

Answer 1

- (1). Being an employee of Federal Government, Mr. Raza would be treated as resident irrespective of number of days he stays in Pakistan.
- (2). A company shall be resident if control and management of the affairs of the company is situated wholly in Pakistan at any time in the year. Therefore, company is resident irrespective of the fact that it was incorporated in UK.
- (3). The stay of Mr. Sameel for the purpose of tax year 2017 is 150 days (28+31+30+31+30). Since his stay in Pakistan is less than 183 days in tax year 2017, he is non-resident for tax purposes.
- (4). If a company is incorporated or formed by or under any law in force in Pakistan, it is treated as a resident company. Such company cannot be treated as non-resident merely on the basis that the control and management of the affairs of the company were situated abroad. Therefore, BBL is a resident company.
- (5). It is immaterial where he stayed in Pakistan. No. of days shall be counted from the day of his arrival in Pakistan to the day of his departure in the following manner:
Accounting period 01 January 2016 to 31 December 2016 (Tax year 2017)

Month	No of Days
February 2016	28
March 2016	31
April 2016	30
May 2016	31
June 2016	30
July 2016	31
August 2016	2
Total	183

Since he was present in Pakistan for 183 days, therefore, he is resident individual. Mr. Salman would not be resident individual, had the tax year been a normal financial year ending on 30 June 2016.

(6). Since the management and control of affairs of Peshawar LLC was wholly situated in Pakistan during the tax year 2017, it is a resident company irrespective of the fact that it was incorporated in UAE.

(b)

Tax year 2016

Moon's stay in Pakistan is less than 183 days therefore, he will be considered non-resident for tax year 2016. A non-resident person is liable to pay tax only on its Pakistan source income, therefore Moon's taxable income during tax year 2016 will be Rs. 2,000,000.

Tax year 2017

Moon will be considered resident during tax year 2017, therefore he will be liable to pay tax on its worldwide income. However, Moon's foreign source salary would not be taxable in Pakistan because:

- He is resident solely by reason of employment
- He is present in Pakistan for period not exceeding three years
- His foreign source income was not received in Pakistan

Moons taxable income during tax year 2017 would therefore be Rs. 3,000,000.

Answer 2

(a)

- (i). The Board shall within ninety days of the receipt of application in writing by a non-resident taxpayer, issue to the taxpayer an advance ruling setting out the Commissioner's position regarding the application of the Income Tax Ordinance, 2001 to a transaction proposed or entered into by the taxpayer.
- (ii). It is not binding on the non-resident taxpayer.
Where the taxpayer has made a full and true disclosure of the nature of all aspects of the transaction relevant to the ruling and the transaction has proceeded in all material respects as described in the taxpayer's application for the ruling, the ruling is binding on the Commissioner with respect to the application to the transaction of the law as it stood at the time the ruling was issued.
The advance ruling shall be binding on the Commissioner only in respect of the specific transaction on which such advance ruling is issued and shall continue to remain in force unless there is a change in facts or in the law on the basis of which the advance ruling was pronounced.
- (iii). Where there is any inconsistency between a circular and an advance ruling, priority shall be given to the terms of the advance ruling.

(b)The Commissioner is not right in his thinking. As per Section 206 of the Income Tax Ordinance, 2001, a circular issued by the Board shall be binding on all income tax authorities and other persons employed in the execution of the Ordinance under the control of the said Board other than Commissioner Income Tax (Appeals). The Commissioner must follow the Board circular.

A circular is not binding on the tax payer. Tax payer can challenge it at the appropriate appellate forum.

(c) (i) Cessation of source of income

Law specifically provides that if there is any income that has been derived by a person in a tax year from a business, activity, investment or other source that has either ceased before the commencement of that year or during the year and if that income would have been taxable had there been no cessation, then the provision of the tax statute would apply as if there was no cessation (Ref: Sec 72)

In other words section 72 deems the business, activity, investment or other source to have been carried on by the person in the tax year in which the income was derived despite the cessation of

the business activity, investment or other source. The above amount shall be offered for tax in the return under the head “Income from business”

(ii) Dividend received from exempt income:

Where any income is exempt from tax under the Ordinance, the exemption, in the absence of a specific provision to the contrary, shall be limited to the original recipient of that income and shall not extend to any person receiving any payment wholly or in part out of that income.

However as per Clause 105B Part I of the Second Schedule any income received from a corporate agriculture enterprise distributed as dividend out of its income from agriculture is exempt from tax. Hence Rs. 45,000 will be exempt from tax.

(iii) Recouped expenditure

where a person has been allowed a deduction for any expenditure or loss incurred in a tax year in the computation of the person’s income chargeable to tax and subsequently, the person has received, in cash or in kind, any amount in respect of such expenditure or loss, the amount so recovered shall be included in the income for the tax year in which it is received.

Hence in the case of Raw material, the amount will be added to income, whereas in the case of finished product there will be no treatment as income has already been offered to tax under the FTR.

(iv) Loan to shareholders

By private company

Any distribution by a private limited company as defined under the Companies Ordinance, 1984 to its shareholders to the extent of accumulated profits is treated as dividend.

Therefore, the amount will be taxed as dividend in the hands of shareholder and company is required to deduct withholding tax on payment under the relevant provisions of the Income Tax Ordinance, 2001.

Where subsequently any loan or advance is repaid, shareholder will be entitled to a refund of the tax, if any, paid by him as a result of such advance or loan having been treated as dividend. (Ref Sec 170(1A)).

By Public unlisted company

The loan is treated as dividend only if it is provided to the shareholders of private limited company as defined in the Companies Ordinance, 1984. In the case of unlisted public company, the payment will not be constructed as dividend. So there will be no tax implication on shareholder or the company.

(v) Remittance of after tax profit by branch

Remittance of after tax profit of a branch of a foreign company operating in Pakistan is considered as dividend as per section 2(19)(f) of the Income Tax Ordinance, 2001. However remittance of after tax profit by a branch of petroleum exploration and production (E&P) foreign company operating in Pakistan is excluded from definition of dividend.

Answer # 3

Mr. Hamid
COMPUTATION OF TAXABLE INCOME
INCOME YEAR 30-06-2017
TAX YEAR 2017

	Working	
Salary		
Basic salary for five months	1	2,500,000
Utility allowance for five months	1	250,000
Medical allowance for five months	1 & 2	125,000
Paid to hospital as donation on his behalf (Sec 12(5))		200,000
Company maintained car	3	10,000
Benefit of car	4	600,000
Golden Handshake payment	5	-
Salary earned in Dubai	6	-
Gratuity	7	5,000,000
Pension from Nov 2016 to June 2017	8	400,000
Amount paid to rozee.pk	9	-
Free or subsidized food	10	-
Total income		9,085,000
Less Zakat paid	12	250,000

Taxable income		<u>8,835,000</u>
Tax liability		
Upto Rs. 7,000,000		1,422,000
Balance (Rs. 8,835,000-7,000,000) @ 30%		550,500
Tax @ 15% on golden handshake payment of Rs.2,000,000		300,000
Tax credit for donation	11	-
		<u>2,272,500</u>
Less tax already paid		
Salary		<u>1,500,000</u>
Tax payable with return		<u>772,500</u>

Workings

W-1

As salary is transferred on the 5th working following the end of the month, salary for the month of June 2015 will be taxable in the tax year 2017. Therefore basic salary and allowances have been calculated for five months.

W-2

Basic salary	500,000	
Exempt upto 10%	50,000	A
Medical allowance provided	75,000	B
	<u>25,000</u>	B-A

Taxable amount for five months	125,000
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W-3

Cost of the Mercedes	3,000,000
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5% of the amount to be included in taxable income	150,000
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Proportionate amount for four months	50,000
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Less amount paid for private use (10,000 x 4)	40,000
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Taxable amount	10,000
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W-4

FMV of the car	1,500,000
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WDV of the car – purchase price	900,000
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Taxable amount	600,000
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Rs. 600,000 is a benefit chargeable to tax under the head salary

W-5

Golden handshake payment is chargeable to tax under the head salary. However Hamid has the option to tax such amount at the average rate of 15% for the last 3 tax year. Since his rate of tax for the current year is greater than 15%, therefore, Hamid must opt this option by furnishing a notice of election to the Commissioner within due date of filing his income tax return.

W-6

Where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad during that tax year, any income chargeable under the head Salary earned by him outside Pakistan during that year shall be exempt from tax.

W-7

Since gratuity scheme is not approved, amount exempt from tax should be 50% of the amount received or Rs. 75,000 whichever less is. However since the payment is received outside Pakistan, the said exemption is not available. The whole amount is chargeable to tax. (Ref. Proviso to Clause 13(iv) of part 1).

W-8

Pension received by a citizen of Pakistan from his employer is exempt unless the person continues to work for the same employer or an associate of the employer. As Hamid took employment with an associate of Zee (Pvt.) Limited, therefore pension from Nov 2016 to June 2017 is chargeable to tax. (Ref: Clause 8 part 1 of 2nd schedule)

W-9

No expense is allowed in charging income under the head salary

W-10

Free or subsidized food provided by hotels and restaurants to its employees during duty hours are exempt from tax. (Ref: Clause 53A Part I of Second Schedule)

W-11

Donation of Rs. 250,000 paid in cash to Government of Punjab will not be entitled for tax credit. (Ref: Sec 61(4))

W-12

Zakat is allowed as deductible allowance if it is paid under Zakat and Ushr Ordinance, 1980. There is no requirement of paying it through cross cheque.

Answer # 4

Mr. Usaid						
Computation of taxable income						
Tax Year: 2017						
				Notes		Amount
Salary						
Basic salary (Rs.200,000 x 12)						2,400,000
Fixed Medical cost					400,000	
Less exempt upto 10% of Basic salary (2,400,000 x 10%)					240,000	160,000
Perquisite representing car				1		90,000
Fuel allowance (25,000 x 12) x 50% [S.12(2)(c) and (d)]						150,000
Perquisite representing accommodation				2		1,080,000
Services of a security guard				3		96,000
Employee share scheme – amount to be treated as salary				4		1,000,000
Perquisite representing concessional loan				5		54,904
Reimbursement of child's school fee (25,000 x 9) [s.12(2)(d)]						225,000
Perquisite representing return air ticket to Beijing [s.12(2)(d)]						150,000
Commission				6		1,000,000
Assets given for use at home				7		200,000
Salary received in arrear from Dubai				8		-
						6,605,904
Tax borne by company				9		1,862,530
						8,468,434
Calculation of tax liability						
Upto Rs. 7,000,000					1,422,000	
Balance (Rs. 8,468,434-7,000,000)x30%					440,530	1,862,530
Less: Tax deducted at source						
Tax borned by employer				9	1,862,530	
Advance tax u/s 236I by educational institution				10	11,250	
Advance tax on commission					120,000	
Advance tax u/s 236L on purchase of international air ticket					6,000	1,999,780
Balance tax refundable						(137,250)

Workings:			
W-1:			
Where a car is provided for personal as well as business use, 5% of the fair market value of the car is treated as salary income on account of this perquisite. Total lease rentals to be paid over the lease term or the lease rentals paid during the year are not relevant for the computation of the value of perquisite.			
Fair market value (FMV) of the car at the time of obtaining lease			1,800,000
5% of FMV to be treated as value of the perquisite (1,800,000 x 5%)			90,000
W-2:			
Accommodation provided by her employer is a perquisite and is taxable. The valuation of this perquisite is equal to the amount which would have been paid by the employer if such accommodation was not provided, subject to a minimum valuation equal to 45% of basic salary. Since Usaid was entitled to a house rent allowance of 40% of her basic salary, had he not been provided with the accommodation, the minimum amount to be taken as the value of the perquisite is:			
Basic salary			2,400,000
Value of the perquisite (2,400,000 x 45%)			1,080,000
W-3:			
Since the services of the security guard were provided by the employer, the amount chargeable to tax to Xiang will include the total amount paid to the security guard as computed below:			
Annual salary paid to the security guard (18,000 x 12)			216,000
Less amount paid by Usaid to the employer on this account (10,000 x 12)			120,000
			<u>96,000</u>
W-4:			
The fair market value of the shares, received by Usaid under the employees' share scheme, on the date on which the restriction to transfer the shares was removed is treated as consideration received by the employee. The value to be treated as salary is:			
Deemed consideration on 1 June 2017 when restriction was removed			1,500,000
Less cost (50,000 x 10)			500,000
			<u>1,000,000</u>
W-5:			
Usaid was given a loan at a markup of 6% per annum on 01 August 2016 whereas the benchmark rate for the tax year 2017 is 10% [s.14(a)(ii)]. The concession in the markup is treated as perquisite as computed below:			
Loan given to Usaid on 1 August 2016			1,500,000
Benchmark rate of markup per annum for the tax year 2017 [s.14(a)(ii)]			10%
Markup on the basis of benchmark rate (1,500,000 x 10%) x 334/365			137,260.27
Markup actually charged at 6% per annum (1,500,000 x 6%) x 334/365			82,356.16
			<u>54,904</u>
Further as per section 64A Every individual shall be entitled to a deductible allowance for the amount of any profit paid by the individual in a tax year on a loan by a scheduled bank or non-banking finance institution or advanced by Government or the Local Government, Provincial Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the individual utilizes the loan for the construction of a new house or the acquisition of a house. Since BPL is a private company, therefore, Usaid is not eligible for any tax credit. [S.64A]			

W-6:						
Commission is chargeable to tax under the head salary as it is received from an employer while performing employment duties. Advance tax deducted at source will be adjustable against the final tax liability of Usaid. However, if commission is received from any person other than employer, it is taxable under the final tax regime. Further, gross amount of Rs. 1,000,000 (880,000/0.88) will be charged to salary.						
W-7:						
The ownership of the assets remains with the employer. However, for the use of the assets, the expense charged in the accounts is treated as income of the employee, fairly estimated at 20% of the book value of these assets. [S.13 and 68]						
W-8:						
The salary in arrears from his ex-employer in Dubai of Rs. 800,000 falls under the definition of salary [S.12(5)(b)]. However, since Usaid is a national of Pakistan who has acquired the status of resident (from non-resident) in the tax year 2017 after his return from abroad, his foreign source income is exempt in the tax years 2017 and 2018. [S.51]						
W-9:						
As the tax slab will change in case of adding the tax, therefore calculation will be as follows:						
Taxable income						6,605,904
Tax liability upto Rs.7,000,000 (Upto start of next slab)						1,422,000
						<u>8,027,904</u>
Tax liability upto Rs. 7,000,000						1,422,000
Balance (Rs. 8,027,904-7,000,000)x 30%/0.7						440,530
Grossed up amount of tax						<u>1,862,530</u>
Verification:						
Taxable salary before tax on tax						6,605,904
Tax on tax						1,862,530
						<u>8,468,434</u>
Tax liability upto Rs. 7,000,000				1,422,000		
Balance (Rs. 8,468,434-7,000,000)*30%				440,530		1,862,530
The above calculation is shortcut procedure to calculate tax on tax. Alternative method may be adopted under which we will keep on adding tax to the taxable income until it becomes zero.						
W-10:						
As per section 236I advance tax is collected @ 5% in case annual fee exceeds Rs. 200,000. The said tax deducted is adjustable against the tax liability of either the parent or guardian making payment of fee.						

Answer 5

Tax year 2016

Kashif is resident for tax year 2016 therefore, his worldwide (Pakistani + Foreign source) income will be taxable in Pakistan. However as employer has already deducted tax on its foreign salary, therefore the same would be exempt from tax in Pakistan keeping in view the provisions of section 102 of the Income Tax Ordinance, 2001.

In view of the foregoing:

- (a) Salary earned during 01 January 2016 to 28 February 2016 will be chargeable to tax in tax year 2016.
- (b) Salary earned outside Pakistan shall be exempt if a citizen of Pakistan leaves Pakistan during the year and remains abroad during that year. Therefore foreign source salary will be taxable in case he returns to Pakistan before 30 June 2016
- (c) Foreign source salary would be exempt from tax in case he returns to Pakistan after 30 June 2016.

Tax year 2017

For Tax year 2017 taxability of Mr. Kashif would depend upon his residential status. If his stay in Pakistan is less than 183 days, then his foreign source income will not be taxable in Pakistan. If he becomes resident then his foreign source salary would be taxable in Pakistan. However, if employer has already deducted and paid tax on such foreign salary, then such salary would be exempt from tax in Pakistan keeping in view the provisions of section 102 of the Income Tax Ordinance, 2001.

Answer # 6

(a)		Person: Mr. Hassan (Individual)			
		Tax Year: 2017			
Computation of taxable income			Working	Amount	Rupees
Income from property					
Rent for house at Multan (Rs.120,000-20,000)x 12				1,200,000	
Non Adjustable advance (Rs. 1500,000-200,000)/10				130,000	
Gross rent chargeable to tax as separate block				1,330,000	
Deductions:					
Salary					
Pension (exempt from tax under clause 8 & 9 of Part I of 2nd Sch)				-	-
Income from other source					
Amount received for provision of security guard				240,000	
Deductions:					
Amount paid to security guard				200,000	40,000
Rent received from Tasty Biscuits (800,000 x 9)				7,200,000	
Non adjustable security deposit			1	-	
Deductions:					
Building distempering				90,000	
Interest free refundable security deposit			2		
Property tax for 9 months				300,000	
Legal fee for preparing the rent agreement			3	35,000	
Salary to technician for machinery maintenance				400,000	
Depreciation and initial allowance			4	2,250,000	
				3,075,000	4,125,000
Total taxable income					4,165,000
Property income taxable as separate block					1,330,000
(b) Computation of tax liability					
As the taxable income of Mr. Hassan under NTR is greater than 1,000,000, therefore, he is not entitled for senior citizen allowance @ 50% reduction in his tax liability.					
Tax on taxable income of Rs. 4,165,000:					
Upto Rs. 4,000,000				719,500	
Balance (Rs.4,165,000-4,000,000) x 30%				49,500	769,000
Tax on property income of Rs. 1,330,000:					
Upto Rs. 1,000,000					
Upto Rs. 1,000,000				60,000	
Balance (Rs.1,130,000-1,000,000) x 15%				49,500	109,500
Total liability					878,500

Less tax already paid:								
mobile phone cards						3,000		
Domestic air tickets						20,000		
Advance tax under section 147						350,000		
withheld by club under section 236D						10,000	383,000	
Balance tax payable with return							495,500	
Workings:								
W-1: Non adjustable amount received is taxable only in case of income from property.								
W-2: Expense is of capital nature and therefore not allowed.								
W-3: Expense is of revenue nature and has been incurred to derive income chargeable to tax.								
W-4: Depreciation and initial allowance								
			Building	Plant		Total		
Cost			8,000,000	4,000,000				
Initial allowance rate			15%	25%				
Initial allowance			-	1,000,000		1,000,000		
WDV for depreciation			8,000,000	3,000,000				
Depreciation rate as per 3rd sch			10%	15%				
Depreciation			800,000	450,000		1,250,000		
						2,250,000		

Answer # 7										
(i)										
Purchase/Acquisition					Disposal					
Date		No. of shares	Price	Total cost	1-May-17	7-May-17	21-May-17	31-May-17	31-May-17	31-May-17
31-Mar-16		1400	20	28,000	600	800				
15-Sep-16		700	22	15,400			700			
1-Apr-17		900	18	16,200				400	500	
31-May-17		500	23	11,500						500
		<u>3,500</u>		<u>59,600</u>	<u>600</u>	<u>800</u>	<u>700</u>	<u>400</u>	<u>500</u>	<u>500</u>
Selling price per share					17	19	18	26.42	26.42	26.42
Sale proceed					10,200	15,200	12,600	10,568	13,210	13,210
Cost- Fifo basis					12,000	16,000	15,400	7,200	9,000	11,500
0.5% of sale price as transaction cost					51	76	63	53	66	66
					12,051	16,076	15,463	7,253	9,066	11,566
Capital gain/(loss)					(1,851)	(876)	(2,863)	3,315	4,144	1,644
Adjustment of eligible losses					1,851	876	2,863	(3,315)	(2,275)	
Net gain on disposal					-	-	-	-	1,869	1,644
Holding period					396	402	248	60	60	-
Tax to be collected					0%	0%	15%	15%	15%	15%
Balance income									280.34	246.59
Total tax (Rs. 280.34 + 246.59)										526.94
Note:										
N-1: Fifo method shall not be applied in case of sale of shares purchased on the same trading day. Hence capital gain or loss shall be computed by apply average method. Rs. 26.43 (25 x 400) + (27 x 1000)/1400 shall be taken into account for the disposal made on 31 May 2017.										
(ii)										
The extinguishment of 2000 shares in BL will be treated as tax neutral even (As there is no change of ownership of the shareholder). 1000 shares in GL will have the same cost base i.e. Rs. 30,000 (Rs. 30 per share). Therefore, no CGT will be collected on such transfer.										
(iii)										
Purchase/Acquisition										
Date	Shares	No. of shares	Price	Total cost						
1-Jan-16	Original	100	40	4,000						
1-Jan-16	Bonus	25	50	1,250						
		<u>125</u>		<u>5,250</u>						

Date of entitlement		1-Apr-17				
Date of credit		15-May-17				
Sale of 500 shares on 15 April 2017:						
Sale price (50 x 40)			2,000			
Cost (50 x 40)			2,000	-		
Sale of balance 75 shares on 18 May 2017						
Sale price (75 x 40)			3,000			
Cost (50 x 40)- N-1 & N-2			2,000			
Cost (25 x 50)			1,250	(250)		
Total capital gain				(250)		
FTR tax on issuance of bonus shares-N-2				62.50		
Notes:						
<p>N-1: Cost of Bonus shares will be the price prevailing on first day of book closure (ex-bonus price). Subsequently when such bonus shares are disposed of such cost will be taken for computation of capital gain and tax thereon. Similarly, the cost of old shares would remain same before and after bonus shares are issued.</p>						
<p>N-2: Pie Limited shall also collect 5% of value of bonus shares determined on the basis of day end price on first day of closure of books. i.e Rs. 25 x 50 x 5% = 62.5. Such tax deducted at source will be final tax liability of Bari.</p>						
<p>N-3: The cost of acquisition is deemed to include 0.5% of the acquisition cost as incidental expenses incurred and sale proceeds are deemed to include 0.5% of the consideration as incidental expenses.</p>						
<p>N-4: It is assumed that there is no change in market value of shares from 01 April 2017 to 18 May 2017.</p>						
(iv)						
Taxable income of Anjum:						
CGT						
Sale price of 5000 shares (Rs.105 x 5000)			525,000			
Repurchased at Rs. 95 (Rs.95 x 5000)			475,000			
			50,000			
Financial cost paid			10,000			
			40,000			
Taxable income of Nazia:						
FTR Income						
Financial income of Nazia Taxable as separate block			10,000			
CGT:						
No CGT to be collected as for Nazia, on return of borrowed shares by Anjum, the cost and date of acquisition shall remain the same as was before lending the shares to Anjum.						

Answer # 8					
Mr. Aslam					
Tax payable for Tax Year 2017 (Accounting year ended 30 June 2017)					
			Workings	Amount	Tax
Capital Gain on disposal of immoveable property taxable as separate block					
On sale of house in Islamabad			6	10,000,000	500,000
Compulsory acquisition by Govt.			7	-	-
On sale of agriculture land			8	2,500,000	125,000
Capital Gain on securities taxable as separate block					
On disposal of shares in Punjab Minerals (Pvt.) Ltd			5	310,000	46,500
Brough forward loss of listed company			9	-	
Income from property taxable as separate block					
Forfeited deposit			6	5,000,000	810,000
Capital gain assessable to tax along with other heads of income					
Sale of antique			1	-	
Settlement in respect of shares lost by broker			2	112,500	
On sale of shares of ABC (Pvt.) Limited			3	168,750	
Less capital loss on:					
Loss on theft of jewellery			4		
				281,250	
Brought forward capital loss for TY 2016				(57,000)	
Net Capital gain					
				224,250	
Income from other Source					
Advance in cash			1	300,000	
Income from property					
Taxable income under Normal heads					
				524,250	
Tax liability:					
Upto Rs. 500,000					7,000
Balance (Rs.524,250-500,000) x 10%					2,425
					9,425
Total tax liability (A + B + C+ D)					
					1,490,925
Less tax already paid:					
With education fees of daughter under Section 236I				50,000	
Advance tax under section 147				450,000	
Credit for tax pain on mobiles in TY 2016			10	-	
On sale proceed of land under section 236 C			6	490,000	
On sale proceed of agriculture land under section 236 C			8	50,000	1,040,000
Balance tax payable					
					450,925

Workings			
W-1:			
The amount in advance was received in the form of cash. Therefore, it is taxable as deemed income under the head "Income from Other Source". Further although the advance amount has been received, the asset has not yet been sold or transferred to the buyer. Hence there is no disposal and no capital gain or loss.			
W-2:			
Loss of capital asset is also treated as disposal. The date on which an asset is lost is considered as its date of disposal. The amount received in compensation on the date of disposal is treated as the consideration received. The fair market value on the date of settlement is not relevant. The gain is computed as under:			
Consideration received			500,000
Cost of acquisition:			
Price paid for purchase of shares		315,000	
Brokerage charges paid		10,000	
Fee paid for arbitration		25,000	350,000
Capital Gain			150,000
Taxable @ 75% as holding is over one year			112,500
W-3:			
The fair market value (Rs. 45 per share) of 15,000 shares being higher than the actual amount received (Rs.600,000/15,000=Rs. 40 per share) is to be taken as the consideration received.			675,000
Purchase price on 01 July 2015 at Rs. 30 per share			450,000
			225,000
75% of gain as holding is over one year			168,750
The fair market value of the shares on the date an employee can dispose of the shares would have been treated as consideration received on that date for the purpose of computation of salary income on account of benefit under the employee share scheme. Subsequently this amount is treated as the cost paid for the purpose of computing taxable capital gains.			
W-4:			
Aslam received Rs. 350,000 from the insurance company whereas his cost incurred on the purchase of jewellery was Rs. 400,000. Though he incurred a loss of Rs. 50,000, it is not allowed to be recognised for the purpose of computing his taxable gain/losses			
W-5:			
Since 50% of the shares in Punjab Minerals (Pvt.) Ltd are held by the provincial Government of Punjab, it is treated as public company. A share of public company is included in the definition of security. Accordingly, the gain on disposal of shares shall be computed and taxed as a separate block			
Fair market value of the plot received in exchange for shares			850,000
Cost of acquisition of 10,000 shares on 20 December 2012			540,000
Capital gain			310,000
Tax @ 15% as holding of the security is less than one year			46,500

W-6:							
(i) Transaction with Mr Sohail							
The amount of Rs. 5,000,000 forfeited by Aslam in accordance with the terms of the contract for the sale of his house to Sohail is to be treated as rent received [s.15(2)] and taxed under the head income from property as separate block							
Transaction with Mr Mumtaz							Rs.
Consideration for the sale of the house on 30 June 2017							49,000,000
Market value on 25 June 2016, the date of inheritance							39,000,000
Capital gain							10,000,000
Tax @ 5% as property was acquired before 01 July 2016							500,000
Further withholding tax of Rs. 490,000 deducted @ 1% of sale value will be adjustable against the tax liability of Aslam.							
W-7:							
Compulsory acquisition							
As per Section 79-non recognition rules, no gain or loss is recognised on the disposal of an asset by reason of compulsory acquisition of the asset under any law where the consideration received for the disposal is reinvested by the recipient in an asset of a similar kind within one year of disposal. Since all the said conditions are fulfilled in disposal of land by Aslam, hence, no gain or loss is recognised.							
W-8:							
Sale of agriculture land							
Consideration received						5,000,000	
Less:							
Cost of acquisition							
Market value when gifted by father				2,000,000			
Court fee for transfer of land in his name				200,000			
Construction of water channels for irrigation				300,000	2,500,000		
Capital gain					2,500,000		
Tax @ 5% as property was acquired before 01 July 2016						125,000	
As per section 76(2)(b) & 76(2)(c) any incidental expenditure incurred by the person, in acquiring and disposal of the asset and to alter or improve the asset are added in the cost of the asset. Therefore, court fee and construction of water channels for irrigation are added in the cost of the land. The fine paid for violation of the terms of use of the land neither improved the land nor was incidental to the acquisition or disposal of the property, hence is not considered as part of cost of the asset.							
W-9:							
The capital loss on the sale of shares of listed company is not eligible to be carried forward to the subsequent years.							
W-10:							
Tax credit for tax paid in the period relevant to the tax year 2016 cannot be claimed in the tax year 2017 (Ref: Sec 168). However, he may revise his return for tax year 2016 to claim this amount of tax paid in that tax year.							

