**Certificate in Accounting and Finance Stage Examination**

**The Institute of Chartered Accountants of Pakistan**

7 September 2024
3 hours – 100 marks
Additional reading time – 15 minutes

# Tax Practices

**Instructions to examinees:**
(i) Answer all **EIGHT** questions.
(ii) Answer in **black** pen only.
(iii) Tax rates are given on the last page.

Q.1 On 1 July 2023, Saleem Khan joined Solar Energy Limited (SEL) as a Quality Control Manager with a gross monthly salary of Rs. 500,000, which includes a medical allowance of Rs. 45,000 i.e. 15% of the basic salary. The salary for each month is credited to his bank account at the beginning of the following month.

In addition to the abovementioned salary, Saleem Khan also received the following benefits:

(i) A company maintained car which was 60% used for personal and 40% for company purposes. The car was provided on 1 January 2024, when the fair market value of the car was Rs. 5,500,000. SEL had purchased the car in July 2023 for Rs. 5,000,000. To account for his personal use of the car, a total deduction of Rs. 100,000 was made from Saleem Khan's salary up to 30 June 2024.

(ii) A right to acquire 5,000 shares in SEL under the employee share scheme, granted on 1 May 2024. The right can be exercised upon payment of Rs. 80 per share within a year. On the grant date, the fair market value of each right to acquire a SEL's share was Rs. 230. On 30 June 2024, instead of exercising the rights, Saleem Khan disposed them of at Rs. 120 per share.

**Other information:**

(i) Prior to joining at SEL, Saleem Khan served as a Production Manager at Hydro Energy Limited (HEL). He retired from HEL on 25 June 2023, and became entitled to a monthly pension of Rs. 40,000, starting on 1 July 2023. This pension is deposited into his bank account at the end of each month.

(ii) He paid Zakat under the Zakat and Ushr Ordinance, 1980, amounting to Rs. 182,500.

**Required:**
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the correct head of income, the taxable income of Saleem Khan for the tax year 2024. Also, provide reasons for ignoring any of the above benefits. **(07)**

Q.2 (a) Arsalan, a citizen of Pakistan, is employed by an international banking organization, based in United Kingdom. The following details outline Arsalan's travel and work assignments across different countries during the tax year 2024:

| Period | Country name |
|---|---|
| 1 Jul – 15 Oct 2023 | United Kingdom |
| 16 Oct – 31 Dec 2023 | United Arab Emirates |
| 1 Jan – 26 Jan 2024 | Pakistan (On vacation) |
| 27 Jan – 2 Mar 2024 | United Kingdom |
| 3 Mar – 30 Jun 2024 | Pakistan (Work from home) |

**Required:**
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, assess the residential status of Arsalan for the tax year 2024. **(04)**

(b) The following is the wealth statement of Rustom Mirza for the tax year 2023:

| | Rupees |
|---|---|
| 5,000 shares in a listed company - at cost | 360,000 |
| Residential house in Malir | 4,500,000 |
| Furniture and other household items | 520,000 |
| Personal car | 1,850,000 |
| Bank balance | 435,000 |
| Cash in hand | 50,000 |
| | 7,715,000 |
| Less: Loan payable to a friend | (800,000) |
| **Net assets as on 30 June 2023** | **6,915,000** |

Additional information provided by Rustom Mirza for the tax year 2024:

(i) Gross salary earned during the year amounted to Rs. 3,600,000, while taxes deducted from his salary amounted to Rs. 435,000.

(ii) 1,000 new shares in a listed company were purchased for Rs. 80 each. On 30 June 2024, the market value of the 5,000 previously held shares was Rs. 375,000.

(iii) A new car was obtained on 30 June 2024 through a trade-in scheme, exchanging the old car. The price differential of Rs. 1,200,000 is payable on a two-month credit.

(iv) A payment of Rs. 400,000 was made to the friend in repayment of outstanding loan.

(v) Personal expenses amounted to Rs. 2,600,000, with Rs. 20,000 paid in cash.

(vi) A gift of Rs. 35,000 was made to his sister through a crossed cheque.

**Required:**
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, prepare Rustom Mirza's wealth statement and wealth reconciliation statement for the tax year 2024, along with necessary workings. **(07)**

Q.3 Lal Bux, a tax filer, made the following disposals during the tax year 2024:

(i) On 1 April 2024, he sold a packaging machine for Rs. 900,000. The machine was exclusively used for packaging products exported to the Middle East. The machine was purchased on 1 January 2023 at a special discounted price of Rs. 792,000. The book value of the machine at the time of sale was Rs. 696,220. Lal Bux declares all export proceeds under the Final Tax Regime.

