CHAPTER 4
BASIC CONCEPTS OF INCOME TAX

Tax year [Sec. 74]

(1) Normal tax year

The tax year shall be a period of 12 months ending on June 30th (hereinafter referred to as 'normal tax year') and shall be denoted by the calendar year in which 30^{th} June falls.

Calendar year is a year which ends on December 31.

(2) Special tax year

Where a person is allowed, to use a 12 months' period different from normal tax year, such period shall be that person's tax year (hereinafter referred to as **'special tax year'**) and shall, be denoted by the calendar year relevant to normal tax year in which the closing date of the special tax year falls.

Persons	Accounting year	Type of Tax year	Tax year
Honda Atlas Cars	April 1, 2009 – March 31, 2010	Special	TY 2010
Mr. Ahsan	July 1, 2010 – June 30, 2011	Normal	TY 2011
GEF Firm	January 1, 2010 – December 31, 2010	Special	TY2011
ABC Company	October 1, 2009 – September 30, 2010	Special	TY 2011

(2A) The Board,-

(i) in the case of a class of persons having a special tax year may permit, through official Gazette, to use a normal tax year; and

(ii) in the case of a class of persons having a normal tax year may permit, through official Gazette, to use a special tax year.

Class of person	Special tax year
Companies manufacturing sugar	1st October to 30th September
All insurance and banking companies	1st January to 31st December

(3) A person may apply, in writing, to the Commissioner to allow him to use a 12 months' period, other than normal tax year, as special tax year and the Commissioner may allow him. The order will be passed by the Commissioner if the condition mentioned below (in sub-section (5)) is fulfilled.

(4) A person using a special tax year, may apply in writing, to the Commissioner to allow him to use normal tax year and the Commissioner may allow him. The order will be passed by the Commissioner if the condition mentioned below (in sub-section (5)) is fulfilled.

(5) The Commissioner shall grant the permission to change the tax year:

- from normal to special or
- special to normal

only if the person has shown a compelling need. The Commissioner may impose conditions while giving permission.

(6) An order by Commissioner of change in tax year shall be passed after providing to the applicant an opportunity of being heard. If the application is rejected the Commissioner shall mention in order the reasons for rejection.

(7) The Commissioner may by order, after providing an opportunity of being heard, withdraw the permission granted regarding change in tax year.

(8) An order of change in tax year [under sub-section (3) or (4)] shall take effect from 1st day of the special tax year or the normal tax year.

(9) Transitional tax year

Where the tax year of person changes, the period between:

- the end of the last tax year prior to change and
- the date on which the changed tax year commences

shall be treated as a separate tax year, to be known as the "transitional tax year".

(11) A person dissatisfied with any order of Commissioner (under sub-section (3), (4) or (7)) may file a review application to the Board. The decision by the Board shall be final.

Example
Mr. A is using normal tax year. He has obtained permission from the Commissioner to use a special tax year which will end on 31st November each year. His recent normal tax year has just ended on June 30th 2010. You are required to show his normal tax year, transitional tax year and special tax year.

Year	Normal tax year	Transitional tax year	Special tax year
Starting from	1st July 2009	1st July 2010	1st December 2010
Ending on	30th June 2010	31st November 2010	31st November 2011
Tax Year	TY 2010	Normal tax year related to 31st November 2010 is 2011. So transitional tax year is 2011	Normal tax year related to 31st November 2011 is 20 12. So Special tax year is 2012

Resident and non-resident persons [Sec. 81]

(1) A person shall be a resident person for a tax year if the person is –
  (a) a resident individual, resident company or resident association of persons for the year; or
  (b) the Federal Government.

(2) A person shall be a non-resident person for a tax year if the person is not a resident person for that year.

EXPLANATION:
Q. Why establishing the residential status of persons is important?
Ans. This is important in order to determine the scope of taxable income for :
- **Resident persons** Both Pakistan source income and foreign source income are taxable
- **Non-resident persons** Only Pakistan source income is taxable

Resident individual [Sec. 82]

An individual shall be a resident individual for a tax year if the individual –
(a) is present in Pakistan for a period of, or periods amounting in aggregate to, 183 days or more in the tax year;
(c) is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year.

Citizenship is not relevant for determining residential status.

Income Tax Rules 2002-Rule 14

a) A part of a day that an individual is present in Pakistan (including the day of arrival in, and the day of departure from, Pakistan) counts as a whole day of such presence;
b) The following days in which an individual is wholly or partly present in Pakistan count as a whole day of such presence, namely:-
   - a public holiday;
   - a day of leave, including sick leave;
   - a day that the individual's activity in Pakistan is interrupted because of a strike, lock-out or delay in receipt of supplies; or
   - a holiday spent by the individual in Pakistan before, during or after any activity in Pakistan; and
c) a day or part of a day where an individual is in Pakistan solely by reason of being in transit between two different places outside Pakistan does not count as a day present in Pakistan.

Resident company [Sec. 83]

A company shall be a resident company for a tax year if –
(a) it is incorporated or formed by or under any law in force in Pakistan;
(b) the control and management of the affairs of the company is situated wholly in Pakistan at any time in the year; or
(c) it is a Provincial Government or Local Government in Pakistan.

Resident association of persons [Sec. 84]

An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year.

Person [2(42), Sec. 80]

The following shall be treated as persons under Income Tax Ordinance, 2001, namely:

(a) An individual;

(b) A Company or an association of persons incorporated, formed or established in Pakistan or elsewhere;

(c) The Federal Government, a foreign government, a political sub division of a foreign government, or public international organization.

"Company" [2(12) and Sec. 80]

"Company" means the following:

(a) a company as defined in the Companies Act, 2017.

(b) a body corporate formed by or under any law in force in Pakistan;

(c) A Modaraba

(d) a body incorporated under the law of a country outside Pakistan relating to incorporation of companies;

(e) a co-operative society, a finance society or any other society;

(f) a non-profit organization

(g) a trust, an entity or a body of persons established by or under any law for the time being in force;

(h) a foreign association, whether incorporated or not, which the Board has declared to be a company for the purposes of ITO 2001;

(i) a Provincial Government;

(j) a Local Government in Pakistan; or

(k) a Small Company;

Trust [80(2)(d)]

Trust means an obligation attached to the ownership of property and arising out of the confidence given to and accepted by the owner, for the benefit of another, or of another and the owner, and includes a unit trust.

Unit trust [2(14)] and [80(2)(e)]

Unit trust means any trust under which beneficial interests are divided into units so that the rights of the beneficiaries to income/capital are determined by the number of units held.

