

Taxation

Summer-2023

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Question 1

Mr. Sahil
Computation of Taxable Income and Tax
Liability Tax year 2023

	<u>Rs.</u>
Pakistan source income	
Income from Salary	
Basic salary as a full time teacher	15,700,000
Fuel charges	<u>300,000</u>
	16,000,000
Income from other source	2,000,000
Foreign source income	1,500,000
Total income	19,500,000
Less: Zakat deducted at source	70,000
Taxable income	<u>19,430,000</u>
Tax liability (Salaries case)	
Tax on Rs. 12,000,000	2,955,000
Tax on Rs. 7,430,000 @35%	2,600,500
	5,555,500
Less: Full time teacher allowance (as per working)	<u>1,088,750</u>
	4,466,750
Less: Foreign tax credit	
Tax paid in foreign country	200,000
$(4,466,750 / 19,430,000) \times 1,500,000$	344,834
	<u>200,000</u>
	4,266,750
Less: Rebate on donation $(4,266,750 / 19,430,000 \times 1,050,000)$	230,576
Tax liability (30% of Taxable Income)	<u>4,036,174</u>

Working of full time teacher allowance:

Salary Income	<u>16,000,000</u>
Tax on Rs. 12,000,000	2,955,000
Tax @ 35% on Rs. 4,000,000	<u>1,400,000</u>
	<u>4,355,000</u>
Full time teacher allowance 25% of Rs. 4,355,000	1,088,750

Notes:

- (i) Zakat paid to relative is not an allowable deduction
- (ii) Donation to a private approved charitable institution is not entitled for rebate / tax credit if paid in cash

Total Marks (14)



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Question 2 -a

Income from business			1,000,000
Income from capital gain			
AB Private Company	(900,000 - 300,000)	600,000	
GU unlisted Company	(10,000 - 30,000)	<u>(20,000)</u>	580,000
Income from capital gain -Securities			<u>5,000</u>
Total income			1,585,000
Less: Gain on securities - taxable separately			<u>(5,000)</u>
Taxable income - taxable under NTR			1,580,000
Tax liability on taxable income under NTR			126,500
Add: Tax liability on securities (W-1) (5,000 x 12.5 %)			<u>625</u>
Total tax liability			<u><u>127,125</u></u>
(W-1)			
Tax on securities			
Acquired on or after 1.7.16			
R Co.	(75,000 x 60,000)		15,000
P. Co	(25,000 x 35,000)		<u>(10,000)</u>
			5,000

Question 2 -b

As a legal representative, Mr. Zohair is liable for any tax, which would have been payable by his deceased uncle. However, such liability is limited to the extent of Rs. 7 million i.e. value of his deceased uncle's estate.

Any proceeding pending against his uncle shall continue against Mr. Zohair from the stage at which it stood on the date of his uncle's death. Further, any proceedings which could have been initiated against the deceased if he has survived, may now be initiated against Mr. Zohair.

Question 2 -c

	Rs.
Sales value of building	31,000,000
Less: Cost of building	8,000,000
Incidental expenses 700,000 +900,000	<u>1,600,000</u>
	9,600,000
Capital gain	<u><u>21,400,000</u></u>
Tax @ 5% on Rs. 21,400,000	1,070,000
Less : Advance tax paid	<u>620,000</u>
Tax payable	<u><u>450,000</u></u>

Total Marks (15)



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Question 3 - a

- (i) Lease rentals are allowable tax expense. Repayment of principal amount of lease is a part and parcel of lease rentals and therefore it is admissible for tax purpose.
- (ii) Sales tax paid on raw materials to be used in exempt supply is admissible for income tax purpose as the same is not recoverable from the customer or from the FBR. Any tax paid to the government which is not based on profit is admissible for income tax purpose
- (iii) Dividend paid to shareholders is not a tax expense but appropriations of profit.
- (iv) Provision for doubtful debts is not allowable as one of the conditions for the admissibility of bad debts is that the debt should be written off in the accounts.

Question 3 - b

Every resident individual taxpayer is required to furnish a wealth statement for the year along with the income tax return.

Wealth statement shall show the following particulars;

- Total assets and liabilities of the person, his spouse, minor children and other dependents.
- Any assets transferred to any other person during the tax year and the consideration for the transfer
- Total expenditure incurred by the person, his spouse, minor children and other dependents and detail of such expenditures.

- Reconciliation of opening net wealth and closing net wealth.

Total Marks (10)

Question 4

Tax liability of AOP

	Rupees
Profit before taxation	3,500,000
Add: Salary of N	500,000
Interest of K	600,000
Taxable income	4,600,000
Tax	
on 4,000,000	270,000
on balance 600,000 x 32.5 %	195,000
	465,000

Tax liability of N

N would have no other source of income. Since remuneration from AOP would have taxed in the hand of AOP, her income (incl. salaries) from AOP would be exempt from tax.



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Tax liability of K

Income from property	400,000
Less: 1/5th repair	<u>80,000</u>
	320,000

Share of AOP

Interest		600,000
Share of profit from AOP x 70%	4,600,000 - 1,100,000	<u>2,450,000</u>
		3,050,000

Income for tax rate purpose	<u>3,370,000</u>
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Tax on 3,000,000	405,000
on balance 370,000 @ 27.5%	<u>101,750</u>
	506,750

Tax rate to be charged 15.037%

Tax liability of K 320,000 x 48,118

Total Marks (10)

Question 5 - a

The Commissioner is empowered to make an assessment of income and tax based on any available information and to the best of his judgement in the case of failure by the taxpayer to:

Furnish return of income in response to a notice issued by a Commissioner
File a wealth statement
Produce required accounts, documents, and records or any other documents that the Commissioner or special audit panel may have required.

