

Taxation – Pakistan (PKN)(F6) June & December 2010

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

Relational diagram of paper with other papers

This diagram shows where any direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other, such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper

Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate and the broad intellectual level at which these may need to be demonstrated (*See intellectual levels below)

Reading lists

ACCA examiners will recommend study texts and text books where these are available, which students may read as part of their preparation for the exam. Relevant articles will also be published in *student accountant*.

INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension

Level 2: Application and analysis

Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours because increasingly study and learning patterns and styles vary greatly between people and organisations and in different personal, professional and educational circumstances.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down in those particular papers.

GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Performance Management* (F5) and *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks.

The pass mark for all ACCA Qualification examination papers is 50%.

GUIDE TO EXAMINATION ASSESSMENT

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

For paper based examinations regulation **issued** or legislation **passed** on or before 30th September annually, will be assessed from June 1st of the following year to May 31st of the year after. Please refer to the examinable documents for the paper for more information.

Regulation issued or legislation passed in accordance with the above dates may be examinable even if the **effective** date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

Syllabus

(F6) PKN

AIM

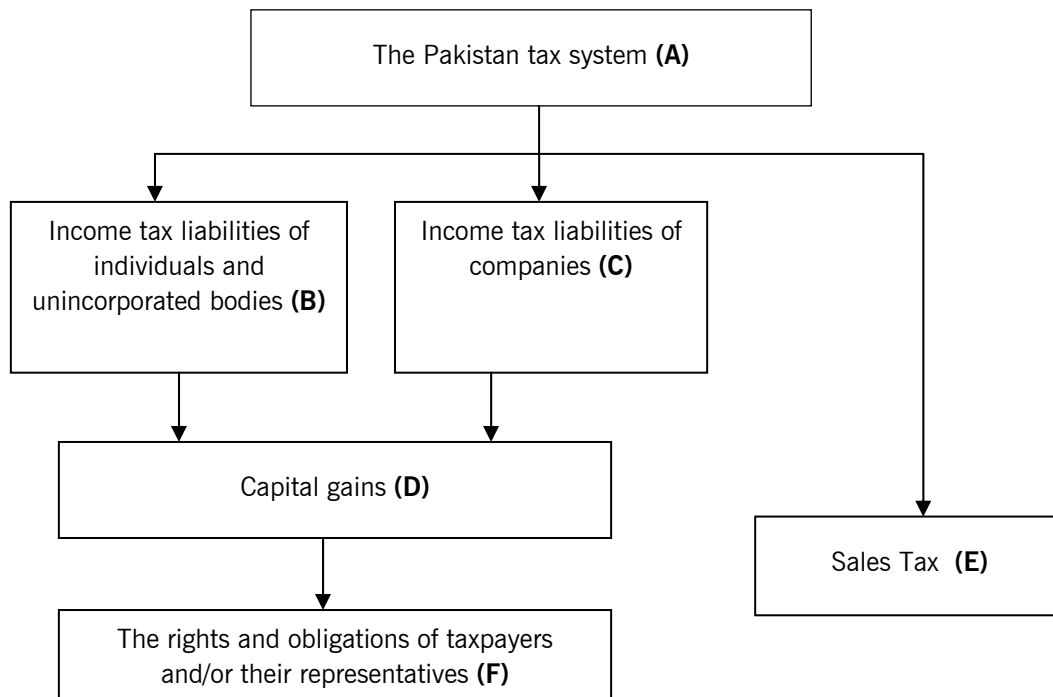
To develop knowledge and skills relating to the tax system as applicable to individuals, unincorporated persons and companies.

MAIN CAPABILITIES

After completing this examination paper students should be able to:

- A** Explain the operation and scope of the Pakistan tax system and tax administration
- B** Explain and compute the income tax liabilities of individuals and unincorporated bodies
- C** Explain and compute the income tax liabilities of companies
- D** Explain and compute the capital gains of individuals, unincorporated bodies and companies
- E** Explain and compute the effects of sales tax on incorporated and unincorporated businesses
- F** Identify and explain the rights and obligations of taxpayers and/or their representatives and the implications of non-compliance.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

This syllabus introduces candidates to the subject of taxation and provides the core knowledge of the underlying principles and major technical areas of taxation, as they affect the activities of individuals and businesses.

In this syllabus, candidates are introduced to the rationale behind and the functions of the tax system. The syllabus then considers the separate taxes that an accountant would need to have a detailed knowledge of, such as income tax from self employment, employment and investments; the income tax liability of companies; the sales tax liability of businesses; and the capital gains arising on disposals of assets by both corporate and non-corporate assesseees.

Having covered the core areas of the basic taxes, the candidate should be able to compute tax liabilities, explain the basis of their calculations, apply tax planning techniques for individuals, unincorporated bodies and companies, and identify the compliance issues for each major tax through a variety of business and personal scenarios and situations.

DETAILED SYLLABUS

A The Pakistan tax system

1. The overall function and purpose of taxation in a modern economy
2. Different types of taxes
3. Principal sources of revenue law and practice
4. Tax avoidance and tax evasion

B Income tax liabilities of individuals and unincorporated bodies

1. The scope of income tax on individuals and unincorporated bodies
2. Income from employment
3. Income from business
4. Income from property

5. Income from other sources
6. The comprehensive computation of total income and tax liability
7. The use of exemptions and reliefs in minimising tax liabilities

C Income tax liabilities of companies

1. The scope of income tax on companies
2. Income from business
3. Income from property
4. Income from other sources
5. The comprehensive computation of total income and tax liability
6. The use of exemptions and reliefs in minimising tax liabilities

D Capital gains

1. The scope of the taxation of capital gains
2. The computation of gains and losses
3. The use of exemptions and reliefs in minimising tax liabilities.

