Chapter 6

COMPUTATION OF TAXABLE INCOME

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<td></td>
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**PART – I (For CAF-6 and ICMAP students)**

1. **Tax on taxable income [U/s 4]**

   Income tax shall be imposed each tax year (subject to this Ordinance), at the rate or rates specified the First Schedule, as the case may be, on every person who has taxable income for the year. From the resultant income tax computed subtraction shall be made for any tax credits allowed to the taxpayer for the year.

   Where a taxpayer is allowed more than one tax credit for a tax year, the credits shall be applied in the following order-

   (a) any foreign tax credit allowed u/s 103; then

   (b) any tax credit allowed u/s 61 to 65; and then

   (c) any tax credit allowed for taxes paid (including advance tax) and tax deducted at source,

   Certain classes of income and income of certain classes of persons may be subject to separate taxation or collection of tax or deduction of tax shall be treated as a final tax on the income of the person.

   Income covered under FTR and SBI shall not be included in the computation of taxable income in accordance with section 8 or 169, as the case may be.

2. **Tax on un-distributed reserves [U/s 5A]**

   Subject to this Ordinance, a tax shall be imposed at the rate of 10%, on every public company other than a scheduled bank or a Moradabad, that derives profits for a tax year but does not distribute cash dividends within six months of the end of the said tax year or distributes dividends to such an extent that its reserves,
after such distribution, are in excess of 100% of its paid up capital, so much of its reserves as exceed 100% of its paid up capital shall be treated as income of the said company:

Provided that for tax year 2015, cash dividends may be distributed before the due date mentioned in section 118(2), for filing of return for tax year 2015.

- The above provisions shall not apply to
  a. a public company which distributes profit equal to either 40% of its after tax profits or 50% of its paid up capital, whichever is less, within six months of end of tax year;
  b. a company qualifying for exemption U/C (132) Part I of the Second Schedule.
  c. a company in which not less than 50% shares are held by the government.

- In this section, ‘reserve’ includes amounts set-aside out of revenue or other surpluses excluding capital reserves, share premium reserves and reserves required to be created under any law, rules or regulations.

3. **Tax on shipping of a resident [U/s 7A]**

   - In the case of any resident person engaged in the business of shipping, a presumptive income tax shall be charged in the following manner, namely:
     - (a) ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bare-boat chartered and flying Pakistan flag shall pay tonnage tax of an amount equivalent to one US $ per gross registered tonnage per annum; and
     - (b) ships, vessels and all floating crafts including tugs, dredgers, survey vessels and other specialized craft not registered in Pakistan and hired under any charter other than bare-boat charter shall pay tonnage tax of an amount equivalent to fifteen US cents per ton of gross registered tonnage per chartered voyage provided that such tax shall not exceed one US $ per ton of gross registered tonnage per annum:

   **Explanation.** - For the purpose of this section, the expression “equivalent amount” means the rupee equivalent of a US dollar according to the exchange rate prevalent on the first day of December in the case of a company and the first day of September in other cases in the relevant assessment year.

   - The provisions of this section shall not be applicable after 30th June, 2020.

4. **Tax on Profit on Debt [U/s 7B]**

   - Subject to this Ordinance, a tax shall be imposed, at the rate specified as under, on every person (other than a Company) who receives a POD from any person mentioned in clause (a) to (d) of section 151(1).

   | 1. | Where profit on debt does not exceed Rs.25,000,000 | 10% |
   | 2. | Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.50,000,000 | 2,500,000 + 12.5% of the amount exceeding Rs.25,000,000 |
   | 3. | Where profit on debt exceeds Rs.50,000,000 | Rs.5,625,000 + 15% of the amount exceeding Rs.50,000,000 |

   - The tax imposed above on a person who receives a POD shall be computed by applying the relevant rate of tax to the gross amount of the profit on debt.

   - This section shall not apply to a POD that is exempt from tax under this Ordinance.

