



## Tax Practices

### Instructions to examinees:

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

Q.1 For the purpose of this question, **assume that the date today is 31 August 2022.**

Basit, a senior manager at Master Limited (ML), resigned on 31 January 2022 after completion of three and a half year of service. During the tax year 2022, he received the following emoluments from ML:

- (i) Salary of Rs. 610,000 per month.
- (ii) Allowance of Rs. 60,000 per month for services of domestic servant. Out of which, he paid Rs. 36,000 per month in respect of these services.
- (iii) Allowance equal to 5% of salary solely expended in the performance of his duties of employment.

### **Additional information:**

- (i) On 1 July 2021, he leased a car having fair market value of Rs. 4,800,000 at a monthly rental of Rs. 120,000. He pays lease rentals from his own sources but has used this vehicle for both official and personal purposes.
- (ii) On 1 July 2021, 13000 shares of ML were allotted to Basit under an employee share scheme, against the payment of Rs. 30 per share. According to the scheme, he was not allowed to sell / transfer the shares upto 31 December 2021. On 31 May 2022, he sold 5000 shares of ML at its fair market value (FMV). FMV of each share on different dates are as follows:

1 July 2021	31 December 2021	31 May 2022
Rs. 50	Rs. 90	Rs. 80

- (iii) On 15 February 2022, he received the following payments from ML as final settlement:
  - Rs. 320,000 on account of leave encashment.
  - Rs. 2,200,000 under gratuity scheme approved by the board.
  - Rs. 700,000 salary arrears related to tax year 2021.
- (iv) Withholding tax deducted by ML from Basit's salary during the tax year 2022 amounted to Rs. 1,400,000.

### **Other information:**

- (i) On 31 January 2022, he received gold worth Rs. 200,000 as a gift from his old friend.
- (ii) On 1 February 2022, he purchased mutual fund units of Rs. 2,500,000.
- (iii) On 1 April 2022, he left for United Kingdom and joined Oliver Limited (OL) as an employee at a monthly salary of GBP 3,200. He remained abroad till end of the tax year 2022. No withholding tax was deducted by OL from his salary.
- (iv) While residing in UK, Basit served as a visiting faculty member at a University. He earned GBP 1,500 from the university and incurred an expenditure of GBP 500 for providing services at the university. Withholding tax deducted by the university amounted to GBP 225.
- (v) Average exchange rate during 1 April 2022 to 30 June 2022 was GBP 1 = Rs. 250.

**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 Basit for the tax year 2022. *(Show all relevant exemptions, exclusions and disallowances)* (16)
- (b) what other option is available to Basit for the taxation of salary arrears of Rs. 700,000 received from ML as part of final settlement. *(Revised computation is not required)* (01)
- (c) identify the additional statement that Basit needs to file in respect of his foreign source income. Also briefly discuss the particulars to be mentioned in the additional statement. (02)

- Q.2 (a) Under the provisions of the Income Tax Ordinance, 2001 discuss the tax implication/treatment in each of the following independent matters:
- (i) Purchase of immovable property in cash. (03)
- (ii) Payment of any sum by a private company to its shareholder by way of a loan. (03)
- (iii) Profit on debt received by a non-resident person on a security issued by a resident person. (03)
- (b) For the purpose of this part of the question, **assume that the date today is 31 August 2022.**

During the year ended 30 June 2022, Faster & Co. (FC) started a new project. Following information is available:

- Incurred Rs. 5 million on feasibility study of the project.
- Obtained a 3% loan of AED 2 million from a UAE bank on 1 January 2022 for the purchase of plant and machinery. The interest is payable annually and principal amount is repayable at the end of third year.
- Installed the plant and machinery at a cost of Rs. 150 million on 14 March 2022.

