

Applied Skills

# Taxation – Pakistan (TX – PKN)

Tuesday 4 December 2018



**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.**

PKN  
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TX

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	20% 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%
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**M. Benchmark rate**

Interest free loans to employees	10% per annum
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**Section A – ALL 15 questions are compulsory and MUST be attempted**

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 The latest assessed taxable income of Tanveer derived from his business for the tax year 2017 was Rs. 2,000,000, on which tax of Rs. 344,500 was paid. Taxable income during the tax year 2018 is estimated to be Rs. 4,000,000 on which tax payable would be Rs. 719,500.

**What amount of advance income tax was Tanveer required to pay for the quarter ended 30 September 2017?**

- A Rs. 86,125
- B Rs. 179,875
- C Rs. 77,513
- D Rs. 161,888

- 2 Aslam, a citizen of Pakistan, resided in Pakistan from 1 July 2017 to 14 February 2018 and earned total salary income of Rs. 750,000 during this period in Pakistan. Thereafter, he resided in the United Kingdom (UK) from 15 February 2018 until 14 July 2018, and earned total salary income of Rs. 1,750,000 during this period in the UK. He came back to Pakistan on 15 July 2018.

**What amount of income tax is payable in Pakistan by Aslam in respect of the tax year 2018?**

- A Rs. 259,500
- B Rs. 0
- C Rs. 14,500
- D Rs. 129,500

- 3 **Which of the following assets are securities for the purposes of the computation of capital gains under the Income Tax Ordinance, 2001?**

- (1) Treasury bills
- (2) Federal investment bonds
- (3) Pakistan investment bonds
- (4) Commercial papers issued by a company registered in Pakistan

- A 1 and 4 only
- B 2 and 3 only
- C 1, 2 and 3 only
- D 1, 2, 3 and 4

- 4 During the tax year 2018, Shareef earned salary income of Rs. 1,500,000. He paid Zakat of Rs. 100,000 under the Zakat and Ushr Ordinance, 1980.

**What is Shareef's tax liability in respect of the tax year 2018?**

- A Rs. 92,000
- B Rs. 79,500
- C Rs. 129,500
- D Rs. 85,867

- 5 During the quarter ended 31 December 2017, Best Investors (Pvt) Ltd made a capital gain of Rs. 1,600,000 on the disposal of securities after holding them for seven months.

**What is the amount of advance income tax payable by Best Investors (Pvt) Ltd during the quarter ended 31 December 2017 in respect of the disposal of the securities?**

- A Rs. 480,000
- B Rs. 32,000
- C Rs. 120,000
- D Rs. 24,000

- 6 In the tax year 2018, Power Solutions (Pvt) Limited, a small company, made total payments of Rs. 10,000 to the workers' welfare fund under the Workers' Welfare Fund Ordinance, 1971, based on its total income of Rs. 500,000.

**What is the amount of income tax payable by Power Solutions (Pvt) Limited on its taxable income for the tax year 2018?**

- A Rs. 150,000
- B Rs. 122,500
- C Rs. 147,000
- D Rs. 125,000

- 7 Adeel filed an application to the Commissioner Inland Revenue on 1 June 2017 for rectification of mistakes apparent in an assessment order dated 15 March 2017, passed by the Commissioner.

**What is the earliest date on which the mistakes will be deemed to have been rectified if no order on rectification application is passed by the Commissioner?**

- A 30 June 2018
- B 15 March 2018
- C 31 May 2018
- D 14 March 2022

- 8 AHL Limited purchased a capital asset on 1 March 2018 for Rs. 4,000,000 and paid Rs. 100,000 of freight costs to transport the asset to its premises. Rs. 200,000 was also incurred on its installation.

