S.N	TOPIC	Q.NO
1	**Basic concepts**	1,2
2	**Salary**	3,4,5
3	**Income from property**	6
4	**Income from other source**	6, 31(b)
5	**Capital gain**	7,8
6	**All heads of income for individuals**	16-Sep
7	**Income from business**	
	Expense admissibility/inadmissibility	17
	Company taxation	18-29
	Construction contracts	30
	Calculation of default surcharge, penalty etc.	31-32
	Foreign tax credits, foreign source income	33,35
	Group relief	34
	Tax planning	39
	Cost, losses, no gain/loss, different case studies	40-45
8	**Taxation of AOP**	36-38
9	**Taxation of non-resident, thin capitalization**	46-50
10	**Withholding tax obligations**	51-52
11	**Taxation of mutual fund, bank, modaraba etc**	53
12	**Return, assessment, record, recovery, appeal, audit**	54-56

Question # 1

Explain the residential status of the following persons for the tax year 2017:

(i). Mr. Raza is working as Director Operations in the Ministry of Tourism. On 15 July 2016 he was posted to Pakistan Embassy in Italy for two years.

(ii). Anderson LLC was incorporated as limited liability Company in UK. The control and management of its affairs was situated wholly in Pakistan. However, with effect from 01 November 2016, the entire management and control was shifted to UK.

(iii). On 01 February 2017, Mr. Sameel was sent to Pakistan by his UK based company to work on a special project. He left Pakistan on 23 August 2017.

(iv). BBL is a non-listed public company incorporated under the Companies Ordinance, 1984. All the shareholders of the company are individuals. The control and management of affairs of the company during the year was outside Pakistan.

(v). Mr. Salman a property dealer in USA came to Pakistan on 01 February 2016. During his stay upto 02 August 2016 in Pakistan, he remained in Peshawar upto 30 June 2016 and thereafter till his departure from Pakistan, in Quetta. Assume that Commissioner has granted him permission to use calendar year as special tax year.

(vi). Peshawar LLC (PLLC) was incorporated as a limited liability company in UAE. PLLC has 5 directors out of which 2 are involved in management, the rest of them were situated in UAE. The 2 directors control the affairs of the company from Pakistan.

(b)

Moon, an employee of US Based company has been assigned to work in Lahore in its associate company, Omega Ltd (OL). OL is a company registered under the Companies Ordinance, 1984. The initial assignment commenced on 01 March 2016 and would be extended subject to mutual agreement.

Moon's remuneration will be paid in US, details of which are as follows:

Nature of income	Amount (Rupees)
Pakistan source salary for tax year 2016	2,000,000
Pakistan source salary for tax year 2017	3,000,000
Foreign source salary for tax year 2016	5,000,000
Foreign source salary for tax year 2017	6,000,000

Required:

Explain the residential status of Mr. Moon for tax year 2016 and 2017 and compute the taxable income thereon.

Question # 2

(a)

XYZ China a non-resident company wants to set up a wind power plant in Pakistan in collaboration with Pakistan based company namely, Hamza (Pvt.) Limited. XYZ China is not sure about the income tax implications in respect of machinery to be imported for this purpose:

Required:

(i). State how XYZ China can obtain a ruling of the Federal Board of Revenue in advance on the proposed transaction.
(ii). Explain whether the ruling will be binding on the taxpayer and the Commissioner.
(iii). State the status of the ruling if inconsistency is found between a circular and a ruling given by FBR.

(b)

ABC Consultants Limited, filed its tax return for tax year 2017, wherein, income of the company was offered for tax under normal tax regime and tax deducted on consultancy services was treated as adjustable. The Commissioner issued a show cause notice to the company showing his intention to amend the assessment by treating the tax deducted on services as minimum tax under section 153 of the Income Tax Ordinance, 2001.

Subsequent to the show cause notice, the Board issued a circular stating that tax deducted on services is adjustable for companies. However, the Commissioner Inland Revenue intends to continue the proceedings on the ground that there was no provision in the Ordinance authorizing him change his stance.

Required:

(i) Explain whether the stance of the Commissioner is correct
(ii) Explain the validity of a circular for a tax payer.

(c)

Explain the income tax implications in respect of each of the following independent transactions:

(i). On 21 March 2009, there was a fire in the shop of Mr. Imran and the entire stock of honey valued at Rs.100,000 (at cost) was destroyed. Imran's insurance company refused to entertain the claim for Rs.100,000 for the loss of the stock-in-trade. Imran ceased doing business as and from 30 June 2009. In the return of income furnished for the tax year 2009, Imran claimed the Rs.100,000 as a deductible business loss in computing his income under the head 'Income from business'. The loss was allowed as a deductible charge in that tax year. During the tax year 2017, the insurance company, on receiving a legal notice from imran, made a payment of Rs.75,000 against the claim for the loss of stock-in-trade which Imran accepted in full settlement.

(ii). Mr. Pansari, a resident taxpayer, is operating a departmental store in Lahore. He received a dividend of Rs. 45,000 from Rasila Farms Limited (RFL) for the year ended 31 September 2016. The amount received was credited to his capital account. Mr. Pansari is of the view that since RFL derives its entire income from agriculture, which is exempt from tax, the dividend of Rs. 45,000 being paid from an exempt income is also not chargeable to tax.

(iii). Reimbursement of expenses of Rs. 200,000 to ABC (Pvt.) Limited by the parent company. The amount was incurred by ABC (Pvt.) Limited in the previous tax year on marketing a new raw material/finished product from Dubai.

(iv). A private company and public unlisted company as defined under the Companies Ordinance 1984 has provided loan to three of its shareholders. The loan was repaid after two years by all the three shareholders.

(v). Huwai Petroleum International (HPI), a company incorporated in UAE is operating in Pakistan as branch. HPI has entered into an agreement with the Government of Pakistan under which HPI has been given the right to explore and produce crude oil and natural gas in specified areas of Jhampur, Sindh. The Finance Director of HPI wants you to explain the tax law on remittances of after tax profit made by the branch office of HPI.

Question # 3

Mr. Hamid, a citizen of Pakistan, is working with Zee (Pvt.) Limited, a multinational Hotel as their head of marketing for the last 15 years. He has provided you with the following information for the year ended June 30, 2017.

(i). Breakup of monthly salary is as follows:

	Rupees
Basic Salary	500,000
Medical Allowance	75,000
Utility Allowance	50,000

No entitlement for free medical reimbursement is provided by the company. The basic salary received does not include a onetime amount of Rs. 200,000 given by Zee (Pvt.) limited in cash on behalf of Mr. Hamid, as a donation to a hospital established by the Government of Punjab.

(ii). Salary and allowances are deposited into each employee's bank account on the 5th working day of the following month.

(iii). A company maintained car for office and private use is also provided. Hamid pays Rs. 10,000 per month for the private use of the car. For this purpose a new Mercedes was purchased on 01 January 2013, for Rs. 3,000,000. Hamid purchased the car from the company at its book value of Rs. 900,000 in 31 October 2016 as per the company policy. Market value of the company at that time was Rs. 1,500,000.

(iv). On 31 October 2016, Hamid opted for early retirement. On his retirement, in addition to the monthly remuneration, he received Rs. 2,000,000 as a golden handshake payment. Hamid's average rate of tax on his taxable income for the last three tax years was 15%

(v). On 01 April 2017, Hamid left for Dubai and commenced employment on the same day with Kee (Pvt.) Limited, an associated company of Zee (Pvt.) Limited. He was paid per month salary of Rs. 300,000. Following his departure, Hamid returned to Pakistan for the first time on 09 August 2017 for Eid holidays.

(vi). Hamid was due Rs. 5,000,000 as a gratuity under the gratuity scheme of Zee (Pvt.) Limited. The scheme was not approved by the FBR. Due to cash constraints, the gratuity though due to Hamid on 31 October 2016 was not paid to Hamid. On 30 April, 2017, at the request of the Zee (Pvt.) Limited, Kee (Pvt.) Ltd transferred the equivalent of Rs. 5,000,000 in US dollars into Hamid's US dollar account in UAE in lieu of gratuity due from Zee (Pvt.) Limited.

(vii). Hamid was also entitled for a pension of Rs. 50,000 per month from Zee (Pvt.) Limited.

(viii). Hamid paid Rs. 750,000 to Rozee.pk recruitment consultants in Pakistan to help him secure his employment in Dubai.

(ix). Hamid made a cash payment of Rs. 250,000 on account of Zakat under the Zakat and Ushr Ordinance, 1980.

(x). Hamid was entitled to lunch at the hotel's restaurant where the usual charges are Rs. 1,500 per person. He is entitled to a concessional rate of Rs. 100 per day, which is deducted from his salary. Total number of working days during his employment with Zee (Pvt.) Ltd were 80 during tax year 2017.

(xi). Hamid received a certificate of deduction of tax on his salary of Rs. 1,500,000.

Required

Compute Mr. Hamid's taxable income and tax payable for the tax year 2017. Give brief reasons for the treatment of any item excluded from taxable income/liability.

Question # 4

Usaid, a Pakistani citizen born on September 1975, had resided in Dubai for last five years. 0n 01 July 2016 he returned to Pakistan and joined Beta Private Limited (BPL), a company incorporated under the Companies Ordinance, 1984 and engaged in the business of import and manufacture of specialized industrial chemicals. For the year ended 30 June 2017, his income/receipts are as detailed below:

Basic salary of Rs. 200,000 per month. Other perquisites given in cash or kind were:

(i). BPL paid him fixed medical costs of Rs. 400,000 for the whole year in cash (regardless of his actual expenditure on medical treatment).

(ii). BPL provided him with a car for business and personal use. BPL had obtained the car under a finance lease and its fair market value at the time of lease was Rs. 1,800,000. The total amount of lease rentals to be paid over the whole lease term was Rs. 2,000,000. Lease rentals paid during the year ended 30 June 2017 were Rs. 250,000. Usaid was also provided with a fuel allowance of Rs. 25,000 per month to cover fuel expenses for his company allocated car. 50% of his travelling was directly related to the business of his employer.

(iii). BPL provided him with accommodation. Had he not been provided with the accommodation he would have been entitled to receive a house rent allowance at 40% of his basic salary. BPL also provided him with the services of a security guard for which BPL paid Rs. 18,000 per month. Rs. 10,000 was deducted every month from Usaid salary to pay for the security guard.

(iv). He received 50,000 shares in BPL on 1 July 2016 under an employee share scheme at Rs. 10 per share against a fair value of Rs. 15 per share. He had the option to transfer the shares on or after 1 June 2017 on which date the fair value was Rs. 30 per share. However, he did not sell any of the shares during the year ended 30 June 2017.

(v). BPL reimbursed him Rs. 25,000 per month for nine months during the year, being the school fees of his child. The school also collected tax at Rs. 11,250 which was paid by Usaid from his own pocket and a tax payment challan was provided to him.

(vi). BPL gave him a loan of Rs. 1,500,000 on 1 August 2016 at a markup of 6% per annum. He used the loan for purchase of new house in Lahore.

(vii). BPL provided him with a Business class return ticket to Beijing on the eve of Chinese new year in February 2017. Gross amount incurred by BPL on this account was Rs. 150,000. Airline Company deducted withholding tax of Rs. 6,000 on this amount.

(viii). A commission of Rs. 880,000 net of tax was paid for introducing new clients to the company. Withholding tax was deducted by BPL @ 12% from such payments.

(ix). BPL provided him with laptop, TV, and multi-media of the latest models for his use at home on 1 July 2015. The book value of these gadgets was Rs. 1,000,000 and 20% depreciation was charged by BPL. The gadgets are returnable to the company after five years.

(x). Salary of Rs. 1,800,000 was received by Usaid in arrears from his ex-employer in Dubai. NO tax was deducted by the ex-employer in Dubai.

(xi). As per the terms of employment agreed with BPL, tax payable on salary will be borne by the company.

Required:

Compute Usaid's taxable income and tax liability for tax year 2017.

Question # 5

Mr. Kashif, a Pakistani National left the Pakistani subsidiary of a multinational company and was employed in the role of Director Middle East for the Group Company with effect from 01 January 2016.Due to certain visa issues, he could not travel immediately and remained in Pakistan till 28 February 2016. While in Pakistan, he continued to work for the Middle East region and received payment from the Group Company.

Mr. Kashif is required to return to Pakistan for sorting out certain issues on behalf of the group company and will be staying in Pakistan for about two months. On his return to Pakistan he will continue to be employed and paid by the Group Company. The Group Company deducts tax @ 20% of the gross salary. Assume that there is no tax treaty between Pakistan and UAE.

Required:

Briefly explain the Pakistan tax implications to Mr. Kashif for the tax year 2016 and 2017 in respect of the following:

(i). Salary earned while he was present in Pakistan from 01 January 2016 to 28 February 2016
(ii). If he returns to Pakistan before 30 June 2016
(iii). If he returns to Pakistan after 30 June 2016

Question # 6

Mr. Hassan, aged 65, has been resident in Pakistan for many years and offers his income for tax on the accrual basis. He has provided the following information about his immovable properties rented out to different persons during the year ended 30 June 2017:

House in Multan

(i) Hassan rented out his house in Multan to Kamal on 1 July 2014, at a monthly rent of Rs. 100,000. He had also received a non-adjustable deposit of Rs. 1,000,000 from Kamal at the commencement of the rental. On 1 July 2016, Kamal vacated the house and the non-adjustable deposit was returned to him in full.

(ii) On 1 July 2016, Hassan let the house to Waqar at a monthly rent of Rs. 120,000 which included Rs. 20,000 for the services of a security guard. Hassan also received a new non-adjustable deposit of Rs. 1,500,000 from Waqar.

(iii) In the accounting year ended 30 June 2017, Hassan incurred the following expenditure on the house:

Nature of expenses	**Rupees**
Repair of the house	120,000
Collection charges	70,000
Property tax paid to the Excise and Taxation Department	350,000
Expenditure for the preparation of the tenancy agreement with Waqar	25,000
Legal fee paid for defending the title to the house in a court of law	100,000
Annual salary paid to the security guard	200,000
Profit paid to a bank on a loan utilized for renovating the house	50,000
Insurance premium paid to cover the risk of damage by fire	30,000

Building with plant and machinery

On 1 August 2016, Hassan purchased a new building in which new biscuit manufacturing plant and machinery had been installed. The consideration paid as specified in the purchase deed was Rs. 8,000,000 for the building and Rs. 4,000,000 for the plant and machinery installed in the building. On 1 October 2016, the building together with the plant and machinery was rented out to Tasty Biscuits (Pvt.) Limited for a composite rent of Rs. 800,000 per month. Hassan also received a non-adjustable advance of Rs. 1,000,000 from the company.

(i) In the accounting year ended 30 June 2017, Hassan incurred the following expenditure on the building:

Nature of expenses	Rupees
Distempering the building	90,000
Interest-free refundable security deposited with the electricity providing company	400,000
Property tax on the building paid to the local government for nine months	300,000
Legal fee for preparing the rental agreement	35,000
Salary paid to a technician for maintaining the machinery	400,000

Hassan has also provided the following additional information relevant to the accounting year ended 30 June 2017:

(i) Unless stated otherwise, all expenditure has been paid via a mode admissible under the law and tax deducted wherever applicable.

(ii) During the year, Hassan received a pension of Rs. 10,000 per month from his ex-employer, the Government of Pakistan.

(iii) Hassan had incurred Rs. 35,000 on his medical treatment. He has kept complete evidence of the expenditure, as required under the law.

(iv) Tax withheld from/paid by Hassan was:

– Rs. 3,000 on his prepaid mobile phone cards.

– Rs. 20,000 on the purchase of domestic air tickets by Hassan.

– Rs. 350,000 paid as advance tax in four equal quarterly instalments.

– Rs. 10,000 withheld by a club where he had arranged a birthday party for his wife.

Required:

(a) Compute Mr. Hassan's taxable income for the tax year 2017, giving clear explanations for the treatment of any items excluded from taxable income or for which no expense/deduction is allowed.

(b) State, giving reasons, whether or not Mr. Hassan will be entitled to a reduction in his tax liability for the tax year 2017 due to his age and calculate the total tax payable by him on the basis of the taxable income computed in part (b) above.

(c) Compute Taxable income under the head income from property assuming question pertains to a company.

Question # 7

Under the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income or explain the tax treatment, wherever applicable, in each of the following independent cases:

(i). Mr. Pareekh acquired and disposed of 3500 shares of a listed company, Big Limited (BL). The details are as follows:

Dated	**Acquisition**		**Disposal**	
	No. of shares	**Rate**	**No. of shares**	**Rate**
31-03-2016	1400	20		
15-09-2016	700	22		
01-04-2017	900	18		
01-05-2017			600	17
07-05-2017			800	19
21-05-2017			700	18
31-05-2017	500	23	400	25
31-05-2017			1000	27

Note: Ignore incidental charges @ 0.5% of cost.

(ii). Hamid held 2,000 shares in Beta Limited (BL) which he had acquired on 1 July 2016 at Rs. 15 each. BL subsequently merged into Gama Limited (GL) through a scheme approved by the High Court. GL issued 1 share for 2 shares held in BL.

(iii). Bari acquired 100 shares in Pie Limited (PL) on 1 January 2017 at Rs. 40 per share and deposited them into CDC account. On the same date i.e. 1 January 2017, PL declared 25% bonus shares with 1 April 2017 as the date of entitlement. On 31 March 2017, the market value of these shares was Rs. 50 each. On 15 April 2017 Bari disposed of 50 shares in PL at Rs. 40 each. The bonus shares were credited to Bari's account on 15 May 2017. He sold the remaining shares including bonus shares on 18 May 2017 at Rs. 40 each.

Note: Ignore incidental charges @ 0.5% of cost & sale.

(iv). Anjum borrowed 5,000 shares from Nazia for a short term. The value of the borrowed shares was agreed at Rs. 100 per share. Anjum agreed to pay, for the specified period, a mark-up of Rs. 2 per share to Nazia at the time of settlement. Anjum sold the borrowed securities at Rs. 105 each and subsequently, on the date of return of borrowed securities, re-purchased 5,000 shares at Rs. 95 per share.

Note: Ignore incidental charges @ 0.5% of cost & sale.

Question # 8

Mr. Aslam, who is resident in Pakistan, disposed of the following assets during the year ended 30 June 2017:

(i). On 20 March 2017 he received Rs. 300,000 in cash on entering into an agreement to sell an antique for total consideration of Rs. 1,500,000. It was agreed that the antique would be handed over to the purchaser on 15 July 2017, subject to payment of the balancing amount on 05 July 2017 and confirmation of stated origin of the Antique from the relevant department. Aslam has purchased the Antique for Rs. 200,000 on 23 September 2011.

(ii). On 20 September 2016 received compensation of Rs. 500,000 from his broker on account of theft of 5000 shares of Beta (Pvt.) Ltd on 17 July 2016 while in the custody of the broker. The shares had been purchased by him on 01 September 2012 at Rs. 315,000 excluding brokerage charges of Rs. 10,000. He also paid a fee of Rs. 25,000 through crossed cheque to the counsel who represented him in the settlement proceedings. The fair market value of the shares was as below:

- 0n 17 July 2016 Rs. 500,000
- On 20 September 2016 Rs. 575,000

(iii). On 15 February 2017 sold 15,000 shares in ABC (Pvt.) Ltd for Rs. 600,000 which he acquired on 01 July 2014 from his ex-employee under an employment share scheme for Rs. 150,000. He had the option to dispose of the shares on or after 01 July 2015.

