
Answers

Notes:

- The suggested answers provide detailed guidance on the subject for use as a study aid to the question paper. Candidates were not expected to produce answers with this extensive detail, which would not be possible in a three hour exam.
- All references to legislation shown in square brackets are for information only and do not form part of the answer expected from candidates.

				Marks
1	Noor (Pvt) Limited (NPL)			
(a)	Taxable income for the tax year 2012 (accounting year ended 30 June 2012)			
		Note	Rs.	Rs.
	Income from business			
	Profit before tax	(1)		2,000,000
	Less:			
	– Dividend received	(2)	300,000	1·0
	– Accounting gain on sale of office building	(3)	1,200,000	0·5
				(1,500,000)
	Add:			
	Accounting depreciation	(4)	1,100,000	0·5
	Fees paid to legal advisers	(5)	200,000	0·5
	Impairment of financial assets	(6)	100,000	1·0
	Profit paid on debt	(7)	400,000	1·0
	Inadmissible salaries	(8)	220,000	1·5
	Purchase of computer software	(9)	900,000	0·5
	Accounting loss from sale of computer	(3)	10,000	0·5
	Taxable gain on sale of computer	(3)	35,000	1·0
	Taxable gain on sale of office building	(3)	700,000	2·5
	Income tax collected with utility bills	(10)	39,000	1·0
	Fine paid to SECP	(10)	50,000	1·0
	Recovery of bad debt relating to tax year 2010	(12)	30,000	1·5
				3,784,000
	Less:			
	Amortisation of computer software	(9)	60,000	1·5
	Initial allowance	(11)	50,000	1·0
	Tax depreciation	(11)	733,500	3·0
	Trading liability paid	(13)	240,000	1·0
				(1,083,500)
	Income from business			3,200,500
	Income from other sources	(14)		1,500,000
	Total/taxable income			4,700,500

Items not included in the computation of taxable income

(i) Fees paid to legal advisers

The following fees paid to legal advisers are admissible as they are revenue expenses in the normal course of business. [s.20]

	Rs.	
Lawyer's annual retainer fee	250,000	
Fees for drafting agreement with distributors	150,000	
	400,000	1·0

(ii) Salaries

Payment of salaries by transfer of funds to the employees' bank accounts is a permissible method of payment (the other being through crossed cheque). Hence, Rs. 1,780,000 is allowed as an admissible expense. [ss.20 & 21(m)]

1·0

(iii) Lease rentals paid

Where an asset is taken on a finance lease from an approved leasing company, any amount paid in connection with the leased asset to the leasing company is treated as lease rental. Hence, the

	Marks
documentation charges, finance charges and amount paid towards the capital cost of the asset all form part of the lease rental and are allowable.	1·5
The full lease rentals paid are allowed, irrespective of the period of use of the asset during the year. Hence, the full amount of lease rentals at Rs. 700,000 is admissible.	0·5
(iv) Other expenses	
(a) The amount of Rs. 200,000 paid as professional tax to the Punjab government is an allowable deduction as it is neither levied on the profits of the business nor assessed as a percentage or otherwise on the basis of such profits. [s.21(a)]	1·0
(b) The Rs. 50,000 paid to the social security hospital where NPL's employees and their dependents get free treatment is an admissible deduction. [s.27(a)]	1·0
	<u>28</u>

Notes:

Note 1

The profit before tax is taken for tax calculation purposes as the income tax paid is not an admissible deduction. [s.21(a)]

Note 2

The dividend received is from a mutual fund. Since the mutual fund invests in debt securities only, any dividend distributed by it is exempt from tax. [cl. (103) of Pt. I of the 2nd Sch.] Since the investment was made from NPL's own funds, no allocation of profit paid on borrowed debt is required against this exempt income.

Note 3

Neither an accounting gain is taxable nor an accounting loss is deductible for tax purposes. Therefore, the accounting loss of Rs. 10,000 on the sale of the computer is added back and the accounting gain of Rs. 1,200,000 on the sale of the office building is reduced from the profit before tax.

For tax purposes, the excess of the consideration received over the tax written down value (TWDV) is taken as a taxable profit from business. Where the consideration is less than the TWDV, the excess of the TWDV over the consideration received is treated as a tax loss.