**What is the cost of the capital asset for tax purposes?**

- A Rs. 4,100,000
- B Rs. 4,000,000
- C Rs. 4,300,000
- D Rs. 4,200,000

- 9 **When deciding on an appeal against an assessment order lodged before the Commissioner Inland Revenue (Appeals), which of the following can the Commissioner NOT do?**

- A Confirm the assessment order
- B Set aside the assessment order
- C Modify the assessment order
- D Annul the assessment order

**10** In the tax year 2018, Abidi & Abidi (Pvt) Limited received the following amounts from its shareholders:

- (1) Loan of Rs. 400,000 in cash
- (2) Loan of Rs. 500,000 as a crossed cheque drawn on a bank
- (3) Deposit of Rs. 600,000 in cash for issuance of shares

**What is the amount of taxable income for Abidi & Abidi (Pvt) Limited in respect of the three amounts received from shareholders?**

- A** Rs. 1,500,000
- B** Rs. 0
- C** Rs. 1,000,000
- D** Rs. 1,100,000

**11** On 15 March 2018, Saleem, a salaried person, purchased a commercial plot of land. The value of the land as notified by the Federal Board of Revenue is Rs. 1,000,000 higher than the value notified by the District Collector for registration purposes.

**What is the amount of tax which Saleem needs to pay in order to prevent the Commissioner Inland Revenue from asking him about the source of the funds of Rs. 1,000,000 used to purchase the plot?**

- A** Rs. 30,000
- B** Rs. 69,500
- C** Rs. 39,500
- D** Rs. 50,000

**12** Kanwar earns his income from the trading of consumer goods. He is allowed by the Commissioner Inland Revenue to end his tax year on 30 September each year.

**How will Kanwar's tax year ended on 30 September 2017 be denoted for the purpose of the Income Tax Ordinance, 2001?**

- A** 2016–2017
- B** 2017
- C** 2017–2018
- D** 2018

**13** Taimur Securities (Pvt) Limited ('TSPL'), a non-filer small company, purchased a trading rights entitlement certificate for Rs. 2,700,000 on 11 June 2017, in order to be able to trade as a broker on the Pakistan Stock Exchange. TSPL sold the certificate on 25 June 2018 for Rs. 3,100,000. The company did not conduct any business during the time it held the certificate.

**What is the tax payable by Taimur Securities (Pvt) Ltd for the tax year 2018 in respect of the sale of the trading rights entitlement certificate on 25 June 2018?**

- A** Rs. 75,000
- B** Rs. 60,000
- C** Rs. 0
- D** Rs. 100,000



**14** A penalty of Rs. 90,000 imposed on Sudher Enterprises Limited was paid 73 days after the due date of payment shown on the demand notice served on the company on 1 January 2018.

**What is the amount of the default surcharge which Sudher Enterprises Limited is liable to pay for the delayed payment of the penalty?**

- A** Rs. 0
- B** Rs. 10,800
- C** Rs. 2,160
- D** Rs. 3,240

**15** Shama Industries Limited (which is not a small company) was listed on the Karachi Stock Exchange in the tax year 2015. For the tax year 2018, its taxable income was Rs. 5,000,000.

**What is the amount of tax credit which would be admissible to Shama Industries Limited in the tax year 2018 on account of its listing on the Karachi Stock Exchange in the tax year 2015?**

- A** Rs. 300,000
- B** Rs. 150,000
- C** Rs. 0
- D** Rs. 225,000

**(30 marks)**

**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 the purposes of this question you should assume that today's date is 15 July 2018.

Naseer is 63 years old and is resident in Pakistan. He files his tax returns regularly. During the tax year 2018, he earned the following income:

- (1) Salary income of Rs. 750,000 from his employment on a contract basis. From this amount, tax of Rs.14,500 was deducted at source.
- (2) Net income of Rs. 200,000 from a solitary trading transaction.
- (3) Gross dividend income of Rs. 450,000 from a company engaged in the production of sugar. Tax was deducted at source from this amount at the prescribed rate.

In addition to the above, Naseer's son, who is a taxpayer in Pakistan, gave Naseer a cash gift of Rs. 400,000 through a prescribed banking channel.

