Question No.1

From Income Tax Ordinance, Consists of Definitions, According to
Past Papers Analysis , Following the the Most Important Definitions:

Define and Explain the Following:

1) Income
2) Company
3) Pakistan Source Income
4) Principal Officer
5) Accumulated Profit
6) Industrial Undertaking
7) Tax Year
8) Speculation Business
9) Royalties
10) Dividend

Answer:

1) INCOME

Income includes

(a) Any amount chargeable to tax under the Income Tax Ordinance, 2001;
(b) Any amount subject to collection or deduction of tax at the time of import of goods.
(c) Any amount received by a resident for the supply of goods and services
(d) Any amount received as export proceeds.
(e) Amount received on prizes and winnings
(f) Any amount collected from a person being the owner of goods transport vehicle by the Excise Department.
(g) Any other amount deducted or collected by any person at source is included in the definition of income.
(h) Any loss of income.

2) COMPANY

According to Income Tax Ordinance 2001, Company means and includes

(a) A Company as defined in compan's Ordinance 1984.
(b) A body corporate formed by or under any law for the time being in force in Pakistan.
(c) A Modaraba
(d) A body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies
(e) A trust or a co-operative society or a finance society or any other society established under any law
(f) A foreign association whether incorporated or not, declared by FBR as company
(g) The Provincial Government
(h) A local authority in Pakistan
(i) A small company

3) PAKISTAN SOURCE INCOME

Pakistan source income includes the income which a person earns in Pakistan, irrespective of the fact where it is actually received. Some examples of this income are as follows:

Salary Income

(1) Salary received by virtue of employment in Pakistan, wherever paid.
(2) Salary paid anywhere in the world by or on behalf of the federal government or provincial government or local authority in Pakistan.

Property Income

Rental income from the lease of immovable property in Pakistan

Business Income

(1) Income derived from any business carried on in Pakistan
(2) Business income of a non-resident person from a permanent establishment in Pakistan

Capital Gain

Any gain from on the disposal of shares of resident company

Dividend Income

Any dividend paid by a resident company

Profit on Debt

Profit on debt paid by a resident person, if the profit is from a business carried on in Pakistan

Pension or Annuity

Any pension or annuity paid by a resident

Technical Fee

Any technical fee paid by a resident person from the business carried on in Pakistan

4) PRINCIPAL OFFICER

Principal Officer means and includes

1. Managing Director
2. Secretary
3. Treasurer
4. Manager
5. Agent
6. Accountant
7. Official Liquidator
8. Any person connected with the management and received a notice from the Commissioner to act as principal officer

5) ACCUMULATED PROFITS / RESERVE

The accumulated profit means:

1. Any reserve maintained by a business out of its profits
2. All profits of the company up to the date these are distributed
3. These profits kept in whatever shape, whether capitalized or not will be treated as accumulated profits until their distribution to shareholders

6) INDUSTRIAL UNDERTAKING

Industrial undertaking means an organization which fulfills the following conditions.

(1) It is set up in Pakistan

(2) It employs

- (i) Then or more persons in Pakistan and uses electrical energy or any other form of energy which is mechanically transmitted
- (ii) Twenty or more person in Pakistan and does not use electrical energy or any other form of energy which is mechanically transmitted and

(3) It is engaged in

- (i) Manufacturing or in any process which substantially change the original condition of material
- (ii) Ship-building
- (iii) Generation, conversion, transmission or the distribution of electrical energy, or the supply of hydraulic power or
- (iv) Working of any mine, oil well or any other source of mineral deposits

The Board can declare any other organization as industrial undertaking even it does not fulfill the above mentioned requirements.

7) TAX YEAR / INCOME YEAR

The Income Tax Ordinance 2001 recognizes the following different types of tax year

1. Normal Tax year
2. Special Tax year
3. Transitional Tax year

1. Normal Tax Year

Normal Tax Year is a period of 12 months which ends on the 30th June.

Example of Normal Tax Year

Starting Date	Ending Date
1st July 2010	30th June 2011
1st July 2011	30th June 2012

2. Special Tax Year

A period of 12 months which ends other than 30th June is called special tax year. It is necessary to receive approval for the use of special tax year. Following are some examples of special tax years specified by the Board through notification in the official Gazette.

