Fundamentals Level – Skills Module

Taxation (Pakistan)

Thursday 7 June 2018

F6 PKN ACCA

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.

Paper F6 (PKN)

Think Ahead ACCA

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 2018 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 to Rs. 2,500,000	Rs. 144,500 plus 20% of the amount exceeding Rs. 1,500,000
Rs. 2,500,001 to Rs. 4,000,000	Rs. 344,500 plus 25% of the amount exceeding Rs. 2,500,000
Rs. 4,000,001 to 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 association 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 rates for companies

Small company	25% of taxable income
Public company/private company	30% of taxable income
Tax rate for foreign direct investment in industrial undertakings by companies	0% of taxable income

E. Alternative corporate tax rate for companies 17% of accounting income

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

	Where the security was acquired between 1 July 2013 and 30 June 2016		Where the security was acquired on or after 1 July 2016	
	Filer	**Non-filer**	**Filer**	**Non-filer**
Where the holding period is less than 12 months	15%	18%	15%	20%
Where the holding period is 12 months or more but less than 24 months	12·5%	16%		
Where holding period is 24 months or more	7·5%	11%		
Where the security was acquired before 1 July 2013	0%			

G. 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%

H. Rate for profit on debt

Where profit on debt does not exceed Rs 5,000,000	10%
Where profit on debt exceeds Rs 5,000,000 but does not exceed Rs 25,000,000	12·5%
Where profit on debt exceeds Rs 25,000,000	15%

I. 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	7%

– where the payment is being made to a taxpayer other than a company being a

– filer	4·5%
– non-filer	7·75%

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	14·5%
– where the payment is being made to a taxpayer other than a company being a		
	– filer	10%
	– non-filer	17·5%
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	12%
– where the payment is being made to a taxpayer other than a company being a		
	– filer	7·5%
	– non-filer	12·5%
Contract by a sports person		10%
Commission and brokerage received by a non-filer		15%
Commission and brokerage received by an advertising agent being a		
	– filer	10%
	– non-filer	15%
Commission and brokerage received by a filer not being 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		Rs. 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	15%
	– non-filer	20%

J. Depreciation rates

	Percentage of tax written down value
Buildings (all types)	10%
Furniture and fittings	15%
Plant and machinery (not otherwise specified)	15%
Motor vehicles (all types)	15%
Computer hardware	30%

K. Initial allowance on eligible assets

	Percentage of cost
Buildings	15%
Plant and machinery	25%

L. Pre-commencement expenditure

Amortisation rate for pre-commencement expenditure	20%

M. 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 For this question you should assume that today's date is 15 July 2018.

Ismat, aged 55, has been an employee of Mansha Ltd (ML), a public listed company since 1 July 2014. In the tax year 2018 her monthly salary was Rs. 400,000, but to date she has been paid her salary for 11 months only, as her salary for June 2018 has not yet been paid. ML has also paid income tax of Rs. 600,000 on the salary paid to Ismat in the tax year 2018.

On 1 July 2017, ML gave Ismat a loan of Rs. 8,000,000 at a profit of 2% per annum. She utilised this loan to acquire a new house. At the time of the acquisition of the house, Rs. 100,000 was collected as income tax by the house registering authority.

Required:

(a) (i) State, giving reasons, whether the salary receivable by Ismat for the month of June 2018 is or is not taxable in the tax year 2018. (2 marks)

(ii) State the permissible limit for the deduction allowed for the profit paid on a debt obtained for the acquisition of a house and whether or not it is possible for any excess to be carried forward to a subsequent tax year. (2 marks)

(b) Compute Ismat's taxable income for the tax year 2018 and the tax payable on the filing of her return for that year. (6 marks)

(10 marks)

2 (a) Define the term 'public company' under the Income Tax Ordinance 2001. (6 marks)

(b) Tracking Cars (Pvt) Ltd (TCPL) advanced a loan of Rs. 170,000 to one of its shareholders, Saghir, a filer resident taxpayer on 15 August 2017. TCPL had accumulated profits of Rs. 670,000 at the date this loan was advanced.

