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FIN623 9 PAPERS SOLVED BY LAIBA BUTT & OAZI UMER

PAPER NUMBER 1

MIDTERM EXAMINATION Spring 2009 FIN623- Taxation Management (Session - 2)

Question No: 1 (Marks: 1) - Please choose one
Which of the following is opposite to the literal meanings of Tax?

Burden
Strain
Load

Relieve (Page no 1)

REFERENCE:

General Understanding of Tax:

- .. Literal meanings ----- Burden, Strain
- .. The long journey would be too much of a tax on my father's strength.
- .. I found they were taxing my patience by asking irrelevant questions.
- .. Such a long rough journey would be very taxing for old man.

Question No: 2 (Marks: 1) - Please choose one
Which of the following is the main source of revenue generation of the state?

Taxes & Tariffs (Confirmed from vedio lecture)

Internal Borrowing
External Borrowing

Penalties & Fines

Question No: 3 (Marks: 1) - Please choose one
_____ is paid to the government on goods and services and can be reclaimed by retailers.

Income Tax
Value Added Tax

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Capital Value Tax

Wealth Tax

REFERENCE:

<http://www.bbc.co.uk/dna/h2g2/A4803040>

Question No: 4 (Marks: 1) - Please choose one

Which of the following is not an employment tax?

Social Security Tax

Federal Excise Tax

Federal unemployment compensation tax

State unemployment compensation tax

. REFERENCE:

http://www.allfoodbusiness.com/Employment_taxes.php

Question No: 5 (Marks: 1) - Please choose one

How many Schedules are contained in the Income Tax Ordinance 2001?

Three Schedule

Fifth Schedule

Seven Schedules (Page no 5)

Nine Schedules

REFERENCE:

Basic Features of Income Tax Ordinance 2001

Scheme of the Ordinance is given below:

There are thirteen chapters

Chapters are divided into:

Parts &

Divisions

There are 240 Sections

This ordinance comprises of seven Schedules

Schedules are integral part of the Ordinance.

Question No: 6 (Marks: 1) - Please choose one

Under which of the following sections of Income Tax Ordinance 2001 vested the

powers to CBR in order to formulate the IT rule 2002?

Section 206

Section 213

Section 237 (Page no 5)

Section 238

REFERENCE:

IT rules 2002

These were promulgated by CBR on 1st July 2002 in exercise of powers granted under

section 237 of the Ordinance.

Question No: 7 (Marks: 1) - Please choose one

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Which one of the following is the Internal aid and help in the interpretation of

Punctuation marks (Page no 7)

CBR's circulars

Definitions in other statutes

Departmental manuals

REFERENCE:

(Page no 7)

Question No: 8 (Marks: 1) - Please choose one

Section 2(13) of Income Tax Ordinance 2001 defined:

“Commissioner” means a person appointed as a Commissioner of Income Tax powers, and functions of the Commissioner;

In which criteria the above definition falls?

Exclusive definition

Inclusive definition

Both Exclusive and Inclusive definitions

Statutory definition

REFERENCE:

Examples of exclusive definitions are given below:

Sec. 2(2) Appellate Tribunal means the Appellate Tribunal established under section 130.

2(5A) “assessment year” means assessment year as defined in the repealed Ordinance;

2(6) “association of persons” means an association of persons as defined in section 80

2(13) “Commissioner” means a person appointed as a Commissioner of Income Tax

under section

208, and includes a taxation officer vested with all or any of the powers, and functions of the

Commissioner;

Question No: 9 (Marks: 1) - Please choose one

Under which of the following conditions a tax payer can adopt a special tax year?

Whenever he decides so

After seeking approval from Tax Office

After seeking approval from Commissioner of Income tax (Page no 11)

After seeking approval from High Court

Question No: 10 (Marks: 1) - Please choose one

Mr. A & B Joint Owners of a Building, Which of the following is the legal status under the provisions of Section 80 of the Ordinance?

Company

Association of Persons

Hindu Undivided Family

REFERENCE:

(Page no 15)

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Example no XV

Question No: 11 (Marks: 1) - Please choose one

Which of the following is the legal status of Mr. Z, a Director in Private Company under section 80 of the Income tax ordinance 2001?

Individual

Company

Firm

Hindu Undivided Family

REFERENCE:

(Page no 15)

Example no X11

Question No: 12 (Marks: 1) - Please choose one

Which of the following is NOT an example of deemed income?

Golden hand shake

All of the given options

Loan through cross cheque

Gifts through proper transaction

REFERENCE:

Handouts (Page no 17)

Question No: 13 (Marks: 1) - Please choose one

If the land situated in Pakistan and used for agriculture purposes then which of the following factor make distinction between agriculture and non-Agriculture Income?

Nationality of Pakistan

Quantity of the product

Time period

Human effort (Page no 19)

REFERENCE:

Following Incomes are held to be “Non-Agricultural Income”

☉ Income from spontaneous forest

☉ Income from sale of fruits and flowers growing on land naturally, spontaneously, and without the

intervention of human agency

Question No: 14 (Marks: 1) - Please choose one

Suppose a merchant acquired Profit from the purchase of standing crops and resale of it after harvesting.

The profit of the merchant will be treated in which of the following way?

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Agriculture Income

Income from Business (No reference)

Income from Property

Capital Gain

Question No: 15 (Marks: 1) - Please choose one

Mr. Ali being citizen of Pakistan of 60 years old, if his total taxable income is Rs.400,000. His tax liability will be reduced by _____ under Part 3 of second schedule.

10%

25%

50%

75%

REFERENCE:

Reduction in Tax Liability under Second Schedule Part 3

- Any amount received as flying allowance by pilots etc. and junior commissioned officers or other ranks shall be taxed @2.5% as separate block.
- Senior citizen-age 60 years & above where taxable income not exceeding Rs. 400,000/- tax liability reduced by 50%.

Question No: 16 (Marks: 1) - Please choose one

M/s ABC & Co. has been incorporated under Pakistan Companies Ordinance 1984. However it's most of the branched and control and management of affairs wholly situated out of Pakistan? What will be the residential status of M/s ABC & Co.?

Resident Company

Non-Resident Company

Resident Individual

Resident AOP

Question No: 17 (Marks: 1) - Please choose one

Which part of income is charged to tax of resident person under the income tax ordinance 2001?

Pakistani source of income

Foreign source of income

Both Pakistan and foreign source of income (Page no 28)

None of the given option

REFERENCE

Scope of Total Income of a Resident Person Section 11 (5)

Resident Person Changeable to tax on:

- The income of a resident person under a head of income shall be computed by taking into account amounts that are Pakistan-source income and amounts that are foreign-source income

Question No: 18 (Marks: 1) - Please choose one

Which part of income is charged to tax of non-resident person under the income

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tax ordinance 2001?

Pakistani source of income (Page no 28)

- Foreign source of income
- Both Pakistan and foreign source of income
- None of the given option

REFERENCE:

Non-resident person charged only on Pakistan Source Income Sec.11 (6)

Question No: 19 (Marks: 1) - Please choose one

_____ means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

Permanent establishment (Page no 29)

- Small Business Units SBU
- Venture

REFERENCE:

Permanent Establishment—Defined Sec. 2(41)

Permanent establishment in relation to a person, means a fixed place of business through which the business of the person is wholly or partly carried on

Question No: 20 (Marks: 1) - Please choose one

Which of the following come under the ambit of Royalty under section 2 (54)?

- Right to use any patent
- Copy right of a literary
- Right to use any industrial or scientific equipment

All of the given options (Page no 30)

REFERENCE:

Royalty Defined Sec. 2 (54)

Royalty means any amount paid or payable however described or computed, whether periodical or lump sum, as a consideration for:

- a)The use of, or right to use any patent, invention, design or model, secret formula or process, trade mark or other like property or right;
- b)The use of, or right to use any copy right of a literary, artistic or scientific work, including films or video tapes for use in connection with television or tapes in connection with radio broadcasting, but shall not include consideration for the sale, distribution or exhibition of cinematograph films.
- c)The receipt of, or right to receive, any visual images or sounds or both, transmitted by satellite, cable, optic fiber or similar technology in connection with television, radio or internet broadcasting;
- d)The supply of any technical, industrial, commercial or scientific knowledge, experience or skill;
- e)The use of or right to use any industrial, commercial or scientific equipment;
- f)The supply of any assistance that is ancillary and subsidiary to, and is furnished as a means of enabling the application or enjoyment of, any such property or right as mentioned in sub-clause (a) through (e)

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g)The disposal of any property or right referred to in (sub-clause) (a) through (e).

Question No: 21 (Marks: 1) - Please choose one

What is the relation between the Non-resident and permanent establishment as per section 105?

▶ Both have same legal entity

▶ **Both are separate legal entity** (Page no 31)

▶ Both are dependent on each other

▶ None of the given options

REFERENCE:

Taxation of a permanent establishment in Pakistan of a non-resident person Sec. 105:

(1) The following principles shall apply in determining the income of a permanent establishment in

Pakistan of a non-resident person chargeable to tax under the head “Income from Business”,

namely:

• The profit of the permanent establishment shall be computed on the basis that it is a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the non-resident person of which it is a

permanent establishment

Question No: 22 (Marks: 1) - Please choose one

Salary by members of AOP is not treated as Salary but treated as appropriation of profit and charged under the head:

Income from Salary

Income from Property

Income from Business (Page no 36)

Income from Other Sources

REFERENCE:

Significant Points:

Salary from more than one source during a tax year is taxable income.

- Salary may be from former employer, present employer or prospective employer.
- Salary may be from former employer, present employer or prospective employer.

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No deductions are allowed under the head "Income from Salary"
 In case of Tax Free Salary by the employer, the amount of tax paid by employer shall be added

back to employee's salary. It tantamount to Tax on Tax

Voluntary Payments Taxable

Tax year of a salaried Person shall be Normal Tax year

In case of Tax Free Salary by the employer, the amount of tax paid by employer shall be added

back to employee's salary. It tantamount to Tax on Tax

Voluntary Payments Taxable

Tax year of a salaried Person shall be Normal Tax year

Tax on salary income for Tax year 2009 (1st July 2008 to 30th July 2009) shall be computed

according to amendments as made by Finance Act, 2008.

Salary by members of AOP is not treated as Salary but treated as appropriation of profit and charged under the head "Income from Business"

Question No: 23 (Marks: 1) - Please choose one

In which of the following heads of Income No deductions are allowed:

Salary Income (Page no 36)

Income from Property

Income from Business

Capital Gains

REFERENCE:

Significant Points:

Salary from more than one source during a tax year is taxable income.

Salary may be from former employer, present employer or prospective employer.

Salary may be from former employer, present employer or prospective employer.

No deductions are allowed under the head "Income from Salary"

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back to employee's salary. It tantamount to Tax on Tax

Voluntary Payments Taxable

Tax year of a salaried Person shall be Normal Tax year

In case of Tax Free Salary by the employer, the amount of tax paid by employer shall be added

back to employee's salary. It tantamount to Tax on Tax

Voluntary Payments Taxable

Tax year of a salaried Person shall be Normal Tax year

Tax on salary income for Tax year 2009 (1st July 2008 to 30th July 2009) shall be

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computed

according to amendments as made by Finance Act, 2008.

Salary by members of AOP is not treated as Salary but treated as appropriation of profit and charged under the head "Income from Business"

Question No: 24 (Marks: 1) - Please choose one

Mr Ali is an employee of ABC Co. the company has provided a driver and a gardener to Mr. Ali. What will be the treatment of their salaries as per Income Tax Ordinance 2001?

The salaries paid to them added in the salary of MR. Ali

The salaries paid to them subtracted in the salary of MR. Ali

Have no relation with salary of Mr. Ali

The Salaries paid are exempted from Tax

REFERENCE:

PAGE NO 39 SALARY AND ITS COMPUTATION.

Question No: 25 (Marks: 1) - Please choose one

A directorship or any other office involved in the management of a company under section 2(22) of Income Tax Ordinance, 2001 is termed as:

Employment (Page no 36)

Employer

Employee

Business premises

REFERENCE:

Employment Sec. 2(22)

Employment includes:

- A directorship or any other office involved in the management of a company;
- A position entitling the holder to fixed or ascertainable remuneration; or
- Holding or acting in any public office.

