

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Commerce)**

TAXATION MANAGEMENT (8531)

CHECKLIST

SEMESTER AUTUMN, 2013

This packet comprises the following material:

1. Text Book (One)
2. Course Outline
3. Assignment No. 1,2
4. Assignment Forms (2 sets)
5. Schedule for assignment submission and tutorial meetings.

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Commerce)

WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENT(S) BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**
3. **YOU ARE REQUIRED TO SOLVE ALL QUESTIONS IF YOU ARE UNABLE TO UNDERSTAND ANY QUESTION OF ASSIGNMENT, DO SEEK HELP FROM YOUR CONCERNED TUTOR. BUT KEEP IN MIND THAT TUTORS ARE NOT SUPPOSED TO SOLVE THE ASSIGNMENT QUESTIONS FOR YOU.**

Course: Taxation Management (8531)
Level: M. Com

Semester: Autumn, 2013
Marks: 100
Pass Marks: 50

ASSIGNMENT No. 1
(Units: 1-9)

- Q. 1 Mr. Khursheed, a Pakistani national, was employed as the chief financial officer in Zulfiqar Gas Company (ZGC), since 1990. Following information pertains to his income for the tax year 2012: (20)

Income from ZGC

Khursheed was employed with ZGC up to 31 December 2011. During this period he received the following emoluments:

- Basic salary of Rs. 400,000 per month, medical allowance of Rs. 75,000 per month and utility allowance equivalent to 10% of basic salary.
- A company-maintained car for official and private use. The car was purchased two years ago at a cost of Rs. 5 million. According to the company's policy, ZGC deducted Rs. 10,000 per month from his salary, for private use of the car.

On 31 July 2011, Khursheed had undergone a major surgery and incurred an expenditure of Rs. 1,500,000. ZGC reimbursed the entire amount as a special case as it was not covered under the terms of employment.

Due to poor health, Khursheed opted for early retirement on 31 December 2011 under the company's voluntary retirement scheme. He received the following benefits on his retirement:

- Rs. 7,500,000 as a golden handshake under the voluntary retirement scheme.
- Rs. 9,100,000 from an unapproved gratuity fund maintained by ZGC.

- Transfer of company's car for Rs. 2,600,000. The amount was deducted from his final settlement. The fair market value of the car as of 31 December 2011 was Rs. 2,800,000.
The tax deducted at source for the tax year 2012 amounted to Rs. 3,750,000.

Other Information

- On 1 January 2012, Khursheed commenced business of marketing of horticultural plants and related items. However, due to intense competition, he had to wind-up this venture on 31 May 2012. During this period, he had incurred a loss of Rs. 750,000.
- He purchased 5000 shares for Rs. 500,000 from initial public offering of a new listed company on 1 June 2011. He claimed a tax credit of Rs. 60,000 on such investment, against the tax payable for the tax year 2010. On 15 June 2012, he sold these shares for Rs.700,000.
- He incurred a loss of Rs. 500,000 on the sale of his shareholdings in a private limited company.
- He sold his personal car at a profit of Rs. 300,000.
- On 1 March 2012, he purchased an apartment for Rs. 5,000,000. 60% of this amount was financed by a scheduled bank. During the tax year 2011, he paid markup amounting to Rs. 127,500. On 1 April 2012, he rented out the flat to Mr. Abdul Sattar at a monthly rent of Rs. 25,000 and received advance rent for eight months.
- His average tax rate for the preceding three years is 18%.

Required:

- i. Compute the amount of taxable income, tax liability and tax payable/ (refundable), if any, for the tax year 2012.
 - ii. Briefly comment on the items which are not considered by you in the above computation.
- Q.2 a) Under the provisions of Income Tax Ordinance, 2001 certain persons are required to pay minimum tax at the rate of 1% of their turnover. **(20)**
- Required:**
- i. Explain the term 'Turnover' for the purpose of minimum tax.
 - ii. List the persons who are required to pay minimum tax.
 - iii. Discuss the rules relating to carry forward of minimum tax paid to the subsequent years.
- b) Under the Income Tax Ordinance, 2001 the loss surrendered by a subsidiary company may be claimed by the holding company for set off against its business income in that tax year and following two tax years, subject to certain conditions.
- Required:**
List the conditions which are necessary for claiming the subsidiary's losses.

