

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Question No. 2****(a) (i) Definite Information:**

02

Definite information includes information on sales or purchases of any goods made by the taxpayer, receipts of the taxpayer from services rendered or any other receipts that may be chargeable to tax under this Ordinance and on the acquisition, possession or disposal of any money, asset, valuable article or investment made or expenditure incurred by the taxpayer.

(ii) Permanent Establishment:

04

Permanent establishment in relation to a person, means a fixed place of business through which the business of the person is wholly or partly carried on, and includes:

- a place of management, branch, office, factory or workshop, premises for soliciting orders, warehouse, permanent sales exhibition or sales outlet, other than a liaison office except where the office engages in the negotiation of contracts (other than contracts of purchase);
- a mine, oil or gas well, quarry or any other place of extraction of natural resources;
- an agricultural, pastoral or forestry property;
- a building site, a construction, assembly or installation project or supervisory activities connected with such site or project but only where such site, project and its connected supervisory activities continue for a period or periods aggregating more than ninety days within any twelve-months period;
- the furnishing of services, including consultancy services, by any person through employees or other personnel engaged by the person for such purpose;
- a person acting in Pakistan on behalf of the person (hereinafter referred to as the “agent”, other than an agent of independent status acting in the ordinary course of business as such, if the agent –
 - has and habitually exercises an authority to conclude contracts on behalf of the other person;
 - has no such authority, but habitually maintains a stock-in-trade or other merchandise from which the agent regularly delivers goods or merchandise on behalf of the other person; or
- any substantial equipment installed, or other asset or property capable of activity giving rise to income

(b) Incomes/ Amounts to be Excluded from the Term Dividend:

04

- A distribution made by the company on its liquidation or reduction of its capital in respect of any share for full cash consideration, or redemption of debentures or debenture stock, where the holder of the share or debenture is not entitled in the event of liquidation to participate in the surplus assets;
- Any advance or loan made to a shareholder by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company;
- Any dividend paid by a company which is set off by the company against the whole or any part of any sum previously paid by it and treated as a dividend to the extent to which it is so set off; and
- Remittance of after tax profit by a branch of Petroleum Exploration and Production (E & P) foreign company, operating in Pakistan.

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****(c)**

Mr. Atif

Computation of Taxable Income and Tax Liability
for the tax year 2018

		Rupees	
Salary:			
Basic salary (430,000 x 12)		5,160,000	½
Medical allowance (70,000 x 12)	840,000		½
Less: Exempt upto 10% of basic salary	(516,000)	324,000	1
Utilities (38,000 x 12)		456,000	½
Cost of living (25,000 x 12)		300,000	½
Accommodation: Higher of:			
FMV (185,000 x 12)	2,220,000		½
45% of basic salary	2,322,000	2,322,000	1
Tax borne by employer		250,000	½
Salary		8,812,000	½
Tax Liability:			
Salary (salaried case) [1,422,000 + (8,812,000 – 7,000,000) x 30%]		1,965,600	½
Less: Tax credits			
Tax credit on charitable donations			
C = Lower of:			
a) Amount of donations	600,000		½
b) 30% of taxable income of year	2,643,600		½
	600,000		1
$A \div B \times C = 1,965,600 \div 8,812,000 \times 600,000$		(133,836)	
Tax credit for investment in shares			
C = Lower of:			
a) Cost of acquiring shares	900,000		½
b) 20% of taxable income of tax year	1,762,400		½
c) Rs. 1,500,000	1,500,000		½
	900,000		½
$A \div B \times C = 1,965,600 \div 8,812,000 \times 900,000$		(200,754)	1
Income tax payable		1,631,010	1

(d) Deductible Allowance for Profit on Debt:

		Rupees	
Lower of:			
a) Actual amount (200,000 x 12)	2,400,000		½
b) Rs. 2,000,000	2,000,000		½
c) 50% of taxable income of the year (3,000,000 x 50%)	1,500,000		½
Deductible allowance for profit on debt		1,500,000	½

