

**The Institute of Taxation of Pakistan**  
**CTA - Skills Level and ACIT Examination**  
**January 2022 Attempt**  
**DIRECT TAX**

**Part I**

**For Tax Year 2022**

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

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

- Q.1 Benchmark rate of interest on loan provided by the employee to his employer in tax year 2022 is \_\_\_\_\_
- (a) 1%
  - (b) 5%
  - (c) 8%
  - (d) 10%
  - (e) None of the above
- Q.2 In case where leased motor vehicle is provided by an employer to an employee for business use, the amount chargeable to tax under the head salary shall be determined as follows:
- (a) 5% of fair market value of motor vehicle at the commencement of lease
  - (b) 10% of the cost of vehicle to the employer
  - (c) 10% of fair market value of motor vehicle at the commencement of lease
  - (d) None of the above
- Q.3 1/10th of any amount of advance received by the owner as advance \_\_\_\_\_ against rent is included in rent chargeable to tax.
- (a) Adjustable
  - (b) Not adjustable
  - (c) Payable
  - (d) Receivable
- Q.4 A deduction against business income is allowed for \_\_\_\_\_.
- (a) Provision for bad debts
  - (b) Actual bad debts
  - (c) Appropriation of profits
- Q.5 Single transaction not exceeding \_\_\_\_\_ are allowed as deduction against business income
- (a) Rs. 5,000
  - (b) Rs. 1,000
  - (c) Rs. 10,000
  - (d) Rs. 25,000

- Q.6 Initial allowance for depreciation on passenger transport vehicles not plying for hire is \_\_\_\_\_.
- (a) Allowed in the first year
  - (b) Allowed in last year
  - (c) Not allowed
  - (d) None of these
- Q.7 Disposal consideration on sale of an asset is
- (a) Amount received on sale
  - (b) Fair Market Value
  - (c) Lower of Fair Market Value and amount received
  - (d) Higher of Fair Market Value and amount received
- Q.8 Companies account for their business transactions on
- (a) Cash basis
  - (b) Accrual basis
  - (c) Both a and b
  - (d) None of these
- Q.9 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.10 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.11 Where jewellery being as capital asset under section 37 is sold after one year, \_\_\_\_\_ of gain on such assets is exempt from tax.
- (a) 50%
  - (b) 25%
  - (c) 75%
  - (d) 100%
- Q.12 An industrial undertaking set up in any export processing zone can carry forward its assessed business losses up to \_\_\_\_\_.
- (a) 6 years
  - (b) 5 years
  - (c) 10 years
  - (d) Unlimited time

- Q.13 Where a taxpayer disposes of the shares within \_\_\_\_\_ of the purchase of shares of a new company listed on stock exchange, the tax liability of the person shall increase by an amount equal to tax credit allowed to him in the year of disposal.
- (a) 24 months
  - (b) 12 months
  - (c) 9 months
  - (d) 6 months
- Q.14 Any person who is required to integrate with Board's computerized system for real time reporting of sale or receipt, shall be entitled to tax credit of \_\_\_\_\_ in respect of the amount invested in purchase of point of sale machine.
- (a) Rs. 150,000
  - (b) Actual amount invested in purchase of point of sale machine
  - (c) Higher of Rs. 150,000 or actual amount invested in purchase of point of sale machine.
  - (d) Lesser of Rs. 150,000 or actual amount invested in purchase of point of sale machine.
- Q.15 If a person fails to pay the income tax with the return of income, then he will\_\_\_\_\_.
- (a) Revise the return of income
  - (b) Pay default surcharge for late payment
  - (c) be deemed as not filed the return
  - (d) both (b) and (c)
- Q.16 Provisional assessment order is issued in respect of any \_\_\_\_\_
- (a) Concealed asset
  - (b) Tax payer who fails to file income tax return in response to notice u/s 114
  - (c) Error in return filed by the taxpayer
  - (d) Both 'a' and 'b'
- Q.17 Every reporting entity under Anti Money Laundering Act, 2010 shall maintain a record of all transactions for a period of at least \_\_\_\_ years following the completion of the transaction.
- (a) 3 years
  - (b) 1 year
  - (c) 5 years
  - (d) 10 years
- Q.18 National Executive Committee constituted under Anti Money Laundering Act, 2010 shall hold its meetings atleast \_\_\_\_ a year.
- (a) Once a year
  - (b) Twice a year
  - (c) Quarterly
  - (d) None of the above
- Q.19 Any property, which is subject matter of benami transaction, shall be liable to be confiscated by the \_\_\_\_\_.
- (a) Federal Government
  - (b) Provincial Government
  - (c) Local Government
  - (d) None of the above

