

Fundamentals Level – Skills Module

Taxation (Pakistan)

Thursday 8 June 2017



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 2–5.

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 2017 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 (not being income from house property)

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. Tax rates for individuals and associations of persons in respect of income from house property

Where the gross amount of rent	
– does not exceed Rs. 200,000	Nil
– exceeds Rs. 200,000 but does not exceed Rs. 600,000	5% of the amount exceeding Rs. 200,000
– exceeds Rs. 600,000 but does not exceed Rs. 1,000,000	Rs. 20,000 plus 10% of the amount exceeding Rs. 600,000
– exceeds Rs. 1,000,000 but does not exceed Rs. 2,000,000	Rs. 60,000 plus 15% of the amount exceeding Rs. 1,000,000
– exceeds Rs. 2,000,000	Rs. 210,000 plus 20% of the amount exceeding Rs. 2,000,000

D. Corporate tax rate for companies

Small company	25% of taxable income
Public company/private company	31% of taxable income
Tax rate for foreign direct investment in industrial undertakings by companies	20% of taxable income

E. Alternative corporate tax rate for companies

17% of accounting income

F. Super tax for companies other than banks

3% of income

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

	Filer	Non-filer
Where the holding period of a security		
– is less than one year	15%	18%
– is one year or more but less than two years	12·5%	16%
– is two years or more but the security was acquired on or after 1 July 2012	7·5%	11%
– was acquired before 1 July 2012	0%	0%

H. Tax rates on capital gains on the disposal of immovable properties(i) Where an immovable property was acquired on or after
1 July 2016 and its holding period is

– up to one year	10%
– more than one year but not more than two years	7·5%
– more than two years but less than three years	5%
– more than three years	0%

(ii) Where an immovable property was acquired before
1 July 2016 and its holding period is

– up to three years	5%
– more than three years	0%

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	1%
– non-filer	2%

Purchase of immovable property having a value of more than
Rs. 4 million by a

– filer	2%
– non-filer	4%

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		1·5%
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%
– in all other cases of companies being a		
– filer		5·5%
– non-filer		8%
– 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%
– General rate on the dividends received from a company by a		
– filer		12·5%
– non-filer		17·5%

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

Buildings	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) Standard Services (Pvt) Ltd (SSPL) carries on business in Pakistan. Due to an unexpected delay, SSPL's audited accounts were not issued in sufficient time to enable the company's return of income for the tax year 2016 to be filed before the required due date. As a result of proceedings initiated by the Commissioner Inland Revenue (CIR), SSPL received a provisional assessment order on 15 June 2017 passed by the CIR in which tax of Rs. 500,000 as determined was demanded. SSPL thinks this is a harsh assessment.

Required:

State the conditions which Standard Services (Pvt) Ltd needs to fulfil in order to prevent the provisional assessment from being treated as a final assessment. (5 marks)

- (b) For the tax year 2017, Nawazish filed his return of income ten days after the due filing date, declaring his income from business at Rs. 750,000. The tax payable on the basis of this return was paid ten days after the return was filed.

Required:

Compute the amount payable by Nawazish as:

- the penalty for the late filing of the return of income; and
 - the default surcharge for the late deposit of the tax due for the tax year 2017.
- (5 marks)

(10 marks)

- 2 (a) Tanveer rented out a house on 1 July 2016 at Rs. 30,000 per month. His only expenditure to earn this income was collection charges of Rs. 1,800 per month.

Tanveer did not earn any other income during the tax year 2017.

Required:

Compute the tax liability, if any, of Tanveer on account of his rental income in the tax year 2017.

(2 marks)

- (b) Salma and Shumaila jointly own a house in the shares of: 70%:30%. The house was rented out at Rs. 600,000 per annum from 1 July 2016. No expenditure was incurred to earn this income. Neither of the joint owners earned any other income during the year ended 30 June 2017. However, Salma paid Rs. 500 to her banker against the clearance charges of the cheques issued by the tenant.

Required:

(i) **State, giving reasons, whether the rental income of Salma and Shumaila will be assessed as an association of persons or separately.**

(2 marks)

(ii) **Compute the tax liability of Salma and Shumaila, if any, on account of their income from property in the tax year 2017.**

(3 marks)

- (c) Landowner (Pvt) Ltd (LPL), a company incorporated in the year 2002 under the Companies Ordinance, 1984, rented out its only building on 1 July 2016 at a rent of Rs. 600,000 per annum. In the tax year 2017, LPL incurred Rs. 36,000 to collect the rent from the tenant and Rs. 20,000 on the repair and maintenance of the property. The company also paid Rs. 25,000 to a scheduled bank on the loan which had been utilised for the renovation and extension of the building in the year 2010. LPL did not earn any other income in the tax year 2017.

Required:

Compute the taxable income of Landowner (Pvt) Ltd and the tax payable thereon for the tax year 2017.

