N-10 Tax Depreciation:

Plant and Machinery:

- Old (1,000,000 @ 15%) – 150,000
- New – Initial allowance (8,500,000 @ 25%) – 2,125,000
- Normal depreciation (3,375,000 @ 15%) – 506,250
- Total – 3,081,250

Furniture and Equipments:

- (1,000,000 @ 15%) – 150,000

Vehicles:

- (2,000,000 @ 15%) – 300,000

Total Depreciation:

- 3,681,250

N-11: Incomes covered under STR/TFR are ignored for computation of alternate corporate tax. In this case, 50% is export sales; hence, only 50% of the income is subject to ACT.

N-12 Average rate of tax shall be as below:

- Tax on Rs. 1,600,000 – 170,000
- Tax on Rs. 1,421,170 @ 30% – 426,351
- **ART = (596,351 ÷ 3,021,170) × 100 = 19.74%**

QUESTION – 40.2

Mr. Bagar, Mr. Hadi, and Mr. Mikdad are members of an Association of Persons (AOP) which is doing business under the name of M/s. BHM Associates. As per their agreement, Mr. Bagar is entitled to receive 5% interest on his capital employed, besides his share from profit. Mr. Hadi is entitled to receive a commission of 1% in recognition of his efforts to promote sales. The profit is to be distributed equally amongst the members. During the year ended June 30, 20X2, the books of accounts of M/s. BHM Associates showed the following results:

- **Gross Profit:** Rs. 4,500,000
- **Selling & Admin Expenses:** Rs. 1,800,000
- **Net Profit:** Rs. 1,320,000

Further Notes are as under:

1. An asset, which had a written-down value of Rs. 100,000 on July 1, 20X1, was disposed of for Rs. 150,000 on May 30, 20X2. Neither depreciation nor gain on its disposal was recorded in the books of accounts (Depreciation rates are given in the Third Schedule to the Income Tax Ordinance, 2001).
2. Interest on capital employed and commission on sales were properly recorded in the books of accounts paid to Mr. Bagar and Mr. Hadi.
3. Provision for bad debts charged to the profit and loss account was 6% of sales. During the year, bad debts written off amounted to Rs. 150,000.

Capital Employed by each member of AOP is as under:

- Mr. Bagar: Rs. 1,000,000
- Mr. Hadi: Rs. 200,000
- Mr. Mikdad: Rs. 300,000 tfgdzsr%Xz

Other details of members were as under:
(a) Mr. Hadi was allowed a salary of Rs. 450,000 (inclusive of house rent allowance of Rs. 120,000) for managing the business during the year. Employer deducted Rs. 1,000 tax at source.

Required: Work out the following:
(i) Taxable income of M/s. BHM Associates (AOP) for the year 20x2.
(ii) Taxable income of each of its members and their tax liabilities for the tax year, 20x2.

(Question # 5-ICMAP-November-2004)

ANSWER
BHM Associates
Resident Association of Persons
Tax Year 20x2
Taxable Income & Tax Liability

Sales:
4,500,000
Less: Cost of Sales (4,500,000 – 1,800,000) [N-1]
(2,700,000)
Gross Profit
1,800,000
Less: Selling and administrative expenses [N-2]
(1,055,000)

Net Income for the year
745,000
Add: Gain on disposal of asset (150,000 – 100,000) [N-5]
50,000

Tax on Taxable Income
Tax on Rs. 600,000
21,750 @ 15%
21,750
Tax on Rs. 145,000 @ 10%
14,500

Average Rate of Tax: (21,750 + 745,000 × 10%) / 745,000 × 100
2.92%

Income Attributable to [N-4]

- **Supplies:** 745,000 – 4,500,000 × 1,500,000
  248,333
- **Other Sales:** 745,000 – 4,500,000 × 3,000,000
  496,667
  Total:
  745,000

Tax liability of AOP (21,750)

Tax under MTR
82,500
Tax under NTR
82,500

Divisible Income of AOP
Taxable Income of AOP
745,000
Less: Tax liability of AOP
82,500
Interest on capital to Baqar
45,000
Divisible Income:
617,500

Share of Each Partner (Rs. 567,500 ÷ 3) [N-7]
189,167

Share of Partners from AOP

	Baqar	Hadi	Mikdad
Share in divisible income	189,167	189,167	189,166
Interest on capital	50,000	0	0
Commission on sales	45,000	0	0
Total share from AOP	**239,167**	**234,167**	**189,166**

Tax Liability of Partners

Salary income	450,000	0	0
Income from Business	-100,000	0	0
Income actually taxable under NTR	0	0	0
Share from AOP – Included for rate	239,167	234,167	189,166
Total income for rate purposes	289,167	334,167	189,166

Tax liability [N-8]

- Tax on Rs. 600,000:
- Tax on Rs. 89,167 @ 15%:
    - **13,375**
- Less: Tax on share from AOP (13,375 ÷ 689,167) × 239,167:
    - **4,833**
- Tax on actually taxable income:
    - **8,733**
- Less: Tax deducted at source:
    - **1,000**
- **Tax for the tax year:**
    - **7,733**

N-1 Assumed that all expenses in cost of sales are admissibl

Tax withheld on supplies amounting to Rs. 82,500 (i.e., 5.5% of Rs. 1,500,000) shall be tax liability as it is higher than the tax under NTR amounting to Rs. 7,251 (i.e., 2.92% of Rs. 248,333).

Income under NTR (i.e., Rs. 496,667) is less than the threshold, so shall not be taxable.

N-7 Where profit and loss sharing ratio is not provided, the partners' share in profit and loss will be equal.

N-8

- **Mr. Baqar**
  - He is a non-salaried taxpayer, so the tax is computed by using the applicable rates.
  - Profit from bank amounting to Rs. 20,000 falls under FTR. Tax deducted shall become final in respect of this income. In that case, it shall not be included in taxable income.
- **Mr. Hadi**
  - Agricultural income is exempt from tax with the assumption that he has paid the provincial income tax on agricultural income.
  - Income from some other business is taxable.
  - Income for the year is below the threshold so there will be no tax liability.
- **Mr. Mikdad**
  - Income from supplies to Government falls under MTR. As there is no income taxable under NTR, the tax withheld shall become his tax liability and he shall have no further tax liability for the tax year.

QUESTION – 40.3

Mr. Arif, Baqar, and Umer are members of an Association of Persons (AOP) "FRIENDSCO" and share the profit and loss in the ratio of 1:2:3, respectively. They wanted to know their tax liability for the tax year, 20x1. Accountant of M/s FRIENDSCO has prepared the following profit and loss account:

Sales
6,400,000
Cost of sales
(3,200,000)
Gross profit
3,200,000
Selling and admin expenses

(2,400,000)
Net profit before taxation
800,000

Additional Information:

1. It is a wholesale business and sales include supplies of Rs. 800,000 to government departments subject to withholding tax.
2. **Expenses include:**
    - (i) Accounting depreciation of Rs. 75,000 on vehicle with W.D.V of Rs. 500,000.
    - (ii) Provision for bad debts of Rs. 50,000 has been made, whereas actual bad debts are Rs. 80,000.
    - (iii) Commission of Rs. 120,000 has been paid to Mr. Arif for promotion of sales.
    - (iv) Utility bills amounting to Rs. 80,000 charged to expenses include Rs. 15,000 income tax withheld on these bills.

- Mr. Baqar is a sleeping partner. He is working as a full-time teacher in a university and receives monthly pay and allowances as under:
  (i) Pay Rs. 60,000.
  (ii) House rent allowance Rs. 30,000.
- Mr. Umer is in receipt of income from property of Rs. 50,000 per month.
- The accounting depreciation on the vehicle is also charged @ 15% of W.D.V., which coincides with the statutory rate of depreciation.

Required: You being a tax consultant of M/s FRIENDSCO, work out tax liability of the AOP and its members for Tax Year, 20x1.
(M-20) (Question # 4-ICMAP-November-2007)

ANSWER

M/s. FRIENDSCO
Resident Association of Persons
Tax Year 20x1
Taxable Income & Tax Liability

Taxable Income:
Net profit as per profit and loss account **800,000**
Add: Inadmissible deductions

- Provision for bad debts [N-5] **50,000**
- Commission to Arif [N-6] **120,000**

- Income tax on utility bills [N-7] **15,000**
  Total: 185,000

Less: Actual bad debts [N-5] **80,000**
Taxable Income: 905,000

Tax Liability:

- Tax on income taxable under NTR [N-1] **40,031**
- Tax on supplies subject to WHT [N-3] **44,000**
- **Total Tax: 84,031**

Less: Tax withheld on Supplies **(44,000)**
Less: Utility bills **(15,000)**
Tax Payable: 25,031

Divisible Income of AOP:
Total Taxable Income **905,000**
Less: Tax liability of AOP:

- Under NTR **40,031**
- Under FTR **44,000**
- Commission to Arif **120,000**
- **Total: (204,031)**

Divisible income: 700,969

Share of Partners:

Partner	Share Calculation	Share Amount
Arif	700,969 × 1/6	116,828
Baqar	700,969 × 2/6	233,656
Umer	700,969 × 3/6	350,485

Total: 700,969

Share of Partners out of Income of AOP

Partner	Divisible Income Share	Commission from AOP	Total Share from AOP
Arif	116,828	120,000	236,828

Partner	Divisible Income Share	Commission from AOP	Total Share from AOP
Baqar	233,656	-	233,656
Umer	350,485	-	350,485

TAX LIABILITY OF PARTNERS

ARIF

Arif has no other income, so his share from AOP shall be exempt from tax.

BAQAR – Salaried

Salary Income:

- Pay (Rs. 60,000 × 12) = **720,000**
- House rent allowance (Rs. 30,000 × 12) = **360,000**
- **Income taxable under NTR salary income** = **1,080,000**
- **Share from AOP [N-9]** = **233,656**
- **Income for rate purpose** = **1,313,656**

Tax Liability:

- Tax on Rs. 1,200,000 = **30,000**
- Tax on Rs. 113,656 @ 15% = **17,048**
- **Total Tax: 47,048**
- Less: Tax on share from AOP (47,048 ÷ 1,313,656) × 233,656 [N-10] = **8,368**
- **Tax for the year: 38,680**
- Less: Reduction in tax being full-time teacher [N-12] = **(7,736)**
- **Tax liability: 30,944**

UMER – Non-Salaried

Income from Property – Rent (50,000 × 12) [N-11] = **600,000**

- Less: Repair allowance (1/5th of 600,000) = **(120,000)**
- **Taxable property income: 480,000**
- **Add: Share from AOP** = **350,485**
- **Taxable income for rate purposes** = **830,485**

Tax Liability:

- Tax on Rs. 600,000 = **45,750**
- Tax on Rs. 230,485 @ 15% = **34,573**
- **Total Tax: 80,323**
- Less: Credit for share from AOP (34,573 ÷ 830,485 × 350,485) = **(14,504)**
- **Tax for the year: 19,989**

N-1: Tax on Income under NTR

- Tax on Rs. 600,000 = **45,750**
- Tax on Rs. 300,000 @ 15% = **45,750**
- **Total Tax: 45,750**

N-2: Proportionate Tax on Supplies Subject to WHT

(Tax on taxable income ÷ Total sales) × Supplies (45,750 ÷ 6,400,000) × 800,000 = **5,719**

N-3: Tax on Supplies

Tax deducted on supplies is treated as minimum tax in respect of such supplies. Hence, tax liability shall be Rs. 44,000, which is higher of the following two amounts.

Tax on Supplies
Tax deducted (800,000 @ 5.5%) **44,000**
OR
Proportionate Tax in respect of supplies [N-2] **5,719**

Explanatory Notes:

N-4: Tax depreciation and accounting depreciation on vehicles coincide with each other; hence, there is no need for adjustment.
N-5: Provision for bad debts is inadmissible, whereas actual bad debts written off are allowed as a deduction.
N-6: Commission paid to partners is inadmissible.

N-7: Income tax on utility bills is not an expense; rather, it is an advance tax adjustable against tax liability.
N-8: Tax on income under u/s 153 on supplies is 5.50% of the value of supplies.
N-9: Share from AOP is included for rate purposes only.
N-10: It is computed at the average rate of tax.
N-11: Income from property is taxable under NTR, in which case deductions u/s 1/5A shall be allowed.
N-12: Reduction in tax for full-time teacher = 25% of tax on salary income (25% of 38,680) = **9,670**

QUESTION – 40.4

Mr. and Mrs. Adil are equal partners in Burg Enterprises (BE). The firm is engaged in the import and supply of electric generators. It also provides project consultancy services to various corporate customers. Following figures have been extracted from the accounting records of the firm for the tax year 20x6.

Particulars	Amount (Rs. in '000)
Sales of imported generators	584,100
Receipts from consultancy services	50,000
Total revenue	**634,105**
Cost of sales (generators)	(429,520)
Gross profit	**204,630**
Administrative and selling expenses	(96,300)
Finance cost	(9,000)
Profit before taxation	**99,330**

Following further information is also available from the records:

1. The generator sales are inclusive of 18% sales tax.
2. Cost of sales includes the customs duty of Rs. 50.0 million, sales tax Rs. 63.0 million, and withholding taxes at import stage @ 5.5% of the value of Rs. 413.0 million.
3. Administrative and selling expenses are common in nature. These include salary of Rs. 50,000 paid to each partner every month and withholding taxes deducted @ 10% on receipts from consultancy services.

4. Finance cost is related to commercial imports except interest of Rs. 1.20 million paid to Mrs. Adil on her capital account.

Additional Information:

5. **On January 01, 20x6**, Adil started using one of the office equipment at his residence. The market price of the equipment at that time was Rs. 1.5 million with a written down value of Rs. 1.0 million.
6. **On July 01, 20x5**, Adil let out his apartment to a close relative at a monthly rent of Rs. 10,500. The fair market rent in the area was Rs. 12,250. He also received a non-adjustable deposit of Rs. 110,000. Another non-adjustable deposit of Rs. 85,000 received from an earlier tenant in July 20x3 was refunded.
7. **Adil purchased 500,000 shares of Rs. 10 each** of an unlisted public company in **July 20x1** at the rate of Rs. 150 per share. In August 20x2, he received bonus shares, ranking pari passu, in the ratio of 1 bonus share for every 5 shares held. In **May 20x6**, he sold **80%** of his bonus shares at a price of Rs. 135 per share.

Required:
In the light of the provisions of the Income Tax Ordinance, 2001, compute the taxable income and tax liability of the following for the tax year 20x6:
(a) **Burg Enterprises** (M-10)
(b) **Mr. Adil** (M-9)
(Question # 1 - ICAP-June-2010)

ANSWER

M/s. Burg Enterprises
Resident Association of Persons
Tax Year 20x6
Taxable Income and Tax Liability

Particulars	Trading (Rs. '000)	Consultancy (Rs. '000)	Total (Rs. '000)
Net Sales of Generators [N-1]	495,000	-	495,000
Receipts from Consultancy Services	-	55,000	55,000
Less: Cost of Sales [N-2]	(343,985)	-	(343,985)
Gross Profit	**151,195**	**55,000**	**206,195**
Less: Administrative & Selling Expenses [N-4]	(70,425)	(7,825)	(78,250)

Particulars	Trading (Rs. '000)	Consultancy (Rs. '000)	Total (Rs. '000)
Less: Financial Cost [N-5]	(7,800)	-	(7,800)
Add: Adjustment for Equipment [N-6]	-	-	-
Taxable Income	**73,420**	**47,225**	**120,645**

Tax Liability:
The AOP has two different sources of income, i.e., trading businesses and consultancy services, which are also subject to withholding tax. Tax so deducted is treated as minimum tax. Tax liability of the AOP shall be as below:

Taxable income (73,420,000 + 47,225,000) = **120,645,000**
Tax on taxable income (under NTR) = **1,610,000**
Tax on Rs. 15,045,000 @ 35% = **5,310,250**
Add: Surcharge u/s 4AC = (10% of 53,380,250) [N-14] = **5,338,025**

Total Tax = 8,718,275

Additional Information:

5. **On January 01, 20x6**, Adil started using one of the office equipment at his residence. The market price of the equipment at that time was Rs. 1.5 million with a written down value of Rs. 1.0 million.
6. **On July 01, 20x5**, Adil let out his apartment to a close relative at a monthly rent of Rs. 10,500. The fair market rent in the area was Rs. 12,250. He also received a non-adjustable deposit of Rs. 110,000. Another non-adjustable deposit of Rs. 85,000 received from an earlier tenant in July 20x3 was refunded.
7. **Adil purchased 500,000 shares of Rs. 10 each** of an unlisted public company in **July 20x1** at the rate of Rs. 150 per share. In August 20x2, he received bonus shares, ranking pari passu, in the ratio of 1 bonus share for every 5 shares held. In **May 20x6**, he sold **80%** of his bonus shares at a price of Rs. 135 per share.

Required:
In the light of the provisions of the Income Tax Ordinance, 2001, compute the taxable income and tax liability of the following for the tax year 20x6:
(a) **Burg Enterprises** (M-10)
(b) **Mr. Adil** (M-9)
(Question # 1 - ICAP-June-2010)

ANSWER

M/s. Burg Enterprises
Resident Association of Persons
Tax Year 20x6
Taxable Income and Tax Liability

Particulars	Trading (Rs. '000)	Consultancy (Rs. '000)	Total (Rs. '000)
Net Sales of Generators [N-1]	495,000	-	495,000
Receipts from Consultancy Services	-	55,000	55,000
Less: Cost of Sales [N-2]	(343,985)	-	(343,985)
Gross Profit	**151,195**	**55,000**	**206,195**
Less: Administrative & Selling Expenses [N-4]	(70,425)	(7,825)	(78,250)
Less: Financial Cost [N-5]	(7,800)	-	(7,800)
Add: Adjustment for Equipment [N-6]	-	-	-
Taxable Income	**73,420**	**47,225**	**120,645**

Tax Liability:
The AOP has two different sources of income, i.e., trading businesses and consultancy services, which are also subject to withholding tax. Tax so deducted is treated as minimum tax. Tax liability of the AOP shall be as below:

Taxable income (73,420,000 + 47,225,000) = **120,645,000**
Tax on taxable income (under NTR) = **1,610,000**
Tax on Rs. 15,045,000 @ 35% = **5,310,250**
Add: Surcharge u/s 4AC = (10% of 53,380,250) [N-14] = **5,338,025**

Total Tax = 8,718,275

Less: Tax Withheld:

- On Imports (Rs. 413,000,000 @ 5.5%) = **22,715,000**
- On Consultancy (Rs. 55,000,000 @ 11%) = **6,050,000**

Net Tax Payable = 29,953,275

Basis for Tax Liability:

Under both businesses, tax withheld is treated as minimum tax. Thus, the higher of tax under NTR and tax withheld shall be the tax liability for each line of business. Computation below reveals that in both cases, tax under NTR is higher. Tax withheld shall become adjustable.

Proportionate Tax under NTR Based on Taxable Income

Trading Business:
(Total Tax ÷ Total Taxable Income) × Trading Income
(53,380,250 ÷ 120,645,000) × 73,420,000 = **32,485,208**
Tax withheld (413,000,000 × 5.5%) = **22,715,000**

Consultancy Business:
(Total Tax ÷ Total Taxable Income) × Consultancy Income
(53,380,250 ÷ 120,645,000) × 47,225,000 = **20,895,042**
Tax withheld (55,000,000 × 11%) = **6,050,000**

(b) Mr. Adil

Resident Individual - Non Salaried
Tax Year 20x6
Taxable Income and Tax Liability

Particulars	Amount (Rs.)
Income from Property [N-11]	**125,040**
Capital Gains	
Gain on disposal of shares of private company [N-9]	1,080,000
Actually Taxable Income	**1,205,040**
Income from Business	
Share from AOP – included for rate purpose only [N-7]	33,032,372
Total Income (for rate purposes)	**34,237,415**

Tax Liability [N-12]

- Tax on Rs. 600,000 = **1,610,000**
- Tax on Rs. 28,637,415 @ 35% = **12,886,387**
- **Total Tax = 14,496,387**

Less: Tax on share from AOP (14,496,387 × 34,237,415) × 33,032,372
Total tax for the year = 10,120,839

Alternate Method - Tax on Actually Taxable Income
(Tax ÷ Taxable Income) × Actually Taxable Income = (14,496,387 ÷ 34,237,415) × 1,205,040 = **510,239**

N-1 to N-12 Calculations Provided

Synopsis of Taxes - **Questions & Answers – AOP**

BHM Associates

Resident Association of Persons
Tax Year 20x2
Taxable Income & Tax Liability

Taxable Income Calculation:

- **Sales**: Rs. 4,500,000
- **Less: Cost of Sales** (Rs. 4,500,000 – Rs. 1,800,000) = Rs. 2,700,000
- **Gross Profit**: Rs. 1,800,000
- **Less: Selling and Administrative Expenses**: Rs. 1,105,000
- **Operating Profit**: Rs. 695,000
- **Add: Gain on Disposal of Asset**: Rs. 50,000
- **Net Income for the Year**: Rs. 745,000
- **Tax on Taxable Income**:
    - Tax on Rs. 600,000 @ 15% = Rs. 21,750
    - Tax on Rs. 145,000 @ 16% = Rs. 2,320
    - **Total Tax Liability** = Rs. 24,070

Taxation of Individual Members

- **Bagar:** Rs. 239,167 (including salary and share of income from AOP)
- **Hadi:** Rs. 234,167 (including salary and share of income from AOP)
- **Mikdad:** Rs. 189,167 (share of AOP income)
- **Tax Liability**:
    - **Bagar:** Rs. 13,375
    - **Hadi:** Rs. 0 (Income below threshold)
    - **Mikdad:** Rs. 0 (Tax already withheld on supplies)

Ms. FRIENDSCO

Resident Association of Persons
Tax Year 20x1
Taxable Income & Tax Liability

Taxable Income Calculation:

- **Net Profit as per Accounts**: Rs. 800,000
- **Add: Inadmissible Deductions**: Rs. 185,000
  - Provision for Bad Debts: Rs. 50,000
  - Commission to Arif: Rs. 120,000
  - Utility Bills: Rs. 15,000
- **Less: Bad Debts Actually Written Off**: Rs. 80,000
- **Total Taxable Income**: Rs. 905,000

Tax Liability Calculation:

- **Tax on Income under NTR**: Rs. 40,031
- **Tax on Supplies**: Rs. 44,000
- **Total Tax**: Rs. 84,031
- **Less: Tax Withheld**: Rs. 59,000
- **Net Tax Payable**: Rs. 25,031

Divisible Income of AOP:

- **Total Divisible Income**: Rs. 700,969
- **Arif's Share (1/6)**: Rs. 116,828
- **Bagar's Share (2/6)**: Rs. 233,656
- **Umer's Share (3/6)**: Rs. 350,485

Burg Enterprises

Resident Association of Persons
Tax Year 20x6
Taxable Income & Tax Liability

Taxable Income Calculation:

- **Net Sales of Generators**: Rs. 495,000
- **Consultancy Services**: Rs. 55,000
- **Total Gross Profit**: Rs. 206,195
- **Less: Administrative & Selling Expenses**: Rs. 78,250
- **Less: Financial Cost**: Rs. 7,800
- **Adjusted Taxable Income**: Rs. 120,645

Tax Liability Calculation:

- **Taxable Income under NTR**: Rs. 1,610,000
- **Tax on Rs. 1,610,000 @ 35%**: Rs. 5,338,025
- **Surcharge @ 10%**: Rs. 533,803
- **Total Tax**: Rs. 5,871,278
- **Less: Tax Withheld on Imports**: Rs. 22,715,000
- **Net Tax Payable**: Rs. (29,953,275) (Adjusted against future liabilities)

Mr. Adil (Resident Individual - Non-Salaried)

Taxable Income Calculation:

- **Income from Property**: Rs. 125,040
- **Capital Gains on Disposal of Shares**: Rs. 1,080,000
- **Income from Business**: Rs. 1,005,040
- **Share from AOP**: Rs. 1,206,036
- **Total Taxable Income**: Rs. 3,327,415

Tax Liability Calculation:

- **Tax on Rs. 860,000 @ 35%**: Rs. 1,610,000
- **Tax on Rs. 2,837,415 @ 35%**: Rs. 12,886,837
- **Alternative Method Tax Calculation**: Rs. 510,239

Falah Associates - AOP
Taxable Income & Tax Liability Calculation

Profit & Loss Statement:

- Sales: Rs. 8,500,000
- Less: Cost of Sales: Rs. 5,950,000
- Gross Profit: Rs. 2,550,000

Less: Marketing, Selling, and Administrative Expenses:

- Advertisement Expenses: Rs. 230,000
- Finance Charges on Leased Assets: Rs. 7,000
- Depreciation on Leased Assets: Rs. 85,000
- Depreciation on Owned Assets: Rs. 82,000
- Provision for Doubtful Debts: Rs. 52,000

- Salary to Mr. Khalid: Rs. 620,000
- Salary to Mr. Malik: Rs. 480,000
- Commission to Mr. Faisal: Rs. 200,000
- Other Expenses: Rs. 115,000

Total Expenses: Rs. 1,817,000

Net Profit: Rs. 733,000

Additional Information:

- Cost of sales includes depreciation charges of Rs. 220,000 and aggregate freight charges of Rs. 72,000.
- Rs. 19,000 of total freight charges was a single payment in cash.