- Q.20 Benami transaction or arrangement means where a property is transferred to, or is held by, a person and the consideration for such property has been provided, or paid by, \_\_\_\_\_
- (a) Himself
  - (b) Another person
  - (c) Spouse of a person
  - (d) Immediate family member

## PART II

**Each question carries 4 marks (This part consists of 10 questions)**

- Q.1 Under the provisions of Income Tax Rules, 2002 briefly describe the following:  
(i) Cross Sales  
(ii) Tax Swap Sales.
- Q.2 Mr. Raza is a resident person and owns a property in Maldives. During the tax year 2022, he received rent against the property amounting to Rs. 6 million. The tax on rental income has been duly paid abroad and there is no tax treaty between Pakistan and Maldives.
- Explain the tax treatment of rental income received by Mr. Raza in Pakistan for the tax year 2022.
- Q.3 State any six ethical issues which tax administrators may face while discharging their duties.
- Q.4 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.
- Q.5 Explain the benefit to be added under the head Income from Salary if accommodation is being provided by Employer to its employee under Income Tax Rules, 2002.
- Q.6 Identify any three situations in which fair market value of the assets shall be treated to be the cost of the asset.
- Q.7 Silk (Pvt.) Limited (SPL) wants to form a joint venture with Export Consultants (Pvt.) Limited (ECPL) for providing disaster management services to corporate clients.

**Required:**

Under the provisions of Income Tax Ordinance 2001, advise the CEO of the two companies about the tax treatment of the following:

- (i) Income / loss derived by the joint venture; and
- (ii) Share of venture's profit / loss from such venture.

- Q.8 In the light of the provisions of Income Tax Ordinance, 2001 explain the term "Tax avoidance scheme". Under what circumstances the Commissioner may exercise his powers to re-characterize or disregard a transaction?
- Q.9 Identify the authority and briefly describe the methods by which a person may be selected for the audit of its Income Tax affairs in the tax year 2021. Also state whether a person can again be selected for audit in tax year 2021 if nothing was found during its audit in the tax year 2020.
- Q.10 Define the term "active taxpayer" with respect to The Punjab Finance Act, 2021.

**PART III**

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

**Q.1**

For the purpose of this question, you should assume that today's date is 15 July 2021.

The following information is furnished to you by Mr. Muneeb, a citizen of Pakistan, for his accounting year ended 30 June 2021.

- (1) Muneeb joined the Boots Medical Centre Lahore from 1 August 2020 on a five-month contract. His terms of employment provided for the following:
  - (i) A basic salary of Rs. 300,000 per month.
  - (ii) A commission equal to 20% of the gross consultancy fees collected by Boots Medical Centre in respect of the patients referred to Mr. Muneeb.
  - (iii) Monthly cash allowances of:
    - 45% of basic salary for rent; and
    - 10% of basic salary for medical.
  - (iv) Boots Medical Centre and Muneeb each to contribute 8% of Muneeb's basic salary to the Boots Medical Centre Employees Provident Fund. The fund is recognised by the Commissioner.
  - (v) Free medical treatment for Muneeb and his wife.
- (2) The consultancy fees, collected by Boots Medical Centre for the period from 1 August 2020 to 31 December 2020 from the patients referred to Muneeb, was Rs. 3,900,000.
- (3) The following amounts were also received by Muneeb in the tax year 2021:
  - (i) From the Boots Medical Centre Employees, Provident Fund amounting to Rs. 240,000. Rs. 120,000 was contributed by Boots Medical Centre and Rs. 120,000 was deducted from Muneeb's salary.
  - (ii) Consideration received amounting to Rs. 1,000,000 for vacating the possession of a building occupied by him Muneeb had paid Rs. 600,000 to the previous tenant to acquire the possession of the building.
- (4) On 1 March 2021, on the occasion of Eid, Boots Medical Centre paid all their employees one month's basic salary as a bonus. Boots Medical Centre informed Muneeb, that though he was no longer their employee, as a special case, he would be paid a bonus of Rs. 150,000. Muneeb informed Boots Medical Centre that Rs. 150,000 should not be paid to him but should be paid to the Poor Patients Unit managed by Boots Medical Centre. Boots Medical Centre paid the Rs. 150,000 to the Poor Patients Unit on 31 March 2021.
- (5) Muneeb paid Rs. 27,000 as Zakat under the Zakat and Ushr Ordinance, 1980 in the year ended 30 June 2021.

