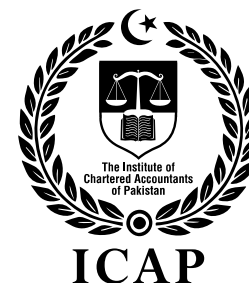


Certificate in Accounting and Finance Stage Examination

Taxation Principles and Compliance



Model paper

100 marks

Instructions to examinees:

- (i) Answer all **EIGHT** questions.
- (ii) The overall duration of the exam is 3 hours & 15 minutes, which includes the 15-minute reading time.
- (iii) Answer in **black** pen only.
- (iv) Answer Multiple-Choice Questions in the answer script only.
- (v) Tax rates are given on the last page.

SECTION A (Ranging from 60 to 70 marks)

QUESTION 1

Select the most appropriate answer from the options provided for each of the following Multiple-Choice Questions (MCQs).

- (i) Which of the following situations best demonstrates the use of taxation as a non-revenue objective in Pakistan?
 - (a) Levying tax on salary income to finance government operations
 - (b) Increasing customs duties on luxury imports to promote the local industry
 - (c) Taxing business income under the Income Tax Ordinance, 2001
 - (d) Charging capital value tax on the transfer of immovable property

(01 mark)
- (ii) Fahad, a resident filer, owns the following properties on 30 June 20X6:

	Fair market value (Rs.)
Self-occupied house	21,500,000
House given on rent	19,400,000
Agricultural land	16,800,000
Office building	14,600,000
Vacant commercial plot	22,300,000

What is the tax payable by Fahad on deemed income for the Tax Year 20X6?

- (a) Rs. 1,115,000
 - (b) Rs. 563,000
 - (c) Rs. 417,000
 - (d) Rs. 223,000

(02 marks)
- (iii) Delta Ltd., following the normal tax year, shifted to a special tax year ending on 30 September 2026. Accounts are prepared for the following periods:
 - 01.07.2025 – 30.06.2026
 - 01.07.2026 – 30.09.2026
 - 01.10.2026 – 30.09.2027

Which tax years apply to the above case?

 - (a) 2026, 2026, 2027
 - (b) 2026, 2027, 2027
 - (c) 2026, 2027, 2028
 - (d) 2025, 2026, 2027

(01 mark)
- (iv) A tax practitioner, due to a lack of technical expertise in international tax treaties, advises on a cross-border transaction without consulting experts. The advice leads to double taxation for the client. Which principle is most clearly breached?
 - (a) Integrity
 - (b) Professional competence and due care
 - (c) Professional behavior
 - (d) Objectivity

(01 mark)

- (v) Bilal, a resident individual, derived the following incomes during the tax year 20X6:
- Rental income of Rs. 4,800,000 from leasing out his newly established industrial property (building and plant & machinery) commencing on 1 July 20X6. Costs of building and plant & machinery are Rs. 60,000,000 and Rs. 30,000,000 respectively.
 - Dividend income of Rs. 1,000,000 from an unlisted company.
- Compute Bilal's taxable income under 'Income from Other Sources' for the tax year 20X6.
- (a) Loss of Rs. 12,075,000 (b) Loss of Rs. 11,075,000
(c) Profit of Rs. 3,840,000 (d) Profit of Rs. 4,840,000 **(02 marks)**
- (vi) Which of the following is a "person" but not a company under the Income Tax Ordinance, 2001?
- (a) Federal Government (b) Provincial Government
(c) Local Government (d) Non-profit Organisation **(01 mark)**
- (vii) A company operates three branches in different cities. Under the Sales Tax Act, 1990, which of the following is correct for sales tax registration?
- (a) Each branch must register separately
(b) Only the head office needs registration
(c) Registration is optional for branches
(d) Separate registration if sales exceed Rs. 10 million per branch **(01 mark)**
- (viii) Which of the following statements are correct regarding the destruction of goods returned by a buyer that are unfit for consumption?
- (I) Goods must be destroyed after obtaining permission from the Commissioner Inland Revenue having jurisdiction.
(II) The process must be supervised by an officer not below the rank of Assistant Commissioner Inland Revenue.
(III) Input tax credit on such goods remains admissible.
- (a) I and II are correct (b) II and III are correct
(c) I and III are correct (d) All are correct **(01 mark)**

QUESTION 2

- (a) Jaffar Associates (JA) is an association of persons with two partners, Manzoor and Adeeb, sharing profit and loss in the ratio of 1:3, respectively. The following information has been extracted from JA's records for the tax year 20X6:

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

Additional information:

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

Other information:

- Manzoor sold 5,000 shares of a listed company for Rs. 600 each on 30 September 20X5. He acquired these shares in July 20X2 for Rs. 500 each. Manzoor paid a brokerage fee of Rs. 2 per share to the brokerage house.
- Adeeb earned a gain of Rs. 300,000 from the sale of a painting to an art collector.

