

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Question No. 2****(a) Association of Persons (AOPs):**

05

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

Resident Association of Persons:

An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year.

(b)	Name of Taxpayer	:	Falah Associates
	National Tax Number	:	XXX
	Tax Year	:	2017
	Personal Status	:	Association of Persons (AOP)
	Residential Status	:	Resident

Taxable Income and Divisible Income

	Rupees	
Net profit as per accounts	733,000	0.5
Add: Depreciation (220,000 + 85,000)	305,000	01
Salary to Mr. Malik	600,000	0.5
Salary to Mr. Khalid	480,000	0.5
Commission to Mr. Faisal	212,500	0.5
Depreciation on Finance Lease	70,000	0.5
Finance Charges on Leased Assets	2,000	0.5
Provision for doubtful debts	22,500	0.5
Accounting loss on disposal of fixed assets	15,000	0.5
Residential utility bills of Mr. Faisal	60,000	0.5
Liability outstanding for more than 3 years:		
– Against purchases	85,000	0.5
– Interest on bank loan	40,000	0.5
Tax gain on disposal of plant	20,000	0.5
	2,645,000	
Less: Tax depreciation (Working)	458,675	0.5
Tax loss on disposal of furniture	5,000	0.5
Lease rental	22,000	0.5
Bad debts recovered already taxed	37,000	0.5
	522,675	
Taxable Income	2,122,325	0.5
Income tax [(2,122,325 – 1,500,000) x 20% + 144,500]	(268,965)	01
Divisible income	1,853,360	0.5

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Working:****Tax Depreciation:**

	Rupees			
	Plant and Machinery	Vehicles	Furniture and Fixtures	
Opening tax written down value (WDV)	750,000	500,000	90,000	
Less: WDV of disposal	100,000	–	15,000	
	650,000	500,000	75,000	1.5
Add: Additions/ purchases (cost as reduced by initial allowance)	37,500	1,700,000	12,000	1.5
Depreciable WDV	687,500	2,200,000	87,000	1.5
Depreciation (@ 15%)	103,125	330,000	13,050	
Cost of additions/ purchases	50,000	1,700,000	12,000	
Less: Initial allowance (@ 25%)	12,500	–	–	
	37,500	1,700,000	7,000	
			Rupees	
Initial allowance on plant and machinery			12,500	0.5
Taxable depreciation (@ 15%)				
– Plant and machinery		103,125		01
– Vehicle		330,000		01
– Furniture and fixture		13,050	446,175	01
Tax depreciation			458,675	

Question No. 3**(a) Profit on a Debt:**

07

Profit on a debt, whether payable or receivable, means

- any profit, yield, interest, discount, premium or other amount owing under a debt, other than a return of capital; or
- any service fee or other charge in respect of a debt, including any fee or charge incurred in respect of a credit facility which has not been utilized;

Any profit received by a non-resident person on a security issued by a resident person shall be exempt from tax under the Income Tax Ordinance, 2001 where:

- the persons are not associates;
- 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;
- the profit was paid outside Pakistan; and
- the security is approved by the Federal Board of Revenue for this purposes.

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****(b) (i) Tax Evasion:**

04

It refers to all attempts to minimize a taxpayer's liability through illegal means. It is punishable offence in the eyes of law.

It arises when a taxpayer intentionally conceals the true nature of his/ her tax affairs, for instance failing to declare income on her/ his tax return.

Tax Avoidance:

It refers to all attempts to minimize a taxpayer's liability through legal means and without violating the tax laws.

It pertains to a situation when a taxpayer legitimately takes advantage of the deductions, concessions and benefits provided by the tax laws in order to reduce or defer his /her tax liability.

(ii) Tax admissible expenses:

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Tax admissible expenses are expenses born by a person that legitimately reduce the revenue to arrive at its taxable income.

Tax reliefs:

Tax reliefs are allowances and deductions which also serves to reduce the final tax liability.

Such deductions are often not directly associated with the earning of revenue, but have been given by the revenue authority to encourage certain activities.

They may be deducted from the income to arrive at the tax base, on which tax is computed or deducted directly from the actual tax liability by way of tax credit.