E Sales tax

1. The scope of sales tax
2. The registration and de-registration requirements
3. The computation of sales tax liabilities
4. Sales tax returns, refunds and representations

F The rights and obligations of taxpayers and/or their representatives

1. The system of self-assessment and the making of returns

2. Payment of tax, including advance tax, collection of advance tax, tax deducted at source and refund of tax.
3. The procedures relating to enquiries, audit, disputes and appeals
4. Additional tax and penalties for non-compliance

APPROACH TO EXAMINING THE SYLLABUS

The paper will be mainly computational and will have five compulsory questions.

- Questions one and two will be for a total of 55 marks with one of the questions being for 30 marks and the other for 25 marks. One of these two questions will focus on income tax for individuals and/or unincorporated bodies and the other question will focus on income tax for companies.
- Question three will be for 20 marks and will focus predominantly on capital gains (either corporate, unincorporated or individual).
- Question four will be for 15 marks and question five will be for 10 marks. Both these questions will be set on any area of the syllabus.

There will always be a minimum of 10 marks available on sales tax on any paper. These marks might be included as part of a question involving a business scenario or as a separate question on sales tax.

Capital gains may be examined in questions other than Question 3, for example as part of an income tax question.

Any of the five questions might include the consideration of issues relating to the minimisation or deferral of tax liabilities.

Study Guide

A THE PAKISTAN TAX SYSTEM

1. The overall function and purpose of taxation in a modern economy

- a) Describe the purpose (economic, social etc) of taxation in a modern economy.^[1]

2. Different types of taxes

- a) Identify the different types of tax.^[1]
- b) Explain the difference between direct and indirect taxation.^[2]

3. Principal sources of revenue law and practice

- a) Describe the overall structure of the Pakistan tax system.^[1]
- b) State the different sources of revenue law.^[1]
- c) Recognise the different levels of tax authority, together with their respective functions and jurisdictions.^[1]
- d) Understand the role of the Federal Board of Revenue (Board).^[1]
- e) Explain the purpose of the circulars issued by the Board and the legal validity of these circulars for the taxpayer and for the income tax authorities.^[2]
- f) Appreciate the interaction of the Pakistan tax system with that of other tax jurisdictions.^[2]
- g) Explain how an agreement for the avoidance of double taxation and prevention of fiscal evasion entered into by Pakistan with another country can override local tax legislation.^[2]

Excluded topics

- *Parts I, II and III of Chapter XI relating to administration except for s.207, s.214, s.221 and s.226.*
- *Detailed knowledge of agreements for the avoidance of double taxation.*

4. Tax avoidance and tax evasion

- a) Explain the difference between tax avoidance and tax evasion.^[1]
- b) Explain the need for an ethical and professional approach.^[2]

Excluded topics

- *Anti-avoidance legislation under s.109, s.111, s.112.*

B. INCOME TAX LIABILITIES OF INDIVIDUALS AND UNINCORPORATED BODIES

1. The scope of income tax on individuals and unincorporated bodies

- a) Explain how the residence of an individual is determined.^[2]
- b) Identify the entities that are included in the definition of an association of persons (AOP).^[1]
- c) Explain how the residence of an AOP is determined.^[2]
- d) State the categories of persons which are chargeable to tax.^[2]
- e) The tax year
 - i) Define the tax year and recognise the difference between a normal tax year, a special tax year and a transitional tax year.^[2]
 - ii) Describe the procedure for adopting a special tax year.^[2]
 - iii) Explain the powers of the Board in assigning a special tax year to a class of persons and in permitting a class of persons having a special tax year to use a normal tax year and vice versa.^[2]
- f) Tax accounting
 - i) Explain the concept of computing income in accordance with the method of accounting regularly employed by a taxpayer and the procedure for changing the method of accounting.^[2]
 - ii) State the methods of accounting that can be adopted by a taxpayer for income

- chargeable under the different heads of income ^[2]
- iii) Explain and distinguish between cash basis accounting and accrual basis accounting.^[2]
- g) Understand how the fair market value of any property or rent, asset, service, benefit or perquisite at a particular time is determined.^[2]
- h) Capital vs. revenue
- i) Explain the considerations that are material in determining whether a payment is a capital disbursement or a revenue disbursement.^[2]
- ii) Explain the considerations that are material in determining whether a receipt is a capital receipt or an income receipt.^[2]
- i) Explain how foreign currency amounts are to be taken into account for tax purposes.^[1]
- j) Explain the treatment of income derived by a person from a source of income that has ceased.^[2]
- k) Income
- i) Understand what is income for tax purposes ^[2]
- ii) Recognise the heads of income under which income chargeable to tax is classified.^[2]
- iii) Explain when a person shall be treated as having received an amount of income.^[2]
- l) Associates
- i) Understand when two or more persons are considered to be associates ^[2]
- ii) Explain the implications where transactions between associates are on a non-arm's-length basis.^[2]
- m) Disposal and acquisition of assets
- i) Understand when a person is treated as having acquired an asset ^[2]
- ii) Understand and recognise:
- the situations when a person holding an asset is treated as having made a disposal of the asset ^[2]
 - the implications of the disposal of an asset in a non-arm's length transaction ^[2]
- the transactions relating to disposal of assets where no gain or loss is recognised for tax purposes ^[2]
 - the treatment of the application of a business asset to personal use and the application of a personal asset to business use ^[2]
 - the concept of fair market value of any asset.^[2]
- iii) Explain the different concepts for the determination of:
- the cost of an asset; and
 - the consideration received on the disposal of an asset.^[2]
- n) Pakistan-source income and foreign-source income– Geographical source of income.
- i) Explain the concept of Pakistan-source income in relation to the different sources of income derived by resident and non-resident persons ^[2]
- ii) Explain when a source of income is considered to be foreign-source income ^[2]
- iii) Understand that a resident person is chargeable to tax on Pakistan-source income and foreign-source income.^[2]
- iv) Understand that deductible expenditure incurred in deriving foreign-source income under a head of income is deductible only against that head of income ^[2]
- v) Explain how a foreign loss (i.e. when deductible expenditure incurred in deriving foreign-source income exceeds the foreign-source income) can be carried forward and utilised.^[2]
- o) Non-resident persons
- i) Understand that a non-resident person is chargeable to tax only on Pakistan-source income.^[2]
- ii) Explain when business income of a non-resident is Pakistan-source income ^[2]
- iii) Define permanent establishment (PE) and explain the principles to be applied in determining the business income of a PE in Pakistan of a non-resident ^[2]
- iv) Define the terms royalty and fees for technical services and explain when such income derived by a non-resident is considered to be Pakistan-source income ^[2]
- v) Understand how Pakistan-source royalty or fees for technical services derived by a non-resident having no PE in Pakistan is subject

