Dear Students

These are Assumed Interview Questions, which I recieved from Unknown person in year 2017.

Credit & Prayers goes to that person who has prepared this valuable file in year 2017.

Regards,

05-11-2023

MUHAMMAD JUNAID
Inspector Inland Revenue
FBR Regional Tax Office
Bahawalpur

(1) ❖ **Why you want to join Inland Revenue?**

FBR is a very professional department. It is a matter of prestige and pride to be called a Tax Inspector. I have the inspectors Inland Revenue I am very much confident that I would be able to fulfill the required responsibilities effectively.

(2) ❖ **Tell us about job description for this job**

Ensuring recovery of tax demand for current year and previous years. Conducting inquiries as assigned by the officers and submitting factual reports. Conducting external survey of respective jurisdiction under inspector inland revenue to see that what businesses are operating and are opening and whether they are registered as taxpayer or not. Also, doing internal survey by using internal sources within the office or department. Maintaing the demand register which enlists the arrear and current demand to be recovered or that has been recovered.

(3) ❖ **What is recovery procedure?**

If a person having taxable income,failed to pay the tax than Notice would be served to that person,after that other modes would be utilized including attachment of bank account,attachment and sale of moveable& immovable property,appointment of receiver,arrest and detention of that person. Please explain your answer in shape of bullet points before fpsc penal.

(4) ❖ **What do you know about FBR**

FBR is a prime revenue generating body of Pakistan. It is involved in tax policy as well as tax administration and some quasi-judicail functions of hearing appeals. FBR is headed by the Chairman who apart from being the head of the Board is also Secretary of Revenue Diivision. FBR has 12 members including member for Direct Taxes, a member for Sales tax & Excise and a member for Customs long with others.

(5) ❖ **How many taxes are levied in Pakistan**

2 types of taxes are levied direct and indirect. In direct tax income tax are present whereas in indirect tax sales tax, customs duty and excise duty are levied.

(6) ❖ **Which tax is easy to levy and collect**

It is usually indirect tax. But indirect taxation hard hits the low income people. In case of direct taxes the withholding tax is easiest to collect.

(7) ❖ **Which tax you prefer**

I prefer levying more direct taxes instead of indirect tax because the person earning money should be held responsible instead of shifting tax burden to others. Poor people are hardest hit by indirect taxation.

(8) ❖ **How many people are paying their taxes**

In Fiscal Year 2015 there were 3.6 million NTN holders and out of them 0.8 million filed their returns. But the actual number of taxpayers if far greater than this who pay their taxes through indirect taxes and presumptive taxes which are not adjusted later.

(9) ❖ **If a person does not pay his tax what would you do**

Notice would be served to that person that within stipulated time he is bound to furnish his return,if he failed to file his return then provisional assessment would be made,penalty would also be imposed upon that person.after provisional assessment that person would be provided an opportunity ,if that person showed or presented the whole record of sale purchase then amended assessment would be made in accordance with the new record and tax would be paid accordingly.

(10) ❖ **What is Presumptive Tax?**

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Presumptive Taxation is a concept of taxation according to which income tax is based on "average" income instead of actual income.

11 ❖ **What is Withholding Tax?**

Tax deducted & deposited to fbr by withholding agent at the source of direct income of supplier (payment of supplier). withholding tax is adjustable and refundable. In Pakistan witholding tax is levied on salary, dividends, interest, import, exports, electricity and telephone bills income from property (income tax on rent), prizes and winning, petroluem products, payment to non-resident for royalty or any technical fees,

12 ❖ **Withholding procedure?**

Income Tax Ordinance, 2001 makes it obligatory for Withholding Agents to deduct and collect tax at source at a time when an specified economic activity takes place. In case of less amount deducted or deposited to FBR by withholding agent the withholding agent would be personally responsible.

13 ❖ **Withholding tax is applicable on what items?**

On import of goods, salaries, dividend, interest, property rent, cash withdrawl from banks, registration of vehicles, bills of electricity, gas and telephones

14 ❖ **Withholding Agent penalty in case of non-submission of tax withheld?**

All the respective decution will not be allowed while calculatibe the income of person in case if withholding agent does not deduct, collect or deposit withholding tax. Withholding agent will personally be liable in case of failure of deduction, collection or depositng to FBR. Withholding agent can also be improsioned for a term not more than 1 year

15 ❖ **Ribah in Islam**

Riba best translated today as the charging of any interest, meaning money earned on the lending out of money itself. The prohibition on paying or receiving fixed interest is based on the Islamic tenet that money is only a medium of exchange, a way of defining the value of a thing; it has no value in itself, and therefore should not be allowed to give rise to more money, via fixed interest payments, simply by being put in a bank or lent to someone else. The human effort, initiative, and risk involved in a productive venture are more important than the money used to finance it. Money in Islam is not regarded as an asset from which it is ethically permissible to earn a direct return. Money tends to be viewed purely as a medium of exchange.

16 ❖ **When returns are to be filed by taxpayer**

For income tax the annual filing is done and for certain large companies it may be bi-annualy or quartely. For sales tax it is every 15th of month for previous month.

17 ❖ **What is the procedure of tax collections?**

The taxpayer files the return under Universal Self Assesment and under section 120 it will be deemed assessment order of Commissioner. The Commissioner or Board will review that return to ensure its accuracy. For sales tax the registered person of sales sale file their returns for all sales tax tax collected on 15 of each month for previous month. And recently the Excise Duty has be removed from services because it is now in provincial ambit. The customs duty is levied before clearance of goods from customs station.

18 ❖ **What is tax?**

An enforced contribution by legislative or soverigen authority to raise revenue for public or governmental purposes.

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19 ❖ **Why taxes are levied**

1. Raise revenue meet expenditure
2. Reduce income equalities in society through policy of redistribution of income and wealth by progressive taxation
3. As an instrument of fiscal policy by granting exemption and concessions to encourage or discourage special economic activity to achieve rapid social and economic development

20 ❖ **What are the issues with taxation system of Pakistan?**

- Tax policy and tax administration are jointly done by FBR which should be seperated
- Huge and unfair dependence on indirect taxes (sales tax is largest contributor to revenue collection in Federal, Punjab and Sindh budget)
- Pakistan's underground and informal economy is around 40-50% of GDP and its tax evasion could be as high as 7-10% of GDP
- Unrealistic and unjust exemptions and concessions
- Potential from taxing most services is largely untapped which not only brings more revenue but also will make tax system more just
- Lack of viberant field audit and heavy reliance on self assesment and most taxpayers know that they will not be subject to audits
- There is a huge backlog of cases pending related to taxation

21 ❖ **What are the recommendations for improving the taxation system of Pakistan?**

- Federally administrated GST on both goods and services would widen tax base substantially
- Exemptions and cencessions should be eliminated
- GST should be replaced by VAT so as to increase complaince rate
- Reforming FBR and separation of tax policy and tax administration so that FBR can focus on revenue generation
- Universal Self Assessment Scheme should be scrapped and Inland Revenue should assess the taxes due as was the case before Income Tax Rules 2002
- Withholding taxes should be 'adjustable' as pre-payment on final tax liability of taxpayers and not the final. Withholding income tax on imports and exports are currently final tax should not be
- First and foremost the state has to restore its moral authority to tax – and taxing the elite constituents via direct tax on income is an imperative first step
- Exemplary punishments should be awarded on tax evasion so that there should inculcate a feeling in public that in case of evasion of tax liabilities they may be granted strict punishment
- Closing loopholes such as Section 111 (4) of Income Tax Ordinance that provide for permanent 'whitening' schemes. This an incentive given for dishonesty and discourage honest taxpayers.

22 ❖ **What is the procedure of tax collection?**

1. Paymet of tax by filing return
2. Withholding of tax by withholding agent
3. Tax collection through demand

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23 ❖ **What are the procedure to recover tax?**

1. sale of any movable or immovable property of the taxpayer
2. appointment of a receiver for the management of the movable or immovable property of the taxpayer
3. arrest of the taxpayer and his detention in prison for a period not exceeding six months
4. Recovery of tax by District Officer (Revenue)
5. If a taxpayer is declared bankrupt, the tax liability under this Ordinance shall pass on to the estate in bankruptcy

24 ❖ **What is NFC?**

NFC Award after every 5 years consitiituted by Prime Minister. The share of the Provinces in each Award of National Finance Commission shall not be less than the share given to the Provinces in the previous Award.

Composition of NFC.

Federal Finance Minister is the Chairman of NFC along with provincial Finance Ministers.

Main Charter of NFC.

1. The distribution of taxes, duties between federation and provinces.
2. The disbursement of grants to provincial governments.
3. The borrowing powers exercised by federal and provincial governments.
4. Any other financial matter referred to commission by Prime Minister

- Share of Punjab 51.74%, Sindh 24.55%, KPK 14.62% and Baluchistan 9.09%
- The share of Punjab has reduced from 60.25% in 1st NFC Award in 1974 while the share of all other provinces has increased

25 ❖ **What is tax evasion?**

It means to evade tax by fraud.

26 ❖ **What is ideal tax-to-GDP ratio?**

In developed economies this ratio is between 20-30%. While in developing economies it should be at least 10% or better would be if around 15%.