Answer # 9

Mr. Yawar				
Computation of taxable income				
Tax Year: 2017				
(a)			Notes	Amount
Salary				
	Basic salary (Rs. 225 x 12)			2,700,000
	Medical Allowance (Rs. 33,750 x 12)		405,000	
	Exempt upto 10% of Basic salary		270,000	135,000
	Conveyance allowance (Rs. 18,000 x 12)			216,000
	Company maintained car-No addition in case of official use			-
	Travelling allowance for official duty -fully exempt			-
	Accommodation (Higher of Rs. 1,260,000 or 45% of 2,700,000)	1		1,260,000
				4,311,000
Income from property				
	Gross Rent (Rs. 1,092,000 - (8000 x 12))	1		996,000
Income from other source				
	Security gurard services (12 x Rs.8000)	1		96,000
Capital gain				
	Fair market value at the time of gift (Rs. 13,600,000 x 1.2)		16,320,000	
	Cost being fair market value at time of gift		13,600,000	
			2,720,000	
	75% of capital gain will be taxable as his sister was non-resident			2,040,000
	Taxable income			7,443,000
	Less Income from property taxable as separate block			996,000
	Normal taxable income			6,447,000
	Property income taxable as separate block			996,000
(b)				
As per Section 139 of the Income Tax Ordinance, 2001 where a tax payable by a private company in liquidation cannot be recovered from the company, the Commissioner is empowered to issue a notice to every person who was at any time in related tax year , a shareholder owning not less than 10% of paid up capital of the company or a director (other than employed director)				
Since Yawar was holding 35% shares in SPL when it went into liquidation, he is liable to pay the amount demanded, He is however, entitled to recover the tax paid from other shareholders owning not less than 10% shares in proportion to their shareholding.				
Notes:				
N-1:				
In case of self hiring of property, the fair market rent or 45% of basic salary whichever is higher is included in the salary. Further actual rent received (not FMR) will be chargeable to tax under the head Income from property. From tax year 2017 income from property is taxable as separate block hence no expense will be allowed.				

Answer # 10

Mr. Pensari				
Computation of taxable income				
Tax Year: 2017				
			Notes	Amount
Salary				
Basic salary				5,400,000
Conveyance allowance			1	600,000
Conveyance for business and private purpose Rs. 3,000 x 5%			2	150,000
Special allowance-Receipt even if voluntarily waived				75,000
Two cans of olive per month (Rs.500 x 2 x 12)			3	12,000
Employee share option: Cost (Rs. 8,000 x 3 x 102)				2,448,000
Fair market value (8000 x 5 x 102)				4,080,000
Pension-exempt being citizen of Pakistan				
Fee for attending Board meeting			4	200,000
				8,069,000
Capital gain				
Sale of shares (Rs. 6000 x 8.5 x 102)				5,202,000
Less: Cost (Rs. 6000 x 5 x 102)				3,060,000
Brought forward capital loss on private co shares				(25,000)
				2,117,000
Income from Other Source				
Royalty chargeable in current year as time is less than 24M				2,000,000
Taxable income				12,186,000
Notes:				
N-1:				
In the absence of information it has been assumed that conveyance allowance has not been for the discharge of official performance, therefore the conveyance allowance shall be included in the taxable salary income of the employee.				
N-2:				
Current market value of company owned car is not relevant for the computation of conveyance for business and private use. [Rule 5]				
N-3:				
Any perquisite or benefits for which the employer does not have to bear any marginal cost, as notified by the Board are exempted from employees' income. As the Board has not notified any SRO in this connection, hence the given benefit is fully taxable in the hands of the employee as the same is not within the ambit of clause (53A) of Part-I of 2nd Schedule to the Income Tax Ordinance, 2001.				
N-4:				
Director meeting fee received is covered in the definition of salary under section 12 (1)(a) read with section 2(22) of the Income Tax Ordinance, 2001. Further the salary income is taxable on receipt basis.				

Answer # 11

Mr. Iqbal				
Computation of taxable income				
Tax Year: 2017				
(a)			Notes	Amount
Salary				
	Basic salary (Rs. 300,000 x 12)			3,600,000
	Cost of living allowance (Rs. 50,000 x 12)			600,000
	Milk allowance (Rs. 10,000 x 12)			120,000
	Bonus received in tax year 2017			300,000
	Company maintained car (Rs.1,800,000 x 10% x 4/12)			60,000
	Benefit of car (Rs. 600,000 - 250000)			350,000
	Reimbursement of driver salary			36,000
	Accommodation higher of (Rs. 85,000 x 12) or 45% of 3,600,000			1,620,000
	Employee share option (Rs. 1 x 4000 x 100)			400,000
				7,086,000
Income from property				
	Gross rent			800,000
Income from other source				
	Brokerage fee		200,000	
	Less: telephone and air travel		30,000	
	Gift to brother		10,000	160,000
	Compensation on delayed refund			25,000
				185,000
Capital gain				
	Gain on sale of shares ((3000 x (3-2.5)x100)			150,000
	Total income			8,221,000
	Zakat			25,000
	Taxable income			8,196,000
	Less property income taxable as separate block			800,000
	Taxable income			7,396,000
	Property income taxable as separate block			800,000
	Profit on debt taxable as separate block			150,000

Computation of tax liability:			
Normal income of Rs. 7,396,000			
Upto Rs. 7,000,000		1,422,000	
Balance Rs. 396,000		118,800	1,540,800
Tax payable on property income			
Upto Rs. 600,000		20,000	
Balance Rs. 200,000 @ 10%		20,000	40,000
Tax payable on profit on debt @ 10%			15,000
Total tax liability			1,595,800
Less tax credits/already deducted:			
Tax credits on normal income			
Tax credits: Life insurance premium (Rs. 1,540,800/7,396,000 x 500,000)	1		104,164
Contribution to approved pension fund (Rs. 1,540,800/7,396,000 x 900,000)	2		187,496
Tax payable under normal tax regime			
Tax already deducted on salary			1,200,000
on profit on debt			15,000
			1,506,660
Balance payable			89,140
Notes:			
N-1:			
In case of investment in shares (right shares or purchase of open ended units) or life insurance premium higher amount is allowed as tax credit. Right shares cost is Rs. 180,000 whereas insurance premium of Rs. 500,000 has been paid, therefore tax credit will be allowed on insurance premium at lower of Rs. 1,500,000 or 20% of taxable income or actual contribution.			
N-2:			
Contribution to pension fund is allowed upto 20% of taxable income and additional 2% per year for each year of age to a person joining the pension fund at the age of forty one years or above upto tax year 2019, subject to upper limit of 30% of taxable income of preceding tax year.			
Total contribution		1,600,000	A
20% of taxable income		1,479,200	
Add 2% for each year of age exceeding 41 (2% x 5 x 7,396,000)		369,800	
		1,849,000	B
30% of preceding tax income of Rs. 3,000,000		900,000	C

Answer # 12

Mr. Saif						
Computation of taxable income						
Tax Year: 2017						
				Workings		Amount
Salary						
Basic salary (Rs.600,000 x 12)						7,200,000
Bonus (no taxable as it pertains to tax year 2018)						-
Company maintained car FMV of car at commencement of lease					1,500,000	
5% of FMV to be added in salary					75,000	75,000
Perquisite representing accomodation higher of 45% of Basic salary or annual rental value of Rs. 2,400,000						3,240,000
Reimbursement of air tickets						120,000
Benefit of stock (Rs. 14,000 - 5,000)						9,000
Taxable salary						10,644,000
Income from Business						
Admission fee			1		1,875,000	
Monthly membership fee					2,450,000	4,325,000
Less expenses:						
Salary to saif son (Rs. 45,000 x 11)					495,000	
Salary to saif disallowed as being owner					-	
Initial allowance on Import of old fitness machiner- (Rs. 2,750,000 x 25%)					687,500	
Depreciation on fitness machine (Rs. 2,750,000-687,500)x15%					309,375	
Fine-inadmissible					-	
Cost of repair of electric wing					85,000	
Initial allowance on fire protection screen- (Rs. 200,000 x 25%)					50,000	
Depreciation on fire protection (Rs. 200,000-50,000)x15%					22,500	
Other miscellaneous expenses					120,000	1,769,375
Income from business						2,555,625
Income from property						
Gross rent (25,000 x 10)						250,000
1/10th of non adjustable amount-No treatment as it pertains to building only					-	-
Taxable as separte block (no expense allowed)			2			250,000
Capital gain						
sale of 1200 shares in public company @ 50/share						60,000
Cost of 1200 shares disposed off (1,200 x 35)			3		42,000	
0.5% of Rs. 60,000 as incidental charges					300	42,300
Capital gain to be taxable as separte block as it is a public co.						17,700

Income from other source				
Rent of bungalow (75000 x 6)				450,000
Less insurance premium (50,000-25,000)				25,000
LCD TV (disallowed being capital in nature)			-	-
				425,000
Total taxable income				
				13,892,325
Less income from property assessable as separate block				(250,000)
Less capital gain assessable as separate block				(17,700)
Less donation to sports board under second schedule	4			(500,000)
Taxable income				
				13,124,625
Computation of tax liability				
Upto Rs. 7,000,000		1,422,000		
Balance (Rs. 13,124,625-7,000,000) x 30%		1,837,388		
Tax on capital gain @ 15%		2,655		
Tax on property income (Rs. 250,000-200,000)x 5%		2,500	3,264,543	
Tax deducted at source				
On purchase of air tickets		10,000		
Salary		2,100,000		
Salary from business		13,000		
Import of machinery		150,000	2,273,000	
Balance payable				
				991,543
Workings:				
W-1				
			Admission fee	Total
No. of admissions: August 2016	20	25,000		500,000
January 2017	25	25,000		625,000
March 2017	30	25,000		750,000
Total admission fee (20 + 25 + 30) x 25000				1,875,000
			Monthly fee	Months
No. of admissions: August 2016	20	5,000		11
January 2017	25	5,000		6
March 2017	30	5,000		4
Total admission fee (20 + 25 + 30) x 25000				2,450,000
W-3:				
Specie dividend received in tax year 2015 would have been subject to taxation under final tax regime. Further Market value on the first day of book closure will be treated as cost for the purpose of calculating capital gain. Cost of original shares will remain the same.				
W-4:				
Donation paid to institutions mentioned in 2nd Schedule is allowed as straight deduction from total income subject to lower of actual amount or 30% of taxable income.				
Items not included in Computation				
N-1 Salary is taxable on receipt basis, hence any bonus paid in July 2017 will be taxed in tax year 2018.				
N-2 Maintenance of car is not a separate perquisite and included in notional figure calculated in above working.				
N-3 50% insurance premium payable in July 2017 will not be allowed as income from other source is taxable on receipt basis.				
N-4: LCD TV being capital in nature will not be allowed. Further no depreciation/initial allowance will be allowed as it is allowed only in case of lease of building together with plant and machinery.				

Answer # 13

Mr. Yaqeen							
Computation of taxable income							
Tax Year: 2017							
				Workings		Amount	
Salary							
Employment in KKUH:							
Basic salary (Rs.500,000 x 6)						3,000,000	
Medical Allowance (60000 x 6)				360,000			
Less exempt upto 10% of Basic salary (3,000,000 x 10%)				300,000		60,000	
Leave fare assistance						240,000	
Free of cost medical treatment							
Employment in DPL:							
Consideration for joining DPL						3,000,000	
Basic salary (Rs.800,000 x 6)						4,800,000	
Medical Allowance (60000 x 6)				480,000			
Less exempt upto 10% of Basic salary (4,800,000 x 10%)				480,000		-	
Utilities allowance (Rs.100,000 x 6)						600,000	
Depreciation of refrigerator (Rs. 200,000 x 15%/2)						15,000	
Option to exercise shares						-	
Loan received on April 2017 (5,000,000 x (10-8)%x 3/12)						25,000	
Salary received from Norway (Exempt as Yaqeen was not resident in any of the four preceeding tax years)						-	
Total income under salary						<u>11,740,000</u>	
Income from business							
Rent from agriculture land exempt from tax						-	
Capital gain							
Insurance claim					600,000		
Less:							
Cost of paintaing					350,000		
Insurance premium					24,000		
Lawyer's fee					50,000		
					<u>424,000</u>		
					176,000		
Less exempt as holding is over one year					44,000	132,000	
Gain on disposal of shares							
Consideration of 15,000 Shares			1		425,000		
Less cost (15000 x 25)					375,000	50,000	
Net capital gain						<u>182,000</u>	
Total taxable income during the year						<u>11,922,000</u>	

Income Taxable under FTR					
	Specie dividend (20,000 x 25)		1		500,000
Computation of tax liability					
	Upto Rs. 7,000,000			1,422,000	
	Balance (Rs. 11,922,000-7,000,000) x 30%			1,476,600	2,898,600
	FTR dividend income @ 12.5%				62,500
	Net tax payable				2,961,100
Workings:					
W-1					
Amount of dividend in specie (FMV of shares at the time of transfer to the shareholder) shall be taxed as dividend under FTR @ 12.5%. The difference between consideration received and amount of dividend shall be taxable as capital gain at the time of disposal.					
Explanation about items not included in the computation of taxable income:					
1	An option to purchase shares under an employee scheme granted to an employee is not chargeable to tax unless such a right or option is exercised.				
2	The perquisites received by an employee in the form of free or subsidised medical treatment provided by a hospital or clinic is exempt from tax. For the purpose of calculating the perquisites, an ex-employee is included in the definition of employee.				
3	Any foreign source income, in a tax year, of a citizen of Pakistan who was not a resident in any of the four tax years preceding the tax year in which he became a resident shall be exempt from tax in the tax year in which he became resident and in the following tax year. Therefore, salary arrears received by Mr. Yaqeen from his ex-employer in Norway is exempt from tax in the tax year 2017.				
4	Rental income from agricultural land received by an owner of such land is treated as agricultural income and is exempt from tax. Therefore, the amount of Rs. 600,000 received by Mr. Yaqeen is an exempt income.				
5	Subject to certain conditions and limitations, a loan utilized for the construction of a new house or the acquisition of a house is entitled to be deducted from total income (deductible allowance). However, the loan obtained by Mr. Yaqeen was for the purpose of renovation of his existing residential house, therefore, it is not eligible for any deductible allowance. Further loan obtained from Dil private limited is also not eligible for deductible allowance as DPL is a private company.				

Answer # 14

Mr. Yahya				
Computation of taxable income				
Tax Year: 2017				
			Notes	Amount
Salary				
Basic salary				165,000
Leave encashment and commutation of pension			1	-
Medical treatment				-
				165,000
Income from Business				
Sale value				850,000
Less cost: Mv of raw rice 5000/40 *2500 (Rule 11)				312,500
Other operating expenses				400,000
				137,500
Income from Other Source				
Sublease of factory building			2	1,350,000
Profit on pensioner benefit fund			4	450,000
Compensation on delayed refund			5	36,986
				1,836,986
Capital Gain				
LPG Licence			3	1,000,000
				1,000,000
Total income				
				3,139,486
Profit on pensioner to be taxed separately as average rate is over 10%				450,000
Taxable income				
				2,689,486
Calculation of tax liability				
Upto Rs. 2,500,000				344,500
Balance (Rs. 2,689,486-Rs.2,500,000)x25%				47,372
				391,872
Tax on pensioner benefit fund (450,000 x 10%)				45,000
Rental on scientific equipment (50,000 x 12x 10%)			6	60,000
Minimum tax on industrial electricity connection			7	120,000
Total tax liability				
				616,872
Less already deducted:				
Payment for use of machinery u/s 236Q				60,000
Electricity (Rs.120,000 + 30,000)				150,000
				210,000
Balance payable				
				406,872

Workings:							
W-1:							
Leave encashment and commutation of pension is exempt from tax in case of government employees (Ref: Clause 19,13 of Part I of 2nd Sch.)							
W-2:							
The income earned from sublease of building on rent by Yahya is chargeable to tax under the head income from other source. Rent of Rs. 650,000 paid by Yahya for the building is deductible against expenditure paid in deriving such income. Therefore income of Rs. 1,350,000 (Rs.2,000,000-650,000) is chargeable to tax under this head. There will be no treatment of Rs. 3,000,000 received in advance as there is no provision for treating non-adjustable amount received by the tenant of the building. Mr. Yahya is not the owner of the building which he has subleased.							
W-3:							
Consideration received					3,000,000		
Cost of licence					2,000,000		
					<u>1,000,000</u>		
The renewal fee is not included in the cost of the licence as it neither alters nor improve the asset nor was it incurred in acquiring or disposing of the asset (Ref:Sec 76(2)).							
W-4:							
Tax on profit from a pensioner's benefit account is not deductible at source. Income is assessable under the head income from other source after allowing admissible expenses. However tax computed on the basis of this assessment is not to exceed 10% of the amount of profit. In the given situation, since tax rate on total income including this income is higher, the profit is taxable @ 10% (Ref: Clause 6 Part III of Second Schedule)							
W-5:							
Where refund due to a taxpayer is not paid within three months of the date on which it becomes due, the Commissioner is duty bound to pay compensation @ Kibor + 0.5% on the amount of refund for the period reduced by three months during which refund was not paid. (Ref S.171(1)). Further where refund is created as a result of appellate order, the refund is said to be due on the date on which order is received by the Commissioner (Ref: Sec 171(2)(a)). Compensation on delayed refund is chargeable to tax under the head income from other source and calculation will be as follows:							
Amount of refund					3,000,000		
Due date of refund					31-Jan-17		
Date of payment of refund					29-Jun-17		
Delay in number of days (31 days of May and 29 of June)					60		
Amount of compensation (3,000,000 x 7.5% x 60/365)					36,986		
W-6:							
As per section 236Q every prescribed person making a payment to a resident person on account of rental of scientific machinery shall deduct tax @ 10% which will be final tax liability of the resident person. As Mr. Ali is prescribed person, therefore, it shall deduct tax @ 10% which will be final liability of Mr. Yahya arising from rental of scientific equipment.							
W-7:							
In case of taxpayer other than company, tax collected upto bill amount of thirty thousand per month shall be treated as minimum tax in case of commercial or industrial consumer.							
Advance tax collected on electricity bill of domestic consumer is adjustable (Ref: Sec 235,235A)							

Answer # 15 (a)

Mr. Rizwan			
Computation of taxable income			
Tax Year: 2017			
		Workings	Amount
Salary			
Basic salary			1,200,000
Consideration for joining company (taxable in tax year 2016)			-
Perquisite representing accomodation		1	720,000
Perquisite representing car		2	27,178
Employee share option		3	-
Interest free loan		4	-
			1,947,178
Income from business			
Import business		7	-
			-
Income from property			
Rent from USA		6	-
Rent of agriculture land		15	-
			-
Capital gain			
Gain on sale of treadmill		5	-
Sale of agriculture tractor		9	150,000
			150,000
Income from other source			
Consideration received for vacating the possession		8	10,000
Income from delivering lectures		10	300,000
Profit on pensioner benefit account		14	-
			310,000
Taxable income			
			2,407,178
Share of profit from export business for rate purpose		11	100,000
Taxable income for calculating tax liability			
			2,507,178
Calculation of tax liability:			
Upto Rs. 2,500,000			259,500
Bal (Rs. 2,507,178-2,500,000)x20%			1,436
			260,936
Actual tax liability (Rs. 2,407,178/2,507,178 x 260,936)			250,528.06
Profit on pensioner account (Rs.510,000 x 10%)			51,000
Tax on income assessable under final tax regime			
Trading business of imported products (Rs. 1,000,000 x 6%)		7	60,000
Profit on debt (Rs.95,000 x 10%)		13	9,500
Total tax liability			
			371,028
Less already deducted			
Mobile telephone bills		12	-
Profit on debt			9,500
Balance payable			
			361,528

(b)

Any mistake, whether of the law or of fact, which is apparent from the record and which does not require further investigation/inquiry can be rectified by the Commissioner.

A rectification order which has the effect of increasing an assessment, reducing a refund or otherwise being adverse to the taxpayer can only be passed after giving the taxpayer a reasonable opportunity of being heard.

(c)

An appeal can be filed within 30 days of the service of the demand notice based on the rectification order or where no demand notice is served, the date on which the rectification order is served.

The Commissioner (Appeals) can stay the recovery of the tax demanded in appeal for a maximum period of 30 days provided that the order on appeal shall be passed within the said period of thirty days.

Workings:

W-1:

Accommodation provided to Rizwan's family is a perquisite of Rizwan provided by his employer and is taxable. The value of this perquisite is equal to the amount that would have been paid by the employer if such accommodation were not provided, subject to a minimum value being equal to 45% of the basic salary. Since Rizwan was entitled to a 60% house rent allowance, had he not been provided with the accommodation, the same amount is taken as the value of the perquisite as computed below:

Basic salary	1,200,000
Value of the perquisite (1,200,000 x 60%)	720,000

The fair rent of the accommodation at Rs. 50,000 per month is not relevant for the purposes of computing the value of the perquisite representing accommodation. [S.13 (12) read with rule 4 of the income tax rules, 2002.

W-2:

The car was provided for Rizwan's exclusive personal use on 1 January 2017 by leasing it on the same day. According to the tax law, 10% of the fair market value (FMV) of the car on 1 January 2017 shall be treated as a perquisite received by him. The lease rentals to be paid by the company are not taken into consideration when computing the value of the perquisite. Since the car was provided for half of the year, the value of the perquisite is worked out proportionately. Further, the amount paid by the employee is also to be deducted. Therefore, the perquisite shall be computed as below: Rs.

FMV of the car	
2,000,000	
10% of the FMV (2,000,000 x 10%)	200,000

Restricted to the number of days (181) it was used during the tax year 2017 (200x 181/365)	99,178
Less amount paid by Rizwan	(72,000)
Amount to be treated as salary [S.13(3) & (6) read with rule 5 of the income tax rules, 2002]	27,178

W-3:

Although the shares of the company were allotted to him at a price lower than the breakup value (which is assumed to be the fair market value in the absence of any other information about their valuation), there was a restriction on the sale or transfer of the shares. Where the issuance of shares is subject to a restriction on the transfer of the allotted shares, no amount is chargeable to tax to the employee until the earlier of:

- (a) the time the restriction is removed; or
- (b) the time the employee actually disposes of the shares.

Neither of these events occurred before 30 June 2017. Hence, no amount is taxable as salary of Rizwan for the tax year 2017. [S.14 (3)]

W-4:

If a loan is granted to an employee without profit or with a profit rate below the benchmark rate for the year, the difference between the profit payable on the basis of the benchmark rate of profit and the profit actually paid is treated as salary income of the employee. However, where an employee waives interest on his/her account with the employer, no addition is made towards salary income due to the concessional loan. Rizwan falls within this exception; hence this perquisite is not taxed in his hands. [Proviso to S.13 (7)]

W-5:

The treadmill, being a movable asset held by Rizwan for his personal use, is not included in the definition of a capital asset. Hence the gain of Rs. 90,000 (290,000 – 200,000) is not taxable. [S.37(5)(d)]

W-6:

The rent of Rs. 1,000,000 received in respect of his apartment in the USA is exempt from tax in Pakistan as Mr. Rizwan is a national of Pakistan and acquired the status of resident (from non-resident) in the tax year 2016. His foreign source income from Canada or any other country is exempt in the tax year 2016 and 2017. [S.51]

W-7:

Total value of the imports 1,000,000	
Tax collectible at 6% by custom authorities [S.148]	60,000

Tax collectible on commercial imports by the custom authorities is treated as the final tax on the income of the importer arising from such imports. The net income from this business declared by the taxpayer at Rs. 70,000 is not relevant for the computation of tax liability on the imports business.

