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 B *Marks*

1 **(a)** **(i)** The Chief Commissioner can revise an order passed by any authority, subordinate to him, in respect of an exemption or lower rate certificate with regard to the collection or deduction of tax at source under the Income Tax Ordinance, 2001. 1

(ii) The Chief Commissioner can initiate proceedings for the revision of an order on his own or on the application of a taxpayer. 1

(iii) The Chief Commissioner shall call for the record of the proceedings and make an inquiry if so required and will give an opportunity of a hearing to the taxpayer before passing a revision order. 2

(b) A direct tax is one in which the burden is borne by the person upon whom the tax is levied. Sometimes they are called personal taxes. Usually direct taxes are based on 'the ability to pay' principle.

Examples: Income tax; wealth tax. 2

Tutorial note: *Other examples such as capital value tax, property tax, etc were accepted.*

An indirect tax is a tax in which the burden is borne by a person other than the person on whom the tax is levied. Such taxes are usually levied on transactions rather than persons. Sometimes they are called 'consumption taxes' because their burden ultimately shifts to the end-user of the product or service.

Examples: Sales tax on goods and services; federal excise duty. 2

4

Tutorial note: *Other examples such as customs duty, cotton cess, sugarcane cess, etc were accepted.*

(c) ALM (Pvt) Ltd

Amount of refund	Rs. 500,000	
Total number of days refund was withheld	150	
No. of days eligible for additional payment (150 – 90)	60	
Additional payment due to ALM (Pvt) Ltd at KIBOR + 0·5% for 60 days on Rs. 500,000 (500,000 x 6·5% x 60/366)	Rs. 5,328	2
		10

2 **(a)** Jahangir

Tax payable for the tax year 2016

	Rs.	
Taxable income from business [A]	1,500,000	
Amount of contribution to approved pension fund eligible for tax credit: the lower of the actual contribution of Rs. 400,000; or 20% of taxable income, i.e. Rs. 300,000.		
Hence , eligible amount [B]	300,000	1
Tax on taxable income [Para (1) of Div. I of Pt. I of the 1st Sch. [C]]	144,500	0·5
Less:		
Tax credit at the average rate of tax on Rs. 300,000 [(C/A) x B] ((144,500/1,500,000) x 300,000)) [s.63]	(28,900)	1·5
Tax payable	115,600	
		3

(b) **(i)** Shah Rukh remained in Pakistan from 1 July 2015 to 31 December 2015, being 184 days (31 + 31 + 30 + 31 + 30 + 31). Hence as he remained in Pakistan for more than 183 days in the tax year, he was resident in Pakistan for the tax year 2016. 1·5

	Marks
(ii) Talat remained in Pakistan from 1 January 2016 to 30 June 2016 being 182 days (31 + 29 + 31 + 30 + 31 + 30). Since the number of days he remained in Pakistan was less than 183 days in the tax year, he was non-resident during the tax year 2016.	1·5
	3

Tutorial note: *A person who stays in Pakistan for a period of 183 days during a tax year is treated as resident in that tax year, so it is the number of days of stay in Pakistan which is relevant and not the number of months.*

(c) Asif

The loss under the head 'Income from business' in the tax year 2016 of Rs. 1,000,000 cannot be set off against income from property but it can be carried forward to the tax year 2017 and set off against future income from business. [s.56] 2

The loss of Rs. 100,000 under the head 'Income from property' from the tax year 2015 cannot be brought forward for set off against any income for the tax year 2016 [ss.56 and 57] 1

Tax payable for the tax year 2016

	Rs.	
Income from house property	750,000	
Tax [Para (1) of Div. I of Pt. I of the 1st Sch.]	32,000	1
		4
		10

3 (a) Tax implications of a non-arm's length disposal of an asset

Where an asset is disposed of in a non-arm's length transaction:

(1) the person disposing of the asset is treated as having received consideration equal to the fair market value of the asset on the date of its disposal; and

(2) the person acquiring the asset is treated as having incurred a cost equal to the value assessed in the hands of the person who disposed of the asset. [s.78] 2

(b) Akram

Tax payable for the tax year 2016 (accounting year ended 30 June 2016)