The exchange rates of 1 AED to PKR on different dates are as follows:

1-Jan-2022	30-Jun-2022	Average between 1-Jan-2022 to 30-Jun-2022
Rs. 50	Rs. 55	Rs. 53

**Required:**

Compute the amount of allowable deduction in determining the taxable income of FC for tax year 2022. (04)

- (c) List the persons or incomes that are allowed a tax credit equal to 100% of the tax payable. Also specify the conditions/limitations which are required to be fulfilled for availing the said tax credit. *(Ignore tax credit available to charitable organisation)* (04)

- Q.3 For the purpose of this question, **assume that the date today is 31 August 2022.**

Aakash Kumar owns an industrial undertaking under the name and style of Premjee & Co. (PJC) which is engaged in the business of manufacturing fast moving consumer goods. Following information is available from PJC's records for the year ended 30 June 2022:

- (i) Loss before tax for the year was Rs. 87 million.
- (ii) Operating expenses include:
- a penalty of Rs. 2 million for late delivery of goods to a customer.
  - commission of Rs. 2.5 million which was paid to a distributor, Liaquat Bashir, on sale of PJC's products of Rs. 50 million. These products are covered in the Third Schedule of the Sales Tax Act, 1990. Name of Liaquat Bashir is not appearing in the active taxpayers' list under the Income Tax Ordinance, 2001.
  - freight charges of Rs. 1.2 million which were paid in cash to a freight forwarding company in Karachi.
  - accounting depreciation of Rs. 40 million.

(iii) Other income includes:

- an insurance claim of Rs. 6 million, equivalent to accounting book value, received on 8 November 2021 in respect of a vehicle which was completely destroyed by fire. The cost and fair market value of the vehicle before fire incident were Rs. 10 million and Rs. 8 million respectively. This vehicle was purchased on 1 October 2019.
- amounts recovered during the year from two debtors i.e. Shameem and Faheem. These amounts had been written off in the last year. Details are as follows:

	Shameem	Faheem
	---- Rs. in million ----	
Bad debts claimed in the last tax return	19.2	28.8
Bad debts allowed by tax authorities last year	13.2	14.8
Amounts recovered during the year	16.8	10.6

- rent of Rs. 21.6 million. On 1 July 2021, Aakash leased one of its factory buildings alongwith the plant to Kamran at a monthly rent of Rs. 1.8 million, payable in advance. The building was purchased for Rs. 85 million on 16 August 2019 whereas a second hand locally purchased plant was installed at a cost of Rs. 34 million on 1 July 2021. During the year, Aakash incurred Rs. 3.2 million on repair and maintenance of the factory building.
- (iv) PJC's liabilities include amounts of Rs. 14 million and Rs. 17 million in respect of purchases made on 18 March 2018 and 1 August 2018 respectively. These purchases were allowed as admissible deductions while computing income from business in their relevant tax years.
- (v) During the year, outstanding financial charges of Rs. 2.8 million were waived by the bank on rescheduling the loan. These charges were claimed as admissible deduction in the tax year 2020.
- (vi) Tax depreciation for the year on all fixed assets, other than factory building and plant which were leased out to Kamran, amounted to Rs. 48 million.

**Other information:**

- (i) On 15 August 2021, Aakash entered into a derivative contract for the purchase of gold. The contract was to be expired on 15 November 2021. Aakash sold the contract before the settlement date and earned a net gain of Rs. 23 million on the contract.
- (ii) On 30 June 2022, Aakash earned capital gains of:
- Rs. 20 million on sale of his immovable property which was purchased on 1 June 2019.
  - Rs. 3.6 million on sale of shares in a private company. These were acquired on 1 June 2021.
- (iii) During the year, Aakash received his share of profit from an AOP of Rs. 70 million.

**Required:**

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute total income, taxable income and net income tax payable by or refundable to Aakash for the tax year 2022.

(18)

**Note:** ▪ *Ignore minimum tax under section 113.*

- *Show all relevant exemptions, exclusions and disallowances.*

- Q.4 (a) Briefly explain the term 'Sectoral benchmark ratios'. Also, explain the circumstances in which a Commissioner shall determine taxable income on the basis of sectoral benchmark ratios.

(03)

- (b) (i) Riaasat Limited (RL) is a manufacturing company. With effect from 1 July 2022, RL is considering to change its tax year from the normal to the special tax year ending on 31 December.

**Required:**

Identify the due/last date of filing of RL's tax return in respect of the following:

- Filing of tax return for the year ended 30 June 2022.
- Filing of tax return for the transitional period.
- Filing of first tax return for the special tax year.

(03)

- (ii) Assume that RL has changed its tax year from normal to special and filed its tax returns for relevant tax years, as discussed in (b)(i) above.

