

3. Stop removal of any goods from the business premises till the full payment of tax;
4. Require any person to stop clearance of imported goods or manufactured goods;
5. Require stopping clearance from bank accounts of such person;
6. Seal the business premises till the full payment of the tax;
7. Attach and/or sell any property of the person from whom tax is due; and
8. May recover the amount from guarantor, etc., through attachment and/or sale of any property belonging to him. If he fails to make payment under guarantee, bond or instrument executed under the Sales Tax Act, 1990.

The Commissioner or any other officer shall not issue notice for recovery of any tax due if the taxpayer has filed an appeal to the Commissioner (Appeals) and the recovery has not been decided. Under this act, the taxpayer shall have to make payment of 10% of the amount of tax due.

For the purpose of recovery of tax, etc., the officer of Inland Revenue shall have the same powers as are available to a Civil Court under the Code of Civil Procedure, 1908 for the purpose of recovery of dues under the Board.

The Board or any officer authorized by the Board may write off the arrears in the manner as prescribed by the Board.

Above-discussed recovery provisions shall *mutatis mutandis* apply regarding assistance in collection and recovery of various levies in pursuance of a request from a foreign jurisdiction under a tax treaty, bilateral or multilateral convention, and inter-governmental agreement, or similar agreement or mechanism.

EXEMPTION OF TAX NOT LEVIED [6]

The Federal Government may exempt the amount of tax not paid or less paid in respect of any supply, if the following conditions are satisfied:

1. The tax was not charged or less charged inadvertently and it was a general practice in any area or in case of any supply;
2. The registered person did not recover any tax prior to the date when it was found that the supply was liable to tax; and
3. The registered person started paying the tax from the date when it was found that the supply was taxable.

In absence of such a situation it should be noted that any exemption of tax not levied or short-levied inadvertently and as a result of an incorrect understanding regarding the scope of the tax or tax in any area or in case of any supply by merely exercising the Federal Government's powers of exemption in a single transaction will not be covered by this exemption.

RECOVERY OF TAX WHERE LIQUIDATOR HAS BEEN APPOINTED [46A]

The Sales Tax Act specifies some special provisions regarding recovery of tax under such cases where liquidator has been appointed. The relevant provisions are discussed below:

1. Every person who is appointed as liquidator or who has taken possession of an asset of a person as liquidator shall give a written notice of his fact to the Commissioner within **fourteen (14) days** of his appointment or taking possession of an asset. [46A(1)]

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1. Within three (3) months from the receipt of notice from the liquidator, the Commissioner shall notify him the amount which will be sufficient to satisfy the sales tax liability of the person whose assets are in the possession of the liquidator. [46A(2)]
2. Before intimation by Commissioner as above, the liquidator shall not dispose of the assets, without permission of the Commissioner. [46A(3)]
3. Out of the sale proceeds of assets, the liquidator shall set aside the amount notified by the Commissioner. For the tax liability of the person, the liquidator shall be liable to the amount set aside by him. [46A(4)]
4. Where the liquidator fails to comply with the requirement, he will be personally liable for the amount of tax notified by the Commissioner. [46A(5)]
5. The liability of the liquidator shall be restricted up to the amount realized from the disposal of the asset. In case the sale proceeds are less than the amount of notified tax, the liquidator shall not be responsible for the excess amount of tax. [46A(6)]
6. Where in any other law there is a provision contrary to the above provisions, the provisions of the Sales Tax Act shall be effective. [46A(7)]

SUMMON FOR EVIDENCE AND DOCUMENTS [37]

Where an officer of Inland Revenue is making any inquiry for the purposes of the Sales Tax Act, 1990 he shall have the power to summon any person whose attendance is considered necessary. Such person is required to tender evidence or produce documents or any other thing necessary for inquiry.

Any person summoned as above shall be bound to attend either in person or by an authorized agent. This attendance shall be according to the directions of the Sales Tax officer. However, where a person is exempt from personal appearance in a Court u/s 132 and 133 of the Code of Civil Procedure, 1908 he cannot be required to appear in person.

Any inquiry under the Sales Tax Act shall be considered and deemed as a judicial proceeding u/s 193 and 228 of the Pakistan Penal Code, 1860.

POWER TO ARREST AND PROSECUTE [37A]

The Sales Tax Act, 1990 empowers the officers of Inland Revenue to arrest and prosecute a person who has committed the specified default. Provisions of the Act in this respect are summarized below:

1. An Assistant Commissioner or other higher rank officer may exercise the power to arrest and prosecute. Board may authorize any other officer of equal rank for this purpose.
2. The officer may cause arrest of a person only if he, on the basis of some material evidence, has reasons to believe that such person has committed a tax fraud or any offence warranting prosecution under the Sales Tax Act, 1990.
3. For the purpose of arrest, the procedure laid down in the Code of Criminal Procedure, 1898 shall be followed.
4. The Commissioner may compound the offence if the person who has committed any offence warranting prosecution under the Sales Tax Act, 1990 pays the amount of tax due along with the default surcharge and penalty. This may be done either before or after the institution of any proceedings for recovery of tax.

Synopsis of Taxes

Sales Tax - Refunds & Recoveries

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5. Where the person suspected of tax fraud or any offence warranting prosecution under the Sales Tax Act, 1990 is a company then every director or officer of the company, who, as per the officer of Inland Revenue, is personally responsible for such actions of the company shall be liable to arrest.

It is to be noted that arrest of an officer of the company does not absolve it from its tax liabilities under the Sales Tax Act.

PROCEDURE ON ARREST OF A PERSON [37B]

Where an authorized officer of Inland Revenue has arrested a person under the Sales Tax Act, he will have to follow the following procedure after the arrest:

1. Immediate after arrest of a person, the officer shall intimate this fact to the Special Judge.
2. The Special Judge may direct the officer to produce the arrested person at such time and place and on such date as directed by him.
3. Any person arrested under the Sales Tax Act must be produced before the Special Judge or to the nearest Judicial Magistrate (if there is no Special Judge within a reasonable distance) within twenty-four (24) hours of arrest. An additional time necessary for the journey from the place of arrest to the Court shall be allowed.
4. The Special Judge may admit the arrested person to bail or refuse to admit him to bail and direct his detention at the specified place. Granting bail shall be on the request of the arrested person and after perusing the record and hearing the prosecution.
5. The Special Judge may cancel the bail at any time and generally after providing an opportunity of being heard to the concerned person.
6. Where person has been presented before the Judicial Magistrate, the Magistrate may authorize the custody of such person and fix the time and date of producing before the Special Judge.
7. The Special Judge or the Judicial Magistrate may remand the arrested person to the custody of officer of Inland Revenue for inquiry and investigation. However, the remand should not be granted for more than fourteen (14) days.
8. On arrest of a person the officer of Inland Revenue shall record this fact and other particulars in the "Register of Arrests and Detentions".
9. The Register of Arrests and Detentions shall contain the following information:
 - (a) The name and particulars of every arrested person;
 - (b) The time and date of arrest;
 - (c) The details of information: rorcer ;d;
 - (d) The details of things, goods or documents recovered from his custody;
 - (e) The name of witness and the explanation, if any, given by him; and
 - (f) The manner in which inquiry has been conducted from day to day.

10. The officer of Inland Revenue may hold inquiry from the arrested person. For this purpose he shall have the same powers as are available to him to officer in charge of a police station under the Code of Criminal Procedure, 1898.

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11. Where after inquiry, the officer of Inland Revenue is of the opinion that there is no sufficient evidence and reasonable grounds for suspicion against the arrested person, he may release him on executing a bond. Under this case the officer shall either:
 - i) Make a report to the Special Judge for discharge of the person; and
 - ii) Make a full report of the case to his immediate superior.
12. On receipt of the above referred report the Special Judge may agree with the report and discharge the accused. Otherwise he may proceed with his trial and direct the prosecution to produce evidence in the case.
13. The officer of Inland Revenue after completing the inquiry shall submit a complaint to the Special Judge for prosecuting the accused person.
14. Any statement or confession during inquiry may be recorded by any Magistrate of first class.
15. The FBR, with the approval of the Federal Minister-in-charge, may authorize any officer of Board to exercise powers and perform functions of the officer of Inland Revenue regarding arrest and prosecution.

ACCESS TO PREMISES, STOCKS AND RECORDS [38]

For the purpose of inquiry or investigation under the Sales Tax Act, 1990 an officer authorized by the Board shall have the following rights and powers:

1. He shall have free access, including real-time electronic access, to any place where any stocks or records are kept or maintained by or on behalf of a registered person or a person who is liable to be registered.
2. He may at any time inspect the goods, stocks, records, data, document, correspondence, accounts and statements, utility bills, bank statements, information regarding nature and source of funds or assets with which the business is financed.
3. He may inspect any other records and documents required to be maintained under any law.

4. He may take into his custody above-referred records and documents in original or copy thereof against a signed receipt issued by him.

The registered person or any person having the custody of records and information about the subject matter shall be bound to answer any question asked by the authorized officer. He shall also have to furnish the required information and explanation.

The jurisdiction of the authorized officer has been spread over to almost all institutions. All government departments, local bodies, autonomous bodies and corporations are bound to supply requisite information and tender necessary assistance to the authorized officer during his inquiry and investigation.

The FBR may make rules relating to electronic real-time access for audit or a survey of persons liable to tax.

REPAYMENT OF TAX ON CERTAIN GOODS [61]

The Board may authorize the repayment of any tax or a part of the tax paid on any specified goods which have been used in the production, manufacture, processing, repair or refitting in Pakistan of certain specified goods.

While authorizing such repayment, the Board may impose certain conditions, limitations or restriction.

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DRAWBACK

Drawback is the repayment of indirect taxes (such as customs duty, excise duty, sales tax, etc.) on certain goods to an exporter who has already paid the duties and taxes at the time of import of such goods or a component used in manufacture of such goods.

The Sales Tax Act provides for the drawback of sales tax paid at the time of import of such goods which have been re-exported. The provisions of the law are summarized below.

Drawback Allowable [62]

An amount equal to seven-eighth of the sales tax paid at the time of import of such goods into Pakistan which have been re-exported shall be repaid as drawback to the exporter. For this purpose the following conditions are to be fulfilled:

1. The exported goods are capable of being identified as such goods, which were imported, and sales tax was paid thereon.

2. The goods have been re-exported within two (2) years from the date of importation. The Board, on sufficient cause shown to it, may extend this period upto further one (1) year.
3. The provisions of Customs Act, 1969 regarding drawback of customs duties shall apply to the drawback of sales tax.

Drawback of Goods Taken into Use Between Importation and Re-Exportation [63]

Where the goods have been taken into use between importation and re-exportation, the drawback of sales tax on such goods shall be subject to such conditions and limitations as may be imposed by Board. The Board may:

1. Modify the amount of tax, which shall be repaid as drawback;
2. Prohibit the repayment of tax as drawback;
3. Vary the conditions for grant of drawback; and/or
4. Restrict the period after importation within which the goods must be re-exported.

Prohibition of Drawback [64]

The Federal Government may prohibit the payment of drawback on the export of all goods or any specified goods to any specified port or territory.

By exercising the above referred power, the Federal Government (vide S.R.O. 1231(I) dated 01-12-1990) prohibited the payment of drawback upon exportation of such cigarettes as are exported from Pakistan to any port or territory by land route to Afghanistan, Iran or China.

ANNEXURE

[Chapter-V of the Sales Tax Rules, 2006]

REFUND

26. Application.—

(1) This chapter shall apply to all refund claims filed by—

(a) registered manufacturer-~~cum~~-exporters and commercial exporters who zero rate all or part of their supplies under section 4 of the Act, excluding the claims referred to in Chapter VA;

(b) registered persons who acquire tax paid inputs for use thereof in the manufacture of goods chargeable to sales tax at the rate of zero percent under the Act or a notification issued there - under ;

(c) registered persons claiming refund of the excess amount of input tax as referred to in sub - section (2) of section 8B and first proviso to section 10 of the Act (d) registered persons who acquire tax paid inputs used in the export of goods , local supply of which is exempt under the Act or any notification issued there - under ;

(e) persons claiming refund of sales tax under section 66 of the Act , and (f) diplomats , diplomatic missions and privileged persons and organizations who purchase goods or services on payment of tax and are otherwise entitled to receive zero - rated supply as provided under Chapter VIII of these rules .

(2) The provisions of this chapter shall apply , mutatis mutandis , to refund of federal excise duty payable in sales tax mode under the Federal Excise Act , 2005 .

27. Establishment of CSTRO , Refund Division and posting of officers.-

(1) There shall be established a CSTRO under the Federal Board of Revenue for centralized payment of all refund amounts as due under the Act .

(2) There shall be established a Refund Division , headed by an officer , not below the rank of Assistant Commissioner , hereinafter referred to as officer - in - charge , duly supported by audit staff referred to as processing officers , to examine , process and settle the refund claims filed under these rules ..

(3) There shall be established a Post Refund Division in each RTO or LTU headed by an officer not below the rank of an Assistant Commissioner to audit the refund claims processed and sanctioned by the Refund Division .

28. Filing and processing of refund claim.-

(1) For all the refund claims under section 10 and 88 of the Act , for the tax period July , 2019 and onwards , the data provided in the monthly return shall be treated as data in support of refund claim and no separate electronic data shall be required . The amount specified in column 29 of the return , as prescribed in the form STR - 7 , shall be considered as amount claimed for the purposes of claim under section 10 of the Act , once the return has been submitted along with all prescribed annexures thereof :

Provided that , in case of claims arising from zero - rated supplies including exports , the claimant shall be able to submit his return without Annex H and the same may be filed separately at any time but not later than one hundred and twenty days of submission of the

return without Annex - H . The date of submission of Annex - H shall be considered as the date of filing of refund claim . In other cases of refund , the date of submission of form STR - 7A shall be considered as date of submission of refund claim and the same shall be filed within one hundred and twenty days of submission of relevant return :

Provided further that in case of a commercial exporter , the claim shall be filed in the aforesaid manner within one hundred and twenty days , either after submission of the return without Annex - H , or after the date of issuance of BCA , whichever is later :

Provided also that the period of one hundred and twenty days , as aforesaid , may be extended for a period not more than sixty days , by the Commissioner having jurisdiction , if the claimant so requests , thereby providing reasons justifying the delay in submission of claim :

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Provided also that if a claimant is registered as commercial exporter and exporting same state goods , the period of one hundred and eighty days shall be reckoned from date of filing of return or the date of issuance of BCA , whichever is later .

(2) The registered person claiming refund in the aforesaid manner shall maintain and keep all the paper documents relating to the refund claim , such as invoices , credit notes , debit notes , goods declarations , bank credit advice , banking instruments etc. in his office and may not submit the same along with the refund to the concerned Regional Tax Office or Large Taxpayers ' Unit . The same shall be presented to the said offices if so required by the officer - in - charge for processing of the refund claim or post - refund scrutiny .

29. Risk management system (RMS) .-

(1) After submission of refund claim , in the aforesaid manner , the same shall be processed by Risk Management System (RMS) of FBR's Computerized System . Based on the parameters in RMS , a refund claim shall be routed to any of the following three channels as described below , namely : -

(a) Fully Automated Sales tax e - Refund System (FASTER) , The provisions related to this channel are prescribed in Chapter V - A

(b) Expeditious Refund System (ERS) , The claims filed by the manufacturer - cum- exporters under section 10 of the Act that do not fulfil parameters of FASTER channel and the same are

considered as involving medium risk by RMS shall be routed to ERS . The RPO for verified amount shall be generated and forwarded to CSTRO for payment .

(c) Sales Tax Automated Refund Repository (STARR) , The claims that do not fulfil criteria for both FASTER and ERS channels shall be processed through STARR in the manner as provided in rule 29 .

(2) For the refund claims processed through FASTER or ERS , the part of the refund claim that is not verified or not found admissible shall be subjected to system validation checks every week and PRO shall be generated for the amount found valid during each validation check . After every validation process , the information regarding PRO generated , if any , as well as the objections shall be communicated by the system to the refund claimant and also to the concerned RTO or LTU for information . PRO so generated shall be communicated to the State Bank of Pakistan for payment in the aforesaid manner . After eight validation checks , including the initial one , if any amount still remains un - cleared , the same shall then be processed under STARR channel ...

30. Processing through STARR channel.-

(1) For the claims or part of claims , as routed to STARR channel , the Computerized System shall cross match the data on soft copy with the data available in the system and process the claim by applying the risk parameters and generate analysis report indicating the admissible amount as well as the amount not validated along - with the objections raised by the system .

(2) The processing officer shall forward the claim file along - with the analysis report referred to in sub - rule (2) to the officer - in - charge for further necessary action along with his recommendations .

(3) Where the Processing Officer or the officer - in - charge is of the opinion that any further inquiry or audit is required in respect of amount not cleared by the STARR channel or for t any other reason to establish genuineness and admissibility of the claim , he may

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make or cause to be made such inquiry or audit as deemed appropriate , after seeking approval from the concerned Additional Commissioner and inform the refund claimant accordingly .

(4) On receipt of analysis Report and refund payment order for the amount verified by the system and found admissible by the processing officer , the officer - in - charge shall sanction

the amount so determined and issue the Refund Payment Order (RPO) electronically as well as a paper copy thereof to be signed and kept in record ..

(5) The RPO shall be electronically forwarded to CSTRO for payment . 31. Payment by CSTRO.-

(1) For RPOs , received electronically , through ERS or STARR channels , the officer - in- charge of CSTRO and the treasury officer in CSTRO , as designated by the Board , shall sign the crossed cheque in favour of the claimant as signatory and co - signatory . CSTRO shall issue the cheque for the sanctions amount as mentioned in the RPO and shall mail the same through courier to the registered address of the claimant .

(2) The CSTRO shall also prepare a statement of payment advice of all cheques , for each day on which a cheque or cheques are issued , indicating the declared bank account of the claimant and the same shall be sent to the State Bank of Pakistan duly signed by the signatory and co - signatory .

(3) Where any cheque is returned back by the State Bank of Pakistan or the claimant due to any reason , the treasury officer shall cancel such cheque , if required , and attach such cancelled cheque with the respective counter - foil of the cheque - book .

(4) In lieu of procedure stated in sub - rules (1) to (3) above , the CSTRO may electronically transfer the details of approved RPO or RPOs to State Bank of Pakistan for direct credit to the declared bank account of the claimant and intimation of such advice shall be given to the claimant . Further a claimant - wise bank advice duly signed by the signatory and co - signatory indicating the amount payable and the declared bank account of the claimant shall also be sent to the State Bank of Pakistan

32. Omitted by SRO 918 (I) / 2019 , dated , 07-08-2019 .

33. Extent of payment of refund claim . Refund in respect of goods exported or supplied at zero - rate shall be paid to the extent of the input tax paid on purchases or imports that are actually consumed in such goods as exported or supplied , both in respect of claim by a manufacturer - cum- exporter or a commercial exporter .

34. Refund of excess input tax not relating to zero - rated supplies.-

(1) The refund of excess unadjusted input tax relating to supplies other than zero - rated shall be claimed and sanctioned in the cases mentioned below , namely : -

(a) the gas transmission and distribution companies , manufacturers of fertilizers , cotton ginners , electric power producers and electric power distribution companies may claim refund of excess input tax over output tax in any tax period ;

(b) Omitted by SRO 918 (1) / 2019

(c) registered persons who are not able to adjust input tax in excess of 90 % of output tax in view of restriction in section BB of the Act , may file refund claim as under , -

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in case of registered persons whose accounts are subject to audit under the Companies Ordinance , 1984 , after the end of their accounting year ;

and

(ii) in case of other registered persons , after the end of financial year , (d) all other registered persons , not covered by clauses (a) to (c) above , may claim refund of excess input tax , if the same is not adjusted within a minimum consecutive period of twelve months :

Provided that the amount of refund claim in all such cases shall not exceed the excess of total input tax over the total output tax , as declared in the relevant returns , for the period in respect of which the claim has been filed and shall not include any excess input tax declared prior to the said period .

(2) The registered person , after submission of return in which refund is claimed , shall file refund claim electronically in the form STR - 7A , within the period as specified in rule 28 :
Provided that , if applicable , a statement along with annual audited accounts as envisaged in clause (i) of sub - section (2) of section BB of the Act shall also be uploaded

(3) The refund of excess input tax under this rule shall be processed , sanctioned and paid in the manner as provided in rules 29 and 30 .

(4) The refund of excess input tax provided in clauses (c) and (d) of sub - rule (1) , excluding the cases of claims by registered persons , whose accounts are subject to audit under the Companies Act , 2017 (XIX of 2019) , as referred to in section (2) of section 8B of the Act , shall be sanctioned as found admissible after a departmental audit of records maintained by the registered person and after a certificate is recorded by the Inland Revenue officers auditing the records that actual value addition during the period involved was not found sufficient to require a net payment of tax for the reasons mentioned in the audit report

Provided that in case of refund claim falling in clause (b) of sub - rule (1) , post - refund audit shall be conducted after the close of financial year and the auditors shall report on the aspect of value addition in their audit report .

(5) The refund claimant shall ensure that the input tax involved in the refund claim is not shown as outstanding credit in the returns for the tax periods subsequent to the period of claim

.

(6) The refund of excess input tax under this rule shall not be claimed where the same has already been claimed or paid under any other notification issued by the Federal Government or the Board .

34A . Sanction of refund claims of import - related sales tax by the collectorates of customs.- (1) Sales Tax refund filed by an importer for import - related sales tax paid in excess due to inadvertence , error or misconception , or as result of a competent adjudication or appellate authority , claimed within the period as prescribed under section 66 of the Act , may be decided and allowed by the concerned officer of Customs , not below the rank of an Assistant Collector subject to sub - rules (2) and (3) below .

(2) In the case of registered person while applying for refund to the concerned Customs Collectorate , the applicant must endorse a copy of the refund application to the Refund Division of the concerned RTO or LTU . The concerned Collectorate of Customs shall not process the claim unless a confirmation from such inland Revenue officer , that no

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adjustment or payment of the amount claimed in refund has been made , has been received . The concerned RTO or LTU on receipt of a reference from Collectorate of Customs shall communicate such confirmation , or otherwise , within thirty days of receipt of the reference .

(3) In case of an unregistered importer , the refund shall be processed by the concerned Customs Collectorate without prior reference to RTO or LTU .

(4) The sales tax refund files after issuance of refund payment order by the relevant Customs officer shall be sent through proper channel , in the case of registered person to the RTO or LTU concerned , and in the case of unregistered person to the nearest RTO where the customs station is located . The refund sanctioning authority of the Customs Collectorate shall mention the number and date , etc. , of RTO's or LTU's confirmation of regarding non - adjustment of tax involved or non - payment of refund , if applicable , in his sanction order .

(5) On receipt of such sanction order from Customs Collectorate by the concerned officer- in - charge in RTO or LTU , he shall make the entry of the sanction order in the Computerized System , and after obtaining permission of the Commissioner concerned , generate RPO of the

sanctioned amount for electronic transmission to CSTRO . The amount of such sales tax refund shall be debited from the head of sales tax (on imports) .

35. Responsibility of the claimant.-

The automated processing of refund claims shall be conducted on the basis of supportive documents , if required , and data on prescribed electronic format provided by the claimant . The claimant shall be responsible for any mis - declaration or submission of incorrect information and shall be liable for penal action besides recovery of the amount erroneously refunded along with default surcharge under the relevant provisions of the Act .

36. Post - sanction audit of refund claims.-

(1) After disposing of the refund claim , the officer In - charge shall forward the relevant file to the Post Refund Audit Division for post - sanction audit and scrutiny , which shall , inter alia , include verification of input tax payment by respective suppliers and compliance of section 73 of the Act ,

Provided that scrutiny of the refund claims processed or sanctioned after the 30th June , 2014 shall be carried out on the basis of risk - based selection through computerized Post Refund Scrutiny (PRS) ;

Provided further that where the Commissioner Inland Revenue has reasons to believe , on the basis of some information , pre - determined criteria or otherwise , that a registered person , whose refund claim was processed or sanctioned after the 30th June , 2014 , has been paid refund which was not admissible , he may direct through order in writing to conduct manual post - refund scrutiny of such claim .

(2) The officer in - charge of Post Refund Audit Division shall send his findings to the concerned Refund Division for further necessary action , as required under the law .

17. Action on inadmissible claims.-

Where the claim or any part thereof is found inadmissible or unverified , the officer in - charge shall , at the time of issuing RPO , issue a notice requiring the claimant to show cause as to

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why the claim or as the case may be , part thereof should not be rejected and as to why the claimant should not be proceeded against under the relevant provisions of the Act .

38. Supportive documents.-

(1) In case of refund claim processed through STARR channel , the claimant shall provide any or all of the following supportive documents , as the officer - in - charge may require , namely : -

(a) Input tax invoices or as the case may be , goods declaration for import in respect of which refund is being claimed ;

(b) output tax invoices and summary of invoices for local zero - rated goods ; (c) goods declaration for export ;

(d) copy of House and Master bill of lading and airway bill or as the case may be , railway receipt in token of verification of the goods taken out of Pakistan ; and

(e) any other statement as deemed necessary for processing of the refund claim .

(2) In addition to the documents specified in sub - rule (1) , a commercial exporter shall submit bank credit advice issued by the concerned bank and copy of the duty drawback order , if issued by the customs authorities .

(3) Where the refund claim is filed under section 66 of the Act , the claimant shall submit an application for refund indicating his name , address , National Tax Number , the amount of sales tax refund claimed and reasons for seeking such refund along - with following documents , namely : -

(a) input tax invoices in respect of which refund is claimed ;

(b) proof of payment of input tax claimed as refund , and

(c) copy of the relevant order on the basis of which refund is claimed .

(4) The refund claimed under section 66 of the Act shall be sanctioned after verifying that no adjustment or refund of input tax has been claimed earlier and that the goods have been duly accounted for in the inventory records and the invoices claimed are validated by the STRIVE .

(5) In case of claims by diplomats , diplomatic missions and privileged persons and organizations , they shall submit original exemption order or certificate or CBR Booklet as referred to in Chapter VIII and original sales tax invoice . The refund shall be sanctioned after making necessary endorsements on these documents to the effect that the refund has been paid against the same .

39. Miscellaneous and savings.-

(1) In cases where refund has been found to have been paid in excess of the amount due , such excess paid refund shall be recovered along with default surcharge besides any other penal action that may be taken under the Act

(2) The refund claims of a registered person , who is found to have committed tax fraud , shall be finalized after detailed scrutiny of all partners in the supply chain to establish the forward and backward linkages and after verifying input tax payment by them .

(3) The refund calims based on the returns for the tax period June , 2019 , and earlier , shall be processed and sanctioned in accordance with the provisions of this Chapter as were in force on the 30th June , 2019 .

(4) Omitted by SRO 918 (1) / 2019 , dated 07-08-2019

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39A . Omitted by SRO 918 (1) / 2019 , dated 07-08-2019

Chapter V - A

REFUND TO FIVE EXPORT - ORIENTED SECTORS

39B . Application.-

(1) This Chapter shall apply to refund claims for the tax period July , 2019 , and onwards , as filed by the exporters of five export - oriented sectors namely textile , carpets , leather , sports goods and surgical instruments on account of export of goods

(2) The refund claims of aforesaid claimants for the tax periods prior to July , 2019 , shall be processed in accordance with the provisions of Chapter - V as were in force on 30th June , 2019

39C . Extent of payment of refund claim.-

The total amount of refund paid against the claims filed and processed under this Chapter shall not exceed the lower of two amounts , namely , the amount of input tax actually

consumed in goods as exported or supplied at zero - rated rate , or the , amount as per ceiling , if any , determined by the Board , in terms of percentage of value , or amount per unit of quantity , of goods exported , as deemed appropriate .

39D . Filing and Processing of refund claims.-

The data provided in the monthly return shall be treated as data in support of refund claim and no separate electronic data shall be required to be provided . The amount specified in column 29 of the return , as prescribed in the form STR - 7 , shall be considered as amount claimed , once the return has been submitted along with all prescribed annexes thereof .

Provided that the claimant will be able to submit his return without Annex - H and the same may be filed separately at any time but not later than one hundred and twenty days of submission of the return without Annex - H . The date of submission of Annex - H shall be considered as the date of filing of refund claim .

Provided further that the period of one hundred and twenty days , as aforesaid , may be extended for a period not exceeding sixty days , by the Commissioner having jurisdiction , for reasons to be recorded in writing on the basis of an application made by the claimant .

