

# **Advanced Taxation (S-15) (Suggested Answers)**

## **Answer # 1 (1.5 Marks for each correct answer)**

- (i). Input tax on raw material consumed of Rs. 125,000 and closing stock of Rs. 25,000 will be claimed in the month of purchase i.e May 2015. A registered person is also entitled to reclaim input tax paid on goods which were subsequently destroyed and were not meant for use. Goods destroyed by fire will not be treated as supply as it is neither a sale nor done in the normal course of furtherance of business. Therefore, insurance claim being compensation for loss and not payment for delivery of goods is not subject to sales tax.
- (ii). Input tax deducted on services under the respective provincial sale tax ordinances is covered in the definition of input tax. Therefore, Usaid is entitled to claim input tax on the amount paid to custom agent. However, value of taxable service shall not include reimbursable expenses which the custom agent pays on behalf of his client against a proper invoice or bill such as port charges, handling and transportation charges etc.
- (iii). Storage battery is chargeable to tax under Sales Tax Special Procedure rules- Extra tax on specified goods. Under the said rules, extra tax is charged by the manufacturer or importer on sale of storage batteries. The subsequent supply of goods subject to extra tax is exempt and therefore no input tax is required to be paid on purchase from wholesaler.
- (iv). In the above scenario, since 65% of the stock, on which excess tax of (100,000 x 65%) Rs. 65,000 was collected, is still unsold, Usaid should return this amount to its customer. However the balance amount of Rs. 35,000, the incidence of which has been passed on to the consumers should be deposited with the Federal Government.
- (v). Franchise fee, L/C opening charges and fire and theft insurance are subject to FED under Table II First Schedule of the Federal Excise Act, 2005. However Franchise fee is not included in the list of services which are governed under VAT mode and therefore Usaid would not be able to claim input tax on payment of FED on franchise fee. On the other hand L/C opening charges and insurance charges are subject to FED under VAT mode and can be claimed as input tax while calculating sales tax liability.
- (vi). Adjustment of bad debt is allowed only in case proper debit/credit note is issued within 180 days of the date of the relevant supply. Since 180 days have lapsed, therefore, no adjustment will be allowed.
- (vii). The open market price would constitute the value of supply and sales tax should be charged accordingly. However, it may be treated as package discount and if the invoice shows the discounted price and discount is in conformity with the normal business practice then the sales tax would be charged on the discounted price instead of open market price.
- (viii). As per Sixth Schedule of the Sales Tax Act, 1990 supply of fixed assets held otherwise than stock in trade against which input tax adjustment is not available are exempt from tax. As per section 8 input tax is not allowed on vehicles and furniture held otherwise as stock in trade. Therefore sales tax will not be charged on sale of vehicle. Furniture and fittings held as stock in trade will be charged to sales tax @ 18% as sale is made to non-registered person. However one percent additional sales tax will not be charged in case non-register person is end consumer.
- (ix). Imported samples are exempt from sales tax as per S.No 51 of Sixth Schedule of the Sales Tax Act, 1990. Local free distribution of samples constitute a supply and also a taxable activity, therefore, sales tax will be charged on the open market price. Gift is a supply for sales tax purpose but it is not a taxable activity, hence not subject to sales tax.
- (x). As per S.NO. 9 of the Fifth Schedule of the Sales Tax Act, 1990 goods exempted under section 13, if exported by a manufacturer who makes local supplies of both taxable and exempt goods are subject to zero rate. Therefore, Usaid will be entitled to claim refund of any input tax paid in respect of exempted goods.

## **Answer # 2**

# Advanced Taxation (S-15) (Suggested Answers)

## Answer # 2

### Product A:

Retail price of Rs. 107 includes Federal Excise Duty charged @ 10% of retail price.

Therefore, FED and Sales tax shall be computed as under:

Retail price including FED	107.00	
Excluding FED ( $107 \times 100/110$ )	97.27	
FED @ 10%	9.73	Mark 01
Retail price for sales tax	107.00	
Sales tax @ 17%	18.19	Mark 01
Price inclusive of Sales tax and FED	125.19	
Total Tax		
FED @ 10%	9.73	
Sales tax @ 17%	18.19	
	27.92	Mark 0.5

Sales tax withholding: Goods specified in 3rd Schedule are not subject to withholding of tax, therefore, distributor will not deduct any sales tax.