- Q. 3 a) Briefly discuss the residential status of the following persons for the tax year 2011 under the Income Tax Ordinance, 2001. **(15)**
- i) Mr. Shah has been working as an Information Analyst in the Ministry of Foreign Affairs. On 1 November 2011, he was posted to Pakistan Embassy in Canada for three years.
 - ii) Asif Learning Center is a partnership concern, providing IT training to professionals in Pakistan, UAE and Saudi Arabia. Up to 31 July 2011, the management and control of its affairs was situated partly in Pakistan. However, with effect from 1 August 2011, the entire management and control of the affairs of the partnership was shifted to Dubai.
 - iii) Mr. Liaquat was sent to Pakistan on a special assignment by his UK-based company on 1 March 2012. He left Pakistan on 9 September 2012.
 - iv) Farooq Trading LLC was incorporated as a limited liability company in UAE. The management and control of its affairs are situated wholly in Pakistan.
- b) Explain the following as specified in the Income Tax Ordinance, 2001.
- i) Industrial Undertaking
 - ii) Fair Market Value
 - iii) Apportionment of Expenditures
- Q. 4 Mr. Agha is registered under the Sales Tax Act, 1990. He is engaged in the supply of household appliances and has provided you the following information for the month of August 2012: **(15)**
- i) Supplies made during the month were as follows:

	<i>Rupees</i>
Local taxable supplies to registered persons	35,500,000
Local taxable supplies to unregistered persons	1,700,250
Exports to USA and Canada	25,500,000
Supplies of exempt goods	5,235,000

Goods worth Rs. 1,500,000 were returned by a registered person. Proper debit/credit notes have been issued in this regard.
 - ii) Following purchases were made during the month:

	<i>Rupees</i>
Purchases from registered persons	54,550,000
Purchases from unregistered persons	10,600,000

Goods purchased from unregistered persons were exclusively used for making taxable supplies. An amount of Rs. 750,000 is payable to a registered person since 1 February 2012.
 - iii) Sales tax credit of Rs. 610,000 has been brought forward from previous month.
 - iv) Sales tax is payable at the rate of 17%. All the above amounts are exclusive of sales tax.
 - v) Agha is also required to pay a penalty of Rs. 10,000 under the Sales Tax Act, 1990 on account of certain defects in the maintenance of records.

Required:

Compute the sales tax payable/(refundable) by/to Mr. Agha along with input tax to be carried forward, if any, in the sales tax return for the month of August 2012.

- Q. 5 Under what circumstances, a registered person becomes liable to be de-registered under the Sales Tax Act, 1990. Also state the procedures for deregistration as enumerated in the Sales Tax Rules, 2006. (10)
- Q. 6 Mr. Gohar has recently been registered under the Sales Tax Act, 1990. He is engaged in the export and distribution of consumer products. Before filing the first return, he wishes to obtain advice on the following matters: (10)
- i) Eligibility for a refund if input tax paid is in excess of the output tax payable for the month.
 - ii) Consequences of non-payment of the entire amount of tax due as indicated in the return.
 - iii) Concept of provisional and final adjustment.

Required:

Comment on each of the above matters.

- Q. 7 State the provisions of Sales Tax Act, 1990 relating to maintenance and retention of records by a registered person making taxable supplies. (10)

GUIDELINES FOR ASSIGNMENT # 1

The student should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. The student must also be able to identify important problems and implications arising from the answer.

For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

ASSIGNMENT No. 2

(Units: 1-9)

This assignment is a research-oriented activity. You are required to select any trading/manufacturing/non-trading organization of your interest which supports you in preparing a report of about 1000 words on the topic allotted to you, to be submitted to your teacher for evaluation.

Select one of the following topics according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit): -

TOPICS:

0. Comparative study of philosophy of tax under Islam, Judaism and Christianity.
1. Principles of taxation
2. Economic consequences of different types of taxes (e.g. direct, indirect)
3. Consequences of tax evasion with respect to business entity, and economy as a whole
4. Tax as a tool of fiscal policy
5. Tax structure of Pakistan (merits, demerits), comparative study with other south Asian developing countries and recommendations for improvement
6. History of tax reforms in Pakistan, critical review of tax reforms in Pakistan, comparative study of tax reforms with other south Asian countries
7. Tax management with special focus on corporate tax (comprehensive discussion regarding tax management versus tax evasion)
8. Tax revenue management in Pakistan
9. Tax base, chargeability, and collection

The report should follow the following format:

1. Title page
2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Practical study of the organization (with respect to the issue)
7. Data collection methods
8. SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
9. Conclusion (one page brief covering important aspects of your report)
10. Recommendations (specific recommendations relevant to issue assigned)
11. References (as per APA format)
12. Annexes (if any)

GUIDELINES FOR ASSIGNMENT # 2:

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas

- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

WORKSHOPS

The workshop presentations provide students opportunity to express their communication skills, knowledge & understanding of concepts learned during practical study assigned in assignment # 2.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech. Workshop presentation transparencies should only be in typed format.