- to separate taxation as provided for in s.6 read with s.8, which is the final tax ^[2]
- vi) Explain the basis of taxation of Pakistan-source royalty where the property or right giving rise to the royalty is effectively connected with a PE in Pakistan of the non-resident ^[2]
 - vii) Explain the basis of taxation of Pakistan-source fees for technical services where the services are rendered through a PE in Pakistan of the non-resident ^[2]
 - viii) Explain the basis of chargeability of tax of income derived by a non-resident carrying on the business of operating ships or aircraft as the owner or charterer thereof and understand how such income is subject to separate taxation as provided for in s.7 read with s.8 which is the final tax. ^[2]

- p) Income Tax Ordinance to over-ride other laws:
 - i) Understand that the provisions of the Ordinance shall apply notwithstanding anything to the contrary contained in any other law for the time being in force. ^[2]

Excluded topics

- *Insurance business (Fourth Schedule)*
- *Business of exploration and production of:*
 - *petroleum (Part I of the Fifth Schedule)*
 - *mineral deposits other than petroleum (Part II of the Fifth Schedule)*
- *Non-profit organisations*
- *Income of deceased individuals – s.87.*
- *Income of authors – s.89.*
- *Income of a minor child – s.91.*
- *Transfer pricing rules*

2. Income from employment

- a) Identify the income that is taxable under the head of salary. ^[2]
- b) Define the terms employee, employer, and employment. ^[2]
- c) Recognise the factors which determine whether an engagement is treated as employment or self-employment. ^[2]
- d) Recognise and explain the receipt basis of assessment as applied to salary income, including benefits and perquisites, and recognise when a person is treated as having received an amount, benefit or perquisite. ^[2]
- e) Explain when a special allowance granted to an employee to meet expenses is exempt from tax. ^[2]
- f) Distinguish between the perquisites, allowances and benefits which are assessed to tax and those that are exempt. ^[2]
- g) Identify the situations when an amount or perquisite received by an employee from a person other than his current employer is assessable to tax as salary income. ^[2]
- h) Understand and apply the basis for determining the value of perquisites, allowances and benefits assessable to tax, including the concept of fair market value. ^[2]
- i) Explain the tax consequences of employee share schemes. ^[2]
- j) Explain the option available to an employee for payment of tax on amounts received (1) on termination of employment or (2) as salary in arrears and the calculation of tax thereon. ^[2]
- k) Explain the tax treatment of amounts received as a gratuity, pension and commutation of pension. ^[2]
- l) Explain the tax treatment of any bonus paid or payable to corporate employees receiving salary income of Rs. 1,000,000 or more (excluding bonus) and the basis of chargeability to tax in the tax year 2010. ^[2]
- m) Explain the difference in the tax treatment of amounts received from a recognised provident fund and an unrecognised provident fund. ^[2]
- n) Compute the amount of income assessable. ^[2]
- o) Explain the system of deduction of tax at source by an employer. ^[2]
- p) Explain the anti-avoidance provision relating to salary paid by private companies. ^[2]

Excluded topics

- *The rules for recognised provident funds, approved superannuation funds and approved gratuity funds, including the conditions to be met to obtain approval from the tax authorities (Sixth Schedule).*