	Note	Capital gain/ (loss) Rs.	Tax payable Rs.	
Gain on disposal of his house in Lahore (excluding furniture) to be taxed as a separate block	(1)	3,450,000	345,000	2·5
Income under the head 'capital gains' chargeable to tax under the normal law				
Gain on disposal of shares in Micron Ltd	(2)	1,181,250		2
Tax on taxable income [32,000 + (1,181,250 – 750,000) x 15%] [Para (1) of Div. I of Pt. I of the 1st Sch.]			96,688	0·5
Capital gains and tax on the disposal of securities taxable as a separate block				
On gain from sale of shares in Linkers Ltd	(3)	500,000	62,500	1
Tax payable on the disposal of capital assets			504,188	
Add tax credit claimed in the tax year 2015	(4)		15,000	0·5
Total tax			519,188	
Less tax paid:				
Tax collected at the time of the purchase of the plot and sale of the house [ss.236K, 236C and 168]			(150,000)	0·5
Tax payable with return			369,188	

Marks

Items not included in the computation of capital gain

Sale of furniture having a cost of Rs. 1,100,000 sold for Rs. 1,000,000

A moveable asset held by a taxpayer either for his own use or for the use of any of his dependent family members is not to be treated as a capital asset unless it falls within the list of exceptions given in the law. Furniture is not included in the list of exceptions, hence no loss is to be recognised on its disposal. [s.37(5)(d)] 1

8

10

Notes

Note 1

Disposal of his house on 25 December 2015

	Rs.	Rs.
Consideration received other than for furniture (30,000,000 – 1,000,000) [s.37(2) and 77]		29,000,000
Less:		
Price of land purchased on 15 January 2015	10,000,000	
Capital value tax on land purchased [s.76(2)(b)]	200,000	
Expenditure on levelling of the land [s.76(2)(c)]	300,000	
Approval fee for the construction map of the house [s.76(2)(b)]	50,000	
Cost of the materials and labour for the construction [s.76(4)]	15,000,000	
		(25,550,000)
Taxable gain		3,450,000

Since the holding period is less than one year, the gain is taxable at 10% at Rs. 345,000. [s.37(1A) read with Div. III of Pt. I of 1st Sch.]

Note 2

Gain on the disposal of 700,000 ordinary shares in Micron Ltd on 1 February 2016:

	Rs.	Rs.
Sales proceeds of 700,000 shares [s.37(2)]		3,675,000
Less:		
Cost of 700,000 shares [s.37(2)]		
– 500,000 shares purchased on 2 June 2005	2,250,000	
– 250,000 (500,000 x 50%) bonus shares issued on 31 December 2011	0	
Total cost	2,250,000	
Cost per share (2,250,000/750,000)	3	
Cost of 700,000 shares sold (700,000 x 3)		(2,100,000)
Capital gain on disposal of 700,000 shares		1,575,000

Since the disposal of the shares was made after one year, only 75% gain at Rs. 1,181,250 is to be taxed. [s.37(3)]

Note 3

A share in Linkers Ltd, a company listed on the Lahore Stock Exchange, falls within the definition of a 'security'. [s.37(A)] Therefore, the capital gain on the disposal of 10,000 shares in Linkers Ltd is taxed as a separate block of income. [s.37A(4)]

Gain on the disposal of 10,000 Linkers Ltd shares on 15 April 2016

	Rs.
Consideration received from the sale of shares on 15 April 2016 [s.37A(1A)]	900,000
Less:	
Price paid for the purchase of the shares on 12 March 2015 [s.37A(1A)]	(400,000)
Capital gain	500,000

Since the holding period of the securities was more than 12 months but less than 24 months, the gain is taxed at 12·5%, at Rs. 62,500 (500,000 x 12·5%).

Marks

Note 4

Where a person is allowed a tax credit on account of an investment in eligible shares and the shares are disposed of within 24 months of the date of acquisition, the amount of tax payable in the year of disposal is increased by the amount of the tax credit previously allowed. [s.62(3)]

4 Qasim

Sales tax payable for May 2016

Output tax	**Note**	**Rs.**	**Rs.**	
On local supplies to registered persons				
– Fasi Ullah (Rs. 7,600,000 x 17%)			1,292,000	0·5
– Usman (Rs. 1,900,000 x 17%)	1		323,000	1·5
On local supplies to unregistered persons				
(Rs. 2,280,000 x (17 + 2)%)			433,200	1·5
On exports to UAE (Rs. 1,000,000 x 0%)			0	0·5
On goods used for private purposes by Qasim (Rs. 50,000 x 17%)	2		8,500	1
			2,056,700	
Less sales tax on sales returned by Fasi Ullah (Rs. 45,000 x 17%)			(7,650)	1
			2,049,050	
Input tax				
Sales tax on the purchase of raw materials				
– from registered persons ((Rs. 12,870,000 x 100/117) x 17%)		1,870,000		1
– from unregistered persons (not eligible as no tax invoices are issued)		0		1
Sales tax credit brought forward from April 2016		95,000		1
Sales tax paid with electricity bill on 15 May 2016		80,000		1
			(2,045,000)	
Sales tax payable			4,050	
				10