The transparencies should follow the following format:

- 1) Title page
- 2) An abstract (one page summary of the paper)
- 3) Introduction to the issue (brief history & significance of issue assigned)
- 4) Practical study of the organization (with respect to the issue)
- 5) Data collection methods
- 6) SWOT analysis (strengths, weaknesses, opportunities & threats) relevant to the issue assigned
- 7) Conclusion (one page brief covering important aspects of your report)
- 8) Recommendations (specific recommendations relevant to issue assigned)

GUIDELINES FOR PRESENTATION:

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

Theory:	60%
Applicability (practical study of the organization):	40%

Note:

Assignments and Presentation carry 300 Marks:

Assignment 01		100 Marks
Assignment 02	(Submission)	100 Marks
Assignment 02	(Presentation)	100 Marks

COURSE OUTLINE (8531)

Unit-1 ADVANCE TOPICS IN TAXATION

- 1.1 Philosophy of tax
 - 1.1.1 Islamic philosophy of tax
 - 1.1.2 Comparative study of tax under Islam, Judaism and Christianity.
- 1.2 Principles of taxation
- 1.3 Consequences of tax evasion with respect to business entity, and economy as a whole
- 1.4 Fighting with tax evasion
- 1.5 Tax as a tool of fiscal policy
- 1.6 Tax structure of Pakistan (merits, demerits), Comparative study with other South Asian developing
- 1.7 Countries and recommendations for improvement
- 1.8 History of tax reforms in Pakistan, Critical review of tax reforms in Pakistan, Comparative study of tax reforms with other South Asian Countries
- 1.9 Tax management with special focus on corporate tax
- 1.10 Tax revenue management in Pakistan
- 1.11 Tax base, chargeability, and collection

Unit-2 INCOME TAX ORDINANCE 2001 with Relevant Rules

- 2.1 Comprehension of Basic Rules and Concepts
- 2.2 Basic principles of construction, relevant definitions/concepts
 - 2.2.1 Persons [section 2(42)]
 - 2.2.2 Income [section 2(29)]
 - 2.2.3 Total income (with special debate on distribution of total income under various heads)
 - 2.2.4 Taxable income [section 2(64)]
 - 2.2.5 Assessment [section 2(5)]
 - 2.2.6 Tax
 - 2.2.7 Taxpayer [section 2(66)]
 - 2.2.8 Tax year [section 2(68)]
 - 2.2.9 Accumulated profit [section 2(1)]
 - 2.2.10 Dividend [section 2(19)]
 - 2.2.11 Industrial undertaking
 - 2.2.12 Permanent establishment [section 2(41)]
 - 2.2.13 Associates
 - 2.2.14 Resident and non-resident persons

Unit-3 Tax Administration

- 3.1 Tax authorities [section 207]
- 3.2 Circulars, orders and directions issued by the Federal Board of Revenue (FBR) [sections 206, 213 & 214]

- 3.3 Advance rulings [section 206 A].
- 3.4 Appellate System [Sections 127 to 136]
- 3.5 Commissioner Inland Revenue (Appeals)
- 3.6 Appellate Tribunal
- 3.7 Conceptual discussion regarding point of law and point of fact

Unit-4 Tax on Taxable Income (I)

- 4.1 Heads of income [section 11]
- 4.2 Income for tax purposes [section 9 & 10]
- 4.3 Tax payable on taxable income [First Schedule to the Ordinance]
- 4.4 Salary
 - 4.4.1 Concept of employment, employer, employee and salary
 - 4.4.2 Basis of assessment
 - 4.4.3 Residential status of salaried person
 - 4.4.4 Employee share schemes
 - 4.4.5 Perquisites (benefits-in-kind)
 - 4.4.6 Taxation at source from salary
 - 4.4.7 Retirement benefits (Pension, gratuity, provident fund)
 - 4.4.8 Employment termination benefits
 - 4.4.9 Exemptions and tax concessions regarding salary
- 4.3 Income from Other Sources [Sections 39, 40, 55(1), 67, 89, 101(6), 111]
 - 4.3.1 Concept of other sources under the Ordinance
 - 4.3.2 Allowable deductions

Unit-5 Tax on Taxable Income (II)