Required:

(i) State the tax treatment of the loan in the hands of Saghir.
(ii) Calculate the amount, if any, of the advance tax which Tracking Cars (Pvt) Ltd should have withheld from the loan advanced to Saghir.
(iii) State the tax treatment of the loan, if Tracking Cars (Pvt) Ltd had had no accumulated profits on the date the loan was advanced to Saghir.
(iv) State the tax treatment of the loan, if it had been advanced to Saghir by a company listed on the Pakistan Stock Exchange.

Note: The total marks will be split equally between each of the parts (i) to (iv). (4 marks)

(10 marks)

3 **For this question you should assume that today's date is 15 July 2018.**

Rameez, a filer resident taxpayer, disposed of the following assets during the year ended 30 June 2018:

(1) 1 July 2017: Sold a replica of a rare document of the East India Company for Rs. 5,000. The manuscript had been acquired for Rs. 100,000 on 25 August 2016 on the understanding that it was an original document.

(2) 5 August 2017: Sold 10,000 municipal bonds, issued by the Lahore Metropolitan Corporation, for Rs. 2,500,000. The bonds had been acquired on 1 April 2017 for Rs. 2,250,000. Bank charges relating to this purchase were Rs. 25,000.

(3) 10 August 2017: Exchanged 5,000 shares in Shishamwood (Pvt) Ltd (SPL) for 4,000 shares in Interworld Travels (Pvt) Ltd (ITPL). The Federal Government holds 50% of the shares in both SPL and ITPL. The shares in SPL were acquired at the cost of Rs. 60 per share on 20 June 2016. The face value of the shares in ITPL is Rs.75 per share and their market value at the date of exchange is estimated to have been Rs. 90 per share.

(4) 15 March 2018: The Government of Punjab compulsorily acquired Rameez's land for its orange line train project for Rs. 47,000,000. The land had been acquired by Rameez on 1 January 2017 for Rs. 45,000,000, and he paid stamp duty of Rs. 900,000 on the acquisition. The Rs. 45,000,000 received from the Government of Punjab was used by Rameez to purchase commercial papers issued by the Government of Pakistan. No profit accrued on these commercial papers until after 30 June 2018.

(5) 20 March 2018: Sold an antique painting, which he had held for his personal use, for Rs.1,500,000. The painting had been inherited from Rameez's father on 10 November 2010 on which date its value was determined by an expert at Rs. 1,100,000.

(6) 30 April 2018: Gifted 2,000 shares in Zahoor Textile Mills (Pvt) Ltd (ZMPL) to his son, Imran, who is a citizen of the United Kingdom but has been resident in Pakistan since 20 January 2018. Rameez had acquired these shares at Rs. 10 per share on 1 January 2018. At the time of the gift to Imran, the market value of each share in ZMPL was estimated to be Rs. 50.

Additional information: (i) Tax of Rs. 4,500 was deducted on Rameez's cash withdrawals from his bank during the tax year 2018. (ii) During the year Rameez paid income tax of Rs. 190,000 at the time of purchase of a new car for his personal use.

Required:

Compute the total tax payable by/refundable to Rameez on the taxable income arising from the above transactions on the filing of his tax return for the tax year 2018. 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) In each of the following cases, specify the documents necessary for a sales tax registered person to be entitled to deduct input tax:

(i) a taxable supply of goods;

(ii) goods imported into Pakistan; and

(iii) goods purchased in an auction. (3 marks)

(b) For this part of the question, you should assume that today's date is 7 June 2018.