Other Expenses Represented as the Following:

- Interest expense on loan utilized for purchase of fixed assets: Rs. 27,000
- Loss on disposal of fixed assets: Rs. 15,000

Tax Adjustments & Inadmissible Expenses:

- Salary and commission to partners are inadmissible.
- Interest expense related to fixed assets purchase is inadmissible.
- Loss on disposal of fixed assets is inadmissible.

Taxable Income Calculation:

- Net Profit before tax: Rs. 733,000
- Add back inadmissible expenses:
  - Salary to Partners: Rs. 1,100,000
  - Commission to Mr. Faisal: Rs. 200,000
  - Interest Expense on Loan for Fixed Assets: Rs. 27,000
  - Loss on Disposal of Fixed Assets: Rs. 15,000

Total Taxable Income: Rs. 2,075,000

Tax Liability Computation:

- Tax on taxable income is computed using applicable tax rates as per tax regulations.
- Any tax credits, deductions, and advance tax payments will be adjusted against total liability.

Tax Analysis and Liability for Association of Persons (AOP)

Overview

An Association of Persons (AOP) is a tax entity that consists of multiple individuals or businesses collaborating for profit. The tax treatment of AOPs varies based on the distribution of income, admissible and inadmissible deductions, tax deductions at source, and other applicable tax regulations.

Tax Computation for AOP and Partners

1. Calculation of Share of Income from AOP

Each partner receives a share of divisible income based on the agreed profit-sharing ratio. Additional earnings such as commissions or salaries to partners are considered separate from the divisible income and are taxable accordingly.

2. Tax Liability of the AOP

The tax liability of the AOP is determined based on the following:

- **Gross Revenue:** Includes income from sales, consultancy services, rentals, or other business activities.
- **Allowable Deductions:** Includes expenses such as administrative costs, salaries to employees, depreciation, and bad debts (subject to tax rules).
- **Inadmissible Deductions:** Expenses such as partner commissions, provisions for bad debts, and utility expenses treated as advances against tax liability are not deductible.
- **Tax on Supplies:** If the AOP is engaged in business with government entities, a minimum tax rate may apply on such supplies.
- **Final Tax Regime (FTR) and Normal Tax Regime (NTR):** The tax liability is calculated under both regimes, and the higher amount is taken as the final tax.

Tax Computation for Partners

Each partner's tax liability is calculated separately based on their share from the AOP and other independent sources of income. Key considerations include:

- **Salary Income:** Salaried partners must include their salary in taxable income.
- **Income from Business:** Partners earning from external business activities must account for it separately.
- **Capital Gains:** If a partner disposes of shares or assets, capital gains tax applies based on indexed cost and consideration received.
- **Rental Income:** Rental earnings are taxable under NTR, with specific deductions allowed for depreciation and repair expenses.
- **Withholding Tax Credits:** Taxes deducted at source from the partner's income can be credited against their total tax liability.

Key Observations and Tax Adjustments

- **Depreciation Adjustments:** Tax depreciation is allowed as per statutory rates, but accounting depreciation is inadmissible.
- **Provision for Bad Debts:** Only actual bad debts written off are allowed as deductions.
- **Interest on Capital:** Interest paid to partners is inadmissible for AOP tax computation.
- **Tax on Utility Bills:** If tax is deducted on utility bills, it is treated as an advance tax against tax liability.
- **Advance Tax on Imports:** Import-stage tax is treated as a minimum tax, with adjustments allowed in final tax computation.
- **Capital Gains on Bonus Shares:** Bonus shares are not considered taxable in the year of receipt but are taxed upon disposal.

Conclusion

The tax computation of an AOP and its partners involves multiple layers, including the allocation of income, deductions, applicable tax rates, and tax credits. Proper classification of income under NTR, FTR, and withholding tax regimes ensures accurate tax liability determination. Compliance with tax regulations and strategic tax planning can optimize tax obligations for the AOP and its partners.

Less: Lease rentals paid

22,000

Bad debts recovered

37,000

Tax depreciation

458,675

Taxable income for the year

2,122,325

Tax Liability

- Tax on 1,600,000 @ 10%: 170,000
- Tax on 522,325 @ 30%: 156,698
- Tax for the year: 326,698

Divisible Income

- Taxable income: 2,122,325
- Less: Tax liability of AOP: (326,698)

- Divisible income: 1,795,627

N-1 Accounting depreciation is inadmissible. Tax depreciation shall be allowed as a deduction.

N-2 Lease is not allowed to claim depreciation or lease charges as deduction. Lease rentals paid is allowed as deduction.

N-3 Interest on loan utilized for purchase of fixed assets may either be treated as normal business expense or may be capitalized. Here the first option is exercised.

N-4 Recovery of bad debts not previously allowed as deduction shall have no tax treatment. As it is adjusted against other expenses resulting in an increase in taxable income, hence it shall be included in taxable income.

N-5 Where a liability in respect of an expenditure previously allowed is not paid within 3 years, the unpaid liability shall be treated as income in the first tax year following the end of 3 years.

N-6 Gain or loss on disposal of asset (i.e., sales proceeds less WDV) shall be as below:

- Plant (120,000 - 100,000) = 20,000
- Furniture and fixture (10,000 - 15,000) = (5,000)
- Net gain = 15,000

N-7 Tax Depreciation

- **Opening tax WDV**
  - Plant and machinery: 750,000
  - Vehicles: 500,000
  - Furniture & fixtures: 90,000
  - **Total: 1,340,000**
- **Less: WDV of assets disposed**
  - Plant and machinery: 100,000
  - Vehicles: 60,000
  - Furniture & fixtures: 15,000
  - **Total: 175,000**
- **Add: Additional purchases**
  - Plant and machinery: 50,000
  - Vehicles: 1,700,000
  - Furniture & fixtures: 12,000
  - **Total: 1,762,000**
- **Depreciable WDV**

- Plant and machinery: 700,000
    - Vehicles: 2,140,000
    - Furniture & fixtures: 87,000
    - **Total: 2,927,000**
- **Normal Depreciation (15% of WDV)**
    - Plant and machinery: 105,000
    - Vehicles: 321,000
    - Furniture & fixtures: 13,065
    - **Total: 439,065**
- **Initial allowance (25% of 50,000)**
    - 12,500
- **Total depreciation**
    - Plant and machinery: 115,225
    - Vehicles: 330,000
    - Furniture & fixtures: 13,065
    - **Total: 458,675**

N-8 Cost of plant and normal depreciation

- **Cost of acquisition**
    - 50,000
- **Less: Initial allowance (50,000 @ 25%)**
    - 12,500
- **Cost for normal depreciation**
    - 37,500

QUESTION – 40.6

AB Associates is an association of person (AOP) (a registered firm) having two partners, Mr. Alam and Mr. Sadar, sharing profit or loss in the ratio of three to two respectively.

Statement of profit or loss of the firm for the tax year two thousand and four is as under:

AB Associates

Statement of Profit or Loss for the tax year 20x4

Rupees	Rupees
Sales - (Without tax deduction)	5,500,000
Less: Cost of sales	
Purchases	2,667,500
Depreciation	45,000
Other manufacturing expenses	412,500
Total cost of sales	(3,575,000)

	Rupees	Rupees
Gross profit		1,925,000
Less:		
Salary to partner, Mr. Alam		220,000
Commission to partner, Mr. Sadar		270,000
Rent of business premises to partner, Mr. Alam		65,000
Depreciation on owned assets		81,750
Depreciation on assets - Subject to finance lease		65,000
Financial charges on leased assets		23,375
Advertisement expenses		47,150
Provision for doubtful debts		21,375
Expense on scientific research		37,500
Other expenses		82,500
Total expenses		(1,185,250)
Net profit		739,750

Additional Information:

- Lease rentals for the year were rupees forty-nine thousand five hundred.
- Information for the tax depreciation purposes is:

Asset	Opening Tax Written Down Value (WDV)	WDV of Disposal	Sales Proceeds	Purchases
Plant and machinery	687,500	220,000	247,500	11,000
Vehicles	1,100,000	-	-	1,475,000
Furniture and fixtures	220,000	27,500	20,625	-

- Purchased plant and machinery is eligible for initial allowance at the rate of twenty-five percent.
- Normal depreciation is allowed at the rate of fifteen percent of WDV of assets.
- **Other expenses represent the following:**
  - Loss on disposal of fixed assets: **thirteen thousand seven hundred fifty**
  - Miscellaneous expenses: **one hundred ten thousand**
  - Interest expense on loan utilized for purchase of fixed assets: **one hundred thirty thousand seven hundred fifty**
  - Residential telephone bills of partner, Mr. Alam: **thirteen thousand seven hundred fifty**
  - Bad debts recovered: **ninety thousand seven hundred fifty**

Bad debts recovered were disallowed by the Tax Department in the previous year when it was claimed as a bad debt expense.

Analysis of Liabilities:

The following amounts are outstanding for more than three years:

- Liability against purchases: **two hundred twenty thousand**
- Bank loan: **two hundred fifty thousand**
- Interest on bank loan: **one hundred ten thousand**
- Advance from customers: **one hundred sixty-five thousand**

Mr. Alam claimed property-related expenses of rupees **one hundred fifty-four thousand**, including actual repair expenses of rupees **one hundred forty-three thousand**.

Required:

Calculate the taxable income of AB Associates, share of profit of each partner, and tax payable by Mr. Alam for the tax year twenty X four.
(M-24) (Question # 4-ICMAP-Spring-2018)

ANSWER

AB Associates
Resident Association of Persons
Tax Year 20x4
Taxable Income and Tax Liability

	Rupees
Net Profit	
Add: Depreciation [N-1]	
Salary to partner Mr. Alam [N-4]	
Commission to partner Mr. Sadar [N-4]	
Depreciation on owned assets [N-1]	
Depreciation on assets subject to finance lease [N-3]	
Financial charges on leased assets [N-3]	
Provision for doubtful debts	
Loss on disposal of fixed assets	
Residential telephone bills of partner Mr. Alam [N-4]	
Liabilities for more than three years [N-8]	
Liability against purchases	

Rupees

Interest on the bank loan

Tax gain on disposal of P&M (247,500 - 220,000)

Total

Less:	
Tax depreciation [N-2]	528,875
Tax loss on furniture (20,625 - 27,500)	6,875
Finance lease [N-3]	81,375
Bad debts recovered [N-7]	90,750
Total Less:	(675,138)
Taxable Income / (Loss)	1,344,737

Tax Liability:

Rupees

Tax on rupees one million two hundred thousand

Tax on rupees one hundred forty-four thousand seven hundred thirty-seven at twenty percent

Total tax for the year

Divisible Income of AOP:

Rupees

Taxable income

Less: Tax liability of AOP

Total Divisible Income

Payments to partners on account of:	
Salary	220,000
Commission	27,500

Residential telephone bills

Thirteen thousand seven hundred fifty (13,750)

Three hundred eighty thousand one hundred ninety-seven (380,197)

Divisible Income

Nine hundred eighty-four thousand five hundred forty (984,540)

Share of Partners in Divisible Income

Mr. Alam (964,540 ÷ 5 × 3) **Five hundred seventy-eight thousand seven hundred twenty-four** (578,724)
Mr. Sadar (964,540 ÷ 5 × 2) **Three hundred eighty-five thousand eight hundred sixteen** (385,816)

Share from AOP

Mr. Alam Five hundred seventy-eight thousand seven hundred twenty-four (578,724)
Mr. Sadar Three hundred eighty-five thousand eight hundred sixteen (385,816)

Share in Divisible Income

Mr. Alam Five hundred seventy-eight thousand seven hundred twenty-four (578,724)
Mr. Sadar Three hundred eighty-five thousand eight hundred sixteen (385,816)

Salary

Two hundred twenty thousand (220,000)

Commission

Twenty-seven thousand five hundred (27,500)

Residential telephone bills

Thirteen thousand seven hundred fifty (13,750)

Total

Eight hundred twelve thousand four hundred seventy-four (812,474)
Four hundred thirteen thousand three hundred sixteen (413,316)

Depreciation

Asset	Opening WDV	WDV on Disposal	Net WDV	Additions	Total for Normal Allowance	Initial Allowance	Normal	Total
Plant and Machinery	Six hundred eighty-seven thousand five hundred (687,500)	Two hundred twenty thousand (220,000)	Four hundred sixty-seven thousand five hundred (467,500)	One hundred ten thousand (110,000)	Five hundred seventy-seven thousand five hundred (577,500)	Twenty-seven thousand five hundred (27,500)	Eighty-six thousand six hundred twenty-five (86,625)	One hundred ten thousand one hundred twenty-five (110,125)
Vehicle	One million one hundred thousand (1,100,000)	One hundred ninety-two thousand five hundred (192,500)	Nine hundred seven thousand five hundred (907,500)	One hundred fifty thousand (150,000)	One million fifty-seven thousand five hundred (1,057,500)	Thirty-seven thousand five hundred (37,500)	One hundred thirty-seven thousand one hundred twenty-five (137,125)	One hundred seventy-four thousand six hundred twenty-five (174,625)
Furniture	Two hundred twenty thousand (220,000)	One hundred fifty-two thousand five hundred (152,500)	Sixty-seven thousand five hundred (67,500)	Nineteen thousand two hundred eighty (19,280)	Eighty-six thousand seven hundred eighty (86,780)	Five thousand seven hundred thirteen (5,713)	Twelve thousand seven hundred seventeen (12,717)	Eighteen thousand four hundred thirty (18,430)
Total							Two hundred eighty-	

Asset	Opening WDV	WDV on Disposal	Net WDV	Additions	Total for Normal Allowance	Initial Allowance	Normal	Total
							three thousand one hundred eighty (283,180)	

Mr. Alam

Resident Individual – Non-Salaried
Tax Year 20X4
Taxable Income and Tax Liability

Income from Property

RCT **Six hundred sixty thousand** (660,000)

Less: Deductions

- Repair allowance (1/5th of **660,000**) **One hundred thirty-two thousand** (132,000) [N-9]
- Other expenses (**One hundred fifty-four thousand** - **One hundred forty-three thousand**) **Eleven thousand** (11,000) [N-10]

Income taxable under NTR **Five hundred seventeen thousand** (517,000)
Share from AOP **Eight hundred twelve thousand four hundred seventy-four** (812,474)
Total Income **One million three hundred twenty-nine thousand four hundred seventy-four** (1,329,474)

Tax Liability

Tax on **one million two hundred thousand** (1,200,000) **Ninety thousand** (90,000)
Tax on **one hundred twenty-nine thousand four hundred seventy-four** at **twenty percent** (20%)

Twenty-five thousand eight hundred ninety-five (25,895)
Total Tax **One hundred fifteen thousand eight hundred ninety-five** (115,895)

Less: Tax on share from AOP (115,895 ÷ 1,329,474) × 812,474 **Seventy-five thousand eight hundred twenty-six** (75,826)

Tax Payable

Forty thousand sixty-nine (40,069)

Notes

N-1 Accounting depreciation is inadmissible.
N-2 Tax depreciation is admissible.
N-3 Depreciation and financial charges on leased assets are inadmissible. Lease rentals paid are admissible.

N-4

Payments to partners on account of salary, commission, and other personal expenses are inadmissible.

N-5

Rent of business premises paid to a partner is an admissible deduction.

N-6

Expenses on scientific research are admissible if conditions laid down under section **twenty-eight** (28) of **Income Tax Ordinance** (ITO) are fulfilled.

N-7

Recovery of bad debts shall have no tax treatment if these were not allowed as deductions when written off.

N-8

Liability for an expense allowed as a deduction will be treated as income if not paid within **three** (3) years.

N-9

Repair allowance is admissible, whereas actual repair expenses are inadmissible.

N-10

Other property-related expenses are presumed to be those which are admissible under section **fifteen A** (15A) of **Income Tax Ordinance** (ITO).

QUESTION- 40.7

Saleem, Rashid, and Moin are partners in a partnership concern carrying on the business of manufacturing and sale of consumer goods. They share profit and loss in the ratio **two is to three is to five** (2:3:5), respectively. The results of operations of the firm are as follows:

Particulars	Amount in Rupees
Sales (including rental income)	**Seven hundred sixty thousand** (760,000)
Cost of sales	**Five hundred thirty thousand** (530,000)
Gross profit	**Two hundred thirty thousand** (230,000)
Selling, administrative, and other expenses	**One hundred sixty-two thousand two hundred fifty** (162,250)
Profit before tax	**Sixty-seven thousand seven hundred fifty** (67,750)
Tax deducted at source on import of raw material	**Two hundred ten** (210)
Tax deducted at source on sale of goods	**Two thousand seven hundred fifty** (2,750)
Total tax deducted at source	**Two thousand nine hundred sixty** (2,960)

Other Information

1. The firm has rented out a vacant portion of its factory to a company at an annual rental of **one million** (1,000,000). Tax was duly deducted by the lessee.
2. Mr. Saleem has earned income of **one million three hundred twenty-five thousand** (1,325,000) from another business as a sole proprietor. He also sold his personal car for a loss of **fifty thousand** (50,000).
3. Mr. Rashid earned a gross income of **two hundred thousand** (200,000) from another partnership and dividends of **fifty thousand** (50,000) from a listed company.
4. Mr. Moin has no other source of income.

Required:

Assuming that the above data pertains to the **tax year twenty-X one** (20X1), compute the **tax liability** of the firm and each of its partners and the amount of tax payable by them along with the return of income.

ANSWER

Saleem, Rashid, Moin & Co
Resident AOP
Tax Year 20X1
Taxable Income and Tax Liability

Income from Business

Particulars	NTR	MTR	Total
Sales Ratio [N-2]	**Thirty-three point three three percent** (33.33%)	**Sixty-six point six seven percent** (66.67%)	**One hundred percent** (100%)
Sales [N-2]	**Two million five hundred thousand** (2,500,000)	**Five million** (5,000,000)	**Seven million five hundred thousand** (7,500,000)
Less: Cost of Sales [N-3]	**One million seven hundred fifty-six thousand six hundred sixty-three** (1,756,663)	**Three million five hundred thirteen thousand three hundred thirty-seven** (3,513,337)	**Five million two hundred seventy thousand** (5,270,000)
Gross Profit	**Seven hundred forty-three thousand three hundred thirty-three** (743,333)	**One million four hundred eighty-six thousand six hundred sixty-seven** (1,486,667)	**Two million two hundred thirty thousand** (2,230,000)

Particulars	NTR	MTR	Total
Selling & Administrative and Other Expenses [N-4]	**One million nine hundred sixteen thousand six hundred sixty-six** (1,916,666)	**Total Income from Business**	
Income from Property [N-8]	**Eight hundred thousand** (800,000)	**Three million eight hundred thirty-three thousand three hundred thirty-four** (3,833,334)	**Total Income**

Tax Computations

Particulars	Amount (Rupees)
Tax on Income from Property [N-5]	**Two hundred forty-eight thousand eight hundred fifty-five** (248,855)
Tax on Income from Business Income [N-5]	**Five hundred ninety-two thousand two hundred fifteen** (592,215)
Total	**Eight hundred forty-five thousand seventy** (845,070)

Tax Liability

Particulars	Amount (Rupees)
Tax on Income from Property under NTR	**Two hundred forty-eight thousand eight hundred fifty-five** (248,855)
Tax under NTR (on sales other than subject to tax under section one hundred fifty-three (153))	**Two million seven hundred fifty thousand** (2,750,000)
Tax under MTR (on sales subject to tax under section one hundred fifty-three (153)) [N-6]	**Total**
Less: Tax Deducted at Source [N-7]	**(Two hundred fifty-five thousand)** (-255,000)
Tax Payable for the Year	**Five hundred ninety thousand seventy** (590,070)

Divisible Income of AOP

Particulars	Amount (Rupees)
Income from Business	**One million nine hundred sixteen thousand six hundred sixty-six** (1,916,666)

Particulars	Amount (Rupees)
Taxable Income under NTR	**Three million eight hundred thirty-three thousand three hundred thirty-four** (3,833,334)
Income Covered under MTR [N-9]	**Total**
Income from Property	**Total**
Less: Tax for the Year	**Five million six hundred fifty thousand** (5,650,000)
Tax on Income under NTR	**Five hundred ninety-eight thousand two hundred fifteen** (598,215)
Tax on Income under MTR	**Two million seven hundred fifty thousand** (2,750,000)
Tax on Income from Property	**Two hundred forty-eight thousand eight hundred fifty-five** (248,855)
Divisible Income	**Two million nine hundred fifty-five thousand seventy** (2,955,070)

Share of Each Partner

Partner	Share	Amount (Rupees)
Saleem	**Two-tenths** (2/10) of **Two million nine hundred fifty-four thousand nine hundred thirty** (2,954,930)	**Five hundred ninety thousand four hundred eighty-six** (590,486)
Rashid	**Three-tenths** (3/10) of **Two million nine hundred fifty-four thousand nine hundred thirty** (2,954,930)	**Eight hundred eighty-five thousand seven hundred twenty-nine** (885,729)
Moin	**Five-tenths** (5/10) of **Two million nine hundred fifty-four thousand nine hundred thirty** (2,954,930)	**One million four hundred seventy-seven thousand four hundred fifteen** (1,477,415)
Total		**Two million nine hundred fifty-four thousand nine hundred thirty** (2,954,930)

Tax Liability of Partners

Particulars	Amount (Rupees)
Saleem	**Business Income from Sole Proprietorship**
Add: Share from AOP Included for Rate Purposes	**Five hundred ninety thousand four hundred eighty-six** (590,486)

Particulars	Amount (Rupees)
Total	**One million nine hundred fifteen thousand eight hundred eighty-six** (1,915,886)
Tax on Rupees One Million (1,000,000)	**One hundred seventy thousand** (170,000)
Tax on Rupees Three Hundred Fifteen Thousand Eight Hundred Eighty-Six (315,886) @ **Twenty Percent** (20%)	**Ninety-four thousand seven hundred ninety-six** (94,796)
Total	**Two hundred sixty-four thousand seven hundred ninety-six** (264,796)
Average Rate of Tax [(Two hundred sixty-four thousand seven hundred ninety-six divided by one million nine hundred fifteen thousand eight hundred eighty-six) multiplied by one hundred] (264,796 ÷ 1,915,886) × 100	**Thirteen point eight two percent** (13.82%)
Tax on Actually Taxable Income	**One hundred eighty-three thousand one hundred fifteen** (183,115)

Note:

There will be **no treatment** for the **loss** of **fifty thousand** (50,000) on the **sale of a personal car**.

Rashid

Rashid has the following income:

Particulars	Amount (Rupees)
Share from AOP	**Eight hundred eighty-eight thousand four hundred seventy-nine** (888,479)
Share from another AOP	**Two hundred thousand** (200,000)
Dividend	**Fifty thousand** (50,000)

Shares from AOPs are exempt from tax. The dividend income is taxable under **FTR**, so Rashid will have no tax liability under **NTR**.

Moin

Moin has a share from **AOP** amounting to **One million four hundred seventy-seven thousand four hundred sixty-five** (1,477,465), which is **exempt from tax**.

N-1

Sale of goods on which tax has been deducted at source falls under **MTR under section one hundred fifty-three (153)**. Sales and deductions shall be **apportioned between NTR and MTR** on the basis of their **sale ratio**.

N-2

Total **sales as per profit and loss account**:

Particulars	Amount (Rupees)
Total Sales Income	**Seventy-six million** (76,000,000)
Less: Rental Income	**One million** (1,000,000)
Total Business Sales	**Seventy-five million** (75,000,000)
Sales on which tax is deducted (2,750,000 ÷ 5.50%)	**Fifty million** (50,000,000)
Sales under NTR	**Twenty-five million** (25,000,000)

N-3

Cost of sales is **apportioned on ‘sale ratio’ basis**.

N-4

These expenses are **apportioned on ‘sale ratio’ basis**.

N-5

Tax under NTR on taxable income of **Six million five hundred fifty thousand** (6,550,000) shall be as follows:

| Tax on Rs. 5,600,000 | One million six hundred ten thousand (1,610,000) |
| Tax on Rs. 950,000 @ Forty-five percent (45%) | Four hundred twenty-seven thousand

five hundred (427,500) |
| **Total** | **Two million thirty-seven thousand five hundred** (2,037,500) |

Apportionment of tax computed under **NTR** is made considering the respective amounts of income, which is as below:

Particulars	Amount (Rupees)
Income from Property = (2,037,500 ÷ 6,550,000) × 800,000	**Two hundred forty-eight thousand eight hundred fifty-five** (248,855)
Income from Business = (2,037,500 ÷ 6,550,000) × 5,750,000	**One million seven hundred eighty-eight thousand six hundred forty-five** (1,788,645)
Total	**Two million thirty-seven thousand five hundred** (2,037,500)

Proportionate Tax on Income from Business Based on Sales Ratio

Particulars	Amount (Rupees)
NTR = (1,788,645 ÷ 7,500,000) × 25,000,000	**Five hundred ninety-two thousand two hundred fifteen** (592,215)
MTR = (1,788,645 ÷ 7,500,000) × 50,000,000	**One million one hundred ninety-two thousand four hundred thirty** (1,192,430)
Total	**One million seven hundred eighty-eight thousand six hundred forty-five** (1,788,645)

N-6

Tax in respect of income arising through sales **on which tax is deducted under section one hundred fifty-three (153)** shall be **the higher of** the tax so deducted or the tax under **NTR**. Higher of the following two amounts shall be the tax in respect of such income:

1. **Tax under NTR on sales falling under MTR [N-5]** = **One million one hundred ninety-two thousand four hundred thirty** (1,192,430)
2. **Tax deducted under section one hundred fifty-three (153)** = **Two million seven hundred fifty thousand** (2,750,000)

Thus, the tax under **section 153** is applicable.

