

The Institute of Taxation of Pakistan
CTA – Application Level
January 2022 Attempt
INDIRECT TAX

Note: Tax rates are separately provided

Question # 1(a) [5 marks]

Q.1 (a) Khobar Fields Limited (KFL) is engaged in the business of producing flavored aerated waters for five-star hotels. KFL buys various flavors from local suppliers. These flavors are used in the production of aerated waters.

Required:

Under the provisions of the Federal Excise Act, 2005 explain how KFL would determine the net liability of duty in respect of aerated waters. Specify necessary conditions, if any, to be fulfilled in this regard.

Question # 1(b) [5 marks]

Under the provisions of the Federal Excise Act, 2005 briefly describe the tax treatment in each of the following independent cases:

- (i) Frenzy Bottles Limited paid excise duty on concentrates used in the manufacture of aerated beverages. The beverages were exported to U.A.E.
- (ii) Invincible Limited supplied edible olive oil for consumption on board a Chinese aircraft proceeding from Karachi to Peshawar.

Question # 1(c) [5 marks]

Under the provisions of the Federal Excise Act, 2005 briefly describe the circumstances under which a person may be required to pay default surcharge. Identify the duration of time which may be considered as a period of default and the rate at which the default surcharge should be paid.

Question # 2 [10 marks]

Manama Enterprises, a registered person, failed to file a return with the sales tax department for last twelve months. They have now received an order from Assistant Commissioner Inland Revenue requiring to pay minimum tax liability determined by the sales tax department of Federal Board of Revenue. The management of the company never heard about minimum tax liability.

They have approached you and requested for an advice on following questions:

- How is this minimum tax liability determined for sales tax purposes?
- What would be the company's position if:
 - They opt to pay the determined amount; or
 - They do not pay the demand raised by the sales tax department

Draft a memorandum, as a sales tax consultant, explaining the implications and suggestions against questions raised by the management.

Question # 3(a) [12 marks]

Basrah Ltd is principally engaged in the purchase, manufacture and supply of taxable goods and is registered under the Sales Tax Act, 1990. During the usual course of business, it also carried out the following transactions during the year:

- a) Use of taxable goods for internal testing, training and evaluation purposes. The goods include own manufactured as well as locally procured goods.
- b) Free replacement of faulty parts of goods which had been sold under warranty.
- c) Destruction of damaged goods

- d) Payment of sales tax on diesel purchased and used in generation of electricity. The said electricity produced is mainly used in production. However, it is partially used in finished goods warehouse and worker canteen as well.
- e) An amount of Rs.500,000 was paid to the company's custom agent on import of raw material used.
- f) Company supplied 50 tons of Iron bars to Amjad Limited. The market price of the supply is PKR 2.5 million exclusive of sales tax. Owing to financial difficulties, BL requested to settle the price by transferring a piece of land having a market value of Rs.2.3 million and to pay Rs.75,000 in final settlement along with the applicable sales tax by way of cheque.

Required:

Comments on the chargeability of sales tax in the above situations.

Question # 3(b)

[6 marks]

Under the provisions of any of the Provincial Sales Tax on Services Acts, describe:

- (i) the activity(ies) which have specifically been excluded from the ambit of Economic activity'.
- (ii) the term 'Person'.

Question # 4

[25 marks]

Fujairah Fox Limited (FFL) is a multinational company and is registered as a manufacturer, importer, wholesaler and retailer with the Corporate Tax Office of Inland Revenue Department in Karachi. Following information has been extracted from FFL's records for the month of November 2020:

Description	Amount (PKR)
Purchases from registered suppliers	3,900,000
Purchases from un-registered suppliers	1,058,000
Advance from customers	117,000
Taxable supplies to registered persons	3,105,000
Taxable supplies to un-registered persons	1,210,000
Commercial Imports	852,000
Taxable supplies-Commercial Imports	735,058
Other income	215,000

Additional information:

(i) Purchases from registered suppliers include the following:

- Storage batteries worth Rs. 380,000 purchased from a marketing company for in-house consumption.
- raw material of Rs. 390,000 and Rs. 225,000 purchased from Sharjah Limited (SL) on 6 November 2020 and 20 November 2020 respectively. On 15 November 2020 the Commissioner suspended SL's registration for claiming fraudulent refunds.
- goods covered under Third Schedule, worth Rs. 285,000 purchased from Nayab Associates (NA). FFL, upon instructions from NA, directly deposited cash amounting to Rs. 285,000 into its bank account.

