

QUESTION NO. 1

(a) APPELLATE TRIBUNAL [SEC. 2(1)]

See Paper 2017 Question No. 5

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

See Paper 2017 Question No. 1(c)

(c) RESIDENT COMPANY [SEC. 83]

A company will be resident in Pakistan under ITO 2001, in a particular tax year if it fulfills any one of the following conditions:

- (i) It is incorporated or formed by or under any law in Pakistan;
- (ii) The control and management of whose affairs is situated **wholly** in Pakistan at any time during the year;
- (iii) It is a provincial government or local authority in Pakistan.

Explanation:

- (a) In case a company is incorporated in Pakistan, it will always be a resident in Pakistan.
- (b) In case of other companies, they will become resident in Pakistan only if their control and management is wholly situated in Pakistan. Partial control is not sufficient for this purpose.

(d) TAX PAYER [SEC. 2(66)]**A Taxpayer Means:**

- (i) A person who derives an **amount chargeable to tax**;
- (ii) **Representative** of such person;
- (iii) A person who is required to **deduct or collect tax at source and deposit it with government** under the provisions of the Income Tax Ordinance 2001;
- (iv) Any person who is required to **furnish a return of income**;
- (v) Any person who is required to **pay tax** under Income Tax Ordinance 2001;

Explanation:

The following persons are required to furnish the return of income:

- (a) Every Person whose total income during the tax year **exceeds the taxable limit**;
- (b) **Every Company** irrespective of its income.
- (c) Any person who has been charged to tax for any of the **two tax years** immediately preceding the previous tax year;
- (d) Any person who claims a loss carried forward from a previous tax year;
- (e) A non-profit organization.
- (f) A public welfare trust.
- (g) Any person who owns immovable property with a land area of **250 square yards** or more;

According to point (g) the following persons are not required to file the return:

- (i) A Widow
- (ii) An Orphan below the age of 25 years
- (iii) A non-resident
- (iv) A Disabled person

QUESTION NO. 2

(a) AGRICULTURAL INCOME [SEC. (41)]

See Paper 2015 Question No. 2(i)

(b) AMOUNT OF GRATUITY

Tax Treatment = Totally Exempt

Legal Provision:

- ◆ Amount received by an employee at the time of retirement or by his heirs at the time of death of employee.
- ◆ Received from Govt, Local authority, Statutory Body or a Corporation.
- ◆ Amount received from gratuity fund approved by the Commissioner.
- ◆ Gratuity shall be exempt up to Rs. 3,00,000 if employer provides this facility to all his employees indiscriminately.

Notes:

- (1) If not approved by the Commissioner or above conditions are not fulfilled then following formula will be applicable:
= 50% of gratuity received or Rs. 75,000 whichever is less is exempted.
- (2) Amount of gratuity is **Totally Taxable** if;
 - (i) Amount received outside Pakistan.
 - (ii) Amount received by a director from his company, if the director is not a regular employee of company.
 - (iii) Amount received by a non-resident of Pakistan.
 - (iv) Received by an employee who has already received any amount as gratuity.

(c) PROFIT ON DEBT

See Paper 2015 Question No. 2(c)

(d) MEDICAL CHARGES OR HOSPITAL CHARGES

See Paper 2017 Question No. 2(a)

QUESTION NO. 3

PERQUISITES & ALLOWANCES

See Paper 2017 Question No. 3

QUESTION NO. 4

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 person 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) **Administration and 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 administration and collecting the rent due in respect of the property.

(ix) **Legal Charges:**

Any expenditure paid or payable by the person in the tax year for legal services acquired to defend the person'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. 5

See Paper 2015 Question No. 5

QUESTION NO. 6

(a) ASSOCIATES [SEC. 2(3)]

"Associates (associated persons)" means:

- Where the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person.
- Two persons shall not be associates solely by reason of the fact that one person is an employee of the other or both persons are employees of a third person.
- The following shall be treated as associates, namely:
 - "An individual and a relative of the individual.
 - Members of an association of persons.
 - A member of an association of persons and the association, where the member, either alone or together with an associate or associates, controls 50% or more of the rights to income or capital of the association.
 - A trust and any person who benefits or may benefit under the trust.
 - A shareholder in a company and the company, where the shareholder, either alone or together with an associate or associates, controls either directly or through one or more interposed persons:
 - 50% or more of the voting power, rights to dividends or rights to capital; and
 - Two companies, where a person, either alone or together with an associate or associates, controls either directly or through one or more interposed persons.
 - Having in both companies 50% or more of the voting power, rights to dividends or rights to capital.
- Two persons shall not be associates where the CIR is satisfied that neither person may reasonably be expected to act in accordance with the intentions of the other.
- In this clause, 'relative' in relation to an individual, means.
 - An ancestor, a descendant of any of the grandparents, or an adopted child, of the individual, or of a spouse of the individual; or
 - A spouse of the individual or of any person specified in sub-clause (a).