Therefore, the profit/loss from the sale of assets during the year shall be assessable under the head 'Income from business' and calculated as below:

(a) From the sale of the computer

	Rs.
Sale proceeds received	65,000
TWDV of the computer	<u>(30,000)</u>
Taxable gain [s.22(8)(a)]	<u>35,000</u>

(b) From the sale of the office building

The actual cost of the office building sold was Rs. 800,000 and its TWDV on 1 July 2011 was Rs. 100,000; hence the tax depreciation allowed until 30 June 2011 on this asset was Rs. 700,000.

The Income Tax Ordinance, 2001 provides that where the consideration received on the disposal of an immovable property, which has been used for business, exceeds its cost, the consideration received shall be treated as the cost of the property. [s.22(13)(d)] Since the sale consideration (Rs.2,000,000) of the office building sold exceeds its cost (Rs. 800,000), the cost of this office building will be treated as Rs. 2,000,000 and the TWDV amended accordingly.

	Rs.
Cost of the office building sold	2,000,000
Tax depreciation allowed	<u>(700,000)</u>
TWDV for computation of taxable gain/loss	<u>1,300,000</u>

Taxable gain is computed as below:

	Rs.
Consideration received	2,000,000
TWDV (as computed above)	<u>(1,300,000)</u>
Taxable gain [s.22(8)(a)]	<u>700,000</u>

Note 4

Accounting depreciation is not a deductible charge. Tax depreciation and initial allowance are deductible at the rates prescribed in the Third Schedule and subject to the conditions mentioned in the relevant provisions [ss.22 & 23] of the Ordinance.

Note 5

The fee of Rs. 200,000 paid in connection with the increase in share capital of the company is a capital expenditure, hence not an admissible expense. [s.21(n)]

Note 6

Since the shares in the Bank of Punjab are still held by NPL, the impairment loss is notional and not treatable as capital loss. Hence, its deduction is not admissible and it is accordingly disallowed. [ss.37 & 75]

Note 7

Since the debt on which the profit was paid had been utilised by an associate of NPL and not for the business of NPL itself, the profit paid is not an allowable expense. [s.28(1)(a)]

Note 8

- (a) The contribution of Rs. 100,000 is an inadmissible expense on account of its being made to an un-recognised provident fund. [s.21(e)]
- (b) Where the salary of an employee exceeds Rs. 15,000 per month, it should be paid through crossed cheque or by direct transfer of funds to the employee's bank account, otherwise such expense becomes inadmissible. Since the salary of the temporary worker was paid in cash, the whole amount of Rs. 120,000 (Rs. 20,000 x 6) becomes inadmissible. [s.21(m)]

Note 9

Computer software is included in the definition of intangible. [s.24(11)] Charging the full purchase price of the intangible as an expenditure in one year is not admissible. [s.21(n)]

An intangible is amortised over its estimated useful life, determined in years. Where an intangible is not used for the whole of the year, the amount to be amortised is restricted proportionately, keeping in view the number of days it is used during the tax year. Since the computer software was used for 122 days out of 366 days, the admissible deduction for the tax year 2012 is determined as below:

	Rs.
Total price	900,000
To be amortised during the year for the 122 days it was used	
Total price/useful life x 122/366 = 900,000/5 x 122/366	60,000
[s.24(4) & (6)]	

Note 10

- (a) An amount of income tax (Rs. 39,000) paid along with utility bills is not an admissible deduction. However, it can be claimed as advance tax and adjusted against the tax liability of the company. [ss.21(a) and 235(4)(c)] The balance amount of Rs. 661,000 on account of electricity bills is an admissible deduction.
- (b) The fine of Rs. 50,000 paid for a violation of regulations issued by the Securities and Exchange Commission of Pakistan (SECP) is an inadmissible deduction. [s.21(g)]

Note 11

Initial allowance and tax depreciation:

Asset	TWDV on 1 July 2011	Addition during the year	Initial allowance at 50% of addition of eligible assets	TWDV of assets sold on 31 March 2012	TWDV for depreciation	Rate of depreciation	Depreciation
(1)	(2)	(3)	(4) = (3) x 50%	(5)	(6) = (2 + 3) – (4 + 5)		(7)
	Rs.	Rs.			Rs.		Rs.
Land	3,000,000 (see (a))	–	–	–	–	–	–
Office building	1,000,000	–	–	100,000	900,000	10%	90,000
Computers	200,000	100,000 (see (b))	50,000	30,000	220,000	30%	66,000
Furniture	300,000	50,000 (see (c))	–	–	350,000	15%	52,500
Cars	1,000,000	1,500,000 (see (d))	–	–	2,500,000	15%	375,000
Plant and machinery	1,000,000	–	–	–	1,000,000	15%	150,000
Total			<u>50,000</u>				<u>733,500</u>

[s.22 and 23 read with 3rd Sch.]

