

QUESTION NO. 1

**(a) ACCUMULATED PROFITS [SEC. 2(1)]**

See Paper 2015 Question No. 1(a)

**(b) COMPANY [SEC. 2(12) & 80]**

According to Income Tax Ordinance 2001, Company means and includes:

- (1) A Company as defined in company's Ordinance 1984.
- (2) A body corporate formed by or under any law for the time being in force in Pakistan;
- (3) A Modaraba;
- (4) A body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies;
- (5) A trust or a co-operative society or a finance society or any other society established under any law.
- (6) A non-profit organization.
- (7) A foreign association whether incorporated or not, declared by FBR as company.
- (8) The Provincial Government; or
- (9) A local authority in Pakistan.
- (10) A small company

Company	Tax Rate
Small company	25%
Public or Private company	30%
Banking company	35%

**(c) PERMANENT ESTABLISHMENT [SEC. 2(41)]**

"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) A place of management, branch, office, factory or workshop, premises for soliciting orders, warehouse, permanent sales exhibition or sales outlet, other than a liaison office except.
- (b) A mine, oil or gas well, quarry or any other place of extraction of natural resources, including an agricultural or forestry property.
- (c) A building site, a construction, assembly or installation project or supervisory activities connected with such site or project.

- (d) The furnishing of services, including consultancy services, by any person through employees or other personnel engaged by the person for such purpose.
- (e) A person acting in Pakistan on the behalf of a person (hereinafter referred to as an "agent").
- (f) Any substantial equipment installed, or other asset or property capable of activity giving rise to income.

### **(d) SPECULATION BUSINESS [SEC. 2(61)]**

"Speculation Business" means any business in which a contract for the purchase and sale of any commodity is settled otherwise than the actual delivery or transfer of the commodity, but does not include a business in which:

- (a) A contract in respect of raw material or merchandise is entered into by a person in the course of a manufacturing or mercantile business to guard against loss through future price fluctuations for the purpose of fulfilling the person's other contracts for the actual delivery of the goods to be manufactured or merchandise to be sold;
- (b) A contract in respect of stocks and shares is entered into by a dealer or investor therein to guard against loss in the person's holding of stocks and shares through price fluctuations; or
- (c) A contract is entered into by a member of forward market or stock exchange in the course of any transaction in the nature of jobbing or arbitrage to guard against any loss which may arise in the ordinary course of the person's business as such member.

### **QUESTION NO. 2**

#### **(a) EXEMPTION UNDER INTERNATIONAL AGREEMENT**

See Paper 2016 Question No. 2(b)

#### **(b) PERQUISITES RECEIVED BY EMPLOYEE**

If an employee receives certain perquisites (facilities) from the employer because of his employment then these perquisites shall be:

**Tax Treatment = Totally Exempt**

#### **Legal Provisions:**

In case provided by:

- (i) **Hotel and Restaurant:** Free or subsidized food during duty hours.
- (ii) **Educational Institution:** Free or subsidized education to employee including his children.
- (iii) **Hospital or Clinic:** Free or subsidized medical treatment.
- (iv) **Any other Notified by Board:** Any other perquisite or facility for which the employer does not bear any marginal cost or as notified by the Board.

**(c) EXPORT OF COMPUTER SOFTWARE**

Any income derived from the export of Computer Software or IT services or IT enabled services shall be:

**Tax Treatment = Exempt upto 30-06-2019**

**Legal Provision:**

80% of export proceeds in foreign exchange should be remitted or brought into Pakistan through normal banking channels.

**Explanation:**

- (a) "IT services" include software development, software maintenance, system integration, web design, web development, web hosting and network design.
- (b) "IT enabled services" include inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, HR services, telemedicine centers, data entry operation, locally produced television programmes and insurance claims processing.