27 ❖ **Inland Revenue could call for taxes for how much years and taxpayer is bound to keep record for how many years?**

Tax demand for previous 10 years and taxpayer is bound to maintain record for 6 years. In case an assessment has been done and a demand has been created there is no limitation of time for its recovery

28 ❖ **How would you like to increase Tax?**

By leving more direct taxes than indirect taxes. Reducing the corporate tax and enforcement of taxation on indiividuals.

29 ❖ **Why Pakistani people do not pay taxes?**

Because they don't know their national responsibility and due to lack of knowledge that, these taxes are returned back to them in the form of infrastructure, defense, water,

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electricity, gas, and many benefits which are necessary and can be provided by Govt. And *for these things government need taxes. Also, the tax laws are very complex in nature.*

30 ❖ **Which income is exempted from tax?**

Agricultural income, income from fisheries, royalty from mines, income from stone quarries, income of diplomates and UN officials, non-residents, honours, awards, medals,

31 ❖ **Number of FBR members**

There are 12 members of FBR

32 ❖ **Return filing time?**

It is monthly for sales tax and excise duty, annual for income tax. Income tax return can be filed before the years *if person is leaving Pakistan permenantly or in bankruptacy* or has died by a representative

33 ❖ **Tax amnesty scheme?**

Voluntary Tax Compliance Scheme is for traders who declare the working capital of 50 millions and pay 1% on it from tax years 2015 to 2018

34 ❖ **What was tax target for FBR?**

3.1 trillion for 2015-16

3.6 trillion for 2016-17

35 ❖ **What is the difference between zero-rating and exemption?**

A person making zero rated supplies is bound to get registered with FBR, also can claim refund of his input tax. While a person making exempted supplies, is not liable to b registered under the Sales Tax Act, also he can't claim refund

36 ❖ **What would you do as an Inland Revenue Officer if a person doesn't submit Tax Return?**

Notice will be served to him to submit return within stipulated time, in case of non compliance Provisional assessment will be made against him, and he will be liable to pay penalty @ 0.1% of tax liability per day, subject to maximum 50% penalty of tax liability.

37 ❖ **Which Tax is easy for collection and payment?**

Sales tax is easy to pay and collect. For sales tax registered supplier to registered persons the invoice number could be cross matched so it would be difficult for coporations to evade it because most of its supplied go to sales registered distributors. And these corporate entities make a large percent of revenue for inland revenue.

38 ❖ **How tax collection/ arrears recovery process can be improved to increase revenues?**

1. By imposing strict penalty to tax evaders
2. By taxing the most rich and powerful people so that public confidence may be restored
3. By increasing incentive to Taxpaye-

39 ❖ **Who is a resident person?**

Resident is one who has been in Pakistan for 183 days or more.

40 ❖ **What is CREST and for what purpose it is used by FBR?**

Computerized Risk Based Evaluation of Sales Tax. It is computerized program for analyzing and cross matching of sales tax returns.

41 ❖ **What is the difference between input tax and output tax?**

Input tax is the value added tax added to the price when you *purchase* goods or *services liable to GST*

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Output tax is the value added tax you calculate and charge on your own *sales* of goods and services for GST leviable goods

42 ❖ **What happens if we pay income tax in Pakistan but do not file a return?**

- You will become a non-filer.

43 ❖ **Differentiate between Modarba and Mushrika?**

Modaraba is a kinf of partnership in which 1 partner provides finance and other provides skill and labour. In case of loss the investor bears the loss

Musharakah is a profit/loss sharing partnership with profit according to pre-determined ratio

44 ❖ **What is meant by demand register?**

Demand and collection register

45 ❖ **What is Alternative Corporate Tax?**

Alternative Corporate Tax means that apart from minimum tax there is yet another comparison for corporate taxpayers. The tax on Corporate Rates or Alternative Tax @ 17% of the accounting profit before tax shall have to be paid.

46 ❖ Return of income will be filed under section 114. Under Universal self assessment scheme it is deemed to be the the assessment order of commissioner under section 120

47 ❖ Super Tax for IDPs 4% for banking companies, persons haing income more than 500 million

48 ❖ **Persons not required to furnish a return of income**

(a) A widow;

(b) an orphan below the age of twenty-five years;

(c) a disabled person; or

d) in the case of ownership of immovable property, a nonresident person.

49 ❖ **What are the steps of assessment procedure?**

1. Self assessment
2. Pay tax
3. File return
4. Return security
5. If correct than good
6. Other wise notice issue

If you not comply with notice provisional assessment is made and ask you to deposit all out standing amount along with default surcharge or penalty.

50 ❖ **Wealth Statement**

Commissioner may ask anyone to file wealth statement. It should be in prescribed form and verified in the prescribed manner giving particulars of:

1. person's total assets and liabilities
2. total assets and liabilities of the person's spouse, minor children, and other dependents
3. any assets transferred by the person to any other person during the period or periods specified
4. total expenditures incurred by the person, and the person's spouse, minor children, and other dependents during the period or periods
5. the reconciliation statement of wealth.

51 ❖ **Minimum tax on the income of certain persons**

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Apply to resident company, individual with turnover of 50 million or more, AOP with 50 million turnover or more, builders

If any of following apply and no tax is payable than minimum tax will be levied

(a) exemption from tax;

(b) the application of credits or rebates; or

(c) the claiming of allowances or deductions

P.S. Loss has been eliminated in budget FY 2017

52 ❖ **Difference between Advance Tax and Transitional Advance Tax**

Advance Tax will be final tax for imports. It is classified as Transitional Advance Tax and discharged as final tax with not adjustment applicable. Advance tax has a different formula for company and for individuals.

Transitional Advance Tax

Once liability of advance tax as estimated by taxpayer discharged during the currency of tax year, then transitional advance tax would come to an end. Commissioner upon recieving an application from taxpayer could issue a lower rate certifiicate (0% rate or nil rate certificate)

It is applicable on cash withdrawl from bank, in banking transactions, vehicle registration, brokeage and commission, CNG station, electricity, telephone and internet, air tickets, on sale or transfer of immovable property

53 ❖ **What is income tax return**

It is an statement submitted by individuals and businesses for their income and expendiures. Certain expenditures are allowed as deduction and others are discarded.

54 ❖ **Diferrence between book keeping and accounting?**

Bookkeeping is keeping a detailed record of the business transactions for a person or business. **Accounting** refers to the process of summarizing, analyzing and reporting these transactions.

55 ❖ **Diferrence between operating lease and finance lease?**

Operating lease is like rent .used to acquire assets for short period of its useful life and ownership rights are with leasing company .risk and maintenance remain with leasing company..its just treated as operating expense in income statement..

Financial lease is used to own assets for its major part of useful life and at the end its has right to be transfered to lessee . Risk reward maintence is with lessee ..it is used as asset in balance sheet

56 ❖ **What is local government**

The administration of a particular District, Taluka or Tehsil with representatives elected by those who live there.

57 ❖ **What is local taxes**

A tax assessed and levied by a local authority such as district administration.

58 ❖ **What is capital tax?**

Tax on money and assets that you own rather than on money that you earn.

59 ❖ **What is Capital Asset?**

A capital asset is a type of asset that is not easily sold in the regular course of a business's operations for cash and is generally owned for its role in contributing to the business's ability to generate profit.

60 ❖ **What is capital gain define with example**

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Capital gains are the profits that an investor or business sells the capital asset for a price that is higher than the purchase price.

61 ❖ **Sales tax is individual tax or corporate tax**

Corporate tax /income tax of companies are direct taxes that are levied which they have to bear personaly...while sales tax is indirect tax whose burden is shifted on end consumers ..

62 ❖ **Is there any chances of manipulation/fraud in fbr**

Yes, there have been number of scams in sales tax refund. Additionally, for those excisable goods that of which the excise duty is paid in sales tax mode could also be prone to these fake refunds. Additionally, there have been companies that are physically non-existant but only registered in sales tax are kept to facilitate these things, but computerised CNIC of owner/owners is made mandatory for registration recently in order to counter that. Tax evasion in Income Tax side is thorugh understating the income and overstating the deductions. Customs was previously much of problem and undervaluation and incorrect classification were common. But current government has taken some measure the extent of these issues has reduced.

63 ❖ **Status of FBR personnel in the society, how they are treated in the society etc**

FBR officials are received with respect. It is considered hounourable department. Specially Inland Revenue wing and Directorate General of Intelligence and Investigation (IR) is considered to highly empowered which in fact it is.

64 ❖ **Difference between fiscal year and financial year**

For business purposes, the calendar year is fixed: It starts and ends on the same day for everyone. Fiscal years, on the other hand, may start on the first day of any month of the year -- except January -- depending on the 12-month period chosen by the organization or company.

65 ❖ **What rules are for methods of accounting under Income Tax Ordinance?**

Methods of accounting which methods used by individual. He has a option to adopt or not. Is there any rule in income tax ordinance for recording business transaction? And any rule for accounting on the basis of cash or accrual

For businesses it has to be accrual for "Income from business". All other have choice to choose from cash or accrual. Individuals can opt for any one from cash or accrual.

66 ❖ **How many methods of accounting, explain the cash and accrual accounting**

Cash accounting involves when cash is received or paid. Whereas, accrual transaction is recorded when any amount becomes recieveable or payable.

67 ❖ **What is the difference between General Jounal & Ledger?**

In General Journal transactions are recorded in chronological order. Whereas these transactions are posted to Ledger under specfic relevant accounts.