5. **General provisions relating to taxes imposed under FTR / separate block of income [U/s 8]**

Subject to this ordinance, where the tax imposed under Final Tax Regime / Separate Block of Income on the amount in respect of which the tax is imposed and-

- (a) Such amount shall not be chargeable to tax under any head of income in computing the taxable income of the person who derives it for any tax year;
- (b) No deduction shall be allowable for any expenditure incurred in deriving the amount;
- (c) The amount shall not be reduced by any deductible allowance or the set off of any loss;
- (d) The tax payable by a person under final tax regime / separate block of income shall not be reduced by any tax credits allowed under this Ordinance; and
The liability of a person under final tax regime / separate block of income shall be discharged to the extent that the tax has been paid in accordance with the relevant section or the tax payable has been deducted at source.

6. Taxable Income (U/s 9)

The taxable income of a person for a tax year shall be the total income (other than exempt income) of the person for the year (but not below zero) less Zakat, Worker’s Profit Participation Fund (WPPF), Worker’s Welfare Fund (WWF) and deductible allowance for profit on debt (u/s 64A).

Example: If the total income of Mr. Ali is Rs.500,000 then you are required to compute the taxable income of Mr. Ali, if he paid the following amounts:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zakat</td>
<td>Rs. 18,000</td>
</tr>
<tr>
<td>WWF</td>
<td>Rs. 5,000</td>
</tr>
<tr>
<td>WPPF</td>
<td>Rs. 8,000</td>
</tr>
<tr>
<td>Profit on debt</td>
<td>Rs. 20,000</td>
</tr>
</tbody>
</table>

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of income as per question</td>
<td>Rs. 500,000</td>
</tr>
<tr>
<td>Less: deductible allowances: (18,000 + 5,000 + 8,000 + 20,000)</td>
<td>(51,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>Rs. 449,000</td>
</tr>
</tbody>
</table>

7. Total Income (U/s 10)

The total income of a person for a tax year shall be the sum of the person's income under the heads of income (including exempt income) for the year.

8. Heads of Income (U/s 11)

(1) For the computation of tax and total income, all income shall be classified under the following heads, namely,

(a) Salary
(b) Property income
(c) Business income
(d) Capital Gains
(e) Income from Other Sources.

(2) Where the total deductions allowed to a person for a tax year under a head of income exceed the total of the amounts derived by the person, he sustained a loss equal to the excess amount.

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

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

9. Principle of taxation of individuals [U/s 86]

Subject to this Ordinance, the taxable income of each individual shall be determined separately.

9.1 Deceased individuals [U/s 87]

The legal representative of a deceased individual shall be liable for

(a) any tax that the individual would have become liable for if the individual had not died; and

(b) any tax payable in respect of the income of the deceased's estate.

The liability under this Ordinance shall be first charge on the deceased estate and shall be limited on the legal representative under this section to the extent to which the deceased's estate is capable of meeting the liability.

In this section, "legal representative" means a person who in law represents the estate of a deceased person, and includes any person who intermeddles with the estate of the deceased and where a party sues or is sued in representative character the person on whom the estate devolves on the death of the party so suing or sued.

10. Tax liability of a Company and Association of Persons:

10.1 Principles of taxation of associations of persons [Section 92]

An AOP shall be liable to tax separately from the members of the association and where the AOP has paid tax the amount received by a member of the association out of the income of the association shall be exempt from tax;

Provided that if at least one member of the AOP is a Company, the share of such company or companies shall be excluded for the purpose of computing the total income of the AOP’s & the Company or companies shall be taxed separately at the rate applicable to the companies, according to their share.
Computation of Taxable Income

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Example

Sultan (Pvt.) Limited and NA International (sole proprietor) of Mr. Asad have a joint venture in the name of Nimco consultants. It is not a registered with registrar of firms. The share in interest of company and Mr. Asad in the joint venture is 65:35 respectively. The JV is providing the consultancy services to its clients. Mr. Asad withdraws salary of Rs. 60,000 per month. Total Income of the Joint Venture is Rs. 1,700,000. Carry forward of losses of preceding years is Rs. 600,000. Tax already deducted is Rs. 85,000. Mr. Asad also provided the loan to the joint venture and received interest of Rs. 320,000 during the year:

You are required to calculate the taxable income and tax liability of the joint venture, Sultan (Pvt.) and Mr. Asad for the tax year 2016.

