(a) INCOME [SEC. 2(29)]

The term "Income" includes:

(a) **Any income, profit or gain chargeable to tax** under the Income Tax Ordinance, 2001. The income chargeable to tax may be classified under any of the following heads:

(i) Salary (U/S 12);

(ii) Income from property (U/S 15);

(iii) Income from business (U/S 18);

(iv) Capital Gains (U/S 37);

(v) Income from other sources (U/S 39).

(b) **Any loss from such income, profit or gain:**

In case of (a) above there is possibility of loss while amount chargeable to tax is being calculated. As such loss is duly considered by the law so it has also been included in the definition of income.

(c) **Any amount subject to collection or deduction of tax at source on:**

(i) Imports.

(ii) Payment of supply of goods or services rendered.

(iii) Exports.

(iv) Prizes & winnings.

(v) Transporters in respect of the vehicles owned by them.

(d) Any amount received or receivable which is deemed to be income under any provision of the Income Tax Ordinance 2001.

(b) INDUSTRIAL UNDERTAKING [SEC. 2(29C)]

An organization fulfilling the following conditions will be known as industrial undertaking":

(1) Organization is set up in Pakistan;

(2) It uses electrical energy or any other form of mechanical energy and employs ten or more persons; or

It does not use electrical or any other form of energy but:

(a) employs twenty or more persons;

(b) is engaged in a manufacturing process;

(c) engaged in ship building;

(d) engaged in generation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power;

(e) engaged in the working of any mine, oil well or any other source of mineral deposits.

Moreover, the Federal Board of Revenue can declare any other organization as "Industrial Undertaking".

(c) PRINCIPAL OFFICER [SEC. 2(44A)]

Under Income Tax Ordinance, the following persons may be appointed as principal officers for tax purpose:

(1) Managing Director

(2) Secretary

(3) Treasurer

(4) Manager

(5) Agent

(6) Accountant

(7) Official Liquidator

(8) Any person connected with the management and received a notice from the Commissioner to act as principal officer.

Explanation:

It is very difficult for income tax department to contact every employee of the company in large businesses to get correct information for assessment.

Tax authorities assign responsible official of that organization to act as principal officer and gather data/necessary information on the behalf of tax department.

(d) TAX YEAR [SEC. 2(68)]

The Income Tax Ordinance 2001 recognizes the following different types of tax year:

(1) Normal Tax Year

(2) Special Tax Year

(3) Transitional Tax Year

(1) Normal Tax Year:

Normal Tax Year is a period of twelve months which ends on the 30th June.

EXAMPLES OF NORMAL TAX YEAR

Starting Date	Ending Date
01-07-2016	30-06-2017
01-07-2017	30-06-2018

(2) Special Tax Year:

Special Tax Year is a period of twelve months which is different from normal tax year. A person is allowed to have Special Tax Year under the following cases:

(i) Where the Board has fixed a tax year under Income Tax Ordinance 2001 different from the normal tax year;

(ii) Where the Commissioner has allowed a person (on his application) to use a Special Tax Year.

EXAMPLES OF SPECIAL TAX YEAR

Classes of Taxpayers	Starting Date	Ending Date
Companies manufacturing Sugar or cotton textiles	1st October	30th September
All persons exporting rice	1st January	31st December
All persons carrying on business of Cotton ginning	1st September	31st August

(3) **Transitional Tax Year:**

Whenever a person changes his tax year from normal tax year to a special tax year or vice versa, then he is allowed to use the period between the end of the last tax year prior to the change and the date on which the changed tax year commences shall be known as "Transitional Tax Year".

EXAMPLE:

(a) **Normal Tax Year** (Previously in Practice):

1st July 2017 to 30th June 2018

(b) **Special Tax Year** (As approved by the Commissioner):

1st October 2018 to 30th September 2019

(c) **Transitional Tax Year:**

1st July 2018 to 30th September 2018

QUESTION NO. 2

AGRICULTURAL INCOME

Agricultural income means and includes:

(a) Income derived from land;

(b) Land is situated in Pakistan;

(c) Land is used for Agricultural purpose.

Explanation:

(1) **Income from Land:**

Any income derived as rent, revenue, or from sale of any produce, which is grown on land, is agricultural income.

(2) **Land in Pakistan:**

Income will be agricultural only if land is situated in the territories of Pakistan. But the income from land situated in foreign country will not be the agricultural income.

Example:

If a person owns land in foreign country, the income derived from such land is also excluded from the scope of above definition.

