

Fundamentals Level – Skills Module

Taxation (Pakistan)

Thursday 9 June 2016



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

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.

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.

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 when 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 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%
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N. Benchmark rate

Interest free loans to employees	10% per annum
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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) Under s.122B, a Chief Commissioner is given powers of revision in respect of certain orders passed under the Income Tax Ordinance, 2001.

Required:

- (i) **State the orders which can be revised by the Chief Commissioner.** (1 mark)
- (ii) **State on whose initiative proceedings to revise an order can be initiated by the Chief Commissioner.** (1 mark)
- (iii) **State the procedure which will be adopted by the Chief Commissioner to revise an order.** (2 marks)
- (b) **Distinguish between a direct tax and an indirect tax, giving TWO examples of each.** (4 marks)
- (c) As a consequence of an appellate order of the CIR(A) in the favour of ALM (Pvt) Ltd received by the Zonal Commissioner on 30 November 2015 for the tax year 2015, a refund of Rs. 500,000 was determined by the Zonal Commissioner. The refund was paid to ALM (Pvt) Ltd on 28 April 2016. During the period the KIBOR rate was 6% per annum.

Required:

Compute the additional amount to which ALM (Pvt) Ltd was entitled on account of the delayed payment of the refund. (2 marks)

(10 marks)

- 2 (a) Jahangir, is aged 39 and a resident filer taxpayer in Pakistan. During the tax year 2016, Jahangir earned a taxable income of Rs. 1,500,000 from his business of poultry farming. Also, during the tax year 2016 he contributed Rs. 400,000 to an approved pension fund in terms of s.63 of the Income Tax Ordinance, 2001.

Required:

Compute the tax payable by Jahangir for the tax year 2016. (3 marks)

- (b) **State, giving reasons, the residential status of each of the following for the tax year 2016 under the Income Tax Ordinance, 2001:**

(i) **Shah Rukh, who arrived in Pakistan on 1 July 2015 and remained in Pakistan until 31 December 2015.**

(ii) **Talat who arrived in Pakistan on 1 January 2016 and remained in Pakistan until 30 June 2016.**

Note: The total marks will be split equally between each part. (3 marks)

- (c) The following information relates to Asif in respect of the tax year 2016:

	Rs.
Loss under the head 'Income from business' during the tax year 2016	(1,000,000)
Income from property during the tax year 2016	750,000
Loss under the head 'Income from property' from the tax year 2015	(100,000)

Required:

Explain the treatment of the losses incurred by Asif and compute his tax payable, if any, for the tax year 2016.

Note: Ignore the minimum tax provisions. (4 marks)

(10 marks)

3 (a) Explain the tax implications where an asset is disposed of in a non-arm's length transaction. (2 marks)

(b) For this part of the question, you should assume that today's date is 15 July 2016.

The following information relates to the acquisitions and disposals of assets by Akram, aged 45, during the tax year 2016.

25 December 2015: Sold his house situated in Lahore for Rs. 30,000,000, including Rs. 1,000,000 for the furniture which was sold along with the house. The costs incurred in connection with the construction of the house and purchase of the furniture were:

	Rs.
Land bought on 15 January 2015	10,000,000
Capital value tax on the purchase of the land	200,000
Levelling of the land	300,000
Approval fee for the construction map of the house	50,000
Cost of the materials and labour for construction of the house	15,000,000
Purchase cost of the furniture	1,100,000

The income tax withheld at the time of purchase of the land and on the sale of the house totalled Rs. 150,000

1 February 2016: Sold 700,000 Rs 10 ordinary shares in Micron Ltd, an unquoted trading company, for Rs. 3,675,000. He had originally purchased 500,000 shares in Micron Ltd on 2 June 2005 for Rs. 2,250,000. On 31 December 2011, Micron Ltd had issued one bonus share for every two shares held.