W-8:

Any amount received by a person as consideration for vacating possession of a building, as reduced by any amount paid by that person to acquire possession of such building, is assessable under the head 'Income from other sources' in the year in which the consideration is received and the following nine years as below: Rs.

Consideration received for vacating the possession of the shop	150,000
Consideration earlier paid for getting the possession	(50,000)
Taxable under the head 'Income from other sources' [S.39 (1)(k)]	100,000
Assessable in the tax year 2017 (100,000 x 1/10) [S.39(2)]	10,000

W-9:

An agricultural tractor is a movable asset on which depreciation is not allowable, hence it is treated as a capital asset. The subsidised purchase price of the tractor paid by Rizwan was Rs. 1,000,000 against the market price of Rs 1,500,00 on 1 February 2016. Since the subsidy has not been taxed, the subsidised price will be taken as its cost [S.76 (10)]. The taxable gain shall be computed as: Rs.

Consideration received 15 February 2017	1,200,000
Less: Subsidised cost of the tractor on 1 February 2016	(1,000,000)
Capital gain	200,000

Normal repairs do not improve the asset hence Rs 90,000 does not form part of the cost as per the definition given in the Ordinance [S.76 (2)]. Further since the disposal was made after one year of acquiring the asset, 75% of the capital gain is taxable at Rs. 150,000 [S.37 (3)].

W-10:

Gross receipts of Rs. 300,000 are on account of services rendered for delivering lectures at an English language coaching center. The payer was not a withholding agent. Therefore, the receipts were chargeable to tax under the normal law and not under the final tax regime. Since the expenditure of Rs. 50,000 was not documented, this cannot be claimed as an admissible deduction. Since delivering the lectures was not the business of the taxpayer, the amount of Rs. 300,000 is assessable under the head 'Income from other sources'. [S.39 and 174]

W-11:

Where income from an AOP is assessable under the normal law or exempt from tax, the share of profit from such an AOP is added to the income of the individual member when determining the rate of tax to be applied to his other taxable income. However, where the income from the AOP is taxable under the final tax regime (FTR), the share of profit is neither liable to be further taxed nor added when determining the rate of tax for other taxable income. Income of the AOP covered under the FTR (import business without any value addition) does not need to be further added to the income of Rizwan, however exempt income (export of computer software) will be added to the taxable income for rate purpose. [S.169(2)(a)].

W-12:

Tax credit for tax paid in the period relevant to the tax year 2016 cannot be claimed in the tax year 2017 [S.168]. However, he may revise his return for the tax year 2016 to claim this amount of tax paid in that tax year.

W-13:

Tax deducted on the profit on debt is the final discharge of the tax liability. [S.151 (3)] Tax is deductible on the gross amount of the profit on debt as reduced by the amount of Zakat deducted at source/paid under the Zakat and Usher Ordinance, 1980. [S.151(1)] Rs.

Gross profit credited to the account	100,000
Less: Zakat deducted	(5,000)
Income liable to tax deduction	95,000
Tax at 10%	9,500

W-14:

Tax on profit from a pensioner's benefit account is not deductible at source. Income is assessable under the head 'Income from other sources' [u/s 39(1)(c)] after allowing admissible expenses. However, tax computed on the basis of this assessment is not to exceed 10% of the amount of the profit. In the given situation, since there was no expenses incurred to earn this income, and the tax rate on total income, including this income, was higher than 10%, the profit is taxable at 10%. [Cl.(6) of Pt. III of 2nd Sched.]

W-15:

Rent received from land which is situated in Pakistan and is used for agricultural purposes is treated as agricultural income and exempt from income tax under the Ordinance. [S.41(1) and (2)(a)] In such a situation there is no need to determine the fair market rent of the land.

Answer # 16

Mr. IMRAN
COMPUTATION OF TAXABLE INCOME
INCOME YEAR 30-06-2017
TAX YEAR 2017

PARTICULARS	Note		TAXABLE PKR
Income from salary			
Basic Salary (150,000 x 12)			1,800,000
Medical allowance (15,000 x 12)	1		180,000
Utility allowance (15,000 x 12)			180,000
Dearness allowance (20,000 x 12)			240,000
Medical reimbursement	1		-
Travelling and daily allowance	2	-	
Rent free furnished accommodation			
Higher of A or B			
A. Annual value of accommodation		360,000	
B. 45% of basic salary		810,000	810,000
Employer's provident fund			
Amount contributed (20,000 x 12)		240,000	
Less			
Exempt lesser of 10% of salary or Rs. 150,000)	3	150,000	90,000
Salary received in arrear	4	200,000	200,000
Employee share option			

Fair market value on the date of issue (35 x 1000)		350,000	
Less: amount paid on grant of option		(100,000)	
Less: amount paid on date of issue		(200,000)	
		<hr/>	50,000
Waiver of loan	10		300,000
Benchmark interest on loan 600,000 x 10% x 6/12)	11		30,000
			<hr/>
			3,930,000 -A
			<hr/> <hr/>
Capital Gain			
Sale of shares		375,000	
Less Fair market value on the grant of issue	5	350,000	25,000
Gain on sale of jewellery	6	<hr/>	225,000
Gain on sale of painting	7		500,000
Loss on sale of coins	8		-
Gain on sale of personal car	13		-
			<hr/>
			750,000 -B
			<hr/> <hr/>
Income from property-separate block	12		1,020,000
Income from other source			
Loan received in cash from brother	9		200,000
Provision of other service in rental income	12		84,000
Income from writing a short article			
Income from lecture			10,000
	15		140,000
			<hr/>
			434,000 -C
			<hr/> <hr/>

Taxable Income under normal regime (A+B+C)		5,114,000
Deductible allowance on house loan	16	

Income covered under Final Tax Regime (FTR)

Income from property	1,020,000	
Dividend (45000/0.875)		51,428
Winning from quiz competition (180,000/0.8)	14	225,000
Income from property		1,020,000

Tax Computation

On income from normal regime

(salaried rate will be used as it is more than 50% of total income)

Tax upto Rs. 4,000,000	597,000	
On balance (Rs. 5,114,000- 4,000,000)x27.5%	306,350	903,350
On FTR Income		
Property Income (Rs.60000+20000x15%)	63,000	
Dividend 51,428 x 12.5%	6,428	
Winning on competition 225,000 x 20%	45,000	114,428

Tax liability		1,017,778
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Less:- Tax deduction/deposited

On salary	1,098,234
on dividend	6,428
On winning from quiz competition	45,000
On services (visiting faculty)	20,000

On cash withdrawals	5,321	1,174,983
Balance Refundable	5,321	(157,205)

Notes

N-1 No exemption shall be allowed on medical allowance as he is also eligible for medical reimbursement under the terms of the employment. Such reimbursement is, however, not taxable.

N-2 Although the amount received at Rs. 80,000 on account of travelling allowance and daily allowance was more than the actual expense (Rs. 48,500) incurred by the employee, the whole amount is exempt from tax. (Ref: Cl. 39 of Part I of the 2nd Sch.)

N-3 Contribution to a recognized provident fund

Basic salary	1,800,000
Dearness allowance	240,000
	2,040,000

Salary for provident fund purpose means actual drawn basic salary plus dearness allowance.

10% of the above	204,000
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N-4 In respect of arrear of salary, an option is available to the employee either to have it taxed in the year of receipt or on an accrual basis in the year to which it relates. In the given situation, the tax rate in the current year is lower than the rate of 25% of the tax year in which the amount had accrued, therefore, the amount will be taxed in the tax year 2017.

N-5 Since the holding period is less than one year, therefore, the whole amount is taxable.

N-6 Jewellery even if held for personal use is included in the definition of a capital asset and the gain on its disposal is taxable as capital gains. As the jewellery was held for more than one year, only 75% of the gain of Rs.300,000 is chargeable to tax

N-7 The entire gain of Rs.500,000 on disposal of the paintings is chargeable to tax since the painting was not held for more than one year

N-8 The loss of Rs.100,000 on disposal of the old coins is not recognized as a capital loss for tax purposes

N-9 Amount received as loan otherwise than crossed cheque is chargeable to tax under the head income from other source (Ref Sec 39(3)).

N-10 Loan waived off is chargeable to tax under the head salary (Ref: Sec 13(9)).

N-11 Benchmark rate is 10%. (Ref: Sec 13(14)).

N-12 Income from property is taxable as separate block of income

Total rent received	1,200,000
Less amount received for arranging security guard chargeable to tax under the head income from other source(15,000 x 12) (Ref sec 15(3A))	<u>180,000</u> <u>1,020,000</u>
Rent gross	1,020,000
Income from other source	180,000
Less salary of two guards (4000x2x12)	<u>96,000</u> <u>84,000</u>

N-13 Gain on sale of personal vehicle is not capital gain and hence exempt from tax.

N-14 Prize money for winning a quiz is chargeable to tax under the final tax regime (Ref: Sec (156))

N-15 Tax deducted on services rendered is treated as Minimum tax. Since normal tax rate of imran is greater than 10% therefore, said net income of Rs.140,000(Rs. 200,000-60,000) will be clubbed with normal taxable income.

N-16 A loan which is utilized for the construction of a new house or the acquisition of a house is eligible, subject to other conditions and limitations, for deductible allowance (straight deduction from total income). But since the amount was spent on the renovation of an existing residential house, it is not eligible for the said allowance. (Ref sec 64-A).

Answer # 17

- (1). Profit on debt relating to work in progress are not revenue expenditure for the purpose of carrying out business during the year. Further, XYZ Ltd is not entitled to any capital allowance like depreciation, initial allowance etc. as work in progress does not constitute an eligible asset.
- (2). Payment of profit to a banking company by a company is not subject to the withholding provisions, hence, non-deduction of tax does not lead to any adverse inference in this case. The amount of profit paid is fully admissible.
- (3). Exchange loss sustained in relation to the principal amount of the loan will be added to the cost of the asset. Exchange loss in relation to interest payments will not be added to the cost and will be deductible in the tax year in which accrued.
- (4). The exchange loss of Rs. 100,000 is a notional loss, not yet realized. The Income Tax Ordinance, 2001 taxes real income/expenses and not notional income/expenses except where it is specifically mentioned in the Ordinance. Based on this general principle, an unrealized exchange loss is not allowable. Had there been a gain on account of such conversion, the same would also have not been added in income.
- (5). Since the scholarship has been granted to a Pakistani citizen for his technical training under a scheme approved by the Federal Board of Revenue, the expenditure is admissible. The beneficiary of the scholarship does not need to be an employee of the taxpayer. [S.27(c)]
- (6). The fee paid (Rs. 245,000) to increase in XYZ's authorized capital is capital expenditure in nature, hence not allowable. The remaining expenditure being of revenue in nature is admissible.
- (7). A contribution to a recognized provident fund is an allowable deduction. A contribution made to an unrecognized provident fund is also deductible provided the employer has made effective arrangements to ensure that tax would be deducted from any payments made by the fund in respect of which the recipient is chargeable to tax under the head 'Salary' [S.21 (f)]. As XYZ Ltd has made the aforesaid effective arrangements for deduction of tax from any payments made by the fund to an employee which is chargeable to tax as the employee's salary income, the contribution of Rs. 200,000 made to the fund is a deductible expenditure.

- (8). Free distribution of sample goods, being in line with practice in the industry is an expenditure of commercial expediency and has been incurred wholly and exclusively for the purpose of business. Hence, it is allowable as revenue expenditure.
- (9). Motor vehicle tax is for the purposes of business and revenue in nature. Further, it does not fall in the list of inadmissible deductions. [S.20(1) read with S.21(a)]
- (10). Expenses incurred at Rs. 500,000 relate to the acquisition of another company. The expense, therefore, being capital in nature, is disallowed. [S.21(n)]
- (11). A penalty of Rs. 45,000 paid for the late filing of a return of income is an inadmissible expense on either of the following two grounds:
- (i). A penalty for the late filing of a return of income is included in tax as defined in the Income Tax Ordinance, 2001 (the 'Ordinance'). Tax is an inadmissible deduction under the law. [S.21(a)]
 - (ii). It was imposed for violation of the provisions of the Ordinance, hence not admissible. [S.21(g)]
- (12). A computer costing Rs. 300,000 was not put to use during the year ended 30 June 2017 hence is not entitled to any capital allowance.
- (13). Any expenditure, in aggregate, under a single accounting heading in excess of Rs. 50,000 other than by crossed bank cheque or crossed bank draft or any other banking instrument is not deductible with certain exceptions. One of the exceptions is any fee expenditure. Hence, the Rs. 200,000 paid, in cash, to the Engineering Development Board established by the Federal Government is deductible and no adjustment is required. [2nd proviso to S.21(l)]
- (14). A donation in kind to a relief fund run by the Government of Sindh is not for the purpose of business, hence not allowable as expenditure. However, it is eligible for tax credit under the law. [S.20(1)]
- (15). The expenditure of Rs. 1,530,000 incurred solely to secure the purchase of a mixing machine, is capital expenditure and is not deductible. Rs. 1,530,000 should be added to the cost of the mixing machine for tax purposes.
- (16). A mere existence of cash withdrawals does not lead to inadmissibility of expense. As per section 21(l)/(m) of the Income Tax Ordinance, 2001 following expenses are allowed in cash.

- (i). Expenditures not exceeding ten thousand rupees;
- (ii). expenditures on account of
- (iii). utility bills;
- (iv). freight charges;
- (v). travel fare;
- (vi). postage; and
- (vii). payment of taxes, duties, fee, fines or any other statutory obligation
- (viii). any salary paid or payable exceeding fifteen thousand rupees per month other than by a crossed cheque or direct transfer of funds to the employee's bank account;

In view of the foregoing, cash expenses other than above will be disallowed, whereas the remaining will be allowable as an expense.

- (17). The forward contract entered into by XYZ Ltd for the purchase of raw materials used in its business of manufacturing edible oils is in the nature of a hedging contract which was entered into to guard against loss from future price fluctuations. Such contracts have specifically been excluded from the definition of speculative business [s.19(2)]. Therefore, the Rs. 950,000 paid to settle the forward contract is an expenditure incurred in the normal course of business and is a deductible expenditure.
- (18). Any premium paid on purchase of PIB is business expenditure incurred wholly and exclusively for the purpose of the business therefore, it should be allowed as expense over the life of the PIB (i.e.; five years).

Answer # 18

Omega Pakistan Limited (OPL)						
Computation of taxable income						
Tax Year: 2017						
				Notes	Amount	Rupees
Income from Business:						
Profit before tax as per accounts						18,000,000
Add: Inadmissible expenses/admissible incomes						
Amount transferred to general reserve fund				1	2,000,000	
Collector of customs for erroneous entry				2	20,000	
Demurrage to Khi port trust				3	-	
Legal expenses for defending the title				4		
Anticipated loss on forward contract				5	500,000	
Advance to associated company				6	1,000,000	
Eid milan party				7	-	
Premature termination of contract				8	-	
Compensation paid for failure to deliver goods				9	-	
Profit on debt without tax deduction				10	150,000	
Expense for working capital loan				11	-	
Infringment of trade mark				12	400,000	
For changes in articles and memorandum				13	-	
Reimbursement to promoters				14	600,000	
Loan to associated undertaking				18	-	4,670,000
Less admissible deductions/inadmissible incomes						
Value of bonus shares				15	10,000,000	
Fair value adjustment of land				16	2,000,000	12,000,000
						10,670,000
Income from other source						
Loan received in cash				17	1,000,000	1,000,000
Taxable income						
						11,670,000
Income subject to Final Tax						
Gross amount of bonus shares (Rs.10,000,000/0.95)						10,526,316
Computation of tax liability						
Normal income of Rs. 11,670,000 @ 33%					3,734,400	
ACT @ 17% of Rs. (18,000,000+2000,000+10,000,000) (Bonus shares is not an income for accounting purpose)					5,100,000	
Tax liability being higher of corporate tax or ACT						
						5,100,000
FTR income of bonus shares @ 5%						526,316
Gross tax liability						
						5,626,316

Less tax already deducted:							
On issue of bonus shares							526,316
Balance payable							5,100,000
Workings							
N-1:							
Any amount transferred to general reserve account is not allowed as a deduction (Ref: S 21(i))							
N-2:							
The amount paid to the Collector of Customs for the erroneous declaration made in a bill of entry is in the nature of a fine or penalty paid for violation of the customs law and is therefore not deductible.							
N-3:							
Demurrage paid for the late lifting of goods is an expenditure in the normal course of carrying on the business. It is not in the nature of a fine or penalty for violation of any law, rule or regulation. It is therefore an allowable deduction							
N-4:							
Legal expenses incurred by Omega Ltd in defending the title to its assets is a deductible expense as it is in the normal course of carrying on its business. The expenditure has neither added to the value of the assets nor created a new asset.							
N-5:							
Deductions are admissible only for business losses, which are incurred, in the relevant accounting year and not for future losses. Anticipated losses in the future however probable or certain cannot be claimed. As the forward contract would be executed in July 2016, the gain or loss on the forward contract would be included in the computation of income for the tax year 2017.							
N-6:							
The advance of Rs.1,000,000 to an associated company written off as a bad debt is not deductible, since making an advance to an associated company is not in the normal course of Omega's business.							
N-7:							
The expenditure incurred on the annual eid-milan party is in the nature of an amenity provided to the employees motivated by business reasons. The expenditure which is in the nature of staff welfare is deductible as it is incurred wholly and exclusively for the purposes of the business.							
N-8:							
Any expenditure incurred to terminate a disadvantageous contract or a trading relationship in order to avoid monetary losses or commercial inconveniences occurring in the future or to remove a difficulty in the carrying on of the business is a revenue expenditure. The payment of Rs.300,000 paid for the premature termination of the contract for the purchase of cotton bales to avoid a loss expected to arise, is a deductible expenditure							
N-9:							
Payment of compensation due to failure to deliver the goods within the time specified in the contract is a normal expenditure in the carrying on of the business and is deductible. The payment is not in the nature of a penalty or fine for the violation of any law, rule or regulation.							

N-10:							
<p>The profit on the debt received by Swiss Bank is chargeable to tax in Pakistan. It is a Pakistan-source income of Swiss Bank since the amount has been paid by a resident (Omega Ltd) and the debt has not been used for any business carried out by Omega Ltd outside Pakistan. The profit on the debt paid by Omega Ltd is therefore, not deductible since tax was not deducted at source from the payment made to Swiss Bank.</p>							
N-11:							
<p>Legal expenses in connection with a loan taken for working capital requirements is an expenditure incurred wholly and exclusively for the purposes of the business and is a deductible expenditure</p>							
N-12:							
<p>Expenditure that is incurred by a taxpayer wholly and exclusively for the purpose of its business is a deductible expenditure [s.20(I)]. The legal expenses incurred by Omega Ltd in connection with the infringement of a trade mark of its wholly owned subsidiary is not deductible since it is not incurred wholly and exclusively for the business of Omega Ltd. For Pakistan tax purposes, Omega Ltd is a separate legal entity from its wholly owned subsidiary</p>							
N-13:							
<p>Legal expenses incurred for an amendment in the memorandum and articles of association of PQR to bring it in accord with the company law requirements is revenue expenditure and is deductible</p>							
N-14:							
<p>The payment of Rs. 600,000 to the promoters of Omega Ltd relates to the period prior to incorporation of the company –in fact it is an expense relating to the formation of the company and is therefore capital expenditure and is not deductible</p>							
N-15:							
<p>Every company quoted on stock exchange issuing bonus shares to the shareholders of company, shall withhold five percent of the bonus shares to be issued. Such tax deducted shall be final tax on the income of the shareholder of the company arising from issuance of bonus shares. Hence, net amount of Rs. 10M included under normal income shall be excluded and gross amount (Rs. 10,000,000/0.95) shall be charged to tax under FTR.</p>							
N-16:							
<p>Under the Income Tax Ordinance, 2001 only real income is charged to tax. The notional gain of Rs.2,000,000 is therefore deducted from the accounting income for the purpose of taxation.</p>							
N-17:							
<p>An amount received by a person,inter alia, as a loan from another person (not being a banking company or a financial institution) which is not paid by a crossed cheque or through a banking channel from a person holding a national tax number card, is treated as the income of the recipient chargeable to tax in the year of receipt under the head ‘Income from other sources’ [s.39.(3)]. As the loan was received in cash Rs.1,000,000 is the income of Omega Ltd (recipient) chargeable to tax under the head ‘Income from other source</p>							
N-18:							
<p>Any expenditure which has previously been allowed as a deduction remaining unpaid for three years from the end of the year it was first allowed is treated as income chargeable to tax in the first year following the end of the said three years [s.34(5)]. However, no adjustment is required for the amount of Rs. 600,000 representing the amount of a loan unpaid as this amount is not an expenditure which could have been claimed as a deductible charge</p>							

Answer # 19

Hiba Limited						
Computation of taxable income						
Tax Year: 2017						
				Workings		Rs." 000"
Accounting profit before tax						9,000
Add: Inadmissible expenses/Admissible incomes						
Transfer to reserves					3,000	
Payment to Karachi Port Trust				1	-	
Share of loss from AOP				2	1,500	
Printing and stationery expense				3	-	
Sales promotion expense				4	2,000	
Tax gain on disposal				6	700	
Subsidy from government				8	500	7,700
Less: Admissible expenses/inadmissible incomes						
FTR income on sale of imported cars				5	800	
Tax loss on disposal of motor				7	100	
Accounting profit on disposal of building				6	400	1,300
						15,400
Surrendering tax loss under group relief				10		-
Assessed loss of tax year 2016						(1,000)
Income from business						14,400
Capital Gain				9		135
Taxable income						14,535
Calculation of tax liability						
Corporate tax						
Tax @ 31% on Rs. 14,535						4,505.85
Alternative corporate tax (ACT) Rs. 11,480 @ 17%				11		1,952
Tax liability being higher of A or B						4,506
FTR income : Tax on import of motor vehicle						900
						5,406
Less tax already deducted						
Advance tax						1,500
Import of cars						900
Turnover tax credit allowed for 5 years						100
						2,500
Balance payable with return						2,906

Working							
N-1	Rs. 50,000 paid to Karachi Port Trust for not lifting the goods from the docks is an expenditure incurred wholly and exclusively for the purpose of business and is therefore deductible expense. The payment is not a fine or penalty for violation of any law, rule or regulation.						
N-2:	In case of loss by an AOP, loss shall not be excluded from AOP. It therefore, means that share of loss from AOP incorporated in the accounts of the company shall be added back in the calculation of company's taxable income.						
N-3:	Since the individual payment to each person was below Rs. 25,000, no tax was deductible. [s.153 read with relevant SRO 586 (I)/91 dated 30 June 1991] The expenditure being for the purpose of business was fully allowable. [s.20]						
N-4:	HPL was required to collect tax on the fair market value of the car [s.156(2)]. Non-withholding of tax on this account will render the expense as inadmissible under section 21(c).						
N-5:	Net income of Rs. 800,000 on sale of the motor cars in CBU condition is not chargeable to tax under any head of income, since HPL is not manufacturer. Hence tax collected at import stage will be final tax on the income of sale of imported goods.S. 148(7)(C)						
N-6:	Accounting written down value						
					500,000		
	Accounting profit						
					400,000		
	Sale proceeds						
					900,000		
	Cost						
					800,000		
	Where consideration received on disposal of building exceeds cost, the consideration received is treated as cost. Therefore						
	Cost of the office building sold						
					900,000		
	Depreciation allowed						
					700,000		
	Tax WDV for computing tax gain						
					200,000		
	Sale proceed						
					900,000		
	Tax Gain (Sec 22(8)(a))						
					700,000		
N-7:	The tax loss of Rs. 100,000 on disposal of motor car is computed as under:						
	Tax written down value						
					500,000		
	Consideration received						
					(400,000)		
					100,000		
	As the motor car was gifted by HPL to its director, the fair market value of the car is treated as consideration received.						
N-8:	As per clause 102A part I of the Second Schedule, any subsidy granted to any person by the Federal Government for the purposes of implementation of any orders of the Federal Government in this behalf is exempt from tax. Since the amount was not in respect of implementation of any order of Federal Government, therefore, the same will be fully taxable.						

N-9:								
Since shares were held for more than one year and APL is a private company for tax purpose, therefore, only 75% of the gain is taxable.								
N-10:								
The provision of group relief state that a subsidiary company can surrender its assessed tax loss (excluding capital loss) in favour of its holding company according to % of shareholding provided certain conditions are fulfilled. One of the condition is that where none of the company in the group is a listed company on a registered stock exchange in Pakistan, the holding company should own at least 75% of the share capital of the subsidiary company surrendering the loss.								
Neither HPL or APL is a listed company and after the disposal by HPL of 26% of its holding, HPL did not hold the minimum requirement of 75% of the share capital of APL. Therefore, APL cannot surrender its tax loss of Rs. 2,000,000 to HPL.								
N-11:								
Calculation of ACT:								
Accounting profit						9,000		
Add: Amount transferred to reserve				3,000				
Subsidy received from government				500				
Capital gain				180		3,680		
Less:								
FTR income : Motor vehicle in CBU Condition				800				
Accounting loss on gift of motor car				400		1,200		
						11,480		

Answer # 20

Big Pharma Computation of taxable income						
Tax Year: 2017						
				Workings	Rs. "000"	Rs. "000"
Profit before tax						17,150
Add: Inadmissible expenses/admissible incomes						
Accounting depreciation- Cost of sales					3,200	
Accounting depreciation- Admin and selling					800	
Provision for slow moving stocks					1,300	
damages, Demurrage paid to custom authorities & Royalty					-	
Provision for bad debts					1,100	
Small items of office equipments					1,400	
Unrealized exchange loss					1,350	
WWF					350	
Profit on debt on working capital					1,300	
Foreing loss (Rs.2700 M - Rs. 3400M)			3		700	11,500
Less: admissible expenses/inadmissible incomes						
Tax Depreciation					6,000	
Bad debts written off			1		300	6,300
						<u>22,350</u>
Less brought forward tax loss						6,100
Total income						16,250
Less WWF			2			350
Taxable income						<u>15,900</u>
Computation of tax liability						
Corporate Tax:						
1% of turnover (Rs. 96,000,000 x 1%)					960	
31% of taxable profit (Rs. 15,900 x 32%)					4,929	
Alternative corporate tax (ACT)						
17% of accounting profit of Rs.17,150					2,916	
Tax liability being higher of A,B or C						4,929
WWF						350
						<u>5,279</u>
Less already paid:						
Deducted by distributor					2,450	
paid on import of raw material					2,000	
Foreign tax credit in qatar (Since 2700 x 31%=837, hence)					225	
Unadjusted minimum tax for previous years					450	
Unadjusted foreign tax credit-disallowed						5,125
Balance payable						<u>154</u>
Workings						
W-1 Bad debts						
Opening provision of bad debt					2,500	
Charged to profit and loss					1,100	
Less closing provision					(3,100)	
Actual bad debts					500	
Less loan relating to foreign branch					200	
W-2 WWF					<u>300</u>	
Accounting profit (Rs. 17,150 + 350)					17,500	
Taxable profit					16,250	
WWF @ 2% of higher of above					350	
W-3 Foreign loss can be adjusted agst foreign income only.						