The fair values of the shares were as below:

- Rs. 20 per share on 01 July 2014
- Rs. 30 per share on 01 July 2015
- Rs. 45 per share on 15 February 2017

(iv). 0n 01 January 2017: Theft of his wife's jewellery. The jewellery had been purchased by him on 01 January 2009 for Rs.400,000. The insurance company paid him Rs. 350,000 on 15 February 2017.

(v). 0n 20 November 2016, Aslam exchanged 10,000 shares in Punjab Minerals (Pvt.) Ltd acquired by him on 20 December 2015 for Rs. 540,000. In exchange, he received a plot of land with a fair value of Rs.850,000. 50% of the shares in Punjab Minerals (Pvt.) Ltd are held by the Punjab Government.

(vi). 1 January 2017 Aslam entered into a contract for the sale of his house in Islamabad with Mr. Sohail for a consideration of Rs. 50,000,000. Sohail paid Rs. 5,000,000 at the time of the contract for sale. However, he failed to pay the balance of the amount by 30 April 2017 and Aslam forfeited the Rs. 5,000,000 in accordance with the terms of the contract. Subsequently, the house was sold for Rs. 49,000,000 to Mr Mumtaz on 30 June 2017. Aslam had inherited the house on 25 June 2016, on which date the fair market value of the house was estimated at Rs. 39,000,000. The withholding agent transferring the property deducted withholding tax @ 1% of the gross amount of consideration received by Aslam.

(vii). On 30 September 2016 The Government of Sindh compulsorily acquired land of Mr. Aslam under the Land Acquisition Act, 1894 for construction of power plant and paid him compensation of Rs. 15,000,000. He had purchased the land for Rs. 10,000,000 on 05 May 2016. On 30 November 2016, he invested the whole amount of compensation received in another piece of land in an area designated by the government for the people effected by the plant.

(viii). On 01 January 2017 Aslam sold his ten acres of agriculture land in Lahore for Rs. 5,000,000. He had received the land as gift from his father on 30 June 2016, on which date the fair market value of the land was estimated at Rs.2, 000,000. Originally the land had been given to his father for free to make it fit for cultivation. Aslam incurred the following expenditure on the land:

	Rupees
Court fee for transfer of land in his name	200,000
Cost of construction of water courses for irrigation of the land	300,000
Fine paid for violation of terms of use of land	150,000

Withholding tax @ 1% of the sale price was collected by the transferring authority at the time of its transfer to buyer.

(ix). Other Information

(a). Aslam has brought forward losses relating to tax year 2016 as given below

- Rs. 1,500,000 on sale of shares of XYZ Limited, a company listed on Pakistan Stock Exchange
- Rs. 57,000 from sale of shares of private limited companies

(b). Tax of Rs. 50,000 was collected by a medical college from the fees paid for her daughter, who was studying there during the tax year 2017

(c). Aslam had been unable to claim Rs. 5,000 deducted on his mobile telephone bills during the tax year 2016 in his return for that year.

(d). Advance tax of Rs. 450,000 has been paid by Aslam on the basis of his tax liability for Tax year 2016.

Required:

Compute the Taxable Income and Tax payable thereon by Mr. Aslam for the tax year 2017 Give brief reasons for your treatment of each item.

Question # 9

Yawar is working as a lead engineer in Lajawab Chemicals (Pvt.) Limited (LCL). He received following emoluments from LCL during the tax year ended 30 June 2017.

	Rupees
Basic salary (per month)	225,000
Medical allowance (per month)	33,750
Conveyance allowance (per month)	18,000

In addition to the above emoluments, Yawar was also provided the following:

(i) A company maintained car for official use. The car was purchased on 1 July 20X6 at a discounted price of Rs. 2,500,000. The fair market value of the car as on 30 June 20X7 was Rs. 2,600,000.

(ii) Travelling allowance of Rs. 150,000 for official duty in Islamabad. Actual expenses incurred by Yawar were Rs. 110,000.

Following further information is also available:

(i) Yawar has rented out his Model Town bungalow to LCL at an annual rent of Rs. 1,092,000. The rent is inclusive of the salary of a security guard at Rs. 8,000 per month. However, the fair market rent of the bungalow was estimated to be Rs. 1,260,000 per annum. LCL has provided the same bungalow to Yawar for his accommodation. Yawar paid following expenses in respect of the bungalow: Rs. 12,000 for the repair of boundary wall, Rs. 16,000 against property tax and Rs. 5,000 to Your Bank Limited in respect of the transfer of rent to Yawar's account.

(ii) In March 20X7, Yawar gifted his coal mining rights in Baluchistan to his sister Noreen who came to Pakistan for a period of three months after her stay in Paris for several years. Yawar inherited these rights from his father in tax year 20X4 when the fair market value of the rights was estimated at Rs. 13,600,000. His father had originally bought the rights for Rs. 12,000,000 in tax year 20X2. The fair market value of the rights had appreciated further by 20% when it was gifted to Noreen.

(iii) Yawar received a notice from the Commissioner of Income Tax requiring him to pay Rs. 300,000 on account of tax payable by Small (Pvt) Limited (SPL) for tax year 20X6. According to the notice, SPL had gone into liquidation. Yawar holds 35% shares in SPL. However, Yawar is of the view that he is liable only to the extent of his holding in SPL.

Required:

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

(a) Compute the taxable income of Yawar for the tax year 2017.
(b) Discuss the validity of the notice issued to Yawar as stated in note (iii) above and also comment on the views expressed by Yawar.

Question # 10

Mr. Pansari, a Pakistani citizen, is working as a company secretary in Sukoon Limited (SL), an un-listed public company, engaged in the business of production and supply of olive oil. Following are the details of his emoluments during the year ended 30 June 2017:

	Rupees
Basic salary per month	450,000
Conveyance allowance per month	50,000

In addition to the above cash emoluments, Mr. Pansari was also provided with the following:

(i) A 2000cc company maintained car both for business and private use. The car was purchased in tax year 2016 at a cost of Rs. 3,000,000. However, the current market value of the car is Rs. 3,500,000.

(ii) A special payment of Rs. 75,000 in lieu of leave was made available to him. Mr. Pansari however, voluntarily waived his right to receive such payment.

(iii) Free provision of two cans of olive oil per month. The market value of each can was Rs. 500.

(iv) In July 2015 he was granted an employee stock option to purchase up to 15,000 shares in SL's holding company Trio Limited, situated in Bermuda, at an option price of USD 3 per share. The shares were required to be purchased within eighteen months from the option date. Mr. Pansari exercised the option in September 2016 to purchase 8,000 shares when the market price of the shares was USD 5 per share. After two months of the acquisition, Mr. Pansari sold 6,000 shares at a price of USD 8.5 per share. [Assume the dollar rupee parity on the above dates was USD 1 = PKR 102].

Following further information is also available:

(i) Received a royalty of Rs. 2,000,000 from K Publishing on a book written on Wild Hunting. Mr. Pansari completed the book in nineteen months and all the costs relating to its publication were borne by the publisher. The applicable tax rates in tax years 2015 and 2016 were 16% and 18% respectively.

(ii) Received a pension of Rs. 50,000 from his ex-employer.

(iii) Received a fee of Rs. 200,000 for attending a directors' meeting of SL's associated company Nice (Pvt.) Limited held in June 2016.

(iv) There was a brought forward capital loss of Rs. 25,000. The loss was suffered by Mr. Pansari on sale of shares in Ghareeb (Pvt.) Limited.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income of Mr. Pansari for the tax year 2017.

Note: Show all relevant exemptions, exclusions and disallowances.

Question # 11

Mr. Iqbal, aged 45 years, is working as a Chief Engineer in a listed company Tameer Limited (TL). The company is engaged in the manufacture of chipboards for the local market. He derived following emoluments during the tax year ended 30 June 20X7:

	Rupees
Basic salary (per month)	300,000
Cost of living allowance (per month)	50,000
Milk allowance (per month)	10,000

In addition to the above emoluments, Mr. Iqbal was also provided the following:

(i) Special bonus equal to one month's basic salary paid on 5 June 2017.

(ii) A new company maintained car for his personal use. The car was purchased on 1 March 2017 at a cost of Rs. 1,800,000. However, the cost of the car would have been Rs. 3,000,000 had the company obtained it on finance lease. Mr. Iqbal, in accordance with the terms of his employment, purchased his previous car from TL for Rs. 250,000. This car was provided to him solely for business purposes. The fair market value of the car at the time of sale to Mr. Iqbal was Rs. 600,000.

(iii) A reimbursement of Rs. 36,000 in respect of driver's salary. Mr. Iqbal paid Rs. 60,000 to the driver for four months.

(iv) A fully furnished accommodation in DHA, Karachi. The fair market value of the rent was estimated to be Rs. 85,000 per month.

(v) An option to acquire 4,000 shares in TL's parent company, Tameer Inc. which is listed on New York Stock Exchange was granted to him in May 2016. Mr. Iqbal exercised the option on 5 January 2017 at a price of USD 1.5 per share. The market value of the shares at the close of business on 5 January 2017 was USD 2.5 per share. He sold 3,000 shares on 30 June 2017 at a price of USD 3 per share. The dollar rupee parity on both the above dates was USD 1 = Rs.100.

(vi) On 15 May 2017 Mr. Iqbal was provided 800 shares in TL as a reward for his excellent performance. However, he was restricted from selling or transferring these shares before 16 November 2017. The market value of these shares at the close of business on 15 May 2017 was Rs. 12.5 per share.

Mr. Iqbal received additional income from the following sources, for the tax year 2017:

(i) Brokerage fee of Rs. 200,000 in connection with the transfer of two apartments in Islamabad. The brokerage fee was received in cash. Mr. Iqbal incurred an expense of Rs. 30,000 against telephone costs and air travel to Islamabad in connection with the above deal. He also paid Rs. 10,000 as a gift to his brother for showing the apartments to his clients in Islamabad.

(ii) Profit of Rs. 150,000 on a savings account maintained with an Islamic bank. The bank deducted withholding tax of Rs. 15,000 and Zakat of Rs. 25,000.

(iii) He also received an income tax refund of Rs. 225,000 related to tax year 2015. The amount included Rs. 25,000 being compensation for delayed refund.

(iv) Annual rent of Rs. 800,000 from letting out a building to KK Enterprise. Following expenses were incurred by Mr. Iqbal in relation to the building: Repairs Rs. 200,000, Fire insurance premium Rs. 30,000, Ground rent Rs. 10,000, Watchman's salary Rs. 8,000 and Interest of Rs. 15,000 on a loan obtained for building renovation by creating first charge on the building in favour of a scheduled bank.

Other related information is as under:

(i) TL deducted withholding tax of Rs. 1,200,000 from Mr. Iqbal's salary during tax year 2017.

(ii) On 1 July 20X6, Mr. Iqbal acquired a life insurance policy and paid a premium of Rs.500,000. He also contributed Rs. 1,600,000 to an approved pension fund.

(iii) On 1 August 2016, he purchased 50,000 shares in a listed company AB Limited at a price of Rs. 20 each. On 1 January 2017, AB Limited announced 20% right shares to existing shareholders at a price of Rs. 18 per share. On 25 January 2017, Mr. Iqbal subscribed the right issue in full.

(iv) During tax year 2016 his assessed taxable income was Rs. 3,000,000.

Required:

Under the Income Tax Ordinance, 2001 and Rules made there under, compute the taxable income and income tax payable by or refundable to Mr. Iqbal for the tax year ended 30 June 20X7.

Question # 12

Saif is a country manager in Rio (Pvt.) Limited (RPL), a company engaged in the business of manufacturing and supply of beauty products. During tax year 2017, RPL paid him a monthly basic salary of Rs. 600,000. He is also entitled to a bonus of Rs. 900,000 to be paid in July 2017.

In addition to above, Saif was also provided the following:

(i). A company maintained car for both his personal and official use. The car was obtained on lease in 2016 at total rentals of Rs. 2,000,000 to be paid over the lease term. The fair market value of the car at the commencement of lease was Rs. 1,500,000. RPL also paid Rs. 100,000 for its maintenance to a local workshop.

(ii). A fully furnished two storey bungalow in a posh locality. The annual rental value of the bungalow was Rs. 2,400,000. On 1 January 2017 Saif let out the first floor of the bungalow to his brother Moiz at a monthly rent of Rs. 75,000 and also insured it against the risk of fire. The premium payable to the insurance company amounted to Rs. 50,000. Saif paid 50% of the premium immediately and agreed to pay the balance on 1 July 2017. He also bought an LCD TV for Rs. 70,000 for the first floor.

(iii). Reimbursement of Rs. 120,000 against air tickets for family vacation. Total cost of tickets was Rs. 200,000. Saif paid Rs. 10,000 as advance tax on purchase of tickets.

(iv). On 1 January 2017 RPL sold certain items of old stock to Saif for Rs. 5,000. The net realizable value of the stock in RPL's books as on 30 June 2016 and 31 December 2016 were Rs. 12,000 and Rs. 14,000 respectively. The original cost of the stock was Rs. 25,000.

(v). Withholding tax deducted by RPL from Saif's salary amounted to Rs. 2,100,000.

Following further information is also available:

(i). On 1 July 2016 he borrowed Rs. 3,000,000 from a bank at 11% mark-up. The amount is payable in two equal annual instalments starting from 1 July 2017. Out of the above loan, Saif utilized Rs. 2,550,000 for the acquisition of a plot of land in an industrial area and Rs. 450,000 for the purchase of a car for his son. On 1 September 2016 he let out the plot of land to Amir at a monthly rent of Rs 25,000. He also received an un-adjustable deposit of Rs. 150,000 and paid Rs. 10,000 for levelling and cutting of grass, Rs. 15,000 against ground rent and Rs. 18,000 for rent collection.

(ii). On 1 May 2017 he sold 1,200 shares in Mio Limited at Rs. 50 per share and incurred incidental expenses of 0.5% of sale proceeds. Mio Limited is an unlisted company in which 55% of the shares are held by Chinese Government. Saif had received these shares on 30 June 2016 as dividend in specie from Rahat (Pvt.) Limited. He holds 12,800 shares in Rahat (Pvt.) Limited costing Rs. 35 each.

(iii). In August 2016 Saif started a fitness club for corporate executive. The admission and monthly membership fees for the potential members were fixed at Rs. 25,000 and Rs. 5,000 respectively. A group of 20 persons joined the club in August 2016 whereas 25 persons joined in January 2017 and 30 in March 2017.
Following items were included in club's profit and loss account for the tax year 2017:

- Monthly salary of Rs. 60,000 to Saif and Rs. 45,000 to his son by way of a direct transfer of funds to their bank accounts. His son is a trainer at the club.
- Withholding tax deducted from their salaries amounted to Rs. 13,000 and Rs. 4,750 respectively.
- Rs. 2,750,000 against import of old fitness machines from China. The withholding tax paid at import stage was Rs. 150,000.
- Fine of Rs. 15,000 which was paid when the truck delivering the fitness machines from the port to the club was found to be overloaded.
- A fire occurred in a section of the club and repairs had to be undertaken as follows:
  (i). Cost of replacing electrical wiring damaged by fire Rs. 85,000
  (ii). Cost of a new non-removable fire protection screen installed to prevent fire in future Rs. 200,000.
- Other miscellaneous expenses amounting to Rs. 120,000.

(iv). On 15 June 2017 Saif donated a plot of land to Pakistan Sports Board. He had purchased this plot in tax year 2002 at a price of Rs. 300,000. However, at the time of donation, a broker had given him an offer of Rs. 500,000 for the said plot.

Required:
Under the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income and income tax payable by or refundable to Saif for the tax year 2017.

Question # 13

Mr. Yaqeen, a Pakistani citizen, returned to Pakistan on 30 June 2016 after residing for six years in Norway. On 1 July 2016 he joined a private hospital KKUH and received following emoluments:

	Rupees
Basic salary (per month)	500,000
Medical allowance (per month)	60,000
Leave fare assistance	240,000

On 1 January 2017 Mr. Yaqeen resigned from the hospital and joined Dil (Private) Limited (DPL), a company engaged in health care and production of dental products. Mr. Yaqeen received Rs. 3,000,000 from DPL as consideration for joining the company. DPL agreed to pay following emoluments to Mr. Yaqeen for the tax year 2017:

	Rupees
Basic salary (per month)	800,000
Medical allowance (per month)	80,000
Utilities allowance (per month)	100,000

On 1 January 2017 DPL provided him with refrigerator, cooking range and washing machine for his use at home. The book value of these appliances was Rs. 200,000 and these were returnable to the company after four years. 15% depreciation was charged by DPL on these appliances.

On 31 March 2017 he was given an option to purchase 2,000 shares of DPL at Rs. 50 per share. The breakup value of the company on that date was Rs. 150 per share.

On 1 April 2017 he received a loan of Rs. 5,000,000 from DPL for the purchase of a house. The profit on loan was payable at the rate of 8% per annum. The prescribed bench mark rate is 10% per annum.

Other information relevant to Mr. Yaqeen for the tax year 2017 is as under:

(i) On 15 April 2017 he fell ill and was admitted to KKUH where he had been working during his employment. The hospital incurred Rs. 50,000 on his treatment but charged nothing to him.

(ii) On 30 April 2017 he received salary arrears of Rs. 900,000 from his ex-employer in Norway.

(iii) Mr. Yaqeen had 30 acres of agricultural land in Dheer which he did not cultivate himself. During tax year 2017 he received annual rent of Rs 600,000 from the tenant cultivating the land.

(iv) On 1 May 2017 he spent Rs. 800,000 on the renovation of his residential house. The entire amount was obtained as a loan from a scheduled bank on which a profit of Rs. 20,000 was paid to the bank during the tax year 2017.

(v) On 15 June 2017 he received insurance claim of Rs. 600,000 against theft of a painting which was stolen on 31 May 2017. The painting was purchased by him on 1 January 2016 for Rs. 350,000. He had paid insurance premium of Rs. 24,000 and also paid lawyer's fee of Rs. 50,000 who represented him in the settlement proceedings.

(vi) On 15 July 2016 Mr. Yaqeen received 20,000 shares in AB (Private) Limited (ABL), a company incorporated under the Companies Ordinance, 1984 as a dividend in specie. On 30 June 2016 he sold 15,000 shares in ABL for Rs. 425,000. The fair market value of these shares, on the date of issue, was estimated at Rs. 25 per share.

Required:

Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax payable for the tax year 20X7. Give brief reasons for the treatment of items in (v) and (vi) above. Also explain the treatment of any items that are not appearing in your computation.

Question # 14

Mr. Yahya, a medical doctor retired on 15 July 2016 at the age of 54 from the health department of the Government of Punjab after rendering services for over 20 years. The following information relates to Mr. Yahya's income from all sources during the year ended 30 June 2017:

(i) Received Rs.165,000 as basic salary, Rs. 456,000 on encashment of leave preparatory to retirement and Rs.4,250,000 by way of commutation of pension at retirement.

