Certified Finance and Accounting Professional Stage Examination

The Institute of Chartered Accountants of Pakistan

10 December 2022
3 hours – 100 marks
Additional reading time – 15 minutes

Tax Planning and Practices

Instructions to examinees:

(i) Answer all **SEVEN** questions.
(ii) Answer in **black** pen only.

Q.1 (a) Shahjahan (Private) Limited (SPL) is engaged in the business of manufacturing, import, supply and repairing services of LED television (TV) sets. Following information has been extracted from SPL's records for the year ended 30 September 2022:

	Rs. in million
Revenue – net of sales tax	800
Cost of sales	(580)
Gross profit	**220**
Operating expenses	(200)
Other income	60
Profit before taxation	**80**

Additional information:

Revenue includes:

(i) exports of Rs. 300 million.

(ii) income from repairing of LED panels of Rs. 60 million. Withholding tax u/s 153 was deducted at the rate of 3% from only Rs. 50 million.

(iii) sale of 100 units of high-end TV sets for Rs. 400,000 per unit. These TV sets were imported at Rs. 300,000 per unit. Advance tax of Rs. 1.65 million was paid at the time of import. Due to the strict measures taken by the government for discouraging imports, SPL could not deliver the order in time and consequently paid a penalty of Rs. 6 million to the customer as per the terms of the contract. The amount of penalty is included in the operating expenses.

All sales are made to sales tax registered distributors except a sale of Rs. 156 million (inclusive of sales tax @ 17% and further tax @ 3%) to Kabir Limited, an un-registered distributer.

Cost of sales include:

(i) parts of Rs. 12 million from which no withholding tax was deducted. SPL made total purchases of Rs. 280 million during the year.

Other income includes:

(i) bonus dividend of Rs. 16 million. SPL received 500,000 bonus shares of a listed company, Alamgir Limited. The market price of each share on the date of entitlement of bonus and the date on which bonus shares were credited to SPL's account were Rs. 32 and Rs. 36 respectively.

(ii) share of profit of Rs. 24 million from an associate, Jahangir Limited (JL) booked under equity method of accounting. SPL has 30% shareholding in JL. The turnover of JL during the year amounted to Rs. 460 million.

(iii) share of profit from an AOP amounting to Rs. 20 million. SPL holds 60% interest in the AOP. The turnover of the AOP during the year amounted to Rs. 240 million.

Minimum tax u/s 113 brought forward from tax year 2022 amounted to Rs. 20 million.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by or refundable to SPL for the tax year 2023. **(18)**

Note: ▪ ***Ignore WWF and WPPF.***
▪ ***Show all relevant exemptions, exclusions and disallowances.***

(b) SPL's quarter wise forecasted turnover (including its share in AOP's turnover excluding exports) for the tax year 2024 is as follows:

Quarter	Turnover	Withholding tax deducted at source
	---------- Rs. in million ----------	
1st	100	2
2nd	200	4
3rd	300	3
4th	400	1
	1,000	**10**

Assume that:
- tax computed u/s 113 (minimum tax) would be the tax liability of SPL for the tax year 2024.
- SPL's actual turnover for the tax year 2024 would be Rs. 1,300 million as against the estimate of Rs. 1,000 million.

Required:
Compute the quarterly advance tax to be paid by SPL for the tax year 2024. Also discuss the consequences if SPL fails to pay the required amount of advance tax. **(05)**

Q.2 For the purpose of this question, **assume that the date today is 31 October 2023**.

Iltutamish Cosmetics (Private) Limited (ICPL) is primarily engaged in the business of manufacturing and sales of various cosmetics products. ICPL was incorporated on 1 January 2017 and commenced commercial production from 15 June 2018. ICPL employs 100 persons who are registered in the tax year 2023 with the Employees Old Age Benefits Institution.