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Question No. 3**

- (a) (i) For the tax year ended June 30, 2018, the relevant period is July 01, 2017 to June 30, 2018. Therefore, the stay of Mr. David for the purpose of tax year 2018 is 107 days.
Since his stay in Pakistan is less than 183 days in tax year 2018, he is a non-resident for tax purposes. 02
- (ii) Since Mr. Danish never travelled abroad in his life before proceeding to Canada for assuming his job responsibilities, the number of days he spent in Pakistan for the tax year 2018 is 213 days.
The day he spent in Pakistan on June 28, 2018, while in transit, would not be counted as day of his presence in Pakistan. Even then, Mr. Danish is a resident person as his total stay in tax year 2018 is more than 183 days. 03
- (iii) In case of Mr. Alexander, it is immaterial where he stayed in Pakistan. The calculation will be made from the day of his arrival in Pakistan to the day of his departure from Pakistan. Therefore, the total number of days he spent in Pakistan during the tax year 2018. He stayed total 185 days, so he is resident for tax purpose. 02
- (b) (i) No, notice of deficiency shall be issued after the expiry of 180 days from the end of the financial year in which return was furnished. The return was furnished on September 30, 2017 which is tax year 2018, while notice was received on April 15, 2018 which is also tax year 2018. Therefore, CIR is justified in issuing this notice as time period has not lapsed as yet. 02
- (ii) The Commissioner may further amend the assessment where: 04
- The Commissioner have definite information on the basis of audit or otherwise and he is satisfied that:
 - Any income chargeable to tax has escaped assessment;
 - Total income has been under-assessed, or assessed at too low rate, or has been the subject of excessive relief or refund; or
 - Any amount under a head of income has been mis-classified.
 - The Commissioner considers that the assessment order is erroneous in so far as it is prejudicial to the interest of revenue.
- (iii) No order shall be amended after the expiry of five years from the end of the financial year in which the commissioner has issued or treated to have issued the assessment order to the taxpayer.
In the case stated above, the return has been treated to be issued the assessment order on September 30, 2017 which is tax year 2018. Therefore CIR has 5 years from end of tax year 2018, i.e. ending on June 30, 2023. 03
- (c) Taxable Gain:
- | | Rupees | |
|--|-----------|----|
| Consideration received on the sale of 20,000 shares on December 14, 2017 | 600,000 | 1½ |
| Less: Shares purchased (10,000 x 18) | (180,000) | 1½ |
| Bonus allotted (10,000 x 22) | (220,000) | 1½ |
| Incidental charges | (15,000) | 1½ |
| Capital Gain | 185,000 | 1½ |

Since the disposal of the shares was made after holding them for more than a year, only 75% of the capital gain is taxable:

$$185,000 \times 75\% = \text{Rs. } 138,750$$

1½

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Question No. 4****(a)****Mr. Faraz****Computation of Taxable Income and Tax Liability
for the tax year 2018**

		Rupees	
Income from Property:			
Normal rent ($2,400,000 \div 12 \times 8$)	1,600,000		1/2
Non-adjustable deposit ($7,200,000 \div 10$)	720,000	2, 320,000	1/2
Income from business:			
Profit before tax		3,445,000	1/2
Add:			
Financial charges	90,000		1/2
Accounting depreciation	320,000		1/2
Accounting depreciation in cost of sales ($2,400,000 \times 15\%$)	360,000		1/2
Vehicle running expense ($345,000 \times 40\%$)	138,000		1/2
Provision for bad debts	33,000		1/2
Salary of Mr. Faraz ($65,000 \times 12$)	780,000		1/2
Salary of Mr. Faraz's brother	—		1/4
Gifts to clients	—		1/4
Gifts to wife	45,000		1/2
Donation to The Citizens Foundation	—	1,766,000	1/2
		5,211,000	1/4
Less:			
Lease rental paid	290,000		1/2
Tax depreciation machinery:			
– Initial allowance ($2,400,000 \times 25\%$)	600,000		1/2
– Normal depreciation ($2,400,000 - 600,000$) $\times 15\%$	270,000	(1,160,000)	1/2
Income from business		4,051,000	1/4
Less: Unabsorbed brought forward losses			
– Business losses	720,000		1/4
– Depreciation losses	655,000	(1,375,000)	1/2
Income from business after adjustment of losses		2,676,000	1/4
Capital Gain:			
Disposal of shares:			
– Consideration received	550,000		1/2
– Less: Cost on disposal (Rs. 35 per share \times 8,000 shares)	(280,000)		1/2
	270,000		
Capital gain		270,000	1/4