N-7

Tax collected on rental income and **rent of property** is **adjustable against tax under NTR**. It shall be as below:

Particulars	Amount (Rupees)
Tax withheld on rental income	**Two hundred thousand** (200,000)
Tax withheld on rent of property [N-8]	**Fifty-five thousand** (55,000)
Total	**Two hundred fifty-five thousand** (255,000)

N-8

Income from Property

Rent of property should not be included in taxable business income. Income under this head shall beTotal Rental Income Calculation

Particulars	Amount (Rupees)
Total rental income	**One million** (1,000,000)
Less: Repair allowance (1/5th of **1,000,000**)	**Two hundred thousand** (200,000)
After-tax property income	**Eight hundred thousand** (800,000)
Tax withheld u/s one hundred fifty-five (155):	
On Rs. 600,000	**Fifteen thousand** (15,000)
Tax on Rs. 400,000 @ ten percent (10%)	**Forty thousand** (40,000)
Total Tax Withheld	**Fifty-five thousand** (55,000)

N-9

While computing **divisible income**, the incomes under **FTR** shall also be taken into account. The **actual income** is the amount that shall be included.

QUESTION – 40.8

(a) **A, B, and C** were carrying on business as a firm under the name and style of **Messrs XYZ Associates**, during the tax year **ended 30th June, 20X1**. On **1st January, 20X1**, **C retired** and in his place **D was admitted on the same terms**.

(b) **Profit and Loss Account** of the said **Messrs XYZ Associates** for the year ended **30th June, 20X1** is as follows:

EXPENDITURE	**Rs.**	**INCOME**	**Rs.**
Cost of Sales	**Five hundred seventy-three thousand** (573,000)	**Sales**	**One million two hundred thousand** (1,200,000)
Salaries – Partners	**Eighty thousand** (80,000)	**Rent of Property**	**Three hundred thousand** (300,000)
Salaries – Staff	**Thirty thousand** (30,000)		
Printing and Stationery	**Eight thousand nine hundred thirty** (8,930)		
Traveling and Conveyance	**Fifteen thousand five hundred fifty** (15,550)		
Rent	**Eleven thousand five hundred fifty** (11,550)		
Rates and Insurance	**Eighteen thousand** (18,000)		
Repairs and Maintenance	**Eight thousand two hundred** (8,200)		
Legal Charges	**Six thousand two hundred** (6,200)		
Interest and Bank Charges	**One thousand four hundred fifty** (1,450)		
Depreciation	**Seventeen thousand five hundred** (17,500)		
Net Profit	**Seven hundred twenty-five thousand** (725,000)	**Total Income**	**One million five hundred thousand** (1,500,000)

(c) **Additional Information:**

(i) **Mr. A, Mr. B, and Mr. C were sharing profits and losses** of the firm in the ratio **4:3:3**, respectively.

(ii) **Mr. A draws a salary of Rupees three thousand (3,000) per month**, while other partners draw **Rupees two thousand (2,000) per month each**. Each of these partners was further **allowed to make personal drawings of Rupees one thousand five hundred (1,500) per month**, besides his salary.

(iii) **Legal Charges** includes a sum of **Rupees five thousand (5,000)** spent on a case **for defending the title of the property**.

(iv) **Repairs and Maintenance** includes **Rupees nine thousand (9,000)** incurred **for the maintenance of the property**.

(v) **Salary of staff** includes **salary paid to Mr. Ramzan @ Rupees six hundred (600) per month**, whose **sole responsibility is the recovery of rent from tenants**.

(vi) **Interest and Bank Charges** includes **Rupees four hundred fifty (450)** debited by **bankers as collection charges** pertaining to **cheques for rent**. It also includes **interest amounting to Rupees five thousand (5,000)**.

determined as below

Loan Secured and Depreciation Details

- **Loan secured by the mortgage** of the property and **interest amounting to Rupees four thousand (4,000) and Rupees two thousand (2,000) paid** to **Mr. A and Mr. B**, respectively, on their **loans to the firm**.
- **Depreciation given in the Profit & Loss Account** has been calculated **at the rates admissible under the Third Schedule to the Income Tax Ordinance**. However, it includes **depreciation amounting to Rupees three thousand (3,000) on a pickup purchased and registered on 25th June, 20X1**, and **Rupees five thousand (5,000) on property**.
- **Change in constitution** mentioned in part **(a) was duly registered**.

Computation Requirements:

(a) **Taxable income of the firm and its tax liability.**
(b) **Shares to be allocated to the partners.**

[CA Final Group-II Nov. 1990]

ANSWER

XYZ Associates

Resident AOP
Tax Year 20X1
Taxable Income and Tax Liability

Income from Property

Particulars	Amount (Rupees)
Rent (RCT)	Three hundred thousand (300,000)
Less: Repair Allowance (1/5th of 300,000)	Sixty thousand (60,000)
Net Property Income	Two hundred forty thousand (240,000)

Income from Business

Particulars	Amount (Rupees)
Profit as per Profit and Loss Account	Seven hundred twenty-five thousand (725,000)
Add: Inadmissible Deductions	
- Salary to Partners	Eighty-four thousand (84,000)
- Salary for Recovery of Rent	Seven thousand two hundred (7,200)
- Traveling Expenses of Partners [N-1]	Eleven thousand five hundred fifty (11,550)
- Repair of Property	Nine thousand (9,000)
- Legal Charges Paid for Property	Five thousand (5,000)
- Rent Collection Charges	Four hundred fifty (450)
- Interest on Mortgage of Property	Five thousand (5,000)

Particulars	Amount (Rupees)
- Interest Paid to Partners (4,000+2,000)	Six thousand (6,000)
- Depreciation on Property [N-2]	Five thousand (5,000)
- Depreciation on Pickup [N-3]	Three thousand (3,000)
Total Inadmissible Deductions	One hundred thirteen thousand two hundred (113,200)
Net Business Income	Five hundred eighty-five thousand two hundred (585,200)

Total Taxable Income

Particulars	Amount (Rupees)
Net Business Income	Five hundred eighty-five thousand two hundred (585,200)
Net Property Income	Two hundred forty thousand (240,000)
Total Taxable Income	Seven hundred ninety-eight thousand two hundred (798,200)

Tax Liability of the Firm

| Tax on Rs. 600,000 | Rupees zero (0) |
| Tax on Rs. 198,200 @ 15% | Twenty-nine thousand seven hundred thirty (29,730) |
| Total Tax Liability | Twenty-nine thousand seven hundred thirty (29,730) |

Divisible Income

Particulars	Amount (Rupees)
Taxable Income of the Firm (558,200 + 300,000) [N-5]	Seven hundred ninety-eight thousand two hundred (798,200)

Particulars	Amount (Rupees)
Less: Income Tax Payable	**Twenty-nine thousand seven hundred thirty (29,730)**
Income Available for Partners	**Seven hundred sixty-eight thousand four hundred seventy (768,470)**
Less: Interest to Partners	**Six thousand (6,000)**
Divisible Income of the Firm	**Seven hundred sixty-two thousand four hundred seventy (762,470)**

SHARE OF PARTNERS

Computation	Amount (Rupees)
(678,470 ÷ 10) × 4	**271,388**
(678,470 ÷ 10) × 3	**203,542**
(678,470 ÷ 10) × 3	**203,542**
(678,470 ÷ 12) × 3	**101,770**
Total	**678,470**

Share of Each Partner

Particulars	A	B	C	D
Salary	36,000	24,000	12,000	12,000
Interest	4,000	-	2,000	2,000
Share from firm	271,388	203,542	101,770	101,770
Total	**311,388**	**227,542**	**113,770**	**115,770**

Notes:

- **N-1:** Traveling expenses of the partners are treated as personal expenses of the partners.
- **N-2:** Depreciation on property is inadmissible because any asset **not used for business** is not a depreciable asset.
- **N-3:** Depreciation on assets (other than property) **is computed as per tax rules**, and it **does not require any adjustment**.
- **N-4: All firm's income forms part of divisible income.** Income from property, though taxable under STR, is included for division among AOP members.

QUESTION – 40.9

X & Y are partners in a firm, sharing profits equally. **The Profit & Loss Account for the year ended 30th June, 20X2 is as follows:**

Expenditure	Rupees	Income	Rupees
Administrative Salaries	1,240,000	**Gross Profit**	5,203,000
Rent & Rates	210,000	**Profit on Sale of Shares**	200,000
Vehicle Maintenance Expense	480,000	**Quoted on Stock Exchange**	160,000
Interest	89,000		
Discount Allowed	60,000		
Legal Charges	65,000		
Gifts	50,000		
General Charges	100,000		
Depreciation	700,000		
Provision for Doubtful Debts	118,000		
Net Profit Distributed	2,582,000		
Total	**5,583,000**	**Total**	**5,583,000**

Observations:

1. **Salaries include Rs. 30,000 p.m. to Mr. Y.**

X & Y Associates
Resident AOP
Tax Year 20X2
Taxable Income and Tax Liability

Net profit as per Profit and Loss Account:

Rs. 2,582,000

Add: Inadmissible Deductions:

- Salary paid to Mr. Y (30,000 x 12) **Rs. 360,000**
- Interest paid to partners (150,000 + 140,000) **Rs. 290,000**
- Insurance premium paid for a debtor **Rs. 7,500**
- Purchase of furniture **Rs. 105,000**

- Donation [N-2] **Rs. 20,000**
- Depreciation - Accounting **Rs. 110,000**
- Provision for doubtful debts **Rs. 110,000**
- Vehicle expenses (80,000 x 2) [N-3] **Rs. 160,000**

Total Additions: Rs. 1,027,000

Total: Rs. 3,609,000

Less:

- Capital gain on sale of listed shares [N-4] **Rs. 160,000**
- Tax depreciation on assets [N-5] **Rs. 18,210**

Taxable Income of the Firm: Rs. 3,430,790

Tax Liability of the Firm:

- Tax on Rs. 3,200,000 **Rs. 650,000**
- Tax on Rs. 230,790 @ 40% **Rs. 92,316**

Total Tax: Rs. 742,316

Partners' Share from the Firm:

Total Income of the Firm: Rs. 3,430,790

Less:

- **Tax Liability of AOP: Rs. 742,316**
- **Salaries paid to partners: Rs. 360,000**

ANSWER

X & Y
Resident AOP
Tax Year 20X2
Taxable Income and Tax Liability

Net profit as per profit and loss account: Rs. 2,582,000

Add: Inadmissible

- Salary paid to Mr. Y (30,000 x 12): Rs. 360,000
- Interest paid to partners (150,000 + 140,000): Rs. 290,000
- Insurance premium paid for a debtor: Rs. 32,000
- Purchase of furniture: Rs. 100,000
- Donation [N-2]: Rs. 25,000
- Depreciation - Accounting: Rs. 110,000
- Provision for doubtful debts: Rs. 110,000
- Vehicles expenses (80,000 x 2) [N-3]: Rs. 160,000

Total: Rs. 1,027,000
Adjusted Profit: Rs. 3,609,000

Less:

- Capital gain on sale of listed shares [N-4]: Rs. 160,000
- Tax depreciation on assets [N-5]: Rs. 18,210

Taxable income of the firm: Rs. 3,430,790

Tax Liability of AOP

- Tax on Rs. 3,200,000 @ 20%: Rs. 650,000
- Tax on Rs. 230,790 @ 40%: Rs. 92,316

Total tax: Rs. 742,316

Partners' Share from the Firm

- **Total income of the firm:** Rs. 3,430,790
- **Less:**
  - Tax liability of AOP: Rs. 742,316
  - Salaries paid to partners: Rs. 360,000

Interest paid to partners: Rs. 290,000
Total divisible income of the firm: Rs. 2,038,474
Share of each partner (2,038,474 ÷ 2): Rs. 1,019,237

TAXABLE INCOME OF PARTNERS

Particulars	X (Rs.)	Y (Rs.)
Salary	X0	360,000
Interest	150,000	140,000

Particulars	X (Rs.)	Y (Rs.)
Share of business income	1,019,237	1,019,237
Share of Capital gain [N-4]	80,000	80,000
Total Income from the Firm	**1,249,237**	**1,599,237**

Notes:

- **N-1** Legal expenses paid for the partnership deed is a normal business expense thus treated as admissible.
- **N-2** Donation to a mosque is treated as a donation given to an unapproved institution. Had the mosque been assumed as an approved institution, a rebate would have been allowed at the average tax rate.
- **N-3** The vehicle is being used for official as well as private purposes, thus the running and maintenance expenses and depreciation shall be allowed only upto 50% of the expense.
- **N-4** It is presumed that these shares were acquired six years earlier. Under this case capital gain of the listed shares shall not be taxable. However, if such income only includes taxable income of the partnership, any such income of the firm shall also be included in divisible income. Share of each partner in capital gain shall be Rs. 80,000 (i.e. Rs. 160,000 ÷ 2).
- **N-5 Statutory Depreciation:**
  - **(a) Vehicle:**
    - Cost in 20X1: Rs. 168,000
    - Depreciation for 20X1 @ 15%: Rs. 25,200
    - W.D.V. in 20X2: Rs. 142,800
    - Depreciation for 20X2 @ 15%: Rs. 21,420
    - **Chargeable to business – 50% of the total [N-6]**: Rs. 10,710
  - **(b) Furniture:**
    - Total depreciation (100,000 @ 15%): Rs. 15,000

  Total depreciation: Rs. 25,710

- **N-6** Half of the depreciation and other expenses incurred on the vehicle being used for private purpose also is allowed as deduction.

Synopsis of Taxes Questions & Answers – AOP [40-697]

Establishment expenses 115,000 Office repairs 25,000 Court expenses 36,000 Property expenses 36,000 Depreciation 58,000 Other Income:

- Dividends-net of tax 150,000
- Property income 150,000
- Interest on FDR – net of tax 119,000
- Miscellaneous income 30,000

As per the partnership agreement, incomes from shareholding and from immovable property belong to A only. Annual let-out/g value of property (FMR) 100,000 Staff salary includes perquisites 100,000 Office repairs represent renovation of new premises Property expenses include:

- Property tax 4,800
- Collection charges (per month) 600
- Legal expenses 3,000
- Repairs 3,500
- Interest on mortgage 13,000

Tax WDV of assets:

- Furniture 30,000
- Car 20,000

B paid donation of Rs. 24,000 to Bait-ul-Mal and Rs. 30,000 to an approved institution besides incurring expenses on legal services Rs. 20,000. A paid Rs. 24,000 to Bait-ul-Mal. Donation to approved institutions is Rs. 50,000.

(CA Final Group-II April 1995)

ANSWER JJ Resident AOP Tax Year 20X1 Taxable Income and Tax Liability

Income from Business: Gross Profit (5,000,000 x 30%) 1,500,000 Less: Admissible Expenses:

- Staff salary [N-1] 225,000
- Establishment expenses 115,000
- Office repairs [N-2] 25,000
- Court expenses 36,000
- Statutory depreciation [N-3] 10,000 390,000 1,110,000

Income from Other Sources

- Miscellaneous income 30,000 Taxable Income 1,140,000
- **Synopsis of Taxes Questions & Answers – AOP [40-698]**
- **Tax Liability** Tax on Rs. 600,000 0
  Tax on Rs. 540,000 @ 15% 81,000
  Total tax liability of the firm 81,000
- **Divisible Income of the Firm**
  Income of the firm:
  Income from business & other sources 1,140,000
  Income from FDR [N-5] 140,000
  Total 1,280,000
- Less:
  Income tax liability of the firm:

Tax on taxable income 81,000
Tax on income from FDR 21,000
Total 102,000

- Salary for partners (390,000)
  Total income distributable between partners 890,000
  Share of each partner (Rs. 890,000 ÷ 2) 445,000
- **TOTAL INCOME OF PARTNERS**
- **Share of Partners in the Income of the Firm**
  Salary (Rs. 288,000 ÷ 2) 144,000 144,000
  Share in the divisible income of the firm 445,000 445,000
  Total share in income of the firm 589,000 589,000
- **Other Incomes of Partners:**
  Income from property 93,200 0
  Dividend [N-4] 0 0
  Total income of partners 832,200 589,000
- **Tax Liability of Partners** Share from AOP is exempt from tax. As the partners do not have any income taxable under NTR or income under NTR is less than the threshold, they shall not be required to file the return of income or pay any tax.
- **N-1** Anything paid to the staff on account of salary and perquisites is allowed as deduction.
- **N-2** Amount shown as office repair is the renovation of new premises so is a capital expenditure, which is not allowed as deduction. Depreciation on this addition in premises is an admissible expense. As the value of premises is not provided, it is assumed that depreciation has already been charged on assets, including the premises. Thus depreciation on addition only is charged.
- **N-3 Tax Depreciation**

Assets	WDV	Rate	Dep. Amount
Furniture	30,000	15%	4,500
Car	20,000	15%	3,000
Premises (Addition) [N-2]	25,000	15%	2,500

- **N-4 Dividends and Income on FDR** These incomes fall under Final Tax Regime.
  The dividend income belongs to Mr. A only. It is FTR income. Tax withheld shall be final tax on it. It shall not form part of total income.

Synopsis of Taxes Questions & Answers - AOP [40-699]

Income from FDR is income of the firm. Being FTR income, it shall not be added in total income of AOP. However, income and tax thereon shall be considered while determining 'divisible income' of the AOP.

N-5 Donation to Bait-ul-Mal is no more allowed as deduction.

N-6 Tax Credit for Donations Total donations to approved institutions:

	A	**30,000**

Had there be any taxable income and tax liability of the partners, a tax credit would have been allowed for donations made to approved institutions.

N-7 Income attributable to A on account of property is Rs. 150,000 and dividend is Rs. 90,000

N-8 Income from Property Income from property is derived by JJ but as per terms of partnership deed it belongs to 'A' only. This transaction requires the following actions under the Income Tax Ordinance:

1. Income from property shall not be added in income of JJ;
2. Income computed under Income Tax Ordinance shall be added in income of 'A'; and
3. This income shall not form part of divisible income of AOP, rather, shall thereby be added in income of 'A'. *Income for this purpose shall be as below:*

RCT (higher of FMR or rent received) 150,000 Less: Deductions

- Repair allowance (1/5th of 150,000) 30,000
- Property tax 4,800
- Collection charges, lesser of (600 x 12 = 7,200) or 4% of 150,000 6,000
- Legal expenses 3,000
- Interest on mortgage 3,000 Total deductions 66,800 Net income from property 93,200

QUESTION - 40.11 A, B, and C are the partners having equal share in a firm providing you following information for computation of total income and tax liability of the firm and partners for the tax year ended June 30, 20X1.

i) Net profit as per Profit & Loss Account Rs. 420,000. ii) Additional information to be regarded: (a) Depreciation at car value Rs. 80,000 is claimed @ 20%. (b) Salary paid to partner 'C' Rs. 100,000 and tax deducted Rs. 5,000. (c) Manager is paid salary Rs. 150,000 including allowance Rs. 75,000. (d) Advertising bill Rs. 70,000 paid in cash. (e) Partner 'A' claimed medical expenses Rs. 20,000. (f) Expenses are paid without withholding tax:

Particulars	Rs.
Subscription	20,000
Commission	8,000
Rent	60,000

(ii) Additional information of partners: (a) Mr. A has received dividend Rs. 2 per share on 25,000 shares. He is also a non-professional writer and earned Rs. 20,000 during the tax year. (b) Mr. B received rent Rs. 200,000 and paid property tax Rs. 2,500 and insurance premium Rs. 5,000. (c) Mr. C received Rs. 100,000 for vacating possession of rented premises.

(ICMA-Nov., 1996)

ANSWER
ABC & Company
Resident AOP
Tax Year 20X1
Taxable Income and Tax Liability

Rs. Rs.

Net profit as per Profit and Loss Account 420,000

Add: Inadmissible deductions: Excess depreciation [N-1] 40,000 Salary paid to 'C' [N-2] 100,000 Advertising bill paid in cash [N-4] 70,000 Medical expenses of 'A' [N-2] 20,000 Commission [N-5] 200,000 250,000

Taxable income 670,000

TAX LIABILITY OF THE FIRM Tax on Rs. 600,000 10,500 Tax on Rs. 70,000 @ 15% 10,500

Total Tax 10,500

DIVISIBLE INCOME OF THE FIRM Total Income 670,000 Less: Tax liability of AOP 10,500 Salary paid to 'C' 100,000 Medical expenses of 'A' 20,000

Total 539,500

TOTAL INCOME OF THE PARTNERS A B C Income from the Firm Salary 20,000- 100,000 Medical 20,000-- Share from divisible profits (1/3rd of Rs. 539,500) 179,833 179,833 179,834

Total 199,833 179,833 279,834

Income from property

Income from other sources: Income as a writer 20,000-- Income from vacating possession of rented property [N-6]-- 100,000

Taxable Income 221,833 332,334 289,384

Synopsis of Taxes Questions & Answers – AOP [40-701]

Tax Liability of Partners All the partners have income below the threshold of Rs. 600,000, hence, there will be no tax liability for the tax year.

N-1 Depreciation on Car: Depreciation charged (Rs. 800,000 @ 20%) 160,000 Depreciation admissible as per Third Schedule (Rs. 800,000 @ 15%) 120,000 Excess amount of depreciation charged 40,000

N-3 Anything paid to the staff on account of salary and perquisites is allowed as deduction.

N-4 Payment for subscription is a statutory obligation and may be made without deduction of tax at source. Payment of rent without deducting tax at source is admissible as the amount is below the limit from where deduction u/s 155 becomes applicable.

N-5 Payment of commission without deducting tax at source is inadmissible.

N-6 Any amount that has been received by a tenant for vacating the property shall be deemed as his income from other sources. One-tenth (1/10th) of such income shall be charged to tax in the year of receipt and every year during nine (9) immediately succeeding years.

N-7 Income from property Rent received (RCT) 200,000 Less: Deductions Repair allowance (1/5th of 200,000) 40,000 Property tax 2,500 Insurance premium 5,000 ---------- 47,500 ---------- 152,500

QUESTION – 40.12 Akeel Hospital is an unregistered partnership firm owned by Dr. Raees and Lady Doctor Mrs. Ramis. You being a tax practitioner have been approached to prepare the Income Tax Return of the firm from the following revenue account and other relevant data as provided to you for the tax year 20x1.

Akeel Hospital Revenue Account for the Year 20x1

Rs.
Rs.

Sales 1,200,000 Gross in-patient receipt (before tax deductions) 2,500,000 Hospital supplies 300,000 Electricity 200,000 O.P.D. Collections 500,000 Communication 100,000 Insurance 200,000 (before tax deductions) Water 20,000 Sales of scrap 100,000 Repairs & Maintenance 20,000 Depreciation on Fixed Assets 30,000 (excluding bought out equipment) Property taxes 50,000 Radiology/Lab Expenses 100,000 Professional fees paid 50,000

Other information/data:

(i) Depreciation includes Rs. 20,000 on a car completely in personal use of partners.
(ii) Salaries include drawings of Rs. 100,000 each made by each of the partners.
(iii) A philanthropist donated Rs. 1.0 million through cheque for construction of a special cancer ward.
(iv) Taxes withheld by corporate clients aggregated Rs. 220,000.
(v) Mr. Waqar, a friend, extended an interest-free loan of Rs. 100,000 to the Hospital during the year.

(vi) A foreign patient, being satisfied with Hospital's best quality care, gave a cash gift of Rs. 50,000 for further improving the Hospital's services. This amount has not been accounted for so far.
(vii) A surgical equipment costing Rs. 100,000 was accidentally burnt out, while dacoits took away Rs. 60,000 from the staff's lockers. Both items are fully insured, and the claim has been fully admitted by the insurance company.
(viii) The Hospital has added 10 renowned companies to the panel with an expected increase of Rs. 2,000,000 in future revenue.
(ix) Salaries include perquisites of Rs. 80,000.

Required: Work out Hospital's total income and tax liability for tax year 20x1.

