

P.Q. 2(a)

i) Fee for technical services:

Means any consideration whether periodical or lump sum, for the rendering of any managerial , technical or consultancy services including the services of technical or other personnel, but does not include:

- a. Consideration for services rendered in relation to a construction, assembly or like project undertaken by the recipient
- b. Consideration which would be income of the recipient chargeable under the head salary

ii) Employment includes :

- a. A directorship or any other office involved in the management of the company
- b. A position entitling the holder to a fixed or ascertainable remuneration
- c. Holding or acting in any public office

iii) Small company means a company registered on or after the 1st day of July,2005 under the Companies Ordinance, 1984, which:

- a. Has paid-up capital plus undistributed reserves not exceeding Rs.25 Million
- b. Has employees up to 250 any time during the year
- c. Has annual turnover up to Rs. 250 Million
- d. Is not formed by the splitting upon the reconstitution of a company already in existence.

P.Q. 2(b)

Minimum tax on the income of certain persons

(1) This section shall apply to a resident company where, for any reason whatsoever allowed under this Ordinance, including any other law or for the time being in force.

- (a) loss for the year;
- (b) the setting off a loss of an earlier year;
- (c) exemption from tax;
- (d) the application of credits or rebates; or
- (e) the claiming of allowances or deductions (including depreciation and amortization deductions) no tax is payable or paid by the person for a tax year or the tax payable or paid by the person for a tax year is less than one-half percent of the amount representing the person's turnover from all sources for that year:

Provided that this sub-section shall not apply in the case of a company, which has declared gross loss before set off of depreciation and other inadmissible expenses under the Ordinance.

If the loss is arrived at by setting off the aforesaid or changing accounting pattern, the Commissioner may ignore such claim and proceed to compute the tax as per historical accounting pattern and provision of this Ordinance and all other provisions of the Ordinance shall apply accordingly.

P.Q. 2 (c)

Foreign source salary of resident individuals: (1) Any foreign-source salary received by a resident individual shall be exempt from tax if the individual has paid foreign income tax in respect of the salary.

(2) A resident individual shall be treated as having paid foreign income tax in respect of foreign-source salary if tax has been withheld from the salary by the individual's employer and paid to the revenue authority of the foreign country in which the employment was exercised.

P.Q. 2 (d)

Subject to sub-rule (6), the following methods shall apply for the purposes of determining an arm's length result, namely:

- (i) the comparable uncontrolled price method;
- (ii) the resale price method;
- (iii) the cost plus method; or
- (iv) the profit split method.

P.Q. 3 (a)

- (i) Entertainment expenditure means, provision of meals, refreshment, and reasonable leisure facilities in accordance with the tradition of business and subject to norms and customs of business in Pakistan.
- (ii) A person shall be allowed a deduction only for the expenditure that is directly related to the business.
- (iii) A deduction for entertainment expenditure shall be limited to the following:
 1. Expenditure incurred outside Pakistan in connection with business or where such expenditure is allocated as head office expenditure
 2. Expenditure incurred in Pakistan on entertainment of foreign customers and suppliers.
 3. Expenditure incurred on entertainment of customers and clients at the person's business premises.
 4. Expenditure incurred on entertainment at a meeting of shareholders, agents, directors or employees.

5. Expenditure incurred on entertainment at the opening of branches.

P.Q. 3 (b) (i)

Return Of Income Section 114 of Income Tax Ordinance 2001.

(1) Subject to this Ordinance, the following persons are required to furnish a return of income for a tax year, namely:-

- (i) Every company
- (ii) Every person (other than a company) whose taxable income for the year exceeds the maximum amount that is not chargeable to tax under this ordinance for the year.

(iii) Any non-profit organization as defined in clause 36 of section 2.

(iv) Any welfare institution approved under clause 58 of Part I of 2nd Schedule.

b) Any person not covered above who:-

- (i) Has been charged to tax in respect of any of the two preceding tax years.
- (ii) Claims a loss carried forward under this ordinance for a tax year.
- (iii) Owns immovable property with a land area of two hundred and fifty square yards or more or owns any flat located in areas falling within the municipal limits existing immediately before the commencement of Local Government laws in the provinces; or areas in a Cantonment; or the Islamabad Capital Territory.
- (iv) Owns immovable property with a land area of five hundred square yards or more located in a rating area.
- (v) Owns a flat having covered area of two thousand square feet or more located in a rating area.
- (vi) Owns a motor vehicle having engine capacity above 1000 CC and
- (vii) Has obtained National Tax Number

P.Q. 3 (b) (ii)

Agricultural income means; (Section 41 sub section 2 of Income Tax ordinance 2001)

- a) Any rent or revenue derived by a person from land which is situated in Pakistan and is used for agricultural purposes;
- b) Any income derived by a person from land situated in Pakistan from -
 - i) Agriculture
 - ii) The performance by a cultivator or receiver of rent-in-kind of any process ordinarily employed by such person to render the product raised or received by the person fit to be taken to market;
 - iii) The sale by a cultivator or receiver of rent in kind of the produce raised or received by such person, in respect of which no process has been performed other than a process of a nature described in sub-clause.
- c) Any income derived by a person from -
 - i) Any building owned and occupied by the receiver of the rent or revenue of any land described above.
 - ii) Any building occupied by the cultivator, or the receiver of rent-in-kind, of any land in respect of which, or the produce of which, any operation specified in sub-clauses ii or iii of clause b is carried on.