Solution

Computation of tax liability of Joint Venture

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total income</td>
<td>1,700,000</td>
</tr>
<tr>
<td>Add: inadmissible expenses</td>
<td></td>
</tr>
<tr>
<td>Salary paid to Mr. Asad (60,000 x 12)</td>
<td>720,000</td>
</tr>
<tr>
<td>Profit on debt to Mr. Ahsan</td>
<td>320,000</td>
</tr>
<tr>
<td>Taxable income</td>
<td>1,040,000</td>
</tr>
<tr>
<td>Less: Carry forward losses</td>
<td>(600,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>2,140,000</td>
</tr>
<tr>
<td>Less Share as member in the income of AOP (65%) to be taxed in the hands of the Company</td>
<td>1,391,000</td>
</tr>
<tr>
<td>Balance taxable income in the hands of the AOP (35%)</td>
<td>749,000</td>
</tr>
<tr>
<td>Tax liability [Rs.7,000+ 10% (749,000 – 500,000)]</td>
<td>31,900</td>
</tr>
</tbody>
</table>

Computation of Share of members

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Divisible income (749,000 – 31,900)</td>
<td>717,100</td>
</tr>
<tr>
<td>Salary</td>
<td>(720,000)</td>
</tr>
<tr>
<td>Interest on loan</td>
<td>(320,000)</td>
</tr>
<tr>
<td>Actual loss for Mr. Asad from AOP</td>
<td>(322,900)</td>
</tr>
</tbody>
</table>

10.2 Practical example on determination of share from AOP:

IBN is an AOP with two partners Mr. Ghazali and Mr. Aftab with ratio of sharing 40:60.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit as per accounts</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Depreciation as per accounts</td>
<td>600,000</td>
</tr>
<tr>
<td>Salary to partner (Mr. Aftab)</td>
<td>250,000</td>
</tr>
<tr>
<td>Brokerage to partner (Mr. Aftab)</td>
<td>100,000</td>
</tr>
<tr>
<td>Less: Tax depreciation</td>
<td>900,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>2,150,000</td>
</tr>
<tr>
<td>Income Tax [32,000 + 15% x (1,250,000 - 750,000)]</td>
<td>107,000</td>
</tr>
<tr>
<td>Divisible Income</td>
<td>1,143,000</td>
</tr>
</tbody>
</table>

Share of profit from AOP shall be computed as under:

<table>
<thead>
<tr>
<th>Description</th>
<th>Partner Ghazali</th>
<th>Partner Aftab</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>Nil</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Brokerage</td>
<td>Nil</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Balance</td>
<td>317,200</td>
<td>475,800</td>
<td>793,000</td>
</tr>
<tr>
<td></td>
<td>317,200</td>
<td>825,800</td>
<td>1,143,000</td>
</tr>
</tbody>
</table>

Although share of profit from AOP (after tax) is exempt in the hands of individual members but the same shall be included for rate purpose in other taxable income except income taxed under Final tax regime / Separate block of income

11. RATES OF INCOME TAX FOR TAX YEAR 2016 (For salaried, non-salaried individual and AOPs)

**Tax rate** for company is 32%, small company and modaraba company 25%

**Tax rates** on individual for the Tax Year 2016:

**NON-SALARIED CASE AND AOP i.e.** where taxable salary is nil or up to 50% of taxable income in case of individual.
### Computation of Taxable Income

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#### Conceptual Approach to Taxes