ICPL's finance department is in the process of finalizing income tax return for the tax year 2023 and has prepared the following computation alongwith the supporting notes for the year ended 30 June 2023:

	Note	Rs. in million
Income from business		
Profit before tax		470.00
Adjustments:		
Less: Unrealized gain on investment properties	(i)	(60.00)
Add: Purchases of imported make-up sets	(ii)	26.00
Add: Loss from toll manufacturing services	(iii)	2.00
Less: Interest income from a bank (FTR income)	(iv)	(4.25)
Less: Cash dividend (FTR income)	(v)	(22.00)
Taxable income		411.75
Tax liability:		
Tax @ 29%		119.41
Tax on cash dividend (22×15%)		3.30
		122.71

Notes to the computation:

(i) It represents net appreciation in the fair market value (FMV) of ICPL's investment properties. The details are given below:

Name of the property	FMV as on 30 June		Increase / (decrease)
	2022	2023	
	------------ Rs. in million ------------		
Building A	150	250	100
Building B	330	290	(40)

Building A was used as ICPL's head office till 30 June 2022. However, on 1 July 2022, ICPL purchased a new building i.e. Building C at a cost of Rs. 500 million and shifted its head office to Building C.

ICPL intended to rent out Building A but it could not be materialized and Building A remained vacant during the tax year 2023 i.e. from 1 July 2022 to 30 June 2023. The FMV of the annual rent of Building A is Rs. 8 million.

ICPL owns Building B since 1 March 2021 and it has been given on rent. The annual rent accrued and received during the tax year 2023 was Rs. 10 million which is included in profit before tax. In the tax year 2023, ICPL incurred Rs. 1 million on repairs of Building B.

(ii) These purchases were made from Mogul Limited (ML), an importer. No withholding tax was deducted at the time of payment to ML. These make up sets were sold by ML in the same condition as they were when imported.

(iii) Toll manufacturing services were provided to Haseen Limited, a local manufacturer of skin and hair care products. These services were considered to be subject to tax under minimum tax regime.

(iv) The amount was credited to ICPL's bank account after deduction of withholding tax at the rate of 15%.

(v) Cash dividend from Pakistan based company, Aalamshah Technology Limited (ATL) was received without deduction of tax at source.

ICPL acquired 100% shareholdings in ATL on 1 July 2022. ATL is engaged in the business of exporting computer software to its clients in various countries. ATL is registered with and duly certified by Pakistan Software Export Board. Extract from ATL's income statement for the year ended 30 June 2023 is as follows:

	Rs. in million
Revenue	320
Expenses	400
Net loss	**(80)**

Required:

Under the provisions of the Income Tax Ordinance, 2001, and Rules made thereunder, comment on each element of the above computation of taxable income and tax liability including adjustments alongwith the notes, prepared by the finance department for the tax year 2023. Give suggestion(s), wherever necessary. **(22)**

Note:
- ***Revised computation is not required.***
- ***Ignore discussion on deducting advance/withholding tax from tax liability.***
- ***Ignore WWF, WPPF, Minimum tax u/s 113 and Alternative Corporate Tax, if any.***
- ***Ignore super tax.***
- ***Ignore group relief u/s 59B.***

Q.3 (a) For the purpose of this part of the question, **assume that the date today is 30 June 2023**.

Following information pertains to three different banks for the year ended 31 December 2022:

	Maldar Bank	Shandar Bank	Jandar Bank
	--------- Rs. in billion ---------		
Extracted from audited financial statements:			
▪ Total income (mark-up and non mark-up)	78	110	150
▪ Income attributable to investment in federal government securities	26	20	10
▪ Advances	216	352	550
▪ Deposits	600	800	1,000
Taxable income as worked out by the respective bank's tax department	18	22	30

Required:
Compute the tax liability of all the three banks for the tax year 2023. **(06)**

(b) For the purpose of this part of the question, **assume that the date today is 30 September 2023**.

Uzma is a resident individual and only legal representative of her husband Shariq, who died on 30 April 2023. Shariq had the following business/assets at the time of his death:

(i) SH Sportswear (SHS) in partnership with his elder brother Tariq. Both of them were sharing equally in the profit or loss of the business. The fair value of the business is estimated to be Rs. 22,000,000.

(ii) A double storey bungalow purchased in 2016 for Rs. 1,600,000. In July 2022, Shariq by way of a revocable transfer provided this vacant bungalow to his younger brother, Hamza, for one year. Hamza moved to this bungalow in the same month and leased out the ground floor at a monthly rent of Rs. 150,000 to Bader. After Shariq's death, Hamza vacated the bungalow. However, the ground floor of the bungalow was continued to be rented out. The fair value of this bungalow is Rs. 12,500,000.

