BUSINESS TAXATION – SEMESTER-4

Marks

Q. 2 (a) (i) Depreciable Asset:

Depreciable asset means any tangible moveable property, immovable property (other than unimproved land), or structural improvement to immoveable property, owned by a person that:

(a) has a normal useful life exceeding one year;

(b) is likely to lose value as a result of normal wear and tear, or obsolescence; and

(c) is used wholly or partly by the person in deriving income from business chargeable to tax,

But shall not include any tangible moveable property, immovable property, structural improvement to immovable property in relation to which a deduction has been allowed under another section of this Ordinance for the entire cost of the property or improvement in the tax year in which the property is acquired or improvement made by the person.

(ii) Where a depreciable asset is used in a tax year partly in deriving income from business chargeable to tax and partly for another use, the deduction allowed for that year shall be restricted to the fair proportional part of the amount of depreciation that would be allowed if the asset was wholly used to derive income from business chargeable to tax.

(b) Tax Credit for Newly Established Industrial Undertakings:

Where a taxpayer being a company formed for establishing and operating a new industrial undertaking (including corporate dairy farming) sets up a new industrial undertaking (including corporate dairy farming), it shall be given a tax credit equal to hundred percent of the tax payable (including on account of minimum tax and final taxes payable under any of the provisions of this Ordinance,) on the taxable income arising from such industrial undertaking for a period of five years beginning from the date of setting up or commencement of commercial production, whichever is later,

Tax credit under this section shall be admissible where:

1. The company is incorporated and industrial undertaking is set up between the first day of July, 2011 and 30th day of June, 2016.
2. Industrial undertaking is managed by a company formed for operating the said industrial undertaking and registered under the Companies Ordinance, 1984 and having its registered office in Pakistan.
3. Industrial undertaking is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an industrial undertaking established in Pakistan at any time before July 01, 2011; and
4. the industrial undertaking is set up with hundred percent equity (raised through issuance of new shares for cash consideration;

(c) (i) Consumer Loan:

Consumer loan means a loan of money or its equivalent made by a non-banking finance company or the House Building Finance Corporation to a debtor (consumer) and the loan is entered primarily for personal, family or household purposes and includes debts created by the use of a lender credit card or similar arrangement as well as insurance premium financing.

Marks

(ii) Provision regarding consumer loans. A non-banking finance company or the House Building Finance Corporation shall be allowed a deduction, not exceeding three percent of income for the tax year, arising out of consumer loans for creation of a reserve to off-set bad debts arising out of such loans.

(iii) Setting off Bad Debt in respect of Consumer Loan:

Where bad debt can not be wholly set off against reserve, any amount of bad debt, exceeding the reserves shall be carried forward for adjustment against the reserve for the following years.

Q. 3 (a) Filing Dates Of Income Tax Return:

Filing dates of income tax return will be as follows:

Serial No.	Income Year Ended	Return Filing Date
(i)	30 September 2012 – Company	30th September 2013
(ii)	31 December 2012 – Company	30th September 2013
(iii)	31 March 2013 – Company	31st December 2013
(iv)	30 June 2013 – Association of Persons	30th September 2013

(b) Books of Account, Documents and Records to be Maintained:

Every taxpayer deriving income chargeable under the head "Income from business" shall maintain proper books of account, documents and records with respect to:

(a) all sums of money received and expended by the taxpayer and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods and all services provided and obtained by the taxpayer;

(c) all assets of the taxpayer;

(d) all liabilities of the taxpayer; and

(e) in case of a taxpayer engaged in assembly, production, processing, manufacturing, mining or like activities, all items of cost relating to the utilization of materials, labour and other inputs.

The books of account, documents and records to be maintained for five years after the end of the tax year to which they relate.

(c) Limits on contribution by the employer.

(1) The ordinary annual contribution by the employer to an approved superannuation fund in respect of any particular employee shall be made on a reasonable definite basis as may be approved by the Commissioner with regard to the earnings, the contributions or the number of members of the said fund so however that such contributions shall not exceed twenty percent of the employee's salary for each year.