(ii) He fell ill on 14 September 2016 and was admitted into the hospital he had been working with during his employment in the past. Estimated expenditure incurred by the hospital on his treatment was Rs. 175,000 but no amount was charged to him.

(iii) He is an owner of agriculture land in Kasur which he had given on rent. He is also running a small rice husking unit which is grown on the remaining portion of his land. During the year he bought 5,000 kilograms of raw rice from his land to the unit for husking. He would have earned Rs. 2,500 per 40 kilogram of raw rice had he sold it directly to the market. His sales from rick husking unit stood at Rs. 850,000 whereas other operating expenses were of Rs. 400,000.

(iv) He rented a factory building in Sunder Industrial Estate on 01 July 2015 and paid three years rent in advance at the rate of Rs. 650,000 per annum. On 01 July 2016 Mr. Abdullah wanted to sub-lease the building from Mr. Yahya at an annual rent of Rs. 2,000,000. As an inducement for Abdullah's agreement to enter into sub-lease arrangement for two years, Abdullah proposed to pay Yahya a deposit of Rs. 3,000,000 which would not be adjusted against rent. On Yahya's agreement to the proposal, Abdullah paid Yahya on 02 July 2016:
(a). Rs. 4,500,000 as rent in advance for two years
(b). Rs. 3,000,000 as a deposit which was not adjustable against rent.

(v) 0n 30 June 2017 Yahya sold his licence to import LPG gas for Rs. 3,000,000. He had purchased the licence on 10 November 2016 for Rs. 2,000,000 and paid Rs. 200,000 as an annual fee on 01 January 2017.

(vi) Received profit of Rs. 500,000 from his pensioner's benefit account maintained with a scheduled bank. No tax or zakat was deducted from this profit. An expense of Rs. 50,000 was incurred to earn this profit.

(vii) During the year, Yahya filed an appeal to the Commissioner Inland Revenue-Appeals (CIR-A) for refund of Rs. 3,000,000 in respect of tax year 2014. The refund application under section 170 was pending with the Commissioner Inland Revenue for over 1 years. CIR-Appeals decided the case in favour of Yahya via order dated 25 December 2016. The appellate order was received by the Commissioner on 31 January 2017 and a refund of

Rs.3,000,000 was paid to Yahya on 29 June 2017. KIBOR rate prevalent during the tax year 2017 was 7%.

(viii) On 01 July 2016 Yahya provided scientific equipment at rent of Rs. 50,000 per month to Mr. Ali. Mr. Ali is engaged in the manufacturing of chemicals and is registered with sales tax department.

(ix) Advance tax of Rs. 120,000 was deducted on his commercial electricity connection and Rs. 30,000 on his domestic electricity connection. Both the meters are in the name of Mr. Yahya and per month electricity bill was below Rs. 30,000 during the tax year 2017.

Required:

Under the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income and income tax payable by or refundable to Mr. Yahya for the tax year 2017

Question # 15

Mr. Rizwan, a Pakistani citizen born on 13 September 1964, had resided in Canada for ten years until 30 June 2015:

(i). On 1 July 2015 he returned to Pakistan and joined Usaid Pakistan Ltd (UPL), a company engaged in the production of bio-products. UPL paid him Rs. 2,500,000 as consideration for joining the company as an employee on 1 July 2015. However, UPL is entitled to recover 50% of this amount if Mr. Rizwan leaves the company before 30 June 2018. Rizwan was also entitled for an annual basic salary of Rs. 1,200,000.

(ii). UPL provided Rizwan with fully furnished accommodation for his family in Lahore. The fair rent of the accommodation was estimated to be Rs. 50,000 per month. Had the company not provided him with this accommodation, he would have been entitled to a house rent allowance at 60% of his basic salary.

(iii). A new car was taken on a finance lease on 1 January 2017 by UPL exclusively for Rizwan's private use. The fair market value of the leased car at the commencement of the lease was Rs. 2,000,000. The total payments to be made over the lease term of three years were Rs. 2,500,000. The company deducted Rs. 72,000 from Rizwan's salary for his personal use of the car for the six months to 30 June 2017.

(iv). Rizwan was issued 1,000 shares in UPL on 25 June 2017 under the company's employee share scheme. There is a restriction on Rizwan not to sell or transfer the shares before 25 June 2018. On 25 June 2017, the breakup value of each share of UPL was Rs. 15 per share against a face value of Rs. 10 per share. Rizwan did not sell any of the shares during the year ended 30 June 2017.

(v). UPL gave him a loan of Rs. 1,000,000 on 1 July 2016 at 5% mark-up. Rizwan, however, waives the interest on her account with UPL.

(vi). On 15 August 2016 Rizwan sold a treadmill for Rs. 290,000 The treadmill was purchased on 25 August 2015 for Rs. 200,000 and used exclusively for private purposes.

(vii). During tax year 2017, Rs. 1,000,000 was received by Mr. Rizwan on account of rent for his apartment in the USA.

(viii). On 1 March 2017, Rizwan took a shop on a rent of Rs. 20,000 per month to establish and run a trading business of imported products. He paid Rs. 50,000 to acquire possession of the premises. In May 2017, Rizwan imported beauty products valued at Rs. 1,000,000 from France and sold the same to a ladies club in Lahore for Rs. 1,300,000. His net income from the import and sale of the products was Rs. 70,000. Unfortunately, in June 2017, the owner of the shop decided to give the shop to another tenant. The owner, however, paid Rs. 150,000 to Rizwan as consideration for vacating the possession on 30 June 2017.

(ix). On 15 February 2017 Rizwan sold his tractor (used for agricultural purposes on his land in Sahiwal) for Rs. 1,200,000. The market value of the tractor at the time of acquisition on 1 February 2016 was Rs. 1,500,000, but Rizwan had purchased the tractor from the

Government of Punjab at the subsidised price of only Rs. 1,000,000. He had incurred Rs. 90,000 on normal repairs for the tractor.

(x). Rizwan earned Rs. 300,000 during the year by delivering lectures in an English language coaching center at the weekends. Rizwan spent Rs. 50,000 on the preparation of these lectures but he has not kept any documentary evidence of these expenses. The coaching center is owned by a sole proprietor whose annual turnover is Rs. 3,600,000.

(xi). Rizwan has received Rs. 250,000 as his 50% share of profit after tax from an association of persons (AOP) in Pakistan. The AOP is engaged only in the business of the import and sale of surgical goods without any value addition and export of computer software. Breakup of share of profit received from AOP amounting to Rs. 250,000 is as follows:

Net income from import business	Rs. 150,000
Net income from export business	Rs. 100,000

(xii). Rizwan had been unable to claim Rs. 5,000 deducted on his mobile telephone bills during the tax year 2016 in his tax return for that year.

(xiii). Rizwan's bank statement shows that a gross amount of Rs. 100,000 was credited to his account on 30 June 2017 on account of profit on debt. The bank deducted Rs. 5,000 as Zakat along with income tax at the specified rate. He also received profit of Rs. 510,000 from his Pensioner's Benefit Account maintained with a scheduled bank. No tax or zakat was deducted from this profit. No expenditure was incurred to earn this profit.

(xiv). Rizwan is the owner of two acres of agricultural land situated in the province of Sindh. During the tax year 2017, he received Rs. 40,000 as rent for this land from his tenant whereas a fair market rent of such land would have been Rs. 60,000.

Required:

(a). Compute Mr. Rizwan's taxable income and his total tax payable for the tax year 2017. Give reasons for the treatment of any items excluded from the taxable income or for which no expense/deduction is allowed.

(b). State the type of mistakes found in an assessment order which can be rectified by the Commissioner under the Income Tax Ordinance, 2001 and the situation(s) in which a taxpayer must be given an opportunity of being heard by the Commissioner before he can make a rectification order.

(c). State the time limit in which an appeal can be filed before the Commissioner (Appeals) against a rectification order and the maximum period for which the Commissioner (Appeals) can stay the recovery of a tax demand contested in the appeal.

Question # 16

Mr. Imran is a chartered accountant working with a leading manufacturing company as their head of accounts for the last many years. He has provided you with the following information for the year ended June 30, 2017.

i. Monthly salary of Rs. 200,000 was paid to him by the company comprising of the following:

	Rupees
Basic salary (per month)	150,000
Medical allowance (per month)	15,000
Utility allowance	15,000
Dearness allowance	20,000

He incurred actual medical expenses of Rs. 80,000. These expenses were reimbursed to him by the company in accordance with the terms of employment.

ii. He received Rs.80,000 on account of travelling and daily allowance for participation in a three day CFO conference in Islamabad. His actual expenditure was only Rs. 48,500.

iii. He was also provided with rent free furnished accommodation in respect of which company paid a rent of Rs. 30,000 per month.

iv. Employer has contributed Rs. 20,000 per month towards recognized provident fund.

v. Imran had a dispute with his employer for the past few years which was settled in January 2017. Consequently Imran received arrears of salary of Rs. 200,000 relating to a previous year, in which tax applicable to his taxable income was 25%.

vi. In July 2013, Imran was granted an option to acquire 1000 shares of Alpha (Pvt.) Limited (Parent Company of his employer). The option was exercisable on completion of three years' employment with the Company. He paid an amount equivalent of Rs. 100,000 to acquire the option whereas the fair market value of such option at that time was Rs. 150,000. On July 4, 2016 he paid a sum equivalent of Rs. 200,000 to acquire the said shares which were issued to him on July 21, 2016 when the market value of the shares was equivalent of Rs. 350 per share. Imran disposed off the shares on June 21, 2017. The net sales proceeds received amounted to Rs. 375,000. During the retention period from July 21, 2016 to June 21, 2017 he also received dividend of Rs. 45,000(net of tax) from Alpha (Pvt.) Limited.

vii. Imran sold jewellery on 31 May 2017 for Rs.1,200,000 which was purchased by him two years earlier for Rs.900,000. The jewellery was held for the personal use of his wife. Out of the sale proceeds, he purchased a painting for Rs.1,000,000 and old coins for Rs.200,000. On June 30, 2017, he disposed of the painting for Rs.1,500,000 and of the coins for Rs.100,000.

viii. Imran purchased plot of land for consideration of Rs. 1 million. He borrowed Rs. 200,000 from his brother for purchase of this plot. The amount was received in cash.

ix. On 1 January 2017, imran took a loan of Rs.600,000 from his employer repayable in six yearly installments. No profit was payable on the loan. On 30 June 2017, 50% of the loan was waived by the employer.

x. Imran also owned a building in Clifton area of Karachi. On July 01, 2016 he rented out the building to Mr. Baqir at an annual rent of Rs. 1,200,000. This amount included Rs. 15,000 per month for arranging two security guards for the building. Imran also paid repair and renovation of Rs. 35,000, property tax of Rs. 20,000, insurance premium of Rs. 10,000 and rent collection charges amounting to Rs. 3,000.

Imran also paid a salary of Rs. 4,000 per month to each of the two security guards at the Building.

xi. In July 2016 Imran had purchased a motor car for Rs.1,300,000 for the personal use of his wife, He sold the car in August 2016 for Rs.1,400,000.

xii. In August 2016, Imran participated and won a quiz competition arranged by British Council. The Prize money of Rs. 180,000 (net of tax) was paid him.

xiii. Apart from employment, Imran also served as a visiting faculty member at a local university and received total of Rs. 180,000. Imran incurred an expenditure of Rs. 60,000 towards this service. Withholding tax was deducted from payment made by the University.

xiv. He received 10,000 from a newspaper for writing a short article on taxation issues in Pakistan.

xv. On March 2017, he incurred Rs. 4,000,000 for renovation of his residential house. The full amount was obtained as loan from a scheduled bank. The bank charged Rs. 150,000 profit on debt for the period falling in tax year 2017.

xvi. Imran received a certificate of deduction of tax from his salary of Rs. 1,098,234 and from banks on cash withdrawals amounting to Rs. 5,321.

Required

Compute Mr. Imran’s taxable income and tax payable for the tax year 2017. Give brief reasons for the treatment of any item excluded from taxable income/liability.

Question # 17

XYZ Limited, a company listed on registered stock exchange of Pakistan is engaged in the business of manufacturing and sale of chemicals. While analyzing books of accounts of XYZ Ltd you have observed the following for the tax year 2017:

(i). Profit on debt amounting to Rs. 1 million paid on funds borrowed to finance work in progress

(ii). Profit on debt amounting to Rs. 5.4 million paid to scheduled bank on funds borrowed for the purchasing of stock in trade. No tax was deducted from this payment

(iii). Exchange Loss of Rs. 2 million on the payment of the final installment and mark up of a foreign currency loan, which had been utilized for the import of a unit of plant in the tax year 2010.

(iv). On 30 June 2017, the company possessed US$ 20,000 brought forward from the financial year ended 30 June 2016 in respect of which an exchange loss of Rs. 100,000 is included in financial charges of the company.

(v). A scholarship of Rs. 150,000 to Mr. Sameel, a citizen of Pakistan, for his technical training in connection with a scheme approved by the Federal Board of Revenue under the relevant provision of the law. Sameel is not an employee of XYZ Ltd.

(vi). Maintenance of XYZ's shares records has been outsourced. The total expenditure incurred was Rs. 400,000, including the fee paid of Rs. 245,000 to increase the company's authorized capital.

(vii). Contribution of Rs. 200,000 to unrecognized provident fund. XYZ Ltd, in its accounting system, has ensured that when any payment is made from the fund to an employee, tax would be deducted at source from the amount of the payment, if the amount is chargeable to tax as the salary income of the employee.

(viii). Free distribution of sample goods manufactured by the company in line with practice in the industry. The market value of the samples distributed is Rs. 500,000.

(ix). Rs. 50,000 paid as motor vehicle tax on the company's vehicles.

(x). Rs. 500,000 paid for Valuation of the assets of another company which XYZ Ltd intended to acquire.

(xi). Penalty of Rs. 45,000 imposed by the Commissioner for late filing of the annual return of income for the tax year 2015.

(xii). New computer amounting to Rs. 300,000 purchased on 20 June 2017 for which installation could not be made until 15 July 2017

(xiii). Compulsory annual fee of Rs. 1 million paid in cash, to the Engineering Development Board established by the Federal Government.

(xiv). Donation in kind to a relief fund runs by the Government of Sindh.

(xv). Rs. 1,530,000 out of travelling expenses, being the travel and hotel expenses for XYZ's technical manager's visit to Japan. The travel to Japan was entirely for business purposes. It was necessary for the firm's technical manager to travel to Japan for the purpose of selecting a second-hand mixing machine, so as to ensure that the machine was compatible with the company's existing plant.

(xvi). XYZ Ltd has claimed tax deduction under section 231A (Cash withdrawal from bank) of the Income Tax Ordinance, 2001 to the tune of Rs.75,000, meaning thereby that company has made cash withdrawal amounting to Rs. 25 million.

(xvii). XYZ Limited entered into a forward contract for the purchase of raw materials used in its business of manufacturing edible oils to guard against loss through price fluctuations. On the date of maturity of the forward contract, XYZ Ltd did not take delivery of the raw materials but the contract was settled by a payment of Rs. 950,000.

(xviii). On 10 November 2016 XYZ Ltd invested Rs. 10 million in Pakistan Investment Bond for five years @ 12% per annum. Premium paid amounting to Rs. 1.3 million on purchase of Pakistan Investment Bonds (PIB) has been claimed as an expense.

Required:

Being tax consultant of the XYZ Ltd you are required to explain the admissibility/inadmissibility of the above for Tax Year 2017 along with reason keeping in view the provisions of the Income Tax Ordinance, 2001

Question # 18

Omega Pakistan Limited (OPL), an industrial undertaking, is engaged in the manufacture of motor cars. The following information is available for the accounting year ended 30 June 2017:

(1) OPL's accounting profit for the year ended 30 June 2017 after the transfer of Rs. 2,000,000 to the general reserve fund is Rs. 18,000,000

(2) Administrative and selling expenses include:

	Rs.
Amount paid to the Collector of Customs for an erroneous declaration in a bill of entry	20,000
Demurrage paid to the Karachi Port Trust for the late lifting of imported raw material	500,000
Legal expenses incurred in defending the title to the company's building	250,000
Anticipated loss of on a forward contract for the purchase of raw material 'X' on 01 July 2016.	500,000
Advance of Rs. 1 million to an associated company written off as a bad debt	1,000,000
Payment to Awari Hotel for holding the annual eid-milan party for the employees and their families.	230,000
Payment to a supplier to prematurely terminate a forward contract for the purchase of cotton bales to avoid a loss expected to arise	300,000
Compensation paid to a customer for failure to deliver goods within the time stipulated in the contract for the supply of cellular phones.	20,000

(3) Financial and other charges include:

(i). Profit on a debt of Rs. 150,000 paid to Swiss Bank, Denmark on a US Dollar loan. The loan was used by Omega Ltd for its business in Pakistan. No tax was deducted at source from the payment of the profit on the contention that the profit was not chargeable to tax in Pakistan since Swiss Bank has no permanent establishment in Pakistan and the profit on the debt has been received by Swiss Bank in the Denmark where no income tax is payable.

(ii). Expenses of Rs.100,000 in connection with the issue of Term Finance Certificates which is a long-term loan for working capital requirements

(iii). Expenses of Rs. 400,000 incurred in connection with an infringement of a trade mark of a wholly owned subsidiary of XYZ Ltd.

(iv). Rs. 50,000 for an amendment in the memorandum and articles of association to incorporate changes required by the corporate law authority.

(v). Reimbursement to the promoters of the company for expenditure incurred in taking legal advice on certain matters raised by the company law authorities at the time of the incorporation of Omega Ltd of Rs. 600,000.

(4) Other income include:

(i). Rs. 10,000,000 (net of withholding tax) representing market value (ex value on first day of book closure) of bonus shares received from Engro Polymer Limited, a public company listed on any stock exchange in Pakistan. Omega holds shares in Engro Polymer Limited as an investment.

(ii). Fair value adjustment of Rs. 2,000,000 a piece of Land owned by the company

(5) Creditors include

(i). Rs.1,000,000 received from Mr. Hamza in cash as a loan in June 2017

(ii). Rs. 600,000 payable against a loan taken in the accounting year ended 30 June 2013 from an associated company.

Required:

Compute the taxable income and tax liability of Omega Pakistan Limited for Tax Year 2017.

Question # 19

Hiba Pakistan Limited (HPL) is an industrial undertaking engaged in the business of manufacturing furniture using American technology and design. The following information is available for the accounting year ended 30 June 2017:

(i) HPL is a public company under the Companies Ordinance, 1984. 50% of its shares are held by US Crafts Company Inc. (UCI), a company incorporated in USA. The government of USA owns 93% of the shares in UCI.HPL also holds 100% of the share capital in Aizha (Pvt.) Limited (APL) since its incorporation in 2010. APL is a company incorporated under the Companies Ordinance, 1984 and is not engaged in the business of trading.

(ii) HPL'S accounting profit for the year ended 30 June 2017 after the transfer of Rs. 3,000,000 to dividend equalization reserve account was Rs.9,000,000.

