

Taxation

Winter-2023

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Solutions – Taxation

Q.1.
a

Mr. Raza
Computation of taxable income and net tax payable / refundable
For the Tax Year 2023

<u>Income from salary</u>	Rs.
Basic salary (800,000*12)	9,600,000
Medical allowance (100,000*12)	1,200,000
Special allowance (200,000*12)	2,400,000
Residential house [360,000 {300,000 OR 360,000 (45% of 800,000) whichever is higher}*12]	4,320,000
Company maintained car (4,000,000*5%)	200,000
Reimbursement of car fuel (600,000*40%)	240,000
Maintenance of car	-
Health insurance	-
	17,960,000
<u>Income from other source</u>	
Gift from parents	-
Taxable income	17,960,000
<u>Calculation of tax liability</u>	
Tax on 12,000,000	2,955,000
Tax on income above 12,000,000 @ 35%	2,086,000
	5,041,000
Less: Tax credit	
On donations (being donations in cash)	-
On contribution to approved pension fund	
Actual paid	4,700,000
20% of taxable income	3,592,000
Whichever is lower (3,592,000*5,041,000/17,960,000)	1,008,200
Tax liability	4,032,800
Tax deducted at source	4,500,000
Net tax refundable	(467,200)

Total Marks 15

Q.2.
a

	Taxable Amount
Shares of listed company	
Loss on disposal of shares of a listed company can be adjusted only against shares gain on securities u/s 37A in the year of loss. Any unadjusted loss u/s 37A can be c/f to subsequent 3 years.	-
Shares of unlisted company	400,000
Jewelry	650,000
Sculpture	
There are certain capital assets inter alia sculpture in which case loss is not recognized	-
Shares of private company	
Loss on disposal of shares of a private company can be adjusted against capital gain or alternatively can be c/f for 6 years	(100,000)
Total capital gain for the year	950,000

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Q.2.
b

Capital Gain	Open Plot (Rs.)	Constructed Property (Rs.)
Sale proceeds	7,000,000	14,000,000
Cost	(4,000,000)	(9,000,000)
Capital gain	3,000,000	5,000,000
Tax @ 10%	300,000	500,000

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Total Marks 10

Q.3.
a

Income from property	Rs.	Rs.
Forfeited deposit		220,000
Income from other source		
Amount received to vacate the possession of office	2,400,000	
Amount paid to acquire the possession of office	2,000,000	
	<u>400,000</u>	
10% of above is taxable		40,000
Rent of factory with plant and machinery	3,500,000	
Less: charges for rent agreement	40,000	3,460,000
Additional payment on delayed refund		30,000
Taxable income		<u><u>3,750,000</u></u>

12

Q.3. Joseph is considered as a short term resident individual as he is:
b(i)

04

- In Pakistan solely by reason of his employment
- Present in Pakistan for a period not exceeding three years.

Under the Income Tax Ordinance, 2001, the foreign source income of a short term individual is exempt from tax if it is not brought into Pakistan. Therefore, 25% of his foreign source income which he brought into Pakistan is taxable whereas 75% of his foreign source income which he kept outside Pakistan is exempt from tax.

Q.3. Since Farhan, being a citizen of Pakistan, was not resident in any of the four tax years preceding the tax year in which he became a resident his foreign source income is exempt from tax in the tax year in which he became resident and following one tax year.
b(ii)

02

Q.3. A person may apply in writing to the Commissioner for change in tax year from special to normal. The Commissioner grants permission only if he is satisfied that it has a compelling need to use normal tax year. While giving the permission, the Commissioner may impose conditions as he may deem fit. An order of the Commissioner for change of tax year shall take effect from such date, being the first day of the normal tax year as may be specified in the order.
c

04

Total Marks 22

Q.4.
a

	(Rs.)	Tax Depreciation (Rs.)
Cost on 1 July 20X2	80,000	
Initial allowance @ 25%	20,000	
	<u>60,000</u>	
Tax depreciation @ 30%	18,000	
Closing WDV	<u>42,000</u>	
Normal depreciable allowance: 60% of 18,000		10,800
Total deductible allowance		<u><u>30,800</u></u>

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Q.4. Minimum Tax 02
b(i) AE is a partnership firm and therefore its tax status is an AOP. The provisions of minimum tax are applicable to AOP if its turnover is Rs. 100 million or more. Hence minimum tax will not be applicable on AE.

