



**Pakistan Institute of
Public Finance Accountants**

Model Solutions

**Taxation
Summer Exam-2024**

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Q.1. Expenditures charged upon Federal Consolidate Fund

a The following expenditures shall be charged upon the Federal Consolidated Fund:

- (i) the remuneration payable to the President and other expenditure relating to his office, and the remuneration payable to:
 - the Judges of the Supreme Court and the Islamabad High Court
 - the Chief Election Commissioner;
 - the Chairman and the Deputy Chairman;
 - the Speaker and the Deputy Speaker of the National Assembly;
 - the Auditor-General;
- (ii) The administrative expenses, including the remuneration payable to officers and servants, of the Supreme Court, the Islamabad High Court, the department of the Auditor-General, the Office of the Chief Election Commissioner and of the Election Commission and the Secretariats of the Senate and the National Assembly;
- (iii) All debt charges for which the Federal Government is liable, including interest, sinking fund charges, the repayment or amortization of capital, and other expenditure in connection with the raising of loans, and the service and redemption of debt on the security of the Federal Consolidated Fund;
- (iv) Any sums required to satisfy any judgment, decree or award against Pakistan by any court or tribunal;
- (v) Any other sums declared by the Constitution or by Act of Majlis-e-Shoora (Parliament) to be so charged.

Q.1. National Finance Commission (NFC)

b Formation of NFC

The President shall constitute a National Finance Commission within six months of the commencing day and thereafter at intervals not exceeding five years.

Duties of NFC

It shall be the duty of the National Finance Commission to make recommendations to the President as to:

- (a) The distribution between the Federation and the Provinces of the net proceeds of the taxes;
- (b) The making of grants-in-aid by the Federal Government to the Provincial Governments;
- (c) The exercise by the Federal Government and the Provincial Governments of the borrowing powers conferred by the Constitution; and
- (d) Any other matter relating to finance referred to the Commission by the President.

Q.2. Fair market value (Sec. 68)

- a**
1. Fair market value (FMV) of any property, or rent, asset, service, benefit or perquisite at a particular time shall be the price which the property, or rent, asset, service, benefit or perquisite would ordinarily fetch on sale or supply in the open market at that time.
 2. The fair market value shall be determined ignoring:
 - Any restriction on transfer or
 - The fact that it is not otherwise convertible to cash.

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3. Where the price is not ordinarily ascertainable, the Board may, from time to time, by notification in the official gazette determine the fair market value of the immovable property of the area and areas as may be specified in the notification. Other than immovable property, commissioner is empowered to determine FMV.
4. Where the fair market value of any immovable property of an area or areas has not been determined by the board in the notification referred as above, the fair market of such immovable property shall be deemed to be the value fixed by the district officer (revenue) or provincial or any other authority authorize in this behalf for the purposes of stamp duty.

Q.2. Residential status of persons for tax year 2024

b a) Ms. Saima

An individual shall be a resident individual for a tax year if the individual is present in Pakistan for a period of, or periods amounting in aggregate to, 183 days or more in the tax year. Therefore, she is *non-resident individual* for tax year 2024 because her physical stay in Pakistan from 1st March 2024 to 30th June 2024 is not more than 183 days.

1 st March 2024 to 30 th June 2024	122 days
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As citizen of Pakistan, She can be assumed that her stay in U.S is more than 182 days.

b) Mr. Yasir Gondal

An individual shall be a resident individual for a tax year if the individual is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year. Therefore, he is a *resident individual* for tax year 2024 irrespective of number of days stayed in Pakistan.

c) Zubair Technologies

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. As the control was partly in Pakistan for 1 month (1st July to 1st August 2023) therefore Zubair technologies is a *resident AOP* during tax year 2024.

d) Tennis Trading Limited

A company shall be a resident company in Pakistan for a tax year if the control and management of its affairs is situated wholly in Pakistan at any time in the tax year. Therefore, Tennis Trading Limited is a *resident company* during tax year 2024.

e) Mr. Brian

An individual shall be a resident individual for a tax year if the individual is present in Pakistan for a period of, or periods amounting in aggregate to, 183 days or more in the tax year. Therefore, he is *non-resident individual* for tax year 2024 because his physical stay in Pakistan from 28th February 2024 to 30th June 2024 is not more than 183 days.

