**Certified Finance and Accounting Professional Stage Examination**

**The Institute of**
**Chartered Accountants**
**of Pakistan**

8 June 2024
3 hours and 30 minutes – 100 marks

# Tax Planning and Practices

**CRN:** | | | | | | |

**Name:** ______________________________

## INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 3 hours and 30 minutes, which includes the 15-minute reading time and an extra 15 minutes of time that has been allocated due to the introduction of computer-based examinations.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > **(NEXT)** or < **(BACK)** symbols.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, below the RTF editor, a spreadsheet is provided, where necessary, to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. You may use Microsoft Office applications such as MS Word or MS Excel for rough working. However, please remember that any work performed in these applications cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last two pages of the question paper that are specifically allocated for this purpose. Remember that any rough work done on these pages will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to use only digital copies of the permissible books. Keeping a hard copy of any book or notes is not permissible and will be considered a violation under the policy on the use of unfair means, leading to disciplinary action.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than Assessment Master and the digital copies of permissible books is strictly prohibited. Engaging in such activities will be considered a violation under the policy on the use of unfair means, leading to disciplinary action.

Q.1 For this question, **assume today's date is 31 December 2024**.

Terabyte (Pvt) Limited (TBPL) specializes in the production and supply of plastic and allied products. On 1 July 2023, Megabyte Holding Limited (MBHL) acquired 80% shareholding in TBPL. Additionally, MBHL holds 100% ownership of Gigabyte (Pvt) Limited (GBPL) for many years. The following information has been extracted from TBPL's records for the year ended 30 June 2024:

| | **Rs. in million** |
|---|---|
| Sales | 275 |
| Cost of sales | (205) |
| Gross profit | **70** |
| Administrative and selling expenses | (47) |
| Financial charges | (15) |
| Other income | 10 |
| Profit before taxation | **18** |

**Additional information:**

(i) Sales include:

- a sum of Rs. 20.9 million received (net of withholding tax) from the sale of plastic chairs, water bottles and food containers to large departmental stores in Karachi, Lahore and Islamabad.
- 5,000 plastic tables sold to GBPL at Rs. 3,000 each, without any warranty, for onward sale to its dealers in Lahore. Normally, TBPL sells similar tables to its dealers at Rs. 4,000 each, including a one-year warranty. The warranty alone is valued at Rs. 400 per table.

(ii) Cost of sales include Rs. 30 million and Rs. 20 million on account of contributions to an approved gratuity fund and a recognised provident fund respectively.

(iii) Administrative and selling expenses include:

- a commission of Rs. 0.5 million paid to Bari Associates for supplying tubes, listed in the Third Schedule of the Sales Tax Act, 1990, worth Rs. 15 million to bicycle dealers in Multan. The name of Bari Associates is not appearing in the active taxpayer list.
- accounting depreciation of Rs. 13 million.

(iv) Financial charges include a payment of Rs. 4 million made to a commodity exchange dealer to settle a transaction undertaken as a hedge against fluctuations in the prices of one of the raw materials used by TBPL.

(v) Other income includes a loss of Rs. 1.2 million incurred from the sale of a passenger transport vehicle used to commute managerial staff to and from the factory. The vehicle, acquired for Rs. 11 million during the year ended 30 June 2022, was sold to one of TBPL's staff members for Rs. 6.75 million, reflecting a 25% discount from the market value.

**Other information: (not included above)**

(i) Total tax depreciation is Rs. 16 million.

(ii) TBPL's brought forward business losses from tax years 2022 and 2023 amount to Rs. 9.5 million and Rs. 5.2 million, respectively. Additionally, unabsorbed tax depreciation for the tax year 2023 totals Rs. 17.2 million. TBPL has also filed an appeal against the Appellate Tribunal's order decision concerning the assessment of its income from business for the tax year 2023. The appeal is currently pending in the High Court.

(iii) On 30 June 2024, MBHL surrendered its assessed losses totalling Rs. 18.5 million to TBPL. These losses consist of brought forward business loss of Rs. 5.5 million for tax year 2023, business loss of Rs. 8.5 million for tax year 2024, and capital loss of Rs. 4.5 million for tax year 2024.