Sub-notes to Note 11

- (a) Land is not eligible for depreciation. [s.22(15)]
- (b) A computer used for business is an eligible asset for initial allowance. The TWDV of the addition for tax depreciation is worked out after deducting the allowable initial allowance. [s.22(5)(a)]
- (c) Furniture is not eligible for initial allowance but is eligible for normal tax depreciation. [s.23(5)]
- (d) For the calculation of depreciation, the cost of the car of Rs. 1,800,000 is restricted to Rs. 1,500,000. Further, a car is not eligible for initial allowance. [ss.22(13)(a) and 23(5)]

Note 12

	Rs.
Total bad debts in the tax year 2010	200,000
Amount allowed as a deduction	<u>(180,000)</u>
Difference between total bad debt and the amount allowed (A)	20,000
Amount recovered (B)	50,000

Since the amount at B exceeds A, the excess amount of Rs.30, 000 (50,000 – 20,000) shall be included in NPL's taxable income for the tax year 2012, being the year of recovery. [s.29(3)(a)]

Note 13

The trading liability of Rs. 240,000 disallowed in the tax year 2010 [on the basis of non-payment within three years of the tax year in which it was claimed as a deduction on the accrual basis] has been paid in the tax year 2012; hence, it is allowable as a deduction in the tax year 2012.

Note 14

The company has received share deposit money which is a capital receipt and not chargeable to tax. However, if the share deposit money is received in cash, the tax law treats it as income of the taxpayer for the tax year in which it is received. Therefore, the amount of Rs.1,500,000, received in cash, is treated as income of the company under the head 'Income from other sources'. [s.39(3)]

(b) Tax liability for the tax year 2012

	Rs.	Rs.	
Taxable income for the tax year 2012 (from (a))		4,700,500	
Tax at 35%		1,645,175	0.5
Less already paid			
(i) Tax collected along with electricity bills [ss.168 & 235]	39,000		0.5
(ii) Tax paid at the time of registration of car [ss.168 & 231B]	12,000		0.5
(iii) Advance tax during the tax year 2012 [ss.147 & 168]	1,500,000		0.5
		(1,551,000)	
Tax payable with return [s.137]		94,175	
			2.0
			30

2 Ms Fauzia**Taxable income for the tax year 2012 (accounting year ended 30 June 2012)**

		Rs.	
Income from salary			
Basic salary (100,000 x 12)	[s.12(2)(a)]	1,200,000	0.5
Medical allowance (15% – 10%) x 1,200,000	[Cl. (139) of Pt. I of 2nd Sch.]	60,000	1.5
Perquisite representing car	[working 1]	80,000	1.5
Reimbursement of child's school fee (20,000 x 12)	[s.12(2)(d)]	240,000	1.0
Encashment of recreational leave	[s.12(2)(a)]	100,000	0.5
Fair market value of laptop	[s.12(11)]	140,000	1.0
Lump sum amount for food	[s.12(2)(b)]	50,000	1.0
Income under the head 'salary'		1,870,000	
Capital gains	[working 2]	375,000	2.5
Income from other sources	[working 3]	10,000	2.0
Total income		2,255,000	
Less Zakat [s.60]		(340,000)	1.0
Taxable income		1,915,000	
Tax at 14%	[Para (1A) of Div. I of Pt. I of 1st Sch.]	268,100	1.0
Tax credit on investment in eligible shares	[working 4]	(40,215)	2.5
Tax payable on taxable income		227,885	
Tax on income assessable under the final tax regime (FTR)			
1. Tax on prize won from quiz programme at 20% (1,000,000 x 20%)		200,000	1.0
[s.169(1)(b) read with s.156]			
2. Tax on commercial imports	[working 5]	50,000	1.5
Total tax payable		477,885	
Tax already paid			
Tax deducted by the employer [ss.12, 149 & 168]	Rs. 200,000		0.5
Tax deducted from quiz prize money [ss.169 & 156]	200,000		0.5
Tax collected on imports [s.148(7)]	50,000		0.5
Tax collected at the time of purchase of air tickets [ss.168 & 236B]	10,000		0.5
Total tax paid		(460,000)	
Tax payable with return/statement of FTR		17,885	

