

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Fall 2012 (February 2013) Examinations

Wednesday, the 27th February 2013

BUSINESS TAXATION (LA-402) **SEMESTER - 4**

Time Allowed: 02 Hours 45 Minutes

Maximum Marks: 90

Roll No.:

- (i) Attempt all questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
- (iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of any model is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.
- (viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

		Marks
Q. 2	(a) As per section 170 of the Income Tax Ordinance, 2001 who is entitled to claim refunds and when does an application for a refund become due?	03
	(b) Explain the term “Industrial Undertaking” as per section 2(29C) of the Income Tax Ordinance, 2001.	06
	(c) (i) You have been appointed as a Tax Adviser of Mr. Lodhi who has various residential and commercial properties in the various parts of the city. He has rented out his properties to different tenants. Advise Mr. Lodhi about the list of records which shall be issued and maintained by every taxpayer deriving income from property.	05
	(ii) State the provision regarding ‘taxation of petroleum products’ as per section 156A of the Income Tax Ordinance, 2001.	03
Q. 3	(a) Write short answers of the following questions:	
	(i) What is the condition for an ‘individual’ and ‘association of persons’ to qualify as a ‘prescribed person’ for the purpose of making deduction at source while making payment under the provisions of section 153 of the Income Tax Ordinance, 2001?	02
	(ii) In case of a non-salaried taxpayer what would be the rate of income tax where the taxable income of an individual exceeds Rs.2,500,000?	01
	(iii) Whether the income of a university or an educational institution established for educational purpose and making profit is exempt from income tax or not?	01
	(iv) Upto what period the income from export of computer software or IT Services or IT enabled services are exempt from income tax?	02
	(v) Under what head of income, the income from rent received or receivable in respect of the lease of building together with plant and machinery is taxable?	01

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(b) M/s. Kotton Limited, a holding company of five companies is engaged in the business of cotton farming, ginning, spinning, weaving and trading. Approximately 60% of the output of each company is consumed by the next follower. The remaining 40% is being sold in the open market through the trading company out of which 60% is exported and 40% is sold in the local market. Mr. Zaidi, Director Finance of the group of companies has received a notice from tax department regarding applicability of section 108 of the Income Tax Ordinance, 2001 'transactions between associates'. Mr. Zaidi approached you to seek advice about the following:

(i) What are the methods which may be applied to determine arm's length results under the Income Tax Rules, 2002? 04

(ii) Which method will be used where the arm's length results cannot be reliably determined under any of the methods as mentioned at (i) above? 02

(c) Mr. Rafiq wants to calculate his tax liability of income from salary. Being his tax advisor, explain perquisites and allowances regarding 'valuation of accommodation' as per rule 4 of the Income Tax Rules, 2002. 05

Q. 4 Mr. Noor has been working as a Senior Manager in Karachi Terminal Limited. Assume that he has provided following information about his income pertaining to the year ended June 30, 2013:

	Rupees
Salary Income:	
Basic salary	840,000
Bonus	100,000
Dearness allowance	84,000
House rent allowance	420,000
Medical allowance (actual expenses Rs.30,000)	80,000
Contribution by Mr. Noor towards recognized provident fund (including equal contribution by the company)	168,000
Interest credited during the year (provident fund)	300,000
Other Income	
Remuneration for literary work (Mr. Noor is a non-professional writer)	120,000
Profit on profit and loss sharing bank account (net of 10% tax withheld)	9,000
Capital loss on sale of shares of public listed company	35,000
Rent from house let out	192,000
<i>Expenditure claimed against property income:</i>	
Property tax	15,000
Repair & maintenance	5% of rent
Other Information:	
Zakat paid	10,000

Note: It is assumed that literary work was started and completed during the tax year.

Required:

Being a tax consultant you are required to calculate Mr. Noor's taxable income and his income tax liability for the tax year 2013.