(iii) Deductions charged in accounts include:

S.N	Description	Rupees
1.	Payment to Karachi Port Trust (KPT) being charges for not lifting imported goods from the docks within the time stipulated in the KPT rules	50,000
2.	Share of loss from AOP	1,500,000
3.	Printing and stationery expense of Rs. 8000 paid to each of fifteen persons. No tax was deducted while making payment.	120,000
4.	A car was given as a prize to a dealer under a sales promotion scheme. No tax was collected from the dealer	2,000,000

(iv) Other income includes:

(a). Net income of Rs. 800,000 on the sale of three motor cars imported in CBU (completely build unit) condition. The Rs. 800,000 has been adjusted for tax purpose including apportionment of expenses allocable to the sale of three imported motor cars. HPL is not a manufacturer of motor vehicles.

(b). Accounting profit of Rs.400,000 on sale of building. Cost of the building was Rs.800,000, whereas accounting and Tax written down value was Rs.500,000 and Rs.100,000 respectively.

Additional information (Not included above in accounting profit)

(i) A motor car with accounting and tax written down value of Rs.400,000 and Rs. 500,000 respectively was transferred to a retiring director as a parting gift. The director disposed of the car to an unrelated person two days after its acquisition by transfer for Rs. 400,000.

(ii) The company also received subsidy of Rs. 500,000 from Government on import of certain materials.

(iii) On 30 January 2017, HPL sold 26% out of its 100% shareholding in APL for a gain of Rs. 180,000.

(iv) APL furnished its return of income for the year ended 2017 to the tax department under the scheme on 01 December 2017, declaring a tax loss of Rs. 2,000,000. The CFO of HPL wants APL to surrender this loss of Rs. 2,000,000 in favour of HPL, so that HPL can set off this loss against its taxable income for the tax year 2017.

(v) Detail of tax deducted and paid during the year is as follows:

On the import of three motor cars in CBU condition	Rs. 900,000
Advance tax	Rs. 1,500,000
Turnover tax paid in tax year 2016 due to business loss of Rs. 1,000,000	Rs. 100,000

Required:

Under the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income and income tax payable by or refundable to Hiba Pakistan Limited(HPL) for the tax year 2017. Ignore WWF and turnover tax @ 1%.

Question # 20

Big Pharma Limited (BPL) is engaged in the manufacturing of pharmaceuticals products. The Company has three branches in Pakistan and one branch each in Qatar and Oman. BPL sells its products through various distributors. Assume that the company's profit and loss account and the related details for the period ending June 30, 2017 are as under:

	Rs. in '000'
Sales	96,000
Cost of sales	(66,850)
Gross profit	29,150
Administrative and selling expenses	(10,600)
Finance cost	(3,100)
Other charges (including WWF of Rs. 0.350 million)	(2,400)
Other income	4,100
Profit before taxation	17,150
Cost of sales includes	
Accounting depreciation	3,200
Provision for slow moving stock	1,300
Demurrage paid to custom authorities	100
Royalty paid to a non-resident	1,200
Administrative and selling expenses include	
Accounting depreciation	800
Damages paid to distributors on breach of contract	300
Provision for bad debts	1,100
Small items charged off (Useful life more than 1 year)	1,400

Opening and closing balance of provision for bad debt account was Rs. 2.50 million and 3.10 million respectively. Bad debts written off during the year include an interest free loan of Rs. 0.20 million provided to Oman branch.

Finance cost includes unrealized exchange loss of Rs. 1.35 million and interest of Rs. 1.30 million paid on a working capital loan acquired from a non resident foreign bank. No tax was deducted by the company on payment of interest considering the bank did not have any permanent establishment in Pakistan.

Other income includes	**Rs. in '000'**
Profit from Qatar branch	2,700
Loss from Oman branch	(3,400)

Tax depreciation for the year was Rs. 6.00 million. There was also a carried forward tax loss of Rs. 6.10 million and an unadjusted foreign tax credit of Rs. 0.12 million from tax year 2016. Following taxes were paid by the company during the year:

	Rs. in '000'
Deducted and paid by distributors	2,450
Paid on import of raw material	2,000
Taxes paid in Qatar	225
Unadjusted minimum tax for prior years	450

Required:

Compute the income tax liability of the company for the tax year 2017. Tax rate applicable to the company is 31%.

Question # 21

Mega Limited (ML), an unlisted public company, owns an industrial undertaking which is engaged in the manufacturing and supply of specialized machinery to power projects.

Following is the extract from the profit and loss account of ML for the period ended 30 June 2017:

	Rs.in '000'
Sales	1,100,000
Cost of Sales	(792,000)
Gross Profit	308,000
Administrative and selling expenses	(135,000)
Financial charges	(110,000)
Other charges	(27,500)
Other income	117,000
Profit before taxation	152,500

Additional information:

(i) In July 2016, ML purchased and installed plant and machinery for the purpose of balancing,modernization and replacement of existing plant and machinery from an Austrian based nonresident supplier at a cost of Rs. 52 million. The title in goods was transferred outside Pakistan. ML did not deduct any tax from payments made to the supplier. The plant is depreciated on astraight line basis over its useful life of ten years. The investment in plant was made with borrowed funds.

(ii) Cost of sales includes a penalty of Rs. 0.5 million paid in respect of breach of customs regulations.

(iii) Administrative expenses include amounts of Rs. 4.8 million, paid against purchase of industrial software having a useful life of three years and Rs. 5 million paid in cash for electricity expenses. The software was installed and used with effect from 01 August 2016.

(iv) Other charges include a donation of Rs. 13 million paid to a university established under provincial law by the Government of Punjab.

(v) Other income includes the following:

- An amount of Rs. 27 million earned from consultancy services provided to the UAE Government. The gross receipts from such services were Rs. 90 million. No tax was paid by the company in UAE on such income.
- A royalty of Rs. 50 million which was received from Solar (Pvt.) Limited, a company based in Singapore, for providing scientific and commercial knowledge under an agreement. Withholding tax of Rs. 10 million was

deducted by Solar (Pvt.) Limited from such payment. This amount is included in other charges.

The above amounts were brought into Pakistan in foreign exchange through normal banking channels in compliance with the foreign exchange regulations of the State Bank of Pakistan.

(vi) Unadjusted business loss, brought forward from tax year 2012, amounted to Rs. 50 million. This loss is inclusive of an unabsorbed tax depreciation of Rs.11 million and amortization of pre-commencement expenditure of Rs. 7.7 million.

(vii) Following taxes were deducted / paid by the company during the year:

	Rs. in '000'
Advance tax paid under section 147	5,000
Paid on import of raw material	55
Paid on import of plant and machinery	1,560
Deducted by banks on profit on debt	250

(viii) Assume that tax depreciation on all assets acquired before July 2016 is the same as their accounting depreciation.

Required:

(a) Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax liability of ML for the tax year 2017.

(Show all exemptions, exclusions and disallowances where relevant)

(b) Based on the computation of tax liability in (a) above, briefly explain whether the advance tax paid quarterly by ML under section 147 could result in any further tax liability to the company with reference to the provisions of Income Tax Ordinance, 2001.

Question # 22

Pills (Pvt.) Limited (PPL) is engaged in the business of manufacturing wide range of pharmaceutical products for both local and overseas markets. Following is an extract from PPL's profit and loss account for the year ended 31 December 2016:

Particulars	**Rs. in '000**
Sales	39,150
Cost of sales	(25,700)
Gross profit	13,450
Administrative and selling expenses	(5,350)
Financial charges	(1,500)
Other charges	(2,000)
Other income	900
Profit before taxation	5,500

Additional information:

(i). 20% of the above sales are made to customers in Indonesia and Singapore. Export sales are stated after deduction of foreign withholding tax of Rs. 1,170,000.

(ii). Local sales are inclusive of 16% sales tax. All the above expenses, other than cost of sales, are related only to the company's local sales.

(iii). On 1 January 2016, Capsule plc. a Malaysian company which owns 60% of the share capital in PPL, granted a loan of Rs. 8,500,000 to PPL at a mark-up of 12% per annum. The loan was given for the production of Hepatitis vaccines in Swat, a project fully approved by the Federal Government. The principal repayment is due to commence from July 2017. Mark-up on above loan, included in financial charges, amounted to Rs. 1,020,000. PPL's equity at the beginning of the year amounted to Rs. 4,000,000.

(iv). On 15 June 2016, Capsule plc. under a group scheme, awarded its own shares to some of the senior employees of PPL. As the shares were vested immediately, PPL recognized an expense of Rs. 1,758,000 at a grant date fair value of the award, with a credit recognized in equity. The expense is included in other charges.

(v). Administrative and selling expenses include the following:

- Rs. 800,000 paid against professional books purchased from a website of a company in UK. No tax was withheld by PPL from such payment.
- Rs. 200,000 paid as donation to a hospital established under a private trust.
- Rs. 600,000 payable as rent to the landlord for PPL's parking area. Withholding tax has not been deducted from this amount.

(vi). On 1 July 2016, PPL granted an interest free loan of Rs. 500,000 to one of its shareholders.

(vii). Financial charges include interest of Rs. 180,000 on account of machinery obtained on finance lease. Total lease rentals paid during the year amounted to Rs. 500,000. At the end of the lease term which expired on 31 August 2016, the machinery was transferred to PPL at a residual value of Rs. 640,000. The market value of the machinery on the date of its transfer amounted to Rs. 760,000.

(viii). Other income includes gain on sales of delivery van of Rs. 130,000. The van was acquired on 1 January 2015 at a cost of Rs. 900,000 and was depreciated at the rate of 20% per annum. No depreciation is charged by PPL in the year of disposal.

(ix). Accounting depreciation charged to cost of sales and administrative and selling expenses amounted to Rs. 1,440,000 and Rs. 810,000 respectively.

(x). Tax depreciation on assets acquired before January 2016 amounted to Rs. 1,800,000.

(xi). Tax paid u/s 147 amounted to Rs. 400,000 whereas tax deducted u/s 154 by banks from export proceeds amounted to Rs. 78,300.

Required:

Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax payable for the tax year 2017.

Question # 23

Fresh Stream Limited (FSL) is engaged in the manufacturing and import of food & beverages. Following is the extract from the profit and loss account of FSL for the period ended June 30, 2017.

	Rs. in '000'
Sales (Note 1)	5,000,000
Cost of sales (Note 2)	(3,000,000)
Gross profit	2,000,000
Administrative and selling expenses (Note 3)	(750,000)
Finance cost (Note 4)	(250,000)
Other income (Note 5)	500,000
Profit before taxation	1,500,000
Provision for taxation	(200,000)
Profit after taxation	**1,300,000**

Following additional information is also available:

1. Sales:

Net exports to Afghanistan (self manufactured)	495,000
Tax deducted on export @ 1%	5,000
Local sales out of imports	1,000,000
Local sales of manufactured items	3,500,000
	5,000,000

2. Cost of sales:

Imported finished goods (C & F)	300,000
Cost of goods manufactured during the year	2,700,000
Break up is:	
Raw materials consumed during the year	1,000,000
Electricity & gas (incurred in cash)	300,000
Salaries, wages and other benefits	800,000
Local freight charges (paid in cash)	100,000
Depreciation	500,000
	3,000,000

- Cost of imported finished goods includes withholding taxes paid on imports @ 5.5%. The value of goods for the purpose of advance tax deduction amounted to Rs. 280.0 million.
- 10% of the total salaries were paid in cash. Of these, Rs. 20.0 million were paid to daily wage employees @ Rs. 400 per day, whereas Rs. 60.0 million were paid to contract employees who earn a monthly salary of Rs. 20,000 each.

3. Administrative & selling expenses	**Rs in '000'**
Salaries and other benefits	200,000
Advertisement expenses	100,000

Insurance	85,000
Rent, rates and taxes	65,000
Entertainment expenditure	25,000
Contributions to approved retirement funds	100,000
Depreciation	75,000
Amortization	25,000
Penalties paid under Sales Tax Act	25,000
Miscellaneous expenses	50,000
	750,000

- Rent, rates & taxes include Rs. 0.5 million paid under a provincial tax law imposed on all beverage manufacturing companies having a manufacturing facility in the province of Punjab. The said tax was computed as 0.1% of the accounting profit before tax.
- On July 1, 2016, FSL acquired export quota from the Government of Pakistan by paying an amount of Rs. 375.0 million having useful life of 15 years. For accounting purposes, the cost of export quota has been amortized over the period of 15 years.
- Depreciation computed under the Income Tax Ordinance, 2001 on all depreciable assets is Rs 500.0 million.

4. **Finance cost** includes Rs 10.0 million paid to a scheduled bank on account of vehicles obtained on lease. Total lease rentals paid for such vehicles were Rs 100.0 million.

5. **Other income** includes a gain of Rs 10.0 million on disposal of shares of Alpine Limited, a company listed on Karachi Stock Exchange. These shares were acquired by the company in the year 2014 at a cost of Rs 5.0 million.

Required:

In the light of the provisions of Income Tax Ordinance, 2001, compute the taxable income and gross tax liability of FSL for tax year 2017. The normal tax rate applicable to the company is 31%.

Question # 24

Holdings Limited, a public un-listed company is engaged in the manufacturing and supply of consumer products. Its profit and loss account for the year ended 30 September, 2016 is given below:

	Rs. in million
Sales (local)	30,000
Cost of sales	21,000
Gross profit	9,000
Selling and administration expenses	3,000
Finance cost	1,200
Other expenses	900
Other income	1,500
Net profit before taxation	5,400

The following information is available in respect of the above.

(a) Sales are net of sales tax and the break-up is as under:

Manufactured products	70%
Imported products	17%
Locally purchased products	13%

20% of all sales are made to prescribed persons. Imported products are sold at a profit of 40% of sales whereas locally purchased goods are sold at a mark-up of 25% above cost.

(b) The cost of development of a new manufacturing process was capitalized as an intangible asset in 2011. The product has a life of approximately 15 years. The amortization thereon amounting to Rs. 4 million is included in the cost of sales.

(c) Selling and administration expenses include bad debts of Rs. 6 million. Opening and closing balance of provision for bad debt account is Rs. 20.8 and 18.4 million respectively.

(d) Other expenses include an amount of Rs. 20 million paid to a commodity exchange to settle a transaction which was carried out as a hedge against fluctuation in prices of one of the raw materials used by the company.

(e) Other income includes the following:

- Share of income received from an AOP amounting to Rs. 60 million. The company's share in the AOP is 40% and the amount has been distributed by the AOP after paying income tax at the applicable rate of 25%. The income tax authorities have added back an amount of Rs. 20 million while assessing the income of the AOP.

- Gross indenting Commission of Rs. 11.16 million, received from a party in a foreign country where withholding tax of 40% was deducted at source. Withholding tax of 5% was deducted by the bank in Pakistan before the above amount was credited in the company's account.

(f) The details of tax deducted and paid are as follows:

	Rs In Million
Imports	153.0
Deducted by corporate clients (Rs. 147 million on sale of manufactured goods)	174.3
Advance tax under section 147	1,200

(g) Tax rate applicable to the company is 31%.

Required:

Compute the income tax liability of the company for the tax year 2017. Support your answer with appropriate calculations and comments.

Question # 25

Tehreek Limited (TL), an unlisted public company, owns industrial undertaking and is engaged in diversified businesses. Following information has been extracted from TL's profit and loss account for the year ended 31 December 2016.

	Rupees
Gross sales	368,250,000
Cost of sales	(257,775,000)
Gross profit	110,475,000
Administrative and selling expenses	(73,650,000)
Financial charges	(13,990,000)
Other income	27,650,000
Profit before taxation	50,485,000

Additional information:

Gross sales includes:

(i) Rs. 11,250,000 on account of construction contracts executed outside Pakistan. The net income from the contracts amounting to Rs. 2,812,000 was brought into Pakistan in foreign exchange, equivalent to USD 26,780, through normal banking channel.

(ii) Share of profit of Rs. 13,000,000 received from an industrial undertaking set up on 01 August 2016 for operating cold chain facilities for storage of agricultural produce. The industrial undertaking was set up by TL at a cost of Rs. 165,000,000. Fifty percent of the cost of project including working capital was financed through equity investment from an investor in China.

Cost of sales includes:

(i) Freight charges of Rs. 250,000 paid in cash to goods transport company. TL did not collect withholding tax from the payment.

(ii) Rs. 400,000 in respect of the cost of two cows as they became permanently useless for milking purposes. These cows were originally purchased for TL's dairy farm in Faisalabad for Rs. 200,000 each. TL sold these cows in the market for Rs. 80,000 each, for which no entry has been made in the accounts.

Administrative and selling expenses include:

(i) Rs. 5,000,000 being the cost of a right to use a formula for the development of a new chemical compound. TL obtained the rights on 1 March 2016 from High Tec Inc. USA for twelve years.

(ii) Rs. 300,000 paid in cash to a restaurant for providing food at TL's annual dinner. No withholding tax was deducted from the payment made to the restaurant.

(iii) Rs. 186,000 paid in cash to one of the engineers for dangerous working conditions. TL collected due amount of tax from the payment.

(iv) Rs. 700,000 on account of forfeiture of security deposit for breach of contract with one of the suppliers.

Financial charges include:

(i) Profit on debt of Rs. 50,000 paid to a scheduled bank for a loan obtained for one of TL's directors for the renovation of his ancestral house in Multan.

Other income includes:

(i) 57,000 bonus shares issued by Bali Limited (BL), a listed company, after complying with all the regulatory requirements. BL's share transfer books remained closed from 9 October 2016 to 15 October 2016, both days inclusive. The value of each share at the close of business on 8 October 2016 was Rs. 75 whereas its value at the close of business on 9th and 15th October 2016 respectively was Rs. 70 and Rs. 85. TL did not pay five per cent tax to BL on the amount of bonus issue.

(ii) Net dividend of Rs. 630,000 received in the form of 15,000 shares in Nawab Limited (NL) as dividend in specie. NL is engaged in the business of supplying coal exclusively to power generation projects. NL collected tax of Rs. 90,000 from the payment.

(iii) Cash dividend of Rs. 350,000. The dividend was paid by Mithas Farms Limited (MFL), a corporate agricultural enterprise, from its agricultural income. MFL did not deduct withholding tax on the payment of dividend.

Tax paid by TL u/s 147 amounted to Rs. 6,634,000. Assume that tax depreciation on all assets is the same as their accounting depreciation.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by or refundable to TL for tax year 20X7.

Note:

- Your computation should commence with the profit before tax figure of Rs. 50,485K.
- Ignore WWF, WPPF, Minimum Tax and Alternative Corporate Tax.
- Show all relevant exemptions, exclusions and disallowances.

Question # 26

ZJ Limited (ZJL) is an unlisted public company engaged in the business of manufacturing, supply and export of pharmaceutical products. Following information has been extracted from ZJL's un-audited financial statements for the year ended 30 September 2016.

	Rs. in '000
Sales-net	218,500
Cost of sales	(157,580)
Gross profit	60,920
Administrative and selling expenses	(39,000)
Financial charges	(4,700)
Other income	29,280
Profit before taxation	46,500

Additional information:

Sales includes:

(i) Sale of polio vaccines of Rs. 30,000,000 to Red Cross mission in Somalia. The entire amount was realized during the year.