Question No: 26 (Marks: 1) - Please choose one

Mr. A non-resident of Pakistan received interest on Australian Bonds Rs. 100,000 (half amount received in Pakistan). What is the treatment of this amount for calculating his gross total income?

Rs. 100,000 added in his total income

Rs. 100,000 subtracted from his total income

Rs. 50,000 added in his total income

Exempt from tax

Question No: 27 (Marks: 1) - Please choose one

Mr. X employed in Pakistan remittance from USA received Rs. 10,000 in Pakistan from past profits. Which of the following is right for the above scenario?

Mr. X being resident of Pakistan Rs. 10,000 will be added in Gross total income

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Mr. X being resident of Pakistan Rs. 10,000 will be Subtracted in Gross total income

Mr. X being non-resident of Pakistan Rs. 10,000 will be added in Gross total income

Remittance is not income hence it is not included

Question No: 28 (Marks: 1) - Please choose one

Mr. X resident of Pakistan remittance from UK received Rs. 20,000 in Pakistan from past profits. Which of the following is right for the above scenario?

Mr. X being resident of Pakistan Rs. 20,000 will be added in Gross total income

Mr. X being resident of Pakistan Rs. 20,000 will be Subtracted in Gross total income

Mr. X being non-resident of Pakistan Rs. 20,000 will be added in Gross total income

Remittance is not income hence it is not included

REFERENCE:

Page no 33 handouts

Question No: 29 (Marks: 1) - Please choose one

Mr. Kishan Kumar during his yearly tour in Pakistan spends 155 working days, 26 off-working days 1 strike day and 1 Public Holiday in a tax year 2008-09? What will be the status of the individual?

Resident Individual

Non Resident Individual

Resident Person

Resident HUF

REFERENCE:

Resident Individual (Section 82)

- An individual shall be a resident individual for a tax year if the individual-
- is present in Pakistan for a period of, or periods amounting in aggregate to, **one hundred and eighty-three days or more in the tax year**; or
- Is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year?

Question No: 30 (Marks: 1) - Please choose one

Mr. Zeeshan during his yearly tour in Pakistan spends 180 working days and in a tax year 2008-09? What will be the status of individual?

Resident Individual

Non-Resident Individual

Resident Person

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Resident HUF

REFERENCE:

Resident Individual (Section 82)

- An individual shall be a resident individual for a tax year if the individual-
- is present in Pakistan for a period of, or periods amounting in aggregate to, one hundred and eighty-three days or more in the tax year; or
- Is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year?

PAPER NUMBER 2

MIDTERM EXAMINATION
Spring 2010
FIN623- Taxation Management (Session - 4)

Question No: 1 (Marks: 1) - Please choose one

Which one of the following is main difference between the tax and fee?

- ▶ **Entitlement of Counter benefit** (Page no 1)
- ▶ Imposing authority
- ▶ Mode of payment
- ▶ Applied Rates

Question No: 2 (Marks: 1) - Please choose one

Which of the following is the main objective of Fiscal Policy?

- ▶ Economic Development
- ▶ Price stability
- ▶ Removal of deficit in Balance of Payments
- ▶ **All of the given options** (Page no 2)

REFERENCE:

What is Fiscal Policy?

Fiscal policy is a discipline that deals with arrangements which are adopted by government to collect the revenue and make the expenditures so that social and economic stability could be attained / maintained.

- Objectives of Fiscal Policy**
- Economic Development
- Raising level of employment (Achieving full employment level)
- Influencing consumption patterns
- Price stability
- Redistribution of income

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Removal of deficit in Balance of Payments

Question No: 3 (Marks: 1) - Please choose one

How many Sections are included in the **Income Tax Ordinance 2001**?

- ▶ 340 sections
- ▶ 440 sections
- ▶ 140 sections

▶ **240 sections** (Page no 5)

REFERENCE:

Scheme of the Ordinance is given below:

- There are thirteen chapters
- Chapters are divided into:
- Parts &
- Divisions
- There are 240 Sections

Question No: 4 (Marks: 1) - Please choose one

Law making is the prime responsibility of which of the following authorities?

- ▶ **Parliament**
- ▶ Supreme Court
- ▶ High Court
- ▶ City Court

REFERENCE:

<http://www.fisicx.com/quickreference/politics/britpolitics.html>

Question No: 5 (Marks: 1) - Please choose one

Superior judiciary includes which of the following authorities?

- ▶ City Court
- ▶ Supreme Court
- ▶ High Court
- ▶ **Both supreme and High court**

REFERENCE:

<http://www.trynaukri.com/punjab-superior-judicial-service-by-high-court-of-punjab-and-haryana-april-2011>

Question No: 6 (Marks: 1) - Please choose one

Which one of the following is the Internal aid and help in the interpretation of law?

- ▶ **Punctuation marks** (Page no 7)
- ▶ CBR's circulars
- ▶ Definitions in other statutes
- ▶ Departmental manuals

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Question No: 7 (Marks: 1) - Please choose one

Which of the following is the example of inclusive definitions?

- ▶ Appellate Tribunal 2(2)
- ▶ **Business 2(9)**
- ▶ Association of Person 2(6)
- ▶ Debt 2(15)

REFERENCE:

Page no 8

Question No: 8 (Marks: 1) - Please choose one

The _____ year is a period of twelve months arbitrarily chosen for tax purposes.

- ▶ Economic
- ▶ **Fiscal**
- ▶ Economy
- ▶ Monetary

REFERENCE:

<http://www.wisegeek.com/what-is-a-fiscal-year.htm>

Question No: 9 (Marks: 1) - Please choose one

Which of the following is the Special Accounting Year of Sugar Companies?

- ▶ 1st July to 30th June
- ▶ **1st October to 30th September** (Page no 11)
- ▶ 1st September to 31st August
- ▶ 1st January to 31st December

Question No: 10 (Marks: 1) - Please choose one

Which one of the following is the example of tax payer?

- ▶ Salaried Person
- ▶ LESCO
- ▶ **All of the given options**
- ▶ WAPDA

Question No: 11 (Marks: 1) - Please choose one

Certain incomes those are excluded from tax are called as:

- ▶ Perquisites
- ▶ **Exemptions** (Page no 17)
- ▶ Allowances
- ▶ Deductions

REFERENCE:

- Deemed Income at Par with real income
- Cash Basis Vs Accrual Basis
- Illegal Income
- Lump Sum Receipts

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- Tax-free income
- Income can not be taxed twice, if not expressly
- Mentioned otherwise
- Charge on Person
- Certain Incomes excluded from Taxable Income (exemptions)
- Lump Sum Receipts
- Tax-free income
- Income can not be taxed twice, if not expressly
- Mentioned otherwise
- Certain Incomes excluded from Taxable Income (exemptions)

Question No: 12 (Marks: 1) - Please choose one

Sources of Income are classified into _____ heads of income.

- ▶ 3
- ▶ 4
- 5
- ▶ 6

REFERENCE:

Under the Ordinance income is classified into the following five heads:

Salary, Income from property, Income from business, Capital gains and Income from other sources.

Question No: 13 (Marks: 1) - Please choose one

Which of the following incomes are treated as agriculture income?

- ▶ Spontaneous forests
- ▶ Agro based industry
- ▶ Interest received by a farmer on lending

Income from land in Pakistan used for agriculture (Page no 19)

REFERENCE:

(b) Any income derived by a person from land situated in Pakistan from –

- (i) Agriculture;
- (ii) the performance by a cultivator or receiver of rent-in-kind of any process ordinarily employed by such person to render the produce raised or received by the person fit to be taken to market; or
- (iii) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by such person, in respect of which no process has been performed other than a process of the nature described in sub-clause (ii); or

Question No: 14 (Marks: 1) - Please choose one

Which of the following is similar to the concept of club of Incomes?

- ▶ Unification only two heads of Income
- Association of two or more heads of Income
- ▶ Splitting up of only two heads of Income
- ▶ Division of two or more than two heads of income

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Question No: 15 (Marks: 1) - Please choose one

What is the tax treatment of the salary of an employee of foreign government but citizen of Pakistan?

▶ **Exempt form tax**

- ▶ Wholly Taxable
- ▶ Partly Taxable
- ▶ No Tax treatment given in IT Ordinance 2001

REFERENCE:

Section 43 Foreign Government Officials

Salary of an employee of foreign government exempt provided

Question No: 16 (Marks: 1) - Please choose one

Income of Federal Government exempt from tax under which of the following section of IT Ordinance 2001?

- ▶ Section 41
- ▶ Section 43
- ▶ Section 47

▶ **Section 49**

(Page no 23)

REFERENCE:

Section 49 Federal & Provincial Govt. and Local Authority Income

- Income of Federal Government exempt from tax
- Income of Provincial Government or a Local Authority in Pakistan shall be exempt under all heads of income other than income from Business, derived outside its jurisdictional area, which shall be taxable.
- Federal Government, a Provincial Government or a Local Authority shall not be liable to any collection or deduction of advance tax.

Question No: 17 (Marks: 1) - Please choose one

Any Fund for Promotion of Science and Technology in Pakistan is _____ under Part I of the second schedule of IT Ordinance 2001.

▶ Wholly Taxable

▶ **Wholly Exempt**

(Page no 23)

- ▶ Partly Exempt
- ▶ None of the given options

REFERENCE:

Exemptions and tax Concessions in Second Schedule Section 53

Income is exempt from income tax derived from voluntary contributions, to charitable or religious

institutions. The exemption is conditional to:

- a. must be solely applied for the purposes of the objects of the institution
- b. No benefit for private religious trust which do not ensure for public benefit.
- Certain receipts of charitable institution [Clause (60), Part I of the Second**

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Schedule]

Donation to certain institution [Clause (61), Part I of the Second Schedule]

Question No: 18 (Marks: 1) - Please choose one

Rate charged under presumptive tax regime to non resident shipping firm 8% on its gross receipt is quite low as compare to other business. This is an example of which type of tax concession?

▶ Reduction in total taxable income

▶ **None of the given options**

▶ Reduction in tax liability

▶ Reduction in tax rate

Question No: 19 (Marks: 1) - Please choose one

Which of the following days shall be counted as whole day for the computation of residential status of an individual?

▶ A public holiday

▶ A day of sick leave

▶ Any strike day

▶ **All of the given options** (Page no 27)

REFERENCE:

Residential Status and Taxation Rules Governing Resident Individual:

- A day of leave including sick leave
- A day that individual's activity is stopped because of strike etc
- A holiday spent in Pakistan

Question No: 20 (Marks: 1) - Please choose one

Which part of income is charged to tax of resident person under the income tax ordinance 2001?

▶ Pakistani source of income

▶ Foreign source of income

▶ **Both Pakistan and foreign source of income** (Page no 28)

▶ None of the given option

REFERENCE:

Scope of Total Income of a Resident Person Section 11 (5)

Resident Person Changeable to tax on:

• The income of a resident person under a head of income shall be computed by taking into account

amounts that are Pakistan-source income and amounts that are foreign-source income

• Pakistan Source Income & Foreign Source Income Sec.11 (5) whereas, non-resident person

charged only on Pakistan Source Income Sec.11 (6)

Question No: 21 (Marks: 1) - Please choose one

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What will be the tax treatment of foreign source salary received by a resident person?

- ▶ Wholly taxable
- ▶ Partly Taxable
- ▶ Wholly exempt

▶ **Wholly exempt only if resident paid foreign tax on his salary** (Page no 31)

REFERENCE:

Taxation of Foreign-Source Income of Residents:

Foreign Source Salary of Resident Individuals Sec. 102

(1) Any foreign-source salary received by a resident individual shall be exempt from tax if the individual

has paid foreign income tax in respect of the salary.

(2) A resident individual shall be treated as having paid foreign income tax in respect of foreign-source

salary if tax has been withheld from the salary by the individual's employer and paid to the revenue

authority of the foreign country in which the employment was exercised.

□ Foreign losses Sec.104: Deductible expenditures incurred by a person in deriving foreignsource

income chargeable to tax under a head of income shall be deductible only against that income.

Question No: 22 (Marks: 1) - Please choose one

Mr. Khan resident of Pakistan received salary from UK? His salary will be included in which of the following?

