ICAP

Certificate in Accounting and Finance Stage Examination

8 March 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 For the purpose of this question, assume that the date today is **31 August 2025**.

Momin Maize Products (MMP), a sole proprietorship owned by Momin Khan, specializes in the production of food ingredients. The following information has been extracted from MMP's records for the year ended 30 June 2025:

	Rs. in '000
Sales	138,000
Cost of sales	(86,000)
Gross profit	**52,000**
Administrative and selling expenses	(14,650)
Financial charges	(2,000)
Other income	650
Profit before taxation	**36,000**

Additional information:

(i) **Sales include:**
- an amount of Rs. 10,620,000, net of a 10% trade discount and inclusive of 18% sales tax, to a customer.
- Rs. 1,925,000 received as compensation from an insurance company on 15 April 2025, for severe damage to machinery imported from China on 1 April 2025, costing Rs. 2,100,000. The machinery, deemed unfit for use, was later sold as scrap for Rs. 425,000 on 1 May 2025. The loss of Rs. 1,675,000 from the sale of machinery and the cost of Rs. 42,000 incurred for lodging the insurance claim have been included under administrative and selling expenses.

(ii) **Cost of sales include:**
- Rs. 8,000,000 paid for a used ingredient mixer machine imported from Malaysia. This includes import duty of Rs. 300,000 and advance income tax of Rs. 500,000 paid to custom authorities at import stage.
- accounting depreciation of Rs. 18,000,000. The tax depreciation (excluding depreciation on imported machine) for the tax year amounted to Rs. 22,000,000.

(iii) **Administrative and selling expenses include:**
- sales commission of Rs. 325,000 paid to the marketing manager via a bearer cheque for exceeding the sales target.
- a security deposit of Rs. 460,000 paid to K-Electric for a new connection.
- an insurance premium of Rs. 395,000 paid for the health insurance of Momin Khan.

(iv) Financial charges include interest of Rs. 600,000 on a Rs. 5,000,000 bank loan obtained on 1 July 2024, at an annual interest rate of 12%. Rs. 4,000,000 was used to purchase a plot of land in Karachi for leasing purposes, and Rs. 1,000,000 was used to buy a car for Momin Khan's wife.

(v) Other income comprises of rental income of Rs. 450,000 and non-adjustable deposit of Rs. 200,000 from the same plot of land mentioned in point (iv), which was leased to a tenant starting 1 September 2024. MMP incurred Rs. 50,000 in expenses for land levelling, Rs. 20,000 for ground rent, and Rs. 25,000 for rent collection services. These expenses have been included under administrative and selling expenses.

(vi) Brought forward minimum tax u/s 113 related to tax year 2024 is Rs. 6,000,000.

Required:
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the appropriate head of income, the total income, taxable income and tax liability of MMP for the tax year 2025. ***(Show all relevant exemptions, exclusions, and disallowances)*** **(18)**

Q.2 (a) For the purpose of this question, assume that the date today is **31 August 2025**.

Jaffar Associates (JA) is an association of persons with two partners, Manzoor and Adeeb, sharing profit and loss in the ratio of 1:3 respectively. The following information has been extracted from JA's records for the tax year 2025:

	Rs. in '000
Sales	35,000
Cost of sales	(20,000)
Gross profit	**15,000**
Operating expenses	(8,000)
Other income	6,000
Profit before taxation	**13,000**

Additional information:

- The cost of sales includes raw material worth Rs. 2,900,000 from which no withholding tax was deducted.
- **Operating expenses include:**
  - a salary of Rs. 1,140,000 paid to Manzoor.
  - rent of Rs. 1,500,000 paid to Adeeb for letting out his bungalow to JA at a concessional rate for office purposes. The fair market value of the rent is Rs. 2,000,000.
  - a commission of Rs. 860,000 paid to Adeeb for acquiring a sales order from a customer.
- Other income comprises a dividend (net of tax) received from Agri Limited, a company whose income is exempt from tax.

