

***FIN623- Taxation Management
Composed By Faheem Saqib***

***A Mega File of Final term Solved Subjective
2011 - 2010
For more Help Rep At***

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QUESTIONS FROM 2011 PRESENT PAPAERS

1. Under what conditions a commissioner of Income Tax may ask for the filing of returns by notice? (5 Marks)

1. Where the return of income furnished is not complete, the Commissioner shall issue a notice to the taxpayer informing him of the deficiencies (other than incorrect amount of tax payable on taxable income, as specified in the return, or short payment of tax payable) and directing him to provide such information, particulars, statement or documents by such date specified in the notice.
2. Where a taxpayer fails to fully comply by the due date, with the requirements, of the notice under sub-section (3), the return furnished shall be treated as an invalid return as if it had not been furnished.

2. (5 Marks)

- a. Will Tax depreciation be allowed on a full year basis of a company engaged in a seasonal industry like sugar production
- b. Are Expenses incurred prior to incorporation of a company tax deductible?

3. Draw a chart for the understanding of taxation structure in Pakistan (5 Marks)?

Taxation Structure of Pakistan:

☐ **Federal Taxes:**

Federal taxes are the taxes which can be levied by the federal government and include among others the followings:

- ☐ Income tax
- ☐ Corporate tax
- ☐ Customs duties/Tariffs
- ☐ Sales tax
- ☐ **Provincial Taxes:**
- ☐ Stamps Duty
- ☐ Registration Tax
- ☐ Motor vehicle tax

4. In what ways a return of Income is filed? (3 Marks)

- (a)** Prescribed form along with required documents.
 - (b)** Fully state all relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer; and
 - (c)** Shall be signed by the person, being an individual, or the person's representative where section 172 applies.
- ☐ A return of income can also be filed electronically. (e- Filing of return)

5. What is the tax treatment of Speculation business as per section 19 of Income Tax Ordinance 2001? (3 Marks)

Treatment of Speculation Business (Sec 19):

- To be treated as distinct and separate from other business carried on by the person.
- Expenditures/deductions incurred on account of speculation business shall be apportioned in light of section 67.
- Profit and gains arising out of speculation business shall be included in the person's income chargeable under the head "Income from Business".

6. What does the word Market Value means as per rule 11 sub rules 3 of Income Tax Rule 2002? (3 Marks)

The word "Market Value" [sub-rule (3) of Rule 11] shall be:

a) Where agricultural produce is ordinarily sold in the market in its raw state or after application of any process ordinarily employed by a cultivator or receiver of agricultural income as rent-in-kind to render it fit to be taken to market, the market price for the produce at the time it is used as raw material in the person's business;

OR

b) In any other case, the sum of the following amounts, namely:

- the expenses of cultivation; and
- The land revenue rent paid for the area in which the produce is grown.

2. 1. Define Depreciable asset?

Depreciable asset means a tangible movable or immovable property (not unimproved land) or structural improvement to immovable property owned by a person that has:

- Normal useful life of one year or more.
- Likely to lose value due to normal wear and tear.
- Used wholly in deriving income from business chargeable to tax.

2. Define employee share scheme under section 14 and also tell under what condition right to acquire shares are chargeable to tax under section 14 of IT ordinance 2001.

Employee Share Schemes sec 14:

☐ The value of a right or option to acquire share under this scheme shall be not chargeable to tax.

☐ Where shares issued are subject to a restriction on transfer of the shares

a) No amount shall be chargeable to tax under the head Salary until the earlier of

I. the time the employee has a free right to transfer the shares; or

II. The time the employee disposes of the shares &

b) The amount chargeable to tax to the employee shall be fair market value of shares at the time employee has free right to transfer as reduced by any amount given as consideration for the grant of a right or option to acquire the shares.

□ Where in a tax year an employee disposes of a right or option to acquire shares under an employee share scheme, the amount chargeable to tax shall include the amount of any gain made on the disposal computed accordance with the following formula:

$$A-B$$

□ Where A is the consideration received from the disposal of the right or option.

□ B is the employee's cost in respect of the right or option.

3. Numerical Question from income from property section

4. Mr. Hassan is the employee of PAK AIR FORCE and receives allowance of Rs. 100000. What is the tax treatment of this allowance under IT ordinance 2001.

Sol). Allowance = Rs. 100,000
Tax rate = 2.5%
Tax amount = 100,000 x 2.5% = Rs. 2,500

Any amount received as flying allowance by:

- a) pilots, flight engineers and navigators of Pakistan Armed forces, Pakistani Airline or Civil Aviation Authority; and
- b) Junior commissioned officers of Pakistan Armed Forces.

