ICMA Pakistan

SPRING 2013 EXAMINATIONS
Wednesday, the 4th September 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) (i) Define the term 'depreciable asset' in accordance with the provisions of section 22(15) of the Income Tax Ordinance, 2001. **04**

(ii) Considering the depreciable asset is used in a tax year partly for deriving income from business chargeable to tax and partly for another use, describe the extent to which the deduction may be admissible on account of depreciation. **02**

(b) A company formed for establishing and operating a new industrial undertaking for manufacturing in Pakistan is allowed a tax credit equal to 100% of the tax payable on the taxable income arising from such industrial undertaking for a period of five years from the date of setting up or commencement of commercial production, whichever is later.

Required:

Specify the conditions which must be satisfied for availing the above tax credit. **05**

(c) M/s. National Corporation is a non-banking finance company. The main business of the company is to provide a loan to consumers for small businesses, car financing, personal and household purposes.

Required:

The corporation is seeking your advice in respect of the following under the provision of the Income Tax Ordinance, 2001:

(i) M/s. National Corporation is willing to segregate consumer loan and other loans, therefore, want to know the clear definition of 'consumer loan". Define. **02**

(ii) Explain how the provision against consumer loan is allowed as deduction to the corporation. **02**

(iii) Where bad debt in respect of consumer loan cannot be wholly set off against reserve created for this purpose, then what would be the treatment for setting off the bad debt? **02**

Q.3 (a) M/s. TCG is a Tax Consultancy firm. It has a list of clients whose income year ended on different dates. Being a consultant inform your clients about the due dates for filing of income tax return in each of the following cases:

(i) A company whose income year ended on 30th September 2012. **01**

(ii) A company whose income year ended on 31st December 2012. **01**

(iii) A company whose income year would end on 31st March 2013. **01**

(iv) A member of an association of persons (AOP) if the income year of the association of persons would end on 30th June 2013. **01**

Marks

(b) As per rule 29 of the Income Tax Rules, 2002 every taxpayer deriving income chargeable under the head "Income from business" shall maintain proper books of accounts, documents and records. List down such documents and records and also state the period for which these records shall be maintained by the taxpayer. **06**

(c) An employer having established approved superannuation funds is required to contribute annually to the funds on a reasonable basis. However, there is a certain limitations which have been specified under rule 110 of the Income Tax Rules, 2002 on the initial and annual contribution to the aforesaid funds.

Required:

Identify those limits and the procedures for payment of contribution by the employer beyond the specified limits. **05**

Q.4 M/s. Golden Gate Limited (GGL) is a private limited company. The company manufactures and supplies consumer goods. GGL sells its product through various distributors in Karachi, Lahore and Islamabad. The following is the profit and loss account of GGL for the year ended on June 30, 2013:

	Rs. '000'		**Rs. '000'**
Sundry expenses	2,240	Gross Profit	235,200
Office salaries	29,120	Interest on bank deposit	300
Rent, rates & taxes	8,960	Recovered bad debts	
Legal charges	2,016	(allowed in the past)	448
Finance charges on leased assets	350	Dividend	672
Advertisement	5,600		
Auditor's fees	6,720		
Cost of issue of debentures	5,600		
Loss on sales of furniture	2,240		
Provident fund contribution	7,840		
Bad debts	4,480		
Vehicle expenses	8,960		
Fire insurance premium	7,840		
Preliminary expenses	1,008		
Provision for taxes	10,080		
Provision for bad debts	4,480		
Liquidated damages	3,360		
Depreciation	44,800		
Net Profit	80,926		
	236,620		236,620

Additional Information:

The following information is available:

(i) Sundry expenses include donation of Rs. 502,000 paid to an unrecognized charitable institution.

(ii) Office salaries include Rs.6,000,000 paid to one of the directors.

(iii) Provident Fund is recognized by the Income Tax Department.

(iv) Vehicle expenses are not vouched and verifiable to the extent of Rs.1,881,000.

(v) Actual depreciation works out to Rs.32,650,000 only.

(vi) Lease rental for the year are Rs.1,750,000.

Required:

Calculate the taxable income and tax liability of the company for the tax year 2013 from the above data. **20**

Marks

Q.5 (a) Define the following terms in the light of the Sales Tax Act, 1990:

(i) Cottage Industry **02**

(ii) Output Tax **03**

(iii) Time of Supply **03**

(b) Hassan Associates manufactures and supplies Product 'A' and Product 'B'. Hassan Associates is registered under the Sales Tax Act, 1990. Following information has been extracted from its records for the month of May 2013:

	Rupees in million
Purchase of raw material from registered person	
To manufacture Product A	900
To manufacture Product B	300
Purchase of raw material from unregistered person	
To manufacture Product A	150
To manufacture Product B	200
Import of raw material to manufacture Product A and B	450
Sale of Product A	
To registered person	800
To unregistered person	250
Sales of Product B	
To registered person	500
To unregistered person	150
Sales return during the month	
Product A	50
Product B	30
Sales tax paid on electricity bill	15

Further information:

- Product B is exempt from the sales tax.
- Sales tax credit brought forward from previous month amounted to Rs. 25 million.
- An import bill dated November 10, 2012 amounting to Rs. 25 million had not been claimed inadvertently. This oversight was detected during the month.
- Sales tax is payable at the rate of 16%. All the above amounts are exclusive of sales tax.

Required:

In the light of the Sales Tax Act, 1990 and rules made there under, calculate the following for the month of May 2013:

- Sales tax payable / refundable **08**
- Input tax to be carried forward, if any. **02**

Marks

Q.6 (a) (i) Apparently an 'exempt supply' and a 'zero-rated supply' are look-alike. Under both the cases a person is not required to pay tax under the Sales Tax Act, 1990. However, these two types of supplies differ with each other on many points. Differentiate exempt supply and zero-rated supply with reference to the following:

- Taxability
- Registration under the Sales Tax Act, 1990
- Credit of input
- Maintenance of records under the Sales Tax Act,1990
- Filling of return under the Sales Tax Act,1990 **05**

(ii) 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. What shall be the requirement for destroying such goods under the Sales Tax Rules, 2006? Is buyer entitled to claim input tax on such goods? **03**

(b) Define the term 'sales tax mode' as provided under section 2(21A) of Federal Excise Act, 2005. Under what circumstances federal excise duty is payable in sales tax mode as per section 7 of the Federal Excise Act, 2005? Explain any three (3). **08**

(c) Under section 25(3) of the Customs Act, 1969 what conditions are required to be satisfied to accept the value of the transaction where buyer and seller are related? **04**

THE END