Answer # 21

Mega Limited						
Computation of taxable income						
Tax Year: 2017						
				Workings		Rs." 000"
Accounting profit before tax						152,500
Add: Inadmissible expenses/Admissible incomes						
Accounting depreciation on plant and machinery					5,200	
Penalty for breach of law					500	
Purchase of software				2	4,800	
Electricity expense in cash				3		
Donation paid to university established under provincial					13,000	
Withholding tax deducted on royalty					10,000	33,500
Less: Admissible expenses/inadmissible incomes						
Initial allowance on plant and machinery				1	13,000	
Tax depreciation on plant and machinery				1	5,850	
Amortization of software				2	399	
Consultancy services provided in UAE					27,000	
Royalty from services rendered outside Pakistan					50,000	96,249
						89,751
Unabsorbed business loss inadmissible due to 6 years old						-
Unabsorbed depreciation and amortization loss						(18,700)
Taxable income						71,051
Calculation of tax liability						
Corporate tax						
1% of turnover						11,000
Tax @ 31%					22,026	
Tax credit for donation (Rs. 22,025/71,051)x 13000					4,030	
Tax credit for investment in BMR					5,200	12,796
Alternative corporate tax (ACT)						
Accounting profit					152,500	
Less exempt royalty income					50,000	
Income from service rendered outside Pakistan					27,000	
					-	
ACT for tax calculation					75,500	
tax @ 17%					12,835	
Tax credit on BMR					5,200	7,635
Tax liability being higher of A, B OR C						12,796
tax on services income from UAE @ 4%						3,600
						16,396
Less tax already deducted						
Advance tax					5,000	
Import of raw material					55	
import of plant and machinery					1,560	
Profit on debt					250	6,865
Net tax liability						9,531

(b)							
ML was required to estimate the tax payable for the relevant tax year at any time before the last instalment was due and in case the tax payable was likely to be more than the amount otherwise payable on the turnover basis, it had to pay the additional amount over the remaining instalments.							
Where the tax paid under section 147 is less than ninety per cent of the tax chargeable for the relevant tax year, the taxpayer is liable to pay default surcharge at the rate of 12% per annum on the amount of shortfall for the period.							
Such default surcharge shall be calculated from the first day of April in that year to the date on which assessment is made or the thirtieth day of June of the financial year next following, whichever is the earlier.							
Under the given circumstances, the total advance tax paid by ML under section 147 along with the amount of taxes suffered at source amounted to Rs. 6.865 million which is less than ninety per cent of the amount of tax charged to ML for the tax year 2017. Therefore, ML is exposed to the levy of default surcharge under section 205(1B)							
Working:							
W-1 Investment in plant and machinery for BMR							
Cost of eligible depreciable asset						52,000	
Initial allowance @ 25%						13,000	
WDV						39,000	
Depreciation @ 15% on balance WDV						5,850	
Tax credit @ 10% of amount invested						5,200	
W-2 Purchase of software							
Purchase of software is expense of capital nature (Intangible). Amortization will be allowed on the basis of no. of days it is used in a tax year.							
Cost of software						4,800	
Amortized in 3 years						1,600	
Amortization for relevant year (91/365)						399	
W-3 Electricity in cash							
Electricity paid in cash is fully allowed as expense under section 21 of the Income Tax Ordinance,2001.							
W-4 Donation							
Actual amount						13,000	
20% of taxable income						14,210	
Lower of both						13,000	
tax credit @ 31%						4,030	
W-5 Royalty from services rendered outside Pakistan							
As per clause 131(a) Part I of the Second Schedule, royalty is exempt if it is received by a company from outside Pakistan from a foreign enterprise under an agreement provided that such income is received in Pakistan through normal banking channel.							
W-6 Service income received from UAE							
As per Clause 3, Part II of the Second Schedule, income from services rendered outside Pakistan are taxable @ 50% of normal rate i.e 4% of gross receipts in case such receipts are brought into Pakistan through normal banking channel. Therefore, the said service shall be taxable as separate block of income.							

Answer # 22

Pills (Pvt.) Limited				
Computation of taxable income				
Tax Year: 2017				
	Workings	Local	Export	Total
Sales ratio		75%	25%	
Sales	1	27,000	9,000	36,000
Cost of sales		19,275	6,425	25,700
Gross profit		7,725	2,575	10,300
Admininstration and selling		5,350		5,350
Financial charges		1,500		1,500
Other charges		2,000		2,000
Other income		(900)		(900)
Accounting profit before tax		(225)	2,575	2,350
Add: Inadmissible expenses/Admissible incomes				
Thin capitalization	2	156		156
Shares under group scheme	3	1,758		1,758
Capital expense-Books	4	800		800
Donation to private trust	5	200		200
Markup on leased assets	6	180		180
Rent payable to landlord	7			
Loan to shareholder	8			
Accounting depreciation- COGS		1,080	360	1,440
Accounting depreciation- Admin & Selling		810		810
Tax gain on delivery vehicle	9	85		85
		5,069	360	5,429
Less: Admissible expenses/inadmissible incomes				
Lease rentals	6	500		500
Professional books	4	218	73	290
Assets acquired on finance lease	6	72	24	96
Tax depreciation COGS	9	864	288	1,152
Tax depreciation admin and selling	9	648		648
Accounting gain on sale of vehicle		130		130
		2,432	385	2,816
Taxable Income		2,413	2,551	4,963
Computation of tax liability				
Corporate tax				
1% of turnover		270		
31% of taxable income		747.88		

Alternative corporate tax (ACT)			
17% of accounting profit		-	
Normal tax liability higher of corporate tax or alternative corporate tax		748	
FTR tax on exports proceeds @ 1%		78.30	
Tax payable on deemed dividend		-	
Total tax		826	
Less already deducted			
Advance tax u/s 147		400	
Export proceeds		78.30	
Foreign withholding tax	1		
		478.30	
Balance payable/ (refundable)		347.88	
Workings			
W-1 Breakup of sales			
Total sales			39,150
Exports @ 20%			7,830
Local sales inclusive of sales tax			31,320
Local sales exclusive of sales tax			27,000
Gross export inclusive of withholdng tax			9,000
No foreign tax credit will be available in respect of foreign withholding tax deducted, as it pertain to FTR income (Export)			
W-2 Thin capitalization			
Loan			8,500
Markup expense			1,020
Equit at the start			4,000
Proportionate share @ 60% in equity at start of year			2,400
Maximum debt allowed (3 times of equity at start of year)			7,200
Markup expense allowed (7200/8500)x1,020			864
Disallowed			156
W-3 Share option			
Shares under group scheme provided by Capsule plc. is not an expense of PPL hence the same will not be allowed.			
W-4 Professional books and assets acquired under finance lease			
Professional books purchased are of capital nature,hence, will not be allowed as expense. Depreciation will be charged @ 15% as per Third Schedule. Further, being eligible depreciable assets they are also liable for initial allownace @ 25%.			
Cost of professional books			800
Initial allowance @ 25%			200
Depreciation @ 15% on WDV			90
Total depreciation on books			290

W-5 Donation			
A donation is not business expenditure. However, donations to institutions, approved by the Commissioner and FBR are eligible for tax reliefs. Since the hospital to which donation was made is not run by the Federal or Provincial or a Local Government, it cannot be claimed as admissible deduction and no tax credit would be allowed against the same.			
W-6 Assets acquired on finance lease			
In case of a finance lease the interest charged to the accounts of Rs. 180,000 is an inadmissible deduction. However, the lease rentals of Rs. 500,000 are an admissible deduction. After the transfer of machinery to PPL at residual value of Rs. 640,000, tax depreciation would be admissible on it. For the purpose of calculating tax depreciation, the residual value of the machinery (and not its market value) shall be treated as its tax written down value (WDV). As residual value is the consideration that was paid by PPL. Further no initial allowance will be charged as asset is previously used in Pakistan.			
Residual value of assets transferred			640
Depreciation @ 15%			96
W-7 Rent payable to landlord			
above amount was payable on 31 December 20X2, therefore it can be claimed as admissible deduction.			
W-8 Loan to shareholders			
A loan made by a private company to a shareholder to the extent of accumulated profits which, in substance, is a distribution is treated as dividend income of the shareholder. Company is only required to withhold advance tax @ 12.5% while making payment of dividend and to pay default surcharge @ 12@Pa in case of non-withholding. Tax of Rs. 62,500 shall be paid by the shareholder. There will be no addition in the tax liability of PPL.			
W-9 Allocation of tax depreciation and tax gain on delivery vehicle			
Accounting depreciation on COGS			1,440
Accounting depreciation on Admin and selling			810
			2,250
Total Tax depreciation			1,800
Tax dep to be allocated to COGS (1440/2250)x1800			1,152
Tax dep allocated to admin and selling (810/2250)x1800			648
Tax gain on vehicle			
Cost			900
Depreciation @ 15%			135
Tax WDV			765
Consideration (900 x 0.8) +130			850
Tax gain on vehicle			85

Answer # 23

Fresh Stream Limited (FSL)					
Computation of taxable income					
Tax Year: 2017					
	Workings	Local sale of Manufactured	Local sale of imported	Exports	Total
Sales ratio:					
Ratio of total sales		70%	20%	10%	100%
Ratio of local manufactured and export sale		87.50%		12.50%	100%
Sales	1	3,500,000	1,000,000	500,000	5,000,000
Cost of sales	2	2,362,500	300,000	337,500	3,000,000
Gross profit		1,137,500	700,000	162,500	2,000,000
Admininstration and selling -Common	4	507,500	145,000	72,500	725,000
Admininstration and selling- Specific (export quota)				25,000	25,000
Financial charges		175,000	50,000	25,000	250,000
Other income		(500,000)			(500,000)
Accounting profit before tax		955,000	505,000	40,000	1,500,000
Add: Inadmissible expenses/Admissible incomes					
Withholding tax on imports	2		15,400		15,400
Salaries and wages	3	52,500		7,500	60,000
Accounting amortization of export quota				25,000	
Provincial tax law disallowed		350	100	50	500
Penalties paid under the sales tax act		17,500	5,000	2,500	25,000
Accounting depreciation-COGS (to be apportioned between local manufactured and export only)		437,500		62,500	500,000
Accounting depreciation-Admin (to be apportioned in all)		52,500	15,000	7,500	75,000
		490,000	15,000	70,000	575,000
Markup on leased assets		7,000	2,000	1,000	10,000
		567,350	37,500	106,050	685,400
Less: Admissible expenses/inadmissible incomes					
Amortization of export quota	4			37,500	37,500
Tax depreciation to be apportioned in ratio of accounting depreciation (490/575 x 500)		426,087	13,043	60,870	500,000
Lease rentals		70,000	20,000	10,000	100,000
Capital gain on listed securites to be taxed separately		10,000			10,000
		506,087	33,043	108,370	647,500
Taxable Income		1,016,263	509,457	37,680	1,537,900

Computation of tax liability			
Corporate tax			
1% of turnover		35,000	
31% of taxable income		315,042	
Alternative corporate tax (ACT)			
17% of accounting profit (Rs. 955,000-10,000)		160,650	
Normal tax liability higher of corporate tax or alternative corporate tax		315,042	
FTR tax on exports proceeds @ 1%		5,000	
Capital gain on securities (Rs.10,000 x 7.5%)		750	
Tax collected on value of goods at import stage		15,400	
Total tax		336,192	
Less already deducted			
Advance tax u/s 147		-	
Export proceeds		5,000	
Import	1	15,400	
		20,400	
Balance payable/ (refundable)		315,792	
Workings			
W-1 Breakup of sales			
Total sales			5,000,000
Exports inclusive of withholding tax			500,000
Local sales out of imports			1,000,000
Local sales of manufactured goods			3,500,000
W-2 Breakup of Cost of sales			
Cost of imported goods (C & F)			300,000
Less withholding tax deducted on Rs. 280 Million @ 5.5%			(15,400)
			284,600
Cost of manufactured goods			2,700,000
Export sale		500,000	
Local sale of manufactured goods		3,500,000	
		4,000,000	
Cost to be apportioned to export (500/4000) x 2700		337,500	
Cost to be apportioned to local (3500/4000) x 2700		2,362,500	
		2,700,000	
W-3 Salaries and Wages			
Total salaries			800,000
Paid in cash			80,000
Paid to daily wagers			20,000
Disallowed being Paid to contract employees exceeding Rs. 15,000 pm			60,000
W-4 Admin and selling expenses			
Total expenses			750,000
Less specific expenses			
Export quota relating to exports (375/15)			25,000
Balance expenses to be apportioned in the ratio of sales			725,000
Amortization of export quota at maximum of ten years (375/10)			37,500

Answer # 24

Holding Limited (HL)							
Computation of taxable income							
Tax Year: 2017							
		Workings	Manufactured	Imported	Locally purchased		Total
					Prescribed	Others	
Sales ratio			70.00%	17.00%	2.60%	10.40%	100%
Sales	1		21,000	5,100	780	3,120	30,000
Cost of sales	2		14,820	3,060	624	2,496	21,000
Gross profit			6,180	2,040	156	624	9,000
Administration and selling- Other than Intangible			2,097.20	509.32	77.90	311.58	2,996
Administration and selling- Intangible amortization			4.00				4
Financial charges			840.00	204.00	31.20	124.80	1,200
Other expenses-other than hedging			616.00	149.60	22.88	91.52	880
Other expenses-hedging	3		20.00				20
Other income			(1,500)				(1,500)
Accounting profit before tax			4,103	1,177	24	96.10	5,400
Add: Inadmissible expenses/Admissible incomes							
Accounting amortization (60/15)			4.00				4.00
Provision for bad debts			4.20	1.02	0.16	0.62	6.00
Share of profit from AOP	4		28.00				28.00
			36.20	1.02	0.16	0.62	38.00
Less: Admissible expenses/inadmissible incomes							
Tax amortization (60/10)			6.00				6.00
Bad debts written off (20.8+6-18.4)			5.88	1.43	0.22	0.87	8.40
Foreign indenting commission charged to tax under FTR			11.16				11.16
			23.04	1.43	0.22	0.87	25.56
Taxable Income			4,115.96	1,176.67	23.96	95.85	5,412.44
Taxability			NTR	FTR	FTR	NTR	
Computation of tax liability							
Corporate tax							
1% of turnover (21000+3120)			241				
31% of taxable income (4115.96 + 95.85)			1,306				
Alternative corporate tax (ACT)							
17% of accounting profit (Rs. 4,103 + 96.10-11.16)			712				
Normal tax liability higher of corporate tax or alternative corporate tax			1,306				

FTR tax on exports indenting commission @ 5% of Rs. 11.16		0.558					
Tax deducted on imports treated as full and final		153					
Tax deductible on sale of locally procured (Rs.174.3-147)		27.30					
Total tax		1,486.52					
Less already deducted							
Advance tax u/s 147		1,200.00					
Export indenting commission		0.56					
Import	1	153.00					
Deducted by corporate clients		174.30					
		1,528					
Balance payable/ (refundable)		(41.34)					
Workings							
W-1 Breakup of sales							
Total sales		30,000					
Manufactured products		21,000					
Imported products		5,100					
Locally purchased products		3,900					
Note:							
Manufactured products whether sold to prescribed persons or to others are subject to tax under normal tax regime.							
Imported products whether sold to prescribed persons or to others are subject to tax under Final tax regime.							
Locally purchased products sold to prescribed person (withholding agents) are subject to FTR whereas sold to others (non prescribed persons) are subject to tax under normal tax regime.							
Breakup of locally purchased goods				Tax regime			
Sold to limited companies @ 20%		780		FTR			
Balance sold to others non prescribed persons		3,120		NTR			
W-2 Breakup of Cost of sales							
Given				21,000			
Imported products (5100 x 60%)				3,060			
manufactured products (Balancing figure)				14,820			
Locally purchased (3900 x 100/125)				3,120			
Breakup of locally purchased goods:							
to Prescribed persons (780/3,900 x 3,120)				624			
to non-prescribed persons (3120/3900 x 3,120)				2,496			
				3,120			
W-3 Amount paid to commodity exchange							
Such expense is specifically for the purpose of business. Further it is excluded from Speculation business. Hence it is allowable against manufacturing business only because it relates to one of the raw materials used by the company.							
W-4 Share of profit from AOP							
If a company is a member in an AOP, then							
the share of such company shall be excluded from taxable income of AOP							
the share of company shall be included in the taxable income of the company							
therefore it is taxable at the applicable corporate rate of 31%							
Hence total share received from AOP (net of tax)				60			
AOP Profit after tax 60/0.4)				150			
AOP Profit before tax (150 x 100/75)				200			
Add amount disallowed by commissioner				20			
Taxable income of AOP				220			
40% share of company to be excluded from AOP				88			
Less amount already charged in other income				60			
Balance amount to be taxed with other normal income @ 31%				28			

Answer # 25

Tehreek Limited						
Computation of taxable income						
Tax Year: 2017						
				Workings		Rs." 000"
Income from Business						
Accounting profit before tax						50,485
Add: Inadmissible expenses/Admissible incomes						
Freight charges without tax deduction				250		
Sale of cows				160		
Cost of rights to be amortized over ten years				5,000		
Payment in cash to restaurants			1	300		
payment to engineers in cash-disallowed				186		
breach of contract with supplier				-		
Profit on debt for TL directors house renovation				50		5,946
Less: Admissible expenses/inadmissible incomes						
Construction services wrongly added in sales				11,250		
Share of profit for cold chain facilities-Exempt				13,000		
Amortization of rights (Rs. 5000/10 x 306/365)				419		
Net dividend wrongly added in other income				630		
Cash dividend				350		
Bonus shares assumed to be wrongly added in				3,990		29,639
Taxable Income						<u>26,792</u>
Contract received taxable under FTR as income is received through banking channel						11,250
Gross amount of bonus shares (60,000 X 70) taxable under FTR						4,200
Profit from cold chain facilities-Exempt under clause 126J Part I 2nd Sch.						
Gross dividend from Nawab Limited (Rs.630+90)						720
Cash dividend from corporate agricultural enterprise			2			-
Calculation of tax liability						
Corporate tax						
Tax @ 31% on Rs. 26,792						8,305.46
Contractual receipts taxable @ 3.5%						393.75
Bonus shares (Rs. 60,000 x 70 x 5%)						210.00
Specie dividend						54.00
Default surcharge due to shortfall of advance tax			3			120.67
						<u>9,083.89</u>

Total liability							
Less tax already deducted							
Advance tax						6,634	
Dividend						90	
Contracts						394	
Bonus shares						210	
						<u>7,328</u>	
Balance payable with return						<u>1,756.14</u>	
Notes:							
N-1:							
N-1 There is no withholding in case payment is made in cash to restaurants and hotels. However, any expense exceeding Rs. 10,000 in cash will be disallowed keeping in view the provisions of section 21(I).							
N-2:							
Where any income is exempt from tax under the Ordinance, the exemption, in the absence of a specific provision to the contrary, shall be limited to the original recipient of that income and shall not extend to any person receiving any payment wholly or in part out of that income.							
However as per Clause 105B Part I of the Second Schedule any income received from a corporate agriculture enterprise distributed as dividend out of its income from agriculture is exempt from tax. Hence Rs. 45,000 will be exempt from tax.							
N-3:							
Normal liability						8,305	
90% of above						7,475	
Less already deducted(adjustable)							
U/s 147				6,634			
Excess deduction on dividend (Rs.90-54)				36		6,670	
Shortfall						805	
Default surcharge @ 12% from 01 April 2016 to 30 June 2017)						121	

Answer # 26

ZJ Limited						
Computation of taxable income						
Tax Year: 2017						
				Workings		Rs." 000"
Accounting profit before tax						46,500
Add: Inadmissible expenses/Admissible incomes						
Opening stock wrongly valued at marginal cost						25,690
Closing stock to be valued at absorption cost						32,350
Accounting depreciation						2,210
Withholding tax on prizes				1		600
Cost of software to be amortized @ 10 years						1,800
Cost of two ramps (allowed upto Rs.250,000 each)						150
Accounting depreciation						1,980
Tax gain on sale of vehicle				2		1,930
Share of profit from AOP						1,250
						67,960
Less: Admissible expenses/inadmissible incomes						
Closing stock wrongly added at marginal cost						29,200
Opening stock to be valued at absorption cost						28,460
Amortization of software						180
Sale proceed wrongly added in other income						2,450
Share of profit from associate under equity method						20,000
Gain on sale of securities taxable as separate block				4		6,000
Tax depreciation						4,300
						90,590
						23,870
Unabsorbed business loss-2015						3,550
Unabsorbed business loss-2016						2,900
Unabsorbed depreciation loss-2016						2,550
Taxable income						14,870
Calculation of tax liability						
Corporate tax						
1% of turnover (Rs.218,500 + (30,000 x 35%))					2,290	
Tax @ 31%					4,610	A
Alternative corporate tax (ACT)						
Accounting profit Rs.22,300 x 17%				3	3,791	B
Tax liability being higher of A, B						4,610
Capital gain tax on securities @ 7.5% on Rs.6,300				4	473	
Tax on immovable property @ 5% on Rs.7,000				1	350	
					5,432	
Default surcharge				5	201	
					5,633	

Less tax already deducted						
Advance tax						1,000
Import of packing material						1,200
Sale of goods						1,050
Exports						300
						3,550
Net tax liability						2,083
Short withholding tax and default surcharge payment		1				1,582
Working						
W-1 Plot of land						
Cost of land in Jan 2015					3,000	
Market value					10,000	
Gain on disposal of immoveable property taxable as separate block					7,000	
Tax @ 5% as property was purchased before July 2016					350	
Further as per section 156, in case prize is given in kind withholding tax is required to be collected on fair market value.						
Fair market value					10,000	
Tax @ 20%					2,000	
Actual amount of tax deducted					600	
Shortfall in withholding tax					1,400	
Default surcharge @ 12% calculated from 01 September 2016 to 30 September 2017 (return filing date)					182	
					1,582	
Amortization for relevant year (91/365)					394	
W-2 Sale of vehicles						
Sale proceed					2,450	
Market value					5,250	
Tax written down value					3,320	
Tax gain					1,930	
W-3 Accounting profit for ACT						
Given					46,500	
Sale proceed wrongly booked in other income					(2,450)	
Share of profit from associate under equity method					(20,000)	
Share of profit from AOP					1,250	
Cost of plot given as prize					(3,000)	
					22,300	
W-4 Capital gain on securities						
Sale of 100,000 at higher of Rs.85 or Rs.80					8,500	
Sale of 100,000 at higher of Rs.75 or Rs.78					7,800	
Less cost 200,000 @ 50					10,000	
Taxable as separate block @ 7.5%					6,300	
W-5 Calculation of default surcharge						
Gross tax liability					5,432	
90% of above					4,889	
Tax already paid (Rs.1,000 + 300+1200+1050)					3,550	
Shortfall					1,339	
Default surcharge from 01 April 2016 to 30 June 2017 or 30 Sep 2017 whichever is earlier						
so total shortfall is 01 April 2016 to 30 June 2017						
					456 days	
Default surcharge will be 1339 x 12 x 456/365						
					200.74	

Answer # 27

Khalis Limited							
Computation of taxable income							
Tax Year: 2017							
		Workings	Local	Export	Services	Brokerage	Total
Sales ratio			47%	50.20%			
Sales			164,034	175,951	10,515		350,500
Brokerage and commission						4,300	4,300
Sales tax/Ocean freight	1		(23,834)	(4,700)			(28,534)
			140,200	171,251	10,515	4,300	326,266
Sales ratio excluding Commission			43.54%	53.19%	3.27%		100%
					500		500
Cost of sales	2		106,608	130,235	8,007		244,850
Gross profit			33,592	41,016	2,008	4,300	80,916
GP ratio for allocating admin & selling due to Commission			41.51%	50.69%	2.48%	5.31%	100%
Admininstration and selling expenses	3		25,297	30,888	1,512	3,238	60,935
Financial charges	4						
Specific-markup and bank charges (9000 + 2150)				11,150			11,150
Common			1,812	2,213	108	232	4,365
Other income:	5						
Specific- Export rebate, duty drawback and exchange gain				7,500			7,500
Balance taxable under NTR			1,500				1,500
Taxable profit			7,983	4,266	388	830	13,466
Computation of tax liability							
Local sales: Rs. 7,983 x 31%			2,475				
Exports proceeds (175,951 x 85% + 20,000)			1,696				
Services of dying and embroidery (Rs.10,515 x 1%)			105				
Commission (Rs.4,300 x 12%)			516				
Capital gain (Rs.2,550 x 7.5% as holding over 24 months)			191				
			4,983				
Less already deducted							
Advance tax u/s 147			3,450				
Export u/s 154			1,696				
Brokerage and commission (Rs.3600 x 12%)			432				
			5,578				
Balance payable/ (refundable)			(595)				