68 ❖ **What type of tax paid by doctors,engineers,lawyers?**

Professional tax which is a provincial excise tax and income tax for income earned.

69 ❖ **Excise duty vs Customs duty?**

Excise duty as discussed earlier is an indirect tax and is levied on the manufacturer on the goods manufactured by him that are to be sold within the country. Whereas, Custom duty is collected by the authorities on the goods imported by an importer and are meant to be sold in the country. But in Pakistan Excise duty also includes the imports of exciseable goods.

70 ❖ **Tell federal, provincial and local taxes? OR How many taxes are levied in the country?**

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Federal Taxes (Income tax, General Sales Tax, Customs Duties, Excise Duties),
Provincial taxes (General Sales Tax on Services, Stamp Duty, Vehicle Tax, Immoveable Property Tax, Professional Tax)
Local Taxes Sindh Local Government Act 2013 enlists 2 types of taxes
1. All land assessable to rent, land revenue or ushr shall be subject to the payment of a cess to be known as the local cess
2. Council can levy tax on professions, trades or callings and employer will deduct it and deposit it to local find of council.

71 ❖ **What are the heads of income?**

1. Income from Salary
2. Income from Property
3. Income from Business
4. Capital Gains
5. Income from Other Sources of Income

72 ❖ **What taxes are included in electricity bill?**

General Sales Tax & Income Tax.

73 ❖ **What is balance of payment?**

The **balance of payments** (BOP) is the method countries use to monitor all international monetary transactions at a specific period of time. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP in order to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice this is rarely the case. Thus, the BOP can tell the observer if a country has a **deficit** or a **surplus** and from which part of the economy the discrepancies are stemming.

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74 ❖ **Trade deficit**

A **trade deficit** means the value of imports of goods / services / investment incomes is greater than the value of exports. It is also referred to as a **trade deficit**.

75 ❖ **What is income tax**

An **income tax** is a **tax** that governments impose on financial **income** generated by all *entities within their jurisdiction.*

76 ❖ **What is sales tax**

A **sales tax** is a consumption **tax** imposed by the government on the **sale** of goods and services.

77 ❖ **What is federal excise duty**

It is a duty on exciseable goods that are manufactured within Pakistan, imported, or bough from non-Tariff area to Tariff area.

78 ❖ **Difference between provincial excise duty and federal excise duty?**

Federal Excise duty is levied on excisable goods. Recently the Federal government has decided to eliminate Federal Excise duty on services which comes under the provincial ambit after 18th amendment in Constitution. Whereas, the Provincial Excise Duty is levied on intoxicating items such as liquor, Spirit, Methnol and intoxicating drugs.

79 ❖ **Explain the indirect tax and its types. Which indirect tax is the best**

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Indirect taxes are called so because they are collected indirectly from consumers by the government through intermediaries, who are the first payers of the tax to the government. These taxes are different from direct taxes such as income tax which is collected directly from taxpayers. Indirect taxes include taxes such as sales tax, service, tax, VAT etc. whereas income tax, wealth tax, corporation tax etc. fall under the ambit of direct taxes.

Unlike direct taxes, indirect taxes are levied on goods and services rather than individuals. Individuals pay the taxes indirectly in the form of higher prices on their purchases.

How you check if a company does not show their production is any rule in sales tax?

An officer authorised by Board or Commissioner will have access to business premises, stocks, goods, business records and records to be mainainted and other documents

What type of tax you are paying and whether you are filing return for that or not

I am paying income tax, sales tax, excise duty and customs duty.

80 ❖ **What is Internal control**

Internal controls are methods put in place by a company to ensure the integrity of financial and accounting information, meet operational and profitability targets.

What is internal control in cash dealing

internal control in cash management involves, i.e., billings, collections, deposits, and disbursement processes

81 ❖ **If internal control is weak in any organisation is it a matter of concern for tax department?**

Yes, it is a matter of concern in case if the internal control is weak. Because this can lead to unreliable data coming from that organisation on which it is could be difficult to ascertain the tax laibility.

82 ❖ **Which tax would you prefer the most?**

I prefer the income tax because it not only it reduces the income inquality in society by reditribution through progressive taxation. It is in conformity with all the canons of taxation. But, unfortunately this is not implemented in letter and spirit in Pakistan. Instead of that indirect taxes are heavly applied.

83 ❖ **What is return of income?**

Document gives the tax collector information about the taxpayer's tax liability

84 ❖ **Taxation system in pakistan is good?**

Sir, in my opinion tax laws are good. But the issue is with the enforcement of these laws. For instance if all the people pay their income tax according to their due share the reliance on indirect tax would lessen to a greater extent. The news of awarding exemplary punishments are very rare in our society on account of tax evasion. Instead, after a few years a new whitening scheme comes in place for encourage tax evaders and discourage honest taxpayers.

85 ❖ **How to bring people in tax net?**

By tieing the incentives for taxpayers. And awarding strict punishments to tax evaders. Scrapping the whitening schemes. I personally liked a lot the implementation of withholding tax of 0.4% on each non cash transaction and it will surely have good effects on tax evader but also for informal economy too. Because such level of tax on each transaction would compel them to get registered and pay taxes.

86 ❖ **Who is bound to maintain record**

- Every registered person under Excise Act
- Every registered person under Sales Tax Act

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87 • Every taxpayer unless exempted by Commissioner under Income Tax Ordinance

❖ **For how many time should record maintained as par law**

- For 5 years under Sales Tax Act
- For 6 years under Excise Act
- For 6 years under Income Tax Ordinance

88 ❖ **What incomes are exempt income?**

1. Income of non-resident for technical, professional, scientific expert
2. Pension from former employer other than current employer
3. Pension of armed forces
4. Gratutity or commutation on retirement
5. Benevolent grant paid from Benevolent fund
6. Perquisites of Federal Ministers, Judges of Supreme Court, High Court
7. Provident fund
8. Pension fund
9. Any donation to notifed institutions such as Fatmid Foundation, CPLC, Aga Khan Development Network, Shuakat Khanum Memorial Hospital, Indus Hospital, Karachi, Edhi Trust
10. "Capital Gains" in Export processing Zone
11. Electricity power generation project

89 ❖ **Access to records and premesis under Excise Act & Sales Tax Act**

- A person required to maintain a record will provide it to as and when required by IR officer. In case it is in form of electronic data will provide access to authorised officer.
- Board or Chief Commissioner (and also Commissioner in case of material evidence) may post an officer to the premises to monitor production, sale of goods and stocks position or maintenance of record.

90 • Board may also monitor the production, sales, stock through electronic or other means.

❖ **Access to records and premesis under Income Tax Ordinance**

- Commissioner can or an officer authorised can enter and search premesis for accounts, documents or computer
- Any taxpayer will be required to provide records, accounts, documents, etc as and when required.

91 ❖ **Records to be maintained for Exciseable goods:**

- Every person will keep record for 6 years or till final order in any proceedings at his business premises
- In English or Urdu
- Records for clearance and sales made indicating description, quantity and value of goods and name, address of person sold to
- Records of sold without payment of duty
- Records for purchased made indicating description, quantity and value of goods and name, address of supplier
- Record of imports and exports

92 ❖ **Records to be maintained for Sales Tax Act**

- Registered person will keep record in English or Urdu of goods purchased or imported and supplied (incuding zero-rated and exempt supply) made by him

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- records of supplies including the description, quantity and value of goods, name and address of the person to whom supplies were made and the amount of the tax charged
- records of goods purchased including the description, quantity and value of goods, name, address and registration number of the supplier and the amount of the tax on purchases
- records of goods imported indicating the description, quantity and value of goods and the amount of tax paid on imports
- records of zero-rated and exempt supplies
- invoices, credit notes, debit notes, bank statements, 3[banking instruments in terms of section 73,} inventory records, 4[utility bills, salary and labour bills, rental agreements, sale purchase agreements and lease agreements]
- Record relating to Gate passes, inward or outward and transport receipts.

93 ❖ **Sales Tax Invoices**

- Name, address and registration number of supplier
- Name, address and registration number of receipt
- Date of issue, description, quantity, value exclusive of sales tax, amount of sales tax and value inclusive of tax
- No more than 1 invoice will be issued for a supply
- Only registered person or person paying retail tax can issue invoice

94 ❖ **Is there in law that individual need to mainataned record how they maintained like doctor etc**

In case of private practice they should keep a record for all petients consulted and fees charged to each petient.

95 ❖ **What is the difference between professional tax and income tax?**

Professional tax is levied under finance act 1964 It is one sort of fixed tax which is paid by professionals while income tax is not a fix tax.another difference is that where a person falls in more than one category of profession he shall be liable to pay tax in respect of one where rate of tax is highest.

96 ❖ **Stock-in-trade**

- The cost of stock-in-trade disposed of by person will be computed under formula:

(A + B) – C

Where,
A is the opening value of person's stock-in-trade for the year
B is cost of stock-in-trade acquired by the person
C is the closing value of stock in trade

97 ❖ **Capital Gains rates for immovable property**

1. Less than 1 year 10%
2. 1-2 years 5%
3. More than 2 years 0%

98 ❖ **What is the difference between zero-rating and exemption?**

A person making zero rated supplies is bound to get registered with FBR, also can claim refund of his input tax. While a person making exempted supplies, is not liable to b registered under the Sales Tax Act, also he can't claim refund

99 ❖ **What would you do as an Inland Revenue Officer if a person doesn't submit Tax Return?**

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Notice will be served to him to submit return within stipulated time, in case of non compliance Provisional assessment will be made against him, and he will be liable to pay penalty @ 0.1% of tax liability per day, subject to maximum 50% penalty of tax liability.

