
Answers

Note: All references to legislation shown in square brackets are for information only and do not form part of the answer expected from candidates.

Section A

Marks

- 1 C** [s.210(1) and (1A)]
- 2 B** [s.37(d)]
- 3 B** [General principle of taxation]
- 4 D** [s.82(c)]
- 5 A** [s.119(4)]
- 6 D** Rs. 1,000 [s.127(4)(a)]
- 7 A** Rs. 15,300 (306,000 x 5%) [serial no. 7 of the table under s.182(1)]
- 8 A** [s.206A(3)]
- 9 C** Rs. 165,000 [s.103(1)]
- 10 A** Rs. 144,500 (722,500 x 20%) [s.62(2)]
- 11 B** Rs. 35,000 $[(300,000 + 450,000) - 400,000] \times 10\%$ [ss.11 and 37 read with para (1) of Div. I of Part I of the First Schedule]
- 12 B** Rs. 17,500 $[(750,000 - 400,000) \times 10\%] \times 50\%$ [clause (1B) of Div. I of Part I of First Schedule]
- 13 D** Rs. 0 [s.37A (5)] No loss on disposal of a security can be carried forward.
- 14 D** [s.2(47)(a)]
- 15 C** Rs. 10,000 (100,000 x 10%) [ss.5 and 150]

2 marks each

30

Section B

Marks

1 (a) Powers of the Commissioner under s.122A

- | | |
|--|---|
| (i) No. An order increasing the amount of tax payable is an order prejudicial to the interests of the taxpayer. The Commissioner cannot pass an order prejudicial to the interests of the taxpayer. [s.122A(3)] | 1 |
| (ii) Yes. The Commissioner can revise an amended order passed by an Officer of Inland Revenue against which an appeal has not been filed before the Commissioner (Appeals) and the time to file an appeal has also expired. [s.122A(1) and (4)(a)] | 1 |
| (iii) No. Since an appeal can still be filed against the order of the Assistant Commissioner before the Commissioner (Appeals) (it is within time), the Commissioner cannot revise such an order. [s.122A(4)(a)] | 1 |
| (iv) No. Although the order would not be prejudicial to the interests of the taxpayer, it cannot be passed as an appeal against the order which is pending before the Appellate Tribunal. [s.122A(4)(b)] | 1 |
| (v) No. An order passed by the Commissioner (Appeals) cannot be revised by the Commissioner. [s.122A(1)] | 1 |
| | 5 |

(b) Sadiq

- (i) A withholding agent who fails to deduct tax is liable to pay a penalty of Rs. 25,000 or 10% of the amount of the tax required to be deducted, whichever is higher. Sadiq will be liable to pay a penalty computed as:

	Rs.
Tax required to be deducted on a salary of Rs. 1,500,000	
[Para (1A) of Div. I of Pt.I of the 1st Sch]	95,000
10% of the amount of tax (95,000 x 10%)	9,500

Since Rs. 25,000 is higher than Rs. 9,500, Sadiq will be liable to pay a penalty of Rs. 25,000.
[Sr. No. 15 of table to s.182(1)]

2

- (ii) Sadiq will be liable to pay a default surcharge computed as:

	Rs.
Tax deductible by Sadiq on salary on 30 June 2015 but paid by Saeed on 30 August 2015	95,000
Default surcharge at 18% per annum on the amount of default for the period 1 July to 30 August 2015 (95,000 x 18% x 60/365) [s.205(3)]	2,811

2

- (iii) Sadiq can claim the salary paid to Saeed as an admissible deduction on 30 September 2015 because Saeed, being the payee of the amount, has already paid the tax due on his salary income on 30 August 2015. [s.21(c)]

1

10

2 (a) Meaning of 'rent' for 'Income from property'

Any amount received or receivable by the owner of land or a building as a consideration for:

- the use of the land or building;
- the occupation of the land or building; or
- the right to use or occupy the land or building.