(iii) A shop located in Karachi which was purchased in 2015 for Rs. 600,000. On 1 July 2022, the shop was transferred to Uzma for no consideration. This shop has been leased out on a monthly rent of Rs. 200,000 since July 2022. The fair value of this shop is Rs. 11,500,000.

(iv) Cash and cash equivalents amounting to Rs. 2,800,000.

According to Shariq's will, his 17 year old minor daughter, Sara inherited the bungalow and his share in SHS whereas his wife inherited the shop and cash and cash equivalents.

After Shariq's death, Sara started a home-based bakery business and earned income of Rs. 800,000 during the tax year.

Below are the details of cash credited in Uzma and Shariq's respective bank accounts during the tax year 2023:

	Uzma	Shariq
	--------- Rupees ---------	
Gift received on birthday from cousins	250,000	-
Salary from SHS till April 2023	-	1,200,000
Share of profit from SHS, transferred on 30 June 2023	4,000,000*	-
Rental income from shop	2,400,000	-

**Profit was evenly earned over the 12 months period and the income tax payable by SHS for the tax year 2023 was duly paid.*

Required:
Compute the income tax payable by Uzma and Shariq for the tax year 2023. Also discuss how the tax liability of Shariq will be settled. **(09)**

Q.4 Shershah Textiles Limited (STL) is registered under the Sales Tax Act, 1990. STL is engaged in the business of manufacturing, import, export and supply of garments. STL also sells garments to the end-consumers from its factory outlet which is integrated with the Board's computerized system for real time reporting of sales.

Following information has been extracted from STL's records for the month of November 2022:

	Rs. in million
Purchases	
From registered suppliers	725
From un-registered suppliers	30
Imports	395
Supplies	
To registered persons	950
To un-registered persons	140
Exports	518

(i) Purchases from registered suppliers include:

- raw cotton worth Rs. 600 million from a local cotton producer.
- fabric dyes worth Rs. 80 million in bulk packaging. The retail price of these dyes is Rs. 84 million.
- a fabric cutting machine. The machine was acquired under a hire purchase agreement against a 20% down payment of Rs. 45 million. The remaining balance is to be paid in 36 equal monthly instalments of Rs. 5 million. The fair market value of the machine is Rs. 200 million.

(ii) Purchases from un-registered suppliers include:

- hand embroidered shawls worth Rs. 16 million from a manufacturer in Swat.
- corrugated cartons worth Rs. 14 million from a manufacturer in Karachi.

(iii) Imports include:

- organic cotton yarn worth Rs. 350 million from China.
- packaging material worth Rs. 45 million from one of STL's USA based customers. The material was imported for packing an export order placed by the same customer. The customs duty was charged at the rate of zero percent under the Customs Act, 1969.

(iv) Supplies to registered persons include:

- garments worth Rs. 800 million to distributors across the country.
- yarn worth Rs. 150 million to a manufacturer in the export processing zone.

(v) Supplies to un-registered persons consist of children's garments worth Rs. 140 million. The supplies were made from STL's factory outlet. STL has maintained 4% value addition on supplies made from the outlet during the last six months.

(vi) Exports include:

- garments worth Rs. 500 million to USA.
- hand embroidered shawls worth Rs. 18 million to UAE in the same condition as they were when purchased.

Further information (not included above):

(i) Tiles worth Rs. 5 million were purchased for use in the renovation of the head office. The retail price of the tiles is Rs. 5.5 million.

(ii) Solar panels at a cost of Rs. 12 million were installed at STL's factory by a service provider registered with the Sindh Revenue Board.

(iii) Air freight charges of Rs. 0.8 million were paid to a shipping company in Karachi for urgent shipment of an order to Peshawar.

(iv) Electricity charges of Rs. 18.05 million at a 5% subsidised rate were paid to K-Electric.

All the above figures are **exclusive of sales tax and federal excise duty (FED)**, wherever applicable.