Classes of Taxpayers	Starting Date	Ending Date
Companies manufacturing sugar or cotton textile	1st October	30th September
All persons exporting rice	1st January	31st December

3. Transitional Tax Year

When tax year of a person is changed from normal tax year to special tax year or vice versa, it results in the emergence of a changing period which is known as "Transitional Tax Year" and is treated to be a separate tax year.

For example a person uses a normal tax year starting on July 1, 2010 and ends on June 30, 2011. He applies for the use of special tax year starting from January 1 and ends on December 31. There is a gap of 6 months (June 30 to Jan 1) to change from normal tax year to special tax year. This gap of 6 month is called transitional tax year.

8) SPECULATION BUSINESS

"A speculation business means any business in which a contract for the purchase and sale of any commodity (including stock and shares) is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity or merchandise, but does not include a business in which:

(a) a contract in respect of raw material or merchandise is entered into by a person in the course of a manufacturing or mercantile business to guard against loss through future price fluctuation for the purposes of fulfilling the person's other contract for the actual delivery of the goods to be manufactured or merchandise to be sold.

(b) A contract in respect of stocks and shares is entered into by a dealer or investor therein to guard against loss in the person's holding of stocks and shares through price fluctuations.

9) ROYALTIES

"Royalties means any amount paid or payable as consideration for

(a) the use any patent, invention, design or model, secret formula or process, copyrights a literary or videotapes, trademark or any other property or right of this type or use of any industrial, commercial or scientific equipment

(b) the receipt of, or right ot receive, any visual images or sounds, optic fiber or similar technology through television, radio or internet broadcasting

(c) the supply of any technical, industrial, commercial or scientific knowledge, experience or skill

10) DIVIDEND

Any payment or distribution by the company to the shareholders or Modarba certificates holders as a reward or return on their investment out of earned profit is called dividend.

According to income tax ordinance 2001, the following distributions made by the company are considered as dividend.

(i) Distribution to shareholders out of current year profit.
(ii) Distribution to the shareholders out of accumulated profit.
(iii) Distribution to the shareholders out of share premium.
(iv) Distribution to the shareholders in form of debentures or debenture stock out of accumulated profit.
(v) Distribution to the shareholders at the time of liquidation to the extent accumulated profit.
(vi) Distribution to the shareholders by a private company or trust in form of loan and advance out of accumulated profit

QUESTION # 2

Discuss the various types of reliefs and allowances which can be claimed as tax credit by an individual.

ANSWER

Government allows tax concession on some expenditures and investments. For tax year 2019, relief in tax will be provided if the person makes any of the following payments.

A. Donation for charitable purpose
B. Investment in shares or Sukuks or Life insurance
C. Investment in Health Insurance
D. Contribution to approved pension fund

(A). DONATION FOR CHARITABLE PURPOSE
A tax credit shall be granted to a person in respect of any amount or property given by him as donation if the following conditions are fulfilled:

(1) Approved Organization or Fund
The Donation should be given to the following

(a) Any Board of Education or University in Pakistan established under any federal or provincial law.
(b) Any Hospital in Pakistan established or run by Government or by a local authority.
(c) Relief fund approved by government
(d) Non-profit organization approved by tax authorities

(2). Forms of Donation

(a) Cash by Cross Cheque:
If cash is given as donation then concession shall be given only if the amount is paid by a cross cheque.
(b) Property:
If property is given as donation then concession shall be given on the fair market value of property
(c) Good or Articles:

If goods or articles are donated then the value shall be ascertained by the Board.

(3). Maximum Limit

In case of a company
(a) Actual donation or
(b) 20% of taxable income whichever is less will be allowed for relief

In case of individual or AOP
(a) Actual donation or
(b) 30% of taxable income whichever is less will be allowed for relief

(B) INVESTMENT IN SHARES OR SUKUKS AND LIFE INSURANCE

As a measure to promote savings and investments in the country, incentive has been provided through this tax credit scheme. A tax credit is given if the following conditions are fulfilled.

(1). Kinds of Shares
The taxpayer other than a company has made investment for the purchase of:

- New Shares or Sukuks offered by the public or listed company or
- Shares purchased from Privatization Commission of Pakistan

(2). Original Allotment:
The taxpayer should be the original allottee of the shares

(3). Surrender of Right
If a person sells or transfer these shares within two years of the purchase then amount of relief allowed shall to be surrendered (give up).