Explanation of items not included in the computation of taxable income**(i) Concessional loan from the employer**

If a loan is granted to an employee without profit or with a profit rate below the benchmark rate for the year, the difference between the profit payable on the basis of the benchmark rate of profit and the profit actually paid is treated as salary income of the employee. However, where an employee waives interest on his/her account with the employer, no addition is made towards salary income due to the concessional loan. Ms Fauzia falls within this exception; hence this perquisite is not taxed in her hands. [Proviso to s.13(7)]

1.5

	Marks
(ii) Contribution to recognised provident fund The contributions of an employer towards a recognised provident fund is not taxable. [Cl. (23) of Pt. I of 2nd Sch.]	1.0
(iii) Bonus Salary is taxed on the basis of receipt and not on its mere accrual. Since the bonus was received by the taxpayer on 2 July 2012, it will be taxed in the tax year 2013 and not in the tax year 2012. [s.12(1)]	1.0
(iv) Amount spent on training No deduction on account of any expenditure incurred by an employee to derive the amount chargeable to tax under the head 'salary' is allowed in computing taxable income. [s.12(4)]	1.0
	25

Workings:

Working 1

Where a car is provided for personal as well as official use, 5% of the fair market value of the car is treated as salary income on account of this perquisite.

	Rs.
Fair market value (FMV) of the car at the time of obtaining lease	1,600,000
5% of FMV to be treated as value of the perquisite (1,600,000 x 5%) [s.13(3)]	80,000

The amount of lease rentals paid during the year is not relevant for the computation of the value of perquisite.

Working 2

	Rs.	Rs.
Consideration received (50,000 x 50) on 1 April 2012		2,500,000
Cost of shares		
Price paid at the time of exercise of option (50,000 x 10)	500,000	
Amount treated as salary when restriction to transfer the shares was removed on 1 January 2009 [tax year 2009]		
(40 x 50,000) – 500,000 [s.14(4)]	1,500,000	
		(2,000,000)
Capital gain		500,000

Since the shares were held for more than a year, only 75% of the capital gain [Rs. 375,000] will be taxed in the tax year 2012. [s.37(3)]

Working 3

Income from other sources

Any amount received by a person as consideration for vacating possession of a building, as reduced by any amount paid by that person to acquire possession of such building, is assessable under the head 'Income from other sources' in the year in which the consideration is received and the following nine years as below:

	Rs.
Consideration received for vacating the possession of the shop	150,000
Consideration earlier paid for getting the possession	(50,000)
Taxable under the head 'Income from other sources' [s.39 (1)(k)]	100,000
Assessable in the tax year 2012 (100,000 x 1/10) [s.39(2)]	10,000

Working 4

Since the investment has been made in the new shares of a public listed company, it is eligible for tax credit. [s.62]

	Rs.
Tax credit is allowed according to the formula (A/B) x C	
Where A is tax assessed before any tax credit	268,100
B is taxable income for the year	1,915,000
C is lesser of:	
(i) Actual investment (70,000 x 10)	700,000
(ii) 15% of taxable income	287,250
(iii) Maximum amount of	500,000

Therefore, tax credit admissible is (268,100/1,915,000) x 287,250 40,215

Working 5

	Rs.
Total value of the imports	1,000,000
Tax at 5% collected by custom authorities [s.148]	50,000

Tax collected on commercial imports by the custom authorities is treated as the final tax on the income of the importer arising from such imports.

The net income from this business declared by the taxpayer at Rs. 70,000 is not relevant for the computation of tax liability on the imports business.

3 Mr Hussain**Tax payable on gains for the tax year 2012 (accounting year ended 30 June 2012)**

Taxable gains/losses on	Note	Rs.	
Sale of shares in SLL	(1)	200,000	1.5
Sale of Modaraba certificates in FLM	(2)	50,000	1.5
Disposal of shares in BGPL	(4)	275,000	1.5
Gift of shares in GPL	(5)	93,750	1.5
Sale of shares in HTPL	(6)	285,000	1.5
Sale of jewellery	(7)	525,000	1.5
Total capital gain		1,428,750	

Less capital gain to be treated separately:

	Rs.	
– on sale of SLL shares	200,000	0.5
– on sale of FLM Modaraba certificates	50,000	0.5
	(250,000)	