(ii) On 14 February 2024, he exported a cutting machine to the UAE against proceeds of Rs. 3,500,000. This machine was used in manufacturing goods sold domestically in Pakistan. The cost and tax written down value of the machine were Rs. 2,200,000 and Rs. 950,000 respectively.

(iii) On 30 June 2024, he received an insurance claim of Rs. 1,725,000 as a lump sum payment for the destruction by fire of two antique Mongolian Vases. Vase 1 was purchased on 1 July 2023 for Rs. 925,000, and Vase 2 was purchased on 15 July 2023 for Rs. 820,000. At the time of the fire, the fair market value of Vase 1 and Vase 2 were estimated at Rs. 975,000 and Rs. 900,000 respectively.

(iv) On 15 June 2024, he sold a grey parrot for Rs. 300,000. The grey parrot was purchased on 1 July 2022 at a price of Rs. 225,000 for his minor son.

(v) On 1 May 2024, he sold 6,000 shares in Garlic Limited (GL) at Rs. 70 per share, incurring incidental expenses of 0.5% of the sale proceeds. GL is an unlisted company with 52% of its shares held by the Turkish government. Lal Bux received 15,000 shares in GL on 1 July 2020 as a gift from his friend, who had purchased these shares from an investor for Rs. 45 each. The fair value of these shares at the time of the gift was Rs. 48 each.

**Required:**

(a) Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

- compute the amount chargeable to tax for the tax year 2024, specifying the relevant head of income. Also, state the reason for ignoring gain / loss, if any.
- calculate the tax liability for the tax year 2024 in respect of those disposals that are not subject to Normal Tax Regime. **(11)**

(b) Discuss the reasons for your treatment of disposal of the packaging machine made in (a) above. **(02)**

Q.4 On 1 July 2023, Javed, a citizen of Pakistan, travelled to Kenya to start a new job but returned to Pakistan on 25 November 2023 due to his father's death. During his stay in Kenya, Javed earned a salary equivalent to Rs. 4,000,000 from which tax equivalent to Rs. 800,000 was withheld and deposited with Kenyan tax authorities.

Following his father's death, he decided to join the family business in Pakistan. Meanwhile, he received rental income from a flat in Kenya starting 1 January 2024. The relevant details are given below:

| Particulars | Equivalent to Rs. |
|---|---|
| Rent received per month **(Note)** | 300,000 |
| Property taxes paid in Kenya | *400,000 |
| Interest on mortgage paid to a bank in Kenya | *1,200,000 |
| Collection charges paid to an agent in Kenya | *90,000 |

**For the period January to June 2024*

**Note:**
The fair market value of the monthly rent during the months from January to April 2024 was equivalent to Rs. 350,000. However, starting from May 2024, the fair market value of the rent was reduced to Rs. 250,000 per month.

In addition to the above, Javed purchased a factory building along with a plant in Karachi for Rs. 120,000,000. Starting from 1 February 2024, it has been leased out for a monthly rent of Rs. 3,000,000. Considering the nature of the installed plant, the factory requires renovation every three years. Before renting out the factory building, Javed incurred renovation expenses of Rs. 10,000,000 on the factory building.

**Required:**
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

(a) compute the taxable income of Javed for the tax year 2024 under the appropriate head of income. **(10)**

(b) assume that all information in the scenario remains the same, except that Javed had started his job in Kenya on 1 July 2022 instead of 1 July 2023. How would this alteration in the start date affect your response in part (a)? ***(Revised calculations are not required)*** **(03)**

Q.5 Nafees Enterprises (NE), a sole proprietorship owned by Nafees, is engaged in the business of manufacturing and selling power tools in Lahore. The following information has been extracted from NE's records for the tax year 2024:

| | **Rs. in '000** |
|---|---|
| Sales | 148,000 |
| Cost of sales | (95,000) |
| Gross profit | 53,000 |
| Administrative and selling expenses | (21,000) |
| Financial charges | (1,000) |
| Other income | 9,000 |
| **Profit before taxation** | **40,000** |

**Additional information:**

(i) Sales include an advance of Rs. 1,875,000 received from a retailer in Islamabad for the sale of impact drivers. The agreement stipulates that NE will deliver the tools in July 2024.

(ii) **Cost of sales includes:**
- closing stock consisting of 5,000 units at a cost of Rs. 19,700,000. The market price of these units as on 30 June 2024 was Rs. 3,800 per unit, and the estimated costs incidental to sale were Rs. 300 per unit.
- accounting depreciation amounting to Rs. 20,000,000.

(iii) **Administrative and selling expenses include:**
- a penalty of Rs. 95,000 for the late payment of advance tax. The penalty amount was paid by cheque.
- expenditure of Rs. 9,000,000 incurred on the development of a computer software for use in the manufacture of precision drills. Although the software was available for use from 1 May 2024, NE decided to start using the software from 1 July 2024.
- cost of Rs. 720,000 for the construction of two ramps to provide access to persons with disabilities.