Mark  
01

### Product B:

Value of supply to distributor	125	
Federal Excise duty @ 10%	12.5	Mark 01
Value of supply for sales tax	137.5	
Sales tax @ 17%	23.375	Mark 01
Value inclusive of FED and ST	160.875	
Total Tax		
FED @ 10%	12.5	
Sales tax @ 17%	23.375	
	35.875	Mark 0.5
Sales tax withheld by distributor (1/5th)	4.675	Mark 01

### Product C:

Import Value	100	
Custom duty @ 10%	110	Mark 0.5
Sales tax @ 17%	18.7	Mark 0.5
Value addition tax @ 3%	3.3	Mark 0.5
total input tax (Rs.18.7 + 3.3)	22	
Output tax ( Rs. 122 x 17%)	20.74	Mark

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Input allowed upto 90% of output	18.666	Mark 0.5
Balance Payable	2.074	
Sales tax refund to be c/f (Rs. 22-18.66)	3.334	Mark 0.5

Sales tax withholding is not applicable on commercial importers **Mark 0.5**

**(b)**

**Income tax withholding obligation:**

**Product A:**

Price charged exclusive of all taxes	80	
FED + Sales tax	<u>27.92</u>	
Price for the purpose of income tax	107.92	
Tax to be deducted @ 4%	4.32	Mark 1.5

**Product B:**

Price inclusive of FED and ST	160.875	
Tax to be deducted @ 4%	6.435	Mark 1

**Product C:**

Tax deducted at the time of import will constitute final discharge. Therefore, distributor is not required to deduct any further income tax. **Mark 1**

**Answer # 3**

**(a)**

GPL 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 and related supervisory activities is required to deduct tax [S.152(1A)(a)] at the rate of 6% of the gross amount payable. **(1.5 Marks)**

The tax deductible under S.152 (1A) by Federal Government will be the final tax of GPL if GPL 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 GPL 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 GPL would be on its net taxable income and the tax deducted by Federal Government would be allowed as a tax credit.

**(2.5 Marks)**

**(b)**

## Advanced Taxation (S-15) (Suggested Answers)

Tax Year	Net receipts	Gross receipts 9,400,000/0.94	Tax deducted treated as FTR	Taxable Income	Rate of Tax	Tax liability	
2015	9,400,000	10,000,000	600,000	2,500,000	33%	825,000	<b>01 Mark</b>
2016	11,280,000	12,000,000	720,000	2,920,000	33%	963,600	<b>01 Mark</b>
2017	13,160,000	14,000,000	840,000	3,380,000	33%	1,115,400	<b>01 Mark</b>
			<b>2,160,000</b>			<b>2,904,000</b>	
2018	15,040,000	16,000,000	960,000	(745,000)	1% of turnover	160,000	<b>01 Mark</b>
			<b>960,000</b>			<b>160,000</b>	
<b>For tax years 2015-2017</b>							
Tax liability under normal tax regime			2,904,000				
Tax liability under Final tax regime			2,160,000				
Tax savings in case of opting under FTR			<b>(744,000)</b>	<b>( 1 Mark)</b>			
<b>For tax years 2018</b>							
Tax liability under normal tax regime			160,000				
Tax liability under Final tax regime			960,000				
Tax savings in case of opting under NTR			<b>(800,000)</b>	<b>(1 Mark)</b>			

## Advanced Taxation (S-15) (Suggested Answers)

<p>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.744,000. <b>(0.5 Mark)</b></p>	
<p>Therefore GPL should before 30 September 2014 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. <b>( 01 Mark)</b></p>	
<p>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. <b>(0.5 Mark)</b></p>	
<p>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. <b>( 01 Mark)</b></p>	
<b>Workings:</b>	
<b>W-1:</b>	
Cost of plant	10,000,000
Initial allowance @ 25%	2,500,000
Depreciation @ 15%	1,125,000
Depreciation+ initial allowance	3,625,000
Taxable income for tax year 2018	
Net receipts	15,040,000
Gross receipts (Net receipts/0.94)	16,000,000
Taxable income @ 18%	2,880,000
Less initial allowance and depreciation	3,625,000
Taxable loss	(745,000)

**(b)**

- (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. **( 01 Mark)**
- (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.