**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 TBPL for the tax year 2024. **(17)**

**Notes:**
- ***Ignore WWF, WPPF, minimum tax u/s 113, alternative corporate tax and default surcharge, if any.***
- ***Show all relevant exemptions, exclusions and disallowances.***
- ***All figures should be rounded to two decimal places.***

Q.2 Consider each of the following independent situations:

(i) Faraz is a resident individual who owns an apartment in Sri Lanka. His neighbour, Iqbal moved to Sri Lanka with his family to settle there at the beginning of the year, and Faraz rented his apartment to him. During the year, he received rent amounting to Rs. 2 million from Iqbal's bank account in Pakistan. **(04)**

(ii) Aslam Khan is a Pakistani citizen who has been working for a multinational group, A&Z, in its foreign office for many years. A&Z does not have any legal and business presence in Pakistan.

Due to personal commitment in Pakistan, Aslam was allowed by his employer to work from home in Pakistan from 1 January 2024 to 30 April 2024. He stayed in Pakistan for these four months only and departed from Pakistan on 1 May 2024. Salary of Aslam during his stay in Pakistan was regularly credited to his foreign bank account. **(04)**

(iii) Qalandar Limited (QL) paid a profit on debt equivalent to Rs. 6 million to a bank in the UAE in connection with a short-term loan obtained to meet the operational funding requirements of its branch in the UAE. **(03)**

**Required:**
In the light of the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, discuss the geographical source of income and the related tax consequences for each situation. Also, discuss the implications of withholding tax for the payers in each situation.

Q.3 In March 2024, the Officer Inland Revenue initiated amendment proceedings against Delta Foods (Private) Limited (DFL) for the tax year 2022. In April 2024, DFL submitted all required details and was granted an opportunity for a hearing.

Nadeem at DFL is responsible for checking the IRIS portal for notices issued by the Federal Board of Revenue (FBR). Due to his illness, he was unable to attend office during the entire month of May 2024. Upon resuming office on 3 June 2024, he checked the IRIS portal and found an assessment order along with a demand notice of Rs. 15 million. The order and demand notice had been passed and uploaded on the IRIS portal on 2 May 2024. Nadeem confirmed with DFL's dispatch department that the order had not been physically served on DFL. Furthermore, Nadeem did not receive any email correspondence from the FBR regarding the order on the email address registered with the income tax authorities.

**Required:**
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, advise on the validity of the order served to DFL, and the course of action available to DFL if it does not agree with the passed order. **(07)**

Q.4 For this question, **assume today's date is 31 December 2024**.

Silai Limited (SL) is an unlisted public company engaged in the business of manufacturing, supply, import and export of sewing machines.

SL's tax manager is currently preparing the tax return for the tax year 2024 and has compiled the following data, along with accompanying notes, for the year ended 30 June 2024, for your review:

| **Income from business:** | | **Note** | **Rs. in million** |
|---|---|---|---|
| Profit before tax | | (i), (ii) | 185.0 |
| Add/(less): Inadmissible expenses / (income) | | | |
| Salaries paid in cash (included in the cost of sales) | | (iii) | 15.0 |
| Share of income from AOP | | (iv) | 12.0 |
| Cash dividend – FTR income | | (ii) | (4.0) |
| Tax depreciation exceeding accounting depreciation | | | (3.0) |
| | **A** | | **205.0** |
| **Income from other sources:** | | | |
| Cash dividend – FTR | **B** | (ii) | 4.0 |
| **Total / taxable income for the year** | **(A+B)** | | **209.0** |
| | | | |
| **Computation of tax liability:** | | | |
| Tax on taxable income – NTR [209 @ 29%] | (a) | | 60.6 |
| | | | |
| Minimum tax u/s 113 [500 × 1.25%] | | | 6.3 |
| Minimum tax u/s 148 (imported sewing machines) | | | 4.7 |
| Total of minimum tax | (b) | | 11.0 |
| | | | |
| Alternative corporate tax [209 × 17%] | (c) | | 35.5 |
| | | | |
| The tax charged would be higher of (a), (b) or (c) above | | | 60.6 |
| Tax on dividend – FTR @ 15% | | | 0.6 |
| **Gross tax payable** | | | **61.2** |

**Notes to the computation:**

(i) The breakup of SL's sales is as under:

- Exports of locally manufactured specialized sewing machines amounting to Rs. 200 million to Sri Lanka. A tax of 1% was deducted by the authorised foreign exchange dealer from export proceeds.
- Local sales of manufactured household sewing machines amounting to Rs. 220 million.
- Local sales of imported household sewing machines amounting to Rs. 80 million. These machines, imported from Germany for Rs. 60 million, are included in the cost of sales. Additionally, an advance tax of Rs. 4.7 million was paid under section 148 on the import value of Rs. 85 million. This advance tax was accounted for as an operating expense.