Workings				
W-1: FOB Value of Export				
As per rule 231 of the Income Tax Rules, 2002 Export price means FOB value of the goods exported				
W-2: Cost of sales				
Given			245,350	
Less specific exp allocated to services			500	
Common expenses to be allocated in sales ration			244,850	
W-3: Administrative and selling expenses				
Given			70,100	
Less specific expenses:				
Ocean freight			4700	
Less inadmissible expenses				
Clearing and forwarding no withholding tax deduction			485	
Provision for doubtful export rebate and duty drawback-No provision is allowed in tax			700	
Legal expenses for dispute over rights-allowable			400	
Unsuccessful marketing campaign-allowable			-	
Long term business contract-Intangible to be amortized over 10 years			-	
Amortization (800/10)			800	
Contribution to foreign pension fund (assumed unapproved by SECP)			(80)	
Sales tax- allowed as not recoverable from customer-input credit disallowed			2,000	
			-	
			60,935	
W-4: Financial charges				
Given			15,515	
Less specific expenses:				
Markup on RF of export sales			9,000	
Bank collection charges			2,150	
Less inadmissible expenses				
Markup to staff-fully allowed			-	
			4,365	
W-5: Other income				
Given			25,850	
Less specific allocated to export				
Exchange gain			2,000	
duty drawback			3,900	
Export rebate			1,600	
Commission taxable as FTR			4,300	
Less exempt income				
Fee from foreign enterprise under agreement-Clause 131 Part I 2nd Sch.			10,000	
Less separate block				
Capital gain (Rs. 30,000 x (120-35))			2,550	
			1,500	

Answer # 28

Bharosa Limited						
Computation of taxable income						
Tax Year: 2017						
				Workings		Rs." 000"
Income from Business						
Accounting profit before tax						4,802
Add: Inadmissible expenses/Admissible incomes						
Tax gain on compensation (Rs.5000-4,374)				626		
Accounting loss (Rs.5000-5347)				347		
Compensation to employee-Fully allowed						
Property tax paid in respect of building				96		
Penalty for violation of law				25		
Accounting depreciation				870		
Impairment loss				200		
Filing fee for stock exchange-Revenue nature fully allowed				-		
Fee for increase in authorized capital- Capital nature				125		
Scientific research outside Pakistan				400		
Advertisement expense to be amortized over ten years				480		
Donation allowed as deductible allowance				300		
Workers welfare fund				98		
Accounting depreciation				1,100		4,667
Less: Admissible expenses/inadmissible incomes						
Compensation wrongly booked in sales				5,000		
Lease rental wrongly booked in sales				1,350		
profit on saving account				180		
Advertisement expense 480/10				48		
Tax depreciation			2	1,749		
sale proceed of shares				700		9,027
						442
Capital Gain						
Gain on sale of shares (Rs.700,000 - 230,000)x75%						352.50
Income from other source						
Lease rental (150,000 x 9)				1,350		
Less:						
Depreciation on building Rs. 3,800 x 10%				380		
Depreciation on plant and machinery				225		
Initial allowance not allowed as P & M is used						
property tax				96		
				701		649
Profit on saving account						180
						829
Total income						1,623.5

Donation lower of:							
Actual				300			
20% of taxable amount				324.70	(324.7)		
Taxable income before WWF					1,298.8		
WWF (2% of taxable profit)					25.98		
Taxable income					1,272.8		
Calculation of tax liability							
Corporate tax							
1% of turnover (Rs.24900-5000-1350)x1%				185.50			A
Tax @ 31%				394.58			B
Alternative corporate tax (ACT)							
Not applicable due to loss				-			
Tax liability being higher of A, B					394.58		
Reduction in liability @ 20% due to enlistment					78.92		
					315.66		
Add: WWF					25.98		
Total liability					420.55		
Less tax already deducted							
Advance tax					260		
Import of packing material					18		
					278		
Balance payable with return					142.55		
W-1 Accounting profit before charging WWF							
Given				4,802			
WWF				98			
Insurance compensation wrongly booked				(5,000)			
Accounting loss on factory building				(347)			
sale of shares				(700)			
Accounting gain				470			
Accounting loss				(677)			
profit whichever is higher. WWF should be recomputed based on revised figures.							
W-2: Tax depreciation							
Description							
		WDV	Rate	Dep			
Building		3,270	10%	327			
plant and machinery		3,400	15%	510			
Furniture		2,380	15%	357			
Motor vehicles		1,500	15%	225			
Computers		1,100	30%	330			
		11,650		1,749			

Answer # 29

Khawar Associates				
Computation of taxable income				
Tax Year 2017				
Particulars	Working	Sales to pres. person	Sales to non-pres person	Total
		FTR	NTR	
Sales ratio		60%	40%	
Sales	1 & 2	1,425,000	950,000	2,375,000
Cost of sales	3			
Common expenses to be apportioned on sales		726,000	484,000	1,210,000
Specific- Late delivery charges		20,000		20,000
Gross profit		679,000	466,000	1,145,000
Other expenses-Specific		50,000		50,000
Common	4	210,000	140,000	350,000
Total income		419,000	326,000	745,000
Less: Deductible allowance Zakat to be apportioned		6,000	4,000	10,000
Taxable income		413,000	322,000	735,000
Tax credit on donation	5	-	-	-
Taxable income		413,000	322,000	735,000
Computation of tax liability				
Normal income of Rs. 316,000 @ Nil		-		
Minimum tax @ Rs. Nil as turnover is < 50 M				-
Alternative corporate tax-No applicable on AOP				
On sale of goods under FTR				
Rs. 600,000 x 4.5%	1			27,000
Rs.825,000 x 4.5%	1			37,125
Dividend income (36,000/0.875)				41,143
				105,268
Less: Already paid (27,000 + 37125 + 41,143)				105,268
Balance payable				-
Workings:				
W-1:				
Sales to withholding agents				
			Gross sales	Tax deducted
Gross sales to Iqbal (573,000/95.5%)			600,000	27,000
Gross sales to SPL Limited			825,000	37,125
Gross sales subject to FTR			1,425,000	64,125

Tax deductible on trading/manufacturing of goods by AOP is final tax under section 153(3) of the Income Tax Ordinance,2001

W-2:

Sales to non-prescribed persons

In case of sale to non-prescribed person, income will be assessed under the normal tax regime.

Further sales under normal tax regime will be the balancing figure calculated as under:

Total sales	2,348,000
Less: Sales to iqbal	573,000
sales to spl ltd	825,000
	<u>950,000</u>

W-3:

Cost of sales given	1,230,000
Less specific expenses relating to FTR	
Penalty paid to SPL for late delivery	20,000
Common expenses to be apportioned as per sales ratio	<u>1,210,000</u>

W-4:

Other operating expenses	470,000
Less specific expenses relating to FTR	
Salary paid to part time sales staff	50,000
	<u>420,000</u>
Less expenses disallowed:	
Donation paid to educational institution	60,000
Zakat paid under zakat and usher	10,000
Common expenses to be apportioned as per sales ratio	<u>350,000</u>

Donation paid to educational institution established by provincial government will not be allowed as expense, rather tax credit will be allowed.

Zakat paid under Zakat & Usher Ordinance, 1980 is deductible allowance and not a straight deduction from income.

Further Deductible allowances are also required to be apportioned after amendment through Finance Act, 2016.

W-5:

In case of donation, tax credit is allowed only against normal income. Since taxable income of KA under normal tax regime is below the basic threshold of Rs. 400,000, therefore, no tax credit shall be allowed.

Answer # 30 (a)

As UGL is a public company listed on registered stock exchange in Pakistan, therefore, its income will be assessed under the normal tax regime.

Tax year	Receipts	Working Ref.	Taxable income
2015	2,250,000 x 46%	W-1 & W-2	1,035,000
2016	2,250,000 x 39%	W-1 & W-2	877,500
2017	2,250,000 x 15%	W-1 & W-2	337,500

Workings:**W-1**

Estimated profit (Total contract price- total costs) (9,000,000- 6,750,000) 2,250,000

W-2

Percentage of completion method = Contract costs incurred

Total contract costs

Tax year	Percentage of completion
2015	$3,105,000/6,750,000 \times 100 = 46\%$
2016	$2,632,500/6,750,000 \times 100 = 39\%$
2017	$1,012,500/6,750,000 \times 100 = 15\%$

(b)

Alternate 1			
Maroof Limited			
Computation of taxable income and tax liability			
Assuming Maroof Limited is a listed company, its income would be assessed under normal tax regime under percentage of completion method as follows:			
Tax year 2016			
Estimate profit x percentage of completion (Rs. 40,000,000 x 55%)- W-1			22,000,000
Tax liability			
Tax @ 31%			6,820,000
Less withholding tax already deducted- W-2			2,301,243
Balance payable			4,518,757
Tax year 2017			
Estimate profit x percentage of completion (Rs. 40,000,000 x 45%)- W-1			18,000,000
Tax liability			
Tax @ 31%			5,580,000
Less withholding tax already deducted- W-2			5,279,838
Balance payable			300,162
Working:			
W-1:			
Taxable income = (estimated profit) × (percentage of contract completed)			
Estimated profit = (Total contract price-Total costs)			
(100,000,000-60,000,000) = 40,000,000			
Percentage of completion = <u>Contract cost incurred</u>			
Total contract costs			
30 June 2016 [33,000,000 ÷ 60,000,000]			55%
30 June 2017 [27,000,000 ÷ 60,000,000]			45%
W-2:			
Withholding tax credit:			
Tax year 2016:			
Amount received net of tax	12,622,000	15,760,000	28,382,000
Gross amount	13,645,405	17,037,838	30,683,243
Withholding tax credit	1,023,405	1,277,838	2,301,243

Tax year 2017:									
Amount received net of tax		35,000,000		30,118,000	65,118,000				
Gross amount		37,837,838		32,560,000	70,397,838				
Withholding tax credit		<u>2,837,838</u>		<u>2,442,000</u>	<u>5,279,838</u>				
Alternate 2									
Maroof Limited									
Computation of taxable income and tax liability									
In case, if Maroof Limited is an unlisted company, its income would be assessed under final tax. (S-153(3))									
regime and its gross receipts would be treated as taxable income. Moreover, the rate of deduction of									
withholding tax in case of companies is 7% therefore, ML would be entitled for a refund of 0.5% of									
additional withholding tax deducted by the withholding agent.									
Tax Year 2016:									
					Rupees				
Gross receipts (12,622,000/0.9250)					13,645,405				
		(15,760,000/0.9250)			17,037,838				
Gross receipts					<u>30,683,243</u>				
Tax Year 2017:									
Gross receipts (35,000,000/0.9250)					37,837,838				
		(30,118,000/0.9250)			32,560,000				
Gross receipts					<u>70,397,838</u>				
Computation of tax liability/withholding tax credit									
Tax Year 2016:									
Gross receipts					30,683,243				
Tax @ 7%					2,147,827				
Less already paid					2,301,243				
Amount refundable					<u>(153,416)</u>				
Tax Year 2017:									
Gross receipts					70,397,838				
Tax @ 7%					4,927,849				
Less already paid					5,279,838				
Amount refundable					<u>(351,989)</u>				

Answer # 31 (a)

Gross tax liability			32,500,000			
90% of the above			29,250,000			
Less advance tax						
U/S 147 advance tax		20,500,000				
U/s 148 on imports		2,250,000				
U/s 151 on profit on debt		250,000	23,000,000			
Shortfall			<u>6,250,000</u>			
Default surcharge rate			12%			
No. of days of default			456			
Amount (Rs. 6,250 x 12% x 456/365)			<u>936,986</u>			
Note 1:						
Where the tax paid under section 147 is less than ninety per cent of the tax chargeable for the relevant tax year, the taxpayer is liable to pay default surcharge at the rate of 12% per annum on the amount of shortfall for the period.						
Such default surcharge shall be calculated from the first day of April (April 2016) in that year to the date on which assessment is made (30 September 2017) or the thirtieth day of June of the financial year next following (30 June 2017), whichever is the earlier. Therefore default surcharge will be calculated from April 2016 to 30 June 2017						
(b)						
1st instalment due on 15 September 2016 not paid so surcharge is due to 30 September 2017			(50,000 x 12% x 380/365)			6,247
2nd instalment due on 15 December 2016 but paid on 26 December 2016			(50,000 x 12% x 11/365)			181
3rd instalment due on 15 March 2017 but paid on 31 March 2017			(50,000 x 12% x 16/365)			263
4th instalment due on 15 June 2017 – Rs. 40,000 paid on 30 June 2017			(40,000 x 12% x 15/365)			197
Rs. 10,000 not paid so surcharge is due to 30 September 2017			(10,000 x 12%)(107/365)			352
						<u>7,239</u>
Default surcharge is payable at 12% per annum on the amount of tax not paid or short paid for the period starting on the date on which it was due and ending on the date on which it was paid or 30 September 2017 when his return of income was due, whichever is earlier. [s.147(5) read with s.205(1A)] 2						

Answer # 32

The penalty for late filing is 0.1% of the tax payable on the declared income in the income tax return, for each day of default, subject to a maximum penalty of 50% of the tax] payable and a minimum penalty of Rs. 25,000. [sr. 1 of table to s.182(1)]

Taxable income	Tax payable	No. of days default	Penalty @ 0.1% per day	Maximum penalty @ 50%	Minimum penalty	Penalty payable
6,500,000	1,494,500	30	44,835	747,250	25,000	44,835

(ii) Imposition of penalty where no tax is payable with the return of income

The expression 'tax payable' used in the Ordinance for the purpose of charging a penalty for the late filing of a return means tax chargeable on the taxable income on the basis of assessment treated to have been made upon filing of the return [s.120] or an amended order or a provisional assessment or the best judgement order, as the case may be. This means that even in cases where all of the tax liability on the basis of the declared income stands discharged before or with the filing of the return, the penalty will still be payable on the basis of tax chargeable on the declared income. [Explanation to sr. no. 1 of the table to S.182(1)]

(b)

Amount of refund	1,000,000	
Due date of refund	31-Jan-17	
Date of payment of refund	30-Jun-17	
Delay in number of days	61	
Amount of compensation	$\text{Rs.}1,000,000 \times 8\% \times 61/365$	13,370

Answer # 33

Particulars	Pakistani source	Foreign source				Total Pakistan and foreign source
		Speculation	Non-Speculation	Capital gain	Other source	
Net income for the year	2,500,000	500,000	(1,000,000)	75,000	1,250,000	
Brought forward losses		(250,000)	-	(1,500,000)	-	
Income after B/F losses	2,500,000	250,000	(1,000,000)	(1,425,000)	1,250,000	
Losses carried forward			(1,000,000)	(1,425,000)		
Balance income	2,500,000	250,000			1,250,000	4,000,000
Pakistan income tax:						
Upto Rs. 2,500,000						344,500
Balance (Rs. 4,000,000-2,500,000)x25%						375,000
Total tax payable						719,500
Average tax rate (719,500/4,000,000 x 100)						18%
Foreign tax		125,000	-	75,000	187,500	
Proportionate Pakistan Income Tax		44,969		-	224,843.75	
Foreign tax credit		44,969			187,500	232,469
Net tax payable				-	-	487,031

Answer 24

Sun Limited (SL)						
Computation of taxable income						
Tax Year: 2017						
			SL	VL	ML	
Income from business						
Profit before tax			3,700	(1,400)	1,300	
Add: Inadmissible expenses						
Scientific research expenditure			1,000			
Loan written off				80		
Sales promotion expenses				600		
Capital loss on disposal of shares				500		
Accounting depreciation			760	660	100	
			<u>1,760</u>	<u>1,840</u>	<u>100</u>	
Less: Admissible expenses/inadmissible income						
Profit on debt taxable under income from other source			150		300	
Amortization of sales promotion expenses				200		
Gain on sale of machinery- (Non recognition)			100		-	
Capital gain on disposal of shares					400	
Tax depreciation other than plant and machinery- W-1			645	660	544	
Tax depreciation			495	330	135	
			<u>1,390</u>	<u>1,190</u>	<u>1,379</u>	
Total business income			<u>4,070</u>	<u>(750)</u>	<u>21</u>	
Business loss b/f			200	500	50	
Unabsorbed depreciation loss b/f			250	500	100	
			<u>3,620</u>	<u>(1,750)</u>	<u>(129)</u>	
Income from other source						
Profit on debt			150		300	
			<u>150</u>			
Capital gain/(loss)						
				(500)	400	
Less 25% exempt as holding is over one year					(100)	
Brought forward loss					(200)	
					<u>100</u>	
Total business income before availing group relief			3,620	(1,750)		
B/f business loss not to be surrendered				500		
Loss surrendered by VL in favour of SL			(1,250)	(1,250)		
			<u>2,370</u>			
Income from other source			150			
Total taxable income			<u>2,520</u>		<u>271</u>	

Capital loss to be carried forward				
For the year		0	500	-
Brought forward		750	250	-
		750	750	-
Computation of tax liability				
Tax Regime		NTR	NTR	NTR
Corporate tax higher of 31% of taxable income or 1% of turnover		781	60	84
17% of accounting profit		629		221
Tax liability being higher of A or B above		781	60	221
Less already paid				
Transportation services				30
Motor vehicles u/s 234				40
Advance tax		789	275	
Balance payable/(refundable)		(8)	(215)	151
Act to be carried forward for ten years				134
Workings				
W-1:		SL	VL	ML
Opening WDV		4,500	4,200	-
Addition			200	1,500
Disposal		(200)		
WDV for depreciation		4,300	4,400	1,500
Initial allowance @ 25%				375
Depreciation @ 15%		645	660	169
Total depreciation		645	660	544
Note:				
Goods transport vehicles plying for hire are included in the definition of eligible depreciable assets. Hence initial allowance is allowed @ 25%. Further depreciation @ 15% will be allowed on WDV (cost - initial allowance)				
Since normal tax liability under normal tax regime is more than tax already deducted on transport business, therefore, provision of minimum tax in case of transport service income shall not apply.				
It is assumed that transaction between SL and VL for sale of machinery is at arm's length. Hence there will be no treatment of gain of Rs.100,000				

Answer 35

GCL LIMITED

COMPUTATION OF TAXABLE INCOME AND TAX LIABILITY

TAX YEAR: 2017

Particulars	Pakistan source income		Foreign source income	
	Local	Export	Brazil	Italy
Profit before tax	1,000,000		1,000,000	800,000
Add:				
Profit on debt to finance the operations of branch- Note-1	800,000			(800,000)
Donation to 2 nd Sch. Inst.	600,000			
Less Excess provision written back	100,000			
Total income	2,300,000			
Less donation paid- Note-2	600,000			
Taxable income	1,700,000	-	1,000,000	
Tax rate	31%		31%	31%
Tax @ 31%/1%	527,000	100,000	310,000	-
Less already paid	400,000	100,000		
Foreign tax credit less of foreign tax paid or Pakistani tax payable- Note3			300,000	-
Tax payable/(refundable)	127,000	-	10,000	-

Notes

N-1 Any profit on debt paid by resident to finance the operation of Permanent establishment outside Pakistan will be allowed as expense against the income of overseas branch.

N-2 Any donation paid to an institution mentioned in 2nd schedule of the Income Tax Ordinance, 2001 will be allowed as straight deduction from taxable income subject to maximum of 20% of taxable income. Normal taxable income is (Rs. 2,300,000 + 1,000,000) x 20%=660,000

N-3 In case of Italy branch, since the foreign income tax paid of Rs. 200,000 is in excess of the Pakistan income tax of Rs. Nil, the tax credit allowed would be restricted to Nil and the excess amount of Rs. 200,000 would not be allowed to be refunded, carried back to the previous year or carried forward to the next tax year.

Answer # 36					
Vakeel Associates					
Computation of taxable income					
Tax Year: 2017					
	Workings	corporate clients	Thomas Associates	Other Fees	Total
Ratio of total sales		38.8%	9.7%	51.5%	100%
Gross receipts	1	10,000,000	2,500,000	13,250,000	25,750,000
Allowable expenses to be apportioned on gross receipts	2	3,634,709	908,677	4,815,989	9,359,375
Taxable Income		6,365,291	1,591,323	8,434,011	16,390,625
Scheme of taxation		Minimum tax	Exempt	NTR	
Gross taxable income (from corporate + non corporate clients)			14,799,302		
Tax upto Rs. 6,000,000		1,319,500			
Balance (Rs. 14,438,137-6,000,000)x 35%		3,079,756	4,399,256		
Less already paid:					
Corporate clients		1,000,000			
Foreign remittance		50,000	1,050,000		
Balance payable			3,349,256		
Partners divisible income		Mr. Vakeel	Mrs. Vakeel	Total	
Taxable income from corporate + non corporate		8,195,313	8,195,313	16,390,625	
Proportionate tax		2,199,628	2,199,628	4,399,256	
% share of Mr. Vakeel		5,995,685	5,995,685	11,991,369	
Mrs. Vakeel					
Computation of taxable income					
Tax Year: 2017					
Income from property					
Gross rent to be taxable as separate block		1,200,000			
Capital gain					
Sale price (1000 x 60 x 80)		4,800,000			
Less cost being fair value on date of transfer (1000 x 25 x 60)		1,500,000			
		3,300,000			
1/4th exempt as holding is over one year		825,000			
Net capital gain		2,475,000			
Total taxable income under NTR		2,475,000			
Add share of profit from associate for rate purpose		5,995,685			
		8,470,685			
Tax upto Rs. 6,000,000	1,319,500				
Balance (Rs. 8,470,685-6,000,000)x35%	864,740				
	2,184,240				
Actual tax liability (Rs. 2,184,240/8,470,685 x 2,475,000)		638,200			
On property income (Rs. 60,000+ 15% of 200,000)		90,000			
		728,200			

Less foreing tax credit being lower of:							
Avg pakistan tax (Rs. 638,200/2,475,000 x 2,475,000	638,200						
Less foreign tax credit being lower of Pak tax on capital gain (Rs.1,000 x 80)	80,000	80,000					
Balance payable		648,200					
Workings							
W-1 Breakup of sales							
Total sales				25,750,000			
Gross receipt from corporate clients				10,000,000			
Fee for technical services under an agreement				2,500,000			
Balance to be assessed under Normal tax				13,250,000			
Note:							
As per clause 131(b) Part I of the Second Schedule, technical fee is exempt if it is received from outside Pakistan from a foreign enterprise under an agreement provided that such income is received in Pakistan through normal banking channel.							
W-2 Other expenses							
Given				14,500,000			
Less: Inadmissible expenses							
Tax deducted on gross receipts to corporate clients		1,000,000					
Tax deducted on foreign remittance		50,000					
Salary to Mr. Vakeel (100,000 x 12)		1,200,000					
Salary to Mrs. Vakeel (100,000 x 12)		1,200,000					
Bonus paid to employees		1,000,000					
Subscription fee paid (allowed in cash)		250,000					
Structural improvements		500,000					
Purchase of technical books		750,000					
Accounting depreciation		1,000,000					
Rent of office premises (tax required to be deducted only in case of gross rent per annum is greater than Rs.1.5 Million		-		6,950,000			
Add: admissible expenses							
Tax depreciation- W-3		1,809,375		1,809,375			
				<u>9,359,375</u>			
Note:							
Payment of salary to member of AOP is not an allowable deduction.							
Bonus paid to employees without tax deduction is not allowable under section 21 (c) of ITO,2001.							
Payment made to Pakistan Bar Council does not represent a statutory obligation, therefore, it must be paid through cheque.							
Structural improvements to office constitutes depreciable asset, hence depreciation will be allowed on this amount.							
W-3 Tax depreciation							
		Technical books	Structural improvements	Furniture and fittings	Pc and Laptop	Motor vehicles	Total
Cost of acquisition		750,000	500,000	2,000,000	1,600,000	2,400,000	
Initial allowance on eligible dep assets @ 25/15%		187,500	75,000		400,000		662,500
Depreciation rate		15%	10%	15%	30%	15%	
		84,375	42,500	300,000	360,000	360,000	1,146,875
Total							<u>1,809,375</u>

Answer 37							
Burq Enterprises							
Computation of taxable income							
Tax Year: 2017							
				Workings	Sale of generators	consultancy services	Total
Sales ratio					89.92%	10.08%	100.00%
Sales (Exclusive of sales tax 574,200/1.17)					490,769	55,000	545,769
Cost of sales				1	341,740	-	341,740
Gross profit					149,029	55,000	204,029
Administration and selling-Common				2	70,859	7,941	78,800
Finance Cost				3	7,800		7,800
Other income				4	(450)	(50)	(500)
Taxable income					70,820	47,109	117,929
Scheme of taxation					FTR	Minimum	
Tax deductible on services is treated as minimum tax under section 153(3)(b) in case of AOP. Hence we will calculate tax liability under normal tax regime as well and in case liability under normal tax regime is less than minimum tax deducted of Rs. 5,500,000, then said tax deducted of Rs. 5,500,000 will be treated full and final tax liability. In case normal tax liability is greater than minimum tax, then the said amount will be treated as final liability of AOP from consultancy business.							
Tax liability Rs. 413,000,000 x 6%					24,780,000		
Upto Rs. 6,000,000						1,319,500	
Balance (Rs, 47,109,000-6,000,000) x 35%						14,388,150	
					24,780,000	15,707,650	
Less deducted at source					24,780,000	5,500,000	
Balance payable					-	10,207,650	
Partners divisible income				Mr. Adil	Mrs. Adil	Total	
Salary paid to partners				6,000,000	6,000,000	12,000,000	
Taxable income under normal tax regime				17,554,500	17,554,500	35,109,000	
Proportionate tax				7,853,825	7,853,825	15,707,650	
% share of each partner				15,700,675	15,700,675	31,401,350	
Note:							
Tax under final tax regime (FTR) is the full and final tax liability, therefore, income under FTR in the hands of AOP shall not be considered for calculating share of profits from AOP.							
Mr. Adil							
Computation of taxable income							
Tax Year: 2017							
					Working	Amount	
Income from Property taxable as separte block					5	156,300	
Capital Gain					6	(120,000)	
Share of profit from associates						15,700,675	
Tax liability:						Nil	

Property income is taxable as separate block, further no tax is payable in case property income is less than Rs. 200,000. Mr. Adil has no income under normal tax regime, hence share of profit cannot be added for rate purpose.			
Workings			
W-1 Cost of sales			
Cost of sales of generators		429,520	
Less:			
Sales tax deducted		63,000	
Withholding income tax (Rs. 413M x 6%)		24,780	
		<u>341,740</u>	
Income tax deducted at source will be full and final tax liability of AOP in case goods imported are sold in the same condition.			
Custom duty forms part of cost of imported goods (Ref: S 148)			
W-2 Administration and selling charges			
Given		96,300	
Less:			
Salary paid to each partner (Rs. 500,000 x 12 x 2)		12,000	
Withholding tax @ 10% (Rs. 55,000 x 10%)		5,500	
		<u>78,800</u>	
W-3 Finance Cost			
Given		9,000	
Less interest given to partner on capital		1,200	
		<u>7,800</u>	
W-4 Office equipment for personal use			
Putting business asset to personal use is treated as disposal. Gain is calculated as follows:			
Fair value		1,500	
Tax WDV		1,000	
		<u>500</u>	
Assuming office equipment was used for both consultancy and generator business.			
W-5 Income from property			
Gross rent		147,000	
Non adjustable deposit (Rs. 110,000-17,000)/10		9,300	
Gross rent chargeable to tax		<u>156,300</u>	
W-6 Capital Gain			
		No. of shares	Value
Shares of unlisted public company (Rs. 50,000 x 150)		50,000	7,500,000
Bonus shares		10,000	
		<u>60,000</u>	<u>7,500,000</u>
Consideration on sale of 8000 bonus shares		1,080,000	
Less cost (8000 x 150)		1,200,000	
Capital loss		<u>(120,000)</u>	
Bonus shares are now taxable @ 5% on ex price prevailing on the first day after closure of books. In the absence of information it is assumed that Rs. 150 is the ex price which will be considered as cost of bonus shares. It is also pertinent to mention that cost of old shares would remain the same before and after bonus shares are issued.			