Total capital gains (other than from securities)		1,178,750	
Loss on sale of shares in ZTL	(3)	(100,000)	1.5
Taxable capital gains other than on securities		1,078,750	

Tax payable on taxable income

	Rs.	
1. On taxable income at 20% (1,078,750 x 20%)	215,750	0.5
2. Tax on separate block of capital gains on disposal of		
– shares in SLL (200,000 x 8%)	16,000	0.5
– FLM Modaraba certificates (50,000 x 10%)	5,000	0.5
	21,000	

Tax payable under the final tax regime (FTR)

	Rs.	
Dividend income	50,000	0.5
Tax on dividend income at 10%	5,000	0.5

Total tax 241,750

Tax already paid	Rs.	
– with mobile phone bills	7,000	0.5
– on dividend income	5,000	0.5
– on cash withdrawals from bank	4,000	0.5
– in advance in four instalments	240,000	0.5

(256,000)

Tax refundable with return (14,250)

Items not included in the computation of taxable income

1. Sale of residential house

No depreciation was admissible on the house as it was not used for business purposes. Hence, no income or loss from the sale of this house under the head 'Income from business' can be recognised. [s.22(8)]

Further, an immovable asset is not included in the definition of a capital asset. Hence, no capital gain or capital loss is recognised for taxation purposes. [s.37(5)(c)]

1.0

2. Loss on sale of rare manuscript
- The rare manuscript was a movable capital asset for the personal use of Mr Hussain. Any gain on the disposal of such manuscript is taxable. However, any loss on disposal is not recognised under the law. Therefore, the loss of Rs. 90,000 (10,000 – 100,000) is not recognised. [s.37(5)(d) and 38(5)(c)]. 1·0
3. Gift of an antique
- The nephew of Mr Hussain is a Federal Government employee; hence he is a Pakistan resident person despite his residing in Qatar since 15 April 2009. [s.82(c)]
- No gain or loss arises on the disposal of an asset by reason of a gift of that asset to a resident person. [s.79(1)(c)] 1·0
4. Brought forward loss
- The shares of PEL Ltd fall within the definition of securities provided in the law. A loss incurred on account of a security cannot be carried forward to the subsequent tax year. [s.37A(5)] 1·0
-
- 20**

Note 1

Although Snowland Ltd (SLL) is a non-listed company in Pakistan, 50% of the shares are held by a foreign government [Canada], therefore, it is a public company; hence its shares are treated as 'securities'. [ss.2(47)(ab) & 37A(3)] Any gain or loss on such a security is to be treated separately from other capital gains. [s.37A(4)]

	Rs.
Sale proceeds of 7,000 shares in SLL sold on 5 August 2011	750,000
Cost of acquisition on 1 January 2011	(550,000)
Taxable gain	<u>200,000</u>

Holding period is more than six months and less than one year, therefore the full gain is taxable.

Note 2

A Modaraba certificate is included in the definition of a 'security'. [s.37A (3)] The gain on the disposal of a security is treated as a separate block of income. [s.37A (4)] The gain on the sale of Modaraba certificates in FLM is worked out as below:

	Rs.
Sale proceeds of 5,000 Modaraba certificates in FLM sold on 5 September 2011	200,000
Cost of acquisition on 25 June 2011	(150,000)
Taxable gain	<u>50,000</u>

Holding period is less than six months, therefore the full gain is taxable.

Note 3

Zaheer Textile Ltd (ZTL) was listed at the time when the shares were purchased by Mr Hussain. However, later on in the year of disposal, the shares were delisted from all stock exchanges of Pakistan. Hence, ZTL's status changed from that of a public company to a private company. [s.2(47)(b)] The shares, therefore, do not qualify as 'securities'. [s.37A]

The capital gain/loss is determined as below:

	Rs.
Sale proceeds of 10,000 shares in ZTL	300,000
Cost of the shares	(400,000)
Capital loss	<u>(100,000)</u>

The capital loss is adjustable against capital gains from capital assets other than 'securities'.

Note 4

The consideration received on the disposal of shares in Balochistan Gas (Pvt) Ltd (BGPL) was in kind ('car'). The fair market value (FMV) of the car is treated as the consideration received. [s.77(1)]

The capital gain is worked out as below:

	Rs.	Rs.
Consideration received (FMV of car) on 20 November 2011		750,000
Cost of the shares (20 October 2011)		
Purchase price of 5,000 shares in BGPL	450,000	
Fee of the broker	<u>25,000</u>	
		<u>(475,000)</u>
Capital gain		<u>275,000</u>

The full capital gain will be taxable as the shares were disposed of within one year of their acquisition.