(4). Maximum Limit
The amount eligible for relief on shares / Life insurance is restricted up to:

- Actual investment
- 20% of taxable income or
- Rs. 15,00,000 whichever is less will be allowed for relief

(C) INVESTMENT IN HEALTH INSURANCE
Through Finance Act, 2016 tax credit (concession) has been allowed for a person if he pays any premium to an insurance company. Tax credit will be allowed only on "salary" and "income from business" subject to the following details.

a) The person should be a resident
b) It is not allowed to companies
c) The insurance company should be registered under the insurance Ordinance 2000.
d) Tax concession will be allowed on actual payment or 150,000 or 5% of taxable income whichever is less

(D). CONTRIBUTION TO AN APPROVED PENSION FUND
Any Pakistani individual salaried person or businessman who contributes a premium in

approved pension fund during the year is entitled to a tax incentive on such payment. The details are as follows:

(1) Valid NTN or CNIC
The person contributing should possess a valid National Tax Number (NTN).

(2) For One Scheme Only
The concession is available for contributing to only one approved employment pension or annuity scheme.

(3) Maximum Limit
The amount eligible for relief will be restricted to 20% or taxable income.
(i) Actual Contribution
(ii) 20% of taxable income
(i) or (ii) Whichever is less will be allowed for relief

(4) Extension in Limit
If contribution is made at the age above 40 years then limit of 20% will increase by 2% for each year. However this limit shall not exceed 30%

QUESTION # 3

What is provident fund and its different types? Explain the treatment of different types of provident fund for inclusion in the total income and exemption from income tax.

ANSWER

PROVIDENT FUND
Provident fund means the fund maintained by an employer for the benefit of his employee. In this fund both employer and employee contribute some amount which is invested in some profitable business or in bank. A fixed rate of interest is credited to fund of each employee every year. At the time of retirement the lump sum amount is withdrawn from fund and paid to employee. If he becomes invalid or discharge from service before retirement then this fund is also paid to him. If he died then this fund is paid to his heir (family).

Employee's Contribution
The amount contributed by employee in provident fund is called employee's contribution. This amount is deducted from his or her salary before payment.

Employer's Contribution
Equal amount is contributed by employer to provident fund. For example if Rs. 5000 is contributed by employee the employer also contributes Rs. 5000. It is called employer contribution.

Interest Credited
This amount is invested in a profitable business or in bank from where interest or profits is received which is added in this found. It is called interest credited.

Accumulated balance
At the time of retirement or death of employee the whole amount is withdrawn and paid to him or his family. This total amount is called accumulated balance.

TYPES OF PROVIDENT FUND
For income tax purpose provident fund can be divided into three categories.

1. Government Provident Fund
2. Recognized Provident Fund
3. Unrecognized Provident Fund

1- Government Provident Fund
A provident fund maintained by a government or semi-government organization is known as government provident fund or a statutory provident fund. The provident fund Act. 1925 applies to such provident funds.

Examples
Provident fund maintained by following organization is government provident fund.

Pakistan Armed Forced
Central or Provincial Government
Railways and WAPDA etc.

2- Recognized Provident Fund
If a provident fund maintained by a private organization and the Commissioner of income Tax grants recognition to such funds, it is known as recognized provident fund.

The application shall be submitted to the Commissioner of the area by the employer. The application shall contain the following information.

- Name and particulars of employer
- Nature of business
- Place of business
- Name of employees
- Verification of all particulars

Conditions for Approval:

(a) At least 90% employees of the organization should be employed in Pakistan
(b) The employer should deduct every month a definite portion from the salary of the employees.
(c) The employer contribution should not exceed the employee contribution
(d) The accumulated balance shall be payable to the employee on the day he ceases to be an employee.

3- Unrecognized Provident Fund
If a provident is maintained by private organization and the recognition is not given by Income Tax Authorities, it is known unrecognized provident fund.

Following are some reasons due to which a provident fund may not be recognized.

1. The conditions which are given in law are not fulfilled.
2. No application for recognition is given.
3. The application is given but rejected due to some technical grounds.

TREATMENT OF PROVIDENT FUND
The following table has been designed to help you understand the treatment of different items

in different types of provident funds.

