

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Winter (November) 2011 Examinations

Sunday, the 20th November 2011

BUSINESS TAXATION (S-302)

STAGE – 3

Time Allowed : 02 Hours 45 Minutes

Maximum Marks: 80

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)** Define the following terms prescribed under the Income Tax Ordinance, 2001:
- (i) Principal officer **02**
 - (ii) Small company **03**
- (b) Under Section 46 of the Income Tax Ordinance, 2001, any profit received by a non-resident person on a security issued by a resident person shall be exempt from tax under certain conditions. What are these conditions? **04**
- (c) Explain the Rule 5 of the Income Tax Rules, 2002 relating to ‘valuation of conveyance’ provided by the employer to the employee under the head of income ‘salary’. **06**
- Q.3 (a)** List down the particulars required to be furnished under the Rule 12(1) of the Income Tax Rules, 2002 for claiming depreciation deduction u/s 22, initial allowance u/s 23 and amortization deduction u/s 24 of the Income Tax Ordinance, 2001. **08**
- (b) As per Section 62 relating to ‘Investment in Shares’ of the Income Tax Ordinance, 2001, answer the following:
- (i) Who is entitled to tax credit in respect of cost of acquiring shares? **02**
 - (ii) How the amount of tax credit is to be computed? **03**
 - (iii) What impact will be made on the amount of tax payable by the person if the above mentioned person disposes of the shares within twelve months of the date of acquisition? **01**
- (c) Mr. Wasim opted to retire during the year ended June 30, 2011 under a golden handshake scheme announced by his employer and received a payment of Rs.2,800,000 as compensation. During the same year he had a taxable salary income of Rs.750,000. The taxable incomes and tax liabilities of Mr. Wasim for the three immediately preceding tax years were as below:

Year	Taxable Income (Rs.)	Tax Liability (Rs.)
1.	450,000	11,250
2.	540,000	18,900
3.	650,000	29,250

Required:

Compute the tax liability for the tax year 2011 assuming that he opted that:

- (i) the golden handshake payment be taxed as a separate block. **04**
- (ii) the golden handshake payment be taxed along with his other incomes. **02**

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- Marks**
- Q.4 (a)** List down the cases where a registered person is not entitled to deduct input tax from the output tax under Section 7(2) of the Sales Tax Act, 1990. **05**
- (b)** Section 33 of the Sales Tax Act, 1990 provides a list of offences and their respective penalties. What penalties are imposed by the Act in the following cases?
- (i)** If a person fails to furnish a return (in compliance of Section 26 of the said Act) within due date. **03**
- (ii)** If a person fails to issue an invoice when required by Section 23 of the Act. **02**
- (c)** Define the following under the Sales Tax Act, 1990:
- (i)** Arrears **02**
- (ii)** Tax period **01**
- (iii)** Association of persons **02**

Q.5 The Trading and Profit and Loss Account of M/s. ABC Limited for the year ended on 30th June, 2011 is as under:

	<u>Rs. 'million'</u>	<u>Rs. 'million'</u>
Sales		2,550
Less: Cost of sales		(1,630)
Gross profit		920
Less: Salaries and wages	(i) 180	
Office rent	33	
Vehicle expenses	(ii) 28	
Telephone expense	34	
Traveling and conveyance	31	
Entertainment	26	
Miscellaneous	58	
Office stationery	17	
Depreciation	(iii) 55	
Bad debts	15	
Allowance for doubtful debts	35	
Donations	(iv) 7	
Fire insurance	(v) 9	
Provision for taxation	91	(619)
Net Profit		301

Notes and Additional Information:

- (i) Salaries and wages include payment of Rs. 4 million without deducting tax at source.
- (ii) Un-vouched and un-verified vehicle expenses amounted to Rs. 3 million.
- (iii) Depreciation allowable as per the Income Tax Law is Rs.85 million.
- (iv) Donation amounting to Rs.7 million paid to an approved institution but not specified in Clause (61) of Part-I of Second Schedule.
- (v) Pre-paid insurance Rs.6 million.

Required:

Compute the taxable income and the tax liability of the company for the tax year 2011. **20**

- Q.6 (a)** Define the following under the Federal Excise Act, 2005:
- (i)** Distributor **02**
- (ii)** Factory **03**
- (b)** Under Section 39-40 of the Customs Act, 1969 answer the following:
- (i)** When drawback is not allowed? **03**
- (ii)** What is the time of payment of drawback? **02**

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TAX RATES FOR SALARIED TAXPAYERS FOR TAX YEAR 2011(EXTRACT)

Sr.#	Taxable Income		Tax Rate
1.	Where the taxable income exceeds	Rs.550,000 but does not exceed Rs.650,000	4.50%
2.	Where the taxable income exceeds	Rs.650,000 but does not exceed Rs.750,000	6.00%
3.	Where the taxable income exceeds	Rs.750,000 but does not exceed Rs.900,000	7.50%
4.	Where the taxable income exceeds	Rs.2,250,000 but does not exceed Rs.2,850,000	16.00%
5.	Where the taxable income exceeds	Rs.2,850,000 but does not exceed Rs.3,550,000	17.50%
6.	Where the taxable income exceeds	Rs.3,550,000 but does not exceed Rs.4,550,000	18.50%