3. Income from business

- a) Identify the income that is taxable under the head of income from business.^[2]
- b) Explain and apply the general principle of allowability of expenditure and the deduction allowable for animals used for the purpose of business or profession other than as stock-in-trade.^[2]
- c) Recognise the items of expenditure which are expressly not deductible.^[2]
- d) Explain the tax treatment of unpaid expenditure at the end of three years immediately following the tax year in which the expenditure was allowed as a deduction, and the treatment when such expenditure is wholly or partly paid in a subsequent tax year.^[2]
- e) Explain the tax treatment of a receipt by a person in cash or in kind in respect of any expenditure or loss previously allowed as a deduction in the computation of that person's income chargeable to tax.^[2]
- f) Explain the tax treatment of a trading liability that has been allowed as a deduction for which the taxpayer has derived any benefit.^[2]
- g) Bad debts.
 - i) Specify the conditions to be satisfied for a bad debt to be claimed as a deduction.^[2]
 - ii) Explain the treatment of amounts recovered against debts previously allowed as a deduction.^[2]
- h) Define profit on debt and identify the specific items of expenditure which are deductible as profit on debt, financial costs or lease payments.^[2]
- i) Define pre-commencement expenditure and explain how such expenditure can be claimed as a deduction.^[2]
- j) Define scientific research expenditure and recognise the expenditure that is and is not deductible.^[2]
- k) Recognise the expenditure that is deductible in respect of employee training and facilities.^[2]
- l) Depreciation allowances
 - i) Define structural improvement in relation to immovable property for depreciation and initial allowance purposes.^[1]
 - ii) Define the terms depreciable asset, eligible depreciable asset, and written down value of a depreciable asset.^[2]
 - iii) Explain the concept of the cost of an asset for depreciation and initial allowance purposes, and the concept of consideration received on the disposal of an asset.^[2]
 - iv) Explain when a taxpayer is eligible for a deduction for depreciation allowances and initial allowances.^[2]
 - v) Recognise the depreciable assets which are not entitled to a deduction of initial allowance.^[2]
 - vi) Explain how depreciation is allowed on an asset used partly in a business chargeable to tax and partly for some other purpose.^[2]
 - vii) Explain the treatment of plant or machinery that has been used previously in Pakistan.^[2]
 - viii) Compute depreciation allowances and initial allowances.^[2]
 - ix) Compute balancing allowances and charges on the disposal of depreciable assets, including on the export or transfer out of Pakistan of depreciable assets, and on an asset used partly in a business chargeable to tax and partly for some other purpose.^[2]
 - x) Compute the balancing adjustment on the disposal of a building and of a motor car whose cost was restricted for the purposes of claiming depreciation.^[2]
 - xii) Understand the treatment of unused depreciation allowances.^[2]
- m) Intangibles
 - i) Define the term intangible.^[1]
 - ii) Explain how cost is determined in relation to an intangible and the

conditions to be met for claiming a deduction for amortisation.^[2]

- iii) Explain the basis for determining the period over which an intangible is to be amortised.^[2]
 - iv) Compute the amortisation deduction of an intangible used in deriving income from a business chargeable to tax.^[2]
 - v) Compute the amortisation deduction of an intangible used partly in a business chargeable to tax and partly for some other purpose.^[2]
 - vi) Explain the concept of consideration received on the disposal of an intangible.^[2]
 - vii) Compute the taxable income or loss on the disposal of an intangible, including an intangible used partly in a business chargeable to tax and partly for some other purpose.^[2]
- n) Relief for losses
- i) Understand how losses under a head of income (except speculative business loss, capital loss, and foreign-source loss) in a tax year, can be set off against any head of income in that year.^[2]
 - ii) Explain how unadjusted business losses (not set off against income) can be carried forward and understand the order of adjustment of losses of more than one year.^[2]
 - iii) Understand how unadjusted business losses which include depreciation allowances, initial allowances, intangible amortisation and pre-commencement expenditure can be carried forward and utilised.^[2]
- o) Speculative business
- i) Understand what constitutes speculation business and the treatment of such business as distinct and separate from any other business carried on by a taxpayer.^[2]
 - ii) Prepare a computation of income of a speculative business and explain the treatment of profit or gains arising from a speculative business.^[2]
 - iii) Explain the treatment of speculative losses and how such losses can be set off and carried forward and utilised.^[2]

- p) Associations of persons (AOPs)
- i) Understand the basic principle that an AOP is taxed separately from its members and where an AOP has paid tax on its profits, the amount representing the share of profit received by a member from the AOP, is exempt from tax (except where the member is a company).^[2]

Excluded topics

- *Methods for determining the value of stock-in-trade - s.35.*
- *Method of accounting for long-term contracts- s.36.*
- *Disposal of a business by an individual to a wholly-owned company – s.95.*
- *Disposal of a business by an association of persons to a wholly-owned company s-96.*
- *Change in the control of the underlying ownership of an AOP - s.98.*
- *Change in the constitution of an AOP – s.98A.*
- *Discontinuance of a business or dissolution of an AOP – s.98B.*
- *Succession to a business – s.98C.*

4. Income from property

- a) Identify the income that is taxable under the head of income from property.^[2]
- b) Distinguish between the types of rent that are categorised as from property and as from other sources.^[2]
- c) Explain when an individual or an AOP is not chargeable to tax on income from property.^[2]
- d) Explain the treatment of amounts received from tenants which are not adjustable against the rent payable.^[2]
- e) Prepare a basic computation of income from property and calculate the tax payable at the applicable rates to the gross amount of rent chargeable to tax.^[2]

5. Income from other sources

- a) Identify the income that is taxable under the head of income from other sources.^[2]

- b) Recognise the allowable deductions (if any) from the different categories of income from other sources.^[2]
- c) Understand what is considered to be dividend as provided for in s.2(19) and understand how dividend income received by any person from a company is subject to separate taxation as provided for in s.5 read with s.8.^[2]
- d) Understand that the remittance of after tax profit of a branch of a foreign company operating in Pakistan, other than a branch of a petroleum exploration and production foreign company operating in Pakistan, is treated as dividend income under s.2(19) and its chargeability of tax.^[2]
- e) Explain the treatment of an amount received as consideration for vacating the possession of a building.^[1]
- f) Explain when an amount received by a person (other than from a banking company or financial institution) as a loan, an advance, a deposit for the issuance of shares or a gift is considered to be income chargeable to tax.^[2]

6. The comprehensive computation of total income and tax liability

- a) Define the terms total income and taxable income.^[2]
- b) Explain the principles and rules relating to the apportionment of common expenditure incurred in the derivation of:
 - more than one head of income;
 - income chargeable to tax under a head of income and to some other purpose;
 - income where the tax paid or collected in advance or deducted at source is the final tax; or
 - income subject to separate taxation as provided for in sections 5, 6 and 7.^[2]
- c) Explain the provisions relating to the deductions (zakat, workers' welfare fund and workers' participation fund) that can be made from total income to arrive at taxable income.^[2]
- d) Understand that the taxable income of each individual is to be determined separately.^[1]