1. Government Provident Fund

(i) Employee's Contribution – Already included in taxable income
(ii) Employer's Contribution – Not Included in taxable income
(iii) Interest Credited – Not included in taxable income
(iv) Accumulated Balance – Not included in taxable income

2. Unrecognized Provident Fund

(i) Employee's Contribution – Already included in taxable income
(ii) Employer's Contribution – Not Included in taxable income
(iii) Interest Credited – Not included in taxable income
(iv) Accumulated Balance – 50% of balance will be taxable

QUESTION # 4

Explain allowable and not allowable deduction under the head "Income from Business"

ANSWER

ALLOWABLE DEDUCTIONS

In computing the income under the head "Income from Business" the following allowances and deductions shall be made.

1. Expenditures relating to business
Any expenditure incurred by the person during the tax year is allowable as deduction if it relates to the business. Following is the example of some expenses which are allowable as deduction.

1. Repair and insurance of machinery
2. Bonus or Commission to employees
3. Employer's Contribution to recognize provident fund etc.

2. Depreciation and Amortization
In ordinance specific rates and rules are given for depreciation and amortization such as for Building 10% and for Furniture 15%. A businessman can deduct depreciation and amortization if he applies these rules and depreciation rates given in ordinance.

3. Amalgamation expenditures
When two or more than two companies merged with each other and a new company is build, it is called amalgamation. All expenses relating to amalgamation are allowed as deduction under head "Income from Business". Some examples of amalgamation are as follow.

1. Legal expenses
2. Financial Advisory Service

3. Administrative cost relating to planning and implementation of amalgamation

4. Pre-commencement expenditures
Pre-commencement expenditures means any expenditures incurred before the start of business. Pre-commencement expenditures are allowed as deduction.

Example

1. Cost of feasibility study
2. Construction of prototypes (sample)
3. Cost of trial production activities

5. Employee's training and facility
A person shall be allowed as deduction for any expenditure incurred in a tax year in respect of

1. Any educational institution or hospital in Pakistan established for the benefit of the person's employees and their dependents.
2. Any institution in Pakistan established for the training of industrial workers recognized, aided, or run by the Federal Government or a local authority.
3. The training of any person, being a citizen of Pakistan, in connection with a scheme approved by the FBR.

6. Profit on Debt and Lease Payment
Any expenditure incurred by a person during the tax year shall be allowed a deduction under the head income from business if it relates to:

Profit on debt: Profit on debt is allowable deduction if debt is used for business purpose. (Profit on debt means any interest, discount, premium or other amount payable on debt)

Lease Payment: When an asset is taken on lease from schedule bank, Modarba Company or any other leasing company approved by the federal board of revenue the lease payment made to them is allowable deduction.

7. Bad Debts
A person shall be allowed a deduction for a bad debt during the tax year if the following conditions are satisfied, namely:

1. The amount of the debt was previously included in the person's income from business chargeable to tax.
2. In case of financial institution, it represents an amount lent for deriving taxable income.
3. The debt or part of the debt is written off during the tax year.
4. There are reasonable grounds that the debt is irrecoverable.

8. Scientific Research expenditure
Under the income tax ordinance a person is allowed a deduction for scientific research expenditure against "Income from business" if the following conditions are fulfilled.

1. The expenditure is incurred in Pakistan
2. The institution is approved by FBR
3. The expenditure is incurred wholly and exclusively for the purpose of scientific research business.

9. Worker's Welfare Fund

Any amount paid for workers welfare fund will be excluded from total income. This amount is necessary to be paid by every industrial establishment, with a total income of Rupees one Lac or more.

10. Worker's Participation Fund
Contribution made to Worker's Participation Fund under the Companies Profit Act, 1968, is also allowed to be deducted.

DEDUCTION NOT ALLOWABLE
While calculating taxable income of business following expenditures are not allowed to be deducted.

1. Fine or Penalty
Any fine or penalty paid or payable by the person for the violation of any law, rule or regulation.

2. Personal expenditures
Any personal expenditure incurred by the person is not allowed as deduction.

3. Amount transfer to Reserve Fund or Capitalized
Any amount transfer to a reserve fund or capitalized is not allowed as deduction.

