QUESTION NO. 1

(a) APPROVED SUPERANNUATION FUND [SEC. 2(4)]

It means a fund maintained by government and private organizations to provide the benefit of retirement or invalidity (disability) to their employees.

According to Income Tax Ordinance 2001, superannuation fund means a fund:

(i) Which is maintained by the continuous contribution of the employer.

(ii) The amount of fund is paid to the employees on annuity basis.

(iii) The amount is paid to the employees at the time of retirement or in case of disability (invalidity).

(iv) In case of death of an employee, the amount of fund is paid to his family.

Approval (Under Part-II of Sixth Schedule):

Approval of superannuation fund is demanded to avail certain benefits attached with approval. In order to get superannuation fund approved:

(i) The application is submitted to the Commissioner.

(ii) 90% or more employees of the organization should be working in Pakistan.

(b) PAKISTAN SOURCE INCOME [SEC. 2(40)]

The Pakistan source income includes the income which a person earns in Pakistan irrespective of the fact that where it is actually received or paid. The incomes and applicable conditions in this regard are discussed below:

(i) **Salary Income:**

(a) A salary received by a person from an employment exercised in Pakistan (place of payment is immaterial).

(b) Salary paid by or on behalf of the Federal Government, a provincial government or a local authority in Pakistan (place of working is immaterial).

(ii) **Business Income:**

(a) Business income of a resident person from any business carried on in Pakistan.

(b) Business income derived by a non-resident person from permanent establishment in Pakistan.

(iii) **Dividend Income:**

Any dividend paid by a resident company.

(iv) **Profit on Debt:**

(a) Profit on debt paid by a resident person from a business carried on in Pakistan.

(b) Profit on debt paid by a non-resident person from his permanent establishment in Pakistan.

(v) **Royalty Income:**

Any royalty paid by a resident person for the services utilized in a business carried on in Pakistan.

(vi) **Rental Income:**

Rental income from the lease of immovable property or a right to explore natural resources in Pakistan.

(vii) **Pension or Annuity:**

Any pension or annuity paid by a resident or by a permanent establishment of non-resident.

(viii) **Technical Services:**

Any technical fee paid by a resident person for a business carried on in Pakistan or paid by the permanent establishment of non-resident.

(ix) **Capital Gain:**

Any gain received from the disposal of shares in resident company.

Explanation:

Permanent establishment means a place of business where or through which the business activities or functions wholly or partly carried out or performed by a person.

(c) PUBLIC COMPANY [SEC. 2(47)]

Under income tax law a public company means:

(a) A company whose at least 50% shares are held by the Federal Government or Provisional Government.

(b) A company in which at least 50% of the shares are held by a Foreign Government, or a foreign company owned by Foreign Government.

(c) It is listed at the stock exchange at the end of tax year.

(d) A unit trust whose units are widely available to the public and any other public trust.

Tax Treatment:

A public company pays tax @ 30% on its profit (Tax year 2018).

(d) NON-RESIDENT PERSON [SEC. 2(37)]

"Non-resident person" means a non-resident person as defined in Section 81 of the Income Tax Ordinance. According to Section 81, a person shall be a non-resident person for a tax year if the person is not a resident person for that year.

QUESTION NO. 2

(a) INCOME OF MODARBA

Any income derived by a modarba shall be:

Tax Treatment = Totally Exempt

Legal Provisions:

(i) The Modarba is registered under Modarba Companies Ordinance 1980.

(ii) The income of Modarba is not the result of any trading activity.

(iii) At least 90% of the income should be distributed among modarba certificate holders.

Note: *To determine the ratio of 90%, bonus certificates issued shall not be taken into consideration.*

(b) EXEMPTION UNDER INTERNATIONAL AGREEMENTS

(a) Under a Tax Treaty (1):

Any Pakistan source income shall be:

Tax Treatment = Totally Exempt

Legal Provisions:

If the Pakistani government is not allowed to charge tax under a tax treaty.

(b) Under Aid Agreement (2):

If a person receives salary under an aid agreement between Pakistan Government and Foreign Government or public international organization then such salary shall be:

Tax Treatment = Totally Exempt

Legal Provisions:

(i) The person is not a citizen of Pakistan.

(ii) He is not a resident or has become a resident due to his job under aid agreement.