- e) Prepare a computation of taxable income and compute the income tax payable, including in the case of an individual who has both taxable income and an amount received from an AOP, which is exempt from tax.^[2]
- f) State the order in which tax credits are to be deducted from the tax payable.^[2]
- g) Explain and compute the tax credit available on foreign source income of a resident taxpayer chargeable to tax, on which foreign income tax has been paid.^[2]
- h) Explain how the income of joint owners of any property is assessed to tax when their respective shares are definite and ascertainable.^[1]
- i) Explain when a retailer being an individual or an association of persons can opt for taxation on a final tax basis by payment of tax at a prescribed percentage of turnover provided for in s.113A.^[2]
- j) Understand the rules to prevent double derivation and double deduction as provided for in s.73.^[2]

7. The use of exemptions and reliefs in minimising tax liabilities

- a) Recognise and understand how to apply the exemptions and tax reliefs given in the Second Schedule.^[2]
- b) Define agricultural income and explain the exemption from tax available to agricultural income.^[2]
- c) Explain the exemption available on foreign source salary received by a resident individual.^[2]
- d) Recognise the exemption available to the foreign-source income of short-term resident individuals as provided for in s.50.^[2]
- e) Recognise the exemption available to a returning expatriate citizen of Pakistan on the individual's foreign-source income as provided for in s.51(1).^[2]

- f) Recognise the exemption available to a citizen of Pakistan who leaves Pakistan in a tax year and remains abroad during that year, on salary income earned by him outside Pakistan.^[2]
- g) Explain the exemptions available to an employee on the receipt of pensions, gratuities and sums from provident funds.^[2]
- h) Explain the exemption available to an employee in respect of a medical allowance or medical expenses borne or reimbursed by the employer.^[2]
- i) Understand and compute the tax credit available to an individual or an association of persons on charitable donations as provided for in s.61.^[2]
- j) Understand and compute the tax credit available to an individual or an association of persons on investment in shares as provided for in s.62.^[2]
- k) Understand and compute the tax credit available to an individual Pakistani on contributions to approved funds, plans and schemes under the Voluntary Pension System Rules, 2005, as provided for in s.63.^[2]
- l) Understand and compute the tax credit available to an individual or an association of persons on any profit or share in rent on a loan for construction or acquisition of a house as provided for in s.64.^[2]
- m) Limitation of an exemption.
- i) Explain whether or not an exemption from tax given to the original recipient of income can extend to any other person receiving a payment out of that exempt income.^[2]
- n) Exemptions and tax provisions in other laws.
- i) Understand that exemptions from tax and other tax provisions in law other than the Income Tax Ordinance, 2001 (Ordinance) have no legal effect unless also provided for in the Ordinance - s.54^[2].

Excluded topics

- *Exemptions and reliefs from tax on:*
 - *income relating to privileges enjoyed by diplomatic and United Nation's individuals – s.42.*
 - *salary received by an employee of a foreign government – s.43.*
 - *salary received by a non-citizen of Pakistan under a foreign aid agreement – s.44(2)*
 - *income of non-citizens of Pakistan to the extent provided for in international technical assistance agreements – s.44(3).*
 - *monetary benefits attached to an award given by the President of Pakistan – s.45.*
 - *profit on debt received by non-residents on securities issued by a resident person – s.46.*
 - *scholarships – s.47.*
 - *support payment to a spouse under an agreement to live apart – s.48.*
- *Exemptions and reliefs on perquisites and allowances granted by the Government of Pakistan to classes of persons such as ministers of the federal government, members of the armed forces of Pakistan etc.*
- *Transfer of assets for income splitting – s.90.*

C INCOME TAX LIABILITIES OF COMPANIES

1. The scope of income tax on companies

- a) Recognise that a company is liable to tax separately from its shareholders.^[2]
- b) Identify the entities that are included in the definition of a company.^[1]
- c) Define the terms public company, private company, and small company for tax purposes.^[1]
- d) Explain how the residence of a company is determined.^[2]
- e) Tax year (as for individuals and AOPs).^[2]
- f) Tax accounting (as for individuals and AOPS).^[2]

- g) Capital vs revenue (as for individuals and AOPs).^[2]
- h) Income (as for individuals and AOPs).^[2]
- i) Associates (as for individuals and AOPs).^[2]
- j) Disposals and acquisitions of assets (as for individuals and AOPs).^[2]
- k) Pakistan-source income and foreign-source income (as for individuals and AOPs).^[2]
- l) Non-resident companies (as for individuals and AOPs).^[2]
- m) Explain how foreign currency amounts are accounted for Pakistan tax.^[2]
- n) Explain the treatment of income derived by a company from a source of income which has ceased.^[2]
- o) Income Tax Ordinance to override other laws.
- i) As for individuals and AOPs.^[2]
- b) Explain the general principle of allowability of expenditure and recognise the items of expenditure which are expressly not deductible.^[2]
- c) Explain the deduction allowable to a company using animals for the purpose of business other than as stock-in-trade.^[1]
- d) Explain the tax treatment of unpaid expenditure at the end of three years immediately following the tax year in which the expenditure was allowed as a deduction and the treatment when such expenditure is wholly or partly paid in a subsequent tax year.^[2]
- e) Explain the tax treatment of a receipt by a person in cash or in kind in respect of any expenditure or loss previously allowed as a deduction in the computation of that person's income chargeable to tax.^[2]
- f) Explain the tax treatment of a trading liability that has been allowed as a deduction for which the taxpayer has derived any benefit.^[2]