(iv) Financial charges includes interest of Rs. 825,000 paid to a scheduled bank for a loan obtained by Nafees for the renovation of his ancestral house in Lahore.

(v) **Other income includes:**
- gain of Rs. 5,000,000 from the sale of an unimproved land to one of Nafees's business colleague for Rs. 6,500,000, which was purchased in July 2021.
- sale proceeds of Rs. 2,125,000 received on sale of 25,000 shares in Sky Limited, a listed company. NE purchased these shares in July 2017 at a cost of Rs. 25 per share.

**Other information: (not reflected in the above financial results)**

(i) Income from foreign speculation business amounting to Rs. 2,500,000.
(ii) A loan of Rs. 180,000 received through a bearer cheque.
(iii) Tax depreciation for the year amounting to Rs. 23,000,000.
(iv) Brought forward assessed losses from previous tax years:

| | **Rs. in '000** |
|---|---|
| Non-speculation business loss - 2020 | 11,100 |
| Speculation loss (Pakistan source) - 2023 | 2,700 |
| Unabsorbed depreciation - 2023 | 24,560 |
| Loss on sale of listed securities - 2020 | 1,200 |

**Required:**
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the correct head of income, the total income, taxable income and tax liability of NE for the tax year 2024. **(19)**

***Note:***
- ***Ignore minimum tax under section 113.***
- ***Show all relevant exemptions, exclusions and disallowances.***

Q.6 Sarmaya Associates (SA) is engaged in the manufacturing and supply of personal care items. It is registered with the sales tax authorities as manufacturer, importer and distributor. The following information has been extracted from SA's records for the month of August 2024:

(i) Purchases from registered suppliers:

- Raw materials for manufacturing taxable and exempt supplies of Rs. 8,700,000 and Rs. 500,000 respectively.
- 800 kg of detergent, purchased for Rs. 840,000. The retail price of detergent is Rs. 1,200 per kg.
- Goods worth Rs. 350,000, purchased from Khazana Enterprise, with payment made in cash.

(ii) Purchases of taxable goods from unregistered suppliers, valued at Rs. 3,850,000.

(iii) Import of 2,000 bottles of shampoo from France, valued at Rs. 2,000,000. The retail price of each bottle is Rs. 1,900.

(iv) Acquisition of a machine valued at Rs. 2,750,000, inclusive of a 10% mark-up, under a hire purchase agreement. A down payment of Rs. 500,000 was made during the month, with the remaining amount to be paid in 24 equal monthly instalments starting from August 2024.

(v) Supplies to registered persons:

- Toilet soaps, valued at Rs. 243,000, supplied to a factory in the Export Processing Zone for consumption by factory staff.
- 500 kits of shaving cream, supplied for consumption on-board an aircraft proceeding from Karachi to New York. These kits were purchased on credit from a distributor for Rs. 450,000 on 1 February 2024. The retail price of each kit is Rs. 1,200. Payment for these kits is still outstanding.
- Goods valued at Rs. 325,000, supplied to a creditor against the final settlement of his debt of Rs. 350,000.
- Goods valued at Rs. 7,931,000, sold to Asaasa & Co. (AC), a registered retailer, on 12 August 2024. 90% of the goods were delivered to AC during the month, with remaining 10% to be delivered in September 2024 due to shortage of storage space at AC's warehouse. As per the agreement, AC makes payment to SA at the time of delivery of the goods.

(vi) Supplies to unregistered persons:

- 500 bottles of imported shampoo, sold for Rs. 800,000 to a wholesaler.
- Goods valued at Rs. 575,000, supplied to end consumers.

(vii) Exports comprised 1,500 bottles of imported shampoo sold for Rs. 3,750,000 to a departmental store in the UAE.

**Additional information:**

(i) An electricity bill of Rs. 354,000, including sales tax of Rs. 54,000, was paid in cash.

(ii) In January 2024, SA purchased taxable goods worth Rs. 455,000. The input tax of Rs. 81,900 on these goods was inadvertently left unclaimed.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of **18%**.

**Required:**

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to SA and the amount of input tax to be carried forward, if any, for the tax period August 2024. ***(Show all relevant exemptions, exclusions and disallowances)*** **(20)**

Q.7 (a) Asim Mir planned to start a manufacturing business and obtained sales tax registration in March 2024. However, due to unforeseen circumstances, he was unable to start his business as planned. Consequently, no sales tax returns were filed from March to August 2024, as he did not engage in any taxable activity.

