

## QUESTION NO. 1

**(a) PRINCIPAL OFFICER**

See Paper 2014 Question No. 1(c), Paper 2015 Question No. 1(d)

**(b) INCOME**

See Paper 2014 Question No. 1(a)

**(c) INDUSTRIAL UNDERTAKING**

See Paper 2014 Question No. 1(b)

**(d) TAX YEAR**

See Paper 2014 Question No. 1(d)

## QUESTION NO. 2

**(a) MEDICAL CHARGES**

In case of an employee:

- (a) If the facility of medical treatment or hospitalization or reimbursement of medical expenses is provided by employer under employment agreement then above facilities shall be:

**Tax Treatment = Totally Exempt**

- (b) If the employee receives any amount as allowance for medical treatment or expenses if facility under above (a) is not provided then such allowance shall be:

**Tax treatment = Exempt upto 10% of basic salary**

**Example:**

	<b>Exempt</b>	<b>Taxable</b>
Basic salary		Rs. 200,000
Medical allowance	Rs. 24,000	
Less: 10% of Basic Salary $\left(200,000 \times \frac{10}{100}\right)$	20,000	4,000
	<hr/>	<hr/>
		<b>204,000</b>

**Note:** Medical allowance shall be totally taxable if received in addition to medical facility according to the terms of employment.

**(b) PENSION**

See Paper 2015 Question No. 2(b)

**(c) SPECIAL ALLOWANCE**

See Paper 2016 Question No. 2(c)

**QUESTION NO. 3**

See Paper 2014 Question No. 3

**QUESTION NO. 4**

**DEPRECIATION ALLOWANCE**

**Eligibility of Assets:**

Income Tax Law states that the depreciation allowance is an admissible expense only in respect of depreciable assets. [Section 22(15)]

**Explanation:**

**Depreciable asset** means any tangible movable property, immovable property (other than unimproved land) or structural improvement to immovable property owned by a person provided that:

- (a) It has a normal useful life more than one year.
- (b) It loses the value due to normal wear and tear or obsolescence.
- (c) It is used partly or wholly in deriving income from business chargeable to tax.

**For example:** Plant and machinery, Building (excluding land), professional books, computer hardware, furniture and fitting, road, car park, railway line, bridge, dock, wharf, fence and sewerage pipes etc.

**2) Business Use:**

**[Section 22(1)]**

Depreciation is only allowed on those depreciable assets which have been exclusively used for the purpose of business during the tax year.

**3) Method and Rates of Depreciation:**

**[Section 22(2)]**

Depreciation is allowed on the basis of rates prescribed in Part-I of the Third Schedule of the Income Tax Ordinance by using the written down value method against the written down value of the asset at the beginning of the year.

**4) Depreciation for Whole Year:**

**[Section 22(2)]**

According to Income Tax Law, if a depreciable asset is not used for the whole tax year even then the depreciation allowance shall be allowed for the whole year.

**5) Asset Partly Used for Business:**

**[Section 22(3)]**

Where a depreciable asset is used in a tax year partly for business purpose, and partly for another purpose, the depreciation allowance shall be restricted to the fair proportionate part of the asset, which relates to the business.

**6) Computation of Written Down Value (WDV):**

**[Section 22(5)]**

The written down value of a depreciable asset of a person at the beginning of the tax year shall be computed as under:

- (a) In case the asset is acquired in the tax year, the written down value shall be the cost of asset as reduced by initial allowance U/S 23.
- (b) In any other case, the written down value shall be the cost of asset as reduced by total depreciation allowed in respect of the asset in previous tax years.

(7) **Computation of WDV of Asset Partly Used for Business:** [Section 22(6)]  
Where a depreciable asset is used during a tax year partly for business purpose and partly for another purpose, the written down value of the asset shall be computed on the basis that the asset has been solely used to derive income from business chargeable to tax.

(8) **Depreciation Allowed should not Exceed Original Cost:** [Section 22(7)]  
The total depreciation deduction allowed including initial allowance U/S 23 during the period of ownership of a depreciable asset should not exceed the original cost of the asset.

(9) **Disposal of Depreciable Asset:** [Section 22(8)]

(a) Where, in any tax year, a person disposes of a depreciable asset, no depreciation shall be allowed for that year.

(b) If the sale price of an asset at the time of disposal exceeds the written down value, the excess shall be considered as the income chargeable to tax under the head "Income from Business".

