



Tax Practices

Instructions to examinees:

- (i) Answer all **EIGHT** questions.
- (ii) Answer in **black** pen only.
- (iii) Tax rates are given on the last page.

Q.1 Azaadi & Co. (AC) is an association of persons engaged in the business of manufacturing disposable products. Following information has been extracted from AC's records for the year ended 30 June 2022:

	Rs. in million
Sales	380
Less: Sales tax	(45)
Less: Trade discount	(15)
Net sales	320
Less: Cost of sales	(240)
Gross profit	80
Less: Operating expenses	(146)
Loss before tax	(66)

Additional information:

- (i) Cost of sales includes:
 - payment of Rs. 12 million (including sales tax of Rs. 2 million) to Hashim Limited (HL) for the purchase of a new machine for making plastic container in exchange of an old machine having a book value and a fair market value of Rs. 5 million and Rs. 4 million respectively on exchange date. The transaction was carried out on 1 July 2021.
Old machine was purchased on 1 January 2020. Disposal of old machine and depreciation of new machine were not recorded in AC's books of accounts. Tax WDV of old machine was the same as accounting WDV on the disposal date.
 - purchase of raw materials of Rs. 40 million against which no withholding tax was deducted at the time of payment. During the year, AC purchased total raw material of Rs. 120 million.
 - closing inventory of damaged finished goods of Rs. 18 million. Due to heavy rain, these goods were damaged and it is expected to fetch Rs. 12 million only.
- (ii) Operating expenses include:
 - salary of Rs. 0.275 million paid to office boy in cash. He was paid a monthly salary of Rs. 25,000 for eleven months.
 - warehouse rent of Rs. 1.6 million paid through credit card linked to notified business bank account.
 - bad debt of Rs. 2.8 million written off against receivable from a customer on his insolvency.
 - commission of Rs. 3.2 million paid to one of the members of AC, by crediting the amount to his bank account.
 - scholarship of Rs. 4.5 million paid to Sara, one of AC's staff members, for higher studies in accordance with the terms of the employment.

- payment of Rs. 6.4 million for the purchase of a specialized software for AC's manufacturing department on 1 April 2022. The software is expected to be used for five years. Although the software is available for use from the date of purchase, AC's members have decided to implement this software from 1 July 2022.
- depreciation and financial charges of Rs. 2.1 million and Rs. 1.5 million respectively in respect of a car which was acquired on financial lease.

On 1 July 2021, AC entered into a lease agreement with a bank for a car of Rs. 10.5 million against the annual lease rentals of Rs. 3.0 million, payable in arrears. The car has been used 80% for business purposes and 20% for personal use of members.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- (a) compute the total income, taxable income and tax liability of Azaadi & Co. for the tax year 2022. (15)
- (b) discuss the tax implication in respect of scholarship received by Sara in her return of income for tax year 2022. (02)

Note: Show all relevant exemptions, exclusions and disallowances.

- Q.2 Nasir has been working as head of finance in Asaish (Private) Limited (APL). He received following monthly emoluments from APL during the year ended 30 June 2022:

	Rupees
Basic salary	800,000
Medical allowance	100,000
Cost of living allowance	200,000

In addition to the above, APL also provided him the following benefits:

- (i) Residential house owned by APL for no rent. The fair market value of the rent was Rs. 300,000 per month.
- (ii) Company maintained car. The car was acquired on lease by APL on 1 July 2020 at an annual rental of Rs. 1,100,000. The fair market value of the car as on 1 July 2020 and 30 June 2022 were Rs. 4,000,000 and Rs. 6,000,000 respectively. 70% of the car is used for office purpose while 30% is used for personal purposes.
- (iii) 250 liter of fuel every month. The average petrol price during the year was Rs. 180 per liter.
- (iv) Reimbursement of car maintenance expenses upto Rs. 20,000 per month. During the year, APL reimbursed Rs. 150,000 to him in this respect.
- (v) Health insurance for Nasir and his dependents as per the terms of employment. For this purpose, APL is paying annual insurance premium of Rs. 100,000. The insurance company incurred expenses of Rs. 500,000 on hospitalization of his dependents.
- (vi) Ad-hoc relief allowance equal to one month's basic salary keeping in view the increase in inflation.

Nasir incurred a monthly expenditure of Rs. 20,000 from July 2021 to November 2021 while working from home under the COVID guidelines issued by APL's management.

Withholding tax deducted by APL from his salary during the tax year 2022 amounted to Rs. 4,500,000.