39E . Risk management in refund processing.-

After submission of refund claim , in the aforesaid manner , the same shall be processed by Risk Management System (RMS) . Based on the parameters in RMS , a refund claim shall be routed to the processing module referred to as Fully Automated Sales Tax e - Refund (FASTER) . The claims that do not fulfil RMS parameters for processing through FASTER module shall be routed for processing under Chapter V

39F . Processing in FASTER module.-

The claims routed to FASTER module shall be electronically processed . The data in the refund claim shall be scrutinized and verified by the system and the payable refund amount

shall be determined on the basis of input consumed in exports or supplies . The refund payment order (RPO) of the amount found admissible shall be generated and the same shall
Synopsis of Taxes Sales Tax Refunds & Recoveries . [35-573]
hours of submission of claim , for onward advice to the respective banks for credit into the notified account of the claimant :

Provided that in case of refund claim of a commercial exporter , the payment of such refund shall be made after the realization of export proceeds :

Provided further that the part of the refund claim that is not verified or not found admissible shall be subjected to system validation checks every week and RPO shall be generated for the amount found valid during each validation check . After every validation process , the information regarding RPO generated , if any , as well as the objections shall be communicated by the system to the refund claimant and also to the concerned RTO or LTU for information . RPO so generated shall be communicated to the State Bank of Pakistan for payment in the aforesaid manner . After eight validation checks , including the initial one , if any amount still remains un - cleared , the same shall then be processed under STARR module as referred to in Chapter V.

39G . Miscellaneous.-

The provisions relating to transmission of bank advice to State Bank , post - refund scrutiny , supportive documents , responsibility of claimants and action in respect of inadmissible claims , as in Chapter V , shall , mutatis mutandis , be applicable to refund claims filed and processed under this Chapter :

Provided , however , that supportive documents shall only be presented by the claimant , if so required by the officer in - charge of post - refund scrutiny , with the approval of Commissioner

concerned .

Synopsis of Taxes

Sales Tax - Schedules

[35-574]

CHAPTER - 35B

SCHEDULES TO THE SALES TAX ACT , 1990

THE FIRST SCHEDULE

[See Clause (a) of Sub - Section (2) of Section 3]

Omitted vide Finance Supplementary (Amendment) Act , 1997

With Effect from March 28 , 1997

THE SECOND SCHEDULE

[See Clause (b) of Sub - Section (2) of Section 3]

Omitted vide Finance Supplementary (Amendment) Act , 1997

With Effect from March 28 , 1997

THE THIRD SCHEDULE

[See [clause (a)] of sub - section (2) of section 3]

Heading Nos . of the First

Schedule to the Customs

Act , 1969 (IV of 1969)

Serial Description

No.

(1) (2) (3)

1 . Fruit juices and vegetable juices 20.09

2 Ice Cream 2105.0000

3 . Aerated waters or beverages . 22.01 and 20.02

4 . Syrups and squashes Respective headings

5 . Cigarettes 2402.2000

6 . Toilet and laundry soap 3401.1100 and 3401. 2000 .

7 . Detergents Respective heading

8 . Shampoo 3305.1000

9 . Toothpaste 3306.1010

10 . Shaving cream 3307.1000

11 . Perfumery and cosmetics Respective sub - headings of 33.03 & 33.04 .

14 . Tea Respective sub - headings of 09.02

15. Powder drinks 21.06

16. Milky drinks 2106.9090

17 . Toilet paper and tissue paper 4818.1000 and 4818.2000

18 . Spices sold in retail packing bearing brand 09.04 , 09.06 , 09.08 and names and trade marks

synopsis of Taxes

Sales Tax - Schedules

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21 . Shoe polish and shoe cream 3405.1010 .

33 . Cement sold in retail packing Respective headings .

37 . Mineral / bottled water Respective headings .

38 . Household electrical goods , including air Respective headings

conditioners , refrigerators , deep freezers ,

televisions , recorders and players , electric bulbs ,

tube - lights , electric fans , electric irons , washing

machines and telephone sets

39 . Household gas appliances , including cooking Respective headings range , ovens , geysers and gas heaters .

40 . Foam or spring mattresses and other foam Respective headings products for household use .

41 . Paints , distempers , enamels , pigments , colours , Respective headings varnishes , gums , resins , dyes , glazes , thinners , blacks , cellulose lacquers and polishes sold in retail packing

42 Lubricating oils , brake fluids , transmission fluid , Respective headings and other vehicular fluids sold in retail packing .

43 . Storage batteries excluding those sold to Respective headings

automotive manufacturers or assemblers

44 Tyres and tubes excluding those sold to Respective headings automotive manufacturers or assemblers

45 . Motorcycles Respective headings

46 . Auto rickshaws Respective headings

47. Biscuits in retail packing with brand name Respective headings

48 Tiles Respective headings

49 Auto - parts , in retail packing , excluding those Respective headings sold to automotive manufacturers or assemblers

51. DAP Respective headings

THE FOURTH SCHEDULE

Synopsis of Taxes

Sales Tax - Schedules

[35-5761

THE FIFTH SCHEDULE

(See Section 4]

Serial #	Description
(1)	(2)
2 .	Supply to diplomats , diplomatic missions , privileged persons and privileged organizations which are covered under various Acts , Orders , Rules , Regulations and Agreements passed by the Parliament or issued or agreed by the Government of Pakistan .
5	Supplies of raw materials , components and goods for further manufacture of goods in the Export Processing Zone .
7 .	Supplies made to exporters under the Duty and Tax Remission Rules , 2001 subject to the observance of procedures , restrictions and conditions prescribed therein .
8	Imports or supplies made to Gawadar Special Economic Zone , excluding vehicles falling under heading 87.02 of the Pakistan Customs Tariff , subject to such conditions , limitations and restrictions as the Federal Board of Revenue may impose .
BA	Imports or
supplies made by , for or to a qualified investment as specified	
at Serial No.1 of the First Schedule to the Foreign Investment (Promotion	
and Protection) Act , 2022 for the period as specified in the Secondi	

Schedule to the said Act .

12 The following goods and the raw materials , packing materials , sub-components , components , sub - assemblies and assemblies imported or purchased locally for the manufacture of the said goods , subject to the conditions , limitations and restrictions as prescribed by the Board : -

(xxiii) Exercise books (PCT heading 4820.2000)

(xxiv) Pencil sharpeners (PCT heading 8214.1000)

(xxv) Other drawing , marking out or mathematical calculating instruments

(geometry box) (PCT heading 9017.2000)

(xxvi) Pens , ball pens , markers and porous tipped pens (PCT heading 96.08)

(xxvii) Pencils including color pencils (PCT heading 96.09) .

13 . Supplies of raw materials , components and goods for further manufacture of goods in the Gwadar Free Zone and export thereof , provided that in case of supply to tariff area of Pakistan , tax shall be charged on the value assessed on the Goods Declaration for import .

14 Supplies of locally manufactured plant and machinery of the following

specifications , to manufacturers in the Gwadar Free Zone , subject to the conditions , restrictions and procedure given below , namely : -

(1) plant and machinery , operated by power of any description , as is used for the manufacture or production of goods by that manufacturer .

Synopsis of Taxes

Sales Tax - Schedules

[35-577]

for use in conjunction with the machinery specified in clause (i) , mechanical and electrical control and transmission gear , meant or adapted for use in conjunction with machinery specified in clause (i) .

(iv) parts of machinery as specified in clauses (i) , (ii) and (iii) , identifiable

(III)

for use in or with such machinery .

Conditions , restrictions and procedures : -

(a) the supplier of the machinery is registered under the Act : proper bill of export is filed showing registration number ,

(b)

(c) the purchaser of the machinery is an established manufacturer located in the Gwadar Free Zone and holds a certificate from the Gwadar Port Authority to that effect ;

(d) the purchaser submits an indemnity bond in proper form to the satisfaction of the concerned Commissioner Inland Revenue that the machinery shall , without prior permission from the said Commissioner , not be sold , transferred or otherwise moved out of the Gwadar Free Zone before a period of five years from the date of entry into the Zone ; if the machinery is brought to tariff area of Pakistan outside Gwadar Free Zone , sales tax shall be charged on the value assessed on the Goods Declaration for import ; and

(e)

(f) breach of any of the conditions specified herein shall attract legal action under the relevant provisions of the Act , besides recovery of the amount of sales tax along with default surcharge and penalties involved .

20 . Petroleum Crude Oil (PCT heading 2709.0000) .

THE SEVENTH SCHEDULE

Omitted by Finance Act , 1997 .

Earlier it was inserted by Sales Tax (Second Amendment) Ordinance , 1996 .

THE NINTH SCHEDULE

[See sub - section (3B) of section 3]

Table -1

Sales Tax on supply (payable at the time of supply by CMOs) :

S. No.	Description / Specification of Goods
Sales tax on supply (payable at	
the time of supply by CMOs)	

(1)

(2)

(3)

1 .	Subscriber Identification Module (SIM) Cards
Rs . 250	

Provided that the provisions of Table - I shall not be applicable from 1st July , 2020 onwards .
 Explanation . For removal of doubt , it is clarified that the above amendment in law shall not
 prejudicially affect , the Board's stance or position in pending cases on the issue of chargeability
 of sales tax on SIM cards before any court of law .

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 uploaded ("image_114a76.png"):

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Table - I1

Cellular mobile phones in CKD / CBU form :

Sales tax on	Sales tax on
CBUs at the	

time of
import or
registration
(IMEI
number by
CMOS)

Sales tax on import In CKD / SKD in addition to tax under column (4)	supply of locally manufactured mobile phones in CBU condition
---	--

Description / Specification of

S. No.	Goods
--------	-------

condition

(1)		(2)
(3)	(4)	(5)
1		

Cellular mobile phones of
satellite phones to be charged

on the basis of import value
per set , or equivalent value in
rupees in case of supply by the
manufacturer , at the rate as
indicated against each
category -

A. Not exceeding US \$ 500	18 % ad
18 % ad 18 % ad valorem	
valorem	

valorem

B. Exceeding US \$ 500	25 % ad
18 % ad 18 % ad valorem)	
valorem	valorem

LIABILITY , PROCEDURE AND CONDITIONS

0 The liability to pay the tax on the goods specified in this Schedule shall be-

(a) in case of the goor's specified in Table - 1 , of the Cellular Mobile Operator (CMO) ;
in case of goods specified in columns (3) and (4) of Table - II , of the importer , and
in case of goods specified in column (5) of Table - II , of the local manufacturers of
the goods .

(b)

(c)

(6) The time of payment of tax due under this Schedule shall be the same as specified in section 6 :

The following schedules are discussed in the book at appropriate places :

THE TENTH SCHEDULE

THE ELEVENTH SCHEDULE

THE TWELFTH SCHEDULE

THE THIRTEENTH SCHEDULE

The following schedules , being too lengthy , are not included in this part of book . The readers , if feel necessity , may refer to the original statute :

THE SIXTH SCHEDULE

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CHAPTER - 36

INTRODUCTION

BASIC CONCEPTS

BRIEF INTRODUCTION

The Federal Excise Act , 2005 (FEA) was enacted as " The First Schedule to the Finance Act , 2005. It was published in the Gazette of Pakistan on July 01 , 2005 at pages bearing No. 216

through 252. It was enacted to consolidate and amend the law relating to duties of excise on goods manufactured , produced , imported or consumed and services provided or rendered in Pakistan . The Federal Excise Act , 2005 , being part of the Finance Act , 2005 was assented on 29th June , 2005 and came into force on 01 July , 2005. [1]

Prior to the promulgation of the Federal Excise Act , 2005 , the Central Excises Act , 1944 was the law regulating the duties of excise in Pakistan . That Act was been repealed by section 2 of the Finance Act , 2005 and has been substituted by the Federal Excise Act , 2005 .

DEFINITIONS [2]

ADJUDICATING AUTHORITY [2 (1)]

' Adjudicating authority ' means any authority competent to pass any order or make any decision under the FEA or the rules made thereunder . However , the following authorities are not included in adjudicating authority :

- 1 . The Federal Board of Revenue ; and
- 2 . Appellate Tribunal .

ADJUSTMENT [2 (2)]

' Adjustment ' is the deduction of amount of duty paid on goods used in the manufacture or production of other goods from the amount of duty payable on such other goods . The adjustment shall be made in the manner prescribed by the FBR .

APPELLATE TRIBUNAL [2 (3)]

' Appellate Tribunal ' means the Appellate Tribunal Inland Revenue constituted u / s 130 of the Income Tax Ordinance , 2001 .

BOARD (FBR) (2 (4) of FEA & 2 (8) of ITO]

" Board " means the FBR established u / s 3 of the Federal Board of Revenue Act , 2007. It includes a Member of the FBR to whom its powers have been delegated u / s 8 of the Federal Board of Revenue Act , 2007 .

CHIEF COMMISSIONER [2 (4A)]

' Chief Commissioner ' means a person appointed as Chief Commissioner Inland Revenue u / s 29 of the FEA .

COMMISSIONER [2 (5)]

' Commissioner ' means a person appointed as Commissioner Inland Revenue u / s 29 of the FEA .

Is there any other page you need the text for?

Synopsis of Taxes

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[36-580]

CONVEYANCE [2 (6)]

' Conveyance ' denotes any means of transport used for carrying goods or passengers such as vessel , aircraft , vehicle or animal , etc.

DEFAULT SURCHARGE [2 (7)]

' Default surcharge ' means a surcharge levied u / s 8 of the FEA . According to section 8 , if a person fails to pay the duty within the prescribed time he shall be liable to pay default surcharge at the rate which is higher of 12 % p.a. or KIBOR + 3 % p.a. of the duty due , refund of duty or draw back .

DISTRIBUTOR [2 (8)]

It means a person appointed by the manufacturer , for a specified area , to purchase excisable goods from him for sale to a wholesale dealer in that area .

DUE DATE [2 (8a)]

In relation to furnishing a return as required u / s 4 of the FEA , ' due date ' means the 15th day of the month following the end of the month . The FBR may notify some other date as ' due date ' . For this purpose it shall issue a notification in the official Gazette and different dates may be specified for furnishing of different parts or annexures of the return .

DUTIABLE GOODS [2 (86)]

' Dutiable goods ' means all excisable goods specified in the First Schedule except those which are exempt u / s 16 of the FEA .

DUTIABLE SUPPLY [2 (8c)]

' Dutiable Supply ' means a supply of dutiable goods made by a manufacturer . Supply of exempt goods shall not be dutiable supply .

DUTIABLE SERVICES [2 (8d)]

' Dutiable services ' means all excisable services specified in the First Schedule except those which are exempt u / s 16 of the FEA .

DUTY [2 (9)]

' Duty ' means any sum payable under the FEA or the Rules made thereunder and includes default surcharge and duty chargeable at the rate of zero per cent . However , it does not include fee and service charges imposed and collected u / s 47 of the FEA

DUTY DUE [2 (9a)]

' Duty due ' means the duty in respect of supplies made or services provided or rendered during a month . It shall be paid at the time of filing of return .

ESTABLISHMENT [2 (10)]

" Establishment includes the followings :

- 1 . An undertaking ;
- 2 . A firm ,
- 3 . A company ;

Is there any other page you need the text for?

Synopsis of Taxes

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[36-581]

- 4 . An association of persons ; and
- 5 . An individual .

FACTORY [2 (11)]

' Factory ' means any premises or any part of it in which excisable goods are manufactured or any manufacturing process connected with the production of these goods is being carried on .

OFFICER OF INLAND REVENUE [2 (12)]

' Officer of Inland Revenue ' means a person appointed by the FBR as officer of Inland Revenue u / s 29 of the FEA . It also includes any person (including an officer of a Provincial Government) entrusted by the FBR with any of the powers of an officer of Inland Revenue under the FEA or the rules made thereunder .

FRANCHISE [2 (12A)]

' Franchise ' means an authority given by a franchiser under which the franchisee is contractually or otherwise granted any right to produce , manufacture , sell or trade in or do any other business activity in respect of goods or to provide service or to undertake any process identified with franchiser against a fee or consideration including royalty or technical fee , whether or not a trade mark , service mark , trade name , logo , brand name or any such representation or symbol , as the case may be , is involved .

GOODS [2 (13)]

' Goods ' means the goods leviable to excise duty under the FEA or as specified in the First Schedule and includes the goods manufactured or produced in non - tariff area and brought into the tariff area for use or consumption .

Non - tariff area means Azad Jammu and Kashmir , Northern Areas and such other territories or areas to which the FEA does not apply . [2 (17)]

Tariff area means the areas other than the non - tariff area . [2 (24)]

GOODS INSURANCE [2 (14)]

' Goods insurance ' includes fire , marine , theft , accident and such other miscellaneous insurance . IMPORT AND EXPORT [2 (15)]

' Import and ' export ' mean respectively bringing into , and taking out of Pakistan by sea , land or air and shall be deemed to have always been so defined .

KIBOR [2 (158)]

' KIBOR ' means Karachi Inter - Bank Offered Rate prevalent on the first day of each quarter of the financial year .

MANUFACTURE [2 (16)]

General Meanings

It means and includes any process incidental or ancillary to the completion of a manufactured product and any process of re - manufacture , remaking , reconditioning or repair and the process of packing or re - packing such product .

Is there any other page you need the text for?

Synopsis of Taxes

FED - Introduction

[36-582]

Meanings in Relation to Tobacco

' Manufacture ' includes the preparation of :

1 Cigarettes : 2 . Cigars ;

3 . Cheroets (cigars with both end open) ; Biris

5. Cigarette , pipe or hookah tobacco , 6 . Chewing tobacco ;

7 . Snuff (powdered tobacco taken into the nose by snuffing) ; or

8 . Preparation of unmanufactured tobacco by drying , cutting and thrashing of raw tobacco .

MANUFACTURER [2 (16)]

' Manufacturer includes the following persons :

1 . A person who employs hired labour in the production or manufacture of excisable goods . A person , who is engaged in production or manufacture of his own goods , provided that the goods are intended for sale .

2 .

3 . Any person who , whether or not carries out any process of manufacture himself or through his employees , gets any process of manufacture carried out on his behalf by any person who is not in his employment . Under this case it shall be deemed that he has manufactured the goods in which he deals in any capacity .

NON - FUND BANKING SERVICE [2 (168)]

" Non - fund banking service includes all non - interest based services provided or rendered by the banking companies or non - banking financial institutions against a consideration in the form of a fee or commission or charges .

PERSON [2 (18)]

" Person ' includes :

6 A company :

2 . An association ;

3 . A body of individuals , whether incorporated or not ,

4 . A public or Local Government ,

5 A Provincial Government ; or

6. The Federal Government .

PRESCRIBED [2 (19)]

" Prescribed means any provision or procedure as has been prescribed under the FEA or by the Rules made under that Act

PROPERTY DEVELOPERS OR PROMOTERS [2 (19a)]

Property developers or promoters means persons engaged in development of purchased or leased land for conversion into residential or commercial plots or construction of residential or commercial units for sale .

Synopsis of Taxes

FED – Introduction

[36-583]

REGISTERED PERSON [2 (20)]

It means a person who is registered or is required to be registered under the FEA .

It is to be noted that a person who is required to be registered but has not been registered shall not be entitled to any benefit or privilege under the law . Unless allowed by FBR , the benefit and privilege shall be confined to the period of registration .

SALE AND PURCHASE [2 (21)]

It means any transfer of the possession of goods or rendering and providing of service by one person to another in the ordinary course of trade or business for cash or deferred payment or other consideration .

Conclusively , the sale or purchase will take place if the following conditions are fulfilled :

- 1 . There is a transfer of the possession of goods or rendering and providing of service by one person to another ,
- 2 . The transfer is backed by a consideration ; and
- 3 . The transfer is in the ordinary course of the trade or business .

SALES TAX MODE [2 (21a)]

' Sale tax mode ' means the manner of collection and payment of excise duties chargeable under the FEA and specified to be collected and paid under the Sales Tax Act , 1990 and Rules made thereunder , as if the excise duties were the sales tax chargeable u / s 3 of Sales Tax Act . In such a case the notifications , orders and instructions made or issued under the Sales Tax Act and Rules shall , mutatis mutandis , apply to the excise duty so chargeable .

SCHEDULE (2 (22)]

' Schedule ' means the schedule appended to the FEA .

SERVICES [2 (23)]

It means the services , facilities and utilities leviable to excise duty under the FEA or as specified in the First Schedule read with Chapter 98 of the Pakistan Customs Tariff (PCT) . It also includes

the services , facilities and utilities originating from Pakistan or its tariff area or terminating in Pakistan or its tariff area .

SUPPLY [2 (238)]

' Supply ' includes sale , lease or other disposition of goods and shall include such transaction as the FBR , with approval of the Federal Minister - in - charge , may notify in the official Gazette from time to

time .

UN - MANUFACTURED TOBACCO [2 (24A)]

' Un - manufactured tobacco ' means tobacco useable for manufacture of cigarettes as manufactured by Green Leaf Threshing Units after processing and conversion of tobacco green leaf .

WHISTLEBLOWER [2 (248) & 42D)

' Whistleblower ' means a person who reports concealment or evasion of duty leading to detection or collection of duty , fraud , corruption or misconduct , to the competent authority having power to take action against the person or a federal excise authority committing fraud , corruption , misconduct , or involved in concealment or evasion of duty .

Is there any other page you need the text for?

Synopsis of Taxes FED - Introduction [36-584]

WHOLESALE DEALER [2 (25)]

It means a person who buys or sells excisable goods on wholesale basis for the purpose of trade or manufacture . This term includes a broker or commission agent who , in addition to making contracts for the sale or purchase of excisable goods for others , stocks such goods belonging to others as an agent for the purpose of sale .

ZERO - RATED [2 (26)]

Zero - rated means the excise duty levied and charged at the rate of zero per cent u / s 5 of the FEA . U / s 5 of the Act , the goods which are exported out of Pakistan or such other goods as are notified by the Federal Government shall be charged to duty at the rate of zero per cent .

Is there any other page you need the text for?

Synopsis of Taxes FED - Levy , Collection & Payment of Duty [37-585]

CHAPTER - 37

LEVY , COLLECTION AND PAYMENT OF

FEDERAL EXCISE DUTY

LEVY OF FEDERAL EXCISE DUTY (FED) [3]

The federal excise duty (FED) is an indirect tax charged by the Federal Government . It is regulated by the FBR through the Federal Excise Act , 2005 (FEA) and the Federal Excise Rules , 2005 (FER) . The federal excise duty is levied and collected on excisable goods and services of the following categories : [3 (1)]

- 1 . The goods which are produced or manufactured in Pakistan ;
- 2 The goods which are imported into Pakistan , irrespective of their final destination in territories of Pakistan ;
- 3 . The goods which are produced or manufactured in the non - tariff areas and are brought to the tariff areas . (These goods are notified in the official Gazette by the Federal Government ;
- 4 The services provided in Pakistan including the services originated outside but rendered in Pakistan ; and
- 5 . Any item specified in the First Schedule (not covered under above points) .

The excise duty is levied and collected at the rate of 15 % ad Valorem . However , the goods and services specified in the First Schedule to the FEA shall be charged to duty at such rates as are specified against each goods and service .

Excise Duty on Imported Goods [3 (2)]

Where any excisable goods are imported into Pakistan , the excise duty in respect of such goods shall be levied and collected in the same manner and at the same time as if it were a customs duty payable under the Customs Act , 1969. Under this case all the provisions of that Act shall apply .

BASIS OF FEDERAL EXCISE DUTY [3 (1) & (3)]

The duty may be charged on any of the following basis :

1 . Percentage to the value of the goods or services (ad valorem) ; Percentage to the retail price of the goods or services ;

2 .

3 Production capacity of the plant , machinery , installations , etc .; or

4 . Fixed duty .

FIXATION OF TARIFF VALUE [3 (2) & (3)]

In order to levy duties , the Federal Government may fix tariff values of any article . The government will notify it in the official Gazette . It shall also specify that either the duty will be chargeable ad

valorem or on the basis of retail price .

Different tariff values may be fixed for different classes or description of the same article . The Federal Government may alter any tariff values at any time .

Synopsis of Taxes FED - Levy , Collection & Payment of Duty [37-586]

LEVY OF DUTY ON PRODUCTION CAPACITY [3 (3) (a)]

The FBR , with the prior approval of the Federal Government may levy and collect duties on the production capacity of the plants , machinery , undertakings , establishments or installations producing the excisable goods . Before levying the duty on production capacity the FBR shall notify the following matters in the official Gazette .

1 The guiding principles for the determination of production capacity ;

2 . The production capacity of plants , machinery , undertakings , establishments or installations affected by it

3 The duty or the rate of duty on production capacity , and

4 . The manner of collection of such duty .

LEVY OF FIXED DUTIES [3 (3) (b)]

The FBR may fix the amount of duties on any goods or classes of goods or on any services or classes of services . For this purpose the FBR , inter alia , may :

1 . Prescribe the manner and the time at which such amount shall be payable ;

2 Prescribe the period for which the amount so fixed shall be effective ; and

3 . Appoint , empower or constitute any agency , authority or committee to receive , gather , collate and analyse such information or documents and summon any person for making recommendations for consideration of the FBR .

The FBR shall exercise this power by giving notification in the official Gazette .

CHARGE OF DUTY AT HIGHER OR LOWER RATE [3 (4)]

The Federal Government is empowered to prescribe certain goods or classes of goods or services or classes of services which shall be chargeable at higher or lower rates of excise duty . The goods or services and the applicable rates shall be notified in the official Gazette . The duty on such goods shall not be levied at normal rates .

LIABILITY TO PAY EXCISE DUTY [3 (5)]

The liability to pay excise duty to the Government shall be determined as below :

S. # Situation

Person Liable to Pay

1. Goods produced or manufactured in The person manufacturing or producing the goods

Pakistan .

2. Goods imported into Pakistan .

The person importing the goods .

3. Services provided or rendered in The person providing or rendering the

Pakistan

service .

4 . Services are rendered by the person out The recipient of such service in Pakistan .

of Pakistan .

5. Goods produced or manufactured in The person bringing or causing to bring the

non - tariff areas and brought to tariff goods to tariff areas .

areas for sale or consumption therein .

MINIMUM PRODUCTION FOR A MONTH (3 (5A) & Fourth Schedule]

Minimum production for a month of goods specified in the Fourth Schedule shall be determined on the basis of a single or more inputs consumed in the production process as per criterion specified in that Schedule .

Where minimum production determined as above exceeds the actual supplies for the month , the minimum production shall be treated as quantity supplied during the month and the liability to pay FED shall be discharged accordingly

The minimum production for steel products shall be determined as per criterion given below .

S.	Product	Production Criteria
----	---------	---------------------

1.	Steel billets and ingots .	
----	----------------------------	--

	One metric ton per 700 kwh of electricity	
--	---	--

	consumed	
--	----------	--

2		
---	--	--

	Steel bars and other re - rolled long One metric ton per 110 kwh of electricity	
--	---	--

	profiles of steel	
--	-------------------	--

	consumed .	
--	------------	--

3 .		
-----	--	--

	Ship plates and other re - rollable 85 % of the weight of the vessel imported for	
--	---	--

	scrap	
--	-------	--

	breaking	
--	----------	--

Procedure and Conditions

The following rules shall be followed while determining the minimum production and liability of the

FED .

1 Both actual and minimum production , and the local supplies shall be declared in the monthly return . Where the minimum production exceeds actual supplies for the month , the liability to pay duty shall be discharged on the basis of minimum production .

2 . If , in a subsequent month , the actual supplies exceed the minimum production , the registered person shall be entitled to get adjustment of excess duty on account of excess of minimum production over actual supplies .

3 . However , FED actually paid in a full year (based on financial year of the company or registered person , in case of other persons the period starting from July to June next year) shall not be less than the liability determined on the basis of minimum production for that year . In case of excess payment , refund shall not be admissible .

4 . In case of ship - breaking , the liability against minimum production , or actual supplies , whichever is higher , shall be deposited on monthly basis on proportionate basis depending upon the time required to break the vessel .

5 . The payment of FED on ship plates as above does not absolve ship breakers of any tax liability in respect of items other than ship plates obtained by ship - breaking

Synopsis of Taxes FED - Levy , Collection & Payment of Duty [37-588]

6 . The melters and re - rollers employing self - generated power shall install a tamper - proof meter for measuring their consumption . Such meter shall be duly locked in room with keys in the custody of a nominee of the Commissioner Inland Revenue . The officers Inland Revenue shall have full access to such meter .

7 . The minimum production of industrial units employing both distributed power and self-generated power shall be determined on the basis of total electricity consumption .

DEFAULT SURCHARGE [8]

The federal excise duty is payable within a prescribed time . If a person fails to pay the duty within . the prescribed time or receives a refund of duty or drawback or makes an adjustment which is not admissible to him , then he shall , in addition to the actual amount payable on

account of duty be liable to pay default surcharge at the rate which is higher of 12 % p.a or KIBOR + 3 % p.a. of the amount of duty due , refund or drawback

The amount of default surcharge is computed for the period of default , which shall be reckoned from the day following the due date to the preceding day on which the duty is actually paid .

In case of inadmissible adjustment or refund of duty or draw - back , the period of default shall be reckoned from the date of such adjustment or the date when the refund of duty or drawback is received .

DETERMINATION OF VALUE AND RATE OF DUTY [10]

The value , retail price , tariff value and the rate of the duty applicable to any excisable goods or services shall be those which were in force at the date specified in the following schedule .

Goods .

The date on which these are supplied for export or for

home consumption .

Services .

The date on which these are provided or rendered .

The date on which these goods are brought to the

tariff area for sale or consumption .

Goods produced or

manufactured outside the

tariff area .