Required:

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

- (i) compute the total and taxable income of JA for the tax year 20X6 under the appropriate head of income.
- (ii) compute the total income, taxable income and tax liability of Manzoor and Adeeb for the tax year 20X6 under the appropriate head of income. **(12 marks)**

Notes:

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

- (b) Asjad joined Premiere Textiles Limited (PTL) on 1 July 20X5. He received the following salary from PTL during the year ended 30 June 20X6:

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

Additional information:

- (i) As per the terms of employment, Asjad received medical reimbursement of Rs. 800,000 from PTL.
- (ii) PTL also provided accommodation to Asjad by renting a property owned by him through a rental agreement. PTL paid a monthly rental of Rs. 200,000 to Asjad, while the fair market value of rent for a similar property was Rs. 250,000 per month.
- (iii) During the year, Asjad sold 100,000 shares of his ex-employer, Marvel Paints Limited (MPL), a listed company, at Rs. 100 per share (net of expenses). These shares were issued to him under an Employee Share Scheme in the tax year 20X2 at Rs. 25 per share. The market value of the shares on the issuance date was Rs. 40 per share.
- (iv) During the year, Asjad received Rs. 500,000 from an unapproved gratuity scheme of MPL.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the total and taxable income of Asjad under the appropriate head of income for the tax year 20X6. *(Show all relevant exemptions, exclusions, and disallowances)* **(07 marks)**

QUESTION 3

- (a) Safdar Malik, a Pakistani citizen, returned to Pakistan on 20 December 20X4, after residing in the UAE for seven years. He has remained in Pakistan since his return. On 28 August 20X5, he received consultancy income equivalent to Rs. 1,960,000 from a client based in the UAE. The payment was made directly into his Pakistani bank account. Assume that consultancy income is not subject to tax in the UAE.

Required:

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

- (b) Your firm is the auditor of a public interest entity, Jabbar Gas Supply Limited (JGSL). The management of JGSL has requested your firm to prepare current and deferred tax calculations for the purpose of determining its annual tax obligations.

Required:

In light of the Code of Ethics for Chartered Accountants, discuss whether your firm is permitted to perform the services requested by JGSL's management. **(04 marks)**

QUESTION 4

Rehan has various sources of income and has gathered the following information related to the tax year 20X6:

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

Required:

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

- (i) compute the total and taxable income of Rehan. *(Classification into heads of income is not required)*
(03 marks)
 - (ii) briefly explain your treatment of the losses in part (i), including their set-off and the carry-forward of any unutilised losses.
(06 marks)
- (Show all relevant exemptions, exclusions and disallowances)*

QUESTION 5

- (a) Under the provisions of the Income Tax Ordinance, 2001, identify the individuals required to file the return of income based on asset ownership, even if their income falls below the taxable threshold.
(04 marks)
- (b) Ghaffar Bux, responding to a notice from the Commissioner Inland Revenue (CIR), has preferred to settle his case by filing an offer of settlement before the Assessment Oversight Committee (AOC).

Required:

Under the provisions of the Income Tax Ordinance, 2001, explain Ghaffar Bux's position in each of the following independent situations, if AOC reaches a consensus to modify his offer:

- (i) Ghaffar Bux agrees with the AOC's decision.
- (ii) Ghaffar Bux disagrees with the AOC's decision.
(06 marks)

QUESTION 6

- (a) Ali Enterprise (AE), a registered person, sold taxable goods worth Rs. 16 million to Bali Enterprise (BE) on 15 February 20X6.

Required:

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

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

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

Required:

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

SECTION B (Ranging from 30 to 40 marks)

QUESTION 7

Momin Maize Products (MMP), a sole proprietorship owned by Momin Khan, specializes in the production of food ingredients. The following information has been extracted from MMP's records for the year ended 30 June 20X6:

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

Additional information:

- (i) **Sales include:**
- an amount of Rs. 10,620,000, net of a 10% trade discount and inclusive of 18% sales tax, to a customer.
 - Rs. 1,925,000 received as compensation from an insurance company on 15 April 20X6, for severe damage to machinery imported from China on 1 April 20X6, costing Rs. 2,100,000. The machinery, deemed unfit for use, was later sold as scrap for Rs. 425,000 on 1 May 20X6. The loss of Rs. 1,675,000 from the sale of machinery and the cost of Rs. 42,000 incurred for lodging the insurance claim have been included under administrative and selling expenses.
- (ii) **Cost of sales includes:**
- Rs. 8,000,000 paid for a used ingredient mixer machine imported from Malaysia. This includes import duty of Rs. 300,000 and advance income tax of Rs. 500,000 paid to the customs authorities at the import stage.
 - accounting depreciation of Rs. 18,000,000. The tax depreciation (excluding depreciation on imported machine) for the tax year amounted to Rs. 22,000,000.
- (iii) **Administrative and selling expenses include:**
- sales commission of Rs. 325,000 paid to the marketing manager via a bearer cheque for exceeding the sales target.
 - a security deposit of Rs. 460,000 paid to K-Electric for a new connection.
 - an insurance premium of Rs. 395,000 paid for the health insurance of Momin Khan.
- (iv) Financial charges include interest of Rs. 600,000 on a Rs. 5,000,000 bank loan obtained on 1 July 20X5, at an annual interest rate of 12%. Rs. 4,000,000 was used to purchase a plot of land in Karachi for leasing purposes, and Rs. 1,000,000 was used to buy a car for Momin Khan's wife.
- (v) Other income comprises of rental income of Rs. 450,000 and a non-adjustable deposit of Rs. 200,000 from the same plot of land mentioned in point (iv), which was leased to a tenant starting 1 September 20X5. MMP incurred Rs. 50,000 in expenses for land levelling, Rs. 20,000 for ground rent, and Rs. 25,000 for rent collection services. These expenses have been included under administrative and selling expenses.
- (vi) Brought forward minimum tax u/s 113 related to tax year 20X5 is Rs. 6,000,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the appropriate head of income, the total income, taxable income, and tax liability of MMP for the tax year 20X6. *(Show all relevant exemptions, exclusions, and disallowances)* **(19 marks)**