Other information:

- (i) During the year, he got married and received Rs. 1,000,000 in cash as gifts from various relatives and friends including Rs. 400,000 from his parents. In addition, his parents gifted him a car worth Rs. 5,000,000.
- (ii) During the year, he paid a cash donation of Rs. 480,000 to a non-profit organization listed in the Thirteenth Schedule.
- (iii) During the year, Nasir contributed Rs. 4,700,000 to an approved pension fund under the Voluntary Pension System Rules, 2005.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- (a) compute the total income, taxable income and net tax payable by or refundable to Nasir for the tax year 2022. *(Show all relevant exemptions, exclusions and disallowances)* (14)
- (b) With reference to provision of residential house to Nasir by APL, discuss the tax implication for APL in this regard. (02)

- Q.3 (a) Nargis is a resident filer. During the tax year 2022, she disposed of various assets. Relevant details of these assets are as follows:

	Disposal			Purchase	
	Cash consideration	Fair market value	Date of disposal	Cost of purchase	Date of purchase
	---- Rs. in million ----			Rs. in million	
Investment in shares of a public unlisted company	2.8	3.0	01-Apr-22	2.0	01-Jun-20
Investment in shares of a listed company	3.5	3.5	01-Jul-21	2.1	30-Jun-13
Personal car	5.0	6.0	31-Dec-21	3.8	01-Jan-19
Painting	1.2	1.2	16-Sep-21	1.7	16-Feb-17
Jewelry	8.0	7.6	30-Jun-22	(see note 1)	01-May-16

Note 1: She received the jewelry as a gift from her mother in law at the time of her marriage when its fair market value was Rs. 4.8 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- (i) compute the amount to be chargeable to tax under the head of capital gain. Also state the reason for ignoring gain / loss, if any. (06)
- (ii) compute the tax liability of Nargis in respect of the capital gain computed in (i) above assuming that she has no other source of income. (02)
- (b) Shahid is a resident filer and has provided following information pertaining to tax year 2022:
- (i) On 16 June 2018, he inherited a bungalow having a fair market value of Rs. 50 million from his father on his death. On 1 January 2022, he decided to sell the bungalow to Zamin for Rs. 60 million and received a deposit of Rs. 6 million. On 14 February 2022, he forfeited the deposit on refusal of Zamin to purchase the bungalow in accordance with the terms of the contract.
- On 31 March 2022, he sold and transferred the bungalow to Kazim for Rs. 54 million.
- (ii) He owns a factory building at Faisalabad. On 1 July 2021, he let out this factory building along with the plant and machinery at a monthly rent of Rs. 1 million. During the year, he incurred expenses of Rs. 3.5 million on the repair and maintenance of the factory.
- (iii) He owns an agricultural land in Punjab. On 1 January 2022, he rented out the agriculture land at an annual rent of Rs. 4 million. The fair market value of the annual rent was Rs. 5 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total and taxable income of Shahid under appropriate heads of income for the tax year 2022. Also compute his tax liability for the tax year 2022. (07)

Note: Show all relevant exemptions, exclusions and disallowances.

- Q.4 Under the provisions of the Income Tax Ordinance, 2001, discuss the taxability of foreign source income of the following resident persons for tax year 2022. (*Computation of tax amount, if any, is not required*)
- (a) Li, a Chinese engineer, has been working since March 2020 as a production manager in a Karachi based company, Karam Limited. During the tax year 2022, his bank account in China was credited with CNY 40,000 on account of rental income for his apartment situated in China. He remitted 40% of this amount to his bank account in Pakistan. (03)
- (b) Omar, a Pakistani national, came into Pakistan on 1 September 2021 after 20 years of service in UAE. On 1 January 2022, his bank account in UAE was credited with AED 50,000 on account of dividend received from a UAE based company. He remitted 50% of this amount to his bank account in Pakistan. (03)
- (c) Sidra, a Pakistani national, left Pakistan on 1 July 2021 for employment in a Singapore based company at a monthly salary of SGD 10,000. However, due to personal reasons, she returned back to Pakistan on 20 December 2021 and remained in Pakistan till 30 June 2022. She brought the entire foreign salary amount to Pakistan. (02)
- Q.5 (a) Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:
- (i) briefly discuss the terms 'Normal assessment' and 'Best judgement assessment'. (03)
- (ii) state the requirements that should be complied with by a sole proprietor on discontinuance of business. (02)
- (iii) list the additional records which are required to be kept by a sole proprietor whose business income exceeds Rs. 500,000 as compared to a sole proprietor whose business income is upto Rs. 500,000. (02)
- (b) Rustum Enterprises opts for the final tax regime with regard to its exports business.
- Required:**
Under the Income Tax Ordinance, 2001 list down the rules that shall apply to income subject to final tax. (03)
- Q.6 (a) Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, explain whether the following persons are required to be registered with the Inland Revenue Department:
- (i) A manufacturer of taxable supplies located in the residential area of Korangi, Karachi.
- (ii) A retailer whose annual turnover is Rs. 20 million.
- (iii) A distributor of exempt supplies.
- (iv) An exporter of taxable goods. (04)
- (b) Goods exported shall be charged to tax at the rate of zero percent. What are the exceptions to this general rule? (03)

- Q.7 Zahid Enterprise (ZE) is registered under the Sales Tax Act, 1990. ZE is engaged in the business of manufacturing garments. Usman who recently joined ZE as an officer, has prepared the following computation of ZE's sales tax liability for the month of June 2022:

Description	Taxable Amount	Sales Tax
Input Tax:	---- Rs. in million ----	
Purchases from registered persons	140	23.80
Purchases dated 21 December 2021 inadvertently not claimed in December 2021 return	10	1.70
Gas bill paid in cash	2	0.34
Electricity bill of rented premises showing particulars of landlord	3	0.51
Debit note dated 20 June 2022 issued to a supplier for taxable supply against invoice dated 31 March 2022	6	1.02
Payment on 3 June 2022 against sales tax invoice dated 5 April 2022	70	11.90
Payment of provincial sales tax @ 13% against transporter's invoice dated 17 June 2022 for supplying goods to export processing zone	8	1.04
Advance paid to a supplier at the time of placing an order for customized goods. The goods will be delivered in October 2022	12	2.04
Purchase of plant and machinery	20	3.40
		45.75
Output Tax:		
Sales of taxable goods to registered persons Note 1	180	30.60
Sales of taxable goods to unregistered persons Note 2	44	7.48
Credit note dated 15 June 2022 issued to a customer for taxable supply against invoice dated 1 December 2021 Note 3	(7)	(1.19)
Garments withdrawn by owner during June 2022	4	-
		36.89
Sales tax refundable		8.86

Note 1: It includes goods of Rs. 50 million supplied to the export processing zone for further manufacturing.

Note 2: 20% of these customers are end users.

Note 3: Assume that the collector has not extended the time period for the issuance of debit or credit note(s).

All the above figures appeared in taxable amount column are exclusive of sales tax. Sales tax is payable at the rate of 17% except where it is specified otherwise.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder:

- (a) prepare ZE's corrected computation of sales tax liability for the month of June 2022. (15)
- (b) state the reason(s) for ignoring the transaction, if any, while computing ZE's corrected sales tax liability in part (a) above. (04)
- Q.8 (a) Discuss whether the following tax services can be provided to an audit client which is not a public interest entity:
- (i) Preparation of tax returns
- (ii) Tax calculation for the purpose of preparing accounting entries (05)
- (b) Following is the list of various types of taxes/duties:
- (i) Agriculture income tax (ii) Custom duty
- (iii) Tax on transfer of immovable property (iv) Capital value tax
- (v) Property tax (vi) Sales tax on services

Required:

In respect of each of the above mentioned taxes/duties, identify whether they are covered under the scope of legislation of the Federation or the Provinces. (03)

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001**Tax rates for non-salaried individuals and AOP**

S. No.	Taxable income	Rate of tax
1.	Where taxable income does not exceed Rs. 400,000	0%
2.	Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 600,000	5% of the amount exceeding Rs. 400,000
3.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	Rs. 10,000 plus 10% of the amount exceeding Rs. 600,000
4.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 70,000 plus 15% of the amount exceeding Rs. 1,200,000
5.	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 250,000 plus 20% of the amount exceeding Rs. 2,400,000
6.	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 370,000 plus 25% of the amount exceeding Rs. 3,000,000
7.	Where taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 620,000 plus 30% of the amount exceeding Rs. 4,000,000
8.	Where taxable income exceeds Rs. 6,000,000	Rs. 1,220,000 plus 35% of the amount exceeding Rs. 6,000,000

Tax rates for salaried individuals and AOP

S. No.	Taxable income	Rate of tax
8.	Where taxable income exceeds Rs. 8,000,000 but does not exceed Rs. 12,000,000	Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000
9.	Where taxable income exceeds Rs. 12,000,000 but does not exceed Rs. 30,000,000	Rs. 2,345,000 plus 27.5% of the amount exceeding Rs. 12,000,000
10.	Where taxable income exceeds Rs. 30,000,000 but does not exceed Rs. 50,000,000	Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000
11.	Where taxable income exceeds Rs. 50,000,000 but does not exceed Rs. 75,000,000	Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000
12.	Where taxable income exceeds Rs. 75,000,000	Rs. 21,420,000 plus 35% of the amount exceeding Rs. 75,000,000

Minimum tax under section 113

The minimum tax as percentage of the person's turnover for the year is 1.25%.

Tax on capital gains on disposal of immovable property

S. No.	Amount of gain	Rate of tax
1.	Where the gain does not exceed Rs. 5 million	3.5%
2.	Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	7.5%
3.	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	10%
4.	Where the gain exceeds Rs. 15 million	15%

Capital gains on disposal of securities

The rate of tax to be paid under section 37A shall be as follows:

S. No.	Period	Rate of tax
1.	Where holding period of a security is less than 12 months	12.5%
2.	Where holding period of a security is 12 months or more but less than 24 months	12.5%
3.	Where holding period of a security is 24 months or more but the security was acquired on or after 1.7.2013	12.5%
4.	Where the security was acquired before 1.7.2013	0%

Initial allowance

The rate of initial allowance shall be 25% for plant and machinery.

Depreciation rate

Depreciation rate specified for the purpose of section 22 for plant and machinery is 15%.