15 April 2016: Sold 10,000 shares in Linkers Ltd, a company listed on the Lahore Stock Exchange, for Rs. 900,000. He had acquired these shares from the Privatisation Commission of Pakistan on 12 March 2015 for Rs. 400,000. In the assessment for the tax year 2015, a tax credit of Rs. 15,000 was given to him on account of this acquisition.

Note: Unless stated otherwise, all the expenditure was incurred through crossed cheques and tax was withheld by Akram as required under the law.

Required:

Compute the total tax payable by Akram on the taxable income arising from the above transactions on filing 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. (8 marks)

(10 marks)

4 Qasim is a registered person under the Sales Tax Act, 1990, engaged in the business of the manufacture and supply of goods chargeable to sales tax at the standard rate. His business transactions for the month of May 2016 are as below:

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

	Gross amount Rs.	Discount allowed Rs.	Net amount Rs.
Local supplies to registered persons			
– Fasi Ullah	8,000,000	400,000	7,600,000
– Usman	2,000,000	200,000	1,800,000
Local supplies to unregistered persons	2,400,000	120,000	2,280,000
Exports to UAE	1,000,000	–	1,000,000

Qasim normally allows a 5% discount to all his customers. However, as a special case, a discount of 10% was allowed to Usman. All the discounts were shown on the sales tax invoices in the prescribed manner.

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

	Rs.
To registered persons	12,870,000
To unregistered persons	3,000,000

(3) Records indicate that finished electrical goods having a listed price, exclusive of sales tax, of Rs. 50,000 were used by Qasim in his own house.

(4) Supplies worth Rs. 45,000 (net of discount) were returned by Fasi Ullah. Proper debit and credit notes were issued in this regard.

(5) A sales tax credit of Rs. 95,000 had been brought forward from April 2016.

(6) Sales tax and income tax paid along with electricity bills on 15 May 2016 were Rs. 80,000 and Rs. 10,000 respectively.

(7) The normal rate of tax on Qasim's sales made to registered persons is 17%.

Required:

Compute the sales tax liability of Qasim payable with the sales tax return for the month of May 2016.

(10 marks)

**This is a blank page.
Question 5 begins on page 14.**

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

New Technologies Ltd (NTL), a Pakistan resident company not falling within the definition of a small company, is a manufacturer of electronic goods. NTL's summarised income statement for the year ended 30 June 2016 is as follows:

	Note	Rs.	Rs.
Turnover			25,000,000
Cost of sales			(10,000,000)
Gross profit			<u>15,000,000</u>
Operating expenses			
Depreciation		5,000,000	
Loss on the disposal of a car used fully for business purposes	1	170,000	
Donation	2	160,000	
Irrecoverable bad debts	3	700,000	
Professional fees	4	600,000	
Salaries	5	2,310,000	
Repairs and maintenance	6	1,400,000	
Employee training and facilities	7	200,000	
Other expenses	8	215,000	
			<u>(10,755,000)</u>
Profit before tax			<u>4,245,000</u>

All the payments were made through the admissible modes of payment and tax was duly deducted unless mentioned otherwise in the notes.

Notes:

Note 1

Particulars relating to the car sold are:

	Rs.
Original cost of the car	3,000,000
Original cost restricted for the purpose of computing tax depreciation	2,500,000
Tax written down value at the time of disposal	1,535,000
Book value at the time of disposal	2,100,000
Sale proceeds	1,930,000

Note 2

The donation was given to a charity approved under clause (61) of Pt. I of the Second Schedule to the Income Tax Ordinance, 2001.

Note 3

Soft loans given to two employees of NTL were written off as irrecoverable bad debts in the books of account with the approval of the board of directors of the company.

Note 4

The professional fees were legal fees paid in connection with the acquisition of land (as mentioned in note 9(ii)).

Note 5

Salaries claimed include a Rs. 650,000 contribution to an unapproved superannuation fund. NTL has made satisfactory arrangements for the deduction of tax from the payments made from the superannuation fund as per the law.