100 ❖ **Which Tax is easy for collection and payment?**

Sales tax is easy to pay and collect. For sales tax registered supplier to registered persons the invoice number could be cross matched so it would be difficult for coporations to evade it because most of its supplied go to sales registered distributors. And these corporate entities make a large percent of revenue for inland revenue.

101 ❖ **How tax collection/ arrears recovery process can be improved to increase revenues?**

1. By imposing strict penalty to tax evaders
2. By increasing incentive to Taxpayer
3. By improvement in relationship of Taxpayer & Tax officials

102 ❖ **What is CREST and for what purpose it is used by FBR?**

Computerized Risk Based Evaluation of Sales Tax. It is computerized program for analyzing and cross matching of sales tax returns.

103 ❖ **What is the difference between input tax and output tax?**

Input tax is the value added tax added to the price when you *purchase* goods or services liable to GST

Output tax is the value added tax you calculate and charge on your own *sales* of goods and services for GST leviable goods

104 ❖ **What happens if we pay income tax in Pakistan but do not file a return?**

- You will become a non-filer.

105 ❖ **What is capital account and current account?**

- **Capital Account:** It includes the flow of payments used to purchase financial and physical assets.
- **Current account:** *The current account is a record of all trade between one nation* and other nations. It includes payment for imports and exports of both goods and services.

106 ❖ **Municipal taxes**

1. *Tax in land assessable to rent*
2. Employers to deduct taxes in case of salaries of of professions, trades and callings.
3. Ushr is an Islamic tax (5% tax on the agricultral produce of irrigated land and 10% tax on agricultral produce from rain-watered land)

107 ❖ **Cantonment Board taxes:**

1. *House Tax % of Annual Rental Value*
2. Transfer Tax on Immovable property % of consideration

108 ❖ **Have you visited any Income Tax office?**

Yes I have visited RTO, Hyderabad and RTO-II and LTU-II at Sindh Secretarate building Karachi

109 ❖ **Amortization, any rule in income tax**

Describe amortization formula for whole years and partly used in a tax year

110 ❖ **Finance act 2016 ki Jo amendment aye hai taxpayer k last 10 years k record sy kya faida hoga?**

The government has empowered commissioners to issue notices if a taxpayer has not filed returns for the past 10 years. Earlier, the notice for any tax prior to five years could not be sent. It will keep a check on tax evader and non-filers for last 10 years.

111 ❖ **Professionals (like medical practitioners, legal practitioners, accountants, auditors,**

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architects, engineers etc.):-

(a) Serially numbered and dated patient-slip/ invoice/ receipt for each transaction of sale or receipt containing the following:-

(i) taxpayer's name or the name of his business or profession, address national tax number and sales tax registration number, if any;

(ii) the description, quantity and value of medicines supplied or details of treatment /case/ services rendered (confidential details are not required) and amount charged; and

(iii) the name and address of the patient/client:

Provided that the condition of recording address of the patient on the patient slip under this clause shall not apply to general medical practitioners;

(b) Daily appointment and engagement diary in respect of clients and patients:

Provided that this clause-shall not apply to general medical practitioners;

(c) Daily record of receipts, sales, payments, purchases and expenses; a single entry in respect of daily receipts, sales, purchases and different heads of expenses will suffice; and

(d) Vouchers of purchases and expenses

112 ❖ **All taxpayers for Income for "Income from Business" will need to maintain**

(a) All amount of purcahses and receipts

(b) All sales and purchases of goods and all services provided and obtained by the taxpayer

(c) All assets and liabilities of the taxpayer

(e) In case of a taxpayer engaged in production all utilization of materials, labour and other inputs.

(4) These records will be maintained up to 6 years

113 ❖ **Salary, property, capital gains, income from other sources minimum documents to be kept**

(1) Taxpayers deriving income from Salary:

Salary certificate indicating the amount of salary and tax deducted there from.

114 ❖ **Taxpayers deriving income from property:**

(a) Tenancy agreement. if executed;

(b) Tenancy termination agreement, if executed;

(c) Receipt for amount of rent received; and

(d) Evidence of deductions claimed in respect of premium paid to insure the building, local rate, tax, charge or cess, ground rent, profit/interest or share in rent or money borrowed, expenditure on collecting the rent, legal services and unpaid rent.

115 ❖ **Taxpayers deriving income from capital gains:**

(a) Evidence of cost of acquiring the capital asset;

(b) Evidence of deduction for any other costs claimed; and

(c) Evidence in respect of consideration received on disposal of the capital asset.

116 ❖ **Provincial taxes and which one largest contributor**

sales tax on services, stamp tax, professional tax, hotel tax, urban immovable property tax, vehicle tax. sales tax on services is largest contributor

117 ❖ **What is done with money collected by FBR**

It used to support the governmental expenditure, public services and public sector projects

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118 ❖ **Portion of provinces in taxes**

Rs2,136 billion in 2016-17

82% population, 10.3% poverty and backwardness, 5% on revenue collection/generation and 2.7% on inverse population density.

119 ❖ **NFC award is due or extended?**

Yes, it is due becase 7th NFC award was granted in 31 December 2009 and it became due in 2015 because it should be announced every week

120 ❖ **In developed countries the focus is on direct taxes or on indirect taxes?**

On direct taxes

121 ❖ **In Pakistan what percent constitute the direct taxes of the total taxes?**

Direct taxes 40%

122 ❖ **Which is the largest contributor among the indirect taxes in Pakistan?**

Sales tax on goods in federal taxation and sales tax services in provincial taxation

123 ❖ **Should the wealth tax be reintroduced?**

Yes

❖ **Vouchers are?**

Reciept

124 ❖ **Cost of doing business include**

This is the cost of all business inputs such as labour, material, machinery, money cost and energy costs in order to offer goods and services to customers.

125 ❖ **Computerized system of filing**

Iris portal

126 ❖ **What are the flaws in fbr**

1. Tax policy and administration done jointly
2. Stringent enforcement of penalties and punishment to tax evaders is not enforced properly
3. Lack of viberant field audits which previously put to cold storage for 10 years
4. Very little or no brouchers for the help of taxpayers and if they are they are outdated.

127 ❖ **Why Pakistanis do not pay taxes?**

Well Pakistanis are reluctant to pay taxes because they are unaware of their national responsibility and that the tax that they pay is ultimately spent on them in form of public services and infrastructure. The government should educate through media and awareness at school levels. In case of non fillers salaried class high rates of taxes shall be levied on those non filers. For business and traders no amnesty scheme should be introduced..they shall penalize them by imposing strict penalties and punishments..tax evasion should be declared state crime.

128 ❖ **Sales Tax on services collected by provicnial authorities?**

Sindh Revenue Board (15%) telecom at 19.5%, Punjab Revenue Authority 16% and Khyber Pukhtunkhwah Revenue Authority (15%).

129 ❖ Provincial share in Divisible pool is 57.5% under 7th NFC Award

130 ❖ NFC award was signed in December 2009 but came into effect on 1st July 2010. It broke the deadlock that was for previous attempts in 2001 and 2006. It is due now.

131 ❖ **Indicators** and **Weights**

Indicators	Weights
Population	82.0%
Poverty	10.3%

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Revenue Generation 5.0%
Inverse Population Density 2.7%

132 ❖ Distribution of funds amounst District Governments under "Provincial Finance Commission" of Sindh is as following:

Population	40%
Development needs	10%
Service Infrastucture	35%
Area	5%
Revenue generation	5%
Primary enrolment	5%

133 ❖ **Information Technology definition**

It is the study or application of using system especially computers and telecommunications for processing, storing, retrieving and sending the information.

134 ❖ **Gross Domestic Production (GDP)** represents the monetary value of all goods and services produced within a nation's geographic borders over a specified period of time.

135 ❖ **Gross National Product (GNP)** is an estimate of total value of all the final products and services produced in a given period by the means of production owned by a country's residents.

136 ❖ **Council of Common Interest** or CCI is a constitutional body in Pakistan. The CCI resolves the disputes of power sharing between the federation and provinces. Membership of CCI consists of following: The Prime Minister, 4 provincial ministers, 3 members nominated by PM. After 18th Amendment it is mandatory for Council to meet once in 90 days.

137 ❖ **National Economic Council**

It is Constitutional body that includes PM as chairman and 4 chief ministers and 4 other member may be nomiated by PM. It reviews the overall economic condition of the country in respect of financial, economic and social policies under the guidance of balanced development and regional equity.

138 ❖ **What is the difference between Sales Tax and GST/VAT?**

VAT /GST charged just on value addition. Tax is separately calculated. Input tax credit is available, so no double taxation. Whereas, Sales tax is with double taxation on each stage of value addition as tax is also part of cost on each stage

139 ❖ **Federal Tax Ombudsman?**

It disposes of complaints to rectify any injustice done to a taxpayer by actions of the tax employees of Federal Board of Revenue (FBR)/Revenue Division, Government of Pakistan. FTO appointed by the President for term of 4 years.