Other information:

- Manzoor sold 5,000 shares of a listed company for Rs. 600 each on 30 September 2024. He acquired these shares in July 2022 for Rs. 500 each. Manzoor paid a brokerage fee of Rs. 2 per share to the brokerage house.
- Adeeb earned a gain of Rs. 300,000 from the sale of a painting to an art collector.

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

(i) compute the total and taxable income of JA for the tax year 2025 under the appropriate head of income.
(ii) compute the total income, taxable income and tax liability of Manzoor and Adeeb for the tax year 2025 under the appropriate head of income. **(11)**

Notes:

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

(b) For the purpose of this question, assume that the date today is **31 August 2025**.

Asjad joined Premiere Textiles Limited (PTL) on 1 July 2024. He received the following salary from PTL during the year ended 30 June 2025:

	Rupees
Basic salary per month	1,500,000
Medical allowance per month	150,000

Additional information:

(i) As per the terms of employment, Asjad received medical reimbursement of Rs. 800,000 from PTL.

(ii) PTL also provided accommodation to Asjad by renting a property owned by him through a rental agreement. PTL paid a monthly rental of Rs. 200,000 to Asjad, while the fair market value of rent for a similar property was Rs. 250,000 per month.

(iii) During the year, Asjad sold 100,000 shares of his ex-employer, Marvel Paints Limited (MPL), a listed company, at Rs. 100 per share (net of expenses). These shares were issued to him under an Employee Share Scheme in the tax year 2021 at Rs. 25 per share. The market value of the shares on the issuance date was Rs. 40 per share.

(iv) During the year, Asjad received Rs. 500,000 from an unapproved gratuity scheme of MPL.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the total and taxable income of Asjad under the appropriate head of income for the tax year 2025. ***(Show all relevant exemptions, exclusions, and disallowances)*** **(07)**

Q.3 (a) Consider each of the following independent cases:

(i) Alpha Limited, incorporated in Singapore, has established a branch office in Karachi to import and sell its products.

(ii) Beta plc., a Middle Eastern retail chain, has a Liaison Office in Lahore that is limited to negotiating purchase orders for its UAE head office.

(iii) Gamma Ltd., incorporated in China, provided engineering consultancy in Pakistan through employees, who stayed for two months in Pakistan.

Required:

Determine whether each foreign entity has a Permanent Establishment in Pakistan under the Income Tax Ordinance, 2001. Provide reasons for your conclusions. **(04)**

(b) Consider each of the following independent cases:

(i) Delta Limited applied for delisting from Pakistan Stock Exchange on 1 January 2025, and was officially delisted on 28 February 2025.

(ii) Zeta Limited is an unlisted company incorporated on 1 August 2024, under the Companies Act, 2017. 49% of its shares are held by a Chinese company that is owned by the Chinese Government.

(iii) Eta Limited, incorporated on 1 January 2025, has 30% of its shares held by the Federal Government, 20% by the Punjab Government, and 50% by a private company.

Required:

Determine whether each of the above companies are public or private for the tax year 2025 under the Income Tax Ordinance, 2001. Provide reasons for your conclusions. **(04)**

Q.4 (a) Rehan has various sources of income and has gathered the following information related to the tax year 2025:

Description	Rs. in million
Jewellery received from father	8
Gain on sale of jewellery	1
Profit on debt from a savings account	4
Loss on disposal of shares of a private company	(3)
Loss on disposal of shares of a public company	(6)
Gain on disposal of government securities	5
Business loss from UAE	(7)
Loss from other sources	(2)

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

(i) compute the total and taxable income of Rehan. ***(Classification into heads of income is not required)*** **(03)**

(ii) briefly explain your treatment of the losses in part (i), including their set-off and the carry-forward of any unutilised losses. **(06)**

(Show all relevant exemptions, exclusions and disallowances)

(b) Under the provisions of the Income Tax Ordinance, 2001, identify the individuals required to file the return of income based on asset ownership, even if their income falls below the taxable threshold. **(04)**

Q.5 (a) Safdar Malik, a Pakistani citizen, returned to Pakistan on 20 December 2023, after residing in the UAE for seven years. He has remained in Pakistan since his return. On 28 August 2024, he received consultancy income equivalent to Rs. 1,960,000 from a client based in the UAE. The payment was made directly into his Pakistani bank account. Assume that consultancy income is not subject to tax in the UAE.