**Required:**

- (a) **Compute Naseer's tax liability for the tax year 2018, giving reasons for any reduction of tax liability on account of his age.** (6 marks)
- (b) **Explain, by giving reasons, why the gift received by Naseer from his son is not taxable.** (2 marks)
- (c) **State the due date by which Naseer has to file his return of income for the tax year 2018.** (2 marks)

**(10 marks)**

**2 For the purposes of this question you should assume that today's date is 15 July 2018.**

**(a)** Violet & Ching Limited (VCL) is a small company resident in Pakistan. During the tax year 2018, VCL generated the following income:

- (1) Taxable business income of Rs. 6,000,000 generated from a manufacturing facility in Pakistan. Advance income tax of Rs. 1,350,000 was paid during the tax year 2018 on this income as required under the law.
- (2) Net income of 1,000,000 Taiwanese Dollars (TD) generated from a manufacturing facility in Taiwan. Tax was paid on this income to the Taiwan tax authorities at a rate of 28%, for which full evidence is available and kept by VCL in Pakistan. There is no tax treaty between Pakistan and Taiwan. On the relevant date, 1 TD was equal to 3.80 Pakistan Rupees.

**Required:**

**Compute the taxable income and tax liability of Violet & Ching Limited for the tax year 2018.**

**Note:** Ignore provisions relating to workers' welfare fund and workers' participation in the fund. (5 marks)

**(b)** Aliya Enterprises (Pvt) Limited (AEPL) was established on 1 June 2000. AEPL manufactures toy cars. The following information is available on AEPL for the tax year ended 30 June 2018:

	Rs.	
Gross turnover	100,000,000	
Profit before tax	9,500,000	(including income of Rs. 500,000 exempt from income tax under the second schedule to the Income Tax Ordinance, 2001)
Taxable income	5,000,000	

AEPL is not a small company.

**Required:**

**(i) Compute Aliya Enterprises (Pvt) Limited (AEPL)'s tax liability for the tax year 2018 based on each the following:**

- **minimum tax on turnover;**
- **corporate tax on taxable income; and**
- **alternative corporate tax.** (3 marks)

**(ii) State and explain which of the amounts of tax computed in part (i) above are payable by AEPL for the tax year 2018.** (2 marks)

**(10 marks)**

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

Raza is a resident taxpayer and filer in Pakistan. Raza disposed of the following assets during the year ended 30 June 2018:

- (1) 20 July 2017: Sold all of his household furnishings, used for personal use, in a garage sale. The total sales proceeds on the day amounted to Rs. 400,000. Raza estimated that the cost of the furnishings sold totalled Rs. 250,000.
- (2) 31 December 2017: Sold his plot in Nespak Housing Society for Rs. 800,000 to his friend. The fair market value of the plot was estimated to be Rs. 900,000 on the date of sale. Raza had acquired this plot on 1 December 2016 for Rs. 700,000.
- (3) 1 January 2018: Sold 40 acres of farmland for Rs. 15,525,000. The incidental costs relating to the sale amounted to Rs. 900,000. Raza had purchased this farmland on 15 January 2016 for Rs. 11,000,000. Expenses of Rs. 1,500,000 were incurred on 1 July 2017 to improve drainage of the farmland which enhanced its productivity.
- (4) 15 March 2018: Sold 5,000 shares in Yoglicious Pakistan Ltd, a company quoted on the Pakistan Stock Exchange, for Rs. 1,800,000. The shares had been purchased by Raza on 1 September 2016 on the Lahore Stock Exchange at a cost of Rs. 200 per share. Other costs incurred included the following:
  - Capital value tax at the time of purchase of 0.01% of the purchase price
  - Brokerage fee of Rs. 0.3 per share at the time of purchase
  - Brokerage fee of Rs. 0.4 per share at the time of sale
- (5) 1 June 2018: Sold 4,000 shares in Bright Light Ltd, an unlisted company, for Rs. 800,000. Raza acquired these shares as follows:

15 April 2011	Purchased 2,000 shares for Rs. 90,000
20 August 2013	Purchased 2,000 shares for Rs. 150,000
18 December 2013	1 for 4 rights issue was taken up fully, costing Rs. 40 per share

**Note:** Ignore default surcharge for non-payment of advance income tax.

**Required:**

**Compute the tax payable by Raza for the tax year 2018 on the taxable income arising from the above transactions (1) to (5). Give brief explanations 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 the purpose of this question you should assume that today's date is 5 June 2018.**