Q.4. Disallowance of expenditures 08
b(ii) **Annual Eid Milan Party**

This expenditure is in the nature of amenity provided to employees. This helps the firm to maintain cordial and friendly relations with its employees which is necessary for their motivation and increasing productivity. Hence, this expense will be considered for business purpose and therefore will be allowed as tax expense.

Late Delivery Penalty

The late delivery charges paid is an expense connected and incidental to the carrying on of firm's business. The expenditure incurred is wholly and exclusively for the purpose of business and therefore be admissible for tax purpose.

Donations

Donations paid to a hospital established Federal Government is not deductible expenditure. However, AE is entitled to a tax credit for this.

Salary of Managing Director

Managing Director is a member of AOP. Salary paid to him is not a deductible expenditure

Total Marks 09

Q.5. Sadiq Ali shall file the appeal in the prescribed form, verified in the prescribed manner, be accompanied by the 03
a prescribed fee and shall precisely state the grounds upon which the appeal is made.

The appeal should be filed within 30 days of the service of intimation of the order. However, Commissioner (Appeals) may condone the delay in filing of an appeal upon application in writing by the appellant.

Q.5. The Commissioner may, by notice in writing, require the following persons or their representatives to furnish a 06
b return of income for a period of less than twelve months:

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

If a person fails to furnish the return, the Commissioner may, based on any available information or material and to the best of his judgment, make an assessment of the taxable income of the person and the tax due thereon. Under such a case, the assessment, if any, treated to have been made on the basis of return or revised return filed by the taxpayer shall be of no legal effect.

Q.5. (i) On or before 30th September 2023 04
c (ii) On or before 30th September 2023
(iii) On or before 31st December 2023
(iv) On or before 30th September 2023

Total Marks 13

Q.6.

Mr. Shan
Computation of sales tax liability
For the month of February 2023

	(Rs.)	(Rs.)
Output Tax		1,800,000
Less: input tax (lower of)		
Actual	1,741,935	
90% of 1,800,000	1,620,000	<u>1,620,000</u>

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		180,000
Less: input tax on machine (W-1)		108,000
Sales tax payable		<u>72,000</u>
Input tax to be carry forward (1,741,935-1,620,000)		121,935
<u>Working-1: Input tax other than fixed assets</u>		
Taxable goods from registered persons		2,700,000
Exempt goods		-
		<u>2,700,000</u>

Apportionment of Input Tax

	Turnover	Input tax other than fixed assets	Input tax on fixed assets
Taxable goods	10,000,000	1,741,935	108,000
Exempt goods	5,500,000	958,065	-
Total	15,500,000	2,700,000	108,000

Total Marks 12

- Q.7. a** Tier-1 retailers are required to be registered under Sale Tax Act, 1990. They shall pay tax at the rate as applicable to the goods sold under relevant provisions of the Sales Tax Act or a notification issue thereunder. 05

Tier-1 retailers shall integrate their retail outlets with Board's computerized system for real-time reporting of sales. In case a Tier-1 retailer does not integrate his retail outlet in the manner as prescribed during a tax period or part thereof, the adjustable input tax for whole of that tax period shall be reduced by 60%.

- Q.7. b**
- (i) Input tax paid on purchase of construction material for office building is not admissible. 07
 - (ii) Input tax paid on purchase of electronic cash register is admissible and registered person shall be entitled to deduct this input tax from output tax.
 - (iii) Input tax is not allowed on purchases if payment is made in cash.
 - (iv) Input tax is allowed on provisional basis for those purchases against which discrepancy has been indicated by the CREST.
 - (v) Input tax cannot be claimed on advance against purchases. Hence 70% of total amount will be disallowed as goods were not received in August

Total Marks 12

- Q.8. a**
- (i) To protect local industries against foreign competition. 02
 - (ii) To promote exports of the country.
 - (iii) To counter the effects of inflation.
 - (iv) To document the economy
 - (v) To remove inequality in distribution of wealth
 - (vi) To promote science and innovation

- Q.8. b**
- (i) Integrity 02
 - (ii) Objectivity
 - (iii) Professional competence and due care
 - (iv) Confidentiality
 - (v) Professional behavior

Total Marks 04