(ii) Discounted sale of Rs. 3,600,000 to one of the NGO's operating welfare hospitals in KPK province. A discount of 25% was allowed to the NGO on their purchases.

Cost of sales includes:

(i) Cost of opening and closing stock-in-trade of Rs. 25,690,000 and 29,200,000 respectively comprising of raw and packing materials, work-in-process and finished goods. ZJL computes the cost of stock-in-trade using marginal cost method. The values of opening and closing stock-in-trade under absorption cost method were Rs. 28,460,000 and Rs. 32,350,000 respectively.

(ii) Accounting depreciation of Rs. 2,210,000.

Administrative and selling expenses include:

(i) Withholding tax of Rs. 600,000 i.e. 20% of purchase price, paid in August 2016 (borne by ZJL) on the plot of land handed over to the winner of a lucky draw which was organized under a sales promotion scheme. ZJL acquired this plot in January 2015 at a cost of Rs. 3,000,000. The market value of the plot at the time of lucky draw was Rs. 10,000,000.

(ii) Rs. 1,800,000 paid to improve the embodied features of production software.

(iii) Rs. 650,000 in respect of the cost of two ramps. The ramps were built to provide access to persons with disabilities.

(iv) Accounting depreciation of Rs. 1,980,000.

Other income includes:

(i) Rs. 2,450,000 received from employees against sale of five vehicles. The market value and tax written down value of these vehicles at the time of sale was Rs. 5,250,000 and Rs. 3,320,000 respectively. As per company's policy the vehicles are sold at their book values.

(ii) Net profit of Rs. 20,000,000 from ZJL's associates. ZJL records its earnings from associates using equity method of accounting.

(iii) Gain on sale of securities in Mali Limited (ML), a listed company, amounting to Rs. 6,000,000. On 1 July 2013 ZJL acquired 200,000 shares in ML at Rs. 50 per share constituting 55% interest in ML. On 1 August 2016 ZJL sold 100,000 shares in ML at a negotiated price of Rs. 85 per share to a foreign investor. The market value of these shares at the time of sale was Rs. 80 per share. On 15 September 2016 ZJL sold the remaining 100,000 shares in ML at a negotiated price of Rs. 75 per share to a local investor. The market value of the shares at the time of sale was Rs. 78 per share. The gain was computed at the average of the negotiated prices.

ZJL reported the above transactions to the relevant Stock Exchange through its broker and was also in compliance with all the requirements of the SECP.

Other information: (not reflected in the above financial results)

(i) On 30 June 2016 ZJL received Rs. 1,250,000 as share of income from AOP. The gross turnover of the AOP was Rs. 30,000,000. ZJL holds 35% interest in the AOP.

Further information:

(i) ZJL has filed the option to opt out of the final tax regime.

(ii) Total tax depreciation amounts to Rs. 4,300,000.

(iii) Tax paid u/s 147 was Rs. 1,000,000, tax deducted on import of packing materials u/s 148 was Rs. 1,200,000, tax deducted by distributors u/s 153 was Rs. 1,050,000 and tax deducted on realization of export proceeds u/s 154 was Rs. 300,000.

(iv) The assessed losses brought forward from tax years 2015 and 2016 were as follows:

	2016	**2015**
	------- Rupees -------	
Business loss	2,900,000	3,550,00
Unabsorbed tax depreciation	2,550,000	-

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income, net tax payable by or refundable to ZJL for tax year 2017 and amount of tax to be carried forward along with the amount of default surcharge, if any.

Note:

- Your computation should commence with the profit before tax figure of Rs. 46,500K.
- Ignore WWF and WPPF.
- Show all relevant exemptions, exclusions and disallowances.

Question # 27

Khalis Limited (KL), a listed company, is primarily engaged in the business of manufacturing, supply and export of wide range of products. KL also renders services both locally and in international markets. Following information has been extracted from KL's records for the year ended 31 December 2016:

	Rupees
Gross sales	350,500,000
Cost of sales	(245,350,000)
Gross profit	105,150,000
Administrative and selling expenses	(70,100,000)
Financial charges	(15,515,000)
Other income	25,850,000
Profit before taxation	45,385,000

Additional information:

Gross sales:

(i) 50.2% of the gross sales are related to goods exported to countries in Europe and USA. These sales reflect the C&F price of the goods exported. 85% of the above export sales were realized in current year. KL also realized Rs. 20,000,000 from last year's export sales. No separate accounts were maintained by KL for the business of export of goods manufactured in Pakistan.

(ii) 3% of the gross sales comprise of receipt from an export house against provision of services of dying and embroidery to them. However, the export house inadvertently failed to deduct withholding tax from payments made to KL. These goods were subsequently exported to Japan by the export house.

(iii) Rest of the sales are inclusive of 17% sales tax and were made to both corporate and individual customers in the local market.

Cost of sales includes:

(i) Freight of Rs. 500,000 paid in respect of transportation of goods to above export house.

Administrative and selling expenses include the following:

(i) Ocean freight of Rs. 4,700,000, clearing and forwarding expenses of Rs. 485,000. No withholding tax was deducted from these payments.

(ii) Provision for doubtful export rebate and duty drawback of Rs. 700,000 and Rs. 400,000 respectively.

(iii) Legal expenses of Rs. 1,000,000 in respect of a dispute over territorial rights.

(iv) Rs. 3,000,000 paid in respect of an unsuccessful marketing campaign.

(v) Rs. 800,000 incurred for acquiring a long-term business contract.

(vi) Rs. 2,000,000 contributed to a foreign pension fund.

(vii) Sales tax of Rs. 950,000 paid in respect of entertainment and courier charges relating to KL's business. No input tax credit was allowed to KL in respect of such expenditures.

Financial charges include the following:

(i) Mark-up of Rs. 1,200,000 paid on a loan obtained from AB Bank Limited for the purpose of advancing concessional loans to KL's staff in accordance with the terms of their employment.

(ii) Mark-up of Rs. 9,000,000 on short term borrowings obtained to finance the working capital requirements of export sales.

(iii) Rs. 2,150,000 charged by banks for the collection of export proceeds.

Other income includes the following:

(i) Exchange gain of Rs. 2,000,000. This gain was related to export sales.

(ii) Export rebate of Rs. 3,900,000 and duty drawback of Rs. 1,600,000

(iii) Fees of Rs. 10,000,000 received under an agreement from enterprises in Bahrain in consideration for the use of KL's design, patent and scientific knowledge. This amount was directly transferred into KL's bank account in Pakistan. No direct expenditure was incurred in relation to this income.

(iv) KL is also engaged as a commission agent by M Limited, a renowned communication company in Pakistan. KL remitted Rs. 50,000,000 to its principal, M Limited, after retaining Rs. 4,300,000 on account of commission. However, M Limited mistakenly collected advance tax from KL only on Rs. 3,600,000.

(v) Capital gain on sale of 30,000 shares in Blue Limited, a listed company, at a price of Rs. 120 per share. KL purchased these shares in May 2012 at a cost of Rs. 35 per share. No direct expenditure was incurred in respect of sale of these shares.

Tax paid by KL u/s 147 amounted to Rs. 3,450,000.

Required:

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

Note:

- Ignore WWF, Minimum Tax and Alternative Corporate Tax.
- Show all relevant exemptions, exclusions, reclassification and disallowances.
-

Question # 28

Bharosa Limited (BL) was incorporated on 1 July 2013 as an un-listed public company under the Companies Ordinance, 1984. The company is engaged in the business of manufacturing and distribution of soap and toiletries. On 1 November 2015 BL was enlisted on Karachi and Lahore Stock Exchanges. Following is an extract from BL's un-audited summarised profit and loss account for the year ended 30 September 2016:

	Rupees
Sales	24,900,000
Cost of sales	(13,718,000)
Gross profit	11,182,000
Administrative and selling expenses	(980,000)
Financial charges	1,500,000
Other income	1,500,000
Profit before taxation	4,802,000

Additional information:

(i) Sales include insurance compensation of Rs. 5,000,000 received from Big Insurance Limited against the loss of one of BL's factory buildings which was destroyed by fire due to short circuit. This building was constructed in July 2013 at a cost of Rs. 6,000,000. The accounting and tax WDV of the building when it caught fire were Rs. 5,347,000 and Rs. 4,374,000 respectively. However, no depreciation on this building was charged in the books for the year.

BL reconstructed a similar building at a cost of Rs. 3,800,000. Construction of the new building was completed in November 2015 and BL installed used plant and machinery therein at a cost of Rs. 1,500,000. The unit was given on lease to Mr. Marvi on 1 January 2016 at a monthly lease rent of Rs. 150,000. The relevant depreciation at the rate of 5% and 10% on building and plant and machinery respectively and property tax of Rs. 96,000 which was paid in respect of the new building were properly recorded in BL's books as part of Administrative expenses. The amount of lease rent received from Mr. Marvi is included in sales.

(ii) Cost of sales includes the following:

- a compensation of Rs. 100,000 payable annually to a former employee, who was injured and permanently disabled while on duty.
- a penalty of Rs. 25,000 on failure to deposit income tax withheld from the salaries of factory staff.

- Accounting depreciation of Rs. 870,000.

(iii) Administrative and selling expenses include the following:

- impairment loss of Rs. 200,000 on BL's investment in ABC (Pvt.) Limited. The loss occurred due to considerable decrease in the breakup value of these shares as compared to their book value.
- legal fees of Rs. 50,000 and Rs. 125,000 which were paid in connection with the filing of statements with Karachi and Lahore Stock Exchanges and increase in BL's authorized capital respectively.
- scientific research expenditure of Rs. 400,000 which was incurred in Cannes, France. The research has helped BL in improving the quality of its products.
- Rs. 480,000 which was incurred in relation to an advertising campaign launched prior to the introduction of a new product line in an effort to enhance public awareness.
- a donation of Rs. 300,000 was paid to a fund which is listed in the second schedule of the Income Tax Ordinance, 2001 for the promotion of science and technology in Pakistan.
- Workers' Welfare Fund of Rs. 98,000 and accounting depreciation of Rs. 1,100,000.

(iv) Financial charges include a profit of Rs. 180,000 earned from saving accounts maintained with banks.

(v) Other income includes sale proceeds of Rs. 700,000 from sale of shares in Nafa (Pvt.) Limited. BL purchased these shares in June 2014 at a cost of Rs. 230,000.

(vi) The tax written down values of BL's assets on 1 October 2015 were:

Building (excluding the building destroyed by fire) Rs. 3,270,000

Plant and machinery	Rs. 3,400,000	Motor vehicles	Rs. 1,500,000
Furniture	Rs. 2,380,000	Computers	Rs. 1,100,000

(vii) Tax paid u/s 147 amounted to Rs. 260,000 whereas tax deducted by banks u/s 151 from profit on debt amounted to Rs. 18,000.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income and net tax payable by/refundable to BL for the tax year 2017.

Note: Show all relevant exemptions, exclusions and disallowances.

Question # 29

Khawar Associates (KA) is engaged in the business of supplying stationery items to both the individuals and corporate customers. Following is an extract from the summarized income statement for the year ended 30 June 2017.

Particulars	Rupees
Sales	2,348,000
Cost of sales	(1,230,000)
Operating expenses	(470,000)
Profit before tax	648,000

(i). The above sales include the following:
- An amount of Rs. 573,000 (net of tax) received from Mr. Iqbal. Mr. Iqbal is registered for sales tax purposes. The rate of withholding tax is 4.5% of the gross receipts.
- Goods worth Rs. 825,000 sold to SP Limited (SPL). SPL deducted tax of Rs. 37,125 from the payment against this sale.
- The rest of the sales were made to individual customers having turnover of less than fifty million rupees.

(ii). Cost of sales includes Rs. 20,000 paid to SPL as a penalty for late delivery of goods.

(iii). Operating expenses include the following:
- Salaries of Rs. 50,000 paid to part time sales staff working exclusively on SPL's assignment. The rest of the expenses were common to all the customers.
- A donation of Rs. 60,000 to an educational institution established by the Provincial Government.
- Zakat of Rs. 10,000 under the Zakat and Ushr Ordinance, 1980.

(iv). KA also received a dividend of Rs. 36,000 (net of tax) from a private company.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute KA's taxable income and tax liability for tax year 2017.

Question # 30

(a)

Umar Gul Limited (UGL) a public company registered on Karachi Stock Exchange is engaged in the construction business for the past many years. In July 2014, KPK Government awarded a contract of Rs. 9 million to UGL for construction of 3 dams in Peshawar over a period of three years. The company expects to earn a profit of 25% of the contract value. The project was scheduled to start in July 2014 and be completed on 30 June 2017.

The amount received and costs incurred by UGL on the contract over the period of three years were as under:

Tax year	Receipts	Costs
2015	3,000,000	3,105,000
2016	3,000,000	2,632,500
2017	3,000,000	1,012,500

Required:

Under the provisions of the Income Tax Ordinance, 2001 calculate the taxable income for each of the above three tax years assuming constant tax rate of 31%.

(b)

Maroof Limited (ML) is a resident company engaged in the business of construction for the past many years. In July 2015, the company was awarded a contract for the construction of roads in district Badin at a total contract price of Rs. 100,000,000. ML estimated to incur total cost of Rs. 60,000,000 on the project. Work on the project started in September 2015 and was completed in November 2016. ML received following amounts after deduction of 7.5% withholding tax:

Months	Feb. 2016	May 2016	Sep. 2016	Dec. 2016
Amount received (Rs.)	12,622,000	15,760,000	35,000,000	30,118,000

The actual costs incurred by ML for the tax years 2016 and 2017 were Rs. 33,000,000 and Rs. 27,000,000 respectively.

Required:
Under the provisions of Income Tax Ordinance, 2001 calculate ML's taxable income and tax liability, if any, for the tax years 2016 and 2017 assuming constant tax rate of 31%.

Question # 31 (a)

Sweet Limited (SL) is an unlisted public company engaged in the business of manufacture and sale of sugar. SL's income year ends on 30 September each year. In tax year 2017 following taxes were deducted/paid by SL:

Particulars	Rupees
Advance tax paid under section 147	20,500,000
Paid on import of machinery	2,250,000
Deducted by banks on profit on debt	250,000

SL filed its return of income for the tax year 2017 on the due date for filing of return with a gross tax liability of Rs. 32,500,000.

Required:
In view of the provisions of the Income Tax Ordinance, 2001 explain whether the advance tax paid quarterly by SL under section 147 could result in any further tax liability to the company, if yes, compute the amount of such additional tax liability.

(b)

Advance tax for the tax year 2017 was payable by Mr. Sameel in four equal instalments of Rs. 50,000 each. However, he actually paid his advance tax as below:

Instalment	Amount paid	Date of payment
1st instalment	0	
2nd instalment	50,000	26 December 2016
3rd instalment	50,000	31 March 2017
4th instalment	40,000	30 June 2017

Required:

Calculate the default surcharge payable by Mr. Sameel for the late payment or non-payment of his advance tax liability.

Question # 32

(a)

Mr. Azhar, a non-salaried individual, filed his return of income for the tax year 2017, which was due on 30 September 2017, on 30 October 2017. He declared a taxable income of Rs. 6,500,000 and paid the due amount of tax.

Required:

(i). Compute the amount of penalty which can be imposed on Mr. Azhar for the late filing of the return.

(ii). Explain whether a penalty can be imposed for the late filing of a return of income when there is no tax liability to be paid with the return

(b)

The assessment order of Mr.Usaid for the tax year 2016 taken to have been passed by the Commissioner Inland Revenue on 30 September 2016 was amended by the Commissioner on 25 November 2016, as a result of which a tax demand for Rs. 1,000,000 was created. The demand was paid by Imran on 30 November 2016.

On appeal before the Commissioner (Appeal), the entire tax demand of Rs. 1,000,000 was deleted. The appellate order was received by the Commissioner on 31 January 2017 and a refund of Rs. 1,000,000 was paid to Usaid on 30 June 2017.Assume that the KIBOR rate prevalent during the tax year 2016 and 2017 was 7.5%.

Required:

Explain how the additional amount to which Mr. Usaid is entitled for the delayed issuance of the refund by the Commissioner Inland Revenue will be determined and compute the amount of compensation due and taxability of said amount.

Question # 33

KKL is an Association of Persons having two partners, Mr. K and Mr. L sharing profit and loss equally. During the tax year 2017, KKL'S Pakistan source income amounted to Rs.2,500,000 and tax payable thereon amounted to Rs.722,500.

Following are the details of its foreign source incomes, tax paid thereon and foreign losses brought forward for the tax year 2017:

Heads of income	Foreign income	Foreign tax paid	Foreign losses brought forward
Speculation business	500,000	125,000	(250,000)
Non-speculation business	(1,000,000)		
Income from other source	1,250,000	187,500	
Capital gain	75,000	75,000	(1,500,000)

Tax credit amounting to Rs.100,000 relating to income from other source remained unadjusted during the last tax year.

Required:

Calculate the total tax payable and foreign tax losses to be carried forward to the next year (if any)

Question # 34

Sun Limited (SL), a listed company, owns 100% ordinary share capital of an unlisted public company Venus Limited (VL). Both SL and VL are engaged in the manufacturing and supply of Chemicals.

(i). VL holds 85% ordinary share capital of Mars Limited (ML), who is engaged in the trading of packing materials and sells its products to individual customers. Following information has been extracted from the records of the above companies for the period ended 31 March 2017:

	SL	**VL**	**ML**
	------------- Rs. In '000"----------		
Sales	17,000	6,000	3,500
Profit/(loss) before taxation	3,700	(1,400)	1,300

(ii). The above profit/ (loss) for each company has been arrived at after inclusion/adjustment of the following:

In case of SL:

- Rs. 1,000,000 paid by SL towards a scientific research conducted in Belgium. The research helped SL in improving the quality of its products.
- Income of Rs. 150,000 on account of profit on debt.
- Gain of Rs. 100,000 on sale of machinery to VL. The cost of machinery was Rs. 300,000 and its tax written down value at the time of transfer to VL was Rs. 200,000.

In case of VL:

- Rs. 80,000 written off against a loan provided to an employee.
- Sales promotion expenses of Rs. 600,000 paid by VL to Moon Advertisers. The benefits are expected to extend to three years.
- A loss of Rs. 500,000 on disposal of shares in a private company. These shares were acquired by VL on 31 March 2015.

In case of ML:

- Net income of Rs. 600,000 from a goods transportation business. ML started this business during the year and earned gross revenue of Rs. 1,500,000. Withholding tax of Rs. 30,000 was deducted by customers from ML's gross receipts.
- A gain of Rs. 400,000 on disposal of shares in a private company. These shares were acquired by ML on 01 April 2015.
- Income of Rs. 300,000 on account of profit on debt.

(iii). Accounting depreciation of SL, VL and ML amounted to Rs. 760,000, Rs. 660,000 and Rs. 100,000 respectively.

(iv). A delivery truck costing Rs. 1,500,000 was purchased by ML during the year for its new transportation business.

(v). The tax written down values of the plant and machinery of SL, VL and ML as at 01 April 2016 were Rs. 4,500,000, Rs. 4,200,000 and Rs. Nil respectively.