(3) **Land Used for Agricultural Purposes:**

Land used for agricultural purposes mean some human labor and efforts must be involved in agricultural process.

TYPES OF AGRICULTURAL INCOME:

Following are the kinds of agricultural income:

(i) Rent:

Rent received by landlord for providing land for cultivation is agricultural income. Rent may be in cash or in kind (produce).

(ii) Revenue:

Revenue means yield, return or income of the tenant in form of cash or in kind. That will also be agricultural income.

(iii) Sale of Produce:

The amount or cash received from the sale of produce by the landlord or the tenant is also agricultural income in form of cash.

(iv) Necessary Process:

Necessary process mean the process required to make the produce fit for the market. Income from necessary process and income from land on which any process which is ordinarily employed by a cultivator or receiver produce fir on the market will be agricultural income e.g. Thrashing etc.

(v) Building:

Income from building, will be the agricultural income if:

(a) Building is in the immediate vicinity of agricultural land.

(b) Building is owned by the cultivator or the recipient of agricultural income.

(c) Building is required it as a dwelling house, storeroom or other out-building.

EXAMPLES OF AGRICULTURAL INCOME

(1) Any rent received by lesser of agricultural-land.

(2) Any revenue derived by lessee of agricultural-land by cultivation.

(3) Income from agricultural-building used as storeroom.

(4) Income from growing flowers.

(5) Income from growing tea leaves.

(6) Income from the sale of honey and its products.

EXAMPLES OF NON-AGRICULTURAL INCOME

(1) Income from sugar mills.

(2) Income from textile industries.

(3) Income from spontaneous forests.

(4) Income from poultry farm.

(5) Income from land used as markets.

(6) Income from supply of water for agricultural purposes.

TAXATION OF A PERSON HAVING AGRICULTURAL INCOME

Tax Treatment = Totally Exempt

(i) Upto assessment years 1987–88, the agricultural income was not included in the total income of a tax payer.

(ii) Through Finance Ordinance 1988, it was decided that the agricultural income shall be included in total income but only for rate purpose by a person who has business income or he is a director of company and receiving salary.

(iii) According to assessment year 2002–03, if a person has agricultural income upto Rs. 80,000 alongwith other incomes then same tax rates or procedure shall be applied or used as applied on other incomes and if the agricultural income is above Rs. 80,000 in total income then different tax rates or procedure shall be applied.

(iv) From tax year 2007, there is no difference in applying tax rates or procedure of calculating tax on taxable income irrespective of the amount of agricultural income. It means same tax rates or procedure shall be used to calculate the amount of tax whether the agricultural income is upto Rs. 80,000 or more than Rs. 80,000.

Note: *It is also notable that in all above cases, the agricultural income remained totally exempt.*

QUESTION NO. 3

PERQUISITES & ALLOWANCES

Perquisites mean facilities or benefits provided by the employer to his employees. The different types of perquisites enjoyed by the salaries class are given below:

(1) ACCOMMODATION:

Accommodation is one of the benefits provided by the employer to his employee. The accommodation facility can be provided in the following manners.

(a) House Rent Allowance:

If the employer does not provide any accommodation to his employee but pays house rent or accommodation allowance then the amount shall be fully taxable.

(b) Rent Free Unfurnished & Furnished Accommodation:

Rent free unfurnished accommodation includes building, electric fans, built in cupboards, cooking range and water heater and Rent Free Furnished Accommodation includes basic furniture, refrigerator, heating and cooling apparatus besides unfurnished accommodation.

Tax Treatment:

(1) Amount receivable or entitled for accommodation if accommodation was not provided;

(2) 45% of minimum time scale / basic salary;

(Whichever is higher between 1 & 2 shall be taxable)

Note: *If amount receivable or entitled for accommodation is not known then 45% of MTS / basic salary shall be taxable.*

(2) CONVEYANCE:

Sometimes an employer provides the employee either a conveyance for his use or conveyance allowance. The important situations of this facility or allowance and their tax treatment are being discussed below.

(a) Conveyance Allowance:

If the employer provides conveyance allowance to his employee, the whole allowance will be fully taxable.

(b) Conveyance Provided by Employer for Personal Use of Employee:

If the employer has provided a conveyance to employee for purely personal use, 10% of the cost which employer paid for acquiring the motor vehicle will be included in the taxable income of employee.