FTR= tax deducted/ paid shall be full and final discharge of tax liability no deductions are allowed.

NTR= a method in which income of a person under each head is included in total income and reduced by deductible allowances to arrive at taxable income.

STR= a method in which certain incomes are not included under any head of income, rather separately charged at different rate, no deductions are allowed in this case .

MTR=a method of taxation under which tax deducted is treated as minimum tax in respect of such income. Under this method tax deducted shall:

1) become final if tax under NTR is less than this amount.
2) Be adjustable against tax under NTR if tax is higher than this amount.

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Tax

An enforced contribution by legislative or soverigen authority to raise revenue for public or governmental purposes.

In Wealth of Nations, Adam Smith identified 4 basic requirements for a good tax system. These requirements include equality, certainity, covenience and economy

1. Equality:

A tax should be based on taxpayers *ability to pay*. The concept of equality requires consideration of both horizontal and vertical equity. **Horizontal equity** exist when two similary situated taxpayers are taxed the same. **Vertical equity** exists when taxpayers with different situation are taxed differently but fairly in relation to each taxpayer;s ability to pay. This means that taxpayers who have the gretest ability to pay the tax should pay the greatest proportion of the tax. So does the low-income people pay no tax. As taxable income increases, the tax rate increases.

2. Certainity:

A taxpayer should know when a nd how a tax is to be paid. In addition the taxpayers should be able to determine the amount of tax to be paid in advance of paying. (Indirect taxes violate this principle)

3. Convenience:

A tax should be levied at the time it is likely to be convenient for the taxpayer to make payment. The most convenient time for taxpayers to make payment is as they receive the income and have money available to pay the tax.

4. Economy:

A tax should have the minimum compliance and administrative cost. The cost of compliance and administration should be kept at minimum so that the amount that goes to the treasury is as large as possible.

Tax = Tax base (amount subject to tax) X Tax rate

Tax Rate Structures

Tax rate structures are described as proportional, regressive and prograssive. The structures explain how the tax rate vary with the change in the amount subject to tax (the tax base)

Marginal Tax Rate is the percentage of **tax** applied to your income for each **tax** bracket in which you qualify. In essence, the **marginal tax rate** is the percentage taken from your next dollar of taxable income above a pre-**defined** income threshold.

Average Tax Rate is the **tax rate** you pay on income when you add up all sources of taxable income and divide that number into the **amount of taxes** you owe. In other words, you can determine your **average tax rate** by dividing your total **tax** obligation by your total taxable income.

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Proportional Rate Structure:

A proportional rate structure is defined as a tax for which the average tax rate remains the same irrespective of tax base increment. This rate structure is also called *flat tax*. Eg. Sales Tax.

Regressive Rate Structure:

A regressive rate structure is defined as a tax in which the average tax rate decreses as the tax base increases.

Progressive Rate Strucutre:

A progressive rate structure is defined as a tax in which the average tax rate increases as the tax base increases. Income tax strucutre fulfils the Adam Smith's equality criterion as the people with higher taxable income levels pay higher marginal tax rate, which promotes equality and contributes to equitable income distribution.

Income includes both the taxable as well as the nontaxable income.

Gross Income *is income minus income items that are excluded from taxation.*

Exculsion is excluded from tax under tax law

Defferral is an item that does no affect not affect current period's taxable income but will affect future tax year. However, it differs from exclusion in that an exclusion is *never* subject to taxation, whereas defferal *will* be subject to tax at some point in future.

Deductions are amounts that tax law specifically allows as subtraction from gross income. There is a rule that an amount will not be deducted unless tax law specifically permits it. Deductions are chraterised as expenses, losses and exemptions.

Expense is a current period expenditure that is incurred to earn income.

Loss refers to 2 distinctly different types of events:

1. Transaction loss: A loss occurs when an asset is disposed of for selling price less than than its tax cost. It represents loss of capital invested in an asset.
2. Annual loss: It results from an excess of allowable deductions for tax years over the reported income for the years

Individuals and trusts may subract predetermined amounts called exemption to determine taxable incomes. Exemption deduction for individuals is state's recognision that people need minimum amount of income to provide for their basic living expenses. This minimum basic cost of living increases each years with parity of inflation.

Tax credit is a direct reduction in the income tax liablity. A credit is not deducted from taxable income but is instead subtracted directly from the income tax liablity. A tax credit is more valuable than a deduction of an equal amount, because the credit yields a larger reduction in the total tax due. Tax credit are often used as an incentive to encourage taxpayer to enter into specific types of transaction that the government feels that further some public purpose.

Tax Planning

There are 4 rules of thumb when planning timing of income and deductions; 2 are based on time value of money propositions AND 2 are based on tax rate considerations.

Time Value of Money

1. Defer recongision of income
2. Accelerate recognision of deductions

Marginal Tax Rate

3. Put income into the year with lowest expected marginal tax rate
4. Put deduction into the year with the highest expected marginal tax rate

Tax evasion occurs when a taxpayer uses fradulent methods or deceptive behaviour to hide the actual tax liability. Tax evasion is illegal with substaintial penalties.

Tax avoidance is tax planning using legal methods allowed by the law to minimize tax liability. Tax avoidance generally involves planning an intended transaction to obtain a specific tax treatment.

Income Tax Concepts

Income tax concepts are divided by major functions called general concepts, accounting concepts, income concepts and deductions concepts.

General concepts

General concepts provide guidance on the overall operation and implementation of income tax system. As such, these concepts apply to almost every aspect of the system, be it an accounting issue, an income issue, or a deduction issue.

Ability-to-pay: A fundamental concept underlining the income tax structure is the ability-to-pay concept. This concept states that the tax levied on a taxpayer should be based on the amount that taxpayer can afford to pay. The final result of this concept of that the income tax base *net* income number (i.e, income minus deductions and losses) rather than a *gross* figure such as total income received.

A second aspect of the ability-to-pay concept is the use of progressive tax rate structure. Recall that a progressive tax is one in which higher level of tax base are subjected to increasingly higher tax rates. Individuals with large taxable incomes pay a higher margianl tax rate than do individuals with small taxable incomes. Thus, both the tax base – taxable income – and the tax brate applied to the base are determined by the taxpayer's ability to pay.

Administrative Conveniece Concepts

This concept states that items may be omitted from the tax base whenever the cost of implementing a concept exceeds the benefit of using it. The cost is generally the time and effort for taxpayers to accumulate the information necessary to implement the concept as well as the cost to the government of ensuring complaince with the concept.

Pay-as-you-go concept requires taxpayers to pay tax as they generate income. This concept is implemented through withholding and estimated tax requirements.

Arm's length transaction concept ensures that both parties in the deal are acting in their own self interest and are not subject to any pressure or duress from the other party.

Accounting method:

There are 2 types of accounting methods:

1. Cash basis
2. Accrual basis

Cash basis accounting states that taxpayer using cash basis are taxed on income as it is received amd take deductions as they are paid. Income can be received in any form other than cash such as property, services. Its conversion to cash is not necessary.

Accrual basis states that taxpayers report their income as it is earned and take deductions as theya re incurred, without regard to the actual reciept or payment of cash.

Income Concepts

All-inclusive-income concept states that all the income received is taxable unless some specific provision can be found in the law that excludes the item in question from taxation. Income can be received in any form: cash, property, services and so on. Thus tax law always starts with the proposition that any anything of value received is taxable.

Capital Asset is a type of asset that is not easily sold in the regular course of a business's operations for cash and is generally owned for its role in contributing to the business's ability to generate profit. Furthermore, it is expected that the benefits gained from the asset will extend beyond a time span of one year. On a business's balance sheet, capital assets are represented by the property, plant and equipment figure.

The gains or losses from the sale of a capital asset are known as capital gains and capital losses, must be seperated from all other gains and losses.

Capital recovery concept states that no income is taxed until all capital previously invested in the asset is recovered. That is that upon purchase of any capital asset all investment on asset must be recorded so that upon disposal amount of profit (or) may be determined.

Expenditure that benefit more than one year must be capitalised.

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Realization Concept

Realization occurs when an arm's-length transaction takes place: Goods are sold, serivces are rendered and so on. Mere changes in value without the advent of realization event – in which the taxpayer recieves the change in value – do not result in taxable recognition.

Claim-of-right Doctrine states that a realization occurs whenever an amount is received without restriction as to its disposition. An item is received without restriction when the reciever has no definite obligation to repay the amount received. Income received under claim-of-right is reported in the years of reciept. If income is reported under claim-of-right and a repayment of part or all of reciept occurs in a later year, it is accounted for a deduction in the year of repayment because of annual accounting period concept. When a taxpayer receives amount with its use restricted in some substaintial manner, those amounts are not realised until the restriction is removed.

Constructive reciept is when a taxpayer is *entitled* to receive income in any form be it service, property, cash.

Wherewithal-to-pay concept states that income should be recognised and tax paid on income when the taxpayer has the resources to pay the tax.

Deduction Concept

Legislative Grace concept states that deductions are only allowed as a result of specific legislative enactments and that any relief granted in for a deduction must be strictly interpreted.

Business purpose concept states that deduction is allowed only for an expenditure that is made fir sine business or economic purpose that exceeds any tax avoidance motive. This concept has been interpreted to mean that the expenditure was made in connection of profit-seeking activity unlike personal expense.