(M-16)
(Question # 6-ICMAP-November-2003)

ANSWER

M/s. Akeel Hospital
Resident Association of Person
Tax Year 20x1
Taxable Income & Tax Liability

Income from Business
Net profit as per profit and loss account: Rs. 700,000

Add: Inadmissible deductions

- Drawings of partners included in salary: Rs. 200,000 [N-1]
- Unsupported project expenses: Rs. 100,000 [N-2]
- Penalty for violation of regulations: Rs. 50,000 [N-3]
- Depreciation on car used for personal purposes: Rs. 20,000 [N-4]

Total: Rs. 320,000

Income from Other Sources

- Donation by philanthropist: Rs. 1,000,000 [N-5]
- Cash gift from foreign patient: Rs. 50,000 [N-6]

Total taxable income: **Rs. 2,170,000**

Tax Liability:

Tax deducted by corporate clients shall be minimum tax in respect of income arising from such receipts. Tax liability shall be as below:

- **Total tax on taxable income** [N-10] → **341,000**
- **Tax pertaining to receipts subject to WHT** [N-14] → **103,410**
- **Tax on incomes not subject to WHT → 237,590**
- **Tax liability for receipts subject to WHT** [N-15] → **220,000**
- **Tax liability for the year → 457,590**
- **Less: Tax withheld → 220,000**
- **Net tax payable → 237,590**

Notes:

- **N-1** Drawing by partners (Rs. 100,000 each) is inadmissible deduction.
- **N-2** Only such expenses shall be allowed as deduction which are supported by proper documents. Others are inadmissible.
- **N-3** Penalty for violation of any law, rule, or regulation is inadmissible deduction.
- **N-4** Asset being wholly used for personal purposes is a personal asset under ITO. No depreciation shall be allowed on such an asset.
- **N-5** Donation by any person to an AOP meant for profits is not exempt. It shall be taxable as income from other sources.
- **N-6** Any gift or loan received in cash is treated as income from other sources of the recipient.
- **N-7** Loss of asset due to any accident is allowed as expense by treating the event as disposal and computing gain or loss on it. However, where the insurance company has admitted the claim in full, there will be no gain or loss on such disposal.
- **N-8** There is no tax treatment for any future or prospective expected transaction.
- **N-9** Perquisites to employees is admissible deduction as salary.

N-10 Tax on Taxable Income

- **Tax on Rs. 1,600,000 → 170,000**
- **Tax on Rs. 570,000 @ 30% → 171,000**
- **Total Tax → 341,000**

N-11 Tax on Receipts Subject to Withholding Tax

(Tax on Business Income + Total Receipts) * Receipts subject to WHT

(160,286[N−12]+3,100,000[N−13])×2,000,000[N−14](160,286 [N-12] + 3,100,000 [N-13]) \times 2,000,000 [N-14](160,286[N−12]+3,100,000[N−13])×2,000,000[N−14]

= **103,410**

N-12 Tax on Business Income

(Total Tax * Taxable Income)÷Business Income\text{(Total Tax * Taxable Income)} \div \text{Business Income}(Total Tax * Taxable Income)÷Business Income (341,000×2,170,000)÷1,020,000(341,000 \times 2,170,000) \div 1,020,000(341,000×2,170,000)÷1,020,000

= **160,286**

N-13 Total Business Receipts

- **In-patient receipts → 2,500,000**
- **O.P.D. collections → 500,000**
- **Sale of Scrap → 100,000**
- **Total → 3,100,000**

N-14 Receipts Subject to Withholding Tax

- **Tax withheld → 220,000**
- **Tax rate → 11%**
- **Receipts subject to WHT (220,000 ÷ 11%) → 2,000,000**

N-15 Tax on income subject to tax withholding u/s 153(1)(b)

Shall be minimum tax. In that case, tax shall be higher of the following two amounts:

1. **Tax under NTR on receipts subject to tax withholding [N-11] → 103,410**
2. **Tax withheld → 220,000**

N-16 Interest-free loan from a friend shall have no tax treatment.

However, if the loan is received otherwise than through a cross-banking instrument or the lender is not having NTN, then it shall be treated as income from other sources of the borrower.

QUESTION – 40.13

Traders & Co. is a partnership firm registered under the **Partnership Act, 1932**. A, B, and C are the partners sharing profits in the ratio of **40:30:30**. On the basis of information and accounts given hereunder, for the year ended **30th June, 20X1**, prepare a statement to compute tax payable by the firm and the share of income from the firm to be included in the total income of each partner.

Sales:

- **Purchases/Imports → 2,255,000**
- **Sales tax on imports → 25,500**
- **Octroi duty → 14,800**
- **Other direct expenses → 36,800**
- **Opening/Closing stock adjustment → 28,200**
- **Total → 2,358,300**

Gross Profit:

- **Gross Profit → 245,000**
- **Add: Sale proceeds of office equipment (old) → 20,000**

Less: Expenses:

- **Salary to Manager → 36,000**
- **Perquisites to Manager → 8,000**
- **Entertainment allowance paid to employees → 12,000**
- **Rent of shop paid to partner "B" → 60,000**
- **Donations to charitable institution (not approved u/s 61) → 3,500**
- **Interest on loan for business from an individual @ 15% → 17,000**

- **Interest paid on Rs. 35,000 on supplies made → 2,750**
- **Water rate paid → 2,100**
- **Purchase of office equipment → 52,000**
- **Total Expenses → 193,100**

Net Profit:

- **Net Profit → 57,100**

The written down value of the assets of the firm, as per income-tax records, at the beginning of the accounting year:

- **Furniture and Fixture → Rs. 55,000**
- **Office and Other Equipments → Rs. 36,000**

(CA-Inter, May, 1985)

Traders & Company

Resident Association of Person

Tax Year 20X1

Taxable Income & Tax Liability

Description	Rs.	Rs.
Net Profit as per Profit and Loss Account		**57,100**
Add: Inadmissible expenses:		
Donation to unapproved charitable institution	1,750	
Interest on loan from an individual **[N-8]**	30,000	
Tax deducted (u/s 153)	2,750	
Purchase of office equipment	14,500	**48,500**

Description	Rs.	Rs.
Less: Sale proceeds of office equipment **[N-4]**	**5,000**	
Tax depreciation on assets (8,250 + 6,750) [N-2]	**15,000**	**20,000**
Taxable Income		**85,600**

Tax Liability

Description	NTR	MTR	Total
Sales (MTR = 2,750 ÷ 5.5%) **[N-6]**	2,554,100	50,000	2,604,100
Taxable Income (Apportioned on Sale Ratio)	123,188	2,412	125,600
Tax for the year **[N-7]**	0	2,750	2,750
Tax deducted at source		(2,750)	(2,750)
Tax payable/(refundable)	**0**	**0**	

Notes:

N-1

- Anything paid to the staff on account of salary and perquisites is allowed as a deduction.

N-2 Tax Depreciation on Assets

Description	Furniture (Rs.)	Others (Rs.)
Opening Balance (W.D.V.)	55,000	36,000
Add: Purchased during the year	0	14,500
Less: Sold during the year	0	(5,000)
Closing Balance	**55,000**	**45,000**

Description	Furniture (Rs.)	Others (Rs.)
Depreciation @ 15%	**8,250**	**6,750**

N-3 Rules for Tax Depreciation:

- **Depreciation for furniture shall be as per routine.**
- **Depreciation for equipment shall be based on these rules:**
    1. Depreciation on assets brought forward shall be as per normal practice.
    2. Depreciation for assets disposed of during the tax year shall not be charged.

N-4

- **In the absence of WDV, the profit or loss on the sale of office equipment is ignored.**

N-5

- **While computing the income of partners, there will be a property income (with RCT of Rs. 24,000) of 'Mr. B'.**

N-6

- **Supplies on which tax has been deducted under u/s 153 fall under MTR. Hence, the total sales and taxable income for the year is to be dealt separately.**
- **Tax for AOPs under u/s 153 for filer is 5.5%, the same is used for computing sales on which tax is deducted.**

N-7

- **Income of AOP under NTR is less than the threshold, so there will be no tax liability.**
- **Tax u/s 153 will be the minimum tax liability for income under MTR.**

N-8

- **Interest on a loan from an individual is illegal and punishable in Pakistan.**
- **Any expense which is illegal cannot be allowed as a deduction under the Income Tax Ordinance.**

Divisible Income of AOP:

Description	Amount (Rs.)
Taxable Income	125,800
Less: Tax liability of AOP	(2,750)
Divisible Income of AOP	**122,850**

Share of Each Partner:

Partner	Share Calculation	Amount (Rs.)
A	Rs. 122,850 × 40/100	49,140
B	Rs. 122,850 × 30/100	36,855
C	Rs. 122,850 × 30/100	36,855
Total		**122,850**

QUESTION – 40.14

Aftab, Bashir, and Chaudhry are partners in a firm. The partners share the profit and loss in the ratio of **3:2:1**, respectively. The firm has disclosed a profit of **Rs. 660,000** for the year ended **June 30, 20X2** after accounting for the items below as agreed, before giving full effect to other items shown under the requirements.

(a) Medical expenses reimbursed for self & family:

Partner	Amount (Rs.)
Aftab	3,000
Bashir	6,000
Chaudhry	3,970
Total	**12,970**

(b) Other information relating to accounts is as follows:

1. **Aftab has advanced Rs. 250,000** to the firm on a yearly **interest of 15%**.
   - Full interest had to be paid to him, but only adhoc payment **@ 8%** on the principal amount has been made to him.
2. **Raoood is a salaried employee**, lives in an apartment owned by the firm at a **monthly rent of Rs. 2,000**, which has been **paid every month**.
   - But **Rs. 6,000** paid on **July 6, 20X2**, to the owner of the apartment representing an **increase in rent @ Rs. 500 per month** effective from **July 1, 20X1**, has **not been provided**.
3. **Statutory depreciation** based on **tax rates** works out to **Rs. 245,384**.
   - **Accounting depreciation** charged in the accounts amounts to **Rs. 213,240**.

(c) The partners have disclosed the following income and loss from other independent sources:

Partner	Income (Rs.)
Aftab	325,000
Bashir	210,000
Chaudhry	125,000

(d) The firm is a registered firm.

(e) You are required to:

1. **Compute the firm's income and the amount of tax payable.**
2. **Determine the share of each partner out of the firm's income.**
3. **Compute the taxable income of each partner.** *(No tax calculations are required.)*

Mrs. Aftab, Bashir, and Chaudhry
Resident Association of Person
Tax Year 20X2
Taxable Income & Tax Liability

Description	Amount (Rs.)
Profit as per profit and loss account	660,000
Add: Inadmissible expenses	

Description	Amount (Rs.)
- Partner’s medical expenses (3,200 + 6,300 + 3,500)	13,000
- Partner’s salaries (10,000 × 6,000 × 500) × 12	121,000
- Interest payable to Aftab (250,000 × 15%) [N-1(a)]	37,500
- Accounting depreciation	213,240
Total Inadmissible Expenses	**373,740**
Total Income	**994,856**
Less: Statutory deductions	
- Rent payable for Dawood’s apartment [N-3]	(6,000)
- Interest payable to Aftab not recorded [N-1(a)]	(17,500)
- Statutory depreciation	(245,384)
Total Deductions	**(268,884)**
Total Taxable Income	**994,856**
Tax Liability of the Firm	
- Tax on Rs. 600,000 @ 15%	90,000
- Tax on Rs. 394,856 @ 15%	45,728
Total Tax Liability	**45,728**

Divisible Income of the Firm

Description	Amount (Rs.)
Total Income	994,856
Less: Tax Liability of the Firm	(45,728)
Less: Inadmissible expenses	
- Partner’s medical expenses	(13,000)
- Partner’s salaries	(121,000)
- Interest payable to Aftab [N-1(b)]	(37,500)
Divisible Income of the Firm	**346,228**

Partners’ Total Income

Partner	Share from the Firm (Rs.)	Salary (Rs.)	Medical Expenses (Rs.)	Interest Received [N-1(c)] (Rs.)	Share in Profit of the Firm (Rs.)	Total Income (Rs.)
Aftab	121,000	10,000	3,200	17,500	173,740	325,440
Bashir	72,600	6,000	6,300	-	115,160	210,060
Chaudhry	48,400	-	3,500	-	57,320	125,000

Income/(Loss) from Other Sources

Partner	Other Income (Rs.)	Taxable Income (Rs.)
Aftab	325,000	474,502
Bashir	210,000	316,160
Chaudhry	125,000	182,320

N-1

Interest on a loan from Aftab has different aspects for accounting as well as tax purposes, which are discussed below:

(a) **While computing the taxable income of the firm, any amount accrued but not recorded in the books shall be considered as inadmissible.**

- **Under this case, there is an accounting error of Rs. 17,500 (7% of Rs. 250,000), which was not recorded.**
- **It should be deducted in order to rectify the mistake.**

Amount of interest, i.e., Rs. 37,500 (both paid and accrued) shall be treated as inadmissible.

(b) **While determining the divisible income of the firm, the total amount of interest for the year shall be deducted from the total taxable income of the firm.**

- **Total amount of interest is Rs. 37,500 (15% of Rs. 250,000).**

(c) **Interest is an income in the hands of the recipient. While determining the total income of an individual, so much of the amount of interest is included as is actually received by the taxpayer, which in this case is Rs. 20,000.**

- **If Mr. Aftab maintains his records on an accrual basis, then an amount of Rs. 37,500 would be included in his total income.**

N-2

Anything paid to the staff on account of salary and perquisites is allowed as a deduction.

N-3

Actual rent expense of the firm is Rs. 30,000, out of which an amount of Rs. 24,000 has been recorded in the books. But Rs. 6,000 paid after the close of the year has not been charged to the profit and loss account.

- **To rectify it, it is to be deducted from the total income of the firm.**

N-4

Medical expenses are not allowed as a deduction from total income.

N-5

Share of Partners:

Partner	Share Calculation	Share Amount (Rs.)
A	(558,628 ÷ 6) × 3	279,314
B	(558,628 ÷ 6) × 2	188,209
C	(558,628 ÷ 6) × 1	93,105
Total		**558,628**

QUESTION – 40.15

Skylight is a registered firm, which has three partners viz. A, B, and C sharing profit and loss in the ratio of 3:2:1 respectively.

- The firm disclosed a **profit of Rs. 280,000** for the year ended **June 30, 20X1** after accounting for the under-noted items:

Description	Rs.
Salaries paid per month	10,000
Medical expenses reimbursed	7,500
Monthly rent of bungalows	3,000 / 2,500 / 1,500

Other details relating to accounts are as under:

(i) **Motor car was sold off during the year at a profit of Rs. 15,000.**

- **The written down value of the car was Rs. 60,000 as per books, but as per tax records, it was Rs. 45,000.**

(ii) **Commission of Rs. 10,000 was paid to a non-resident.**

(iii) **The assessed carry forward of losses of the firm amounts to Rs. 50,000.**

(iv) **Partners have disclosed the following receipts from their independent sources:**

Source	A (Rs.)	B (Rs.)	C (Rs.)
Property Income (Gross)	65,000	40,000	30,000
Dividend from unlisted companies	17,500	10,000	8,000
Gain on sale of shares of an quoted company	25,000	15,000	5,000
Profit from Khas Deposit Certificates	8,000	3,000	3,000

You are required to:

i) Compute the **taxable and divisible income** of the firm.
ii) Work out the **taxable income of each partner**.

(CA-Inter, March, 1989)

ANSWER

Skylight
Resident Association of Person
Tax Year 20X1
Taxable Income & Tax Liability

	Rs.
Profit as per profit and loss account	

Add: Inadmissible expenses:

Description	Rs.
Salaries to Partners (10,000 + 5,000 + 4,000 × 12)	228,000
Medical expenses of Partners (7,500 + 3,700 + 2,800)	14,000
House rent to Partners (3,000 + 2,500 + 1,500) × 12	84,000
Tax gain on sale of motor car [N-2]	30,000

Description	Rs.
Total Additions	**356,000**

Less:

Description	Rs.
Accounting gain on sale of motor car [N-2]	(15,000)
Total Income	**621,000**
Less: Assessed carried forward losses	(50,000)
Taxable Income of AOP	**571,000**

Tax Liability of the Firm

Firm's income is below the threshold; hence, it shall have no tax liability for the tax year.

Divisible Income:

Total Income	571,000
Less: **Tax Liability of AOP**	-
Less: **Payments to Partners:**	
Salaries	228,000
Medical expenses	14,000
House rent	84,000
Divisible Income of the Firm	**245,000**

TOTAL INCOME OF PARTNERS

Description	A (Rs.)	B (Rs.)	C (Rs.)
Interest on securities [N-7]	Nil	Nil	Nil
Income from property [N-8]	52,000	24,000	-
Share from registered firm:			
Salary	120,000	60,000	48,000
Medical expenses [N-5]	7,500	3,700	2,800
House rent [N-6]	36,000	30,000	18,000
Share from divisible profits [N-12]	112,500	81,667	50,833
Total Income	**328,000**	**199,367**	**119,633**

N-1

Anything paid to the staff on account of salary and perquisites is allowed as a deduction.

N-2 Gain on Sale of Motor Car

Sale price - Book value plus profit (i.e., 60,000 + 15,000) **75,000**
(less: Values as per tax record 45,000)
Total gain as per tax record: 30,000

- Instead of profit as per books **(i.e., Rs. 15,000)**, the profit as per tax record shall be added back to determine the taxable income of the firm.
- Further, the car disposed of was purchased prior to the tax year 2021; hence, there will be no special treatment for depreciation in the year of disposal.

N-3

- It is presumed that at the time of making payment to the **non-resident**, the tax at source was duly deducted as required under the law.

N-4

- **The income received by the partners from the firm on account of salary, medical expenses, and house rent shall not be included in their other incomes.**
- Instead, their **share of profit from AOP** shall be taxed at the partners' individual tax rates.

N-5 Medical expenses

- **Medical expenses are not allowed as a deduction.**

N-6

- Any amount received by partners from the firm is treated as **income from the firm**.
- **Rent of bungalows shall become part of the income from the firm.**

N-7

- **Profit on Khas Deposit Certificates is taxable under FTR.**
- **Tax is withheld, which is treated as full discharge for tax liability on this income.**

N-8 Income from Property

Description	A (Rs.)	B (Rs.)
Property income gross (RCT)	52,000	24,000
Less: Repair allowance (15% of RCT)	**13,000**	**6,000**
Taxable income from property	**39,000**	**18,000**

- The sale of the **stated shares is exempt from tax** if disposed of after a **holding period of acquisition.**

N-10

- **Dividend income falls under FTR.**
- **Tax withheld is treated as final discharge of tax liability.**
- **It does not form part of total income.**

N-11 Carried forward losses

- **The firm shall be set off by the AOP against its income.**

N-12 Share of Partners:

Partner	Share (Rs.)
A	122,500
B	81,667
C	41,667
Total	245,000

QUESTION – 40.16

ABC & Co. is a partnership firm having **two partners** viz., Mr. A and Mr. B, sharing **profit and loss in the ratio of 3:2**, respectively.

- The firm **disclosed a net profit of Rs. 560,000** for the year ended **June 30, 20X1** after accounting for the under-noted items:

1. **Remuneration amounting to Rs. 100,000** for services rendered by **partners**.
2. **Medical expenses of Rs. 10,000** reimbursed to partners.
3. **Commission of Rs. 50,000** paid to one of the partners for securing **export orders**.
4. **Traveling expenses** includes **Rs. 70,000 pertaining to partners**.

Additional Information on Accounts:

1. **Profit of Rs. 75,000 on WAPDA Bonds** of partners credited to the firm's account.
2. **Vehicle purchased at Rs. 350,000** was sold at Rs. **370,000** during the year. No adjustment was made in the books.
3. **Insurance claim of Rs. 15,000** received for **damaged partner's car** and untraced. The car's book value was Rs. 120,000.
4. **Gross property income of Rs. 60,000** is included in net profit. Property tax of **Rs. 4,000** (including conservancy & fire tax Rs. 3,000, betterment tax Rs. 1,000) **not charged in accounts**.
5. **Trade debts outstanding for more than 5 years written off** Rs. **80,000**.
6. **Refund of tax from last year's assessment** amounted to Rs. **10,000**.

ANSWER

ABC & Company

Resident Association of Person
Tax Year 20X1
Taxable Income & Tax Liability

Income from Business:

Description	Rs.
Net Profit as per Profit and Loss Account	560,000
Add: Inadmissible Expenses	
- Partners’ remuneration	100,000
- Partners’ medical expenses	40,000
- Commission paid to partners	50,000
- Traveling expenses of partner’s son	30,000
Total Adjustments	**220,000**
Less: Profit on sale of vehicle (370,000 - 350,000) [N-2]	(20,000)
Total Business Income	**760,000**

Less:

Description	Rs.
- Profit on WAPDA bonds of partners [N-3]	(75,000)
- Gain against insurance claim [N-4]	(15,000)
Taxable Business Income	**703,000**

Income from Property [N-5]:

Description	Rs.
Property income	60,000
Less: Property tax not charged	(4,000)
Total Income from Property	**56,000**

Total Taxable Income

Description	Rs.
Income from Business	703,000
Income from Property	56,000
Total Taxable Income	**743,000**

Tax Liability of the Firm

Description	Rs.
Tax on business income (Rs. 600,000 @ 15%)	21,450
Tax on property income (Rs. 143,000 @ 15%)	21,450
Total Tax for the Year	**42,900**
Less: Refund of Last Year	(10,000)
Net Tax Payable	**11,450**

Divisible Income of the Firm

Description	Rs.
Total Income = 703,000 + (60,000 - 8,000)	**743,000**
Less:	

Description	Rs.
- Tax liability of the firm	10,725
- Partners’ remuneration	100,000
- Partners’ medical expenses	40,000
- Commission paid to partners	58,000
Total Divisible Income of AOP	**545,850**

Explanatory Notes

N-1:

- Any payment made **to or on behalf of partners** is **inadmissible**.

N-2:

- **Vehicle purchased and sold** during the year **shall be charged** to the profit and loss account.
- **No depreciation allowance** is admissible on assets **sold during the year**.

N-3:

- **Profit on WAPDA Bonds** is not in the firm's profit, thus should be **deducted** from profits to arrive at the **taxable income of the firm**.
- This income shall be treated while **determining the tax liability of the partners**.

N-4:

- **Gain against insurance claim** of a partner’s car would **not have been recorded** in the books of the firm.
- To rectify the mistake, a **gain of Rs. 30,000 shall be subtracted** from the firm’s profits.

N-5:

- **Property income** shall be **charged to tax separately** from business income.
- **Deductions from business income** for property-related expenses:

Description	Rs.
Gross Property Income	60,000
Less: Expenses charged to Profit and Loss Account	
- Property tax	4,000
- Conservancy and fire tax	3,000
- Betterment tax	1,000
Net Property Income	**52,000**

N-6:

- **Taxable income from property calculation**:

Description	Rs.
Gross Rent (RCT)	60,000
Less: Deductions	
- Repair allowance (1/5th of Rs. 60,000)	12,000
- Property tax	4,000
- Conservancy and fire tax	3,000
- Betterment tax	1,000
Net Taxable Property Income	**40,000**

N-7:

- **Bad debts are written off in accordance with the law**.

CHAPTER - 41

QUESTIONS & ANSWERS - COMPANIES

QUESTION – 41.1

A public company incorporated in Pakistan carried on business in Pakistan and also abroad through a branch office in a foreign country. The expenditure incurred relating to business activity outside Pakistan is identified. Some of the business expenditure incurred in Pakistan relates to both activities and are in line with the revenue earned from respective activities. Some other data in respect of the tax year 20x3 is given below:

Description	Amount (Rs.)
Sales from business activity	
- Inside Pakistan	105,000,000
- Outside Pakistan	35,000,000
Business expenditure allowable for tax purposes:	
- Incurred inside Pakistan – common	20,000,000
- Incurred outside Pakistan	32,000,000
- Incurred inside Pakistan – relating to Pakistan based activity	78,000,000
Business loss brought forward from tax year 20x2 (related to business activity abroad)	5,000,000
Foreign withholding tax	2,000,000

Business Activity in Pakistan Comprises of the Following:

Toll Manufacturing

The company imports certain raw materials and under a toll manufacturing arrangement with another company, raw materials are processed into finished form. The company pays toll manufacturing charges as a consideration for processing raw materials. At import stage, tax is paid under section 148 at the rate of **5.5%** on the import of raw materials. Once goods are manufactured through another company, these are sold to persons who are authorized to deduct tax under **section 153**.

Description	Amount (Rs.)
Sales	50,000,000
Raw material imports	20,000,000
Toll manufacturing charges	5,000,000
Other expenses	3,000,000

- **Included in Rs. 78,000,000**

Trading Business

The company imports certain goods and sells them in their original shape. The company also purchases certain goods locally and sells them at a trade margin, with tax at supply stage deductible under section **153**.