4. Salary exceeding Rs. 15000 per Month
It is necessary to pay salary exceeding Rs. 15000 through crossed cheque or direct transfer to employee's bank account. If it is paid in cash then it is not allowed for deduction.

5. Cess, Rates, Taxes
Any amount paid or payable by the person in Pakistan or outside Pakistan on account of any cess, rate or tax levied on the profits or gains of the business.

6. Tax deducted at source
Any amount of tax deducted at source from salary, dividends, royalty etc.

7. Payment to Non-Resident
Any sum paid to a non-resident on account of salary, rent, brokerage or commission, profit on debt, payment for services or fee or any other sum chargeable to tax is no allowed as deduction. However if tax is deducted and paid on these payments before paying to non-resident then these are allowed for deduction.

8. Entertainment Expenditures
Any entertainment expenditure in excess of prescribed limit is not allowed as deduction.

9. Sum paid to Unrecognized Fund
Any contribution made by the person towards unrecognized provident fund, pension fund or gratuity fund which is not approved is not allowed as deduction.

10. Employer's contribution to a Provident Fund or Other Fund
Tax is also paid on recognized provident fund if it is more than 10% of salary. It is the duty of employer to deduct tax at source while paying fund to employee. If he does not make an arrangement then he is not allowed to deduct the amount which he contributed to that fund.

3. Recognized Provident Fund

(i) Employee's Contribution – Already included in taxable income
(ii) Employer's Contribution – 10% of (Basic Salary + Dearness Allowance) or 150,000 whichever is less will be exempt from employer's contribution
(iii) Interest Credited – 16% or 1/3 of (Basic Salary + Dearness Allowance) whichever is less will be exempt from Interest Credited
(iv) Accumulated Balance – Not included in taxable income

QUESTION # 5

What is set off and Carry forward of losses? What are different losses which can be set off and carry forward under the provision of Income Tax Ordinance?

ANSWER

SET OFF THE LOSSES

It is not sure that there will always be a profit some time there may be a loss. If there is a loss the income tax authorities allow a person to adjust that loss against income of same head or other heads in the same year. Such adjustment is called "Set off the losses".

Example

Mr. A has earned a profit of Rs. 10,00,000 from Business in Lahore but at the same time he sustains a loss of Rs. 300,000 from Business in Sialkot. Here he will pay tax on Rs. 700,000 (1,000,000 – 300,000). This adjustment of loss is called set off of losses.

Some losses can only be set off against the income of same head while some losses can be set off against income of other heads.

SET OFF THE LOSSES WITHIN SAME HEAD

(i) Capital loss can be set off against capital gains only
(ii) Loss of speculation business can be set off against profit of speculation business only.

SET OFF THE LOSSES AGAINST OTHER HEADS

(i) Loss from property
(ii) Loss from non-speculation business
(iii) Loss from other sources

RULES FOR SET OFF THE LOSSES

1. Companies operating Hotels
If a company is registered in Pakistan or Azad Jammu and Kashmir (AJ&K), and it operates Hotels at both the places, and it sustains a loss from business at one place, the loss can be adjusted against company"s income at the other place.

2. Property Loss

Loss from property can be set-off against any other head of income other than salary and FTR incomes. Moreover any other loss cannot be set-off against property income.

3. Speculation loss
Loss from a speculation business can be set off against profits of another speculation business only. It means loss from speculation business cannot be adjusted against any other head of income.

4. Set off Capital loss
Like speculation loss capital loss can only be set off against capital gains received by the person. It cannot be set off against any other income.

5. Loss on sales of immovable Property
Loss on sale of immovable property cannot be set-off against any other head of income. Similarly, loss of any other head of income cannot be set-off from the gain on sale of immovable property.

6. Foreign Source Loss
Foreign source loss can only be adjusted against foreign source income. It cannot be adjust against any Pakistan source income.

7. Loss of AOP
Loss incurred by an AOP shall not be set-off against the other incomes of its members but an AOP can set-off its losses against its own other heads of incomes according to rules.

8. Loss Consequent to Amalgamation
The loss of amalgamating (merging) company or companies, other than capital loss and brought forward loss, shall be set off against business profits and gains of the amalgamated company and vice versa.

CARRY FORWARD OF LOSSES
If a taxpayer sustains a loss in a tax year then the law allow him to adjust such loss against income from other heads of income or income from same head. If the income is insufficient to adjust the loss then the taxpayer has the option to adjust such loss against the income of next years. This procedure is called as carry forward of losses.