Rate of Tax for Companies

(i) The rate of tax on the taxable income of a company shall be as defined in the following table:

Tax Year	Rate
2022	29%

(ii) where the taxpayer is a small company the rate of tax on the taxable income of a company shall be as defined in the following table:

Tax Year	Rate
2022	21%
2023 and onwards	20%

Small Company [2(59AB)]

"Small Company" means a company registered on or after the 1st day of July, 2005, under the Companies Act, 2017, which,-

(i) has paid up capital plus undistributed reserves not exceeding 50 million rupees;

(ii) has employees not exceeding 250 any time during the year

(iii) has annual turnover not exceeding 250 million rupees; and

Turnover means sales.

(iv) is not formed by the splitting up or the reconstitution of business already in existence; and

(v) is not a small and medium enterprise.

Association of Persons [2(6) & Sec. 80]

"Association of persons" includes the following

(a) A firm

(b) A Hindu Undivided Family

(c) Any Artificial Juridical Person

(d) Any body of persons formed under a foreign law. However a company is not included in association of person.

Firm [Sec. 80(2)(c)]

Firm means the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

"Member" Sec 2(32),

in relation to an association of persons, includes a partner in a firm;

Tax on taxable income [Sec. 4]

(1) Income tax shall be
- (a) imposed for each tax year,
- (b) charged at the rates specified in 1st Schedule,
- (c) charged on every person who has taxable income for the year.

(2) The income tax for a tax year shall be computed
- (a) by applying the rate of tax to the taxpayer's taxable income for the year, and
- (b) tax credits shall be subtracted from above figure.

Salary income	xxx
Business income	xxx
Income from property (if he opts)	xxx
Income from capital gains	xxx
Income from other sources	xxx
Total Income	xxx
Less: Zakat and other deductible allowances	(xxx)
Taxable income	xxx
Tax liability (Taxable income as calculated above x Rate of tax)	xxx
Less: Tax credits	(xxx)
Income tax payable to Government	xxx

(3) Order of Applying tax credits

Where a taxpayer is allowed more than one tax credit for a tax year, credits shall be applied in following order:
- (a) foreign tax credit (allowed under section 103); then
- (b) tax credit allowed on charitable donations, tax credit for investment in shares and insurance, tax credit on contribution to approved pension fund (u/s 61-63); and then
- (c) tax credit for quarterly advance tax paid (u/s 147) or tax deducted.

THE FIRST SCHEDULE

Division I

Rates of Tax for Individuals and Association of Persons

(1) Subject to clause (2), the rates of tax imposed on income of every individual and association of persons except a salaried individual shall be as set out in the following Table, namely:—

TABLE

S. No	Taxable Income	Rate of Tax
1.	Where taxable income does not exceed Rs. 400,000	0%
2.	Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 600,000	5% of the amount exceeding Rs. 400,000
3.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	Rs. 10,000 plus 10% of the amount exceeding Rs. 600,000
4.	Where taxable Income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 70,000 plus 15% of the amount exceeding Rs. 1,200,000
5	Where taxable Income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 250,000 plus 20% of the amount exceeding Rs. 2,400,000
6	Where taxable Income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 370,000 plus 25% of the amount exceeding Rs. 3,000,000
7.	Where taxable Income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 620,000 plus 30% of the amount exceeding Rs. 4,000,000
8.	Where taxable Income exceeds Rs. 6,000,000	Rs. 1,220,000 plus 35% of the amount exceeding Rs. 6,000,000

(2) Where the income of an individual chargeable under the head "'salary" exceeds seventy-five per cent of his taxable income, the rates of tax to be applied shall be as set out in the following Table, namely:—

S. No	Taxable Income	Rate of Tax
(1)	(2)	(3)
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	5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,800,000	Rs. 30,000 plus 10% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000	Rs. 90,000 plus 15% of the amount exceeding Rs. 1,800,000
5.	Where taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,500,000	Rs. 195,000 plus 17.5% of the amount exceeding Rs. 2,500,000
6.	Where taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000	Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000
7.	Where taxable income exceeds Rs. 5,000,000 but does not exceed Rs. 8,000,000	Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000
8.	Where taxable income exceeds Rs. 8,000,000 but does not exceed Rs. 12,000,000	Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000
9.	Where taxable income exceeds Rs. 12,000,000 but does not exceed Rs.30,000,000	Rs. 2,345,000 plus 27.5% of the Amount exceeding Rs. 12,000,000
10.	Where taxable income exceeds Rs. 30,000,000 but does not exceed Rs.50,000,000	Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000
11.	Where taxable income exceeds Rs. 50,000,000 but does not exceed Rs.75,000,000	Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000
12.	Where taxable income exceeds Rs.75,000,000	Rs. 21,420,000 plus 35% of the amount exceeding Rs. 75,000,000

Salaried Person

An individual whose income from salary exceeds 75% of taxable income in a tax year will be considered as a salaried person.

Taxable income [Sec. 9]

The taxable income of a person for a tax year shall be the total income (under clause (a) of section 10) for the year reduced (but not below zero) by the total of any "deductible allowances" of the person for the year.

Question	
Mr. Umer has disclosed the following data for TY 2019:	Rs.
Salary Income	250,000
Business Income	150,000
Zakat paid under Zakat and Ushr Ordinance	470,000
Calculate his taxable income?	
Answer	
Salary Income	250,000
Business Income	150,000
Total income	400,000
Less: Zakat	(470,000)
Taxable Income	-
Nothing will be carried forward. Refer [S.60 (3)]	

Total Income [Sec. 10]

The total income is sum of -

(a) Person's income under all heads of income for the year; and

(b) Person's income exempt from tax under any of the provisions of this Ordinance.

Heads of income [Sec. 11]

(1) For imposing tax and calculating total income, all income shall be classified under the following heads:

- a) Salary;
- b) Income from property
- c) Income from Business;
- d) Capital Gains; and
- e) Income from Other Sources.

(2) The income under a head of income for a tax year shall be the total chargeable amounts derived by the person under the head as reduced by the total deductions.

(3) Where total deduction allowed to a person for a tax year under a head of income exceed the total amounts chargeable to tax, the person shall be treated as sustaining a loss for that head.

(4) A loss for a head of income for a tax year shall be dealt with in accordance with Chapter 14.

(5) The income of a resident person under a head of income shall be computed by adding:

- Pakistan-source income and
- Foreign-source income.

(6) The income of a non-resident person under a head of income shall be computed by considering only amounts that are Pakistan-source income.

Residential status/Income	Pakistan Source income	Foreign source income
Resident	Taxable	Taxable
Non-resident	Taxable	Not taxable

DEDUCTIBLE ALLOWANCES

Zakat [Sec.60]

(1) A person shall be entitled to a deductible allowance for Zakat paid by the person in a tax year under the Zakat and Ushr Ordinance, 1980.

