

Taxation

Descriptive Questions

(60 minutes)

Question 1

ABC Manufacturing Company (Private Limited Company)- producing non-oil products- information as to its performance for the year 2015, are as follows:

1. Revenues and expenses per its profit and loss account are as under:

Expenses	<u>IRR bn.</u>	Revenues	<u>IRR bn.</u>
Cost of sales- domestic	162.5	Domestic sales	280
Cost of sales- export	81.5	Export sales	120
Selling, Admin. and General expenses	32	Sundry	9.85
Finance charges	4.8		
Sundry	0.7		
	<u>281.5</u>		<u>409.85</u>

- Profit before tax for the year amounts to IRR 128.35 bn.
 - All foreign currency rules and regulations in respect of export sales have been fully complied with.
2. Sundry revenues includes IRR 3.8 bn. interest on managed funds deposited with an state bank, IRR2 bn. office rental income, IRR 3.5 bn. profit on sale of shares on the Over- the- Counter Market (OTC) and IRR 0.55 bn. gain on disposal of a motor vehicle. Taxes on sale of shares and motor vehicle are paid.
 3. The company being listed as environmental polluting unit is levied IRR 4 bn. according to Note 1 of Article 38 of VAT Act. The company included IRR 2.5 bn. of the Levy in its cost of domestic sales and IRR 1.5 bn. in cost of export sales.

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4. An analysis of IRR 16.15 bn. included in selling, administrative and general expenses is as follows:

	IRR bn.
Decrease in value of stocks	7
Company's share of contribution to employees savings- 5% of annual salaries	5
Abnormal production wastes	3
Non- refundable VAT	1.15
Total	16.15

5. The Company obtained a loan of IRR 40 bn. from a local private bank on 23rd September, 2015, for a period of one year and on the same date, transferred IRR 15 bn. of the loan to one of its associate companies for purchase of raw materials to be repaid in March, 2016. Bank charges of IRR 4.8 bn. for the full year reported by the bank which the Company dealt with as finance charges.
6. IRR 0.25 bn. of sundry expenses represents penalty for late payment of VAT in compliance with Article 23 of VAT Act.
7. Depreciation charges and sundry expenses of IRR 1.425 bn. relating to the rented out office are included in debtors.
8. Prior year adjustments debit balance of IRR 4.5 bn. relates to expenses of export sales for the year 2013 which are recognized and paid in the year 2015. These expenses were out of the company's control.
9. Proceeds of share capital increase in 2015 amounted to IRR 310 bn. of which IRR 280 bn. increased existing shareholders' capital and IRR 30 bn. dealt with as share premium included in the owners' equity.
10. Prior years trading losses of IRR 17 bn. are confirmed by tax authorities, of which IRR 14.025 bn. has been amortized by the end of fiscal year 2014.
11. Costs of sales for domestic and export sales would be an appropriate basis for allocation of selling, administrative and general expenses and finance charges to domestic and export sales activities. Sundry expenses are not related to the said activities.

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Required:

Considering the above information, determine taxable income and income tax of ABC Company (Private Limited Company) for the year 2015.

(50 Marks)

Question 2:

According to Direct Taxation Act as Amended on 22nd July, 2015, to encourage and increase investments in manufacturing or mining enterprises, investments in less-developed regions and other regions are to enjoy tax benefits in addition to zero rate taxation for defined period. Identify tax benefits relating to less- developed regions and other regions separately.

(10 Marks)

Question 3:

According to Direct Taxation Act as Amended on 22nd July, 2015, failure to file a list of transactions with the tax authorities is subject to fines. According to this Article and its bye-laws, identify:

- a. the persons subject to filing their listings with tax authorities.
- b. the transactions or otherwise which are not subject to be filed with tax authorities.

(20 Marks)

Question 4:

According to Direct Taxation Act as Amended on 22nd July, 2015, an appropriate database shall be established by Tax Organization in order to promote transparency of economic activities and establish an integrated tax information system.

What information should be provided to Tax Organization by legal entities possessing that database required information or somehow causing others to derive income or asset?

Explain fully those information.

(20 Marks)