53. **The deposit multiplier is always:**
(a) Greater than one (b) Less than one (c) Equal to one (d) None of these

54. **Money can be a standard of deferred payments only if the value of money itself:**
(a) Remains stable (b) increases (c) Decreases (d) None of these

55. **The fiscal policy with a deliberate policy action is:**
(a) Expansionary fiscal policy (b) Concretionary fiscal policy
(c) Discretionary fiscal policy (d) All of these

56. **Trade based on absolute advantage was presented by:**
(a) Alfred Marshall (b) Adam Smith (c) Lionel Robbins (d) None of these

57. **According to Keynes, the relationship between money supply and rate of interest is:**
(a) Negative (b) Positive (c) Indirect (d) None of these

58. **An object that is generally accepted in exchange for goods and services is called:**
(a) Standardized money (b) Medium of exchange
(c) Unit of account (d) All of these

59. **The account in balance of payment that consists of all transactions in financial assets is known as:**
(a) Capital account (b) Current account
(c) Official Reserve account (d) None of these

60. **The difference between exports and imports of visible items of a country is called:**
(a) Budget surplus (b) Balanced budget (c) Balance of trade (d) Both (a) and (c)

61. **The best and comprehensive definition of economic development was presented by:**
(a) Higgins (b) Maddison (c) Friedman (d) None of these

62. **Fishery is the sub sector of:**
(a) Agriculture (b) Manufacturing (c) Mining (d) Both (b) and (c)

63. **Pakistan was the leading exporter before the separation of East Pakistan:**
(a) Cotton (b) Tea (c) Rice (d) None of these

64. **Pakistan devalued its currency in 1972 by:**
(a) 131% (b) 121%
(c) 100% (d) None of these **(Ans.: 56.7%)**

65. **Eighth Five Year Plan duration was:**
(a) 1983 – 1988 (b) 1993 – 1998 (c) 1978 – 1983 (d) 1988 – 1993

66. **Export Bonus Scheme (EBS) was introduced in:**
(a) 1969 (b) 1979 (c) 1959 (d) 1949

67. **Primary deficit (primary balance) is the difference between total revenue and:**
(a) Non-interest total expenditure (b) Interest expenditure
(c) development expenditure (d) All of these

68. **Cooperative movement was started in sub-continent in:**
(a) 1904 (b) 1914 (c) 1934 (d) None of these

69. **The Ryotwari system was introduced by the British rules in the provinces of:**
(a) Sindh, Madras and Mumbai (b) Sindh, Punjab and Mumbai
(c) Sindh, Madras and NWFP (d) Both (a) and (b)

70. **Pakistan Agricultural Storage and Service Corporation (PASSCO) was established in:**
(a) 1973 (b) 1963 (c) 1953 (d) 1983

71. **Who developed Physical Quality Life Index (PQLI) in his famous book named by "Measuring the Condition of the World's Poor: PQLI in 1987?**
(a) Morris D. Morris (b) Higgins (c) Keynes (d) None of these

72. **The Human Development Index (HDI) ranks all countries on the scale of:**
(a) 0 to 1 (b) 1 to 100 (c) -1 to +1 (d) None of these

73. **The United Nations designated The Fourth World as:**
(a) Less developed countries (b) Poor countries
(c) Least developed countries (d) All of these

74. **According to 'North-South Divide', the rich countries are called:**
(a) South countries (b) North countries
(c) Industrialized countries (d) Advance countries

75. **The loan which is given at a nominal rate of interest ranging from 1% to 3% is called:**
(a) Hard loan (b) Conditional loan (c) Soft loan (d) All of these

76. **The accumulation of a stock of debt so large as to threaten the country's ability to repay its past loan:**
(a) Debt equity swap (b) Debt trap (c) Debt overhang (d) None of these

77. **"Rabi" season which begins in:**
(a) April-June (b) October-December
(c) January-February (d) None of these

78. **Government of Pakistan announced privatization policy in:**
(a) 1981 (b) 1995 (c) 1991 (d) None of these

79. **The floating debt (short-term) consists of:**
(a) Treasury Bills (b) Market Treasury Bills
(c) MTBs for Replenishment (d) All of these

80. **The currency of IMF is called:**
(a) SDRs (b) ODRs (c) Lira (d) None of these

81. **Price effect is a combination of:**
(a) Income effect and policy effect
(b) Income substitution, income and welfare effect
(c) Substitution effect plus market effect (d) All of these

82. **Which of the following is true in long run equilibrium for a firm in monopolistic competition?**
(a) MC = ATC (b) MC > ATC (c) MC ≤ ATC (d) None of these

83. **To represent the whole economy there are:**
(a) Four markets (b) Three markets (c) Two markets (d) None of these

84. **The long run average cost curve is:**
(a) U-shaped (b) J-shaped (c) Hyperbola shape (d) Both (a) and (b)
(e) None of these