(3) An allowance for a tax year that is not fully deducted shall not be:

- refunded;
- carried forward to a subsequent tax year; or
- carried back to a preceding tax year.

Zakat paid to relatives will not be deducted because it is not considered as Zakat as per Zakat and Ushr Ordinance, 1980. If question is silent about Zakat, assume that Zakat is being paid under Zakat and Ushr Ordinance, 1980.

Workers' Welfare Fund [Sec.60A]

A person shall be entitled to a deductible allowance for the amount of any Workers' Welfare Fund paid by the person under Workers' Welfare Fund Ordinance or under any law relating to Workers' Welfare Fund enacted by provinces (after the 18th constitutional amendment Act, 2010):

No deductible allowance will be allowed for amount of WWF paid to Provinces by a trans-provincial establishment.

Workers' Participation Fund [Sec.60B]

A person shall be entitled to a deductible allowance for the amount of any Workers' Participation Fund paid by the person under Companies Profit (Workers' Participation) Act" or under any law relating to the Workers' Profit Participation Fund enacted by Provinces (after the 18th Constitutional amendment Act, 2010)

No deductible allowance will be allowed for amount of WPPF paid to Provinces by a trans-provincial establishment.

Calculate the tax liability in the questions given below assuming that all question relates to individual.

Question-1

Income from Business	400,000
Income from Salary	800,000
Income from other sources	500,000

Answer

Income from Business	400,000
Income from Salary	800,000
Income from other sources	500,000
Taxable Income	1,700,000
Tax Liability {70,000 + (15% x 500,000)} (Table 1)	145,000

Question-2

Income from Business	200,000
Income from Salary	100,000
Zakat	10,000

Answer

Income from Business	200,000
Income from Salary	100,000
Total Income	300,000
Less: Zakat	(10,000)
Taxable Income	290,000
Tax Liability (Table 1)	-

Question-3

Income from Business	300,000
Income from Salary	200,000
Income from other sources	100,000
Zakat	20,000

Answer

Income from Business	300,000
Income from Salary	200,000
Income from other sources	100,000
Total Income	600,000
Less: Zakat	(20,000)
Taxable Income	580,000
Tax Liability (5% x 180,000) (Table 1)	9,000

Question-4

Income from Capital Gain	350,000
Income from Business	200,000

Zakat	150,000
Answer	
Income from Capital Gain	350,000
Income from Business	200,000
Total Income	550,000
Less: Zakat	(150,000)
Taxable Income	400,000
Tax liability (Table 1)	-
Question-5	
Income from Business	300,000
Income from Salary	500,000
Zakat	20,000
Answer	
Income from Business	300,000
Income from Salary	500,000
Total Income	800,000
Less: Zakat	(20,000)
Taxable Income	780,000
Tax Liability {10,000 + (10% x 180,000)} (Table 1)	28,000
Question-6	
Income from Other Sources	200,000
Income from Salary	600,000
Zakat	50,000
Answer	
Income from Other Sources	200,000
Income from Salary	600,000
Total Income	800,000
Less: Zakat	(50,000)
Taxable Income	750,000
Tax Liability (5% x 150,000) (Table 2)	7,500
Question-7	
Income from Salary	5,000,000
Income from Business	1,000,000
Income from Capital Gain	600,000
Answer	
Income from Salary	5,000,000
Income from Business	1,000,000
Income from Capital Gain	600,000
Taxable Income	6,600,000
Tax Liability {670,000 + (22.5% x 1,600,000)} (Table 2)	1,030,000
Question-8	
Income from business	600,000
Income from Salary	900,000
Zakat	80,000
Answer	
Income from business	600,000
Income from Salary	900,000
Total Income	1,500,000
Less: Zakat	(80,000)

Taxable income	1,420,000
Tax Liability {70,000 + (15% x 220,000)} (Table 1)	103,000

Question-9

Income from Business	300,000
Income from Salary	3,000,000
Income from Other Sources	600,000
Zakat	150,000

Answer

Income from Business	300,000
Income from Salary	3,000,000
Income from Other Sources	600,000
Total Income	3,900,000
Less: Zakat	(150,000)
Taxable Income	3,750,000
Tax Liability {370,000 + (20% x 250,000)} (Table 2)	420,000

INDIVIDUALS

Principle of taxation of individuals [Sec. 86]
The taxable income of each individual shall be determined separately.

Deceased individuals [Sec. 87]

(1) The legal representative of a deceased individual shall be liable for –
   (a) any tax that the individual would have become liable if he had not died; and
   (b) any tax payable in respect of the income of the deceased's estate.

(2) The liability of a legal representative shall be limited to the extent of deceased's estate.

> Example
> Mr. Umer is appointed as a representative of his father who has passed away 2 months back. The value of assets left by father at time of his death amounted to Rs. 2 million however as per Commissioner income tax the tax payable by him was Rs. 3 million. How much amount Mr. Umer is required to pay?
> Answer
> The liability of Mr. Umer shall be limited to the extent of deceased's estate. Therefore he is only liable to pay Rs. 2 million.

(2A) The liability shall be the first charge on the deceased's estate.

> Example
> Mr. Umair is appointed as a representative of his deceased uncle. The value of assets left by his uncle at time of his death amounted to Rs. 5 million. As per Commissioner income tax the tax payable by him was Rs. 4 million. Further a bank loan of Rs. 2 million is also payable. How Mr. Umair should discharge the liabilities?
> Answer
> Firstly, he will make the payment of Rs. 4 million to Commissioner income tax as tax liability is the first charge on the deceased's estate. Remaining 1 million will be paid to the bank.

(3) For the purpose of this Ordinance, –
   (a) any proceeding taken against the deceased before his death shall be assumed as having been taken against the legal representative. The proceeding will be continued against the legal representative from the stage at which they were at the time of death; and
   (b) any proceeding which could have been taken against the deceased may be taken against the legal representative of the deceased.

(4) In this section, "legal representative" means a person:
- who in law represents the estate of a deceased person,
- who intermeddles with the estate of the deceased and
- on whom the estate devolves on the death of representative, if the representative is being sued in a case.

Authors [Sec. 89]
Where the time taken by an author of a literary or artistic work to complete the work exceeds 24 months, the author may elect any lump sum amount received in a tax year as royalties for the work as having been received in that tax year and the preceding 2 tax years in equal proportions.

Example
Mr. Asif received a lump sum amount of Rs. 6 million as the author of a literary work in TY 2014. Asif took 5 years to complete this literary work. How this amount will be taxed in his hands?
Answer
He can opt Rs. 2 million each to be taxed in TY 2012, 2013 and 2014.