- ▶ Pakistan source income
- ▶ **Foreign source income**
- ▶ Both Pakistan and foreign source income
- ▶ None of the given options

Question No: 23 (Marks: 1) - Please choose one

The salary received from the UK Government by Mr. Amir resident of Pakistan. Which section of the income tax ordinance explains his tax treatment of such salary?

- ▶ Section 110
- ▶ Section 101
- ▶ **Section 102**
- ▶ Section 50

REFERENCE:

Page no 31

Question No: 24 (Marks: 1) - Please choose one

What is the relation between the Non-resident and permanent establishment as per section 105?

- ▶ Both have same legal entity
- ▶ **Both are separate legal entity** (Page no 31)

Note: Solve these papers by yourself

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- ▶ Both are dependent on each other
- ▶ None of the given options

REFERENCE:

Taxation of a permanent establishment in Pakistan of a non-resident person Sec. 105:

(1) The following principles shall apply in determining the income of a permanent establishment in

Pakistan of a non-resident person chargeable to tax under the head "Income from Business", namely:

- The profit of the permanent establishment shall be computed on the basis that it is a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the non-resident person of which it is a permanent establishment

Question No: 25 (Marks: 1) - Please choose one

Which of the following section of Income Tax Ordinance 2001 deals with Income from Salary and its treatment?

- ▶ Section 11
- ▶ **Section 12**
- ▶ Section 13
- ▶ Section 14

REFERENCE:

Salary as defined in Section 12(2)

Question No: 26 (Marks: 1) - Please choose one

Salary by members of AOP is not treated as Salary but treated as appropriation of profit and charged under the head:

- ▶ Income from Salary
- ▶ Income from Property
- ▶ **Income from Business**
- ▶ Income from Other Sources

REFERENCE:

Page no 36

Question No: 27 (Marks: 1) - Please choose one

Mr. X resident of Pakistan remittance from UK received Rs. 20,000 in Pakistan from past profits. Which of the following is right for the above scenario?

- ▶ **Mr. X being resident of Pakistan Rs. 20,000 will be added in Gross total income**
- ▶ Mr. X being resident of Pakistan Rs. 20,000 will be Subtracted in Gross total income
- ▶ Mr. X being non-resident of Pakistan Rs. 20,000 will be added in Gross total income

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▶ None of the given options

REFERENCE:

Scope of Total Income of a Resident Person Section 11 (5)

Resident Person Chargeable to tax on:

• The income of a resident person under a head of income shall be computed by taking into account

amounts that are Pakistan-source income and amounts that are foreign-source income

• Pakistan Source Income & Foreign Source Income Sec.11 (5) whereas, non-resident person

charged only on Pakistan Source Income Sec.11 (6)

Question No: 28 (Marks: 1) - Please choose one

A firm ABC maintaining its account in cash basis, at June 27, 2008 it incurred expenses for Rs. 10,000 but actual payments made at 01 August 2008. It would be charge to tax into the tax year:

- ▶ 2006
- ▶ 2007
- ▶ 2008

▶ 2009

Question No: 29 (Marks: 3)

What is the difference between remittance and receipt of income? Which one is chargeable to taxable?

Difference between remittance and receipt of income

Receipt of income is the money that you receive and you might have to return it on a later stage. Further the receipt can be on sale of goods, or business receipts out of which the profit shall be your income. If salaried, the salary is your income for the purpose of tax calculations.

While a **remittance** is a transfer of money by a foreign worker to his or her home country. See "Remittance Man" below for the historical use of the word, which is the opposite of the modern use.

Question No: 30 (Marks: 3)

Section 102 deals with Salary received from Foreign-Source by resident individual. What is the tax treatment of such salary?

Answer:

Foreign-Source Salary Income [102]

A foreign source salary income of a resident individual will be exempt from tax, if he has

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paid foreign income tax in respect of such income. Payment of foreign tax means that the employer has deducted the tax at source and deposited the same to the revenue authorities of the country in which employment was exercised.

Question No: 31 (Marks: 5)

Profit on debt earned by a non-resident person is exempt from tax under clause (77) of Part I of the second schedule. Is this exemption only available to “Individuals” as reference has been made to persons being citizens of Pakistan or otherwise? Provide the details of this clause.

Answer:

No this exemption is also available Approved loans, Foreign currency accounts held in the Pakistani account, profit on rupee help with a scheduled bank in Pakistan, profit from the private foreign currency accounts held in the authorized banks.

Question No: 32 (Marks: 5)

Mr. Irfan resident of Pakistan received salary from UK. He has also paid tax on his salary from UK as per the tax laws prevailing there. What will be the tax treatment of his salary as a Pakistani resident? Which section of the income tax ordinance deals this scenario?

Answer:

Foreign-Source Salary Income [102]

Mr. Irfan’s salary from UK would be exempted from tax, because he has paid tax on his salary from UK.

Under **Foreign-Source Salary Income [section102]** foreign source salary income of a resident individual will be exempt from tax, if he has paid foreign income tax in respect of such income. Payment of foreign tax means that the employer has deducted the tax at source and deposited the same to the revenue authorities of the country in which employment was exercised.

PAPER NUMBER 3

MIDTERM EXAMINATION
Spring 2009
FIN623- Taxation Management (Session - 2)

Question No: 1 (Marks: 1) - Please choose one
Which of the following is the general definition of tax?

Compulsory contribution of wealth by persons

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Optional contribution of wealth by persons
Compulsory contribution of wealth by state
Optional contribution of wealth by state

Ref:

General Definition of Tax:

General compulsory contributions of wealth levied upon persons by the state, to meet the expenses incurred in providing common benefits upon the residents.

Question No: 2 (Marks: 1) - Please choose one
Which of the following is the main objective of Fiscal Policy?

Economic Development
Price stability
Removal of deficit in Balance of Payments

All of the given options

Ref:

Objectives of Fiscal Policy

Economic Development
Raising level of employment (Achieving full employment level)
Influencing consumption patterns
Price stability
Redistribution of income
Removal of deficit in Balance of Payments

Question No: 3 (Marks: 1) - Please choose one

Government Expenditure is one of the instruments of which of the following policy?

Monetary policy

Fiscal policy

Trade Policy

Economic Policy

Ref:

Instruments of Fiscal Policy

Government Expenditures
Taxes
Deficit Financing
Subsidies
Transfer Payments—like Unemployment Allowances etc.

Question No: 4 (Marks: 1) - Please choose one

Taxation management is a strategy where by a person manages its business in such a way so as to maximize the utilization of which of the following?

Tax holidays

Exemption, Rebates & Concession

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Tax credits

All of the given options

Ref:

Taxation management is a strategy where by a person manages its business and other transactions/ activities in such a way so as to make maximum use of tax holidays, exemption, concession, rebates, tax credits, deductible allowances available under law and as a result is able to derive the benefit of minimizing his tax liability.

Question No: 5 (Marks: 1) - Please choose one

Which of the following was the First law on Income Tax promulgated in Pakistan?

1st July, 1979

1st July, 1969

1st July, 1949

1st July, 2002

Ref:

First law on Income Tax was promulgated in Pakistan from 1st July, 1979.

Question No: 6 (Marks: 1) - Please choose one

Superior judiciary includes which of the following authorities?

City Court

Supreme Court

High Court

Both supreme and High court

Question No: 7 (Marks: 1) - Please choose one

Section 2(15) of Income Tax Ordinance 2001 defined:

“debt” means any amount owing, including accounts payable and the amounts owing under promissory notes, bills of exchange, debentures, securities, bonds or other financial instruments;

In which criteria the above definition falls?

Exclusive definition

Inclusive definition

Both Exclusive and Inclusive definitions

Statutory definition

Ref:

Exclusive or Exhaustive Definition:

• It excludes ordinary dictionary meanings of the word. Exclusive definitions start with the expression ‘mean’ or ‘means’.

Question No: 8 (Marks: 1) - Please choose one

Section 2(6) of Income Tax Ordinance 2001 defined:

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“association of persons” means an association of persons as defined in section 80.

In which criteria the above definition falls?

Exclusive definition

Inclusive definition

Both Exclusive and Inclusive definitions

Statutory definition

Ref:

Exclusive or Exhaustive Definition:

• It excludes ordinary dictionary meanings of the word. Exclusive definitions start with the expression ‘mean’ or ‘means’.

Question No: 9 (Marks: 1) - Please choose one

Under which of the following conditions a tax payer can adopt a special tax year?

Whenever he decides so

After seeking approval from Tax Office

After seeking approval from Commissioner of income tax

After seeking approval from High Court

Ref:

• A tax payer can adopt a special Tax year after seeking approval from Commissioner of Income Tax (CIT)

Question No: 10 (Marks: 1) - Please choose one

Which one of the following is the example of tax payer?

Salaried Person

LESCO

All of the given options

WAPDA

Question No: 11 (Marks: 1) - Please choose one

Which of the following is the legal status of the Virtual University under the provisions of section 80 of the ordinance?

Individual

Company

Banking Company

Hindu Undivided Family

Ref:

- i. ABC University, Karachi
- ii. A (i) Company

Question No: 12 (Marks: 1) - Please choose one

In case of lump sum receipt of income like Golden hand shake the tax payer pays tax in which of the following way?

Average of last 3 years tax rate

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Option to choose current or average of last 3 years tax rate

Current tax rate

Previous year tax rate

Ref:

Tax payer can opt to seek approval from CIT to charge lump sum payments received in a tax year at average tax rate of last three years

Question No: 13 (Marks: 1) - Please choose one

Certain incomes those are excluded from tax are called as:

Perquisites

Exemptions

Allowances

Deductions

Question No: 14 (Marks: 1) - Please choose one

Which of the following incomes are treated as agriculture income?

Spontaneous forests

Agro based industry

Interest received by a farmer on lending

Income from land in Pakistan used for agriculture

Question No: 15 (Marks: 1) - Please choose one

What is the tax treatment of the salary of an employee of foreign government but citizen of Pakistan?

Exempt form tax

Wholly Taxable

Partly Taxable

No Tax treatment given in IT Ordinance 2001

REFERENCE:

Section 43 Foreign Government Officials

Salary of an employee of foreign government exempt provided:

a. Employee citizen of foreign country and not a citizen of Pakistan.

b. Services performed are similar to services performed by employees of the Federal Government in foreign countries and

c. Foreign government also grants similar exemptions to employees of Federal Government.

Question No: 16 (Marks: 1) - Please choose one

Income of Federal Government exempt from tax under which of the following section of IT Ordinance 2001?

Section 41

Section 43

Section 47

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Section 49

Ref:

Section 49 Federal & Provincial Govt. and Local Authority Income

- Income of Federal Government exempt from tax

Question No: 17 (Marks: 1) - Please choose one

An Individual will be termed as Short Term Resident under section 50 of the IT Ordinance 2001 on which of the following condition?

His period of stay in Pakistan equal to 183 days

The employee of Foreign Government

The citizen of Pakistan

His period of stay in Pakistan not exceeding 3 years

Ref:

Section 50 Foreign-Source Income of Short-Term Resident Individuals

1. Subject to sub-section-2, the foreign-source income of an individual shall be exempt:

a. Who is a resident individual solely by reason of the individual's employment; and

b. Who is present in Pakistan for a period or periods not exceeding three years,

Question No: 18 (Marks: 1) - Please choose one

M/s ABC & Co. has been incorporated under Pakistan Companies Ordinance 1984.

However it's most of the branched and control and management of affairs wholly situated out of Pakistan? What will be the residential status of M/s ABC & Co.?

Resident Company

Non-Resident Company

Resident Individual

Resident AOP

REF:

If Control and Management of affairs of a company lies in Pakistan, it is Resident Company, even if not incorporated in Pakistan, as if control and management is here in Pak then its resident and if not then non resident.

Question No: 19 (Marks: 1) - Please choose one

Mr. Imran is an employee of Provincial Government of Punjab posted in UK for two years? What will be the residential status of Mr. Imran?

Resident Individual

Non-Resident Individual

Resident HUF

Resident AOP

REF:

page 25 handouts

Question No: 20 (Marks: 1) - Please choose one

Which of the following days shall be counted as whole day for the computation of

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residential status of an individual?