(iii) The salary is paid out of released fund to Pakistan under aid agreement.

(c) Business Income (3):

If a contractor or consultant or expert of a project in Pakistan, receives income under bilateral or multilateral technical assistance agreement between the Pakistan Government and the Foreign Government or a public international organization then the income shall be:

Tax Treatment = Totally Exempt

Legal Provisions:

(i) The person is not a citizen of Pakistan.

(ii) He is a non-resident or has become a resident due to his engagement in the project under agreement.

(iii) The income is received out of the funds of the grant available under agreement.

(c) SPECIAL ALLOWANCES

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.*

(d) PROFITS AND GAINS FROM TRANSMISSION LINE PROJECT

Profits and gains derived by taxpayer from a transmission line project shall be:

Tax Treatment = Totally Exempt

Legal Provisions:

(i) It has been setup between 01-07-2015 to 30-06-2018.

(ii) It is owned and managed by a company (whose 50% shares are not held by the Federal, Provincial or a Local Government) formed under the Companies Ordinance, 1984 and having its registered office in Pakistan.

(iii) The project is not established by the splitting up or reconstruction or reconstitution of an undertaking or reconstitution of a business already in existence in Pakistan.

QUESTION NO. 3

INCOME FROM PROPERTY / RENT CHARGEABLE TO TAX

(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.

ALLOWABLE DEDUCTIONS

In computing the rental income of a company chargeable to tax (RCT) under the head "Income from Property" for a tax year, a deduction shall be allowed for the following expenditures or allowances:

(i) Repair Charges:

In respect of repairs to a building, an allowance equal to one-fifth of the rent chargeable to tax in respect of the building for the year, computed before any deduction allowed under this section.

(ii) Insurance Premium:

Any premium paid or payable by the company in the year to insure the building against the risk of damage or destruction.

(iii) Rate, Tax and Cess:

Any local rate, tax, charge or cess in respect of the property or the rent from the property paid or payable by the company to any local authority or government in the year.

(iv) Ground Rent:

Any ground rent paid or payable by the company in the year in respect of the property.

(v) Profit on Debt:

Any profit paid or payable by the company in the year on any money borrowed including by way of mortgage to acquire or construct or renovate or extend or reconstruct the property.

(vi) Share of Rent:

Where the property has been acquired, constructed, renovated, extended or reconstructed by the company with capital contributed by the House Building Finance Corporation or a scheduled bank on the basis of sharing the rent, the share in rent and share towards appreciation in the value of property paid or payable by the company to the said Corporation or the bank in the year.

(vii) Mortgage or Capital Charge:

Where the property is subject to mortgage or other capital charge, the amount of profit or interest paid on such mortgage or charge.

(viii) Collection Charges:

Any expenditure (not exceeding 6% of the rent chargeable to tax before any deduction allowed under this section) paid or payable by the company in the year for the purpose of collecting the rent due in respect of the property.

(ix) **Legal Charges:**

Any expenditure paid or payable by the company in the tax year for legal services acquired to defend the company's title to the property or any suit connected with the property in a court.

(x) **Unpaid Rent:**

When there are reasonable grounds for believing that any unpaid rent in respect of the property is irrecoverable, an amount equal to the unpaid rent shall be allowed provided that:

- The defaulting tenant has vacated the property or steps have been taken to compel the tenant to vacate the property and the defaulting tenant is not in occupation of any other property of the company.
- The company has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent.
- The unpaid rent has been included in the income of the company chargeable to tax under the head "Income from Property" for the tax year in which the rent was due and tax has been duly paid on such income.

QUESTION NO. 4

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. 5

Government allows tax concession on some expenditures and investments. For tax year 2011, following is the detail regarding these concessions.

(1) Donations for Charitable Purposes:

(i) Tax concession is granted if a person, donates any amount in cash or kind during the year to a non-profit organization.

(a) Any Board of Education in Pakistan or any University, educational institution and hospital in Pakistan established by or under any federal or provincial law.

(b) Any relief fund approved by Government.

(c) Any approved non-profit organization.

(ii) The total donations on which tax concession may be granted should not exceed the following limits.

