | 9%                    |
| On domestic electricity bills of Rs. 75,000 or more per month                |  | 7.5% of the bill      |
| On an international air-ticket of  |  |                       |
| – first or executive class   |  | Rs. 16,000 per person |
| – others excluding economy class   |  | Rs. 12,000 per person |
| – economy class  |  | 0                     |
| On the fee received by a director of a company for attending a meeting etc   |  | 20%                   |

**K. 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% |                                 |

**L. Initial allowance on eligible assets being**

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

**M. Pre-commencement expenditure**

|  |     |
|--|-----|
| Amortisation rate for pre-commencement expenditure | 20% |
|--|-----|

**N. Benchmark rate**

|                                  |               |
|----------------------------------|---------------|
| Interest free loans to employees | 10% per annum |
|----------------------------------|---------------|

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

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

- 1 (a) **State the FOUR circumstances in which the Commissioner Inland Revenue can make a best judgement assessment order against a taxpayer.** (4 marks)
- (b) **List the persons, other than a relative of the taxpayer, who can appear as an authorised representative of a taxpayer before the Appellate Tribunal Inland Revenue.** (6 marks)
- (10 marks)**

- 2 (a) **State the FOUR circumstances in which a company will be treated as a resident company in Pakistan during a given tax year.** (4 marks)
- (b) Zahoor (Pvt) Ltd sold a motor car, which had been used in its business, for Rs. 4,500,000 on 30 June 2016. The tax written down value of the motor car on 1 July 2015 was Rs. 1,535,300. The original value of the motor car was Rs. 6,000,000 but was restricted to Rs. 2,500,000 for the purposes of allowing tax depreciation.

**Required:**

**Compute the taxable income arising to Zahoor (Pvt) Ltd on the disposal of the motor car during the tax year 2016 and state the head of income under which it will be charged.** (3 marks)

- (c) Nasim Hosiery Ltd (NHL) was an unlisted public company, which started the process of getting itself listed on the Karachi Stock Exchange in the tax year 2015. NHL finally became listed on 20 July 2015. The taxable income of NHL for the tax years 2015 and 2016 was Rs. 7,500,000 and Rs. 8,000,000, respectively.

**Note:** NHL is not a small company.

**Required:**

**Determine the tax credit admissible to Nasim Hosiery Ltd in each of the tax years 2015 and 2016 due to its listing on the Karachi Stock Exchange. If you conclude that no tax credit is available, state the reason.**

**Note:** The applicable tax rate in the tax year 2015 was 33%. (3 marks)

**(10 marks)**

**3 For this question you should assume that today's date is 15 July 2016.**

Iftikhar, a resident in Pakistan, disposed of the following assets during the year ended 30 June 2016:

- (1) 10 October 2015: Sold a statue of Tipu Sultan for Rs. 550,000. The statue had been purchased by his father on 10 July 2004 for Rs. 100,000 and Iftikhar had inherited it on the death of his father on 12 July 2009. On 12 July 2009, the market value of the statue was Rs. 250,000.
- (2) 15 January 2016: Sold 8,000 shares in MNO Ltd, an unlisted company for Rs. 1,000,000. The incidental charges incurred in connection with the sale of these shares were Rs. 8,000. Iftikhar had acquired these shares as follows:

|                  |   |
|------------------|---|
| 14 April 2012    | 3,000 shares for a cost of Rs. 150,000  |
| 17 August 2012   | 2,000 shares for a cost of Rs. 120,000  |
| 18 December 2013 | 1 for 5 rights issue taken up in full, for a cost of Rs. 90 per share. Immediately following the rights issue, MNO Ltd issued bonus shares at the rate of 1 share for every 2 shares then in issue. |
- (3) 15 February 2016: Sold his personal motor car for Rs. 645,000 after it was involved in an accident. Iftikhar had acquired the motor car for Rs. 1,045,000 on 1 February 2015.
- (4) 27 April 2016: Disposed of the 300 grams of gold which he had purchased for Rs. 40,000 per 10 grams on 1 January 2016. The disposal was made in the following manner:
  - (i) 50 grams sold to Nabeel, a market jeweller for Rs. 230,000.
  - (ii) 100 grams gifted to his mother, who is a Canadian citizen. She left Pakistan to live in Canada on 1 April 2010 and has lived in Canada since that date.
  - (iii) 150 grams gifted to his daughter, Muqaddis, who is a citizen of Pakistan but has lived in Jeddah since 1 January 2013, where she is employed as an information officer by the Government of Pakistan in the Consulate General Office.

**Additional information:**

On 15 February 2016, Iftikhar purchased a new motor car for Rs. 2,000,000 and paid Rs 35,000 income tax on the registration of the car.