2

Any forfeited deposit received under a contract for the sale of land or a building. [s.15(2)]

1

3

(b) Awais – Taxable income for the tax year 2015 (accounting year ended 30 June 2015)

	Rs.	Rs.	
Income from property			
Rent for 12 months (90,000 – 10,000) x 12		960,000	0·5
<i>Deductions</i>			
Repair allowance (1/5 x 960,000)	192,000		1
Uncollected rent	160,000		1·5
Profit paid to a bank for the reconstruction of a portion of the house	109,000		0·5
Collection charges (16,000 + 35,000)	<u>51,000</u>		0·5
		<u>(512,000)</u>	
Income from property		448,000	
Income from other sources			
Amount received from Fascon Ltd for the provision of janitorial services (10,000 x12)	120,000		0·5
<i>Deductions</i>			
Expenses incurred on janitorial services (12,000 x 50% x 12)	<u>(72,000)</u>	<u>48,000</u>	0·5
Total/Taxable income		<u><u>496,000</u></u>	

Explanation of items not included in the computation of taxable income

1. Brought forward loss from the tax year 2011 – Rs. 150,000
A loss under the head 'Income from business' brought forward from previous tax years cannot be set off against income under the head 'Income from property'. [s.57(1)] 1
 2. Legal fee to defend the title – Rs. 45,000
The legal fee payable to defend the title to the house is not deductible as it constitutes capital expenditure. 0·5
 3. Depreciation of house – Rs. 700,000
Accounting depreciation is not a deductible charge. No equivalent tax depreciation applies in the case of a residential property. 0·5
- 7
10

Tutorial notes:

1. Only the amount received on account of renting out the property is taxable under the head 'Income from property'. The Rs. 10,000 per month received by Awais on account of the provision of the services of a servant is taxable as 'Income from other sources'. [s.15(1) and (3A)]
2. The uncollected rent is an allowable deduction, since:
 - the unrecovered rent would have been included in the property income of Awais in the tax year 2014 on an accrual basis;
 - reasonable steps were taken by Awais to institute legal proceedings for recovery of the rent; and
 - Fascon Ltd has vacated the house. [s.15A(1)(j)]
3. The Rs. 109,000 paid to the bank on a loan utilised for the reconstruction of the rented out property does not qualify for a tax credit since it is not for the construction of a new house (or the acquisition of a house). [s.64]
4. The bank charges paid by Awais for the clearance of cheques for the rent paid by Fascon and the legal expenditure for preparing the legal notice to Fascon, are admissible as they have been incurred for the collection of the rent and are within the maximum admissible limit of 6% of the gross amount of rent. [s.15A(1)(h)]

3 (a) Time of acquisition of an asset for capital gains purposes

An asset is said to have been acquired by a person at the time:

- the person begins to own the asset; or
- the person is granted any right of the asset. [s.75(5)] 1

The application of a personal asset to business use shall be treated as an acquisition of the asset by the owner at the time the asset is so applied. [s.75(6)] 1

2

(b) Ijaz – Tax payable for the tax year 2015 (accounting year ended 30 June 2015)

	Note	Capital gain/ (loss) Rs.	Tax payable Rs.	
Income under the head 'capital gains' chargeable to tax under the normal law				
Gain on disposal of antique vase	(1)	187,500		1.5
Gain on disposal of shares in Zaheer (Pvt)Ltd	(2)	340,000		2
Total taxable income under the head capital gains		<u>527,500</u>		
Tax on taxable income (527,500 – 400,000) x 10%			12,750	0.5
Capital gains and tax on the disposal of securities taxable as a separate block				
On the sale of Pakistan investment bonds	(3)	2,995,000		1.5
Tax at 10%			<u>299,500</u>	0.5
Total tax payable			312,250	
<i>Less tax paid:</i>				
Tax collected by restaurant management [ss.236D and 168]			<u>(25,000)</u>	1
Tax payable with return			<u><u>287,250</u></u>	
Items not included in the computation of capital gain				
Sale of LED TV				
A movable asset held by a taxpayer either for his own use or for the use of any of his dependent family member is not to be treated as a capital asset unless it falls in the list of exceptions given in the law. LED TV is not included in the list of exceptions, hence no gain on its disposal is chargeable to tax.				
				<u>1</u>
				<u>8</u>
				<u>10</u>

Notes

Note 1

Disposal of antique vase

An antique vase being a personal asset is also included in the definition of a capital asset. Destruction of an asset is treated as a disposal of the asset. Any amount received from an insurance company against the loss of the asset is treated as consideration received for the disposal of the asset. [ss.37(5)(d), 38(5) and 75(1)(b)] The capital gain is computed as below:

	Rs.	Rs.
Consideration received on 15 August 2014 from the insurance company [s.77(2)]		1,080,000
<i>Less:</i>		
Price paid to purchase the vase on 15 August 2009	780,000	
Expenses incurred to receive insurance amount [s.76(2)(b)]	<u>50,000</u>	
		<u>(830,000)</u>
Capital gain		<u>250,000</u>

Since the asset was disposed of after holding it for more than one year, only 75% of the gain is taxable at Rs. 187,500. [s.37(3)]

Note 2

The gain on the disposal of the 2,500 shares in Zaheer (Pvt) Ltd is computed as below:

	Rs.	Rs.
Sales proceeds of 2,500 shares		1,500,000
<i>Less:</i>		
Cost of 2,500 shares [s.38(3)]		
– 1,500 shares purchased on 1 January 2012	850,000	
– 1,000 right shares acquired 1 December 2014	<u>250,000</u>	
		(1,100,000)
Gain on disposal of 2,500 shares		<u>400,000</u>
Gain per share (400,000/2,500)		<u>160</u>
As the 1,500 shares were held by Ijaz for more than one year, only 75% of the gain on these 1,500 shares is chargeable to tax [(1,500 x 160) x 75%] [s.37(3)]		180,000
As the 1,000 rights shares were held for less than a year the entire gain on these 1,000 shares is chargeable to tax (1,000 x 160) [s.37(2)]		<u>160,000</u>
		<u>340,000</u>

Note 3

Pakistan investment bonds ('PIBs') are included in the definition of a security. [s.37A(3) and (3A)(b)] The capital gain on the disposal of a security is taxed as a separate block of income. [s.37A(4)] The gain on the disposal of the PIBs is computed as below:

	Rs.	Rs.
Consideration received from the sale of the PIBs on 15 April 2015		15,000,000
<i>Less:</i>		
Price paid for purchase of the PIBs on 10 April 2014	12,000,000	
Bank charges paid [s.76(2)(b)]	<u>5,000</u>	
		(12,005,000)
Capital gain		<u>2,995,000</u>

4 (a) Exports outside the purview of zero rating for sales tax

- (i) Goods which are exported but have been or are intended to be re-imported into Pakistan.
- (ii) Goods which have been entered for export under [s.131 of] the Customs Act, 1969 but are not exported.
- (iii) Goods which have been exported to a country specified by the Federal Government, by notification in the official Gazette. [s.4 Sales Tax Act, 1990 (the 'Act')]

(b) Bahoo Ltd – Sales tax payable for March 2015

	Rs.	
Output tax		
On sale of goods on a cash basis (Rs. 10,000,000 x 17%)	1,700,000	0.5
On sale of scrap (Rs.100,000 x 17%)	17,000	0.5
On sale of goods to an associate at fair market value (Rs. 700,000 x 17%) [s.2(46)(a) Act]	119,000	1
On sale of goods to be made under a hire purchase agreement (Rs. 900,000 x 17%) [s.2(44)(a) Act]	153,000	1
On advance payment received for supplies to be made (Rs. 500,000 x 17%) [s.2(44)(a) Act]	85,000	1
	<u>2,074,000</u>	
Less: Credit note issued for return of supply (Rs. 800,000 at 17%) [s.9]	(136,000)	1
	<u>1,938,000</u>	
Input tax		
On the purchase of raw material for which payments were made:		
– in cash into the business bank account of the supplier [s.73(1) and (2)]	0	0.5
– through crossed cheque into a personal bank account of the supplier [s.73(1) and (3)]	0	0.5
– through crossed cheques into the business bank account of the supplier (Rs. 4,680,000 x 17/117) [s.73(1) and (3)]	680,000	0.5
	<u>680,000</u>	
Tax payable with return		
Output tax	1,938,000	
Input tax	(680,000)	
	<u>1,258,000</u>	0.5
		<u>7</u>
		<u>10</u>