COLLECTION OF EXCESS DUTY [11]

When any amount of duty , which was not payable or was in excess of the duty actually payable . has been collected and the effect of the duty so collected has been passed on to the customer , the person collecting such duty is required to pay the amount so collected to the Federal Government . All provisions of the FEA and the FER shall apply for the recovery of such amount . In no case and on any ground whatever , a claim for refund of any such amount paid or recovered shall not be admissible .

The burden of proof that the incidence of duty has been or has not been passed to the customer shall be on the person collecting the duty .

VALUE FOR THE PURPOSES OF DUTY [12]

The Federal excise duty is generally levied on the value of the goods or services . Under such a case , the determination of the value of goods or services is very important . Legal provisions in this regard are discussed below .

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Value of Goods [12 (1), (3), (4) & (5)]

Where any goods are liable to duty under the Federal Excise Act at a rate dependent on their value, duty shall be assessed and paid on the basis of value as determined u/s 2(46) of STA, excluding the amount of duty payable on these goods.

Where the excise duty is chargeable on the goods at the import stage, the value for excise duty shall be the value as determined u/s 25 of the Customs Act, 1969 for customs duty as increased by the amount of customs duty payable in respect of such goods. [12(3)]

Where the excise duty on any goods is chargeable on the basis of 'Retail Price', the value of such goods shall be the retail price fixed by the manufacturer at which a particular brand or variety of such goods should be sold to the general body of consumers. This price shall include all duties, charges and taxes other than the sales tax. Where more than one retail price is fixed for the same brand or variety, the highest of such price shall be taken for charging the excise duty. [12(4)]

Where the duty is chargeable on the basis of 'retail price', the retail price shall be legibly, prominently and indelibly indicated on each good, packet, container, package, cover or label of such goods. The FBR has the authority to direct otherwise. [12(4)]

The FBR is empowered to specify any goods or class of goods on which duty, in case of local production, is payable on retail price. In case of import of such goods the duty shall be charge in the like manner as is payable in case of goods locally produced. The FBR may, through a general order, specify zones or areas only for the purpose of determination of highest retail price for any brand or variety of goods. [Provisos to 12(4)]

The FBR may fix the minimum price of any goods or class of goods for the purpose of levying and collecting the excise duty. Where the price at which goods or class of goods is sold is higher than the price fixed by the FBR, the duty shall be charged and levied at such higher price. However, the FBR may also direct otherwise. [12(5)]

Value of Services [12(2)]

The value of services, in a case where excise duty is chargeable on the charges for the services, shall be the total amount of charges for the services, including the ancillary facilities or utilities, if any.

Where any such services are provided free of charge or at a concessional rate, the duty shall be charged on the amount which would have been charged if the services, etc., had not been provided free of charge or at a concessional rate.

EXEMPTIONS [16]

The federal excise duty is levied only on such goods and services as are specified in the First Schedule to the FEA. All other goods whether imported or produced or manufactured in Pakistan and services shall be exempt from excise duty levied u/s 3 of the Act.

Certain other goods and services as are specified in the Third Schedule are also exempt from the excise duty. But this exemption is subject to such conditions and restrictions as may be specified in the Third Schedule.

It is to be noted that a person shall not be allowed adjustment of the duty already paid on exempted goods directly used as input goods for manufacture or production. It is immaterial whether the exemption from duty is conditional or without any condition. [16(1)]

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Approval of Federal Government [16 (2)]

The Federal Government may exempt any goods or class of goods or any services or class of services from the whole or any part of the duty leviable under the FEA. The Government may impose certain conditions while granting exemption. This power shall be exercised through a notification in the official Gazette.

The Federal Government may exercise this authority in circumstances needing immediate action for the purposes of:

1. National security,
2. Natural disaster
3. National food security in emergency situations,
4. Implementation of bilateral and multilateral agreements: and

The FBR shall place before National Assembly all exemption notifications issued by it. [16(5)]

Life of Exemption Notifications [16(6)]

Exemption Notifications issued u/s 16(2) of the FEA may, for the purpose of their life, divided into two categories, namely:

1. Notifications Issued Till 30-06-2015: These notifications shall remain effective till rescinded by a notification issued for this purpose; and
2. Notifications Issued On or After 01-07-2015: Such notification shall, if not earlier rescinded, stand rescinded on the expiry of the financial year in which it was issued.

All such notifications (which are not rescinded earlier) shall be deemed to have been in force from 01-07-2016 and, if not earlier rescinded, shall continue to be in force till 30-06-2018.

All notifications issued on or after 01-07-2016 and placed before the National Assembly shall continue to be in force till 30-06-2018, if not earlier rescinded by the Federal Government or the National Assembly.

Exemption from Default Surcharge and Penalties [16(4)]

The Federal Government or the FBR may exempt any person or class of persons from the payment of the whole or any part of the default surcharge and penalties imposed under the law. This exemption shall be granted by a notification in the official Gazette containing the reasons for exemption and conditions or limitations, if any, applicable to it.

ADJUSTMENT OF EXCISE DUTY [6]

While determining the net liability under the FEA a person is allowed to deduct the duty already paid on goods specified in the First Schedule from the excise duty levied on the goods manufactured by him. This adjustment shall be allowed if the following conditions are fulfilled:

1. The goods are used directly as input goods for manufacture or production;
2. The person holds a valid proof to the effect that he has paid the price of the goods (including the excise duty) purchased by him through banking channels.

Synopsis of Taxes FED - Levy, Collection & Payment of Duty [37-591]

3. From the date to be notified by the FBR, adjustment of excise duty shall be admissible only if the supplier has declared such supply of goods or services in his return and has also paid the tax due as indicated in the return.
4. Irrespective of anything contained in Federal Excise Act or rules made thereunder, the FBR may impose restrictions on wastage of material on which input tax has been claimed in respect of the goods or class of goods.

5. The person has received the price of the goods (including the excise duty) sold by him through banking channels; and
6. The person is a registered person.

The FBR may disallow or restrict the adjustment of the whole or a part of the excise duty in respect of any goods or class of goods. It may also regulate the adjustment of the excise duty.

Rules for Adjustment of Duty [Rule - 13 & 14]

Rule - 13 & Rule - 14 of the FER specify certain provisions in respect to the adjustment of the excise duty already paid by a person. These provisions are briefly discussed below:

1. In order to claim an adjustment of excise duty paid on goods used as inputs a person must hold a valid proof which may be a purchase invoice, goods declaration or any other lawful document. [R - 13(1)]
2. The person should have a proof as to the payment of the price of goods (including excise duty) through normal banking channels. [R - 13(1)]
3. Where the goods cannot be purchased directly from their manufacturer due to the policy or regulations of the Government, then the invoice issued by the marketing company shall be accompanied by a photocopy of the excise invoice issued by the manufacturer to the authorized marketing company. [R - 13(2)]
4. A manufacturer of cigarettes is entitled to claim adjustment of duty paid on manufactured tobacco within a period of two (2) years. [R - 13(3)]
5. Where a person is manufacturing and selling both excisable and non-excisable goods manufactured from duty-paid inputs, then he shall be entitled to adjust only that part of the duty as is connected with the excisable goods. Under this case the duty paid on inputs shall be apportioned between the excisable and non-excisable goods. [R - 14]

FILING OF RETURN AND PAYMENT OF DUTY [4]

FED is a monthly charge on excisable goods manufactured, produced or sold or excisable services rendered or provided by a registered person during a month. Legal provisions in this regard are as below:

1. The duty for dutiable supplies made or services rendered shall be deposited in the designated branch of the bank by the prescribed due date. The FBR may prescribe any other manners of depositing the duty. [4(2)]

2. Every registered person shall furnish a true and correct return by the due date. The return is furnished every month after making payment of the duty due for the month. It shall be in the prescribed form and shall be furnished in the prescribed manner. [4(1)]
3. A person may file a revised return if there was any omission or wrong declaration in the original return. Revision of return is subject the following conditions: [4(4)]

Synopsis of Taxes FED - Levy, Collection & Payment of Duty [37-592]

1. Approval of the Commissioner having jurisdiction has been obtained; and

The revised return is filed within one hundred and twenty (120) days of the filing of original return.

4. The approval shall not be required if revised return is filed within sixty (60) days of filing of the original return and either the duty payable as per the revised return is more than the amount paid or the refund claimed therein is less than the amount as claimed, under the refund sought to be revised.
5. The FBR may require any person or class of persons for any goods or class of goods to furnish the prescribed summary or details of particulars pertaining to: [4(5)]

i) Imports;

ii) Purchases;

iii) Utilization and consumption;

iv) Production; or

v) Sales or disposal of goods.

6. The FBR may specify the manner and procedure for filing of return and for payment of duty by electronic means. It may also specify the procedure for submission receipt and transmission of any information electronically. [4(6)]
7. Every amount of duty due from any person on any other account shall also be deposited on the prescribed return. [4(7)]
8. The FBR may prescribe a composite return by rules made under the Federal Excise Act. [4(8)]

Payment of Duty and Filing of Monthly Returns Rules

Chapter IX (Rule - 44 through Rule - 47) deals with the matters concerning payment of excise duty and filing of monthly returns. Provisions of the Rules are summarized below.

1. Every person required to pay excise duty shall deposit the same at the time of filing of return by the due date. A registered person shall file a 'nil return' where no excise duty is payable for a tax period. [R - 44]
2. The Bank official, after confirming that particulars in all the three copies of return are identical, shall receive the amount and stamp the return indicating the date of payment of duty and submission of the return. [R - 45(1)]
3. The bank shall forward the original copy to the Commissioner or LTU, duplicate to the registered person and third one shall be kept by it. [R - 45(2)]
4. Where the payment is received through cheque, pay order or bank draft, the bank shall issue a provisional receipt. On clearance of the instrument, the bank shall sign and stamp the return, which shall indicate the date on which the instrument was received for clearance and the date on which it was actually cleared. [R - 45(3) & (4)]
5. The date of payment of duty through cheque shall be the date on which payment is actually received by the bank. In case of pay order or bank draft, it shall be the date on which the instrument is tendered on bank counter. Where the banking instrument is not cleared on it

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presentation, the registered person shall also be liable to pay default surcharge and penalties under the law. [R - 45(6)]

The bank shall charge ten rupees per challan as service charges. It is charged to the RTO having jurisdiction in the area where the bank branches are located. [R - 46(1)]

A registered person shall file a monthly return in the Form STR - 7 as set out in the Sales Tax Rules, 2006. Return shall be filed electronically by the due date. [R - 47(1)]

The Computer Section of the tax office shall compare the return with the challan and in case of discrepancy, inform the manager of the bank and the registered person. Where duty has not been paid or short-paid, steps for its recovery shall be taken promptly. [R - 47(2)]

ZERO RATE OF DUTY [5(1)]

Just like sales tax the concept of charging duty at the rate of zero per cent has been introduced in the FEA. Now the following goods shall be charged to excise duty at the rate of zero per cent:

The goods which are exported out of Pakistan, or

Such other goods as may be notified by FBR in the official Gazette.

It is important to note that these goods are not exempt from duty rather, are excisable. All provisions of the law including adjustment of excise duty paid at the time of purchase of such goods if used directly as input goods shall be applicable to such goods.

DRAWBACK OF DUTY [5(2)]

The FBR is empowered to grant drawback of excise duty paid on any of the following goods:

Goods used in manufacture of such goods in Pakistan which are exported out of Pakistan, or

Goods in the nature of provisions or stores shipped for consumption aboard a ship or aircraft proceeding to a destination outside Pakistan.

The FBR shall notify the rate or rates of drawback. It may also impose the conditions or limitations applicable to the drawback of excise duty.

PROHIBITION OF PAYMENT OF DRAW BACK, REFUND, Etc. [5(3)]

Irrespective of the provisions regarding 'zero rate of duty u/s 5(1)' or 'drawback of duty u/s 5(2)' the FBR may prohibit the payment of drawback, refund or adjustment of duty upon the exportation of goods or any specified goods or class of goods to any specified foreign port or territory. The FBR shall notify the goods and territory in the official Gazette.

RECOVERY OF ARREARS OF DUTY [14]

Under the following cases a person shall be served with a show-cause notice for payment of unpaid duty of excise: [14(1)]

The duty has not been levied;

The duty has been short levied;

The duty has not been paid;

The duty has been short paid; or

The duty has been refunded erroneously.

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A show-cause notice for recovery of arrears can be issued within a period of five (5) years from the relevant date.

Relevant date means the date on which payment of duty was due and in case where any amount of duty has been erroneously refunded, the date of its refund.

'Refund' includes drawback of duty.

The person to whom the notice is served may submit his objections. The officer of Inland Revenue, after considering such objections, shall determine the amount of duty along with the default surcharge payable by the person. Such person shall pay the duty, etc., as specified by the officer [14(2)]

Order for recovery of arrears of duty shall be made within one hundred and twenty (120) days of issuance of show cause notice. The Commissioner may extend this period maximum upto further sixty (60) days. Extension order must be in writing and contain the reasons for extension.

While computing the above-referred time period, any period during which the proceedings are adjourned due to stay order or Alternate Dispute Resolution proceedings or adjournment on the request of the petitioner (for a maximum period of thirty (30) days) shall be excluded. [Provisos to section 14(2)]

Irrespective of any provision of any other law, the amount of unpaid or recoverable duty under the Federal Excise Act shall be the first charge on the assets of the business if any business or activity involving Federal excise duty is sold, discontinued or liquidated. [14(4)]

The provision of section 14(2) shall mutatis mutandis apply regarding assistance in collection and recovery of duties in pursuance of a request from a foreign jurisdiction under a tax treaty, a multilateral convention, and inter-governmental agreement or similar agreement or mechanism as the case may be.

The unpaid amount of excise duty shall be recovered in such manner as is specified in the Federal Excise Act and the FER. [14(3)]

Recovery of Arrears Rules [Rules - 60 & 61]

The officer of Inland Revenue has the following powers for the recovery of any amount that is due from any person on account of the duty, penalty or demand raised under any bond, guarantee, etc.

Deduct the amount from any money owing to that person and which may be at the disposal of the officer of Inland Revenue or any officer of Income Tax, Customs or Sales Tax Department;

For the payment of the specified amount, issue a notice to any other person who holds any money on behalf of the person from whom the duty is recoverable;

Stop removal of any goods from business premises of such person till recovery of full amount of duty, etc.

Require any person by a written notice to stop clearance of imported goods or manufactured goods or attach bank accounts;

Seal the business premises till the amount is recovered in full;

Sell, with or without attachment, any property of that person; and

Where the guarantor, etc., fails to make payment, his property can be attached and the recovery of the amount payable under the guarantee, bond or any other instrument.

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The officer of Inland Revenue may take any or all of the above-referred steps. While making recovery of arrears he may dispense with the sequence of actions.

The procedure laid down in the Sales Tax Rules, 2006 regarding recovery of sales tax shall be followed for the recovery of arrears of duty under the FEA. The officer of inland Revenue shall have the same powers which a Civil Court has under the Code of Civil Procedures, 1908 for recovery of an amount due under a decree.

The Commissioner may allow any registered person to deposit arrears in installments. This facility shall be provided if the person has requested in writing. The permission shall be granted in writing which shall also contain the reasons for it. The Commissioner may impose reasonable conditions or limitations while allowing deposit of arrears in installments.

RECOVERY OF SHORT PAID AMOUNTS [14A]

Where a registered person pays lesser amount than the duty due as indicated in his return, the short-paid amount of duty along with default surcharge shall be recovered from that person. The recovery may be made:

1. By stopping removal of any goods from his business premises, and
2. Through attachment of his business bank account.

The department may take any other action under the Federal Excise Act or rules made thereunder for recovery of the short paid duty.

ASSESSMENT GIVING EFFECT TO AN ORDER [14B]

Where any appellate authority (i.e., Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court), has made an order in an appeal and in consequence thereof an assessment order is to be issued to any registered person, the Commissioner or an officer of Inland Revenue shall issue the assessment order within one year from the end of the financial year in which the order of the appellate authority was served on him.

Where an assessment order is remanded wholly or partly by the Appellate Tribunal, High Court or Supreme Court and the Commissioner, Commissioner (Appeals) or officer of Inland Revenue is directed to pass a new order, the concerned officer shall pass a new assessment order within one year from the end of the financial year in which he is served with the order.

The time limitation shall not apply if an appeal or reference has been preferred against the order passed by the Appellate Tribunal or a High Court.

POWER TO MODIFY ORDERS, ETC. [14C]

1. Where in the case of a registered person a question of law has been decided by the Appellate Tribunal or a High Court, the Commissioner or an officer of Inland Revenue may follow the said decision in the case of the said taxpayer in so far as it applies to said question of law arising in any assessment pending before him.
2. Until the decision of the High Court or of the Appellate Tribunal is reversed or modified the Commissioner or officer shall follow the original decision, whether he has preferred a reference or an appeal against the decision of the Appellate Tribunal or the High Court.

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Where the decision of the Appellate Tribunal or the High Court is later on reversed or modified, the Commissioner or the officer may modify the assessment or order in which the said decision was applied so that it conforms to the final decision.

The decision may be modified within one (1) year from the date of receipt of decision. In this case period limitation otherwise prescribed for making any assessment or order shall be ignored.

POWER TO RECTIFY MISTAKES IN ORDER (36)

The Federal Government, the FBR or any officer of Inland Revenue may rectify any mistakes in any order passed by it or him. Rectification may be made within a period of three (3) year from the date of the relevant order. The authorities any rectify the mistake on their own motion or on an application made by a person affected by the order.

When as a result of such rectification the liability of any person is increased, he shall be given an opportunity of being heard before making the rectification.

APPLICATION OF SALES TAX ACT, 1990 [7]

Where a registered person is liable to pay the Sales Tax as well as the Federal excise duty in sales tax mode (in respect of specified goods and services), then he shall be entitled to:

Deduct input tax paid during the tax period from the amount of excise duty due from him in respect of that tax period;

Deduct the excise duty paid or payable by him on such goods or services as are acquired during the tax period from the output tax due for the tax period;

Deduct the excise duty paid or payable on such goods or services as are acquired during the tax period from the excise duty due from him on the goods manufactured or produced or services provided or rendered by him during the tax period; and

Deduct the excise duty paid or payable by him during a month from the excise duty due from him on the goods manufactured or produced or services provided or rendered by him during that month.

The terms "input tax", "output tax" and "tax period" have the same meanings as are assigned in the STA.

The adjustment of excise duty and sales tax is in respect of such goods as are specified in the Second Schedule to the FEA or such services as may be specified by FBR through a notification.

Goods or Services in Sales Tax Mode [7(1)]

Goods in Sales Tax Mode [Second Schedule]

FED on only such goods shall be payable in Sales Tax Mode as are specified in the Second Schedule of the FEA. Currently, no such goods exist, so FED on goods is not payable in Sales Tax Mode.

All entries of the Second Schedule to the FEA were deleted earlier by the Finance Act, 2016 and finally the Finance Act, 2021.

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Services in Sales Tax Mode [SRO 550(1)/2006 as amended by SRO 544(I)/2008 & SRO 478(I)/2009]

FED on the following services shall be payable in the Sales Tax Mode:

1. Advertisement.
2. Services provided or rendered in respect of travel by air of passenger within the territorial limits of Pakistan.
3. Carriage of goods by air.
4. Shipping agents.
5. Telecommunication services.
6. Services provided or rendered by banking companies and non-banking financial companies.
7. Services provided by insurance companies.
8. Services provided or rendered by stockbrokers.
9. Services provided or rendered by port and terminal operators.

An airline shall file return for carriage of goods by air by the day specified in sub-rule (9) of rule 41A of the Federal Excise Rules, 2005.

Government's Power to Apply Sales Tax Provisions [7(2)]

The FBR, with approval of the Federal Minister-in-charge, may declare that any of the provisions of the STA shall, with such modifications as considered necessary, be applicable in regard to the like matters in respect of the duty leviable under the FEA. The provisions may be the following:

1. Levy of sales tax and exemption therefrom;
2. Registration;
3. Book-keeping and invoicing requirements;
4. Returns;
5. Offences and penalties;
6. Appeals; and
7. Recovery of arrears.

APPLICATION OF CUSTOMS ACT, 1969 [15]

The Customs Act, 1969 is the major law in the area of indirect taxation. It has been provided that the Federal Government may declare, by notification in the official Gazette, that any or

all of the provisions of the Customs Act shall be applicable in regard to like matters in respect of the excise duty and default surcharge leviable under the FEA. The notification for this purpose may contain the modifications and alterations for their adoption to the circumstances.

LIABILITY UNDER SPECIAL CASES [9]

Normally the liability to pay the Federal excise duty is of the registered person but under the following cases the duty may be recovered from other persons:

Closing or Discontinuation of Business [9(1)]

Where any private company or business enterprise is closed, discontinued or otherwise ceases to exist and amount of duty cannot be recovered from it, then it may be recovered from every such

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person who was an owner, partner or director of the company or business enterprise. These persons shall be jointly and severally liable for the payment of the excise duty.

Transfer of Ownership [9(2)]

Where the ownership of a business or part thereof is transferred to another person as an ongoing concern, the duty chargeable to such business shall be paid by the person to whom the sale is made or ownership is transferred. If any amount of excise duty remains unpaid then it shall be the first charge on the asset of the business and payable by the transferee.

A business enterprise or a part thereof shall not be sold or transferred unless the outstanding excise duty is paid and a 'no objection certificate' has been obtained from the Commissioner.

Termination of Business [9(3)]

Where any amount of excise duty is outstanding against such a business which is terminated, the same will be recovered from a person who has terminated the business or part thereof.

REGISTRATION [13]

Any person who is engaged in any activity which is liable to Federal excise duty is required to obtain registration under the FEA. The activities may be any of the following:

1. Production or manufacturing of goods, or

2. Providing or rendering of services.

The registration under the Federal Excise Act is compulsory regardless of the annual turnover or volume of sales of excisable goods or services. It shall be regulated through the Rules prescribed by FBR. [13(1)]

Where a person is already registered under the STA, he shall not be required to take separate registration for excise purposes. However, the provisions of Sales Tax Act shall not apply to such a person who is liable to be registered under the Federal Excise Act but is not liable to registration under the Sales Tax Act. [13(2)]

Registration Rules

Chapter - II (Rule - 3 through Rule - 6) of the FER contains the provisions regarding registration and allied matters. These provisions are briefly discussed in the coming paragraphs.

1. A person who is required to be registered under the Federal Excise Act, if not already registered, shall apply to the Commissioner for registration before commencing manufacturing of any excisable goods or rendering or providing any excisable services. [R-3(1)]
2. The application shall be submitted on a prescribed form (i.e., Form STR - 1). [R - 3(1)]
3. Application for excisable goods shall be filed to the Commissioner having jurisdiction as per following:

[R - 3(2) & (3)]

In case of companies, the Commissioner having jurisdiction over that area where the registered head office is located. A company may transfer its registration to the Commissioner having jurisdiction over the area where manufacturing unit is located; and

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ii) In case of a non-corporate person (i.e., other than companies) whose business premises and manufacturing unit are located in different areas, the Commissioner having jurisdiction over the area where manufacturing unit is located.

Application for excisable services shall be filed to the Commissioner of the area where the head office of the applicant is located. [R - 3(4)]

5. The Commissioner or other authorized officer shall conduct the necessary verification or inquiry and thereafter shall forward the application to Central Registration Office (CRO) in the FBR which shall issue the registration certificate. [R - 3(5)]
6. The application for registration under the Federal Excise Act may be filed electronically. [R-3(6)]

Failure to Get Registration / Compulsory Registration [R - 3A]

1. The Commissioner or any other authorized officer shall issue a notice to a person who is liable to be registered but has not applied for registration. Such a notice shall be issue only if the Commissioner is satisfied that the person is liable to be registered. Such a notice is to be responded within fifteen (15) days.
2. Where the person has submitted his reply within the specified time and contested his liability to be registered, the officer issuing the notice shall, after providing an opportunity of personal hearing, pass an order determining therein whether or not the person is liable to be registered compulsorily.
3. The Commissioner shall register the person compulsorily if the person does not respond within the specified time. The order shall contain the reasons for registration.
4. Copy of the orders shall be sent to the concerned person and the CRO along with the particular of such person. The CRO shall allot a registration number and send the same to the person either through the RTO or registered mail / courier service.
5. A person compulsorily registered shall comply with all the provisions of the FEA and the rules made thereunder. In case of his failure to do so, the Commissioner having jurisdiction may order an audit of his record and proceed for recovery of dues.
6. The CRO shall cancel the registration if later on it is established that the person was wrongly registered. Under this case such a person shall not be liable to pay any duty, default surcharge or penalty.

Change in Particulars of Registration [R - 4]

A registered person is required to notify to the Commissioner about any change in any particulars stated in the registration application or registration certificate. The change is to be notified within fourteen (14) days of the change.

Transfer of Registration [R - 5]

The FBR may transfer the registration of a registered person from one Office to another Office or to the Large Taxpayers Unit (LTU). This transfer shall be in writing and subject to such conditions, limitations or restrictions as imposed by the FBR. [R - 5(1)]

The Commissioner in whose jurisdiction the registration has been transferred shall issue a new certificate of registration which shall also contain the reference to the previous registration certificate. [R - 5(2)]

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A registered person shall have to apply to the Commissioner for transfer of his registration if he intends to shift his business activity from the jurisdiction of one Commissioner to another or he has any other valid reason for such transfer. [R - 5(3)]

Miscellaneous Provisions [Rule - 6]

A person shall apply to the Commissioner for cancellation of his registration if he ceases to manufacture excisable goods or provide or render excisable services. The Commissioner may cancel the registration after necessary audit or enquiry. The registration shall be cancelled within later of three (3) months from the date of application or the date on which all dues under the FEA are deposited by the applicant. [R - 6(1)]

The Commissioner may suspend the registration of a person if he has reasons to believe that the said person has: [R - 6(2)]

1. Issued fake invoices;
2. Evaded the excise duty, or
3. Committed any offence or irregularity to evade excise duty or avoid his obligations under the law.

The Commissioner shall have to confirm the facts and veracity of the information and to provide opportunity of being heard to the person before suspension of the registration.

The Commissioner may withdraw the suspension order if the person has approached him for the same and the Commissioner, after due enquiring, is satisfied that the person is not engaged in the activities due to which registration may be suspended. [R - 6(3)]

Only one registration may be applied by and granted to a person where the person is: [R - 6(4)]

1. Manufacturing or producing more than one excisable goods;
2. Manufacturing or producing excisable as well as non-excisable goods;

3. Providing or rendering more than one excisable services; or
4. Providing or rendering excisable as well as non-excisable services.

Where a person is also registered under the STA the provisions of the Sales Tax Law shall apply to the following matters under the FEA:

1. De-registration;
2. Suspension or cancellation of registration;
3. Transfer of registration; and
4. Changes in registration.

MAINTENANCE OF RECORDS [17]

A registered person is required to maintain certain books and records in respect of the excisable goods and services. The records are to be maintained by a person at his business premises or the registered office. The record is kept in English or Urdu language and for a period of six (6) years or till such further period the final decision in any proceedings including proceedings for assessment, appeal, revision, reference, petition and any proceedings before an Alternative Dispute Resolution Committee is finalized [17(1)]. Other provisions of the law are discussed below.

Synopsis of Taxes	FED - Levy, Collection & Payment of Duty	[37-601]
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Records for Goods [17(1)]

A registered person is required to maintain the following records of excisable goods purchased, manufactured and cleared by him or by his agent acting on his behalf.

1. Records of clearances and sales made indicating: i) The description of the goods; ii) The quantity of the goods; iii) The value of the goods; iv) The name and address of the person to whom sales were made; and v) The amount of the duty charged, if any.
2. Records of goods purchased indicating: i) The description of the goods; ii) The quantity of the goods; iii) The value of the goods; iv) The name and address and registration number of the supplier; and v) The amount of the duty on purchases, if any.
3. Records of goods cleared and sold without payment of duty.

4. Records of invoices, bills, accounts, agreements, contracts, orders and other allied business matters.
5. Records of production, stocks and inventory.
6. Records of imports and exports.
7. Any other records as specified by the FBR.

Records for Services [17(3)]

A registered person who is providing or rendering excisable services shall have to keep the same record as is to be maintained by a person manufacturing and clearing the goods.

1. The records shall be maintained in such form and manner as would permit ready ascertainment of the liability of excise duty. [17(1)]
2. The FBR may prescribe all or any of the following matters for any person or class of persons or goods or class of goods: [17(2)] i) Keeping any other records; ii) Use of such electronic fiscal cash registers as approved by FBR; and iii) The procedure or software for electronic maintenance of records and filing of statements, documents or information by any person or class of persons.