(3 marks)

(10 marks)

3 For this question you should assume that today's date is 15 July 2017.

Shafi, aged 45, a resident filer taxpayer in Pakistan, disposed of the following assets during the year ended 30 June 2017:

- (1) 1 August 2016: Sold a rare postage stamp for Rs. 200,000 which he had inherited from his father on 15 June 2010 when it was valued by an expert at Rs. 40,000.
- (2) 1 September 2016: Gifted 10,000 shares in Din Textile Mills (Pvt) Ltd to his daughter, Ambreen. Ambreen is an employee of a private limited company and was posted to Bangladesh during the year ended 30 June 2017. Shafi had acquired these shares for Rs. 360,000 on 1 April 2014. The market value of the gifted shares on 1 September 2016 was Rs. 900,000.
- (3) 1 November 2016: The government of Punjab compulsorily acquired his land for their Orange Train Project. The government paid Shafi an amount of Rs. 20,000,000 as compensation. Shafi invested this amount in national saving certificates issued by the government of Pakistan on 15 January 2017. Profit will be payable to him when the certificates mature in three years' time. Shafi had purchased the land on 20 March 2016 for Rs. 18,000,000. He also paid capital value tax of Rs. 360,000 at the time of the purchase of the land.
- (4) 1 January 2017: Sold 5,000 shares in PPL (Pvt) Ltd for Rs. 950,000. Shafi had acquired these shares on 15 June 2016 for Rs. 500,000. PPL (Pvt) Ltd is a company incorporated under the Companies Ordinance, 1984 in which 50% of the shares are owned by the government of Punjab.
- (5) 15 March 2017: Sold 100,000 Pakistan WAPDA sukuk bonds for Rs. 3,500,000. Shafi had purchased these bonds for Rs. 2,000,000 on 1 March 2012.
- (6) 1 April 2017: Shafi's relations with his wife became estranged and they decided to live apart. In accordance with the agreement to live apart, he transferred his house, with a fair market value of Rs. 15,000,000, to his wife who is a resident in Pakistan. Shafi had acquired this house for Rs. 14,000,000 on 15 January 2017.

Required:

Compute the total tax payable by Shafi on the taxable income arising from the above transactions for the tax year 2017. 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 (a) For this part question you should assume that today's date is 1 October 2016.

Nasir, a registered person under the Sales Tax Act, 1990, is engaged in the production of a variety of goods. Nasir's business transactions for the month of September 2016 were as below:

	Rs.
Supplies made to registered persons	2,500,000
Supplies made to unregistered persons	1,500,000
Exports made to Malaysia	5,500,000
Exempt supplies made to registered persons	1,000,000
Payments made to unregistered persons for the purchase of raw material for the manufacturing of taxable supplies alone	1,000,000
Payments made to registered persons for the purchase of raw materials for the manufacturing of both taxable and exempt supplies	4,680,000

Additional information:

- (1) The figures for the supplies of all goods are stated exclusive of any applicable sales tax.
- (2) The figures for the purchase of raw materials are stated inclusive of any applicable sales tax.
- (3) All payments were made through crossed cheque except for a payment of Rs. 100,000 made to a registered person in cash to his business account.
- (4) Goods costing Rs. 150,000, which were otherwise taxable, were used by Nasir for his home consumption.

Required:

Calculate the sales tax payable or refundable to Nasir for the month of September 2016. (8 marks)

- (b) Certain types of manufactured goods (as listed in the Third Schedule to the Sales Tax Act 1990) are chargeable to sales tax at the rate of 17% of the retail price.

Required:

List ANY FOUR types of goods on which sales tax is chargeable at the rate of 17% of the retail price. (2 marks)

(10 marks)

5 For this question you should assume that today's date is 15 September 2017.

Bashir Energy Ltd (BEL) is as resident company in Pakistan which was incorporated on 1 January 2010 and listed on the Karachi Stock Exchange on 1 January 2015. All the goods manufactured by BEL are locally consumed and are exempt from sales tax. BEL's statement of profit or loss for the year ended 30 June 2017 shows the following:

	Notes	Rs.
Turnover		400,000,000
Direct production costs	(1)	(220,000,000)
Indirect costs and overheads	(2)	(60,000,000)
Trading profit		<u>120,000,000</u>
Other income	(3)	1,000,000
Profit before tax		<u>121,000,000</u>

Unless stated otherwise, all payments were made through crossed cheques and tax was duly deducted and deposited as required under the law.