Omar Ltd is engaged in the manufacture and supply of goods. The company's business transactions for the month of May 2018 are summarised as follows:

			Rs.
(1)	Purchase of raw materials used in the making of taxable supplies, payments for which were made as follows:		
		Rs.	
	Cash payment into the business bank account of the supplier	3,200,000	
	Credit card payment verifiable from the bank statements of Omar Ltd and the supplier	585,000	
	Online transfer of funds from the business bank account of Omar Ltd to the business bank account of the supplier	468,000	
	Crossed cheque from the personal bank account of a director of Omar Ltd. Fully verifiable	819,000	
			5,072,000
(2)	Purchase of raw materials used exclusively in the making of exempt supplies		1,200,000
(3)	Purchase of raw materials used exclusively in the making of zero rated supplies		1,755,000
(4)	Sale of zero rated goods to registered persons		4,700,000
(5)	Sale of exempt goods to unregistered persons		5,000,000
(6)	Sale of taxable goods to unregistered persons		6,000,000
(7)	Advance payment received in May 2018 for the supply of taxable goods to registered persons made in August 2018		2,500,000

Notes:

1. All payments for purchases were made to registered persons and are inclusive of sales tax at the rate of 17%.
2. All figures for sales and the advance payment received are stated exclusive of sales tax.

Required:

Calculate the sales tax payable by Omar Ltd with its sales tax return for the month of May 2018.

(7 marks)

(10 marks)

5 For this question, you should assume that today's date is 15 September 2018.

Pakistan Technologies Ltd (PTL) was incorporated on 1 June 2005, and is a company listed on the Pakistan Stock Exchange. PTL's profit before tax for its accounting year ended 30 June 2018 is Rs.4,000,000. This accounting profit was after crediting income/debiting expenses which included the following:

Amounts credited:

(1) Damages of Rs. 50,000 received from one of PTL's suppliers of raw materials for delays in the making of supplies. This was the first casual receipt PTL had received since its incorporation and it was credited to the miscellaneous income account.

(2) Net income of Rs. 1,000,000 received through proper banking channels for technical services rendered outside Pakistan in August 2017 under an agreement with a company in the United Arab Emirates.

Amounts debited:

(3) An expense of Rs. 400,000 paid as an instalment towards the purchase price of an industrial plot. It is the consistent policy of PTL to charge all expenditure below Rs. 500,000 to the statement of profit or loss.

(4) An expense of Rs. 300,000 paid as interest to a non-resident creditor. No tax was deducted at source from this payment.

(5) An amount of Rs. 150,000 paid to an employee on 14 August 2017, as a cash advance for the month of August, due to the urgent need of the employee. The banks were closed on the day this payment was made due to the Independence Day holiday.

(6) The following expenditure on scientific research:

	Rs.
In-house expenditure:	
– salaries paid to scientists	1,500,000
– cost of different chemicals used in the research	300,000
Expenditure paid to a company in China for research work done on behalf of PTL	700,000
	2,500,000

(7) An expense of Rs. 250,000 paid to a poor employee to meet the expenses of their daughter's marriage, although there was no such clause in the employee's contract of employment.

(8) An expense of Rs. 850,000 incurred on increasing PTL's authorised capital in order to meet the requirements of a statutory law.

(9) A fine of Rs. 50,000 imposed by the Municipal Committee for the violation of a local law.

(10) An expense of Rs. 400,000 paid to PTL's wholly owned subsidiary Kiran Ltd (KL) on account of KL advertising the products of PTL. The auditors of PTL have observed that the advertising charges paid to KL are 20% more than those charged by other advertising agencies in the market.

(11) In view of the poor financial condition of KL, PTL wrote off loans totalling Rs. 650,000 which had been advanced to KL, as a bad debt.

(12) Accounting depreciation charge of Rs. 1,800,000.

Other relevant information:

(i) The tax written down values of PTL's fixed assets on 1 July 2017 were:

	Rs.
Buildings	3,500,000
Plant and machinery	6,000,000
Motor cars	2,500,000
Computer hardware	1,000,000

On its becoming obsolete, a computer having a tax written down value of Rs. 30,000 was discarded on 31 December 2017. The fair market value of this discarded computer was Rs. 4,000. A new computer was purchased for Rs. 100,000 and put into use for the first time on 1 March 2018.

