ICAP

Certificate in Accounting and Finance Stage Examination

10 September 2025
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 at the end.

Q.1 Kokab Brothers (KB), an association of persons, is engaged in the business of manufacturing and supplying branded footwear.

KB's tax return has been prepared by a newly appointed manager who has presented the following computation along with supporting notes for the year ended 30 June 2025 for your review:

	Note	Rs. in million
Profit before tax	(i)	125.35
Adjustments:		
Accounting depreciation		35.00
Bad debts expense		4.71
Bad debts written off	(ii)	(3.60)
Tax depreciation	(iii)	(42.00)
Total and taxable income		**119.46**

Notes to the computation:

(i) The profit before tax has been arrived at after taking into account the following:

- Rs. 1.6 million paid to Ghous Associates for the purchase of raw materials. This payment was made without deduction of the applicable withholding tax of Rs. 88,000.
- Rs. 8 million paid as down payment for the purchase of office space.
- Rs. 3 million paid for renewal of the accounting software license for a period of 5 years, effective 1 July 2024.
- Rs. 6.8 million (net of 15% withholding tax) received as interest on a Term Deposit Receipt maintained with a bank.
- Rs. 1 million received as a monetary award from the Provincial Minister of Punjab for KB's social services during flash floods.

(ii) The bad debts written off include an advance of Rs. 1.72 million to a supplier who became insolvent during the year.

(iii) Tax depreciation includes the following:

- Rs. 0.45 million on second-hand imported machinery acquired on 1 June 2025 at a cost of Rs. 3 million.
- Rs. 0.78 million on a car provided to the CFO. Upon completion of its five-year useful life in June 2025, the car was sold to the CFO at book value of Rs. 2 million, although its market value at that time was Rs. 5.5 million. The car had originally been purchased for Rs. 10 million. A new car, costing Rs. 15 million was then provided to the CFO as a replacement. No tax depreciation has been provided in respect of the new car.

Additional information (not included above):
Due to poor footfall and sustained losses, KB permanently closed one of its retail outlets during last year. At the time of closure, the outlet had an unpaid rent of Rs. 2.8 million covering the final three months of its tenancy (January to March 2024). In October 2024, the landlord, acknowledged the long-term tenancy relationship and the financial difficulties leading to closure, voluntarily waived the outstanding rent and confirmed that no further claims would be made.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, prepare a revised computation of KB's total and taxable income and tax liability for the tax year 2025. **(16)**

Notes:
- ***Ignore minimum tax under section 113.***
- ***Show all relevant exemptions, exclusions and disallowances.***
- ***Ignore surcharge, if any.***

Q.2 (a) The following information pertains to Ashfaq, a resident filer, who owns multiple properties across Pakistan:

(i) In December 2023, Ashfaq purchased a house for Rs. 52 million. In January 2024, he rented the house to Umar for one year at a monthly rent of Rs. 150,000. The rent for the entire year was received in advance on 1 January 2024. A non-adjustable amount of Rs. 2 million was also received at the time of renting the house.

In January 2025, he refunded the entire non-adjustable amount to Umar and sold the house to Asim for Rs. 55 million. Before the sale, Ashfaq incurred Rs. 500,000 on major renovations.

(ii) In December 2024, Ashfaq rented out a flat to his friend Usaid at Rs. 35,000 per month, without taking any security deposit. The fair market rent of similar flats is Rs. 50,000 per month, with a security deposit of Rs. 600,000. Usaid paid Rs. 10,000 for minor repairs to the flat, which was adjusted against the rent for June 2025.

(iii) On 1 August 2024, Ashfaq rented out an open plot to a sports club for Rs. 500,000 per month. In July 2024, he also incurred Rs. 100,000 for levelling and cleaning, as required by the tenant. The tenant paid the rent for two years in advance. Ashfaq had originally purchased the plot in April 2023 for Rs. 65 million.

(iv) On 1 August 2024, Ashfaq purchased a generator for renting out to the sports club at Rs. 120,000 per month. The generator was purchased from a manufacturer at a public promotional event for Rs. 8 million, while its regular price was Rs. 8.5 million. On 30 June 2025, the generator was sold for Rs. 6 million, as it did not meet the operational requirements of the sports club.