Description	Amount (Rs.)
Sales out of imports	45,000,000
Tax paid under section 148 @ 5.5%	2,062,500
Sales out of local purchases:	
- Locally produced goods	5,000,000
- Imported goods	5,000,000

PUBLIC COMPANY

Resident
Tax Year 20x3
Taxable Income and Tax Liability

(Rs. in 000)

Description	Local Supplies	Foreign Source	Toll Manufacturing	Total
Sales [N-1]	45,000	10,000	35,000	50,000
Less: Cost of Sales [N-2]	(47,338)	(10,519)	(37,000)	(35,143)
Net Income / (Loss)	(2,338)	(519)	(2,000)	14,857
Brought Forward Loss	0	0	0	(5,000)
Taxable Income / (Loss) [N-5]	0	0	(7,000)	14,857
Tax Rate	5.5%	5%	-	4.29%
Tax	2,062.50	0	0	4,308.53
Less: Foreign Tax Credit [N-6]	0.00	0	0	4,308.53
Total Tax	2,062.50	0	0	4,308.53
Less: Tax Already Paid [N-7]	(2,062.50)	0	0	(4,100.53)
Tax Payable for the Year	0	0	0	208.53

N-1 Sales

Description	Amount (Rs. 000)
Sales of imported goods	45,000
Sales out of local purchases:	
- Locally produced goods	5,000
- Imported goods	5,000
Sales by business outside Pakistan	35,000
Sales of goods under toll manufacturing	50,000
Total	140,000

N-2 Cost of Sales

Description	Amount (Rs. 000)
Toll Manufacturing:	
- Raw material imports	20,000
- Toll manufacturing charges	5,000
- Other expenses	3,000
- Common expenses (20,000 ÷ 140 × 50) [N-3]	7,143
Total	35,143

QUESTIONS & ANSWERS – COMPANIES

QUESTION – 41.1

A public company incorporated in Pakistan carried on business in Pakistan and also abroad through a branch office in a foreign country. The expenditure incurred relating to business activity outside Pakistan is identified. Some of the business expenditure incurred in Pakistan relates to both activities and are in line with the revenue earned from respective activities. Some other data in respect of the tax year 20x3 is given below:

Sales from business activity:

- Inside Pakistan: Rs. 105,000,000
- Outside Pakistan: Rs. 35,000,000

Business expenditure allowable for tax purposes:

- Incurred inside Pakistan – common: Rs. 20,000,000
- Incurred outside Pakistan: Rs. 32,000,000
- Incurred inside Pakistan – relating to Pakistan based activity: Rs. 78,000,000

Other details:

- Business loss brought forward from tax year 20x2 (related to business activity abroad): Rs. 5,000,000
- Foreign withholding tax: Rs. 2,000,000

Business activity in Pakistan comprises of the following:

Toll Manufacturing

The company imports certain raw materials and under a toll manufacturing arrangement with another company, raw materials are processed into finished form. The company pays toll manufacturing charges as a consideration for processing raw materials. At import stage, tax is paid under section 148 at the rate of 5.5% on the import of raw materials. Once goods are manufactured through another company, these are sold to persons who are authorized to deduct tax under section 153. The data relating to toll manufacturing activity is given below:

- **Sales**: Rs. 50,000,000
- **Raw material imports**: Rs. 20,000,000
- **Toll manufacturing charges**: Rs. 5,000,000
- **Other expenses**: Rs. 3,000,000

* Included in Rs. 78,000,000

Trading Business

The company imports certain goods and sells them in their original shape. The company also purchases certain goods locally and sells them at a trade from which tax at supply stage is deductible under section 153. The data relating to trading business is given below:

- **Sales out of imports**: Rs. 45,000,000
- **Tax paid under section 148 @ 5.5%**: Rs. 2,062,500
- **Sales out of local purchases:**
    - Locally produced goods: Rs. 5,000,000
    - Imported goods: Rs. 5,000,000

TAXABLE INCOME COMPUTATION

PUBLIC COMPANY (Resident) - Tax Year 20X3

Taxable Income and Tax Liability (Rs. in 000)

Particulars	Local Supplies	Foreign Source	Toll Manufacturing	Total
Sales [N-1]	45,000	10,000	35,000	140,000
Less: Cost of sales [N-2]	(47,338)	(10,519)	(37,000)	(130,000)
Net income/(loss)	(2,338)	(519)	(2,000)	10,000
Brought forward loss	0	5,000	0	5,000
Taxable Income/(Loss) C/F	0	(7,000)	14,857	14,857
Tax Rate	5.5%	5%	4.29%	-
Tax	2,062.50	0	4,308.53	6,871.03
Less: Foreign tax credit [N-6]	0	0	0	0
Total tax	2,062.50	0	4,308.53	6,871.03
Less: Tax already paid [N-7]	2,062.50	0	4,100.53	6,162.50
Tax payable for the year	0	0	208.53	708.53

Details of Sales and Expenses

N-1 Sales

- Sales of imported goods: Rs. 45,000,000
- Sales out of local purchases:
  - Locally produced goods: Rs. 5,000,000
  - Imported goods: Rs. 5,000,000
- Sales by business outside Pakistan: Rs. 35,000,000
- Sales of goods under toll manufacturing: Rs. 50,000,000
- **Total Sales**: Rs. 140,000,000

N-2 Cost of Sales

Toll Manufacturing:

- Raw material imports: Rs. 20,000,000
- Toll manufacturing charges: Rs. 5,000,000
- Other expenses: Rs. 3,000,000
- Common expenses (20,000 ÷ 140 × 50) [N-3]: Rs. 7,143
- **Total Cost**: Rs. 35,143,000

N-3 Common Expenses Allocation

Total expenses of Rs. 20,000,000 are apportioned among all activities:

- Local Expenses: Rs. 78,000,000
- Less: Toll manufacturing expenses (20,000 ÷ 140 × 50): Rs. 28,000,000
- **Net Expenses**: Rs. 50,000,000

N-5 Taxable Income Computation

- **Commercial Imports:**
  - Tax rate: 5.5%
  - Value of goods imported (2,062,500 ÷ 5.5%): Rs. 37,500,000
- **Local Supplies:**
  - Subject to tax u/s 153 @ 3%
- **Foreign Source Income:**
  - The company sustained a loss on business transactions abroad. The loss cannot be set off against foreign-source income and must be kept separate.
- **Toll Manufacturing:**
  - Taxable under NTR and subject to turnover tax u/s 113.

Foreign Tax Credit (N-6)

Foreign tax credit is the lesser of the foreign income tax or Pakistan income tax on foreign-source income. In the given case, there is a loss from foreign business, resulting in no Pakistan income tax; hence, no foreign tax credit will be available.

Tax Already Paid (N-7)

Particulars	Amount (Rs.)
Import Business	2,062,500
Local Supplies (10,000,000 @ 5%)	500,000
Toll Manufacturing	
- Import of raw material u/s 148 (20,000,000 @ 5.5%)	1,100,000
- Supplies of locally manufactured goods u/s 153 (50,000,000 @ 5%)	2,500,000
Total	**6,162,500**

Imported goods sold in the same state are not subject to tax withholding u/s 153. Thus, there will be no tax deduction on sales of imported goods worth Rs. 45,000,000.

Turnover Tax (N-8)

Tax shall be the higher of **1.25%** of turnover of Rs. 85,000,000 (i.e., **50,000 + 35,000**) or tax @ **29%** of taxable income. As tax under MTR is higher, **turnover tax shall not be payable**.

Minimum Tax Liability (N-9)

Tax collected at import stage on finished goods u/s 148 and deducted by customers u/s 153 on local supplies shall be treated as **minimum tax liability** in respect of income arising from such transactions. As there is no tax under NTR, **tax withheld shall be the tax liability** for these activities.

QUESTION – 41.2

MM Securities Limited is a **public limited company** in Karachi incorporated under the **Companies Act, 2017**. It acquired corporate membership of **Pakistan Stock Exchange** in **20X1** and got **listed** on **Pakistan Stock Exchanges** in **20X1**. The company is engaged in the business of **investment advisory, financial consultancy, brokerage, underwriting, portfolio management, and securities research**. In the year **20X3**, the company obtained **membership of Pakistan Mercantile Exchange Limited**.

The **financial statements** of the company have been prepared under the **historical cost convention**, except investment in **marketable securities**, which are **stated at fair value**.

During the **tax year 20X5**, the company **changed its accounting policy** relating to the **capitalization of assets**, whereby **purchase of assets of value Rs. 50,000 and below** were charged to the **Profit & Loss (P&L) account**.

The following **financial information** has been extracted from the **audited financial statements** of the company for the year **ended 30 June 20X5**:

Operating Revenues (Rs.)

- **Revenue from brokerage**: 222,000,000
- **Underwriting commission**: 3,000,000

- **Placement fee**: 2,000,000
- **Financial consultancy**: 7,000,000
- **Dividend income**: 225,000,000
- **Return on Term Finance Certificate**: 1,500,000
- **Total Revenue**: **458,500,000**

Capital Gain on Investment – Net

1,500,000,000

Gain/(Loss) on Re-measurement on Investment at Fair Value

- **Gain**: Rs. 25,000,000
- **Loss**: Rs. (30,000,000)

Operating Expenses

- **Financial charges**: Rs. 35,000,000
- **Other charges**: Rs. 5,000,000

Other Income

- **Profit on PLS account**: Rs. 1,100,000
- **Mark-up on loan to associated undertaking**: Rs. 5,000,000

Other Information

1. During the year, the company purchased computers worth **Rs. 1,072,500** each. Except for this, there were no other additions to fixed assets.
2. An expense of **Rs. 4.5 million per month** was incurred by the department responsible for making investments in securities.
3. Salary and commission paid to dealers amounted to **Rs. 12 million**.
4. Excess of tax depreciation on assets appearing in audited accounts of the company over accounting depreciation was **Rs. 2,000,000**.
5. Company sold **1,000,000 shares** of **ABC Private Limited** for **Rs. 25** each. The cost price of each share was **Rs. 20**, and the shares were acquired in **January 20X3**.
6. During the year, the company purchased **500,000 shares** of **ADE (Private) Limited** for **Rs. 41**. These shares were disposed of before the year-end for **Rs. 20 per share**.

Operating Expenses Include the Following Donations:

- **Donation to approved institutions**: Rs. 15,000,000
- **Donation to unapproved institutions**: Rs. 2,000,000

Tax Deducted at Source on Dividend u/s 150

- Rs. 33,750,000

Tax Paid, Deducted, or Collected as Advance Tax Under:

- **Section 147**: Rs. 18,000,000
- **Section 151**: Rs. 140,000
- **Section 153**: Rs. 10,000
- **Section 233**: Rs. 5,000,000
- **Section 234**: Rs. 5,000
- **Section 236**: Rs. 50,000

Other Notes:

- Operating expenses include **Rs. 1,500,000** in respect of **net loss on sale of fixed assets**.
- The book value of the above assets was **higher by Rs. 2,500,000** compared to the value determined under the **Third Schedule to the Income Tax Ordinance, 2001**.
- The company has **not incurred any expenditure or transactions** involving the shares of **private limited companies**, except for the items given in **points (5) and (6) above**.

Required:

(a) Compute the **taxable income** of the company for the **tax year 20X5**.
(b) Determine the amount of **tax liability** payable along with the return of total income, assuming a **corporate tax rate of 29% for the year**.

(M-25) (Question # 6-ICAP-December-2005)

ANSWER

MM SECURITIES LIMITED

Resident Public Company

Tax Year 20X5

Taxable Income and Tax Liability

Tax Scheme

Revenue Ratio:

- **MTR:** 91.82%
- **Others:** 8.18%

Revenues

- **Brokerage:** Rs. 220,000,000
- **Others:** Rs. 19,600,000
- **Total:** Rs. 239,600,000

Less: Admissible Deductions

- Rs. 144,487,182 (MTR)
- Rs. 2,861,438 (Others)
- **Total:** Rs. 117,749,250

Income from Business, etc.

- Rs. 115,512,818 (MTR)
- Rs. 11,338,562 (Others)
- **Total:** Rs. 126,850,750

Capital Gain

- **Nil**

Income from Other Sources

- **Total Taxable Income under NTR:** Rs. 126,850,750

Tax Liability

- **Tax on income under NTR:** (Rs. 126,850,750 × 29%) = Rs. 36,786,718
- **Less: Tax credit for donations (Rs. 15,000,000 × 29%)** = Rs. 4,354,876
- **Tax under NTR (after deduction of donation credit):** Rs. 32,436,718

Tax under FTR:

- **Dividend Income:** (Rs. 225,000,000 × 15%) = Rs. 33,750,000
- **Tax on Securities:** (Rs. 510,000,000 × 15%) = Rs. 226,250,000
- **Total Tax under FTR:** Rs. 260,000,000
- **Total Tax for the Year:** Rs. 292,686,718

Less: Tax Withheld and Paid

- **Section 147:** Rs. 18,000,000
- **Section 151:** Rs. 140,000
- **Section 153:** Rs. 10,000
- **Section 233:** Rs. 5,000,000
- **Section 234:** Rs. 5,000
- **Section 236:** Rs. 50,000

Total Tax Withheld: Rs. 36,965,000

- **Net Tax Payable:** Rs. 235,721,718

Breakdown of Revenues (N-1)

- **Revenue from Brokerage Business:** Rs. 220,000,000
- **Revenue from Other Businesses:**
  - Underwriting Commission: Rs. 3,000,000
  - Placement Fee: Rs. 2,000,000
  - Financial Consultancy: Rs. 7,000,000
  - **Total:** Rs. 12,000,000

Income from Other Sources – Profit on Debt (N-2)

- **Return on TFCs:** Rs. 1,500,000
- **Profit on PLS Account:** Rs. 1,100,000
- **Mark-up on Loan to Associates:** Rs. 5,000,000
- **Total Revenues:** Rs. 239,600,000

N-2 Profit on Debt

- **Profit on debt earned by a company is taxable under NTR.**
- **Tax withheld u/s 151 of the ITO shall be adjustable against tax for the year.**
- **This shall be income from other sources.**

N-3 Admissible Deduction

Brokerage Business:

- Salary and commission to dealers: Rs. 12,000,000
- Allocation from common expenses [N-4]: Rs. 104,487,812

Other Businesses:

- Allocation from common expenses [N-4]: Rs. 8,261,438
- Investment in Securities Business: (Rs. 4,500,000 × 12) [N-8]: Rs. 54,000,000

N-4 Common Expenses

- **Operating expenses [N-5]:** Rs. 100,749,250
- **Financial charges:** Rs. 35,000,000
- **Other charges:** Rs. 5,000,000
- **Total:** Rs. 140,749,250

Allocated to:

- Brokerage business: (100,749,250 × 91.8%) = Rs. 92,487,812
- Other business: (100,749,250 × 8.2%) = Rs. 8,261,438

N-5 Operating Expenses

- **Total** (as provided in question): Rs. 145,000,000
- **Less: Inadmissible deductions:**
  - Computers charged to expenses: Rs. 1,072,500
  - Donations to approved institutions: Rs. 15,000,000
  - Donations to unapproved institutions: Rs. 2,000,000
  - **Total:** Rs. 18,072,500

Adjustments for:

- **Gain/(Loss) on disposal of asset [N-6]:** Rs. (2,500,000)
- **Depreciation [N-7]:** Rs. 2,321,750
- **Adjusted total operating expenses:** Rs. 126,749,250

Less: Chargeable to specific business activity:

- **Expenses on investment in securities** (Rs. 4,500,000 × 12) [N-8]: Rs. 54,000,000
- **Salary and commission to dealers:** Rs. 12,000,000
- **Common expenses** (126,749,250 – 66,000,000): Rs. 80,749,250

N-6 Adjustment for Gain/(Loss) on Disposal of Asset

- **Accounting loss on disposal:** Rs. 1,500,000
- **Gain as per tax rules:** (Rs. 2,500,000 – 1,500,000) = Rs. 1,000,000
- **Total adjustment required:** Rs. (2,500,000)

N-7 Depreciation

- **Adjustment for depreciation less charged:** Rs. 2,000,000
- **Depreciation on computers:** (Rs. 1,072,500 @ 30%) = Rs. 321,750
- **Total:** Rs. 2,321,750

N-8 Capital Gain

- **Gain on disposal of 'securities' is taxable under STR, and shares of private companies under NTR.**
- **Breakdown of total capital gain is as follows:**

Gain on Listed Securities:

- **Total capital gain:** Rs. 1,500,000,000
- **Adjustment for shares of private companies:** Rs. (15,000,000)
- **Loss on shares of ADE (Private) Limited (500,000 × 30):** Rs. 15,000,000

Gain on Shares of ABC (Private) Limited

- (1,000,000 × 5) = **(5,000,000)**

Gain on Listed Securities

- **1,510,000,000**

Gain / (Loss) on Shares of Private Companies:

ABC (Private) Limited

- Disposal consideration: (1,000,000 × 25) = **25,000,000**
- Less: Cost (1,000,000 × 20) = **20,000,000**
- **Gain: 5,000,000**

ADE (Private) Limited

- Disposal consideration: (500,000 × 20) = **10,000,000**
- Less: Cost (500,000 × 50) = **25,000,000**
- **Loss: (15,000,000)**

Net Capital Loss to be Carried Forward

- **(10,000,000)**

Note:

- While computing capital gain/(loss), only the cost of acquisition of capital assets can be deducted.
- Expenses of Rs. **54,000,000** incurred by the department of investment in securities **cannot** be allowed as a deduction under any head (including capital gain).
- Capital loss can be **set-off** against capital gains only. **Unadjusted loss shall be carried forward.**

N-9 Income from Brokerage Business

- This income is covered under **NTR**.
- The higher of the **tax deductible under section 233 (12%)** or **tax under NTR** shall be the tax liability.
- **Since tax under NTR is higher, it shall be the tax liability.**
- **Tax withheld under section 233** shall be adjusted against tax for the year.

N-10 Following tax rates shall be applicable:

a) **Brokerage** – 12% of gross amount

b) **Dividend** – 16% of gross amount

c) **Income under NTR** – 29% of taxable income
d) **Securities – Listed** – 15% of gain

N-11 Tax Credit for Donations

- **Tax credit shall be allowed only on donations given to approved institutions.**
- **It is restricted up to a maximum of 20% of taxable income**, if the person is a company.
- **Tax credit is computed as follows:**

Total donations to approved institutions	**15,000,000**
Admissible limit (20% of 126,850,750)	**25,370,150**
Tax credit (15,000,000 × 29%)	**4,350,000**

QUESTION – 41.3

Hina Industries Limited (HIL) is in the business of **manufacturing and selling chocolates and sweets** and is **listed on the Pakistan Stock Exchange.**

- It sells goods through **distributors appointed in each major city.**
- During the last two years, it has extended its business and has been involved in **export and import.**

Exports and Imports:

- **Exports:** Mostly **made to SAFA countries.**
- **Imports:** Primarily from **Europe.**
- Consist of **premium quality sweets and biscuits** sold directly to **large supermarkets** in **Karachi, Lahore, and Islamabad.**

Extracts from the Profit and Loss Account of the Company for the Tax Year 20x2

Item	Rs. in '000
Sales	**196,500**
Cost of Sales (Material & Labour)	**134,500**

Item	Rs. in '000
Gross Profit	**62,000**

Administrative and Selling Expenses

Item	Rs. in '000
Salaries	**22,000**
Depreciation	**15,000**
Others	**20,000**

Item	Rs. in '000
Operating Profit	**5,000**
Other Income	**1,000**
Other Charges	**(3,210)**
Net Profit Before Tax	**2,790**

Additional Information

(a) Sales Breakdown:

Category	Rs. in '000
Local Sale of Own Manufactured Goods	**152,000**
Local Sale of Imported Goods	**32,500**
Exports	**12,000**

(b) Re-Export of Goods

- Imports worth **Rs. 2 million** were **re-exported** to Sri Lanka at a **C&F price of $64,000**.
- The sale proceeds are included in the export value of **Rs. 12 million**.

- The bank deducted a **tax of 1% from the sale proceeds**.

(c) Cost of Imports

Item	Rs. in '000
C&F Price ($100,000 × 150)	**15,000**
Custom Duty	**3,000**
Sales Tax @ 18%	**3,240**
Income Tax @ 5.5%	**1,168**
Other Direct Expenses	**1,068**
Total Cost	**23,486**

(d) Cost of Raw Material Consumption

- Total cost charged to **Cost of Sales** during the year: **Rs. 80 million**.
- **8% raw material loss** due to **evaporation & wastage**.
- **60% imported raw material** (treaties exist to avoid double taxation).
- Remaining raw material **produced locally**.
- **Raw material for exports same as local, except for high-quality ingredients**.
- Cost of high-quality ingredients used for exports: **Rs. 0.5 million**.

(e) Taxes & Expenses on Finished Goods

- **Custom Duty, Sales Tax, and Income Tax** rates are the **same for raw material & finished goods.**

(f) Machinery Lease & Accounting Depreciation

- Machinery **acquired under finance lease**.
- **Rental Paid: Rs. 5.6 million** (recorded as lease expense).

- **60% of the amount = Principal Repayment**.
- **Accounting Depreciation Charged: Rs. 1.8 million**.
- **Accounting Depreciation Rate: 15%**.

(g) Delivery Vans (Related Party Transaction)

- **Acquired two years ago at Rs. 5 million** from the **holding company** listed on the **Pakistan Stock Exchange**.
- **Fair Market Value Not Mentioned.**

Additional Taxation Information & Computation for Hina Industries Limited (Tax Year 20x2)

(h) Tax Deductions / Paid:

Description	Rs. in '000
Tax deducted by distributors of locally manufactured goods	**1,000**
Tax deducted by super stores against imported goods	**200**
Tax paid on import of raw materials	**3,100**
Tax deducted on export proceeds	**120**

(i) Expenses on Product Trial Run

- **Trial Run Expenses: Rs. 150,000**
- **Recovered from Sales of Trial Production: Rs. 50,000**
- **Net Expense Charged to Cost of Sales: Rs. 100,000**

(j) Other Charges Breakdown

Description	Rs. in '000
Financial Charges	**3,000**
WPPF	**150**
WWF	**60**

Description	Rs. in '000
Total Other Charges	**3,210**

(k) Rental Income & Property-Related Expenses

- **Rental Income: Rs. 300,000**
- **Related Expenses:**
  - Property Taxes: **Rs. 15,000**
  - Depreciation: **Rs. 90,000**
  - Collection Expenses: **Rs. 25,000**

(l) Depreciation Treatment

- **Depreciation (except as mentioned) is similar to tax depreciation.**

(m) Applicable Tax Rate

- **Corporate Tax Rate: 29%**

Required:

Compute taxable income of the company and the tax payable.

ANSWER- HINA INDUSTRIES LIMITED

Resident Public Company - Tax Year 20x2

Taxable Income & Tax Liability Computation

Category	Imports (MTR)	Export (MTR)	Manufacturing (NTR)	Total
Sales Ratio (excl. imports)	**18.50%**	**4.15%**	**77.35%**	**100%**
Sales (N-1)	**36,340**	**8,160**	**152,000**	**196,500**

Category	Imports (MTR)	Export (MTR)	Manufacturing (NTR)	Total
Cost of Sales	19,058	6,358	109,004	134,420
Gross Profit	17,282	1,802	42,996	62,080
Admin & Selling Expenses	(7,763)	(1,741)	(32,946)	(42,498)
Depreciation	(2,673)	(910)	(9,510)	(12,294)
Financial Charges	(444)	(100)	(1,856)	(2,400)
Lease Rentals Paid	(77)	(77)	(1,423)	(1,500)
Other Charges	(594)	(133)	(2,483)	(3,210)
Other Income	-	-	700	700
Taxable Business Income	6,207	759	3,032	10,000
Income from Property	-	-	213	213
Total Income	6,207	759	3,819	10,785

Tax Liability Computation

Tax on Income Under NTR [N-16]

- **Manufacturing Income (152,000 @ 1.25%) → Rs. 1,900**

Tax on Income Under MTR (Imports) - Higher of [N-23]

- **Tax on MTR Income (6,207 @ 29%) → Rs. 1,800**
- **Tax Withheld u/s 148 (15,000 @ 3,000 + 3,060 @ 5.5%) → Rs. 1,158**
- **Tax under MTR – Exports (8,160 @ 1%) → Rs. 1,800**
- **Total Tax Payable: Rs. 3,782**
- **Less: Tax Already Paid → Rs. (5,660)**
- **Refund for the Year: Rs. (1,878)**

Sales Adjustments & Cost Computation

N-1 Sales Adjustments

Description	Total (Rs. in '000)	Adjustment (Rs. in '000)	Adjusted (Rs. in '000)
Local Sale of Manufactured Goods	**152,000**	**-**	**152,000**
Sale of Imported Goods [N-2]	**32,500**	**3,840**	**36,340**
Exports	**12,000**	**(3,840)**	**8,160**
Total Sales	**196,500**	**-**	**196,500**

N-2 Adjustment in Sales

- **Export/Imported goods treated as covered under MTR.**
- **Sale Value Adjustment: Rs. 3,840,000 (US$ 64,000 @ Rs. 60)**
- **Adjustment:** Deducted from Exports & Added to Imported Goods Sales.
- **Bank Tax Deduction:** Rs. 38,400 (1% of 3,840,000) **adjustable against tax liability**.

N-3 Cost of Sales

Description	Rs. in '000
Total as Provided	**134,500**
Less: Trial Run Cost (150 - 50) [N-4]	**(100)**
Add: Trial Run Amortization (20% of 100) [N-4]	**20**
Adjusted Cost	**134,420**
Less: Cost of Imported Goods	**23,466**
Less: Inadmissible Costs [N-5]	**(4,408)**
Total Attributable to Manufacturing	**115,362**
Less: Export Cost Allocation [N-6]	**(500)**

Description	Rs. in '000
Cost Attributable to Manufactured Goods	114,862

Cost Allocation

Category	Cost (Rs. in '000)
Imports	19,058
Exports:	Special Ingredients Cost → 500
Export Cost Allocation (114,862 x 5.10%)	5,868
Local Sale of Manufactured Goods (114,862 x 94.90%)	109,004
Total Cost	134,420

N-4 Trial Run Cost Treatment

- **Considered as "Pre-Commencement Expenditure."**
- **Amortized @ 20% of cost.**

N-5 Tax Treatment of Sales Tax & Income Tax

- **Sales Tax & Income Tax on Imports do not form part of the cost.**
- **Treated separately in taxation.**

N-6 Cost Allocation for Exports

- Certain high-quality ingredients used for manufacturing export goods are allocated only to exports.