(2) Subject to any condition which the Commissioner may think fit to specify under this rule, the amount to be allowed as a deduction on account of initial contribution which

Marks

an employer may make in respect of the past service of an employee admitted to the benefits of a fund shall not exceed twenty per cent of the employee's salary for each year of his past services with the employer.

(3) Notwithstanding the provisions of sub-rules (1) and (2), an employer may, with the prior approval of the Commissioner, make a special contribution to an approved superannuation fund to meet the deficit in the fund, if any.

Q. 4 Net Taxable Income:

Name of Taxpayer	:	M/s. Golden Gate Limited (GGL)	
National Tax Number	:	XXX	
Tax Year Ended on	:	30^{th} June, 2013	
Tax Year	:	2013	1
Personal Status	:	Private Company	
Residential Status	:	Resident	

Computation of Taxable Income and Tax Liability:

			Rs. '000'	
Net Profits as per profit and loss account			80,926	1
Add:	Inadmissible transactions:			
	Donation to unrecognized institution	502		1
	Un-vouched and unverifiable vehicle expenses	1,881		1
	Provision for taxes	10,080		1
	Provision for bad debts	4,480		1
	Liquidated damages [N-1]	Nil		
	Finance charges [N-4]	350		1
	Preliminary expense[N-6]	1008		1
	Accounting depreciation	44,800	63,101	1
			144,027	1
Less:	Dividend [N-3]	672		1
	Lease rentals [N-4]	1,750		1
	Amortization of Preliminary expense(Rs.1008 @ 20%)[N-6]	202		
	Statutory depreciation	32,650	35,274	1
Taxable Income			108,753	1
Computation of Tax:				
Total tax liability (108,753 x 35%)			38,064	1
Less tax deducted at source on:				
Interest on bank deposit (300,000x10%) [N-5]			(30)	1
Tax payable for the year			**38,034**	1

Working Notes:

N-1 Liquidated damages mean the amount of damages to be recovered by either party for a breach of the agreement by the other party. These are admissible. Only such fine, penalty, etc., is inadmissible which is payable for violation of any law, rule or regulation. 0.5

N-2 Bad debts are presumed to have been allowed as deduction by the CIR. 0.5

N-3 A company is liable to pay tax on its dividend income as a separate block of income. As tax at source is deducted by the company paying the dividend, nothing will be payable by the receiving person. 0.5

		Marks
N-4	Lease financial charges are treated as inadmissible and the total payment made by the lessee toward the lease rentals is allowed as deduction against the incomes.	0.5
N-5	**Interest on bank deposits:** For the presentation purpose, it may be deducted from the business income and include under the head "Income from other sources". Tax deducted by bank u/s 151 @ 10% shall be adjustable against final tax liability, if the tax payer is a company.	0.5
N-6	Preliminary expenses are amortized @ 20% of the total expenditure, instead of charging the whole amount to profit and loss account.	0.5

Q. 5 (a) (i) Cottage Industry:

Cottage industry means a manufacturer whose annual turnover from taxable supplies made in any tax period during the last twelve(12) months ending any tax period does not exceed Rs. 5 million; or

Whose annual utility bills (electricity, gas and telephone) during the last twelve (12) months ending any tax period do not exceed Rs. 700,000.

(ii) Output Tax

Output tax in relation to a registered person means:

- Tax levied under the Sales Tax Act, 1990 on a supply of goods, made by the person;
- Tax levied under the Federal Excise Act, 2005 in sales tax mode as a duty of excise on the manufacture or production of the goods, or the rendering or providing of the services, by the person;
- Provincial sales tax levied on services rendered or provided by the person.

(iii) Time of Supply:

Time of supply, in relation to:

- a supply of goods, other than under hire purchase agreement, means the time at which the goods are delivered or made available to the recipient of the supply;
- a supply of goods under a hire purchase agreement, means the time at which the agreement is entered into; and
- services, means the time at which the services are rendered or provided.