But only where the building is on, or in the immediate vicinity of the land and is a building which the receiver of the rent or revenue, or the cultivator, or the receiver of the rent-in-kind by reason of the person's connection with the land, requires as a dwelling house, a store house, or other out-building.

P.Q 4 (a)

If the goods has been entered by the owner for home consumption, which has been assessed under section 80 and 81 and has paid the import duty and other charges if the concerned officer satisfied that the good are not prohibited or in breach of any restrictions or conditions applying to such goods, he may make an order for the clearance of such goods. In case where the computerized system of customs is operational, goods may be cleared by the system-generated documents by such system.

P.Q. 4 (b)

Any registered person, for each transaction, issue a serially numbered invoices at the time of clearance or sale of goods including zero rated goods or providing or rendering services containing following particulars:

- 1- name, address and registration number of seller
- 2- name, address and registration number of buyer.
- 3- date of issue of the invoice.
- 4- description and quantity of the goods or service
- 5- value exclusive of excise duty.
- 6- amount of excise duty
- 7- value inclusive of excise duty.

P.Q. 5

Marks

Name Of Taxpayer	:	M/S. Arshad (Pvt.) Ltd.	}	
National Tax Number	:	XXX	}	
Tax Year Ended On	:	30th June, 2009	}	
Tax Year	:	2009	}	1.0
Personal Status	:	Private Company	}	
Residential Status	:	Resident	}	

COMPUTATION OF TAXABLE INCOME AND TAX LIABILITY

	Rs. 000'	Rs. 000'	
Net Profit as per Profit and Loss A/c.		129,100	0.5
Add:			
Inadmissible expenses:			
Salary paid without deducting tax at source (N-1)	250		0.5
Salary paid in cash (N-2)	240		0.5
Donation to approved institution	900		0.5
Liquidated damages (N-3)	500		0.5
Pre-paid insurance (N-4)	250		0.5
Accounting depreciation	58,000		0.5
Income tax for last year	54,000		0.5
Doubtful debts (N-5)	5,000		0.5
Provision for taxation	79,000		0.5
Un-vouched and un-detailed expenses	350		0.5
		198,490	
		327,590	
Less:			
Statutory depreciation		(66,000)	0.5
Total Income		261,590	
Less donation to approved specified institution (N-6)		(500)	0.5
Taxable Income		261,090	1.0

COMPUTATION OF TAX LIABILITY

Total tax liability (261,090 x 0.35)	91,382	1.0
Less tax credit (N-7)	140	0.5
Tax payable	91,242	1.0

7 of 9

NOTES:

- N-1** Salary paid without deducting tax at source is inadmissible. 1
- N-2** Salary paid exceeding Rs.15,000 p.m. is inadmissible if not paid through crossed cheque. 1
- N-3** "Liquidated damages" is the amount of damages to be recovered by either party for breach of the agreement by the other party. It is inadmissible under tax law. 1
- N-4** Prepaid insurance premium is inadmissible, since it does not pertain to the assessment period. 1
- N-5** Rs.9,000 of bad debts recovered during the year has already been credited to profit and loss account through credit adjustment in bad debts reserve, thus no special treatment is needed 1
- N-6** Donation to institutions specified in Clause (61) of Part-I of Second Schedule are allowed as deduction from income. 1
- N-7** 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. 1
- Tax credit on unspecified donation:
- $$\frac{91,382}{261,090} \times 400 = \text{Rs.140,000}$$
- } 1
- N-8** It is presumed that bad debts are properly allowed by the Income Tax Department 1

Total marks 20

P.Q.6 (a)

(i) Distributor

According to section 2 sub-section (7) of Sales Tax Act 1990 it means a person appointed by a manufacturer, importer or any other person for a specified area to purchase goods from him for further supply and includes a person who in addition to being a distributor is also engaged in supply of goods as a wholesaler or a retailer.

(ii) Documents

According to section 2 sub-sections (8) of Sales Tax Act 1990 document includes any electronic data, computer programs, computer tapes, computer disks, microfilms or any other medium for the storage of such data.

P.Q 6(b)

‘Return’ means any return required to be furnished under Chapter-V of the Sales Tax Act. ;

A person who is registered under the Sales Tax Act, 1990 is liable to file a tax return with the Sales Tax Authorities. Under the above-referred chapter, the sales tax department may require the filing of following different types of returns:

- 1- Sales tax return (u/ s 26)
- 2- Nil Return
- 3- Special return (u/ s 27) and
- 4- Final return (u/ s 28)

P.Q 6 (c)

Provisions of Sales Tax Return under Section 26 of Sales Tax Act 1990 are as under:

- A return, which is furnished by every registered person within the due date for the purchases and supplies made during a tax period, is termed as Sales Tax Return.
- If there is a change in the rate of tax during a tax period, a separate return for each portion of tax period (showing the application of different rates of tax) shall be furnished.
- The return is to be filed in the prescribed form with a designated bank or any other office specified by the Board.
- It is to be noted that every registered person, irrespective of the fact whether he has made any taxable supply during a tax period or not, shall be liable to furnish the sales tax return for every tax period.
- Normally sales tax return is a monthly return to be filed by the due date. However, the Board is empowered to notify that certain person or class of persons should submit return quarterly.
- Board may further require any person or class of persons to submit a prescribed return annually. This return shall be in addition to the monthly return / quarterly return being filed by registered persons.
- Filing a return electronically on the web or any magnetic media or any other computer readable media specified by the Board shall be deemed to be a return.