Required:
Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implication(s) of foreign-source income received in Pakistan by Safdar Malik. **(04)**

(b) Robert Neil, a British government official, has been assisting Pakistani geophysicists in oil exploration in the rural areas of Balochistan for the past eight months. The British government has transferred a salary equivalent to Rs. 32 million into his bank account in Pakistan, which was specifically opened for this purpose.

Required:
Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implication on the salary received by Robert Neil. **(03)**

(c) For the purpose of this part, assume that the date today is **31 August 2025**.
Sohail, a resident individual, owned the following properties as at 30 June 2025:

(i) An office building with a fair market value (FMV) of Rs. 30 million.
(ii) An open plot with an FMV of Rs. 26 million. This plot was allotted by the Federal Government to an ex-army officer, who later sold it to Sohail.
(iii) Agricultural land with an annexed farmhouse, having an FMV of Rs. 70 million for the land and Rs. 26 million for the farmhouse. The land is cultivated by Sohail.

Required:
Under the provisions of the Income Tax Ordinance, 2001, discuss the tax treatment of each of the above properties, assuming that:

- Sohail's name appears on the active taxpayer's list (ATL)
- Sohail's name does not appear on the ATL **(05)**

(Calculations are not required)

Q.6 Bilal and Sons (BS) is registered under the Sales Tax Act, 1990, as a manufacturer and exporter. The accountant of BS has prepared the following computation of sales tax liability for the month of February 2025:

Description	Taxable Value (Rs.)	Sales Tax Rate	Sales Tax (Rs.)
Input tax			
Raw material purchased from registered suppliers	2,900,000	18%	522,000
Raw materials purchased from registered suppliers against which CREST discrepancy was identified	2,180,000	18%	392,400
Raw materials purchased from Salman Enterprises (SE) on 5 February 2025 – **Note 1**	3,100,000	18%	558,000
Building material purchased from registered suppliers for its head office	2,800,000	18%	504,000
Taxable goods from unregistered suppliers	640,000	inadmissible	-
Machine purchased from a registered supplier for its production department	2,000,000	18%	360,000
			2,336,400
Output tax			
Taxable supplies to registered persons	1,185,000	18%	213,300
Taxable supplies to associate - net of 30% special discount	700,000	18%	126,000
Insurance claim for raw material destroyed – **Note 2**	1,068,000	-	-
Advance received for goods to be delivered to Hameed & Co in April 2025	645,000	-	-
Supplies to an unregistered cottage industry	980,000	*22%	215,600
Export of goods	1,000,000	18%	180,000
Supply of goods to unregistered retailers operating in air-conditioned shopping plaza	395,000	*22%	86,900
			821,800
Excess of input tax over output tax			**(1,514,600)**

**Inclusive of further tax*

Notes:
1. On 10 February 2025, BS discovered that the Commissioner of Inland Revenue had suspended SE's registration, effective 1 February 2025.
2. The insurance claim was settled after BS surrendered the right of disposal of the consignment to the insurance company.

Additional information (not included in above calculation):

- Taxable supplies pledged with a bank were sold in an auction for Rs. 535,000 to settle a debt of Rs. 550,000 owed by BS. The selling price of these supplies in the market was Rs. 575,000.
- On 13 February 2025, BS entered into an agreement with Roshan Enterprise (RE), a registered supplier, to purchase goods worth Rs. 635,000. The goods were made available by RE on 18 February 2025. However, due to storage issues, BS collected the goods on 2 March 2025.
- Goods valued at Rs. 425,000 were used by the CEO at his residence.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above figures appearing in the taxable value 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 BS's sales tax liability including amount of input tax to be carried forward, if any, for the tax period February 2025. **(15)**

Q.7 (a) Ali Enterprise (AE), a registered person, sold taxable goods worth Rs. 16 million to Bali Enterprise (BE) on 15 February 2025.