Marks

(b)

Hassan Associate
For the Month of May,2013
Computation of Sales Tax Liability

	Rs. (Million)	Marks
Output Tax:		
Sales of Product A (1,050 x 16%)	168	01
Sales of Product B	-	
Sales return Product A (50 x 16%)	(8)	01
Total output tax	**160**	0.5
Input Tax:		
Purchase of raw material from registered person to manufacture Product A (900 x 16%)	144	01
Import (450 x 16%) x (1050/1700)	44	01
Import bill	–	
Electricity bill (15 x 1,050/1700)	9	01
Total input tax	**197**	0.5
Input tax adjustable (90% x 160)	**144**	01
Sales tax payable (160 – 144)	**16**	01
Input tax to be carried forward {25 + (197 – 144) + 16}	**94**	02

Q. 6 (a) (i) Difference Between Exempt Supplies and Zero-rated Supplies:

Exempt supplies and zero-rated supplies differ with each other on many points. Table given below contains several points at which these supplies do not coincide with each other.

S.No.	Point Distinction	Exempt Supply	Zero-Rated Supply
1.	Taxability	Not taxable	Taxable
2.	Registration under the Sales Tax Act, 1990	Not required	Required
3.	Credit of Input Tax	Not allowed	Allowed
4.	Maintenance of records under the Sales Tax Act, 1990.	Not required	Compulsory
5.	Filing of return under the Sales Tax Act, 1990.	Not required	Required

(ii) Destruction of goods:

Where any goods are returned by the buyer on the ground that the same are unfit for consumption and are required to be destroyed by the supplier, the goods shall be destroyed after obtaining permission from the (Collector of Sales Tax) having jurisdiction, and under the supervision of (an officer of Sales Tax) not below the rank of an (Assistant Collector) as may be deputed by the (Collector) for the purpose (and the input tax credit in respect of goods so destroyed shall not be admissible).

Marks

(b) Sales Tax Mode:

The term 'sales tax mode' has been defined under Section 2(21a) of Federal Excise Act, 2005 to mean the manner of collection and payment under the Sales Tax Act, 1990, and rules made thereunder, of the duties of excise chargeable under this Act specified to be collected and paid as if such duties were tax chargeable under Section 3 of the Sales Tax Act and all the provisions of the Act and rules, notifications, orders and instructions made or issued thereunder shall mutatis mutandis, apply to excise duty so chargeable.

Circumstances Where Federal Excise Duty is Payable in Sales Tax Mode:

In case of goods specified in the Second Schedule or such services as may be specified by the Board through a notification in the official Gazette [the duty shall be payable in sales tax mode, whereby]:

(a) a registered person manufacturing or producing such goods or providing or rendering such services shall be entitled to deduct input tax paid during the tax period from the amount of duty of excise due from him on such goods or services in respect of that tax period;

(b) a registered person shall be entitled to deduct the amount of duty of excise paid or payable by him on such goods or services as are acquired by him during a tax period from the output tax due from him in respect of that tax period;

(c) a registered person supplying such goods or providing or rendering such services shall be entitled to deduct duty of excise paid or payable on such goods or services as are acquired by him during the tax period from the amount of duty of excise due from him on such goods manufactured or produced or services as are provided or rendered by him during that period; and

(d) a person shall be entitled to deduct duty of excise paid or payable, on such goods or services as are acquired by him during a month, from the amount of duty of excise due from him on such goods manufactured or produced or such services as are provided or rendered by him, during that month. Such services as are provided or rendered by him, during that month.

(c) Value of the Transaction where Buyer and Seller are Related:

If the buyer and seller are related in terms of the rules the transaction value shall be accepted; whenever:

(a) the examination of the circumstances surrounding the sale of the imported goods as demonstrated by the importer, indicate that the relationship did not influence the price; or

(b) the importer demonstrates that such value closely approximates to one of the following Test Values occurring at or about the same time;

(i) the transaction value in sales to unrelated buyers of identical or similar goods for export to Pakistan.

(ii) the customs value of identical or similar goods as determined as deductive value;

(iii) the customs value of identical or similar goods as determined as computed value.

THE END