
Business Taxation (Stage-3)

Q.2 (a) (i) INDUSTRIAL UNDERTAKING:

(a) An undertaking which is set up in Pakistan and which employs,

(i) ten or more persons in Pakistan and involves the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy; or

(ii) twenty or more persons in Pakistan and does not involve the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy;

and which is engaged in,

(i) the manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition; or

(ii) ship-building; or

(iii) generation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power; or

(iv) the working of any mine, oil-well or any other source of mineral deposits; and

(b) any other industrial undertaking which the Board may by notification in the official Gazette, specify.

(ii) ELECTRONIC RECORD:

Electronic record includes the contents of communications, transactions and procedures under this Ordinance, including attachments, annexes, enclosures, accounts, returns, statements, certificates, applications, forms, receipts, acknowledgements, notices, orders, judgments, approvals, notifications, circulars, rulings, documents and any other information associated with such communications, transactions and procedures, created, sent, forwarded, replied to, transmitted, distributed, broadcast, stored, held, copied, downloaded, displayed, viewed, read, or printed, by one or several electronic resources and any other information in electronic form.

(iii) INTANGIBLE:

Intangible means any patent, invention, design or model, secret formula or process, copyright, trademark, scientific or technical knowledge, computer software, motion picture film, export quotas, franchise, license, intellectual property, or other like property or right, contractual rights and any expenditure that provides an advantage or benefit for a period of more than one year (other than expenditure incurred to acquire a depreciable asset or unimproved land).

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(b) BEST JUDGMENT ASSESSMENT:

- (1) Where a person fails to:
 - (a) furnish a statement as required by a notice under sub-section (5) of section 115; or
 - (b) furnish a return as required under section 143 or section 144; or
 - (c) furnish the statement as required under section 116; or
 - (d) produce before the Commissioner, or any person employed by a firm of chartered accountants or a firm of cost and management accountants under section 177, accounts, documents and records required to be maintained under section 174, or any other relevant document or evidence that may be required by him for the purpose of making assessment of income and determination of tax due thereon, the Commissioner may, based on any available information or material and to the best of his judgment, make an assessment of the taxable income or income of the person and the tax due thereon.
- (2) As soon as possible after making an assessment under this section, the Commissioner shall issue the assessment order to the taxpayer stating:
 - (a) the taxable income;
 - (b) the amount of tax due;
 - (c) the amount of tax paid, if any; and
 - (d) the time, place and manner of appealing the assessment order.
- (3) An assessment order under this section shall only be issued within five years after the end of the tax year or the income year to which it relates.

Q.3 (a) (i) RESIDENT INDIVIDUALS:

- (1) This rule applies for the purposes of section 82, which provides for the determination of persons as resident individuals.
- (2) The following rules apply for the purposes of section 82 in computing the number of days an individual is present in Pakistan in a tax year, namely:
 - (a) subject to clause (c), a part of a day that an individual is present in Pakistan (including the day of arrival in, and the day of departure from, Pakistan) counts as a whole day of such presence;
 - (b) the following days in which an individual is wholly or partly present in Pakistan count as a whole day of such presence, namely:
 - (i) a public holiday;
 - (ii) a day of leave, including sick leave;
 - (iii) a day that the individual's activity in Pakistan is interrupted because of a strike, lock-out or delay in receipt of suppliers; or
 - (iv) a holiday spent by the individual in Pakistan before, during or after any activity in Pakistan; and
 - (c) a day or part of a day where an individual is in Pakistan solely by reason of being in transit between two different places outside Pakistan does not count as a day present in Pakistan.