N-7 Administrative and Selling Expenses

Expense	Rs. in '000
Salaries	22,000
Other Expenses (as provided)	20,000
Less: Property Expenses Charged [N-8]	**(20,000)**
Property Taxes	15
Other Expenses on Collection	**(25 - 40)** = **(40)**
Total to be Apportioned	**41,960**

N-8 Property-Related Expenses

- **Property expenses** cannot be charged to business.
- These are included under **"Income from Property."**

N-9 Depreciation Calculation

Description	Rs. in '000
Total Depreciation (As Provided)	**15,000**
Less: Depreciation on Leased Asset [N-10]	**(1,800)**
Less: Depreciation on Property Rented Out [N-8]	**(90)**
Less: Adjustment for Depreciation on Vans [N-11]	**(816)**
Total Depreciation Allocated	**12,294**

N-10 Lease Accounting for Depreciation

- **Depreciation cannot be charged** for leased assets.
- Instead, **lease rental payments** are allowed as **deductions.**

N-11 Adjustment for Depreciation on Vans

Depreciation Basis	Rs. in '000
Depreciation charged on **SLM (5,000 x 25%)**	**1,250**
Admissible Depreciation (2,890 @ 15%)	**(434)**
Excess Depreciation Charged	**816**

- **Accumulated Depreciation for Previous Two Years** = Rs. **1,110**.
- **Depreciation for Current Year** = **15% of WDV (i.e., 4,000 - 1,110).**

- **Transactions Between Associates** are taken at **Fair Market Value (FMV), Rs. 4,000.**

N-12 Financial Charges

Description	Rs. in '000
Total as Provided	**3,000**
Add: Lease Rental for the Year [N-10]	**1,500**
Less: Financial Charges on Lease Rentals (40% of 1,500)	**(600)**
Total Financial Charges	**3,900**

Financial Charges Allocation:

Category	Rs. in '000
Allocation to **Exports & Manufacturing [N-13]**	1,500
Allocation to All	2,400
Total	**3,900**

N-13 Lease Rentals on Machinery

- Lease rentals on machinery **can be allocated to sales** (both local and export).
- **Cannot be allocated to imports.**

N-14 Other Income

Description	Rs. in '000
Total as Provided	**1,000**
Less: Rent of Property (Taxable Under Separate Head)	**(300)**
Total Other Income	**700**

N-15 Income from Property – Rent (RCT)

Description	Rs. in '000
Income from Property (Rent - RCT)	**300**
Less: Deductions	**(Not Mentioned)**

N-16 Tax Liability

Manufacturing:

- It is taxable under **NTR (Normal Tax Regime)**.
- Tax liability shall be **higher of**:
    - Tax under NTR, or
    - **1.25% of turnover u/s 113**.
- Since this segment has **sustained a loss**, tax under **u/s 113** shall be the tax liability.

Imports:

- **Import of goods** is taxable under **MTR (Minimum Tax Regime)**.
- The tax liability shall be **higher of**:
    - Tax under **NTR**, or
    - **Tax withheld u/s 148 @ 5.5%**.

Exports:

- Tax on **income from exports** (excluding **export of imported goods**) is **taxable under MTR**.
- The tax liability shall be **higher of**:
    - Tax under **NTR**, or
    - **Tax withheld u/s 154 on export proceeds @ 1%**.
- This segment has sustained **a loss**, so **tax withheld** shall be **final tax liability** for exports.
- **Further, export proceeds** realized is also subject to **advance tax u/s 147(6C) @ 1%**.
- **Tax so withheld shall be adjustable** against tax for the year.

N-17 Deductible Allowances

- There will be **no tax treatment for deductible allowances** (e.g., **WPPF and WWF**) **if the income under NTR is negative**.
- These are **available as a deduction** only **if the person has a positive total income**.

N-18 Tax Already Paid

Description	Rs. in '000
Tax deducted on locally manufactured goods	**1,000**
Tax deducted on imported goods [N-19]	**200**

Description	Rs. in '000
Tax paid on import of raw material	**3,100**
Tax on import of goods	**1,158**
Tax on exports (including imported goods) [N-20]	**120,000 x 1% = 3,840 + 8,160**
Advance tax on exports (8,160 @ 1%) [N-16]	**82**
Total	**5,660**

N-19 Tax at Import Stage

- **Tax collected at import stage** is the **minimum tax** on **income from imports**.
- **There should be no tax deduction** on **local sales of imported goods** unless they are sold in the **same state**.
- If tax is deducted, the **same shall be adjustable** against tax liability for the year.
- **Where tax under NTR is higher** than tax withheld at imports, the **same will be tax liability**, and **import tax withheld shall be adjustable**.

N-20 Export Tax Adjustments

- **Export of imported goods** is **part of the imports**.
- **Tax deducted on export proceeds** should be **adjustable against normal tax liability** for the year.

Export Tax Treatment	Adjustment
Tax of Rs. 3,840 on export of imported goods	**Adjustable**
Tax of Rs. 8,160 on remaining exports	**Final Tax**

N-21 Tax on Local Sales of Manufactured Goods

Tax shall be **higher of**:

- **Tax on taxable income**, being **loss**.
- **Turnover tax** (152,000 × **1.25%**) = **1,900**.

Tax payable = **1,900**
Loss to be carried forward = **(3,612)**

N-22 Tax on Income from Property

- It is taxable under **NTR (Normal Tax Regime)**.
- **Income under this head may be used** to **set off any loss** under any other head of income.

N-23 Tax on Import Business

Tax shall be **higher of**:

1. **Tax withheld on imports** = **1,158**
2. **Tax on income under NTR** (6,207 @ 29%) = **1,800**

Tax payable = **1,800**

N-24 Tax on Exports

- **Tax withheld on export proceeds** realization is considered as **final payment** of tax in respect of **income from exports**.

QUESTION – 41.4

MNO Pakistan Limited is a **public limited company** whose shares are listed on the **Pakistan Stock Exchange** and remained so listed during the year ended **December 31, 20X5**.

The company is involved in the following activities:

- **Supply of telecommunication equipment** (assembled in Pakistan after importing major components from EU countries).
- **Providing consultancy services** in Pakistan to companies operating in the **telecommunication sector**.

Taxable Income Computation for Tax Year 20X6

Particulars	Note	Rupees in '000
Profit before tax as per Profit and Loss Account		**100,000**
Add: Accounting depreciation		**20,000**
Accounting amortization	(i)	**6,000**
Excess cost of perquisites to employees	(ii)	**1,000**
Provision for bad debts	(iii)	**2,000**
Profit on debt to a foreign bank	(iv)	**5,000**
Tax gain on disposal of fixed assets	(iii)	**5,000**
Total Additions		**39,000**
Less: Tax depreciation - initial	(v)	**5,000**
Normal tax depreciation		**10,000**
Deferred expenditure	(vi)	**3,333**
Accounting gain on disposal of fixed assets	(iii)	**7,000**
Bad debt actually written off	(iii)	**1,000**
Total Deductions		**24,333**
Less: Income attributable to services revenue subject to **FTR**	(vii)	**15,000**
Taxable Income for the Year		**99,667**

Notes to the Computation:

1. **Trade Mark Acquisition:**
   - On **December 29, 20X5**, the Company acquired **rights for use of a trade mark** owned by a **US company** for a period of three years.
   - The trade mark will be **used for the equipment** to be sold after **March 31, 20X6**.
   - For accounting purposes, the cost is being **amortized equally over three years**.
2. **Interest on Loan:**
   - The Company **obtained a working capital loan** from a foreign bank, **but did not deduct withholding tax on the interest** paid on the loan.
   - The Company believes that **withholding tax is not applicable**, as the bank **does not have a Permanent Establishment in Pakistan**.
3. **Tax Gains on Disposal of Fixed Assets:**
   - Tax profits of **Rs. 125,000** were realized from the **sale of a car**.
   - The car was acquired at **Rs. 8,000,000**, but its **tax depreciation value** was **restricted to Rs. 7,500,000**.
   - The car was sold to the Managing Director for **Rs. 200,000**.
   - The tax gain is computed based on **the difference between fair market value (Rs. 6,500,000) and tax depreciation value (Rs. 6,375,000).**
4. **Acquisition of Second-Hand Equipment:**
   - The Company acquired second-hand equipment at **Rs. 8,000,000**.
   - The Company believes it is entitled to **initial depreciation allowance** since the equipment was **not previously used by the Company**.
5. **Sales Promotion Expenditure:**
   - The Company incurred **Rs. 2,000,000** on **sales promotion**.

    - The benefit extends over three years, so the amount is **being amortized over three years for tax purposes**.
6. **Loan to Associated Undertaking:**
    - A loan of **Rs. 500,000** was granted to an **associated company**.
    - The borrower is **in financial crisis** and may **not be able to repay** the debt.
7. **Income from Services Revenue:**
    - Tax on **services revenue** has been **excluded from taxable income**.
    - Tax deducted on such receipts was **Rs. 1,200,000**.
8. **Depreciation on Vehicles (Finance Lease):**
    - The Company **leased vehicles** worth **Rs. 20,000,000** from a **scheduled bank**.
    - **Tax depreciation** is calculated on **15% of fair market value (FMV)**.
    - Lease rentals paid during the year: **Rs. 2,000,000** (including Rs. 500,000 in **financial charges**).
9. **Disputed Amounts with Suppliers:**
    - The Company **disputes invoices from suppliers** but has **provided for these amounts** in the accounts.
    - Breakdown of year-wise disputed liabilities:

Year of Supply	Amount (Rs. '000)
Tax Year 20X1	790
Tax Year 20X2	1,251
Tax Year 20X3	1,244
Tax Year 20X4	1,599
Total	**4,881**

Required:

Provide comments on:

(a) **Tax treatment in the computation of taxable income**, indicating whether you agree or disagree.
(b) **Implications for tax purposes** of the **information disclosed** in the notes to the computation (**M-24**).

Note: Restrict your answer to comments only. **Revised computation is NOT required.**

(Question # 3: ICAP-May-2007)

ANSWER

MNO Pakistan Limited
Resident Public Company

Issue	Tax Treatment in Computation of Taxable Income	Tax Implication of the Information Disclosed in Notes
Acquisition of right to use trade mark	It is intangible and shall be amortized on the basis of its normal useful life. Where an intangible is not used for the whole of the year, as in the current case, its amortization shall base on the number of days the asset is used for the business during the tax year, i.e., from **29-12-20X4 to 30-06-20X5**.	Company has rightly treated the accounting amortization as inadmissible but has **failed to provide amortization as a deduction**. An amount Rs. **3,024,658** is to be allowed as a deduction on account of amortization. *(6,000,000 × 184 ÷ 365)*
Excess cost of perquisites to employees	There is no limit on perquisites to employees. These are **admissible without any limit**.	It is wrongly treated as inadmissible. Should be **allowed as a deduction**, so there will be a **decrease in taxable income and tax liability** of the company.
Provision for doubtful debt	It is **not allowed as a deduction**.	Company has **rightly treated it as inadmissible**, so **no tax implications**.
Profit on debt to a foreign bank without deduction of tax	It is a **Pakistan-source income** of the foreign bank. It will be admissible **only if tax at source has been deducted**; otherwise, it will be an inadmissible deduction.	Company has **rightly treated it as inadmissible**, so **no tax implications**.
Gain/(loss) on disposal of car	If a vehicle is **not used for hire**, cost, depreciation, disposal consideration, and gain or loss on its disposal shall be computed **as per special procedure applicable**.	Instead of gain of Rs. **125,000**, there is a **loss of Rs. 281,250**, so there is a need for **adjustment of Rs. 406,241**. **Taxable income should be reduced by this amount**. Disposal consideration shall be Rs. **6,093,750** (i.e., Rs. 6,500,000 - 8,000,000 × 7,500,000). WDV for gain/loss shall be Rs. **6,375,000** (i.e., 7,500,000 - 1,125,000).
Initial allowance and normal depreciation on second-hand equipment	**Initial allowance is admissible** only on such equipment which is being used for the first time in Pakistan. **Only normal depreciation** is allowed.	Only Rs. **1,200,000** i.e., **normal depreciation @ 15% of Rs. 8,000,000** should have been allowed.

ANSWER (Continued)

Issue	Tax Treatment in Computation of Taxable Income	Tax Implication of the Information Disclosed in Notes
Sale promotion expenses	Such expenses should have been amortized over the period of three years.	Charging amount of Rs. **1,333,333** as deduction is **not correct**. Only **1/3rd of Rs. 2,000,000** (i.e., Rs. **666,667**) should be admissible. **Remaining Rs. 666,666 will be inadmissible.** Thus, taxable income will **increase** by the amount of adjustment.
Bed debts written off	It **does not** fulfill the conditions laid down in section 29 of the ITO; hence, **cannot be allowed as a deduction**.	It shall be **reversed** and as a result of this adjustment, the **taxable income shall increase by Rs. 1,000,000**.
Income from consultancy services	According to **first proviso** to **section 153(6)**, income of a company from rendering or providing services **shall not be covered under MTR**. In that case, **tax payable shall be the higher of tax withheld or tax under NTR**. As tax under NTR is higher, **this income shall form part of taxable income** of the company.	**Exclusion of income attributable to services is incorrect**, so it shall be **added back to taxable income**. Tax of Rs. **1,200,000 shall be adjusted against final tax liability of the company** for the year.
Assets taken on lease	**Assets taken on lease are not considered as depreciable assets** of the lessee; hence, **no depreciation is allowed**. Only **lease rentals are to be allowed as a deduction**.	**Following adjustments** are to be made in taxable income: 1) **Depreciation of Rs. 3,000,000** shall be **added back**; 2) **Financial charges of Rs. 500,000** shall be **added back**; and 3) **Lease rentals paid during the year amounting to Rs. 2,000,000** shall be **allowed as deduction**.
Outstanding liabilities	A liability **not paid within three (3) years** shall be **written off and included in the income** of the person. It shall be **allowed as a deduction if later on the person has paid the same**.	**Liability for tax year 20X1 of Rs. 790,000 shall be added back to the income of the company**.

(a) Under what category this company falls for Income Tax purposes? (M-1)

- Since **Zagham Chemicals (Pvt) Ltd.** is a **private limited company**, it falls under the category of a **Resident Public Company** for tax purposes in Pakistan.
- This classification means the company is subject to corporate tax rates and other regulatory requirements.

(b) Work out the company's sales. (M-3)

To calculate **sales revenue**, we use the company's margin:

- **Cost of Goods Sold (COGS)** = **Raw Material** + **Other Manufacturing Expenses**
  = (55,000,000 + 4,500,000) + 6,500,000
  = **66,000,000**
- **Selling Price = COGS + Margin**
  = **COGS / (1 – Margin %)**
  = **66,000,000 / (1 – 30%)**
  = **66,000,000 / 0.70**
  = **94,285,714**

Thus, the **total sales amount = Rs. 94,285,714**.

(c) Work out net profit chargeable to income tax for the tax year 20x2 (ignore initial depreciation). (M-6)

Step 1: Compute Gross Profit

- **Sales Revenue** = **Rs. 94,285,714**
- **COGS** = **Rs. 66,000,000**
- **Gross Profit** = Sales – COGS
  = **Rs. 94,285,714 – 66,000,000**
  = **Rs. 28,285,714**

Step 2: Deduct Selling and Admin Expenses

- **Total Selling & Admin Expenses** = **Rs. 12,800,000**

Step 3: Deduct Depreciation Charges

- **Plant & Machinery** @ 15% = **Rs. (500,000 × 15%) = Rs. 75,000**
- **Computers** @ 30% = **Rs. (80,000 × 30%) = Rs. 24,000**
- **Laptop** @ 30% = **Rs. (30,000 × 30%) = Rs. 9,000**
- **Total Depreciation = Rs. 75,000 + Rs. 24,000 + Rs. 9,000 = Rs. 108,000**

Step 4: Adjust for Taxes Deducted at Source

- **Withholding Tax on Utilities (Rs. 86,000) should be added back**
- **Sales Tax (Rs. 134,000) is not an expense, so it remains unchanged**

Step 5: Compute Net Taxable Profit

Net Profit=28,285,714−12,800,000−108,000+86,000\text{Net Profit} = 28,285,714 - 12,800,000 - 108,000 + 86,000Net Profit=28,285,714−12,800,000−108,000+86,000 =15,463,714= 15,463,714=15,463,714

Thus, **Net taxable income for the year = Rs. 15,463,714**.

(d) What are the company's taxes and duties liabilities under:

(i) Customs Act, 1969 (M-1)

Under the **Customs Act, 1969**, the company has the following liabilities:

1. **Customs Duty** @ 25% on imported raw materials
   - **Imported Raw Material = Rs. 55,000,000**
   - **Customs Duty = 55,000,000 × 25% = Rs. 13,750,000**
2. **Federal Excise Duty (FED) on Imports and Goods Sold** @ 15%
   - **FED = Rs. 94,285,714 × 15% = Rs. 14,142,857**
3. **Sales Tax @ 18%**
   - **Sales Tax = Rs. 94,285,714 × 18% = Rs. 16,971,429**
4. **Income Tax @ 6.5%** on Import Value + Duties and Sales Tax
   - **Tax Base = Rs. 55,000,000 + 13,750,000 + 14,142,857 + 16,971,429**
   - **Income Tax = Rs. 99,864,286 × 6.5% = Rs. 6,491,178**

Final Tax Liabilities Summary:

Tax Type	Amount (Rs.)
Customs Duty (25%)	13,750,000
Federal Excise Duty (15%)	14,142,857
Sales Tax (18%)	16,971,429
Income Tax (6.5%)	6,491,178
Total Liabilities	**51,355,464**

Final Answers:

- **(a) Category:** Resident Public Company
- **(b) Sales:** Rs. 94,285,714
- **(c) Net taxable income:** Rs. 15,463,714
- **(d) Total tax & duties:** Rs. 51,355,464

(a) Category of the Company

- The company qualifies as a **Small Company** under the **Income Tax Ordinance, 2001**.
- This classification affects the applicable tax rate and other benefits.

(b) Sales of the Company for Tax Year 20x2

- **Cost of Goods Sold (COGS): Rs. 89,862,500**
- **Margin applied (30% of COGS): Rs. 26,958,750**
- **Total Sales Revenue: Rs. 116,821,250**

(c) Net Profit Chargeable to Income Tax

1. **Gross Profit Calculation:**
   - **Sales Revenue: Rs. 116,821,250**
   - **Less: COGS: Rs. 89,862,500**
   - **Gross Profit: Rs. 26,958,750**
2. **Net Profit Computation:**

- **Less: Selling & Administrative Expenses: Rs. 12,340,900**
- **Net Profit Before Tax: Rs. 14,618,750**

Breakdown of Cost of Goods Sold (N-1):

Component	Amount (Rs.)
Imported Raw Material (Customs Value)	55,000,000
Import Duty @ 25%	13,750,000
Excise Duty @ 15%	10,312,500
Total After Duties	79,062,500
Local Purchases	4,500,000
Manufacturing Expenses	6,300,000
Total COGS	**89,862,500**

Breakdown of Manufacturing Expenses (N-2):

Component	Amount (Rs.)
Manufacturing Expenses (As per Books)	6,500,000
Less: Depreciation Charged @ 25%	(500,000)
Adjusted Manufacturing Cost	6,000,000
Add: Depreciation on Machinery @ 15%	300,000
Total Manufacturing Cost	**6,300,000**

Breakdown of Selling & Admin Expenses (N-1):

Component	Amount (Rs.)
Expenses as per Books	12,600,000
Less: Depreciation on Computers @ 25%	(80,000)
Total Selling & Admin Expenses	**12,340,900**

Key Takeaways:

1. The company is classified as a **Small Company**.
2. **Sales Revenue = Rs. 116,821,250**.
3. **Net Profit Before Tax = Rs. 14,618,750**.
4. **Total COGS = Rs. 89,862,500**, adjusted for duties and manufacturing expenses.

Cost of Laptop charged to expense – 80,000
Taxes on utility bills:

- Income tax – 86,000
- Sales tax – 134,000
  (380,000)
  Total – **12,220,000**

Add: Depreciation on computers [N-2] – 120,000
Total – **12,340,000**

N-2 Depreciation on computers is computed as below:
Depreciation @ 30% instead of 25% i.e., 80,000 × 25% × 30% = 96,000
Depreciation on Laptop (80,000 × 30%) = 24,000
Total – **120,000**

(d) Taxes and Duties Payable by the Company

(i) Customs Duty

Imported value of the goods – **55,000,000**
Customs duty @ 25% of Rs. 55,000,000 – **13,750,000**

(ii) Federal Excise Duty

(a) Value of goods for customs duty – **55,000,000**
Add: Customs duty – **13,750,000**
Value for federal excise duty – **68,750,000**
Federal excise duty @ 15% of Rs. 68,750,000 – **10,312,500**

(b) Federal excise duty on sales (Rs. 116,821,250 × 15%) – **17,523,188**
Less: Federal excise duty paid on imports – **10,312,500**
F.E.D. Payable – 7,210,688

(iii) Sales Tax

Output tax **[N-1]** – **24,181,999**
Less: Input tax **[N-2]** – **15,175,250**
Sales tax payable – 9,006,749

N-1 Sale price of goods – **116,821,250**

Add: Federal excise duty – **17,523,188**

Value of supply for sales tax – **134,344,438**

Sales tax @ 18% of Rs. 134,344,438 – **24,181,999**

N-2 Input tax is computed as below:

- Tax on imported goods:
    - Value for customs duty – **55,000,000**
    - Add: Customs duty – **13,750,000**
    - Federal excise duty – **10,312,500**
    - Value for sales tax – **79,062,500**
- Sales tax (79,062,500 × 18%) – **14,231,250**
- Tax on local purchases (4,500,000 × 18%) – **810,000**
- Tax on utility bills – **134,000**

  Total – **15,175,250**

(iv) Income Tax Payable

Net profit for the tax year – **14,618,750**

Less: Carried forward tax losses – **(155,000)**

Taxable income for the year
Tax for the tax year (Rs. 14,463,750 × 20%) = **14,463,750**
Less: Tax already paid / deducted:

- Tax on utility bills = **86,000**
- Tax on imports [N-1] = **5,131,156**

  Total Tax Deducted = **(5,132,016)**
  Tax Refundable = **(2,239,266)**

N-1 Value of goods for Customs duty
Value of goods = **55,000,000**
Add:

- Customs duty (55,000,000 × 25%) = **13,750,000**
- Federal excise duty (68,750,000 × 15%) = **10,312,500**
- Sales tax (79,062,500 × 18%) = **14,231,250**

  Total Value of goods for income tax at import = **93,293,750**
  Tax paid at import (91,712,500 × 5.5%) = **5,131,156**

QUESTION - 41.6

Please prepare statement of "Computation of Total Income and Tax Payable" from the following account and information. Please state reasons for your treatment of the information available.

CHEMICAL (PRIVATE) LIMITED
MANUFACTURING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 20X1

Particulars	Rs. (Millions)
Sales (Net)	**30.000**
Cost of Sales	**25.000**
Gross Profit	**5.000**
Expenses:	**Notes**
Director's salaries	0.150
Staff Salaries	(a) 0.700
Contribution to Employees Provident Fund	(b) 0.060
Commission	(c) 0.920
Research laboratory equipment	0.250
Donation to Memorial Community Welfare Trust	0.100
Contribution to Chemical Technology Institute P.U.	0.200
Insurance	(d) 0.200
Financial charges	(e) 0.800
Depreciation	(f) 0.600
Other administrative and selling expenses	1.555
Total Expenses	**(5.535)**
Net Loss	**(0.535)**

Notes:
(a) This includes salary Rs. 60,000 and perquisites Rs. 35,000 paid to the general manager – due tax has been deducted and deposited with treasury.
(b) Employees' Provident Fund Trust is revocable at the option of the Managing Director of the company and an application for approval has been filed with the relevant tax authority.

(c) Any tax at source has not been deducted from commission payments, which include cash payment of Rs. 60,000 to a local agent and remittance abroad of Rs. 450,000 to a foreign collaborator.
(d) Insurance includes prepaid expenses amounting to Rs. 60,000.
(e) These consist of charges paid to bank @ 14% p.a. for financing imports of plant and

equipment. However, the company had advanced a personal loan of Rs. 1,000,000 to a director which remained outstanding throughout the year.
(f) Depreciation includes Rs. 200,000 for Plant. Depreciation on all assets is charged on rates for normal depreciation given in the Third Schedule to the Income Tax Ordinance. Written down value of plant for the purposes of calculating tax depreciation is Rs. 1,500,000 which includes additions during the year of new machinery of the value Rs. 500,000.

[CA Final Group-II, Oct. 1991]

ANSWER

M/s. Chemicals (Private) Limited
Resident Private Company
Tax Year 20X1
Taxable Income and Tax Liability

Particulars	Rs.
Net Profit as per Profit and Loss Account	**(535,000)**
Add: Inadmissible payments:	
Contribution to unrecognized Provident Fund [N-2]	60,000
Commission (60,000 + 450,000) [N-3]	510,000
Financial charges [N-4]	140,000
Prepaid insurance premium [N-5]	60,000
Research Laboratory Equipment [N-6]	250,000
Donation to Welfare Trust (assumed as unapproved)	100,000
Depreciation on Plant and Machinery	200,000
Total Additions	**1,320,000**
Less: Tax depreciation on plant and machinery [N-7]	**-421,875**
Taxable Income	**363,125**
TAX LIABILITY	
Tax liability shall be higher of the following:	
A) Tax on taxable income = Rs. 363,125 @ 29%	**105,308**
OR	
B) Minimum tax on turnover u/s 113 = Rs. 30,000,000 × 1.25%	**375,000**
Tax liability for the year [N-10]	**375,000**

Notes:

- **N-1** Any amount paid to employees on account of salary and perquisites is allowed as deduction.
- **N-2** Contribution to unrecognized provided fund is inadmissible expenditure of the employer.
- **N-3** Any commission paid to any person without deducting tax at source, if applicable, is inadmissible.
- **N-4** Financial charges of Rs. 140,000 (i.e., Rs. 1,000,000 × 14%) are not connected with the com

N-5 Prepaid insurance premium is inadmissible, as it does not relate to the period under assessment.
N-6 Capital expenditure does not form part of the 'scientific research expenditure' u/s 26(2), hence, is not allowed as deduction.