5 New Century Products Ltd**(a) Taxable income for the tax year 2015 (accounting year ended 30 June 2015)**

	Note	Rs.	Rs.	
Income from business				
Profit before tax			855,000	0.5
Less:				
Fair value adjustment	(1)	500,000		0.5
Tax refund	(2)	40,000		0.5
Advance received for sales	(3)	150,000		1
			<u>(690,000)</u>	
Add:				
Insurance amount to be received	(4)	450,000		1
Accounting depreciation	(5)	420,000		0.5
Export quota licence	(6)	600,000		1
Rent paid in advance	(7)	136,000		1
Penalty for late payment of social security contributions	(8)	80,000		1
			<u>1,686,000</u>	
Less admissible deductions:				
Initial allowance	(9)	250,000		1
Tax depreciation	(9)	1,422,500		2
			<u>(1,672,500)</u>	
Income from business/Taxable income			<u>178,500</u>	

Items not included in the computation of taxable income

1	Preparation of rent agreement – Rs. 15,000 The expenditure has been incurred wholly and exclusively for business and is not capital in nature. Hence fully allowable in the year of accrual. [s.20(1)]	1
2	Marketing expenses – Rs. 90,000 Since the individual payment to each person was below Rs. 10,000, no tax was deductible. [s.153 read with relevant SRO 586 (I)/91 dated 30 June 1991] The expenditure being for the purpose of business was fully allowable. [s.20]	1
3	Repair and maintenance of car – Rs. 86,000 Use of the car by the head of production is in accordance with the terms of his employment and any expenditure incurred on the car provided to him will be part of his salary paid and fully allowable. [ss.12 and 20]	1
		13

Notes

Note 1

A fair value adjustment, whether an increase or decrease, in accordance with IFRS has no bearing on the tax computations. [s.34(2)]

Note 2

A tax refund is not a revenue receipt, it is a receipt of the excess amount paid to the revenue authorities. Hence, it is not taxable. [s.2(9)]

Note 3

A deposit against a future supply of goods does not accrue as income until the goods have been delivered. [s.34(2) and s.2(9)]

Note 4

Since the amount of insurance has accrued even though not received, it is to be included in income. Further, since it was for the loss of profit of the business, it is to be treated as income under the head 'Income from business'. [s.18(1)(d)]

Note 5

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 and 23] of the Ordinance.

Note 6

Since the export quota licence was not used during the tax year 2015, no amortisation of this intangible is admissible in the year. Hence, the cost claimed is fully added back. [s.24]

Note 7

Rent was paid as an adjustable advance on 1 July 2014 for a period of 20 months (340,000/17,000). The amount of Rs. 136,000 relating to the eight months falling in the tax year 2016 is not admissible, hence added back. The balance of the claim is admissible. [ss.20(1) and 34]

Note 8

Payment of a penalty is not an admissible expenditure under the Income Tax Ordinance, 2001. [s.21(g)]

Note 9

Tax depreciation and initial allowance

Asset	TWDV on 1 July 2014	Addition/ (deletion) during the year	Initial allowance at 25%	TWDV for depreciation	Rate of depreciation	Depreciation
(1)	(2)	(3)	(4)	5 = (2 + 3) – (4)	(6)	(7)
	Rs.	Rs.		Rs.		Rs.
Building on freehold land	3,500,000			3,500,000	10%	350,000
Plant and machinery	4,000,000	1,000,000	250,000 (see (a))	4,750,000	15%	712,500
Motor cars	1,500,000	–	–	1,500,000	15%	225,000
Furniture and fittings	800,000	100,000 (see (b))	–	900,000	15%	135,000
Total			<u>250,000</u>			<u>1,422,500</u>

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

Sub-notes to note 9

- (a) The addition of new plant and machinery is eligible for full initial allowance even if used only for a single day. [s.23]
- (b) The addition to furniture and fittings is not eligible for initial allowance. [s.23 (5)(b)]

(b) Tax payable/(refundable) for the tax year 2015

Taxable income for the tax year 2015 (from (a))	Rs.	Rs.	
		<u>178,500</u>	
Tax at 33%		58,905	0.5
Less: Tax already withheld at source			
On import of machinery [s.148 (7)]	55,000		0.5
Along with motor vehicle tax [s.234]	4,000		0.5
With electricity bills [s.235]	<u>30,000</u>		0.5
		(89,000)	
Tax refundable to be claimed in return		<u>(30,095)</u>	
			<u>2</u>
			<u>15</u>