Tutorial notes:

1. *Where a discount is allowed which is more than in normal business practice, the discount is reduced to bring it in line with normal business practice and the value of the supply computed accordingly.*
2. *The self-consumption of goods is also a supply and therefore chargeable to tax.*

5 New Technologies Ltd (NTL)

(a) Taxable income for the tax year 2016 (accounting year ended 30 June 2016)

	Note	**Rs.**	**Rs.**	
Income from business				
Profit before tax			4,245,000	
Add:				
Accounting depreciation	(1)	5,000,000		0·5
Accounting loss on the disposal of the car	(2)	170,000		0·5
Irrecoverable bad debts	(3)	700,000		1
Professional fees in connection with the acquisition of land	(4)	600,000		0·5
Contribution to an unapproved superannuation fund	(5)	650,000		1
Repairs and maintenance – furniture (capital expenditure)	(6)	850,000		0·5
Employee training and facilities – expenditure for training of general industrial workers	(7)	200,000		1
Other expenses – fine for the violation of a provincial law	(8)	215,000		0·5
Taxable profit on sale of car	(2)	73,333		1·5
			8,458,333	
Less:				
Tax depreciation	(9)	5,912,500		2·5
Amortisation of software	(10)	49,727		1·5
			(5,962,227)	
Income from business/Taxable income			6,741,106	

Marks

Items not included in the computation of taxable income

1 Donation – Rs. 160,000

A donation paid to an approved charity [under clause (61) of Pt. I of the Second Schedule] is exempt from tax being within the prescribed limit of 10% of the taxable income. 1

2 Repair of plant and machinery – Rs. 550,000

The expenditure is revenue in nature. Further, as each invoice was below Rs. 10,000, the cost is allowable even if paid in cash. 1

13

Notes

Note 1

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 2

An accounting loss on the disposal of an asset is not allowable. Any gain or loss is computed with reference to the tax written down value of an asset at the time of its disposal and the consideration received as follows:

	Rs.
Consideration received for the sale of the car [A]	1,930,000
Actual cost of the car [B]	3,000,000
Value restricted for tax depreciation [under s.22(13)(a)] [C]	2,500,000
Sale proceeds for computing the gain or loss [A/B x C] [(1,930,000/3,000,000) x 2,500,000] [D]	1,608,333
Less: Tax WDV of the car [E]	(1,535,000)
Taxable gain on the sale of the car [D – E]	73,333

[s.22(8) and (10)]

Note 3

Since the taxpayer company is not a financial institution involved in the business of lending, it is not entitled to claim a deduction for the bad debts even though they were written off as irrecoverable in the books of account of the company and there were reasons to believe that the sum was not recoverable. [s.29]

Note 4

Any expenditure incurred to acquire a capital asset is capital expenditure and not allowable in computing taxable income. [s.21(n)]

Note 5

A contribution to an unapproved superannuation fund is not an admissible expenditure. An eligible contribution to a superannuation fund has to meet two conditions, i.e. the fund should be approved and the taxpayer must have made satisfactory arrangements for the deduction of tax from the payments under the head 'salary'. Non-fulfilment of either of the two conditions renders the deduction inadmissible. [s.21(e) and (f)]

Note 6

Furniture is a capital asset having a useful life of many years. Mere replacement of the existing asset does not make the cost of replacing the asset an admissible expenditure. However, tax depreciation is admissible as computed in the relevant note. [s.21(n) read with s.22]

Note 7

Since the institute has not yet been approved by the local government and the payment was not made for the training of NTL's own employees, it is neither admissible as expense of the business [s.20] nor as under the specific provision for employee training and facilities. [s.27]

Note 8

Any fine or penalty paid or payable by the person for the violation of any law, rule or regulation is not an admissible deduction. [s.21(g)]

Marks

Note 9

Tax depreciation and initial allowance

Asset	Tax written down value (TWDV) on 1 July 2015	Addition/ (deletion) during the year	Initial allowance 25%	TWDV for depreciation	Rate of depreciation	Depreciation
(1)	(2)	(3)	(4)	5 = (2 + 3) – (4)	(6)	(7)
	Rs.	Rs.		Rs.		Rs.
Land	10,000,000	5,000,000		–	–	–
Factory building	40,000,000			40,000,000	10%	4,000,000
Plant and machinery	7,000,000			7,000,000	15%	1,050,000
Computer hardware	450,000			450,000	30%	135,000
Motor cars	4,000,000		–	4,000,000	15%	600,000
Furniture	–	850,000	–	850,000	15%	127,500
Total			–			5,912,500