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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.

**(1.5 Marks)**

- (iii).** Where there is any inconsistency between a circular and an advance ruling, priority shall be given to the terms of the advance ruling. **( 1 Mark)**

## **Answer # 4**

**(a)**

The consideration received by a person on the disposal of an asset shall be the amount received or the fair market value (FMV) of the asset whichever is higher at the time of the disposal. If any part of the consideration is received in kind, the FMV thereof is to be included in determining the amount of consideration received. In the case of an asset disposed of by a person by reason of a gift, the person does not receive any thing. Therefore the FMV of the asset at the time the person parts with the asset, will be treated as the consideration received by that person. **(02 Marks)**

**(b)**

- The term “Securitization” and “Special Purpose Vehicle” is defined in Section 2(57) and 2(60) of the Income Tax Ordinance, 2001 with the same meaning as defined in the Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984.
- Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984 define the term Securitization and Special Purpose Vehicle in the following manner:
  - (a). Securitization means a process whereby any Special Purpose Vehicle raises funds by issue of Term Finance Certificates or any other instruments with the approval of the Commission, for such purpose and uses such funds by making payment to the Originator and through such process acquires the title, property or right in the receivables or other assets in the form of actionable claims;
  - (b). Special Purpose Vehicle means a special purpose vehicle registered by the Commission for the purpose of Securitization. A SPV must be a public limited company, Trust under the trust Act, 1882 or a body corporate formed under any law. **(01 Mark)**
- As per Clause 136 Part I of the Second Schedule of the Income Tax Ordinance, 2001 any income of a special purpose vehicle as defined in the Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984 is exempt from tax.  
Provided that, if there is any income which accrues or arises in the accounts of the Special Purpose Vehicle, after completion of the process of the securitization, it shall be returned to the Originator as defined by the said rules within the income year next following the year in which the income has been determined and such income shall be taxable in the hands of the Originator. **(01 Mark)**
- the financial cost of the securitization of receivables incurred by an Originator in the tax year from a Special Purpose Vehicle being the difference between the amount received by the Originator and the amount of receivables securitized from a Special Purpose Vehicle is allowed as expense as per Section 28(J) of the Income Tax Ordinance, 2001 .  
Further where any assets are transferred by an Originator, as a consequence of securitization, to a Special Purpose Vehicle, it shall be treated as a financing transaction irrespective of the method of accounting adopted by the Originator. **(01 Mark)**

## **Advanced Taxation (S-15) (Suggested Answers)**

- Provisions of section 153(1) regarding withholding of tax does not apply to any payment for securitization of receivables by a Special Purpose Vehicle to originator. **(01 Mark)**
- Where any tax is deducted by a person making a payment for Special Purpose Vehicle, on behalf of Originator, the tax is credited to Originator. **(01 Mark)**
- Further as per Clause 38 Part IV of the Second Schedule of the Income Tax Ordinance, 2001 provision of section 151 (Profit on debt), 153 (Payment for goods, services and contracts) and 233 (Brokerage and commission) does not apply to Special Purpose Vehicle for the purpose of securitization. **(01 Mark)**

**(c)**

- Tax credit shall be allowed subject to the following conditions: **(04 Marks)**
  - (i). the company is incorporated and industrial undertaking is set up between 01-07-2011 and 30-06-2016
  - (ii). the company is registered in Pakistan
  - (iii). the industrial undertaking is not established for splitting up or reconstruction or reconstitution of an undertaking already in existence
  - (iv). the industrial undertaking is set up with hundred percent equity raised through issuance of new shares for cash consideration Provided that short term loans and finances obtained from banking companies or non-banking financial institutions for the purposes of meeting working capital requirements shall not disqualify the taxpayer from claiming tax credit
- Tax credit shall be allowed on taxable income arising from the said industrial undertaking and deducted from the tax payable of the tax year in which the machinery is purchased and installed. **( 0.5 Mark)**
- In case, it is subsequently discovered that the specific conditions have not been fulfilled, the Commissioner may recompute tax payable for the relevant tax year. **(0.5 Mark)**