**Table:**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Taxable income</th>
<th>Rate of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>1.</td>
<td>Where taxable income does not exceed Rs. 400,000</td>
<td>0%</td>
</tr>
<tr>
<td>2.</td>
<td>Where the taxable income exceeds Rs. 400,000 but does not exceed Rs.500,000</td>
<td>7% of the amount exceeding Rs. 400,000</td>
</tr>
<tr>
<td>3.</td>
<td>Where the taxable income exceeds Rs. 500,000 but does not exceed Rs.750,000</td>
<td>Rs.7,000 + 10% of the amount exceeding Rs. 500,000</td>
</tr>
<tr>
<td>4.</td>
<td>Where the taxable income exceeds Rs. 750,000 but does not exceed Rs.1,500,000</td>
<td>Rs. 32,000 + 15% of the amount exceeding Rs. 750,000</td>
</tr>
<tr>
<td>5.</td>
<td>Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs.2,500,000</td>
<td>Rs. 144,500 + 20% of the amount exceeding Rs. 1,500,000</td>
</tr>
<tr>
<td>6.</td>
<td>Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs.4,000,000</td>
<td>Rs. 344,500 + 25% of the amount exceeding Rs. 2,500,000</td>
</tr>
<tr>
<td>7.</td>
<td>Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs.6,000,000</td>
<td>Rs. 719,500 + 30% of the amount exceeding Rs. 4,000,000</td>
</tr>
<tr>
<td>8.</td>
<td>Where the taxable income exceeds Rs. 6,000,000</td>
<td>Rs. 1,319,500 + 35% of the amount exceeding Rs. 6,000,000</td>
</tr>
</tbody>
</table>

Provided that in the case of an AOP’s that is a professional firm prohibited from incorporating by any law or the rules of the body regulating their profession, the 35% rate of tax mentioned against serial number 8 of the Table shall be 32% for tax year 2016 and onwards.

**SALARIED CASE** i.e. where taxable salary exceeds 50% of taxable income

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Taxable income</th>
<th>Rate of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>1.</td>
<td>Where taxable income does not exceed Rs. 400,000</td>
<td>0%</td>
</tr>
<tr>
<td>2.</td>
<td>Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 500,000</td>
<td>2% of the amount exceeding Rs. 400,000</td>
</tr>
<tr>
<td>3.</td>
<td>Where the taxable income exceeds Rs. 500,000 but does not exceed Rs. 750,000</td>
<td>Rs.2,000+ 5% of the amount exceeding Rs. 500,000</td>
</tr>
<tr>
<td>4.</td>
<td>Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,400,000</td>
<td>Rs. 14,500 + 10% of the amount exceeding Rs. 750,000</td>
</tr>
<tr>
<td>5.</td>
<td>Where the taxable income exceeds Rs. 1,400,000 but does not exceed Rs. 1,500,000</td>
<td>Rs. 79,500 + 12.5% of the amount exceeding Rs.1,400,000</td>
</tr>
<tr>
<td>6.</td>
<td>Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 1,800,000</td>
<td>Rs. 92,000 + 15% of the amount exceeding Rs. 1,500,000</td>
</tr>
<tr>
<td>7.</td>
<td>Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000</td>
<td>Rs. 137,000 + 17.5% of the amount exceeding Rs. 1,800,000</td>
</tr>
<tr>
<td>8.</td>
<td>Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,000,000</td>
<td>Rs. 259,500 + 20% of the amount exceeding Rs. 2,500,000</td>
</tr>
<tr>
<td>9.</td>
<td>Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 3,500,000</td>
<td>Rs. 359,500 + 22.5% of the amount exceeding Rs. 3,000,000</td>
</tr>
<tr>
<td>10.</td>
<td>Where the taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 4,000,000</td>
<td>Rs. 472,000 + 25% of the amount exceeding Rs. 3,500,000</td>
</tr>
<tr>
<td>11.</td>
<td>Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 7,000,000</td>
<td>Rs. 597,000 + 27.5% of the amount exceeding Rs. 4,000,000</td>
</tr>
<tr>
<td>12.</td>
<td>Where the taxable income exceeds Rs.7,000,000</td>
<td>Rs. 1,422,000 + 30% of the amount exceeding Rs. 7,000,000</td>
</tr>
</tbody>
</table>

12. **Tax or refund to be computed to the nearest Rupee [U/s 219]**

In the determination of any amount of tax or refund payable under this Ordinance, fractions of a rupee less than fifty paisa shall be disregarded and fractions of a rupee equal to or exceeding fifty paisa shall be treated as one rupee.
PART – II (For CA Mod F and ICMAP students)

13. **Principles of taxation of Companies [U/s 94]**

   A company shall be liable to tax separately from its shareholders.
   A dividend paid by a company shall be taxable under SBI except where the recipient is a Company.
   A dividend paid by a non-resident company to a resident person shall be chargeable to tax under the head "Income from Business" or "Income from Other Sources"; unless the dividend is exempt from tax.