Income of minor child [Sec 91]
Income from business of minor child is taxable in hands of parent who has highest taxable income.
Above provision will not apply if business is acquired through inheritance.
"Minor child" is an individual under age of 18 at end of tax year.

COMMON RULES

Income of joint owners [Sec 66]
Refer chapter of income from property

Apportionment of deductions [Sec 67]
(1) Where expenditure, deduction and allowances relates to –
- (a) the derivation of more than one head of income; or
- (ab) derivation of income comprising of:
  - taxable income and
  - income falling under final tax regime or;
- (b)
  - the derivation of income chargeable to tax under a head of income and
  - for some other purpose,

the expenditure, deduction and allowances shall be apportioned on any reasonable basis considering the relative nature and size of the activities.

Question-1
Mr. Riaz Ch. a resident person has disclosed following :

	Pakistan shop	Canada shop
Sales	300,000	700,000
Salaries	10,000	7,000

Advertisement expenditure incurred on a TV channel seen on both places is Rs. 5,000.
Required:
Calculate his total income.

Answer

Pakistan source income				
Sales			300,000	
Less:	Salaries paid		(10,000)	
	Advertisement	$5,000 \times \frac{300,000}{300,000 + 700,000}$	(1,500)	288,500
Foreign source income				
Sales			700,000	
Less:	Salaries paid		(7,000)	
	Advertisement	$5,000 \times \frac{700,000}{300,000 + 700,000}$	(3,500)	689,500
Total Income				978,000

Question-2
Assume all the data is same as in Question No. 1, except that Mr. Riaz Ch. is non-resident.
Required:
Calculate his taxable income.

Answer
Taxable income of Mr. Riaz Ch. is Rs. 288,500 because he is non-resident. No foreign source income is to be added in his taxable income.

Apportionment of Expenditure [Rule 13]

(2) Any expenditure that is incurred for a particular class or classes of income shall be allocated to that class.

(3) Any common expenditure, deductions and allowances which relates to business including presumptive (final) and exempt income, shall be allocated to each class of income according to the following formula:

$$\textbf{Amount of expense x } \frac{\textbf{Gross receipt for a class of income}}{\textbf{Gross receipt for all class of income}}$$

"Gross receipts" are receipts without deduction of expenditures.
"common expenditure deductions and allowances means" any expenditure that is not clearly allocable to any particular class of income,.
Where a person is earning net commission or brokerage than his gross profit will be taken as turnover.

(8) In this rule. -
"class of income" means Pakistan and foreign source as follows-
(a) income chargeable under the head "Salary";
(b) income chargeable under the head "Income from Business";
(c) income from a speculation business chargeable under the head "Income from business";
(d) income chargeable under the head "Capital Gains";
(e) income chargeable under the head "Income from Other Sources"
(f) income exempt from tax;
(g) incomes chargeable as separate block; and
(h) incomes falling under final tax regime

While allocating expenses the nature and source of each class must be considered.
The basis for allocation of expenditure, deductions and allowances should be certified by a Chartered Accountant or a Cost and Management Accountant. This certificate shall be accepted by Commissioner unless there is significant variations (10% +/- beyond the limits) from allocation.

Fair market value [Sec 68]

(1) The FMV of any property or rent, asset, service, benefit or perquisite at a particular time shall be the price which will ordinarily be fetched on sale or supply in the open market at that time.

Mr. Amir purchased a computer for Rs. 70,000 and sold it to Mr. Anjum when the WDV in the Amir's books was Rs. 40,000. Its fair value in open market at time of sale was Rs. 42,000.
Conclusion
Fair value in this case is Rs. 42,000.

(2) The FMV shall be determined ignoring:
- any restriction on transfer or
- the fact that it is not convertible to cash.

(3) Where the price is not ordinarily ascertainable, the Board may, by notification in the official gazette determine the fair market value of the immoveable property.

(4) Where the fair market value of any immoveable property of an area has not been determined by the Board as above, the fair market value of such immoveable property shall be deemed to be the value fixed by the district officer (revenue) or provincial or any other authority authorized in this behalf for the purposes of stamp duty.

Receipt of income [Sec 69]
Discussed in Income form Salary Chapter

Recouped expenditure [Sec 70]
In case of subsequent recoupment of any expenditure or loss, in cash or kind, the recouped amount shall be included in the income chargeable under relevant head for the tax year in which it is received.

Example:
RISE got repaired its AC for Rs. 7,000 in TY 2010. The service provider realised in TY 2011 that he has charged Rs. 2,000 excess to RISE. So he returned the amount immediately.
Required:

Treatment of amount recovered by RISE in TY 2011. **Answer** The recouped amount shall be included in the income as Rs. 2,000 in TY 2011 by RISE chargeable under the head income from business.
Example Sparkle company recorded interest payable to bank of Rs. 12,000 and Rs. 15,000 in TY 2017 and TY 2018 respectively. However the interest was not paid due to financial crisis. Bank waived the interest of Rs, 25,000 in TY 2019. Conclusion Rs. 25,000 is recouped expenditure and is chargeable as income in the tax year in which it is received i.e. TY 2019.

Currency conversion [Sec 71]

(1) Every amount taken into account under this Ordinance shall be in Rupees.
(2) Where an amount is in a currency other than rupees, conversion shall be at the State Bank of Pakistan rate prevailing at the date at which the amount is taken into account.

Mr. Qasim purchased an imported car for US$ 35,000 on March 31, 2009. The exchange rates on relevant dates are as follows:

	March 31, 2009	June 30, 2009
Open market rate	1 US $ = Rs. 102	1 US $ = Rs. 103
State bank of Pakistan rate	1 US $ = Rs. 102.1	1 US $ = Rs. 103.2

What is cost of car?

Solution

Cost = US$ 35,000 x Rs. 102.1 = Rs. 3,573,500

Cessation of source of income [Sec 72]

If a taxable source of income ceases to exist either:

- before the commencement of the year or
- during the tax year,

then any subsequent benefit derived from it shall be taxable in normal way assuming that the source has not ceased at the time income was derived.

Rules to prevent double derivation and double deductions [Sec 73]

If any income is taxed on receivable basis it shall not become taxable again on receipt basis and vice versa. Likewise, if any expenditure is deductible on payable basis the same shall not be deducted when it is paid and vice versa.

Tax on dividends [Sec. 5]

(1) A tax shall be imposed, at prescribed rate, on every person who receives a dividend from a company.
(2) The tax shall be computed by applying the rate of tax to the gross amount of the dividend.
(3) This section shall not apply to a dividend that is exempt from tax.