(ii) Taxes paid by PTL or deducted on behalf of PTL during the year were:

	Rs.
Advance tax as per s.147 of the Income Tax Ordinance, 2001	1,200,000
Tax deducted by the bank authorities on cash withdrawals	35,000
Tax deducted by customers on supplies made by PTL	600,000

(iii) All expenditure was paid through crossed cheques and tax was deducted and paid according to the law unless stated otherwise.

(iv) Alternative corporate tax, minimum tax on a turnover basis and the Workers Welfare Fund Ordinance, 1971 are not applicable to PTL.

Required:

(a) Compute the taxable income of Pakistan Technologies Ltd for the tax year 2018 under the appropriate heads of income, giving brief reasons/explanations for the inclusion in or exclusion from the computation of each of the items listed in the question.

Note: The reasons/explanations for the items not listed in the computation of taxable income should be shown separately. Specific marks are allocated for this part of the requirement. (13 marks)

(b) Calculate the tax payable by/refundable to Pakistan Technologies Ltd on the filing of the company's return of income for the tax year 2018. (2 marks)

(15 marks)

6 **For the purpose of this question, you should assume that today's date is 15 September 2018.**

Ambreen runs a beauty parlour in Lahore. She is also a part-time employee at APWA giving lectures to its members on body care. The following information relates to Ambreen's income and expenditure for the accounting year ended 30 June 2018:

	Note	Rs.
Income		
Sale of products to ordinary individual consumers		2,050,000
Tax refund received from the Income Tax Department for the tax year 2016		575,000
Additional payment received on delayed tax refund (as above)		75,000
Salary (net of tax of Rs. 44,500) received from APWA		1,005,500
		3,705,500
Expenditure		
Materials consumed in the beauty parlour	(1)	977,000
Rent of the beauty parlour premises	(2)	800,000
Purchase of equipment		90,000
Wages paid to beauty parlour staff	(3)	1,000,000
Telephone bills (including sales tax of Rs. 40,000 and income tax of Rs. 25,000)		200,000
		3,067,000
Net income		638,500

Notes:

(1) This amount includes chemicals costing Rs. 45,000 which expired and had to be destroyed.

(2) Because the rent was below Rs. 1,500,000 per year, as an individual, Ambreen did not deduct any tax from the rental payments.

(3) The wages paid to the beauty parlour employees are based on the number of hours worked.

All the wages were paid in cash and the amounts paid per employee ranged from Rs. 15,500 per month to Rs. 18,000 per month.

Additional information:

(i) Ambreen has a speculation business loss brought forward from the tax year 2017 amounting to Rs. 190,000.

(ii) Ambreen's business assets are all classed as equipment and had a total cost of Rs. 2,860,000 on 1 July 2017, against which capital allowances of Rs. 1,360,000 had been claimed till 30 June 2017.

(iii) Ambreen obtained a car on a finance lease from a scheduled bank on 1 January 2018. The total value of the car is Rs. 3,500,000, and its proportionate use has been:

– 50% for the beauty parlour business; and
– 50% for her employment with APWA.

No depreciation has been claimed on this car. During the year Ambreen made payments of Rs. 250,000 towards the principal amount and Rs. 70,000 towards finance charges on the car.

(iv) Ambreen has two children, who are both currently students at a medical college.

Required:

(a) **Compute Ambreen's taxable income for the tax year 2018 and tax payable on the filing of her return of income for that year. Give reasons for the treatment of any items excluded from taxable income or for which no expense/deduction is allowed.** (13 marks)

(b) **State, giving reasons, whether Ambreen would be entitled to claim a deductible allowance in respect of any tuition fees she paid for the education of her children in the tax year 2018.** (2 marks)

(15 marks)

End of Question Paper