However, a taxpayer can carry forward only such losses which are assessable under the following heads.

(i) Non-Speculation Business
(ii) Speculation Business
(iii) Capital gains

RULES FOR CARRY FORWARD OF LOSSES

1. Non-speculation Business
If any loss was left un-adjusted in the same year then it can be carry forward to the next year but in the next year it can only be adjusted against the profits or gains of the non-speculation business. This loss can be carried forward up to 6 years. If loss is not fully adjusted during six years then remaining loss become dead loss.

2. Speculation Business loss
Loss from speculation business can be adjusted only against the income from speculation

business. If it is not adjusted in the year of loss then it can be carry forward to next 6 years after that it will become dead loss.

3. Capital Loss
Capital loss can be adjusted only against the capital gain. If due to any reason it is un-adjusted then it can be adjusted against the capital gain of next year. It can be carry forward up to 6 years.

4. Property loss
Any loss sustained by a taxpayer under the head "Income from Property" in a tax year can be set off against any other head of income in the same year but any unadjusted loss cannot be carried forward to next year.

5. Loss on Sales of Immovable Property
Any loss sustained by a person on the sale of immovable property cannot be carried forward to next year.

6. Other Sources Loss
Loss sustained under the head "Income from other source" can be set off against other income of same head or any other head income in the same year but any unadjusted loss cannot be carried forward to next year.

7. Foreign Loss
Foreign source loss can be adjusted only against other foreign source incomes. Any unadjusted loss can be carry forward to next 6 years.

8. Loss of Association of Person
Any loss of AOP which remain unadjusted can be carry forward to next 6 years.

9. Loss of Amalgamating Companies
The unadjusted loss of amalgamating company or companies other than capital loss and brought forward loss can be carry forward up to the period of 6 years.

QUESTION # 6

Write in detail the legal provisions governing the filling of return of total income under income tax law.

ANSWER

PROVISIONS FOR FILLING THE RETURN OF INCOME

1. Persons Required to Furnish a Return
It is necessary for following person to furnish the return of income:

(a) Every person whose total income during the tax year exceeds the taxable limit
(b) Every company irrespective of its income
(c) Any non-profit organization
(d) Any approved welfare institution
(e) Any person who has been charged to tax for any of the two tax years immediately preceding the previous tax year
(f) Any person who claimed a loss carried forward from a previous tax year

(g) Any person who
(i) Owns a motor vehicle having engine capacity above 1000 cc.
(ii) Has obtain National Tax Number
(iii) Owns immovable property, with land area of 250 squares yard or more.

Above mentioned persons are not required to file the return if they belong to any of the following categories

(i) A widow
(ii) An orphan below the age 25 years.
(iii) A non-resident person
(iv) A disabled person.

2. Requirement of the Return

A return of income:

(a) Shall be in the prescribed form and accompanied by such statements or documents as may be prescribed.
(b) Shall fully state all the relevant particulars or information as specified in the form or return.
(c) Shall be signed by the person, or the person"s representative.

3. Electronic Filling of Return

A return of income filed electronically on the web or any magnetic media or any other computer readable media as may be specified by the Board shall also be deemed to be a return.

4. Return by Notice

The Commissioner may, by notice in writing, require a person or a person"s representative to furnish a return of income by the date specified in the notice for a period of less than 12 month, where;

(i) The person has died.
(ii) The person has become bankrupt or gone into liquidation
(iii)The person is about to leave Pakistan permanently.
(iv)The Commissioner considers it appropriate due to any other reason.

5. Non-Furnishing of Return

The Commissioner may issue a notice to a person to furnish a return of income, who in the opinion of Commissioner is required to furnish a return but has failed to do so. The return must be filed within thirty days from the date of issuance of notice or a longer period as may be specified in the notice.

6. Revision of the Return

If a person has furnished a return but later on he discovered any omission or wrong statement therein, may file revised return subject to the following conditions:

(a) It is accompanied by the revised accounts
(b) The reasons for revision of return, in writing and duly signed, by the taxpayer are filed with the return.