(c) Conveyance Provided by Employer for Personal and Official Use:

When a motor vehicle is provided by the employer both for official and personal purposes, 5% of the cost paid by the employer for acquiring the motor vehicle will be included in the income of the employee.

(d) Employer Acquires the Conveyance on Lease:

In case the motor vehicles are acquired by the employer on lease, the fair market value at the commencement of the lease will be ascertained. In case of (b) above 10% of fair market value and in case of (c) above 5% of such value will be added in the total income.

(3) MEDICAL AND HOSPITAL CHARGES OR MEDICAL ALLOWANCE:

Another type of perquisite provided by the employer is medical facility (OR) medical allowance. The tax treatment of these facilities is an under:

(a) Medical Allowance:

The employer can give medical allowance in cash, which is exempt up to 10% of the basic salary.

(b) Medical Facility:

The employer can also provide free medical facility or hospitalization or reimbursement of medical bill, which are fully exempt from tax.

(4) ENTERTAINMENT:

(a) Entertainment facility like free tea or coffee and reimbursement of entertainment bills by the employer, will be fully exempt.

(b) If the employer pays entertainment allowance in cash in place of entertainment facility then such allowance shall be fully taxable.

(5) SPECIAL ADDITIONAL ALLOWANCE:

If any civilian employee receives any amount as special additional allowance from his organization then, such allowance shall be:

Tax Treatment = Totally Taxable

Amount of Allowance:

The amount of special additional allowance is:

(i) 25% of minimum time scale (MTS) upto basic pay scale (BPS) 16.

(ii) 20% of minimum time scale (MTS) above basic pay scale (BPS) 16.

(6) SPECIAL ALLOWANCE:

If an employee receives any amount as special allowance for the performance of official duties from his organization then such allowance shall be:

Tax Treatment = Totally Exempt

Examples:

(i) Travelling allowance (TA).

(ii) Daily allowance (DA).

(iii) Uniform or kit allowance.

Note: The special allowance remains exempt even actual expenses are less then the amount of allowance. Special allowance does not include conveyance and entertainment allowance.

(7) UTILITIES ALLOWANCE:

If an employer provides some amount to his employee for meeting the charges of gas, water and electricity, it is called as utility allowance and it is fully taxable. The reimbursement of utility bills by the employer is also taxable.

(8) LOAN TO EMPLOYEE:

The employer can provide another benefit to his employee in the form of loan. The employee can take loan from the employer at concessional rate. The concessional rate allowed or bench mark rate is determined by the Board and for tax year 2018 the bench mark rate is 10%. This facility is taxable if the amount of loan is above Rs. 1,000,000.

QUESTION NO. 4

(a) PROCEDURE FOR COMPUTING RCT

(i) Rent Received or Receivable:

The amount of rent received or receivable by the owner of land or building for its use or occupation from the tenant is called rent.

(ii) Token Money:

Any forfeited deposit paid under a contract for the sale of land or building is also included in the amount of the rent.

(iii) Un-adjusted Advance:

An un-adjusted advance received by the owner is chargeable to tax under head of property. The amount of advance will be divided by 10 and resulted figure will be added in RCT of property in tax year in which it is received and remaining will be adjusted in next 9 years.

When a tenant leaves the property, no amount of the advance will be taxable in that year. When a new tenant will come then adjustment will be in this way:

= 1/10 × (New advance − Old advance already taxed)

(iv) Repair Charges by Tenant:

Where property is let out and tenant bears the cost of repairs, in that case 1/4 of rental value will be added in RCT.

(b) INCOME FROM PROPERTY EXEMPT FROM TAX

Rental income from the following property is exempt from tax:

(1) Income from agricultural building.

(2) Income from property held under Trust.

(3) Rental value of owner's occupied residential property.

(4) Rental value of owner's occupied business property.

(c) INCOME FROM PROEPRTY NOT TAXABLE [U/S 15]

Rental income from the following properties are not taxable under section 15 rather treated under section 39 as "income from other sources":

(1) Ground rent.

(2) Rental income from building kept on lease together with plant and machinery.

(3) Rental income derived by subletting a building or land by a tanent.

(4) Mining right and royalty.

(5) Provision of amenities, utilities or any other service connected with renting of building.

QUESTION NO. 5

APPELLATE TRIBUNAL

"Appellate Tribunal" means the Appellate Tribunal established by the Federal Government u/s 130 of Income Tax Ordinance 2001 Inland Revenue. It is the second court of appeal and the highest judicial authority in the matters of tax. If the taxpayer is not satisfied with the decision of commissioner (appeals) can appeal to the Appellate Tribunal.