- A public holiday
- A day of sick leave
- Any strike day

All of the given options

Ref:

Page 25

Question No: 21 (Marks: 1) - Please choose one

Which part of income is charged to tax of resident person under the income tax ordinance 2001?

- Pakistani source of income
- Foreign source of income

Both Pakistan and foreign source of income

None of the given option

REF:

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

<http://www.fbr.gov.pk/newdt/ITOrdinance/ITOrdinance2009/ITaxOrdinance2001ut15-08-2009.pdf>

Question No: 22 (Marks: 1) - Please choose one

Which of the following does Not come under the ambit of permanent establishment (PE)?

- Branch office
- Factory or workshop
- Premises for soliciting orders

Liaison or relationship office

Ref:

Page 9

Question No: 23 (Marks: 1) - Please choose one

Mr. Ali resident of Pakistan received salary form UK? What will be the tax treatment of his salary in Pakistan?

- Wholly taxable
- Partly Taxable
- Wholly exempt

Wholly exempt only if resident paid foreign tax on his salary

Question No: 24 (Marks: 1) - Please choose one

The salary received from the UK Government by Mr. Amir resident of Pakistan.

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Which section of the income tax ordinance explains his tax treatment of such salary?

Section 110

Section 101

Section 102

Section 50

Ref:

Page 30

Question No: 25 (Marks: 1) - Please choose one

Which of the following section of Income Tax Ordinance 2001 deals with Income from Salary and its treatment?

Section 11

Section 12

Section 13

Section 14

REF:

Page 37

Question No: 26 (Marks: 1) - Please choose one

Mr. A resident of Pakistan received interest on Australian Bonds Rs. 100,000 (half amount received in Pakistan). What is the treatment of this amount for calculating his gross total income?

Rs. 100,000 added in his total income

Rs. 100,000 subtracted from his total income

Rs. 50,000 added in his total income

Exempt from tax

REF: page 35

Question No: 27 (Marks: 1) - Please choose one

Mr. X non-resident of Pakistan earned income from property situated in Dubai Rs. 70,000 but received in Pakistan. Which one of the following option is right for this particular scenario?

Mr. X being non-resident of Pakistan Rs. 70,000 will be added in Gross total income

Mr. X being non-resident of Pakistan Rs. 70,000 will be subtracted in Gross total income

Mr. X being non-resident of Pakistan Rs. 70,000 will be claimed as admissible deduction

Mr. X being non-resident of Pakistan Rs. 70,000 will be exempted

REF:

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Question No: 28 (Marks: 1) - Please choose one

Mr. X employed in Pakistan received share of profit Rs. 60,000 in India from a business situated in Dubai but controlled through PE in Pakistan. Which of the following is right for the above scenario?

Mr. X being resident of Pakistan Rs. 60,000 will be added in Gross total income

Mr. X being resident of Pakistan Rs. 60,000 will be subtracted in Gross total income

Mr. X being non-resident of Pakistan Rs. 60,000 will be added in Gross total income

Mr. X being non-resident of Pakistan Rs. 60,000 will be subtracted in Gross total income

REF: PAGE 33 handouts

Question No: 29 (Marks: 1) - Please choose one

Mr. X employed in Pakistan remittance from USA received Rs. 10,000 in Pakistan from past profits. Which of the following is right for the above scenario?

Mr. X being resident of Pakistan Rs. 10,000 will be added in Gross total income

Mr. X being resident of Pakistan Rs. 10,000 will be Subtracted in Gross total income

Mr. X being non-resident of Pakistan Rs. 10,000 will be added in Gross total income

Remittance is not income hence it is not included

REF: page 33 handouts

Question No: 30 (Marks: 1) - Please choose one

Mr. X resident of Pakistan remittance from UK received Rs. 20,000 in Pakistan from past profits. Which of the following is right for the above scenario?

Mr. X being resident of Pakistan Rs. 20,000 will be added in Gross total income

Mr. X being resident of Pakistan Rs. 20,000 will be Subtracted in Gross total income

Mr. X being non-resident of Pakistan Rs. 20,000 will be added in Gross total income

None of the given options

PAPER NUMBER 4

MIDTERM EXAMINATION

Spring 2009

FIN623- Taxation Management (Session - 2)

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Question No: 1 (Marks: 1) - Please choose one

Taxes are important instrument of which one of the following policy?

Monetary policy

Fiscal policy

Trade Policy

Economic Policy

REF:

Some Important Instruments of Fiscal Policy:

Taxation: Taxation is always a very important source of revenue for both developed and developing countries. Tax comes under two heading – Tax on individual (direct tax) and tax on commodity (indirect tax or commodity tax). Direct tax includes income tax, corporate tax, taxes on property and wealth. Indirect tax is tax on the consumptions. It includes sales tax, excise duty and custom duties.

<http://financialconcept.edublogs.org/2010/04/12/instruments-of-fiscal-policy-from-managerial-economics/>

Question No: 2 (Marks: 1) - Please choose one

Removal of deficit in Balance of Payments is one of the objectives of which of the following policy?

Monetary policy

Fiscal policy

Trade Policy

Economic Policy

REF:

.. Objectives of Fiscal Policy

.. Removal of deficit in Balance of Payments

Question No: 3 (Marks: 1) - Please choose one

In the canons of taxation, which one of the following statements best describe the benefits principle?

Persons deriving more income leads to enjoy less benefits from the state, should be taxed at the lower rates.

Persons deriving more income leads to enjoy less benefits from the state,

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should be taxed at the higher rates.

Persons deriving less income leads to enjoy more benefits from the state,
should be taxed at the lower rates.

All persons deriving more or less income should be taxed at the same rates.

REF:

Benefit principle

This principle suggests that taxes should be levied according to the benefits derived by the person from the state. Since more benefits are derived by lower income groups, hence according to this principle, → those who derive more income but enjoy less benefits from the state should be taxed at the lower rates and those persons who derives less income but more benefits from State should be taxed at high rates.

Question No: 4 (Marks: 1) - Please choose one

Taxation management is a strategy where by a person manages its business in such a way so as to maximize the utilization of which of the following?

Tax holidays

Exemption, Rebates & Concession

Tax credits

All of the given options

REF:

Taxation Management—Explained

Taxation management is a strategy where by a person manages its business and other transactions/activities in such a way so as to make maximum use of tax holidays, exemption, concession, rebates, tax credits, deductible allowances available under law and as a result is able to derive the benefit of minimizing his tax liability.

Question No: 5 (Marks: 1) - Please choose one

Which of the following was the First law on Income Tax promulgated in Pakistan?

1st July, 1979

1st July, 1969

1st July, 1949

1st July, 2002

REF:

First law on Income Tax was promulgated in Pakistan from 1st July, 1979.

Question No: 6 (Marks: 1) - Please choose one

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How many Sections are included in the Income Tax Ordinance 2001?

340 sections

440 sections

140 sections

240 sections

REF:

Basic Features of Income Tax Ordinance 2001

Scheme of the Ordinance is given below:

There are thirteen chapters

Chapters are divided into:

Parts &

Divisions

There are 240 Sections

Question No: 7 (Marks: 1) - Please choose one

Superior judiciary includes which of the following authorities?

City Court

Supreme Court

High Court

Both supreme and High court

REF: Punjab Superior Judicial Service by High Court of Punjab

<http://www.trynaukri.com/punjab-superior-judicial-service-by-high-court-of-punjab-and-haryana-april-2011>

Question No: 8 (Marks: 1) - Please choose one

The _____ year is a period of twelve months arbitrarily chosen for tax purposes.

Economic

Fiscal

Economy

Monetary

REF:

Fiscal year is a period of 12 consecutive months without regard to the calendar year. The

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fiscal year is designated by the calendar year in which it ends. The federal government's fiscal year begins October 1 and ends September 30. The fiscal year carries the date of the calendar year in which it ends and is referred to as FY.

Question No: 9 (Marks: 1) - Please choose one

Which of the following is the Special Accounting Year of Insurance Companies?

1st January to 31st December

1st July to 30th June

1st October to 30th September

1st September to 31st August

REF:

All persons exporting rice and carrying insurance business 1st January to 31st December.

Question No: 10 (Marks: 1) - Please choose one

Which of the following is the Special Accounting year of the persons carrying cotton ginning, rice husking and oil milling?

1st January to 31st December

1st July to 30th June

1st October to 30th September

1st September to 31st August

REF:

All persons carrying on business of cotton ginning, rice husking and oil milling 1st September to 31st August.

Question No: 11 (Marks: 1) - Please choose one

Which one of the following is the example of tax payer?

Salaried Person

LESCO

WAPDA

All of the given options

REF:

Salaried person is an individual tax payer and LESCO & WAPDA are companies and they also pay taxes.

Question No: 12 (Marks: 1) - Please choose one

Which of the following is the legal status of the Virtual University under the provisions of section 80 of the ordinance?

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Individual

Company

Banking Company

Hindu Undivided Family

REF:

ABC University = Company

Question No: 13 (Marks: 1) - Please choose one

For the purpose of Taxation the total Income includes which of the following?

Income as per Section 11

Income from Capital gain

Only business income

Only Salary income

REF:

HEADS OF INCOME (Section 11)

Following are the heads of income, ascertained in section 11

- Salary (Section 12)
- Income from Property (Section 15)
- Income from Business (Section 18)
- Capital Gains (Section 37)
- Income from other Sources (Section 39)

Question No: 14 (Marks: 1) - Please choose one

Which of the following section deals with the change of accounting method adopted by an entity?

Section 32(1)

Section 32(2)

Section 32(3)

Section 32(4)

REF:

- Change of Method of Accounting can be made under [Section 32(4)]

Question No: 15 (Marks: 1) - Please choose one

What will be the tax treatment of any income chargeable under the head Salary earned by an individual outside Pakistan during that year?

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Wholly Taxable

Wholly Exempt

Partly Exempt

Not mention in Ordinance

REF:

Page 23

Question No: 16 (Marks: 1) - Please choose one

Date for the exemption limit for Foreign Currency Account (FCA) under Clause 80 of the Part I of Second Schedule is available to which of the following?

16 December 1999

16 November 1999

16 July 2001

1st

July 2002

REF:

Page 23

Question No: 17 (Marks: 1) - Please choose one

Senior citizen-age 60 years & above where taxable income not exceeding _____ tax liability reduced by 50% under Part 3 of second schedule.

Rs. 500,000

Rs. 200,000

Rs. 300,000

Rs. 400,000

REF:

Senior citizen-age 60 years & above where taxable income not exceeding Rs. 500,000/- tax liability reduced by 50%.

Question No: 18 (Marks: 1) - Please choose one

M/s ABC & Co. has been incorporated under Pakistan Companies Ordinance 1984.

However it's most of the branched and control and management of affairs wholly situated out of Pakistan? What will be the residential status of M/s ABC & Co.?

Resident Company

Non-Resident Company

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Resident Individual

Resident AOP

REF:

If Control and Management of affairs of a company lies in Pakistan, it is Resident Company, even if not incorporated in Pakistan.
And respectively if company is incorporated in Pak but it is controlled and managed from outside the Pak then it will be a non-resident company.

Question No: 19 (Marks: 1) - Please choose one

Salary income received by resident person from Federal Government of Pakistan in UK belongs to which of the following?

Pakistani source of Income

Foreign source of income

Both Pakistan and foreign source of income

None of the given option

REF:

Question No: 20 (Marks: 1) - Please choose one

Rental income shall be Pakistan-source income if it is derived from:

The lease of immovable Property in Pakistan

The lease of immovable Property outside Pakistan

The lease of immovable Property both in and out of Pakistan

None of the given options

REF:

9) Rental income shall be Pakistan-source income if it is derived from the lease of immovable property in Pakistan whether improved or not, or from any other interest in or over immovable property, including a right to explore for, or exploit, natural resources in Pakistan.

Question No: 21 (Marks: 1) - Please choose one

Any gain arising on the disposal of shares in a non-resident company belongs to which of the following?

Pakistan- source income

Foreign source of income

Both Pakistan and foreign source of income

None of the given option

REFERENCE:

Note: Solve these papers by yourself

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13) Any gain arising on the disposal of shares in a resident company shall be Pakistan-source income. So it is obvious that income from a non-resident company's shares will be foreign source income.

Question No: 22 (Marks: 1) - Please choose one

Which of the following come under the ambit of Royalty under section 2 (54)?