28 th February 2024 to 30 th June 2024	124 days
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Note: February 2024 is a leap year.

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f) Mr. Rehan

An individual shall be a resident individual for a tax year if the individual is a citizen of Pakistan who is not present in any other country for more than 182 days during the tax year or he is not a resident taxpayer of any other country. Therefore, Mr. Rehan is a *resident individual* for tax year 2024.

g) Jacky Chen

An individual shall be a resident individual for a tax year if the individual is present in Pakistan for a period of, or periods amounting in aggregate to, 183 days or more in the tax year. A part of a day that an individual is present in Pakistan (including the day of departure from Pakistan) counts as a whole day of such presence.

	<u>No. of days</u>
15 th December 2023	17
January 2024	31
February 2024	28
March 2024	21
April 2024	20
May 2024	31
30 th June 2024	30
	<hr style="width: 50%; margin: 0 auto;"/>
	178

Since he was present in Pakistan for 178 days, therefore, he is a *non-resident* individual.

h) Mr. James

The Commissioner has granted him permission to use special tax year from 1st January 2023 to 31st December 2023 which will fall to tax year 2024. Mr. James is a *non-resident* individual because his total stay during tax year 2024 is equal to 175 days (i.e., 22 + 31 + 30 + 31 + 30 + 31) which is less than 183 days.

Note: 1 mark for identifying correct residential status of each person and 1 mark for justification with reference to provision of Income Tax Ordinance 2001.

Q.3.

Income from property for tax year 2024	Rs.
Rent received during the year	2,300,000
Add: Irrecoverable rent for the year	100,000
Add: Forfeited deposit	50,000
Add: 1/10 th of non-adjustable amount (1/10 x Rs. 1500,000)	150,000
Add Amount received for amenities, utilities & security services (N1)	-
= Gross rent chargeable to tax (gross RCT)	<hr style="width: 50%; margin: 0 auto;"/> 2,600,000

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Less: Admissible deductions

Repair allowance (1/5 x Rs. 2600,000) (N2)	(520,000)
Property tax paid	(50,000)
Lawyer's fee for suit to recover rent	(50,000)
Legal charges for drafting rent agreement (N3)	-
Collection charges:	
a) Actual salary expense of caretaker who collects rent = Rs. 46,000	
b) 4% of gross RCT = Rs. 2600,000 x 4% = Rs. 104,000	
Lower of (a) or (b)	(46,000)
Insurance premium	(50,000)
Bad debts	(100,000)
Profit on debt (Rs. 10,000,000 x 1.5%)	(150,000)
Depreciation expense of house (N4)	-
= Taxable property income	<u>1,634,000</u>

- (N1) Amount received for amenities, utilities and security services will be treated as income from other sources rather than property income.
- (N2) In respect of repairs to a building, an allowance equal to one-fifth of the rent chargeable to tax in respect of the building is admissible deduction for the year irrespective of the amount of actual repairs expense.
- (N3) Any expenditure paid or payable by the person in the tax year for legal services acquired to defend the person's title to the property or any suit connected with the property in a court is admissible. All other legal expenses will be inadmissible.
- (N4) Depreciation expense charged on house under 3rd schedule is an inadmissible expense for property income.

Q.4. Capital Asset

a

Capital asset means property of every kind held by a person, whether or not connected with a business, but does not include:

- a) any stock-in-trade, consumable stores or raw materials held for the purpose of business;
- b) any property with respect to which the person is entitled to a depreciation deduction under section 22 or amortization deduction under section 24; or
- c) any movable property held for personal use by the person or his family dependent. However, following assets held for personal use by the person or his family dependent shall be considered as capital asset:
 - (i) painting, sculpture, drawing or other work of art,
 - (ii) jewellery,
 - (iii) rare manuscript, folio, book,
 - (iv) postage stamp, first day cover,
 - (v) coin, medallion or
 - (vi) an antique.