BUSINESS TAXATION [G5] – GRADUATION LEVEL

		Rupees	Marks
Total Income:			
– Sum of all heads	5,266,000		½
– Exempt income	–	5,266,000	¼
Taxable Income:			
– Sum of all heads	5,266,000		½
– Less: Deductible allowance	–	5,266,000	¼
Tax Liability:			
Income from property (separate rates) [210,000 + (2,320,000 – 2,000,000) x 20%]		274,000	½
Others (Non-salaried case) [344,500 + {(5,266,000 – 2,320,000) – 2,500,000} x 25%]		456,000	½
Tax liability		730,000	¼
Less: Tax credits			
Tax credit on Health Insurance Policy			
$A \div B \times C = 730,000 \div 5,266,000 \times C$			
C = Lower of:			
a) Premium paid	65,000		¼
b) 5% of taxable income of year	263,300		¼
c) Rs. 150,000	150,000		¼
	65,000	(9,011)	½
Tax credit for investment in approved pension fund			
$A \div B \times C = 730,000 \div 5,266,000 \times C$			
C = Lower of:			
a) Contribution Paid	100,000		¼
b) 20%+2%*14years of taxable income of current tax year	2,527,680		¼
c) 30% of taxable income of preceding tax year	630,150		¼
	100,000	(13,863)	½
Adjustable Withholding Tax:			
– Cash withdrawal u/s 231A	12,000		½
– Electricity consumption u/s 235	7,000		½
– Telephone u/s 236	9,000	(28,000)	½
Advance tax u/s 147		(200,000)	½
Income tax payable		479,127	½

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks**

- (b) (i) A moveable asset in the personal use of the taxpayer is not a capital asset. Therefore, the gain of Rs. 300,000 is taxable. 01

- (ii) The amount of Rs. 6,000,000 forfeited by Mr. Faraz in accordance with the terms of the contract for the sale of his house to Mr. Raza is to be treated as rent received and taxed under normal tax regime while no deductions are allowed to him being individual u/s 15A. ½

Transaction with Mr. Nazir:

	Rupees	
Consideration for the sale of the house on December 31	45,000,000	
Less: Market value on June 25, 2014, the date of inheritance by Mr. Faraz	(39,000,000)	
Capital gain	6,000,000	01

Since the disposal was made after holding the house for more than three years and it was acquired before July 01, 2016, therefore no gain is taxable under the law. ½

- (iii) An antique is a capital asset. However, loss is not recognized on an antique. 01

- (iv) Since Mr. Salman was not entitled to claim depreciation on this machine, the machine falls within the definition of a capital asset. Discarding an asset is also treated as a disposal of the asset. The capital gain is determined as: ½

	Rupees	
Consideration received from shipping company	1,050,000	
Scrap value	300,000	
Less: Cost of machine	(2,000,000)	
Documentation charges	(35,000)	
Capital loss	(685,000)	1

This capital loss is allowed to be adjusted against any other capital gain. While, if the same isn't adjusted in the same tax year then it is allowed to be adjusted in next 6 years against capital gain only. ½

Question No. 5

Hemani Technologies (Pvt.) Limited (HTL)
Computation of Sales Tax Payable/ (Refundable)
for the tax period December 2017

		Rupees	
Output tax (W-2)		537,540	¼
Less: Input tax			
Lower of:			
– Actual (W-3)	390,087		¼
– 90% of output	483,786	(390,087)	½
Sales tax liability		147,453	¼
Add: Further tax			
– Cottage industry (2%)	4,300		¼
– End consumers (exempt from further tax)	–	4,300	½
Sales tax payable		151,753	¼
Sales tax refundable on zero rated supplies (W-3)		209,724	¼

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Workings:****W-1: Computation of Input Tax:**