(vi). Tax depreciation on all assets, other than plant and machinery and delivery truck, of SL, VL and ML amounted to Rs. 495,000, Rs. 330,000 and Rs. 135,000 respectively.

(vii). The assessed losses brought forward from tax year 2016 were as follows:

	SL	**VL**	**ML**
	------------- Rs. In '000"----		
Business loss	200	500	50
Unabsorbed tax depreciation	250	500	100
Capital loss	750	250	200

(viii). Following taxes were deducted / paid during the year:

Particulars	**SL**	**VL**	**ML**
	------------- Rs. In '000"--------		
Advance tax u/s 147, 148, 153	789	275	-
Motor vehicle tax u/s 234	-	-	40

Required:
Assuming SL wants to avail the benefits of group relief as envisaged under the Income Tax Ordinance, 2001, compute the taxable income, net tax payable / refundable and unabsorbed losses, if any, to be carried forward for each of the above three companies for the tax year 2017.

Question # 35

GCL Limited is engaged in the business of manufacturing and sale of Fertilizers both locally and internationally. The company has two overseas branches located in Brazil and Italy. Following information has been extracted from company's records for the year ended 30 June 2017:

	Pakistan Operation		**Overseas Branches**	
	Local	**Export**	**Brazil**	**Italy**
Sales	5000,000	10,000,000	8,000,000	6,000,000
Profit before taxation	1,000,000	5,784,352	1,000,000	800,000
Taxes paid during the year	400,000	100,000	300,000	200,000

GCL Limited net profit from local operation includes the following:

(a) Profit on debt amounting to Rs. 800,000 paid by GCL Limited to bank against a short term loan obtained to meet the working capital requirements of its Italy branch.
(b) Rs. 100,000 written back on account of excess provision for bad debts, made last year.
(c) A donation of Rs. 600,000 paid to an institution mentioned in 2nd Schedule of the Income Tax Ordinance, 2001.

Required:

Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax payable / refundable for the tax year 2017. Give brief reasons for the treatment of the items excluded from computation or for which no expense deduction is allowed.

Question # 36

Mr. and Mrs. Vakeel, both lawyers of high repute, established their own law firm on July 01, 2016 with the name and style of Vakeel Associates. The firm is primarily engaged in providing services for both civil and criminal law suits and is equally managed by Mr. and Mrs. Vakeel. The profit and loss account of the firm, for the first year of their operations, is as follows:

Particulars	**Rupees**	**Rupees**
Gross receipt		25,750,000
Less: Salaries	10,000,000	
Rental for office premises	1,200,000	
Accounting depreciation	1,000,000	
Purchase of technical books	750,000	
Subscription fees	250,000	
Other expenses	1,300,000	14,500,000
Income for the year		11,250,000

Following further information is available from the firm's record:

(i). Mr. and Mrs. Vakeel have an equal share of profits and losses in the firm.

(ii). During the year, the firm was engaged on a retainership basis by various corporate clients. Gross receipts from such clients amounted to Rs. 10,000,000. Tax at the rate of 10% of the gross receipts was deducted from payments to the firm by such clients. Tax so deducted was charged to 'other expenses'.

(iii). Thomas Associates, a law firm based in UAE, appointed Vakeel Associates under an agreement to technically assist them in defending a particular law suit in Dubai. The sum agreed for the services amounted to Rs. 2,500,000. Mr. Vakeel stayed in Dubai for over a month, for the purpose of this assignment. The fee was transferred to the firm's Bank account in Pakistan. No tax was deducted either by Thomas Associates or the bank transferring the amount from such payment.

(iv). The firm also provided advisory services in Pakistan to different law firms situated outside Pakistan. An amount equal to Rs. 5,000,000 was received from such services in foreign currency through normal banking channel. The bank collected tax at the rate of 1% from the gross receipts. The tax deducted from the proceeds was charged to 'other expenses'.

(v). No tax has been deducted on any other receipts of the firm.

(vi). Salary expenses include an amount of Rs. 100,000 each paid to Mr. and Mrs. Vakeel every month.

(vii). Bonus amounting to Rs. 1,000,000 was paid to the employees of the firm (other than Mr. and Mrs. Vakeel). No tax was deducted from such payments.

(viii). The office premises are owned by Mrs. Vakeel and rent was paid to her without deducting any tax from such payments.

(ix). Subscription fee was paid in cash to Pakistan Bar Council without withholding any tax from such payment.

(x). During the year some structural improvements were made to the office premises at the cost of Rs. 500,000. This amount was also charged to 'other expenses'.

(xi). Following details are available in respect of the firm's assets:

Category of assets accounts	**Cost of acquisition**	**Depreciation charged to**
Furniture and fittings	2,000,000	200,000
PCs and Laptops	1,600,000	320,000
Motor vehicle(Provided to Mr. & Mrs. Vakeel	2,400,000	480,000

(xii). In 2014, Mr. Fazil the father of Mrs. Vakeel gave her 1,000 shares of Fortune Inc. USA, a company listed on New York Stock Exchange, by way of a gift. Mr. Fazil had purchased those shares in 2011 at a cost of USD 10 per share, when he was working in the USA. The dollar rupee parity at the time of purchase was USD 1 = PKR 58.

The fair market value of the shares at the time of transfer to Mrs. Vakeel was USD 25 (USD 1 = PKR 60). Mrs. Vakeel disposed off the shares during the year at a price of USD 60 per share. She also paid USD 1,000 in taxes in the USA, in respect of such receipts. The dollar rupee parity on the date of disposal was USD 1 = PKR 80.

Required:
In the light of the provisions of Income Tax Ordinance, 2001, compute the taxable income and tax liability of the following for the tax year 2017:
(a) Vakeel Associates.
(b) Mrs. Vakeel.

Question # 37

Mr. and Mrs. Adil are equal partners in Burq Enterprises (BE). The firm is engaged in the import and supply of electric generators. It also provides project consultancy services to various corporate customers. Following figures have been extracted from the accounting records of the firm for the tax year 2017:

Particulars	**Rs in "000"**
Sales of imported generators	574,200
Receipts from consultancy services	55,000
Total revenue	629,200
Cost of sales (generators)	(429,520)
Gross profit	199,680
Administrative and selling expenses	(96,300)
Finance cost	(9,000)
Profit before taxation	94,380

Following further information is also available from the records:

(i). The generator sales are inclusive of 17% sales tax.

(ii). Cost of sales includes customs duty of Rs. 50.0 million, sales tax Rs. 63.0 million and withholding taxes paid at import stage @ 6% of the value of goods of Rs. 413.0 million.

(iii). Administrative and selling expenses are common in nature. These include salary of Rs. 500,000 paid to each partner every month and withholding taxes deducted @ 10% on receipts from consultancy services.

(iv). Finance cost is related to commercial imports except interest of Rs. 1.20 million paid to Mrs. Adil on her capital account.

(v). On January 01, 2017 Adil started using one of the office equipment at his residence. The market price of the equipment at that time was Rs. 1.5 million with a written down value of Rs. 1.0 million.

(vi). On July 01, 2016 Adil let out his apartment to a close relative at a monthly rent of Rs. 10,500. The fair market rent in the area was Rs. 12,250. He also received a nonadjustable deposit of Rs. 110,000. Another non-adjustable deposit of Rs. 85,000 received from an earlier tenant in July 2014. was refunded.

(vii). Adil purchased 50,000 shares of Rs. 10 each, of an unlisted public company in July 2012 at the rate of Rs. 150 per share. In August 2013 he received bonus shares, ranking pari passu, in the ratio of 1 bonus share for every 5 shares held. In May 2017 he sold 80% of his bonus shares at a price of Rs. 135 per share.

Required:

In the light of the provisions of Income Tax Ordinance, 2001, compute the taxable income and tax liability of the following for the tax year 2017:
(a) Burq Enterprises
(b) Mr. Adil

Question # 38

Atif and Azhar are partners of a firm FEROZI, resident in Pakistan, carrying on the business of providing corporate, accounting and taxation services to various local and foreign clients. Atif also works as an employee in XYZ Ltd. Both partners share the profit and loss of the firm in the ratio of 50:50. For the tax year 2017, the results of the operations of the firm are as follows:

Particulars	Rupees
Revenue	10,000,000
Cost of sales	(6,000,000)
Gross Profit	4,000,000
Administrative and selling expenses	(2,000,000)
Financial charges	(1,000,000)
Other income	500,000
Profit before tax	1,500,000

Following further information is available from firm's record:

(i). During the period firm provided consultancy services to various corporate clients. Tax deducted at source @ 10% amounted to Rs. 100,000.

(ii). During the month of April 2017, Ricky Ponting Inc. a company based in Australia appointed FEROZI under an agreement to technically assist the company in preparing a feasibility study for its new project to be set up in Sydney Australia. Mr. Atif visited Australia and stayed there for completion of the assignment till 15 June 2017. Ricky Ponting Inc. paid a sum of Rs. 2,000,000 to FEROZI for this assignment. The amount was transferred through proper banking channel in the bank account of FEROZI maintained in Gulberg, Lahore. No tax was deducted either in our outside Pakistan.

(iii). Cost of sales include the following:

(a). Payment of compensation of Rs. 100,000 to a client for failure to provide the consultancy services within the time stipulated in the contract.

(b). Expense of Rs. 200,000 in connection with an infringement of a trade mark of wholly owned subsidiary of FEROZI.

(c). Reimbursement of Rs. 300,000 to the promoter of FEROZI for expenditure incurred in taking legal advice on certain matters raised by the law authorities at the time of the incorporation of FEROZI.

(iv). Administrative and selling expenses include:

(a). Free distribution of budget commentary and tax software to various corporate and non-corporate clients in line with the practice in the industry. The combined market value of the software and cost of preparation of budget commentary is Rs. 100,000.

(b). Payment of Rs. 50,000 to Faletti's Hotel Lahore for holding the annual eid-milan party for the employees and their families.

(v). Depreciation has been charged to the accounts according to the rates prescribed in the Income Tax Ordinance, 2001 except for one vehicle, used by a non-partner marketing employee of the FEROZI, details of which are given below:

Particulars	Rupees
Cost of the vehicle	3,300,000
Date of purchase	Rs. 1 January 2017
Depreciation claimed	20% of cost using the straight line method

(vi). Financial charges include:

(a). Profit on debt of Rs. 200,000 paid to Singapore bank on a US Dollar loan. The loan was used by FEROZI for its business in Pakistan. No tax was deducted from payment of profit on debt on the contention that the profit was not chargeable to tax in Pakistan since Singapore bank has no permanent establishment in Pakistan and profit on debt has been received by the Singapore Bank outside Pakistan.

(b). Exchange loss of Rs. 100,000 on the payment of final installment and markup of a foreign currency loan, which had been utilized for the import of unit of plant in the tax year 2013. Exchange loss includes Rs. 25,000 on account of markup payment.

(vii). Other income includes:
Rs. 100,000 (net of tax) representing value of bonus shares received from Usaid Ltd, a company listed on Karachi Stock Exchange. FEROZI holds shares in Usaid Ltd as an investment.

(viii). Creditors include:

(a). Rs. 200,000 received from Mr. Rizwan in cash against corporate services to be provided in tax year 2018

(b). Rs. 500,000 payable against a loan taken in the accounting year ended 30 June 2012 from an associate.

Besides their share of income from AOP, Azhar and Atif also earned following incomes in tax year 2017:

(i). Atif received a dividend of Rs. 50,000 from a mutual fund which only invests in debt securities. Amount was distributed out of the capital gain and no tax was deducted by the mutual fund.

(ii). Atif is engaged in the software business since 2010. During the tax year 2017, he converted the business into a limited company. The company took over all the assets at fair value of Rs. 2,000,000 and in consideration thereof 200,000 shares @Rs. 10 were issued in the name of Atif. Book value of the assets on the date of transfer was Rs. 1,500,000. The newly formed company will only be involved in export of software.

(iii). On 20 March 2017 Atif received Rs. 300,000 in cash on entering into an agreement to sell an antique for total consideration of Rs. 1,500,000. It was agreed that the antique would be handed over to the purchaser on 15 July 2017, subject to payment of the balancing amount on 05 July 2017 and confirmation of stated origin of the Antique from the relevant department. Atif has purchased the Antique for Rs. 200,000 on 23 September 2010.

(iv). During tax year 2017, Atif borrowed 5,000 shares of listed company from Rubina for a short term. The value of the borrowed shares was agreed at Rs. 100 per share. Atif agreed to pay, for the specified period, a mark-up of Rs. 2 per share to Rubina at the time of settlement. Atif sold the borrowed securities at Rs. 105 each and subsequently, on the date of return of borrowed securities, re-purchased 5,000 shares at Rs. 95 per share.

(v). In July 2013, Atif was granted an option to acquire 1000 shares of Alpha (Pvt.) Limited (Parent Company of his employer XYZ Ltd). The option was exercisable on completion of three years' employment with the Company. He paid an amount equivalent of Rs. 100,000 to acquire the option whereas the fair market value of such option at that time was Rs. 150,000. On July 4, 2016 he paid a sum equivalent of Rs. 200,000 to acquire the said shares which were issued to him on July 21, 2016 when the market value of the shares was equivalent of Rs. 350 per share. Atif disposed off the shares on June 21, 2017. The net sales proceeds received amounted to Rs. 375,000. During the retention period from July 21, 2016 to June 21, 2017 he also received dividend of Rs. 45,000(net of tax) from Alpha (Pvt.) Limited.

(vi). Atif and Azhar, jointly own a freehold house in Lahore which was let out during the whole tax year at monthly rental of US $1,000. The total rent was paid in advance on 01 July 2016 on which date the exchange rates were:

a. State Bank of Pakistan rate 1US$= Rs. 100
b. Open market rate 1US$= Rs. 102

Both have equal share in the property

Required:

In the light of the provisions of the Income Tax Ordinance, 2001 compute the taxable income and tax liability for tax year 2017 of the following:

(a). FEROZI
(b). Mr. Atif

Question 39

Bilal, Sameel and Azhar are planning to commence a business venture selling chemicals to corporate clients. They are however not certain whether the business venture should be in the form of partnership or a limited company. They intend to make investment and share profit in the ration of 3:2:1 respectively. Further in case of limited company they would distribute 30% of the after tax profits as dividends.

Projected profit and loss account for the current year ending is given as follows**:**

Particulars	**Rupees**
Sales	15,000,000
Profit before tax	1,095,000

Profit before tax has been calculated after deducting salaries and wages of Rs. 500,000, Rs. 700,000 and Rs. 600,000 to be paid to Bilal, Sameel and Azhar respectively.

Assume that all other expenses deducted in calculating profit after tax are also admissible under the Income Tax.

Required

Under the provisions of the Income Tax Ordinance, 2001 advice Bilal, Sameel and Azhar on the preferable structure of their business, whether it should be a partnership or a limited liability company.

Question 40

(a)

Burewala Express Limited (BEL) is in the business of manufacturing and sale of component parts for automobile assembly industry. On 1 January 2015, BEL took a loan of US$ 1,000,000 from GHI Bank, USA, which was utilized for purchasing the plant. The loan is repayable in 10 equal instalments in US Dollars. The rate of exchange on 1 January 2015 was US$ 1 equal to Rs.98 and the loan liability was recorded in the books of account of BEL atRs.98,000,000. Other information:

(1). The Project was completed in June 2016, but was only commissioned for use on 31 July 2016. The total amount spent by BEL on the plant was Rs.200,000,000.

(2). On 1 July 2016, the Government of Pakistan (GOP) voluntarily paid BEL Rs.10,000,000 as a subsidy in respect of the plant installed in the Project.

(3). The first instalment of US$ 100,000 towards repayment of the US Dollar loan was paid to GHI Bank on 30 June 2017. The rupee equivalent of US$ 100,000 at the then rate of exchange was Rs.10,000,000 (US$ 1= Rs.100).

Required:

Compute initial allowance, tax depreciation and written down value of the plant on 30 June 2017.

(b)

On 30 September 2016 the government of Punjab compulsorily acquired the land of Mr. Asim under the Land Acquisition Act, 1894 and paid him Rs. 30,000,000. Asim had purchased the land for Rs. 25,000,000 on 1 January 2015. Calculate the tax payable by Mr. Asim for tax year 2017 on the taxable income arising in each of the following two independent situations:

(i) On 7 October 2016 he invested the whole amount of the consideration received in a another land

(ii) On 7 October 2016 he invested the whole amount of the consideration received in Ten-year fixed term deposit account with the National Bank of Pakistan. The profit on the deposit will become due to Asim at the time of maturity of the term.

Question # 41

In the light of the provisions of the Income Tax Act, 2001 read with Income Tax Rules, 2002 briefly explain the income tax implications in respect of each of the following independent situations:

(i). Omega Limited (OL) has established a superannuation and gratuity fund for its employees. OL will contribute annually in both funds on reasonable basis. OL is not sure about any limits set in Income Tax Rules, 2002 on initial and annual contributions to the aforesaid funds and procedure for payment beyond the specified limits if any.

(ii). Mr. Rizwan was working in Pakistan Embassy in USA for past many years. He returned back to Pakistan during the tax year 2017 and is working with Holding Limited a company listed on Pakistan Stock exchange. While preparing his tax return for tax year 2017 Rizwan is not sure whether he can claim a foreign levy paid on his foreign income equivalent to PKR 250,000 as foreign income tax to avoid double taxation under the Income Tax Rules, 2002**.**

(iii). WTL LLC a non-resident company is paying tax under the final tax regime on the basis of selection filed last year. The company has been awarded another contract and intends to pay tax in relation to this contract on the basis of net taxable income.

(iv). Beta Ltd decides to merge with its subsidiary company which is an unlisted public company. The subsidiary has unabsorbed tax losses from previous years. Will such losses be transferred to Beta Ltd for set-off against its income in the post-merger years.

(v). AlMeezan Mutual fund limited is an open ended fund duly registered with Pakistan Mutual Fund Association. The company has decided to distribute 94% of its accounting profit after tax as dividend to its unit holders. The finance director of the company is of the view that the income to be distributed to unit holders in the form of dividend will be subject to withholding of tax @ 12.5%.

(vi). ABC Ltd obtained a running finance from a banking company under an agreement. One of the conditions of the agreement stipulates that company shall pay the bank a commitment fee @ 0.05% of the unutilized amount of debt. The tax advisor of the company is not sure about the correct treatment of commitment fee to be paid to bank.

(vii). A Pakistan branch Sun Inc. of non-resident company lends money to a Pakistan branch Moon Inc. of another non-resident company. Interest received by Sun Inc. is accounted for as income but is not accounted for as expense by Moon Inc. and is instead recorded as expense by Moon Inc. head office outside Pakistan. The tax advisor of Sun Inc. is of the view that interest amount received is chargeable to income tax.

(viii). On July 2012 XYZ Ltd issued local currency bonds to its lenders in Pakistan. The lenders have an option to convert these bonds into equity shares of the company at any time after 30 June 2015. In tax year 2017, 35% of lenders exercised the said option.

(ix). A company in the phase of liquidation makes payment to its shareholders after paying off all third party liabilities.