Note 6

Repairs and maintenance consist of:

- Rs. 550,000 spent on the repair of plant and machinery. The amount of each invoice was less than Rs. 10,000 and was paid in cash; and
- Rs. 850,000 spent on the replacement of old furniture.

Note 7

The employee training and facilities amount was given to an institute established by an associated company of NTL for the training of general industrial workers. The institute has already applied for recognition by the local government for this purpose and is likely to be approved soon.

Note 8

Other expenses were on account of a fine paid for violation of a provincial law dealing with the building codes.

Note 9

Fixed asset details are as follows:

- (i) The tax written down values of the assets held on 1 July 2015 (excluding the car sold mentioned in note 1) were:

	Rs.
Land	10,000,000
Factory buildings	40,000,000
Plant and machinery	7,000,000
Computer hardware	450,000
Motor cars	4,000,000

- (ii) Additions to fixed assets during the year were:

	Rs.
1 January 2016: Computer software having an estimated useful life of four years	400,000
15 March 2016: Land	5,000,000

Note 10

NTL paid Rs. 2,050,000 as advance tax in cash in four equal quarterly instalments and in addition, the following taxes were withheld at source by different withholding agents of NTL under the Ordinance.

	Rs.
Along with electricity bills	100,000
On the supply of goods	500,000

Required:

- (a) Compute the taxable income of New Technologies Ltd for the tax year 2016 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 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 New Technologies Ltd for the tax year 2016.**

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

(15 marks)

6 (a) List the situations in which a salary received by a person is treated as Pakistan source income. (2 marks)

(b) For this part of the question, you should assume that today's date is 15 July 2016.

Shafique, aged 55, is resident in Pakistan and a retired employee of the Government of Punjab. He is currently employed with Best Foods (Pvt) Ltd (Best Foods) as an administrative manager, who runs a chain of restaurants in Lahore.

The following information relates to Shafique's receipts and payments during the financial year ended on 30 June 2016:

- (1) A pension of Rs. 27,000 per month from the Government of Punjab.
- (2) A basic salary from Best Foods of Rs. 50,000 per month.
- (3) A sum of Rs. 60,000 in lieu of Eid holidays and other festivals during the year.
- (4) A lump sum amount of Rs. 40,000 for payment of utility bills.
- (5) Rs. 10,000 per month paid as fees for his daughter directly to her school.
- (6) An interest free loan of Rs. 300,000 made as per the policy of Best Foods to each employee with five years of service. The loan was given to him on 1 July 2015 and was outstanding on 30 June 2016.
- (7) A medical allowance of Rs. 8,000 per month.

Apart from the above, Shafique also enjoyed the following benefits from Best Foods in connection with his employment:

- (1) As per the policy of the company, two meals during the office hours were paid for. The estimated value of this perquisite is Rs. 108,000 for the whole year.
- (2) A 1,000 cc car provided throughout the year for the exclusive use of him and his family. Best Foods took the car on a financial lease from an approved leasing company on 15 June 2015, on which date its market price was Rs. 1,200,000. Best Foods will pay Rs. 1,500,000 in the form of lease rentals over the lease term of five years at Rs. 25,000 per month. Best Foods also paid the repair charges of the car on an actual basis at Rs. 15,000 during the year.
- (3) An option to purchase 1,000 shares in Taste Ltd, an associated listed company of Best Foods, was granted to him on 15 June 2016 at Rs.10 per share when the market value was Rs. 50 per share.

Other information relevant to the tax year 2016:

- (1) Shafique made a cash payment of Rs 200,000 on account of Zakat under the Zakat and Ushr Ordinance, 1980.
- (2) Tax paid by/deducted on his behalf during the year was:
 - (i) Rs. 14,000 by his employer.
 - (ii) Rs. 500 on cash withdrawals from the bank.
 - (iii) Rs. 1,500 on his landline telephone bill.
 - (iv) Rs. 1,800 on the purchase of an air ticket.

Required:

Compute Shafique's taxable income and 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. (13 marks)

(15 marks)

End of Question Paper