The Appellate Tribunal Consists of two types of members:

(a) Judicial member

(b) Accountant members.

The qualifications necessary for their appointment are as follows:

(a) Judicial Members:

The Federal Government may appoint a person as judicial member of the Appellate Tribunal if:

(i) He has exercised the powers of a District Judge and is qualified to be a Judge of a High Court; or

(ii) He is or has been an advocate of High Court and is qualified to be a Judge of High Court.

(b) Accountant Members:

The Federal Government shall appoint the Accountant Members of the Tribunal also. The account member shall be:

(i) An officer of Income Tax Group equivalent to the rank of a Chief Commissioner.

(ii) He may be a chartered accountant or a cost and management accountant who has practiced professionally for at least 10 years.

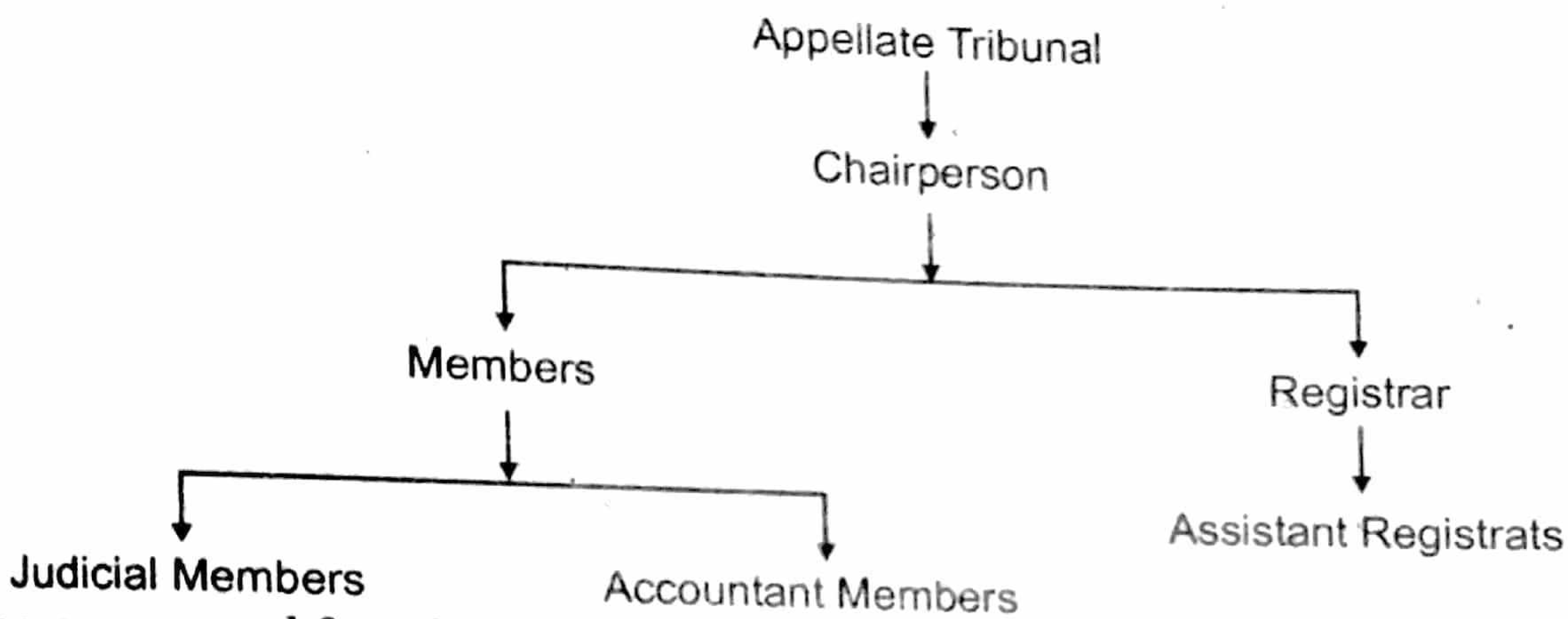
The Federal Government may appoint as many judicial and accountant members as it thinks necessary for the proper working of the Appellate Tribunal. The Federal Government shall appoint a member of the Appellate Tribunal as Chairperson of the Tribunal and, except in special circumstances, the person appointed should be a judicial member.