Capital Recovery concept states that the amount of deduction can never exceed its cost.

Different terms

gratuity
a sum of money paid to an employee at the end of a period of employment

pension
a regular payment made by the state to people of or above the official retirement age and to some widows and disabled people.

Provident Fund
An investment fund contributed to by employees, employers, and (sometimes) the state, out of which a lump sum is provided to each employee on retirement.

Trust

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For More Notes : Contact @ whtsapp 0300-1004803 an arrangement whereby a person (a trustee) holds property as its nominal owner for the good of one or more beneficiaries

Trustee

an individual person or member of a board given control or powers of administration of property in trust with a legal obligation to administer it solely for the purposes specified.

Perquisite

a benefit which one enjoys or is entitled to on account of one's job or position.

Mutual Fund

an investment programme funded by shareholders that trades in diversified holdings and is professionally managed.

set-off

an item or amount that is or may be set off against another in the settlement of accounts.

Set-off losses

Losses that can be adjusted against another income source

* Losses from salary and property are non-adjustable under ITO, 2001

Capital Expenses Vs Revenue Expenses

Capital expenditures represent major investments of capital that a company makes to maintain or, more often, to expand its business and generate additional profits. Capital expenses are for the acquisition of long-term assets, such as facilities or manufacturing equipment. Because such assets provide income-generating value for a company for a period of years, companies are not allowed to deduct the full cost of the asset in the year the expense is incurred; they must recover the cost through year-by-year depreciation over the useful life of the asset. Companies often use debt financing or equity financing to cover the substantial costs involved in acquiring major assets for expanding their business.

Revenue expenses are shorter-term expenses required to meet the ongoing operational costs of running a business, and thus are essentially the same as operating expenses. Unlike capital expenditures, revenue expenses can be fully tax-deducted in the same year the expenses occur. In relation to the major asset purchases that qualify as capital expenditures, revenue expenditures include the ordinary repair and maintenance costs that are necessary to keep the asset in working order without substantially improving or extending the useful life of the asset. Revenue expenses related to existing assets include repairs and regular maintenance as well as repainting and renewal expenses. Revenue expenditures can be considered to be recurring expenses in contrast to the one-off nature of most capital expenditures.

The purpose of capital expenditures is commonly to expand a company's ability to generate earnings, whereas revenue expenditures are more commonly for the purpose of maintaining a company's ability to operate. Capital expenditures appear as an asset on a company's balance sheet; revenue expenses are listed with liabilities.

Depreciation Vs Amortization

Because very few assets last forever, one of the main principles of accrual accounting requires that an asset's cost be proportionally expensed based on the time period over which the asset was used. Both depreciation and amortization (as well as depletion) are methods that are used to approrate the cost of a specific type of asset to the asset's life. It is important to mention that these methods are calculated by subtracting the asset's salvage value from its original cost.

Amortization usually refers to spreading an intangible asset's cost over that asset's useful life. For example, a patent on a piece of medical equipment usually has a life of 17 years. The cost involved with creating the medical equipment is spread out over the life of the patent, with each portion being recorded as an expense on the company's income statement.

Depreciation, on the other hand, refers to prorating a tangible asset's cost over that asset's life. For example, an office building can be used for a number of years before it becomes run down and is sold. The cost of the building is spread out over the predicted life of the building, with a portion of the cost being expensed each accounting year.

Depletion refers to the allocation of the cost of natural resources over time. For example, an oil well has a finite life before all of the oil is pumped out. Therefore, the oil well's setup costs are spread out over the predicted life of the oil well.

Tax, duty, cess, surcharge

All of these are taxes and different words are used to identify the way the taxes will be charged and the money will be used. Of the words in the question 'levy' is not a tax, but a verb that means 'the act of charging the tax. (Eg. Govt will levy a 10% duty, has levied a 0.5% cess, etc)
Now to the terms.

Tax: Any money the government takes from you (legally) for doing any economic activity is tax. Generally, this is a percentage of the money you receive or give. Taxes are either**direct**, where the money goes directly from your pocket to the govt's pocket, or **indirect**, where the money goes from your pocket to someone else's pocket and then to the govt's pocket. (Lemme know in comment if you need further explanation of these terms)

Duty: This is an **on-border tax** charged on goods (commodities, or things that you can physically touch) either while coming into the country or going out of the country. Generally, a percentage of the value of the good.

Cess: This is a tax on tax, levied by the govt for a specific purpose. Generally, cess is expected to be levied till the time the govt gets enough money for that purpose. The education cess, that is levied currently, is meant to finance basic education in the country.

Surcharge: This is an additional burden to the tax being already levied. Generally, surcharge is levied for a certain period time. For instance, the 10% surcharge being levied on super rich in India for one financial year.

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Surcharge is a addational charge

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(Surcharge and Cess may look the same, but the difference is in the way of charging. For instance, say some tax is 30%, so out of Rs 100 earning, Rs 30 is paid as tax. Now if the govt levies a 10% cess, the total tax will become Rs 33. However, if the govt levies a 10% surcharge, the total tax will become Rs 40.

Modarba

Modaraba or **Mudarabah** is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The investment comes from the first partner who is called "rabb-ul-mal", while the management and work is an exclusive responsibility of the other, who is called "mudarib" and the profits generated are shared in a predetermined ratio.

Musharakah

Musharakah is a joint enterprise or partnership structure with profit/loss sharing implications that is used in Islamic finance instead of interest-bearing loans. Musharakah allows each party involved in a business to share in the profits and risks. Instead of charging interest as a creditor, the financier will achieve a return in the form of a portion of the actual profits earned, according to a predetermined ratio. However, unlike a traditional creditor, the financier will also share in any losses.

Musharakah plays a vital role in financing business operations based on Islamic principles, which prohibit making a profit on interest from loans. For example, suppose that an individual (A) wants to begin a business but has limited funds. Individual (B) has excess funds and wishes to be the financier in musharakah with A. The two people would come to an agreement to the terms and begin a business in which both share a portion of the profits and losses. This negates the need for A to receive a loan from B.

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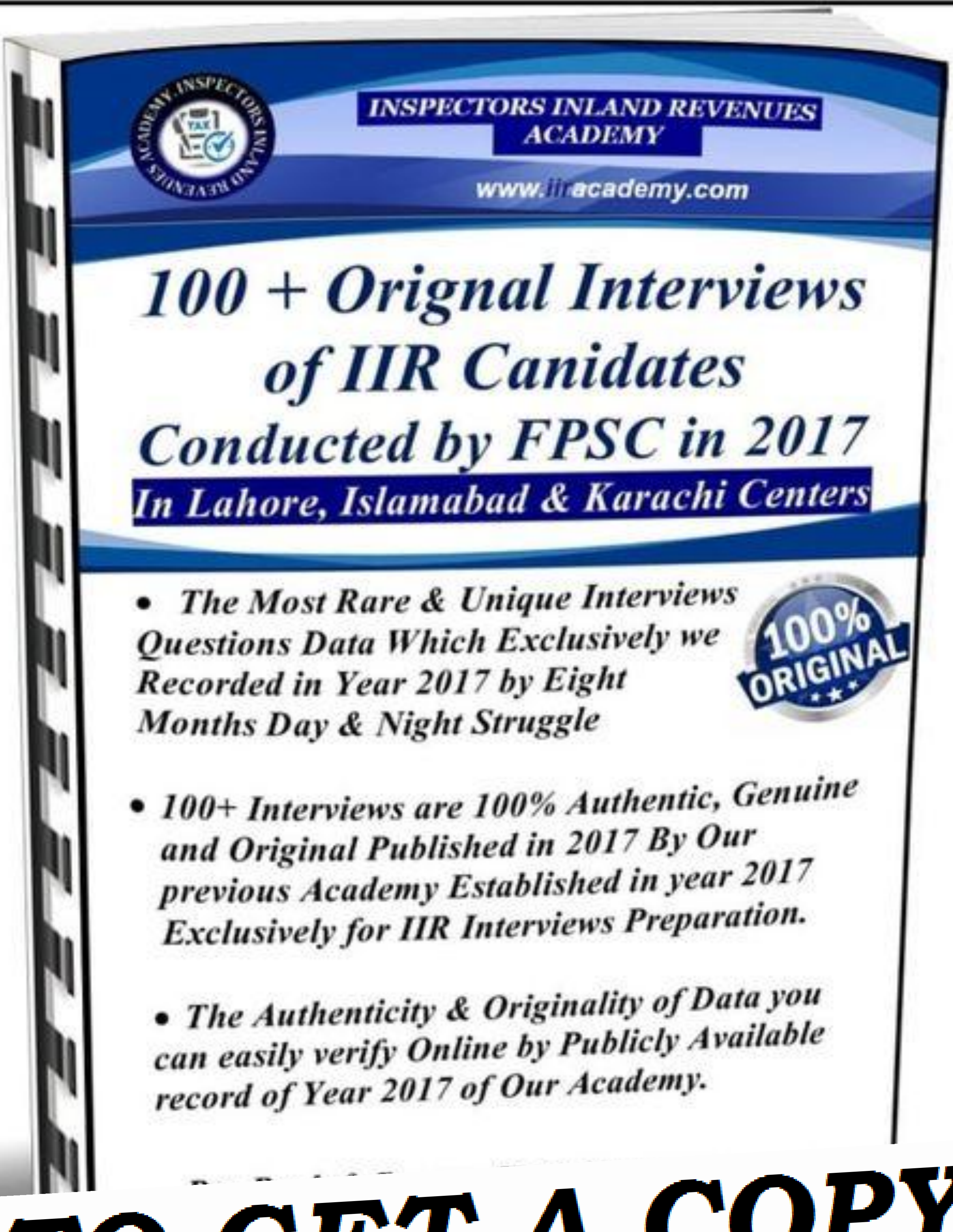
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• The Authenticity & Originality of Data you can easily verify Online by Publicly Available record of Year 2017 of Our Academy.