Right to use any patent

Copy right of a literary

Right to use any industrial or scientific equipment

All of the given options

REF: Page 30 handouts

Question No: 23 (Marks: 1) - Please choose one

What is the tax treatment of losses from the foreign source under section 104 of the ordinance?

Wholly taxable

Partly Taxable

Deductible expenditure

None of the given options

REF: Page 31

Question No: 24 (Marks: 1) - Please choose one

Which of the following section of Income Tax Ordinance 2001 deals with Income from Salary and its treatment?

Section 11

Section 12

Section 13

Section 14

REF: Page 17

Question No: 25 (Marks: 1) - Please choose one

The definition of Employment under Sec. 2(22) of the ordinance is categorized in:

Inclusive Definition

Exclusive Definition

Both Inclusive and Exclusive

None of the given options

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REF: page 8

Question No: 26 (Marks: 1) - Please choose one

Salary by members of AOP is not treated as Salary but treated as appropriation of profit and charged under the head:

Income from Salary

Income from Property

Income from Business

Income from Other Sources

REF: page 36

Question No: 27 (Marks: 1) - Please choose one

Tax year for the salaried individuals is called as:

Special Tax Year

Normal Tax Year

Fiscal Year

Financial Year

REF: page 36

Question No: 28 (Marks: 1) - Please choose one

Which of the following is the Tax year available for salaried individual?

1st January to 31st December

1st July to 30th June

1st October to 30th September

1st September to 31st August

REF: page 36 handouts

Question No: 29 (Marks: 1) - Please choose one

Mr. A non-resident of Pakistan received interest on Canadian Bonds Rs. 150,000 (entire amount received in Pakistan). What is the treatment of this amount for calculating his gross total income?

Rs. 150,000 added in his total income

Rs. 150,000 subtracted from his total income

Rs. 75,000 added in his total income

Exempt from tax

REF: page 35 handouts

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Question No: 30 (Marks: 1) - Please choose one

Mr. X employed in Pakistan earned pension from Pakistan Government but received in London Rs. 100,000. Which one of the following option is right for this particular scenario?

Mr. X being resident of Pakistan Rs. 100,000 will be added in Gross total income

Mr. X being resident of Pakistan Rs. 100,000 will be subtracted in Gross total income

Mr. X being non-resident of Pakistan Rs. 100,000 will be added in Gross total income

Mr. X being non-resident of Pakistan Rs. 100,000 will be exempted

REF: page 35 handouts

PAPER NUMBER 5

MIDTERM EXAMINATION

Spring 2010

FIN623- Taxation Management (Session - 1)

Time: 60 min

Marks: 47

Question No: 1 (Marks: 1) - Please choose one

A tax levied on the financial income of Persons, Corporations, or other legal entities is called as:

▶ Corporation tax

▶ Property tax

▶ Sales Tax

▶ Income Tax

REF:

An income tax is a tax levied on the financial income of persons, corporations, or other legal entities.

<http://en.wikipedia.org/wiki/Tax>

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Question No: 2 (Marks: 1) - Please choose one

Which of the following is the main objective of Fiscal Policy?

- ▶ Economic Development
- ▶ Price stability
- ▶ Removal of deficit in Balance of Payments

▶ **All of the given options**

REF:

- Objectives of Fiscal Policy
- Economic Development
- Raising level of employment (Achieving full employment level)
- Influencing consumption patterns
- Price stability
- Redistribution of income
- Removal of deficit in Balance of Payments

Question No: 3 (Marks: 1) - Please choose one

Government Expenditure is one of the instruments of which of the following policy?

- ▶ Monetary policy
- ▶ **Fiscal policy**
- ▶ Trade Policy
- ▶ Economic Policy

REF:

Instruments of Fiscal Policy

- Government Expenditures
- Taxes

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- Deficit Financing
- Subsidies
- Transfer Payments—like Unemployment Allowances etc

Question No: 4 (Marks: 1) - Please choose one

In the canons of taxation, which one of the following statements best describe the benefits principle?

▶ Persons deriving more income leads to enjoy less benefits from the state, should be taxed at the lower rates.

▶ Persons deriving more income leads to enjoy less benefits from the state, should be taxed at the higher rates.

▶ Persons deriving less income leads to enjoy more benefits from the state, should be taxed at the lower rates.

▶ All persons deriving more or less income should be taxed at the same rates.

Ref:

Benefit principle

This principle suggests that taxes should be levied according to the benefits derived by the person from the state. Since more benefits are derived by lower income groups, hence according to this principle, those who derive more income but enjoy less benefits from the state should be taxed at the lower rates and those persons who derives less income but more benefits from State should be taxed at high rates.

Question No: 5 (Marks: 1) - Please choose one

Which of the following is not an employment tax?

▶ Social Security Tax

▶ Federal Excise Tax

▶ Federal unemployment compensation tax

▶ State unemployment compensation tax

REF:

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<http://www.irs.gov/businesses/small/article/0,,id=172179,00.html>

<http://www.vidaamericana.com/english/bizguide/employmenttaxes.html>

Question No: 6 (Marks: 1) - Please choose one

How many Schedules are contained in the Income Tax Ordinance 2001?

- ▶ Three Schedule
- ▶ Fifth Schedule
- ▶ **Seven Schedules**
- ▶ Nine Schedules

Ref:

Basic Features of Income Tax Ordinance 2001 Scheme of the Ordinance is given below: There are thirteen chapters are divided into: Parts & Divisions. There are 240 Sections this ordinance comprises of seven Schedules are integral part of the Ordinance.

Question No: 7 (Marks: 1) - Please choose one

Section 2(6) of Income Tax Ordinance 2001 defined:

“association of persons” means an association of persons as defined in section 80.

In which criteria the above definition falls?

- ▶ **Exclusive definition**
- ▶ Inclusive definition
- ▶ Both Exclusive and Inclusive definitions
- ▶ Statutory definition

REF:

Exclusive or Exhaustive Definition:

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- It excludes ordinary dictionary meanings of the word. Exclusive definitions start with the expression 'mean' or 'means'

Question No: 8 (Marks: 1) - Please choose one

The _____ year is a period of twelve months arbitrarily chosen for tax purposes.

▶ Economic

▶ **Fiscal**

▶ Economy

▶ Monetary

REF:

Fiscal year is a period of 12 consecutive months without regard to the calendar year. The fiscal year is designated by the calendar year in which it ends. The federal government's fiscal year begins October 1 and ends September 30. The fiscal year carries the date of the calendar year in which it ends and is referred to as FY.

<http://www.incorporating-online.org/>

Question No: 9 (Marks: 1) - Please choose one

Which of the following is the time period of a Normal tax year?

▶ 1st January and end on 31st December

▶ 1st June and ends on 31st May

▶ **1st July and ends on 30th June**

▶ 1st October and ends on 30th September

REF:

Tax year means a period of 12 months ending on June 30th which is also called Normal Tax Year.

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Question No: 10 (Marks: 1) - Please choose one

If the accounting year of a business engaged in cotton ginning is started from 01 September 2003 and ending on 31st August 2004. What will be its tax year?

- ▶ Tax year 2002
- ▶ Tax year 2003
- ▶ **Tax year 2004**
- ▶ Tax year 2005

Question No: 11 (Marks: 1) - Please choose one

Income Tax is charged on which of the following?

- ▶ **Income of the current tax year**
- ▶ Income of the previous year
- ▶ Income of the coming year
- ▶ Any Receipt of money

Question No: 12 (Marks: 1) - Please choose one

Which part of Income Tax Ordinance 2001 deals with the Exemptions and Tax Concessions?

- ▶ **Part IV**
- ▶ Part V
- ▶ Part VI
- ▶ **Part VII**

REF:

PART VII

EXEMPTIONS AND TAX CONCESSIONS

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<http://www.fbr.gov.pk/newdt/ITOrdinance/ITOrdinance2009/ITaxOrdinance2001ut28-10-2009.pdf>

Question No: 13 (Marks: 1) - Please choose one

Which one of the following section deals with the Agriculture Income?

- ▶ Section 40
- ▶ **Section 41**
- ▶ Section 43
- ▶ Section 53

REF:

Section

41. Agricultural income.

<http://finosys.com/incometax/itaxord2001/sections/Sec41.htm>

Question No: 14 (Marks: 1) - Please choose one

Which of the following incomes are treated as agriculture income?

- ▶ Spontaneous forests
- ▶ Agro based industry
- ▶ Interest received by a farmer on lending
- ▶ **Income from land in Pakistan used for agriculture**

REF: Page 19 handouts of Fin623 provided by VU

Question No: 15 (Marks: 1) - Please choose one

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Any salary received by an employee of a foreign government for services rendered to such government shall be exempt from tax under which section of IT Ordinance 2001?

- ▶ Section 40
- ▶ **Section 43**
- ▶ Section 47
- ▶ Section 53

REF: Page 22 handouts of Fin623 (tax) provided by VU

Question No: 16 (Marks: 1) - Please choose one

An Individual will be termed as Short Term Resident under section 50 of the IT Ordinance 2001 on which of the following condition?

- ▶ His period of stay in Pakistan equal to 183 days
- ▶ The employee of Foreign Government
- ▶ The citizen of Pakistan
- ▶ **His period of stay in Pakistan not exceeding 3 years**

Ref: Page 23 handouts of Fin623 (tax) provided by VU

Question No: 17 (Marks: 1) - Please choose one

Which of the following section deals with the residential status of Company?

- ▶ **Section 81**
- ▶ Section 82
- ▶ Section 83
- ▶ Section 84

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Ref: Page 26 handouts of Fin623 (tax) provided by VU

Question No: 18 (Marks: 1) - Please choose one

For a non-resident AOP which of the following condition must be satisfied?

- ▶ Control and management of affairs of AOP is situated partly in Pakistan
- ▶ Control and management of affairs of AOP is situated wholly in Pakistan
- ▶ Control and management of affairs of AOP is situated wholly or partly in Pakistan
- ▶ **None of the given options**

REF:

Residential Status of “Association of Person”

Under the law a Firm, HUF, etc. are placed under the head AOP

Control and management of affairs of AOP is situated wholly or partly in Pakistan

Theory of Control and Management

- If Control and Management of affairs of a company lies in Pakistan, it is Resident Company, even if not incorporated in Pakistan
- Control & Management refers to management of vital affairs/Policy Making Decisions of the company.

Question No: 19 (Marks: 1) - Please choose one

Which part of income is charged to tax of resident person under the income tax ordinance 2001?

- ▶ Pakistani source of income
- ▶ Foreign source of income
- ▶ **Both Pakistan and foreign source of income**

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- ▶ None of the given option

REF:

Resident Person Changeable to tax on:

- The income of a resident person under a head of income shall be computed by taking into account amounts that are Pakistan-source income and amounts that are foreign-source income

Question No: 20 (Marks: 1) - Please choose one

Which part of income is charged to tax of non-resident person under the income tax ordinance 2001?

- ▶ **Pakistan source of income**
- ▶ Foreign source of income
- ▶ Both Pakistan and foreign source of income
- ▶ None of the given option

Ref:

non-resident person charged only on Pakistan Source Income Sec.11 (6)

Question No: 21 (Marks: 1) - Please choose one

Salary income received by resident person from Federal Government of Pakistan in UK belongs to which of the following?

- ▶ **Pakistani source of Income**
- ▶ Foreign source of income
- ▶ Both Pakistan and foreign source of income
- ▶ None of the given option

REF: As income is received from Federal Govt of Pak so it's a Paki source of income.

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Question No: 22 (Marks: 1) - Please choose one

_____ means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

▶ Franchise

▶ **Permanent establishment**

▶ Small Business Units SBU

▶ Venture

Ref:

Permanent Establishment—Defined Sec. 2(41)

Permanent establishment in relation to a person, means a fixed place of business through which the business of the person is wholly or partly carried on

Question No: 23 (Marks: 1) - Please choose one

Which of the following does Not come under the ambit of permanent establishment (PE)?