Required:
In the light of the provisions of the Sales Tax Act, 1990, Federal Excise Act, 2005 and Rules made thereunder, compute the amount of sales tax payable by or refundable to STL and the amount of input tax to be carried forward, if any, for the tax period November 2022. Also compute withholding tax, wherever applicable. **(17)**
Note: Show all relevant exemptions, exclusions and disallowances.

Q.5 (a) Akbar Jewellers (AJ) is engaged in the business of purchase and sale of articles of gold and silver jewellery. AJ owns a shop measuring 400 square feet in Saddar, Karachi. AJ is not registered with the sales tax authorities. However, it pays the retail sales tax with the monthly electricity bill.

In October 2022, AJ received its electricity bill for the month of September in which it was observed that the bill is exclusive of the amount of retail sales tax.

Required:
Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, advise the tax treatment of the above to AJ and the related consequences, if any. **(04)**

(b) Nawab Jewellers (NJ), a registered Tier-1 retailer, is owned by Nawab Siraj. NJ is engaged in the business of purchase and sale of articles of gold and silver jewellery. In November 2022, NJ made the following transactions:

(i) Purchased Italian gold jewellery worth Rs. 50 million from a registered importer. Nawab Siraj gifted jewellery worth Rs. 6 million to his daughter and sold the remaining jewellery for Rs. 48 million.

(ii) Purchased hand-made gold jewellery worth Rs. 16 million from a local registered manufacturer and sold some of it to the customers for Rs. 15 million.

(iii) Sold a gold jewellery set of 8 tolas, imported from Dubai, to a customer in exchange of 10 tolas of gold in unworked condition. The price of gold per tola on the date of exchange was Rs. 128,000.

All the above figures are **exclusive of sales tax**, if any.

Required:
Discuss the sales tax treatment of the above transactions made by NJ. **(04)**

Q.6 (a) For the purpose of this part of the question, **assume that the date today is 5 June 2022**.

Aryan Limited (AL) is involved in the manufacture and supply of taxable goods (other than zero rated).

On 31 August 2021, AL received an order from the Commissioner Inland Revenue under which input tax paid on purchase of wires and cables used in the machinery, claimed in the return of April 2021, was made inadmissible. As a result of this order, AL stopped claiming the input tax on such purchases in the subsequent months.

AL defended this matter till Appellate Tribunal which finally decided the case in AL's favour through an order dated 28 May 2022. The order was served to the Commissioner Inland Revenue on 29 May 2022. On 4 June 2022, the Commissioner made an application for reference against the order of the Appellate Tribunal.

Required:
Under the Sales Tax Act, 1990 and the Rules made thereunder, advise the course of action that AL should follow, after the Appellate Tribunal's order for claiming input tax on previous and future purchases of wires and cables. **(05)**

(b) Chengez Cement Limited (CCL), a registered manufacturer, is engaged in the business of supplying cement to various contractors in Lahore.

On 15 July 2022, CCL supplied 15,000 kg of cement for Rs. 330,000 to Tabraiz, in bulk packaging. The retail price of the cement on this date was Rs. 24 per kg. CCL inadvertently failed to levy sales tax and consequently did not issue the sales tax invoice with regard to this supply.

On 5 December 2022, CCL received a notice from the Commissioner Inland Revenue to show cause for non-payment of sales tax against the supply of cement to Tabraiz.

CCL wants to deposit the required amount of sales tax on 11 December 2022.

Required:
Under the provisions of the Sales Tax Act, 1990, compute the amount of sales tax payable by CCL. **(05)**

Q.7 Akbar & Co., Chartered Accountants (the firm) is the statutory auditor of Baber Limited (BL) since 2020. In July 2022, BL got listed on the Pakistan Stock Exchange.

For the year ended 30 September 2021, the firm also provided services to BL for the computation of current and deferred tax liabilities for the purpose of preparing the entries. In October 2022, BL has contacted the firm's partner for preparing calculations of the current and deferred tax liabilities for the year ended 30 September 2022.

Required:
Advise whether the firm was in compliance with the ICAP's Code of Ethics by accepting the tax related services for the year ended 30 September 2021. Also advise whether the firm should accept the tax related services for the year ended 30 September 2022. **(05)**

(THE END)