Masood Enterprises Ltd (MEL) is a registered person under the Sales Tax Act, 1990, and is engaged in the manufacture of consumer goods chargeable to sales tax at 17%. The company's business transactions for the month of May 2018 were as follows:

**Sales, including exports, exclusive of sales tax:**

	Rs.	Rs.
Local supplies to registered persons		20,000,000
Local supplies to unregistered persons	25,000,000	
Less: Trade discounts at 10%	<u>(2,500,000)</u>	
		22,500,000
Exports of goods to Egypt		18,000,000

**Payments for raw material purchases, inclusive of sales tax and paid through crossed cheques:**

	Rs.
Purchases of raw materials for manufacturing taxable local supplies	52,000,000
Purchases of raw materials for manufacturing exports	18,000,000

In addition, MEL's records show that:

- (1) The rate of discount is well below normal business practice in the industry. The discount rate was not shown on the sales tax invoices.
- (2) Goods, with a total value of Rs. 100,000, were provided free of charge to the executive director of MEL in accordance with his terms of employment.
- (3) There is no record of payment for a purchase of raw materials for manufacturing taxable local supplies of Rs. 351,000. This amount is included in the payments for purchases of raw materials figure of Rs. 52,000,000.
- (4) Due to an oversight, input tax of Rs. 200,000 relating to the purchase of raw materials used for the manufacture of exempt goods was not claimed in January 2018.
- (5) A payment of Rs. 11,700,000 (inclusive of sales tax), was made in May 2018. This related to capital goods for installation in the manufacturing unit.

**Required:**

**(a) Calculate the sales tax payable, or refundable, to Masood Enterprises Ltd for the month of May 2018, giving explanations for the treatment of the following:**

- the trade discount allowed to unregistered persons;
- the goods given to the executive director; and
- the input tax not claimed in the return for January 2018. (8 marks)

**(b) Explain what is meant by a tax period in the Sales Tax Act, 1990. (2 marks)**

**(10 marks)**

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

Nafees (Pvt) Limited (NPL) is a company incorporated in 2001 under the Companies Ordinance, 1984. It is engaged in the manufacture and sale of pesticides for use against household pests. NPL's income statement for the year ended 30 June 2018 is as follows:

	Notes	Rs.	Rs.
Turnover			65,000,000
Direct costs			(40,000,000)
Gross profit			25,000,000
Distribution costs	1	2,000,000	
Administrative costs	2	3,000,000	
Other expenses	3	680,000	
Finance costs	4	5,000,000	
			(10,680,000)
Rental income from a warehouse in Vehari			14,320,000
			1,000,000
Profit before tax			15,320,000
Advance income tax paid for the tax year 2018			(5,000,000)
Profit after tax			10,320,000

**Notes:**

**Note 1**

Distribution costs comprise:

	Rs.
Work in progress for construction of a warehouse in Multan during June 2018	900,000
Commission paid in cash to dealers (tax was properly deducted). Each individual payment ranged between Rs. 12,000 to Rs. 15,000	500,000
Technical literature distributed to customers regarding safe use of pesticides manufactured by NPL	375,000
Cost of pesticides used in demonstrations to show efficacy of the product (no evidence of expenditure is available)	225,000
	2,000,000

**Note 2**

Administrative expenses comprise:

	Rs.
Donations to a local unapproved charity of high repute	490,000
Sales tax penalty for late payment	450,000
Depreciation	1,250,000
Running expenses on cars for the executives, for business as well as their personal use, as per the terms of their employment agreement	810,000
	3,000,000

**Note 3**

Other expenses comprise:

	Rs.
Provision for estimated bad debts on the basis of historical pattern	600,000
Rent collection charges relating to warehouse in Vehari	80,000
	680,000

**Note 4**

All the finance costs relate to a running finance facility obtained from a schedule bank for business use. NPL has not deducted any tax on this payment.