Answer # 38

FEROZI								
Computation of taxable income								
Tax Year: 2017								
				Workings	Corporate consultancy	Exempt fee for technical	Other consultancy	Total
					Minimum	Exempt	Normal	
Scheme of taxation								
Sales ratio					10%	20%	70%	
Sales				1	1,000,000	2,000,000	7,000,000	10,000,000
Cost of sales				2	550,000	1,100,000	3,850,000	5,500,000
Gross profit					450,000	900,000	3,150,000	4,500,000
Administration and selling-Common				3	204,500	409,000	1,431,500	2,045,000
Finance Cost				4	72,500	145,000	507,500	725,000
Other income				5	(40,000)	(80,000)	(280,000)	(400,000)
Creditors				6	-	-	-	-
Taxable income					213,000	426,000	1,491,000	2,130,000
Computation of tax liability:								
Normal income (Rs. 213,000 + 1,491,000)					1,704,000			
Upto Rs. 1,500,000				144,500				
Balance (Rs. 1,704,000 - Rs. 1,500,000) x 20%				40,800	185,300			
Effective tax rate (Rs. 185,300/1,704,000)					10.87%			
Tax on Rs. 1,491,000 @ 10.87%					162,138			
Tax on Rs. 213,000 @ 10.87%		23,163	A					
Minimum tax deducted on services		100,000	B					
Final tax liability being higher of A or B					100,000			
					262,138			
Tax deducted on bonus shares treated as final liability (Rs. 100,000/0.95)x 5%					5,263			
Total tax liability					267,401			
Less already deducted:								
On services by corporate client				100,000				
On issuance of bonus shares by Usaid Ltd				5,263	105,263			
Balance tax payable					162,138			
Partners divisible income								
Taxable income from corporate + non corporate+ exempt income					1,065,000	1,065,000	2,130,000	
Proportionate tax					131,069	131,069	262,138	
% share of Mr. Vakeel					933,931	933,931	1,867,863	
Note:								
Tax on issuance of bonus shares is the full and final tax liability. If an AOP has any income that falls under presumptive tax regime (PTR) then members share from such income shall not be added in the taxable income of the member.								

Mr. Atif			
Computation of taxable income			
Tax Year: 2017			
			Workings
Salary			
Employee share option			11 50,000
Income from business			
Disposal of business			8 500,000
Capital Gain			
Sale of antique			9 -
Sale of shares under employee share option			11 25,000
Income from property			
Share in joint property taxable as separate block			12 -
Income from other source			
Advance received in cash			9 300,000
Income assessable under normal tax regime			875,000
Share of profit from AOP			933,931
Taxable income for rate purpose			1,808,931
Tax upto Rs. 1,500,000			144,500
Balance (Rs. 1,808,931- 1,500,000) x 20%			61,786 206,286
Actual normal tax liability of Atif (Rs. 206,286/1,808,931 x 875,000)			99,783
Income from property (Rs. 600,000 x 5%)			20,000
Capital gain on sale of listed securities taxable @ 15% as holding is less than one year (Rs. 40,000 x 15%)			6,000
Income assessable under FTR (Rs. 45,000/0.875) x 12.5%			11 6,429
Dividend from mutual fund out of debt securities being exempt			7 -
Tax liability of Atif			132,212
Workings			
W-1: Breakup of Revenue			
Services subject to minimum tax on which tax is deducted(100,000/0.1)			1,000,000 Note 1.1
Services exempt from tax			2,000,000 Note 1.2
Balance Sales subject to normal tax on which no tax is deducted			7,000,000 Note 1.3
			10,000,000
Note 1.1:			
Tax deductible on services is treated as minimum tax under section 153(3)(b) in case of AOP. Hence we will calculate tax liability under normal tax regime as well and in case liability under normal tax regime is less than minimum tax deducted of Rs. 100,000, then said tax deducted of Rs. 100,000 will be treated full and final tax liability. In case normal tax liability is greater than minimum tax, then the said amount will be treated as final liability of AOP from consultancy business.			
Note 1.2:			
As per clause 131(b) Part I of the Second Schedule, technical fee is exempt if it is received from outside Pakistan from a foreign enterprise under an agreement provided that such income is received in Pakistan through normal banking channel.			
Note 1.3:			
This will be balancing figure on which no tax is deducted. Hence it will be offered to tax under normal tax regime.			

W-2: Cost of sales							
Given			6,000,000				
Compensation of late delivery		-		Note 2.1			
Infringement of trademark		200,000		Note 2.2			
Expenditure prior to incorporation		300,000	500,000	Note 2.3			
Allowable expense for tax purpose			<u>5,500,000</u>				
The said expense of Rs. 5,500,000 will be apportioned between different streams of income in the ratio of sales.							
N-2.1:							
Payment of compensation due to failure to provide the services within the time specified in the contract is a normal expenditure in the carrying on of the business and is deductible. The payment is not in the nature of a penalty or fine for the violation of any law, rule or regulation.							
N-2.2:							
Expenditure that is incurred by a taxpayer wholly and exclusively for the purpose of its business is a deductible expenditure [S.20(1)]. The expenses incurred by FEROSI in connection with the infringement of a trade mark of its wholly owned subsidiary is not deductible since it is not incurred wholly and exclusively for the business of FEROSI. For Pakistan tax purposes, FEROSI is a separate legal entity from its wholly owned subsidiary.							
N-2.3:							
The payment of Rs. 300,000 to the promoters of FEROSI relates to the period prior to incorporation of the company – in fact it is an expense relating to the formation of the company and is therefore capital expenditure and is not deductible.							
W-3: Administrative and selling expenses							
Given			2,000,000				
Free distribution of sample goods			-	Note 3.1			
Eid milan party			-	Note 3.2			
Accounting depreciation			(330,000)	Note 3.3			
Add: Tax depreciation			375,000	Note 3.3			
			<u>2,045,000</u>				
The said expense of Rs. 2,045,000 will be apportioned between different streams of income in the ratio of sales.							
N-3.1:							
Free distribution of budget commentary and tax software, being in line with practice in the industry is an expenditure of commercial expediency and has been incurred wholly and exclusively for the purpose of business. Hence, it is allowable as revenue expenditure.							
N-3.2:							
The expenditure incurred on the annual eid-milan party is in the nature of an amenity provided to the employees motivated by business reasons. The expenditure which is in the nature of staff welfare is deductible as it is incurred wholly and exclusively for the purposes of the business.							
N-3.3:							
Cost of vehicle		3,300,000					
Depreciation @ 20%		660,000					
No. of months in use		6					
Accounting depreciation		330,000					
Restricted value for tax purpose		2,500,000					
Depreciation @ 15%		375,000					
W-4: Financial charges							
Given			1,000,000				
Profit on debt to singapore bank		200,000		Note 4.1			
Exchange loss relating to principal		75,000	275,000	Note 4.2			
Allowable expense for tax purpose			<u>725,000</u>				
N-4.1:							
The profit on the debt received by Singapore Bank is chargeable to tax in Pakistan. It is a Pakistan-source income of Singapore Bank since the amount has been paid by a resident (FEROSI) and the debt has not been used for any business carried out by FEROSI outside Pakistan.							

N-4.2:								
Exchange loss sustained in relation to the principal amount of the loan will be added to the cost of the asset. Exchange loss in relation to interest payments will not be added to the cost and will be deductible in the tax year in which accrued.								
W-5: Other income								
Given				500,000				
Less bonus shares taxable under FTR				100,000	Note 5.1			
N-5.1:				<u>400,000</u>				
Every company quoted on stock exchange issuing bonus shares to the shareholders of company, shall withhold five percent of the bonus shares to be issued. Such tax deducted shall be final tax on the income of the shareholder of the company arising from issuance of bonus shares. Hence, net amount of Rs. 100,000 included under normal income shall be excluded and gross amount (Rs. 100,000/0.95) shall be charged to tax under FTR.								
W-6: Creditors								
N-6.1:								
Generally any advance received in cash is treated as income under the head 'Income from other source. However, where an advance payment is received for the sale of goods or supply of services, the same is not to be treated as income.								
N-6.2:								
Any expenditure which has previously been allowed as a deduction remaining unpaid for three years from the end of the year it was first allowed is treated as income chargeable to tax in the first year following the end of the said three years [s.34(5)]. However, no adjustment is required for the amount of Rs. 500,000 representing the amount of a loan unpaid as this amount is not an expenditure which could have been claimed as a deductible charge.								
W-7: Dividend out of debt securities								
As per clause 103 Part I of the Second Schedule, any distribution received by shareholder from mutual fund which invests only in debt securities (and not in shares) is exempt from tax.								
W-8: Disposal of business								
Where a resident individual disposes of all the assets of a business to a resident company, no gain or loss shall be taken to arise on the disposal subject to the following conditions: (vi) Company must not be exempt from tax in the tax year in which the disposal takes place.								
However as per clause 133 of part I of the second schedule, income from export of computer software or IT services is exempt from tax upto 30 June 2019. Therefore, full gain amount of Rs. 500,000 will be taxable in hand of Atif.								
W-9: Advance against sale of antique								
The amount in advance was received in the form of cash. Therefore, it is taxable as deemed income under the head "Income from Other Source". Further although the advance amount has been received, the asset has not yet been sold or transferred to the buyer. Hence there is no disposal and no capital gain or loss.								
W-10: Capital gain on listed securities assessable as separate block u/s 37A								
Sale price of 5000 shares (Rs.105 x 5000)				525,000				
Repurchased at Rs. 95 (Rs.95 x 5000)				475,000				
				50,000				
Financial cost paid				10,000				
				<u>40,000</u>				
Note: The cost of acquisition is deemed to include 0.5% of the acquisition cost as incidental expenses incurred and sale proceeds are deemed to include 0.5% of the consideration as incidental expenses.								
W-11: Employee share option								
Market value on 21 July 2016				350,000				
Less: Cost of option				100,000				
Price paid to acquire the shares				200,000	300,000			
Amount chargeable under salary					<u>50,000</u>			
Consideration on sale of shares					375,000			
Less cost (Rs. 100,000 + 200,000+ 50,000)					350,000			
Amount chargeable under capital gain					<u>25,000</u>			
Since holding is less than one year, therefore, whole amount is taxable. Further gross amount of dividend received (Rs. 45,000/0.875) is taxable under final tax regime.								
W-12: Joint property income								
Completed by BUA (AZHAR 1000x 100x 12)						1,200,000		
Share of Atif in the property (50%)					600,000			

Answer # 39

Taxation impact on different structures

In case of Partnership

Profit before tax		1,095,000
Add inadmissible expenses		
Salary to Bilal	500,000	
Salary to Sameel	700,000	
Salary to Azhar	600,000	1,800,000
	<hr/>	<hr/>
Taxable income		2,895,000
Tax liability		
Upto Rs. 2,500,000		344,500
Balance (Rs. 2,895,000- 2,500,000)x25%		98,750
		<hr/>
		443,250
		<hr/> <hr/>

Note

AOP is taxed separately from its members and where AOP has paid tax, the amount received by members out of the income of AOP is exempt from tax.

In case of company

(a) Small company

Profit before tax	1,095,000
Tax @ 25%	273,750
Profit after tax	821,250
Dividend on above @ 30%	246,375
Profit retained after dividend	574,875
Total tax payable by company	
On company profits	273,750
On dividend Rs. 246,375@ 12.5%	30,797
	304,547

(b) Public/Private company

Profit before tax	1,095,000
Tax @ 31%	339,450
Profit after tax	755,550
Dividend on above @ 30%	226,665
Profit retained after dividend	528,885
Total tax payable by company	
On company profits	339,450

On dividend Rs. 226,665@ 12.5%	28,333
	<hr/>
	367,783
	<hr/> <hr/>

Conclusion:

Based on the above information it would be better for Bilal, Sameel and Azhar to operate as a limited liability company in small company category, if possible, being the lowest tax impact.

Answer # 40(a)

Description	Note	Amount
Cost of the plant		200,000,000
Subsidy	1	(10,000,000)
Exchange fluctuation	2	200,000
Cost of the plant		190,200,000
Initial allowance @ 25%		47,550,000
Written down value		142,650,000
Depreciation @ 15%		21,397,500
Written down value		121,252,500

Notes:

N-1:

In determining the cost of an asset for tax purposes the actual amount spent by a person in acquiring an asset is required to be reduced by the amount of any grant, subsidy, rebate, commission or any other assistance received or receivable by the person in respect of the acquisition of the asset except where the said amount received is chargeable to tax [S.76 (10)]. Further the amount of Rs. 10 million is not income for tax purpose but is a capital receipt on the grounds that

- (a) The amount was voluntarily paid by GOP without any consideration
- (b) The company did not ask for the subsidy
- (c) Amount received did not arise out of any legal or contractual obligation
- (d) The amount is not traceable nor even remotely connected to any source of income

N-2:

where a person has acquired an asset with a foreign currency loan (repayable in foreign currency) and before the loan is fully repaid, there is an increase or decrease in the loan liability of the person in terms of Pakistan rupees, due to a change in the rate of exchange of the foreign currency, the amount by which the liability has increased or decreased is to be added to or reduced from the cost of the asset. In other words, the cost of the asset acquired with the foreign currency loan is recomputed for tax purposes [S.76(5)]

(b) Land acquired by the Government of Punjab under the Land Acquisition Act

In the case of an asset compulsorily acquired under any law where the consideration received by the person for the disposal of the asset is reinvested by the recipient in an asset of a similar kind within one year of the disposal, no capital gain is to be recognized. [S.79 (1)(d)]

(i)

In the given case, the amount of consideration received was reinvested in an asset of the same kind, hence the capital gain is not taxable.

(ii)

In the given case, the amount of consideration received was not reinvested in an asset of the same kind, hence the capital gain is taxable as:

	Rs.
Consideration received on the disposal on 30 September 2016	30,000,000
Less: Cost of the land on 1 January 2015	(25,000,000)
Capital gain	5,000,000
Tax at 5% for acquisition before July 2016	250,000

Note: The profit on the fixed term account did not accrue during the tax year 2017, hence, no taxation during the year

Answer # 41

(i)

Limits on contribution by the employer in recognized superannuation and gratuity fund (Rule 110, 117)

- The ordinary **annual contribution** by the employer to an approved superannuation/gratuity fund in respect of any particular employee shall be made on a reasonable definite basis as may be approved by the Commissioner with regard to the earnings, the contributions or the number of members of the said fund so however that such contributions shall not exceed twenty percent of the employee's salary for each year in case of superannuation fund and salary of the employee for the last month of each financial year in respect of gratuity fund.
- The amount to be allowed as a deduction on account of **initial contribution** which an employer may make in respect of the past service of an employee admitted to the benefits of a fund shall not exceed twenty percent of the employee's salary for each year of his past services with the employer in respect of superannuation fund and salary of the employee for the last month of each financial year during the course of his past services with the employer in respect of gratuity fund.
- Notwithstanding the above provisions, an employer may, with the prior approval of the Commissioner, make a special contribution to an approved superannuation/gratuity fund to meet the deficit in the fund, if any

(ii)

The foreign levy equivalent to PKR 250,000 paid on the foreign income may be regarded as a foreign income tax if the following conditions are satisfied: (Rule 15(2)(3))

- The levy is a tax
- The tax is substantially equivalent to the income tax imposed by the Income Tax Ordinance, 2001 on the related foreign income
- A foreign levy is a tax if it requires a compulsory payment pursuant to the authority of the foreign country to levy taxes.

(iii)

Income of non-resident person from construction contract is either taxable on the basis of net taxable income (NTR) or under the presumptive mode of taxation (PTR) at the option of the taxpayer

Where a non-resident contractor selects to pay tax under presumptive mode, he is required to

- (i). File a declaration to commissioner within 3 months of commencement of the tax year
- (ii). Declaration once filed is irrecoverable
- (iii). Declaration will remain in force for three years.

Where non-resident person does not file the requisite declaration for presumptive tax, his taxable income will be computed on net income basis. In this scenario, it is not possible for WTL to pay tax on net taxable income basis until expiry of three years.

(iv)

The answer to this question depends upon the nature of business of the merging entities. As a rule, where the merging entities are banking companies, non-banking finance companies, insurance companies or modaraba, losses of subsidiary company will be transferred to parent company for set-off against its taxable income.

In case the companies in question are managing industrial undertakings or engaged in the service sector, parent company will be entitled to set-off and carry forward loss sustained by subsidiary in the year of merger only. In this case tax losses of subsidiary prior to the year of merger will lapse and will not be transferred to parent company. (Ref: Sec 57A (1) ,(2A))

In case the merger is between companies which are not specified as above, all losses of Target Company prior to amalgamation will lapse and will not be transferred to parent company.

(v)

AlMeezan Mutual Fund will have to withhold tax keeping in view the following provisions:

For the purpose of determining taxability of dividend in the hands of unit holder’s mutual fund are divided into two categories:

- (i). Stock Fund (where investible funds are invested by way of equity shares in companies to the extent of more than 70% of investment).
- (ii). Money market fund, income fund or any other fund

(a) Stock funds:

For stock funds rate of dividend distributed to individual, AOP or company will be 10% (if dividend receipts of fund are more than capital gain receipts) and 12.5% (if dividend receipts of the fund are less than capital gains)

(b) Money market funds, income fund, REIT scheme or any other fund

Dividend distributed by the above funds will be taxed as under

Person	Rate of tax
Individual	10%
AOP	10%
Company	25%

Further as per Clause 103 Part I of the Second Schedule, any distribution (Dividend) received by taxpayer from mutual funds out of capital gains of the said fund is exempt from tax provided said mutual fund is a debt or money market fund and do not invest in shares.

(vi)

The definition of profit on debt includes any fee or charge incurred in respect of credit facility which has not been utilized. Therefore, commitment fee payments will be considered as profit on debt.

(vii)

A non-resident person is taxed on Pakistan source income only. Interest income is considered Pakistan source if it is borne by a permanent establishment in Pakistan of a non-resident person. Interest income will not be considered taxable income of Sun Inc. as related expense is not borne by Moon Inc. It will be Pakistan source income of Sun Inc. in case related expense was booked as expense by Moon Inc. in its books.

(viii)

A person is considered to have disposed of an asset when he parts with ownership of the asset or when he exchanges the asset for another asset. For computation of capital gain or loss on disposal, the fair value of consideration is matched with cost of the asset disposed of. Capital gain will arise in case fair value of the equity shares exceeds the cost of bonds given up on conversion into equity. However a reduction of 25% in gross amount of gain will be allowed in case the bonds were held for more than one year.

(ix)

It will be treated as dividend.

Answer 42

(i). Initial allowance

The company can claim initial allowance as a person who places an eligible depreciable asset into service in Pakistan for the first time in a tax year shall be allowed initial allowance provided the asset is used by the person for the purposes of his business for the first time or the tax year in which commercial production is commenced, whichever is later

(ii) Profit on debt

Where profit on debt is paid by the resident person, the same is considered to be Pakistan sourced and tax is required to be withheld from the payment irrespective of the fact that the non-resident does not have a permanent establishment in Pakistan. Therefore, the said expense would be inadmissible due to non-deduction of tax.

(iii) Profit on debt under group taxation

As per clause 11C Part IV of the Second Schedule of the Income Tax Ordinance, 2001 withholding tax provisions don't apply in respect of inter-company profit on debt within a group of companies which have opted for group taxation by filing the return under the said scheme. Therefore, company is not required to deduct tax.

(iv). Exchange loss on interest payments

Exchange loss sustained in relation to the principal amount of the loan will be added to the cost of the asset. Exchange loss in relation to interest payments will not be added to the cost and will be deductible in the tax year in which accrued.

(v) Legal and professional charges

Where a person has been allowed a deduction for any expenditure incurred in deriving income chargeable to tax under the head Income from Business and the person has not paid the liability or a part of the liability to which the deduction relates within three years of the end of the tax year in which the deduction was allowed, the unpaid amount of the liability shall be chargeable to tax under the head Income from Business in the first tax year following the end of the three years. Where however, person subsequently pays the liability or a part of the liability, the person shall be allowed a deduction for the amount paid in the tax year in which the payment is made. [Ref: S 34(5) and 34(6)]

Amount will be added back to the taxable income of the taxpayer in tax year 2014, whereas it will be again allowed as an expense in tax year 2017.

(vi) Investment through agriculture income

Any investment through agriculture income is accepted to the extent of agriculture income worked back on the basis of agriculture income tax paid under the relevant provincial law

Further any amount received as gift by him in a tax year from another person not through a crossed cheque drawn on a bank or through a banking channel will be treated as income under the head "Income from other source".

(vii) Foreign source income of non-resident

As per Income Tax Ordinance 2001 a person who remain non-resident for four years and become resident in 5th year, his foreign source income shall be exempt from tax in the year in which he became resident and in the following year.

In the given case Ms. imran remain non-resident for 5 years i.e. from tax year 2011 to 2015, so his foreign source income will exempt in tax year 2016 and 2017.

Her total taxable income for the year 2017 will be Rs. 2,000,000.

(viii) Transfer of leased asset to owned

In case of assets taken on finance lease, lease rentals are an admissible deduction instead of depreciation. Further, as the asset was transferred during the tax year 2017, therefore, full year depreciation will be allowed on the residual value of the asset. No initial allowance will be allowed as the asset was already in use. (S. 22, S.28(1)(B) S 23).

(ix) Non recognition rule

No gain or loss shall be taken to arise on the disposal of an asset by reason of a gift of the asset

The above provision shall not apply where the person acquiring the asset is a non-resident person at the time of the acquisition. (Ref: Sec 79)

Imran's cousin is a Federal Government employee, hence he is resident despite his residing in Australia since 2014.

(x) Bad debts recovered

	(Rupees)
Actual bad debts	200,000
Allowed	<u>180,000</u>
Disallowed	20,000
Amount received	<u>50,000</u>
Excess to be included in income	<u>30,000</u>

(xi) Repairs and maintenance

Reconstruction of a car park is a structural improvement eligible for tax depreciation and not for a straight deduction as expenditure. Amount spent on running and maintenance of a truck used for business purpose and being revenue in nature is allowable expenditure.

(xii) Delayed payment for tax refund

Compensation on delayed refund is chargeable to tax under the head "income from other source. Hence it should be excluded from income from business.

(xiii) Immoveable property

For computing gain on disposal of immovable property, the consideration received shall be treated as the cost of the property. if the consideration exceeds its cost (Gain on disposal shall be equal to the depreciation allowed).

		Rs. in millions
Sale proceed		150
Cost-	150	
Depreciation allowed	30	120
Gain on disposal		30

(xiv) Export of machinery

For computing gain on disposal of a depreciable asset by way of export that has been previously used in Pakistan, the consideration received shall be treated as the cost of the asset (Gain on disposal shall be equal to the depreciation allowed)

Consideration received equal to actual cost		35
WDV at the time of disposal		28
Gain on disposal		<u>7</u>

(xv) Asset partly used for business

WDV of the asset, in case asset is used partly for business and party for non business purpose, shall be computed on the basis that the asset has been solely used to derive business income. It means that depreciation allowed as well as disallowed shall be deducted from the cost of the asset in arriving at the WDV. In that case, the WDV of the asset shall be increased by the amount of depreciation disallowed on account of non business use at the time of disposal

Sale proceed		2.5
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Less WDV at the beginning of the year		2.4	
Depreciation not allowed $2.4/0.8 \times 0.2 \times 0.4$	3	0.24	2.64
Loss on disposal			(0.14)

(xvi) Minimum tax and WWF

Minimum tax is payable by a company even if it has declared gross loss.

WWF is payable @ 2% of the accounting profit before charging WWF or taxable income whichever is higher. Taxable income is calculated after deducting any b/f losses if any.

(xvii) Joint ownership

Property is jointly owned with no individually ascertainable share. Hamza and his father would therefore be considered as joint owner of the property and will be taxed as association of person. Tax will be paid by the AOP. Hamza and his father will not be required to pay any further tax.

(xviii) Residential quarters

Actual amount of rent received will be taxable under the head income from property. ABC Ltd will not be required to pay tax on the basis of fair market rent since provision of accommodation at concessional rate to employees will be considered as taxable benefit of the employee taxable under the head Salary.

(xix) Property dealer business

It will be taxed as income from property.

(xx) Income splitting

Where property is transferred by a person to his spouse or minor child (other than a married daughter) or to another person for the benefit of spouse or minor child, property income will be treated as income of the transferor. Therefore, rental income of all the four properties will be assessed in the hands of Sameel.

