



## 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 2024**.

Jamshed and Sultana are equal partners in Jamshed Chemicals (JC), which is engaged in the manufacturing and supply of industrial chemicals. The following information has been extracted from JC's records for the year ended 30 June 2024:

	Rs. in '000
Sales	49,000
Cost of sales	(31,000)
Gross profit	18,000
Administrative and selling expenses	(6,000)
Finance cost	(1,000)
Other income	2,000
<b>Profit before taxation</b>	<b>13,000</b>

### **Additional information:**

- (i) The cost of sales includes Rs. 250,000 against the provision for slow-moving stock.
- (ii) Administrative and selling expenses include a salary of Rs. 450,000 paid to each partner.
- (iii) Finance cost includes interest of Rs. 325,000 paid to each partner on their capital accounts.
- (iv) Other income includes:
  - bad debts recovered of Rs. 225,000. JC had previously written off a debt of Rs. 400,000 in June 2022 and initiated a legal action against the debtor to recover it. Tax authorities allowed a deduction of Rs. 300,000 in tax year 2022.
  - a net loss of Rs. 1,325,000 from an energy derivative contract. On 1 January 2024, JC entered into this contract to purchase 300 barrels of crude oil for manufacturing various industrial chemicals, aiming to hedge against future price fluctuations. The contract, set to expire on 30 June 2024, was sold before its scheduled settlement date, leading to the loss.
- (v) On 1 May 2024, Sultana, with Jamshed's permission, moved some of the office furniture to her residence for personal use. The market price of the furniture at that time was Rs. 2,000,000. The furniture was initially purchased on 1 July 2021 for Rs. 1,600,000.

### **Further information related to Sultana:**

- (i) On 1 July 2023, Sultana let out her plot of land in the Korangi industrial area to her brother's import house at a monthly rent of Rs. 100,000. The prevailing fair market rent in the area was Rs. 170,000 per month. Additionally, she received a non-adjustable deposit of Rs. 300,000. A non-adjustable deposit of Rs. 150,000, received from a previous tenant in July 2022, was refunded.

- (ii) In 2021, Sultana received 2,000 shares of a foreign company, Lucky Inc. (listed in the USA) from her friend Jameela as a gift. Jameela acquired these shares in 2018 for the PKR equivalent of 45 per share while working in the USA. The fair market value of each share at the time of transfer to Sultana was PKR equivalent of 120. On 1 January 2024, Sultana disposed of these shares for the PKR equivalent of 200 per share and paid PKR equivalent of 82,000 in taxes in the USA.
- (iii) Sultana is also a renowned author and has written numerous books on environmental pollution. She completed her latest work, titled 'The Ocean of Plastic,' over a period of two and a half years. In December 2023, she received a lump sum payment of Rs. 504,000 as royalty for her latest work.

**Required:**

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

- (a) compute under the correct head of income, the total income, taxable income and tax liability of the following for the tax year 2024:
- (i) Jamshed Chemicals (08)
- (ii) Sultana (09)
- *Ignore minimum tax under section 113.*
  - *Show all relevant exemptions, exclusions, and disallowances.*
- (b) What other option is available to Sultana for taxation of her royalty income? (*Revised computation is not required*) (02)

- Q.2 Najeeb is a resident individual who had been working at PGA Limited (PGAL) for the past 8 years. On 31 July 2023, he retired from PGAL and received his final settlement on 15 August 2023. Following are the details of his final settlement amount:

	Rupees
Gross salary for July 2023	180,000
Fuel allowance for July 2023	27,000
Leave encashment	140,000
Provident fund balance – Principal amount (50% contributed by the employer)	3,000,000
Provident fund balance – Interest amount	600,000
Gratuity	900,000

PGAL's provident fund is recognized and its gratuity fund is approved by the Commissioner Inland Revenue.

**Additional information:**

- (i) Najeeb had obtained an interest-free loan amounting to Rs. 2,000,000 from PGAL. 80% of the amount had been recovered by PGAL, and the remaining amount was waived by PGAL at the time of his retirement.
- (ii) As per PGAL's policy, Najeeb purchased the company-owned laptop, which he had been using, at a written down value of Rs. 50,000, even though its fair market value upon purchase stood at Rs. 110,000.
- (iii) On 5 August 2023, Najeeb received a watch worth Rs. 80,000 from PGAL as a gift at his farewell party.