**(d)**

- Every person selling petroleum products to a petrol pump operator shall deduct tax from the amount of commission or discount allowed to the operator @ 10%. **(01 Mark)**
- The tax deductible shall be a final tax on the income arising from the sale of petroleum products **( 01 Mark)**

**(e)**

(i) There are four methods to determine the arm's length result under the Income Tax Rules, 2002 **(0.5 Mark for each correct answer)**

- (i). Comparable un-controlled price method
- (ii). Resale price method
- (iii). Cost plus method
- (iv). Profit split method

**(ii)**

Where the arm's length result cannot be reliably determined under any of the method as mentioned in (i) above, the Commissioner may use any method provided it is consistent with arm's length standards.

**(Mark 01)**

**Answer # 5**

**(a)**

# **Advanced Taxation (S-15) (Suggested Answers)**

- OPL must be registered under the Federal Excise Act, 2005. **(Mark 01)**
- holds a valid proof to the effect that he has paid the price of goods purchased by him including the amount of duty and received the price of goods sold by him including the amount of duty through banking channels including online payment whether through credit card or otherwise. **(Mark 01)**

**(b)**

## **Non-fund baking services**

Includes all non-interest based services provided or rendered by the banking companies or non-banking financial institutions against a consideration in the form of a fee or commission or charges. **(Mark 01)**

## **Non-tariff area**

Means Azad Jammu and Kashmir, Northern Areas and such other territories or areas to which this Act does not apply **(Mark 01)**

## **FED on goods in Sales tax mode**

As per Second Schedule of the Federal Excise Act, 2005 FED is collectible in sales tax mode on the following goods:

- (i). White crystalline sugar
- (ii). Vegetable gee and cooking oil
- (iii). Edible oil **(0.5 mark for each correct answer subject to max of 1 mark)**

**(c)**

- (i). A commercial exporter who intends to obtain sales tax refund is required to be registered as per rule 4 of the Sales Tax Rules, 2006
- (ii). Registration not required. A retailer is only required to get itself registered if value of supplies, in any period during the last twelve months exceeds five million rupees.
- (iii). An importer is required to get itself registered irrespective of the value of supply.
- (iv). A distributor is required to get itself registered irrespective of the value of supply.
- (v). Although it is compulsory for every wholesaler to get itself registered yet only those persons are required to be registered who are making taxable supplies (including zero rated). Since wholesaler is making exempt supplies, hence he is not required to be registered

**(Mark 0.5 for each correct answer)**

**(d)**

## **Cancellation of multiple registrations (Rule 10)**

In case a person holds multiple sales tax registrations, he shall retain only one registration and surrender all other registrations under intimation to CRO. Alternatively, such registered persons shall file only one return for the tax period July 2008, and onwards, against the registration number they wish to retain and all other registration numbers shall be cancelled by CRO:

Provided that the Board may, subject to such conditions as it may deem appropriate, allow or allocate a person separate registration for manufacturing units located in different Collectorates or Regional Tax Offices. **(Mark 02)**

The Tax liabilities against the registrations cancelled in the aforesaid manner shall be transferred against the registration retained and in case of such registrations being in different Collectorates, the Collector having jurisdiction over cancelled registrations shall ensure that tax arrears files are transferred to the Collectorate having jurisdiction over the jurisdiction so retained. **(Mark 01)**