Excluded topics

- *Federal government, provincial government and local government income .*
- *Trusts.*
- *Co-operative societies.*
- *Banking companies including the computation of the profits and gains of a banking company and tax payable thereon (Seventh Schedule).*
- *Investment companies and asset management companies.*
- *Insurance business (Fourth Schedule).*
- *Business of exploration and production of:*
 - *petroleum (Part I of the Fifth Schedule);*
 - *mineral deposits other than petroleum (Part II of the Fifth Schedule).*
- *Non-profit organisations.*
- *Amalgamations and reconstruction.*
- *Transfer pricing rules.*

2. Income from business

- a) Compute the income chargeable to tax under the heading income from business.^[2]
- b) Explain the general principle of allowability of expenditure and recognise the items of expenditure which are expressly not deductible.^[2]
- c) Explain the deduction allowable to a company using animals for the purpose of business other than as stock-in-trade.^[1]
- d) Explain the tax treatment of unpaid expenditure at the end of three years immediately following the tax year in which the expenditure was allowed as a deduction and the treatment when such expenditure is wholly or partly paid in a subsequent tax year.^[2]
- e) Explain the tax treatment of a receipt by a person in cash or in kind in respect of any expenditure or loss previously allowed as a deduction in the computation of that person's income chargeable to tax.^[2]
- f) Explain the tax treatment of a trading liability that has been allowed as a deduction for which the taxpayer has derived any benefit.^[2]
- g) Bad debts
- i) As for individuals and AOPs. ^[2]
- ii) Define the term consumer loan and explain the provisions regarding the deduction of bad debts arising out of consumer loans in the case of non-banking finance companies.^[2]
- h) Recognise the items of expenditure which are deductible as profit on debt, financial costs or lease payments.^[2]
- i) Explain how pre-commencement expenditure can be claimed as a deduction.^[2]
- j) Recognise the items of scientific research expenditure that are and are not deductible.^[2]
- k) Recognise the expenditure that is deductible in respect of employee training and facilities.^[2]
- l) Transfers to participatory reserve.
- i) Specify the conditions to be satisfied for claiming a transfer to participatory reserve as a deduction ^[1]

- ii) Explain the consequences of any part of the reserve being applied for a purpose other than that specified ^[1]
- m) Depreciation allowances
 - i) As for individuals and AOPs.^[2]
 - ii) Explain the concept of first year allowance on plant, machinery and equipment allowable to certain industrial undertakings in lieu of initial allowance.^[2]
 - iii) Explain the concept of first year allowance on any plant, machinery and equipment installed for the generation of alternate energy allowable to industrial undertakings in Pakistan, in lieu of initial allowance.^[2]
 - iv) Explain the treatment of depreciation and initial allowances on assets owned by specified lessors and given on lease, and how unabsorbed depreciation and initial allowance on such assets can be carried forward and utilised.^[2]
- n) Intangibles (as for individuals and AOPs).^[2]
- o) Relief for losses
 - i) As for individuals and AOPs.^[2]
 - ii) Understand how unadjusted business loss which includes first year allowances (s.23A and s.23B) can be carried forward and utilised.^[2]
 - iii) Explain the concept of group taxation – s.59AA.^[2]
 - iv) Explain the concept of group relief-s.59B.^[2]
- p) Speculative business (as for individuals and AOPs).^[2]
- q) Explain and apply the provisions in relation to thin capitalisation that can apply to a foreign-controlled resident company or a branch of a foreign company operating in Pakistan.^[2]

Excluded topics

- *Methods for determining stock-in-trade – s.35.*

- *Methods for accounting for long-term contracts – s.36*
- *Bad debts arising out of consumer loans of banking companies.*
- *Profits on non-performing debts of banking companies and development finance institutions – s.30.*
- *Set off of business losses*
 - *of companies operating hotels – s.56A; and*
 - *consequent to amalgamations-s.57A.*
- *Carry forward of business losses by a banking company wholly owned by the Federal Government – s.57(2A).*
- *Disposal of a business by an individual to a wholly-owned company – s.95.*
- *Disposal of a business by an association of persons to a wholly-owned company s-96.*
- *Disposal of assets between wholly-owned companies – s.97.*
- *Disposal of assets under a scheme of arrangement and reconstruction-s.97A.*
- *Change in control of the underlying ownership of a company – s.98.*

3. Income from property

- i) As for individuals and AOPs except for the item relating to the non-chargeability to tax of income from property of an individual or AOP in certain cases).^[2]

4. Income from other sources

- i) As for individuals and AOPs.^[2]

5. The comprehensive computation of total income and tax liability

- a) Prepare a computation of total income, involving income chargeable under the various heads of income.^[2]
- b) Explain the principles and rules relating to the apportionment of common expenditure incurred in the derivation of:
 - more than one head of income;
 - income chargeable to tax under a head of income and to some other purpose;
 - income where the tax paid or collected in advance or deducted at source is the final tax; or

- income subject to separate taxation as provided for in sections 5, 6 and 7.^[2]
- c) Compute the deductions allowable against total income to arrive at taxable income.^[2]
- d) Explain and calculate the tax credit available on foreign-source income of a resident company chargeable to tax, on which foreign income tax has been paid.^[2]
- e) Recognise and apply the effect of withholding taxes on payments made to and by companies.^[2]
- f) Explain the treatment in respect of a share of profits derived by a company from an AOP and the basis for claiming credit for the tax paid by the AOP.^[2]
- g) State the order in which tax credits are to be deducted from the tax payable^[2]
- h) Minimum tax
 - i) Explain the concept of minimum tax payable by a resident company as provided for in s.113 and recognise the situations where such tax would be payable.^[2]
 - ii) Understand the meaning of 'turnover'.^[2]
 - iii) Understand how minimum tax paid can be carried forward and utilised.^[2]

