

# **The Institute of Taxation of Pakistan**

## **CTA – Skills Level and ACIT Examination**

**July 2021 Attempt**

### **DIRECT TAX**

#### **Part I**

**For Tax year 2021**

**Each question carries 1.5 marks. (This part consists of 20 questions)**

**Enter correct answer on the sheet provided for MCQs**

- Q. NO. 1** Where a person changes his tax year from special to normal or normal to special tax year 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) Special tax year
  - (b) Transitional tax year
  - (c) Assessment year
  - (d) Financial year
- Q. NO. 2** The taxable income under normal tax regime (NTR) of a small company for the tax year 2021 shall be charged to tax @ \_\_\_\_\_.
- (a) 35%
  - (b) 21%
  - (c) 22%
  - (d) 29%
- Q. NO. 3** Under the Income tax law pre-commencement expenditure shall be amortized:
- (a) On straight-line basis
  - (b) Using diminishing balance method
  - (c) Using sum of digits method
  - (d) According to the International Accounting Standards
- Q. NO. 4** "Income" include:
- (a) any amount chargeable to tax under this Ordinance.
  - (b) any amount subject to collection or deduction of tax at source covered under final tax regime.
  - (c) any loss of income
  - (d) All of the above

- Q. NO. 5** The option available to an employee in respect of salary \_\_\_\_\_ shall be exercised in writing.
- (a) received in arrears
  - (b) for the current year
  - (c) to be received in next year
  - (d) none of the above
- Q. NO. 6** House rent allowance provided by employer to his employees is \_\_\_\_\_.
- (a) taxable
  - (b) not taxable
  - (c) exempt up to 45% of basic salary
  - (d) none of the above
- Q. NO. 7** Property income received by subletting of property by the tenant is taxable under the head \_\_\_\_\_.
- (a) income from Property
  - (b) Income from other sources
  - (c) Capital gains
- Q. NO. 8** Disposal consideration on sale of an asset is \_\_\_\_\_.
- (a) Amount received on sale
  - (b) Fair Market Value
  - (c) Lower of FMV and amount received
  - (d) Higher of FMV and amount received
- Q. NO. 9** The initial allowance for depreciation is allowable for \_\_\_\_\_.
- (a) Depreciable assets
  - (b) Eligible depreciable assets
  - (c) Intangibles
  - (d) All of these
- Q. NO. 10** The value of closing stock is computed on \_\_\_\_\_.
- (a) Cost basis
  - (b) NRV
  - (c) Lower of cost and NRV
  - (d) Higher of cost and NRV

- Q. NO. 11** Loss on securities chargeable to tax can be carried forward to subsequent \_\_\_\_ tax years.
- (a) seven
  - (b) three
  - (c) six
  - (d) none of the above
- Q. NO. 12** Additional payment on delayed refund is \_\_\_\_\_.
- (a) Exempt from tax
  - (b) taxable as business income
  - (c) taxable under "income from other sources"
  - (d) taxable under "capital gains"
- Q. NO. 13** The Commissioner may by notice in writing require from a person to furnish a return of income for a period of less than twelve months, where \_\_\_\_\_.
- (a) person has died
  - (b) become bankrupt or gone into liquidation
  - (c) permanently leaving Pakistan
  - (d) Commissioner Inland Revenue considers appropriate
  - (e) all of above
- Q. NO. 14** Decision made by the Appellate Tribunal Inland Revenue, on \_\_\_\_\_, shall be considered as final.
- (a) point of law
  - (b) point of jurisdiction
  - (c) point of fact
  - (d) None of the above
- Q. NO. 15** Under the Punjab Urban Immoveable Property Tax Act, 1958 the tax shall be \_\_\_\_\_ in accordance with the valuation list in force for the time being, if any appeal of the taxpayer is pending in this respect.
- Ven**
- (a) levied & collected
  - (b) stayed
  - (c) abolished
  - (d) adjusted

**Q. NO. 16** Under the Punjab Agriculture Income Tax Act, 1997 the agriculture income tax firstly computed on income base and then on area base, the assessee shall be liable to pay one tax the amount of which shall be \_\_\_\_\_.

- (a) lower of the two.
- (b) higher of the two.
- (c) waived off.
- (d) not applicable.

**Q. NO. 17** The provisions of Anti-Money Laundering Act, 2010 shall have \_\_\_\_\_ notwithstanding anything inconsistent contained in any other law for the time being in force.

- (a) no effect
- (b) effect
- (c) merged with other law
- (d) exemption

**Q. NO. 18** The provisions of Anti-Money Laundering Act, 2010 are applicable on

- (a) Designated non-financial businesses and professions
- (b) companies only
- (c) Association of persons only.
- (d) None of the above

**Q. NO. 19** Benami transaction means a transaction or arrangement in respect of a property where the person providing the consideration is \_\_\_\_\_.