INVOICES FOR GOODS OR SERVICES [18]

A registered person is required to issue serially numbered invoice for each transaction. The invoice is to be issued at the time of clearance or sale of goods (including zero-rated goods) or providing or rendering of services. The invoice should contain the following particulars: [18(1)]

Synopsis of Taxe

FED - Levy, Collection & Payment of Duty

[37-602]

1. Name, address and registration number of the seller.
2. Name address and registration number of the buyer.
3. Date of issue of invoice.
4. Description and quantity of goods or description of services;
5. Value exclusive of excise duty;
6. Amount of excise duty, and

7. Value inclusive of excise duty.

A person shall not be required to issue a separate invoice for excise purposes if he is also required to issue the 'tax invoice' under the STA. Under such a case the amount of excise duty and other related information may be mentioned in the "tax invoice". [18(2)]

The FBR may specify other modified invoices for different person or classes of person if deemed necessary. [18(3)]

The FBR may also specify the goods in respect of which the invoice shall be accompanied with the conveyance during their transportation or movement. The FBR shall exercise this power through notification in the official Gazette, which may also contain certain conditions in this regard. [18(4)]

Rules for Invoicing (Rules 11 & 12)

Provisions of the Federal Excises Rules, 2005 regarding invoicing are discussed below:

1. These rules are applicable only to those persons who are not required to issue the tax invoice under the STA. For those persons who are liable to pay sales tax, the provisions of the Sales Tax Law shall apply. [R - 11(1)]
2. The invoices shall be in triplicate and serially numbered the serial number shall start from the first day of each financial year. (R - 11(2))
3. Irrespective of any provision contained in the Federal Excise Act or Rules, a registered person is entitled to claim adjustment of duty already paid by him on his inputs within a period of six (6) months. In case of un-manufactured tobacco the manufacturers of cigarettes shall be entitled to claim adjustment within two years. [R - 11(3)]
4. The FBR may specify the good, or services in respect of which sales invoice shall be issued electronically. The notification issued by FBR for this purpose shall also prescribe the manner and procedure for issue of sales invoice electronically.
5. Invoice for each transaction shall be issued separately, Consolidated, clubbed or aggregated Invoices shall never be issued. [R - 11(4)]
6. Computer generated invoices may be issued by a person provided that each copy of the invoice is invariably signed by him or his authorized person. [R - 12]

SPECIAL JUDGES [20 & 21]

The Federal Government may appoint as many Special Judges for trial of offences committed under the Federal Excise Act, 2005, as it thinks necessary. Where more than one

such judge is appointed, the Federal Government shall also specify their respective areas of jurisdiction.

A Special Judge shall be appointed out of such persons who are or have been qualified to be appointed as Session Judge.

Synopsis of Taxes

FED - Levy, Collection & Payment of Duty

[37-603]

When a Special Judge has been appointed for an area, all offences under the Federal Excise Act 2005 in that area shall immediately stand transferred to such judge. Under this situation the Special Judge shall have the jurisdiction to try only on the written complaint of an authorized officer of Inland Revenue.

The Federal Government has the power to transfer a case from one Special Judge to another for promotion of the ends of justice and the general convenience of the parties or witness. If the case is so transferred the Special Judge shall not be bound to recall and rehear any witness who has given evidence in the case before the transfer of the case.

APPEAL AGAINST THE ORDER OF SPECIAL JUDGE [21A]

An appeal against the order of a Special Judge in respect of the trial of offence shall lie to the respective High Court of the Province. Appeal shall be filed within thirty (30) days of the passing of the order. It shall be heard by a single judge of the High Court as an appeal under the Code of Criminal Procedure, 1898.

POWERS OF THE OFFICERS

The officers of Inland Revenue are entrusted with various powers while performing their duties under the Federal Excise Act, 2005. Chapter - III of the Act also specifies the powers and duties of the officer of Inland Revenue. The provisions of the law are briefly discussed hereunder.

Powers to Arrest [22]

Any officer of Inland Revenue duly authorized by Board may arrest any such person who has committed an offence under the Federal Excise Act, 2005. In this regard he will have to follow the procedure laid down in section 22 and 25 of the Act.

Power to Summon Persons [23]

Any officer of Inland Revenue, if empowered by Board, may summon any person to:

1. Give evidence;
2. Produce a document; or

3. Produce any other thing required for any inquiry under the Act.

The summon shall describe the documents, things, etc., required to be produced by the person. A person who is so summoned shall be bound to:

1. Attend the proceedings, either in person or through an authorized representative as directed by the officer.
2. Provide the documents and things required by the officer.
3. Make statement as required; and
4. State the truth upon any subject respecting which they are examined.

POWER OF BOARD TO MAKE RULES (40)

1. For the purposes of carrying out the provisions of the Federal Excise Act (including charging fee for processing of returns, claims and other documents and for preparation of copies thereof) the FBR may make rules.
2. The FBR may provide that any person committing a breach of any rule shall, besides other punishments, be liable to prescribed penalty and that any article in respect of which any such breach is committed shall be confiscated or destroyed.

Synopsis of Taxes

FED - Levy, Collection & Payment of Duty

[37-604]

3. The FBR may, in respect of cigarettes, make rules or issue instructions for the purpose of affixing duty stamps and banderoles and any instructions issued in this behalf shall have the force of rules issued under the Federal Excise Act.
4. All rules made under the Federal Excise Act, shall be collected, arranged and published along with general orders and departmental instructions and rulings, if any, at appropriate intervals and sold to the public at reasonable price or may be placed regularly on the official website maintained by the Board.

BAR OF SUIT AND LIMITATION OF SUIT AND OTHER LEGAL PROCEEDINGS [41]

1. For the matters relating to the Federal Excise Act, no suit shall be brought in any civil court to set aside or modify any order passed, or any assessment, levy or collection of any duty.
2. No suit prosecution or other legal proceeding shall lie against the Federal Government or against any officer of the Government in respect of any order passed in good faith or any act in good faith done or ordered to be done under the Federal Excise Act.

3. Notwithstanding anything in any other law for the time being in force, no investigation or inquiry shall be undertaken or initiated by any governmental agency against any officer or official for anything done in his official capacity under the Federal Excise Act, rules, instructions or direction made or issued thereunder without the prior approval of the FBR.

OBSERVANCE OF BOARD'S ORDERS, DIRECTIONS AND INSTRUCTIONS [42]

All officers and persons employed in the execution of the Federal Excise Act and the rules made thereunder shall observe and follow the orders, directions and instructions of the FBR. However, the FBR shall not give any such order, direction or instruction so as to interfere with the discretion of an officer in deciding the issues or matters brought before him for adjudication.

REFERENCE TO AUTHORITIES [42A]

Any reference to Collector, Additional Collector, Deputy Collector, Assistant Collector, Superintendent and an officer of federal excise, wherever occurring, in this Act and the rules Notifications, clarifications, general orders or orders made or issued there under, shall be construed as reference to Commissioner Inland Revenue, Additional Commissioner Inland Revenue, Deputy Commissioner Inland Revenue, Assistant Commissioner Inland Revenue, Superintendent Inland Revenue and an officer of inland Revenue, respectively.

SELECTION FOR AUDIT BY THE BOARD (42B)

1. The FBR may select persons or classes of persons for audit of records and documents through computer ballot which may be random or parametric as the FBR may deem fit. FBR shall be deemed always to have had, the power to select any persons or classes of persons for audit.
2. Irrespective of any provision in any law, the FBR shall keep the parameters confidential.
3. Audit of persons selected for audit shall be conducted as per procedure given in section 46 of the Federal Excise Act and all relevant provisions shall apply accordingly.

REWARD TO OFFICIALS (42C)

The officers and officials of Inland Revenue shall be entitled to cash reward for their meritorious conducts in cases involving concealment or evasion of taxes. Other provisions in this regard are:

Synopsis of Taxes

FED - Levy, Collection & Payment of Duty

[37-605]

1. Cash reward shall be paid only after realization of a part of the whole of the taxes involved in the case ;

2. The Board may prescribe the procedure for this purpose. It may also specify the apportionment of reward for individual performance or the collective welfare of officials ; and
3. Cash reward may also be sanctioned to the informer providing credible information leading to detection of concealed or evaded tax.

REWARD TO WHISTLEBLOWERS [42D]

Finance Act, 2015 introduced a concept of rewarding the 'whistleblowers'. Accordingly, the Federal Board of Revenue may sanction reward to whistleblowers in cases of concealment or evasion of duty, fraud, corruption or misconduct providing credible information leading to such detection of evasion of duty.

The FBR may notify the procedure for rewarding the whistleblowers. It may also specify the apportionment of reward among the whistleblowers.

Under the following cases the claim for reward submitted by a whistleblower shall be rejected:

1. The information provided is of no value;
2. The FBR already had the information provided by the whistleblower;
3. The information was available in public records; or
4. No collection of taxes is made from the information provided out of which the FBR can pay the reward.

'Whistleblower' means a person who reports concealment or evasion of duty leading to detection or collection of duty, fraud, corruption or misconduct, to the competent authority having power to take action against the person or a federal excise authority committing fraud, corruption, misconduct, or involved in concealment or evasion of duties.

Synopsis of Taxes

CVT

[38-606]

CHAPTER - 38

CAPITAL VALUE TAX

HISTORICAL BACKGROUND

The Capital Value Tax (CVT) was levied originally u/s 7 of the Finance Act 1959. Thereafter various amendments were made through various finance acts and ordinances. Initially CVT was levied on individuals on purchase of urban immovable property with land area exceeding 250

square yards and motor vehicles, not plying for hire, with engine capacity exceeding 800cc. It was levied 5% of capital value of the assets.

Subsequently, CVT was extended to AOPs and companies too. The list of assets or transactions subject to CVT was amended and immovable property (including commercial, residential, flats and agricultural) listed securities, modaraba certificates & instruments of redeemable capital and purchase of air tickets were brought into the net of CVT.

Section 4 of the Finance Act, 2020 abolished the CVT by inserting sub-section (11) to section 7 of the Finance Act, 1989 specifying therein that CVT shall cease to apply from 17-04-2020.

The Capital Value Tax is once again imposed through Capital Value Tax Act, 2022 (inserted vide section 8 of the Finance Act, 2022). Although the Finance Act, 2022 is effective from 01-07-2022, but CVT is applicable for the tax year 2022 and onwards. However, in case of motor vehicles held in Pakistan, CVT shall be charged from 01-07-2022.

Although the CVT Act is applicable from 01-07-2022 but CVT Rules (containing procedural matters) was notified vide SRO 1797(I)/2022 on 29-09-2022. However, the delayed notification did not affect the filing of return and payment of tax as the date for filing of return was for tax year 2022 was extended till 31-12-2022.

Reference of section and rules hereunder, respectively, are of section 8 of the Finance Act, 2022 (containing Capital Value Tax Act, 2022) and Capital Value Tax Rules, 2022.

CHARGE OF CAPITAL VALUE TAX [8(2), (12) & (13)]

The CVT shall be charged on the following assets:

1. Motor vehicle held in Pakistan.
2. Farmhouses (as defined in section 7E(4)(b) of ITO) within the territorial limits of the Islamabad Capital Territory.
3. Residential houses within the territorial limits of the Islamabad Capital Territory.
4. Foreign assets of a resident individual and
5. Assets notified by the Federal Government.

Tax for CVT purposes means capital value tax and includes any default surcharge, penalty, fee, any amount or sum leviable or payable under the Capital Value Tax Act, 2022 or the Capital Value Tax Rules, 2022.

The terms "Commissioner", "Commissioner (Appeals)", "officer of Inland Revenue", "person", "resident individual" and "tax year" shall have the same meanings as defined in the ITO.

FG may exempt any asset or class of assets from CVT. The notification may specify the conditions for exemption.

All assets of the Reko Dig Mining Company (Private) Limited (formerly Tethyan Copper Company Pakistan (Private) Limited) are exempt from the whole of the capital value tax. (SRO 2200(I)/2022, dated 12-12-2022)

CVT ON MOTOR VEHICLE [8(2)(a), (3)(a), (b) & (ca), (4)(a) to (f) & Rule - 4 & 5(1) & First Schedule]

'Motor vehicle held in Pakistan' is subject to CVT @ 1% of its value for tax year 2022 and onwards. Provisions relating to CVT on vehicles are discussed in coming paragraphs.

1. "Motor Vehicle Held in Pakistan" includes car, caravan automobiles, jeep, limousine, pickup, sports utility vehicle, trucks, vans, wagon and any other automobile excluding: i) A motor vehicle used for public transportation, carriage of goods and agriculture machinery; and ii) Any motor vehicle held in Pakistan by a foreign diplomat or a foreign diplomatic mission.
2. Motor vehicle subject to CVT may be a vehicle with: i) Engine capacity exceeding 1300cc; or ii) Battery power capacity exceeding 50kwh, in case of electric vehicles.
3. Value of vehicle shall be determined in the following manner.

S. #	Vehicle	Value for CVT
1.	Imported in Pakistan	The import value assessed by the Customs authorities plus all duties and taxes leviable at import stage.
2.	Manufactured or assembled locally in Pakistan	The ex-factory price inclusive of all duties and taxes.
3.	Auctioned	The auction value inclusive of all duties and taxes. Value shall be reduced by 10% for each year from the end of financial year in which the vehicle is acquired. After five (5) years the value shall be treated as zero.

Export to Sheets

4. Vehicle shall not be taxable after five (5) years from the end of financial year in which it is imported, sold by local manufacturer or auctioned.
5. CVT on vehicles shall be collected or paid in the following manner: i) Collector of Customs shall collect tax at the time of import of motor vehicle. In this case, the relevant provisions of the Customs Act shall apply to the collection and payment of tax;

Synopsis of Taxes

CVT

[38-608]

ii) Local manufacturer or assembler shall collect tax from the buyer of the motor vehicle ;

- and
- iii) Any person selling vehicle by auction shall collect tax from the person to whom the vehicle is sold .
- 6 . In case of sale by local manufacturer or assembler or sale by auction , the tax shall be collected at the time of sale . Where the payment is made in installments , the total tax shall be collected at the time of payment of first installment .
- 7 . CVT collected from buyer shall be paid to the FG through remittance to the Government Treasury or deposit in an authorized branch of the SBP or NBP within seven (7) days of the date of collection .
- CVT collected by the Government (Federal , Provincial or Local) shall be paid to the credit of the FG on the day it is collected .
- 8 . Every motor vehicle registering authority shall collect tax at the time of registration of a vehicle . However , tax shall not be collected if tax on such vehicle has been collected / paid at the time of its import , purchase from local manufacturer or assembler or auction .
- 9 . Tax required to be collected by a registration authority , manufacturer or a person selling motor vehicle through auction shall be paid through CPR or SWAPS payment receipt (SPR) .
- 10 10A A quarterly electronic statement shall be furnished to CIR in Iris by every person liable to

- collect CVT on motor vehicles . Other provisions are :

- 1) Person
liable to collect CVT may be a motor vehicle registration authority , a
• manufacturer or a person selling motor vehicle through auction ;

-) The statement shall
be furnished by the 20th day of the month next following the end of
• the quarter (i.e. , 20th April , 20th July , 20th October & 20th January) . The Commissioner
,
• on application of a prescribed person may extend the filling period ;

- ii) In addition to
quarterly statement , such persons shall also file an annual electronic
• statement in iris ; and

- iv) Relevant provisions of section 165 of ITO shall apply to these statements .

- FARMHOUSES [8 (2) (ab) & First Schedule]
• ' Farmhouses in Islamabad Capital Territory ' are subject to CVT at the following rates :
• Area of Farmhouse CVT

- 2,000 sq . yards to 4,000 sq . yards Rs . 500,000

- Exceeding 4,000 sq . yards Rs . 1,000,000

- RESIDENTIAL HOUSES (8 (2) (ac) & First Schedule)

- ' Residential houses in Islamabad Capital Territory ' are subject to CVT at the following rates :

- Area of Farmhouse

CVT

1,000 sq . yards to 2,000 sq . yards

Rs . 1,000,000

Exceeding 2,000 sq . yards

Rs . 1,500,000

Synopsis of Taxes

CVT

[38-609]

CVT on ' farmhouse ' and ' residential houses in ICT shall be levied , charged , collected and paid on the basis of area of the farmhouse and not on the basis of its value . [Second proviso to 8 (1)]

CVT ON FOREIGN ASSETS [8 (2) (b) , (3) (c) , (4) (g) , (13) (g) & Rule - 3 & 5 (2) & First Schedule] " Foreign assets of a resident individual are subject to CVT @ 1 % of its value for tax year 2022 and onwards . CVT shall be levied if aggregate value of such assets (on the last day of the tax year) exceeds Rupees one hundred million .

1 . Foreign assets ' means any movable or immovable assets held outside Pakistan , whether directly or indirectly , and includes but not limited to real estate , mortgaged assets , stock and shares , bank accounts , bullion , cash , jewels¹ , jewelry , paintings , accounts and loan receivables , assets held in dependents ' name , beneficial ownership or beneficial interests or contribution in offshore entities or trusts² .

[1. www.bolnews.com](http://www.bolnews.com)

www.bolnews.com

[2. www.bolnews.com](http://www.bolnews.com)

www.bolnews.com

2 . Value of vehicle shall be determined in the following manner

S. #	Situation	Value for CVT
1 .	Where cost can be determined the assets on the last day of the tax year .	Total cost of
2 .	Where cost cannot assets on the last day of the tax year .	be The FMV of the

determined with reasonable
accuracy

3 . The cost (or FMV) of the assets shall be in relevant foreign currency and converted into Rupees as per exchange rates notified by SBP for the valuation date .

4 The person liable to pay CVT on assets shall the electronic declaration in Iris in Form - A of CVT Rules .

5 . The person holding the assets shall pay tax at the time the income tax return for the tax year is due

6 . The person shall pay CVT through CPR Separate CPR shall be prepared for movable assets and immovable assets .

CVT ON NOTIFIED ASSETS (8 (2) (c) , (3) (c) , (4) (h) & Rule - 3 (1) & 5 (2) & First Schedule)

surcharge @ 12 % p.a. on the unpaid tax . Period of default shall be

reckoned from
the date on which the tax was due till the date on which it was paid .

3 . In case of default , the officer of Inland Revenue may :

1) Pass an
order determining therein the tax due . Such order shall be made after
providing an
opportunity of being heard ; and

Proceed to recover the tax as arrears of the income tax .

For collection , payment , recovery or refund of CVT , the relevant provisions of the
ITO and

ITR shall apply .

4 . The CIR may revise the order of the officer of Inland Revenue on an application by the person
.

5 . Any person dissatisfied with any order passed by CIR or officer of Inland Revenue under CVT
Act may prefer an appeal before the Commissioner (Appeals) u / s 127 of ITO . In this case , all
relevant provisions of the ITO shall apply .

6 . FBR may notify the manner and procedure relating to the collection , recovery , refund or any
other matter relating to the CVT . (Procedural matters has been notified vide SRO 1797 (1) /
2022 , dated 29-09-2022.J

7 . The CVT collected shall be paid to FG treasury or in the authorized branches of SBP or NBP
by the following date :

1) Collected by or on behalf of government On
the same day

ii) In other cases
Within one week from the date of

such collection .

COLLECTION FROM DEFAULTER [Rule 6 & 7]

1 . Where the CVT is not paid or short paid , the Inland Revenue officer (having jurisdiction , under the ITO , over the person liable to pay the tax or collect and pay tax) shall proceed to collect the CVT and applicable default surcharge .

2 The recoverable CVT shall be recovered from the defaulter as if it were the tax due in consequence of an assessment order passed under TO . In that case all relevant provisions of ITO shall apply .

Synopsis of Taxes

CVT

[38-611]

3 . Where at the time of recovery it is established that the tax has meantime been paid , no recovery shall be made but the defaulting person shall be liable to pay the default surcharge . A person who is personally liable due to failing to collect the tax shall be entitled to recover the tax from the person from whom it should have been collected

4 .

5 . The ITR shall apply to the recovery of arrears of CVT as they apply to the recovery of the arrears of income tax

REFUND [Rule 8]

1 . An application may be made to the officer of Inland Revenue for refund of tax in the manner provided in Iris , if

0 Tax has been recovered from a person not liable to pay or

11) Tax is recovered in excess of the amount actually payable .

2 . In order to verify the claim , the officer may call for such particulars , documents or evidence as deemed appropriate .

3 . The officer , if satisfied , shall refund the tax by a written refund order .

4 . The person receiving the refund shall be liable to pay the same if , later on , it is found that the person was liable to pay the tax or the amount refunded should have not been refunded .

REVISION BY COMMISSIONER [Rule 9]

1 . A person may apply (as provided in Iris) to CIR for revision of any order passed by officer of Inland Revenue .

2 Where , after making necessary inquiry . CIR may revise the order if he considers that the order requires revision .

3 . The CIR may remand back the order for modification , alteration , implementation of directions or de novo proceedings , the order giving effect to the directions of ¹ the CIR shall be issued within 120 days .

[1. www.brecorder.com](http://www.brecorder.com)

www.brecorder.com

APPEAL TO COMMISSIONER (APPEALS) (Rule 10)

Any person dissatisfied with any order passed by the CIR or an officer of Inland Revenue may prefer an appeal before the Commissioner (Appeals) against the order u / s 127 of the ITO . The appeal shall be heard and decided as provided in the ITO .

Synopsis of Taxes

Questions & Answers - Individuals

[39-613]

CHAPTER - 39

QUESTIONS AND ANSWERS

INDIVIDUALS

SUGGESTED PATTERN FOR COMPUTATION OF

TAXABLE INCOME AND TAX LIABILITY

NAME OF TAXPAYER XXX

NATIONAL TAX NUMBER XXX

TAX YEAR ENDED ON XXX

TAX YEAR XXX

PERSONAL STATUS Ind./AOP/Co [N - 1]

RESIDENTIAL STATUS Resident / Non - Resident

SALARY INCOME
Rs . Rs .

Basic salary
XXX

Dearness allowance
XXX

Cost of living allowance (COLA)
XXX

Overseas allowance
XXX

Bonus
XXX

Commission
XXX

Leave encashment (LPR) [N - 2]
XXX

Overtime
XXX

Utilities : Gas
XXX

Water XXX

Electricity XXX

Telephone XXX

Tax on salary - paid by employer (in case of tax - free salary)
XXX

Amount received on termination of employment (e.g. , golden handshake payment) [N - 3]

Salary received in arrears [N - 4]
XXX

XXX

Services of domestic servants (e.g. , housekeeper , driver , etc.)
XXX

Loan from employer [N - 5]
XXX

Waiver of an amount payable by employee
XXX

Obligation of an employee paid by employer
XXX

Transfer of property or provision of services to employee :

Fair market value of property or services
XXX

House rent allowance Less : Payment made by the employee , if any
XXX XXX
XXX

Rent - free accommodation (Higher of FMR or 45 % of MTS / basic salary) [N - 6]
XXX

Conveyance allowance
XXX

Value of Conveyance [N - 7]
XXX

Leave fare assistance (LFA) [N - 8]
XXX

Entertainment allowance Less : Amount expended for official purposes
XXX XXX XXX

Synopsis of Taxes Questions & Answers – Individuals [39-614]

Employer's contribution to provident fund :

Government provident fund - Totally exempt

Unrecognized provident fund - No treatment

Recognized provident fund

Interest on provident fund : Less : Exempt lesser of 10 % of the salary or Rs . 150.000
[N - 9] XXX XXX

Government provident fund - Totally exempt

Unrecognized provident fund - No treatment

Recognized provident fund
XXX

Less : Exempt (Higher of 1 / 3rd of salary or amount calculated @ 16 %) XXX XXX

Receipt of accumulated balance of provident fund

Government provident fund - Totally exempt

Recognized provident fund - Totally exempt

Unrecognized provident fund [N - 10]
XXX

Profit in lieu of or in addition to salary

XXX

Gratuity or commutation of pension

Received from Govt . , statutory body or corporation - Exempt

Received from approved gratuity or pension fund - Exempt

Received from Gratuity scheme approved by Board

Less : Exempt Rs
. 300,000 XXX XXX

Any other case Less : Exempt (Lesser of Rs . 75,000 or 50 % of amount
received) XXX

XXX XXX

Pension - only one pension with higher amount is exempl
XXX

Any other allowances [N - 11]
XXX

Any other benefits [N - 12]
XXX

Taxable salary income
XXX

INCOME FROM PROPERTY

Rent Chargeable to Tax (RCT)

Rent received / receivable [N - 13]
XXX

1 / 10th of advance not adjustable against rent
XXX

Forfeited advance against sale of property
XXX

Owner's burden (e.g. , property tax , etc.) paid by tenant
XXX

Irrecoverable rent received [N - 14]
XXX

Non - payment of expense upto 3 years (previously allowed as deduction)
XXX

Total rent chargeable to tax (RCT)
XXX

Less : Allowable Deductions : XXX

Repair allowance (1 / 5th of RCT) [N - 15]

XXX Insurance premium to insure building against risk of damage

XXX Any tax in connection with property [N - 16]

XXX Ground rent (if the property is on leased land)

XXX Interest on moneys borrowed for property [N - 17]

Share of rent paid to HBFC XXX

Interest on mortgage [N - 17] XXX

XXX Administrative Expenses (including rent collection charges) [N - 18]

XXX Legal expenses to defend title or any other suit of property

XXX Irrecoverable rent [N - 19] XXX

XXX Payment of expense already treated income due to non - payment

Taxable Income from Property
XXX

Synopsis of Taxes**Questions & Answers - Individuals****[39-615]**

INCOME FROM BUSINESS [N - 20] XXX Net profit / loss as per profit and loss account

Add : Inadmissible expenses Income not included in P / L A / c XXX XXX

Rectification of errors resulting in increase of income
XXX

Expenses for income not taxable as business income

XXX XXX

XXX

Less : Admissible allowance not recorded XXX

Expenditures not included in P & L A / c XXX

Rectification of errors resulting in decrease of income

Incomes not taxable as business income

XXX

XXX XXX

Total Income from Business XXX XXX Less : Carried forward loss from business XXX

INCOME FORM SPECULATION BUSINESS [N - 21] XXX Net taxable income from speculation
business Less : Carried forward speculation losses

XXX XXX XXX

CAPITAL GAINS [N - 22] XXX Gains on disposal of capital assets

Less : Carried forward capital losses XXX XXX

Gain on disposal of immovable property [N - 23]

Gain on disposal of securities [N - 24]

INCOME FROM OTHER SOURCES

Dividend [N - 25] XXX

Tuition fee paid for education of children [N - 30]
XXX

Donations to any Relief Fund established by the Government
XXX

Others
XXX

ACTUALLY TAXABLE INCOME XXX

Add : Incomes included for rate purposes only :

Share of profit from AOP [N - 31] XXX

Any other exempted income [N - 32] XXX
XXX

Taxable Income for Rate Purposes XXX

COMPUTATION OF TAX LIABILITY

Tax on taxable income as per rates given in First Schedule XXX Less . Tax credit in respect of incomes included for rate purposes [N - 33]

XXX

Tax on actually taxable income XXX

Less Foreign tax credit [N - 34] XXX

XXX

Less Tax credits for donations , investments , etc .: [N - 35]

E) Charitable donations [N - 361] XXX

b) Contribution towards approved pension funu .
XXX

XXX

XXX

Less : Reduction in case of Teachers & Researchers [N - 37] XXX

Add : Default surcharge u / s 205 , if any XXX

Add : Tax on any othe income taxable as a separate block [N - 38] XXX

Less : a) Tax deducted or collected at source (Adjustable) XXX

XXX

c)

XXX

NOTES :

11

For tax rate purposes , companies may be classified as

12 Banking companies ;

ii) Small companies , and

iii) Any other companies .

N - 2 In case of

government employees , leave prepatory to retirement (LPR) will be exempt fro

tax .

Encashment of all other types of leaves is taxable . Leave encashment by private sector

employees is

taxable .

Synopsis of Taxes	Questions & Answers – Individuals	[39-616]
Contribution to Workers Welfare Fund		XXX
Contribution towards Worker's Participation Fund		XXX
Tuition fee paid for education of children [N - 30]		XXX
Donations to any Relief Fund established by the Government		XXX
Others		XXX
XXX		

ACTUALLY TAXABLE INCOME XXX

Add : Incomes included for rate purposes only :

Share of profit from AOP [N - 31] XXX

Any other exempted income [N - 32] XXX
XXX

Taxable Income for Rate Purposes XXX

COMPUTATION OF TAX LIABILITY

Tax on taxable income as per rates given in First Schedule XXX Less . Tax credit in respect of incomes included for rate purposes [N - 33]

XXX

Tax on actually taxable income XXX

Less Foreign tax credit [N - 34] XXX

XXX

Less Tax credits for donations , investments , etc .: [N - 35]

E) Charitable donations [N - 361] XXX

b) Contribution towards approved pension funu . XXX

Employment generation by manufacturers XXX

d) Point of sale machine XXX
XXX

Gross Tax XXX

Less : Reduction in case of Teachers & Researchers [N - 37] XXX

Total Tax XXX

Add : Default surcharge u / s 205 , if any XXX

Tax liability under Normal Tax Regime (NTR) XXX

Add : Tax on any othe income taxable as a separate block [N - 38] XXX

Total tax liabililty XXX

Less : a) Tax deducted or collected at source (Adjustable) XXX

b) Tax collected from other persons on behalf of taxpayer XXX

c) Tax paid in advance u / s 147 XXX

d) Refund determined by Tax Department , if any XXX
XXX

Net Tax Payable / (Refundable) XXX

NOTES :

N - 1 As the provision regarding taxability and tax rates are different in case of different classes of taxpayers , so the distinction is necessary . The individuals are further classified into ' Salaried ' and ' Non - Sarded " .