**Required:**

**Compute the total tax payable by Iftikhar on the taxable income arising from the above transactions on the filing of his tax return for the tax year 2016. Give brief reasons for your treatment of each item.**

**Note:** The reasons/explanations for the items not listed in the computation should be shown separately, as specific marks are allocated for these explanations.

**(10 marks)**

**4 For this question, you should assume that today's date is 1 May 2016.**

Shiraz is a registered person under the Sales Tax Act, 1990, and is engaged in the business of the manufacture and supply of goods chargeable to sales tax at the standard rate of 17%. His business transactions for the month of April 2016 were as below:

(1) Sales including exports, exclusive of sales tax:

|  | <b>Rs.</b> |
|--|------------|
| (i) local supplies to registered persons   | 5,000,000  |
| (ii) local supplies to a teaching hospital of a statutory university having 100 beds – a registered person                   | 4,000,000  |
| (iii) local sales for consumption aboard an airplane proceeding to London (as specified under s.24 of the Customs Act, 1969) | 1,000,000  |
| (iv) exports to Malaysia   | 2,000,000  |

(2) Payments for raw material purchases, inclusive of sales tax made during the month of April 2016:

|  | <b>Rs.</b> |
|--|------------|
| (i) to Khadim, a registered person through a crossed cheque  | 8,190,000  |
| (ii) to Hakim, a registered person through cash  | 1,170,000  |
| (iii) to Sahil, a registered person through a crossed cheque. However, the supplier had not deposited the amount of sales tax in the government treasury   | 1,404,000  |
| (iv) to Qamar, a registered person who was notified as black-listed during the same tax period. However, Shiraz has full evidence of the payment of sales tax to the supplier on these purchases | 1,287,000  |

**Additional information:**

- (1) On 5 April 2016, Shiraz paid sales tax of Rs. 120,000 on his sui gas bill for the month of March 2016.
- (2) Perusal of his records showed that Shiraz failed to claim input tax of Rs. 100,000 pertaining to the tax period July 2015 due to a calculation error.

**Required:**

**Compute the sales tax liability of Shiraz payable with the sales tax return for the month of April 2016.**

**(10 marks)**

**5 For this question, you should assume that today's date is 15 July 2016.**

Beautiful Toys Ltd (BTL) is an unquoted company established under the Companies Ordinance, 1984 and does not fall within the definition of a small company. BTL is a manufacturer of sales tax exempt toys for children. BTL's income statement for the year ended 30 June 2016 is as follows:

|                                      | Notes | Rs.       | Rs.                |
|--------------------------------------|-------|-----------|--------------------|
| Sales                                |       |           | 70,000,000         |
| Cost of sales (fully admissible)     |       |           | (42,000,000)       |
| Gross profit                         |       |           | <u>28,000,000</u>  |
| Profit on the sale of machine        | 7(a)  |           | 95,000             |
| Administrative expenses              | 1     | 1,600,000 |                    |
| Depreciation                         |       | 1,200,000 |                    |
| Donations                            | 2     | 400,000   |                    |
| Royalties paid                       | 3     | 850,000   |                    |
| Repairs and maintenance              | 4     | 900,000   |                    |
| Research and development expenditure | 5     | 800,000   |                    |
| Salaries and wages                   | 6     | 3,200,000 |                    |
| Interim dividend paid                |       | 593,000   |                    |
|                                      |       |           | <u>(9,543,000)</u> |
| Net profit                           |       |           | <u>18,552,000</u>  |

All the expenditure was paid through crossed cheques and tax was duly deducted and paid to the government unless stated otherwise.

**Notes:**

Note 1 Administrative expenses include:

- Rs. 160,000 paid as compensation to a customer for breach of a contract; and
- Rs. 300,000 on account of the write off of a discarded delivery van [see note 7(b) below].

Note 2 The donation was made to the Fund for Retarded and Handicapped Children through a crossed cheque drawn on a scheduled bank. The Fund qualifies under clause (61) of Part I of the Second Schedule to the Income Tax Ordinance, 2001.

Note 3 BTL pays an annual royalty to a Bulgarian company for the use of their trademark in certain of its products. The amount claimed for the year is net of Rs. 150,000 tax withheld and deposited by BTL with the Commissioner of Inland Revenue.

Note 4 Repairs and maintenance include an amount of Rs. 350,000 incurred on 1 January 2016 for the construction of a small security room near the company's main gate.

Note 5 Research and development expenditure includes Rs. 500,000 paid to an institute in China for conducting scientific research on new safer materials for the manufacturing of toys.

Note 6 Salaries and wages include a payment of Rs. 150,000 in lieu of notice paid on the termination of the services of a senior manager as provided in his letter of appointment.