(b) RETURN [SEC. 26]

See Paper 2018 Question No. 6(c)

(c) MANUFACTURER OR PRODUCER [SEC. 2(17)]

“Manufacturer” or “Producer” means a person who engages, in the production or manufacture of goods with or without of the ownership of raw material used for such production; and shall include:

- (a) A person who by any process or operation assembles, mixes, cuts, dilutes, bottles, packages, repackages or prepares goods by any other manner.
- (b) An assignee or trustee in bankruptcy, liquidator, executor, or any manufacturer or producer and any person who disposes of his assets in any fiduciary capacity; and
- (c) Any person, firm or company which owns, holds, claims or uses any patent, proprietary, or other right to goods being manufactured, whether in his or its name, or on his or its behalf.

Only such person shall be treated as manufacturer-cum-exporter who owns or has his own manufacturing facility to manufacture or produce the goods to be exported.

(d) INPUT TAX [SEC. 2(14)]

See Paper 2015 Question No. 6(b)

QUESTION NO. 7

	Rs.	Rs.
<u>Taxable Turnover @ 17%:</u>		
Taxable turnover to registered persons		25,00,000
Supplies made to needy person		150,000
Taxable supplies at discount		100,000
Taxable supplies to associated person		170,000
Advance received		350,000
Goods pledged disposed off by bank		250,000
		35,20,000
<u>Taxable Turnover @ 0%</u>		
Exports sales		160,000
<u>Tax Free Turnover:</u>		
Free samples		180,000
Total turnover		38,60,000
<u>Input Tax Adjustment:</u>		
Taxable purchases from registered persons (Rs. 360,000 @ 17%)	61,200	
Imported goods (Rs. 120,000 @ 17%)	20,400	81,600
Purchase raw material used in taxable and exempt supplies (Rs. 180,000 @ 17%)		30,600
Fixed asset purchased (Rs. 500,000 @ 17%)		85,000

Apportionment of Input Tax:	Turnover	Input Tax	Input Tax on Raw Material	Input Tax on Fixed Assets
Total taxable supplies	35,20,000	78,052	27,905	77,513
Zero-rated	160,000	3,548	1,427	3,964
Tax free turnover	180,000	-	1,268	3,523
Total	38,60,000	81,600	30,600	85,000

Mr. Zeeshan Ahmad

CNIC No. -----

National Tax No. -----

For the month of August -----

Computation of Sales Tax Payable

Sales Tax Liability:	Rs.	Rs.
Output tax Rs. 35,20,000 @ 17%		598,400
Less: Input tax against such supplies 78,052 + 27,905	105,957	
(Restricted upto 90% of output tax Rs. 598,400 @ 90% input tax is well within limits, so allowed)	538,560	105,957
		492,443
Less: Input tax on fixed assets		77,513
Sales tax payable		414,930

Refund of input tax against zero-rated = Rs. 3,548 + Rs. 1,427 + Rs. 3,964 = Rs. 8,339

QUESTION NO. 8

Mr. Sultan Baig

Tax Year: xxxx

Tax Year Ended: 30-06-2019

Residential Status: Resident

Computation of Tax Payable

Income from Salary (Section 12):	Rs.	Rs.
Basic salary		600,000
Bonus		100,000
Entertainment allowance		50,000
Rent allowance (480,000 × 60/100)		288,000
Conveyance allowance		80,000
Tax paid by employer		35,000
Re-imbursment of internet bills	38,000	-

Encashment of leaves		27,000
Interest free loan 12,00,000 × 10/100		120,000
Medical allowance	66,000	
Less: Exempt 10% of basic salary (Rs. 600,000 × 10/100)	60,000	6,000
Hotel bills relating to official duty	55,000	-
TV and refrigerator (200,000 × 20/100)		40,000
<u>Income from Other Sources (Sec. 39):</u>		
Loan from father through cross cheque	25,000	-
Tax refund	20,000	-
Total income		13,46,000
Less: Deductions:		
Children school fee		
• 5% of total school fee paid (Rs. 42,000 @ 5%)	2,100	
• 25% of total income (Rs. 13,46,000 @ 25%)	336,500	
• 60,000 × 3 children	180,000	
		2,100
Total taxable income		13,43,900
Add: Share from association of persons (included for rate purpose)		10,000
Taxable income including share of AOP		13,53,900

<u>Computation of Tax Payable:</u>	Rs.	Rs.
Income tax on Rs. 12,00,000		-
Income tax on balance Rs. 153,900 @ 5%		7,695
		7,695
<u>Computation of Tax Payable on Actual Taxable Income:</u>		
= (7,695/13,53,900) × 13,43,900		7,638
<u>Amount Allowed for Rebate:</u>		
Donation to government hospital Rs. 80,000		
Amount allowed:		
(Actual or 30% of taxable income, whichever is less) i.e., 30% of Rs. 13,43,900 = Rs. 403,170 or Rs. 80,000)		
<u>Average Relief:</u>		
= $\frac{\text{Tax payable}}{\text{Taxable income}} \times \text{Amount admissible for rebate}$		
= $\frac{7,695}{13,53,900} \times 80,000$		455
Net tax		7,183
Less: Tax paid by employer		35,000
Tax refundable		(27,817)