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

Note 10

Computer software is an intangible. Its given useful life is four years, hence, the cost is to be amortised over four years. Further, since in the tax year 2016, it was used for only 182 days, the amortisation is to be restricted proportionately as under:

	Rs.
Cost to be amortised each year (Rs. 400,000/4)	100,000
Amount to be amortised in the tax year 2016 (Rs. 100,000 x 182/366) [s.24(11)]	49,727

(b) **Tax liability for the tax year 2016**

	Rs.	Rs.	Marks
Taxable income for the tax year 2015 (from (a))		6,741,106	
Tax at 32%		2,157,154	0·5
Less: Tax already paid			
Advance tax [s.147]	2,050,000		0·5
With electricity bills [s.235]	100,000		0·5
On supplies [s.153]	500,000		0·5
		(2,650,000)	
Tax refund to be claimed with return		(492,846)	
			2
			15

6 **(a)** Salary is treated as Pakistan source income to the extent that it is:

– received from any employment exercised in Pakistan, wherever it is paid; or

– paid by or on behalf of the Federal Government, a Provincial Government or a Local Government in Pakistan, wherever the employment is exercised. [s.101(1)] 2

			Marks

(b) Shafique

Taxable income and tax payable for the tax year 2016 (accounting year ended 30 June 2016)

	Rs	Rs.	Marks
Income from salary			
Basic salary [Rs. 50,000 x 12] [s.12(2)(a)]		600,000	0·5
Amount received in lieu of holidays [s.12(2)(a)]		60,000	0·5
Utility allowance [s.12(2)(c)]		40,000	0·5
Daughter's school fees paid directly to her school [Rs. 10,000 x 12] [ss.12(5) and 13(10)]		120,000	1
Medical allowance [Rs. (8,000 – (50,000 x 10%)) x12] [s.12(2)(c) and Cl. (139) of Pt. I of the 2nd Sch.]		36,000	1·5
Perquisite representing the use of a car (working)		120,000	1·5
Reimbursement of repair charges for the car [s.12(2)(d)]		15,000	0·5
Total income from salary		991,000	
Less:			
Allowance for Zakat paid under the Zakat and Ushr Ordinance, 1980 [s.60]		(200,000)	0·5
Taxable income		791,000	
Tax on taxable income			
(14,500 + (791,000 – 750,000) x 10%) [Para (1A) of Div. I of Pt. I of 1st Sch.]		18,600	0·5
Tax already paid			
Tax deducted by employer [ss.149 and 168]	14,000		0·5
Tax collected on cash withdrawals [ss.168 and 231A]	500		0·5
Tax collected with landline telephone bill [ss.168 and 236]	1,500		0·5
Tax paid at the time of purchase of air ticket [ss.168 and 236B]	1,800		0·5
Total tax paid		(17,800)	
Tax payable with return		800	

Explanation of items not included in the computation of taxable income

1 Pension from his ex-employer, the Government of Punjab – Rs. 27,000 per month

Although a pension is included in the definition of salary [s.12(2)(f)], it is exempt from tax [Cl. (8) of Pt. I of the 2nd Sch.] 1

2 Interest free loan of Rs. 300,000

Since the amount of the loan does not exceed Rs. 500,000, no value of this interest free perquisite is to be treated as salary. [Second proviso to s.13(7)] 1

3 Free meals during office hours – Rs. 108,000

The perquisite on account of free or subsidised food during office hours provided by restaurants to their employees is exempt from tax. [Cl. (53A) of Pt. I of the 2nd Sch.] 1

4 Option to acquire 1,000 shares in Taste Limited at nil price

The value of the right or option to acquire shares under an employee share scheme granted to an employee is not chargeable to tax. [s.14(1)] 1

13

15

Working

Where a car is provided for personal use, 10% of the cost of the car incurred by the employer is treated as salary income on account of this perquisite. Where the car is leased, the amount of lease rentals or total amount payable over the lease term is not relevant for working out the perquisite. The fair market value on the date of acquisition is the basis for calculating the perquisite.

	Rs.
Cost of the car: fair market value on the date of lease to be taken as cost of the car	1,200,000
10% to be treated as the value of the perquisite (Rs. 1,200,000 x 10%) [s.13(3) read with rule 5 (ii)(b) of the Income Tax Rules, 2002]	120,000