85. **Demand curve in monopolistic competition is:**
(a) Relatively flatter than monopoly (b) Relatively steeper than monopoly
(c) Negatively sloped and same as monopoly
(d) None of these

86. **The relation between labor units employed and wage rate is shown by:**
(a) Value of marginal product of labour [VMP1]
(b) Value of average product of labour [VAP?]
(c) Negatively sloped marginal productivity curve
(d) Both (b) and (c)

87. **A market with few entry barriers and with many firms that sell differentiated products is:**
(a) Purely competitive (b) Monopoly
(c) Monopolistically competitive (d) Oligopolistic Competition

88. **The firm's profit will be maximum when its:**
(a) Marginal cost is greater than marginal revenue
(b) Marginal revenue is greater than marginal cost
(c) Marginal cost is equal to marginal revenue
(d) Both (a) and (b)

89. **General equilibrium represents:**
(a) Equilibrium of the goods and money market
(b) Equilibrium of the goods market
(c) Equilibrium of the goods, money and labour market
(d) None of these

90. **Net exports are always:**
(a) Positive (b) Negative (c) Balance (d) None of these

91. **When Slope of the Aggregate Expenditure Curve increases; (Keynesian Cross model)**
(a) National Income will increase (b) National Income will decrease
(c) There will be recessionary gap (d) There will be inflationary gap
(e) None of these

92. **GNP of a country is:**
(a) GDP divided by prices (b) GNP – GDP
(c) GNP – Depreciation (d) None of these

93. **Money is:**
(a) Currency and Coins (b) Credit cards and drafts
(c) Bonds (d) Promissory notes

94. **Keep in mind Production Possibility Frontier (PPF):**
(a) All the points on the PPF could be efficient points
(b) Production may be chosen inside PPF which will be efficient
(c) Production outside the PPF is efficient (d) None of these

95. **The investment demand curve is always:**
(a) Negatively sloped (b) Positively sloped (c) Vertical (d) Horizontal

96. **Real interest rate is:**
(a) Interest rate divided by prices (b) Interest rate divided by inflation
(c) Interest rate minus inflation (d) Interest rate plus inflation

97. **The consumer will be in equilibrium where:**
(a) Budget line intersect indifference curve (b) Budget line intersect price line
(c) Both (a) and (b) (d) None of these

98. **When there is Liquidity Trap:**
(a) Money demand increases interest rate (b) Money demand decreases interest rate
(c) Money demand curve is vertical (d) None of these

99. **Due to change in price aggregate demand curve will:**
(a) Shift to the left (b) Shift to the right
(c) None of (a) and (b)
(Ans.: Shifts in aggregate demand are not caused by changes in the price level.)
(d) Become flatter

100. **Derived demand is:**
(a) Like demand for shoe maker (b) Like teacher / tutor
(c) Like craftsman (d) All of these

ANSWERS

1.	b	2.	a	3.	b	4.	c	5.	a	6.	d	7.	a
8.	c	9.	d	10.	c	11.	d	12.	c	13.	c	14.	a
15.	d	16.	a	17.	a	18.	a	19.	c	20.	b	21.	c
22.	d	23.	b	24.	c	25.	b	26.	b	27.	b	28.	c
29.	b	30.	c	31.	c	32.	a	33.	b	34.	c	35.	a
36.	c	37.	a	38.	c	39.	d	40.	b	41.	c	42.	c
43.	a	44.	c	45.	b	46.	d	47.	c	48.	a	49.	a
50.	b	51.	c	52.	a	53.	a	54.	a	55.	c	56.	b
57.	a	58.	b	59.	a	60.	c	61.	d	62.	a	63.	d
64.	d	65.	b	66.	c	67.	a	68.	d	69.	a	70.	a
71.	a	72.	a	73.	c	74.	b	75.	c	76.	c	77.	b
78.	c	79.	d	80.	a	81.	d	82.	c	83.	c	84.	a
85.	a	86.	a	87.	c	88.	c	89.	a	90.	d	91.	a
92.	d	93.	a	94.	a	95.	a	96.	c	97.	d	98.	d
99.	c	100.	d										

SET-II

Note: Answers are Bold and Underlined.