6. The use of exemptions and reliefs in minimising tax liabilities

- a) Recognise and understand how to apply the relevant exemptions and tax reliefs given in the Second Schedule.^[2]
- b) Define agricultural income and explain the exemption from tax available to agricultural income.^[2]
- c) Understand the tax credit available to a company on charitable donations, as provided for in s.61.^[2]

- d) Limitation of an exemption (as for individuals and AOPs).^[2]
- e) Exemptions and tax provisions in other laws
 - i) As for individuals and AOPs.^[2]

Excluded topics

- *Transfer of assets for income splitting – s.90.*

D. CAPITAL GAINS

1. The scope of the taxation of capital gains

- a) Define the term capital asset for the purpose of the computation of capital gains.^[2]
- b) Distinguish between the gains and losses chargeable under the head capital gains and those chargeable under the other heads of income.^[2]
- c) State the situations where a person holding an asset is treated as having made a disposal of that asset.^[2]
- d) Income Tax Ordinance to override other laws
 - i) As for individuals and AOPs.^[2]

2. The computation of gains and losses

- a) Explain the various concepts for determining consideration and recognise when this will not equal the amount received in cash or kind.^[2]
- b) Explain the implications of disposing of an asset in a non-arm's length transaction.^[2]
- c) Explain when a person is treated as having acquired an asset.^[2]
- d) Explain the various concepts for the determination of the cost of an asset and recognise the situations when this will not equal the amount actually expended.^[2]
- e) Explain how the cost of a capital asset is determined when it is received (1) under a gift, bequest or will (2) by succession, inheritance or devolution or (3) on the distribution of

assets on the dissolution of an association of persons or on the liquidation of a company.^[2]

- f) Losses
 - i) Explain the treatment of capital losses and how such losses can be set off and carried forward and utilised.^[2]
 - ii) Identify the capital assets on the disposal of which capital losses are not recognised.^[2]
- g) Compute the amount chargeable to income tax under the head of capital gains for individuals, associations of persons and companies.^[2]

3. The use of exemptions and reliefs in minimising tax liabilities

- a) Recognise and understand how to apply the relevant exemptions and reliefs given in the Second Schedule.^[2]
- b) Recognise the transactions relating to a disposal of assets where no gain or loss is recognised for tax purposes.^[2]
- c) Recognise the disposals of assets on which capital gains are exempt.^[2]
- d) Limitation of an exemption (as for individuals and AOPs).^[2]
- e) Exemptions and tax provisions in other laws
 - i) As for individuals and AOPs.^[2]

E. SALES TAX

1. The scope of sales tax

- a) Describe the scope of sales tax on the supply of goods.^[2]
- b) Recognise the principal services which are subject to sales tax.^[2]
- c) Distinguish between general sales tax and retail tax.^[2]
- d) List the principal zero-rated and exempt supplies.^[2]

2. The registration and de-registration requirements

- a) Recognise the circumstances in which a person must register for sales tax.^[2]
- b) Explain the advantages of voluntary registration.^[2]
- c) Explain the circumstances in which pre-registration input tax can be recovered.^[2]
- d) Explain how and when a person can deregister.^[2]
- e) Explain the circumstances when the sales tax authorities can deregister a person or suspend a person's registration.^[2]

3. The computation of sales tax liabilities

- a) Explain the terms tax period, input tax and output tax, and understand how the sales tax liability is determined for:
 - retailers
 - wholesale cum retail outlets
 - importers
 - traders other than the above persons
 - manufacturers^[2]
- b) Define the terms supply and taxable supply and determine the value of supply and time of supply of a transaction.^[2]
- c) Explain the time frame and understand the restrictions for claiming input tax.^[2]
- d) Understand and apply the mode of apportionment of input tax between taxable and non-taxable supplies.^[2]
- e) State the circumstances when debit notes and credit notes can be issued.^[2]
- f) Understand how excess input tax will be carried forward and refunded.
- g) Understand the concept of Federal excise duty collection under the sales tax mode.^[2]

4. Sales tax returns, refunds and representations

- a) Explain when and how sales tax returns

must be submitted, including special and final returns.^[2]

- b) Understand when and how a sales tax return can be revised.^[2]
- c) Explain the procedure for claiming refunds of sales tax.^[2]
- d) List the information that must be given on a sales tax invoice.^[2]
- e) Understand the functions and obligations of authorised representatives and e-intermediaries.^[2]

F. THE RIGHTS AND OBLIGATIONS OF TAXPAYERS AND/OR THEIR REPRESENTATIVES

1. The system of self-assessment and the making of returns

- a) Explain and apply the features of the self-assessment system as applied to individuals, associations of persons and companies.^[2]
- b) Understand the procedures and recognise the due dates for furnishing a return, an employer's certificate, a statement of income subject to final tax or a wealth statement.^[2]
- c) Recognise the circumstances in which a person is not required to file a return.^[1]
- d) Explain the obligations of a person who intends to discontinue a business and of a person likely to leave Pakistan with no intention of returning, and the procedure for the assessment and payment of tax in such circumstances.^[2]
- e) Explain how and when a taxpayer can revise and/or correct errors in a return.^[2]
- f) Explain the circumstances under which best judgement assessments and provisional assessments are issued by the Commissioner and their respective features.^[2]
- g) Explain the provisions relating to the revision of an order by the Commissioner and the Regional Commissioner.^[2]