Tax Regimes

Normal tax regime (Net-income basis)

Under the normal tax regime, tax is charged on taxable income of the taxpayer i.e. gross amounts chargeable reduced by deductions allowed.

Final tax regime (Gross income basis)

- Income subject to final tax are those which are subject to collection or deduction of tax at source and the tax so collected or deducted at source is treated as final tax on the income arising from such transactions.
- The tax collected or deducted on such transactions is commonly known as non-adjustable tax collected or deducted at source. The taxation of income subject to final tax is governed by Section 169 of the Income Tax Ordinance, 2001.
- Following rules apply to the income subject to final tax:
  (i). Such income is not chargeable to tax under any head of income in computing the taxable income;
  (ii). No deduction is allowed for any expenditure incurred in deriving the income
  (iii).The amount of the income is not reduced by
  (a). Any deductible allowance; or
  (b). The set off of any loss
  (iv). The tax deducted is not reduced by any tax credit
  (v). There is no refund of the non-adjustable tax collected or deducted at source unless such tax is in excess of the amount of final tax for which the taxpayer is chargeable and
  (vi). An assessment is treated to have been made and the person is not required to furnish a return of income in respect such income.

Various incomes which are treated as final tax liability of the person under the Income Tax Ordinance,2001 are:

- Exports u/s 154
- Dividends
- Commercial importer under section 148(7)
- Person selling petroleum products to petrol pump operator under section 156A
- CNG stations under section 234A
- Commission and brokerage under section 233

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Minimum tax regime

- Certain types of incomes are subject to minimum tax under the Income Tax Ordinance,2001 to assure that certain portion of tax is paid by the taxpayer irrespective of quantum of income.

  Various incomes which are treated as minimum tax under the Income Tax Ordinance,2001 are:
  (i). Minimum tax under section 113 on turnover
  (ii). Minimum tax on builders under section 113A

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(vi). Tax collected upto the electricity bill amount of Rs.30,000 per month for a person other than company under section 235

FTR= tax deducted/ paid shall be full and final discharge of tax liability no deductions are allowed.

NTR= a method in which income of a person under each head is included in total income and reduced by deductible allowances to arrive at taxable income.

STR= a method in which certain incomes are not included under any head of income, rather separately charged at different rate, no deductions are allowed in this case .

MTR=a method of taxation under which tax deducted is treated as minimum tax in respect of such income. Under this method tax deducted shall:

1) become final if tax under NTR is less than this amount.

2) Be adjustable against tax under NTR if tax is higher than this amount.

Facts & Figures

- Indirect taxes make distribution more unequal and violates the canons of taxation – equality and certainty -because indirect taxes are more regressive than direct taxes and a taxpayers does not know in advance how much he has to pay in taxes. Direct taxes reduce income inequality
- In many countries withholding on wages and salaries can be as much as 80-90% of total withheld taxes whereas in Pakistan. This means Pakistan is excessively using withholding schemes vis-à-vis other countries. In 2015 only 23% of withholding tax was contributed by income tax and 22% by customs income tax
- Presumptive taxes such as advance tax on air tickets and cash withdrawn from banks, registration of vehices, electricty,telephone, CNG stations (40% taxes collected/deducted which are never adjusted)
- According to Tax Reform Commission (TRC) Pakistan's tax regime is heavily tilted in favourof elite
- Wealth tax used to be generated as very small amount of revenue and was abolished in July 2001. However, selective wealth taxes continue to exist in form of Capital Value Tax (CVT) on ownership and purchase of real estate, cars and stocks
- Federal Excise Duty is unadjustable but Excise Duty paid in Sales Tax Mode is adjustable
- Losses from property and salary non-adjustable
- Capital losses can only be set-off against capital gains
- Minimum company tax is applied when no tax is paid
- Zero rated charged at the rate 0% sales tax and can have input tax deduction if registered while exempted supplies are not chargeable to tax and don't need registration for sale tax
- When registered person purchases taxable supplies for business tax he pays is called input tax and it is deductible from output tax at time of sale tax return*
- If filed return is complete in all aspects its called deemed assessment order

Canon of taxation:

1. **Equality:** Tax payments should be proportional to income and applied equally to all concerned areas

Hortizontal equality exist when two similary situated taxpayers are taxed the same.

Vertical equality exists when taxpayers with different situation are taxed differently but fairly in relation to each taxpayer's ability to pay

2. **Certainty:** Tax liability should be clear and certain.
3. **Convenience of payment:** Taxes should be collected at a time and in a manner convenient for taxpayer
4. **Economy of collection:** Taxes should be expensive to collect and should not discourage business

Structure of taxes:

1. **Proportional tax:** Fixed percent of tax for all income groups
2. **Progressive tax:** Higher income persons pay higher taxes and lower income persons pay lower taxes
3. **Regressive tax:** Higher income persons pay less tax and lower income persons pay higher tax

Tax avoidance: Avoiding the taxes by legal tactics

Tax evasion: Evading the taxes by fraud

- GDP growth FY 2015 was 4.71 and some 0.7 was reduced due drastic decline of 27.8% in cotton crop
- Pakistan Inflation (CPI) 2.8% aginst 4.53% last year 5.09%
- Unemployment Rate 5.9% FY 2016
- Tax Revenue 8.4% of GDP against 11% last year 12.8% of GDP
- Budget deficit 3.4% of GDP against 5.3% last year 1 trillion
- GDP size $ 243 billion in 2014 according to World Bank figure 304 Billion. 283. B
- GNP size Rs. 1.178 trillion in 2014 according to State Bank figure 1.078 trillion
- Per capita income $ 1560 in FY 2016 1629 $
- Foreign Direct Investment US$ 1.0163 billion ~~July-April FY 2016~~ 2410 million 2017-16
- ~~Remittences $16.034 billion July-April FY 2016~~
- Pakistan Public Debt ~~20.3 trillion which was 6.3 trillion in 2008~~ Foreign Debt 83 billion $ Internal debt 22 trillion
- Foreign reserves 20000 Million $
- Circular Debt amount: 337 billion in 31 March 2016
- Balance of Payment amount (Trade Deficit OR Current Account Deficit) of Pakistan: ~~$2.33 billion~~ 12.1 Bn $ trade deficit 30 B $
- Federal Budget amount: 4394 billion 4,775 billion
- Federal Budget deficit ~~2016-17~~: 4% 1479 b
- ~~Sindh~~ Punjab budget amount: ~~869~~ billions 1.977 trillion
- Exports $~~30~~ billion 27 $
- Imports $~~50~~ billion 57 $
- Sales Tax 2014-15: 1087 billion (42%) 40% 1605
- Income Tax 2014-15: ~~1033 billion (40%)~~ 39% 1578 Billion
- Excise Duty 2014-15: 162 billion (6.25%) 6% 291 B
- Customs Duty 2014-15: 306 billion (11.82%) 14% 581

SBP Policy rate = 5.75% P.an

Figures of 2017 Please Update 2023-24

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Historical Development of Income Tax Laws in Pakistan

The primary function of a tax system in a developing country, like Pakistan, is to raise revenue for the Government to meet expenditure on its development projects and for the administration of the State's day-to-day affairs. The second and, equally important, function of tax system is to reduce inequalities in the society through a policy of redistribution of income and wealth by progressive taxation. The third function is to serve as an instrument of fiscal policy by granting exemptions etc. to promote, encourage or discourage specific economic activity to achieve rapid social and industrial development in the country. Various sources are tapped for the purpose in the shape of direct and indirect taxes. The taxes are imposed by the Legislature by enacting a fiscal statute. One of the direct taxes is the income tax with which we are presently concerned.

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Pakistan's tax regime consists of four main revenue sources:

1. General Sales Tax ;
2. Central Excise Duty;
3. Customs Duty; and
4. Income Tax.

The taxes are imposed by the Legislature by enacting a fiscal statute. One of the direct taxes is the income tax with which we are presently concerned.

Historical Background:

The beginnings of the income tax in this part of the world can be traced to year 1860 when it was stated in the then Indian Legislature that "the suppression of the "Mutiny" (War of Independence of 1857) has entailed a very heavy expenditure and made a large addition to the public debt". One of the measures which were considered necessary to secure the solvency of the Government, and the most important was proposal for additional taxation. It was contained in two Bills – one seeking to impose a license duty and the other an Income Tax. (1)

Consequently, Income Tax was introduced for the first time through Income Tax Act, 1860. During the period 1860 – 1922, no less than six Tax Acts were promulgated which remained in force for periods ranging from one year to 32 years. However, during this period there were two occasions when there was NO INCOME TAX -- during (i) 1865 to 1867 and (ii) 1873-1877.