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Q.4. **Tax liability of Mr. Abdul Rehman for tax year 2024**
b **Mr. Abdul Rehman**
Tax liability for tax year 2024

	Rs.	Rs.
Income from business		2,500,000
<u>Income from capital gain</u>		
(i) Gain from sale of antique painting:		
Consideration received	3,000,000	
Less: purchase cost	(700,000)	
Less: Commission to auctioneer	(300,000)	
		2,000,000
(ii) Gain from sale of Alpha Limited shares:		
Consideration received from sale of shares	1,200,000	
Less: Purchase cost	(640,000)	
Less: Commission to broker (0.5% x Rs. 1,840,000)	(9,200)	
= Capital gain from securities – separate block of income		550,800
(iii) Gain from sale of Beta Limited shares:		
Consideration received from sale of shares	1,400,000	
Less: Purchase cost of shares	(1,300,000)	
Less: Commission to broker (0.5% x 2,700,000)	(13,500)	
= Capital gain from securities – separate block of income		86,500
(iv) Gain from sale of open plot:		
Consideration received from sale of open plot	15,000,000	
Less: Purchase cost of open plot	(10,000,000)	
= Capital gain from immovable property – separate block		5,000,000
<u>Income from other sources</u>		
Profit from sale of depreciable flat		5,000,000
Total income		15,137,300
Less: Capital gain – separate block of income		(5,637,300)
= Taxable income under NTR		9,500,000
Tax liability		Rs.
Tax liability under NTR [Rs. 765,000 + (Rs. 5,500,000 x 35%)]		2,690,000
Add: <u>Tax liability on separate block of income</u>		
Alpha Limited shares [Rs. 550,800 x 15%]		82,620
Beta Limited shares [Rs. 86,500 x 12.5%]		10,813
Open plot [Rs. 5,000,000 x 10%]		500,000
= Total tax liability		3,283,433

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Q.5. Mr. Azhar

Computation of tax liability

For tax year ended 30th June 2024

	Rs.	Rs.
Income from salary (Sec. 12)		
Basic salary from 1st August 2023 to 30th April 2024		2,880,000
Dearness allowance		216,000
Medical allowance		324,000
Remimbursement of medical expenses:		
Personal medical expenses [2nd Schedule, Part 1, Clause 139(a)]	432,000	-
Hospitalization charges of daughter [2nd Schedule, Part 1, Clause 139(a)]	250,000	-
Motor vehicle provided by employer (Rs. 3,000,000 x 5% x 9/12)		112,500
Accommodation facility:		
(a) Rental cash value (Rs. 100,000 x 9)	900,000	
(b) 45% of Minimum Time Scale (Rs. 300,000 x 9 = Rs. 2700,000 x 45%)	1,215,000	
Higher of (a) or (b) will be taxable		1,215,000
Utilities (Rs. 20,000 per month x 9 months)		180,000
Leave encashment		90,000
Loan waived by employer		200,000
Remimbursement of children education expenses		92,000
Foreign source salary income (SAR 15,000 x 2 months x Rs. 80)	2,400,000	-
Income from other sources		
Cash gift received		30,000
Lecturing and examination fee		50,000
Profit on debt received (Rs. 18,000 ÷ 0.90) - FTR income		20,000
Dividend income (Rs. 37500 ÷ 0.85) - FTR income		44,118
Total income (including FTR income)		5,453,618
Less: FTR income (profit on debt and dividend income)		(64,118)
Total income (excluding FTR income)		5,389,500
Less: Zakat deducted under Zakat & Ushr Ordinance 1980		(65,000)
Taxable income under NTR		<u>5,324,500</u>
Computation of tax liability		
Tax liability under NTR (Rs. 765,000 + (Rs. 1,324,500 x 35%))		1,228,575
<u>Add: Tax on final tax income</u>		
Dividend income (Rs. 44,118 x 15%)		6,618
Profit of debt received from bank (Rs. 20,000 x 15%)		3,000
		<u>1,238,193</u>
<u>Less: Tax deducted at source</u>		
Tax on salary income deducted by employer (Rs. 14,000 x 9 months)	126,000	
Tax deducted on dividend income	6,618	
Tax deducted on profit from PLS bank account (Rs. 18,000/0.90 x 0.10)	2,000	(134,618)
Tax payable with return		<u>1,103,575</u>

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Q.6.

