



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 Salman works as the head chef at Tasty Café (TC), which is owned by Zameendar Limited (ZL), a company listed on the Pakistan Stock Exchange. He received the following emoluments from TC during the year ended 30 June 2023:

	Rupees
Basic salary	2,400,000
House rent allowance	600,000
Annual bonus	480,000

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

- (i) Free meals while on duty worth Rs. 450,000.
- (ii) Staff discounts across all restaurants owned by ZL. Salman availed discount worth Rs. 40,000 during the year.
- (iii) Health insurance up to the amount of Rs. 500,000 covering his spouse and two children as per terms of his employment. The insurance premium related to this benefit amounted to Rs. 70,000. During the year, the insurance company incurred expenses of Rs. 300,000 on hospitalization of his dependents.
- (iv) A company-maintained car which was purchased by TC for Rs. 2,000,000. The fair market value (FMV) of the car on 30 June 2023 is Rs. 5,500,000. The car is used partly for official purposes and partly for personal use.
- (v) An option to acquire 12,000 shares of ZL at a price of Rs. 98 per share under an employee share scheme. The option was granted on 1 February 2023 when the FMV of the shares was Rs. 104 per share. Salman exercised the option on 1 March 2023 when the FMV was Rs. 110 per share.
- (vi) Provident fund contribution at 8% of the basic salary in a recognized provident fund. During the year, 22% profit was credited to Salman's account. His balance in the fund amounted to Rs. 960,000.
- (vii) Training of three-week culinary chef course. Salman attended this course in Dubai, for which TC paid a course fee of Rs. 500,000. In relation to his stay in Dubai, he was provided a travel allowance of Rs. 250,000. However, Salman opted to stay at a relative's house in Dubai and only spent Rs. 100,000 out of the total travel allowance provided by TC.

Additional information:

- (i) During the year, Salman received an interest income of Rs. 765,000 from his bank account. The amount was net of withholding income tax at the rate of 15%.
- (ii) Salman paid Rs. 300,000 as a donation to a non-profit organisation listed in the Thirteenth Schedule of the Income Tax Ordinance, 2001. 80% of the amount was paid through a crossed cheque, and the remaining amount was paid in cash.
- (iii) During the year, TC withheld Rs. 400,000 in tax from his salary.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the correct head of income, the total income, the taxable income, and net tax payable by or refundable to Salman for the tax year 2023. (*Show all relevant exemptions, exclusions and disallowances*)

- Q.2 Kashif is a resident filer who owns a single-storey bungalow in Karachi, including a basement. He solely uses the basement portion of the bungalow which constitutes 20% of the total bungalow area, for storing his personal belongings.

On 1 October 2019, he rented his bungalow, excluding the basement portion, to Ahmed under a three-year rental agreement. Other details of the rental agreement are given below:

	Rupees
Monthly rent	300,000
Non-adjustable security deposit	3,500,000
Monthly security charges	40,000

In addition to the above, Kashif also provides Ahmed with backup electricity from a generator during load shedding at a fixed monthly charge of Rs. 50,000. The electricity connection of the basement is separate from the rest of the bungalow.

On 30 September 2022, the rental agreement concluded, and Kashif agreed to sell the entire bungalow to Ahmed. The non-adjustable security deposit was retained as a down payment for the purchase.

On 25 October 2022, Ahmed backed out of the deal and declined to purchase the bungalow. As per the agreement, Kashif forfeited the non-adjustable security deposit.

On 1 November 2022, Kashif rented the bungalow to a new tenant, Rashid, under a rental agreement with the same terms as above.

During the year, Kashif paid salary of Rs. 360,000 to the security guard of the bungalow and incurred Rs. 450,000 for running the electricity generator.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income of Kashif under appropriate heads of income for the tax year 2023. **(08)**

- Q.3 (a) Masoom is the sole owner of a business that is engaged in the trading of furniture. During the year, the following transactions took place:
- (i) He withdrew a furniture set worth Rs. 3 million, from his business to present it to his daughter on the occasion of her wedding. The cost of the furniture set was Rs. 2.5 million.
 - (ii) He sold an antique table for Rs. 1 million. The table had been gifted to him by his father back in 2012. Its fair market value at the time of gift was Rs. 2.2 million. His father originally purchased the table for Rs. 0.5 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, discuss the tax treatment of the above transactions for Masoom. **(05)**

- (b) Under the provisions of the Income Tax Ordinance, 2001, if a person sustains a loss under any head of income in a tax year, the same can be set-off against the income from any other head of income. State **four** exceptions to this principle. **(04)**

- Q.4 (a) Sweet Bakers (SB) is a bakery business owned by Mariam and her two brothers, Ehsan and Ghulam, who share profits in the ratio of 60:20:20, respectively. SB has three retail outlets located in Karachi, and it also owns agriculture land that is rented to a chicken farmer. SB is registered with sales tax authorities as a Tier-1 retailer.