▶ Branch office

▶ Factory or workshop

▶ Premises for soliciting orders

▶ **Liaison or relationship office**

Ref: A place of management, branch office, factory or workshop, premises for soliciting orders, ware house, permanent sales exhibitions or sales outlet, other than a liaison office except where the office engages in the negotiation of contracts (other than contracts of purchase);

Question No: 24 (Marks: 1) - Please choose one

The salary received from the UK Government by Mr. Amir resident of Pakistan. Which section of the income tax ordinance explains his tax treatment of such salary?

▶ Section 110

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▶ Section 101

▶ **Section 102**

▶ Section 50

Ref: Foreign Source Salary of Resident Individuals Sec. 102 (Page 31)

Question No: 25 (Marks: 1) - Please choose one

If a business carried on by Non-resident person in Pakistan through permanent establishment what will be the tax treatment of the traveling expenditures born by the non-resident for spending his holidays in his home land?

▶ **Wholly taxable due to PE**

- ▶ Wholly taxable as no concerned with PE in Pakistan
- ▶ Not permissible as deduction from the income of Non-resident
- ▶ None of the given options

Question No: 26 (Marks: 1) - Please choose one

Which of the following section of Income Tax Ordinance 2001 deals with Income from Salary and its treatment?

▶ Section 11

▶ **Section 12**

▶ Section 13

▶ Section 14

REF: Salary as defined in Section 12(2) (page 37)

Question No: 27 (Marks: 1) - Please choose one

Mr. X non-resident of Pakistan earned income from property situated in Dubai Rs. 70,000 but received in Pakistan. Which one of the following option is right for this particular scenario?

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▶ Mr. X being non-resident of Pakistan Rs. 70,000 will be added in Gross total income

▶ Mr. X being non-resident of Pakistan Rs. 70,000 will be subtracted in Gross total income

▶ Mr. X being non-resident of Pakistan Rs. 70,000 will be claimed as admissible deduction

▶ Mr. X being non-resident of Pakistan Rs. 70,000 will be exempted

REF:

Question No: 28 (Marks: 1) - Please choose one

Mr. X employed in Pakistan received share of profit Rs. 60,000 in India from a business situated in Dubai but controlled through PE in Pakistan. Which of the following is right for the above scenario?

▶ Mr. X being resident of Pakistan Rs. 60,000 will be added in Gross total income

▶ Mr. X being resident of Pakistan Rs. 60,000 will be subtracted in Gross total income

▶ Mr. X being non-resident of Pakistan Rs. 60,000 will be added in Gross total income

▶ Mr. X being non-resident of Pakistan Rs. 60,000 will be subtracted in Gross total income

PAPER NUMBER 6

MIDTERM EXAMINATION

Spring 2010

FIN623- Taxation Management (Session - 5)

Time: 60 min

Marks: 44

Question No: 1 (Marks: 1) - Please choose one

In the canons of taxation, which one of the following statements best describe the

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benefits principle?

▶ Persons deriving more income leads to enjoy less benefits from the state, should be taxed at the lower rates.

▶ Persons deriving more income leads to enjoy less benefits from the state, should be taxed at the higher rates.

▶ Persons deriving less income leads to enjoy more benefits from the state, should be taxed at the lower rates.

▶ All persons deriving more or less income should be taxed at the same rates.

REF:

Benefit principle

This principle suggests that taxes should be levied according to the benefits derived by the person from the state. Since more benefits are derived by lower income groups, hence according to this principle, → those who derive more income but enjoy less benefits from the state should be taxed at the lower rates and those persons who derives less income but more benefits from State should be taxed at high rates.

Question No: 2 (Marks: 1) - Please choose one

Law making is the prime responsibility of which of the following authorities?

▶ Parliament

▶ Supreme Court

▶ High Court

▶ City Court

REF:

→ Parliament: Parliament is the law making body

<http://giftedatjones.com/Documents/Concept%20Map%20and%20Study%20Guide-Government%20in%20Europe.doc>

Question No: 3 (Marks: 1) - Please choose one

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Which one of the following is the Internal aid and help in the interpretation of law?

► **Punctuation marks**

- ▶ CBR's circulars
- ▶ Definitions in other statutes
- ▶ Departmental manuals

REF:

Internal Aids:

These are available in the Act:

- Explanation to the section
- Marginal notes
- Punctuation marks
- Preamble
- Title of a chapter
- Non-Obstinate clause
- ⌚ Proviso
- ⌚ Context

Question No: 4 (Marks: 1) - Please choose one

Section 2(5A) of Income Tax Ordinance 2001 defined:

“assessment year” means assessment year as defined in the repealed Ordinance.

In which criteria the above definition falls?

► **Exclusive definition**

- ▶ Inclusive definition
- ▶ Both Exclusive and Inclusive definitions
- ▶ Statutory definition

REF: Exclusive or Exhaustive Definition:

• It excludes ordinary dictionary meanings of the word. Exclusive definitions start with the expression ‘mean’ or ‘means’

Question No: 5 (Marks: 1) - Please choose one

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Section 2(13) of Income Tax Ordinance 2001 defined:

“Commissioner” means a person appointed as a Commissioner of Income Tax under section 208, and includes a taxation officer vested with all or any of the powers, and functions of the Commissioner;

In which criteria the above definition falls?

- ▶ **Exclusive definition**
- ▶ Inclusive definition
- ▶ Both Exclusive and Inclusive definitions
- ▶ Statutory definition

Question No: 6 (Marks: 1) - Please choose one

A definition also includes the dictionary meanings of the word is termed as which of the following?

- ▶ Exclusive definition
- ▶ **Inclusive definition**
- ▶ Both Exclusive definition and Inclusive definitions
- ▶ Statutory definition

REF: Inclusive Definition: It includes dictionary meanings as well as meanings conveyed by definition

Question No: 7 (Marks: 1) - Please choose one

2(22) of Income Tax Ordinance 2001 defined:

“Employment” includes:

- a directorship or any other office involved in the management of a company;
- a position entitling the holder to a fixed or ascertainable remuneration; or
- the holding or acting in any public office;

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In which criteria the above definition falls?

▶ Exclusive definition

▶ **Inclusive definition**

▶ Both Exclusive and Inclusive definitions

▶ Statutory definition

REF: → page 8

Question No: 8 (Marks: 1) - Please choose one

The _____ year is a period of twelve months arbitrarily chosen for tax purposes.

▶ Economic

▶ **Fiscal**

▶ Economy

▶ Monetary

Question No: 9 (Marks: 1) - Please choose one

Which of the following is the legal status of the Punjab University under the provisions of section 80 of the ordinance?

▶ Individual

▶ **Company**

▶ Banking Company

▶ Hindu Undivided Family

REF: Page 15 handouts

Question No: 10 (Marks: 1) - Please choose one

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Which of the following is the example of deemed income?

- ▶ Cash Gift
- ▶ Loan through cross cheque
- ▶ **Salary**
- ▶ Golden hand shake

REF:

Treatment of certain loans, advances and gifts as deemed income.

[Sub-section (18) of section 12].

Under sub-section (18) of section 12, any loan of Rs.100,000 or more was deemed to be the income of recipient, if it was received otherwise than through a crossed cheque. This provision has been amended and now all loans, advances and gifts shall be deemed to be the income of an assessee if these are not transacted through a crossed cheque or a banking channel from a person holding a NTN.

This change in law, shall be applicable in respect of loans/ advances and gifts which are made on or after 1st July, 1998.

<http://www.fbr.gov.pk/newdt/circulars/1998cir11.pdf>

Question No: 11 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of deemed income?

- ▶ Loan through cross cheque
- ▶ Gifts through proper transaction
- ▶ Golden hand shake

▶ **All of the given options**

REF: Given above ↑

Question No: 12 (Marks: 1) - Please choose one

Income Tax is charged on which of the following?

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▶ **Income of the current tax year**

- ▶ Income of the previous year
- ▶ Income of the coming year
- ▶ Any Receipt of money

REF:

Question No: 13 (Marks: 1) - Please choose one

Which of the following is **NOT** an example of Lump sum receipt?

- ▶ Pension
- ▶ Golden shake hand
- ▶ Provident fund

▶ **Salary**

REF:

Question No: 14 (Marks: 1) - Please choose one

Which of the following methods of accounting is compulsory to adopt for Firm?

▶ **Accrual Basis**

- ▶ Cash Basis
- ▶ Both Accrual and Cash Basis
- ▶ Free to choose any kind of base

REF: • For Companies 'Accrual Basis' method of accounting is compulsory [Section 32(2)]

Question No: 15 (Marks: 1) - Please choose one

The process of clubbing of income results in which of the following?

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▶ Lower Bracket rate of tax is charged

- ▶ Higher Bracket rate of tax is charged
- ▶ Moderate Bracket rate of tax is charged
- ▶ No change occur due to clubbing

REF:

Question No: 16 (Marks: 1) - Please choose one

Any salary received by an employee of a foreign government for services rendered to such government shall be exempt from tax under which section of IT Ordinance 2001?

▶ Section 40

▶ Section 43

▶ Section 47

▶ Section 53

REF: page 22

Question No: 17 (Marks: 1) - Please choose one

Rate charged under presumptive tax regime to non resident shipping firm 8% on its gross receipt is quite low as compare to other business. This is an example of which type of tax concession?

▶ Reduction in total taxable income

▶ None of the given options

▶ Reduction in tax liability

▶ Reduction in tax rate

Question No: 18 (Marks: 1) - Please choose one

What is the tax treatment of any profit on the US Dollar Bonds purchased by the resident person after December 1999 under Second Schedule?

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- ▶ Wholly exempt
- ▶ Wholly taxable

▶ Tax @10% of profit paid

- ▶ Not mention in second schedule

REF: Reduction in Tax Rates under Second Schedule Part 2

- Profit on Special US Dollar Bonds or out of new account opened after December 16, 1999. At the Rate of 10 percent of amount of profit by Resident Person

Question No: 19 (Marks: 1) - Please choose one

Which of the following section deals with the residential status of Company?

▶ Section 81

- ▶ Section 82
- ▶ Section 83
- ▶ Section 84

REF: Resident Person (Section 81)

- a. Resident Individual, Resident Company, or Resident Association of Persons for the year or
- b. The Federal Government

Question No: 20 (Marks: 1) - Please choose one

Which part of income is charged to tax of non-resident person under the income tax ordinance 2001?

▶ Pakistani source of income

- ▶ Foreign source of income
- ▶ Both Pakistan and foreign source of income
- ▶ None of the given option

REF:

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Question No: 21 (Marks: 1) - Please choose one

Sale of goods through permanent establishment in Pakistan by a non-resident belongs to which of the following?

▶ **Pakistani source of Income**

- ▶ Foreign source of income
- ▶ Both Pakistan and foreign source of income
- ▶ None of the given option

REF: Pakistan-Source Income:

A permanent establishment of the non-resident person in Pakistan

• Sales in Pakistan of goods or merchandise of the same or similar kind as those sold by the person through a permanent establishment in Pakistan

Question No: 22 (Marks: 1) - Please choose one

Rental income shall be Pakistan-source income if it is derived from:

▶ **The lease of immovable Property in Pakistan**

- ▶ The lease of immovable Property outside Pakistan
- ▶ The lease of immovable Property both in and out of Pakistan
- ▶ None of the given options

REF: Rental income shall be Pakistan-source income if it is derived from the lease of immovable property in Pakistan whether improved or not, or from any other interest in or over immovable property, including a right to explore for, or exploit, natural resources in Pakistan.

Question No: 23 (Marks: 1) - Please choose one

Which of the following does **Not** come under the ambit of permanent establishment (PE)?

- ▶ Branch office

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- ▶ Factory or workshop
- ▶ Premises for soliciting orders

▶ **Liaison or relationship office**

REF: A place of management, branch office, factory or workshop, premises for soliciting orders, ware house, permanent sales exhibitions or sales outlet, other than a liaison office except where the office engages in the negotiation of contracts (other than contracts of purchase);

Question No: 24 (Marks: 1) - Please choose one

Mr. Ali resident of Pakistan received salary form UK? What will be the tax treatment of his salary in Pakistan?

- ▶ Wholly taxable
- ▶ Partly Taxable
- ▶ Wholly exempt

▶ **Wholly exempt only if resident paid foreign tax on his salary**

REF:

Question No: 25 (Marks: 1) - Please choose one

What is the relation between the Non-resident and permanent establishment as per section 105?