(c) If the sale price of an asset at the time of disposal is less than the written down value, the difference shall be considered as a deductible expenditure under the head "Income from Business".

(10) **WDV of Asset Partly Used for Business on Disposal:** [Section 22(9)]  
The written down value of an asset partly used for business at the time of its disposal, shall be computed by deducting the total depreciation allowed for business use on such asset out of the cost of asset.

### QUESTION NO. 5

See Paper 2014 Question No. 5

### QUESTION NO. 6

See Paper 2014 Question No. 6

### QUESTION NO. 7

#### Local Taxable Supplies:

		Rs.
(1)	To registered person	38,00,000
(3)	To registered retailers	500,000
(4)	Specified in 3 <sup>rd</sup> schedule	150,000
(6)	Govt. hospital (less than 50 beds)	400,000
(8)	Private hospital	275,000
(9)	At special discounted price @ 15%	
	Actual price of sales (190,000 × 100/85)	<u>Rs. 190,000</u>
	Less: Normal business discount (223,529 × 10/100)	223,529
		<u>22,353</u>
(2)	To non-registered person	201,176
		260,000
		<u>55,86,176</u>

**Computation of Input Tax:**

	Rs.
Purchases from registered person (230,000 × 17%)	39,100
Purchases against tax invoice (160,000 × 17%)	27,200
Purchase of pre-fabricated building (600,000 × 17%)	102,000
Imported goods (350,000 × 17%)	59,500
	227,800

**Apportionment of Input Tax:**

	<u>Turnover</u>	<u>Input Tax</u>
(a) Local taxable supplies	55,86,176	214,731 (N-1)
(b) Exempted supplies	180,000	6,919 (N-2)
(c) Zero rated supplies	160,000	6,150 (N-3)
	59,26,176	227,800

**WORKING:**

(N-1) =  $\frac{227,800}{59,26,176} \times 55,86,176 = \underline{\text{Rs. 214,731}}$

(N-2) =  $\frac{227,800}{59,26,176} \times 180,000 = \underline{\text{Rs. 6,919}}$

(N-3) =  $\frac{227,800}{59,26,176} \times 160,000 = \underline{\text{Rs. 6,150}}$

**Mr. Muhammad Sarwar (Registered Manufacturer)**

**CNIC No.** .....

**NTN** .....

**For the month of August** .....

**Computation of Sales Tax Payable**

**Output Tax:**

On local taxable supplies (55,86,176 × 17%)	949,650
Less: <b>Input Tax:</b>	
Paid on such supplies	214,731
	734,919
	7,800
Add: Further tax (260,000 × 3%)	
Sales tax payable with return	742,719

**Note:** Tax paid Rs. 6,150 against zero-rated supplies is refundable.

## QUESTION NO. 8

**Professor Kamran**  
**Tax Year: xxxxx**  
**Tax Year Ended: xxxxx**  
**Residential Status: Resident**  
**Computation of Tax Payable**

	Rs.	Rs.
<b><u>Income from Salary (U/S 12):</u></b>		
Basic salary		850,000
Commission		150,000
Conveyance (80,000 × 10/100)		8,000
House rent allowance		425,000
Gas, water and electricity	20,000	-
Life insurance premium		35,000
Performance award		34,800
		15,02,800
<b><u>Income from Property (U/S 15):</u></b>		
Net property income (Not taxable upto Rs. 200,000)	200,000	-
Rent of agriculture land	70,000	-
<b><u>Income from Business (U/S 18):</u></b>		
Profit from speculation business		50,000
Total income		15,52,800
Less: Zakat deducted	40,000	
M. up on housing finance scheme	60,000	100,000
Taxable income excluding share of AOP		14,52,800
Add: Share from AOP		30,000
Taxable income including share of AOP		14,82,800

	Rs.
<b><u>Computation of Tax:</u></b>	
= Rs. 79,500 + (14,82,800 - 14,00,000) × 12.5/1000	89,850
<b><u>Tax on Actual Taxable Income:</u></b>	
= 89,850/14,82,800 × 14,52,800	88,032
Less: <u>Concession @ 40%:</u>	
= 92,000 + (2,800 × 15/100)	
= 92,420 × 40/100	<u>92,420</u>
Less: <u>Average Relief:</u>	
= 89,850/14,82,800 × (35,000 + 140,000)	36,968
Less: Tax deducted at source	51,064
Refundable amount of tax	10,604
	40,460
	70,000
	29,540