For tax rate purposes , companies may be classified as

12 Banking companies ;

ii) Small companies , and

iii) Any other companies .

N - 2 In case of government employees , leave prepatory to retirement (LPR) will be exempt fro tax . Encashment of all other types of leaves is taxable . Leave encashment by private sector

employees is taxable .

Synopsis of Taxes

Questions & Answers - Individuals

[39-618]

N - 18 Deduction on account of administrative expenses including ' rent collection charges ' shall be lesser of actual expenses or 4 % of RCT . The expenditure should have been incurred wholly and exclusively for the purpose of deriving rent chargeable to tax .

N - 19 Where a rent could not be recovered , it is allowed as deduction if certain conditions are satisfied . If in succeeding years such amount is recovered (whether full or any part of it) , it is treated as income and added in rent chargeable to tax for the year of receipt

N - 20 This pattern of computation of taxable business income is based on the presumption that the profit and loss account or the amount of profit or loss for the year is provided . Where only information of business transactions is given , the profit and loss account , for taxation purposes , shall be prepared by taking into account the tax law principles .

N - 21 For computation of income and adjustment of losses , ' speculation business ' is treated as a separate head of income .

N - 22 Capital Gain shall be computed as below :

	Disposal consideration	XXX
	Less : Cost of acquisition	
		Expenses on disposal of the
asset XXX	XXX	
		XXX (
XXX)		

N - 23 Gain on disposal of ' immovable property ' shall be treated as a separate block of income and

charged to tax separately .

N - 24 Gain on disposal of ' securities ' as defined u / s 37A (3) shall be treated as a separate block of

income and charged to tax separately .

N - 25 Dividend received by a person falls under Final Tax Regime , so shall not be taxable as Income from other source

N - 26 An annuity or pension is generally chargeable under the head " Salary " . However , if the relationship between the recipient and payer is not that of employee and employer , then it shall be taxed as " Income from Other Source " .

N - 27 1 / 10th of the amount received is charged to tax for a period of ten (10) years starting from the year of receipt

N - 28 Although bonus shares received by a shareholder is rendered as income from Other Sources but according to section 2362 tax withheld by the company at the time of issuance of bonus shares is treated as final discharge of tax liability . In that case it cannot be taxed as income from other sources .

N - 29 All such expenses (including depreciation on assets) , which are incurred for the purpose of earning this income are allowed as deduction .

N - 30 A deductible allowance ' u / s 60D is allowed for the tuition fee paid by an individual , where his taxable income is less than Rs . 1,500,000 , in respect of the education of his children . The amount to be treated as deductible allowance should be lesser of 5 % of total tuition fee paid or 25 % of taxable income for the tax year or Rs . 60,000 x No. of children of the person .

N - 31 Share of income from an AOP in the hands of its members is exempt from tax , if the AOP has paid tax on its income or if the AOP is exempt from tax . However , it is included in total income for rate purposes only if the taxpayer has some other source of income taxable under NTR . A tax credit is allowed on such amount . In case of an individual or an AOP , being member of an AOP , tax credit shall be calculated at the average rate of tax of the taxpayer .

Synopsis of Taxes

Questions & Answers – Individuals

[39-619]

N - 32 There may some exempt income which as per provisions of the law , is to be included in total income for rate purposes . In that case a tax credit at the average rate is allowed in respect of such income .

N - 33 It is computed in respect of such income which though exempt from tax but as per requirements of the law is included in total income . Tax credit is allowed or the actually taxable income is charged to tax at the average rate of tax . The result of such inclusion is that due to the application of higher slab rate the overall tax liability of the taxpayer is increased .

N - 34 Foreign tax credit is available to a resident taxpayer in respect of his foreign source income taxable in Pakistan . This credit shall be equal to an amount which is lesser of the following : 10

Foreign income tax paid on such income ; or

و

Pakistan income tax payable on such income .

N - 35 Tax credit for donations and investments shall be allowed at the average rate of tax computed after allowing the foreign tax credit , if any .

N - 36 A tax credit at the average rate of tax is allowed to a person for charitable donations , contributions and subscriptions subject to the conditions specified in section 61 of the income Tax Ordinance , 2001 .

N - 37 Where a person is whole time teacher or researcher , then his tax liability shall be reduced by 25 % of the tax liability for the tax year in respect of salary income .

N - 33 Certain incomes including capital gains from disposal of securities and immovable properties ' fall under this category .

N - 39 Any income , which is taxable under Final Tax Regime ' or as a separate block of income shall not be included in the total income of the taxpayer , rather , shall be shown as a footnote to your answer .

N - 40 Where the taxable income of an individual or an association of persons exceeds rupees ten (10) million , he shall also pay a surcharge @ 10 % of gross income tax imposed under Division I of Part I of the First Schedule to ITO .

Synopsis of Taxes

Questions & Answers – Individuals

[39-620]

QUESTION - 39.1

Being a Tax Consultant you have been provided with the following information in respect of Mr. A. D. Chughtai , a senior manager of a local company for the period 1st July , 20x1 to 30th April 20x2

(Tax year 20x2) :

Basic pay 420,000

House rent allowance 231,500

Medical allowance 9,600

Cost of living allowance 15,720

Utilities 63,000

Orderly / Servant allowance 60,000

Bonus / ex - gratia 140,000

Company car 1300 cc (Partly used for company's business) with cost 2,400,000

Leave fare assistance 35,000

Employer's contribution to provident fund 43,532

Employer's contribution to pension fund 54,600

Income tax deducted u / s 149 10,000

In addition to the above you have been provided with the following data :

i) Dividend income (withholding tax deducted Rs . 7,425 . Zakat deducted Rs . 500) 42,075

ii) Profit on PLS Account (withholding tax deducted Rs . 6,000 . Zakat deducted Rs . 3,040) 40,000

iii) Professional fee received (withholding tax deducted Rs . 2,200) 20,000

iv) School fee paid - for two children (Receipts show National Tax Number) 50,000

v) Legal expenses (consultant fee) (Receipts show National Tax Number) 25,000

vi) There is no time scale for this position .

Required : Work out the taxable income and tax liability of Mr. A.D. Chughtai for the Tax year ,

20x2 . (M - 20) (

Question # 4 - ICMAP - May - 2003)

ANSWER

Mr. A. D. Chughtai

Resident Individual - Salaried

Tax Year 20x2

Taxable Income & Tax Liability

Basic pay 420,000

House rent allowance 231,500

Medical allowance [N - 1] 0

Cost of living allowance 15,720

Utilities 63,000

Orderly / servant allowance 60,000

Bonus / ex - gratia 140,000

Conveyance facility (5 % of Rs . 2,400,000) 120,000 Leave fare assistance
35,000

Synopsis of Taxes

Questions & Answers – Individuals

[39-620]

Employer's contribution to provident fund 43,572 [N - 2] 42,000

Less : Exempt upto 10 % of Rs . 420,000

1,572

1,036,292

(3,540)

1,082,752

Total income

Less : Zakat (500 +3,040)

Taxable income

Tax liability :

Tax under NTR :

Tax on Rs . 600,000

0

Tax on Rs . 482,752 @ 5 %		24,138	34,138
---------------------------	--	--------	--------

Tax under MTR :

Tax on profit on debt	[N - 5]	6,000
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Tax on professional fee	[N - 6]	2,200	8,200
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Total tax : 32,338

Less : Tax deducted u / s 149 10,000

Tax withheld - Profit on debt	[N - 5]
6,000	

- Professional services	[N - 6]	2,200 (18,200)
-------------------------	-----------	------------------

Net tax payable 14,138

N - 1 Medical allowance is within the exemption limit of 10 % of basic salary so shall be exempt .

N - 2 It is presumed that provident fund is recognized . Under this case , lesser of 1 / 10th of the salary or Rs . 150,000 , shall be exempt .

N - 3 While computing income of an employee , employer's contribution to pension fund shall have

no tax treatment .

N - 4 Dividend income falls under FTR . Withholding of due tax shall discharge the tax liability in respect of dividend received .

N - 5 Profit on debt received by an individual falls under MTR . Tax withheld is more than the tax under NTR ; hence , the tax withheld amounting to Rs . 6,000 shall be taken as tax on this Income .

N - 6 Income on account of professional fee received falls under MTR . Tax withheld is more than the tax under NTR ; hence , the tax withheld amounting to Rs . 2,200 shall be taken as tax on this income . Applicable tax withholding rate is 11 %

N - 7 There will be no tax treatment for school fee paid or legal expenses incurred .

QUESTION - 39.2

Mr. Qais Mansoor is Director - cum - Company Secretary of M / s . Badar Salam & Co. Ltd. , since the

year 1990. His monthly remunerations are as follows :

Basic Salary 200,000

House Rent Allowance 83,330

Utility Allowance 20,000

Medical Allowance 20,000 323,330

Synopsis of Taxes

Questions & Answers - Individuals

[39-622]

He was paid maintenance cost of his private car used wholly for the company business on actual basis aggregating Rs . 20,000 . He received bonuses equivalent to three basic salaries , plus two basic salaries as special merit rewards during the year .

The company disbursed funeral expenses of his parents in the amount of Rs . 20,000 and also medical costs on birth of his sons in the sum of Rs . 100,000 / - , latter being as per employment terms .

The company has also provided him free furnished accommodation costing Rs . 600,000 per annum . The company also paid his tax liability of Rs . 200,000 .

He was decorated with the President's Award . In August 20x1 and March 20x2 worth Rs . 500,000 . He earned capital gains on sale of listed shares (Rs . 20,000) and on sale of land (Rs . 100,000)

He paid following amounts evidenced by receipts bearing payees ' N.T.Ns. wherever , applicable :

1 . School fees @ Rs . 10,000 per month , for each of his two daughters . Fee to personal solicitor & tax adviser Rs . 20,000 .

2 .

3 . Prior year income tax and penalties Rs . 50,000 .

4 . Donations to approved Institutions Rs . 500,000 .

5 . Purchase of second car for Rs . 1,000,000 for family use .

Required : As a tax consultant you are required to calculate taxable income and tax liability of Mr. Ceis Mansoor for tax year 20x2 .

(M - 20) (Question # 5 - ICMAP - May - 2004)

ANSWER

Mr. Qais Mansoor

Resident Individual - Salaried

Tax Year 20x2

Taxable Income & Tax Liability

Basic Salary ($200,000 \times 12$) 2,400,000

House rent allowance ($83,330 \times 12$) 999,960

Utility allowance ($20,000 \times 12$) 240,000

Medical allowance ($20,000 \times 12$) [N - 1] 240,000

Bonuses ($200,000 \times 3$) 600,000

Merit reward ($200,000 \times 2$) 400,000

Funeral expenses of parents [N - 3] 20,000

Rent free accommodation (45 % of Rs . 2,400,000) [N - 4] 1,080,000

Tax liability paid by employer [N - 5] 200,000

Total income 6,179,960

Less : Deductible allowance for children education [N - 11] 0

Taxable income 6,179,960

Tax Liability

Tax on Rs . 4,100,000 700,000 727,986

Tax on Rs . 2,079,960 @ 35 %

Total tax 1,427,986

Less : Tax credit for donation [N - 10] 115,534

Synopsis of Taxes

Questions & Answers – Individuals

[39-623]

Tax for the year 1,312,452 Less : Tax paid by employer

Net tax payable (200,000) 1,112,452

N - 1 As per terms of employment Mr. Qais is entitled to reimbursement of medical expenses ; hence , total amount of medical allowance shall be taxable . Reimbursement of medical expenses of Rs . 100,000 will be exempt .

N - 2 Payment of Rs . 20,000 towards actual cost incurred on maintenance of personal car to be used for business of employer is not a benefit to employee so nothing will be included in salary income .

N - 3 Funeral expenses borne by employer is taxable being obligation of employee paid by employer .

N - 4 Higher of actual rent (i.e. , Rs . 600,000) or 45 % of MTS / basic salary (i.e. Rs . 1,080,000) shall be added in salary income on account of rent free accommodation provided by employer .

N - 5 Tax liability paid by employer shall have the following two effects :

1 . It shall be included in taxable salary income ; and

2 .

The amount of tax paid shall be adjusted against tax liability of the employee for the tax year .

N - 6 Amount of Rs . 500,000 attached with Presidential Awards is exempt from tax .

N - 7 It is assumed that shares of listed companies were sold after retaining for more than six year , so gain shall be exempt from tax .

N - 8 Gain on sale of land is not taxable if sold after six years of its acquisition . Where holding period is upto six years the gain shall be taxable under STR at the rates depending on the holding period .

N - 9 There will be no tax treatment for the following transactions :

Fee for solicitor and tax adviser ;

Payment of prior year's income tax , and

Purchase of vehicle for personal use .

N - 10 Donations are within limit of 30 % of taxable income for the year . Amount of the tax credit

shall be : $(1,427,986 + 6,179,960) \times$
500,000 = 115,534

N - 11 Deductible allowance for education shall be available only if taxpayer has taxable income less than Rs . 1,500,000 . Under the instant case it will not be admissible .

QUESTION - 39.3

Mr. Awais is a resident individual who owns a private business . He has provided you with the following data :

Sales (Rs . in 000) 20,000

Imported finished goods

Manufactured goods

Synopsis of Taxes

Questions & Answers - Individuals

[39-624]

supplies
150,000

others

75,000

exports

50,000

Cost of sales 200,000

Administration and selling expenses 35,000

Other income 1,250

WPPF 3,600

WWF 1,250

Provision for tax :

Normal

5,000

Deferred

1,220

Net Profit 50,180

During the year , one of the export customers closed down his business and has defaulted on

payment of Rs . 1,000,000 .

Cost of imported goods Rs . 15,000,000

Assume no opening and closing debtors :

Trading Liability outstanding for more than 3 years Rs . 100,000

Other Income includes :

1) Dividend from a company enjoying tax holiday Rs . 1,000,000

ii) Profit on sale of shares of listed company Rs . 250,000

Mr. Awais provided the following additional information :

- 1) FEBC encashed during the year Rs . 2,000,000
- ii) Purchased agricultural land Rs . 10,000,000
- iii) Drawings from business Rs . 5,000,000
- iv) Foreign remittance received (PRC available) Rs . 5,000,000
- v) Donations made during the year Rs . 200,000
- vi) Personal expenses Rs . 7,590,000
- vii) Tax paid with last year return Rs . 2,000,000

Mr.

Awais owns a house property which he has given on rent . The following data has been provided regarding the house property :

Monthly	rental
Rs . 20,000	
Expenditure on renovations and upkeep of house property	
56,000	

Property tax paid
5,000

Un -
adjustable advance Rs . 150,000 received at the time the property was let out two years
ago .
Mr. Awais has at that time refunded Rs . 50,000 to the previous tenant who had vacated
the
property after 5 years and had paid initially Rs . 100,000 as un - adjustable advance .
Required : Compute the taxable income and tax liability . (M - 25)

Synopsis of Taxes

Questions & Answers – Individuals

[39-625]

ANSWER

Mr.
AWAIS

Resident Individual - Non Salaried

Tax Year 20x3

Taxable Income and Tax Liability

Income from Business Imports Export Manuf- Total acturing

Sales ratio- all 6.78 % 16.95 % 76.27 % 100 %

Sales ratio - Manufactured goods 18.18 % 81.82 % 100 %

Sales 20,000 50,000 225,000 295,000

Cost of Sales [N - 1] (15,000) (33,633) (151,367) (200,000)

Gross profit 5,000 16,367 73,633 95,000

Administrative and selling expenses (2,373) (5,932) (26,695) (35,000) (1,000) (100) 58,900
195

Bad debts 0 (1,000) 0

Trading liability written off [N - 2] (8) (92) 46,846

Net Income 2,619 9,435

Income from Property [N - 5] 0 0 195

Capital gain - Exempt [N - 3] 0 0

Total income 2,619 9,435 47,041 59,095

Deductible allowance :

	WPPF	0
0	(3,600) (3,600)	

	WWF	0
0	(1,250) (1,250)	

Taxable income 2,619 9,435 42,191 54,245

Tax Liability [N - 8]

Tax under NTR - Tax on Income From : [N - 8 & N - 9]

	Local sales and property (
42,191,000 @ 43.32 %)	18,277,141

	Commercial imports (
2,619,000 @ 43.2 %	

1,134,500 19,411,641

Add : Surcharge u / s 4AB (19,411,641 @ 10 %)
 [N - 10] 1,941,164

Total Tax
 21,352,805

Less : Tax credit for donation (200,000 @ 43.32 %) [N - 6 & N - 9] (86,640)

Tax under NTR
 21,266,165

Tax under MTR & FTR :

Exports - Higher of : [N - 8]

Tax withheld (49,000,000 @ 1 %)
 4,900,000

Tax under NTR (9,435,000 @ 43.32 %)
 4,087,242 4,900,000

Tax on dividend (1,000,000 @ 25 %)
 [N - 8] 250,000

Total tax for the year 26,416,165

Less : Tax withheld on :

Imports (15,000,000- @ 6 %)
 900,000

(150,000,000 @ 5.5 %)
 8,250,000

Supplies [N - 8]

Dividend (1,000,000 @ 25 %)
250,000

Exporis :

Tax u / s 154 (49,000,000 @ 1 %)
490,000

Synopsis of Taxes Questions & Answers - Individuals [39-626]

Tax u / s 147 (6C) (49,000,000 @ 1 %) 490,000
980,000 (10,380,000)

Net tax payable 16,036,165

N - 1 Cost of Sales

Total cost of sales
200,000

Less : Cost of imported goods
15,000

Cost allocated to exports and manufacturing
185,000

N - 2 Trading liability written off is allocated to exports and manufacturing only as it shall have no

connection with imports .

N - 3 Assumed that shares of listed company were disposed after holding for more than six year .

In this case it will be exempt .

N - 4 Dividend is covered under FTR .

N - 5 Income from Property

	Rent	(
20,000 x 12)		240,000

	Add : 1 / 10th of Un - adjustable advance : [150,000- (100,000 + 10) x 5 }] +10
10,000	

	RCT
--	-----

250,000

Less : Admissible deductions :

	Repair	allowance
(1 / 5th of 250,000)	50,000	

	Property	tax
5,000	55,000	

	Taxable
195,000	

N - 6 It is presumed that donation was given to approved institution , so eligible for tax credit .

N - 7 Following transactions shall have no treatment for computation of tax liability :

- 1 . FEBC encashed
- 2 . Purchase of agricultural land
- 3 . Drawings
- 4 . Foreign remittance upto Rs . 5,000,000
- 5 . Personal expenses
- 6 . Tax paid for the last year
- 7 . Expenditure on renovation of property

N - 8 Applicable Tax Regimes

1. Commercial Imports :

Commercial imports are subject to tax withholding u / s 148 @ 6 % of value of goods . Tax

withheld shall be minimum tax on income from such business . Tax liability shall be higher

of the following :

15,000,000 @ 6 %)	Tax withheld 9,000,000	(
--------------------	---------------------------	---

43.32 %)

(2,619,000 @

1,134,500

Tax under NTR
1,134,500

2. Exports :

Income from export business is taxable under MTR . Tax withheld shall be minimum tax

on this income . Exports subject to tax @ 1 % are Rs . 49,000,000 (i.e. , 50,000,000 as

Synopsis of Taxes

Questions & Answers – Individuals

[39-627]

1,000,000) . This income is taxable on the basis of the export proceeds realized .

Rs . 1,000,000 out of the total sales is not realized . It shall be subtracted while computing

the tax liability . Tax liability shall be higher of the following :

@ 1 %)	4,900,000	Tax withheld	(49,000,000
@ 43.32 %)	4,087,242	Tax under NTR	(9,435,000 4,900,000

Further , export proceeds realized is also subject to advance tax u / s 147 (6C) of Income

Tax Ordinance @ 1 % . Tax so withheld shall be adjustable against final tax liability .

3. Local Supplies of Rs . 150,000,000

These are subject to tax withholding @ 5.5 % . Tax so deducted shall be minimum tax on

income from supplies . Proportionate income from supplies is computed as below :

Income	from	local	sales
46,846,000			

Ratio	of	supplies	and	other	sales	=
150 : 75	or	2 : 1				

Income pertaining to supplies	(
46,846,000 + 3) x 2	31,230,667

Tax on this income under NTR at ART (i.e. , 31,230,667 @ 43.32 % 13,529,125) is

more than the tax withheld . In that case it will be taxable under NTR . Tax withheld shall

be adjustable against for the year .

4. Dividend :

Dividend received from a company which is exempt from tax is taxable @ 25 % of gross

amount of dividend . Tax at the same rate is withheld u / s 150 .

N - 9 Average Rate of Tax (ART)

Taxable income (from local sales , exports & imports) = 42,191 + 9,435 + 2,619 54,245,000

Tax on taxable income :

1,610,000 Tax on Rs . 5,600,000

21,890,250 Tax on Rs . 48,645,000 @ 45 %
23,500,250

ART : (Tax Taxable income) x 100 = (23,500,250 + 54,245,000) x 100 =
43.32 %

N - 10 Where the taxable income of an individual or an association of persons exceeds rupees ten

(10) million , he shall also pay a surcharge @ 10 % of gross income tax imposed under

Division I of Part I of the First Schedule to ITO . [4AB]

QUESTION

Mr. Asghar Abbas is assistant manager in an engineering organization . He has engaged you as his tax consultant and provided you with the following information of his estimated incomes and expenses for the year ending 30th June , 20x1 :

Salary Income (per month) Rs .

- (1) Basic salary 100,000
- (2) House rent allowance 45,000
- (3) Utility allowance 15,000
- (4) Medical allowance 10,000
- (5) Conveyance allowance 10,000

Synopsis of Taxes

Questions & Answers - Individuals

[39-628]

Mr. Asghar owns and maintains a car , which he uses partly for his personal and partly for business use of his employer . In January , 20x1 he remained admitted in the hospital and the employer reimbursed hospitalization charges of Rs . 250,000 / -

Property

Income

He own 5 shops , which are rented out . His income and expenses in this behalf are as under :

(1) Annual rent of 4 shops
720,000

(2) Shop 5 remained occupied for 7 months at a rent of Rs . 15,000 per month . It was

vacated through court order for which Mr. Asghar incurred Rs . 25,000 / - as legal

expenses .

20,000 (3) Ground rent paid

30,000 (4) Collection charges paid

(5) Property tax (It includes Rs . 5,000 / - of last year's tax not paid in that year)
10,000

60,000 Agricultural Income

20,000 Dividend received on investment in shares of a public limited company (gross)

The employer has deducted tax at source from salary amounting to Rs . 120,000 .

Required : You being a tax consultant of Mr. Asghar Abbas , calculate his taxable income and tax

payable along with his tax return . (Tax Year 20x1) . (M - 20)

(Question # 5 - ICMAP - May - 2006)

ANSWER

Mr.

Asghar Abbas

Resident Individual - Salaried

Tax Year 20x1

Taxable Income & Tax

Liability .

Salary Income : Rs .

Basic salary (100,000 x 12) 1,200,000 House rent allowance (45,000 x 12) 540,000

Utility allowance (10,000 x 12) [N - 1] (15,000 x 12) 180,000 Medical allowance 120,000

Conveyance allowance (10,000 x 12) 120,000

Conveyance facility [N - 2] 0 Taxable salary income 2,160,000

Income from Property [N - 3] 356,200

Income from Other Sources - Dividend received [N - 7] 0 2,516,200 Income taxable under NTR

Tax Liability Tax under NTR :

	Tax	on	Rs	.	2,200,000
180,000				289,050	

	Tax	on	Rs	.	316,200	@	25	%
79050								

Tax under FTR - Dividend (20,000 @ 15 %) [N - 7] 2,050 Total tax 3

Less : Tax withheld on : Salary

120,000

3,000

Dividend (20,000 x 15 %) [N - 7]
(123,000)

139,050

Net tax payable

N - 1 Medical Allowance and Reimbursement of Medical Expenses

Where medical expenses are reimbursed to an employee , (which is generally allowed as per terms of employment) , then any amount received as medical allowance shall be fully taxable .

Reimbursement of medical expenses by the employer is exempt from tax if allowed as per terms of employment .

N - 2 There is no such provision in the Income Tax Rules , 2002 which can cater the situation given in question ; hence , the same is ignored .

N - 3 Income from Property :

Rent of 4 shops

105,000 Rent of 5th shop (15,000 x 7)

Rent chargeable to tax

825,000

Less : Admissible deductions

Repair allowance (1 / 5th of 825,000)
165,000

	Legal charges	[
N - 4]	25,000	

240,000 Ground rent (20,000 × 12)

28,800	Collection charges (within limit of 4 % of RCT) [N - 5]
--------	---

10,000	Property	tax	(468,800)
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356,200 Taxable

N - 4 Legal charges incurred for defending title of the property or any suit connected with the property is admissible .

N - 5 Administrative expenses (including rent collection charges) are allowed as deduction with a

condition that total deduction should not exceed 4 % of RCT . In the instant case , 4 % of RCT

is Rs . 28,800 , so instead of actual expenses incurred (Rs . 30,000) Rs . 28,800 shall be

allowed as deduction .

N - 6 Agricultural income is exempt from tax .

Having said that , where a person claims agricultural income as source of investment ,

expenditure , etc. , u / s 111 , then such explanation shall be accepted to the extent of

agricultural income worked back on the basis of agricultural income tax paid under the

relevant provincial law . [111 (1)]

N - 7 Dividend : Dividend received by an individual is taxable under FTR . It is subject to tax

withholding @ 15 % of gross dividend . Tax deductible u / s 150 shall be the tax liability in

respect of this income .

QUESTION - 39.5

Mr. Jehangir Ahmad (JA) worked as Head of I.T. Division in Sutlej Pakistan Limited (SPL) for last ten years . From July to September 20x4 he earned a basic salary of Rs . 900,000 . He was also

Synopsis of Taxes

Questions & Answers - Individuals

[39-630]

provided with rent free furnished accommodation , in respect of which SPL paid a rent of Rs . 35,000 per month . He resigned with effect from October 1 , 20x4 .

In July 20x1 , JA was granted an option to acquire 1000 shares of SPL's Parent Company , which is listed in a foreign country . The option was exercisable on completion of three years ' employment with the Company . He paid an amount equivalent of Rs . 100,000 to acquire the option whereas the fair market value of such option at that time was Rs . 150,000 . On July 4 , 20x4 he paid a sum equivalent of Rs . 200,000 to acquire the said shares which were issued to him on July 21 , 20x4 when the market value of the shares was equivalent of Rs . 350 per share . JA disposed off the shares on October 1 , 20x4 . The net sales proceeds received in Pakistan amounted to Rs . 344,000 i.e. after adjustment of income tax deducted by the foreign government amounting to Rs . 20,000 , brokerage commission of Rs . 6,500 and bank charges of Rs . 2,500 .

JA has also been carrying out a business of computer software in the ground floor of a house owned by his wife , since many years . On March 31 , 20x5 he converted the business into a limited company . The company took over the assets of the business at their fair value of Rs . 2.6 million and in consideration thereof , 260,000 shares of Rs . 10 each were issued , in the name of JA . The book value of the assets taken over on the date of transfer was Rs . 2.2 million .

The company has entered into a large contract for supply of software to a renowned Japanese firm over a period of two years . In view of limited resources , the company is not considering offers from other clients .

The office in which the business was being carried out has been rented to the company at Rs . 50,000 per month whereas the prevailing market rate is Rs . 35,000 per month . The profit of the company up to June 30 , 20x5 , excluding the rent , is expected to be Rs . 350,000 .

JA has earned an income of Rs . 850,000 from the business , before the assets were transferred to the company . His wife has no other income except dividend income of Rs . 50,000 on which tax has been deducted at source

Required : Compute the taxable income of Mr. Jehangir , his wife and the company , for the Tax Year 20x5 . Give reasons for the treatment made by you , wherever necessary . (M - 15)

(Question # 1 - ICAP - June - 2008)

ANSWER

Ahmad

MR . Jehangir

Resident Individual - Non Salaried

20x5

Tax Year

Taxable Income and Tax Liability

Salary Income

Basic salary 900,000

Rent free accommodation [N - 1] 405,000

Shares acquired under option [N - 2] 50,000 1,355,000

Income from Business

Income from business prior to transfer 850,000

Gain on transfer of assets : [N - 5]

	Disposal consideration	[
N - 7]	2,200,000	

	Less	:	Value	as	per	books
2,200,000	0		850,000			

Synopsis of Taxes Questions & Answers – Individuals [39-631]

Capital Gain

Disposal consideration [N - 3] 373,000

Less : Cost of acquisition [N - 4] 350,000 23,000

Taxable income 2,228,000

Tax Liability for the Year

Tax on Rs . 1,600,000 170,000

Tax on Rs . 628,000 @ 30 % 188,400 358,400

Less : Foreign tax credit [N - 6] (3,700)

Net tax liability 354,700

Mrs.

Jehangir Ahmad

Resident Individual - Non Salaried

Tax Year 20x5

Taxable Income and Tax Liability

There will be no tax liability for the year as the rental income of Rs . 150,000 (taxable under NTR) is below the threshold , and the dividend income of Rs . 50,000 is covered under FTR .