Every company paying a dividend shall deduct tax on gross amount of dividend.
Following are the rates of dividend:

Description	**Rate**
General tax rate	15.0%
Dividend paid by Independent Power Purchasers	7.5%
Certain other cases	25%

Tax on certain payments to non-residents [Sec. 6]

(1) A tax shall be imposed at the rate of:

- a) 15% on every non-resident person who receives any Pakistan source royalty or fee for technical services.
- b) 5% on every non-resident person who receives any Pakistan source fee for offshore digital services.

(2) The rate of tax shall be applied on the <u>gross amount</u>.

(3) However <u>tax will not be imposed</u> on–

- (a) royalty if the related property is connected with a permanent establishment in Pakistan of non-resident person;
- (b) fee for technical services or fee for offshore digital services if the services are provided by a permanent establishment in Pakistan of the non-resident person; or
- (c) royalty or fee for technical services that is exempt from tax.

(4) A Pakistani-source:

- royalty,
- fee for offshore digital services or
- fee for technical services

shall be treated as income from business of permanent establishment in Pakistan of the non-resident person.

<u>Example</u>

Mr. Ching Chung came to Honda Pakistan during tax year 2017 for providing technical services for 2 months. The fee charged by him was Rs. 2 million. He incurred following expenses to earn income:

	Rs.
Air Ticket	200,000
Accommodation	100,000
Food	15,000

Calculate the net amount to be paid to him by Honda?

<u>Solution</u>

	Rs.
Gross Receipt	2,000,000
Less: Tax deducted by Honda (2,000,000 x 15%)	(300,000)
Net amount to be paid	1,700,000

<u>Question</u>

Discuss as to whom presumptive tax regime (final tax regime) applies?

<u>Answer</u>

It applies to the following incomes:

1. Dividend income
2. Pakistan source fee for technical services earned by non-resident person.

General provisions relating to taxes imposed under sections 5,6 and 7B [Sec. 8]

<u>Rules applicable to income chargeable under final tax regime</u>

The tax imposed under section 5 and 6 shall be a final tax and

(a) This income shall not be chargeable under any head of income;

(b) no deduction shall be allowable for any expense incurred;

(c) the income shall not be reduced by –

- (i) any deductible allowance (Zakat etc.); or
- (ii) the set off of any loss;

(d) the tax deducted shall not be reduced by any tax credit; and

(e) the liability of a person (under sections 5 or 6) shall be discharged if tax has been deducted.

(f) the person will be required to furnish a return of income.

The tax deducted on dividend is commonly known as non-adjustable tax.

What are different tax regimes?

1) **Normal Tax Regime** [S. 4 (1) and (2)]
   Under this regime income is taxed on net basis (i.e. Gross amounts chargeable to tax less deductions).
2) **Final Tax Regime/Presumptive Tax Regime** [S. 4 (4) and (5)]
   Under this regime tax will be deducted at the time of transaction by applying rate on gross receipt normally. Following are the examples of income chargeable under this regime:
   a) Dividend Income [Sec. 5]
   b) Fee for technical service earned by non-resident. [Sec. 6]
   c) Profit on debt in certain cases
3) **Minimum tax regime**
   Some examples are as follows:
   1. Minimum tax on turnover [S. 113 covered in business chapter]
4) **Separate block**
   Following are the incomes which are charged at separate rates:
   a) Gain on disposal of immoveable property
   b) Gain on disposal of securities

Following is a summary of different tax regimes:

Normal tax regime (Net income basis)	**Separate block**	**Final/Presumptive tax regime (Gross income basis)**
- Income from salary - Income from capital gain - Income from business - Income from property - Income from other source **Total income** Less: Zakat **Taxable income**	- Gain on securities - Gain on disposal of immovable property	- Dividend income - Fee for technical service earned by non-resident - Interest income in certain cases
Table 1 and 2 are used to calculate tax	Different slab rates are available as compared to Table 1 and 2	Different rates are there in law

ICAP PAST PAPER QUESTIONS

Question-1

What is total income? Does it differ in case of resident and non-resident? **(6)**

(Q.1 (a) May1997)

Question-2

Describe the common rules for treating the following under the Income Tax Ordinance, 2001?

(a) Receipt of income. **(4)**

(b) Currency conversion. **(4)**

(Q.2 September 2004)

Question-3

Discuss under what circumstances an expenditure incurred by a person are required to be apportioned for the purpose of claiming a deduction under the Income Tax Ordinance, 2001? **(4)**

(Q.7March 2005)

Question-4

Discuss the common rules with regard to the following under the Income Tax Ordinance, 2001:

(a) Fair Market Value. **(3)**

(b) Income of joint owners. **(2)**

(Q.2March 2005)

Question-5

(a) What do you understand by the concept "apportionment of expenditures" as explained in the Income Tax Ordinance, 2001? **(6)**

(b) One of your clients which is a subsidiary of a foreign company wants to change its accounting year from June 30 to December 31 as the income year of its parent company ends on December 31. Advise the client about the requirements of the Income Tax Ordinance, 2001 regarding change in tax year from normal to special. **(3)**

(Q.2 September 2007)

Question-6

Briefly explain the term "legal representative" with reference to the Income Tax Ordinance, 2001. What are the obligations of a legal representative? **(6)**

(Q.6(a) March 2009)

Question-7

(a) Hijazi Ltd is a multinational unquoted company. Presently, the company closes its financial year on June 30. The company is now considering to change its income year from June 30 to March 31.

Required: Mr. Safi is the tax consultant of the Company. Write a memorandum on his behalf, explaining the following:

(i) Requirements of the Income Tax Ordinance, 2001 regarding change in tax year from normal to special.

(ii) The tax year corresponding to the income year ended on March 31, 2009 and the due date for filing the return of income. [Note: It is a concept of Ch. 15] **(5)**

(b) Briefly discuss the residential status of the following persons under the Income Tax Ordinance, 2001 for the tax year 2009:

(i) Asif is an employee of Balochistan Government, who has been sent to United Kingdom for an official assignment on December 1, 2007 for two years.

(ii) Messrs. Akhtar Abbas & Co. is a partnership firm, doing business of financial consultancy in Pakistan as well as United Arab Emirates (UAE). The management and control of its affairs is situated partly in UAE and partly in Pakistan. **(4)**

(Q.2 March 2009)

Question-8

Mr. Zia's father expired in March 2009. Being the only heir, he received all his father's business and assets. In August 2009, a notice was received from the income tax department in the name of his father to pay unpaid tax liabilities along with penalty and additional tax. Mr. Zia is of the view that since his father expired, the notice is irrelevant.