Notes:

- (1) Direct production costs include:
- (a) Rs. 2,000,000 on account of depreciation on machinery.
 - (b) Rs. 100,000,000 paid for the supply of raw materials and other goods used in the manufacturing of finished goods. The amount was paid to a non-filer without any tax deduction.
- (2) Indirect costs and overheads include:
- (a) Rs. 600,000 paid to employees as an annual allowance for their leave fare assistance.
 - (b) Rs. 300,000 as an unadjustable security deposit to the Lahore Electricity Supplying Company (LESCO) for the installation of an electricity transformer for the exclusive use of BEL.
 - (c) Rs. 420,000 paid as architects' fees in respect of a site which BEL hopes to acquire, with a view to expanding its factory premises.
 - (d) Rs. 700,000 was transferred to a fund reserved for the payment of contingency expenses.
 - (e) Rs. 2,900,000 paid for the purchase and use of a trademark on 1 February 2017. The useful life of this trademark is 14 years.
 - (f) Rs. 450,000 paid as a professional fee to an arbitrator for resolving a trade dispute with a new customer.
 - (g) Rs. 800,000 incurred in a failed takeover of a rival company.
 - (h) Rs. 1,300,000 income tax withheld at source from BEL by its withholding agents on the supply of goods manufactured by BEL.
- (3) Other income is on account of profit on a debt given to an associated concern at 5%, which otherwise could have been lent in an arm's length transaction at 7%.

Additional information

- (1) The tax written down values of the assets used in BEL's business during the year ended 30 June 2017 at the beginning of the year was as follows:

	Rs.
Buildings:	
– office building including land cost of Rs. 500,000	3,000,000
– factory building including land cost of Rs. 1,000,000	20,000,000
	<u>23,000,000</u>
Plant and machinery	17,000,000
Computer hardware including printers of Rs. 100,000	900,000
Motor cars	6,000,000

- (2) BEL paid Rs. 30,000,000 as advance tax in cash in four equal quarterly instalments.
- (3) Tax deposited along with electricity bills during the year was Rs. 1,200,000.

Required:

- (a) Compute the taxable income of Bashir Energy Ltd for the tax year 2017, 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. (12 marks)

- (b) Calculate the tax payable by/refundable to Bashir Energy Ltd for the tax year 2017.**

Note: Ignore minimum tax and alternative corporate tax. (3 marks)

(15 marks)

6 For this question you should assume that today's date is 15 September 2017.

Saima, aged 50 and a resident of Pakistan, is the executive director of Irfan Services Ltd (ISL). The following information relates to Saima for the year ended 30 June 2017:

- (1) In accordance with her employment contract with ISL, Saima received a basic salary of Rs. 180,000 per month inclusive of a medical allowance of Rs. 18,000. In addition, in June 2017 she received an *ex gratia* payment of Rs. 360,000.
- (2) ISL pays Saima a house rent allowance of Rs. 60,000 per month, but she only pays rent of Rs. 45,000 per month for her rented house.
- (3) ISL provides Saima with a company car, which she also uses for private purposes. The car was acquired by ISL in December 2015 for Rs. 2,000,000. The value of the car on 30 June 2017 is estimated to be Rs. 2,400,000 due to the general rise in the price of cars.
- (4) ISL paid medical expenses for Saima to a private clinic of Rs. 75,000 as per the terms of her employment.
- (5) ISL provides all of its employees, including Saima, with annual membership of the Royal Palm Club. The Club's annual membership is normally available for Rs. 200,000, but ISL receives a discount and pays Rs. 180,000 per membership.
- (6) Saima is entitled to 20 days earned leave a year. She did not avail of any leave during the current year and ISL compensated her with a payment of Rs. 120,000.
- (7) Saima employs a security guard at her apartment at a monthly salary of Rs. 20,000. Saima is reimbursed 50% of the guard's salary by ISL.
- (8) Saima took out a loan from a scheduled bank for the acquisition of an apartment in Faisalabad in which her husband lives in connection with his employment there. During the year ended 30 June 2017, Saima paid profit of Rs. 500,000 to the scheduled bank on this loan.
- (9) Saima paid a charitable donation of Rs. 50,000 to a school run by the local government in Lahore.
- (10) Saima paid tuition fees of Rs. 700,000 for her son, who is studying in a medical college. The college collected Rs. 35,000 income tax along with the fee.
- (11) Saima received agricultural income of Rs. 800,000 on which agricultural tax of Rs. 97,500 was paid to the Punjab Board of Revenue.
- (12) Saima received first prize in a quiz show on PTV of Rs. 800,000, net of income tax of Rs. 200,000 withheld by PTV. Saima gave a party for her friends in a hotel to mark this achievement, which invoiced her Rs. 300,000 plus tax of Rs. 15,000.
- (13) Tax deducted on payments made by ISL to Saima during the year ended 30 June 2017 was Rs. 300,000.

Required:

Compute Saima's taxable income, the income assessable under the final tax regime (FTR) and her total tax payable for the tax year 2017. Give reasons for the treatment of any items excluded from the taxable income or for which no expense/deduction/tax credit is allowed.

(15 marks)

End of Question Paper