**Required:**

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

- (a) compute the taxable income of Najeeb for the tax year 2024. (05)
- (b) how would you treat the amount received from the provident and gratuity funds if they are unrecognized and unapproved, respectively? (02)

- Q.3 (a) Under the provisions of the Income Tax Ordinance, 2001 determine the residential status for tax year 2024 in each of the following cases:
- Arshad, an Emirati gold merchant, arrived in Pakistan for the first time on 15 March 2023, and departed the country on 30 September 2023.
  - Chang Li, a Chinese sugar manufacturer, arrived in Pakistan on 1 March 2023. During his stay until 1 September 2023 in Pakistan, he resided in Sargodha, Punjab until 31 May 2023 and thereafter until his departure from Pakistan, he stayed in Ghotki, Sindh. Assume that a calendar year serves as his special tax year.
- (b) Ghaffar Bux, responding to a notice from the Commissioner Inland Revenue (CIR), has preferred to settle his case by filing an offer of settlement before the Assessment Oversight Committee (AOC).

(04)

**Required:**

Under the provisions of the Income Tax Ordinance, 2001, explain Ghaffar Bux's position in each of the following independent situations, if AOC reaches a consensus to modify his offer:

- Ghaffar Bux agrees with the AOC's decision.
- Ghaffar Bux disagrees with the AOC's decision.

(05)

Q.4 Ashfaq is a resident filer who made the following disposals during the tax year 2024.

- On 15 November 2023, he sold a bungalow located in Karachi for Rs. 51 million which was purchased on 1 January 2019 for Rs. 46 million. The values determined by the Federal Board of Revenue (FBR) at the time of sale and purchase were Rs. 48 million and Rs. 44 million respectively.
- He gifted his coin collection, having a fair market value of Rs. 2.2 million, to his friend. He had acquired this collection over the years at a cost of Rs. 0.3 million.
- He sold several pieces of antique furniture for a lump sum amount of Rs. 35 million. Details of the furniture items sold are given below.

	Purchase cost	Fair market value
	----- Rs. in million -----	
Antique dresser table	8	15
Antique vase	1.2	0.9
Antique clock	20	25

- An executive table which Ashfaq used at his residence, was moved to his office for office use and incurred transportation cost of Rs. 10,000 in this regard. The fair market value of the table at that time was Rs. 75,000. Ashfaq had purchased this table for Rs. 90,000.

**Required:**

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

- compute the amount chargeable to tax and related tax liability under the head of capital gain. Also state the reason for ignoring gain / loss, if any.
- list the documents which Ashfaq is required to maintain in relation to capital gain.

(08)

(03)

Q.5 (a) Assume that the date today is **30 September 2024**. In the tax year 2024, Usman, 16 years old, inherited a 1300 cc car valued at Rs. 6 million upon death of his father. Furthermore, during the tax year 2024, Usman opened a mobile shop and earned income of Rs. 500,000.

**Required:**

Under the provisions of the Income Tax Ordinance, 2001, discuss the chargeability of tax for Usman in the tax year 2024. Also, discuss whether Usman is required to file an income tax return for the tax year 2024.

(05)

- (b) Azad Enterprises (AE), having two foreign branches in Kuwait and Syria also, is engaged in the trading business of consumer durables. In the tax year 2024, AE's reported profit before tax was Rs. 130 million, after adjusting for a Rs. 4.8 million profit from Kuwait and a Rs. 5.3 million loss from Syria. The Kuwait branch also paid taxes equivalent of Rs. 1.5 million in Kuwait on its income.

Assume that the average tax rate for AE in Pakistan is 30%.

**Required:**

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implication(s) for AE, regarding its branches in Kuwait and Syria. (03)

- (c) Faraz is a resident filer who owns the following properties during the tax year 2024:

Description	Fair market value	Remarks
	Rs. in million	
Bungalow located in Karachi	60	Faraz uses this as his residence.
Apartment located in Karachi	20	Faraz's son resides in this apartment.
Office premises located in Karachi	25	Faraz uses this for his business.
Open plot located in a residential area in Karachi	12	No construction has been commenced during the year.
Open plot in Multan	18	This property was purchased during the year and withholding tax under section 236K was duly paid.
Shop located in a commercial area of Lahore	80	No tenant could be found for this property and it remained unoccupied during the year. Annual fair market value of the rent is Rs. 6 million.
Bungalow located in Dubai	450	Received rent equivalent to Rs. 31.5 million during the year.

