



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 For the purpose of this question, assume that the date today is **30 September 2023**.

Cheng, a Chinese citizen, has been in Pakistan since the year 2015. For career growth, he left his employment with Hope Limited (HL), an unlisted FMCG, on 30 September 2022 and joined a leading chain of hotels namely Desire Hotels (DH) on 1 October 2022. The details of his emoluments during the year ended 30 June 2023 are as follows:

Particulars	HL	DH
	----- Rupees -----	
Basic salary per month	350,000	450,000
Medical allowance per month	35,000	60,000
Utilities allowance per month	20,000	30,000
Lunch provided by the employer at subsidized rate – per month cost to employer	10,000	25,000
Company maintained car (for both official as well as personal purposes):		
▪ cost	3,000,000	5,000,000
▪ fair market value as on 30 June 2023	2,500,000	6,000,000
Annual bonus related to the tax year 2022	350,000	-
Gratuity under an unapproved scheme	1,225,000	-

Additional information (other benefits provided by DH):

- (i) Two return air tickets to China to the extent of Rs. 600,000 for Cheng and his spouse. During the year, he incurred Rs. 550,000 on account of his traveling to China.
- (ii) Rs. 750,000 received for signing a bond with DH, according to which Cheng cannot leave the organization before 30 June 2024.
- (iii) Rs. 400,000 received from DH as commission for securing a large contract.
- (iv) Payment of the outstanding loan of Rs. 3,800,000 by DH as per the terms of the employment contract. Cheng had obtained this interest free loan from HL, for the construction of a house. On 1 July 2019, the house was given on rent under a 5-year rental agreement at an annual rental of Rs. 800,000.

Other information:

- (i) During the year, he received CNY 31,500 (net of 30% tax) equivalent to Rs. 1,260,000 in his Pakistani bank account being a share of profit from a business in China.
- (ii) During the year, he received cash dividend of Rs. 97,750 (net of withholding tax at the rate of 15%) and bonus dividend of 2,000 shares from Ambitious Limited (AL), a company listed on the Pakistan Stock Exchange. The fair market value of AL's share on the date of entitlement of bonus shares and on 30 June 2023 were Rs. 25 and Rs. 20 respectively.
- (iii) He transferred an amount of Rs. 600,000 to the bank account of a non-profit organization as donation for the flood affectees.
- (iv) On 25 June 2023, he paid an annual premium of Rs. 300,000 on a life insurance policy.

Required:

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

(19)

Q.2 Taha who has recently joined a tax consultancy firm, prepares the following table with regard to taxability of interest income earned by various persons during the tax year 2023:

Name of person	Status	Amount of interest income (Rs. in million)	Mode of investment	Taxability of interest income		
				Head of income	Tax regime	Admissibility of related expense
Aatif	Resident Individual	1.1	Term Deposit Receipts of a bank	Income from other sources	FTR	Yes
Bilal	Resident Individual	5.5	Term Deposit Receipts of a bank	Income from other sources	NTR	Yes
Seema	Resident Individual	5.2	Bahbood Savings Certificate	Income from other sources	Exempt	No
Kamal	Non-resident Individual	*3.3	Securities issued by the resident person	Income from other sources	NTR	Yes
Sikandar	Resident Individual	4.4	Loan agreement with Association of Persons being its member	Income from business	NTR	Yes
Dream Bank Limited	Resident Banking Company	10.1	Term Finance Certificates of a company	Income from other sources	NTR	Yes

*Profit was paid outside Pakistan on approved securities which were widely issued outside Pakistan.

Required:

Prepare the corrected 'Taxability of interest income' columns in the table.

(07)

Q.3 For the purpose of this question, assume that the date today is **31 August 2023**.

Faith Brothers (FB) is engaged in the business of manufacturing tools and equipment. Following information has been extracted from FB's records for the year ended 30 June 2023:

	Rs. in million
Revenue	1,400
Expenses	(1,270)
Other income	47
Net profit	177

Additional information:

(i) Expenses include:

- accounting depreciation of Rs. 188 million.
- cash payment of Rs. 1 million for purchasing the ten air tickets.
- payment of Rs. 4 million to shipping line on account of demurrages for containers blocked at port. Moreover, penalties of Rs. 9 million were also paid to various clients on delaying their orders because of closure of production plant for two weeks during the year.
- payment of Rs. 50 million to a builder for the construction of a building. The work is still in progress at the year end.
- payment of AED 100,000 equivalent to Rs. 5 million to a research institute in UAE for the purpose of developing a new product.

