

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN**

PROFESSIONAL-II EXAMINATION · SUMMER, 2003

Monday, the 26th May, 2003

93

BUSINESS TAXATION

Time Allowed 3 Hours

Maximum Marks 100

- (i) Attempt SIX questions including compulsory question No. 4 which carries 20 marks. All other questions carry 16 marks each.
- (ii) Show computations where necessary.
- (iii) Use of non-programmable scientific calculators of: O Casio fx-82 LB, O Casio fx-82 Super, O Casio fx-350 D, O Casio fx-350 11A models is allowed.
- (iv) Answer must be neat, relevant and brief.
- (v) In marking paper, the examiners take into account clarity of exposition, logic of arguments, effective arrangement, presentation and use of clear diagram/chart where appropriate.
- (vi) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (vii) DO NOT write your Name, Reg. No. or Roll No., anywhere inside the answer script.
- (viii) The Questions on Income Tax are based on Income Tax Ordinance, 2001.

Marks

Special instructions for Question 1.

- An overwritten reply will carry no mark.
- Use following format to answer this question:

| <i>Sl. No.</i> | <i>Your choice</i> | <i>Rationale (brief reason for your answer)</i> |
|----------------|--------------------|---|
| (i) | | |
| (ii) | | |
| so on | | |

Q. 1 Select the correct answer:

16

- (a) Rate of amortization of pre-commencement expenditure is:
- (i) 20%
 - (ii) 25%
 - (iii) 10%
 - (iv) 15%

P.T.O.

- (b) The amount of un-explained income and asset is added to the person's income:
- in the tax year it was discovered
 - in the tax year it was received
 - in the tax year it was accrued
 - in the tax year it was concealed.
- (c) The cost for depreciation of the passenger transport vehicle not plying for hire shall not exceed:
- Rs. 0.60 m
 - Rs. 0.75 m
 - Rs. 1.00 m
 - Rs. 1.50 m
- (d) Depreciation loss can be carried forward to:
- 6 tax years
 - 8 tax years
 - 10 tax years
 - None of the above
- (e) For the tax year commencing on the 1st day of July, 2002 "Benchmark Rate" means:
- 4%
 - 5%
 - 6%
 - 7%
- (f) The Commissioner, Income Tax can re-characterize a transaction that was entered into as part of:
- Self Assessment Scheme
 - Amnesty Scheme
 - Tax Avoidance Scheme
 - Fixed Tax Scheme.
- (g) Any rent received or receivable by a person in respect of the lease of a building together with plant and machinery shall be chargeable to tax under the head:
- Income from business
 - Income from property
 - Income from other sources
 - None of the above.
- (h) Sixth Schedule of the Income Tax Ordinance, 2001 contains provisions concerning:
- Rules for computation of profits of insurance business
 - Rules for computation of profits of petroleum business
 - Depreciation of assets and pre-commencement expenditure
 - Recognized Provident and Gratuity Funds etc.

- Q. 2 Define the following as per Section 2 of the Income Tax Ordinance, 2001? Marks
16
- (a) Amalgamation
(b) Fee for technical services
(c) Tax year
(d) Non profit organization.
- Q. 3 Discuss the deductions not allowed in computing income chargeable under the head "Income from Business"? 16
- Q. 4 Being a tax Consultant you have been provided with the following information in respect of Mr. A. D. Chughtai, a senior manager of a local company for the period 1st July, 2002 to 30th April, 2003 (Tax Year, 2004):

| | <u>Rupees</u> |
|---|---------------|
| Basic pay/wages | 210,000 |
| House rent | 115,500 |
| Medical allowance | 4,800 |
| Cost of living allowance | 7,860 |
| Utilities | 31,500 |
| Orderly/Servant allowance | 30,000 |
| Bonus/ <i>ex-gratia</i> | 70,000 |
| Company car 1300 cc (Partly used for company's business) | |
| Leave fare assistance | 17,500 |
| Employer's contribution to provident fund | 21,786 |
| Employer's contribution to pension fund | 27,300 |
| Income tax deducted u/s 149. | 60,000 |

In addition to the above you have been provided with the following data :

| | |
|---|--------|
| i) Dividend income (withholding tax deducted Rs. 1,750; Zakat deducted Rs. 250) | 17,500 |
| ii) Profit on PLS Account (withholding tax deducted Rs. 2,000; Zakat deducted Rs. 1,520) | 20,000 |
| iii) Professional fee received (withholding tax deducted Rs. 500) | 10,000 |
| iv) School Fee paid for two children (Receipts show National Tax Number) | 25,000 |
| v) Legal expenses (consultant fee) (Receipts show National Tax Number) | 12,500 |
| vi) There is no time scale for this position. | |

Required :

Work out the taxable income and tax liability of Mr. A. D. Chughtai for the Tax Year, 2004. 20

P.T.O.

- Q. 5 Dr. A. A. Qureshi a medical practitioner, furnishes his Receipt and Payment Account for the period 1st July, 2002 to 30th April, 2003 (Tax year, 2004).

| <u>Payments</u> | <u>Amount</u> <u>Rs.</u> | <u>Receipts</u> | <u>Amount</u> <u>Rs.</u> |
|---------------------------------|-----------------------------|--|-----------------------------|
| Rent of clinic | 24,000 | Consultation fees | 450,000 |
| Household expenses | 96,000 | Visiting fees | 100,000 |
| Purchase of motor car | 300,000 | Remuneration from articles published in magazines | - 12,000 |
| Purchase of surgical equipments | 40,000 | Rental income | 72,000 |
| Advance income tax | 60,000 | Gifts from patients | 30,000 |
| Salary to assistant | 36,000 | | ===== |
| Car running expenses | 30,000 | | |
| Property tax | 12,000 | | |
| Depreciation of motor car | 80,000 | | |
| Stationery | 5,000 | | |
| Utilities | 25,000 | | |
| | ===== | | |

Required :

- Compute the income for the relative tax year and tax thereon after taking into account the following facts: 16
- Two-third of car running expenses are in connection with personal use.
 - Depreciation on car should be charged according to the rules.
 - Investment in Defence Savings Certificates at Rs. 30,000.
- Q. 6 Explain any two of the following concepts in the light of Income Tax Ordinance, 2001? 16
- Thin capitalization
 - Geographical source of income
 - Taxation of a permanent establishment in Pakistan of a Non-Resident Person.
- Q. 7 Describe the scope of sales tax under Section 3 of the Sales Tax Act. 16
- Q. 8 Write a note on the features of appeals to the Appellate Tribunal under the Central Excise Act. 16

THE END