# Advanced Taxation (S-15) (Suggested Answers)

## Answer # 6

FEROZI								
Computation of taxable income								
Tax Year: 2015								
				Workings	Corporate consultancy	Exempt fee for technical	Other consultancy	Total
					Minimum	Exempt	Normal	
Scheme of taxation					10%	20%	70%	
Sales ratio								
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	-	-	-	-
<b>Taxable income</b>					<b>213,000</b>	<b>426,000</b>	<b>1,491,000</b>	<b>2,130,000</b>
<b>Computation of tax liability:</b>								
Normal income ( Rs. 213,000 + 1,491,000)					1,704,000			
Upto Rs. 1,500,000				147,500				
Balance (Rs. 1,704,000 - Rs. 1,500,000) x 20%				40,800	188,300			
Effective tax rate ( Rs. 1,704,000/188,300)					11.05%			
Tax on Rs. 1,491,000 @ 11.05%					164,763			
Tax on Rs. 213,000 @ 11.05%			23,538	A				
Minimum tax deducted on services			100,000	B				
Final tax liability being higher of A or B					100,000			
					<b>264,763</b>			
Tax deducted on bonus shares treated as final liability ( Rs. 100,000/0.95)x 5%					5,263			
<b>Total tax liability</b>					<b>270,026</b>	<b>(Mark 01)</b>		
Less already deducted:								
On services by corporate client				100,000				
On issuance of bonus shares by Usaid Ltd				5,263	105,263			
<b>Balance tax payable</b>					<b>164,763</b>	<b>(Mark 0.5)</b>		

## Advanced Taxation (S-15) (Suggested Answers)

Partners divisible income	Mr. Atif	Mr. Azhar	Total	
Taxable income from corporate + non corporate+ exempt income	1,065,000	1,065,000	2,130,000	
Proportionate tax	132,381	132,381	264,763	
% share of Mr. Vakeel	932,619	932,619	1,865,238	(Marks 01)
<b>Note:</b>				
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. ( Mark 0.5)				
<b>Mr. Atif</b>				
<b>Computation of taxable income</b>				
<b>Tax Year: 2015</b>				
		<b>Workings</b>		
<b>Salary</b>				
Employee share option	11	50,000		
<b>Income from business</b>				
Disposal of business	8	500,000		
<b>Capital Gain</b>				
Sale of antique	9	-		
Sale of shares under employee share option	11	25,000		
<b>Income from property</b>				
Share in joint property	12	480,000		
<b>Income from other source</b>				
Advance received in cash	9	300,000		
<b>Income assessable under normal tax regime</b>		1,355,000		
Share of profit from AOP		932,619		
Taxable income for rate purpose		<b>2,287,619</b>		
Tax upto Rs. 1,500,000	147,500			
Balance (Rs. 2,287,619- 1,500,000) x 20%	157,524	305,024		
Actual normal tax liability of Atif ( Rs. 305,024/2,287,619 x 1,355,000)		180,671	(Marks 01)	
Capital gain on sale of listed securities taxable @ 12.5% as holding is less than one year ( Rs. 40,000 x 12.5%)		5,000		
Income assessable under FTR ( Rs. 45,000/0.9) x 10%	11	5,000		
Dividend from mutual fund out of debt securities being exempt	7	-		
<b>Total tax liability of Atif</b>		<b>190,671</b>		

# Advanced Taxation (S-15) (Suggested Answers)

<b>Workings</b>						
<b>W-1: Breakup of Revenue</b>						
Services subject to minimum tax on which tax is deducted(100,000/0.1)				1,000,000	<b>Note 1.1</b>	<b>Mark 01</b>
Services exempt from tax				2,000,000	<b>Note 1.2</b>	<b>Mark 01</b>
Balance Sales subject to normal tax on which no tax is deducted				7,000,000	<b>Note 1.3</b>	<b>Mark 0.5</b>
				10,000,000		
<b>Note 1.1:</b>						
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.						
<b>Note 1.2:</b>						
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.						
<b>Note 1.3:</b>						
This will be balancing figure on which no tax is deducted. Hence it will be offered to tax under normal tax regime.						
<b>W-2: Cost of sales</b>						
Given				6,000,000		
Compensation of late delivery		-			<b>Note 2.1</b>	<b>Mark 0.5</b>
Infringement of trademark	200,000				<b>Note 2.2</b>	<b>Mark 0.5</b>
Expenditure prior to incorporation	300,000	500,000			<b>Note 2.3</b>	<b>Mark 0.5</b>
Allowable expense for tax purpose				5,500,000		
The said expense of Rs. 5,500,000 will be apportioned between different streams of income in the ratio of sales.						
<b>N-2.1:</b>						
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.						
<b>N-2.2:</b>						
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						
<b>N-2.3:</b>						
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						