**Required:**

Compute the taxable income of Mr. Muneeb under the appropriate heads of income for the tax year 2021.

**Q.2 (a)**

Ahsin Trader (AT) is the sole trader of a branded tea in Pakistan. In addition to the trading business, AT is also engaged in forward purchasing and selling of tea to reap the benefits of price fluctuation in local and international markets. Following information has been extracted from the records of AT for the year ended 30 June 2022

- (i) Detail of trading and speculation businesses (forward purchase and sale) were as follows

|               | Trading        | Speculation |
|---------------|----------------|-------------|
|               | Rs. in million |             |
| Gross Revenue | 450            | 235         |
| Gross Profit  | 22.5           | 11.5        |

- (ii) Total administrative and general expenses for the year amounted to Rs. 8.2 million. This amount includes a penalty of Rs. 0.5 million paid to the custom authorities.
- (iii) Assessed carried forward losses from previous years are as follows:

|                                   | Rs. in million |
|-----------------------------------|----------------|
| Losses from trading business      | 16.8           |
| Losses from speculation business  | 9.5            |
| Capital losses (incurred in 2016) | 2              |

**Required:**

Under the Income Tax Ordinance, 2001 and Rules made thereunder, compute AT's taxable income / (loss) and the amount of loss to be carried forward, if any, for the tax year 2022.

**Q.2 (b)**

During 2021, Ahsin Traders (AT) started a new business related to aerated water. After scrutiny of the tax return filed by the company for the tax year 2021, the Commissioner Inland Revenue has issued a notice under section 122(5A) in which he has raised the following issues:

- (i) The parent company reimbursed 60% of the expenses, incurred by AT in 2021, on marketing a new product exported to Germany. The commissioner wants to add the recouped expenditure to the taxable income of the company.
- (ii) Expenses incurred under the account head "travel fare" aggregating to Rs. 500,000 were paid in cash and should be added back.
- (iii) The commissioner wants to disallow an expense of Rs. 90.0 million, incurred by AT on the promotion of a vaccine which is expected to generate revenue for three years.

**Required:**

With reference to the provisions of Income Tax Ordinance, 2001 advise the management about the tax implications in each of the above situations.

**Q.3**

Zahid, the sole proprietor of FG and company, is a resident individual and is in the process of filing his wealth statement for the tax year 2022. The relevant information is as under:

- (i) Assets and liabilities disclosed in the wealth statement for the tax year 2021 were as follows:

**Assets**

|  |             |
|--|-------------|
| Agriculture land in Hyderabad            | 7,500,000   |
| Residential property in DHA Karachi      | 10,000,000  |
| Investment in shares of listed companies | 1,780,000   |
| Business capital - FG & Co.              | 3,500,000   |
| Motor vehicle                            | 2,540,000   |
| Cash at bank                             | 700,000     |
| Cash in hand                             | 400,000     |
|  | 26,420,000  |
| <b>Liabilities</b>                       |             |
| Bank loan                                | (1,500,000) |
| Net Assets                               | 24,920,000  |

- (ii) Details relating to FG & Co. are as follows:

|  |           |
|--|-----------|
|  | Rupees    |
| Income from business for the tax year 2022 | 3,570,000 |
| Drawings during the year                   | 450,000   |

- (iii) Balance of cash in hand and at bank, as on 30 June 2022 amounted to Rs. 257,500 and Rs. 830,000 respectively.

(iv) Transactions carried out by Zahid during the year were as follows:

- Paid an advance of Rs. 1,000,000 against purchase of a bungalow for Rs. 10,000,000.
- Sold shares of a listed company for Rs. 350,000. The shares were purchased on 1 May 2020 for Rs. 50,000. Capital gain tax collected by NCCPL amounted to Rs. 37,500.
- Gifted shares of a listed company to his brother. The shares were purchased by Zahid in 2017 at a cost of Rs. 100,000 whereas market value of the shares at the time of gift was Rs. 150,000.
- Paid Rs. 200,000 towards principal amount of the bank loan.
- Personal expenses amounted to Rs. 2,075,000.
- Net receipts against agricultural income amounted to Rs. 2,500,000.

**Required:**

Prepare Zahid's wealth statement and wealth reconciliation statement for the tax year 2022.

**(THE END)**