N-7 Tax depreciation on plant and Laboratory equipment has been computed as below:

Plant:

- Initial allowance (25% of Rs. 500,000) [N-8] = 125,000
- Normal depreciation (Rs. 1,375,000 @ 15%) [N-9] = 206,250
- **Total = 331,250**

Laboratory Equipment:

- Initial allowance (25% of Rs. 250,000) [N-8] = 62,500
- Normal depreciation (Rs. 187,500 @ 15%) [N-9] = 28,125
- **Total = 90,625**

Total depreciation for the year = 421,875

N-8 Initial Allowance shall be allowed in respect of an eligible depreciable asset in the tax year in which it is used by the business for the first time.

N-9 Written down value of plant:

- Cost (including new plant) = 1,500,000
- Less: Initial allowance on new plant @ 25% = 125,000
- WDV for normal depreciation = **1,375,000**

Written down value of laboratory equipment:

- Cost = 250,000
- Less: Initial allowance on new plant @ 25% = 62,500
- WDV for normal depreciation = **187,500**

N-10 Alternate corporate Tax (ACT) does not apply to this company as there is a reported loss in financial statements.

QUESTION – 41.7

A B & C Ltd. is a private limited company. The profits for the tax year ending 30-06-20X1 are Rs. 600,000 which includes dividends from quoted companies amounting to Rs. 20,000. The following amounts have been debited to the Profit & Loss Account in arriving at the net profit:

1. Donation to an unrecognized charitable institution Rs. 15,000.
2. Fees to the tax consultant for defending taxpayer's appeal in Income Tax Appellate Tribunal Rs. 7,000.
3. Zakat of Rs. 5,000/- deducted from dividend.
4. Personal expenditure of a director Rs. 12,000.
5. Brokerage paid to a non-resident concern without with-holding tax Rs. 40,000.
6. Reserve for bad debt Rs. 10,000.

Required: Compute taxable income and tax thereon.

N-5 Prepaid insurance premium is inadmissible, as it does not relate to the period under assessment.
N-6 Capital expenditure does not form part of the 'scientific research expenditure' u/s 26(2), hence, is not allowed as deduction.

N-7 Tax depreciation on plant and Laboratory equipment has been computed as below:

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- **Total** = **331,250**

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- **Total** = **90,625**

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- Less: Initial allowance on new plant @ 25% = 125,000
- WDV for normal depreciation = **1,375,000**

Written down value of laboratory equipment:

- Cost = 250,000
- Less: Initial allowance on new plant @ 25% = 62,500
- WDV for normal depreciation = **187,500**

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QUESTION – 41.7

A B & C Ltd. is a private limited company. The profits for the tax year ending 30-06-20X1 are Rs. 600,000 which includes dividends from quoted companies amounting to Rs. 20,000. The following amounts have been debited to the Profit & Loss Account in arriving at the net profit:

1. Donation to an unrecognized charitable institution Rs. 15,000.
2. Fees to the tax consultant for defending taxpayer's appeal in Income Tax Appellate Tribunal Rs. 7,000.
3. Zakat of Rs. 5,000/- deducted from dividend.
4. Personal expenditure of a director Rs. 12,000.
5. Brokerage paid to a non-resident concern without with-holding tax Rs. 40,000.
6. Reserve for bad debt Rs. 10,000.

Required: Compute taxable income and tax thereon.

Research laboratory equipment - 500,000
Donation to a charitable trust - 300,000
Insurance (f) - 400,000
Financial expenses (g) - 1,600,000
Royalty and technical fee (h) - 1,200,000
Depreciation (i) - 1,000,000
Postage, telephone and telegrams - 1,300,000
Other administrative and selling charges (j) - 2,300,000
Total Expenses: 14,840,000
Net Profit: 5,160,000

Notes:

(a) It includes salary payable to a director Rs. 300,000 on which tax was not deducted.
(b) It includes salary of Rs. 100,000 and perquisites of Rs. 50,000 paid to a General Manager on which due tax has been deducted and deposited with the Treasury.
(c) Employees Provident Fund Trust is a trust recognized under the Income Tax Ordinance.
(d) Tax at source has not been deducted from commission payment.
(e) The charitable trust is an approved trust under the Income Tax Ordinance.
(f) Insurance expenses include prepaid insurance of Rs. 100,000.
(g) Financial expenses comprise of the following:
(i) Financial cost paid to a financial institution for import of plant and equipment @ 17% per annum – 400,000
(ii) Financial cost on working capital financing @ 20% per annum – 700,000
(iii) Financial cost on loans from subsidiary and associated companies @ 12% per annum – 500,000
**Total Financi

Taxable Income and Tax Liability Computation

Donations and Expenses

- **Donation to a charitable trust**: Rs. 300,000
- **Accounting depreciation**: Rs. 1,000,000
- **Financial expenses**: Rs. 200,000
- **Prepaid insurance premium**: Rs. 100,000
- **Entertainment expenses (not verifiable)**: Rs. 500,000

Total Expenses: Rs. 4,320,000

Statutory Depreciation Allowance

- **Less: Statutory depreciation allowance**: Rs. 2,981,250

Taxable Income: Rs. 6,498,750

Tax Liability Calculation

- **Income Tax (6,498,750 @ 29%)**: Rs. 1,884,638
- **Less: Rebate for donation to an approved institution**
  - (1,884,638 + 6,598,750 × 300,000)
  - **Rebate Amount**: Rs. 87,000

Total Tax Liability: Rs. 1,797,638

Notes on Adjustments

N-1: Donations

- Donations are not treated as allowable deductions; however, a rebate is given at the average tax rate. Donations made to institutions specified in Clause (61) of Part-I of the Second Schedule are allowed as deductions from income.

N-2: Research Laboratory Equipment

- Not allowed as a deduction but shall be capitalized and depreciated as per applicable rules.

N-3: Salary & Perquisites

- Salary and perquisites paid to employees are admissible if tax at source has been deducted.

N-4: Financial Expenses

- **(a)** Rs. 400,000 paid for plant & equipment imports as a normal business expense is allowed as a deduction.
- **(b)** Rs. 1.00 Million investment in an associated company without charge may attract Income Tax Ordinance provisions. The return on investment must not be lower than borrowing costs.
- **(c)** Financial costs for loans given to associated companies are not an expense. Calculation:
    - **Principal amount on which interest is paid**: Rs. 700,000 @ 20% p.a.
    - **Interest Cost**: (700,000 × 20%) = Rs. 3,500,000
    - **Interest on Rs. 1,000,000**: [(700,000 × 1,000,000) ÷ 3,500,000] = Rs. 200,000
    - **Total inadmissible financial expenses**: Rs. 200,000

N-5: Depreciation Allowance

- **Tax depreciation as given**: Rs. 2,800,000
- **Depreciation on Laboratory Equipment**
    - **Initial allowance @ 25% of Rs. 500,000**: Rs. 125,000
    - **Normal depreciation (Rs. 375,000 [500,000 - 125,000])**: Rs. 56,250
- **Total Tax Depreciation**: Rs. 2,981,250

QUESTION – 41.9

XYZ Ltd., a listed company, submitted its tax return for your review before filing it with the department. A taxable profit of Rs. 250,000,000 was computed. However, you noticed the following:

1. Among others, the following items had been deducted to arrive at the taxable profit:

Item	Amount (Rs. in '000)
Fees and expenses on appeal against an assessment order	10,000
Contribution to approved Gratuity Fund though payments not yet made to the employees	6,000
Accounting depreciation	40,000
Donation to an approved institution	4,000
Advance salary paid to an employee who left the company	6,000
Loss of stocks by fire	2,000
Bonus to staff	15,000
Damages paid for breach of contract	16,000
Brokerage paid for processing of orders	10,000
10% of Taxable Profit paid to Managing Director under a written agreement as salary (tax was deducted at source)	25,000

2. The following items have not been added in computing the Taxable Profit:
   - **Capital Gain** on sale of shares of a private limited company sold 12 months after the date of their acquisition. **(Rs. 20,000 '000)**
   - **Amount received from Insurance Company** against compensation for loss of profit. **(Rs. 22,000 '000)**
   - **Subsidies received from Government** under a law passed 10 years earlier. **(Rs. 50,000 '000)**
   - **Rent paid by cheque. (Rs. 55,000 '000)**
3. The following items have not been deducted in computing the Taxable Profit:
   - **Tax depreciation** on Machinery, purchased one year earlier. **(Rs. 110,000 '000)**
   - **Amount of unpaid liability** added back last year, now settled. **(Rs. 20,000 '000)**

Required: Compute the correct taxable income and the tax thereon.

ANSWER

M/s. XYZ Limited
Resident Public Company
Tax Year 20X1
Taxable Income and Tax Liability

Description	Amount (Rs. in '000)
Net Profit as per Profit and Loss Account	250,000

Computation of Taxable Income and Tax Liability

Add: Inadmissible Expenses

Description	Amount (Rs. in '000)
Accounting depreciation	40,000
Donation [N-1]	4,000
Damage for breach of a contract [N-2]	Nil
Salary to Managing Director [N-3]	25,000
Compensation from Insurance Company	22,000
Subsidies received from Government	50,000
Total	**141,000**

Less: Rent Paid

Description	Amount (Rs. in '000)
Rent paid	-55,000
Tax depreciation [N-5]	-10,519
Unpaid liability settled during the year [N-4]	-20,000
Net Adjustment	**85,519**

Total Income from Business

Description	Amount (Rs. in '000)
Total Income from Business	305,481
Add: Capital Gain [N-6]	20,000
Total Taxable Income	**325,481**

TAX LIABILITY

Description	Amount (Rs. in '000)
Tax on taxable income (Rs. 325,481 × 29%) [N-7]	94,390
Less: Tax credit for donation to approved institution **{(94,390 + 325,481) × 4,000}**	-1,160
Total Tax Liability	**93,230**

Notes

- **N-1:** Donations to approved institutions are not treated as admissible expenses. A tax credit at the average rate of tax is allowed for such donations within the approved limit.
- **N-2:** Damages for breach of contract is an admissible expense. Only such fines, penalties, etc., are inadmissible which are payable for the violation of any law, rule, or regulation.
- **N-3:** Any payment that is based on the profits of the company is an inadmissible expense.
- **N-4:** Any liability, which was added back in the income of a taxpayer and is later settled, is allowed as an admissible expense in the year of actual payment.
- **N-5: Tax Depreciation Calculation**
  - Cost of the asset one year earlier: **Rs. 110,000 (000)**
  - **Less: Depreciation for the previous year**
    - Initial allowance (110,000 × 25%) = **27,500**
    - Normal depreciation **{(110,000 – 27,500) × 15%}** = **12,375**
    - **Written down value at the start of this year** = **70,125**
  - **Depreciation for the year**
    - Normal depreciation (70,125 × 15%) = **10,519**
- **N-6:** The capital gain on capital asset is taxable under **NTR**.
- **N-7:** Alternate Corporate Tax under this case is less than the Corporate Tax, hence, **Corporate Tax shall be payable for the tax year**.

QUESTION – 41.10

The following accounting results of **M/s. Ahsan & Bilal Stores Ltd.** for the year ended June 30, 20X1 have been accepted by the Income Tax Officer:

Expense	Rs. (000)	Income	Rs. (000)
Salaries	18,000	Gross Profit	98,000

Given Data

Description	Amount (Rs. in '000)	Description	Amount (Rs. in '000)
Income tax	3,860	Premium on issue of shares	2,250
Bad debts	9,100	Income from speculative transactions	2,740
Charity	950	Liability of interest waived by creditor	567
Law charges	12,000	Profit on sale of furniture	800
Rent, rates & taxes	2,340	Bad debts recovered	550
Preliminary expenses	1,800	Dividend equalization reserve	2,500
Reserve for doubtful debts	8,700	Pension to Ex-Manager (allowed in past)	-2,700
Bonus to employees	5,000		
Depreciation	14,678		
Net Profit	**24,819**	**Total**	**105,847**

Required:

You are required to compute the taxable income after taking into consideration the following notes:
(a) Allowable tax depreciation amounts to Rs. 8,600.
(b) Law charges include Rs. 6,000 paid as a compromise amount for a suit against one of the

directors.
(c) Sufficient details are on record, and the entire expenses being fully vouched and verifiable are allowable.
(d) WDV of furniture was Rs. 10,000, which was sold for Rs. 10,800.

ANSWER

M/s. Ahsan & Bilal Stores Limited
Resident Public Company
Tax Year 20X1
Taxable Income and Tax Liability

Net Profit as per Profit and Loss Account

Rs. 24,819

Add: Inadmissible Transactions

Description	Amount (Rs. in '000)
Income tax	3,860
Preliminary expenses [N-3]	1,800
Reserves for doubtful debts	8,700
Accounting depreciation	14,678
Dividend equalization reserve	2,500
Charity	950
Compromise amount paid on behalf of a director	6,000
Total Additions	**38,488**

Gross Adjusted Income

| Total (Rs. 24,819 + 38,488) | 63,307 |

Less: Admissible Deductions

Description	Amount (Rs. in '000)
Premium on issue of shares [N-4]	2,250
Income from speculative business [N-5]	2,740
Amortization of preliminary expenses (Rs. 1,800 × 20%) [N-3]	360
Statutory depreciation	8,600
Total Deductions	**13,950**

Final Taxable Income Calculation

Description	Amount (Rs. in '000)
Income from non-speculation business	49,357
Income from speculation business [N-5]	2,740
Total Taxable Income	**52,097**

Tax Liability

Description	Amount (Rs. in '000)
Total Tax (Rs. 52,097 × 29%) [N-7]	**15,108**

Tax Calculation Adjustments

Less: Tax credit for charity [(15,629 + 52,097) × 950] [N-2] → **275**
Total tax liability → 14,743

Notes:

- **N-1**: Bad debts represent the amount allowed by the CIR as a bad debt.
- **N-2**: Charity is assumed to be given to an approved institution. In this case, it is not allowable as a deduction, but a tax credit at the average rate of tax is allowed.
- **N-3**: Preliminary expenses are amortized at 20% of total expenditure instead of charging the whole amount to profit and loss.
- **N-4**: Premium on issue of shares is a capital receipt and not income.

- **N-5**: The law requires that non-speculative and speculative business incomes be reported separately. Speculative income must be deducted from business income and shown separately as income of the company.
- **N-6**: Casual income is considered part of business income.
- **N-7**: Since Alternate Corporate Tax is lower than Corporate Tax, Corporate Tax is payable for the tax year.

QUESTION – 41.11

The following is the **Profit & Loss Account** of **M/s. Ali Hassan Exporters Company (Pvt.) Ltd.** for the year ended **30th June, 20X1**:

Expenses and Income Data

Expenses	Rs.	Income	Rs.
Sundry expenses	2,000	Gross Profit	210,000
Office salaries	26,000	Casual income	500
Rent, rates & taxes	8,000	Premium on issue of debentures	10,000
Income tax	2,800	Recovered bad debts (allowed in past)	400
Legal charges	1,800	Dividend	600
Advertisement	5,000	Net interest on securities	1,800
Auditor's fees	6,000		
Cost of issue of debentures	5,000		
Loss on sales of furniture	2,000		
P. F. contribution	7,000		
Bad debts	4,000		
Vehicle expenses	8,000		
Fire insurance premium	7,000		
Communication	900		

Expenses	Rs.	Income	Rs.
Provision for taxes	9,000		
Provision for bad debts	4,000		
Liquidated damages	4,000		
Depreciation	40,000		
Net Profit	**82,300**	**Total**	**223,300**

Requirement:

Calculate the net taxable income of the company for **Tax Year 20X1**, considering the following:

1. Sundry expenses include **Rs. 400 paid to an institution not recognized** under **Section 61**.
2. Office salaries include **Rs. 5,000 paid to one of the directors**.

3. Provident Fund is recognized by the Income Tax Department.
4. Vehicle expenses are not vouched and verifiable to the extent of Rs. 1,500.
5. Actual depreciation works out to Rs. 34,000 only.

ANSWER

M/s. Exporters (Private) Limited
Resident Private Company
Tax Year 20X1
Taxable Income and Tax Liability

Particulars	Rs.
Net Profits as per Profit and Loss Account	82,000
Add: Inadmissible transactions:	
Payment to unrecognized institution	400
Income tax	2,600

Particulars	Rs.
Un-vouched and unverifiable vehicle expenses	1,500
Provision for taxes	9,000
Provision for bad debts	4,000
Liquidated damages **[N-1]**	NIL
Accounting depreciation	40,000
Total Additions	**57,500**
Total Adjusted Profit	**139,400**
Less: Deductions	
Premium on issue of debentures **[N-2]**	10,000
Dividend **[N-5]**	600
Interest on securities	4,000
Statutory depreciation	34,000
Total Deductions	**45,000**
Income from Business	**93,400**
Interest on Securities [(1,800 × 100) ÷ 90] = 2,000 [N-6]	NIL
Taxable Income	**93,400**

Tax Liability

Total tax liability (93,400 × 29%) **[N-7]** = **27,086**

Explanatory Notes:

- **N-1**: Liquidated damages mean the amount of damages to be recovered by either party for a breach of the agreement by the other party. These are admissible. However, any fine, penalty, etc., is inadmissible as it is payable for violating any law, rule, or regulation.
- **N-2**: Premium on the issue of debentures is a capital receipt.
- **N-3**: Casual income is deemed to have accrued during the course of business.
- **N-4**: Bad debts are presumed to have been allowed as a deduction by the CIR.
- **N-5**: Dividend received by a company is taxable under FTR (Final Tax Regime) at 15% of the gross amount. Further, tax deducted at source by the company paying the dividend is treated as the final discharge of tax liability in respect of such income.
- **N-6**: Interest on securities is covered under FTR.
- **N-7**: Since the Alternate Corporate Tax is lower than the Corporate Tax, Corporate Tax is payable for the tax year.

QUESTION – 41.12

Compute the total income and tax payable by a private limited company for the year ended 30th June, 20X1 from the following information:

A. Profit and Loss Accounts items:

Particulars	Rs.
Sales	1,500,000
Less: Cost of sales	
- Raw material consumed	600,000
- Wages and benefits	175,000
- Depreciation	200,000
- Others	125,000
Total Cost of Sales	**1,100,000**
Gross Profit	**400,000**
Less: Expenses	
- Salaries	80,000
- Rent (paid lump sum in cash)	55,000
- Depreciation	100,000
- Finance charge on leased assets	20,000
- Provision for doubtful debts	10,000
- Others	90,000
Total Expenses	**355,000**
Net Profit before Tax	**45,000**

Particulars	Rs.
Add: Other Income	
- Interest on bank deposits	50,000
- Dividend from a listed company	100,000
Total Other Income	**150,000**
Net Profit before Tax	**195,000**

B. Additional Information:

1. **Opening & Addition of Assets:**

Asset	Opening WDV (Rs.)	Addition during the Year (Rs.)
Plant and machinery	800,000	70,000
Furniture & fixture	200,000	50,000
Vehicles (300,000)		120,000

2. Lease rentals for the year are **Rs. 90,000**.
3. Salary to a manager **Rs. 50,000** includes:
   - House rent allowance **Rs. 12,000**
   - Conveyance allowance **Rs. 6,000**
4. The company issued **bonus shares** having a face value of **Rs. 50,000** during the year.

ANSWER

M/s. A (Private) Limited
Resident Private Company
Tax Year 20X1
Taxable Income and Tax Liability

Particulars	Rs.
Net Profits as per Profit and Loss Account	195,000
Add: Inadmissible Transactions	
- Rent paid in cash	55,000
- Accounting depreciation (Rs. 200,000 + 100,000)	300,000
- Provision for doubtful debts	10,000
- Finance charges on leased assets **[N-2]**	20,000
Total Adjustments	**385,000**
Total Taxable Income	**580,000**

Tax Computation Details

Less: Allowable Deductions

Particulars	Rs.
Statutory depreciation **[N-3]**	245,875
Dividend **[N-5]**	100,000
Lease Rentals **[N-2]**	90,000
Total Allowable Deductions	**435,875**
Taxable Income	**144,125**

Tax Liability

Tax on taxable income (Rs. 144,125 @ 29%) [N-6] = **41,196**

Notes:

- **N-1:** Any amount paid as salary and perquisites is available as a deduction.
- **N-2: Lease Rentals** – Lease financial charges are treated as inadmissible, and the total payment made by the lessee towards lease rentals is allowed as a deduction against the income.
- **N-3: Statutory Depreciation**:

Asset	Details	Amount (Rs.)
a) Plant and Machinery	Initial allowance (70,000 @ 25%)	17,500
	Normal depreciation 15% of (870,000 – 17,500)	127,875
b) Furniture & Fixtures	250,000 @ 15%	37,500
c) Vehicles	420,000 @ 15%	63,000
Total Depreciation		**245,875**

- **N-4: Interest on Bank Deposits** – Tax deducted by banks under **Section 151** @ **10%** shall be adjustable against final tax liability.
- **N-5: Dividend** received by a company is taxable under **Final Tax Regime (FTR)** @ **15%** of the gross amount.
- **N-6: Alternate Corporate Tax (ACT)** applies if it is lower than the standard Corporate Tax rate.

QUESTION – 41.13

ABCD Corporation is a public company. Accounting profit for the year ended 30th June, 20X1 amounts to **Rs. 2,000,000**. Compute taxable income after considering the following amounts that have been accounted for while determining the accounting profit:

Particulars	Rs.
(a) Capital gains on sale of shares of public listed companies	1,500,000
(b) Profit on sale of FTR vouchers	1,000,000
(c) Donation – Approved	100,000

Particulars	Rs.
(d) Donation – Unapproved	50,000
(e) Accounting depreciation	1,000,000
(f) Accounting gains on disposal of assets	100,000
(g) Financial charges on assets acquired on lease from an approved Modaraba	50,000
(h) Commission and brokerage expenses, taxes not withheld at source	30,000
(i) Bad debts written back out of provisions made in earlier years	100,000
(j) Provision for bad debts was not allowed as a deductible charge	100,000

Other Information:

(a) Lease rentals paid on assets acquired on lease from an approved Modaraba – **150,000**
(b) Tax depreciation – **1,200,000**
(c) Tax loss on disposal of assets – **50,000**

[CA Final Group-II, May 1996]

ANSWER

M/s. ABCD Corporation
Resident Public Company
Tax Year 20X1
Taxable Income and Tax Liability

Rs.

Profits as per Profit and Loss Account – **2,000,000**

Add: Inadmissible transactions:

- Donation – approved **[N-1]** – **100,000**
- Donation – unapproved – **50,000**
- Accounting depreciation – **1,000,000**
- Financial charges on leased assets **[N-2]** – **50,000**

- Commission and brokerage – **30,000**

Total: 1,230,000

Less:

- Gain on sale of shares of listed companies – **1,500,000**
- Profit on sale of PTC vouchers **[N-3]** – **1,000,000**
- Bad debts – **100,000**
- Accounting gain on disposal of assets **[N-4]** – **100,000**
- Lease rentals paid **[N-2]** – **150,000**
- Tax depreciation – **1,200,000**
- Tax loss on disposal of assets **[N-4]** – **50,000**

Total: 4,100,000

Loss for the year: (870,000)

Tax Liability

Since the company has incurred a **loss of Rs. 870,000**, no tax will be levied under the First Schedule. Had the business turnover been provided in the question, **minimum tax @ 1.5%** of turnover would have been the tax liability for the company for the tax year.

N-1: Donations are not allowed as a deduction against profits. Instead, a **tax credit** at the average tax rate is allowed for donations made to approved institutions.

N-2: **Financial charges on lease** are inadmissible. Instead, the total amount of **lease rentals paid** during the year is allowed as a deduction.

N-3: **PTC Vouchers** fall under the definition of 'Securities' taxable under **Section 37A** as a separate block of income. It is assumed that PTC vouchers were disposed of after holding for more than six years; hence, the gain shall not be taxable.

N-4: **Accounting gains on the disposal of assets** are deducted to neutralize the position, and thereafter, the loss on asset disposal is treated as an admissible expense.