Development of Income Tax Law in Pakistan:

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Income Tax Act, 1922 : When Pakistan came into being, the Income Tax Act, 1922, was in force. After independence in 1947, the Government of Pakistan adopted this Act and its provisions were extended to whole of Pakistan, except special areas. This Act continued for 57 years, till 1979 and was amended a number of times during this period. Each amending act, in an effort to check evasion of tax, made the law more complicated and difficulties arose in its day to day working.

Income Tax Ordinance, 1979 : To overcome these difficulties, the Income Tax Act, 1922, was replaced by the Income Tax Ordinance, 1979 and was made effective from 1st July 1979. Self Assessment Scheme was further broad based. Changes were brought about every year through annual Finance Acts. The Income Tax Ordinance, 1979 remained in force until 30th June, 2002.

INCOME TAX ORDINANCE 2001: This Ordinance was enforced on the 1st of July 2002. It has repealed the Income Tax Ordinance, 1979 (subject to certain savings mentioned in section 239) and now forms the main body of statute law on income tax in Pakistan. The Income Tax Rules, 2002 are an integral part of the main enactment.

The Ordinance contains 240 Sections, is divided into 13 Chapters and has 8 Schedules. Each chapter deals with a particular subject. Schedules are a part of the Ordinance i.e. good statutory laws like sections.

This Ordinance defines 87 words vide clauses (1) to (74) of section 2. These definitions indicate the area and scope of their applicability and are to be applied to entire Ordinance, except where otherwise specified. The words specifically defined in section 2 are to be given the meanings assigned to them unless the context otherwise requires.

- Ordinance overrides all other laws regarding income tax:

The Income Tax Ordinance, 2001 is a self-contained code and its provisions override all other laws on the subject of income tax notwithstanding anything contrary contained in any law for the time being in force.

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History of Sales Tax in Pakistan

Sales tax was imposed in Canada in 1920 and is still in force with some modifications. In United States, Federal Government has never sured officially this tax as sales tax. Actually it was an assortment of commodity tax both at manufacture and retail levels and it was introduced in 1930. Great Britain introduced purchase tax in 1940. Before the partition of subcontinent, India Sales Tax was regarded under the item of 48 of the provincial legislative in the seventh schedule to the Government of India Act, 1930. Pakistan adopted General Tax Act which was earned by the provincial government in the Punjab.

Federal Government in 1948 took over the sales tax and an addition was made to the federal legislative list an item No. 54B. Pakistan General Sales Tax Act, 1948 came into force on the 1st day of April 1948, which was based on the multiple point tax system.

In 1950, a sales tax enquiry committee was appointed to examine and report on the administration, incidence, general structure and leakage of sales tax revenue. The committee made various recommendations including the adoption of the single point tax system and the collection of tax in respect of imported goods at the import stage along with customs duty.

The present Sales Tax Act was introduced in the federal legislature on the 30th day of March 1951 to give effect to the recommendations of the committee. After discussions and debates in Parliament the bill was passed by the legislature and was given consent by the time Governor General on the 20th day of April 1951.

Sales Tax could not be charged on importation and exportation of commodities but on only consumption, this was further improved by the presidential order, Taxation of Sales and Purchase Order, 1960, on the 30th day of June 1960, according to which the power to impose taxes on the sales, purchases, consumption, importation, exportation, manufacture and production of goods was conferred since 31st day of March 1948. The preamble of the Act was amended by inserting the words "importation and exportation, production, and manufacture" after the word "sale". Sales tax when levied was fixed at 10% but increased to 12.5% from 1st July 1961 and again further increased to 15% from 1st July 1964. A surcharge of 25% of the sales tax was levied on the sales of taxable manufactured goods by the Finance Supplementary Act, 1965 which was done to meet defence requirements. However, the Defence Surcharge and Rehabilitation Tax were abolished by the Finance Ordinance, 1972. The Federal Government has the powers to enhance the general limit or general rates of sales tax or reduce such rates by a notification published in the official gazette.

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Sales Tax Act 1990

By virtue of Finance Ordinance, 1990, the Sales Tax Act, 1951 has been completely substituted by a new Act known as Sales Tax (Amendment) Act, 1990. This complete change has been made in order to update the Act so that it should be able to meet country's economy. Moreover, government has tried to simplify the rules regarding sales tax for the benefit of assesses and collection authorities. The 16 chapters of repealed act have now been replaced by 10 new chapters. The new Act became effective on 1st July 1990.

The Act prescribed a Value Added Tax (VAT) type system in which the value added component at each stage of business transaction could be taxed. The sales tax is chargeable from a registered person at import and sale of taxable manufactured goods. Tax credit or input tax is allowed when the registered person keeps proper record of claim regarding tax invoice and bill of entry. The goods meant for export were zero-rated. The tax paid on raw materials and other goods purchased in the course of business are deducted automatically while determining the tax liability. The new system is based on self-assessment/clearance procedure and payment of tax.

History of Excise Duty

In May 1894, the British Secretary of State had stated "if cotton duties were to be re-imposed in India, they must be deprived of any protective character" and that this in his view could be done either by "exempting from duty these classes of imported goods which competed with Indian manufactures or by levying on Indian manufacturers which competed with imported goods, an excise duty."[2]

Faced with a deficit caused by the exchange difficulty, the Government of India sought to devise some scheme, which would yield the necessary revenue without deviating from the conditions imposed by the Secretary of State and accordingly, recommended to him that a duty of 5 percent should be imposed on imported piece goods and 3 ½ percent on imported cotton, "these being the rates that had been in force in 1875" and that at the same time an excise duty of 3 ½ percent should be imposed on Indian mill made cotton yarn of counts above 24s. In the necessary legislation, carried through in December, 1894 by way of amendment of the Indian Tariff act, 1894, the import duty on cotton fabrics and yarn was raised to 5 percent from 3 ½ percent and an equivalent duty of 5 percent by way of an excise duty on cotton yarn was levied on yarns of counts twenties and above, under the Cotton Duties Act, 1894. The excise duty on yarn did not satisfy the Lancashire industry resulting in lowering of the import duty on cotton piece goods to 3 ½ percent and the levying of an excise duty at the same rate on all Indian mill made woven cloth by enactment of a new Cotton Duties Act, 1896, replacing the earlier legislation of 1894. The duty on imported yarn was simultaneously abolished.

The Cotton Duties Act of 1896 was bitterly resented in India but in spite of the continued opposition on the part of the people, the measure continued till it was suspended on 1st December 1925 as a prelude to its total abolition at the time of the budget in March 1926. **After 30 long years the Cotton Duties Act of 1896 was finally repealed by the Indian Finance Act of 1926.**

1944 – Landmark Year in the History of Central Excise duties.

In the development of the Indian central excises the year 1944, stands out as a landmark. It was in this year that a wide range of new articles was brought within the excise net. Excise duty, was levied inter alia on sugar, matches, and steel ingots. These three commodities yielded substantial amounts of revenue to the Central Government. With this development central excises may be said to have taken a firm and important place in the fiscal system of India. The year also witnessed the repeal of the Tariff Act of 1894 by the Indian tariff Act, 1934. With shrinkage of revenue from customs duty during the Second World War the scope of excise duties was greatly enlarged to cover items like tobacco, cloth, vegetable ghee, artificial silk, cement, footwear, tea and rubber tires.

The years 1943 and 1944 stand out again as benchmarks in the development of the excise tax system in India. A Bill to consolidate and amend the law relating to central duties of excise introduced in the Central Legislative Assembly and later, was referred to a Select Committee for its consideration.

In the years following 1944, there has been a wide application of central excises on a large range of manufactured goods and there were 67 specifically selected goods upon which the levy was imposed. In 1975, the government introduced a new residuary tariff item to cover "*all goods, not elsewhere specified*" with the result that there was virtually no manufactured commodity, which did not attract the excise net. Since then there have been many more changes in the realm of the central excise tariff structure chief among them being the alignment of the tariff in 1985 with the Harmonized System of Nomenclature for classification of goods. A Bill (to replace the erstwhile tariff schedule to the Central Excises and Salt Act, 1944, was brought before Parliament on 13th December 1985 signaling the coming into being a new and modern era in the central excise tax system in India. The country by then had begun to look a little changed in outlook from an inward looking and centralized economic polity. Since then the country has witnessed a phenomenal liberalization of its economy and in the field of central excise, it is no longer true to say that excise duties are mainly applied to commodities of mass consumption nor as tax used for regulatory purposes.

The Federal Excise Act, 2005, was promulgated with effect from 1st July, 2005, repealing the Central Excises Act, 1944. Following are some of the significant changes brought about by the new Act:

- The word "Federal" was used in place of "Central". Therefore, now the term "Federal Excise Duty" is more appropriate as compared to old "Central Excise Duty" for the duties of excise levied under the 2005 Act.
- The system of physical supervision has been entirely done away with and now all clearances will be self-assessed and no prior permission for clearance will be required.
- The payment of duty will be on monthly basis and the duty on all clearances during the month will be payable by the 15th of next month. This is in contrast to previous requirement of payment of duty prior to clearance.
- No gate passes are required for clearances as in the old system.
- Double taxation has been eliminated by allowing adjustment of the excise duty paid on the input goods used directly in the manufacture of excisable goods.
- On some services and goods FED is payable in VAT more i.e. in the same manner as provided in the Sales Tax Act, 1990. For details see the link 'Goods/Services Liable to Excise Duty' on this page.

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