(xxi) Behbood saving certificates

Any payment of profit on debt is subject to withholding of tax between 10-17.5%. Further, profit on debt is taxed as separate block under section 7B of the Income Tax Ordinance, 2001 except in case of companies. However the provisions of section 151 regarding withholding of tax does not apply in respect of any amount paid as yield or profit on investment in Bahbood Savings Certificate or Pensioner's Benefit Account. Further the tax payable on profit on debt in respect of any amount paid as yield or profit on investment in Bahbood Savings Certificate or Pensioners Benefit Account shall not exceed 10% of such profit. Therefore Usama shall offer the said amount to tax under the head income from other source under the normal slab rates subject to maximum tax liability @ 10%. (Ref: Clause 6 Part III, Clause 36A, Part Iv of the Second Schedule)

Answer # 43

	Rs. In “000”
Income from business	
Profit/(loss) before taxation	500
Add: Tax depreciation for the year	490
Less deemed income chargeable under the head income from other source	(85)
Total business income/(loss) before tax	905
Less: B/f assessed business loss- Tax Year 2015	(130)
Less: B/f un-assessed business loss- TY 2016- Note 1	-
	775
Less: Group relief scheme	
Assessed losses	250
Less: b/f business and capital loss not to be surrendered (25+45)- Note 4	(70)
Loss including deprecation loss surrendered by subsidiary in favour of ZL	180
	595
Less: Tax depreciation- Current Year- Note 3	(490)
Unabsorbed depreciation brought forward	(135)
Total business income/(loss) for the year	(30)

Capital Gain	Rs. In “000”
Gain for the year	800
Less: B/f capital loss- Tax year 2010- Note 2	-
Less: B/f capital loss- Tax year 2011	(65)
	735

Income from other source	Rs. In “000”
Income for the year	100
Add: deemed income	85

	185
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Taxable income (185+735-30)	890
Unabsorbed depreciation loss carried forward	
To next year	30
Speculation loss carried forward to next year- Note 5	100

Note:

N-1 : Business losses, speculation business loss and capital loss cannot be carried forward and set off unless it is assessed or determined by an order treated as made under section 120, 121 or 122 of the Income Tax Ordinance, 2001. Therefore loss for tax year 2016 cannot be carried forward.

N-2: The amount of capital loss which cannot be set-off shall be carried forward upto six tax years immediately succeeding the tax year in which the loss was sustained. Therefore loss of tax year 2010 cannot be claimed in tax year 2017 as it has already lapsed in tax year 2016.

N-3: While computing person's taxable income, the deductions available u/s 22, 23, 23A, 23B & 24 shall be taken into account last.

N-4: Under group relief only the losses other than the capital and brought Forward losses can be surrendered in favour of subsidiary of a holding Company

N-5: The speculation loss carried forward from tax year 2016 can only be set- Off against income from speculation business chargeable to tax in tax year 2017.

Answer # 44

(a) Where a resident individual disposes off all the assets of a business to a resident company, no gain or loss on disposal is to be accounted for when following conditions are satisfied:

- (i). Consideration received for disposal is in the form of shares (other than redeemable shares) of the company.
- (ii). The transferor must beneficially own all of the issued share capital of the transferee company immediately after disposal.
- (iii). Company must undertake to discharge all the liabilities in respect of assets acquired by the company.
- (iv). Liabilities shall not exceed the transferor's cost of the asset at the time of disposal.
- (v). FMV of the shares received in the consideration must be substantially the same as the FMV of the assets transferred less any liabilities in respect of assets disposed off.
- (vi). Company must not be exempt from tax in the tax year in which the disposal takes place.

(b) Necessary changes to be made to the proposed scheme of transfer:

According to the proposed scheme, Mr. Adnan is fulfilling almost all the conditions mentioned above, except the following:

(i) Consideration to be received:

Mr. Adnan is required to receive the entire purchase consideration in the form of shares only instead of 50% in the form of shares and 50% cash.

(ii) Ownership interest in the company:

As Mr. Adnan, immediately after the disposal of his herbal business to MPL, is required to beneficially own the entire paid up share capital of MPL, therefore, he must acquire the ownership interest of his brother Rais who is also willing to dispose off his holding in MPL. However, Mr. Adnan is not required to acquire the ownership interest of his spouse Razia as he already beneficially owns her ownership interest.

(iii) Transfer of liabilities

As MPL is required to undertake all the liabilities in respect of the assets disposed of by Herbal Traders. Mr. Adnan should ensure that MPL assumes all the liabilities of Herbal Traders including the liability of Barkat Enterprises. Accordingly, Mr. Adnan will have to make the aforesaid changes to his proposed scheme of transfer in order to get exemption from capital gain tax.

(c)						
(i) Number and value of shares to be received by Mr. Adnan from MPL						
The fair market value of the consideration in the form of shares received by Mr. Adnan in relation of transfer of his business must substantially by the same as the fair market value of the net assets (i.e assets less liabilities) transferred by him to MPL.						
FMV of fixed assets						5,200,000
FMV of patents						2,300,000
Stock in trade (lower of cost or NRV)						4,000,000
Debtors (3,000,000-1,000,000)						2,000,000
Cash and bank balances						3,000,000
Less: Liabilities (7,000,000 + 500,000)						(7,500,000)
						9,000,000
Breakup value of each share of MPL						15
No. of shares to be issued						600,000
Note: In case of private limited companies, the breakup value of the shares is considered as FMV.						

(ii) MPL's cost of acquisition of assets						
Tax WDV of fixed assets						3,000,000
Tax WDV of patents						2,500,000
Stock in trade						4,000,000
Debtors						3,000,000
Cash and bank balances						3,000,000
Total cost of MPL's assets						15,500,000
(iii) Mr. Adnan's cost in respect of shares received by him						
Transferor cost as in ii above						15,500,000
Liabilities undertaken (7,000,000 + 500,000)						(7,500,000)
						8,000,000
No. of shares to be issued						600,000
Cost per share						13.33

Answer # 45

(a). The tax paid on import of raw material and plant shall be adjustable because SSPL meets the following conditions:

- It is an industrial undertaking
- Raw material and plant shall be imported for its own use

The tax paid on import of finished goods shall be treated as final tax.

(b). Initial depreciation shall be admissible on the plant as it will be put into service for the first time, in Pakistan.

The normal depreciation on the plant would be admissible on the written down value of the plant. In the first year, it has to be computed on the amount of cost less initial allowance.

(c). Interest paid by SSPL would be Pakistan-source income of SSI, as it fulfils the criteria of being paid by a resident person for its business in Pakistan. Therefore, SSPL will have to deduct tax on payment of interest to SSI. As per Clause 5A, Part II of the Second Schedule of the Income Tax Ordinance, 2001 the rate of tax to be deducted in respect of payments from profit on debt payable to a non-resident person having no permanent establishment in Pakistan, shall be 10% of the gross amount paid. Since SSPL is a foreign controlled company, the admissibility of interest expense will be made in accordance with *thin capitalization rule*. Under this rule, SSPL will not be allowed to claim interest expense attributable to the amount of foreign debt which is in excess of three times of the foreign equity.

(d). Interest income of SSI shall be taxable in Pakistan because it is Pakistan-sourced as it is paid by SSPL i.e. a person who is resident in Pakistan* / borne by a permanent establishment of non-resident in Pakistan.

Further as per Clause 5A, Part II of the Second Schedule of the Income Tax Ordinance, 2001 tax deducted @ 10% on profit on debt from debt instruments, shall be final tax on profit on debt payable to a non-resident person having no permanent establishment in Pakistan if the investments are exclusively made through a Special Rupee Convertible Account maintained with a Bank in Pakistan.

Answer 46

Calculation of deductible amount of interest on debt:

Aggregate outstanding balance of loans received by DPL from foreign controller (MI) as at 30 September 2016:

	Rs. in million
Total equity at the beginning of the year:	
Net assets as at 30 September 2016 (3,500 – 2,870)	630
Less: After tax profit for the year	(350)
	280
Less: amount credited during the year to asset revaluation reserve	(150)
Equity at the beginning of the year	130
Foreign equity-effective share of MI (0.7 × 130 million)	91
Less: debt owed by a non-resident foreign associate of MI	(5)
Equity at the beginning of the year	86

Foreign debt attracting the provisions of thin capitalization: (interest exempt from tax- 2nd Sch.CI.72)

Loan received on 15 March 2016	315
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Foreign debt where thin capitalization is not applicable: (as interest expense is not exempt or charged at a lower rate of tax)

Loan received on 1 June 2016	168
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Thin capitalization ratio = Foreign debt ÷ Foreign equity ÷ 3

Thin capitalization ratio for DPL = 315 million ÷ 86 million ÷ 3 = 1.2209

	Rupees
Interest paid/accrued for DPL in tax year 2017:	

debt where thin capit. rule is applicable ($315 \text{ million} \times 11\% \times 200 \div 365$)	18,986,301
Interest paid/accrued for DPL in tax year 2017:	
debt where thin capit. rule is not applicable ($168 \text{ million} \times 6\% \times 122 \div 365$)	3,369,205

Deductible profit on debt for the tax year 2017:	
for BP loan = $18,986,301 \div 1.2209$	15,551,070
Profit on debt paid/accrued for DPL in tax year 2017:	
Debt not covered under thin capitalization rule (fully deductible)	3,369,205
Total interest allowed	18,920,275

Therefore total profit on debt allowable for tax purposes under the provisions of Income Tax Ordinance, 2001 is Rs. 18,920,275.

Answer # 47

(a) Thin capitalization Rule

Where a “foreign controlled resident company” (other than a financial institution or a banking company) or a branch of a foreign company operating in Pakistan, has a foreign debt to foreign equity ratio in excess of three to one (3:1) at any time during a tax year, a deduction shall be disallowed for the profit on debt paid by the Company in that year on that part of the debt which exceeds the three to one ratio.

(b)

Joy Limited Calculation of Thin Capitalization

Accounting Year Tax Year	Rupees in million		
	31-12-2009 2010	31-12-2010 2011	31-12-2011 2012
(i) Foreign Debt:			
Existing loan from DSI Loan	300	250	200
Less: Repayment	<u>50</u>	<u>50</u>	<u>50</u>
Balance at year end	250	200	150
Maximum amount of existing foreign debt, due during the year	<u>300</u>	<u>250</u>	<u>200</u>
New foreign debt from DSI long term loan (To date position)	1,250	5,000	5,000
Amount of Foreign Debt (at any time in a tax year)	<u>1,550</u>	<u>5,250</u>	<u>5,200</u>
(ii) Foreign Equity of Joy Limited:			
Paid up capital owned by DSI & SWI (A)	500	500	500
Opening Retained earnings (B)	500	1,200	2,050
Proportionate share of DSI and SWI in profit for the tax year	<u>700</u>	<u>850</u>	<u>1,000</u>
Closing retained earnings	<u>1,200</u>	<u>2,050</u>	<u>3,050</u>
Total Foreign Equity of Joy Limited (A+B) (Paid-up capital + opening Retained Earnings)	<u>1,000</u>	<u>1,700</u>	<u>2,550</u>
(iii) Admissible / Inadmissible interest expense:			
Loan + Equity	2,550	6,950	7,750
Admissible foreign debt (ii x 3)	3,000	5,100	7,650
Amount in Excess of permissible limit	-	150	-
Interest expense	150	520	515
Admissible / Inadmissible interest expense	150	(15)	515

Note: Interest calculation @ 10% on closing balance for the sake of simplicity. However, correct treatment shall be to calculate interest with reference to outstanding balance.

(c) Loan from unrelated foreign company

If Joy acquires a new loan from another foreign company not related to the Green Sea Group, than provisions of thin capitalization rule would not be applicable, provided that such other foreign company does not have similar outstanding debt obligation to DSI or SWI (i.e. foreign controller of Joy Limited) or a non-resident associate of the foreign controller.

Answer # 48

(a)

- (i). Channel9 is a non-resident person for Pakistan tax purposes. Every person making a payment to a non-resident person inter alia on the execution of a contract for advertisement services rendered by 'TV Satellite Channels', is required to deduct tax [S.152(1A)(c)] at the rate of 6% of the gross amount payable.
- (ii). The tax deducted under S.152 (1A) by IAL will be the final tax of Channel9 if Channel9 specifically opts to be assessed on the final tax basis by furnishing to the Commissioner a declaration in writing of the option to be assessed on the final tax basis within three months of the commencement of the relevant tax year. The declaration is irrevocable and remains in force for three years i.e. the tax year in which the option is furnished and the succeeding two years [Ref: Clause (41) of Part IV of the Second Schedule]

If Channel9 is unable to comply with any of the requirements for being assessed on the final tax basis (say if the declaration is not furnished to the Commissioner in time), the tax assessment of Channel9 would be on its net taxable income and the tax deducted by IAL would be allowed as a tax credit.

(b) (i)

- The Income Tax Ordinance, 2001 (S.7) provides for the separate taxation of certain classes of income, one of which is the income of a non-resident person carrying on the business of operating ships as the owner or charterer thereof. The income of the non-resident person is not computed on the net-income basis. Tax is imposed on the gross amount received or receivable for the carriage of passengers, livestock, mail or goods depending upon whether the shipment is from a port in Pakistan or a port outside Pakistan.
- AIC would be chargeable to tax in Pakistan despite its tax exempt status in the British Virgin Islands. AIC would be a non-resident company for Pakistan tax purposes and the amount chargeable to tax is to be computed as under:
 - (i). For goods embarked from a port in Pakistan, the amount chargeable to tax is the gross amount received or receivable by AIC for the carriage irrespective of whether the amount is received in Pakistan or outside Pakistan.
 - (ii). For goods embarked from a port outside Pakistan, the gross amounts received or receivable by AIC for the carriage is chargeable to tax only if the amount is received or receivable in Pakistan.
- Tax at the rate of 8% is imposed on the aforesaid gross amount received or receivable (Amount).
- The tax imposed is the final tax on the amount and:

- (i). the amount is not chargeable to tax under any head of income of AIC
- (ii). no deduction is allowable for any expenditure incurred by AIC in deriving the amount
- (iii). the amount is not to be reduced by any deductible allowances or the set-off of any loss
- (iv). tax payable is not to be reduced by any tax credit allowable to AIC

(ii)

- Before the departure of a ship from a port in Pakistan, the master of the ship has to furnish to the Commissioner a return showing the gross amounts. He has also to furnish any particulars, accounts or documents which may be required by the Commissioner.
- The Commissioner, after being satisfied that the return furnished is complete in all respects, would determine the amount of tax due and notify the master in writing of the amount of tax to be paid.
- The master or the shipping agent on behalf of the master has to discharge the tax liability before the departure of the ship.
- In practice tax is calculated by the master of the ship and paid at the time of furnishing the return. The Collector of Customs would issue the port clearance certificate allowing the ship to leave the port when he is satisfied that the tax due has been paid.

(iii)When the master of the ship is unable to furnish the above return to the Commissioner before the departure of the ship from a Pakistan port, the Commissioner has been empowered to allow the return to be furnished within thirty days of the departure of the ship provided arrangements have been made by the owners or charterers of the ship that the tax would be paid. The Collector of Customs would issue the port clearance certificate when he is satisfied that arrangements for the payment of the tax due have been made to the satisfaction of the Commissioner.

(iv)Under the Income Tax Ordinance, 2001 the Federal Government can enter into an agreement with the government of any other country (foreign government) for the avoidance of double taxation, with respect to taxes on income imposed under this Ordinance [s.107]. The provisions of a tax treaty on a particular matter would override the provisions of the local legislation on a similar matter. A tax treaty can, inter alia, provide for relief from the tax payable under the Ordinance. Accordingly if AIC was incorporated in a country which has a tax treaty with Pakistan and the treaty provided that the income from the operation of aircraft would be taxable only in that country, the income from AIC arising from the operation of its aircraft in Pakistan would not be chargeable to tax in Pakistan

(c)

- (i). Diamond Jim and his family members being non-residents for Pakistan tax purposes in the tax year 2015 are chargeable to tax only on income which is a Pakistan-source income. One of the sources of income which is considered to be a Pakistan-source income is any gain from the alienation of any share in a company, the assets of which consist wholly or principally, directly or indirectly of immovable property in Pakistan or of the right to

explore for or exploit natural resources in Pakistan [s.101 (10) – geographical source of income].

The chargeability to tax is on the gain on the disposal of shares in a particular type of a company – a company whose principal assets are those as specified above. The income of £100,000 has arisen from the disposal of the shares in Gold Finger Ltd (GL) which is a non-resident company operating in Pakistan as a branch. Since the principal asset of GL in Pakistan is the right to explore and exploit mineral deposits in an area of Baluchistan, the gain of £100,000 made by Diamond Jim and his family is their Pakistan-source income and therefore chargeable to tax. Therefore the contention of Diamond Jim that because GL is a not liable to tax is wrong

- (ii). Under the provisions of the geographical source of income any gain arising from the disposal of shares in a resident company shall be Pakistan-source income [s.101 (13)]. In other words, normally a gain on the disposal of shares in a non-resident company would not be a Pakistan-source income except where the assets of the company consist principally of immovable property or of the right to explore for or exploit natural resources in Pakistan [s.101(10)]. If GL was engaged in the business of the distribution of petroleum products and its income was principally from the distribution of petroleum products, its assets wholly or principally, directly or indirectly would not consist of immovable property or the right to explore for or exploit natural resources in Pakistan. GL being a non-resident company, any gain from the disposal of its shares would be a foreign-source income for Diamond Jim and his family members and therefore the gain would not be chargeable to tax in Pakistan.

(d)

- (i). Despite the fact that the definition of a permanent establishment includes an office, which BHI has in Pakistan, BHI will not be considered to have a permanent establishment in Pakistan since the said definition specifically excludes a liaison office.
- (ii). A liaison office is not considered as having a permanent establishment unless the liaison office engages in the negotiation of contracts except contracts of purchase. As liaison office besides its usual liaison functions engages only in the negotiation of contracts of purchase, BHI liaison office will not be considered to have a permanent establishment in Pakistan.
- (iii). Any person (not necessarily a liaison office) using its office premises for a permanent sales exhibition will be considered to have a permanent establishment in Pakistan.

Answer # 49

- (i). ML is a non-resident company for Pakistan tax purposes and its income under any head of income is to be computed by taking into account its Pakistan-source income only. Section 101 (geographical source of income) specifies the conditions under which different sources of income are Pakistan-source income. Under the provisions of S.101 (13) any gain arising on the disposal of shares in a resident company shall be Pakistan-source income. As the gain arose on the disposal of shares in Azam Ltd which is a resident company, ML is chargeable to tax on the US\$ 500,000 under the head 'Capital gains', irrespective of whether or not the sale took place outside Pakistan with another non-resident person or that the sale consideration was received outside Pakistan.

- (ii). The amount received by Urea Ltd Australia is consideration for fees for technical services (FTS) and would have been taxable in Pakistan in case information obtained from Urea Ltd was utilized by UPL for its business conducted in Pakistan. However, since the reports and information received from Urea Ltd are used by UPL for their business outside Pakistan, the consideration receivable by Urea Ltd would be foreign-source income. As Urea Ltd is a non-resident company, the foreign-source income is not chargeable to Pakistan tax and no tax is to be withheld by UPL. However, UPL, before making payment to Urea Ltd has to furnish a notice in writing to the Commissioner stating the name and address of Urea Ltd, the amount payable and the nature of the payment. The Commissioner has to pass an order either accepting the contention of UPL or direct UPL to deduct tax under S.152 of the Income Tax Ordinance at the applicable rate.

- (iii). A payment for the right to use a secret process falls within the definition of 'royalty'. Omega Ltd is a non-resident company for Pakistan tax purposes. The payment of US\$ 60,000 is the royalty income of Omega Ltd. This income is a Pakistan-source income of the non-resident Omega Ltd since the payment is made by a resident (XYZ Ltd) and the process is not to be used by XYZ Ltd for any business outside Pakistan through a permanent establishment. The payment of the royalty to Omega Ltd is therefore chargeable to tax and XYZ Ltd is required to deduct tax at the applicable rate of 15% from the gross amount of US\$ 60,000.

- (iv). Every person paying an amount to a non-resident person is required to deduct tax from the gross amount paid unless the non-resident person is not chargeable to tax in respect of the amount.

A non-resident's business income is chargeable to tax if such income is a Pakistan source income. Since JH Hospital in Boston, USA (JHH) is a non-resident company and the medical treatment provided by it to the CEO was also outside Pakistan, US\$ 30,000 cannot be attributable to any business activity of JHH in Pakistan and therefore, US\$ 30,000 paid by ML cannot be regarded as a Pakistan source income of JHH. As US\$ 30,000 is not chargeable to tax in Pakistan, ML was not required to deduct tax.

ML was also not required to inform the Commissioner in writing prior to making the payment, as the medical expenses were paid in accordance with the State Bank's regulations.

- (v). Mr. Finch is a resident individual since in the tax year 2016 (accounting year ended 30 June 2016), he was an employee of the Federal Government of Pakistan and was posted outside Pakistan [s.82(c)]. The payment of Rs.100,000 made to Finch, a resident individual, was for the provision of services. Every prescribed person making a payment to a resident person for the provision of services is required to deduct tax at the time of making the payment. XYZ Ltd, being prescribed person was required to deduct tax at the time of the payment of Rs.100,000. The tax deductible from a payment to a resident person for rendering of services would be minimum tax of Mr. Finch arising from the transaction. [Ref: S 153(3)(B)]
- (vi). XYZ Ltd, a prescribed person making a payment to a permanent establishment in Pakistan of a non-resident person for the sale of goods is required to deduct tax at the time of making the payment [s.152(2A)(i)]. The tax deducted from the payment of Rs.750,000 is not the final tax of the recipient on the income arising from the transaction. The tax deducted would be allowable as a tax credit.
- (vii). Any person paying an amount to a non-resident is required to deduct tax from the amount paid except, inter alia, when the non-resident is not chargeable to tax in respect of the amount paid. The business income of a non-resident is chargeable to tax if the income is a Pakistan-source income. TP is a non-resident company. The business income of TP derived from the sale of the packing machine to XYZ Ltd is not a Pakistan-source income since the sale of the machine was completed outside Pakistan when the title in the machine passed to XYZ Ltd in London (outside Pakistan). The payment of £100,000 is therefore not chargeable to tax in Pakistan and XYZ Ltd was not required to deduct tax from the payment.
- (viii). In order to appraise whether the rental payments to non-resident company are taxable in Pakistan, firstly it is to be ascertained whether the subject non-resident company has a

permanent establishment (PE) in Pakistan or not? The definition of PE as stated in 2(41) of the Ordinance states that:

“Permanent establishment” in relation to a person, means a fixed place of business through which the business of the person is wholly or partly carried on, and includes –

.....

- a. Any substantial equipment installed, or other asset or property capable of activity giving rise to income”

Further section 101(3) of the Income Tax Ordinance, 2001 clearly states that:

Business income of a non-resident person shall be Pakistan source income to the extent to which it is directly or indirectly attributable to:

A permanent establishment of the non-resident person in Pakistan;

In view of the foregoing discussion, the non-resident company establishes PE in Pakistan and is earning income from an asset, deployed in Pakistan, which is a Pakistan source income and taxable in Pakistan.

- (ix). Amount received by non-resident who renders independent services shall be treated as Pakistan-source income if it is paid by a resident person or borne by a permanent establishment of a non-resident person. Since the amount is paid by resident company BL, therefore, it shall be Pakistan source income and charged to tax as per applicable rates.
- (x). ABC Limited, being prescribed person is required to deduct tax @ 12% under section 233 of the Income Tax Ordinance, 2001. The said tax deducted will be treated full and final tax liability of non-resident person [Ref: S 152(3)(a) read with S 233]

Answer # 50						
Tax Year	Net receipts	Gross receipts 9,400,000/0.93	Tax deducted treated as FTR	Taxable Income	Rate of Tax	Tax liability
2015	9,400,000	10,107,527	707,526.88	2,500,000	31%	775,000
2016	11,280,000	12,129,032	849,032	2,920,000	31%	905,200
2017	13,160,000	14,150,538	990,538	3,380,000	31%	1,047,800
			2,547,097			2,728,000
2018	15,040,000	16,172,043	1,132,043	(745,000)	1% of turnover	161,720.43
			1,132,043			161,720
For tax years 2015-2017						
			2,728,000			
			2,547,097			
			(180,903)			
For tax years 2018						
			161,720			
			1,132,043			
			(970,323)			
For the tax years 2015, 2016 and 2017 it would be beneficial for GPL to be assessed on the final tax basis as against being assessed on the taxable profits as this would result in a saving in tax of Rs.180,903						
Therefore GPL should before 30 September 2015 submit to the Commissioner in writing, a declaration of the option to be assessed on the final tax basis for the tax year 2015. As the option is not revocable for three years, the tax years 2016 and 2017 would also be assessed on the final tax basis.						
For the tax years 2015, 2016 and 2017, GPL should not file a regular return of income on the taxable income basis but submit a statement prescribed under the law detailing the gross amount of the sale proceeds and the tax deducted therefrom.						
For the tax year 2018 GPL should not file the declaration of option to be assessed on the final tax basis. GPL should submit a return of income on the taxable income basis declaring a loss of Rs.745,000 which would represent unabsorbed depreciation and claiming a refund of Rs.800,000 being the difference between normal tax liability and tax deducted at source from the payment received for the construction services.						
W-1:						
			10,000,000			
			2,500,000			
			1,125,000			
			3,625,000			
Taxable income for tax year 2018						
			15,040,000			
			16,000,000			
			2,880,000			
			3,625,000			
			(745,000)			

Answer # 51

- (i). Payment by the cable operator to the satellite channel for securing channel transmission rights for relaying television program on Pakistan will constitute 'royalty' and will be subject to withholding tax at 15% unless a lower rate is provided in the relevant tax treaty. [Ref: S 2(54) and S 6].
- (ii). Re-imburement of business expenditure does not attract withholding tax provision as they were incurred outside Pakistan.
- (iii). Where an agent retains commission from an amount remitted by him to the principal, the latter is required to collect the amount of withholding tax from the agent and pay to the tax authorities. [Ref: S 233(2)].
- (iv). **Payment to debtor**
Section 101(14) provides that any payment by a resident person to a non-resident person not specifically dealt with in section 101 shall be treated as Pakistan-source income of non-resident person. Therefore, general rate of withholding tax of 20% would be applicable on such payment unless a permission is obtained from the Commissioner for non-deduction of tax
- (v). Tax is not required to be deducted where interest is paid to a banking company under a loan agreement. Where, however, the loan agreement is between companies other than a banking company, tax is required to be withheld at 10% of the gross amount of interest payments. [Ref: S 151(d)].
- (vi). The 'rights to manufacture goods' is in the nature of royalty and is not covered under the definition of 'goods'. Therefore any payment on account of 'rights' cannot be treated as payment on account of 'goods' and is not subject to withholding tax under section 153 of the Income Tax Ordinance.
- (vii). Tax is not deducted for payment for purchase of shares and securities as these are covered under the definition of capital assets and there is no requirement to withhold tax from payments for capital assets. [Ref: S 37(5)].
- (viii). Withholding tax is applicable on all dividend including bonus shares. The company will distribute specie dividend to its shareholders at a value equal to net off withholding tax. The amount equivalent to related withholding tax will be paid by the company. [Ref: S 2(29) and S 150].