Shall be taxed @ **2.5%** as a separate block of income

5. Give five examples of disposal.

Some Examples of Disposal:

- i Transfer of capital asset by a subsidiary company to a parent company or vice versa
- ii Any transfer, in a scheme of amalgamation, of a capital asset by the amalgamating company to the amalgamated company.
- iii Transfer of share by a share holder in a scheme of amalgamation of companies.
- iv Any transfer of a capital asset by a wholly-owned subsidiary company to its Pakistani holding company.

- v Any transfer of capital asset being any work of art, archaeological, scientific nature or art collection, book, manuscript, drawing, painting, photograph or paint, to the Government or a University or the National Museums, National Art Gallery, National Archives or any other such public museum or institution.

6. Question of lesson 45 topic capital value of engines of 800 cc to 1600cc. table is given by the teacher. Just mention their relative tax amounts against each capacity of engine.
7. Another Numerical question was given from income from property Section

8. Un explained investment under section 111

Unexplained Investments

Sec. 111 unexplained income or assets

Where

- ☐ A person has made an investment,
- ☐ Any amount credited to person's books of account
- ☐ A person has incurred expenditure
- ☐ A person has made an investment,
- ☐ Any amount credited to person's books of account
- ☐ A person has incurred expenditure.

Immune (Exempted) Investments/Income

- ☐ Private foreign Currency Accounts
- ☐ Three years Foreign Currency Bearer Certificates
- ☐ Rupees withdrawn or assets created out of:
 - ☐ Withdrawal from US Dollar Bearer Certificates,
 - ☐ Withdrawal from F.C. Accounts
- ☐ Encashment of foreign exchange bearer certificates

Under what conditions a commissioner of Income Tax may ask for the filing of returns by notice? (5 Marks)

Approved Gratuity Fund

- Commissioner of Income Tax may accord approval to any gratuity fund.

Condition for Approval

- Fund established under an irrevocable trust and purposes of gratuity fulfilled.

2. (5 Marks)

- a. Will Tax depreciation be allowed on a full year basis of a company engaged in a seasonal industry like sugar production
- b. Are Expenses incurred prior to incorporation of a company tax deductible?

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- b) In any other case, the sum of the following amounts, namely:
- the expenses of cultivation; and
 - The land revenue rent paid for the area in which the produce is grown.

Another paper.....

.57 Write basic contents of Income Tax Ordinance 2001.

Basic Features of Income Tax Ordinance 2001

Scheme of the Ordinance is given below:

- ☐ There are thirteen chapters
- ☐ Chapters are divided into:
- ☐ Parts &
- ☐ Divisions
- ☐ There are 240 Sections
- ☐ This ordinance comprises of seven Schedules
- ☐ Schedules are integral part of the Ordinance.

Q.58 What is the tax treatment of Speculation Business as per section 19 of Income tax ordinance 2001?

Speculation Business shall be charged under the head income from business (Separate Treatment)

Treatment of Speculation Business (Sec 19):

- To be treated as distinct and separate from other business carried on by the person.
- Expenditures/deductions incurred on account of speculation business shall be apportioned in light of section 67.
- Profit and gains arising out of speculation business shall be included in the person's income chargeable under the head "Income from Business".

Q.59 Who is liable to pay Capital Value Tax on capital value of certain assets?

Levy of tax on Capital Value of certain assets:

Capital value tax shall be payable by

- **Individual**
- **Association of persons, firm or**
- **A company which acquires by:**
- **Purchase**
- **Gift**
- **Exchange**
- **Power of attorney**
- **Surrender of rights**
- **Relinquishment of rights by the owner**

Q.60 Complete the table by filling the 2nd column with the respective rates as per Income Tax Ordinance 2001 for the tax year 2010.

Depreciation Under Section 22

1. Building (all types) (.....?) 10
2. Furniture and machinery and plant, Motor Vehicles, Ships, Technical or Professional

Books. (.....?) 15

3. Computer hardware including printer, monitor and allied items, aircrafts and aero engines. (.....?) 30

IV. In case of mineral oil concerns the income of which is liable to be computed in accordance with the rules of Part 1 of the fifth Schedule.

a) Below ground installations

b) Offshore platform and production installations.