**QUESTION NO. 3**

See Paper.2015 Question No. 3

**QUESTION NO. 4****(1) PERSONS REQUIRED TO FURNISH A RETURN: [Section 114(1)]**

The following persons are required to furnish a return of income for a tax year:

- (i) Every company.
- (ii) Every person (other than a company) whose taxable income for the year exceeds the basic exemption.
- (iii) Every individual whose business income exceeds Rs. 300,000 but does not exceed Rs. 400,000 in a tax year.
- (iv) A non-profit organization.
- (v) An approved welfare institution.
- (vi) Any person who:
  - (a) Has been charged to tax in respect of any of the two preceding tax years.
  - (b) Claims a loss carried forward under the Ordinance for a tax year.
  - (c) Owns immovable property with a land area of 250 square yards or more or owns any flat located in areas falling within the municipal limits.

Under this clause, the following persons are not required to furnish a return of income for a tax year [Section 115(3)]:

- A widow.
- An orphan below the age of 25 years.
- A disabled person.
- A non-resident person.

- (d) Owns immovable property with a land area of 500 square yards or more, located in a rating area.
- (e) Owns a flat having covered area of 2000 square feet or more, located in a rating area.
- (f) Owns a motor vehicle having engine capacity above 1000 CC.
- (g) Has obtained National Tax Number.
- (h) Is the holder of commercial or industrial connection of electricity where the annual amount of bill exceeds Rs. 500,000.

[Section 114(2)]

**(2) REQUIREMENTS OF A RETURN:**

A return of income:

- (a) Shall be in the prescribed form and accompanied by such annexures, statements or documents as may be prescribed.
- (b) Shall fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer.
- (c) Shall be signed by the person, or the person's representative.
- (d) Shall be accompanied with evidence of payment of due tax as per return of income.
- (e) Shall be accompanied with a wealth statement as required under section 116.

**(3) ELECTRONIC FILING OF RETURN:**

[Section 114(2A)]

A return of income can be filed electronically on the web or any magnetic media or any other computer readable media as may be specified by the Board. The Board may, by notification in the official Gazette, make rules for determining eligibility of the data and e-intermediaries, which digitize the data of such returns and transmit the same electronically to the Income Tax Department under their digital signatures.

**(4) RETURN BY NOTICE:**

[Section 114(3)]

The Commissioner may, by notice in writing, require a person or a person's representative to furnish a return of income by the date specified in the notice for a period of less than twelve months, where:

- (i) The person has died.
- (ii) The person has become bankrupt or gone into liquidation.
- (iii) The person is about to leave Pakistan permanently.
- (iv) The Commissioner considers it appropriate due to any other reason.

**(5) NON-FURNISHING OF RETURN:**

[Section 114(4) &amp; (5)]

The Commissioner may issue a notice to any person requiring him to furnish a return of income for any tax year, specified in the notice. Such notice may be issued to a person who is, in the opinion of the CIR chargeable to tax under any provision of the law. The Commissioner shall specify the filing period in the notice. Generally, it is a period of thirty (30) days from the date of the service of the notice, but the CIR may issue a notice for a longer or shorter period.

**Note:** A notice to file a return of income may be issued in respect of one or more of the last five tax years.

**REVISION OF THE RETURN:**

(6) Any person who has furnished a return and discovers any omission or wrong statement therein, may file revised return subject to the following conditions: [Section 114(6)]

- (a) It is accompanied by the revised accounts or revised audited accounts.
- (b) The reasons for revision of return, in writing and duly signed, by the taxpayer are filed with the return.
- (c) The revised return is accompanied by a written approval of the CIR (not necessary if revised return is filed within 60 days of filing the return).

**(7) SUBMISSION OF WEALTH STATEMENT: [Section 116]**

- (i) Every resident taxpayer being an individual filing a return of income for any tax year shall furnish a wealth statement and wealth reconciliation statement along with such return.
- (ii) Every member of an AOP shall also furnish wealth statement and wealth reconciliation statement along with return of income of the association.
- (iii) Every person (other than a company or an association of persons) falling under final tax regime (FTR) for the tax year shall file a wealth statement and wealth reconciliation statement.

