



CTA
PAKISTAN

Institute of Taxation of Pakistan

Model Question paper on Direct Taxation

Duration: 3 hours

CTA Professional Level

Note: Tax rates are separately provided

Question # 1

[20 marks]

ABC (Pvt) Limited incorporated on 1st of July 2021 and started its production of auto parts on 01-10-2021. Mr. Arshad and his wife each holds 50% shares of the company. The registered office and factory both are situated in the province of Punjab. Mr. Arshad is the Chief Executive Office cum Director and Mrs. Arshad is the Director of the company.

The management of the company requires from you to suggest tax planning and management factors for the following under the Income Tax Ordinance, 2001 and prescribed rules:

- Compliance factors required to manage day to day transactions of the company. [10 marks]
- Submission of periodical statements and returns of the company [5 marks]
- Tax management of the directors including tax saving and compliances. [5 marks]

Question # 2

[10 marks]

Write down appropriate answer to the following questions (each question carries 2.5 marks)

- What is the difference between Minimum tax regime and Presumptive tax regime?
- All types of dividend incomes are chargeable to tax under Final Tax Regime. Briefly discuss this statement.
- Mr. Ali provided services to corporate sector during the period July 2020 to June 2021 where tax u/s 153(1)(b) of the Income Tax Ordinance, 2001 @ 10% amounting to Rs. 165,500/- has been deducted. On computation of taxable income under normal tax regime his tax liability came to Rs. 105,000/-. Compute the tax liability and tax payable along with return for the Tax Year 2021.
- Compute taxable income and tax liability of Mr. Ahmad for the Tax Year 2021 from following data:

	Rupees
Local sales	685,000
Exports sales (total amount realized)	450,000
Cost of local sales	365,000
Cost of export sales	310,000
Other expenses related to local sales	105,000
Other expenses related to export sales	42,000



Question # 3:

[15 marks]

Compute Taxable Income and tax liability of professor Doctor Akbar for the Tax Year 2021

Professor Doctor Akbar (Teacher & Researcher)		
Income for the year		
1	Taxable Salary	1,404,936
2	Revenue from Clinic:	
	Subject to Withholding of tax	228,640
	Normal Receipts	799,500
	Total	1,028,140
	Clinic Expenses	(687,919)
	Net income from Clinic	340,221
3	Income from Bahbood Certificates	1,001,040
4	Agricultural Income	45,000
5	Pension from Former Employer	602,472
6	Bank Profit on PLS Account	136,637
	TOTAL INCOME	3,530,306

Question # 4

[5 Marks]

Write down any three provisions of clause 1 of the "Code of Conduct" of The Institute of Taxation of Pakistan relevant to "Professional Conduct".

Question # 5

[5 marks]

Write down the difference between "Evasion" and "Avoidance" with suitable examples.

Question # 6

[20 marks]

The case of Mr. ABC was selected for audit u/s 214C read with section 177 of the Income Tax Ordinance, 2001. The taxpayer submitted replies of all the notices and also submitted the required documents/information with the officer. The taxpayer has complete record of replies and documents submitted along with acknowledgement of the officer. The Officer issued following order, you are required to list down the legal informatics involve in the below mentioned order issued u/s 121 of the Income Tax Ordinance, 2001 by the Deputy Commissioner Inland Revenue and draft the grounds of appeal on such legal issues:

Name: ABC Address: House No.00 Street: 00 Lahore	Registration No: 35202-0000000-0 Tax Year: 2016 Period: 01-Jul-2015 - 30-Jun-2016 Medium: Online Document Date: 30-Oct-2021 Due Date: 29-Sep-2021
121 (Order to make Best Judgment assessment)	

Description	Code	Amount
Demanded Income Tax	9204	6,947,163
Tax Chargeable	9200	6,983,271
Taxable Income	9100	22,167,415
Total Income	9000	22,167,415

The taxpayer is an individual filed return for the year under consideration declaring share from AOP at Rs. 7,303,052/- which was deemed to be assessed u/s 120 of the Income Tax Ordinance 2001.

Later on, the case of the taxpayer was selected for audit u/s 214C read with section 177 of the Income Tax Ordinance, 2001 by the Federal Board of Revenue, Islamabad through computer ballot for tax year 2016. Consequent upon the selection of the case, an intimation letter was issued to the taxpayer by the Commissioner Inland Revenue, Zone-III, RTO-II, Lahore.

To finalize the audit proceedings for tax year 2016, Information Documents Request (IDR) /Notice u/s 177 2) of the Ordinance was issued 01.03.2019 followed by reminders for compliance by 19-06-2019. On the due dates, nobody attended the proceedings. Keeping in view the facts & circumstances of the case, a show cause notice u/s 122(9) of the Income Tax Ordinance, 2001 was issued on 14-06-2019 for compliance by 22-06-2019. On the due date, the taxpayer did not file any reply / explanation or documents to defend his case. Later on the case was refixed on 01-07-2019 for compliance by 08.07.2019 and 12.09.2019 for compliance by 19.09.2019 and for compliance by 30-09-2021, but again it met with the same fate and the taxpayer failed to offer any explanation in the matter.