13.1 **Tax rates applicable to Companies**

   Following tax rates are prescribed under Division II Part I First Schedule to the Income Tax Ordinance, 2001 for the purpose of determination of liability of the Companies:
   
   The rate of tax imposed on the taxable income of a company for the tax year 2016 is 32%.
   
   The rate of tax for small company is defined in clause (ii) Division II Part I First Schedule to the Ordinance in the following manner:
   
   Where the taxpayer is a small company as defined in section 2, tax shall be payable at the rate of 25%.
   
   The rates of tax in the case of modaraba is stipulated in clause 18, Part II, Second Schedule to the Ordinance in the following manner:
   
   In the case of a modaraba the rate of income tax shall be 25% of total income excluding such part of total income to which Division III of Part I of the First Schedule or section 153 or section 154 applies.
   
   The rates of tax are defined to the different categories of companies. The term company includes the following:
   
   Banking company, public company, a unit trust, private company, co-operative society, a finance society, assets management company, Financial institution, House Building Finance Corporation, investment company, leasing company, Mutual Fund, non-banking finance company, Venture Capital Company, Real Estate Investment Trust (REIT) and Real Estate Investment Trust Management Company.

14. **Disposal of Business by individual / AOP to wholly owned Company [U/s 95 and 96]**

   (1) **Where a resident individual or resident AOP** disposes of all the assets of a business to a resident company, no gain or loss shall be taken to arise on the disposal if the following conditions are satisfied:
   
   (a) The consideration received by the transferor / AOP for the disposal is a share of shares in the company other than redeemable shares;
   
   (b) the transferor / each member of AOP must beneficially own all the issued shares in the same proportion as it was in the business assets immediately before the disposal to the company;
   
   (c) the company must undertake to discharge any liability in respect of the assets disposed of to the company;
   
   (d) any liability in respect of the assets disposed of to the company must not exceed the transferor’s / AOP cost of the assets at the time of the disposal;
   
   (e) the FMV of the share or shares received by the transferor / AOP for the disposal must be substantially the same as the FMV of the assets disposed of to the company, less any liability that the company has undertaken to discharge in respect of the assets; and
   
   (f) the company must not be exempt from tax for the tax year in which the disposal takes place.

   (2) **Where aforesaid provisions applies** -
   
   (a) each of the assets acquired by the company shall be treated as having the same character as it had in the hands of the transferor / AOP;
   
   (b) the company’s cost in respect of the acquisition of the assets shall be in the case of—
   
   (i) a depreciable asset or amortised intangible, the WDV of the asset or intangible immediately before the disposal;
   
   (ii) stock in trade lower of cost or NRV as per balance sheet value used by the transferor; or
   
   (iii) in any other case, the transferor’s / AOP cost at the time of the disposal;
   
   (c) if, immediately before the disposal, the transferor / AOP has deductions allowed for depreciation, initial allowance and amortization regarding transferred assets which have not been set off against the transferor’s income, the amount not set off shall be added to the deductions allowed to the company in the tax year in which the transfer is made; and
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(d) the transferor’s / AOP cost in respect of the share or shares received as consideration for the disposal shall be—

(i) in the case of a consideration of one share, the transferor’s / AOP’s cost of the assets transferred as determined under 2(b) above, less the amount of any liability that the company has undertaken to discharge in respect of the assets; or

(ii) in the case of a consideration of more than one share, the amount determined under sub-clause (i) divided by the number of shares received.

In determining whether the transferor’s / AOP deductions for depreciation, initial allowance and amortization have been set off against income under sub section 2(c) above, those deductions shall be taken into account last.

15.1 Disposal of asset between wholly-owned companies [U/s 97]

Where a resident company disposes of an asset to another resident company, no gain or loss shall be taken to arise on the disposal if the following conditions are satisfied:-

(a) Both companies belong to a wholly-owned group of resident companies at the time of the disposal;

(b) The remaining (b), (c) and (d) clauses of this section are same as stated above in clauses (c), (d) and (f) of sub section 2 of combined sections 96 and 97 respectively.