X Limited

Resident Company

Tax Year

20x5

Taxable Income and Tax Liability

Profit for the tax year 350,000

Less : Rent of office (50,000 x 3) 150,000

Income for the year 200,000

The company is engaged in the business of export of software . Export proceeds from such business is subject to tax withholding u / s 154A . Tax so withheld shall be final tax under FTR . As the company has no income taxable under Alternate Corporate Tax , the provisions of section 113C do not apply to it .

N - 1 Rent Free Accommodation

Taxable value of accommodation shall be higher of the following amounts :

i) Rental value of accommodation (35,000 x 3)
105,000

OR

ii) 45 % of basic salary (900,000 x 45 %)
405,000 405,000

N - 2 Shares Acquired Under Option Scheme

Fare value of shares (1,000 x 350)
350,000

300,000	Less	:	Price	paid
---------	------	---	-------	------

Salary income

Value of option in itself is not taxable

N - 3 Disposal consideration of shares :

344,000 Net proceeds realized

20,000	Add	:	Foreign	income	tax	deduction
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Synopsis of Taxes

Questions & Answers – Individuals

[39-632]

6,500 Brokerage commission

Bank charges

373,000 Gross amount of consideration

N - 4 Fair market value at the time of acquisition (i.e. , Rs . 350 per share) shall be the cost of

acquisition .

N - 5 Gain or loss on disposal of asset shall not be computed on disposal of assets if the business is disposed by an individual to a wholly - owned company . [95 (1)]

N - 6 Foreign Tax Credit

Foreign tax credit for foreign - source income shall be lesser of the following amounts :

1) Foreign income tax
20,000

OR

ii) Pakistan income tax (358,400 + 2,228,000) X 23,000
3,700 3,700

N - 7 It is a case where business of an individual is disposed to a wholly owned company and consideration is received in the form of shares of that company . Under such a case the disposal consideration is equal to the value of assets appearing in the books of the transferor . [95 (2) (b)]

QUESTION - 39.6

Mr. Shahbaz is a flight engineer in a Pakistani Airline . He provided the following particulars of his sources of income pertaining to the tax year 20xA :

Salary Rs . 2,100,000

Bonus 100,000

Reward on passing an examination required by the terms of his employment 35,000

House rent allowance (per month) 100,000

Conveyance allowance (per month) 15,000

Medical allowance (Actual expenses Rs . 170,000) 200,000

Entertainment allowance 120,000

Flying allowance 600,000

Property income (including Rs . 20,000 per month for rent of furniture & fittings) 1,200,000

Expenditures claimed :

	Legal	expenses
75,000		

	Property	tax
50,000		

	Insurance	premium
30,000		

	Water charges paid (current Rs . 100,000 + arrears Rs . 20,000)	120,000
--	---	---------

Dividend gross (Zakat deduction Rs . 2,500 & tax deduction Rs . 15,000) 100,000

Leave encashment 250,000

Birthday present 10,000

Insurance money received on maturity of policy 1,000,000

Capital gain on sale of shares of a private company (after retaining for 18 months) 250,000

Expenses on children education (receipts are available) 400,000

Synopsis of Taxes

Questions & Answers – Individuals

[39-633]

Professional books purchased (receipts are available) 50,000 Zakat paid

100,000

Tax deducted at source 700,000

Required : Compute total income and tax liability of Mr. Shahbaz for the tax year 20xA . (M - 20)

(

Question # 4 - ICMAP - November - 2008)

ANSWER

Mr. Shahbaz

Tax Year 20xA

Resident Individual - Salaried

Taxable Income & Tax Liability

Salary Income

Salary 2,100,000

Bonus 100,000

Reward on passing an examination [N - 1] 35,000

House rent allowance (Rs . 100,000 x 12) 1,200,000

Conveyance allowance (Rs . 15,000 x 12) 180,000

Medical allowance [N - 2] 0

Entertainment allowance 120,000

Flying allowance [N - 10] 600,000

Leave encashment 250,000 4,585,000

Income from Property [N - 5] 613,000

Capital Gain Gain on sale of shares of private company [N - 4] 250,000

Income from Other Sources

	Rent of furniture and fittings (Rs . 20,000 x 12)	[
N - 3]	240,000	

5,688,000

Total income

Less : Deductible Allowances :

	Zakat deducted from dividend	[N
- 9]	2,500	

[N - 11]

	Education expense .	0
(2,500)		

Taxable income 5,685,500

Tax Liability

Tax on Rs . 4,100,000 700,000

Tax on Rs . 1,585,500 @ 35 % 554,925

Total tax for the year 1,254,925

Less : Tax deducted at source (700,000)

Tax Payable 554.925

N - 1 Reward from employer is just like bonus and is taxable .

N - 2 Medical allowance of Rs . 200,000 is within the exemption limit of Rs . 10 % of basic salary (i.e. , Rs . 210,000) .

N - 3 Income from rent of furniture and fitting is taxable as income from other sources , i.e .. Rs . 2,000 x 12 = 24,000 .

Synopsis of Taxes

Questions & Answers - Individuals

[39-634]

N - 4 Actual gain on disposal of a capital asset is taxable . Reduction of 25 % previously available is

withdrawn .

N - 5 Income from Property : Rent (1,200,000 240,000) 960,000

Less : Admissible deductions :

Repair allowance (1 / 5th of Rs . 960,000) 192,000

Legal charges 75,000

Property tax 50,000

Insurance premium 30,000

347,000

613,000

Taxable income from property

N - 6 Birth day present is not taxable under the Income Tax Ordinance , 2001 .

N - 7 Amount received on maturity of insurance policy is not taxable , hence , shall be ignored while

computing taxable income .

N - 8 There will be no tax treatment for purchase of professional books . Had the person been deriving income from business , this expense would have been allowed as deduction or capitalized and depreciated as per law .

N - 9 ' Zakat paid ' seems to be paid by Mr. Shahbaz privately . It cannot be claimed as deductible allowance . Only such Zakat shall be considered which is paid under the Zakat and Ushr

Ordinance , 1980 , which is collected at source or deposited in the Government Zakat Fund .

Zakat deducted by the company while making payment of dividend is under the Zakat Ushr

Ordinance , 1980. It will be allowed as ' deductible allowance ' .

N - 10 From tax year 2023 , flying allowance received by a flight engineer is taxable under NTR .

N - 11 Deductible allowance for education expenses shall be admissible only if the person's taxable

income for the year is less than Rs . 1,500,000 .

QUESTION -

39.7

Mr. Jamshaid is an executive in a group of companies . He derived following incomes during the tax

year ended June 30 , 20x1 :

Particulars

(i) Salary Income (per month) : Rs .

80,000	Basic	Salary
16,000	House rent	allowance
2,000	Utility	allowance
2,000	Medical	allowance
10,000	Expenses on children books (for the year)	

He is also provided with a 1000cc car , which is partly used for company's business . As per

books of accounts , the cost of the car is Rs . 2,000,000 . He has also been granted with a

housing loan of Rs . 600,000 on which no profit / interest has been charged .

Synopsis of Taxes

Questions & Answers – Individuals

[39-635]

in addition to above , he also received gratuity of Rs . 70,000 from his previous employer

during the year . The gratuity fund is not approved by the Commissioner or Federal Board of

Revenue .

Tax deducted at source from salary amounted to Rs . 50,000 .

(ii) Property Income :

Rent from a house let out
Rs . 30,000 per month

He incurred following expenses on this property during the
year :

Repairs
30,000

Collection charges
7 % of rent

Ground rent
10,000

	Property	tax
15.000		
	Rent - sharing with housing finance	
company		
3,000 per month		

He received a deposit of Rs . 200,000 , not adjustable against rent , out of which he refunded

Rs.100,000 to previous tenant who vacated the house after 3 years ' tenancy .

(iii) Other Income ¹ : Rs .

[1. www.icmainternational.com](http://www.icmainternational.com)

www.icmainternational.com

	Profit on PLS bank account (net of 15 % tax withheld)
17,000	

	Commission from insurance company and from sale of plots
17,600	

(net of 12 % taxes withheld)

	Lecturing and examination services fees from professional institutes
17,800	

(net of 11 % tax withheld)

	Birthday	present	-	cash	bonds
50,000					

(iv) Gain on sale of shares of KayToo Ltd. , a public listed company disposed after three months

of acquisition 55,000

Required : As a tax consultant you are required to compute Mr. Jamshaid's total income and his income tax liability for the tax year 20x2 .

(M - 20) (Question # 4 - ICMAP - May - 2009)

ANSWER

Mr. Jamshaid

Resident Individual - Salaried

Tax Year 20x2

Taxable Income & Tax Liability

Salary Income

Basic salary (80,000 x 12) 960,000

House rent allowance (16,000 x 12) 192,000

Utility allowance (2,000 x 12) 24,000

Medical allowance [N - 1] 0

Vehicle facility (5 % of Rs . 2,000,000) [N - 3] 100,000

Gratuity from previous employer 70,000

Less : Exempt	(50 % of Rs .
70,000)	35,000
35,000	[N - 5]

Taxable salary income 1,311,000

Synopsis of Taxes

Questions & Answers – Individuals

[39-636]

Income from Property [N - 10] 230,520

Income from other Sources

Profit on bank account	[N - 6]
0	

Lecturing and examination fee	[N - 8]
0 0	

Taxable income 1,541,520

Tax Liability

Tax on income under NTR :

Tax on Rs . 1,200,000	30,000
-----------------------	--------

	Tax on Rs . 341,520 @ 15 %	51,228
81,228		
Tax on incomes under MTR / STR :		
	Lecturing fee (20,000 @ 11 %)	[N - 8]
2,200		
	Profit on bank account	
		[N - 6]
		3,000
	Gain on securities (20,000 @ 15 %)	[N - 11
] 3,000	8,200	
Total tax 89,428		
Less : Tax withheld from : 50,000		
	Salary	
	Profit on bank account	[N - 6]
3,000		
	Lecturing fee	2,200
(55,200)		

Tax payable 34,228

N - 1 Medical allowance is exempt from tax upto 10 % of basic salary . The allowance received is within the exemption limit ; hence , nothing shall be included in salary income .

N - 2 Expenses on children education is presumed to have been paid by the employee . Deductible allowance u / s 60D is restricted to tuition fee only . There is no tax treatment for books purchased .

N - 3 Vehicle is provided by employer partly for business use . Under this case 5 % of the cost of the vehicle shall be included in salary income .

N - 4 An amount computed at the ' Benchmark Rate ' shall be included in salary income of an employee if his employer has granted any interest free loan to him .

N - 5 Where gratuity is received from unrecognized fund , the lesser of Rs . 75,000 or 50 % of the amount of gratuity received shall be exempt and remaining amount shall be taxable .

N - 6 Profit on PLS bank account is covered under Final Tax Regime u / s 7B of Income Tax Ordinance . Tax withheld . @ 15 % shall be the tax liability . This income shall not be taxable under NTR .

N - 7 Brokerage and commission are covered under Final Tax Regime , so are not be included in total income . Tax withheld shall be final tax in respect of this income .

N - 8 Tax deducted from lecturing and examination services fees is minimum tax u / s 153 of the Income Tax Ordinance . As applicable tax rate based on taxable income is 3.74 % (i.e. , 57,690 1,541,520 × 100) whereas tax deducted at source is @ 11 % which shall be final tax . This income shall not be included in total income .

N - 9 Birthday present in cash bonds is taxable under the head ' Income from other sources ' .

N - 10 Income from Property :

Rent (30,000 x 12)

Synopsis of Taxes

Questions & Answers - Individuals

[39-637]

N - 9 Birth day present is not taxable under the Income Tax Ordinance .

N - 10 Income from Property :

	Rent	(Rs . 30,000 x 12)
360,000		
	Deposit not adjustable against rent 1 / 10th of Rs . 170,000 (i.e. , Rs . 200,000-30,000)	17,000
	Total RCT-	
377,000		

Less : Admissible deductions :

75,400	Repair allowance (1 / 5th of Rs . 377,000)	
22,620	Collection charges (6 % of Rs . 377,000)	
10,000	Ground rent	
10,000	Property tax	
36,000	Sharing in rent	(Rs . 3,000 x 12)
	154,020	
222,980		

N - 11 Gain on sale of shares of listed company is taxable as a separate block . It is assumed that these shares were disposed off within a period of less than twelve (12) months from their acquisition .

QUESTION - 39.8

Ms. Saima is a telecommunication engineer working with a leading GSM operator as their chief technical officer for the last many years . She has provided you with the following information relating to her assessment for the year ended June 30 , 20x2 .

(i) Monthly salary of Rs . 500,000 was paid to her by the company consisting of the following :

400,000	Basic	Salary
40,000	Medical	allowance
60,000	Conveyance	allowance

The salary was credited to her bank account on the 25th of every month . She incurred actual medical expenses of Rs . 100,000 during the year . These expenses were reimbursed to her by the company in accordance with the terms of her employment .

Tax deducted u / s 149 is Rs . 1,500,000

(ii) She received a bonus of Rs . 1.0 million . Employer also agreed to pay tax on such bonus to the extent of Rs . 200,000 .

(iii) Apart from her employment with a GSM operator , she also served as a visiting faculty member at a local engineering university and received after tax income of Rs . 445,000 . Ms.

Saima incurred an expenditure of Rs . 70,000 towards this service . Withholding tax was deducted from the payments made by the university .

(iv) In August 20x1 , she participated and won quiz competition arranged by Pakistan Urdu Academy . The prize money of Rs . 200,000 was paid to her after deduction of a tax of Rs . 30,000 .

(v) She inherited a plot of land from her father on his death nine (9) years ago . On October 1 , 20x1 she entered into a contract of sale with Mr. Moin for a consideration of Rs . 50 million . Mr. Moin paid a deposit of Rs . 1.0 million and agreed to pay the balance within one month of the date of contract . On due date , Mr. Moin defaulted in making the payment upon which

Synopsis of Taxes

Questions & Answers - Individuals

[39-638]

Ms. Saima forfeited the deposit in accordance with the terms of the contract . Later on , the plot was sold to Mr. Parkash at a price of Rs 50 million .

(vi) Ms. Saima purchased another plot of land for a consideration of Rs . 56 million . She borrowed Rs . 5.0 million from her sister for the purchase of this plot . The amount was received in cash .

(vii) Ms. Saima also inherited a painting from her father . The painting was valued at Rs . 500,000 . On April 1 , 20x2 she gifted the painting to her brother who came from Canada after five years . He went back to Canada after staying in Pakistan for a period of two months . The value of the painting was Rs . 1.0 million when it was gifted .

Required : Compute the taxable income and tax liability of Ms. Saima for the tax year 20x2 . Give brief reasons under the Income Tax Ordinance , 2001 in support of your treatment of each of the above items . (M - 18) (Question # 1 - ICAP - December - 2009)

ANSWER

Ms. Saima

Resident Individual - Non - Salaried

	Tax	Year	20x2
Taxable Income and Tax Liability			
Salary Income Rs . Rs .			
Basic salary (400,000 x 12) 4,800,000			
Medical allowance [N - 1] (40,000 x 12) 480,000 Conveyance allowance (60,000 x 12) 720,000			
Bonus 1,000,000 Tax on bonus payable by employer 200,000 Medical expenses reimbursed [N - 2]			
7,200,000			
Income from Property [N - 5] 1,000,000			
Capital Gain [N - 3] 0			
Income from Other Sources			
	Loan from sister	[N - 4]	
5,000,000			
430,000			
Taxable income Remuneration from University [N - 6] 13,630,000			
Tax Liability 1,610,000 Tax on Rs . 5,600,000 3,613,500			

Tax on Rs . 8,030,000 @ 45 % 5,223,500

Less : Tax paid by employer 200,000

1,500,000

Tax deducted u / s 149

55,000

Tax deducted by University [N - 6]
(1,755,000)

Net tax payable 3,468,500

N - 1 Medical allowance is exempt only if no other medical facility is provided by employer . As reimbursement of medical expenses is allowed , hence , medical allowance shall be taxable .

N - 2 Reimbursement of medical expenses , as per terms of employment is exempt from tax .

Synopsis of Taxes

Questions & Answers – Individuals

[39-639]

N - 3

As a general rule ' no gain or loss shall be taken to arise on disposal of an asset by reason of

a gift

of the asset to a relative . [79 (i) (c)]

For this painting cost disposal consideration for Ms. Saima shall be the value at which it

stood at the time of inheritance .

Residential status of the acquirer has no impact on gift of such an asset to a relative .

N - 4 Any loan received in cash shall be treated as income and charged to tax as ' Income from

Other Sources ' . [39 (3)]

N - 5 Forfeited deposit against an agreement to sell a property is part of RCT (rent chargeable to tax) so shall be taxable as ' Income from Property ' . Repair allowance cannot be allowed as it is restricted to the rent from building .

N - 6 Income from services rendered as a visiting faculty member of a university is income from other sources . But where tax at source has already been withheld that shall be treated as minimum tax . The income is computed as below :

445,000	Receipt	after	tax	deduction
55,000	Add	:	Tax deducted at source (445,000 + 89) x 11	
500,000	Gross		amount	received
(70,000)	Less	:	Expenses	incurred
430,000	Taxable			income

As

tax under NTR (at average rate of tax) is higher than the tax withheld , this income shall be taxable under NTR and tax withheld amounting to Rs . 55,000 shall be adjustable .

N - 7 Prize on wining quiz competition is covered under Final Tax Regime . Tax withheld shall discharge tax liability in respect of this income .

N -

8 Gain on sale of immovable property (open plot) is taxable under STR . But where disposal is made after six (6) year of acquisition , it shall be exempt from tax .

QUESTION -

39.9

Imran is a citizen of Pakistan . During the first nine months of the tax year 20x1 , he worked as financial controller of a Pakistan based subsidiary of a multinational group . After that he was transferred and employed as Head of Finance of the UAE based subsidiary of the Group . Imran's family stayed in Dubai throughout the year . The detail of income earned by him during the tax year

20x1 is given below :

From the UAE company

Imran earned US \$ 30,000 during the three - month's employment in the UAE . No tax is deducted from salary earned and paid in the UAE . One US \$ is equal to Rs . 100 .

To relocate Imran in UAE , the UAE Company incurred one time miscellaneous cost of

Rs . 100,000 to move the household items of Imran from Pakistan to Dubai .

From Pakistan subsidiary

(a) Basic salary Rs . 500,000 p.m.

(b

) Medical allowance Rs . 45,000 p.m. (no free medical or hospitalization facility is given to

Imran under the terms of employment) .

Synopsis of Taxes

Questions & Answers – Individuals

[39-640]

(c) The company has provided Imran a TV costing Rs . 40,000 on which the company charges depreciation at the rate of 20 % in its books of accounts . This asset is non - returnable .

(d) Company has provided interest free loan to Imran amounting to Rs . 5 million which remained outstanding throughout his employment with the company . Imran acquired a flat from the amount of loan and rented it out at the rate of Rs . 50,000 p.m. for a period of seven months . He also paid Rs . 35,000 as property tax during the period .

(e) His family's housing cost in Dubai borne by the company amounts to Rs . 30,000 p.m. Imran's travelling and related cost borne by the Pakistan subsidiary to meet his family amounts to Rs . 30,000 p.m.

(f)

(g) During the employment with the Pakistan subsidiary . Imran had exercised option to acquire 300 shares of the parent company at the rate of US \$ 8 per share . At the time when the option was exercised the value of the share was US \$ 10 (Rs . 580) per share . Furthermore , during the year Imran sold 200 options previously received by him at a price of US \$ 3 per option (Rs . 171)

after holding it for more than a year . Neither the Pakistan subsidiary nor Imran incurred any cost in this regard .

Required : Compute the taxable income of Mr. Imran for the tax year 20x1 based on the data

(M - 16) provide above .

ANSWER

Mr. Imran
Resident Individual -
Salaried

Tax Year 20x1

Liability Taxable Income and Tax

Salary Income

Salary from UAE Company [N - 1]

Salary received (US \$ 30,000 x Rs . 100) = 3,000,000
Nil

Nil

Relocation allowance [N - 2]
Nil

Salary from Pakistan Subsidiary :

4,500,000 Basic salary (Rs . 500,000 × 9)

405,000 Medical allowance (Rs . 45,000 × 9)

450,000 Nil Less ; Exempt - 10 % of basic salary

375,000 Interest free loan (Rs . 5,000,000 × 10 % / 9 / 12) [N - 3]

40,000 Cost of TV [N - 4]

360,000 House facility to family (Rs 30,000 × 12) [N - 5]

Traveling expenses (Rs . 30,000 × 9) [N - 6]

270,000

Nil 5,545,000 Employee Share Option [N - 7]

Income from Property [N - 9] Rent chargeable to Tax (RCT) - (50,000 × 7)

350,000

Less : Deductions :

Repair allowance (1 / 5th of 350,000)
70,000

Property tax 35,000

Mark - up on loan from employer [N - 10]
375,000 480,000 Nil

Taxable income 5,545.000

Synopsis of Taxes Questions & Answers - Individuals [39-641]

Computation of Tax Liability Tax on Rs . 4,100,000

Tax on Rs . 1,445,000 @ 35 % 700,000- 505,750

Tax liability for the year 1,205,750

N - 1 Foreign source salary income of a Pakistani is exempt u / s 51 (2) if the person leaves Pakistan during the tax year and remains abroad during that tax year . Under this provision the salary earned by Mr. Imran from UAE shall be exempt in this tax year .

N - 2 Relocation allowance is just like T.A./D.A . , so exempt from tax .

N - 3 Interest at the benchmark rate will be included in salary income . As Imran remained in employment for nine months so , interest is also calculated for the same period .

N - 4 Cost of any asset provided by the employer shall be included in salary income of the employee as it is non - returnable .

Nothing
will be added in salary income of an employee for such an asset even if it is
returnable
to company , added in salary . This opinion is based on the strength of section 13
of the
Income Tax Ordinance which does not render such a benefit as taxable .

As this
asset is not being used for the business of the employer so depreciation cannot be

charged .

N - 5 Any benefit to any family member or dependent of an employee is taxable as salary income of the employee . House provided to the family of Imran in Dubai , while he was working in Pakistan cannot be treated as rent free accommodation . Thus the full amount shall be taxable .

N - 6 Travelling expenses to meet family in UAE is not exempt from tax . As Imran was shifted to UAE after nine months , so expenses for the same period had been incurred by his employer , which are included in income of Imran .

N - 7 Imran exercised share option during his employment in Pakistan . Now this year he is disposing of the shares after holding for more than a year . Benefit on account of share option is taxable in the year when the share option is excised . As the shares are being disposed after more than a year , so nothing can be included in salary income for the current year on account of exercise of share option .

N - 8 There is a capital loss of Rs . 81,800 on disposed of shares . This loss can be set - off and shall be carried forward for set - off against capital gain only . As there is no capital gain for the tax year hence , this loss shall be carried forward . The loss is computed as below :

	Cost of acquisition (200 Rs . 580)	116,000
	Less Disposal consideration (200 x 171)	
34,200	81,800	

N - 9 Property Income is taxable under NTR . Deductions are allowed as per normal practice . Deductions in the instant case exceed RCT resulting in loss for the year . Loss under this head can be set - off against income under any other head except salary but cannot be carried forward . As the person has only salary income ; so loss cannot be set - off or carried forward .

Okay, here is the text from the page you just uploaded:

Synopsis of Taxes

Questions & Answers – Individuals

[39-642]

N - 10 It is allowed as deduction u / s 13 (8) of the Income Tax Ordinance , which provides that where interest - free loan from employer is used for acquisition of any asset or property producing taxable income , the employee shall be treated to have been paid an amount as profit equal to benchmark rate . Amount added in salary income is being allowed as deduction .

QUESTION - 39.10

Compute tax liability of Mr. X from property for the year ended 30th June , 20x2 from the following data and state how it will be dealt with in his assessment of income tax :

1) Owns two houses , one having annual value of Rs . 240,000 assessed by Property Tax Authorities is occupied for own residence and the other having similarly assessed annual value of Rs . 300,000 is let out .

ii) House let out from 1st September , 20x1 on a contract for three years at a rent of Rs . 22,000 per month vacant in the earlier months .

iii) Received advance rent of Rs . 120,000 to be adjusted during the third year of contract .

iv) Repair expenses of the house actually incurred Rs . 16,800 .

v) Insurance premium for a fire / riot policy Rs . 4,080 .

vi) Property tax payable bi - annually Rs . 6,000 . Total payable for the year Rs . 12,000 but only one payment actually made during the year .

vii) Interest paid Rs . 25,000 on loan , obtained for marriage of daughter , against the mortgage of

the house .

viii) Rent collection charges actually incurred Rs . 1,200 .

Mr. X has also some other incomes which are chargeable to tax .

Please give reasons , where necessary for your treatment of various items .

(CA - Final , April - 1991)

ANSWER

Mr. X

Resident Individual - Non

Salaried

Taxable Income

Income from Property

Rent Chargeable to Tax (RCT) [N - 1] 250,000

Less : Admissible deductions :

	Repair allowance (1 / 5th of RCT)
50,000	

	Property tax [N - 4]
3,333	

	Collection charges [N - 3]
1,200	

	Insurance Premium [N - 4]
2,267	56,800

Taxable Income 193,200

Tax Liability

As taxable income is below the threshold , there will be no tax liability for the tax year .

Synopsis of Taxes

Questions & Answers – Individuals

[39-643]

N - 1 Rent Chargeable to Tax (RCT) :

Higher of the following amount shall be taken as RCT :

	A)	Actual Rent (Rs . 22,000 x 10)
220.000		

B) Fair Market Rent (300,000 + 12) x 10

250.000 250,000

N - 2 There will be no tax treatment for advance which is adjustable against rent .

N - 3 Only rented property is taxable ; hence , expenses relating to such house may be claimed as deductions .

N - 4 Admissible deduction on account of rent collection charges shall be the lesser of the 4 % of RCT (which comes Rs . 10,000) or an amount that is actually spent (i.e. , Rs . 1,200) .

N - 5 Property tax and insurance premium has been calculated according to annual value of both the properties as determined by the Property Tax Authorities .

	i) Insurance Premium	4,080 +
540,000 x 300,000 =	2,267	

	ii) Property Tax	6,000+ 540,000
x 300,000 =	3,333	

N - 6 Interest on loan obtained against mortgage of a property is allowed as deduction by ignoring the purpose of the loan .

It is assumed that the mortgaged house in the one which is used by Mr. X as residence ;

thus , interest paid shall not be allowed as deduction . Had the rented house been

mortgaged , a deduction of Rs . 25,000 would have been allowed against ' Income from Property ' .

N - 7 Tax in respect of other incomes will be determined under NTR .

QUESTION - 39.11

Ms. Fatima Hasan was working as a Marketing Head with Consumer Products Limited (CPL) at following emoluments :

- (1) Basic salary Rs . 100,000 per month ;
- (ii) House rent allowance Rs . 40,000 per month ; and
- (iii) Utilities allowance Rs . 15,000 per month .

In addition to the above cash emoluments , she was provided with a Honda Civic car , exclusively for official use . The cost of car to the company was Rs . 1,000,000 . As per company's policy , the car was sold to Fatima in January at the written down value of Rs . 100,000 whereas the fair market value of the same at the time of sale was Rs . 300,000 .

In May , Fatima was approached by Pharma Industries (Pvt .) Limited (PIL) . They offered her employment at a higher salary and some extra benefits , along with a one - time payment of Rs . 200,000 as an inducement to accept their offer . Fatima accepted PIL's offer by resigning from CPL with effect from June 1 , 20x1 . She joined PIL from July 1 , 20x1 . The amount of Rs . 200,000 was , however , paid to her on June 29 , 20x1 .

During the year , Fatima has also undertaken the following transactions :

- (i) Shares in Queens Pakistan (Pvt .) Limited were sold for Rs . 500,000 . These shares were acquired six years ago at a cost of Rs . 200,000 .

Synopsis of Taxes

Questions & Answers - Individuals

[39-644]

- (ii) A residential plot inherited 7 years ago was sold for Rs . 1,000,000 . The fair market value of the plot at the time of inheritance was Rs . 200,000 .

- (iii) A painting purchased at a cost of Rs . 100,000 was sold for Rs . 75,000 .

- (iv) She had won a cash prize of Rs . 250,000 in a quiz show . Tax of Rs . 50,000 was deducted from the prize money under section 156 .

- (v) Dividend of Rs . 50,000 was received on account of shareholding in a listed company . Tax of Rs . 5,000 was deducted under section 150 .

- (vi) She received a fee of Rs . 100,000 in consideration for preparing a research paper for a foreign University . Fatima incurred Rs . 10,000 on the printing of research paper and courier charges for sending the paper abroad .

- (vii) An amount of Rs . 50,000 was donated to an approved charitable institution .

In the light of above information , compute the taxable income of Ms. Fatima for the tax year 20x1 by giving brief explanation for the items not included in the taxable income .

(M - 15)

ANSWER

Ms.

Fatima Hasan

Resident Individual -

Salaried

Tax Year 20x1

Taxable Income and Tax Liability

Salary Income Rs .