**Required:**

Identify the due/last date of amendment of assessment related to:

- normal tax year for the year ended 30 June 2022.
- first special tax year.

(02)

- (c) Following information pertains to three unlisted companies:

Company	Paid up capital	Total reserves	Annual turnover	Shareholders
----- Rs. in million -----				
A Limited	30	80	150	60% shares are held by a foreign company
B Limited	80	(35)	220	40% shares are held by the Provincial and Federal governments
C Limited	40	5	500	100% shares are held by a local group

**Required:**

Under the provisions of the Income Tax Ordinance, 2001 briefly discuss whether each of the above companies can be classified as small, public or private. Also state the additional information, if any, which may be required for determining the classification of these companies.

(07)

- Q.5 (a) Following are the independent transactions carried out by different enterprises during the month of February 2022:

- (i) Taxable goods of Rs. 800,000 were sold to one of the dealers. The amount was net of 20% trade discount which was in accordance with market norms. The discounted price was not shown on the tax invoice.
- (ii) Taxable goods of Rs. 1,500,000 were used for internal testing and evaluation purposes. 40% of these goods were locally procured while remaining 60% of these goods were own manufactured.
- (iii) Advance of Rs. 600,000 was received for goods to be delivered in April 2022.
- (iv) 1,000 units of taxable goods listed in the Third Schedule were sold at a unit price of Rs. 5,000. Retail price of each unit was Rs. 6,000.
- (v) New parts of Rs. 1,200,000 were issued free of cost to replace the defective parts under warranty.
- (vi) Taxable goods of Rs. 400,000 were sold at credit terms of 2/10, n/30. Customer paid the amount within ten days and availed the discount.

**Required:**

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, state the value of supply chargeable to tax for the month of February 2022. Also state the reason for your treatment.

(08)

- (b) Kazmi Traders (KT) is registered under the Sales Tax Act, 1990. KT is engaged in the business of manufacturing and supply of paper products. Following information is available from KT's records for the month of February 2022:

	Rs. in million
<b>Purchases</b>	
Taxable goods from registered persons (20% of these goods were returned to suppliers)	320
Taxable goods from unregistered persons	32
Exempt goods from registered persons	56
Electrical and sanitary fittings (60% used in factory building and 40% used in office building)	17
Plant and machinery	84
<b>Supplies</b>	
Taxable goods to registered persons (10% of these goods were returned by the customers)	200
Exports	98

Electricity bill paid in February 2022 includes sales tax of Rs. 1.36 million. 60% of the amount was related to the factory building while remaining amount was related to the office building.

All the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of 17%.

**Required:**

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to KT and input tax to be carried forward, if any, for the tax period February 2022. *(Show all relevant exemptions, exclusions and disallowances)*

(08)

- Q.6 (a) Under the Sales Tax Act, 1990 and Rules made thereunder, briefly discuss the chargeability of sales tax in case of a retailer.
- (b) Shajee Limited (SL) purchases cosmetic products from Tajee (Private) Limited (TPL). In the month of October 2021, SL received a consignment of 5000 units from TPL. On delivery, SL found that 50% of the items were expired and decided to return them.

(05)

Both SL and TPL are registered under the Sales Tax Act, 1990 and file sales tax return on regular basis.

**Required:**

Under the Sales Tax Rules, 2006 specify the document which must be issued by SL on return of goods to TPL. Also state the particulars that should be mentioned on the document to be issued.

(04)

- Q.7 (a) State any **four** non-revenue objectives which the government achieves by imposing taxation.
- (b) Discuss any **three** principles of a sound tax system.

(03)

(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
6.	Where taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000	Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000
7.	Where taxable income exceeds Rs. 5,000,000 but does not exceed Rs. 8,000,000	Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000
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

**Initial allowance**

The rate of initial allowance u/s 23 shall be 25% for plant and machinery.

**Depreciation rates**

1.	Building	10%
2.	Motor vehicle, plant and machinery	15%

**Pre-Commencement Expenditure**

The rate of amortisation of pre-commencement expenditure u/s section 25 shall be 20%.

**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%

**Tax on capital gains on disposal of securities**

The rate of tax to be paid under section 37A shall be 12.5%.