Where the above provisions applies –

The same conditions to be satisfied as stated above in combined sections 96 and 97 from (a) to (d) of sub section 2 shall apply except the following additional note.

The transferor and transferee companies belong to a wholly-owned group if –

(a) one company beneficially holds all the issued shares of the other company; or

(b) a third company beneficially holds all the issued shares in both companies.

15.2 Disposal of asset under a scheme of arrangement and reconstruction [U/s 97A]

(1) No gain or loss shall be taken to arise on disposal of asset from one company to another company by virtue of operation of a Scheme of Arrangement and Reconstruction u/s 282L and 284 to 287 of the Companies Ordinance, 1984 or section 48 of the Banking Companies Ordinance, 1962 if the following conditions are satisfied:–

The clauses (a) to (c) of this sub section are same as stated above in clauses (c), (d) and (f) of sub section 2 of combined sections 96 and 97 respectively and scheme is approved by the High Court, SBP or SECP on or after 1.7.2007.

(2) No gain or loss shall be taken to arise on issue, cancellation, exchange or receipt of shares as a result of scheme of arrangement and reconstruction as stated above.

(3) Where the above provisions applies:

The same conditions as stated above in combined sections 96 and 97 from (a) to (d) of sub section 2 shall apply except the following additional note.

Where sub-section (2) of this section applies and the shares issued by virtue of the Scheme of arrangement and reconstruction disposed of the cost of shares shall be the cost prior to the operation of the said scheme.

16. Change in control of an entity [U/s 98]

Where there is a change of 50% or more in the underlying ownership of an entity, any loss incurred for a tax year before the change shall not be allowed as a deduction in a tax year after the change, unless the entity -

(a) continues to conduct the same business after the change as it conducted before the change until the loss has been fully set off; and

(b) does not, until the loss has been fully set off, engage in any new business or investment after the change where the principal purpose of the entity or the beneficial owners of the entity is to utilise the loss so as to reduce the income tax payable on the income arising from the new business or investment.;

In this section, "entity" means a company or AOP to which section 92(1) applies;

"ownership interest" means a share in a company or the interest of a member in an AOP; and

"underlying ownership" in relation to an entity, means an ownership interest in the entity held, directly or indirectly through an interposed entity or entities, by an individual or by a person not ultimately owned by individuals.
16.1 **Change in the constitution of an AOP [U/s 98A]**

Where, during the course of a tax year, a change occurs in the constitution of an AOP, liability of filing the return on behalf of the AOP for the tax year shall be on the AOP as constituted at the time of filing of such return but the income of the AOP shall be apportioned among the members who were entitled to receive it and, where the tax assessed on a member cannot be recovered from him it shall be recovered from the AOP as constituted at the time of filing the return.

16.2 **Discontinuance of business or dissolution of an AOP [U/s 98B]**

Subject to the provisions of section 117, where any business or profession carried on by an AOP has been discontinued, or where an AOP is dissolved, all the provisions of this Ordinance, shall, so far as may be, apply as if no such discontinuance or dissolution had taken place.

Every person, who was, at the time of such discontinuance or dissolution, a member of such AOP and the legal representative of any such person who is deceased, shall be jointly and severally liable for the amount of tax payable by the AOP.

17. **Succession to business, otherwise than on death [U/s 98C]**

(1) Where a person carrying on any business or profession has been succeeded in any tax year by any other person, otherwise than on the death of the predecessor, and the successor continues to carry on that business or profession,-

(a) the predecessor shall be liable to pay tax in respect of the income of the tax year in which the succession took place up to the date of succession and of the tax year or years preceding that year; and

(b) the successor shall be liable to pay tax in respect of the income of such tax year after the date of succession.

(2) Where the predecessor cannot be found, the tax liability in respect of the tax year in which the succession took place up to the date of succession and of the tax year or years preceding that year shall be that of the successor in like manner and to the same extent as it would have been that of the predecessor, who shall be entitled to recover it from the predecessor.