**(8) RETURN OF DISCONTINUED BUSINESS: [Section 117]**

Any person discontinuing a business shall give the Commissioner a notice in writing to that effect within fifteen (15) days of the discontinuance.

Where no notice has been given by the person then the Commissioner may serve a notice on the person who has discontinued the business or is likely to discontinue the business to furnish a return of income for the period specified in the notice.

**(9) TIME OF FURNISHING RETURN: [Section 118]**

A return of income shall be furnished:

- (a) In the case of a company with a tax year ending any time between the 1st January and the 30th June, upto 31st December next following the end of the tax year to which the return relates.
- (b) In any other case, upto the 30th September next following the end of the tax year to which the return relates.

[Section 118(6)]

**(10) NATIONAL TAX NUMBER:**

Where a taxpayer is not borne by the National Tax Number Register and he fails to file an application in the prescribed form and manner with his return of income or employer's certificate, such return or certificate shall not be treated as a return or certificate furnished under the Income Tax Law.

**(11) EXTENSION OF TIME FOR FURNISHING RETURN:** [Section 119]

A person may apply, in writing, to the Commissioner for an extension of time to furnish the return by the due date for furnishing the return of income because of absence from Pakistan or sickness or any other reasonable cause then the Commissioner may, by order in writing, grant the applicant an extension of time not exceeding 15 days unless there are exceptional circumstances justifying a longer extension of time.

**(12) FAILURE TO FURNISH A RETURN:** [Section 182(1)]

Where any person fails to furnish a return of income as required u/s 114 within the due date then such person shall pay a penalty equal to 0.1% of the tax payable for each day of default subject to a minimum of Rs. 25,000 and a maximum of 50% of the tax payable in respect of that tax year.

**QUESTION NO. 5**

See Paper 2016 Question No. 7

**QUESTION NO. 6****(a) ACTIVE TAXPAYER [SEC. 2(1)]**

'Active taxpayer' means a registered person who does not fall in any of the following categories:

- (i) Who is blacklisted or whose registration is suspended or blocked u/s 21 of the Sales Tax Act, 1990.
- (ii) Who fails to file the return within the due date for two (2) consecutive tax periods as required u/s 26 of the Sales Tax Act, 1990.
- (iii) Who fails to file the return of income u/s 114 or wealth statement u/s 115 of the Income Tax Ordinance, 2001, by the due date.
- (iv) Who fails to file two (2) consecutive monthly or an annual withholding tax statement u/s 165 of the Income Tax Ordinance, 2001.

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

See Paper 2014 Question No. 6(b) & See Paper 2017 Question No. 6(d)

**(c) RETURN 2(29)**

"It means any return to be furnished under the Sales Tax Act, 1990."

**Explanation:**

The Sales Tax Department may require the filing of the following returns:

- (1) Monthly Return
- (2) Quarterly Return
- (3) Annual Return
- (4) Special Return
- (5) Final Return

**(d) SUPPLY [SEC. 2(33)]**

See Paper 2015 Question No. 6(c)

**Taxable Turnover:**

To registered persons	Rs.	Rs.
To public sector organization	35,00,000	
Supplies made for personal use	500,000	
To non-registered person (10,00,000 – 200,000)	230,000	42,30,000
		800,000
		50,30,000
Zero rated supplies		180,000
Supplies donated		150,000
<b><u>Input Tax Adjustment:</u></b>		
Purchases from registered persons (Rs. 600,000 @ 17%)		102,000
Taxable purchases from wholesaler (Rs. 1,00,000 @ 17%)		17,000
Add: Input tax not claimed inadvertently		77,500
		196,500
Less: Debit note issued (Rs. 125,000 @ 17%)		21,250
<b>Total input tax</b>		<b>175,250</b>

