

# SKANS School of Accountancy Multan

Subject: Tax Practices

Topic: chapter 4

Total Marks: 30

Passing Marks: 15

**Q 1.** Kashmala is working as manager director in Uniliver Pakistan limited. On December 28, 2020 she has been appointed by government of Punjab in Canada on a project for two years. As per the terms of employment Ms Kashmala is allowed to join her duties in Canada with her spouse Mr. Kamal. Mr. Kamal also went to Canada on the same date but he came back to Pakistan at Karachi airport on June 28, 2021 but because Covid Issues he could not reach his home due to quarantine in airport premises. He reached his home on July 10, 2021.

State the residential status of both Mr. Kamal and his spouse for tax year 2021.

**Q 2:** (a) Nestle Pakistan is registered under companies' ordinance 1984 and is operating in Pakistan since 2001. During the tax year 2021 the whole management of the company was visited to USA for official deal for 3 months from April 1 to June 30. What is the residential status of Nestle Pakistan?

(b) Oppo mobiles company is registered in UK and have 9 directors. During the tax year 2021, 6 directors visited to Pakistan for business conference in Karachi. What is residential status of Oppo Mobiles Co.

**Q 3:** Write down the tax period of the following companies also mention whether this is normal tax year or special tax year.

Persons	Tax period	Tax year denoted by?
Fatima Sugar Mills		
ABX engage in rice exporting		
EFU life insurance		
Meezan Bank		
XYZ is engage in rice husking		
Mr. Ali is working as internal auditor in Fatima Sugar Mills		

1. What is procedure of changing the tax period from normal to special tax year by an individual person?
2. What is procedure of changing the tax period from normal to special tax year by a class of persons?
3. XYZ Co. applied to commissioner for change of its tax year from normal to special year ended on September 30. The last return submitted by XYZ was for tax year 2019.  
**Required:** State the three tax periods of XYZ Co.

**Q 4:** Discuss the treat of following deductible allowances as per the provision of income tax ordinance 2001.

1. Zakat
2. Profit on Debt

## Solution:

### Ans 1:

An individual shall be a resident individual for a tax year if the individual:

- is present in Pakistan for a period of, or periods amounting in aggregate to, 183 days or more in the tax year;
- is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year.

As the Kashmala is the employee of provincial government so she is resident person for the tax year 2022.

Mr. Kamal spent 184 days in Pakistan so he is resident person.

July 31. Aug 31 Sept. 30 Oct. 31 Nov. 30 Dec 28 June 3 total 184 days.

### Ans 2:

As per section 2(50) & 83 a company shall be a resident company in Pakistan if any of the following conditions are satisfied:

- it is incorporated or formed by or under any law in force in Pakistan
  - the control and management of its affairs is situated wholly in Pakistan at any time in the year; or
  - it's a Provincial Government or Local Government in Pakistan
- so Nestle Pakistan is formed as per companies ordinance 1984 so it is resident company.

Oppo mobile company does not meet any of the above conditions so Oppo is not a resident company.

### Ans 3(1):

Persons	Tax period	Tax year denoted by?
Fatima Sugar Mills	1 <sup>st</sup> Oct 2020-30 Sept 2021	TY 2022
ABX engage in rice exporting	1 <sup>st</sup> Jan 2020 – 31 Dec 2020	TY 2021
EFU life insurance	1 <sup>st</sup> Jan 2020 – 31 Dec 2020	TY 2021
Meezan Bank	1 <sup>st</sup> Jan 2020 – 31 Dec 2020	TY 2021
XYZ is engage in rice husking	1 <sup>st</sup> Sept 2020 – 31 Aug 2021	TY 2022
Mr. Ali is working as internal auditor in Fatima Sugar Mills	1 <sup>st</sup> July 2020-30 June 2021	TY 2021

### Ans. 3(2): Changes in the tax year by individual

If the individual wants to change his tax year he will apply to commissioner and if the group of companies wants to change the tax year they will apply to board

○ A person may apply to the Commissioner for change of tax year from normal tax year to special tax year or from special tax year to normal tax year and the same can be granted subject to any conditions that may be imposed by the Commissioner. The Commissioner may grant the permission to change from normal to special or special to normal tax year as the case may be, only if the person has shown the convincing need (Sec 74(2)). The Commissioner may grant open permission (without any conditions) or may attach some conditions while granting permission.

○ An order by Commissioner of change in tax year shall be passed after providing to the applicant an opportunity of being heard. If the Commissioner rejects the application, then the Commissioner will mention the reasons for rejection.

**Ans. 3(3): Changes in the tax year by class of persons**

The Board (FBR) may permit to a class of persons having a special tax year, through the official Gazette to use normal tax year and if a class of persons having a normal tax year may be permitted by the board to use a special tax year through official Gazette (Sec. 74(2A)).

**Ans. 3(4):**

Nature of Tax period	Tax period	Tax year denoted by?
Normal	1 <sup>st</sup> July 2018-30 June 2019	TY 2019
Transitional	1 <sup>st</sup> July 2019- 30 Sept 2019	TY 2020
Special	1 <sup>st</sup> Oct 2019- 30 Sept 2020	TY 2021

**Ans 4:**

#### **ZAKAT (Sec. 60)**

1. An amount of zakat paid under the Zakat and Ushr Ordinance 1980 (Sec. 60(1)). Zakat is admissible when:

- Deducted by financial institution on deposits.
- Deducted by companies on shareholdings at the time of payment of dividend and
- Zakat deposited by a person in Zakat Fund maintained by the Government under the Zakat and Ushr Ordinance.

2. The allowance on account of Zakat shall be deductible up to the amount of total income for the tax year. Any excess amount of deductible allowance shall not be refunded, carried forward or carried back. (Sec. 60(3)).

#### **Deductible Allowance for Profit on Debt (Sec 60C)**

Every individual shall be entitled to a deductible allowance for the amount of any profit or share in rent and share in appreciation for value of house paid by the individual in a tax year on a loan with following procedure:

The profit on debt is paid during the tax year.

The loan is obtained from:

- Scheduled bank
- Non-banking finance institution regulated by the SECP
- Government (Local, Provincial, Federal)
- A statutory body or
- A public company listed on a registered stock exchange in Pakistan

The loan is used for the construction of a new house or acquisition of house.

The amount of deductible allowance allowed shall not exceed 50% of taxable income or Rs. 2,000,000, means whichever is lower.

Any allowance or part of an allowance that is not able to be deducted for the tax year shall not be carried forward to a subsequent tax year.