(c) Dividend Received from Exempt Income:

04

Where any income is exempt from tax under the Ordinance, the exemption, in the absence of a specific provision to the contrary, shall be limited to the original recipient of that income and shall not extend to any person receiving any payment wholly or in part out of that income.

In view of above, the benefit of the FFL's exempt income, being wholly agricultural in nature, cannot be extended to Mr. Mohsin who has received dividend from such exempt income and therefore, Rs. 70,000 received by him as dividend is chargeable to tax.

Question No. 4**(a)****Reconciliation of Net Assets**

	Rupees	
Net assets – Current year	6,471,300	0.5
Net assets – Previous year	5,770,000	0.5
(Increase)/ decrease in assets	(701,300)	0.5
Inflows:		
Income declared as per return for the tax year subject to normal tax	2,826,000	0.5
	2,124,700	
Outflows:		
Personal expenses	1,800,000	0.5
Others expenses (tax on salary income)	324,700	0.5
	2,124,700	
Un-reconciled amount	–	0.5

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****Extract of Assets and Liabilities**

	Rupees	
Residential house in Karachi	5,000,000	0.5
Bank balance	734,000	0.5
Loan given to a friend (400,000 –100,000)	300,000	0.1
Personal car for use of family members – Original cost	1,550,000	0.5
Furniture and other personal assets (450,000 + 220,000 – 150,000)	520,000	0.5
Liability against exchange of furniture	(70,000)	0.5
Loan received from father-in-law (1,900,000 – 200,000)	(1,700,000)	0.1
Cash in hand	137,300	0.5
Net asset – As on June 30, 2017	6,471,300	0.5

(b) (i) Tax Credit for Life Insurance Premium: 04

A tax credit shall be allowed to a resident person (other than a company) for any payment of life insurance premium. Legal provisions in this regard are discussed below.

Payment of Life Insurance Premium:

Tax credit on payment of life insurance premium is allowed subject to the following conditions:

- The premium is paid to a life insurance company registered by the Securities and Exchange Commission of Pakistan (SECP) under the Insurance Ordinance, 2000 in respect of life policy; and
- The person is deriving income under any of the following heads.
 - Salary; or
 - Income from business

(ii) Computation of Tax Credit: 03

The tax credit is allowed for payment of life insurance premium shall be calculated according to the following formula:

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

Where: **A** is the amount of tax assessed to the person for the tax year, before allowance of any tax credit.

B is the person's taxable income for the tax year.

C is the lesser of:

- Total amount of contribution or premium on life insurance policy paid by the person during the year;
- 20% of taxable income of the taxpayer for the year; or
- Rs. 1,500,000

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****(c) (i) Persons not Required to Furnish a Return of Income:**

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Following persons are not required to file return of income solely by reason of owning immovable property located within municipal limits or cantonment areas:

- A widow
- An orphan below the age of 25 years;
- A disabled person; and
- A non-resident person.

(ii) Demand of Return for a Period of Less than Twelve Months:

04

Under any of the following circumstances the commissioner may require a person to furnish a return of income for a period that is less than twelve (12) months:

- The person has died;
- The person has become bankrupt;
- The person has gone into liquidation;
- The person is about to leave Pakistan permanently;
- The Commissioner otherwise considers it appropriate to require such a return to be furnished.

Question No. 5**(a)**

Kamran Limited (KL)
Computation of Sales Tax Liability
for the month of June 2017

		Rupees	
		<u>Notes</u>	
Output tax:			
Local supply of commercial imports – Hair Serum (5,000 boxes x Rs.600 per box x 17%)		510,000	0.5
Export of commercial imports – Hair Serum		–	0.5
Local sale – Toothpaste (6,000 packs X Rs.150 per pack x 17%)	N-1	153,000	0.5
Total Output tax		663,000	
Less: Input tax			
Sales tax on purchase of Toothpaste (6,000 packs x Rs.150 per pack x 17%)		153,000	
Sales tax paid on commercial imports – Hair Serum apportioned to local supplies	N-2	*564,706	0.5
Total input tax		<u>(717,706)</u>	
Excess input tax on commercial import		(54,707)	0.5
Sales tax on lunch and entertainment of employees	N-3	–	0.5
Input tax on plant and equipment		(1,200,000)	0.5
Excess input tax		<u>(1,254,707)</u>	0.5

*Adjustment of the total input tax on commercial import, viz. a viz. adjustment on proportionate basis has been considered in assessment.