QUESTION 8

Bilal and Sons (BS) is registered under the Sales Tax Act, 1990, as a manufacturer and exporter. The accountant of BS has prepared the following computation of sales tax liability for February 20X6:

Description	Taxable Value (Rs.)	Sales Tax Rate	Sales Tax (Rs.)
Input tax			
Raw material purchased from registered suppliers	2,900,000	18%	522,000
Raw materials purchased from registered suppliers, against which a CREST discrepancy was identified	2,180,000	18%	392,400
Raw materials purchased from Salman Enterprises (SE) on 5 February 20X6 – Note 1	3,100,000	18%	558,000
Building material purchased from registered suppliers for its head office	2,800,000	18%	504,000
Taxable goods from unregistered suppliers	640,000	inadmissible	-
Machine purchased from a registered supplier for its production department	2,000,000	18%	360,000
			2,336,400
Output tax			
Taxable supplies to registered persons	1,185,000	18%	213,300
Taxable supplies to associate - net of 30% special discount	700,000	18%	126,000
Insurance claim for raw material destroyed – Note 2	1,068,000	-	-
Advance received for goods to be delivered to Hameed & Co in April 20X6	645,000	-	-
Supplies to an unregistered cottage industry	980,000	*22%	215,600
Export of goods	1,000,000	18%	180,000
Supply of goods to unregistered retailers operating in an air-conditioned shopping plaza	395,000	*22%	86,900
			821,800
Excess of input tax over output tax			(1,514,600)

**Inclusive of further tax*

Notes:

- On 10 February 20X6, BS discovered that the Commissioner of Inland Revenue had suspended SE's registration, effective 1 February 20X6.
- The insurance claim was settled after BS surrendered the right of disposal of the consignment to the insurance company.

Additional information (not included in the above calculation):

- Taxable supplies pledged with a bank were sold in an auction for Rs. 535,000 to settle a debt of Rs. 550,000 owed by BS. The selling price of these supplies in the market was Rs. 575,000.
- On 13 February 20X6, BS entered into an agreement with Roshan Enterprise (RE), a registered supplier, to purchase goods worth Rs. 635,000. The goods were made available by RE on 18 February 20X6. However, due to storage issues, BS collected the goods on 2 March 20X6.
- Goods valued at Rs. 425,000 were used by the CEO at his residence.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above figures appearing in the taxable value column and amounts provided in the additional information are exclusive of sales tax.

Sales tax is payable at the rate of 18%, unless specified otherwise.

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, prepare the revised computation of BS's sales tax liability, including the amount of input tax to be carried forward, if any, for the tax period February 20X6. **(16 marks)**

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001

Tax rates for non-salaried individuals and AOP

S. No.	Taxable income	Rate of tax
1.	Where taxable income does not exceed Rs. 600,000	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5.	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

Capital gains on disposal of securities

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

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

- the rate of 12.5% tax shall be charged on capital gain arising on disposal where the securities are acquired on or after the first day of July 2013, but on or before the 30th day of June 2022; and
- the rate of 0% tax shall be charged on capital gain arising on disposal where the securities are acquired before the first day of July 2013.

Rate of Dividend Tax

- (a) 7.5% in the case of dividends paid by Independent Power [Producers] where such dividend is a pass-through item under an Implementation Agreement, or Power Purchase Agreement, or Energy Purchase Agreement, and is required to be reimbursed by Central Power Purchasing (CPPA-G) or its predecessor or successor entity.
- (b) 15% in the case of mutual funds, Real Estate Investment Trusts, and cases other than those mentioned in clauses (a), (ba), (c), and (d)
- (ba) 25% and 15%, in case of mutual funds, contingent upon proportional income derived from average annual investments in debt securities and equities, respectively:

Provided that where the corporate entity is the recipient of the dividend, the component derived from the debt securities shall be taxed at the rate of twenty-nine percent.

- (c) 0% in case of dividend received by a REIT scheme from a Special Purpose Vehicle and 35% in case of dividend received by others from a Special Purpose Vehicle as defined under the Real Estate Investment Trust Regulations, 2015.
- (d) 25% in case of a person receiving a dividend from a company where no tax is payable by such company, due to the exemption of income or carry forward of business losses under Part VIII of Chapter III, or claim of tax credits under Part X of Chapter III.

Depreciation rates

1.	Building	10%
2.	Plant and machinery	15%

Initial allowance

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

Minimum tax under section 113

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