(ii) Purchases from un-registered suppliers consist of the following:

- packing material of Rs. 358,000 which was purchased from a supplier who was liable to be registered with sales tax authorities.
- edible fruits, covered under Sixth Schedule, of Rs. 700,000.

(iii) Taxable supplies to registered persons include the following:

- goods worth Rs. 435,000 supplied to a manufacturer for onward sale to an exporter holding concessions under DTRE scheme.
- tyres worth Rs. 660,000. These tyres were purchased from a local manufacturer, which was a cottage industry, in October 2020.

(iv) Taxable supplies to un-registered persons consist of the following:

- sale of 150 bicycles, covered under Fifth Schedule, to un-registered dealers in Multan for Rs. 900,000. The bicycles were purchased in August 2020.
- sale of goods worth Rs. 310,000 to end consumers.

- (v) Commercial Imports have been stated at C&F value and are subject to custom duty @ 10%. There is no stock of commercial imports at the beginning and end of the month.
- (vi) Other income includes gain on disposal of a truck of Rs. 105,000. The truck was sold to an active taxpayer for Rs. 1,205,000. No sales tax was recorded on this transaction.

Further information:

- (i) In August 2017, FFL's car rental division imported wheel alignment machine for in-house use. 3% value addition tax of Rs. 18,000 was not paid at import stage.
- (ii) In July 2017 FFL sold certain taxable goods worth Rs. 535,000 to an un-registered wholesaler at a wholesale price of Rs. 50 per pack and collected further tax at the rate of 3% of the value of supplies. In November 2020, the internal auditor pointed out that these goods were covered under Third Schedule. The retail price of these goods at the time of sale was Rs. 65 per pack.
- (iii) In May 2020 FFL inadvertently collected sales tax of Rs. 45,000 from a customer as against the applicable tax of Rs. 54,015. FFL had applied to the Commissioner IR for the revision of the return however, no reply has so far been received in this regard. All the above figures are exclusive of sales tax, except where it is implied otherwise. Sales tax is payable at the rate of 17%.
- (iv) During the period FFL imported fixed assets for the factory amounting to 2,200,000 and paid sales tax on it.
- (v) FFL's Textile Division rendered toll manufacturing to Small Associates for which value of supply has been estimated at Rs.450,000. Small associates operate a large garment unit which is registered under the sales tax act as an AOP. During the month, finished cloth of Rs.5000,000/- was sold to Asia airways ltd for its aircraft seats. Sales invoices were settled during the month.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made there under, compute the amount of sales tax payable by or refundable to FFL and input tax to be carried forward, if any, for the tax period November 2020. Also compute withholding tax, wherever applicable.

Note: Show all relevant exemptions, exclusions and disallowances. Ignore default surcharge.

Question # 5**[6 marks]**

Under the provisions of any one of the Provincial Sales Tax on Services Acts, briefly describe the following:

- (i) when a taxable service shall be considered to have been provided in the tax period.
- (ii) possible actions the Board/Authority is required to take if the suspension of a person's registration is not withdrawn within sixty days.

Question # 6**[15 marks]**

Doha Limited has approached you to apprise them on the implications of certain provisions of Sales Tax Act, 1990, you are required to advise them briefly on following:

- (i) requirement of obtaining and mentioning CNIC on sales tax invoice issued.
- (ii) any repercussions or limitation provided for disallowance of input tax on supply to unregistered person.

Question # 7(a)**[8 marks]**

Q.7 (a) Tehran Fields Limited (TFL) is registered under the Sales Tax Act, 1990 as a manufacturer as well as a commercial importer engaged in the business of producing flavored milk drinks. KFL is in the process of importing flavors and scents for its manufacturing process. It also buys various ingredients from local suppliers as well. Commercial imports are done at C&F value and are subject to customs duty @ 10%, however, TFL understands that customs duty @ 5% is applicable on items imported by it.

Required:

Being the consultant of TFL, please advise TFL under the provisions of the Customs Act, 1969:

- (i) What is the definition of "advance ruling" as per section 2 of the Customs Act, 1969
- (ii) What are the questions on which advance ruling can be sought
- (iii) Is the advance ruling an option for TFL and what shall be the recourse for TFL if it disagrees with the verdict of Board issued under advance ruling.

Question # 7(b)

[3 marks]

Q.7 (b) Dammam Industries (Private) Limited is engaged in the export of finished fabric and garments. They have approached you to apprise them about the situations wherein no duty drawback shall be allowed under the Customs Act, 1969.

THE END