As the taxpayer failed to comply with the notices and reminders to offer any explanation in the matter in spite of the multiple reminders issued in this regard, hence, keeping in view the above facts and

circumstances of the case, the undersigned is left with no alternative but to finalize the assessment under section 122(1) of the Income Tax Ordinance, 2001 in the following manner.

Foreign Remittances:

The taxpayer had declared foreign remittances received amounting to Rs. 5,210,196/- in his wealth statement for the year. The taxpayer was required to furnish evidence of the said foreign remittances including valid encashment certificates, bank statement and copies of cheques etc. but the taxpayer failed to substantiate his claim and could not offer documentary evidence in this regard which warrants addition in terms of section 111(1) (b) of the Ordinance under the head "Income From Other Sources" for the year under consideration. Despite proper service of notices, taxpayer failed to furnish any documentary evidence, therefore, the same is disallowed and added back to the income of the taxpayer in terms of section 111(1) (b) of the Ordinance, 2001.

Unexplained Inheritance:

The taxpayer had declared unexplained inheritance amounting to Rs. 9,654,167/- in his wealth statement for the year. The taxpayer was asked to furnish evidence in this regard but the taxpayer failed to substantiate his claim and could not offer documentary evidence in this regard which warrants addition in terms of Section 111(1) (b) of the Ordinance under the head "Income from Other Sources" for the year under consideration. Despite proper service of notices, taxpayer failed to furnish any documentary evidence, therefore, the same is disallowed and added back to the income of the taxpayer in terms of section 111(1) (b) of the Ordinance, 2001.

Unexplained share income:

Taxpayer declared unexplained share income amounting to Rs. 7,303,052/- and asked to furnish evidence in this regard. The taxpayer was asked to furnish evidence in this regard but the taxpayer failed to substantiate his claim and could not offer documentary evidence in this regard which warrants addition in terms of Section 111(1) (b) of the Ordinance under the head "Income From Other Sources" for the year under consideration. Despite proper service of notices, taxpayer failed to furnish any documentary evidence, therefore, the same is disallowed and added back to the income of the taxpayer in terms of section 111(1) (b) of the Ordinance, 2001.

Keeping in view the aforesaid discussion as well as facts, circumstances and merits of the case, the assessment is finalized in the following manner:-

Addition u/s 111 on account of foreign income.....	5,210,196
Addition u/s 111 on account of unexplained inheritance.....	9,654,167
Addition u/s 111 on account of unexplained share income...	7,303,052
Add income declared (NTR)	
Total income assessed	22,167,415
Tax thereon.....	Rs.6, 947,163/-

Deputy Commissioner Inland Revenue
Inland Revenue, Unit-....., Range-....., Zone-....
RTO LAHORE



Question # 7.

[20 marks]

Trading profit and loss account of M/s. Tariq Limited for the year ended on 30th June 2021 is as under

	Rs '000'	Rs '000'
Sales		2,500,000
Less: Cost of Sales		(1,600,000)
Gross profit		900,000
Less : expenses		
Salaries and wages	178,000	
Office rent	60,000	
Telephone expenses	40,000	
Travelling and conveyance	42,000	
Forwarding	60,000	
Entertainment	3,000	
Miscellaneous	8,000	
Office stationary	8,000	
Depreciation	60,000	
Income tax for the last year	55,000	
Bad Debts	9,000	
Doubtful Debts	6,000	
Donations	1,000	
Liquidated damages	500	
Insurance	5,000	
Provision for taxation	80,000	
		(615,500)
Net Profit		<u>284,500</u>

Notes and additional information

- A sum of Rs 800,000 written off last year and allowed by the income tax department has been recovered and credited to the bad debt reserve.
- Un-vouched and un-detailed expenses included in the entertainment amounted to Rs. 400,000
- Depreciation allowed under income tax law is Rs. 66,000,000
- Salaries and wages include payment of Rs. 275,000 without deducting tax at source
- Salary paid amounting to Rs. 250,000 in cash
- Donation of Rs. 600,000 paid to approved institution under Clause (61), Part I, Second Schedule.
- Donation of Rs. 400,000 paid to approved institution (NPO) but not specified in Clause (61), Part I, Second Schedule.
- Prepaid insurance Rs. 300,000

Required:

Compute the taxable income and tax liability of the Company for the tax year 2021.



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Question # 8

[5 marks]

M/s. Tanveer Associates has four partners and sharing profit and loss equally. The unadjusted loss of AOP stands at Rs. 2,000,000. One partner having 25% share in AOP submitted his resignation and retired from business.

Required:

- a) Explain the provisions relevant to set off and carry forward of losses of AOP
- b) Compute the amount of loss to be carried forward by the firm after resignation of the member.