**Past Paper 2020**

**Taxation Management**

**Short Answers**

**Q1:- Define special tax year with example?**

Tax year includes special tax year, which means **any period of twelve months** and is denoted by the calendar year relevant to the normal tax year in which closing date of the special tax year falls

For example, **Tax Year for the period of twelve months from January 01, 2017 to December 31, 2017 shall be denoted by calendar year 2018** and the period of twelve months from October 01, 2017 to September 30, 2018 shall be denoted by calendar year 2019.

**Q2:- What does it means by tax amnesty scheme?**

Tax amnesty allows taxpayers to voluntarily disclose and pay tax in exchange for avoiding the penalty of tax evasion and in some case interest also. It is a limited time opportunity for a specified group of taxpayers to pay a specified amount in return for waiver of tax liability (including interest, penalties and criminal prosecution) relating to the previous tax period.

**Q3:- Define the term “Resident AOP and Resident company” under income tax ordinance 2021?**

**Resident association of persons.** — An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year

**Resident company.—** A company shall be a resident company for a tax year if — (a) it is incorporated or formed by or under any law in force in Pakistan; (b) the control and management of the affairs of the company is situated wholly in Pakistan at any time in the year; or (c) it is a Provincial Government or Local Government in Pakistan.

**Q4:- Define non profit organization with rule of exemption as well if it so?**

A nonprofit organization (NPO) is **one that is not driven by profit but by dedication to a given cause that is the target of all income beyond what it takes to run the organization**. Because of this, NPOs receive tax-exempt status from the federal government, meaning they don't have to pay income tax.

A nonprofit has tax-exempt status for **furthering religious, scientific, charitable, educational, literary, public safety, or cruelty-prevention causes**.

**Q5:- Salaried Person?**

A salaried employee (considered an exempt\* employee) is **someone who receives a fixed amount of pay (salary) regardless of how many hours they work each week**. This means a salaried employee is paid for 40 hours a week, even if they work fewer hours.

**Q7:- Define Assessment year**

**The year in which your income is assessed** is known as assessment year. The period for assessment year starts from 1st April and ends on 31st March of the next year. In other words, it is the year immediately following the financial year i.e. the year in which you have earned your income.

**Q8:- Taxable income**

Taxable Income means Total Income reduced by donations qualifying straight for deductions and certain deductible allowances.

Taxable income is the portion of your gross income used to calculate how much tax you owe in a given tax year. It can be described broadly as [adjusted gross income](https://www.investopedia.com/terms/a/agi.asp) (AGI) minus allowable itemized or [standard deductions](https://www.investopedia.com/terms/s/standarddeduction.asp). Taxable income includes wages, salaries, bonuses, and tips, as well as investment income and various types of unearned income.

**Q9:- Treatment of unpaid rent**

The tax treatment of late rental income depends on the method of accounting that the lessor used for income tax purposes. The two most common methods are the cash method and the accrual method.

**The cash method:** Under the cash method, the lessor generally recognizes taxable income as cash is received. Therefore, lessors that use the cash method of accounting are not taxed on rental income until they have actually or constructively received the cash

**The accrual method:**Under the accrual method, the lessor recognizes taxable income as it is earned, which is deemed to have happened when the “all events” tests have been satisfied, regardless of whether the lessor has actually received the rent yet or not..

**Q10:- Define the term provident fund**

A provident fund​ is **an investment fund that is voluntarily established by Employer and employees to serve as long term savings to support an employee's retirement**.

**Long Answers**

**Q1:- What are the different types of perquisites enjoyed by a salaried Person?**

Perquisites or fringe benefits are perks that employees enjoy over and above their salary. Some of these components are taxed separately from an employer’s account to maintain accountability and transparency. Some perquisites are tax-exempted as well.

These are classified into the following three major heads based on the tax levy:

* **Taxable Perquisites:** Some of the fringe benefits are taxable in nature, such as the supply of gas, water & electricity, rent-free accommodation, professional tax, reimbursement of medical expenses, etc. This category also includes other fringe benefits extended by employers, such as free meals, gift value exceeding Rs.5,000, club & gym membership, etc.
* **Tax-exempted Perquisites:** There are many non-taxable fringe benefits, such as travel allowance, reimbursement for company-sponsored computer/laptop provided for official use, provision for medical aid, use of health club & sports club, refreshment offered during office hours, telephone lines, interest-free loans, employer’s contribution to provident fund, free medical facilities, etc.
* **Perquisites taxable only by employee:** This category includes education facility for children, car owned by the employer but used by the employee, etc.