Time limit for best judgement:

Best judgement assessment can be issued within 6 years after the end of tax year to which it relates. However, where a person has not filed any return during the last 5 years then the Commissioner may issue notice to file return of income for any of the last 10 years and in this case best judgement, if required, may be passed within 2 years from the end of the tax year in which such notice is issued.

Question 5 - b

Definite information includes information in respect of:

taxable sales, purchases, services and other receipt
acquisition of any asset or investment made
expenditure incurred



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Question 5 - c

The due dates for filing of income tax return in the following cases are

30.09.2023
31.12.2023
30.09.2023

Question 5 - d

Khizar should give a notice in writing to the Commissioner regarding the discontinuation of business within 15 days of such discontinuation

He is also required to furnish the return of income on his own or on being required by the Commissioner by notice in writing.

The return should cover the period commencing from 1.7.2021 to 31.1.2022

If any taxable activity has ceased and subsequently any benefit is derived in cash or in kind from this activity, then it shall be taxable in the normal manner and all the provisions of the Ordinance shall apply accordingly.

Therefore, the receipts of Rs. 1,300,000 shall be included in his income from business for the tax year 2023, provided that the write off has been allowed in the previous year.

Total Marks (16)

Question 6 -a

A person who ceased to carry on his business a person whose supplies become exempt; or a manufacturer who, after registration, is covered by the definition of cottage industry; a retailer who, after registration, is not Tier-1 retailer now

Question 6 -b

Where a registered person has issued a tax invoice and the tax return or tax invoices needs to be modified as a result of;

cancellation of supply return of goods
change in the nature of supply change in the value of supply any other such event

Within 180 days then the registered person may issue a debit / credit note indicating specified information and make adjustments accordingly.

Period of 180 days may be extended by the Commissioner for any special reason

Where tax liability increases as a result of debit note then the time limit of 180 days shall not apply.

Question 6 -c

Monthly return:

Every registered person is required to file monthly return electronically by 18th day of the month next following the tax period. Sales tax payable is required to be paid by 15th day.



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Special return:

The Commissioner is empowered to issue a notice to file return of sales tax to any person and in this case the due date will be as mentioned in such notice.

Final return:

A person who has applied for de-registration is required to file final return on or before the date as mentioned in the notice issued by the Commissioner in this respect.

Annual return:

Every company is required to file annual return on or before 30th September next following the financial year end.

Total Marks (13)

Question 7 -a

i	Agriculture income tax	Provinces
ii	Custom duty	Federation
iii	Tax on transfer of immovable property	Provinces
iv	Capital value tax	Federation
v	Property tax	Provinces
vi	Sales tax on services	Provinces

Question 7 -b

Tax Evasion	Tax Avoidance
Attempts to minimize a taxpayer's liability through illegal means is called Tax Evasion	Attempts to minimize a taxpayer's liability through legal means and without violating
Example of tax evasion include deliberately concealing the true state of affairs to the tax authorities to reduce tax liability and dishonest tax reporting	Example of tax avoidance include using tax deductions, changing one's

Total Marks (06)

Question 8

Non fund banking services: includes all non interest based services provided or rendered by the banking companies or non- banking financial institutions against a consideration in the form of a fee or commission or charges.

Goods: means goods leviable to excise duty under this Act or as specified in the First Schedule and includes goods manufactured or produced in non-tariff area and brought for use or consumption to tariff area;

Total Marks (02)



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Question 9

Mr. Shahid

Computation of Sales Tax Payable for the month of February 2023

Input Tax

Local purchases from registered suppliers 23,000,000 x 17%	3,910,000
Input tax on unclaimed invoice of November 2022 (1,500,000 x 17%)	<u>255,000</u>
	4,165,000
Input tax on purchase for which tax invoice not received (2,500,000 x 17%)	<u>425,000</u>
	3,740,000

Apportionment of input tax

	Turnover	Input tax
Local taxable supplies	16,000,000	
Sales return	<u>(1,200,000)</u>	
	14,800,000	1,921,945
Local exempt supplies	3,000,000	389,583
Exports	<u>11,000,000</u>	<u>1,428,472</u>
	<u>28,800,000</u>	<u>3,740,000</u>

Sales tax liability

Output tax 17 % of Rs. 16,000,000	2,720,000
Less: Sales return 1,200,000 x 17%	<u>204,000</u>
	2,516,000
Input tax credit of previous period	1,200,000
Input tax against taxable supplies	<u>1,921,945</u>
	<u>3,121,945</u>
Restricted to 90% of output tax	<u>2,264,400</u>
	251,600
Add: Further tax 4,000,000 x 3%	<u>120,000</u>
Sales tax payable	<u>371,600</u>
Refund against zero rated supplies	<u>1,428,472</u>

Note: Mr. Shahid, being an individual, is not a withholding agent for sales tax purpose.
Input tax disallowed Rs. 3,121,945 - 2,264,400 = Rs. 857,545

The amount of input tax disallowed Rs. 857,545 shall be c/f to the next tax period and treated as input tax of that period.

Total Marks (14)