Note 5

Since the niece of Mr Hussain is non-resident, the rule of non-recognition of gain or loss does not apply to this gift. [s.79(1) & (2)] The fair market value of the shares on the date of gift is treated as consideration received.

The gain on the gift of shares of Greenwood (Pvt) Ltd (GPL) is as below:

	Rs.
Consideration deemed to be received on 15 March 2012	200,000
Cost of shares incurred on 1 July 2010	<u>(75,000)</u>
Capital gain	<u>125,000</u>

The taxable gain will be reduced to 75% [Rs. 93,750] as the asset was disposed of after more than one year. [s.37(2) and (3)]

Note 6

Sale of shares in HTPL

	Rs.	Rs.
Consideration received on 20 April 2012		700,000
Cost of the shares		
– 4,000 ordinary shares at Rs. 50 per share	200,000	
– 4,000 right shares at Rs. 30 per share	<u>120,000</u>	
		<u>(320,000)</u>
Capital gain		<u>380,000</u>

The taxable gain will be reduced to 75% [Rs. 285,000] as the shares were disposed of after more than one year. [s.37(2) and (3)]

Note 7

Personal movable assets, with certain exceptions, are not included in the definition of a capital asset. However, jewellery is one of the exceptions, and, hence, a capital asset and a capital gain on the sale of jewellery is to be taxed (**note: a loss would not have been allowed**).

The fair market value at the date of gift is deemed as the cost to the recipient of acquiring such an asset. The cost incurred by the person making the gift is not relevant for the computation of taxable gains.

Hence, the capital gain is as below:

	Rs.
Consideration received on 1 May 2012	1,000,000
Deemed cost on 1 May 2006	<u>(300,000)</u>
Capital gain	<u>700,000</u>

The taxable gain will be reduced to 75% [Rs. 525,000] as the jewellery was disposed of after more than one year. [s.37(2) and (3)]

4 (a) Tax evasion and tax avoidance

Tax evasion and tax avoidance are two approaches aimed at reducing the tax liability of a taxpayer. However, each has different tax implications if probed by the tax authorities. The differences are given below:

- (i) Tax evasion is illegal and punishable under the law with penalties and prosecution (resulting in a fine or imprisonment); whereas tax avoidance is legal and is allowable under the law.

The famous saying 'the difference between tax avoidance and tax evasion is the thickness of a prison wall' highlights the difference between the two approaches.

1.5

- (ii) Tax avoidance makes use of tax deductions, tax rebates, tax reductions, or beneficial options given in the law; tax evasion tries to reduce tax liability by concealing facts or misstating facts so as to mislead the tax authorities in an attempt to evade a tax liability otherwise due under the law.

1.5

3.0**(b) Advance ruling for non-residents**

- (i) In order to obtain an advance ruling, the non-resident company must make an application in writing to the Federal Board of Revenue (FBR). The application should contain a full and true disclosure of the nature of all material aspects of the transaction about which an advance ruling is sought. The FBR will issue an advance ruling setting out the Commissioner's position regarding the application of the Income Tax Ordinance, 2001 to the transaction. [s.206A(1)]

2.0

- (ii) The advance ruling is not binding on the non-resident taxpayer.

0.5

The ruling is binding on the Commissioner with respect to the application to the transaction of the law as it stood at the time the ruling was issued.

However, for the advance ruling to be binding on the Commissioner, the transaction has to have been carried out in accordance with all material aspects described in the taxpayer's application for the ruling. [s.206A(2)]

1.5

2.0

- (iii) Where there is any inconsistency between a circular and an advance ruling, priority will be given to the terms of the advance ruling. [s.206A(3)]

1.0

(c) (i) A resident individual is required to file a wealth statement along with his/her return of income when:

- the individual's last declared or last assessed income is Rs. 1,000,000 or more; or
- the individual's declared income for the current year is Rs. 1,000,000 or more. [s.116(2)]

2.0

(ii) A non-resident individual is required to file a wealth statement in either of the following two situations:

- the income of the non-resident person falls under the final tax regime (FTR) and the tax paid under the FTR is Rs. 35,000 or more for the tax year. [s.116(4)]
- or
- the Commissioner of Inland Revenue issues a notice in writing to the non-resident individual to file a wealth statement. [s.116(1)]