Required:

In the light of Income Tax Ordinance, 2001, explain the correct legal position of Mr. Zia with regard to his father's income tax liabilities and the related income tax proceedings. **(6)**

(Q.6 (a) September 2009)

Question-9

State the provisions of the Income Tax Ordinance, 2001 regarding the residential status of companies and association of persons. **(5)**

(Q.5 (a) March 2010)

Question-10

(a) Mr. Hyder is the legal representative of his deceased uncle since January 5, 2010 and manages his estate worth Rs. 10 million approximately. On August 10, 2010, he received two notices from the Income Tax Department requiring him to:
- o submit details of his uncle's income for the tax year 2009.
- o make payment of Rs. 12 million against his uncle's income for the tax year 2007 and 2008.

Required:

Advise Mr. Hyder about the extent of his tax liability in respect of the income earned by his uncle before January 5, 2010. Also advise him about his obligations relating to the tax assessment proceedings pending/arising against his uncle. **(5)**

(b) List the situations referred to in Income Tax Ordinance, 2001 where an expenditure is required to be apportioned for the purpose of claiming a deduction. **(4)**

(Q.5 September 2010)

Question-11

Briefly discuss the residential status of the following persons for the tax year 2011 under the Income Tax Ordinance, 2001.

(i) Mr. Shah has been working as an Information Analyst in the Ministry of Foreign Affairs. On 1 November 2010, he was posted to Pakistan Embassy in Canada for three years.

(ii) Asif Learning Center is a partnership concern, providing IT training to professionals in Pakistan, UAE and Saudi Arabia. Up to 31 July 2010, the management and control of its affairs was situated partly in Pakistan. However, with effect from 1 August 2010, the entire management and control of the affairs of the partnership was shifted to Dubai.

(iii) Mr. Liaquat was sent to Pakistan on a special assignment by his UK-based company on 1 March 2011. He left Pakistan on 9 September 2011

(iv) Farooq Trading LLC was incorporated as a limited liability company in UAE. The management and control of its affairs are situated wholly in Pakistan. **(8)**

(Q.4 (a) September 2011)

Question-12

Explain the following as specified in the Income Tax Ordinance, 2001.

(i) Fair Market Value **(3)**

(ii) Apportionment of Expenditures **(4)**

(Q.4 (b) September 2011)

Question-13

State the provisions of the Income Tax Ordinance, 2001 regarding the residential status of companies and association of persons. **(5)**

(Q.3 (a) September 2012)

Question-14

Tax imposed at the rate of 15% on every non-resident person who receives Pakistan source fee for technical services is considered to be a final tax on the amount in respect of which the tax is imposed.

Required:

Identify the exceptions to the above rule, as referred to in the Income Tax Ordinance, 2001. **(4), (3)**

(Q.5 (b) March 2010), (Q.2 (b) September 2012)

Question-15

State the provisions of the Income Tax Ordinance, 2001 for determining the residential status of an Association of Persons. **(2)**

(Q.3 (a) March 2013)

Question-16

Inspired Pakistan Limited (IPL) wants to change its accounting year from 30 June to 31 December as the income year of its parent company in USA ends on 31 December.

Required: Advise IPL about the requirements of the Income Tax Ordinance, 2001 regarding the change of tax year from normal to special. **(3)**

(Q.4 (a) March 2013)

Question-17

In view of the provisions of Income Tax Ordinance, 2001 and Rules made thereunder, determine the residential status of the following persons for the tax year 2013:

(i) Ramiz proceeded to Saudi Arabia on 24 December 2012 to assume responsibilities on his new job. He visited Karachi from 20 June 2013 to 24 June 2013 for presenting a paper in a seminar but due to unavoidable circumstances, the seminar was cancelled.

(ii) Khalil, an officer working at Ministry of Foreign Affairs, since last three years, was posted to the Pakistan's mission in Geneva from 1 August 2012 to 30 June 2013.

(iii) Ali Associates is partnership firm and provides consultancy services in Pakistan as well as United Kingdom (UK). The management and control of its affairs is situated partly in UK and partly in Pakistan.

(iv) Smith, a Nigerian football coach, came to Pakistan on 28 February 2013. He left the country on 31 August 2013. **(7)**

(Q.4 (b) September 2013)

Question-18

One of your clients Inqalab Limited wants to change its accounting year.

Required:

Write a brief note to the Finance Manager of the company explaining the requirements of Income Tax Ordinance, 2001 as regards the following:

(i) Change in tax year. **(3)**

(ii) Determination of tax year and the date of filing of return in case the accounting year-end is changed from June to December. *[Note for students: It is a concept of Chapter 15]* **(5)**

(Q.5 (b) September 2013)

Question-19

Ahmed is responsible for managing the property of his uncle who died on 5 February 2013.The approximate worth of the property is Rs. 7 million. In August 2013, a notice was received from income tax department in the name of his uncle requiring details of his income for the tax year 2012 along with demand for payment of tax in respect of previous year amounting to Rs. 8.5 million.

Required:

Advise Ahmed as regards the following:

(a) Extent of Ahmed's liability in respect of the income earned by his uncle before 5 February 2013.

(b) His obligations relating to the tax assessment proceedings pending/arising against his uncle. **(5)**

(Q.6 September 2013)

Question-20

Under the provisions of the Income Tax Ordinance, 2001 explain the following:

(a) Special tax year **(03)**

(b) Transitional tax year **(03)**

(c) Order of application of various tax credits while computing the tax liability of the taxpayer **(03)**

(d) General provisions/rules which may apply to income subject to final tax. **(06)**

(Q.3 March 2016)

Question-21

The Income Tax Department initiating a proceeding against Mobeen, issued a demand note requiring him to pay the outstanding amount of his tax liability for tax year 2015 along with default surcharge. However, before settlement of his tax liability, Mobeen died in a car accident.

Required:

Under the provisions of the Income Tax Ordinance, 2001:

(i) describe whether tax authorities would be able to recover the amount of tax after Mobeen's death and what would be the extent of such recovery. **(03)**

(ii) comment on the status of the proceedings initiated against Mobeen. **(02)**

(Q.3 (a) September 2016)

Question-22

Mr. Danishwar, a renowned author, completed his book on "Human Behaviour" in two and a half years. He received a lump sum amount of Rs. 900,000 in May 2016 on account of royalty.

Discuss the taxability of Rs. 900,000 received by Mr. Danishwar.