- a foreign exchange loss of Rs. 15.8 million in respect of amount payable to FB's associated company in Qatar. This liability arose on 1 January 2022 from the import of a second-hand plant at a cost of QAR 400,000. As per the agreement, the payment would be made on 1 January 2024. Relevant exchange rates are as follows:

	1 January 2022	30 June 2022	30 June 2023
Rs. per QAR	45	40	79.5

(ii) Other income comprises of:

- recovery of bad debts of Rs. 16 million. The amount of Rs. 30 million was written off three years ago, out of which only Rs. 10 million was allowed by the tax authorities.
- capital gain of Rs. 40 million on sale of following securities on 1 March 2023:

	Date of purchase	Capital gain (Rs. in million)
Modaraba certificates	10 July 2022	8
Shares of an unlisted company	20 February 2022	12
Shares of a listed company	15 January 2019	20

- a loss of Rs. 9 million in respect of an insurance claim. The claim was lodged against damage of a new machinery during the shipment that rendered it unfit for use.
- (iii) Tax depreciation for the year on all fixed assets, other than imported second-hand plant, amounted to Rs. 214 million.
- (iv) Following are the details of losses brought forward from previous years:

	Rs. in million
Loss from business relating to tax year 2021	52
Loss from speculation business relating to tax year 2022	14
Unabsorbed tax depreciation	168
Capital losses on sale of listed securities relating to:	
▪ tax year 2019	8
▪ tax year 2020	6

Required:

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

- (a) compute total income, taxable income and income tax liability of FB for the tax year 2023. (17)
- Ignore minimum tax under section 113.*
 - Show all relevant exemptions, exclusions and disallowances.*
- (b) determine the amount of FB's remaining unutilised tax losses alongwith the tax year upto which such losses may be carried forward. (03)

- Q.4 (a) Mujtaba Hussain is engaged in the business of cashew nut processing. On 31 July 2022, he entered into a six-month forward contract for the purchase of raw materials used in his business to safeguard against losses due to price fluctuations. On 31 January 2023 i.e. the maturity date of the forward contract, he took the delivery of the raw materials and settled the contract by making the due payment.

Required:

Under the provisions of the Income Tax Ordinance, 2001 discuss the tax treatment of the above transaction. (03)

- (b) For the purpose of this part of the question, assume that the date today is **30 September 2023**.

On 1 July 2022, Kulsoom, a widow, established an online garment retail business and employs various ecommerce platforms to market a diverse range of garments to customers throughout Pakistan. She operates the business from her residential house.

During the year, the sales from online business were Rs. 6,000,000 and total expenditures including her personal expenses were Rs. 5,800,000.

At the year end, her sole assets consisted of a 1300cc personal car and Rs. 800,000 as cash on hand.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, advise the requirement of filing of return of income and tax treatment of the above to Kulsoom. (*Calculation of taxable income and tax liability is not required*)

(05)

- Q.5 (a) Assurance & Co., a partnership firm, has filed an appeal against the order of the Commissioner (Appeals) to the Appellate Tribunal Inland Revenue (ATIR) which is pending before ATIR. Recently, the firm has appointed a new tax adviser who proposed seeking relief through Alternative Dispute Resolution (ADR) mechanism provided by the Income Tax Ordinance, 2001.

Required:

Under the provisions of the Income Tax Ordinance, 2001, advise Assurance & Co. in respect of the following matters:

- (i) Cases eligible for settlement through ADR mechanism **(02)**
 (ii) Composition of the ADR committee **(03)**
- (b) State the provisions of the Income Tax Ordinance, 2001 relating to the filing of revised return of income by a taxpayer. **(04)**
- (c) Under the provisions of the Income Tax Ordinance, 2001 who is required to furnish the foreign income and assets statement. Also list the particulars to be mentioned in the said statement. **(03)**