(v) During the year, Ashfaq paid Rs. 300,000 to property agent for administration and rent collection services for immovable properties only.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the taxable income and tax liability of Ashfaq for the tax year 2025. Also, compute the carried forward loss, if any. ***(Show all relevant exemptions, exclusions and disallowances)*** **(11)**

(b) Under the provisions of the Income Tax Ordinance, 2001, define speculation business and explain how its taxation differs from that of a non-speculation business. **(05)**

Q.3 (a) Majid, a resident Pakistani citizen, owns a chain of retail outlets in Islamabad. Although he had taxable income for the past three years, he has failed to file his income tax returns for each of those years. Consequently, his name does not appear on the Active Taxpayers' List.

Required:
Under the provisions of the Income Tax Ordinance, 2001:

(i) discuss the administrative enforcement powers available to the Federal Board of Revenue (FBR) to compel Majid to file his return of income. Also, state the preconditions that must be satisfied before such enforcement measures can be initiated. **(03)**

(ii) outline the consequences that Majid may face in the event of continued non-compliance. ***(Ignore penalties or prosecution under general sections)*** **(02)**

(b) Olivia, a foreign national, was previously working in London as a consultant for the Child Care Foundation (CCF), a public international organisation. On 1 July 2024, she was transferred to Pakistan to serve as a consultant on a CCF project approved by the Government of Pakistan. Her consultancy fees are paid directly by the CCF headquarters in London, and no tax is withheld at source. Olivia has remained in Pakistan throughout the tax year 2025.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, discuss the tax treatment of Olivia's income for the tax year 2025. Your answer should:

(i) explain the taxability of her income based on the given facts; and **(02)**

(ii) discuss the circumstances under which her income may qualify for exemption. **(02)**

(c) Consider the following individual persons:

- A retailer
- A person dealing exclusively in exempt supplies
- A manufacturer of taxable goods
- An exporter
- A widow having dividend income only

Required:
(i) Under the provisions of the Income Tax Ordinance, 2001, discuss whether each of the above individuals are required to file an income tax return based on income only. ***(Ignore filing obligations arising from ownership of assets or registration)*** **(02)**

(ii) Under the provisions of the Sales Tax Act, 1990, discuss whether each of the above individuals is required to file a sales tax return. **(04)**

Q.4 (a) Consider each of the following independent cases:

(i) Cee Ltd., a loss making entity with accumulated losses, is in the process of liquidation. During liquidation, the assets of the company are distributed among shareholders.

(ii) A foreign branch of Dee Ltd., a Pakistani company, remits its after-tax profits to the head office in Pakistan.

(iii) Eee (Pvt.) Ltd., a finance company, advances a loan to one of its shareholders under its standard commercial terms.

Required:
For each of the above cases, state whether it should be treated as dividend under the provisions of the Income Tax Ordinance, 2001, and briefly explain the basis for your conclusion. **(05)**

(b) Consider the following statements regarding the set off and carry forward of losses under the provisions of the Income Tax Ordinance, 2001:

(i) A foreign source loss cannot be set off against Pakistan source income, and vice versa.

(ii) A loss from "income from other sources" cannot be set off against any other head of income, or carried forward to subsequent years.

(iii) A loss on disposal of shares of a private company cannot be set off against a gain on disposal of shares of a public company, and vice versa.

(iv) Any unadjusted loss under the head "capital gain" may be carried forward for a period of six years.

(v) The loss incurred by an association of persons cannot be set off or carried forward by its members against their individual income.

Required:
Identify whether each of the above statements is **TRUE** or **FALSE**. Provide reasons for statements identified as **FALSE**. **(06)**

Q.5 (a) Bilal is employed as the Chief Executive Officer at Azam Textile Limited (ATL). During the tax year 2025, he was provided with the following benefits under the terms of his employment:

(i) His monthly gross salary was Rs. 500,000.

(ii) He was entitled to receive a fixed annual bonus equivalent to two months' salary in June 2025.

(iii) He also received a monthly reimbursement of Rs. 20,000 per child upon submission of school fee vouchers. Bilal has two children, each with a monthly school fee of Rs. 35,000.

(iv) On 1 October 2023, he took an interest-free loan of Rs. 3,000,000 and repaid Rs. 900,000 by 30 June 2024. During the tax year 2025, he made no repayments due to financial difficulties. On 30 June 2025, ATL approved adjustment of his June salary and annual bonus against the loan and waived the remaining balance.