Question-23

Under the provisions of the Income Tax Ordinance, 2001, state the situations where expenditure is required to be apportioned for the purpose of claiming a deduction. **(03)**

(Q.4 (a) September 2017)

Question-24

Under the provisions of Income Tax Ordinance, 2001 and rules made thereunder discuss the residential status for tax year 2017 in each of the following situations:

(i) On 21 September 2016 Asif proceeded to Dubai to join his new job. Due to certain professional issues with his employer in Dubai, he resigned on 1 May 2017 and came back to Pakistan. On 16 May 2017 he got a new job in Pakistan which he continued till 30 June 2017. **(02)**

(ii) Sami Associates is an association of persons and provides accounting services in Dubai. On 2 January 2017, the entire management and control of its affairs was shifted from Karachi to Dubai. **(02)**

(Q.2 (a) September 2017)

Question-25

On 1 December 20X7 Bruce Lee was appointed by a Chinese company as a Technical Director for Pakistan. He has provided you the following details:

Arrival in Pakistan	15 December 20X7
Joined office in Pakistan	20 December 20X7
Visit to Dubai on an official trip	21-30 March 20X8
Visit to South Korea for vacations	12-21 April 20X8
Visit to northern areas of Pakistan for personal trip	4-9 June 20X8

In view of the provisions of the Income tax Ordinance, 2001 and related Rules thereunder, comment on the residential status of Bruce Lee for the tax year 20X8. **(03)**

(Q.3 (c) March 2018)

Question-26

Kaleem Limited (KL) is a listed company and its accounting year ends on 30 June. KL is now considering to change its accounting year from 30 June to 30 September.

Under the provisions of the Income Tax Ordinance, 2001:

(a) briefly describe normal , special and transitional tax year. **(06)**

(b) state the requirements regarding change in tax year from normal to special. **(02)**

(c) state the tax year corresponding to the income year ended 30 September 20X8 and the due date for filing the return of income. *[Note for students: It is a concept of Chapter 15]* **(02)**

(Q.2 September 2018)

Question-27

Abid is the legal representative of his grandfather since his death on 10 July 20X7 and manages his estate worth Rs. 28 million. On 22 January 20X9, he received a notice from the Income Tax Department requiring him to make payment of Rs. 0.8 million against his grandfather's income for the tax year 20X7. The notice also required him to submit details of his grandfather's income for the tax year 20X8.

Required:

Advise Abid about his obligations relating to the tax assessment proceedings pending/arising against his grandfather. **(05)**

(Q.4 (c) March 2019)

Question-28

Jean Francois, a French designer, often visits to Pakistan for promotion of his products. During his last visit he stayed in Pakistan from 10 July 20X8 to 25 February 20X9. ***Determine the residential status of Jean Francois for tax year 20X9, assuming that the Commissioner has granted him permission to use calendar year as special tax year.*** **(02)**

(Q.3 (a) September 2019)

Question-29

General provisions/rules which may apply to income subject to Final Tax Regime. **(06)**

(Q.4 (b) September 2019)

Question-30

Briefly explain the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder relating to order of application of various tax credits if a taxpayer is allowed more than one tax credit for a tax year. **(03)**

(Q.4(b) (iii) March 2021)

ICAP PAST PAPER SOLUTIONS

Answer-1

Total income [S.10]

The total income of -

(a) Person's income under all heads of income for the year; and

(b) person's income exempt from tax under any of the provisions of this Ordinance.

Following are the heads:– [S.11]

a) Salary;
b) Income from property
c) Income from Business;
d) Capital Gains; and
e) Income from Other Sources.

Difference in case of resident and non-resident [S.11(5)]

The income of a resident person under a head of income shall be computed by taking into account amounts that are Pakistan-source income and amounts that are foreign-source income.

The income of a non-resident person under a head of income shall be computed by taking into account only amounts that are Pakistan-source income.

Answer-2

a) S. 69

b) S. 71

Answer-3

S. 67

Answer-4

a) S. 68

b) S. 66

Answer-5

a) S. 67

b) S. 74 (3),(5)

Answer-6

S. 87

Answer-7

a) i) S. 74 (3),(5)

ii) The TY will be Special TY 2009 and the due date for filing the return of income is December 31, 2009.

b) i) If a person is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year he will be considered as resident individual irrespective of the fact that how many days he is present in Pakistan. [S.82(c)]

Therefore, Asif being employee of Balochistan Government will be considered as resident.

ii) An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year. [S.84]

As the management and control of affairs of Messrs. Akhtar Abbas &Co. is situated partly in UAE and partly in Pakistan therefore it is resident.

Answer-8

i) Mr. Zia being legal representative of his father (deceased individual) shall be liable for – [S.87]

a) any tax that Zia's father would have become liable for if he had not died; and

b) any tax payable in respect of the income of his father's estate.

The liability of Mr. Zia shall be limited to the extent to which his father's estate is capable of meeting the liability. The liability shall be the first charge on his father's estate.

ii) For the purpose of this Ordinance, – [S.87(3)]

a) any proceeding taken under this Ordinance against Zia's father before his death shall be treated as taken against Mr. Zia and may be continued against him from the stage at which the proceeding stood on the date of Zia's father's death; and

b) any proceeding which could have been taken under this Ordinance against Zia's father if he had survived may be taken against Mr. Zia

Answer-9

S. 83, 84

Answer-10

a) As a legal representative, Mr. Hyder is liable for any tax, which would have been payable by his uncle, if he had not died. However, such liability is limited to the extent of Rs. 10 million i.e. value of his deceased uncle's estate. [S.87(1),(2)]

Any proceeding taken against his uncle shall be continued against Mr. Hyder from the stage at which it stood on the date of his uncle's date. Further, any proceeding which could have been taken against the deceased if he had survived may be taken against the legal representative. [S.87(3)]

b) Section 67

Answer-11

i) An individual shall be a resident individual for a tax year if the individual is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year. Therefore Mr. Shah is a resident for TY 2011 irrespective of number of days he is present in Pakistan. [S.82(c)]

ii) An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year. As the control was partly in Pakistan for 1 month in TY 2011 therefore Asif learning Centre is resident AOP. [S.84]

iii) 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. Therefore he is not resident for TY 2011 because of number of days he is present in Pakistan from 1 March 2011 to 30 June 2011 are less than 183. [S.82(a)]

iv) A company shall be a resident company for a tax year if the control and management of the affairs of the company is situated wholly in Pakistan at any time in the year. Therefore Farooq Trading Company is resident company.[S.83]

Answer-12

i) Refer the chapter

ii) Refer the chapter

Answer-13

S. 82, 83

Answer-14

S. 6 (3)

Answer-15

S. 84

Answer-16

(1) A person may apply, in writing, to the Commissioner to allow him to use a 12 months' period, other than normal tax year, as special tax year and the Commissioner may, by an order, allow him to use such special tax year. The order will be passed by the Commissioner if the condition mentioned below is fulfilled. [S.74(3)]

(2) The Commissioner shall grant the permission to change the tax year only if the person has shown a compelling

need. The permission shall be subject to such conditions as the Commissioner may impose.[S.74(5)]