Required:
Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, discuss whether AE is entitled to claim the related input tax against abovementioned supply in each of the following independent situations:

- Where BE is not registered under the Sales Tax Act, 1990
- Where BE is not registered under the Sales Tax Act, 1990, and engaged in the sale of exempt supplies
- Where BE is registered under the Sales Tax Act, 1990, and engaged exclusively in the sale of third schedule items
- Where BE is registered under the Sales Tax Act, 1990 as an exporter
- Where BE is a retailer **(06)**

(b) Jelly Enterprise (JE), a sales-tax registered person, failed to file its sales tax return despite receiving a notice from the Commissioner of Inland Revenue (CIR).

Required:
Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, discuss the action(s) CIR may take against JE. Also, discuss the course of action available to JE against the action(s) of CIR. **(03)**

Q.8 (a) Briefly discuss the broad principles governing the levy of taxes. **(03)**

(b) Briefly describe the pillars of tax administration that protect taxpayers' interests and prevent the misuse of authority by tax officials. **(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. 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

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

Capital gains on disposal of securities

<table>
<tr><th>S. No.</th><th>Holding period</th><th>Rate of Tax on disposal of securities acquired between 1st day of July, 2022 and 30th June, 2024 (both dates inclusive)</th><th>Rate of Tax on disposal of securities acquired on or after 1st day of July, 2024</th></tr>
<tr><td>1.</td><td>Where the holding period does not exceed one year</td><td>15%</td><td rowspan="7">15% for persons appearing on the Active Taxpayers' List on the date of acquisition and the date of disposal of securities and at the rate specified in Division I for individuals and association of persons and Division II for companies in respect of persons not appearing on the Active Taxpayers' List on the date of acquisition and date of disposal of securities: Provided that the rate of tax for individuals and association of persons not appearing on the Active Taxpayers' List, the rate of tax shall not be less than 15% in any case.</td></tr>
<tr><td>2.</td><td>Where the holding period exceeds one year but does not exceed two years</td><td>12.5%</td></tr>
<tr><td>3.</td><td>Where the holding period exceeds two years but does not exceed three years</td><td>10%</td></tr>
<tr><td>4.</td><td>Where the holding period exceeds three years but does not exceed four years</td><td>7.5%</td></tr>
<tr><td>5.</td><td>Where the holding period exceeds four years but does not exceed five years</td><td>5%</td></tr>
<tr><td>6.</td><td>Where the holding period exceeds five years but does not exceed six years</td><td>2.5%</td></tr>
<tr><td>7.</td><td>Where the holding period exceeds six years</td><td>0%</td></tr>
<tr><td>8.</td><td>Future commodity contracts entered into by members of Pakistan Mercantile Exchange</td><td>5%</td><td>5%</td></tr>
</table>

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

(i) 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

(ii) 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.

Initial allowance

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

Depreciation rate

The deprecation rate for plant and machinery is 15%.

Minimum tax under section 113

The minimum tax as percentage of the person's turnover for the year is 1.25%.

Rate of Dividend Tax

(a) 7.5% in the case of dividends paid by Independent Power [Producers] where such dividend is a pass through item under an Implementation Agreement or Power Purchase Agreement or Energy Purchase Agreement and is required to be re-imbursed by Central Power Purchasing (CPPA-G) or its predecessor or successor entity.

(b) 15% in the case of mutual funds, Real Estate Investment Trusts and cases other than those mentioned in clauses (a), (c) and (d)

Provided that the rate of tax on dividend received from mutual funds deriving fifty percent or more income from profit on debt shall be 25%.

(c) 0% in case of dividend received by a REIT scheme from Special Purpose Vehicle and 35% in case of dividend received by others from Special Purpose Vehicle as defined under the Real Estate Investment Trust Regulations, 2015.

(d) 25% in case of a person receiving dividend from a company where no tax payable by such company, due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III.