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

N-1: Being Third Schedule item, manufacturer would have charged sales tax on toothpaste on retail price. 0.5

N-2: Apportionment of Input Tax on Import to Local Supplies:

$$\frac{\text{Sales tax paid on commercial imports [Hair Serum]}}{\text{Export [Hair Serum] + Local supply [Hair Serum]}} \times \text{Local supply [Hair Serum]}$$

	Rupees	
Sales tax paid on commercial imports – Hair Serum (8,000 boxes x Rs.500 per box x 20%)	800,000	0.5
Export to Vietnam (500 boxes x Rs.2,500 per box)	1,250,000	0.5
Local sales (5,000 boxes x Rs.600 per box)	3,000,000	0.5
Total sales of commercial imports – Hair Serum	4,250,000	0.5

$$\begin{aligned} \text{Apportioned Input tax related to local supplies} &= \frac{\text{Rs.800,000}}{\text{Rs.4,250,000}} \times \text{Rs.3,000,000} \\ &= \text{Rs.564,706} \end{aligned} \quad 01$$

N-3: Sales Tax on Lunch and Entertainment:

Sales tax of Rs 60,000 paid on dinner and entertainment for the Company's employees is not an admissible tax credit. 0.5

N-4: Input Tax:

Restriction on input tax (should not exceed 90% of output tax) is not applicable in this case as value of commercial imports subject to minimum value addition exceed 50% of taxable purchases. 01

(b) Computation of Refund against Export:

	Rupees	
Sales tax paid on commercial imports – Hair Serum	800,000	01
Input tax related to local supplies	564,706	01
Refund against export	235,294	01

Question No. 6**(a) (i) Non-Active Taxpayer:**

02

A registered person who falls in any of the following categories is regarded as non-active taxpayer:

- Who is blacklisted or whose registration is suspended or is blocked;
- Who fails to file the return by the due date for two consecutive tax periods;
- Who fails to file an Income Tax return under section 114 or statement under section 115, of the Income Tax Ordinance, 2001, by the due date; and
- Who fails to file two consecutive monthly or an annual withholding tax statement under section 165 of the Income Tax Ordinance, 2001

BUSINESS TAXATION [G5] – GRADUATION LEVEL**Marks****(ii) Consequences Faced by Non-Active Taxpayer:**

04

A non-active taxpayer shall not be entitled to:

- file goods declaration for import or export;
- issue sales tax invoices;
- claim input tax or refund; or
- avail any concession under the Sales Tax Act, 1990 or Rules made thereunder.
- No person, including government departments, autonomous bodies and public sector organizations, shall make any purchase from a non-active taxpayer.
- In case of an entry of an invoice issued by a non-active taxpayer by any registered buyer in Annexure-A of his return, a message shall appear to the effect that the supplier is a non-active taxpayer and no input tax credit shall be admissible against such invoice.

(b) Persons Liable to be Registered:

04

Any of the following persons, who are making taxable supplies in Pakistan, if not already registered, are required to be registered under the Sales Tax Act, 1990:

- A manufacturer who is not running a cottage industry;
- A retailer who is liable to pay sales tax under the Sales Tax Act, 1990 or its Rules (excluding those who pay sales tax through electricity bills under section 3(9) of the Sales Tax Act, 1990).
- An importer;
- An exporter who intends to obtain sales tax refund against his zero-rated supplies;
- A wholesaler, dealer and distributor; and
- A person who is required under any law (whether Federal or Provincial) to be registered for the purpose of any duty or tax collected or paid as if it were a levy of sales tax to be collected under the Sales Tax Act, 1990 (Examples of such laws are Federal Excise Act 2005, and Provincial laws regarding levy of Sales Tax on Services).

THE END