The following information has been extracted from the records of SB for the year ended 30 June 2023:

	Rs. in million
Net sales	500
Less: Cost of sales	(350)
Gross profit	150
Less: Operating expenses	(73)
Profit before tax	77

Additional information:

- (i) Net sales include rental received from the chicken farmer, as detailed below:
- A monthly payment of Rs. 0.5 million.
 - Supply of 120 paitis of eggs (agriculture produce) every month. Each paiti holds a market value of Rs. 7,200. SB consumed these eggs in the production of various bakery items, but they are not accounted for in the abovementioned cost of sales.
- (ii) Cost of sales include:
- purchase of various raw materials worth Rs. 24 million on which no withholding tax was deducted at the time of payment. SB made total purchases of Rs. 200 million during the year.
 - purchase of milk powder worth Rs. 10 million, of which 10% is delivered to the homes of the three partners for their personal use.
 - salaries of Rs. 8.2 million, Rs. 6 million, and Rs. 4.8 million to Mariam, Ehsan, and Ghulam, respectively.
 - purchase of a new bakery plant worth Rs. 15 million.
- (iii) Operating expenses include:
- purchase of point-of-sale machines worth Rs. 0.4 million which were installed on 1 July 2022 in all outlets to integrate with FBR's computerized system for real time reporting of sales.
 - payment of Rs. 5.5 million on 1 January 2023 to an IT company for the development of an application to facilitate online orders from customers. The useful life of this application is expected to be five years and is available for use from 1 October 2023.
- (iv) On 1 February 2023, Mariam contributed her personal van to the business, which she had purchased at a cost of Rs. 6 million on 1 January 2022. The fair market value of the van at the time of transfer was Rs.9 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the correct head of income, the total income, taxable income, and tax liability of SB for the tax year 2023. (16)

- *Ignore minimum tax under section 113.*
- *Show all relevant exemptions, exclusions and disallowances.*

- (b) Under the provisions of the Income Tax Ordinance, 2001, the tax payable by women enterprises on profit and gains derived from business chargeable to tax under the head 'Income from Business' shall be reduced by 25%.

Required:

Explain the term 'Women enterprise'. Also, discuss whether the abovementioned reduction in tax liability is available to Sweet Bakers. (03)

- Q.5 (a) Akbar, a Pakistani citizen, worked at ABC Pakistan Limited, an unlisted public company and a wholly owned subsidiary of ABC International, which is based in the USA. Akbar's engagement was formed through a two-year agreement, with the provision that at the end of this period, he had the option to continue his employment with ABC International in USA.

The two-year period ended on 30 September 2022 and Akbar left for USA on 1 October 2022 to continue his employment in USA as per the agreement.

On 15 February 2023, he resigned from ABC International, USA, and joined DEF Limited in the UK under an employment agreement. However, due to his family problems, he resigned from DEF Limited and returned to Pakistan on 30 April 2023.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax treatment of Akbar's foreign source salary income earned during the tax year 2023. (06)

- (b) Consider the following independent situations:

- (i) Hasan, a Pakistani citizen, has been working in the UK since 2015. In tax year 2022, Hasan invested in shares of a company, listed on the Pakistan Stock Exchange. Within the same tax year, he subsequently sold these shares and realized a gain of Rs. 500,000. However during the tax year 2023, he did not earn any Pakistan source income.
- (ii) Mehjabeen, a US citizen, got married in Pakistan five years ago and has since been residing in the country. In January 2023, Mehjabeen's father passed away in the USA, bequeathing her a property worth USD 400,000, situated within the USA. She neither earns income nor holds any assets in Pakistan in her name, which has resulted in her not being required to file a return of income until tax year 2022.
- (iii) XYZ (Pvt.) Limited ceased its business operations indefinitely on 31 August 2022. XYZ submitted a notice of discontinued business to the Commissioner in accordance with regulatory requirements. XYZ's year-end falls on 31 December.