**Apportionment of Input Tax:**

	Turnover	Input Tax on Goods	Input Tax on Fixed Assets
Total taxable supplies	50,30,000	164,460	159,534
Zero-rated	180,000	5,885	5,709
Tax free turnover	150,000	4,905	4,757
<b>Total</b>	<b>53,60,000</b>	<b>175,250</b>	<b>170,000</b>

Mr. Shafiq

CNIC No. -----  
 National Tax No. -----  
 For the month of August -----  
**Computation of Sales Tax Payable**

	Rs.	Rs.
<b>Sales Tax Liability:</b>		
Output tax Rs. 50,30,000 × 17%		855,100
Add: Sales tax debit		50,000
		905,100
Less: Input tax against such supplies	164,460	
(Restricted upto 90% of output tax Rs. 76,950 — 90% of 855,100)	930,642	164,460
		740,640
Less: Input tax on fixed assets		159,534
		581,106
Add: Further tax @ 3% (800,000 × 3%)		24,000
Sales tax payable		605,106

Refund of input tax against zero-rated = Rs. 5,885 + Rs. 5,709 = Rs. 11,594

#### Apportionment of Input Tax:

$$N - 1 = \frac{175,250}{53,60,000} \times 50,30,000 = 164,460$$

$$N - 2 = \frac{175,250}{53,60,000} \times 180,000 = 5,885$$

$$N - 3 = \frac{175,250}{53,60,000} \times 150,000 = 4,905$$

$$N - 4 = \frac{170,000}{53,60,000} \times 50,30,000 = 159,534$$

$$N - 5 = \frac{170,000}{53,60,000} \times 180,000 = 5,709$$

$$N - 6 = \frac{170,000}{53,60,000} \times 150,000 = 4,757$$



QUESTION NO. 8

Mr. Tafiq  
 Tax Year: xxxx  
 Tax Year Ended  
 Residential Status: Resident  
 Computation of Tax Payable

Income from Salary (Section 12):

	Rs.	Rs.
Basic salary		480,000
Dearness allowance		120,000
Rent free unfurnished accommodation		
Value of accommodation facility		
(a) 60% of basic salary i.e., $480,000 \times 60/100$	288,000	
(b) 45% of basic salary i.e., 480,000	162,000	
W.E. higher between a & b		288,000
Conveyance for private use (cost of vehicle 700,000)		
(Rs. $700,000 \times 10/100$ )		70,000
Concessional load ( $30,00,000 \times 2/100$ )		60,000
Free air ticket ( $40,000 \times 4$ )		160,000
Medical allowance	50,000	
Less: Exempt 10% of basic salary (Rs. $480,000 \times 10/100$ )	48,000	2,000

Income from Property (Section 15)

Rental income from property

(Taxable as separate block of income)

200,000 -

Income from Business (Section 18)

Income from fish business

150,000

Total taxable income

12,22,000

Add: Share from association of person

25,000

Taxable income (including share of AOP)

12,47,000

	Rs.	Rs.
<b><u>Computation of Tax Payable</u></b>		
Income tax on Rs. 750,000		17,500
Income tax on balance Rs. 497,000 @ 10%		49,700
		64,200
<b><u>Computation of Tax Payable on Actual Taxable Income</u></b>		
$64,200/12,47,000 \times 12,22,000$		62,912
<b><u>Amount of Allowed for Relief:</u></b>		
Life insurance premium paid by employee Rs. 120,000 or Rs. 1,500,000 or 20% of taxable income, i.e., 20% of Rs. 12,22,000 = Rs. 244,400 (whichever is less)		
Less: Average relief:		
$= \frac{64,200}{12,47,000} \times 120,000$		6,178
Total tax payable		56,734
Tax on Final Tax Regime (FTR) Income		
= Dividend (Rs. 10,000 @ 15%)		1,500

**Note:** No tax payable on property income upto Rs. 200,000.