**Required:**

Under the provisions of the Income Tax Ordinance, 2001, compute total income of Faraz in respect of above-mentioned properties for the tax year 2024. Also, state the reason(s) for excluding any of the properties from this computation. (08)

- Q.6 (a) Under the Sales Tax Act, 1990, briefly explain whether the following are considered taxable activities:

- (i) Nadeem received a salary of Rs. 250,000 for the month of February 2024 from his employer.
- (ii) Zahab provided consultancy services to his brother for his start-up business for an agreed amount of consideration.
- (iii) Shahzeb played the piano, an instrument he has played since childhood, at his parents' anniversary party.
- (iv) Furqan, who works as an accountant for Beenish Enterprises owned by Miss Beenish, gives Maths tuitions to Beenish's daughter, Irham, for a monthly fee of Rs. 20,000.
- (v) Quratulain, a homemaker with a hobby of baking cakes and pastries, rented a stall at the Karachi Food Festival and sold her baked items. (05)

(b) Consider the following independent situations:

- (i) In February 2024, Baqir Associates (BA) acquired packaging materials worth Rs. 600,000 from Raheel Enterprises (RE) for its product. RE did not deposit the related sales tax with the authorities on time due to financial difficulties. (02)
- (ii) Goods worth Rs. 12 million, falling under the Third Schedule, were supplied to an unregistered person during the tax period of February 2024. (03)

**Required:**

Under the provisions of the Sales Tax Act, 1990, and the Rules made thereunder, briefly explain the chargeability/adjustment of sales tax.

(c) 'A Commissioner, having jurisdiction, if satisfied that a registered person has issued fake invoices, evaded tax or committed tax fraud, may suspend the registration of such person through the system, without prior notice, pending further inquiry'.

**Required:**

Under the Sales Tax Rules, 2006, list any **four** bases for such satisfaction of the Commissioner. (04)

Q.7 Following information has been extracted from the records of three registered persons for the month of February 2024:

	Registered Persons		
	A	B	C
	----- Rs in million -----		
<b>Purchases</b>			
Taxable supplies from registered persons	(Note i) 10	(Note ii) 20	-
Taxable supplies from unregistered persons	-	-	(Note v) 6
Machinery from a registered persons	4	(Note iii) 8	(Note vi) 12
Exempt supplies from registered persons	2	-	-
Zero-rated supplies from unregistered persons	-	3	-
<b>Supplies</b>			
Taxable supplies to registered persons	8	28	42
Taxable supplies to unregistered persons	5	(Note iv) 10	-
Exempt supplies to registered persons	-	9	15
Zero-rated supplies to registered persons	-	-	7
Input tax brought forward from January 2024	3	2	-

**Note:**

- (i) These supplies are net of trade discount and cash discount of Rs. 2 million and Rs. 1 million respectively.
- (ii) 20% of supplies are Third Schedule items, the retail value of which is 30% more than the purchase value.
- (iii) The machine is used exclusively for exempt supplies.
- (iv) 10% of supplies are made to the cottage industry.
- (v) This includes supplies of Rs. 2 million from the cottage industry.
- (vi) The machine is used exclusively for taxable supplies.

All the above figures are **exclusive of sales tax**, wherever applicable. Sales tax is payable at the rate of 18%.

**Required:**

In the 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 each of the above registered persons. Also, compute input tax to be carried forward, if any, for the tax period February 2024. (*Show all relevant exemptions, exclusions and disallowances*) (16)

- Q.8 (a) Your firm is the auditor of a public interest entity, Jabbar Gas Supply Limited (JGSL). The management of JGSL has requested your firm to prepare current and deferred tax calculations for the purpose of determining its annual tax obligations.

**Required:**

In the light of Code of Ethics for Chartered Accountants, discuss whether your firm is permitted to perform the services requested by JGSL's management. (04)

- (b) Identify any **four** ways by which taxes can be used in a country's development, beyond mere revenue collection. (04)

(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. 600,000	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000	7.5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 15,000 plus 15% 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. 75,000 plus 20% 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. 315,000 plus 25% 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. 465,000 plus 30% of the amount exceeding Rs. 3,000,000
7.	Where taxable income exceeds Rs. 4,000,000	Rs. 765,000 plus 35% of the amount exceeding Rs. 4,000,000

#### Depreciation rate

The depreciation rate for furniture is 15%.

#### Capital gain on sale of immovable property

S. No.	Holding period	Rate of tax		
		Open plots	Constructed property	Flats
1.	Where the holding period does not exceed one year	15%	15%	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3.	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	0
4.	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-
5.	Where the holding period exceeds four years but does not exceed five years	5%	0	-
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%	-	-