7. Submission of wealth statement

(i) The Commissioner may require by a written notice any person to furnish a wealth statement on a specific date. The statement should be in the prescribed form and verified in the prescribed manner. Wealth statement may contain the following information.
   (a) The person"s total assets and liabilities.
   (b) The total assets and liabilities of the person"s spouse, minor children, and other dependents.
   (c) Any asset transferred by the person to any other person during the period and the consideration (price) for the transfer.
   (d) The total expenditures incurred bythe person, and the person"s spouse, minor children, and other dependents during the tax year.
(ii) Every resident taxpayer being an individual filing a return of income for any tax year shall furnish a wealth statement and wealth reconciliation statement along with such return.
(iii) Every member of an AOP shall also furnish wealth statement and wealth reconciliation statement along with return of income of association.
(iv) Every person (other than a company or AOP) falling under final tax regime (FTR) for the tax year shall file a wealth statement and wealth reconciliation statement.

8. Return of Discontinued Business

Any person discontinuing a business shall give the Commissioner a notice in writing to that effect within fifteen days of the discontinuance.

Where no notice has been given by the person but the Commissioner has reasonable grounds to believe that a business has discontinued or is likely to discontinue, he may serve a notice on the person who has discontinued the business or is likely to discontinue the business to furnish a return, within the time specified in the notice.

9. When to furnish the return of income

A taxpayer should furnish the return of income according to the following details;

(a) The companies whose tax year ends between 1st January and 30th June, the return of income must be furnished up to 31st December of the same year.
(b) A salaried person should file the return of income electronically or if complete tax has been paid by his employer should file the prescribed certificate up to 31st August of the same tax year.
(c) All other persons should furnish the return of income up to 30th September next to the end of their tax year.

10. Extension of Time for furnishing return

The Commissioner has the powers to extend the date of furnishing the return provided that an application for extension in time is presented by the due date of furnishing the return. If on receipt of such an application the Commissioner is satisfied that an extension is necessary because of the taxpayer"s absence from Pakistan, his sickness or other misadventure or any other genuine difficulty, the Commissioner will grant an extension of time for a period not exceeding fifteen days.

However, under exceptional circumstances justifying the delay, a longer extension of time may be granted by the Commissioner.

11. Penalty for failure to furnish the return

Where any person fails to furnish the return of income within the prescribed time, the Commissioner shall impose penalty upon such person. The amount of penalty will be equal to

0.1% of the tax payable for each day of default subject to a minimum of 10,000 rupees and a maximum of 50% of tax payable.

QUESTION # 7

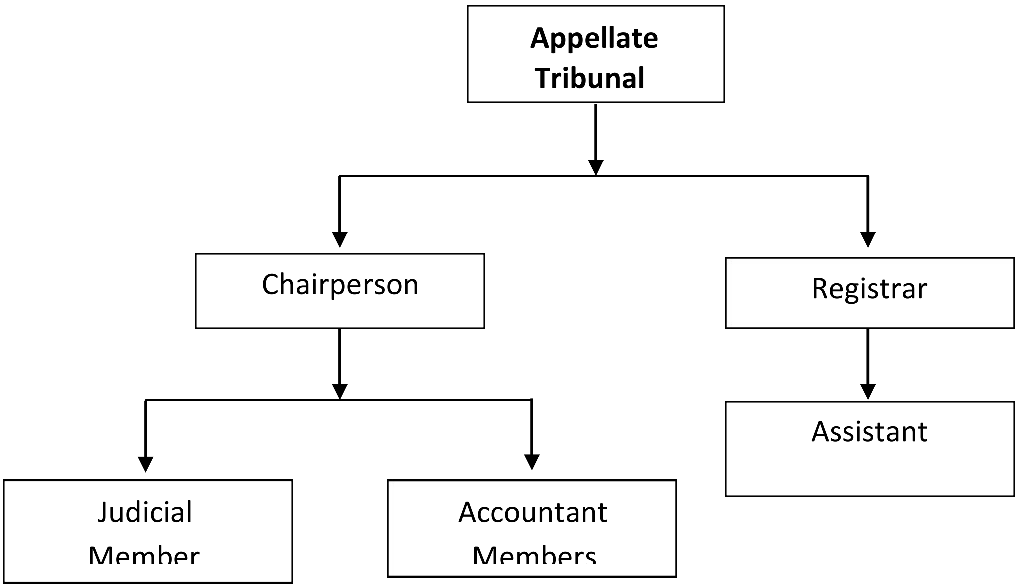
What is the composition (structure) and function of Appellate Tribunal? Why Appellate Tribunal is called final fact finding authority?