Required:

Discuss whether the above persons are required to furnish the return of income for the tax year 2023 under the provisions of the Income Tax Ordinance, 2001. (05)

- (c) Under the provisions of the Income Tax Ordinance, 2001, specify the time period within which the Commissioner may amend an assessment order. (03)

- Q.6 (a) Sarfraz is a sole proprietor. Under the provisions of the Sales Tax Act, 1990, discuss whether each of the following individuals/entities is an associate of Sarfraz:

- (i) **Jehanzeb:** He has been working as an accountant for the past twenty years and has been responsible for filing the tax returns of both Sarfraz and his business.
- (ii) **Falah Limited (FL):** Sarfraz owns 20% shares in FL, while his mother owns 30% shares in FL.
- (iii) **Sarah:** She is the adopted daughter of Sarfraz's wife, Fatima. Sarah was adopted by Fatima before her marriage to Sarfraz.
- (iv) **Umeed Trust (UT):** Sarfraz is one of the trustees of UT. The trust was established to oversee the operations of an orphanage. (06)

- (b) Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, list different types of returns alongwith the due dates for filing of such returns. (05)

- Q.7 Zeenat Enterprises (ZE), a sole proprietorship, is registered under the Sales Tax Act, 1990. ZE is engaged in the business of manufacturing and supplying cosmetic products. The following information has been extracted from the records of ZE for the month of August 2023:

	Rs. in million
Purchases	
Taxable goods from registered persons	44
Taxable goods from unregistered persons	9
Supplies	
Taxable goods to registered persons	30
Taxable goods to unregistered persons	8
Exports	12

Additional information:

- (i) Purchases of taxable goods from registered persons include:
 - raw material of Rs. 9.2 million (net of special discount of Rs. 1.2 million) from an associated undertaking.
 - glass bottles worth Rs. 4 million. Among these, 20% of the total cost corresponds to bottles that sustained damage in transit due to an accident. As a goodwill gesture, the supplier provided replacement bottles without any additional consideration, accompanied by a sales tax invoice.
 - a machine of Rs. 15 million procured from an importer. 60% of the payment was made during the month, while the remaining amount is scheduled to be paid in equal instalments over the next three months.
 - pigments in retail packing, listed in the Third Schedule, for Rs. 7.5 million. The retail price of these pigments is Rs. 7.9 million.
- (ii) Purchases of taxable goods from unregistered persons comprise of beeswax obtained from a bee farmer.
- (iii) Supplies of taxable goods to registered persons include various cosmetics products, listed in the Third Schedule, sold to a distributor for Rs. 23 million. The retail price of these products were Rs. 25 million. During the month, the distributor returned 10% of the goods. Corresponding debit/credit notes were issued on 5 September 2023.
- (iv) Supplies of taxable goods to unregistered persons comprise of various cosmetic products, listed in the Third Schedule, to unregistered Tier-1 retailers.
- (v) Exports comprise of various cosmetic products shipped to the UAE.
- (vi) Packaging material worth Rs. 6 million were returned to the supplier on 10 August 2023, and corresponding debit/credit notes were issued on the same date. These returned materials were purchased on 2 February 2023.
- (vii) A purchase of raw material from a registered person for Rs. 2.9 million on 10 February 2023, was inadvertently omitted in the sales tax returns for the month of February 2023 and onwards.
- (viii) Perfumes having the retail price of Rs. 1 million were provided to the marketing staff as part of a promotional campaign, allowing walk-in-customers at malls and kiosks to try the fragrances for free.

All the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of **18%**.

Required:

In light of the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to ZE and input tax to be carried forward, if any, for the tax period August 2023. (*Show all relevant exemptions, exclusions and disallowances*)

- Q.8 (a) Discuss the principles of a sound tax system. (04)
- (b) List the fundamental principles of ethics for tax practitioners. Also, describe any two of the principles. (04)

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

Tax rates for salaried individuals

S. No.	Taxable income	Rate of tax
1.	Where the taxable income does not exceed Rs. 600,000	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	2.5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 15,000 plus 12.5% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 165,000 plus 20% of the amount exceeding Rs. 2,400,000
5.	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 405,000 plus 25% of the amount exceeding Rs. 3,600,000
6.	Where taxable income exceeds Rs. 6,000,000 but does not exceed Rs. 12,000,000	Rs. 1,005,000 plus 32.5% of the amount exceeding Rs. 6,000,000
7.	Where taxable income exceeds Rs. 12,000,000	Rs. 2,955,000 plus 35% of the amount exceeding Rs. 12,000,000

Tax rates for non-salaried individuals and AOP

S. No.	Taxable income	Rate of tax
1.	Where taxable income does not exceed Rs. 600,000	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000	5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 10,000 plus 12.5% of the amount exceeding Rs. 800,000
4.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 60,000 plus 17.5% 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. 270,000 plus 22.5% 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. 405,000 plus 27.5% 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. 680,000 plus 32.5% of the amount exceeding Rs. 4,000,000
8.	Where taxable income exceeds Rs. 6,000,000	Rs. 1,330,000 plus 35% of the amount exceeding Rs. 6,000,000

Initial allowance

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

Depreciation rates

1.	Motor vehicle	15%
2.	Plant and machinery	15%

Tax rate for profit on debt

The tax rate for profit on debt is 15%.