

BUSINESS TAXATION – STAGE-3

Q.2	(a)	(i)	<u>BUSINESS:</u>	MARKS
			Includes any trade, commerce, manufacture, profession, vocation or adventure or concern in the nature of trade, commerce, manufacture, profession or vocation, but does not include employment.	3.0
		(ii)	<u>CHARITABLE PURPOSE:</u>	3.0
			Includes relief of the poor, education, medical relief and the advancement of any other object of general public utility.	3.0
		(iii)	<u>EMPLOYMENT:</u>	3.0
			(a) Includes a directorship or any other office involved in the management of a company;	
			(b) A position entitling the holder to a fixed or ascertainable remuneration; or	
			(c) The holding or acting in any public office.	3.0
	(b)	(i)	<u>EMPLOYEE SHARE SCHEME:</u>	3.0
			Under employee share scheme a company may issue shares in the company to :	
			□ An employee of the company or an employee of an associated company; or	
			□ The trustee of a trust and under the trust deed the trustee may transfer the shares to an employee of the company or an employee of an associated company.	3.0
		(ii)	<u>INCOME FROM OTHER SOURCES)</u>	3.0
			(a) Dividend.	
			(b) Royalty.	
			(c) Profit on debt.	
			(d) Ground rent.	
			(e) Rent from the sub-lease of land or a building.	
			(f) Income from the lease of any building together with plant or machinery.	
			(g) Income from provision of amenities, utilities or any other service connected with renting of building.	
			(h) Any annuity or pension.	
			(i) Any prize bond, or winnings from a raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale or cross-word puzzle.	
			(j) Any other amount received as consideration for the provision, use or exploitation of property, including from the grant of a right to explore for, or exploit, natural resources.	3.0
	(c)	(i)	<u>COMPUTATION OF ⁽¹⁾INCOME FROM PROPERTY⁽²⁾ CHARGEABLE TO TAX:</u>	3.0
			(Rs.)	
			Rental income (50,000 x 12)	600,000
			Forfeited amount under a contract for the sale	100,000
			Security Deposit (500,000 x 1/10)	50,000
			Income from property chargeable to tax	750,000
			Notes:	
			i) Assumed that refundable security deposit is not adjustable against rent.	0.25
			ii) Maintenance charges are not to be deducted from the said income as income under this head is chargeable to tax at gross amount.	0.25
				3.0

BUSINESS TAXATION – STAGE-3**(ii) CONDITIONS IN RESPECT OF A PERSON NOT LIABLE TO PAY TAX ON INCOME FROM PROPERTY:**

- (a) Is an individual or association of persons.
- (b) Derives income chargeable to tax under this section not exceeding Rs. 150,000 in a tax year; and
- (c) Does not derive taxable Income under any other head

2.0**Q.3 (a) (i) ENTERTAINMENT:**

Means the provision of meals, refreshments, and reasonable leisure facilities in accordance with the tradition of business and subject to overall norms and customs of business in Pakistan.

2.0**(ii) E-INTERMEDIARY:**

Means a person registered as:

- (a) Chartered Accountant with the Institute of Chartered Accountants of Pakistan.
- (b) Cost and Management Accountant with the Institute of Cost and Management Accountants of Pakistan.
- (c) A legal practitioner entitled to practice in any Court in Pakistan.
- (d) A member of the Association of Chartered Certified Accountants, UK; or
- (e) An Income Tax Practitioner, registered with Tax Bar affiliated with All Pakistan Tax Bar Association.

2.0**(b) Minimum Books of Account, Documents and Records under Rule 30.**

Following minimum books of account, documents and records are required to be maintained by taxpayers with business income up to Rs. 200,000.

- Serially numbered and dated cash-memo/ invoice/ receipt for each transaction of sale or receipt containing the following:
 - (i) Taxpayer's name or the name of his business, address, national tax number and sales tax registration number, if any; and
 - (ii) The description, quantity and value of goods sold or services rendered;

Provided that where each transaction does not exceed Rs. 100, one or more cash-memos per day for all such transactions may be maintained.
- Daily record of receipts, sales, payments, purchases and expenses; a single entry in respect of daily receipts, sales, purchases and different heads of expenses will suffice; and
- Vouchers of purchases and expenses.

6.0**(c) (i) PRESCRIBED QUALIFICATION FOR REGISTRATION AS AN INCOME TAX PRACTITIONER:**

- A degree in Law at least in the second division,
- A degree in Commerce (with Income Tax Law and Accounting or Higher Auditing as subjects or parts of subjects, whether compulsory or optional) or
- a degree in Business Administration or Business Management (with Accounting and Income Tax law as subjects or parts of subjects, whether compulsory or optional) conferred by a prescribed institution; or
- A pass in a prescribed accounting examination.{i.e CA (inter), ICAP; Part III, ICMAP; ACCA (UK); CPA (USA)}

BUSINESS TAXATION – STAGE-3

(ii) <u>DURATION OF REGISTRATION:</u>	3.0
Following are the situations causing an end of registration of income tax practitioner	
(a) The person surrenders the registration by notice in writing to the Director Regional Tax Office.	
(b) The person dies; or	
(c) The person's registration is terminated by the Director General, Regional Tax Office.	