ANSWER

APPELLATE TRIBUNAL INLAND REVENUE (ATIR)

Appellate Tribunal is the second court of appeals. Taxpayer or tax department if not satisfied with the decision of Commissioner Inland Revenue (Appeals) can make an appeal to Appellate Tribunal. It is appointed by Federal Government.

Composition of Appellate Tribunal



JUDICIAL MEMBERS

The Federal Government may appoint a person as judicial member of the Appellate Tribunal Inland Revenue if:

- He has exercise the power of a District Judge and is qualified to be a judge of a High Court, or
- He is or has been an advocate of High Court and is qualified to be judge of High Court.

ACCOUNTANT MEMBERS

The Federal Government may appoint following person as Accountant member of the Appellate Tribunal Inland Revenue.

- An officer of Inland Revenue who is equivalent in rank of Chief Commissioner

Inland Revenue
- Commissioner Inland Revenue or Commissioner Inland Revenue (Appeals) having five years experience

CHAIR PERSON

One of the judicial members can be appointed as chair person of the tribunal.

REGISTRAR

Registrar receives the appeals and look after the working of tribunal. He is subordinate the chair person. He also fixes the dates for hearing of appeals.

FUNCTIONS OF APPELLATE TRIBUNAL

The Tribunal hears appeals against the orders of the Commissioner Inland Revenue (Appeals).

The decision of the Tribunal is final if the case involves point of fact. If the case involves point of law then the case can be referred to High Court.

The chairman may divide the Tribunal into benches to perform the powers and functions of it.

A bench is usually consists of equal number of judicial and accountant members but it is not necessary. But Federal Government may authorize the Chairman or any member to alone hear and decide the case.

If there is difference in opinion of members on any point then decision of majority is accepted but if the number is equal on both sides then matter is referred to the Chairman. Then Chairman appoints one or more member of the Tribunal to hear the disputed case and the case is decided with the opinion of majority members including those who first heard.

Question No.8

Explain the Following With Reference to Sales Tax Act

1. Tax Invoice

It means a document required to be issued under section 23 of the Sales Tax Act, 1990.

Explanation:

Section 23 requires that every registered person while making a taxable supply is required to issue a serially numbered tax invoice at the time of supply of goods containing:

1. Serial Number
2. Name, address and registration number of the supplier.
3. Name, address and registration number of the recipient.
4. Date of issue of invoice.
5. Description and quantity of goods.
6. Value exclusive of tax.
7. Amount of sales tax.
8. Value inclusive of tax.

2.Manufacture or Produce

"Manufacture" or "Produce" includes

(a) Any process in which an article singly or in combination with other articles, materials, components, is either converted, changed, transformed or reshaped that it becomes capable of being put to use differently.

(b) Process of printing, publishing, lithography and engraving and

(c) Process and operations of assembling, mixing, cutting, diluting, bottling, packaging, repacking or preparation of goods in any other manner.

3.Wholesaler

"Wholesaler" includes a dealer and means any person who carries on, whether regularly or otherwise, the business of buying and selling goods by wholesale or of supplying or distributing goods, directly or indirectly, by wholesale for cash or deferred payment or for commission or other valuable consideration or stores such goods belonging to others as an agent for the purpose of sale and includes a person supplying taxable goods to a person who deducts income tax at source under the income tax Ordinance 2001

4. TIME OF SUPPLY

Sales tax is chargeable at the time of supply of goods or services. The time of supply means the time of delivery of goods by the supplier.

EXPLANATION

a) Where any goods are supplied by the registered person to an associated person and the goods are not to be removed , the time of supply shall be the time at which the goods are made available to the recipient.

b) Where the goods are supplied under hire – purchase agreement, the time of supply shall be the time at which the agreement is entered into.

Imported Goods

The time when sales tax is applicable for the imported goods is the time of importation i.e. filing of bill of entry or customs declaration. Sales tax on imported goods is collected in the same manner and at the same time as if it were customs duties on imported goods.

Services

The time of supply for services rendered is the date when the service to be performed is completed