Note 7 Fixed assets:

The tax written down values (TWDV) as on 1 July 2015 were as follows:

|                                   | Rs.       |
|-----------------------------------|-----------|
| Factory building on freehold land | 4,000,000 |
| Office building on freehold land  | 1,500,000 |
| Plant and machinery (sub-note a)  | 3,200,000 |
| Delivery vans (sub-note b)        | 1,900,000 |
| Office furniture                  | 900,000   |



Sub-notes:

- (a) A machine with a TWDV of Rs. 200,000 was sold during the year for Rs. 350,000. The book value of this machine in BTL's books of accounts was Rs. 255,000.
- (b) A delivery van with a TWDV of Rs. 300,000 was discarded during the year following a severe accident on 31 December 2015. The scrap value of this delivery van has been estimated at Rs. 75,000 but it has not been sold yet.

**Additional information:**

- (i) BTL's balance sheet as at 30 June 2016 shows an amount of Rs. 460,000 outstanding to a creditor from whom raw materials were purchased on 30 June 2012. It is expected that this amount will be paid to the creditor in September 2016 when he returns from abroad.
- (ii) The tax withheld at source on behalf of BTL during the year:

|                      |             |
|----------------------|-------------|
| On electricity bills | Rs. 120,000 |
| On telephone bills   | Rs. 40,000  |
- (iii) Apart from the above, advance tax of Rs. 6,400,000 was paid under s.147 on the due dates.

**Required:**

- (a) **Compute the taxable income of Beautiful Toys Limited for the tax year 2016 under the appropriate heads of income, giving clear 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 included 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 Beautiful Toys Limited for the tax year 2016.**

Note: Ignore minimum tax and the alternative corporate tax provisions. (2 marks)

**(15 marks)**

**6 For this question, you should assume that today's date is 15 July 2016.**

Humair , aged 45 and resident in Pakistan, has been working as an electrical engineer with Power Production Limited (PPL) for the last five years. The following information is relevant to Humair for the accounting year ended 30 June 2016:

**(1) Information in respect of employment with PPL:**

|   | <b>Rs.</b> |
|---|------------|
| Basic salary received per month   | 300,000    |
| Meal allowance received per month   | 30,000     |
| Reimbursement of expenses on business trips for PPL   | 80,000     |
| Annual accretion during the year to the balance at the credit of Humair in the recognised provident fund of PPL | 200,000    |
| A year-end bonus received on 5 July 2016  | 250,000    |

**In addition:**

- (i) Humair was granted an option to acquire 20,000 shares in PPL on 1 May 2015 at Rs. 20 per share under the company's employee share scheme. The breakup value of each share of PPL was Rs. 60 on that date. On 20 June 2016, Humair exercised this option on which date the breakup value of each share of PPL was Rs. 70.
- (ii) Humair is provided with rent free accommodation having an annual fair market rental value of Rs. 1,500,000.
- (iii) Humair was provided with a new motor car on 1 July 2015 which was returnable to PPL after five years. The fair market value of the motor car was Rs. 1,500,000 and PPL depreciates the motor car at 20% per annum using the straight line method. Humair was authorised to use the motor car both for the purposes of the business of PPL as well as the personal use of Humair and his family.
- (iv) Humair was given a soft personal loan of Rs. 1,700,000 by PPL on 1 July 2014 and the entire loan amount was still outstanding at 30 June 2016. PPL charges profit on this loan at the rate of 2% per annum.

**(2) Information in respect of Humair's other income:**

- (i) Humair is a non-executive director of a listed company. He received a director's fee during the year of Rs. 80,000 after a tax deduction of Rs. 20,000.
- (ii) Humair received US\$ 7,000 for providing IT enabled engineering services to an engineering firm abroad and received this amount in his bank account in Pakistan by its conversion into Pak Rupees of Rs. 700,000.
- (iii) Humair is a visiting lecturer at a local engineering institute. He delivered four lectures in June 2016 and received a lecturing fee of Rs. 7,000 for each lecture.
- (iv) During the year Humair suffered a loss of Rs. 600,000 in a solitary trading activity of selling local electric appliances to different households.

**(3) Information in respect of tax withheld:**

- (i) PPL withheld tax from his salary totalling Rs. 1,140,000 and deposited it in the government treasury.
- (ii) Income tax deducted on cash withdrawals made from the bank was Rs. 8,000.

**Required:**

**Compute Humair's taxable income and his total tax payable for the tax year 2016. Give reasons for the treatment of any items excluded from the taxable income or for which no expense/deduction is allowed.**

**(15 marks)**

**End of Question Paper**