

BUSINESS TAXATION – STAGE-3**Q. 2 (a) (i) Principal Officer:**

Used with reference to a company or association of persons includes: –

- (a) a director, a manager, secretary, agent, accountant or any similar officer; and
- (b) any person connected with the management or administration of the company or association of persons upon whom the Commissioner has served a notice of treating him as the principal officer thereof.

(ii) Small Company:

Small company means a company registered on or after the first day of July, 2005, under the Companies Ordinance, 1984, which,—

- (i) has paid up capital plus undistributed reserves not exceeding twenty-five million rupees;
 - (ia) has employees not exceeding two hundred and fifty any time during the year;]
- (ii) has annual turnover not exceeding two hundred [and fifty] million rupees; and
- (iii) is not formed by the splitting up or the reconstitution of business already in existence;]

(b) Profit on debt:

Any profit received by a non-resident person on a security issued by a resident person shall be exempt from tax under this Ordinance where:

- (i) the persons are not associates;
- (ii) the security was widely issued by the resident person outside Pakistan for the purposes of raising a loan outside Pakistan for use in a business carried on by the person in Pakistan;
- (iii) the profit was paid outside Pakistan; and
- (iv) the security is approved by the [Board] [i.e. Central Board of Revenue] for the purposes of this section.

(c) Valuation of Conveyance:

The value of conveyance provided by the employer to the employee shall be taken equal to an amount as below:

(i) Partly for personal and partly for official use:

5% of:

- (a) the cost to the employer for acquiring the motor vehicle; or,
- (b) the fair market value of the motor vehicle at the commencement of the lease, if the motor vehicle is taken on lease by the employer;

(ii) For personal use only:

10% of:

- (a) the cost to the employer for acquiring the motor vehicle; or,
- (b) the fair market value of the motor vehicle at the commencement of the lease, if the motor vehicle is taken on lease by the employer.

BUSINESS TAXATION – STAGE-3**Q. 3 (a) Particulars required to be furnished for claiming depreciation deduction or initial allowance amortisation deduction:**

- (1) The following particulars shall be furnished by a taxpayer at the time of furnishing a return of income for any tax year in order to claim a depreciation deduction under section 22, an initial allowance under section 23 or an amortisation deduction under section 24 read with the Third Schedule to the Ordinance, namely: -

- (a) a description of each depreciable asset and intangible in respect of which a deduction is claimed;
- (b) where a depreciable asset or intangible is used in the tax year only partly in deriving income from business chargeable to tax, the extent of such part use;
- (d) if the depreciable asset or intangible was acquired in the tax year, the date of acquisition;
- (e) the written down value of each depreciable asset at the beginning of the tax year computed in accordance with sub-section (5) of section 22 and the cost of each intangible as determined under sub-section (11) of section 24;
- (f) the amount of capital expenditure incurred in the tax year on additions, alterations, improvements or extensions in relation to any depreciable asset or intangible and where the depreciable or amortisable amount of such expenditure is limited under the Ordinance, the lower amount shall also be stated;
- (g) the total value of each depreciable asset for which a depreciation deduction is allowable for the tax year (this is the sum of the amounts specified in clauses (e) and (f) less any initial allowance allowed for the asset in that year;
- (h) the prescribed rate of depreciation and initial allowance (if any) for each depreciable asset or class of asset for the tax year, and the normal useful life for each intangible;
- (i) the amount of depreciation deduction and initial allowance (if any) for each depreciable asset for the year and the amount of amortisation deduction for each intangible for the year;
- (j) the total depreciation deduction, initial allowance and amortisation deduction allowed for the tax year; and
- (k) the written down value of each depreciable asset and the cost of intangible at the end of the tax year, and the remaining normal useful life.

Explanation: Addition to intangible to be separately shown.

(b) Investment in Shares:

- (1) A person [other than a company] shall be entitled to a tax credit for a tax year in respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan where the person [other than a company] is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan.
- (2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —

$$(A/B) \times C$$

Where **A** is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

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B is the person's taxable income for the tax year; and

C is the lesser of :

- (a) the total cost of acquiring the shares referred to in sub-section (1) in the year;
- (b) ten per cent of the person's 1[taxable] income for the year; or
- (c) [3[three] hundred] thousand rupees.

(3) Where:

- (a) a person has [been allowed] a tax credit under sub-section (1) in a tax year in respect of the purchase of a share; and
- (b) the person has made a disposal of the share within twelve months of the date of acquisition, the amount of tax payable by the person for the tax year in which the shares were disposed of shall be increased by the amount of the credit allowed.