(v) Income tax related to his salary and other benefits is to be borne by ATL.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the taxable income, and tax liability of Bilal for the tax year 2025.
(Show all relevant exemptions, exclusions, and disallowances) **(07)**

(b) Ali presented a gift valued at Rs. 800,000 to Baqir.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, discuss the tax treatment for Baqir under each of the following independent situations:

(i) Ali is Baqir's uncle, and the gift is in kind.
(ii) Ali is Baqir's father, and the gift is in cash.
(iii) Ali and Baqir are close friends, and the gift is in kind. **(03)**

Q.6 Shams Associates (SA), owned by Shams, is registered with the sales tax authorities as a manufacturer, importer and distributor. SA's tax manager is in the process of finalizing the sales tax return for the month of August 2025 and has provided the following computation together with explanatory notes for your review:

Description	Value of supply Rs. in million	Sales Tax Rate	Sales Tax Rs. in million
INPUT TAX			
Purchased raw material from registered suppliers in Azad Jammu & Kashmir	11.87	18%	2.14
Purchased raw material from a cottage industry	1.82	18%	0.33
Purchased 5,000 units of taxable goods listed in the Third Schedule from ABC, a registered supplier (Retail price: Rs. 1,000 each)	4.25	18%	0.77
Purchased electronic cash register	0.11	Inadmissible	-
Purchased raw material from registered suppliers for the manufacture of exempt supplies	2.38	18%	0.43
Received debit note from a supplier	0.32	18%	0.06
Input tax for the month			**3.73**
OUTPUT TAX			
Taxable supplies to registered customers	4.10	18%	0.74
Taxable supplies to un-registered end consumers	1.63	Exempt	-
Supply of taxable goods on board a plane en-route to Lahore	1.70	0%	-
Free distribution of taxable goods for promotional purposes	0.13	Exempt	-
Supply of 5,000 units purchased from ABC, to a registered customer **(Note 1)**	4.60	18%	0.83
Supply of imported 1,500 units of taxable goods to un-registered dealers **(Note 2)**	2.70	25%	0.68
50% advance received from a registered customer, for supply of taxable goods in September 2025	1.00	Not applicable	-
Output tax for the month			**2.25**
Further tax on supplies to un-registered end consumers [1.63 × 4%]			0.07
Admissible credit **(W-1)**			(2.86)
Sales tax refundable			**(0.54)**

W-1: Apportionment of input tax

	Supplies	Input tax
	----- Rs. in million -----	
Taxable	11.40	2.86
Zero rated	1.70	0.43
Exempt	1.76	0.44
	14.86	**3.73**

Notes:

1. Out of 5,000 units supplied, the customer returned 500 units on the ground of being unfit for consumption. SA destroyed these goods after fulfilling all the requirements of the Inland Revenue Department.
2. The imported goods are subject to tax at a higher tax rate on import and their subsequent supply, as prescribed by the Federal Government.

Additional information (not included in above calculation):

(i) SA did not claim the sales tax invoices amounting to Rs. 0.90 million relating to March 2025 due to payment disputes. These disputes were resolved in August 2025.
(ii) Goods worth Rs. 0.08 million (own manufactured) were taken by Shams to present as a gift for his son on the occasion of his birthday.
(iii) SA replaced faulty goods under warranty free of cost. The market value of these goods was Rs. 0.60 million.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above figures appearing in the value of supply column and amounts provided in the additional information are **exclusive of sales tax**.

Sales tax is payable at the rate of 18%, unless specified otherwise.

Required:
Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, prepare the revised computation of SA's sales tax liability for the tax period August 2025, including the amount of input tax to be carried forward, if any. ***(Show all relevant exemptions, exclusions and disallowances)*** **(17)**

Q.7 Discuss the provisions regarding temporary sales tax registration as contained in the Sales Tax Rules, 2006. **(05)**

Q.8 (a) Consider the following statements with reference to characteristics of a taxation system:

(i) Taxes must be imposed only on income.
(ii) The payment of taxes is based on the taxpayer's willingness to contribute, with those earning higher income are expected to pay more.
(iii) Tax laws should be consistent with the government's economic objectives and development programs.
(iv) Taxes can be enacted by the executive authority of the state.
(v) Taxes may be imposed by international organizations that oversee the state's economic activities.

Required:
For each of the above statements, provide a justification as to why it is incorrect. **(05)**

(b) List any **five** ethical responsibilities of the tax-implementing authorities. **(05)**

(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. 1,200,000	15% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5.	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

Tax rates for salaried individuals

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. 1,200,000	5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
5.	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

Tax rate for profit on debt

The tax rate for profit on debt is 15%.

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

The depreciation rate for motor vehicle and plant and machinery is 15%.