100%

20%

Q.61 Explain different types of taxes. (Any five)

Type of Taxes:

Different types of taxes are explained below:

☐ **Direct taxes**

Direct taxes are the taxes where incidence of taxation is on the person on whom levied. For example income tax

☐ **Indirect Taxes**

Indirect taxes are the taxes where incidence of tax can be shifted by the person on whom levied to other persons. For example sale tax

☐ **Proportional Taxes**

These taxes are levied with the same percentage. For example, sales tax is levied at the rate of 15%.

☐ **Progressive Taxes**

This is based on the "capacity to pay" principle of taxation. In this type, the rate of tax increase as the income increase.

☐ **Regressive taxes**

A Regressive tax is the opposite of a Progressive Tax. It is based on the benefits received principle.

A type of tax that takes a larger percentage from the income of low-income people than the income of high-income people is called regressive tax.

☐ **Value Added Taxes.**

This type of tax is levied at each stage of value addition. For example sales tax

Q.62 What do you mean by 'Intangibles' and 'Cost of Intangibles' as per defined in section 24 and how the amortization of cost of intangibles compute?

Intangibles (Sec. 24):

A person shall be allowed an amortization deduction in a tax year for the cost of intangibles;

☐ The intangibles or wholly or partially used by the person in the tax year in deriving income from business chargeable to tax and

☐ The intangibles have a normal useful life exceeding one year.

Amortization deduction allowed as under

A/B

Where

A is the cost of intangible; and

B is normal useful life of intangible

Q.63 What is meant by Pension? What is the tax treatment of Pension under clause 08 of Part 1 of second schedule? (Marks=1+4)

A pension or annuity shall be Pakistan-source income if it is paid by a resident or borne by a permanent establishment in Pakistan of a non-resident person.

Pension

Pension is the amount received on account of past services/employment

☐ **Tax treatment of Pension**

☐ **Pension Totally Exempt**

Clauses (8) Part I of Second Schedule.

Any pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer).

Provided that where the person receives more than one such pension, the exemption applies only to the

higher of the pensions received.

Q.64 What are the Penalties in case of failure to maintain record and non compliance with the notice under section 185 and 186 of Income Tax Ordinance 2001 respectively?

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Penalty for failure to maintain records Sec. 185

a. In case of **first failure, two thousand rupees**

b. In the case of **second failure, five thousand rupees**

c. In the case of **third and subsequent failure, ten thousand rupees**

Penalty for non-compliance with notice: Sec 186

a. In case of **first failure, two thousand rupees**

b. In the case of **second failure, five thousand rupees**

c. In the case of **third and subsequent failure, ten thousand rupees**

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Ans:

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2. **Furniture and machinery and plant, Motor Vehicles, Ships, Technical or Professional Books. (.....?%)**
3. **Computer hardware including printer, monitor and allied items, aircrafts and aero engines. (.....?%)**

Ans:

1. . Building (all types) **(10%)**
2. Furniture and machinery and plant, Motor Vehicles, Ships, Technical or Professional Books. **(15 %)**
3. Computer hardware including printer, monitor and allied items, aircrafts and aero engines. **(30 %)**

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Ans:

Type of Taxes:

Different types of taxes are explained below:

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☐ The intangibles have a normal useful life exceeding one year

Amortization deduction allowed as under

A/B

Where

A is the cost of intangible; and

B is normal useful life of intangible

Deductions---Special Provisions

An intangible that has:

a) Normal useful life of more than 10 years; or

b) Does not have an ascertainable useful life, shall be treated as if it had a normal useful life of 10

years

Q.63 What is meant by Pension? What is the tax treatment of Pension under clause 08 of Part 1 of second schedule? (Marks=1+4)

Pension

Pension is the amount received on account of past services/employment

- ☐ **Tax treatment of Pension**
- ☐ **Pension Totally Exempt**

If received by a citizen of Pakistan under clause (8) part I of second Schedule. Provided

- ☐ **As stated above the recipient should be citizen of Pakistan**
- ☐ The recipient must not be working for the same employer for any remuneration.
- ☐ In case a person receives pension from more than one employer, the exemption shall be available to the higher of the pensions received by him.
- ☐ **Pension Received by Ex-Government Employees and Members of Armed Forces.**
- ☐ Any pension received by employees of Federal Govt. /Provincial Govts. Members of Armed Forces of Pakistan or granted under the rules to their families is exempt from tax under clause (9), part I of second Schedule

Clauses (8), (9), (12), (16), (17) Part I of second schedule :

Clause (8)

Any pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer).
Provided that where the person receives more than one such pension, the exemption applies only to the higher of the pensions received.