Basic salary (Rs . $100,000 \times 11$) [N - 1] 1,100,000

House rent allowance (Rs . $40,000 \times 11$) [N - 2] 440,000

Utilities allowance (Rs . $15,000 \times 11$) [N - 3] 165,000

Conveyance facility [N - 4] Nil

Benefit on purchase of car from employer : [N - 5]

	Fair	market	value
300,000			

	Price		paid
100,000		200,000	

Benefit from prospective employer [N - 6] 200,000

Total salary income 2,105,000

Capital Gain

Gain on sale of shares in Queens Pakistan (Pvt .) Limited [N - 7] 300,000

Loss on sale of painting [N - 9]

Income from Other sources

Income from research paper :

	Gross	receipt
100,000		

	Less	:	Expenses
10,000	90,000		

Taxable income 2,495,000

Tax Liability

Tax on Rs . 2,200,000 180,000

Tax on Rs . 295,000 @ 25 % 73,750

Total tax 2537

Synopsis of Taxes **Questions & Answers - Individuals** **[39-645]**

Less : Tax credit for donations (253,750 + 2,495,000) x 50,000 (5,085)

Tax under NTR 248,665

Tax on disposal of residential plot [N - 8] 0

Total tax for the year 248,665

N - 1 She has worked for eleven months , so salary and other perquisites shall be computed for the

same period .

N - 2 House rent allowance is totally taxably .

N - 3 Utilities allowance is taxable .

N - 4 Conveyance is provided for official use only ; hence , nothing will be added in salary income .
N - 5 Any benefit provided by the employer as reduced by any amount paid by the employee for such benefit is included in salary income .

N - 6 Any benefit from past , present or prospective employer is taxable as salary income . The inducement received from PIL is also taxable as it is received during the tax year .

N - 7 Gain on disposal of shares is computed as below :

Disposal consideration	500,000
Less : Cost of acquisition	200,000
	300,000

N - 8 Gain on disposal of immovable property (plot) is taxable under the Income Tax Ordinance as a separate block of income . However , it will not be taxable if disposal is made after six years of its acquisition .

N - 9 Loss on sale of painting is Rs . 25,000 (i.e. , Rs . 100,000 less Rs . 75,000) , but is will be ignored as section 38 (5) provides that loss on this asset will not be recognized .

N - 10 Cash prize received is taxable under FTR , thus ignored while computing taxable income .

N - 11 Dividend is taxable under FTR .

N - 12 Tax credit at the average rate of tax is allowed in respect of donations to approved institutions subject to the conditions contained in section 61 of the Income Tax Ordinance .

QUESTION - 39.12

Explain the correct tax treatment in each of the following situations :

(1) Nine years ago , Hamid inherited a rare sculpture of Buddha which had a fair market value of Rs . 200,000 on the date of inheritance . In August 20x1 , the sculpture was sold by him at Rs . 500,000 .

(ii) In June , 20x1 Yahya entered into an agreement for sale of his residential plot to Moosa , who paid an advance of Rs . 500,000 . According to the agreement , Moosa was required to pay the balance by August 31 , 20x1 . However , instead of paying the balance amount , he terminated the sale agreement . Yahya forfeited the advance of Rs . 500,000 in accordance with the terms of the agreement .

(iii) In September 20x1 , Saleem sold his personal car , Toyota Corolla , to one of his cousins at a price of Rs . 50,000 whereas the fair market value of the car was Rs . 200,000 . The car was purchased by him six year ago at a cost of Rs . 300,000 .

(iv) Ibrahim was working as a Chief Financial Officer in Dawood Pakistan (Pvt) Limited , which is

a wholly owned subsidiary of Dawood AG , Germany . According to the Company's policy .

Ibrahim was sent on secondment to Germany on January 1 , 20x2 for a period of five years .

During this period , half of his salary will be credited to his bank account in Pakistan , whereas the remaining portion will be received by him in Germany .

(v) Zubair provided consultancy services to a listed company . In consideration for his services , he received a net amount of Rs . 44,500 after tax deduction of Rs . 5,500 .

ANSWER

Tax treatment in respect of each situation shall be as below :

(i) Rare sculpture of Buddha is a ' capital asset ' . It is acquired through inheritance ; hence , fair market value (FMV) at the time of acquisition shall be treated as ' cost of acquisition ' . Gain on disposal shall be computed as below :

Disposal consideration	500,000
------------------------	---------

Less : Cost of acquisition (i.e. , FMV)	200,000
---	---------

Total capital gain - Taxable under NTR
300.000

(ii) Amount of advance against sale agreement of land or building , if forfeited by the owner (on termination of contract by the buyer) , is included in the definition of ' rent ' under section 15 (2) .

An amount of Rs . 500,000 forfeited by Yahya shall be his property income and charged to tax in the year when it is forfeited .

(iii) Personal car sold by Saleem is neither a business asset nor capital asset ; hence , it is not taxable under the Income Tax Ordinance , 2001 .

Where any transaction or income is not taxable under the law then provisions regarding its valuation , etc. , are also not applicable . Hence , information about cost , sale price and fair market value are irrelevant . There will be no tax treatment on disposal of any movable property held for personal use by the person or any member of his family dependent on him .
[37 (5) ()]

(iv) Ibrahim who is sent on secondment to Germany is earning salary income which is partly receivable in Pakistan . For income tax purposes two matters require attention , namely : -

(a) Residential status of Ibrahim ; and

(b) Status of income , whether ' Pakistan source ' or ' foreign - source ' .

The above - referred points are discussed below :

(a) Ibrahim will not be staying in Pakistan for a period (i.e. , at least 183 days) which could render him as resident , thus he will be non - resident during the years when he will be

on secondment .

Synopsis of Taxes

Questions & Answers – Individuals

[39-647]

(b) In order to render a salary income as ' Pakistan - source income ' it must have been .

received either form Government or form an employment exercised in Pakistan . As

none of these conditions is fulfilled , the income cannot be termed as a Pakistan - source income .

Conclusion :

Ibrahim will be resident during the tax year 20x2 (his stay is from July , 20x1 to December

20x1 , i.e. , total 184 days) . The salary received up to December , 20x1 shall be taxable in

Pakistan . Salary for remaining period of the tax year (i.e. , January , 20x2 to June , 20x2) shall

be a foreign - source income and will be exempt from tax , if tax at source has been withheld in

Germany .

Salary income after tax year 20x2 shall not be taxable in Pakistan due to the following

reasons :

1 . Ibrahim will be a non - resident person during those tax years ; and

2. The salary income will not be a ' Pakistan - source income ' ,

(v) Tax deducted at source under section 153 (1) on services rendered by a resident person is treated as minimum of tax on such income of the person , Tax rate applicable to such payments is 11 % of the gross amount of remuneration for services . Tax @ 11 % of Rs . 50,000 (i.e. , Rs . 44,500 + Rs . 5,500) has been deducted at source . If tax on such income under NTR is higher , then tax deducted by the company shall be adjustable ; otherwise , it shall be treated as final discharge of tax liability on such income .

QUESTION -

39.13

Zia inherited certain assets from his father in the year 20x1 . The fair market values of the assets on

the date of inheritance were as follows :

25,000 shares of a private limited company
(Rs .) 2,500,000

21,000 shares of public listed company
462,000

Membership card of Karachi Stock Exchange
20,000,000

Jewellery
1,500,000

During the tax year 20x7 Zia undertook the following transactions :

(1) He gifted some of the assets to his 20 - year old son Ishaq . The detail and fair market values

of the assets are as follows :
(Rs .)

10,000 shares of a private limited company
2,000,000

10,000 shares of public listed company
1,700,000

Membership card of Karachi Stock Exchange
40,000,000

(2) The remaining shares were sold as follows :

shares of private limited company for Rs .
3,000,000

shares
of public listed company for Rs . 1,500,000 .

Ishaq sold all the assets transferred through gift in the same year . The assets fetched the following

amounts :

Synopsis of Taxes

Questions & Answers – Individuals

[39-648]

10,000 shares of a private limited company (Rs .) 2,500,000

10,000 shares of public listed company

Membership card of Karachi Stock Exchange

1,500,000

55,000,000

Required :

Based on the above information , compute the taxable income of Zia and Ishaq for the tax year 20x7 . Also give brief explanation for the items not included in the taxable income

(M - 10)

ANSWER

Resident Individual - Non Salaried

Mr. Zia

Tax Year 20x7

Taxable

Income

Capital Gains 3,000,000 Sale of shares of private limited company [N - 1]

Less : Cost of acquisition (2,500,000 +25,000) x 15,000 [N - 2] 1,500,000

Capital gain - Taxable under NTR 1,500,000

Gain on Disposal of Shares of Listed Company

Gain on disposal of shares of listed companies is chargeable to tax u / s 37A as a separate block of income . Although there is a gain of Rs . 1,258,000 (i.e. , 1,500,000-242,000) but as the shares are disposed after six (6) years of their acquisition the gain will not be taxable .

Cost of acquisition of these shares is Rs . 242,000 (i.e. , Rs . 462,000 + 21,000 x 11,000) .

Mr. Ishaq

Resident Individual - Non Salaried

Tax Year

20x7

Taxable

Income "

Capital Gains

Shares of private limited company

Disposal consideration

2,500,000

	Less : Cost of acquisition [N - 5]
2,000,000	500,000

Membership card of Karachi Stock Exchange

	Disposal consideration
55,000,000	

	Less : Cost of acquisition [N - 5]
40,000,000	15,000,000

Taxable income for the year 15,500,000

Gain on Disposal of Shares of Listed Company

Gain on disposal of shares of listed company (i.e. , securities) is taxable u / s 37A as a separate block of income . There is a loss of Rs . 200,000 (i.e. , Rs . 1,500,000-1,700,000) hence there will be no tax treatment for it . Had there been any gain on disposal of some other securities , the loss could have been set - off against the same .

N - 1 Total number of shares of private limited company sold during the year is as below : Total shares received through inheritance

25,000

Synopsis of Taxes

Questions & Answers – Individuals

[39-649]

	Less : Total shares gifted to son Ishaq
10,000	

Shares disposed of during the year

15,000

N - 2 Where a capital asset is acquired through inheritance , the fair market value (FMV) at the time the asset is acquired is treated as cost of acquisition . The cost is apportioned on the basis of FMV in the year 20x1 . [37 (4A)]

N - 3 No gain or loss shall be recognized on disposal of an asset by reason of a gift of the asset [79 (1) (c)] . Hence , the assets gifted by Zia to his son are ignored while computing his taxable

income .

N - 4 The Jewellery acquired through inheritance is still owned by Zia , so there will be , no tax treatment for it . At the time of its disposal gain shall be computed .

N - 5 Fair market value at the time of acquisition is treated as cost of the asset , if the asset is acquired through gift .

QUESTION -

39.14

Mr. Manto worked as an employee in Berlin Hotel , Germany for a period of five years . During the said period he did not visit Pakistan for a single day , He returned to Pakistan on July 1 , 20x1 and immediately joined as a General Manager in a well - reputed hotel , based in Karachi .

Assume that the details of his income for the tax year 20x2 are as follows :

(i) Basic salary (per month) Rs . 120,000

House rent allowance (per month)

30,000

Medical allowance (per month)

10,000

(ii) Besides medical allowance , he is also entitled to free medical treatment at approved hospitals .

(iii) He has been provided a company maintained 1600cc car which was used partly for official and partly for personal purposes . The hotel has leased the car from a bank . The gross lease rentals payable over the period of lease amount to Rs . 2,700,000 . The fair market value of the car at the time of lease was Rs . 1,600,000 . The total lease rentals paid by the hotel during the year amounted to Rs . 800,000 .

(iv) He is entitled to lunch at the hotel's restaurants where the usual charges are Rs . 400 per person . He is entitled to concessional rate of Rs . 40 per day which is deducted from his salary . Assume that there are 300 working days in the year .

(v) He went for a training course to Islamabad where boarding and lodging cost amounting to Rs . 150,000 was borne by the hotel . He incurred a further expense of Rs . 125,000 which was reimbursed by the hotel .

(vi) Provident fund was deducted @ 10 % of his basic salary . An equal amount was contributed by the hotel . Interest credited to his provident fund account amounted to Rs . 48,000 .

(vii) As per terms of employment agreed with Mr. Manto , tax payable on salary will be borne by the hotel .

(viii) During the year , he also received an amount of Rs . 89,000 (net of withholding tax) from a local university where he gave lectures on hotel management .

(ix) On July 15 , 20x1 , he received a lump sum amount of Rs . 4,000,000 through a normal banking channel as final settlement from Berlin Hotel .

Synopsis of Taxes

Questions & Answers – Individuals

[39-650]

(x) On August 1 , 20x1 he inherited 25,000 shares of a private limited company . The estimated fair market value of the shares , on the date of inheritance , was Rs . 42 per share . He sold all the shares on February 28 , 20x2 at Rs . 62 per share .

(IX) He paid zakat amounting to Rs . 200,000 to an approved organization , through cross cheque .

Required :

(a) Compute Mr. Manto's taxable income and tax payable for the tax year 20x2 . (b) Briefly explain the treatment of items which are not considered in the above computation .

ANSWER

Mr. Manto

Resident Individual - Salaried

Tax Year 20x2

Taxable Income and Tax Liability

Salary Income Rs .

Basic salary (Rs . 120,000 x 12) 1,440,000

House rent allowance (Rs . 30,000 x 12) [N - 1] 360,000

Medical allowance (Rs . 10,000 × 12) [N - 2] 120,000

Conveyance (Rs . 1,600,000 x 5 %) [N - 3] 80,000

Concessional lunch facility [N - 4] Nil

Expenses on training [N - 5] Nil

Employer's contribution to provident fund [N - 6] Nil Interest credited on provident fund [N - 7]

Nil

Final settlement [N - 8] Nil

Total salary income 2,000,000

Tax on salary payable by employer [N - 10] 150,000

Taxable salary income . 2,150,000

Capital Gain [N - 11]

Disposal consideration (25,000 x 62) 1,550,000

Less : Cost of acquisition (25,000 x 42) 1,050,000 500,000

Income from Other Sources [N - 9]

Lecture fee - Net amount received 89,000

Add : Tax withheld (@ 11 % of gross) 11,000 100,000 2,715.000

Total and taxable income

Tax Liability

Tax on Rs . 2,200,000 180,000

Tax on Rs . 550,000 @ 25 % 137.500

Total tax 317,500

Less : Tax already paid

Paid by employer [N - 10]

150.000

Deducted by university [N - 9]

10,000	(160,000)
--------	-------------

Net tax payable 157,500

Synopsis of Taxes Questions & Answers – Individuals [39-651]

N - 1 House rent allowance is totally taxable .

N -

2 Besides medical allowance , the taxpayer is entitled to free medical treatment at approved hospitals . Under this case benefit in the form of medical treatment will be exempt from tax and the whole amount of medical allowance shall be taxable .

N - 3

In a case where conveyance is provided for personal as well as official purposes an amount equal to 5 % of cost of vehicle or fair market value thereof (where vehicle is on lease) shall be included in salary income .

N -

4 Free or concessional lunch facility provided by a hotel to its employee is exempt from tax .

N -

5 Boarding , lodging and other expenses reimbursed to an employee in connection with his training is not taxable .

N - 6 It is assumed that the provident fund is recognized by Commissioner . Taxability of

employer's contribution is determined as below :

	Employer's contribution 10 % of Rs . 1,200,000
120,000	
	Less : Exempt (lesser of 10 % of salary (Rs . 120,000) or Rs . 150,000)
120,000	

	Taxable
Nil	

N - 7 Total interest credited Less : Exempt , i.e. , 1 / 3rd of Rs . 1,200,000 48,000 400.000 Nil
Taxable

N - 8

This is a salary income . But as it is a case of " Returning Expatriates " so the foreign source income will be exempt from tax under section 51 of the Income Tax Ordinance , 2001 .

N

- 9 Lecture fee received from a university is ' income from other sources ' . Tax deducted by university u / s 153 is the minimum tax on such income . As tax under NTR (at ART) is much higher than the tax deducted on lecture fees , this income shall be taxable under NTR . Tax deducted shall become adjustable against tax liability for the year .

N -

10 Tax payable by hotel on salary income of Mr. Manto shall form part of taxable income of the

employee . On the other hand this amount shall be taken as payment of tax on behalf of Manto , and shall be adjusted against his final tax liability for the year .

Tax on taxable salary income of Rs . 2,000,000 is computed as below :

	Tax on Rs . 1,200,000
30,000	
	Tax on Rs . 800,000 @ 15 %
120.000	
	Tax paid by employee on behalf of employee
150.000	

N -
11 Fair market value is taken as cost of acquisition of the shares acquired through inheritance .
The
shares are held for a period of less than twelve (12) months ; hence actual gain shall be
taxable .

N -
12 An amount of Rs . 200,000 is claimed as Zakat paid to an approved organization . If cannot be
treated as deductible allowance as per section 60 of the Income Tax Ordinance , 2001 , which
provides that only such Zakat shall be deductible allowance as has been paid by the person
under the Zakat and Ushr Ordinance , 1980 .

There is another issue in this point , i.e. , whether this payment may be treated as a donation eligible for tax credit under section 61 of the Ordinance . As conceptually Zakat and donations are altogether different from each other , so it is not possible to treat Zakat as donation and allow a tax credit to the taxpayer u / s 61 .

Synopsis of Taxes

Questions & Answers – Individuals

[39-652]

QUESTION - 39.15

Mr. Khawaja , the Managing Director of K Hi - Tech . Ltd. Karachi , has the following incomes :

	Salary
Rs . 800,000	
72,000	
	Bonus
28,000	
	Performance award
	Dividend Gross (Zakat Rs . 1,250 Income Tax Rs . 1,500)
10,000	
	House rent paid direct by the company to Landlord @ Rs . 12,000 p.m.
144,000	

Income from poultry farm .
25,000

Company has provided him two maintained cars . One is used exclusively for the company

business and the other one is used for Mr. Khawaja's family with cost of Rs . 400,000 , Mr. Khawaja

the followings : paid

Life Insurance
10,000

Accident insurance
3,000

Donation to an approved charity organization
10,000

Zakat paid
10,000

Provident fund contribution
27,500

Tax deducted at source by the company
5,000

Required : Prepare in proper format computations of taxable income and tax payable for the tax year , 20x1 .

(ICMA May . 1993)

ANSWER

Mr. Khawaja

Resident Individual

- Salaried

Tax Year 20x1

Taxable Income and

Tax Liability

Salary Income : Rs .

Salary 800,000 Bonus 72,000

Performance award [N - 1] 28,000 Employer's contribution to Provident Fund [N - 2] Nil

House rent (12,000 x 12) [N - 3] 144,000

Conveyance [N - 4] 40,000 Total salary income 1,084,000

Income from Business (poultry farm) [N - 5] 25,000

Total income 1,109,000

Less : Zakat (1,250 + 10,000) (11,250) 1,097,750

Total taxable income

Tax Liability

Tax on Rs . 600,000 0 24,888 Tax on Rs . 497,750 @ 5 % 24,888 (227) 24,661

Less : Tax credits for donation [N - 6]

Total tax liability

Less : Tax deducted at source
(5,000)

Tax refundable

19,661

N - 1 The performance award is , by nature , a part of bonus , and is included in the salary income .

N - 2 Employer's contribution is exempt up to lesser of 10 % of the salary , i.e. , Rs . 27,500 (10 % of

Rs . 275,000) or Rs . 150,000 . Thus , nothing shall be taxable .

N - 3 Where accommodation is provided by the employer , an amount which is higher of the

following two amounts shall be included in salary income :

A)

Fair market rent (i.e. , Rs . 12,000 × 12)

Rs . 144,000

OR

B) 45 % of the MTS / Basic Salary (i.e. , 45 % of Rs . 275,000)

Rs . 123,750

144,000

N - 4 10 % of the cost of the car exclusively used for family is included in taxable salary income of

an employee . Other one shall have no tax treatment .

N - 5 Income from poultry farm is taxable .

N - 6 Tax credit on donation will be computed at average rate of tax .

227 $24,888 + 1,097,750 \times 10,000 =$

While computing tax credit on donation it is assumed that donations were given to such institution which are not included in Clause (61) of Part - I of Second Schedule . Had it been part of Clause (61) , a straight deduction from total income would have been allowed .

N - 7 Tax credit is available only on life insurance premium . There will be no tax credit for any other insurance premium .

QUESTION - 39.16

Mr. Khaled Hameed , General Manager of Puma Industries (Private) Limited has disclosed the

following for the year ended 30th June , 20x1 .

Rs .

a) Basic salary
900,000

b) House rent allowance
360,000

c) Utilities
90,000

d) Entertainment allowance
20,000

e) Dividend from public company
36,000

f) Profit from profit & loss sharing bank account
7,935

g) Prize money from prize bonds
15,000

h)
Rent income from open plot let out to an Oil Company for parking , of their oil tankers . 36,000

i) Property tax on open plot
360

Collection charges
3,000

k) Company has provided a fully maintained car

1) He

Synopsis of Taxes

Questions & Answers – Individuals

[39-654]

ANSWER

Mr. Khaled

Hameed

Resident Individual - Salaried

Tax Year 20x1

Taxable Income and Tax Liability

Salary Income : 900,000 Basic salary

House rent allowance [N - 1] 360,000

Utilities [N - 2] 90,000

Entertainment allowance 20,000 1,370,000

Income from Property :

Rent Chargeable to Tax (RCT) - Income from open plot [N - 3] 36,000 Less : Deductions

Property tax

360

Collection charges - Lesser of :

(Actual expenses i.e .. Rs . 3,000 or 4 % of RCT i.e. , Rs . 1,440) 1,440 1,800 34,200

Total Income 1,404,200

Less : Zakat paid (10.000)

Table Income 1,394,200

Tax Liability

Tax on Rs . 1,200,000 30.000

Tax on Rs . 194,200 @ 15 % 29,130

Total tax liability 59,130

Less : Tax deducted at source (on salary) (20,000)

Tax payable 39.130

N - 1 House rent allowance is totally taxable .

N - 2 Utilities allowance is totally taxable .

N - 3 Rent from an open plot is taxable as income from property . In case of an open plot there will be no deduction on account of repair allowance . Other deductions shall be as per normal procedure .

N - 4 Profit on PLS bank account is taxable under FTR . Tax deducted at source is treated as final discharge of tax liability in respect of this income .

N - 5 It is presumed that the conveyance is being used exclusively for official purposes . N - 6 There will be no tax treatment for life insurance premium paid .

N - 7 Following incomes are taxable under FTR :

Dividend from public company

36,000

Profit on PLS Bank Account

7,935

- Prize money on prize bond

15,000

58,935

Synopsis of Taxes

Questions & Answers - Individuals

[39-655]

QUESTION - 39.17

Based on the information stated below , prepare the information for the purpose of tax return of

Mr. ' A ' who derives income from various sources .
Rs .

a) Income from articles writing .
90,000

b) Net of tax deduction credit by the bank as interest on bank deposit .
45,000

c) Income from property let out in September 20x1 @ Rs . 10,000 per month ,
repairs

of which are to be borne by the tenant under the agreement . Other
information

are as below :

5,000	- i)	property tax paid
2,000	ii)	water charges
3,500	iii)	telephone expenses prior to letting out
10,000	iv)	electricity bills paid prior to letting out
5,000	v)	tax advisory fee paid
d)	½ share of accounting profit received from a joint venture between Mr. ' A ' and M / s . B (Private) Limited .	
500,000		
45,000 .	i)	the joint venture has an unapproved gratuity scheme for which payments made during the year was Rs . 50,000 as against the provision of Rs .
	ii)	the joint venture made a provision for deferred taxation in its books at

Rs . 25,000 .

iii)
written off in the books but not

the bad debts not recovered Rs . 50,000 , which were
allowed as admitted expense in tax .

iv)
the lease payments were

the joint venture had acquired assets on finance loan ,
Rs . 40,000 as against the financial charges of Rs . 8,000 .

(CA - Final - Nov.1995)

ANSWER

Mr. A

Resident Individual - Non Salaried

Tax Year 20x2

Taxable Income and Tax Liability

Taxable Income

Rs .

Income from property [N - 1]

95,000

Income from other source [N - 4]

90,000

Actually taxable Income

185,000

Share from Joint Venture [N - 5] & [N - 6]

493,650

Total taxable Income

678,650

Tax Liability

Tax on Rs . 600,000

0

Tax on Rs . 78,650 @ 15 %

11,798

11,798

Less : Rebate on share from AOP (11,798 + 678,650) × 493,650

(8,582)

Tax on actually taxable income
3.216

Synopsis of Taxes

Questions & Answers - Individual

[39-656]

N - 1 Income from Property :

Rent Chargeable to Tax (RCT) [$100,000 + (1 / 4 \text{th of } 100,000)$] [N - 2]
125,000

Less : Deductions [N - 3] Repair allowance ($1 / 5 \text{th of RCT , i.e. , } 125,000$)
25,000

	Property tax	
5,000	30,000	95,000

N - 2 Where repair expenses are to be borne by the tenant , an amount equal to $1 / 4 \text{th}$ of actual rent

received is included in RCT at the time of computing ' income from property ' .

N - 3 While computing income from property , payments on account of the following charges shall

not be allowed as deduction :

- 1 . Water charges ,
- 2 . Telephone expenses prior to letting out ,
- 3 . Electricity bills paid prior to letting out , and
- 4 . Tax advisory fee paid

N - 4 Income from articles writing amounting to Rs . 90,000 is taxable as income from other sources .

N - 5 Income from Business : Total accounting profit of joint venture (Rs.500,000 x 2)
1,000,000

Add :	Inadmissible expenses :
45,000	Provision for gratuity
	Deferred taxation
25,000	
	Bad debts (not allowed)
50,000	
	Financial charges on lease
8,000	128,000

1,128,000

	Less :	Gratuity paid
50,000		90,000
		Lease payments
40,000		

Taxable Income
1,038,000

Less : Tax payable by AOP :

	Tax on Rs . 800,000
15,000	

	Tax on Rs . 238,000 @ 15 %
35,700	(50,700)

Divisible Income
987,300

Share of Mr. A	(
Rs . 987,300 + 2)	493.650

N - 6 As the joint venture is an AOP thus any share from its income though exempt but shall be

included in income of its members for rate purposes only .

N - 7 Interest on bank deposit is taxable under FTR . Tax deducted at source shall be treated as

final discharge of tax liability in respect of interest income .

QUESTION - 39.18

Calculate tax payable by Mr. A , who is sales executive of a private limited company , for the ended

30th June , 20x1 on the basis of following information :

A. Basic salary (100,000-10,000-250,000)

Rs . 2,400,000

Bonus

200,000

Entertainment allowance

10,000

Synopsis of Taxes

Questions & Answers - Individuals

[39-657]

Dearness allowance

100,000	Permanent withdrawal from Recognized Provident Fund
100,000	Contribution by Mr. A towards Recognized Provident Fund
100,000	(including equal contribution by the company)
	Interest credited during the year (Provident Fund)
60,000	Furnished accommodation - annual value
400,000	Cooking range provided by the company
20,000	Conveyance allowance (Mr. A , owned and maintained his own
120,000	car and use also for office purpose)
B.	Dividend received (net of tax and Zakat)
85,000	Zakat deducted

5,000		Commission to a banking company for realization of dividend
500		
C.		Gain on buying and selling of listed shares (holding period of 8 months)
		Gain on buying and selling of shares of unlisted companies
120,000		
		(holding period of 15 months)
100,000		
D.	1)	Purchased Defence Saving Certificates
50,000		
	ii)	Personal legal expenses paid Rs . 50,000 for which
		verifiable receipts from the legal
		advisor are available . Also paid Rs . 12,000 towards
		hospitalization for which Medical
		practitioner's bills are available .
	iii)	
		Contributed Rs . 10,000 per month towards rentals for the furnished accommodation .

(ICMA May , 1996)

ANSWER

Mr.

A

Resident Individual - Salaried

Tax Year 20x1

Taxable Income and Tax Liability

Salary Income :

Basic salary

2,400,000

Bonus .

Dearness allowance

200,000

Entertainment allowance

100,000

Contribution to recognized provident fund [N - 1]

10,000

Interest on provident fund [N - 2]

Nil

Furnished accommodation [N - 3]

Nil

Cost of cooking range

420,000

20,000

Conveyance allowance [N - 4]

120,000

3,270,000

Capital Gain :

Gain on sale of shares of a listed Company [N - 6]

Gain on sale of shares of unlisted Company [N - 5]

Nil

Total Income

100,000

Less : Zakat deducted

3,370,000

Taxable Income

(5,000)

3,365,000

Plaintext

Synopsis of Taxes

Questions & Answers - Individuals

[39-658]

Tax Liability

Tax under NTR :

430,000

Tax on Rs . 3,200,000

49,500

Tax on Rs . 165,000 @ 30 %

479,500

Tax under STR :

Tax on gain on sale of listed shares (120,000 @ 15 %) [N - 6]

18,000

497,500

Total tax for the year

N - 1

Contribution to recognized Provident Fund

100,000

Employer's contribution to provident fund (Rs . 16,000 / 2)

Less : Exempt up to lesser of 10 % of salary (2,500,000 x 10 %) or Rs .

150,000

(150,000)

Taxable

Nil

Nothing will be included in total income of the taxpayer as the contribution is within the

exemption limit .