	Rupees			
	Amounts	Tax Rate	Input Tax	
Imports – Raw materials	1,500,000	17%	255,000	3/4
Exempt goods from registered suppliers	1,200,000	-	-	3/4
Taxable goods from registered suppliers	2,500,000	17%	425,000	3/4
Taxable goods from cottage industry	450,000	-	-	1/4
Machine on operating lease	4,200,000	-	-	1/4
			<u>680,000</u>	1/4

W-2: Computation of Output Tax:

	Rupees				
	Amounts	Tax Rate	Output Tax	Status	
Taxable goods to unregistered customers – Cottage industry	215,000	17%	36,550	Taxable supplies	1/2
Taxable goods to unregistered customers – End consumers	535,000	17%	90,950	Taxable supplies	1/2
Taxable goods to registered customers	1,400,000	17%	238,000	Taxable supplies	1/2
Exempt supplies	650,000	-	-	Exempt supplies	1/2
Exports to France	1,700,000	0%	-	Zero-rated supplies	1/2
Insurance claim	890,000	17%	151,300	Taxable supplies	1/2
Goods sold on credit	67,000	17%	11,390	Taxable supplies	1/2
Debit note to Jawwad Enterprises	55,000	17%	9,350	Taxable supplies	1/2
			<u>537,540</u>		1/2

W-3: Apportionment of Input Tax:

	Rupees			
	Supplies	Input Tax	Status	
Taxable supplies	3,162,000	390,087	Adjustable	1/2
Zero-rated supplies	1,700,000	209,724	Refund	1/2
Exempt supplies	650,000	80,189	Lapsed	1/2
	<u>5,512,000</u>	<u>680,000</u>		1/2

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Question No. 6**

- (a) (i) The Federal Board of Revenue deems it necessary it may, by notification in the official Gazette, fix the value of any imported goods or taxable supplies or class of supplies and for that purpose fix different values for different classes or description of same type of imported goods or supplies. The value of supply in that case shall be value fixed by Board, unless the value supplied in actual is higher than the value fixed.
- Therefore, in this case the value of supply shall be Rs. 3,268,000 (7,600 x 430). 01
- (ii) On Third Schedule items, sales tax is charged on the retail price of goods excluding the amount of retail tax. Therefore, sales tax would be charged @ 17% on Rs. 1,735,500 (780 kg x Rs. 2,225 per kg) i.e. Rs. 295,035. 01
- (iii) In case the consideration for a supply is in kind or is partly in kind and partly in money, the value of supply shall mean the open market price of the supply excluding the amount of tax. Therefore, value of supply shall be Rs. 4.2 million and not the consideration received. i.e. Rs. 3.522 million. 01
- (b) Under the given circumstances, the value of supply and the amount of sales tax mentioned in the invoice has decreased therefore; Sultan Associates shall issue a Credit Note to Yousuf Enterprises in duplicate.
- The original copy of the Credit Note shall be sent to Yousuf Enterprises and the duplicate shall be retained for record.
- Yousuf Enterprises shall issue a Debit Note with reference to the Credit Note issued by Sultan Associates as an acknowledgement of the receipt of the same. The Debit Note shall contain the same details as are provided in the corresponding Credit Note. 03
- (c) (i) Although payment is made through crossed cheque drawn on the business bank account of the seller yet the transaction is inadmissible for the purpose of claiming input tax as the payment was made after 180 days of the issuance of tax invoice. 01
- (ii) Sales tax paid along with an electricity bill is an admissible input tax only when the electricity was used to produce taxable goods. Further, in the case of utility bills, payment in cash does not disentitle a claim of input tax paid thereon. Therefore, input tax of Rs. 348,750 (Rs. 775,000 x 45%) would be admissible, while input tax of Rs. 271,250 (Rs. 775,000 x 35%) shall be refunded for zero rated supplies, whereas, balance sales tax of Rs. 155,000 (Rs. 775,000 x 20%) paid in respect of exempt supplies would not be allowed as input. 02
- (iii) The free replacement of defective parts of taxable goods (open market value of Rs. 375,000) during the warranty period is considered as equivalent to the value of the original supply and not a separate supply. Such replacement is not chargeable to tax. While, no rate is charged in case of exempt supply. Further, the same is part of the cost, therefore in either case couldn't result in supply. 01

THE END