Question # 42

Being a tax consultant, you are required to advice the management about the admissibility/tax implications of the following independent situations for tax year 2017 keeping in view the provisions of the Income Tax Ordinance, 2001:

(i). Initial allowance on a two year old plant imported from UAE

(ii). Profit on debt paid by ABC (Pvt.) Ltd on a working capital loan obtained from a foreign bank. The company did not deduct withholding tax while paying profit on debt considering the bank does not have a permanent establishment in Pakistan.

(iii). Profit on debt paid to a subsidiary company of ABC (Pvt.) Limited on which no tax was deducted. ABC (Pvt.) Ltd and its subsidiary are entitled to group taxation under the provisions of the Income Tax Ordinance, 2001

(iv). A company has acquired plant and machinery through loans in foreign currency. The finance manager is of the view that exchange loss in relation to interest payable on foreign currency loans will be added to the cost of the asset.

(v). Cash flow statement shows that an amount of Rs. 2 million has been paid as legal and professional charges to one of the company consultants. The said amount was overdue since tax year 2010. ABC (Pvt.) Ltd has claimed this amount as an expense in tax year 2017 also.

(vi). Ali purchased a property amounting to Rs. 2,500,000 through agriculture income earned by him during the year. Ali also received a gift of Rs. 350,000 in cash from his relative during the current tax year.

(vii). Imran a citizen of Pakistan left Pakistan on 01 July 2010 for his professional career. He returned to Pakistan on 01 October 2015 and opened his institute. He received $30,000 as salary arrears on 28 December 2016 from his foreign employer. Income earned during the tax year 2017 from institute is Rs. 2,000,000.

(viii). ABC (Pvt.) Ltd has charged depreciation according to the rates admissible under the tax law amounting to Rs.100,000 on machinery taken on a finance lease from a scheduled bank in July 2013. Lease rentals paid during the tax year 2017 amounted to Rs. 120,000. The leased machinery was transferred to owned assets on maturity on 30 April 2017. On maturity the accounting WDV of the assets was Rs. 500,000, market value was Rs. 800,000 whereas the residual value of the asset was Rs. 50,000.

(ix). On 13 October 2016 Imran gifted a painting to his cousin who was living in Australia since 2014 in connection with his employment with Federal Government of Pakistan. Imran had purchased this painting for Rs. 200,000 five years ago. On the date of gift its fair value was Rs. 500,000.

(x). In tax year 2015 against a debt claim of Rs.200,000, Commissioner Inland Revenue allowed a deduction of Rs. 180,000. In the tax year 2017, ABC (Pvt.) Ltd recovered Rs. 50,000 from the above amount of Rs. 200,000.

(xi). Repair and maintenance expense debited to profit and loss account of ABC (Pvt.) ltd includes Rs. 100,000 for construction of car park on the company's premises and Rs. 30,000 for running and maintenance of a truck used for business purpose.

(xii). Other income of Rs. 1,000,000 has been charged to tax under the head "Income from Business" by the finance manager of ABC (Pvt.) Ltd. This income is on account of compensation received on delayed payment of tax refund by the FBR.

(xiii). Immoveable property was sold for Rs. 150 million. The cost of the property was Rs. 100 million. Upto tax year 2016, tax depreciation of Rs. 30 million had been allowed on the immoveable property.

(xiv). A machinery used in the business in Pakistan, was exported to UAE. The export proceeds amounted to Rs. 45 million. The cost and written down value of the machinery was Rs. 35 million and 28 million respectively

(xv). Two buses were disposed off for Rs. 2.5 million. They were acquired in tax year 2016. The tax written down value of buses at the beginning of the tax year 2017 was Rs. 2.4 million. The trucks were being used partly i.e. 60% for business purpose. Tax rate of depreciation is 20%.

(xvi). ABC (Pvt.) Limited has not charged any tax liability due to assessed and brought forward losses. The financial consultant is of the view that in the presence of losses, minimum tax liability and provision for workers welfare fund is required to be made.

(xvii). Hamza purchased a plot from his own sources in 2004. His father constructed a house thereon from his own sources in 2015. On 01 July 2016 this property was given on rent of Rs. 100,000 per month to Mr. B. How will rental income be taxed in tax year 2017?

(xviii). ABC limited a manufacturing company engaged in the business of float glass has provided residential quarters to its workforce at nominal rent. Explain the taxability of rental income received from the workforce.

(xix). A company is in the business of purchasing and renting of apartments. Will income arising from such rentals be taxed as income from property or income from business?

(xx). Sameel has purchased four properties in a residential locality of Karachi. One property is in his name, two properties are in the name of his wife and one in the name of his minor son. All of the four properties are given on rent. Will Sameel be required to pay tax on total rental income from all the four properties?

(xxi). On 01 July 2016 Usama invested an amount of Rs. 1,500,000 in Behbood Saving Certificates. During the tax year 2017 the payer did not deduct any tax while paying profit on debt of Rs. 200,000 on the certificates. Usama therefore offered the said amount to tax under the normal tax regime while preparing his income tax return.

Question # 43

Big Limited (BL) was incorporated in Pakistan in 1992. It holds the entire share capital of several locally incorporated companies including Zeta Limited (ZL). Following information has been extracted from ZL's records for the year ended 30 September 2016:

Head of income	Amount (Rupees)
Income from business	500,000
Capital gain	800,000
Income from other source	100,000
Total income before tax	1,400,000

ZL is engaged in the business of manufacturing scaffoldings since its incorporation. Following further information is available from ZL's records:

(i). The income from business includes deemed income in respect of a loan of Rs. 85,000 received otherwise than by a crossed cheque.

(ii). Business losses brought forward from tax years 2015 and 2016 amounted to Rs. 130,000 and Rs. 200,000 respectively. ZL's tax assessment has been finalized upto tax year 2015.

(iii). Capital losses brought forward from assessment years 2010 and 2011 amounted to Rs. 50,000 and Rs. 65,000 respectively.

(iv). The amount of tax depreciation adjusted during the year against income from business amounted to Rs. 490,000. Unabsorbed tax depreciation brought forward from previous assessment years amounted to Rs. 135,000.

(v). A loss from speculation business brought forward from tax year 2016 amounted to Rs. 100,000.

(vi). One of BL's subsidiaries, which is qualified for group relief, surrendered its assessed losses of Rs. 250,000 in favour of ZL. These losses include brought forward business loss of Rs. 25,000, capital loss of Rs. 45,000 and an unabsorbed tax depreciation of Rs. 10,000.

Required:

Under the provisions of Income Tax Ordinance, 2001 compute the taxable income of Zeta Limited for the tax year 2017 and the amount of loss, if any, to be carried forward to next tax year. State the reason where any of the loss cannot be adjusted against the given income.

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Note: The order in which various deductions are to be set-off against HPL's income should be followed.

Question # 44

Herbal Trading (HT) is a sole proprietorship business owned by Mr. Adnan. The business is engaged in the manufacturing and supply of Herbal Medicines for the past many years. On May 01, 2017 Mr. Adnan decided to transfer his proprietary business, including all the assets and liabilities, to a private limited company Medicare (Pvt.) Limited (MPL). Following is an extract from the balance sheet of HT immediately before the disposal of business to MPL.

Herbal Trading

Balance Sheet as at April 30, 2017

Capital and Liabilities	**Rupees**	**Assets**	**Rupees**
Owner's Capital	9,000,000	Fixed Assets (WDV)	5,400,000
Accumulated Profit	1,500,000	Patents (WDV)	2,000,000
Short Term Loan	500,000	Stock in Trade	4,600,000
Trade Creditors	7,000,000	Debtors	3,000,000
		Cash and Bank Balances	3,000,000
Total	**18,000,000**		**18,000,000**

Following information is available relating to the proposed scheme of transfer and the status of MPL:

(i). 50% of the purchase consideration would be paid to Mr. Adnan in terms of fully paid shares of MPL whereas the remaining 50% would be paid in cash.

(ii). The break-up value of each share of MPL as at April 30, 2017 is Rs. 15.

(iii). MPL has a share capital of Rs. 30 million consisting of equity shares of Rs. 10 each. Mr. Adnan owns 70% of the paid up share capital of MPL whereas the remaining 30% is equally owned by his spouse Razia, whose income is clubbed with Mr. Adnan, and his elder brother Rais. Due to financial constraints, Rais is considering to dispose of his ownership interest in the company.

(iv). MPL would assume all the liabilities of HT with the exception of Rs. 2 million, which is payable to Barkat Enterprises.

(v). The net realizable value of stock in trade as at April 30, 2017 is Rs. 4 million.

(vi). Rs. 1.0 million receivable against sale of medicines to Parker & Sons last year is not recoverable due to insolvency of the customer. All possible efforts have already been made by HT for the recovery of debt.

(vii). Following is the tax written down value (WDV) and fair market value (FMV) of HT's patents and fixed assets as at April 30, 2017:

		Rupees	
	Cost	**Tax WDV**	**FMV**
Fixed assets	7,000,000	3,000,000	5,200,000
Patents	5,000,000	2,500,000	2,300,000

Required:

(a). Any transaction that is related to disposal of assets becomes the subject matter of gain or loss. Advise Mr. Adnan about the conditions, which are required to be fulfilled under the Income Tax Ordinance, 2001 if he wishes to avoid recording any gain or loss on the disposal of his business to MPL.

(b). Advise the necessary changes, if any, required to be made by Mr. Adnan in his proposed scheme of transfer in order for it to be in compliance with the conditions identified in part (a) above.

(c). Calculate the following, assuming the conditions in (a) above have been fully complied with.

(i) Number and the value of shares to be received by Mr. Adnan from MPL.
(ii) MPL's cost of acquisition of assets.
(iii) Mr. Adnan's cost in respect of the shares received by him as consideration.

Question # 45

Styles & Styles, Inc. (SSI) is the parent company of a leading foreign group involved in the manufacturing and sales of consumer products all around the world. They are considering an option to enter into the Pakistani market. Based on data obtained through a market survey, they are in the process of preparing financial projections for a proposed local subsidiary in Pakistan, Styles & Styles Pakistan (Pvt.) Limited (SSPL).

Under the proposed business model, business of SSPL is likely to be set-up as under:-

(i). SSPL would be incorporated with a share capital of Rs 100 million to be wholly owned through a UAE based group company Styles & Styles FZE. The investment in SSPL would be financed by the UAE company through an interest bearing loan agreement with SSI

(ii). SSPL would be involved in commercial imports as well as local manufacturing of certain products for which the raw material would be imported from group companies

(iii). To set up the manufacturing plant in Pakistan, certain second-hand plant and machinery will be imported from an unrelated supplier outside Pakistan. To save bank charges/commission etc. it was agreed that LC would not be opened and the payment will be remitted directly through bank, 30 days after the import of plant. The supplier is insisting that payment be made without deduction of withholding tax

(iv). Construction of factory building is likely to be carried out by a leading Pakistani engineering company. A contract in this regard would be signed shortly after the incorporation of SSPL and thereafter a mobilization advance of Rs 50 million will be paid; and

(v). A foreign currency loan of US $ 75 million would also be provided by SSI, directly to SSPL. The loan would be payable over a period of five years carrying an arm's length interest rate.

Required:

The group wants to determine Pakistan tax implications, if any, and have requested you to advice on the following issues:

(i). Treatment of income tax paid at the import stage.
(ii). Tax depreciation on the plant.
(iii). Deduction of tax on interest paid
(iv). Taxability of interest received by SSI

Question # 46

Desi (Pvt.) Limited (DPL), a resident company, is 70% owned by Mega Inc. USA (MI). On 15 March 2016 DPL received a loan of US$ 3.0 million (equivalent to PKR 315.0 million) from MI with interest at the rate of 11% per annum. Interest is to be paid half yearly in arrears. Repayments of the principal would commence after 2016. The loan was received to finance a rural development project in Punjab duly approved by the Federal Government in accordance with the Second Schedule.

On 1 June 2016 DPL received another loan of US$ 1.6 million (equivalent to PKR 168 million) from MI with interest at the rate of 6% per annum. Interest on this loan is to be paid monthly in arrears. This loan was received for the construction of a new factory building. The principal repayment would commence from November 2017.

On 31 August 2016 DPL wrote-off Rs. 1.0 million in respect of a debt owed by one of MI's associates who was based in Australia. The outstanding debt balance in DPL's books at the end of 30 September 2016 was Rs. 4.0 million.

Following information has been extracted from DPL's records for the year ended 30 September 2016:

Rs. In Million

Assets (including the above outstanding debt of Rs. 4.0 million)	3,500
Liabilities	2,870
Net profit after taxation for the year	350
Amount credited during the year to asset revaluation reserve	150

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute the amount of interest on debt that shall be allowed as expense, for tax year 2017.

Question # 47

Joy Limited is incorporated with a paid up capital of Rs. 500 million under the Companies Ordinance, 1984. Deep Sea Inc. USA (DSI) and Shallow Waters Inc. USA (SWI) hold 50% Shares each. Green Sea Group is the parent company of both the DSI and SWI. Joy Limited is following a special tax year i.e. January-December.

On 30th April 2009, Joy Limited has an outstanding loan balance of Rs. 300 million payable to DSI with interest payable @10% per annum. This loan is repayable in equal annual installments of Rs. 50 million each, at the end of each year.

To finance a new project of Joy Limited, DSI is considering to provide another long term loan of Rs. 5.0 billion carrying interest @ 10% per annum. 25% of the loan is expected to be disbursed in the current year ending December 31, 2009 while the remaining 75% of the loan would be received by Joy Limited in December, 2010. The new loan would be repayable in twenty equal annual installments of Rs. 250 million each, with the first installment falling due in July 2012.

As on December 31, 2008, Joy Limited had a balance of Rs. 500 million in its retained earnings account. The profits forecast for three years are as under:

Tax years	**2010**	**2011**	**2012**
Profit	700 million	850 million	1000million

Required:

(a) Explain thin capitalization rule in the light of the provisions of Income Tax Ordinance, 2001.

(b) If Joy Limited acquires the above long term loan from DSI, compute the following in respect of each tax year:

(i) Amount of foreign debt

(ii) Foreign equity of Joy Limited

(iii) Admissible / inadmissible interest expense

(c) What would be implication of thin capitalization rule, if joy limited acquires a new loan from another foreign company not related to the Green Sea Group?

Question # 48

(a) Channel9 is a non-resident company incorporated in a country which does not have a tax treaty with Pakistan for the avoidance of double taxation. It wants to conduct business in Pakistan under the following proposed model:

- Channel9 is in the process of submitting a bid to Impact Advertising Limited (IAL) for providing, under a contract (TV Contract), advertisement services which would be rendered by TV Satellite Channels owned and managed by them.
- IAL is a company incorporated under the Companies Ordinance 1984.
- Channel9 has been informed by IAL that all payments to them under the TV Contract would suffer withholding tax and the said tax deducted will be full and final tax liability of Channel9 from income in Pakistan.

Required:

(i). Explain the tax provisions under which IAL is required to deduct tax from the payments made to Channel9 under the TV Contract

(ii). State whether tax deducted from the payments under the TV Contract would be the final or adjustable

(b) Anderson International Company (AIC), a company registered in the USA Islands, is in the business of operating ships which are owned by it.

AIC's operations in Pakistan are limited to the carriage of goods from Pakistan to destinations outside Pakistan and the carriage of goods imported into Pakistan embarked outside Pakistan. You are informed by AIC's local shipping agent that AIC is of the view that the company's income from its Pakistan operations is not taxable in Pakistan as its world income is exempt from tax in the USA Islands.

Required:

(i). The tax provisions under which AIC's income would be chargeable to tax in Pakistan, the basis of computing the amount chargeable to tax and the tax payable thereon.

(ii). The requirements to be completed by the master of a ship for income tax purposes before the ship is allowed to leave a Pakistan port.

(iii). The procedure for obtaining a port clearance certificate allowing a ship to depart from a Pakistan port, when the master of the ship is unable to complete the requirements referred to in item (ii) above

(iv). Briefly state with reasons whether your answer to item (i) above regarding the taxability of AIC income in Pakistan would be different, If AIC was incorporated in a country which has a tax treaty with Pakistan and the treaty provides that the income from the operation of shipping would not be taxable except in that country

(c) The following information is provided to you:

- Gold Finger Ltd (GL) is a non-resident company incorporated in a country which has no tax treaty with Pakistan for the avoidance of double taxation.
- GL is a private company wholly owned by Diamond Jim and his family members.
- GL has been operating in Pakistan since 1 June 2010 as a branch.
- GL entered into an agreement on 1 June 2010 with the provincial government of Baluchistan under which GL was given the right to explore and exploit mineral deposits in a specified area of Baluchistan for a period of ten years.
- In June 2015 Diamond Jim and his family members sold their entire shareholding in GL to an enterprise in the United Kingdom and made a gain of £100,000.
- Diamond Jim and his family members were non-residents for Pakistan tax purposes in the tax year 2015.Diamond Jim is of the view that since he and his family were non-residents in the tax year 2013 and the gain arose from the sale of the shares in a non-resident company (GL), the gain of £100,000 is not chargeable to tax in Pakistan.

Required:

(i). State, giving reasons, whether the view of Diamond Jim is correct.

(ii). Explain whether or not your conclusion would be different and if so how, if the branch in Pakistan of Gold Finger Ltd was engaged in the distribution of petroleum products and its income was principally from the distribution of petroleum products.

(d) Baily Hughes Inc (BHI), an Australian Corporation, has established a liaison office in Islamabad. Liaison office does not conduct any business in Pakistan or engage in any income generating activity. The expenditure of the liaison office is borne by BHI. The activity of liaison office in Pakistan is limited to acting as an effective conjunction and a link between BHI and the cement trade in Pakistan, the dissemination of relevant information relating to the cement sector and generally keeping BHI informed of the cement business in Pakistan.

Required:

(i). State, giving reasons, whether BHI will be considered to have a permanent establishment in Pakistan.

(ii). Explain whether or not your conclusion to (i) above would differ if liaison office, in addition to its liaison activities, also engages in the negotiation of contracts of purchase of Pakistani cement.

(iii). Explain whether or not your conclusions to (i) and (ii) above would differ if liaison office, in addition to its liaison activities and the negotiation of contracts of purchase of cement used its office premises as a permanent sales exhibition for the manufactured cement of BHI.

Question # 49

In the light of the provisions of the Income Tax Ordinance, 2001 explain the income Tax/withholding tax implications in respect of each of the following independent situations:

(i). McCullum Limited (ML), a company resident in a country which has no tax treaty with Pakistan for the avoidance of double taxation, holds 54% of the shareholding in Azam Ltd, a company incorporated under the Companies Ordinance 1984. Azam Ltd is engaged in the distribution of chemicals and is not a public company for Pakistan tax purposes. ML's only income in Pakistan is from dividends received from Azam Ltd. In March 2017, ML disposed of its entire shareholding in Azam Ltd to an enterprise in the United States of America and made a gain of US$ 500,000 on the transaction. ML is of the view that there are no tax implications in Pakistan in respect of the gain of US$ 500,000, since the entire transaction of the sale of the shares in Azam Ltd took place outside Pakistan with another non-resident company and the sale consideration was also received outside Pakistan.