- (a) not traceable or fictitious
- (b) traceable.
- (c) relative of the payer.
- (d) dependent on the payer

**Q. NO. 20** Benami transaction means a transaction or arrangement in respect of a property where the person providing the consideration is \_\_\_\_\_.

- (a) not traceable or fictitious
- (b) traceable.
- (c) relative of the payer.
- (d) dependent on the payer

## **Part II**

### **Each question carries 3 marks (This part consists of 10 questions)**

- Q. No. 1** Differentiate between tax evasion and tax avoidance. Explain with examples.
- Q. No. 2** Briefly explain the cannons of taxation for tax legislators.
- Q. No. 3** In the light of the provisions of Income Tax Ordinance, 2001, describe the conditions which need to be satisfied before a person can claim deduction for a bad debt.
- Q. No. 4** In the light of the provisions of Income Tax Ordinance, 2001, explain the benefits that an organization might avail by exercising the option of Group Taxation.
- Q. No. 5** In the light of the provisions of Income Tax Ordinance, 2001 list the circumstances under which salary received by an employee of a foreign government shall be exempt from levy of tax.
- Q. No. 6** Under the provisions of Income Tax Ordinance 2001, briefly explain the term pre-commencement expenditure.
- Q. No. 7** Briefly explain the term 'imputed income' under the provisions of Income Tax Ordinance, 2001.
- Q. No. 8** What is the duration period for the payment of professional tax under Punjab Finance Act, 1977? What is the basis of its calculation?
- Q. No. 9** Ahsan and Fareed jointly own a property in Peshawar. The property has been rented out to a company. Discuss the tax treatment of income from this property.
- Q. No. 10** What are the different ways of framing an assessment under the Income Tax Ordinance, 2001?

## PART III

**Each question carries 8 marks. (This Part consists of 5 questions)**

**Q. NO. 1** Mr. Samiullah has been working as Assistant Manager-Marketing for last 15 years in M/s Moonlight Limited, a public limited company. In addition to salary, perks and allowances given to him by the company, he has various other sources of income. Assume that Mr. Samiullah is 62 years and has been retired from the company services on June 30, 2021. You are his Tax Consultant. He has submitted the following information for the tax year ended June 30, 2021 in order to seek your advice in respect of the calculation of his taxable income and tax liability.

**Rupees**

**A**

|     |   |         |
|-----|---|---------|
| i)  | Basic salary per annum                              | 500,000 |
| ii) | Perquisites and al allowances paid by the employer: |         |
|     | Bonus   | 80,000  |
|     | Entertainment allowance                             | 10,000  |
|     | Dearness allowance                                  | 180,000 |
|     | House rent allowance                                | 225,000 |
|     | Gratuity (scheme approved by FBR)                   | 625,000 |
|     | Encashment of leave preparatory to retirement       | 120,000 |

**B. Property Income:**

Mr. Samiullah rented his house @ Rs. 12,000 per month w.e.f 1st July, 2020. He received a deposit of Rs.150,000 not adjustable against rent, out of which he refunded Rs.75,000 to previous tenant, who vacated the house after 3 years' occupancy. Tenant also paid property tax of Rs. 6,000 as per lease agreement. Assume that Mr. Samiullah claimed the following expenditure for the year ended 30th June, 2021: -

**Rupees                  Rupees**

|  |        |
|--|--------|
| Interest on borrowed capital                                 | 7,000  |
| Insurance premium paid to cover the risk for property damage | 10,000 |
| Repair and maintenance expenses                              | 25,000 |

**C. Other information**

|                                    |        |
|------------------------------------|--------|
| Share from unregistered firm (AOP) | 20,000 |
|------------------------------------|--------|

**D. Zakat deducted at source**

8,000

**Required:**

Calculate the taxable income and tax liability of Mr. Samiullah for the year ended

June 30, 2021.

**Q. NO. 2** M/s. Golden Gate Limited (GGL) is a private limited company. The company manufactures and supplies consumer goods. GGL sells its product through various distributors in Karachi, Lahore and Islamabad. The following is the profit and loss account of GGL for the year ended on June 30, 2021:

|                                  | Rs. '000'      |   | Rs. '000'      |
|----------------------------------|----------------|---|----------------|
| Sundry expenses                  | 2,240          | Gross Profit                              | 235,200        |
| Office salaries                  | 29,120         | Interest on bank deposit                  | 300            |
| Rent, rates & taxes              | 8,960          | Recovered bad debts (Allowed in the past) | 448            |
| Legal charges                    | 2,016          | Dividend                                  | 672            |
| Finance charges on leased assets | 350            |   |                |
| Advertisement                    | 5,600          |   |                |
| Auditor's fees                   | 6,720          |   |                |
| Cost of issue of debentures      | 5,600          |   |                |
| Loss on sales of furniture       | 2,240          |   |                |
| Provident fund contribution      | 7,840          |   |                |
| Bad debts                        | 4,480          |   |                |
| Vehicle expenses                 | 8,960          |   |                |
| Fire insurance premium           | 7,840          |   |                |
| Preliminary expenses             | 1,008          |   |                |
| Provision for taxes              | 10,080         |   |                |
| Provision for bad debts          | 4,480          |   |                |
| Liquidated damages               | 3,360          |   |                |
| Depreciation                     | 44,800         |   |                |
| Net Profit                       | 80,926         |   |                |
|                                  | <b>236,620</b> |   | <b>236,620</b> |