20

- Marks**
- Q. 5 (a)** Define the following terms under section (2) of the Sales Tax Act, 1990:
- (i) Person **03**
 - (ii) Input tax **03**
 - (iii) Distributor **03**
- (b)** Mr. Waqar and Mr. Tanveer are registered persons under the Sales Tax Act 1990. Mr. Waqar purchases goods from Mr. Tanveer. Mr. Waqar has reasonable grounds to suspects that Mr. Tanveer has not been depositing the sales tax paid by Mr. Waqar on the supply of goods by Mr. Tanveer. Advise Mr. Waqar about the following:
- (i) What is the liability of Mr. Waqar in the above scenario? **02**
 - (ii) Who has the power to declare the transaction or transactions exempt from any liability in case where the tax remains unpaid? **02**
- Q. 6 (a)** What are the penalties of the following defaults under the provisions of the Sales Tax Act, 1990?
- (i) Any person who fails to furnish a return with in due date under section 26 of the Act. **02**
 - (ii) Any person who fails to issue an invoice when required under section 23 of the Act. **02**
 - (iii) Any person who fails to make payment in the manner prescribed under section 73 of the Act. **02**
- (b)** Bashir Corporation is registered with the sales tax department as manufacturer, exporter and distributor. It has the following transactions for the month of January, 2013:
- | | Rupees |
|---------------------------------------|---------------|
| Purchases from registered persons | 6,000,000 |
| Purchases from non-registered persons | 720,000 |
| Exports | 1,000,000 |
- During a tax period the company supplied goods worth Rs.7,000,000. As per normal business practice, the company sells the goods at a discount of 20% of the retail price.
- Required:**
- Compute the sales tax liability of Bashir Corporation for the month of January 2013. **06**
- Q. 7 (a)**
- (i) A person registered under the Federal Excise Act, 2005 is required to issue invoice for each transaction at the time of clearance of goods. List down the particulars of the said invoice as per section 18(1) of the Federal Excise Act, 2005. **03**
 - (ii) Define the following terms under the provisions of the Federal Excise Act, 2005:
 - Adjustment **02**
 - Duty due **01**
- (b)** Under the section 96 of the Customs Act, 1969 with respect to goods lodged in public warehouse, answer the following:
- (i) Who is liable to pay the rent of public warehouse? **01**
 - (ii) What would be the time period within which such rent or demand is payable? **01**
 - (iii) In case of default what remedies are available to the custom authorities? **02**

THE END

Tax rates on next page

Tax Rates for Salaried Individuals

Sr. No.	Taxable Income	Rate of Tax
1.	0 to Rs.400,000	0%
2.	Rs.400,000 to Rs.750,000	5% of the amount exceeding Rs.400,000
3.	Rs.750,000 to Rs.1,500,000	Rs.17,500 plus 10% of the amount exceeding Rs.750,000
4.	Rs.1,500,000 to Rs.2,000,000	Rs.95,000 plus 15% of the amount exceeding Rs.1,500,000
5.	Rs.2,000,000 to Rs.2,500,000	Rs.175,000 plus 17.5% of the amount exceeding Rs.2,000,000
6.	Where the taxable income exceeds Rs.2,500,000	Rs.420,000 plus 20% of the amount exceeding Rs.2,500,000

Rates of Tax on Property Income for Individuals and Association of Persons

Sr. No.	Taxable Income	Rate of Tax
1.	Where the gross amount of rent does not exceed Rs.150,000.	NIL
2.	Where the gross amount of rent exceeds Rs.150,000 but does not exceed Rs.400,000.	5% of the gross amount exceeding Rs.150,000
3.	Where the gross amount of rent exceeds Rs.400,000 but does not exceed Rs.1,000,000.	Rs.12,500 plus 7.5% of the gross amount exceeding Rs.400,000
4.	Where the gross amount of rent exceeds Rs.1,000,000.	Rs.57,500 plus 10% of the gross amount exceeding Rs.1,000,000