- ▶ Both have same legal entity
- ▶ **Both are separate legal entity**
- ▶ Both are dependent on each other
- ▶ None of the given options

REF:

Question No: 26 (Marks: 1) - Please choose one

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What is the tax treatment of losses from the foreign source under section 104 of the ordinance?

- ▶ Wholly taxable
- ▶ Partly Taxable
- ▶ **Deductible expenditure**
- ▶ None of the given options

REF: Foreign losses Sec.104: Deductible expenditures incurred by a person in deriving foreign source income chargeable to tax under a head of income shall be deductible only against that income

Question No: 27 (Marks: 1) - Please choose one

Which of the following section of Income Tax Ordinance 2001 deals with Income from Salary and its treatment?

- ▶ Section 11
- ▶ **Section 12**
- ▶ Section 13
- ▶ Section 14

REF: Salary as defined in Section 12(2)

Question No: 28 (Marks: 1) - Please choose one

Mr. A non-resident of Pakistan received interest on Canadian Bonds Rs. 150,000 (entire amount received in Pakistan). What is the treatment of this amount for calculating his gross total income?

- ▶ **Rs. 150,000 added in his total income**
- ▶ Rs. 150,000 subtracted from his total income
- ▶ Rs. 75,000 added in his total income
- ▶ Exempt from tax

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REF: page 35

PAPER NUMBER 7

MIDTERM EXAMINATION
Spring 2010
FIN623- Taxation Management (Session - 3)

Time: 60 min
Marks: 44

(Marks: 1) - Please choose one
Taxes are important instrument of which one of the following policy?

▶ Monetary policy

▶ **Fiscal policy** (Page no 1)

▶ Trade Policy

▶ Economic Policy

REFERENCE:

Taxes Vs Fees:

Taxes are compulsory levy and it is the legal obligation of the person to pay the amount of tax which is required to pay under the law, where as payment of fee is the discretion of any person and when a fee is paid, the person becomes an entitled to claim counter benefits. **Taxes are important instrument of Fiscal Policy.**

Question No: 2 (Marks: 1) - Please choose one

Which of the following canon of taxation suggests that there should not be any arbitrariness or ambiguity in respect of amount of tax paid?

▶ Capacity to Pay

▶ **Certainty** (Page no 2)

▶ Simplicity

▶ Convenience

REFERENCE:

Canons of Taxation:

Simplicity

This principle implies that taxation system should be plain, and easily understandable by the tax payer.

Convenience

The convenience of tax payer as well as tax collector must be the bottom line of any taxation system. The time of payment of tax, mode of collection of tax, should be convenient for the tax payers.

Certainty

This canon suggest that the amount of payment should be certain and there should not be any arbitrariness or ambiguity with respect to the amount of tax to be paid by the tax payer.

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Question No: 3 (Marks: 1) - Please choose one
Taxation management is a strategy where by a person manages its business in such a way so as to maximize the utilization of which of the following?

▶ **All of the given options** (Page no 3)

- ▶ Tax holidays
- ▶ Exemption, Rebates & Concession
- ▶ Tax credits

REFERENCE:

Taxation Management—Explained

Taxation management is a strategy where by a person manages its business and other transactions/ activities in such a way so as to make maximum use of tax holidays, exemption, concession, rebates, tax credits, deductible allowances available under law and as a result is able to derive the benefit of minimizing his tax liability.

Question No: 4 (Marks: 1) - Please choose one
Which of the following tax is paid in relation to how much you earn?

- ▶ Sales Tax
- ▶ **Income Tax** (Page no 16)
- ▶ Inheritance Tax
- ▶ Value added Tax

REFERENCE:

Tax on Income

• **Income Tax** is a tax on a person in respect of his income during a tax year. Income of a tax year as computed under the provisions of this ordinance is Taxable Income, it is total income reduced by total of any deductible allowances. It is charged to tax in a tax year according to applicable rules.

Question No: 5 (Marks: 1) - Please choose one
Under which of the following sections of Income Tax Ordinance 2001 vested the powers to CBR in order to formulate the IT rule 2002?

- Section 206
- Section 213
- Section **237** (Page no 5)
- Section 238

REFERENCE:

IT rules 2002

These were promulgated by CBR on 1st July 2002 in exercise of powers granted under section 237 of the Ordinance.

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Question No: 6 (Marks: 1) - Please choose one

Law making is the prime responsibility of which of the following authorities?

▶ **Parliament**

- ▶ Supreme Court
- ▶ High Court
- ▶ City Court

REFERENCE:

PARLIAMENT

Parliament is the supreme law making authority; its main function is to pass laws.

Question No: 7 (Marks: 1) - Please choose one

Section 2(5A) of Income Tax Ordinance 2001 defined:

“assessment year” means assessment year as defined in the repealed Ordinance.

In which criteria the above definition falls?

▶ **Exclusive definition** (Page no 8)

- ▶ Inclusive definition
- ▶ Both Exclusive and Inclusive definitions
- ▶ Statutory definition

REFERENCE:

Examples of exclusive definitions are given below:

Sec. 2(2) Appellate Tribunal means the Appellate Tribunal established under section 130.

2(5A) “assessment year” means assessment year as defined in the repealed Ordinance;

2(6) “association of persons” means an association of persons as defined in section 80

Question No: 8 (Marks: 1) • Please choose one

Which of the following is the Special Accounting Year of Insurance Companies?

▶ **1st January to 31st December**

- ▶ 1st July to 30th June
- ▶ 1st October to 30th September
- ▶ 1st September to 31st August

REFERENCE:

(Page no 11)

Question No: 9 (Marks: 1) - Please choose one

Which of the following is the Special Accounting Year of Sugar Companies?

▶ 1st July to 30th June

▶ **1st October to 30th September**

- ▶ 1st September to 31st August
- ▶ 1st January to 31st December

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REFERENCE:
(Page no 11)

Question No: 10 (Marks: 1) - Please choose one
If the accounting year of Mr. Aslam, a rice exporter is started from 01 January 2005 and ending on 31st December 2005. What will be its tax year?

- ▶ Tax year 2003
- ▶ Tax year 2004
- ▶ Tax year 2005
- ▶ **Tax year 2006**

Question No: 11 (Marks: 1) - Please choose one
Certain incomes those are excluded from tax are called as:

- ▶ Perquisites
- ▶ **Exemptions**
- ▶ Allowances
- ▶ Deductions

REFERENCE:
Page no 17

Question No: 12 (Marks: 1) - Please choose one
If the land situated in Pakistan and used for agriculture purposes then which of the following factor make distinction between agriculture and non-Agriculture Income?

- Nationality of Pakistan
- Quantity of the product
- Time period

Human effort (Page no 19)

REFERENCE:

Following Incomes are held to be "Non-Agricultural Income"

- ☉ Income from spontaneous forest
- ☉ Income from sale of fruits and flowers growing on land naturally, spontaneously, and without the intervention of human agency

Question No: 13 (Marks: 1) - Please choose one

Suppose a Profit acquired by a cultivator from the sale of standing crops or the produce after harvesting. The profit of the cultivator will be treated in which of the following way?

- ▶ Income from Business
- ▶ **Agriculture Income** (Page no 20)
- ▶ Income from Property
- ▶ Capital Gain

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REFERENCE:

Following Income are held to be “Agricultural Income”

•If denuded parts of the forest are replanted and subsequent operations in forestry is carried out the income arising from the sale of replanted trees. •The fees collected from owners of cattle (normally used for agricultural purpose) for allowing them to graze on forest lands covered by jungle and grass grown spontaneously. •Profit on sale of standing crops or the produce after harvest by a cultivating owner or tenant of land.

Question No: 14 (Marks: 1) - Please choose one
Land revenue rent (Lagan) is received by which of the following authority?

- ▶ High Court
- ▶ Supreme Court
- ▶ Income Tax Department
- ▶ **Provincial Government**

Question No: 15 (Marks: 1) - Please choose one

What is the tax treatment of Donation to the President’s Relief Fund for Earthquake Victims 2005?

- ▶ Wholly Taxable
- ▶ **Wholly Exempt** (Page no 23)
- ▶ Partly Exempt
- ▶ Not mention in Ordinance

REFERENCE:

Section 45 President’s Honour

(1) Any allowance attached to any Honour, Award, or Medal awarded to a person by the President of

Pakistan shall be exempt from tax under this Ordinance.

(2) Any monetary award granted to a person by the President of Pakistan shall be exempt from tax under this Ordinance.

Donation to the President’s Relief Fund for Earthquake Victims 2005 [Clause (63A),]

Question No: 16 (Marks: 1) - Please choose one

Rate charged under presumptive tax regime to non resident shipping firm 8% on its gross receipt is quite low as compare to other business. This is an example of which type of tax concession?

- ▶ Reduction in total taxable income
- ▶ **None of the given options**
- ▶ Reduction in tax liability
- ▶ **Reduction in tax rate**

Question No: 17 (Marks: 1) - Please choose one

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Which of the following section deals with the residential status of Company?

▶ **Section 81** (Page no 26)

- ▶ Section 82
- ▶ Section 83
- ▶ Section 84

REFERENCE:

Resident Person (Section 81)

Question No: 18 (Marks: 1) - Please choose one

M/s ABC & Co. has been incorporated under Pakistan Companies Ordinance 1984.

However it's most of the branched and control and management of affairs wholly situated out of Pakistan? What will be the residential status of M/s ABC & Co.?

- ▶ Resident Company
- ▶ **Non-Resident Company**
- ▶ Resident Individual
- ▶ Resident AOP

REFERENCE:

heory of Control and Management

• If Control and Management of affairs of a company lies in Pakistan, it is Resident Company, even

if not incorporated in Pakistan

• Control & Management refers to management of vital affairs/Policy Making Decisions of the company

Question No: 19 (Marks: 1) - Please choose one

For a resident AOP which of the following condition must be satisfied?

- ▶ Control and management of affairs of AOP is situated partly in Pakistan
- ▶ Control and management of affairs of AOP is situated wholly in Pakistan
- ▶ **Control and management of affairs of AOP is situated wholly or partly in Pakistan**
- ▶ None of the given options

REFERENCE:

Residential Status of "Association of Person"

Under the law a Firm, HUF, etc. are placed under the head AOP

Control and management of affairs of AOP is situated wholly or partly in Pakistan

Question No: 20 (Marks: 1) - Please choose one

Any gain arising on the disposal of shares in a non-resident company belongs to which of the following?

- ▶ Pakistan- source income
- ▶ **Foreign source of income** (Page no 29)
- ▶ Both Pakistan and foreign source of income

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- ▶ None of the given option

Question No: 21 (Marks: 1) - Please choose one

Any amount shall be Pakistan-source income if it is paid by:

- ▶ Resident person
- ▶ Non-resident person
- ▶ Citizen of Pakistan
- ▶ **All of the given options**

REFERENCE:

Any amount not mentioned in the preceding sub-sections shall be Pakistan-source income if it is paid by a resident person or borne by a permanent establishment in Pakistan of a non-resident person.

Question No: 22 (Marks: 1) - Please choose one

Any business carried by Non-resident person in Pakistan through permanent establishment (PE) the general and admin expenditure incurred. What will be the tax treatment of such expenditure?

- ▶ Exempt from tax due to non-resident
- ▶ **Wholly taxable due to PE**
- ▶ Allowed as deduction from the income of Non-resident
- ▶ None of the given options

REFERENCE:

<http://www.softax.com.pk/PDF/ITO/105.pdf>

Question No: 23 (Marks: 1) - Please choose one

The definition of Employment under Sec. 2(22) of the ordinance is categorized in:

- ▶ **Inclusive Definition (page no 8)**
- ▶ Exclusive Definition
- ▶ Both Inclusive and Exclusive
- ▶ None of the given options

REFERENCE:

Inclusive Definition:

Examples of inclusive definitions are given below:

It includes dictionary meanings as well as meanings conveyed by definition.

Sec. 2(9)— Business includes any trade, commerce, manufacture, profession, vocation or adventure or

concern in the nature of trade, commerce, manufacture, profession, vocation, but doesn't include employment.