Q.4 (a)	<u>TAX INVOICES UNDER SECTION 23 OF THE SALE TAX ACT, 1990.</u>	3.0
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It contains the following particulars:

- (i) Name, address and registration number of the supplier;
- (ii) Name, address and registration number of the recipient;
- (iii) Date of issue of the invoice;
- (iv) Description and quantity of goods;
- (v) Value exclusive of tax;
- (vi) Amount of sales tax; and
- (vii) Value inclusive of tax

(b) <u>COMPUTATION OF SALES TAX LIABILITY/ REFUND OF THE COMPANY:</u>	4.0
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A) <u>Output Tax:</u> (taxable supply x tax rate)			
Taxable Supply	Rs.5,000,000		1.5
Tax Rate	17%		1.0
Amount of output tax	Rs.850,000		0.5
B) <u>Input Tax:</u> {taxable supply (purchases) x tax rate}			
Purchase of Raw Materials used in taxable & Zero rated supply	Rs.4,500,000		1.5
Tax Rate	17%		1.0
Amount of input tax	Rs.765,000		0.5
Sales tax liability (A – B)	Rs.85,000		1.0

Note:

Exempt supply does not attract any tax nor can input tax be claimed on raw materials used in exempt supply under the Sales Tax Act, 1990.

8.0**Q.5 COMPUTATION OF TAXABLE INCOME & TAX LIABILITY:**

Name of Taxpayer	:	Mr. Hussain	0.25
National Tax Number	:	xxxxxxxxxx	0.25
Tax year Ended	:	June 30, 2010	0.25
Tax year	:	2010	0.25
Personal Status	:	Individual Salaried	0.25
Residential Status	:	Resident	0.25
		(Rs.)	(Rs.)
Basic salary	(50,000 X 12)	600,000	1.5
House rent allowance	(22,500 X 12)	270,000	1.5
Utilities	(5,000 X 12)	60,000	1.5
Medical allowance (N-1)		12,000	1.5
Leave encashment		50,000	1.5

BUSINESS TAXATION – STAGE-3

Conveyance	(N-2)		30,000	1.5
Pension (Exempt)			-	0.5
			<hr/> 1,022,000	0.5
Less: Zakat		25,000		
Donation (as specified in clause 61)		10,000	(35,000)	1.5
Taxable Income			<hr/> 987,000	1.0
Tax Rate 9%				
Tax Assessed			88,830	1.5
Less: Tax Credit	(N-3)		(1,800)	1.5
Tax liability			<hr/> 87,030	1.0

Notes:

- | | | | |
|--|--|--------|-----|
| 1. Medical Allowance | (6,000 x 12) | 72,000 | 0.5 |
| Less: 10% Exempt of Basic Salary (600,000 x 10%) | | 60,000 | |
| Taxable Medical Allowance | | 12,000 | |
| 2. Conveyance Allowance | | | 0.5 |
| 5% of cost of motor vehicle (600,000 x 5%) | | 30,000 | |
| 3. Computation of tax credit u/s 61 | | | 1 |
| Tax Credit = A/B x C | | | |
| Where: | | | |
| A | = The amount of tax assessed to the person for the tax year before allowance of any tax credit. | | |
| B | = Person's taxable income for the tax year | | |
| C | = The lesser of: | | |
| | (i) The total amount of the person's donation | | |
| | (ii) Where the person is individual or AOP, 30% of the taxable income of the person for the year | | |
| | = $\frac{88,830}{987,000} \times 20,000 = 1,800$ | | |

20.0

Q.6 (a) REGISTRATION:

Any person engaged in the production or manufacture of goods or providing or rendering services liable to duty of excise under this Act shall, unless otherwise specified, be required to obtain registration in the prescribed manner regardless of his annual turnover or volume of sales of such goods or services.

3.0

(b) DEFAULT SURCHARGE:

Default surcharge is paid at the rate of (KIBOR plus three per cent) of the duty due.

The period of default shall be reckoned from the date following the due date on which the duty was payable to the preceding day on which the duty is actually paid.

3.0

BUSINESS TAXATION – STAGE-3**(c) (i) GOODS DUTIABLE:**

- (a) Goods imported into Pakistan.
- (b) Goods brought from any foreign country to any customs station, and without payment of duty there, transhipped or transported for, or thence carried to, and imported at any other customs station; and
- (c) Goods brought in bond from one customs station to another.

3.0

(ii) DRAWBACK OF THE EXPORT ON IMPORTED GOODS:

Subject to the subsequent provisions of this Chapter and the rules, when any goods, capable of being easily identified, which have been imported into Pakistan and upon which customs-duties have been paid on importation, are exported to any place outside Pakistan or as provisions or stores for use on board a conveyance proceeding to a foreign territory.

3.0

THE END

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