- Q.6 (a) Following are the independent transactions carried out by different enterprises:
- (i) In November 2022, an agreement for the acquisition of machine on hire purchase was signed. In December 2022, the machine was acquired under this agreement against 25% down payment of Rs. 30 million. The remaining balance is to be paid in 24 equal monthly installments of Rs. 4.5 million each.
- (ii) In December 2022, an advance of Rs. 12 million was received against delivery of goods to be made in March 2023.
- (iii) A machine of Rs. 38 million was purchased in July 2022 but it was put to use in November 2022.
- (iv) Goods of Rs. 7 million were sold in September 2022 but due to limited storage capacity at buyer's premises, the goods were delivered in January 2023.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, identify and discuss the time (month) of supply for the chargeability of sales tax in respect of the above transactions. **(05)**

- (b) In the light of the Sales Tax Act, 1990 and Rules made thereunder, identify the situation(s) under which the Inland Revenue Department may recover the amount of sales tax from a person without issuing him a show cause notice. Also state the procedure for the recovery of the said amount. **(04)**

- Q.7 Confidence Engineering (CE), a sole proprietorship, is registered under the Sales Tax Act, 1990. CE is engaged in the business of manufacturing and supplying auto parts. Following information is available from CE's records for the month of February 2023:

	Rs. in million
Purchases	
Taxable goods from registered persons	338
Taxable goods from unregistered persons	60
Supplies	
Taxable goods to registered persons	220
Taxable goods to unregistered persons	40

Additional information:

- (i) Taxable goods from registered persons include wires and cables of Rs. 6 million, which were used in the repair of machinery.
- (ii) Taxable goods from unregistered persons include goods worth Rs. 14 million purchased from a cottage industry.
- (iii) Taxable goods to registered persons include:
 - auto parts of Rs. 5 million, which were supplied free of cost in exchange of defective parts covered under warranty.
 - auto parts of Rs. 4 million, which were withdrawn by the owner for his personal use.
 - raw materials of Rs. 2 million, which were given to factory engineer for his personal use.
 - goods of Rs. 32 million, which were sold to Pray Traders (PT) at a credit term of 2/10, n/30. PT paid the amount within 10 days and availed the discount.
- (iv) Taxable goods to unregistered persons include goods of Rs. 16 million provided to a cottage industry.
- (v) Raw materials of Rs. 25 million were destroyed due to a fire incident at the factory store. All such materials were purchased from registered suppliers.
- (vi) Raw materials of Rs. 26 million were returned to suppliers. The materials were purchased in November 2022.
- (vii) A sales tax invoice of Rs. 8 million dated 15 July 2022 was erroneously not declared in the sales tax returns for the month of July 2022 and onwards.
- (viii) Taxable goods of Rs. 19 million were returned by the customers. These goods were sold in July 2022.
- (ix) Electricity bill of Rs. 1.2 million was paid in cash.
- (x) Sales tax credit brought forward from last month amounted to Rs. 27 million.

All the above figures are exclusive of Sales Tax which is payable at the rate of 17%. Assume that proper debit/credit notes were issued for the purchase and sales returns.

Required:

- (a) In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by CE and input tax to be carried forward, if any, for the tax period February 2023. *(Show all relevant exemptions, exclusions and disallowances)* (15)
 - (b) State the reason(s) for your treatment of all exemptions, exclusions and disallowances while computing CE's sales tax liability in part (a). (04)
- Q.8 Give **two** examples, each of tax avoidance and tax evasion. Also suggest the appropriate tax measures to prevent that tax evasion. (06)

(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

Capital gains on disposal of securities

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

S. No.	Holding period	Rate of tax
1.	Where the holding period does not exceed one year	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%
3.	Where the holding period exceeds two years but does not exceed three years	10%
4.	Where the holding period exceeds three years but does not exceed four years	7.5%
5.	Where the holding period exceeds four years but does not exceed five years	5%
6.	Where the holding period exceeds five years but does not exceed six years	2.5%
7.	Where the holding period exceeds six years	0%

Provided that:

- (i) the reduced rates of tax on capital gain arising on disposal shall apply where the securities are acquired on or after the first day of July 2022; and
- (ii) the rate of 12.5% tax shall be charged on capital gain arising on disposal where the securities are acquired on or before the 30th day of June 2022 irrespective of holding period of such securities.

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%.

Rate of Dividend Tax

The rate of dividend tax is 15%.