2.0

(d) Mr Waqar – explanation of the sources of funds

- (i) Loan from his uncle – Rs.1,000,000

Since the transaction of the loan is not a sham transaction and the loan has been obtained through a crossed cheque from a person whose particulars are known, the loan cannot be treated as the income of Mr Waqar. [s.39(3) & s.111(1)]

1.0

- (ii) Foreign remittance – Rs. 3,000,000

The foreign remittance has been obtained through a banking channel of which proof is available with Mr Waqar. The Commissioner of Inland Revenue will accept this without probing into the source and nature of the foreign remittance. Therefore, the remittance will not be treated as the income of Mr Waqar. [s.111(4)(a)]

1.0

- (iii) Gift of Rs.1,000,000 by a relative

Despite the fact that Mr Waqar can explain the source of income of his relative, this amount will be deemed as his income chargeable to tax under the head 'Income from other sources' on account of its having been received in cash. [s.39(3)]

1.0

3.0

15

5 Mr Anwar

(a) Sales tax payable/refundable for the month of June 2012

	Rs.	
Output tax		
Sale of taxable goods to registered and unregistered persons (Rs. 9,500,000 + Rs. 25,000,000) x 16% (see explanation)	5,520,000	0.5
Sales of goods against international tender (Rs. 10,000,000 x 0%)	0	0.5
Export of goods to Iran (Rs. 5,000,000 x 0%)	0	0.5
Sale of exempt goods Rs. 10,000,000	–	0.5
	<u>5,520,000</u>	
Input tax		
On purchase of raw materials for the manufacture of both taxable and exempt supplies (see working)	4,016,227	1.5
Unclaimed input tax relating to April 2012	500,000	0.5
	<u>4,516,227</u>	
Sales tax payable/(refundable)		
Output tax	5,520,000	0.5
Input tax (see note)	(4,516,227)	0.5
Payable	<u><u>1,003,773</u></u>	

Explanation:

The value of a supply can be reduced by a trade discount if:

- the trade discount is in conformity with the normal business practices; and
- it is shown on the sales tax invoices.

In Mr Anwar's case both conditions are fulfilled; therefore, the value of the supply is reduced for the purposes of charging sales tax. [s.2(46)(b)]

1.0

6.0**Working:**

Input tax on the purchase of raw materials for manufacturing both taxable supplies and exempt supplies (Rs. 35,000,000 x 16/116)

4,827,586

Apportionment of Rs. 4,827,586 to taxable supplies

	Rs.	Rs.
Value of taxable supplies		
– sale to registered persons	9,500,000	
– sale to unregistered persons	25,000,000	
– sales against international tender	10,000,000	
– exports to Iran	5,000,000	
	<u>(A)</u>	49,500,000
– Value of taxable supplies + exempt supplies (Rs. 49,500,000 + Rs. 10,000,000)	(B)	59,500,000
– Input tax to be apportioned A/B x C 49,500,000/59,500,000 x 4,827,586	(C)	<u><u>4,016,227</u></u>

Note:

As the input tax paid is less than 90% of the output tax, the whole amount is eligible to be adjusted against output tax.

(b) Difference between exempt supplies and zero rated supplies

Points of difference between exempt supplies and zero rated supplies are:

- Exempt supplies are not charged to tax. Zero rated supplies are charged to tax but at the rate of 0%. [s.4 & 13] 1.0
- While input tax relating to zero rated supplies is adjustable or refundable, input tax relating to exempt supplies cannot be claimed. [s.8] 1.0

	Marks
3. A prescribed sales tax invoice must be issued in the case of zero rated supplies. No sales tax invoice shall be raised for exempt supplies. [s.23]	1·0
4. A person who makes supplies of exempt goods only is not required to be registered under the Sales Tax Act, 1990. A person making zero rated supplies has to be registered under the Sales Tax Act, 1990. [s.14]	1·0
	<hr/> 4·0
	<hr/> 10

Tutorial note: Exports and goods listed in the Fifth Schedule to the Sales Tax Act, 1990 are zero rated. Further, the Federal Government is empowered to notify a list of goods to be charged to tax at zero rate. [s.4]

Exempt supplies are given in the Sixth Schedule to the Sales Tax Act, 1990. Further, the Federal Government and the Federal Board of Revenue (FBR) both can notify goods to be exempt from sales tax. [s.13]