(c) (i) **Golden Handshake Taxable as a Separate Block of Income:**

	Rs.	Marks
Income taxable as per normal rates	750,000	
Income taxable at a special rate (i.e., golden handshake payment)	2,800,000	
Total income for the year	3,550,000	
Total Tax Liability		
1. Tax on taxable income (Rs.750,000 @ 6%)	45,000	0.5
2. Tax on golden handshake payment = Rs.2,800,000 @ 3.622% [N-1]	101,416	0.5
Total tax liability for the year	146,416	1.0

N-1:

Year	Taxable Income (Rs.)	Tax Liability (Rs.)	
1.	450,000	11,250	
2.	540,000	18,900	
3.	650,000	29,250	
Total	1,640,000	59,400	0.5 + 0.5

Average Rate:

$$\frac{\text{Tax of last 3 years}}{\text{Taxable income of last 3 years}} \times 100$$

$$\frac{59,400 \times 100}{1,640,000} = 3.622\% \quad 1.0$$

(ii) **Golden Handshake Payment Taxable along with Other Incomes for the Year:**

	Rs.	
Salary received during the year	750,000	
Amount received on account of golden handshake	2,800,000	
Total income taxable under the head 'salary'	3,550,000	1.0
Total Tax Liability		
Total tax for the year (Rs.3,550,000 @ 17.50%)	621,250	1.0

BUSINESS TAXATION – STAGE-3**Q.4 (a) Cases Where a Registered Person is not entitled to Deduct Input Tax:**

A registered person shall not be entitled to deduct input tax from output tax unless:

- (i) in case of a claim for input tax in respect of a taxable supply made, he holds a tax invoice [in his name and bearing his registration number] in respect of such supply for which a return is furnished;
- (ii) in case of goods imported into Pakistan, he holds bill of entry or goods declaration in his name and showing his sales tax registration number, duly cleared by the customs under section 79 or section 104 of the Customs Act, 1969 (IV of 1969);
- (iii) in case of goods purchased in auction, he holds a treasury challan, in his name and bearing his registration number, showing payment of sales tax;

(b) (i) If a Person Fails to Furnish a Return:

Such person shall pay a penalty of five thousand rupees:

Provided that in case a person files a return within fifteen days of the due date, he shall pay a penalty of one hundred rupees for each day of default.

(ii) If a Person Fails to Issue an Invoice:

Such person shall pay a penalty of five thousand rupees or three *per cent* of the amount of the tax involved, whichever is higher.

(c) (i) Arrears:

"*Arrears*", in relation to a person, means, on any day, the sales tax due and payable by the person under this Act before that day but which has not yet been paid.

(ii) Tax Period:

"Tax period" means a period of one month or such other period as the Federal Government may, by notification in the official Gazette, specify;

(iii) Association of Persons:

"*Association of persons*" includes a firm, a Hindu undivided family, any artificial juridical person and body of persons formed under a foreign law, but does not include a company.

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Q.5

Name Of Taxpayer	:	M/s. ABC (Pvt.) Ltd.	}	Marks
National Tax Number	:	XXX		0.25
Tax Year Ended On	:	30th June, 2011		0.25
Tax Year	:	2011		0.25
Personal Status	:	Private Company		0.25
Residential Status	:	Resident		0.25

COMPUTATION OF TAXABLE INCOME AND TAX LIABILITY

	₹s. million	Rs. million	
Net Profit as per Profit and Loss A/c.		301	1.0
Add: Inadmissible expenses:			
Salary paid without deducting tax at source (N-1)	4		1.0
Donation to approved institution (N-2)	7		1.0
Pre-paid insurance (N-3)	6		1.0
Accounting depreciation	55		1.0
Allowance doubtful debts (N-4)	35		1.0
Provision for taxation (N-5)	91		1.0
Un-vouched and un-verified vehicle expenses (N-6)	3		1.0
		201	
		502	
Less: Statutory depreciation		(85)	1.0
Taxable Income		417	1.0

COMPUTATION OF TAX LIABILITY

Total tax liability (417 x 0.35)	145.95	1.5
Less tax credit (N-7)	(2.45)	1.0
Tax payable	143.50	1.0

NOTES:

- N-1** Salary paid without deducting tax at source is inadmissible. 1.0
- N-2** Donation to approved institution but not specified in Clause (61) of Part-I of Second Schedule is eligible for tax credit at the average rate of tax.

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Tax credit on unspecified donation:				Marks
$\frac{145.95 \times 7}{417}$	=	Rs.2.45 million	}	2.0

- N-3** Prepaid insurance premium is inadmissible, since it does not pertain to the assessment period. 0.5
- N-4** Provision for doubtful debts is inadmissible. 0.5
- N-5** Provision for taxation is inadmissible. 0.5
- N-6** Un-vouched and un-verified vehicle expenses is inadmissible. 0.5

Q.6 (a) (i) Distributor:

"Distributor" means a person appointed by a manufacturer in or for a specified area to purchase goods from him for sale to a wholesale dealer in that area.

(ii) Factory:

"Factory" means any premises, including the precincts thereof, wherein or in any part of which goods are manufactured, or wherein or in any part of which any manufacturing process connected with the production of the goods is being carried on or is ordinarily carried on;

(b) (i) When No Drawback Allowed:

Notwithstanding anything hereinbefore contained, no drawback shall be allowed:

- upon goods which are required to be included in the export manifest and are not so included, or
- when the claim is for drawback amounting, in respect of any single shipment, to less than [or equal to] hundred rupees, or
- unless the claim for drawback has been made and established at the time of export.

(ii) Time of Payment of Drawback:

No such payment of drawback shall be made until the vessel carrying the goods has put out to sea or other conveyance has left Pakistan.

THE END