**Additional information**

NPL's fixed asset record shows the following:

Type of asset	Tax written down value (TWDV) on 1 July 2017 Rs.	Additions during the tax year Rs.	Total Rs.
Buildings	5,000,000	0	5,000,000
Plant and machinery	3,000,000	0	3,000,000
Computers	2,000,000	500,000	2,500,000
Vehicles	1,000,000	3,500,000	4,500,000
Furniture and fittings	500,000	200,000	700,000

**Note:**

- (i) All purchases were paid for in cash.
- (ii) The addition to vehicles represents the purchase of a car for business use. Advance income tax of Rs. 200,000 was collected by the manufacturer of the car and is included in the value of the car.

**Required:**

- (a) **Compute the taxable income of Nafees (Pvt) Limited for the tax year 2018 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 items not included in the computation of taxable income should be shown separately, as specific marks are allocated for this part of the requirement. (13 marks)

- (b) **Calculate the tax payable by/refundable to Nafees (Pvt) Limited for the tax year 2018.**

Note: Ignore the workers' welfare fund and the alternative corporate tax provisions. (2 marks)

**(15 marks)**

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

Anwar, aged 55 years, is resident in Pakistan. He commenced business as a sole proprietor on 1 July 2017, manufacturing ready-made garments. Anwar's income statement, prepared using accrual-based accounting, for the year ended 30 June 2018 is as follows:

	Note	Rs.	Rs.
Sales	1		8,000,000
Cost of sales	2		(5,200,000)
Gross profit			2,800,000
Administrative and selling expenses	3	1,500,000	
Financial charges	4	400,000	
			(1,900,000)
Agricultural income			900,000
			200,000
Profit before tax			1,100,000

**Notes:**

**Note 1**

The sales figure of Rs. 8,000,000 includes Rs. 200,000 received from customers in advance of sales to be made in September 2018.

**Note 2**

The cost of sales figure of Rs. 5,200,000 includes Rs. 1,500,000 for purchasing used sewing machines imported from China on 1 August 2017, for use in Anwar's business. The cost includes customs duty of Rs. 75,000 and income tax of Rs. 90,000 paid at the import stage to the Collector of Customs. No depreciation has been charged by Anwar on these imported machines.

**Note 3**

Administrative and selling expenses are comprised of the following:

- Rs. 970,000 paid for the purchase of computer software on 1 August 2017. The software is likely to be used for four years.
- Salary to Anwar's brother who has been employed in Anwar's business as the assistant manager for marketing since 1 July 2017. His brother's monthly salary is Rs. 15,000. The salary was paid in cash and no deduction of tax was made from the salary.
- Rs. 350,000 paid to a customer according to an order from the District Consumer Court for damages. This was on account of supplying defective goods to the customer. Anwar has appealed against this order to the Lahore High Court which is still pending.

**Note 4**

Financial charges are comprised of:

- Car lease rental payments of Rs. 220,000 in total, paid to an approved leasing modaraba, for a finance lease on a car used for business purposes. The value of the car is Rs. 1,550,000. No depreciation has been claimed on the car.
- Rs. 180,000 profit paid on a loan of Rs. 1,500,000. The loan was used for paying tuition fees for Anwar's children.



**Additional information:**

- (1) Apart from the assets mentioned in the above notes, the following assets were purchased and used in Anwar's business during the year ended 30 June 2018:

	<b>Rs.</b>
Machinery previously used in Pakistan	3,500,000
New computers and printers	1,500,000
New furniture	500,000
New building (including cost of land of Rs. 1,000,000)	2,500,000

- (2) Anwar was an employee of a UAE firm from 1 July 2001 to 31 December 2016. He came to Pakistan on 15 January 2017. On 15 July 2017, he received an amount of Rs. 1,300,000 as final settlement from his ex-employer. No income tax was deducted by his ex-employer in the UAE. The amount which Anwar received is not included in the income statement.

- (3) Other taxes withheld at source during the year ended 30 June 2018 and not included in the income statement were as follows:

	<b>Rs.</b>
– Tax deducted by a scheduled bank on cash withdrawals	5,000
– Tax paid along with fee for Anwar's daughter's educational institution	30,000
– Taxes paid along with telephone bills	4,000

**Required:**

**Compute Anwar's taxable income and tax payable for the tax year 2018, 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 items not included in the computation of taxable income should be shown separately, as specific marks are allocated for this part of the requirement.

**(15 marks)**

**End of Question Paper**