1. **A government might use tax to?**
(a) Discourage consumption of positive externalities
(b) Discourage consumption of public goods
(c) **Discourage consumption of merit goods**
(d) Discourage consumption of negative externalities

2. **In a regressive tax system?**
(a) The amount of tax paid increase with income
(b) The marginal rate of tax decrease with more income
(c) **The average rate of tax falls as income increase**
(d) The average rate of tax is constant as income increases

3. If the economy grows the government's budget position will automatically?
(a) Worsen
(b) Improve
(c) Stay the same
(d) Increase with inflation

4. If the marginal rate of tax is 40% and consumers income increase from Rs10,000 to Rs12,000?
(a) The amount of tax paid will increase by Rs4,800
(b) The amount of tax paid will increase by Rs4,000
(c) The amount of tax paid will increase by Rs 800
(d) The total tax paid will be Rs4,800

5. A reflationary (expansionist) fiscal policy could include?
(a) Lower interest rates
(b) Increased lending by the banks
(c) An increase in corporation tax
(d) An increase in discretionary government spending

6. Over-funding is when the State Bank of Pakistan?
(a) Sells less government bonds than are required to finance the PSBR
(b) Sells more government bonds than are required to finance the PSBR
(c) Sells government securities on the open market
(d) Buys government securities on the open market

7. If the State Bank of Pakistan wished to pursue a tight monetary policy it would?
(a) Reduce the minimum reserve asset ratio.
(b) Buy government securities on the open market
(c) Lower interest rates
(d) Sell government securities on the open market

8. Goodhart's Law suggests that?
(a) Bad money drives out good
(b) Monetary policy can only be effective if it is a long-term policy
(c) Controlling one part of the money supply will merely result in that item becoming less important
(d) The money supply must only expand at the rate of growth of real national income

9. As the required reserve ratio is decreased the money multiplier?
(a) Could either increase or decrease
(b) Decrease
(c) Increase
(d) Remain the same, as long as bank hold no excess reserves

10. The parable of Riding a Switchback suggests that stabilizing policy?
(a) Is not sufficiently stimulating or contracting the economy at any time
(b) Is effective
(c) Is stimulating or contracting the economy at the wrong times
(d) Is desirable

11. The implementation lag for monetary policy is generally?
(a) The same as it is for fiscal policy
(b) Much shorter than it is for fiscal policy
(c) Mush longer than it is for fiscal policy
(d) Unrelated to central bank action

12. The budget deficit tends to decrease then?
(a) GDP decrease rapidly
(b) GDP remains unchanged
(c) GDP decrease slightly
(d) GDP increase

13. Automatic stabilizers act to ______ government expenditures and ______ government revenue during an expansionary period?
(a) Increase; increase
(b) Decrease; increase
(c) Increase; decrease
(d) Decrease; decrease

14. Net taxes are?
(a) Taxes paid by firms and households to the government minus the cost of collecting the taxes
(b) Taxes paid firms and households to the government minus the transfer payments made to firms and household
(c) Taxes paid by firms and households to the government plus transfer payments made to firm and households
(d) Government expenditures minus government revenues

15. As an economy grows?
(a) The government's budget position should automatically improve
(b) The government's budget position should automatically worsen
(c) This will have no effect on the government's budget position
(d) This will reduce the government's tax revenue

16. The public Sector Net Cash Requirement (PSNCR) is?
(a) A measure of the country's trade position
(b) A measure of the country's budget position
(c) A measure of the country's total debt
(d) A measure of the government's monetary stance

17. The marginal rate of tax paid is?
(a) The total tax paid / total income
(b) Total income / total tax paid
(c) Change in the tax paid / change in income
(d) Change in income / change in tax paid

18. Imagine there is no tax on income up to Rs 1000 after that there is a tax of 505 what is the average tax rate on an income of Rs 20,000?
(a) Rs 50000
(b) 20%
(c) 25%
(d) Rs 10000

19. Fiscal drag occurs when ?
(a) Tax bands do not increase with inflation
(b) Tax rates move inversely with inflation
(c) Government spending falls to reduce aggregate demand
(d) Tax banks increase with inflation

20. By controlling the monetary base economists mean ?
(a) Making banks keep a certain % of their assets as M0
(b) Controlling the money multiplier
(c) Restricting the amount of cash in circulation
(d) Not allowing commercial banks to issue notes and coins

21. If the state Bank of Pakistan wished to pursue an expansionary monetary policy it would
(a) Increase the minimum reserve asset ratio.
(b) Buy government securities on the open market
(c) Raise interest rates
(d) Sell government securities on the open market

22. By financial crowding out economist mean?
(a) Credit rationing
(b) Government borrowing drives up interest rates
(c) Bank of England controls on commercial bank lending
(d) What the government borrows cannot be used for private investment

23. The idea that the money supply should change to accommodate changes in aggregate demand is associated with the idea of?
(a) Margaret Thatcher (b) Ronald Reagan
(c) Milton Friedman (d) John Maynard Keynes

24. The multiple by which total deposits can increase for every pound increase in reserves is the?
(a) Money multiplier (b) liquidity ratio
(c) Bank's line of credit (d) required reserve ratio

25. The response lag of stabilization policy represents ?
(a) The time that it takes for policy makers to recognize the existence of boom of bust
(b) The time needed for parliament to agree to a tax cut.
(c) The time that is necessary to put the desired policy into effect
(d) The time that it takes for the economy to adjust to the new conditions after a new policy has been implemented