Answer-17

i) Mr. Ramiz will be considered as non-resident as his stay in Pakistan is less than 183 days in Pakistan. Number of days he is present in Pakistan is calculated as follows:

July 1, 2012 – December 24, 2012	177
June 20, 2013 – June 24, 2013	5
Total	182

ii) An employee or official of the Federal Government or a Provincial Government posted abroad in the tax year will be considered as resident irrespective of number of days he is present in Pakistan. Therefore, Mr. Khalil working for Government will be considered as resident. [S.82(c)]

iii) An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year. As management of the affairs of Ali Associates situated partly in Pakistan, therefore it will be considered as resident association. [S.84]

iv) Mr. Smith will be considered as non-resident as his stay in Pakistan is less than 183 days in Pakistan. Number of days he is present in Pakistan is calculated as follows:

February 28, 2013 – June 30, 2013	123

Answer-18

i) A person may apply, in writing, to the Commissioner to allow him to use a 12 months' period, other than normal tax year, as special tax year and the Commissioner may, by an order, allow him to use such special tax year. The order will be passed by the Commissioner if the condition mentioned below is fulfilled. [S.74(3)]

A person using a special tax year, may apply in writing, to the Commissioner to allow him to use normal tax year and the Commissioner may, by an order, allow him to use normal tax year. The order will be passed by the Commissioner if the condition mentioned below is fulfilled. [S.74(4)]

The Commissioner shall grant the permission to change the tax year:

- from normal to special or
- special to normal

only if the person has shown a compelling need. The permission shall be subject to such conditions as the Commissioner may impose. [S.74(5)]

ii) Where a person is allowed, to use a 12 months' period different from normal tax year, such period shall be that person's tax year (hereinafter referred to as **'special tax year'**) and shall, be denoted by the calendar year relevant to normal tax year in which the closing date of the special tax year falls. [S.74(2)]

The return will be filed on or before September 30th next following the end of the tax year. [S.118(3)]

Answer-19

Same as Answer-10 (a)

Answer-20

(a) As per S.74, Where a person is allowed, to use a 12 months' period different from normal tax year, such period shall be that person's tax year (hereinafter referred to as **'special tax year'**) and shall, be denoted by the calendar year relevant to normal tax year in which the closing date of the special tax year falls.

(b) As per S.74(9), Where the tax year of person changes, the period between:

- the end of the last tax year prior to change and
- the date on which the changed tax year commences

shall be treated as a separate tax year, to be known as the "transitional tax year".

(c) As per S. 4 (3), Where a taxpayer is allowed more than one tax credit for a tax year, credits shall be applied in following order:

a. foreign tax credit (allowed under section 103); then
b. tax credit allowed on charitable donations, tax credit for investment in shares and insurance, tax credit on contribution to approved pension fund and tax credit on profit on debt (u/s 61-64); and then
c. tax credit for advance tax paid and tax deducted.

(d) Following are the characteristics of final tax regime:

(a) This income shall not be chargeable under any head of income;

(b) no deduction shall be allowable for any expense incurred;
(c) the income shall not be reduced by –
  (i) any deductible allowance (Zakat etc.); or
  (ii) the set off of any loss;
(d) the tax deducted shall not be reduced by any tax credit;
(e) the liability of a person shall be discharged if tax has been deducted.
(f) the person will be required to furnish a return of income

Answer-21

i. Deceased individual

Yes tax authorities would be able to recover the amount of outstanding liability from legal representative of Mobeen.

The legal representative of a Mobeen shall be liable for –

i. any tax that the Mobeen would have become liable if he had not died; and
ii. any tax payable in respect of the income of the Mobeen's estate.

The liability of a legal representative shall be limited to the extent of Mobeen's estate. Such liability shall be the first charge on the Mobeen's estate.

ii. Comment

Any proceeding taken against Mobeen before his death shall be assumed as having been taken against the legal representative. The proceeding will be continued against the legal representative from the stage at which they were at the time of death.

Answer-22

Section 89 of ITO 2001 states that where the time taken by an author of a literary or artistic work to complete the work exceeds twenty-four months, the author may elect to treat any lump sum amount received by the author in a tax year on account of royalties in respect of the work as having been received in that tax year and the preceding two tax years in equal proportions.

Therefore, Mr. Danishwar can spread the amount of Rs. 900,000 over the period of three years in equal proportions i.e. Rs. 300,000 each starting from tax year 2016 to preceding two tax years 2015 and 2014.

Answer-23

S. 67

Answer-24

i) 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 a tax year. As Mr. Asif stayed in Pakistan for just 144 days (as calculate below) so he will be considered as non-resident individual for tax year 2017.

Month	Days
July	31
August	31
September	21
May	31
June	30
	144

ii) An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year. As management of the affairs of Sami Associates were situated partly in Pakistan before 2 January, 2017 therefore it will be considered as resident AOP irrespective of the fact that its entire management and control of affairs was subsequently shifted from Karachi to Dubai. [S.84]

Answer-25

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.

A part of a day that an individual is present in Pakistan (including the day of arrival in, and the day of departure from, Pakistan) counts as a whole day of such presence. (Rule 14 (a))

Month	No. of days
December	17
January	31
February	28
March	21
April	20
May	31
June	30
Total	**178**

Since he was present in Pakistan for 178 days, therefore, he is not a resident individual.

Answer-26

a) S. 74 (1) , (2) , (9)

b) **Change of tax year from normal to special:**

- A person using a special tax year, may apply in writing, to the Commissioner to allow him to use 12 months' period other than normal tax year as special tax year and the Commissioner may allow him.
- The Commissioner shall grant the permission to change the tax year only if the person has shown a compelling need. The Commissioner may impose conditions while giving permission.

c) Tax year corresponding to the income year ended 30 September 20X8 will be tax year 20X9 and due date of filing of return is 30 September 20X9.

Answer-27

- Any proceeding taken against the deceased (grandfather) before his death shall be assumed as having been taken against the legal representative (Abid). The proceeding will be continued against the legal representative (Abid) from the stage at which they were at the time of death; and
- any proceeding which could have been taken against the deceased (grandfather) may be taken against the legal representative (Abid) of the deceased. **[Sec. 87]**

Answer-28

The Commissioner has granted permission to Jean Francois to use special tax year, so his special tax year 20X9 will be from 1 January 20X8 to 31 December 20X8. As a result, John is a non-resident person because his total stay in tax year 20X9 is 175 days (i.e. 22+31+30+31+30+31) which is less than 183 days. Therefore, Jean Francois is non-resident person for tax year 20X9.

Answer-29

Refer **Sec. 8**

Answer-30

Same as Question 20 (c)