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<b>W-3: Administrative and selling expenses</b>							
Given		2,000,000					
Free distribution of sample goods		-	<b>Note 3.1</b>	<b>Mark 0.5</b>			
Eid milan party		-	<b>Note 3.2</b>	<b>Mark 0.5</b>			
Accounting depreciation		(330,000)	<b>Note 3.3</b>	<b>Mark 0.5</b>			
Add: Tax depreciation		375,000	<b>Note 3.3</b>	<b>Mark 0.5</b>			
		<u>2,045,000</u>					
The said expense of Rs. 2,000,000 will be apportioned between different streams of income in the ratio of sales.							
<b>N-3.1:</b>							
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.							
<b>N-3.2:</b>							
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.							
<b>N-3.3:</b>							
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					
<b>W-4: Financial charges</b>							
<b>Given</b>		1,000,000					
Profit on debt to singapore bank		200,000	<b>Note 4.1</b>	<b>Mark 01</b>			
Exchange loss relating to principal		75,000	275,000	<b>Note 4.2</b>	<b>Mark 01</b>		
Allowable expense for tax purpose		<u>725,000</u>					
<b>N-4.1:</b>							
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 (FEROZI) and the debt has not been used for any business carried out by FEROZI outside Pakistan. The profit on the debt paid by FEROZI is therefore, not deductible since tax was not deducted at source from the payment made to Singapore Bank.							
<b>N-4.2:</b>							
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.							
<b>W-5: Other income</b>							
Given		500,000					
Less bonus shares taxable under FTR		100,000	<b>Note 5.1</b>	<b>Mark 1.5</b>			
		<u>400,000</u>					
<b>N-5.1:</b>							
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.							

# Advanced Taxation (S-15) (Suggested Answers)

<b>W-6: Creditors</b>	
<b>N-6.1:</b>	
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. <b>(Mark 01)</b>	
<b>N-6.2:</b>	
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. <b>(Mark 01)</b>	
<b>W-7: Dividend out of debt securities</b>	
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. <b>(Mark 01)</b>	
<b>W-8: Disposal of business</b>	
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:	
(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 transferors 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.	
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 2016. Therefore, full gain amount of Rs. 500,000 will be taxable in hand of Atif. <b>(Marks 1.5)</b>	
<b>W-9: Advance against sale of antique</b>	
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. <b>(Marks 1.5)</b>	

## Advanced Taxation (S-15) (Suggested Answers)

### W-10: Capital gain on listed securities assessable as separate block u/s 37A

#### 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	
	<u>40,000</u>	( Mark 1.5)

**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 2014	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>	( Mark 01)

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>	( Mark 01)

Since holding is less than one year, therefore, whole amount is taxable.

Further gross amount of dividend received ( Rs. 45,000/0.9) is taxable under final tax regime. (Mark 0.5)

### W-12: Joint property income

If any property is owned by two or more persons and their respective shares are definite and can be ascertained, in such case:

- (a) the persons shall not be assessed as an association of persons in respect of the property; and
- (b) the share of each person in the income from the property for a tax year shall be taken into account in computation of the person's taxable income for that year.

Since the rent is received in foreign currency, it must be converted into Pakistani rupees at the State Bank of Pakistan rate prevailing on the day the amount was received, i.e. on 01 July 2014 as below

Total rent in Pakistan rupees ( 1000x 100x 12)	1,200,000	
Share of Atif in the property (50%)	600,000	
Less deductions: 1/5 repair allowance	(120,000)	
Net property income of both Atif and Azhar	<u>480,000</u>	(Mark 1.5)