(ii). Usman Pakistan Limited (UPL) a company incorporated in Pakistan is engaged in the business of manufacture and marketing of fertilizers. Under an agreement, Urea Ltd, a company incorporated in Australia regularly sends UPL reports on the latest technical developments in the field of manufacture of fertilizers. This information is transmitted by Urea Ltd to UPL by electronic mail and is utilized by UPL for its business outside Pakistan. The consideration under the agreement is received by Urea Ltd in Australia. Urea Ltd neither has any presence in Pakistan, nor have any of its employees ever visited Pakistan. There is no Tax Treaty between Australia and Pakistan for the avoidance of double taxation.

(iii). A remittance of US$ 60,000 by XYZ Ltd, a resident company in Pakistan to Omega Ltd (an enterprise of a country which does not have a tax treaty with Pakistan) for the right to use a secret process only in Pakistan for the formulation of a herbal cough syrup. The process is not to be used by XYZ Limited for any business outside Pakistan. XYZ Ltd plans to commence the manufacture of the cough syrup in Pakistan in the tax year 2017. Omega Ltd has no permanent establishment in Pakistan and the control and management of its affairs is situated wholly outside Pakistan.

(iv). Moon Limited (ML), an unlisted public company, engaged in the manufacture of sports goods, remitted US $ 30,000 to JH Hospital in Boston, USA for the medical treatment of its CEO. According to the terms of his employment the CEO is entitled to free provision of medical treatment and hospitalization. The amount was remitted on 1 March 2017 in compliance with the regulations of the State Bank of Pakistan. The management of ML is of the view that the expenditure would not be allowed as a deductible expense in tax year 2017 as no tax was withheld from the payment to JH Hospital in Boston, USA.

(v). XYZ Ltd, a resident company for Pakistan tax purpose, has provided Rs.100,000 to Mr. Finch for providing accounting services. The payment was made under a contract dated 01 June 2017. During the period from 1 July 2016 to 31 May 2017, Finch was not present in Pakistan. He was serving in Dubai as an employee of the Ministry of Foreign Affairs, Government of Pakistan.

(vi). XYZ Ltd, a resident company for Pakistan tax purpose, has provided Rs.750,000 to CP Pakistan Ltd (CPPL) for goods purchased from them. CPPL is operating in Pakistan as a branch of CP Inc, a company incorporated in a country outside Pakistan which has no tax treaty with Pakistan.

(vii). XYZ Ltd, a resident company for Pakistan tax purpose, remitted £100,000 through regular banking channels to Tricon plc (TP) for the cost of a packing machine inclusive of sea freight. The title in the machine passed to XYZ Ltd at the time the machine was handed over to the ship at the London docks for transportation to Karachi. Dealing in packing machines is the business of TP. TP has neither any presence in Pakistan, nor any activity in Pakistan.

(viii). Omega Pakistan Limited (OPL) a company incorporated under the Companies Ordinance, 1984 has made an arrangement with a foreign company based outside Pakistan to import a machinery in Pakistan for OPL intended use for 6 months period on re-export basis, against payment of certain rentals.

(ix). Beta Limited is a public company under the Companies Ordinance, 2001 engaged in the manufacture and sale of electrical appliances. During the tax year 2017, BL launched a campaign for the promotion of a new product. A foreign artist was hired for making a TV commercial at an agreed remuneration of Rs. 15 million.

(x). ABC Limited, a company incorporated under the Companies Ordinance, 1984, paid commission of Rs. 100,000 to non-resident person having no permanent establishment in Pakistan.

Question # 50

The Chief Financial Officer of Gilchrist (Pvt.) Ltd (GPL) furnished you with the following information on 28 July 2014:

- GPL is a non-resident company incorporated under the laws of Australia
- GPL closes its accounts on 30 June of each year
- GPL is engaged in providing construction and related supervisory activities to Federal Government in Pakistan.
- The budgeted figures for the Net receipts (after tax deduction by Federal Government) and the taxable income (i.e. adjusted for tax purposes) are as follows:

Tax Year	Receipts(net of tax)	Taxable income
2015	9,400,000	2,500,000
2016	11,280,000	2,920,000
2017	13,160,000	3,380,000

- In the tax year 2018, GPL plans to expand its business which would entail the purchase of new plant and machinery. The cost of the new plant is estimated to be Rs.10 million. The plant is expected to be commissioned for use in September 2017.
- For the tax year 2018, the company's net receipts (after tax deduction) from contract is estimated to be Rs.15,040,000 and the taxable profit to be 18% of the Gross receipts. The estimated profit has been adjusted for tax purposes except that no adjustments have been made for purchase of new plant and machinery.

Required:

(i). Keeping in view provisions of Income Tax Ordinance, 2001 explain whether income of GPL will be assessed under Final or normal tax regime.

(ii). Advice on the basis of the information furnished, whether or not it would be beneficial from a tax viewpoint for GPL to opt for assessment on the final tax basis or normal tax basis for the tax years 2015, 2016, 2017 and 2018.

Question # 51

Assuming that you are a prescribed person, explain the withholding tax implications in respect of each of the following transactions:

(i). A television operator has made a payment to a foreign satellite channel for relaying its television programmes in Pakistan through his cable network.

(ii). Reimbursement of boarding, lodging and incidental expenses incurred by nonexecutive directors of the Company for attending the Board's quarterly meeting held in Dubai.

(iii). A company's agent sells goods on behalf of company and retains his commission from the sale proceeds realized and remits the balance to the company.

(iv). Payment to a non-resident debtor on account of out of court settlement of a dispute and payment of fee to the lawyer for handling such settlement. The lawyer was also a non-resident.

(v). A resident company has paid markup to another resident company under a loan agreement.

(vi). Payment to a resident company as consideration for obtaining a right to manufacture certain goods.

(vii). Purchase of private company's shares and securities.

(viii). Distribution of dividend in kind (specie dividend).

(ix). Money retained from a contractor's running bills

(x). Buyback of shares by a company out of the accumulated profits

(xi). Refund of a security deposit

(xii). Payment to a supplier who imports and sells the imported product in the local market in the same condition in which they are imported

(xiii). Payment of commission to the sales staff (xiv). Deduction of withholding tax on amount exclusive of sales tax

(xv). Printing and stationery expenses payable debited to profit and loss accounting without withholding of tax.

(xvi). ABC Manufacturing (Pvt.) Ltd has been involved in the manufacturing of leather products. 100% of the goods are exported. Consistent with their past practice, they are deducting tax from the payments against purchase of goods. One of their suppliers has raised an objection on their practice by contending that by virtue of becoming manufacturer-cum-exporter, they are no more required to withhold tax from payments against purchase of goods.

(xvii). Reimbursement made to a foreign associate in respect of salary of the Director Finance of XYZ Limited. The Director Finance is a foreign national and receives part payment of his salary in his home country. The foreign associate had not deducted any tax from the payment made by it to the Director Finance.

Question # 52

Crown Enterprises, a branch of a company incorporated in Singapore, intends to dispose off one of its business segment to Trend Setters Limited (TSL), a company listed on the Karachi Stock Exchange, for a lump sump consideration of Rs. 500 million. The net assets of the business segment are separately identifiable. The consideration was agreed keeping in view the fair market value of net assets, earning potential of the underlying assets and the brand name of the products. Under a separate agreement Crown Enterprises has agreed to refrain from competing in the same business for a period of five years and in consideration thereof TSL has agreed to pay an additional amount of Rs. 50 million.

The break-up of net assets related to the business segment is given below:

	----------- Rs. In million--------	
	Net book value	**Fair market value**
Plant and machinery	150	180
Land	60	80
Building	40	70
Inventory	90	90
Other current assets	85	85
Total assets	**425**	**505**
Less: Current liabilities	125	125
Net assets	**300**	**380**

The cost of building to the company is Rs. 50 million and tax WDV is equal to the accounting WDV of Rs. 40 million.

Required:

(a). Compute the amount that will be included in the taxable income of Crown Enterprises, as a result of the above transaction. Give appropriate reasons under the Income Tax Ordinance, 2001, to support your calculations.

(b). Describe the withholding tax obligations of TSL in respect of payments to be made to Crown Enterprises.

Question # 53

In the light of the provisions of the Income Tax Ordinance, 2001 read with Income Tax Rules, 2002 you are required to explain the following:

(i). Taxability of mutual funds
(ii). Taxation of dividend declared by mutual funds in the hands of unit holders
(iii). Taxability of capital gains in the hands of units holders in case of redemption of mutual funds certificates/units
(iv). Taxability of Capital gains on sale of securities in case of banks
(v). Taxability of Dividends in case of banks
(vi). Taxability of dividend and capital gains on sale of securities in case of insurance company
(vii). Taxability of Modaraba
(viii). Taxability of leasing companies

Question # 54

Being a tax consultant, you are required to advice the management about the tax implications of the following keeping in view the provisions of the Income Tax Ordinance, 2001 read with Income Tax Rules, 2002:

(i) Usman filed his tax return for the tax year 2017 on 30 September 2017. The return of income was complete in all respects and as such was treated an assessment order passed by the Commissioner Inland Revenue. Usman wants to know the circumstances under which Commissioner Inland Revenue may amend the assessment order and whether an assessment once amended can be further amended.

(ii) Aqeel a resident individual filed his tax return for tax year 2017 within due date, however he did not file any wealth statement as his taxable income was below Rs. 1,000,000. Aqeel is also a member in a partnership firm.

(iii) Hamza did not file wealth statement for tax year 2017 as he was not a resident person for that tax year.

(iv) Tauseef has not filed his tax return for the past three years despite having earned taxable income. Tauseef is not sure about future course of action he should take in this regard.

(v) An assessment can be amended only where the Commissioner has definite information justifying such amendment. What is meant by definite information?

(vi) Mr. Irfan, a business individual filed his tax return for tax year 2017 on 30 September 2017. The Federal Board of Revenue selected him for an audit of his income tax affairs. During the audit proceedings, it was found that he had failed to maintain records as required under the Income Tax Ordinance, 2001. As a result of the audit proceedings his taxable income and tax thereon was determined at Rs. 3,000,000 and Rs.469,500 respectively. Mr. Irfan wants to know the time period for which records are required to be maintained and amount of penalty which can be levied on him for non-maintenance of the records.

(vii) A default surcharge of Rs.200,000 and a penalty of Rs. 20,000 was levied on Ahsan due to non-filing of return and non-payment of tax thereon within due date. Ahsan wants to know whether there is any provision in the Ordinance through which he can be exempted from payment of default surcharge and penalty.

(viii) Mr. Rafiq filed his tax return for tax year 2016 on 30 September 2016. On 01 January 2017 he discovered that due to an omission, a taxable amount of Rs. 500,000 had not been declared in the original return. No notice for audit or amendment of assessment has yet been received. Rafiq intends to revise the return immediately and whether he will be required to pay any default surcharge and penalty.

(ix) Omega Ltd (OL) a public company duly incorporated under the Companies Ordinance, 1984 failed to deduct tax at the applicable rate from payment it made to Gama Ltd (GL) on account of supply of goods by GL. Whether Commissioner can recover the default surcharge and tax from OL which it failed to deduct from GL after GL has filed its return of income and paid the tax due on the declared income.

(x) Usyad has had an appeal pending before the Appellate Tribunal for a long time. He is thinking about seeking relief through alternative dispute resolution (ADR) mechanism provided in the law and seeks your opinion regarding the persons eligible to be appointed by the Board as member of the resolution committee, situations under which a taxpayer cannot apply to the Board for the appointment of a committee for the resolution of a dispute under the alternative dispute resolution mechanism and procedure he can follow in case he is not satisfied with the final order of the Board.

(xi) Adeel purchased a property amounting to Rs. 5,000,000 on 23 November 2016. The CIR served a notice on Adeel requiring him to file his return for the tax year 2017 but Adeel failed to comply with the terms of the notice. Under the given circumstances what course of action is available to CIR for recovery of the tax on the said amount.

Question # 55

(i) Omega Ltd (OL) a public company duly incorporated under the Companies Ordinance, 1984 paid a salary of Rs. 5,000,000 to its marketing director but it failed to deduct tax at the applicable rate. What implication OL may face because of its failure to deduct tax from the salary paid by it.

(ii) Omega Ltd (OL) a public company duly incorporated under the Companies Ordinance, 1984 commenced business on 15 August 2016. During the financial year ended 30 June 2017, OL had no taxable income due to initial allowance and depreciation. OL total turnover for the year was Rs. 200,000,000 and its CFO is of the view that company is not required to pay an advance tax.

(iii) Uzair (Pvt.) Limited (UPL) is likely to suffer loss during the tax year 2017. The company has sufficient determined refunds available from previous years which can be adjusted against minimum turnover tax for the current year. It has therefore applied to Commissioner Inland Revenue for exemption certificate from tax deduction/collection under section 153 read with 159 of the Income Tax Ordinance, 2001. The application of the company was rejected by the Commissioner. The CFO of the company seeks your opinion regarding any remedy available to UPL against the decision of Commissioner.

(iv) An assessment order was made by the Commissioner on 30 September 2010 in respect of tax year 2010. On October 2015 the Commissioner issued a notice to the tax payer showing his intention to rectify a mistake of computation in the order which would result in decrease in refund from Rs. 1,000,000 to 500,000. The CFO of the company is of the view that proposed rectification cannot be made.

(v) Alpha Limited filed its tax return for tax year 2016 on 31 December 2016 showing a refund of Rs. 5.5 million. The CFO of the company wants to know the maximum time limit within which company can apply for refund, time available to the Commissioner for decision and any remedy available to the taxpayer in case refund application is rejected by the Commissioner.

(vi) Mr. Raza is a tax consultant and a taxpayer on record with the Income Tax Department since 2010. In 2014, he purchased a house in Lahore for Rs.3,000,000 out of his earnings from tax consultancy which had not been included by him in any of the tax returns furnished to the tax department. For the tax year 2016, he had furnished to the Commissioner a complete return and statement of assets and liabilities (wealth statement) as at 30 June 2016 on the prescribed form. No amended assessment order has been framed by the Commissioner for that tax year.0n 5 January 2017, the Commissioner was informed by Chief Commissioner that a house property belonging to Mr. Raza had been impounded by the Property Tax Department of the Government of Punjab for non-payment of water and property taxes for the last many years. Explain the steps that the Commissioner can take under the Income Tax Ordinance 2001 to safeguard the interest of revenue.

(vii) Under the provisions of section 122A-Revision by Commissioner, of the Income Tax Ordinance, 2001 the Commissioner can call for the records of any proceedings in which an order has been passed by any officer Inland Revenue. After making such inquiries as is necessary, the Commissioner may then make such revision to the order as he deems fit. State whether or not the Commissioner can revise an order (i) passed by the Commissioner (Appeals) (ii) an assessment order framed under the repealed Income Tax Ordinance 1979 (iii) an assessment order reducing the amount of a refund determined in an assessment order. Also list the orders that cannot be revised by the Commissioner under the provisions of Section 122A.

(viii) Azhar filed his tax return for tax year 2011 on 20 September 2011. On 15 October 2016 CIR served a show cause notice requiring him to explain certain amounts credited in his bank statement. Azhar is uncertain as to whether CIR is empowered to issue such notice after lapse of so many years

(ix) For tax year 2017 the tax consultant of Azhar determined that tax amounting to Rs. 500,000 was required to be paid with his return which was due to be filed on 30 September 2017. On the date of filing of return, Azhar was not present in Pakistan. Therefore, the consultant applied to the Commissioner for extending the date of payment of tax by 15 days.

(x) Aslam filed an appeal in Appellate Tribunal Inland Revenue (ATIR) against the decision of Commissioner Appeals in respect of rejection of tax refund amounting to Rs.50,000,000. There is difference of opinion on one point amongst the members of a Bench constituted by the Chairperson of the Appellate Tribunal. Aslam wants your opinion regarding resolution of the above matter.

(xi) Calculate the advance tax payable for the fourth quarter in respect of the following information is available in respect of an individual Mr. Hamza:

	Based on tax return of 2016	Pertaining to TY 2017
	---------------Rs. In million---------------	
Turnover - Normal tax regime	1,000	800
- Final tax regime	300	400
Tax liability-Normal tax regime	20	-
Final tax regime	10	12

Turnover under normal and final tax regime upto third quarter of the tax year 2017 was. Rs. 600 and Rs. 300 million respectively. During the fourth quarter, total tax withheld amounted to Rs. 6 million out of which Rs. 2 million pertains to final tax regime.

Question # 56

(i) On January 2016, XYZ Limited signed a contract with Mr. Usman for providing telecommunication and software services over a period of two years. Payment will be made quarterly amounting to Rs. 100,000 per installment. The first three installments were made as per the agreement. On 30 September 2016, XYZ Ltd received a notice from the Commissioner of Inland Revenue to pay income tax of Rs. 650,000 which is due from Mr. Usman. Discuss XYZ Ltd's position in respect of notice issued by Commissioner.

(ii) Rehman is living in Dubai for the last 10 years. He is the owner of two residential properties in Lahore and Sialkot measuring 900 square yards each. On 01 September 2017, the Commissioner served a notice on his residential property located at Lahore for filing of return within 25 days from the date of receipt of notice for the tax year 2017. Mr. Rehman's servant informed him about this notice over the telephone. What is the validity of this notice?

(iii) On 30 October 2017 Mr. Rehman received a notice from CIR requiring him to make payment of the outstanding tax of Rs. 3,000,000 as a result of an assessment order passed by Commissioner. Mr. Rehman is facing severe cash flow problems and is not in a position to pay the said tax. What will be the due date for payment of tax and any recourse available to him due to cash flow problems?

(iv) Every taxpayer whose income was charged to tax for the latest tax year is liable to pay advance tax. Specify the incomes which are not considered for the purpose of ascertaining advance tax.

(v) Mr. Rafiq has received a notice from the Income Tax Department for the payment of outstanding tax dues. However due to liquidity problems he wants to delay the payment. Advise him about the actions which the department may take to recover the tax dues, if the payment is not made within the time specified in the notice.

(vi) On 15 September 2016 Hamid received a notice from Commissioner of Income Tax requiring to file return for the tax year 2012 and 2010 within 25 days of receiving the notice. Discuss the validity of the above notice and whether Hamid can get an extension for filing the return.

(vii) Determine the date by which appeal can be filed with the Commissioner (Appeals) in the following cases:

(a) Assessment order for tax year 2016 was made on 31 December 2016. Demand notice was served on 01 January 2017.

(b) Refund application was filed on 18 April 2016 but no refund order was passed within 60 days.

(viii) On 23 September 2016 CIR amended the assessment of RPL Limited in respect of tax year 2014 and created a tax demand of Rs. 234 million. The company believes that amendment is patently incorrect and therefore filed an appeal before CIR-Appeals against the said. The CFO of the company believes that there is no need to pay the tax of Rs. 234 million now as they have filed an appeal before CIR-appeals.

(ix) The assessment of XYZ Ltd for tax year 2015 was amended by the Commissioner creating income tax demand of Rs.40,000,000. Sales tax determined refund of Rs. 45,000,000 has not yet been paid to XYZ Ltd and CFO of the company is of the view that sales tax refund can be adjusted against the income tax demand.