- 5.1 Income from property
 - 5.1.1 Concept of property under the Ordinance
 - 5.1.2 Elements of property income
 - 5.1.3 Computation of taxable income and tax payable under the head property
 - 5.1.4 Exemptions and lower rate taxation of income from property
 - 5.1.5 Method, manner and mode of property tax
- 5.2 Income from business [Sections 18 to 36]
 - 5.2.1 Concept of business under the Ordinance
 - 5.2.2 Principles regarding chargeable income
 - 5.2.3 General principles for allowable deductions
 - 5.2.5 Deductions allowed [section 20]
 - 5.2.4 Deductions not allowed [Section 21]
 - 5.2.6 Exemptions and tax concessions
- 5.3 Capital Gains
 - 5.3.1 Concept of Capital Asset under the Ordinance
 - 5.3.2 Principles for computing capital gains
 - 5.3.3 Deduction of losses

Unit-6 Tax Credits and Minimum Tax [Sections 61 to 65 & Sections 113 to 113B]

- 6.1 Set-off and Carry Forward of Losses [Part VIII of Chapter III]
 - 6.1.1 Principles relating to inter-head-adjustments
 - 6.1.2 Rules for carrying forward and subsequent adjustments
- 6.2 Procedure [Parts I and II of Chapter X]
- 6.3 Incomes chargeable as minimum tax
- 6.4 Persons liable to pay minimum tax
- 6.5 Advance Tax & Final Tax Regime (Withholding Tax)
 - 6.5.1 Special focus on section 169
 - 6.5.2 Comparative discussion regarding tax deducted at source (withholding tax) treated as adjustable, minimum or final tax.
- 6.6 Default Surcharge [Part XII of Chapter X]
- 6.7 Sales Tax Act 1990 with Relevant Rules/Notifications
 - 6.7.1 Overview, Scheme and Scope

Unit-7 Comprehension of Basis, Rules and Concepts Relevant definitions/concepts

- 7.1 Arears
- 7.2 Due date [section 2(9)]
- 7.3 Exempt supply [section 2(11)]
- 7.4 Goods [section 2(12)]
- 7.5 Manufacturer or producer & Manufacture or produce
- 7.6 Input tax [section 2(14)]
- 7.7 Registered person [section 2(25)]
- 7.8 Supply [section 2(33)]
- 7.9 Tax [section 2(34)]
- 7.10 Tax Invoice
- 7.11 Taxable activity [section 2(35)]
- 7.12 Taxable supply [section 2(41)]
- 7.13 Zero rated supply
- 7.14 Tax period [section 2(43)]
- 7.15 Time of supply [section 2(44)]

Unit-8 Scope and Payment of Tax [Sections 3 to 13 with relevant rules]

- 8.1 Scope of chargeability, mode of collection etc
- 8.2 Zero rating
- 8.3 Change in the rate of tax
- 8.4 Time and manner of payment
- 8.5 Determination of tax liability
- 8.6 Tax credit not allowed
- 8.7 Debit and credit note
- 8.8 Excess amount to be carried forward or refunded
- 8.9 Assessment of tax
- 8.10 Short-paid amounts recoverable without notice
- 8.11 Exemption

Unit–9 Returns, Registration and Authorities [Sections 26, 27, 28 with relevant rules]

- 9.1 Returns
 - 9.1.1 Normal Return
 - 9.1.2 Annual return
 - 9.1.3 Special Return
 - 9.1.4 Final Return
- 9.2 Registration (Sections 14, 21, with relevant rules)
 - 9.2.1 Requirement of registration
 - 9.2.2 Compulsory registration
 - 9.2.3 De-registration
- 9.3 Authorities(Sections 30, 30A, 30B, 30C, 30D, 30DD, 30E, 31, 32 and 32A)

Recommended Books:

1. A Text Book of Business Taxation by Ijaz Ali Waince, published by Waince Academy, Faisalabad.
2. Huzaima & Ikram's 'Tax Laws of Pakistan' [Official version can be downloaded from www.fbr.gov.pk
3. Practical Handbook of Income Tax by Dr. Ikramul Haq, published by Lahore Law Publications email: info@huzaimaikram.com
Website: <http://huzaimaikram.com>

Advance Readings/Source Material:

4. Synopsis of taxation by Mirza Munawar Hussain.
5. Various articles on tax laws and issues available at <http://huzaimaikram.com>
6. Material at official website (www.fbr.gov.pk) of FBR.
7. Reforms in Tax Administration of Pakistan, report by Syed Shahid Hussain, www.google.com.

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