(ii) Other income comprised:

- a net profit of Rs. 30 million from an associate, Qaim Limited (QL), an agriculture enterprise. SL records its earnings from associate using the equity method of accounting. During the year, SL received a cash dividend of Rs. 4 million from QL. No tax was withheld at the time of payment by QL.
- a loss of Rs. 2.5 million sustained by SL due to an unfavourable change in market conditions on a speculative derivative contract entered into to capitalize on potential price movements related to its export/import contracts.

(iii) The cash payment of salaries comprised Rs. 5 million paid to daily wage workers, each earning Rs. 900 per day, and Rs. 10 million paid to contractual employees, each receiving a monthly salary of Rs. 33,000.

(iv) On 30 June 2024, SL received Rs. 12 million as its share of income from an AOP, which had a gross turnover of Rs. 108 million. SL holds a 25% interest in the AOP. The share from AOP is not included in the profit before tax figure of Rs. 185 million.

**Required:**
Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, comment on each element of the above computation of taxable income, including adjustments, along with the accompanying notes and the tax liability computed by the tax manager for the tax year 2024. Provide suggestions where necessary. **(25)**

**Notes:**
- ***Revised computation is not required.***
- ***Ignore WWF, WPPF, default surcharge and super tax, if any.***

Q.5 (a) Bin Tariq is operating a retail store in an air-conditioned shopping mall in Islamabad. Due to unavoidable circumstances, Bin Tariq has not so far integrated his retail outlet with the FBR's computerized system for real-time reporting of its sales.

**Required:**
Under the provisions of the Sales Tax Act, 1990, briefly discuss the consequences which Bin Tariq may face under the above situation. **(04)**

(b) Prism Cement Limited (PCL), with its registered office in Lahore, is involved in the manufacturing and supply of cement, which is sold in local market and exported to various countries. The following are the details of its activities during the month of May 2024:

(i) Sold 100,000 bags of 50 kg each to a distributor in Multan at a rate of Rs. 1,250 per bag. 80% of the payment was received on 21 May 2024, and the remaining 20% was received on 5 June 2024.
(ii) Exported 50,000 bags of 50 kg each to Tanzania at a rate of Rs. 1,200 per bag.
(iii) Received 50% advance from a company in Karachi for the supply of 10,000 bags of 50 kg each at a rate of Rs. 1,300 per bag.
(iv) Sold 40,000 bags of 50 kg each to an unregistered dealer in Rawalpindi at a rate of Rs. 1,350 per bag.
(v) Paid marine insurance charges of Rs. 8 million for the exports to Tanzania.
(vi) Sold 25,000 bags of 50 kg each at the rate of Rs. 1,100 per bag to a company in the Export Processing Zone for construction of factory building.

**Additional information:**
- In April 2024, PCL did not collect federal excise duty (FED) on the sale of 30,000 bags of 50 kg each, to HN Traders. During the month of May 2024, the accountant has acknowledged his oversight on this matter.
- The retail price of a 50 kg bag is Rs. 1,400 in the market.
- PCL submits its FED return along with due payment on due date every month.

All the above figures are exclusive of FED, wherever applicable. Payments were made/received through banking channels unless mentioned otherwise.

**Required:**
Under the provisions of the Federal Excise Act, 2005 and the Rules made thereunder, compute the federal excise duty payable by or refundable to PCL for the month of May 2024. ***(Show all relevant exemptions, exclusions and disallowances)*** **(08)**

Q.6 Kagaz Limited (KL) is engaged in the business of manufacturing and supplying paper and allied products. KL is registered with the sales tax authorities as an importer, manufacturer and distributor. The following information has been extracted from KL's records for the month of May 2024:

| | Rs. in million |
|---|---|
| **Purchases** | |
| From registered suppliers | 30 |
| From unregistered suppliers | 5 |
| Imports | 3 |
| **Supplies** | |
| To registered persons | 28 |
| To unregistered persons | 4 |