18. **Taxation of a PE in Pakistan of a non-resident person [U/s 105]**

The following principles shall apply in determining the taxable business income of a PE in Pakistan of a NRP namely:-

(a) The profit of the PE shall be computed on the basis that it is a *distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the NRP of which it is a PE*;

(b) there shall be allowed as deductions any expenses incurred for the purposes of the business activities of the PE including executive and administrative expenses so incurred whether in Pakistan or elsewhere;

(c) and (d) no deduction and income shall be considered for amounts paid / payable and received / receivable by the PE to / from its head office or to another PE of the NRP other than towards reimbursement of actual expenses incurred by the NRP to third parties by way of:

(i) royalties, fees or other similar payments for the use of any tangible or intangible asset by the PE;
(ii) compensation for any services including management services performed for the PE; or
(iii) profit on debt or insurance premium paid or payable on moneys lent to the PE, except in connection with a banking business; and

No deduction shall be allowed in computing the taxable business income of a PE in Pakistan of a NRP for a tax year for head office expenditure in excess of the amount as bears to the turnover of the PE in Pakistan the same proportion as the non-resident’s total head office expenditure bears to its worldwide turnover.

In this u/s, "head office expenditure" means any executive or general administration expenditure incurred by the NRP outside Pakistan for the purpose of the business of the Pakistan PE of the person, including any –

(a) rent, local rates and taxes excluding any foreign income tax, current repairs, or insurance against risks of damage or destruction outside Pakistan;
(b) salary and travelling paid to an employee employed by the head office outside Pakistan; and
(c) other expenditures which may be prescribed.
19. **Agreements for avoidance of double taxation and prevention of fiscal evasion [U/s 107]**

1. The Federal Government may enter into an agreement, bilateral or multilateral with the government or governments of a foreign countries or tax jurisdictions for the avoidance of double taxation and the prevention of fiscal evasion and exchange of information including automatic exchange of fiscal evasion and exchange of taxes in income imposed under the Ordinance or any other law for the time being in force and under the corresponding laws in force in that country, and may, by notification in the official Gazette, make such provisions as may be necessary for implementing the agreement.

2. Notwithstanding anything contained in any other law to the contrary, the Board shall have the powers to obtain and collect information when solicited by another country under a tax treaty, a tax information exchange agreement, a multilateral convention, an inter governmental agreement, a similar arrangement or mechanism.

3. Notwithstanding the provisions of the Freedom of Information Ordinance, 2002, any information received or supplied and any commitment communication or correspondence made, under a tax treaty, a tax information exchange agreement, a multilateral convention, a similar arrangement or mechanism, shall be confidential subject to section 216(3).

(a) relief from the tax payable under this Ordinance; (b) the determination of the Pakistan-source income of non-resident persons;

(c) where all the operations of a business are not carried on within Pakistan, the determination of the income attributable to operations carried on within and outside Pakistan, or the income chargeable to tax in Pakistan in the hands of non-resident persons, including their agents, branches and permanent establishments in Pakistan;

(d) the determination of the income to be attributed to any resident person having a special relationship with a non-resident person; and

(e) the exchange of information for the prevention of fiscal evasion or avoidance of taxes on income chargeable under this Ordinance and under the corresponding laws in force in that other country.
MULTIPLE CHOICE QUESTIONS

1. Business income of a minor child (other than income from inherited property) shall be clubbed with the income of his parent with
   (a) Lesser taxable income
   (b) Greater taxable income
   (c) Any of them or
   (d) None of the above

2. The tax liability of a member of an AOP is determined by considering
   (a) Share from AOP
   (b) Other Income
   (c) Both of income
   (d) None of these

3. An AOP is taxed
   (a) along with its members
   (b) separate from its member
   (c) Both ‘a’ and ‘b’
   (d) one of these

4. The foreign source salary income of a resident individual is
   (a) exempt from tax
   (b) Exempt if foreign tax is paid, where applicable
   (c) Not exempt

5. A resident taxpayer deriving foreign source business income is allowed a tax credit of
   (a) Foreign income tax paid
   (b) Pakistan income tax payable
   (c) Lesser of ‘a’ and ‘b’
   (d) none of above

6. Any foreign tax credit in excess of tax liability may be ____________.
   (a) Refunded
   (b) Carried back
   (c) Carried forward
   (d) None of these