**List of Perquisities**

* 1.      Travelling allowance / petrol allowance
* 2.   Electricity bills / water bills paid by employer
* 3.   Entertainment allowance – deductions available.
* 4.   Income tax paid by employer
* 5.   Children tuition / school fees paid by employer
* 6.   Allowance or reimbursement for childcare – RM 2400 exemption per year.
* 7.   ESOS
* 8.   Parking paid by employer – fully exempt w.e.f 2008.
* 9.   Regular food allowance – fully exempt w.e.f 2008.
* 10.  Insurance premium paid by employer which benefits the employee and his immediate family.
* 11.  External Interest subsidy – exempt w.e.f 2008 for housing, car and education loans not more than RM 300,000.
* 12.  Waiver of loan
* 13.  Assets provided FOC by employer (real substantial assets).
* 14.  Gift of personal computer – w.e.f 2008, tax exempt.
* 15.  Handphone, PDA, broadband subscription – w.e.f 2008, tax exempt
* 16.  Professional subscription paid by employer- exempt if relevant to profession, if not, fully taxable.
* 17.  Individual club membership paid by employer (entrance fees, annual fees) – taxable
* 18.  Tips received
* 19.  Cash & watch award for securing contract
* 20.  Award for past / excellent service / innovation  – exemption of RM 2000 w.e.f 2008.
* 21.  Employer reimburses employee for maid / gardener / driver’s salary. For example, Peter paid RM 10,000 salary for his maid.The company paid him back RM 10,000. The value charged is RM 10,000.

**Q2:- What are the Allowable deductions under section 15A in respect of income from property**

The rent received by a person during a tax year shall be charged under income from property. The tax on[income from property](https://pkrevenue.com/tag/rental-income/) shall be charged under Section 15 of Income Tax Ordinance, 2001.

**The Federal Board of Revenue (FBR)** issued the updated **Income Tax Ordinance, 2001**. The Ordinance incorporated amendments brought through **Finance Act, 2021.**

Following is the text of Section 15 of Income Tax Ordinance, 2001:

15. Income from property.— (1) The rent received or receivable by a person for a tax year, other than rent exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head “Income from Property”.

(2) Subject to sub-section (3), “rent” means any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, or the right to use or occupy, the land or building, and includes any forfeited deposit paid under a contract for the sale of land or a building.

(3) This section shall not apply to any rent received or receivable by any person in respect of the lease of a building together with plant and machinery and such rent shall be chargeable to tax under the head “Income from Other Sources”.

(3A) Where any amount is included in rent received or receivable by any person for the provision of amenities, utilities or any other service connected with the renting of the building, such amount shall be chargeable to tax under the head “Income from Other Sources”.

(4) Subject to sub-section (5), where the rent received or receivable by a person is less than the fair market rent for the property, the person shall be treated as having derived the fair market rent for the period the property is let on rent in the tax year.

(5) Sub-section (4) shall not apply where the fair market rent is included in the income of the lessee chargeable to tax under the head “Salary”.

15A. Deductions in computing income chargeable under the head “Income from Property”.— (1) In computing the income of a person chargeable to tax under the head “Income from Property” for a tax year, a deduction shall be allowed for the following expenditures or allowances, namely:-

(a) In respect of repairs to a building, an allowance equal to one-fifth of the rent chargeable to tax in respect of the building for the year, computed before any deduction allowed under this section;

(b) any premium paid or payable by the person in the year to insure the building against the risk of damage or destruction;

(c) any local rate, tax, charge or cess in respect of the property or the rent from the property paid or payable by the person to any local authority or government in the year, not being any tax payable under this Ordinance;

(d) any ground rent paid or payable by the person in the year in respect of the property;

(e) any profit paid or payable by the person in the year on any money borrowed including by way of mortgage, to acquire, construct, renovate, extend or reconstruct the property;

(f) where the property has been acquired, constructed, renovated, extended, or reconstructed by the person with capital contributed by the House Building Finance Corporation or a scheduled bank under a scheme of investment in property on the basis of sharing the rent made by the Corporation or bank, the share in rent and share towards appreciation in the value of property (excluding the return of capital, if any) from the property paid or payable by the person to the said Corporation or the bank in the year under that scheme;

(g) where the property is subject to mortgage or other capital charge, the amount of profit or interest paid on such mortgage or charge;

(h) any expenditure, not exceeding four per cent of the rent chargeable to tax in respect of the property for the year computed before any deduction allowed under this section, paid or payable by the person in the year wholly and exclusively for the purpose of deriving rent chargeable to tax under the head, “Income from Property” including administration and collection charges;”