- (ix). There is no withholding tax when money is retained from a contractor's bills. Tax will be withheld at the time retention money is released to the contractor. [Ref: S 158(b)].
- (x). Excess of accumulated profits over the face value of shares will be treated as dividend and hence tax will be deducted @ 10% on that amount [Ref: S 2(19)(d)].
- (xi). Refund of security is exempt from withholding tax. [Ref: S 153(5)(c)].
- (xii). A person is not required to deduct tax if the vendor supplies the goods in the same condition in which they were imported.
- (xiii). Commission paid to an employee falls under the definition of salary. Accordingly, tax is required to be deducted at the prevailing rate applicable.
- (xiv). Tax is required to be deducted on the gross amount of sales inclusive of sales tax.
- (xv). Tax is required to be deducted only at the time of payment. Since expense is still payable hence tax has rightly been not deducted.
- (xvi). The provisions of sub-section 153 shall not apply to any manufacturer-cum-exporter as the prescribed person provided that
 - (a). the manufacturer-cum-exporter shall deduct tax from payments made in respect of goods sold in Pakistan
 - (b). if tax has not been deducted from payments on account of supply of goods in respect of goods sold in Pakistan, the tax shall be paid by the manufacture-cum-exporter, if the sales in Pakistan are in excess of five per cent of export sales; and
 - (c). nothing contained in this clause shall apply to payments made on account of purchase of the goods in respect of which special rates of tax deduction have been specified under the provisions of the repealed Ordinance
- (xvii). The Director Finance's total salary whether paid in or outside Pakistan, is chargeable to tax in Pakistan. In this case, the company will have to pay the tax from its own resources and then recover it from the employee.

Answer # 52

(a)

	Note	Rs in " Million"
Gain on sale of land	1	0
Gain on sale of building	2	10
Gain on sale of plant and machinery		30
Gain on sale of goodwill	3	120
Receipt against agreement to refrain from same business	4	50
		<u>210</u>

(b) Withholding tax obligations

Description	Withholding tax obligations
Land	It cannot be classified as "goods" and hence no tax is to be deducted
Building	It cannot be classified as "goods" and hence no tax is to be deducted
Inventory	These are goods and hence tax will be deducted @ 4% of the amount of fair value paid
Plant and machinery	These are goods and hence tax will be deducted @ 4% of the amount of fair value paid
Other current assets	No tax is to be deducted as they don't fall in the category of goods.
Goodwill	Amount received in excess of fair value of the assets is goodwill i.e (Rs. 500-380=120 M). Goodwill is a capital asset and hence will be taxed as capital gain. However no tax is to be deducted on payment of goodwill as it does not fall in the category of goods.
Receipt against agreement to refrain from business	No tax is to be deducted as they don't fall in the category of goods.

Note:

N-1:

Unimproved land is not a depreciable asset. Gain on disposal of immovable property is taxable under the head capital gain provided is less than two years. In the absence of information, it is assumed that holding period of land is greater than two years, hence, capital gain is exempt.

N-2:

Building is depreciable asset and therefore its gain is taxable. However, since the consideration received on its disposal exceeds the cost, it has been taken as equal to cost.

N-3:

Amount received in excess of fair value of tangible assets i.e. Rs. 120 million is goodwill. Goodwill is a capital asset. In this case it has been generated in normal course of business and seller has not paid any price for it. Hence, its book value is Nil. Therefore, the whole amount of goodwill will be taxed as capital gain.

N-4:

Consideration received for agreeing not to compete in the business activity is a receipt and shall be taxed as capital gain. (The contention that it is a capital receipt and therefore exempt from tax is also correct treatment.

Answer # 53

(i) Taxability of Mutual Funds

As per Clause 99 Part I of the Second Schedule, mutual funds (open ended or closed ended) are exempt from tax if the Accounting Income (as reduced by capital gains whether realized or unrealized) for the year is distributed to the Unit-Holders to the extent of 90 percent.

For the purposes of determining distribution of at least 90% of accounting income, the income distributed through bonus shares/units/certificates shall not be taken into account. In other words to claim exemption, ninety percent of the income must be distributed in the form of cash dividend.

(ii) Taxability of dividend in the hands of units trust holders

For the purpose of determining taxability of dividend in the hands of unit holder's mutual fund are divided into two categories:

- (iii). Stock Fund (where investible funds are invested by way of equity shares in companies to the extent of more than 70% of investment).
- (iv). Money market fund, income fund or any other fund

(a) Stock funds:

For stock funds rate of dividend distributed to individual, AOP or company will be 10% (if dividend receipts of fund are more than capital gain receipts) and 12.5% (if dividend receipts of the fund are less than capital gains)

(b) Money market funds, income fund or any other fund

Dividend distributed by the above funds will be taxed as under

Person	Rate of tax
Individual	10%
AOP	10%
Company	25%

Further as per Clause 103 Part I of the Second Schedule, any distribution (Dividend) received by taxpayer from mutual funds out of capital gains of the said fund is exempt from tax provided said mutual fund is a debt or money market fund and do not invest in shares.

(iii) Taxability of Capital gains in the hands of units trust holders

A close ended fund is required to be listed on registered stock exchange in Pakistan. An open ended mutual fund (Unit trust) whether listed or not is considered to be a public company within the meaning of Income Tax Ordinance, 2001. Therefore, any capital gain by a person on their investment held in mutual funds are subject to capital gain tax as separate block under section 37A of the Income Tax Ordinance, 2001 as per the following rates:

Holding period	Rate of tax
Where holding period of a security is less than twelve months	15%
Where holding period of a security is twelve months or more but less than twenty-four months	12.5%
Holding between 24months to 48months	7.5%
where holding period of a security is more than 4 years	0%

(iv) Taxability of Capital gains on sale of securities in case of banks

From tax year 2015 onwards income from capital gain is taxed @ 35% in case of banking companies.

(v) Taxability of Dividends in case of banks

From tax year 2015 onwards income from dividend is taxed @ 35% in case of banking companies.

(vi) Taxability of Capital gains on sale of securities and dividend in case of insurance company

From Tax year 2017 onwards dividend and Capital gain on disposal of shares of listed companies, vouchers of Pakistan Telecommunication Corporation, modaraba certificate or instruments of redeemable capital and derivative products is taxable at corporate rate of 31%.

(vii) Taxability of Modaraba

(a) Income from Non-Trading Activities [Clause (100) of Part-I of Second Schedule]

Income of a Modaraba from non-trading activities shall be exempt from tax for any assessment year commencing on or after 01-07-1999. In order to avail this exemption, it shall have to fulfill the following conditions:

- Minimum 90% of the total profit (after transfer to mandatory reserve) is distributed among the certificate holders; and
- For the purpose of determining the distribution of 90% profits, the profits distributed through bonus certificates or shares shall not be taken into account.

(b) Incomes from Trading Activities [Clause (18) of Part-II of Second Schedule]

Currently, a Modaraba is taxable for such incomes, which are generated through trading activities. It shall be taxable at the rate of twenty five percent (25%) of its total trading income excluding the followings:

- (i). Dividend incomes;
- (ii). Incomes to which section 153 applies (i.e., supply of goods, rendering of services or execution of contracts).
- (iii). Incomes to which section 154 applies (i.e., exports).

A modaraba is not subject to Minimum tax under section 113. Further ACT is also not applicable.

(viii) Taxability of leasing companies

- Lease rentals are treated as income of the lessor. In case of finance lease, lease rentals (principal + markup) shall be added in income, while tax depreciation shall be allowable expense.
- Tax depreciation, initial allowance and unabsorbed depreciation are allowable to be adjusted only against income from lease rentals.
- No tax is required to be withheld on payment of lease rentals and therefore income of leasing companies are taxable under normal tax regime @ 32% of net taxable income.
- Maximum cost of vehicle (Rs. 2,500,000) for the purpose of tax depreciation shall also apply in case of approved leasing company or a modaraba doing leasing business in respect of assets given on lease (Rule 224 of the Income Tax Rules, 2002)

Answer # 54

- (i) An assessment order can be amended in either of the following two circumstances:
 - (a) The Commissioner has definite information acquired from audit or otherwise to his satisfaction that:
 - (i) Any income chargeable to tax has escaped assessment
 - (ii) Total income has been under assessed or assessed at two low a rate or has been the subject of excessive relief or refund
 - (iii) Any amount under a head of income has been misclassified
 - (b) The Commissioner considers the assessment order to be erroneous in so far as it is prejudicial to the interest of revenue.

Where an assessment order has been amended by the Commissioner, it can be further amended by him as many times as may be necessary within the later of:

- (i) Five years from the end of the financial year in which the Commissioner has issued the original assessment order to the taxpayer or
- (ii) One year from the end of the financial year in which the Commissioner has issued the amended assessment order to the taxpayer.
- (ii) Every resident individual filing a return of income for any tax year shall furnish a wealth statement and wealth reconciliation statement for that year along with such return. Further every member of an association of person shall also furnish wealth statement and wealth reconciliation statement for the year along with return of income of association. Therefore, Aqeel is required to file the wealth statement.
- (iii) A non-resident individual is required to file a wealth statement in either of the following two situations:
 - (a) The income of the non-resident person falls under the final tax regime. (S. 116(4))
 - (b) The Commissioner of Inland Revenue issue a notice in writing to a non-resident individual to file a wealth statement (S. 116(1))Therefore Hamza will be required to file the wealth statement only if any of the above conditions are fulfilled.
- (iv) Tauseef should file his tax return as soon as possible. Not filing a tax return where required by law attracts penalty equal to 0.1% of the tax payable in respect of that tax year for each day of default subject to a maximum penalty of 50% of the tax payable provided that if penalty worked out as aforesaid is less than twenty thousand rupees or no tax is payable for that year such person shall pay a penalty of twenty thousand rupees.
Tax payable means tax chargeable on the taxable income on the basis of assessment made under section 120,121,122 or 122C.

Further any person who fails to pay any tax on or before the due date for payment shall be liable for default surcharge at the rate equal to 12 per cent per annum on the tax unpaid computed for the period commencing on the date on which the tax was due and ending on the date on which it was paid.

- (v) The courts have held in number of cases that Commissioner must have definite information and he cannot act merely on the basis of surmises or gossips. The Commissioner must receive credible information from an independent source giving some new facts subsequent to the date of assessment of the taxpayer.

Definite information includes information on sales or purchases of any goods made by the taxpayer, receipts of the taxpayer from services rendered or any other receipts that may be chargeable to tax and on the acquisition, possession or disposal of any money, asset, valuable article or investment made or expenditure incurred by the taxpayer.

- (vi) Records are required to be maintained for six years after the end of the tax year to which they relate. However, where any proceedings are pending before any authority or court, the taxpayer is required to keep the record until the final decision of the proceedings.

Where a person fails to maintain the records as aforesaid, a penalty of Rs. 10,000 or 5% of the amount of tax payable whichever is higher can be levied by the Commissioner. Mr. Irfan is liable to pay the following:

Tax Due	Rs. 469,500
5% of tax	Rs. 23,475

Since amount calculated above is higher than Rs. 10,000, Mr. Irfan shall be liable to pay a penalty of Rs. 23,475 for non-maintenance of records.

- (vii) The Federal Government or Board is empowered to exempt any person or class of person from payment of whole or part of any penalty or default surcharge payable under the Income Tax Ordinance, 2001 in the following manner:

- (a) The exemption may be published by notification or an order in the official Gazette of Pakistan
(b) The reasons for exemption shall be given in the notification or the order
(c) The conditions or limitations if any applicable to such exemption shall also be given in the notification or order.

- (viii) any person who, having furnished a return, discovers any omission or wrong statement therein, may file revised return subject to the following conditions, namely:

- (a) it is accompanied by the revised accounts or revised audited accounts, as the case may be;
(b) the reasons for revision of return, in writing, duly signed, by the taxpayers are filed with the return
(c) it is accompanied by approval of the Commissioner in writing for revision of return; and]
(d) taxable income declared is not less than and loss declared is not more than income or loss, as the case may be, determined by an order issued under sections 121, 122, 122A, 122C, 129, 132, 133 or 221

Provided that if any of the above conditions is not fulfilled, the return furnished shall be treated as an invalid return as if it had not been furnished

Provided further that the condition regarding approval of Commissioner as specified above shall not apply if revised return is filed within sixty days of filing of return:

Provided also that where the Commissioner has not made an order of approval in writing, for revision of return, before the expiration of sixty days from the date when the revision of return was sought, the approval shall be deemed to have been granted by the Commissioner.

Provided further that the mode and manner for seeking the revision shall be as prescribed by the Board.

If a taxpayer files a revised return voluntarily along with deposit of the amount of tax short paid or amount of tax sought to be evaded along with the default surcharge, whenever it comes to his notice, before receipt of notice under sections 177 or sub-section(9) of 122, no penalty shall be recovered from him

Provided that in case the taxpayer deposits the amount of tax as pointed out by the Commissioner during the audit or before the issuance of notice under sub-section (9) of section 122, he shall deposit the amount of tax sought to be evaded, the default surcharge and twenty-five per cent of the penalties leviable under the Ordinance along with the revised return:

Provided further that in case the taxpayer revises the return after the issuance of a show cause notice under sub-section (9) of section 122, he shall deposit the amount of tax sought to be evaded, default surcharge and fifty per cent of the leviable penalties under the Ordinance along with the revised return and thereafter, the show cause notice shall stand abated.

- (ix) The Commissioner Inland Revenue cannot recover the principal amount of tax from the withholding agent, if in the meanwhile it has been paid by the person from whom it was originally deductible. The CIR can only recover the amount of default surcharge from OL and the period of default starts from the date the deducted tax amount was payable to the date it was paid by GL.
- (x) The Committee shall consist of an officer of Inland Revenue and two other persons from a panel. The panel comprises chartered accountant or cost accountants, advocates, income tax practitioners and reputable taxpayers.
 - (a) There are two situations where a taxpayer cannot apply:
 - (b) Prosecution proceedings have already been initiated against the taxpayer or Dispute involves question of law having effect on identical other cases

If Usayd is not satisfied with the orders of the Board, he may continue to pursue his remedy before the Appellate Tribunal as if no order had been made by the Board.

- (xi) In the given circumstances, the CIR may issue a provisional assessment order by framing an assessment based on any available information or material and to the best of his judgment specifying the taxable income and tax due thereon. Provisional assessment order is treated as final assessment order after the expiry of forty five days from the date of service of order.

However if Adeel files return of income, wealth statement and wealth reconciliation along with other documents required and also presents his accounts for audit, then such return will be accepted and provisional assessment will become ineffective.

If Adeel does not file the return within 45 days, provisional assessment order will become final assessment order after the expiry of 45 days which is not appealable before any appellate authority. Once the assessment order becomes final, CIR can take coercive measures to recover the amount of tax assessed against Adeel.

Answer # 55

(i)

- (a) Tax not deducted can be recovered from OL.
- (b) A default surcharge can be imposed on OL for non deduction of tax @ 12% computed from the date tax was required to be deducted to the date it was paid to the Commissioner
- (c) The salary on which tax was not deducted and paid (either by the payer or the payee) is not an admissible expense.
- (d) OL will be liable to a penalty of Rs. 25,000 or 10% of amount of tax whichever is higher.

(ii) Where taxpayer is a company advance tax shall be payable by it in the absence of last assessed income or declared turnover also. To avoid any default surcharge the company shall estimate the amount of advance tax payable on the basis of quarterly turnover of the company and thereafter pay such amount after making adjustment of the amount already paid.

Due to loss for the year, OL is required to pay minimum tax of Rs. 2,000,000 (Rs.200,000,000 x 1%). Advance tax should therefore be paid on the following dates to avoid default surcharge:

Quarter	Last date for payment	Amount (Rupees)
September 2016	25 September 2016	500,000
December 2016	25 December 2016	500,000
March 2017	25 March 2016	500,000
June 2017	15 June 2016	500,000

(iii) The Chief Commissioner may, either of his own motion or on an application made by the taxpayer for revision, call for the record of any proceedings relating to issuance of an exemption or lower rate certificate with regard to collection or deduction of tax at source under the Ordinance, in which an order has been passed by any authority subordinate to him.

Where, after making such inquiry as is necessary, Chief Commissioner considers that the order requires revision, the he may, after providing reasonable opportunity of being heard to the taxpayer, make such order as he may deem fit in the circumstances of the case.

- (iv) If a mistake apparent from record is to result in enhancement of liability or reduction of refund, CIR can rectify such mistake only after providing taxpayer an opportunity of being heard. Similarly where taxpayer finds a mistake apparent from record, the taxpayer can also request the Commissioner to rectify such mistake. However maximum time period allowed for rectification is five years from the date the order sought to be rectified. In this case five years have lapsed on 30 September 2015, hence proposed rectifications cannot be made.
- (v) An application for refund of tax shall be made to the Commissioner Inland Revenue within three years of the later of:

(a) The date on which the assessment order creating the refund has been served upon the taxpayer by the CIR or

(b) The date on which the tax was paid

The Commissioner shall within sixty days of receipt of refund application serve on the person applying for refund an order in writing of the decision after providing the taxpayer an opportunity of being heard.

A person aggrieved by an order passed as above or failure of the Commissioner to pass an order within 60 days may prefer an appeal to the higher appellate authorities as per the sequence given in the Ordinance.

- (vi) The Commissioner should check the tax records of Mr. Raza to ascertain whether or not the house property has been disclosed by him in the statement of assets and liabilities (wealth statement) furnished by him. As the income of Rs.3,000,000 out of which the house was purchased, has not been shown in any of the returns of income furnished by Mr. Raza, it is unlikely that the house property would have been declared in his wealth statements. The Commissioner would then have reasonable grounds to contend that the impounded house is a 'concealed asset'.

A 'concealed asset' means any property or asset which in the opinion of the Commissioner has been acquired out of income which was chargeable to tax but which has not been taxed. As the tax return furnished to the Commissioner by Mr. Raza for the tax year 2017 was complete in all respects, the assessment is treated as having been made. To safeguard the interest of revenue, the Commissioner may issue a provisional assessment order to Mr. Raza for the tax year 2017 (which is the last completed assessment) and include therein the amount representing the value

of the concealed asset and recover the tax due from Mr. Raza. The Commissioner is then required to finalize the provisional assessment as soon as possible. (Ref: Sec 123)

(vii)

- a. An order of the Commissioner appeals cannot be revised by the Commissioner
- b. A Commissioner can revise an assessment order passed under the repealed Ordinance, 1979
- c. Commissioner cannot pass an order which is prejudicial to the person to whom the order relates. Therefore an order reducing the refund cannot be made.

The Commissioner shall not revise any order if:

- (i) an appeal against the order lies to the Commissioner (Appeals) or to the Appellate Tribunal, the time within which such appeal may be made has not expired; or
- (ii) the order is pending in appeal before the Commissioner (Appeals) or has been made the subject of an appeal to the Appellate Tribunal.

(viii)

The return submitted by Azhar on 20 September 2011 would be considered as deemed assessment. Under the Ordinance, no order should be amended by CIR after the expiry of five year from the end of financial year in which CIR have issued or treated to have issued the assessment order to the tax payer. Since assessment was deemed to be finalized on 20 September 2011, CIR is empowered to amend the order up to 30 June 2017. In the light of the above, the notice issued by CIR is valid.

(ix)

The Commissioner may grant an extension of time for payment of tax due or allow the taxpayer to pay such tax in installments, where the tax becomes payable due to an assessment order and amended assessment order. However, the Commissioner is not empowered to extend date of payment of tax which is payable with the return.(Ref: Sec 137(1)(4)).

(x)

Following procedure shall be followed if there is a difference of opinion among the members of Appellate Tribunal:

- (a) In case of difference in opinion among the members, the point shall be decided according to the opinion of the majority.
- (b) If the members of an appellate bench are equally divided on a point, they shall state the point on which they differ and the case shall be referred by the Chairperson for hearing on that point by one or more other members of the Appellate Tribunal, and the point shall be decided according to the opinion of the majority of the members of the Tribunal who have heard the case including those who first heard it.
- (c) If there are an equal number of members of the Appellate Tribunal, the Federal Government may appoint an additional member for the purpose of deciding the case on which there is a difference of opinion.

(xi)

Turnover under NTR for 2017		800			
Turnover upto 3rd quarter		600			
Turnover for fourth quarter		200			
Advance tax formula: Turnover for quarter x tax liability for last year/turnover for last year					
Advance tax for 4th quarter will be Rs. 200 x 20/1000					
Less already paid					
Balance payable-Fourth quarter					

Answer # 56

- (i) Where any tax is due from a taxpayer, the Commissioner may require, through a notice in writing, any person owing or who may owe money to the taxpayer to pay to the Commissioner the amount of tax due by the taxpayer as specified in the notice at the specified date. (Ref: S-140)
- Since the amount of money payable to Mr. Usman i.e. Rs. 500,000 (Rs. 100,000 for next 5 quarters) is less than the amount of tax due, the liability of XYZ Ltd shall not exceed this amount. XYZ Ltd is required to make the payment to the Commissioner when the payment becomes due. Since the amount is payable in series of installments, XYZ Ltd is required to make payment accordingly. Furthermore, the amount to be paid by XYZ Ltd in compliance with the notice, shall be treated as having been paid under the authority of the taxpayer and the receipt of the Commissioner constitutes a good and sufficient proof of the discharge of the liability of Mr. Usman.
- (ii) The notice sent to Mr. Rehman was not valid because of the following reasons:
- Mr. Rehman is the non-resident and is therefore not required to furnish the return in respect of ownership of immovable property despite the fact that the ownership of plots exceeds the prescribed limit.
 - The Commissioner is required to allow thirty days from the date of service of notice or such longer period as may be specified in such notice for filing the return. In Mr. Rehman's case, the Commissioner has only allowed 20 days' time for filing the return.
- (iii) Tax payable on the basis of an assessment order issued by the Commissioner becomes payable within thirty days from the date of service of the notice. If he is certain that he will not be able to make the payment on time, then he should apply in writing to the Commissioner for:

- (a) An extension of time for payment of tax due, or
 - (b) Payment of tax due in installments equal or varying amounts.
- However, in any case, he would be liable to pay default surcharge as specified under the Ordinance.
- (iv) Incomes not considered for the purpose of advance tax:
 - (a) Dividend income;
 - (b) Pakistan source royalty and fee for technical services received by non-resident person;
 - (c) Shipping and air transport income of non-residents;
 - (d) Income from salary;
 - (e) Income from which tax has been collected or deducted and is taxable under final tax regime.
 - (v) The department may proceed to recover from the taxpayer the said amount by one or more of the following modes namely:
 - (a) attachment and sale of any moveable and immovable property of the taxpayer;
 - (b) appointment of a receiver for the management of the movable or immovable property of the taxpayer; and
 - (c) arrest the taxpayer and his detention in prison for a period not exceeding six months.
 - (vi) Where the Commissioner is of the view that Mr. Hamid is required to file the return of income but has failed to do so, the Commissioner is empowered to issue a notice requiring him to furnish the return of income. However, he can issue such notice in respect of the last five tax years and therefore issuance of notice for tax year 2010 cannot be justified. Moreover, he should have allowed a minimum of 30 days for filing the return. The Commissioner may extend the timeframe for furnishing the return, if he is satisfied that the applicant is unable to furnish the return of income by the due date because of:
 - (a) his absence from Pakistan;
 - (b) sickness or other misadventure; or
 - (c) any other reasonable cause

However, an extension of time shall not exceed 15 days from the due date for furnishing the return of income unless there are exceptional circumstances justifying a longer extension of time.
 - (vii) The dates by which appeal can be filed with the Commissioner (Appeals) in the following cases:
 - (a) Date of assessment order is irrelevant; 30 days will be calculated from date of service of demand notice that is 1 January 2017. Thus appeal can be filed by 31.1.2017
 - (b) Sixty days from the submission of refund application i.e. 17 June 2016, Appeal can be filed (within 30 days) by 17.07.2016
 - (viii) The contention of CFO is not correct. The company should file an appeal before CIR-Appeals to grant a stay against the payment of the tax demand. If Commissioner (Appeals) is of the opinion that the recovery of tax levied shall cause undue hardship to the taxpayer, he, after affording opportunity of being heard to the Commissioner against whose order appeal has been made, may stay the recovery of such tax for a period not exceeding thirty days in aggregate. Commissioner (Appeals) may stay the recovery for a further period of thirty days provided the order on appeal shall be passed within the said period of thirty days.

In case appeal is rejected by Commissioner (Appeals) and the tax authorities proceed against the company for recovery, company may file an appeal to the Appellate Tribunal for granting a stay (not exceeding 180 days in aggregate) or file a writ petition to the High Court.

- (ix) Tax demand may be adjusted against determined refund of taxpayer on written request by adopting the following procedure/conditions: (Ref: C.N. 3(6)ST-L&P/2002 Dated 24 April 2007)
- (a) The refund claim has been duly processed and found to be admissible under relevant law
 - (b) The taxpayer submits an application for inter-tax adjustment to both the officers concerned.
 - (c) The application for inter-tax adjustment may be submitted at any time before or after the approval of refund claim but at least 30 days before the due date for filing the return or payment of the tax involved.
 - (d) The sales tax collectorate shall issue a cheque in the name of Commissioner Income Tax. A copy of the payment slip/adjustment memo shall be provided to the taxpayer for reference.