Administration:

A full time registrar is responsible to receive the appeals and look after the working of the offices of the Tribunal. He is subordinate to Chairperson of the Appellate Tribunal and works under his guidance. He entertains the appeals provisionally, fixes the dates for hearing and looks after the administrative affairs of the Appellate Tribunal. His office is situated in the headquarters of Appellate Tribunal in Islamabad. There are Assistant Registrars posted in Karachi and Peshawar benches.

Functioning of the Appellate Tribunal:

Organization of Appellate Tribunal can best be explained with the help of the following chart:



The powers and functions of the Appellate Tribunal shall be exercised and discharged by Benches constituted from members of the Tribunal by the Chairperson of the Tribunal. A bench normally consists of two members. However, a larger bench may also be constituted by the Chairperson. A bench usually consist of equal number of judicial and accountant members but in certain cases the number of one type of members may exceeds the other type by one.

If the members of a bench differ in opinion on any point, the majority decision is accepted but if the members are equally divided the point in dispute is referred to the Chairperson of the Tribunal. On such cases the Chairperson appoints one or more of the other members of the Tribunal to heat the disputed point. The questions then decided according to the opinion of majority of members who have heard the case including those who first heard.

The Appellate Tribunal has the power to regulate its own procedure and the procedure of the Benches of the Tribunal. It can also itself decide all matters arising out of discharge of its functions including the plaices at which the Benches shall hold their sittings.

APPEAL TO THE APPELLATE TRIBUNAL

Where the taxpayer or Commissioner objects to an order passed by the Commissioner (Appeals), the taxpayer or Commissioner may appeal to the Appellate Tribunal against such order.

An appeal shall be:

(a) In the prescribed form;

(b) Verified in the prescribed manner;

(c) Accompanied by the prescribed fee; and

(d) Presented to the Appellate Tribunal within sixty (60) days of the date of service of order of the Commissioner (Appeals) on the taxpayer or the Commissioner, as the case may be.

Prescribed Fee:

If the taxpayer is filing the appeal, it should accompany a fee of Rs. 2,000. This fee is not payable, if the appeal is being made by the Commissioner Inland Revenue.

Decision of Appeal:

The appellate tribunal may make any of the following decisions:

(a) Confirm the orders passed by Commissioner (Appeals).

(b) Annul the orders passed by Commissioner (Appeals).

(c) Reduce or enhance the tax liability or the penalty.

(d) Can ask CIR or Commissioner (Appeals) for making such enquiry or taking such action as may direct.

(e) Any other order as it may think fit.

Time for Decision:

The appeal should be decided by the Appellate Tribunal within 6 months of its filing even it is made by the tax department.

Final Fact Finding Authority:

The decision the Appellate Tribunal on a point of fact is final. Due to this reason it is known as final fact finding authority. However, if the decision of the Appellate Tribunal involves a point of law, the case may be referred to the High Court.

QUESTION NO. 6

(a) ARREARS [SEC. 2(2A)]

"Arrears" means, on any day, the sales tax due and payable by the person before that day but which has not yet been paid.

(b) MANUFACTURE [SEC. 2(16)]

It includes:

(a) any process in which an article is either converted into another distinct article or product or is so changed or reshaped that it becomes capable of being put to use differently or distinctly;

(b) any process of printing, publishing, lithography and engraving; and

(c) any process of assembling, mixing, cutting, diluting, bottling, packaging, repacking or preparation of goods in any other manner.

(c) TAXABLE ACTIVITY [SEC. 2(35)]

It means any economic activity carried on by a person whether or not for profit, and includes:

(a) An activity carried on in the form of a business, trade or manufacture.

(b) An activity that involves the supply of goods, the rendering or providing of services, or both to another person.

(c) A one-off adventure or concern in the nature of a trade; and

(d) Anything done or undertaken during the commencement or termination of the economic activity.

The followings are excluded from taxable activities:

(a) Of an employee providing services in that capacity to an employer;

(b) Carried on by an individual as a private recreational pursuit or hobby; and

(c) Carried on by a person other than an individual which, if carried on by an individual would fall within sub-clause (b).

(d) TIME OF SUPPLY [SEC. 2(44)]

"Time of supply", in relation to:

(a) A supply of goods, means time at which goods are delivered or made available to the recipient of the supply or the time when any payment is received by the supplier in respect of that supply, whichever is earlier.

(b) A supply of goods under hire purchase agreement, means the time at which the agreement is entered into; and

(c) Services, means the time at which the services are rendered or provided.

Provided that in respect of sub-clauses (a), (b) or (c), where any payment is received.