7. __________ received by a member of an AOP is taxable as share of income.
   (a) Salary
   (b) Commission
   (c) Profit on debt
   (d) all of (a) to (c)

8. The tax liability of a dissolved AOP shall be recovered from
   (a) Majority holder members
   (b) All the members
   (c) Only from assets of AOP
   (d) From the AOP and its all the members
9. Which of the following incomes shall be included in the computation of taxable income under Income Tax Ordinance, 2001
   (a) income covered under NTR
   (b) income covered under FTR
   (c) income covered under SBI under FTR
   (d) all of above

    (a) 2
    (b) 3
    (c) 5
    (d) 10

11. A non-resident person shall pay the tax in respect of ______________.
    (a) Pakistan source income
    (b) foreign source income
    (c) property income
    (d) all of above

12. The total income for the tax year 2016 consists of _______.
    (a) taxable income
    (b) exempt income
    (c) taxable and exempt income
    (d) none of the above

13. Any income may be received by__________.
    (a) taxpayer himself
    (b) any person on his behalf
    (c) his employer
    (d) both ‘a’ and ‘b’

14. Companies are chargeable to tax __________ its shareholders.
    (a) separately from
    (b) together with
    (c) in respect of its
    (d) none of above

15. The taxable income of a salaried taxpayer not exceeds Rs.______ is chargeable to tax @ 0%.
    (a) 300,000
    (b) 350,000
    (c) 400,000
    (d) 500,000

16. Where a full time teacher or researcher working in non-profit organization is having salary income as well as some other taxable income, the benefit of reduction in tax liability shall be available on __________ if his total taxable income is less than Rs. 1,000,000.
    (a) his total income
    (b) his salary income only
    (c) income other than salary
    (d) all of above
17. Rate of tax for modaraba and a small company is _____.
   (a) 50%
   (b) 35%
   (c) 25%
   (d) 20%

18. Share from AOP is ______ in the hands of members.
   (a) exempt
   (b) taxable
   (c) safe
   (d) all of above

19. The rate of tax for _____ are same for tax year 2016.
   (a) salaried and non-salaried persons
   (b) AOP and companies
   (c) Non-salaried person and AOP
   (d) none of the above

20. The Company share in income (under normal tax regime) of an AOP being as member is to be taxed _______ from the tax year 2016.
   (a) exempt from tax
   (b) in the hands of the AOP
   (c) in the hands of Company without any tax credit
   d) none of the above

ANSWERS

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ICMAP PAST PAPERS THEORETICAL QUESTIONS

Q. No. 3(a) February 2013 Write short answers of the following questions:

(ii) In case of a non-salaried taxpayer what would be the rate of income tax where the taxable income of an individual exceeds Rs. 2,500,000?

Q. NO. 3(b) WINTER 2004 Describe main principles of taxation of companies as given in section 94 of Income tax Ordinance, 2001?

Q. NO. 2(a) SUMMER 2004 What is the tax liability in case of succession to business, otherwise than on death, U/S 98(c) of Income tax Ordinance, 2001?
CA MOD C PAST PAPERS THEORETICAL QUESTIONS

Q. NO. 5(a) Spring 2015 Under the provisions of the Income Tax Ordinance, 2001 state the rules relating to residential status of an Association of Person (AOP). Also explain the taxability of income of AOP, in the hands of the firm and its members.

Q.NO. 2 (a) Autumn 2014 Briefly discuss the provisions of Income Tax Ordinance, 2001 in respect of the following situations:
Farhan received Rs. 960,000 as his share of profit from AOP, during the tax year 2014. He also earns income from other sources.

Q. No. 6 Autumn 2013 Ahmed is responsible for managing the property of his uncle who died on 5 February 2013. The approximate worth of the property if 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.

Q. NO. 6(a) Autumn 2009 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 ITO, 2001, explain the correct legal position of Mr. Zia with regard to his father’s income tax liabilities and the related income tax proceedings.

Q.3 Autumn 2001 In the light of provisions of Income tax Ordinance, 1979, who is liable to discharge the tax liability of a deceased person, and to what extent?