**Required:**
Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, discuss the following:

(i) The requirement to file the sales tax return and the consequences, if any, for the non-filing of such returns. **(02)**

(ii) Power of the Commissioner in abovementioned scenario. **(02)**

(b) Waseem and Sons (WS), a registered person under the Sales Tax Act, 1990 (STA), sold taxable goods to Haleem and Sons (HS) in February 2024.

**Required:**
Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, for each of the following independent cases, specify the document that WS and HS are required to issue, if any, and state the effect (increase, decrease or no effect) on the sales tax liability of WS and HS:

(i) HS is registered under the STA and returned 25% of the goods in July 2024.

(ii) HS is not registered under the STA and returned 25% of the goods in May 2024.

(iii) HS is registered under the STA and returned 25% of the goods in September 2024.

(iv) The value of supply and corresponding sales tax were erroneously understated by WS. The error was rectified in June 2024.

(v) The value of supply and corresponding sales tax were erroneously overstated by WS. The error was rectified in June 2024. **(05)**

You should answer this part in the following format:

| Case | Document to be issued by | | Impact on sales tax liability of | |
|---|---|---|---|---|
| | **WS** | **HS** | **WS** | **HS** |
| (i) | | | | |
| (ii) | | | | |
| (iii) | | | | |
| (iv) | | | | |
| (v) | | | | |

Q.8 (a) List down the factors that are relevant for a chartered accountant firm in evaluating the level of threats created by providing any tax service to an audit client. **(04)**

(b) Briefly explain indirect taxes applicable in Pakistan. **(04)**

**(THE END)**

# EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

**Tax rates for non-salaried individuals and AOP**

| S. No. | Taxable income | Rate of tax |
|---|---|---|
| 1. | Where taxable income does not exceed Rs. 600,000 | 0% |
| 2. | Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000 | 7.5% of the amount exceeding Rs. 600,000 |
| 3. | Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000 | Rs. 15,000 plus 15% of the amount exceeding Rs. 800,000 |
| 4. | Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000 | Rs. 75,000 plus 20% of the amount exceeding Rs. 1,200,000 |
| 5. | Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000 | Rs. 315,000 plus 25% of the amount exceeding Rs. 2,400,000 |
| 6. | Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000 | Rs. 465,000 plus 30% of the amount exceeding Rs. 3,000,000 |
| 7. | Where taxable income exceeds Rs. 4,000,000 | Rs. 765,000 plus 35% of the amount exceeding Rs. 4,000,000 |

**Capital gains on disposal of securities**

| S. No. | Holding period | Rate of tax |
|---|---|---|
| 1. | Where the holding period does not exceed one year | 15% |
| 2. | Where the holding period exceeds one year but does not exceed two years | 12.5% |
| 3. | Where the holding period exceeds two years but does not exceed three years | 10% |
| 4. | Where the holding period exceeds three years but does not exceed four years | 7.5% |
| 5. | Where the holding period exceeds four years but does not exceed five years | 5% |
| 6. | Where the holding period exceeds five years but does not exceed six years | 2.5% |
| 7. | Where the holding period exceeds six years | 0% |
| 8. | Future commodity contracts entered into by members of Pakistan Mercantile Exchange | 5% |

Provided that for securities except at S. No. 8 of the table:

(i) the reduced rates of tax on capital gain arising on disposal shall apply where the securities are acquired on or after the first day of July, 2022; and

(ii) the rate of 12.5% tax shall be charged on capital gain arising on disposal where the securities are acquired on or after the first day of July, 2013 but on or before the 30th day of June, 2022; and

(iii) the rate of 0% tax shall be charged on capital gain arising on disposal where the securities are acquired before the first day of July, 2013.

**Capital gain on sale of immovable property**

| S. No. | Holding period | Rate of tax | | |
|---|---|---|---|---|
| | | Open plots | Constructed property | Flats |
| 1. | Where the holding period does not exceed one year | 15% | 15% | 15% |
| 2. | Where the holding period exceeds one year but does not exceed two years | 12.5% | 10% | 7.5% |
| 3. | Where the holding period exceeds two years but does not exceed three years | 10% | 7.5% | 0 |
| 4. | Where the holding period exceeds three years but does not exceed four years | 7.5% | 5% | - |
| 5. | Where the holding period exceeds four years but does not exceed five years | 5% | 0 | - |
| 6. | Where the holding period exceeds five years but does not exceed six years | 2.5% | - | - |
| 7. | Where the holding period exceeds six years | 0% | - | - |

**Initial allowance**

The rate of initial allowance shall be 25% for plant and machinery.

**Depreciation rate**

| | | |
|---|---|---|
| 1. | Building (all types) | 10% |
| 2. | Furniture (including fittings) and machinery and plant (not otherwise specified), Motor vehicles (all types), ships, technical or professional books | 15% |
| 3. | A ramp built to provide access to person with disabilities not exceeding Rs. 250,000 each | 100% |