(i) For the supply in a tax period, it shall be accounted for in the return for that tax period; and

(ii) In respect of exempt supply, it shall be accounted for in the return for the tax period during which the exemption is withdrawn from such supply.

QUESTION NO. 7

	Rs.	Rs.
Local Taxable:		
Sales to registered person		51,00,000
Sales to wholesalers		300,000
Supply for personal use (100,000 – 100,000 × 17/117)		85,470
		54,85,470
Computation of Input Tax:		
Purchase from registered person (400,000 × 17/100)		68,000
Goods imported (340,000 × 17/100)		57,800
Purchase from unregistered person	100,000	–
Purchase from retailers	260,000	–
Sales tax on electricity bill		80,000
Sales tax on sui gas bill		120,000
Purchase from auction (13,00,000 × 17/100)		221,000
		546,800
Tax paid on acquisition of fixed asset (13,00,000 × 17/100)		221,000

Apportionment of Input Tax:

	Supplies	Input Tax (On goods)		Input Tax (On fixed asset)
Normal taxable	54,85,470	462,488	(N–1)	186,924 (N–4)
Zero-rated	650,000	54,803	(N–2)	22,150 (N–5)
Donated	350,000	29,509	(N–3)	11,926 (N–6)
	64,85,470	546,800		221,000

WORKING:

N–1 $= \frac{546,800}{64,85,470} \times 54,85,470 = 462,488$

N–2 $= \frac{546,800}{64,85,470} \times 650,000 = 54,803$

N–3 $= \frac{546,800}{64,85,470} \times 350,000 = 29,509$

N–4 $= \frac{221,000}{64,85,470} \times 54,85,470 = 186,924$

N–5 $= \frac{221,000}{64,85,470} \times 650,000 = 22,150$

N–6 $= \frac{221,000}{64,85,470} \times 350,000 = 11,926$

Mr. Mubarik (Registered Manufacturer)
CNIC No. ------------------------------------
NTN --
For the month of August ------------------
Computation of Sales Tax Payable

		(Rs.)	(Rs.)
Output Tax:			
On local taxable supplies	(54,85,470 × 17/100)		932,530
(+) Sales tax debit			70,000
			10,02,530
Less: Input Tax:			
Paid against supplies		462,488	
		(OR)	
90% of output tax	(932,530 × 90/100)	839,277	
Whichever is less, so			462,488
			540,042
Less: Tax paid on fixed asset			186,924
			353,118
Add: WHT from unregistered person 1% of (100,000 × 100/117)			855
Sales tax payable with return			353,973

Tax paid Rs. 54,803 + 22,150 = Rs. 76,953 against supplies exported and to DTRE person is refundable.

QUESTION NO. 8

Mr. Muhammad Hussain
Tax Year: xxxxx
Tax Year Ended: xxxxx
Residential Status: Resident
Computation of Tax Payable

	Rs.	Rs.
Income from Salary U/S 12:		
Basic salary		580,000
Commission		120,000
Senior post allowance		30,000
Lunch facility		10,000
Leave encashment		32,000
Adhoc relief allowance		51,000
Fee for refresher course	25,000	–
Interest on loan from employer	600,000	–
Hotels bills paid by employer		20,000
Furnished Accommodation Provided:		
Annual value (25,000 × 2)	300,000	
(OR)		
45% of basic salary	261,000	
Whichever is higher – Taxable		300,000
Income from Property U/S 15:		
Property income (Not taxable upto Rs. 200,000)	200,000	–
Income from Business U/S 18:		
Business income		80,000
Total and taxable income		12,23,000
Add: Share from AOP		32,000
Taxable income (including share from AOP)		12,55,000

Computation of Tax

Tax on Rs. 750,000	14,500
Tax on Rs. 505,000 @ 10%	50,500
	65,000

Tax on Actual Taxable Income:

$$= \frac{\text{Tax payable}}{\text{Taxable income including share from AOP}} \times \text{Taxable income excluding share from AOP}$$

$= 65{,}000 / 12{,}55{,}000 \times 12{,}23{,}000$ — 63,342

Less: **Average Relief:**

$= 65{,}000 / 12{,}55{,}000 \times 100{,}000$ — 5,179

Tax payable with return — 58,163

Note: ***Amount Allowed for Relief:*** *Donation to AIOU Rs. 100,000 (OR) 30% of Rs. 12,23,000 = Rs. 366,900 (W.E.L.), so Rs. 100,000.*