(11A) “charitable purpose” includes relief of the poor, education, medical relief and the advancement of

any other object of general public utility;

2(22) “**employment**” includes:

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- a directorship or any other office involved in the management of a company;
- a position entitling the holder to a fixed or ascertainable remuneration; or
- the holding or acting in any public office;

Question No: 24 (Marks: 1) - Please choose one
Tax year for the salaried individuals is called as:

- ▶ Special Tax Year
- ▶ **Normal Tax Year**
- ▶ Fiscal Year
- ▶ Financial Year

REFERENCE:

Significant Points:

Salary from more than one source during a tax year is taxable income.

- Salary may be from former employer, present employer or prospective employer.
- Salary may be from former employer, present employer or prospective employer.
- No deductions are allowed under the head "Income from Salary"
- In case of Tax Free Salary by the employer, the amount of tax paid by employer shall be added

back to employee's salary. It tantamount to Tax on Tax

- Voluntary Payments Taxable
- Tax year of a salaried Person shall be Normal Tax year

Question No: 25 (Marks: 1) - Please choose one

Which of the following section of Income Tax Ordinance 2001 deals with perquisites of Income from Salary and its treatment?

- ▶ Section 11
- ▶ Section 13
- ▶ Section 14
- ▶ **Section 12**

REFERENCE:

<http://www.softax.com.pk/PDF/ITO/13.pdf>

Question No: 26 (Marks: 1) - Please choose one

Mr. A employed in Pakistan received dividend amounting Rs. 10,000 in UK from Pakistani resident company. What is the treatment of dividend in calculating his gross total income?

- ▶ **Added in total income**
- ▶ Subtracted from the total income
- ▶ Added in income after tax
- ▶ Exempt from tax

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Question No: 27 (Marks: 1) - Please choose one

Mr. Kishan Kumar during his yearly tour in Pakistan spends 155 working days, 26 off-working days 1 strike day and 1 Public Holiday in a tax year 2008-09? What will be the status of the individual?

▶ Resident Individual

- ▶ Non Resident Individual
- ▶ Resident Person
- ▶ Resident HUF

REFERENCE:

Resident Individual (Section 82)

- An individual shall be a resident individual for a tax year if the individual-
- is present in Pakistan for a period of, or periods amounting in aggregate to, **one hundred and eighty-three days or more in the tax year**; or
- Is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year?

Question No: 28 (Marks: 1) - Please choose one

A firm ABC maintaining its account in accrual basis, at June 27, 2008 it is entitled to receive Rs. 10,000 but actual payments made at 01 August 2008. It would be charge to tax into the tax year:

- ▶ 2009
- ▶ 2006
- ▶ 2007
- ▶ 2008

PAPER NUMBER 8

Section (11A) of Income Tax Ordinance 2001 defined

“charitable purpose” includes relief of the poor, education, medical relief and the advancement of any other object of general public utility;

▶ Exclusive definition

▶ Inclusive definition (Page no 8)

▶ Both Exclusive and Inclusive definitions

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- ▶ Statutory definition

REFERENCE:

Inclusive Definition:

Examples of inclusive definitions are given below:

It includes dictionary meanings as well as meanings conveyed by definition.

Sec. 2(9)—Business includes any trade, commerce, manufacture, profession, vocation or adventure or concern in the nature of trade, commerce, manufacture, profession, vocation, but doesn't include employment.

(11A) “charitable purpose” includes relief of the poor, education, medical relief and the advancement of any other object of general public utility;

A definition also includes the dictionary meanings of the word are termed as which of the following?

- ▶ Exclusive definition
- ▶ **Inclusive definition** (Page no 8)
- ▶ Both Exclusive definition and Inclusive definitions
- ▶ Statutory definition

REFERENCE:

Inclusive Definition:

Examples of inclusive definitions are given below:

It includes dictionary meanings as well as meanings conveyed by definition.

Which of the following is the legal status of the Punjab University under the provisions of section 80 of the ordinance?

- ▶ Individual

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▶ **Company** (Page no 16)

- ▶ Banking Company
- ▶ Hindu Undivided Family

What is the relation between the Non-resident and permanent establishment as per section 105?

- ▶ Both have same legal entity

▶ **Both are separate legal entity** (Page no 31)

- ▶ Both are dependent on each other
- ▶ None of the given options

REFERENCE:

Taxation of a permanent establishment in Pakistan of a non-resident person Sec. 105:

(1) The following principles shall apply in determining the income of a permanent establishment in Pakistan of a non-resident person chargeable to tax under the head "Income from Business", namely:

- The profit of the permanent establishment shall be computed on the basis that it is a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the non-resident person of which it is a permanent establishment

Certain incomes those are excluded from tax are called as:

- ▶ Perquisites
- ▶ **Exemptions** (Page no 17)
- ▶ Allowances
- ▶ Deductions

REFERENCE:

- Deemed Income at Par with real income
- Cash Basis Vs Accrual Basis
- Illegal Income

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- Lump Sum Receipts
- Tax-free income
- Income can not be taxed twice, if not expressly
- Mentioned otherwise
- Charge on Person
- Certain Incomes excluded from Taxable Income (exemptions)
- Lump Sum Receipts
- Tax-free income
- Income can not be taxed twice, if not expressly
- Mentioned otherwise
- Certain Incomes excluded from Taxable Income (exemptions)

Sources of Income are classified into _____ heads of income.

- ▶ 3
- ▶ 4
- ▶ **5**
- ▶ 6

REFERENCE:

Under the Ordinance income is classified into the following five heads:
Salary, Income from property, Income from business, Capital gains and Income from other sources.

Income of Federal Government exempt from tax under which of the following section of IT Ordinance 2001?

- ▶ Section 41
- ▶ Section 43
- ▶ Section 47
- ▶ **Section 49** (Page no 25)

REFERENCE:

Section 49 Federal & Provincial Govt. and Local Authority Income

- Income of Federal Government exempt from tax
- Income of Provincial Government or a Local Authority in Pakistan shall be exempt under all heads of income other than income from Business, derived outside its jurisdictional area, which shall be taxable.
- Federal Government, a Provincial Government or a Local Authority shall not be liable to any collection or deduction of advance tax.

A firm ABC maintaining its account in cash basis, at June 27, 2008 it incurred expenses for Rs. 10,000 but actual payments made at 01 August 2008. It would be charge to tax into the tax year:

- ▶ 2006
- ▶ 2007
- ▶ **2008**
- ▶ 2009

Which of the following does Not come under the ambit of permanent

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establishment (PE)?
Branch office
Factory or workshop
Premises for soliciting orders
Liaison or relationship office

REFERENCE:

Page no 9

Which of the following section deal with tax treatment of person who is a cultivator or receiver of agricultural produce as rent-in-kind in the business of cultivator?

Rule 11 of the IT Rule 2002
Section 40 of the Income Tax Ordinance 2001
Section 41 of the Income Tax Ordinance 2001
Section 42 of the Income Tax Ordinance 2001

Any income from a business carried on outside Pakistan through permanent establishment by a resident person belongs to which of the following?

Pakistani source of Income
Foreign source of Income
Both Pakistan and foreign source of income
None of the given option
PAPER NUMBER 9

MIDTERM EXAMINATION		Marks: 40 Time: 60min
SPRING 2008		
FIN623 - TAXATION MANAGEMENT (Session - 1)		
Question No: 1 (Marks: 1) - Please choose one		
Which one of the following policy have taxes as an important instrument?		
<ul style="list-style-type: none">▶ Monetary policy▶ Fiscal policy▶ Trade Policy▶ Economic Policy		

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REFERENCE:
Page no 1 Of handouts

Question No: 2 (Marks: 1) - Please choose one

Which one of the following is the main source of revenue generation of the state?

- Taxes** (Confirmed from vedio lecture)
- Tariffs**
- Internal Borrowing**
- Penalties & Fines**

Question No: 3 (Marks: 1) - Please choose one

In the canon of taxation, which one of the following statements best describe the benefits principle?

- Persons deriving more income leads to enjoy less benefits from the state, should be taxed at the lower rates**
- Persons deriving more income leads to enjoy less benefits from the state, should be taxed at the higher rates
- Persons deriving less income leads to enjoy more benefits from the state, should be taxed at the lower rates
- All persons deriving more or less income should be taxed at the same rate

REFERENCE:

Hence according to this principle, those who derive more income but enjoy less

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benefits from the state should be taxed at the lower rates and those persons who derives less income but more benefits from State should be taxed at high rates.

Question No: 4 (Marks: 1) - Please choose one

Which one of the following is **NOT** the type of tax?

- ▶ Direct Taxes
- ▶ Indirect Taxes
- ▶ Value Added Taxes
- ▶ **Federal Taxes** (Page no 3)

REFERENCE:

Type of Taxes:

Different types of taxes are explained below:

.. Direct taxes

Direct taxes are the taxes where incidence of taxation is on the person on whom levied. For example income tax

.. Indirect Taxes

Indirect taxes are the taxes where incidence of tax can be shifted by the person on whom levied to other persons. For example sale tax

.. Proportional Taxes

These taxes are levied with the same percentage. For example, sales tax is levied at the rate of 15%.

.. Progressive Taxes

This is based on the “capacity to pay” principle of taxation. In this type, the rate of tax increase as the income increase.

.. Regressive taxes

A Regressive tax is the opposite of a Progressive Tax. It is based on the benefits received principle.

A type of tax that takes a larger percentage from the income of low-income people than the income

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of high-income people is called regressive tax.

.. Value Added Taxes.

This type of tax is levied at each stage of value addition. For example sales tax

Question No: 5 (Marks: 1) - Please choose one

Which one of the following is the Special Accounting Year of the Insurance Companies?

- ▶ **1st January to 31st December**
- ▶ 1st July to 30th June
- ▶ 1st October to 30th September
- ▶ 1st September to 31st August

REFERENCE:

Page no 11

Question No: 6 (Marks: 1) - Please choose one

Which one of the following is the legal status of Mr. Z a Director in Private Company under section 80 of the Income Tax Ordinance 2001?

- ▶ **Individual**
- ▶ Company
- ▶ Hindu Undivided Family
- ▶ AOP

REFERENCE:

Page no 16

Question No: 7 (Marks: 1) - Please choose one

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Mr. Ali being citizen of Pakistan of 60 years old, if his total taxable income is Rs.400,000. His tax liability will be reduced by _____ under Part 3 of second schedule.

10%

25%

50%

75%

REFERENCE:

Reduction in Tax Liability under Second Schedule Part 3

- Any amount received as flying allowance by pilots etc. and junior commissioned officers or other ranks shall be taxed @2.5% as separate block.
- Senior citizen-age 60 years & above where taxable income not exceeding Rs. 400,000/- tax liability reduced by 50%.

Question No: 8 (Marks: 1) - Please choose one

Mr. Khan is an employee of ABC Co. the company has provided a driver and a gardener to him. What will be the treatment of their salaries as per Income Tax Ordinance 2001?

- ▶ **Salaries paid to them added in the salary of Mr. Khan**
- ▶ Salaries paid to them subtracted from the salary of Mr. Khan
- ▶ Have no relation with salary of Mr. Khan
- ▶ Salaries paid to them are exempted from Tax

REFERENCE:

PAGE NO 39 SALARY AND ITS COMPUTATION.

Question No: 9 (Marks: 1) - Please choose one

Which one of the following is an example of tax evasion?

- ▶ Mr. Javed transfers stock to his grandchildren so that the dividend income is included in their taxable income
- ▶ Mis Saima sells her corporate bonds and reinvests the proceeds in tax exempt municipal bonds

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- ▶ **Imran wins \$500 at beach bingo and does not report the income on his tax return**

- ▶ Khuram invests in an apartment that expects to show losses for the next three years

Question No: 10 (Marks: 1) - Please choose one

Mr. Suleman is an employee of ABC Co. utilities are provided by Company to him for the tax year 2007. What will be the treatment of Utilities as per Income Tax Ordinance 2001 in the tax year 2007?

- ▶ Utilities paid are added in the salary of Mr. Suleman

- ▶ **Fair market value of Utilities is added in the salary of Mr. Suleman**

- ▶ 10% of Utilities is exempted from tax and remaining amount will be added in the salary of Mr. Suleman

- ▶ Utilities paid are exempted from Tax

REFERENCE:

where, in a tax year, utilities are provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the fair market value of the utilities provided, as reduced by any payment made by the employee for the utilities

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