Mr. Samad Sales tax liability For the month of February, 2024	Value (Rs.)	Tax (Rs.)
Output Tax		
Taxable supplies to registered persons (Rs. 3,750,000 - Rs. 280,000 - Rs. 295,000)	3,175,000	(Rs. 3,175,000 × 15%) 571,500
Goods sold at discount (Rs. 280,000 / 80%) × 90%	315,000	(Rs. 315,000 × 15%) 56,700
Correct value of invoice recorded erroneously	925,000	(Rs. 925,000 × 15%) 166,500
Supplies to end consumers	14,250	(Rs. 14,250 × 15%) 2,565
Taxable supplies to non-registered persons (Rs. 650,000 - Rs. 14,250)	635,750	(Rs. 635,750 × 15%) 114,435
Taxable local supplies	5,065,000	911,700
Export supplies	250,000	-
Exempt supplies (Rs. 500,000 - Rs. 25,000)	475,000	-
= Total turnover and total output tax	5,790,000	911,700

Less: Input Tax adjustment		
(a) Actual input tax (after apportionment)	731,735	
B/F input tax	212,500	
	944,235	
(b) 90% of output tax	820,530	
Lower of (a) or (b)		(820,530)
		91,170
Less: Input tax on machine		(118,096)
= Sale tax to be carried forward		(26,926)
4% further tax on supplies made to non-registered person (Rs. 635,750 × 4%)		25,430
Tax payable to government with return		25,430
Input Tax to be carried forward (Rs. 944,235 - Rs. 820,530)		123,705
Refundable against exports (Rs. 36,117 + Rs. 5,829)		41,946

(W1) Calculation of common input tax (other than machine)		
	Value (Rs.)	Common input tax (Rs.)
Taxable goods purchased from registered persons	3,700,000	(Rs. 3,700,000 × 15%) 666,000
Taxable goods purchased from non-registered persons	1,100,000	Not allowed -
Input tax on unrecorded invoice of September 2023	600,000	(Rs. 600,000 × 15%) 108,000
Input tax on electricity bill	429,975	62,475
		836,475
(W2) Apportionment of common input tax		
	Turnover	Input tax
Taxable local supplies	5,065,000	(5,065 / 5,790) × 836,475 731,735
Export supplies	250,000	36,117
Exempt supplies	475,000	68,623
	5,790,000	836,475
(W3) Apportionment of input tax on machine		
	Turnover Rs.	Input tax Rs.
Input tax on machine (Rs. 750,000 × 18%)		135,000
Taxable local supplies	5,065,000	(5,065 / 5,790) × 135,000 118,096
Export supplies	250,000	(250 / 5,790) × 135,000 5,829
Exempt supplies	475,000	(475 / 5,790) × 135,000 11,075
	5,790,000	135,000

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Q.7. Sales tax registration

a

Sr.	Registration	Explanation
(i)	No	Annual turnover of Mr. Danish does not exceed Rs. 8 million so he is a manufacturer who is running a cottage industry so he is not required to register.
(ii)	Yes	Every distributor is required to register irrespective of his turnover
(iii)	No	An exporter who intends to obtain refund of input tax against his zero-rated supplies are liable to register but here Mr. Iqbal Chughtai is not liable to register because he can't claim refund due to exempt purchases and purchases from non-registered persons.
(iv)	Yes	Every wholesaler is required to register irrespective of his turnover
(v)	Yes	Every wholesaler is required to register irrespective of his turnover

Q.7.

b

Subject to the provisions of Federal Excise duty Act 2005 and rules made there under, there shall be levied and collected in such manner as may be prescribed duties of excise on:

- a) goods produced or manufactured in Pakistan;
- b) goods imported into Pakistan irrespective of their final destination in territories of Pakistan;
- c) such goods as the Federal Government may, by notification in the official Gazette, specify, as are produced or manufactured in the non-tariff areas and are brought to the tariff areas for sale or consumption therein;
- d) services provided in Pakistan including the services originated outside but rendered in Pakistan; and
- e) any item not covered in clause (a) to (d) above and specified in the First Schedule at the rate of fifteen per cent ad valorem except the goods and services specified in the First Schedule, which shall be charged to Federal excise duty as, and at the rates, set-forth therein.