- h) Understand how and when the Commissioner, the Commissioner (Appeals) and the Appellate Tribunal can rectify an order.^[2]
- i) Identify the categories of representatives in respect of a person for a tax year, and explain the liabilities and obligations of representatives.^[2]
- j) List the records that a taxpayer needs to maintain in Pakistan and the period during which the records are to be retained.^[2]

Excluded topics

- *Assessments giving effect to an order – s.124.*
- *Powers of tax authorities to modify orders on a question of law decided by the High Court or the Appellate Tribunal – s.124A.*
- *Assessment in the case of disputed property – s.125.*
- *Evidence of assessment – s.126.*
- *Part VIII of Chapter X except s.174 and s.177.*
- *Chapter XIII.*

2. Payment of tax, including advance tax, collection of advance tax, tax deducted at source and refund of tax.

- a) Recognise the due dates for payment of tax.^[2]
- b) Explain the basis for determining the amount of advance tax payable on a quarterly basis by an individual, an association of persons and a company and compute relevant amounts.^[2]
- c) Explain the concept of a taxpayers' option to pay advance tax on the basis of an estimate or revised estimate of the tax payable and the consequences of non-payment or an under estimate of such advance tax payable.^[2]
- d) Explain the mandatory provisions requiring a company to estimate the tax payable for the relevant year at any time before the last instalment and pay advance tax accordingly, and the consequences of non-payment or an underestimate of advance tax payable.^[2]
- e) Explain the provisions relating to the collection of tax from importers.^[2]
- f) Deduction of tax at source

- i) Recognise and explain the obligations of persons:
 - to withhold tax on making certain types of payments; and
 - to collect tax on certain transactions with respect to both residents and non-residents.^[2]
- ii) Understand and apply the transitional advance tax provisions as given in Chapter XII and state when such advance tax is the minimum tax under the minimum tax regime.^[2]
- iii) Explain the tax implications of failure to deduct or collect tax or to pay the tax deducted or collected into the government treasury.^[2]
- iv) Explain the powers of the Commissioner to issue a certificate exempting an amount from deduction of tax or collection of tax or allowing the deduction or collection of tax at a lower rate.^[2]

- g) State the classes of income or transactions where:
 - the tax paid or collected in advance or deducted at source is the final tax;
 - the tax collected or deducted at source is allowed as a tax credit; and
 - the tax collected or deducted at source is the minimum tax under the minimum tax regime.^[2]
- h) Explain the procedure for claiming a refund of taxes.^[2]
- i) Calculate the additional payment due to a taxpayer on a delayed refund of tax.^[2]

Excluded topics

- *Payment of tax by liquidators – s.141.*
- *Recovery of tax:*
 - *out of property and through arrest – s.138.*
 - *by the District Officer (Revenue) – s.138A.*
 - *due from a private company and an association of persons – s.139.*
 - *from persons holding money on behalf of a taxpayer – s.140.*
 - *due by a non-resident member of an association of persons – s.142.*

- *from persons assessed in Azad Jammu and Kashmir – s.146.*

3. The procedures relating to enquiries, audit, disputes and appeals

- a) Explain the circumstances and the time limitations under which the Commissioner can enquire into a self assessment return and amend and further amend an assessment.^[2]
- b) Explain the criteria for selection of a person or classes of persons for an audit of the person's tax affairs under s.177, the scope of the audit and the appointment of persons to conduct the audit.^[2]
- c) Explain the provisions relating to alternative dispute resolution available to a taxpayer.^[2]
- d) Explain the provisions relating to advance tax rulings by the Board available to non-residents.^[2]
- e) Recognise the orders against which appeals can be preferred to the Commissioner (Appeals) and explain the procedure for dealing with such appeals.^[2]
- f) Explain who can prefer appeals to the Appellate Tribunal and the procedure for dealing with such appeals.^[2]
- g) Recognise the time limits that apply for the filing of appeals to the Commissioner (Appeals) and the Appellate Tribunal.^[2]
- h) Explain in what manner appeals can be disposed of by the Commissioner (Appeals) and the Appellate Tribunal.^[2]

Excluded topics

- *Appointment of the Appellate Tribunal – s.130.*
- *Reference to the High Court – s. 133.*
- *Burden of proof – s.136.*

4. Additional tax and penalties for non-compliance

- a) Explain the circumstances in which additional tax can be levied and calculate relevant amounts.^[2]
- b) Explain when the additional tax levied will be reduced.^[2]
- c) Recognise the administrative penalties (other than additional tax) in relation to non-compliance in respect of:
 - non-submission of returns and/or information;
 - failure to maintain records;
 - concealment or under-reporting of income; and
 - the making of false statements or declarations.^[2]
 - non-payment of tax.^[2]

Excluded topics

- *Offences and prosecution – Part XI of Chapter X.*

READING LIST

Sheikh Asif Salam

S.A. Salam's Complete Income Tax Law

Dr. Ikramul Haq

Practical Handbook of Income Tax

Sheikh Asif Salam

S.A. Salam's Sales Tax Ready Reference

Tariq Najib Choudhry

The Sales Tax Act, 1990

SUMMARY OF CHANGES TO PREVIOUS STUDY GUIDE DECEMBER 2009

- A.3 One excluded topic amended
- B.1 k) New topic iii) added
- B.1 m) new topic iii) added
- B.1 n) Heading amended
- B.2 New topic 1) added
- B.3 b) Amended
- B.3 g & h) Deleted
- B.5 New topic d) added
- B.6 d) Deleted
- B.6 New topic d) added
- C.2 New topic c) added
- C.2 m) New topic iii) added
- C.2 o) New topic ii) added
- C.5 New topics h) added
- F.1 h) Amended
- F.2 Heading amended
- F.2 b) Amended
- F.2 f) New topics ii) added
- F.2 g) Amended
- F.3 b) Amended