6 Rameez

Taxable income and tax payable for the tax year 2015 (accounting year ended 30 June 2015)

	Rs.	Rs.	
Income from salary			
Basic salary [s.12(2)(a)]		1,200,000	0·5
Reimbursement of personal utility expenses [s.12(2)(d)]		120,000	0·5
Special allowance to meet entertain expenses (15,000 x 12) [s.12(2)(c)]		180,000	1
Commission from fees charged by PLA [s.12(1)(a)]		480,000	0·5
Loyalty to PLA award [s.12(1)]		400,000	0·5
Perquisite representing accommodation (working 1)		540,000	1·5
Perquisite representing use of a car (working 2)		75,000	1·5
Annual education allowance (working 3)		100,000	1
Gym membership fee [15,000 x 12] [s.13(10)]		180,000	0·5
Perquisite of the laptop [working 4]		50,000	1
Tax paid by PLA on behalf of Rameez [s.13(9)]		120,000	1
		<u>3,445,000</u>	
Donation paid to an institution approved under clause (61) of Part I of the 2nd Schedule to the Ordinance		(50,000)	1
Income under the head 'salary'/assessable under the normal tax regime		<u>3,395,000</u>	
Tax on taxable income (362,500 + (3,395,000 – 3,000,000) x 22·5%) [Para (1A) of Div. I of Pt. I of 1st Sch.]		451,375	0·5
Tax on income assessable under the final tax regime (FTR)			
Tax on profit on debt [working 5]		30,000	1
Total tax payable		<u>481,375</u>	
Tax already paid			
Tax collected on cash withdrawals [ss.168 and 231A]	20,000		0·5
Tax deducted at source by his bank on profit on debt [ss.141 and 169]	30,000		0·5
Tax paid by PLA on behalf of Rameez [s.149 and 147]	120,000		0·5
Tax collected with mobile phone bills mobile phone [ss.168 and 236]	<u>8,750</u>		0·5
Total tax paid		<u>(178,750)</u>	
Tax payable with return/statement of FTR		<u>302,625</u>	

Explanation of items not included in the computation of taxable income

Amount of federal excise duty paid – Rs. 5,000

The expenditure is not deductible against income from salary or profit on debt covered under FTR. [ss.12(4) and 169]

1
15

Workings:

Working 1

Accommodation provided by an employer is a perquisite and is taxable. The valuation of this perquisite is equal to the amount which would have been paid by the employer if such accommodation was not provided, subject to a minimum valuation equal to 45% of basic salary. Since Rameez was entitled to a house rent allowance of 35% of his basic salary, had he not been provided with the accommodation, the minimum amount to be taken as the value of the perquisite is:

	Rs.
Basic salary	1,200,000
Value of the perquisite (1,200,000 x 45%) [s.13(12) read with rule 4 of the Income Tax Rules, 2002]	540,000

The fair market rental of the similar properties at Rs. 30,000 per month is not relevant for valuation of this perquisite.

Working 2

Where a car is provided for personal as well as business use, 5% of the cost of the car accrued to PLA is treated as salary income on account of this perquisite. The tax written down value of the car is not relevant for the computation of the value of the perquisite.

	Rs.
Purchase cost	1,500,000
5% to be treated as the value of the perquisite (1,500,000 x 5%) [s.13(3) read with rule 5 of the Income Tax Rules, 2002]	75,000

Working 3

The annual education allowance to his children is also to be treated as a perquisite. [s.12(5)(c)]

The amount paid at Rs. 100,000 (50,000 x 2) is taxable as a perquisite. The amount actually paid by Rameez is neither to be deducted from this perquisite nor to be claimed as an expense otherwise.

Working 4

	Rs.
Value of the laptop	80,000
Amount paid by Rameez	(30,000)
Amount to be treated as salary [s.13(11)]	<u>50,000</u>

Working 5

The profit on debt received by Rameez is assessable under the final tax regime [FTR]

	Rs.
Profit on debt credited to his bank account	270,000
Tax withheld by the bank	30,000
Profit on debt	<u>300,000</u>
Tax at 10% [ss.151 and 169]	<u><u>30,000</u></u>