(ii) RECOGNIZED PROVIDENT FUNDS:–**APPLICATION FOR RECOGNITION OF PROVIDENT FUND:**

- (1) An application for recognition of a provident fund shall be made, in writing, by the employer maintaining the fund, setting out the following information, namely:
 - (a) the employer's name and the address of the employer's principal place of business;
 - (b) the name of all employees, whether in or outside Pakistan subscribing to the fund;
 - (c) the place where the accounts of the fund are or will be maintained; and
 - (d) where the fund is already in existence, a copy of the last balance sheet of the fund and details of the investments of the fund.
- (2) A verification in the following form shall be annexed to the application, namely:

“We/ I, trustee(s) of the above named fund, do declare that what is stated in the above application is true to the best of our/ my information and belief, and that the documents sent herewith are the originals or true copies thereof.”
- (3) Subject to sub-rule (4), the application shall be accompanied by the following document, namely:
 - (a) the original of trust deed to be sighted by the Commissioner;
 - (b) a copy of the trust deed to be retained by the Commissioner; and
 - (c) the rules of the fund.

Provided that if the original of the trust deed cannot conveniently be produced, the Commissioner may accept, in lieu of the original, a true copy certified either by a Magistrate or in any manner provided for in the Companies Rules, 1984, in which case, an additional copy shall be furnished for retention by the Commissioner.
- (4) The application shall be lodged with the Commissioner responsible for the area/ jurisdiction in which the accounts of the fund are kept, or, if the accounts are kept outside Pakistan, lodged with the Commissioner responsible for the area/ jurisdiction in which the local headquarters for the employer are situated.

(b) (i) OFFICER:

Officer means a person authorized by the Commissioner to execute an order of attachment or sale under these rules (i.e., Income Tax Recovery Rules).

(ii) EXECUTION:

Execution, in relation to a Notice, means steps taken for the recovery of arrears under these rules (i.e., Income Tax Recovery Rules).

Q.4 (a) (i) MANUFACTURE OR PRODUCE:

Manufacture or produce includes:

- (a) any process in which an article singly or in combination with other articles, materials, components, is either converted into another distinct article or product or is so changed, transformed or reshaped that it becomes capable of being put to use differently or distinctly and includes any process incidental or ancillary to the completion of a manufactured product;
- (b) process of printing, publishing, lithography and engraving; and
- (c) process and operations of assembling, mixing, cutting, diluting, bottling, packaging, repacking or preparation of goods in any other manner.

(ii) TIME OF SUPPLY:

- (a) a supply of goods, other than under hire purchase agreement, means the time at which the goods are delivered or made available to the recipient of the supply;
- (b) a supply of goods under a hire purchase agreement, means the time at which the agreement is entered into; and
- (c) services, means the time at which the services are rendered or provided.

(iii) RETAIL PRICE:

Retail price, with reference to the Third Schedule, means the price fixed by the manufacturer, inclusive of all duties, charges and taxes (other than sales tax at which any particular brand or variety of any article should be sold to the general body of consumers or, if more than one such price is so fixed for the same brand or variety, the highest of such price.

(b) COMPUTATION OF SALES TAX LIABILITY OF COMPANY:**MARKS**

$$\text{Input tax to be claimed} = \frac{\text{Purchase of RM}}{\text{Total Value of Supply}} \times \text{Taxable Supply} \times 17\%$$

$$\text{Input tax to be claimed} = \frac{1,250,000}{2,100,000} \times 1,750,000 \times 17\%$$

$$\text{Input tax to be claimed} = 177,083$$

} **2.0**

Output Tax:

$$1,750,000 \times 17\% = 297,500$$

$$\text{Sales Tax Liability} = \text{Output Tax} - \text{Input Tax}$$

$$\text{Sales Tax Liability} = 297,500 - 177,083$$

$$\text{Sales Tax Liability} = \text{Rs.120,417}$$

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Q.5 COMPUTATION OF TAXABLE INCOME AND TAX LIABILITY OF COMPANY:		MARKS
Name of Taxpayer	: XYZ Limited	0.25
National Tax Number	: X X X	0.25
Tax Year Ended on	: 30th June, 2010	0.25
Tax Year	: 2010	0.25
Personal Status	: Public Company	0.25
Residential Status	: Resident	0.25
Net Income		1,330,000
Add: Inadmissible Expenses:		
<i>i.</i> Salary without the payment of tax	450,000	1.0
<i>ii.</i> Second-hand machinery (erroneously included in research and development expenses)	200,000	1.0
<i>iii.</i> Accounting depreciation	350,000	1.0
<i>iv.</i> Accounting amortization	100,000	1.0
<i>v.</i> Income tax for the previous year	100,000	1.0
<i>vi.</i> Provision for tax for the year	250,000	1.0
	<u>1,450,000</u>	
		<u>2,780,000</u>
Less: <i>i.</i> Interest and dividend (separate block)	250,000	1.0
<i>ii.</i> Tax depreciation W-1	515,000	1.0
<i>iii.</i> Tax amortization	50,000	1.0
<i>iv.</i> Initial allowance W-2	400,000	1.0
<i>v.</i> Financial charges W-3	33,000	1.0
	<u>(1,248,000)</u>	
Taxable income		<u>1,532,000</u> 0.5
Tax Assessed (35% of Taxable Income)		536,200 1.0
Less: Tax credit u/s 65A W-4		<u>(13,405)</u> 1.0
TAX LIABILITY		<u><u>522,795</u></u> 1.0

WORKINGS:**W-1 Computation of Tax Depreciation:**

i. As per Note No. 2	500,000	
ii. As per Note No. 4		
200,000 – (200,000 x 50% Initial Allowance) x 15% =	15,000	
	<u>515,000</u>	1.0

W-2 Initial Allowance:

i. Imported Machinery (new)	300,000	
ii. Imported Machinery (second-hand) (200,000 x 50%)	100,000	
	<u>400,000</u>	1.0

W-3 Financial Charges:

200,000 x 18% x 11/12 =		
(From August 01, 2009 to June 30, 2010)	33,000	1.0

W-4 Tax Credit:

536,200 (Tax Payable) x 2.5% (Rate of Tax Credit) =	13,405	1.0
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Q.6 (a) (i) RESPONSIBILITY OF WAREHOUSE KEEPER:

The warehouse keeper in respect of goods lodged in a public warehouse, and the licensee in respect of goods lodged in a private warehouse, shall be responsible for their due receipt therein and delivery therefrom, and their safe custody while deposited therein, according to the quantity, weight or gauge reported by the officer of customs who has assessed such goods, allowance being made, if necessary, for deficiency in quantity on account of natural loss as provided in Section 110.

Provided that no owner of goods shall be entitled to claim from the appropriate officer or from any keeper of a public warehouse, compensation for any loss or damage occurring to such goods while they are being passed into or out of such warehouse, or while they remain therein, unless it be proved that such loss or damage was occasioned by the willful act or neglect of the warehouse keeper or of an officer of customs.

(ii) OWNER'S POWERS TO DEAL WITH WAREHOUSED GOODS:

(1) With the sanction of the appropriate officer and on payment of such fees as may be prescribed by rules, the owner of any goods may, either before or after warehousing the same,:

- (a) separate damage or deteriorated goods from the rest;
- (b) sort the goods or change their containers for the purpose of preservation, sale, export or disposal of the goods;
- (c) deal with the goods and their containers in such manner as may be necessary to prevent loss or deterioration or damage to the goods;
- (d) show the goods for sale; or
- (e) take such samples of goods as may be allowed by the appropriate officer with or without entry for home-consumption, and with or without payment of duty, except such as may eventually become payable on a deficiency of the original quantity.

(2) After any such goods have been so separated and repacked in proper or approved packages, the appropriate officer may, at the request of the owner of such goods, cause or permit any refuse, damage or surplus goods remaining after such separation or repacking (or, at the like request, any goods which may not be worth the duty) to be destroyed, and may remit the duty payable thereon.

(b) (i) CONVEYANCE:

Conveyance means any means of transport used for carrying goods or passengers such as vessel, aircraft, vehicle or animal etc.

(ii) DUTY DUE:

Duty due means duty in respect of supplies made or services provided or rendered during a month and shall be paid at the time of filing of return.

(iii) SALE AND PURCHASE:

'Sale' and 'purchase' with their grammatical variations and cognate expressions, mean any transfer of the possession of goods or rendering and providing of services by one person to another in the ordinary course of trade or business for cash or deferred payment or other consideration.

THE END