For the purpose of provident fund , ' Salary ' means the basic salary plus the ' dearness

allowance ' (i.e. , Rs . 2,400,000 + 100,000 2,500,000) .

N - 2 Interest on Provident Fund
Rs .

Amount of interest credited
100,000

Less : Exempt up to 1 / 3rd of salary (Rs . 2,500,000 / 3) [N - 9]
(833,333)

Taxable amount

Nil

N - 3 Higher of the following two amounts shall be included in taxable
salary income of the

employee :

A) Fair market
rent (i.e. , annual value) Rs . 400,000

OR

B) 45 % of MTS (i.e. , 45 % of Rs . 1,200,000)
540,000 540,000

Less : Amount contributed by the employee (Rs . 10,000 × 12)
(120,000)

- Amount to be included in taxable salary income
- 420,000
- N - 4 Conveyance allowance is totally taxable .
- N - 5 Gain on sale of shares of non - listed company is taxable under NTR .
- N - 6 Capital gain on sale of shares of public companies is taxable as a
separate block of
income . Tax shall be payable at the rates specified in Division - VII of
Part - I of the First
Schedule . Shares were purchased and sold during the tax year (i.e. ,
disposal within one
year) . In that case applicable tax rate shall be 15 % .
- N - 7 There is no tax credit on purchase of Defence Saving Certificates .
- N - 8 Any amount received out of the recognized provident fund is exempt
from tax .
- N - 9 Interest credited to a provident fund is exempt up to the higher of
one - third of salary or
amount of interest calculated @ 16 % . As the rate of interest is not
given thus one - third of
salary shall be treated as exempt .
- N - 10 The law does not provide any tax treatment for personal legal expenses .

N - 11 Personal medical expenditures are not allowed as deduction from total income .

N - 12 Dividend income is covered under FTR , so should not be included in total income . Tax

deducted from it shall be considered as full and final discharge of tax liability in respect

dividend income .

Generate Audio Overview

Synopsis of Taxes

Questions & Answers - Individuals

[39-659]

QUESTION - 39.19

Given below is the information in respect of Mr. A and Mr. B for tax year 20x1 .

Mr. A

Mr. B

Employee of a

Employee of

Company

a Registered

Rs .

Basic salary
Rs .

Salary Income :

600,000	300,000	House rent allowance
300,000	135,000	Utilities allowance
75,000	30,000	Bonus
100,000	50,000	Conveyance allowance
12,000		Company car provided used for business and private
500,000		purpose with cost
		Employer's contribution to approved Provident Fund
Other Income :		
50,000	25,000	
50,000		Dividends
		Rent from property (ALV 150,000) . Property
125,000		remained vacant for two months .
50,000	(20,000)	Capital gains / (capital loss) on sale of shares of

public listed companies .

Other information :

Zakat deducted / paid

Investment made in NDSCs .

25,000

10,000

Investment made in shares of a public listed company

50,000

Required : Compute tax liability in both cases .

30,000

(CA - Final , May , 1997)

ANSWER

Resident Individual - Salaried

Mr. A & Mr. B

Tax Year 20x1

Taxable Income and Tax Liability

Salary Income

Mr. A.

Mr. B

Rs .

Rs .

Basic salary

Bonus

600,000	300,000
---------	---------

Utilities allowance [N - 1]

100,000	50,000
---------	--------

Employer's contribution to P.F. [N - 2]

75,000	30,000
--------	--------

House rent allowance [N - 3]

Conveyance [N - 4]

Nil	Nil
-----	-----

300,000	135,000
---------	---------

Total salary income

25,000	12,000
--------	--------

1,100,000	527,000
-----------	---------

Income from Property [N - 5]

100,000	Nil
---------	-----

Capital gain / (loss) [N - 6]

Total income

Nil	Nil
-----	-----

Zakat deducted

Less :

1,200,000	527,000
-----------	---------

Taxable Income

(25,000) (10,000)

1,175,000

517,000

Synopsis of Taxes

Questions & Answers - Individuals

[39-660]

Tax Liability A - Tax @ 5 % of Rs . 575,000 = (1,175,000-600,000)

28,750 0

 B - Tax on Rs . 517,000

28,750 0

Total tax for the year

0

N - 1 Utilities allowance is totally taxable .

N - 2 Employer's Contribution to Provident Fund

50,000 25,000

Employer's contribution

Less : Exempt up to 10 % of salary

60,000 Nil 30,000

Nil

nothing will be In each case , employer's contribution is within the exemption limit , so
the basic salary plus included in total income . ' Salary ' for provident fund purposes means
the dearness allowance .

N - 3 House rent allowance is totally taxable .

N - 4 Conveyance

In case of Mr. A

amount comes to An amount equal to 5 % of the cost will be included in his income . This

Rs . 25,000 (i.e. , 5 % of Rs . 500,000) .

In case of Mr. B

Total conveyance allowance amounting to Rs . 12,000 shall be taxable .

N - 5 Income from Property - Mr A :
125,000

Rent Chargeable to Tax (RCT) = (150,000 / 12) X 10

25,000 100,000 Less : Repair allowance (1 / 5th of 125,000)

N - 6

Gain / (Loss) on Sale of Securities

Capital gain on sale of shares of listed companies is taxable as a separate block of income . Any loss on such shares may be set - off by a person against any gain on sale of

some other ' securities ' .

In case of Mr. A , it is presumed that securities were held for a period of more than six years , hence shall be exempt from tax .

In case of Mr. B , there will be no treatment for loss as he has no gain on sale of securities .

N - 7

No tax rebate is available on investment made in NDSCs .

Dividend income is taxable under FTR , so shall not be included in total income .

N - 8

QUESTION -

39.20

Mr. Rehmat is an officer in a semi - Government Organization . He provided the following particulars

of his sources of income pertaining to the year ended June 30 , 20x1 .

Salary

2,100,000

100,000

Bonus

350,000

Reward on passing an examination required by the terms of his employment

House allowance (P.M.)

50 JU

10,000

Conveyance allowance (P.M.)

200,000

Medical allowance (Actual expenses Rs . 170,000)

Synopsis of Taxes

Questions & Answers - Individuals

[39-661]

Entertainment allowance

Property income (including Rs . 2,000 p.m. for rent of furniture & fittings)

24,000

Expenditures claimed against property income :

120,000

Legal expenses
7,500

Property tax

Insurance premium
5,000

3,000

Water charges paid (current Rs . 10,000+ Arrears Rs . 2,000)
12,000

Dividend (Zakat deducted Rs . 250 & tax deducted Rs . 1,000)

Leave encashment
10,000

Birthday present
25,000

Insurance money received on maturity of policy
10,000

Capital gain on sale of shares of (Pvt .) Ltd. Co.
100,000

(shares were retained for 18 months)
25,000

Expenses on children education (receipts are available)

Professional books purchased (receipts are available)

40,000

Zakat paid

5,000

Tax deducted at source

10,000

300,000

Required :

Compute total income and tax liability

ANSWER

Mr. Rehmat

Resident

Individual - Salaried

Tax Year 20x1

Taxable

Income and Tax Liability

Salary Income :

Basic salary

Rs .

Bonus

2,100,000

100,000

Reward on passing an examination

350,000

Medical allowance

[N - 1] Nil

Leave encashment

[N - 7] 25,000

House allowance

[N - 5] 600,000

Conveyance allowance

[N - 6] 120,000

Entertainment allowance
24,000 3,319,000

Income from Property
[N - 2] 76,800

Capital gain
[N - 3] 25,000

Income from Other Sources
[N - 4] 24,000

Total Income

Less : Zakat paid (10,000 + 250)
3,444,800

10,250

Taxable income		Allowance for children
education (Rs . 40,000 x 5 %) [N - 11]	2.000	(12,250)

3,432,550

Synopsis of Taxes

Questions & Answers – Individuals

[39-663]

Tax Liability

Tax on Rs. 3,200,000 430,000

Tax on Rs. 232,550 @ 30% 69,765

Total tax for the year 499,765

Less: Tax deducted at source 300,000

Tax refundable 199,765

N - 1 Medical allowance 200,000

Less: Exempt: 10% of basic salary (Rs. 2,100,000 x 10%)

210,000

Taxable

Nil

According to clause (139) of Part - I of Second Schedule medical allowance (up to 10% of

basic salary) shall be exempt from tax.

N - 2 Income from Property

Rent Chargeable to Tax (RCT) [120,000 - (2,000 × 12)]

96,000

Less: Repair allowance (1/5th of 96,000)

19,200 76,800

Rent of furniture and fixture amounting to Rs. 24,000 (i.e., Rs. 2,000 x 12) shall be taxable

as income from other sources.

N - 3 Capital gain on disposal of shares of a private company is taxable under NTR

N - 4 Income from Other Sources

Rent of furniture and fittings (2,000x12)

24,000

N - 5 Total house rent allowance amounting to Rs. 600,000 (Rs. 50,000 x 12) shall be taxable.

N - 6 Total conveyance allowance received by an employee is taxable.

N - 7 Leave encashment of Armed Forces and employees of the Federal Government and a Provisional Government is exempt in case of private sector employees it is taxable.

N - 9 Dividend is covered under FTR.

N - 10 Birthday present does not come under the jurisdiction of Income Tax Ordinance.

N - 11 There is a deductible allowance for children educational expenditure, which is lesser of 5%

of the fee paid or 25% of taxable income or Rs. 60,000 per child.

****QUESTION - 39.21****

Mr. Ilyas, an employee of a Public Limited Company, submitted the following information for tax year ended on 30th June, 20x2 when he retired from company's service at the age of 65 years.

Rs.

A 1) Salary per annum 200,000

ii) Perquisites and allowance paid by employer.

a) Bonus

40,000

b) Contractual commission

20,000

c) Rent free furnished accommodation with annual rental

value

120,000

300,000 d) Gratuity (scheme approved by FBR)

400,000 e) Commutation of pension received

1) Amount received f

Synopsis of Taxes

Questions & Answers – Individuals

[39-664]

Interest on PF @ 20% 20,000

Mr. Ilyas has also been provided company maintained car partly for his personal and maintenance. The cost of the car is

Utility expenses paid by the employer 600,000

Encashment of leave preparatory to retirement 25,000

Mr. Ilyas is entitled as per service rules free passage for travel abroad for self and his dependents after every three years. The expenditures incurred during the year are as under:

Air tickets 100,000

Hotel expenses 50,000

Taxi charges 20,000

170,000

B. Mr. Ilyas rented his house @ Rs. 10,000 per month w.e.f. 1st July, 20x1. He received Rs. 50,000 from tenant as security which is not adjustable towards monthly rent. Tenant also paid property tax Rs. 5,000 as per lease agreement. He claimed the following expenditures for the year ended 30th June, 20x2.

i) Interest on borrowed capital 6,000

ii) Insurance premium paid to cover the risk for property damage 9,000

iii) Repair expenses 30,000

C. Other information:

Dividend received from NIT net (tax deducted Rs. 500) 4,500

Share from unregistered firm (AOP) 10,000

D. Zakat Deduction at source 5,000

Required: Calculate the taxable income and tax liability of Mr. Ilyas.

ANSWER

Mr. Ilyas

Resident Individual - Salaried

Tax Year 20x2

Taxable Income and Tax Liability

Salary Income:

Basic salary Rs.

Bonus 200,000

Commission 40,000

Utilities expenses [N - 1] 20,000

Encashment of leave preparatory to retirement [N - 6] 25,000

60,000

Gratuity [N - 2]

Commutation of pension [N - 5] 100,000

Amount received from Recognized Provident Fund [N - 7] 325,000

Interest on Provident Fund [N - 3] Nil

Value of free furnished accommodation [N - 10] Nil

Company maintained car [N - 11] 120,000

Free passage 30,000

Income from Property [N - 4] 170,000 1,090,000

Synopsis of Taxes**Questions & Answers – Individuals****[39-665]**

Share from unregistered firm (AOP) [N - 9] 10.000 1,189,000

Total income (5,000) Less : Zakat deducted

Taxable income 1,184,000

Tax Liability : 0 Tax on Rs . 600,000

Tax on Rs . 584,000 @ 5 % (i.e. , Rs . 1,184,000 - Rs.600,000) 29,200 29,200

Less : Rebate on share from an AOP (Rs . 29,200 1,184,000) x 10,000 (246)

Total tax liability 28.954

N - 1 Total facility provided by the employer in respect of utilities is taxable .

N - 2 Gratuity 300,000 Less : Exempt from tax 200.000

Taxable gratuity

100,000

N - 3 Amount of interest on Provident Fund (@ 20 %) 20,000 Less : Exempt up to higher of followings :

A) Amount calculated @ 16 % 20.000 x 16

16,000

B) One - third of salary (200,000 + 3)

OR 20

66,667 66.667

Taxable amount

Nil

Interest on provident fund is within the exemption limit , so nothing will be included in salary

income .

' Salary ' for purpose of provident fund , means the basic salary plus the dearness allowance ,

if any .

N - 4 Income from Property : Rent Chargeable to Tax (RCT)

Annual Rent (Rs . 10,000 x 12)

120,000

Add : Un - adjustable advance (50,000 / 10)

5,000

Property tax paid by tenant

5,000 130,000

Less : Deductions

Repair allowance (1/5 of 130,000)

26,000

Interest on borrowed capital

6,000

Taxable income from property Insurance premium

9,000 41,000

89,000

Actual repair expenses are not allowed as deduction , instead repair allowance is

admissible deduction

N - 5 Commutation of Pension Received 400,000 Total amount received

Less Exempt (lesser of Rs . 75,000 or 50 % of Rs . 400,000) 75,000

325,000

N - 6 Encashment of leave preparatory to retirement (LPR) is taxable for non - government employees .

N - 7 Amount representing receipt from recognized provident fund is exempt from tax .

Synopsis of Taxes

Questions & Answers - Individuals

[39-666]

Required : As a tax consultant you are required to compute Mr. Musaddique's total income and his income tax liability for the tax year 20x1 .

(ICMAP December , 2003)

ANSWER

Mr. Musaddique Noor Resident Individual - Salaried

Tax Year 20x1

Taxable Income and Tax Liability

Salary Income

Basic salary ($200,000 \times 12$) 2,400,000 Rs .

House rent allowance ($80,000 \times 12$) [N - 1] 960,000

Utility allowance ($10,000 \times 12$) [N - 2] 120,000

Medical allowance ($10,000 \times 12$) [N - 3] -

Conveyance facility [N - 4] 82,500

Interest on loan from employer [N - 5] 110,000

Gratuity [N - 6] 35,000 3,707,500

Income from Property [N - 7] 43,120

Income from other sources 20,000

Lecture and examination fee (Rs . 17,800 + 89 %)

Taxable income 3,770,620

Tax Liability

Tax on Rs . 3,200,000 430,000

Tax on Rs . 570,620 @ 30 % 171,186

Total tax for the year 681,186

Less : Tax deducted / collected at source from :

Salary 400,000 Lecture and examination fee 2,200 (402,200)

Net tax payable for the year . 198,986

N - 1 House rent allowance is totally taxable

N - 2 Utility allowance is totally taxable

N - 3 Where the employer has given medical allowance and no other facility in this regard is provided to the employee then the allowance shall be exempt upto 10 % of the basic salary of the employee . [Clause (139) of Part - 1 of Second Schedule]

Allowance of Rs . 120,000 is within the exemption limit , so nothing will be included in salary income .

N - 4 Where a company maintained conveyance is provided to an employee and the conveyance is partly used for business and partly for personal purposes , then 5 % of the cost of the conveyance to the employer is included in the salary income of the employee . Amount under this case will be Rs . 82,500 (i.e. , 5 % of Rs . 1,650,000) .

N - 5 It is presumed that the loan remained payable during the whole tax year . An amount computed at the benchmark rate is included in the income . (1,100,000 10 % 110,000) .

Synopsis of Taxes

Questions & Answers - Individuals

[39-667]

N - 6 In case of a gratuity , lesser of Rs . 75,000 or 50 % of the amount received (i.e. 70,000 x 50 %

= Rs . 35,000) is exempt . Exceeding amount is taxable

N - 7 Income from Property

Rent chargeable to tax (RCT) :

Annual rent (Rs . 10,000 × 12) 120,000 137,000 Add : Advance not adjustable against rent [N - 8] 17,000 Less : Deductions

Repair allowance (1 / 5th of 137,000) [N - 9] 27,400 Collection charges (4 % of 137,000) [N - 10] 5,480 Ground rent 10,000 Property tax 15,000 93,880 Rent sharing with house building company (3,000 × 12) 36,000

N - 8 Advance not adjustable against rent 43,120

A - B 200,000-30,000 = Rs . 17,000 10 10

Advance from new tenant (i.e. , Rs . 200,000) Amount charged to tax out of the advance from old tenant , ie .. (Rs . 100,000 + 10) × 3 year Rs . 30,000 B

N - 9 Instead of actual repair charges , a repair allowance is allowed as deduction .

N - 10 Collection charges are restricted upto 4 % of RCT

N - 11 Profit on PLS bank account and commission received are taxable under FTR hence , not included in total income . Tax deducted is treated as final discharge of tax liability for such income .

QUESTION - 39.23

You are income tax consultant of Mr. Zubair who runs a business . He is not sure whether the expenses listed below will be allowed by the Commissioner Inland Revenue . Please advise your client stating your reasons for the admissibility or otherwise of these expenses :

- 1 . Loss due to embezzlement of money by an employee .
- 2 . Salaries of factory and office staff . Income tax was not deducted at source from salaries paid to factory staff
- 3 Fine and penalties .
- 4 . Expenditure on employees ' welfare .
- 5 . Interest payable to partner .
- 6 . Accounting depreciation .
- 7 . Brokerage paid for procurement of order .
- 8 . Fee paid to income tax consultant to represent the case before the Commissioner Inland Revenue .

9 . Initial expenses .

10 . Interest paid on long term loans .

11. Provision for bad and doubtful debts .

Synopsis of Taxes

Questions & Answers – Individuals

[39-668]

12. Purchase of raw material . Three suppliers were paid amount exceeding Rs . 50,000 each in

13. cash (ICMAP May , 1997)

14. ANSWER

15. ADMISSIBILITY OR OTHERWISE OF EXPENSES

16. While computing the " Income from Business the admissibility or otherwise of the expenses is an important element . The expenses gives in the question are discussed here below .

17. 1 . Loss Due to Embezzlement : it is allowed as deduction . Any loss , whether normal or abnormal is an admissible deduction against business income .

18. 2 . Salary and Wages Paid without Deduction of Tax : Any payment on which tax at source is applicable shall be inadmissible if tax has not been deducted as required under the law . Fines and Penalties : Any fine or penalty for non - compliance of any legal provisions is not allowed as an expense against business income .

19. 3 .

20. 4 . Expenditure on Employees Welfare : This expense is admissible ..

21. 5 . Interest Payable to Partner : Any amount paid to a partner as interest on loan given to AOP or the capital invested in the AOP is not allowed as deduction while computing income of the AOP

22. 6 . Accounting Depreciation : Accounting depreciation is a provision . The Income Tax Ordinance , generally , does not allow any deduction on account of the provision . Instead , the tax depreciation which is computed as per tax rules is allowed as a deduction .

23. 7 . Brokerage Paid for Procurement of Order : It will be allowed as deduction if the amount is paid to the employee or agent . But if brokerage is paid by an AOP to its partner / member then it will be inadmissible .

24. 8 . Tax Consultant Fee : Section 20 (1) of the Income Tax Ordinance specifies that any expenditure incurred wholly and exclusively for the purposes of the business is admissible against business income . Fee paid to tax consultant fulfils this condition , so shall be admissible .
25. 9 . Initial Expenses : Pre - commencement expenses are allowed as deduction according to the provisions of section 25 of the Ordinance . These expenses may be treated in any of the following ways :
26. i) Whole amount may be allowed as expense in the year in which these are incurred ; or
ii) Pre - commencement expenses shall be amortized @ 20 % of total expenses .
27. 10 . Interest Paid on Long - Term Loans : It is allowed as expense if the loan is utilized for the business the income of which is taxable
28. Provision for doubtful Debts : Provision for doubtful debts is not allowed as deductions , rather the actual bad debts are allowed as deduction while computing income from business .
29. Purchase of Raw Material in Cash : Any single transaction of expenditure exceeding Rs . 25,000 shall be inadmissible if not paid through a cross cheque , draft or pay order or through a banking channel .

Synopsis of Taxes

Questions & Answers – AOP

[40-669]

CHAPTER - 40

QUESTIONS & ANSWERS ASSOCIATIONS OF PERSONS

QUESTION - 40.1

M / s . Khan , Hassan & Simon were equal partners in a firm KHS Textiles , engaged in the business of manufacturing and sale of garments . Their products were mainly supplied to large retail stores in Pakistan and certain European Union countries . They decided to convert their firm into a private limited company with effect from October 1 , 20x4 .

All assets and liabilities of KHS Textiles were taken over by the new company named KHS & Co. (Pvt .) Limited . Each partner received 400,000 shares of Rs . 10 / - each in the new company . The profit & loss account and balance sheets of the two businesses are given below :

BALANCE SHEET KHS Textiles KHS & Co. (Pvt .) (AOP) As at Ltd. Sep 30 , 20x4 As at Jun 30 , 20x5

ASSETS

NON - CURRENT ASSET 8,000,000 17,000,000 Property , Plant & Equipment Tangible

Intangible 984,375 937,500

Investments 1,000,000 2,000,000 9,984,375 19,937,500

CURRENT ASSETS 3,000,000 6,000,000 Stocks 2,500,000

Trade Debts 500,000 4,200,000 Other Assets 2,600,000

Cash & Bank 215.625 362,500 6,215,625 13.162.500

Total Assets 16,200,000 33,100,000

EQUITY & LIABILITIES 10,700,000 12,000,000 Capital / Share Capital Unappropriated Profit 0
15,200,000 10,700,000 27,200,000

Long - Term Loans 4,000,000 4,000,000 14,700,000 31,200,000

Current Liabilities 1,500,000 1,900,000 16,200,000 33,100,000

PROFIT & LOSS ACCOUNT

(AOP) Jul x4 - Sep x4 KHS Textiles KHS & Co. (Pvt .) Ltd. Oct x4 - Jun x6

Sales 10,000,000 45,000,000 Cost of Sales 5,500,000 23,000,000 Gross Profit 4,500,000
22,000,000

Synopsis of Taxes

Questions & Answers – AOP

[40-670]

Selling & Administrative Expenses 1,500,000 6.000.000 Operating Profit 3,000,000 16,000,000
Other Income 500,000 1.200.000

Financial & Other Charges 3,500,000 17,200,000 500,000 2.000.000

Profit before tax 3,000,000 15.200.000 The following further information is available

1) At the time of transfer , Property , Plant & Equipment consisted of the following :

Plant & Machinery Owned Leased 1,000,000 4,000,000

Furniture & Equipment 1,000,000 0 Vehicles 2.000.000 0

Rupees 4.000.000 4.000.000

The accounting depreciation charged in the books during the three months ended September
20x4 was Rs . 256,545 . Tax WDV of owned assets as on June 30 , 20x4 , was as

under :

Plant & Machinery 500,000 Furniture & Equipment 1,000,000 Vehicles 2,000,000

Monthly rentals of the leased assets are Rs . 120,000 per month . The fair market value of the owned assets on September 30 , 20x4 was Rs . 5,200,000 and the assets were recorded accordingly in the books of the new company . No new assets were acquired during the year except for plant and machinery which was imported in January , 20x5 at a total cost of Rs . 8,500,000 .

Intangibles were acquired in 20x1 and had a further useful life of 16 years as on 01-07-20x4 2) 3) The cost of stock - in - trade valued in accordance with section 35 of the Income Tax Ordinance 2001 , as on September 30 , 20x4 was Rs . 3,200,000 whereas net realizable value was Rs . 3,000,000 . It was taken over in the books of the new company at NRV

4) Trade debts of Rs . 2,500,000 were net of provision for bad debts of Rs . 200,000 provided in prior years . However , since bad debts were actually estimated at Rs . 100,000 , these were taken over by the new company at Rs . 2,600,000 . No further provisions were made .

5) Financial charges include those booked on finance leases amounting to Rs . 100,000 in the books of KHS Textiles and Rs . 275,000 booked by KHS & Co. (Pvt) Ltd.

6) 50 % of the sale of both entities was export sales . All exports were made against confirmed LC's .

Required : After considering the information given above , work out taxable income and income tax liability of the firm as well as the company for the tax year 20x5 . (M - 18)

(Question # 6 - ICAP - June - 2004)

ANSWER

KHS TEXTILES Resident Association of Persons Tax Year 20x5

Taxable Income and Tax Liability

Synopsis of Taxes

Questions & Answers - AOP

[40-671]

Profit as per Profit and Loss Account 3,000,000 Add : Accounting depreciation 265,545 100,000 15.625 Finance lease charges Adjustment for amortization [N - 1] 381,170 3,381,170 Less : Tax depreciation [N - 3] 0 Lease rentals paid (120,000 x 3) 360,000 (360,000) Total taxable income 3,021,170 Tax liability : [N - 6] Tax on Rs . 1,600,000 170,000 Tax on Rs . 1,421,170 @ 30 % 425,351 596,351 Less : Tax withheld from exports [N - 6] (100,000) Net tax for the year

496,351 KHS & Co (Private) Limited Resident Company Tax Year 20x5 Taxable Income and Tax Liability Profit as per Profit and Loss Account 15,200,000 Add : Accounting depreciation [N - 7] 700,000 Finance lease charges 275,000 Amortization of intangible [N - 8] 46.875 1.021.875 16,221,875 Less : Tax depreciation [N - 10] 3,681,250 Tax amortization [N - 9] 62,500 Lease rentals paid (120,000 x 9) 1,080,000 4,823,750 Total income 11.398.125 Tax liability [N - 6] Tax liability of the company will be higher of the following amounts : Corporate Tax (11,398,125 @ 29 %) 3,305,456 Alternate Corporate Tax (50 % of 15,200,000 @ 17 %) [N - 11] 1,292,000 3,305,456 Less : Tax withheld from exports [N - 6] (450,000) Tax for the year 2.855.456 N - 1 Adjustment for Amortization Value of intangible as on Sept. 30 , 20x3 984,375 Original value (984,375 15.75 x 20) [N - 2] 1,250,000 Accounting amortization upto Sept 30. (1,250,000 -20) x 3/12 15,625 There will be no tax amortization for the year of disposal of intangible . N - 2 The useful life of intangible is twenty (20) years . It was acquired four (4) years ago and has a further useful life of sixteen (16) years . N - 3 There will be no tax depreciation for the year of disposal of asset

Plaintext

Synopsis of Taxes

Questions & Answers - AOP

[40-672]

N - 4 No gain or loss shall be computed on disposal of assets by an AOP to a wholly owned

company under section 95 .

N - 5 No treatment for provision for bad debts .

N - 6

Income from exports falls under MTR . Tax liability shall be higher of the tax withheld or tax

under NTR . In the instant case , tax liability of the firm and the company shall be as below :

KHS TEXTILES

Tax withheld (50 % of 10,000,000) = 5,000,000 @ 1 %
50,000

Tax under NTR (50 % of 3,021,170) = 1,510,585 @
19.74 % [N - 12] 298.190

Tax liability for exports
298,190

Tax under NTR is higher than the tax withheld u / s 154. Thus , this income shall be taxable under NTR . Export proceeds realized is subject to tax withholding @ 1 % u / s 154 and advance tax @ 1 % u / s 147 (6C) . Tax withheld shall become adjustable against tax for the year .

Tax withheld u / s 154 (5,000,000 @ 1 %) 50,000
(5,000,000 @ 1 %)

Advance tax u / s 147 (6C)
50.000 100,000

KHS & Co (Private) Limited

Tax withheld (50 % of 45,000,000) = 22,500,000 @ 1 %
225,000

	Tax under NTR	(50 % of 11,398,125) 5,699,063 @ 29 %
1,652,728		

	Tax liability for exports
1,652,728	

Tax under NTR is higher than the tax withheld u / s 154. Thus , this income shall be taxable under NTR . Export proceeds realized is subject to tax withholding 1 % u / s 154 and advance tax @ 1 % u / s 147 (6C) . Tax withheld shall become adjustable against tax for the year .

	Tax withheld u / s 154	(
22,500,000 @ 1 %)	225,000	

	Advance tax u / s 147 (60)	(
22,500,000 @ 1 %)		225,000 450,000

N - 7 Value of accounting depreciation :

Value of assets held before charging depreciation :

	Assets transferred from KHS Textiles - own
5,200,000	

Assets transferred from KHS Textiles - Leasehold
4,000,000

Purchase of plant and machinery

Total
8,500,000

17,700,000

Less : Value of asset as on 30th June
17,000,000

Accounting depreciation

700,000

N - 8 Accounting Amortization of Intangible :

Intangible at the time of acquisition

Less : Intangible as on 30th June
984,375

937,500

Amount amortized

46.875

N - 9 Tax amortization of intangible shall be Rs . 62,500 (ie , 1,250,000 + 20) .

An
intangible is amortized on the basis of its useful life . Where useful life is not ascertainable ,