(a)	In case of a company	20% of taxable income
(b)	In case of individual or Association of Persons	30% of taxable income

(2) Investment in Shares / Life Insurance Policy:

As a measure to promote savings and investments in the country, incentive has been provided through this tax credit scheme. The details are as follows:

(a) A resident person purchases life insurance policy and new shares offered by a public company listed on stock exchange in Pakistan or shares sold by Privatization Commission of Pakistan.

(b) The amount eligible for relief will be restricted to 20% of the taxable income of the person or Rs. 1,500,000 whichever is less.

(c) A person should be original allottee of these shares.

(3) Contribution to an Approved Pension Fund:

Any Pakistan individual salaried person or businessman who contributes as premium in approved pension fund during the year is entitled to a tax incentive on such payment. The details re as follows:

(a) The person contributing should possess a valid National Tax Number.

(b) The concession is available for contribution to only one approved employment pension or annuity scheme.

(c) The amount eligible for relief will be restricted to 20% of taxable income whichever is less.

Investment in Health Insurance:

(4) A resident person being a filer other than a company, deriving salary income or business income, shall be entitled to a tax credit in respect of any health insurance premium paid to any insurance company registered under the Insurance Ordinance.

Maximum Limit:

The amount eligible for health insurance is restricted up to:

- 5% of taxable income or,
- Rs. 150,000 or,
- Actual contribution to insurance company,
- Whichever is less.

The formula for calculating the average relief is as follows:

$$= \frac{\text{Tax payable}}{\text{Taxable income}} \times \text{Amount admissible for average relief}$$

QUESTION NO. 6

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

	Rs.	Tax
Output Tax:		
On local taxable supplies (37,70,000 × 17/100)		640,900
Less: **Input Tax:**		
Against such supplies	109,994	
(OR)		
90% of output tax (640,900 × 90/100)	576,810	
Whichever is lesser		109,994
Sales tax with return		530,906

	Rs.
(w-1) **Total Taxable Sales:**	
Taxable turnover to registered person	28,00,000
Taxable turnover to wholesaler	150,000
Supplies to consumer on installment basis	130,000
Supplies to chartable hospital	350,000
Supplied to leading hospital	600,000
	40,30,000
Less: Credit notes	260,000
Total taxable sales	37,70,000

(w–2) **Computation of Input Tax:**	Rs.
Taxable purchases from registered person (400,000 × 17/100)	68,000
Imported taxed goods (300,000 × 17/100)	51,000
Amount paid to courier company (5,000 × 17/100)	8,500
Total input tax	127,500

(w–3) **Apportionment of Input Tax**	Supplies	Input Tax
Local taxable sales (w–1)	37,70,000	109,994
Exempted sales (200,000 + 220,000 + 180,000)	600,000	17,506
	43,70,000	127,500

Apportionment of Input Tax:

- $\frac{\text{Input tax}}{\text{Total sales}} \times \text{Taxable sales}$

$= \frac{127,500}{437,000} \times 37,70,000 = \text{Rs. } 109,994$

- $\frac{\text{Input tax}}{\text{Total sales}} \times \text{Exempted sales}$

$= \frac{127,500}{43,70,000} \times 600,000 = \text{Rs. } 17,506$

QUESTION NO. 7

COMMISSIONER INLAND REVENUE (CIR)

Appointment:

The Federal Board of Revenue is the appointing authority for Commissioners of Inland. Normally, the Commissioner is appointed for a specific area known as a zone but law allows Federal Board of Revenue to appoint the Commissioners without any territorial restrictions. The Federal Government rules and orders, which regulate the service of persons in other public service and posts, apply to the Commissioners Inland Revenue also.

Jurisdiction:

(a) If appointed for a specific area, the Commissioner Inland Revenue shall perform his functions (both executive and judicial) within his own jurisdiction.

(b) Where no specific area is assigned, the Commissioner Inland Revenue shall perform his functions in respect of such persons or classes of persons or such areas as the Federal Board of Revenue may direct him.

Note: *In case there is a dispute between two Commissioners of Inland Revenue regarding the jurisdiction, the Chief Commissioner Inland Revenue of the region will decide the matter.*

POWER AND FUNCTIONS

His major powers, duties and functions are follows:

(1) **Payment of Tax:**

The CIR allows an employee to pay tax on his retirement payments and golden handshake payments as per normal procedure or pay tax on the basis of average rate of tax based on the three preceding tax years.