**Additional information:**

(i) Purchases from registered suppliers comprise the following:
- Rs. 25.5 million paid for the purchase of raw materials used in the manufacture of paper and various allied products.
- Rs. 1.5 million paid for the semi-finished wood pulp acquired for the production of newsprint.
- Rs. 0.8 million paid for sanitary fittings. These fittings were purchased for the renovation of bathrooms in KL's waste paper recycling division.
- Rs. 1 million paid to B2B Associates, an Islamabad-based software consultant registered with the Islamabad sales tax authority, for providing consultancy regarding the linking of KL's offices across Pakistan.
- Rs. 1.2 million paid for the tyres, lift cylinders and drive axles for the two fork lifters used in KL's board building division.

(ii) Purchases from unregistered suppliers comprise cane molasses used as an additive to counteract deterioration in paper strength. These supplies were acquired from dealers in Sanghar.

(iii) Imports comprise the following:
- Rs. 1.4 million against a testing equipment, which does not fall under chapters 84 and 85 of the First Schedule to the Customs Act, 1969, imported from Italy for in-house business use in KL's printing division.
- Rs. 1.6 million paid for 2,000 pieces of 4-ply toilet paper rolls imported from China. The retail price of the toilet paper rolls is Rs. 1,150 per piece in the market.

(iv) Supplies to registered persons include:
- Rs. 2 million received from Nayab Brothers as franchise fee for operating a retail store in Hyderabad for KL's products.
- Rs. 3.4 million received for supplying virgin papers to a cup manufacturing unit located in Karachi's Export Processing Zone.
- Rs. 1.8 million received from an insurance company for the destruction of uncoated kraft papers due to a fire in KL's warehouse. These were purchased for Rs. 2.4 million from a commercial importer in March 2024.

(v) Supplies to unregistered persons include Rs. 2.1 million for the supply of printer paper to a cottage industry in Lahore. The rest of the supplies to unregistered persons, consisting of paper bags and cups, were made to the end consumers in Lahore and Multan.

**Further information (not included above):**

(i) KL purchased knives and cutting blades for paper board worth Rs. 1.3 million from Auzar (Pvt) Limited (APL), a manufacturer located in the residential area of Karachi. APL is using a commercial electricity meter and has an annual turnover of Rs. 7.5 million.

(ii) In March 2024, KL made a sale of 20,000 rolls of its one of taxable products worth Rs. 12 million to an unregistered dealer. Further tax, equivalent to 4% of the value of supplies, was also collected. In May 2024, the tax manager noted that these goods fall under the scope of the Third Schedule. At the time of the sale, the retail price for these goods was Rs. 800 per roll.

(iii) KL received a notice from the Officer Inland Revenue, requesting a sales tax payment on the distribution of tissue paper boxes of Rs. 0.5 million as promotional giveaways to new departmental stores in January 2024. The tax department, however, acknowledged KL's explanation that the lack of sales tax payment resulted from an inadvertent error on the company's part.

All the payments were made through cross cheque / pay order. All the above figures are **exclusive of sales tax**, unless specified otherwise.

**Required:**
In light of the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to KL and the amount of input tax to be carried forward, if any, for the tax period May 2024. Also, compute withholding tax, wherever applicable. ***(Show all relevant exemptions, exclusions and disallowances)*** **(21)**

Q.7 Saif Khan is the tax partner at BNS and Company, Chartered Accountants. BNS specializes in providing taxation services to the banking industry and has many banking clients. Ahmed Ali, a friend of Saif and the tax director at JPL Bank Limited, recently had a phone call with Saif. The excerpt of their phone call is as follows:

(i) In the last week of May 2024, JPL received a notice under section 176 of the Income Tax Ordinance, 2001 to provide information related to all payments made by JPL to card network companies and payment gateways during the tax year 2023.
(ii) JPL is considering appointing BNS as its tax advisor.
(iii) Ahmed asked if Saif's other banking clients had received similar notices and requested that Saif share the responses BNS had submitted. Ahmed assured Saif that the information would remain confidential.

**Required:**
In the light of ICAP's Code of Ethics for Chartered Accountants, discuss the potential threat(s) and the fundamental principles of code of ethics that may be breached by Saif in the above situation. Also, suggest corresponding safeguard(s) available to Saif to mitigate the threat(s). **(07)**

**(THE END)**