QUESTION – 41.14

OK Limited, a listed company, provides you with the following data for the year ended **30th June, 20X1**:

- **Sales**: Rs. 112,800,000
- **Cost of sales**: Rs. 90,800,000

- **Gross profit**: Rs. 22,000,000
- **Bonus shares received (face value)**: Rs. 250,000
- **Dividend received**: Rs. 8,000,000
- **Operating expenses (tax inclusive)**: Rs. 30,050,000
- **Net Profit after tax**: Rs. 8,250,000

Additional Information:

(a) The company added **plant & machinery (Rs. 1.60 million)** and a **car (Rs. 1.10 million)** during the year on which no depreciation is charged.
(b) Managed a cash loan of Rs. **1.00 million**.
(c) **Commission expense** paid in cash **Rs. 200,000** to M/s. Fine Ltd.
(d) **Salary and allowances** paid to a director **Rs. 300,000** and tax already deducted.
(e) **Tax provision** included in expenses Rs. **2.50 million**.
(f) **Bonus shares** had a market price of **Rs. 400,000** on the date of issue.
(g) **Corporate tax rate** is **29%**.
(h) **Carried forward losses** for tax years **eight years ago Rs. 1.20 million** and **three years ago Rs. 1.20 million**.

Required: Compute **taxable income** and **tax payable** by the company.

ANSWER

M/s. OK Limited
Resident Public Company
Tax Year 20X1
Taxable Income and Tax Liability

Income from Business
Net Profit as per **Profit and Loss Account**: Rs. **8,250,000**

Add: Inadmissible Transactions

- **Provision for taxation**: Rs. **2,500,000**
- **Commission paid in cash** [N-3]: Rs. **200,000**
- **Total Additions**: Rs. **2,500,000**

Less:

- **Depreciation** [N-1]: Rs. **745,000**
- **Face value of bonus shares** [N-6]: Rs. **250,000**
- **Dividend received** [N-7]: Rs. **8,000,000**

Business Income for the year: Rs. **1,755,000**

Income from Other Sources

- **Loan received in cash** [N-8]: Rs. **1,000,000**

Taxable Income for the year: Rs. **2,755,000**

TAX LIABILITY

Tax liability shall be higher of the following:

A) Tax on taxable income = Rs. 2,755,000 @ **29% [N-9]**
798,950
OR
B) Minimum tax on turnover u/s 113 = Rs. 112,800,000 @ **1.25%**
1,410,000

Tax liability for the tax year
1,410,000

Notes

N-1
As the company has not provided for the depreciation allowance on additions in fixed assets so the same has to be allowed as deduction. Allowance for depreciation has been calculated as below:

Plant and Machinery

- Initial allowance (Rs. 1,600,000 @ 25%) = **400,000**
- Normal depreciation = 15% of (1,200,000, i.e., 1,600,000 - 400,000) = **180,000**
- **Total for Plant and Machinery = 580,000**

Vehicles - Normal Depreciation (15% of 1,100,000) = **165,000**

Total Depreciation Allowed = 745,000

Cost of the vehicle not playing for hire shall be the lesser of the actual cost or Rs. 2,500,000.

N-2
Loan is a normal business transaction creating a liability against the assets of the enterprise. Only the amount of interest payable against a loan affects the income and tax liability of a taxpayer.

N-3
Any cash payment exceeding Rs. 25,000 to a person, where the total payment during the tax year exceeds Rs. 250,000, is an inadmissible expense. This expense is within the permitted limit; hence, it will be admissible.

N-4
Salary and allowances paid to a director is an admissible expense.

N-5
Business losses can be carried forward up to six (6) immediate succeeding tax years.
Losses sustained eight years ago cannot be adjusted against the incomes of the current year.

Further, as there is no business income for the current tax year, so carried forward business losses cannot be adjusted against income from other sources.

N-6
Bonus shares are treated as "income" at the stage when these are received by a shareholder. This income is valued at the market price of the bonus shares immediately following the bonus issue.

Tax is to be withheld by the company issuing bonus shares @ **10%** of the value. Tax so withheld shall discharge tax liability on this income under FTR.

N-7
Dividend received by a company is taxable under FTR @ **15%** of the gross amount. Further, tax deducted at source by the company paying the dividend shall be treated as final discharge of tax liability in respect of such income.

N-8
Any loan received in cash shall be treated as income from other sources **[39(3)]**.

N-9
As the "accounting income" is not available in the question, it is not possible to compare the

Corporate Tax with Alternate Corporate Tax, which is necessary for determining the tax liability of a company.

QUESTION – 41.15

Compute tax payable under the Income Tax Ordinance, 2001 in the light of the following facts:

Particulars	**Rs.**
(i) Profit as per profit and loss account	1,000,000
(ii) Accounting depreciation (including on assets acquired on lease Rs. 50,000)	175,000
(iii) Tax depreciation	250,000
(iv) Head Office expenses	125,000
(v) Computer software cost capitalized in account	100,000
(vi) Finance charge on assets taken on lease	75,000
(vii) Lease rentals	130,000
(viii) Interest paid to other branches abroad (net)	15,000

The taxpayer is a **non-resident company** operating as a **'Branch' in Pakistan**.

[CAPE-2, NOV. 1996]

ANSWER

M/s A Limited

Non-Listed Company
Permanent Establishment of a Non-Resident
Tax Year 20X1
Taxable Income and Tax Liability

Particulars	Rs.
Profit as per Profit and Loss Account	1,000,000
Add: Inadmissible transactions	
- Accounting depreciation	175,000
- Finance charges on leased assets **[N-1]**	75,000
- Interest to other branches abroad **[N-5]**	15,000
Total	**1,265,000**
Less:	
- Tax depreciation	250,000
- Computer software cost **[N-2]**	100,000
- Lease rentals **[N-1]**	130,000
Total deductions	**480,000**
Taxable Income	**785,000**

Tax Liability of the Company

Total tax = Rs. **785,000** @ **29% [N-6]** = **227,650**

Notes:

N-1 Financial charges on assets acquired on lease are inadmissible, whereas the total rentals paid during the year shall be allowed as deduction.

N-2 Computer software cost is generally treated as a revenue expense and is allowed as an admissible expense. However, it may be treated as 'intangible' if a substantial cost is incurred and is expected to spread over years. In that case, it shall be amortized as per law.

N-3 It is presumed that the tax depreciation has been computed after rectification of the entry relating to the Computer Software.

N-4 In the absence of the total head office expenses, total **world turnover** of the company, and **total turnover in Pakistan**, it is not possible to compute the admissible amount of head office expenses charged to the company. Thus, it is presumed that the expenses shown in the profit and loss account are within the permitted limit.

QUESTION – 41.16

The following is the profit and loss account of a leasing company which is *approved* by the Federal Board of Revenue. The company follows the *financing method* in accounting for recognition of lease and installment loan income:

Profit and Loss Account for the Year Ended 30th June, 20x2

Income from	Rs. ('000)
Finance lease	40,000
Installment loan	4,000
Operating lease	2,500
Other income	2,500
Total Income	**49,000**

Less: Expenses

Expenses	Rs. ('000)
Finance and bank charges	20,000
Selling, general, and administrative expenses	18,000
Direct cost of leasing finance, lease & installment loan	2,000
Operating lease	1,000
Allowance for potential lease losses	2,000

Expenses	Rs. ('000)
Total Expenses	**43,000**

| **Operating profit before taxation** | **6,000** |

Adjustments for Taxable Income Calculation

Adjustments	Rs. ('000)
(i) Lease rental received and receivable	42,500
(ii) Rental income recognized	10,250
(iii) Tax depreciation on owned assets as per working	1,500
(iv) Tax depreciation on lease assets as per working	36,000
(v) Unabsorbed depreciation of Tax Year 20x1	4,000
(vi) Accounting gain on cancellation of lease	7,250
(vii) Selling, general and administrative expenses include:	
- Provision for gratuity	500
- Provision for doubtful receivables	500
- Donation to approved institution	1,500
- Depreciation on owned assets	1,000

Required:

Compute taxable income of the company in accordance with applicable laws relating thereto and the amount of tax thereon.

[CAPE-2, June 99]

ANSWER

M/s. Leasing Company

Resident Company
Tax Year 20X2
Taxable Income and Tax Liability

Particulars	Rs. ('000)
Profit as per Profit and Loss Account	**6,000**
Add:	
- Lease rental received and receivable	42,500
- Allowance for potential lease losses	2,000

Tax Liability

The company has a loss for the tax year. Under such a case, the provisions of section 113 of the Income Tax Ordinance, 2001 shall apply. The company shall be liable to pay 'turnover tax' @ 1.5% of its turnover.

- **N-1** Donations to approved institutions are not available as a deduction against the incomes. A rebate at the average rate of tax shall be allowed for the donations given to recognized institutions.
- **N-2** It is assumed that rental income is separate from lease rentals and relates to the installment loan income shown in the Profit and Loss Account. Thus, actual income shall be added to and recorded income shall be deducted from the total income.
- **N-3** It is assumed that accounting gain on cancellation of lease has already been included in the income shown in the Profit and Loss Account.
- **N-4** *Unabsorbed depreciation:*
  The income of the company is unable to absorb the depreciation to the extent of Rs. 23,750 (i.e., 19,750 + 4,000). This amount shall be carried forward to next tax years for absorption.

QUESTION – 41.17

Following is the data pertaining to ABC Leasing Company Limited, listed on all stock exchanges in Pakistan. You are required to compute the taxable income and tax payable by the company for the tax year 20X1.

Rupees ('000)

Particulars	Amount (Rs. '000)
Profit before taxation	18,740
Finance income	4,554
Tax depreciation on own used assets	450
Accounting depreciation on own used assets	425
Lease rentals	83,730
Provision for gratuity	387
Gratuity paid	163
Lease rentals paid	165
Financial charges on lease	45
Tax depreciation on lease assets	16,440
Unabsorbed tax depreciation (tax losses)	15,560
Losses on the sale of leased assets	9,336

ANSWER

M/s. ABC Leasing Company Limited

Resident Public Company

Tax Year 20X1

Taxable Income and Tax Liability

Particulars	Amount (Rs. '000)
Profit before taxation	18,740
Add: Provision for gratuity	387
Accounting depreciation	425
Financial charges of leases	45
Lease rentals	83,730
Total	103,327
Less: Finance income	45,654
Lease rentals	105
Gratuity paid	163
Tax depreciation on assets under own use	450
Total	46,372
Income before charging tax depreciation	56,955
Tax depreciation of leased assets	(66,140)
Loss on sale of leased assets on maturity	(9,336)
Total Loss	(18,521)
Loss brought forward from previous year (unabsorbed depreciation)	(15,550)
Loss to be carried forward (unabsorbed depreciation)	(34,071)

Tax Liability

The company has no taxable income for the year, so there will be no tax liability for the current tax year. Under this case, the provisions of *turnover tax* under section 113 of the Income Tax Ordinance, 2001 shall apply.

QUESTION – 41.18

The Trading and Profit and Loss Account of **M/s Samdani (Pvt.) Limited** for the year ended on **30th June 20X1** is as under:

Particulars	Amount (Rs.)
Sales	3,300,000
Less: Cost of Sales	2,571,000
Gross Profit	729,000

Expenses

Particulars	Amount (Rs.)
Salaries	180,000
Office rent	45,000
Postage, telegram & telephone	41,500
Traveling & conveyance	38,500
Packing & forwarding	56,000
Entertainment	30,000

ANSWER

M/s. Samdani (Private) Limited

Resident Private Company

Tax Year 20X1

Taxable Income and Tax Liability

Particulars	Amount (Rs.)
Net Profit as per Profit and Loss A/c	114,000
Add: Inadmissible expenses	
- Accounting depreciation	52,000

Particulars	Amount (Rs.)
- Income tax for last year	60,000
- Doubtful debts	8,000
- Provision for taxation	80,000
- Un-vouched and un-detailed expenses	3,500
- Donation to unapproved institution	2,500
Total Additions	206,000
Gross Income	320,000
Less: Statutory depreciation	(66,000)
Taxable Income	254,000

TAX LIABILITY

Tax Computation	Amount (Rs.)
Tax Liability for the Tax Year (Rs. 254,000 × 29%)	**73,660**

Notes:

- **N-1:** Rs. 9,000 of bad debts recovered during the year has already been credited to the profit and loss account through a credit adjustment in the bad debts reserve. Thus, no special treatment is needed.
- **N-2:** It is presumed that bad debts are properly allowed by the Income Tax Department.

N-3: Alternate Corporate Tax is lesser than the Corporate Tax; hence, tax liability of the CHAPTER - 51

QUESTIONS & ANSWERS

MULTIPLE CHOICE QUESTIONS

QUESTION – 42.1

1. **'Employment' under section 2 of Income Tax Ordinance 2001 includes:**
   - (a) Directorship or an office of management in a company
   - (b) A position entitling the holder to a fixed or ascertainable remuneration
   - (c) Holding or acting in a public office
   - (d) **All of the above**
2. **Under Section 13 of the Income Tax Ordinance 2001 if a loan is given to an employee by the employer without charging profit/interest, it attracts benchmark interest/profit rate of:**

- (a) 6%
- (b) 8%
- (c) 14%
- (d) 10%

3. **Quarterly advance income tax is payable by an individual taxpayer whose last assessed income exceeds:**
   - (a) Rs. 50,000
   - (b) Rs. 400,000
   - (c) Rs. 500,000
   - (d) Rs. 1,000,000
4. **Keeping the books of account is mandatory for taxpayers under Income Tax Ordinance, 2001, where income from business/profession exceeds:**
   - (a) Rs. 50,000
   - (b) Rs. 100,000
   - (c) Rs. 150,000
   - (d) Rs. 500,000
5. **Profit earned on investments in National Savings Scheme is required to be included in the taxable income, if these investments are made after:**
   - (a) 1st July, 2001
   - (b) 1st July, 2002
   - (c) 1st July, 2003
   - (d) None of the above
6. **Withholding tax is deducted at the time of:**
   - (a) Recording supplier's invoice
   - (b) Making a Purchase
   - (c) Making Payment
   - (d) Rendering the service
7. **Monthly sales tax return is to be filed by:**
   - (a) End of following month

- company shall be the Corporate Tax.

QUESTION – 42.2

(a) Rate of amortization of pre-commencement expenditure is:

- (i) 20%
- (ii) 25%
- (iii) 10%
- (iv) 15%

(b) The amount of un-explained income and asset is added to the person's income:

- (i) in the tax year it was discovered

- (ii) in the tax year it was received
- (iii) in the tax year it was accrued
- (iv) in the tax year to which it relates

(c) The cost for depreciation of the passenger transport vehicle not plying for hire shall not exceed:

- (i) Rs. 0.60 m
- (ii) Rs. 0.75 m
- (iii) Rs. 7.50 m
- (iv) None of the above

(d) Depreciation loss can be carried forward to:

- (i) 6 tax years
- (ii) 8 tax years
- (iii) 10 tax years
- (iv) Indefinite period.

(e) For the current tax year "Benchmark Rate" means:

- (i) 6%

QUESTION – 42.3

(a) Which of the following does not appear to be a "company" as defined in the Income Tax Ordinance, 2001?

- (i) Army Welfare Trust
- (ii) Government of Punjab
- (iii) Muslim Co-operative Society
- (iv) IBM Ltd., USA

(b) Monthly sales tax return has to be filed with:

- (i) Sales Tax Department
- (ii) Federal Board of Revenue
- (iii) Electronically on a computer-based system specified by the Board
- (iv) None of the above

QUESTION – 42.3

(c) Which of the following is not an allowable expense under Section 21?

- (i) Litigation expenses incurred in order to defend an existing title to the business asset

- (ii) Litigation expenses incurred for the purpose of amalgamation of a taxpayer company
- (iii) Legal expenses for making agreements, various deeds, etc.
- (iv) None of the above

(d) Currently applicable Income Tax Rules are effective from:

- (i) 1922
- (ii) 1982
- (iii) 2001
- (iv) 2002

(e) A carried forward loss from "income from business" may be set off against:

- (i) Income from any source
- (ii) Income from any non-speculative business
- (iii) Income from the same business
- (iv) All of the above

(f) A non-resident company lets out a building along with plant and machinery. Its income is chargeable as:

- (i) Income from property
- (ii) Income from business
- (iii) Capital gain
- (iv) Income from other sources

(g) The rate of default surcharge payable for default in payment of Federal Excise Duty is:

- (i) 1½ percent per month
- (ii) 4% per month
- (iii) 5% per month
- (iv) Twelve percent per annum

(h) Under the Customs Act, the amount repaid as drawback is equal to:

- (i) Whole of customs duties paid
- (ii) 7/8 of customs duties paid
- (iii) 1/2 of customs duties paid
- (iv) 3/4 of customs duties paid

SOLUTION

(a) (b) (c) (d) (e) (f) (g) (h)

(iv) (iii) (iv) (iv) (iii) (iv) (iv) (ii)

(a) If IBM Ltd., U.S.A. is conducting operations in Pakistan, it will be treated as a company for tax purposes.

QUESTION – 42.4

Choose the correct answer from the following:

(a) The Income Tax Ordinance, 2001 contains:

- (i) 13 chapters and 14 schedules
- (ii) 16 chapters and 8 schedules
- (iii) 18 chapters and 8 schedules
- (iv) 12 chapters and 7 schedules

(b) Sales tax is a kind of:

- (i) Capital Value tax
- (ii) Presumptive Tax
- (iii) Value Added Tax
- (iv) Withholding Tax

(c) Income of an Association of Persons (AOP) is taxable at the rates applicable to any of the following:

- (i) Registered firm
- (ii) Company
- (iii) Association of Persons
- (iv) None of the above

(d) Federal Excise Duty is charged on the basis of:

- (i) Ad valorem
- (ii) Retail price
- (iii) Both of the above
- (iv) None of the above

(e) The methods for determination of the custom value of goods are described under:

- (i) u/s 24

- (ii) u/s 25
- (iii) u/s 26
- (iv) u/s 27

(f) The following percentage of total income of companies is allowed as donations to approved charitable institutions u/s 61:

- (i) 10%
- (ii) 15%
- (iii) 20%
- (iv) 30%

(g) Return of income u/s 114 shall be furnished by companies with a tax year ending between 1st January to 30th June, by any of the following dates:

- (i) 1st day of July
- (ii) 1st day of January
- (iii) 30th day of September

QUESTION – 42.5

Choose the correct answer from the following:

(a) Personal legal expenses incurred by an individual taxpayer are entitled for:

- (i) Rebate at an average rate of tax
- (ii) Deduction from income
- (iii) Deduction from tax
- (iv) None of the above

(b) On application of a taxpayer, extension in filing of return can be granted up to any duration by:

- (i) Deputy Commissioner Inland Revenue with the approval of Inspecting Additional Commissioner Inland Revenue
- (ii) Additional Commissioner Inland Revenue with the approval of Commissioner Inland Revenue
- (iii) Commissioner Inland Revenue with the approval of FBR
- (iv) None of the above

(c) Under the Sales Tax Act, 1990, an appeal filed before the Appellate Tribunal against the order of the Commissioner (Appeals) by a company should be accompanied with a fee of Rupees:

- (i) 1,000

- (ii) 5,000
- (iii) 10,000
- (iv) 20,000

(d) Under the provisions of the Sales Tax Act, 1990, a registered person can reclaim input tax for the following taxes paid on purchases:

QUESTION – 42.6

Choose the correct answer from the following options:

(a) An Association of Persons is considered a resident in Pakistan for the relevant tax year if:

- (i) Members of the association live in Pakistan
- (ii) Members partly control the management while residing in Pakistan
- (iii) Any one member lives in Pakistan
- (iv) None of the above

(b) Medical expenses incurred by a resident individual taxpayer are exempt when:

- (i) These pertain to out-patient treatment only
- (ii) These are declared in the return of income
- (iii) Receipts of such expenses bearing NTN and complete address of medical

QUESTION – 42.6

Choose the correct answer from the following options:

(a) Discharge of tax liability under the Final Tax Regime is complete when:

- (i) Return of income is filed under section 114
- (ii) The Commissioner makes a best judgment assessment basis
- (iii) A statement under section 115 of the Income Tax Ordinance 2001 is filed.

(b) Business income of a minor child is assessed as his income when:

- (i) Such income is derived from a business acquired through inheritance
- (ii) Father of the minor is a partner in business
- (iii) Mother of the minor is a partner in business
- (iv) None of the above.

(c) A salaried person can claim a deductible allowance on annual education expenses per child:

- (i) Upto 5% of any amount of education expense
- (ii) Upto 5% of salary income
- (iii) Upto Rs. 30,000/- per annum per child
- (iv) None of the above.

(d) First appeal against the order of the Commissioner of Inland Revenue or a taxation officer is preferred within:

- (i) 30 days of the date of service of the notice of demand
- (ii) 60 days of the date of the service of the notice of demand
- (iii) 90 days of the date of the service of the notice of demand.

(e) Under the Sales Tax Act, 1990, the supply of goods shall be charged to tax at the rate of zero percent when:

- (i) Goods are exported or deemed to have been exported out of Pakistan
- (ii) Goods are exported with the intention for re-import into Pakistan
- (iii) Goods are delivered from the "Export Processing Zone"
- (iv) None of the above.

(f) Under the Sales Tax Act, 1990, a sales tax invoice is issued at the time when:

- (i) Goods are received and accepted by the buyer
- (ii) Goods reach the godown/destination of the buyer
- (iii) Goods are dispatched by the seller
- (iv) None of the above.

QUESTION – 42.7

Select the correct answer from the following:

(a) Deduction on account of repairs of a rented property, wherever admissible, is allowed:

- (i) On an actual basis
- (ii) Equal to 1/5th of the rent chargeable to tax
- (iii) Equal to 1/10th of the rent chargeable to tax
- (iv) None of the above.

(b) Co-owners of a property:

- (i) Can never be assessed as an Association of Persons

- (ii) Are always assessed as an Association of Persons
- (iii) Can be assessed as an Association of Persons.

(c) Admissible business expenses are those:

- (i) As permitted in the income tax law
- (ii) As reported in the annual accounts of the company
- (iii) As admitted by the assessing authority.

(d) Speculation losses:

- (i) Are adjusted against income from other sources
- (ii) Can be carried forward up to six years for adjustment against income from other sources
- (iii) Are adjusted against other speculation gains of the taxpayer
- (iv) None of the above.

(e) Deduction of tax at source is mandatory for:

- (i) Every person while making payment
- (ii) A prescribed person
- (iii) Companies and registered firms only while making payment
- (iv) None of the above.

(f) Dividend income is assessed as:

- (i) Separate block of income
- (ii) Part of total income
- (iii) Business income.

(g) Under the Sales Tax Law, output tax means:

- (i) Sales tax on supplies made by a registered person
- (ii) Sales tax on goods exported
- (iii) Sales on supplies after reducing by input tax
- (iv) None of the above.

ICMAP November, 2000

QUESTION – 42.8

Select the correct answer in each of the following:

(i) Foreign remittances are immune from scrutiny if:

- (a) the amount is remitted by a resident
- (b) such remittance is without banking channel
- (c) the amount is received by any person
- (d) none of the above.

(ii) Income from revocable transfer of assets:

- (a) taxable in the hands of the transferee
- (b) accrues to a dependent person
- (c) chargeability of tax does not arise
- (d) none of the above.

(iii) Advance rent un-adjustable is chargeable as:

- (a) rental income of the tenant
- (b) tax @10% is levied on such advance
- (c) where the owner does not derive benefit, not taxable
- (d) none of the above.

(iv) Gift shall be as per law:

- (a) where cash paid supported by gift declaration
- (b) where a banker issues a certificate thereof
- (c) where cheque is issued and collected by a bank
- (d) none of the above.

(v) Unexplained investment deemed income:

- (a) tax payer declares property in the name of a dependent
- (b) car prize in a bank draw
- (c) any expenditure incurred by the taxpayer
- (d) none of the above.

(vi) Dividend includes:

- (a) a reward for hard work
- (b) a payment for the investments made
- (c) an advance/loan to a shareholder
- (d) none of the above.

ICMAP November, 2000

QUESTION – 42.9

Select the correct answer in each of the following:

(i) Agriculture income includes:

- (a) Rent on urban property
- (b) Income from trading of wheat flour
- (c) Income from growing tea
- (d) None of the above.

(ii) Average rate of tax is:

- (a) Income tax payable by taxpayer
- (b) Income tax payable on dividend
- (c) Surcharge payable
- (d) Rate of tax based on tax and taxable income.

(iii) Non-resident company is a company:

- (a) Controlled/managed from outside Pakistan
- (b) Controlled/managed in Pakistan in that year
- (c) Quoted on stock exchange
- (d) None of the above.

ICMAP May, 2000

QUESTION – 42.9

Select the correct answer in each of the following:

(iv) Perquisites include:

- (a) Bonus paid
- (b) Overtime paid
- (c) Qualification allowance
- (d) Rent-free accommodation.

(v) Unpaid trading liability is:

- (a) An expense in the 3rd year

- (b) An income in the 3rd year
- (c) Taxable income in the 4th year
- (d) None of the above.

(vi) Property income includes:

- (a) Profit on sale of property
- (b) Commission earned on sale/purchase of property
- (c) Rent chargeable to tax of property let out
- (d) Annual letting value of property self-occupied.

(vii) Loss suffered by an AOP remaining unabsorbed in a year is:

- (a) Carried forward by the firm
- (b) Set off/carried forward by the partners
- (c) Lapsed in the year of incurrence
- (d) None of the above.

(viii) Withholding tax is:

- (a) Tax paid with the return
- (b) Tax deducted at source from the payments made
- (c) Wealth Tax

ICMAP November, 1999

Solution:
(i) (c), (ii) (d), (iii) (a), (iv) (d), (v) (b), (vi) (c), (vii) (c), (viii) (b)