(i) any expenditure paid or payable by the person in the tax year for legal services acquired to defend the person’s title to the property or any suit connected with the property in a court; and

(j) where there are reasonable grounds for believing that any unpaid rent in respect of the property is irrecoverable, an allowance equal to the unpaid rent where—

(i) the tenancy was bona fide, the defaulting tenant has vacated the property or steps have been taken to compel the tenant to vacate the property and the defaulting tenant is not in occupation of any other property of the person;

(ii) the persons has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or has reasonable grounds to believe that legal proceedings would be useless; and

(iii) the unpaid rent has been included in the income of the persons chargeable to tax under the head “Income from Property” for the tax year in which the rent was due and tax has been duly paid on such income.

(2) Where any unpaid rent allowed as a deduction under clause (j) of sub-section (1) is wholly or partly recovered, the amount recovered shall be chargeable to tax in the tax year in which it is recovered.

(3) Where a person has been allowed a deduction for any expenditure incurred in deriving rent chargeable to tax under the head “Income from Property” and the person has not paid the liability or a part of the liability to which the deduction relates within three years of the end of the tax year in which the deduction was allowed, the unpaid amount of the liability shall be chargeable to tax under the head “Income from Property” in the first tax year following the end of the three years.

(4) Where an unpaid liability is chargeable to tax as a result of the application of sub-section (3) and the person subsequently pays the liability or a part of the liability, the person shall be allowed a deduction for the amount paid in the tax year in which the payment is made.

(5) Any expenditure allowed to a person under this section as a deduction shall not be allowed as a deduction in computing the income of the person chargeable to tax under any other head of income.

(6) The provisions of section 21 shall apply in determining the deductions allowed to a person under this section in the same manner as they apply in determining the deductions allowed in computing the income of a person chargeable to tax under the head “Income from Business”.

**Q3:- Discuss the composition and functions of appellate tribunal**

There shall be established an Appellate Tribunal to exercise the functions conferred on the Tribunal by this Income Tax Ordinance 2001.

 The Appellate Tribunal shall consist of a chairperson and such other judicial and accountant members as are appointed by the Federal Government having regard to the needs of the Tribunal.

 A person may be appointed as a judicial member of the Appellate Tribunal if the person :-

(a)        has exercised the powers of a District Judge and is qualified to be a Judge of a High Court; or

(b)        is or has been an advocate of a High Court and is qualified to be a Judge of the High Court.

**Composition of Appellate Tribunal**

(1) The Appellate Tribunal shall consist of a Chairperson and not more than two members to be appointed, by notification, by the Central Government.

(2) The selection of Chairperson and Members of the Appellate Tribunal shall be made by the Central Government in consultation with the Chief Justice of India.

(3) Subject to the provisions of this Act, -

(a) the jurisdiction of the Appellate Tribunal may be exercised by the Benches thereof;

(b) a Bench may be constituted by the Chairperson of the Appellate Tribunal with one or two Members of such Tribunal as the Chairperson may deem fit;

(c) the Benches of the Appellate Tribunal shall ordinarily sit at New Delhi and at such other places as the Central Government may, in consultation with the Chairperson of the Appellate Tribunal, notify;

(d) the Central Government shall notify the areas in relation to which each bench of the Appellate Tribunal may exercise its jurisdiction.

(4) Notwithstanding anything contained in sub-section (2), the Chairperson of the Appellate Tribunal may transfer a Member of such Tribunal from one Bench to another Bench.

(5) If at any stage of the hearing of any case or matter it appears to the Chairperson or a Member of the Appellate Tribunal that the case or matter is of such a nature that it ought to be heard by a Bench consisting of two Members, the case or matter may be transferred by the Chairperson to such Bench as the Chairperson may deem fit.

**Some important power and functions of the appellate tribunal are as follows** –

1. It can accept an appeal of an assessee.
2. It can also accept an appeal of the DCT against the order of an appellate joint commissioner.
3. It may also admit an appeal after the expiry of sixty days on a valid ground.
4. It may pass order as it thinks fit after both the parties a chance of being heard.
5. It may call for relevant particulars.
6. It may direct the DCT to amend the assessment of assessee.
7. It has the same powers as are vested in the court under the code of civil procedure.
8. It may impose a penalty.
9. It may send a copy of penalty so DCT
10. The orders passed by the AT bole be final
11. It will communicate its order on the appeal to the assessee.