(2) **Salary in Arrears:**

The CIR allows an employee to pay tax on salary received in arrears in the tax year in which services were rendered.

(3) **Change in Method:**

The CIR allows a person to change his method of accounting and stock valuation method.

(4) **Change in Tax Year:**

The CIR allows a person to use special tax year and normal tax year instead of special tax year.

(5) **Imposition of Conditions:**

The CIR imposes conditions while permitting a person to use a special tax year or normal tax year or withdraws the permission granted to a person to use a specific tax year.

(6) **Transactions between Associates:**

The CIR distributes, apportions or allocates incomes, deductions or tax credits in respect to any transaction between associates.

(7) **Unexplained Income or Asset:**

The CIR charges tax on the value of any unexplained income or asset and determines the value if it is declared less than the fair market value.

(8) **Furnishing of Return:**

The CIR requires a person or his representative to furnish the return of income and wealth statement.

(9) **Discontinuation of Business:**

The CIR requires a person to furnish the return if the business is discontinued and the person has not furnished his return of income.

(10) **Assessments:**

The CIR makes an assessment order, an amended assessment order, a provisional assessment order and make an assessment order to give effect to an order of an appellate authority or a court.

(11) **Recovery of Tax:**

The CIR takes all necessary and appropriate actions for recovery of tax from a taxpayer and from a person who holds money on behalf of the taxpayer.

(12) Exemption Certificate:

The CIR has power to issue an exemption certificate to a taxpayer.

(13) Refund of Tax:

The CIR adjusts the amount of excess tax paid by a taxpayer and if there is any balance after the adjustment of any other tax liability, refunds the same to the taxpayer.

(14) Issuance of Notice:

The CIR enters and search premises, issues notice in order to obtain information or evidence.

(15) Approval of Translator:

The CIR approves a person as translator in case a taxpayer keeps the accounts, etc. in a language other than Urdu or English.

(16) Imposition of Penalties:

The CIR imposes penalties for different misconducts and default surcharges if the taxpayer fails to pay the tax by due date.

(17) Delegation of Powers:

The CIR appoints any of his subordinate authority with the approval of Board and delegates any of his powers to any Officer of Inland Revenue.

(18) Rectification:

The CIR rectifies the mistake in his order, apparent from the record and appoints an expert for the purposes of valuation or audit etc.

QUESTION NO. 8

Mr. Mahid Baig
Tax Year: xxxxx
Tax Year Ended: xxxxx
Residential Status: Resident
Computation of Tax Payable

	Rs.	Rs.
Income from Salary (U/S 12):		
Basic salary		500,000
Bonus		100,000
Pay in lieu of leave		60,000
Special additional allowance		35,000
Conveyance allowance		60,000
House rent allowance		100,000
Income from Property (U/S 15):		
Rental income (Not taxable upto Rs. 200,000)	100,000	-

Income from Business (U/S 18):		
Income from fruit processing unit		30,000
Capital Gain (U/S 37):		
Gain on sale of private company shares (within 12 months)		34,000
Income from Other Sources (U/S 39):		
Rent of furniture and fittings		15,000
Rent of sublease of land and building		25,000
Total income		959,000
Less: Donation to Al-Shifa Trust	15,000	
(OR) 20% of 10,34,570 (W.E.L.)	191,800	15,000
Taxable income (Excluding share of A.O.P)		944,800
Add: Share of AOP		14,000
Taxable income (Including share of A.O.P)		958,000

Computation of Tax Payable:	**Rs.**
Tax on upto Rs. 750,000	14,500
Tax on (Rs. 958,000 – 750,000) @ 10%	20,800
	35,300

Tax on Actual Taxable Income:

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

$$= \frac{35{,}300}{958{,}000} \times 944{,}000 = \quad 34{,}784$$

Less: Average Relief

$$= \frac{\text{Tax payable}}{\text{Taxable income}} \times \text{Allowed for relief}$$

$$= \frac{34{,}784}{958{,}000} \times 150{,}000 \quad 5{,}446$$

Tax payable with return 29,338

Amount Allowed for Average Relief:

= Contribution in pension fund OR 20% taxable income

= Rs. 150,000 or Rs. 944,000 × 20/100 = Rs. 188,800 (W.E.L.)

Note: *Property tax and insurance are not allowed to deduct from property income w-e-f 01-07-2016.*