**Additional Information:**

The following information is available:

- (i) Sundry expenses include donation of Rs. 502,000 paid to an unrecognized charitable institution.
- (ii) Office salaries include Rs.6,000,000 paid to one of the directors.
- (iii) Provident Fund is recognized by the Income Tax Department.
- (iv) Vehicle expenses are not vouched and verifiable to the extent of Rs.1,881,000.
- (v) Actual depreciation works out to Rs.32,650,000 only.
- (vi) Lease rental for the year are Rs.1,750,000.

**Required:**

Calculate the taxable income and tax liability of the company for the tax year 2021 from the above data.

**Q. No. 3** Mr. Ali Hassan a professor and Irani citizen entered into an employment contract with a government university in Pakistan for teaching and research work. The university is incorporated u/s 42 of the Companies Ordinance, 1984 as a non-profit organization.

The employment contract was effective from November 01, 2019. However, Mr. Ali Hassan arrived in Pakistan on November 02, 2020. Since November 03, 2020 was Sunday therefore he could not join his office. On Monday November 04, 2020 he became ill and had to be hospitalized for the next five days and joined office on November 09, 2020. Due to his continuous illness he took sick leave and went back to Iran on November 10, 2020.

Mr. Ali Hassan came back to Pakistan on January 03, 2021 and remained in Pakistan for the purpose of his employment till June 30, 2021.

**Required:**

- i. State the provisions applicable to Resident Individual under Rule 14 of the Income Tax Rules, 2002, to determine the number of days an individual is present in Pakistan.
- ii. Determine the residential status of Mr. Ali Hassan with reasons in accordance with Rule 14 of the Income Tax Rules, 2002.

**Q. No. 4:** Ayan and Azlan are planning to commence a business venture selling pesticides to the farmers. They intend to make investment and share the profits in the following ratio:

- ☐ Ayan          60%
- ☐ Azlan          40%

Following are the expected results of their twelve months' operation:

|                               | <b>Rupees</b>      |
|-------------------------------|--------------------|
| Sales                         | 11,000,000         |
| Cost of sales                 | <u>(4,500,000)</u> |
| <b>Gross profit</b>           | <b>6,500,000</b>   |
| Salaries and wages            | (3,165,000)        |
| Rent and rates                | (582,000)          |
| Travelling and entertainment  | (273,000)          |
| Depreciation                  | <u>(975,000)</u>   |
| <b>Profit before taxation</b> | <b>1,505,000</b>   |

Salaries and wages include salaries of Rs. 1,100,000 and Rs. 970,000 to be paid to Ayan and Azlan respectively.

**Required:**

Under the provisions of Income Tax Ordinance, 2001 compute the taxable income and net tax liability of the business venture for the tax year 2021.



**Q No. 5:** Mr. Bilal is one of the members of the Board of Directors of Taj Industries Limited (TIL). He filed his wealth statement for the tax year ended June 30, 2020 as under:

|                       | <b>Rupees</b>     |
|-----------------------|-------------------|
| Motor vehicle         | 2,000,000         |
| Land                  | 8,000,000         |
| Shares                | 500,000           |
| Residential apartment | 3,000,000         |
| Gold                  | 750,000           |
| Cash and Bank         | 1,500,000         |
| <b>Total</b>          | <b>15,750,000</b> |

During the tax year ended June 30, 2021, he earned following incomes:

|                |           |
|----------------|-----------|
| Director's fee | 1,000,000 |
| Dividend       | 50,000    |

Following are the relevant information for the tax year 2021:

1. Tax deducted on director's fee at 15%.
2. Tax deducted on dividend at 12%.
3. Household expenses of Mr. Bilal were Rs. 1,200,000.
4. Mr. Bilal gifted his apartment to his brother on December 31, 2020.
5. Mr. Bilal purchased shares of Gamma Limited for Rs. 500,000.
6. Cash and bank balance as at June 30, 2021 was Rs. 900,000.

**Required:**

Being a tax consultant, prepare the wealth reconciliation statement of Mr. Bilal for the tax year 2021 under the relevant provisions of the Income Tax Ordinance, 2001.