26. Time lags which often erode effectiveness of monetary and fiscal policy measures represent
(a) Delays in the response of the economy is stabilization policy
(b) The foreign response to price changes
(c) The change in exports and imports prices (d) the change in exchange rates

27. The negative effect on the economy that occurs when average tax rates increase because taxpayers have moved into higher income brackets during an expansion is?
(a) Debt burden (b) the Laffer curves (c) bracket creep (d) fiscal drag

28. Automatic stabilisers act to ____ government expenditures and ____ government revenues during recessions?
(a) Increase: increase (b) Decrease; decrease
(c) Increase; decrease (d) Decrease; increase

29. Fiscal Policy refers to ?
(a) The government regulation of financial intermediaries
(b) The spending and taxing policies used by the government to influence the economy
(c) The actions of the central bank in controlling the money supply
(d) The government's attitude to taxation

TAX ADMINISTRATION / REFORMS IN PAKISTAN

INTRODUCTION TO TAX REFORMS

Pakistan has one of the lowest tax-to-GDP ratios in Asia and the country faces serious budget deficits despite levying high indirect taxes which are regressive in nature and impose higher burden on the low income groups disproportionately. This report explores various problems and their reasons pertaining to tax at federal level in Pakistan and it offers recommendations for their solution.

In the existing situation, several problems are identified in the report that result in low tax collection including SROs, inefficient direct taxes, administrative issues of FBR, low tax incentives for taxpayers, trust deficit in tax collectors, and others.

This report recommends increasing incentives for taxpayers and imposing strict penalties for tax evasion. Top management of FBR should include honest and competent professionals with regular training programs. Devolution of tax collection and its monitoring by multiple bodies to ensure honesty and professionalism is also recommended to make the system more efficient. The relations between tax officials and taxpayers also need to be improved significantly. Tax payment should be convenient and simple, for this online payment of tax is recommended alongside promoting use of eTax. Tax payment certificates to be issued to taxpayers to avail benefits of tax payment as well as evidence of tax payment. Tax should be made fairer, value added tax should be promoted and GST should be lowered instead sales tax should be increased on luxury items, proportion of indirect taxes should be lowered, service sector's contribution in tax is disproportionately low and should be increased, corporate taxes should be lowered, tax base should be increased and tax slab limits should increase and be tied to CPI. Gross annual rental values should be revised. SROs should be reduced and their issuance should involve rigorous scrutiny process. Special tax evasion courts should be established to facilitate legal problems between tax department and tax payers. Cheque guarantee system by banks should be promoted for proper documentation of the economy as well as fixed tax liability to be imposed on non-taxpayers which should be proportionately high rate of tax, for small scale firms a low but fixed tax should be imposed where tax accounting difficulties persist. Information sharing between government departments should be encouraged for efficient identification and collection of taxes. Awareness of tax payment, calculation and payment process as well as transparency measures is imperative, details of receipts and expenditures of taxes should be made public to reduce the trust deficit.

Tax in Pakistan

Federal taxes are imposed in Pakistan through the 4th Schedule of the Federal Legislative List of the Constitution of Pakistan. Major federal taxes include Income tax, Sales tax, Custom duties and Excise duties.

Direct Taxes

(a) Income Tax: It is levied under the "Income tax Ordinance 2001".

Indirect Taxes

(a) Sales Tax: It is levied under the "Sales Tax Act 1 990"

(b) Custom Duties: It is levied under the Customs Act 1969".

(c) Excise Duties: It is levied under the "Federal Excise Act 2005"

The Government of Pakistan in the final report of National Taxation Reform Commission suggests tax aversion as one of the major source of leakage in system due to vague policy and weak implementation. In Pakistan we are heavily reliant on in-direct taxes like General Sales Tax (GST) which is easy to manipulate and should be reformed to a Value Added Tax (VAT) which has been successful in similar developing countries.

Tax is the major source of income for any country to funds its development. While direct taxes are progressive; in-direct taxes are regressive as applied uniformly. It is clearly visible from the data above that we have a heavy reliance on in-direct taxes whereas the case should be vice versa.

The single largest contributor of direct taxation in Pakistan is Income tax. Unfortunately, it has been difficult to tap the full potential of this tax due to leakages in our tax system and lack of FBR's ability to match a person's income with his tax receipts.

Of the three major in-direct taxes applied by the Federation, the largest contributor is Sales Tax. We would have to move towards a value added tax (VAT) or Reformed General Sales Tax (RGST). VAT will ensure that the tax is applied at input and output rather than just taxing the output in the case of General Sales Tax. This way it will be easier to gradually tax the value addition rather than applying a uniform tax at the output and final stage. It should be applied to both local and imported products.

Proposed Tax Reforms

- Focus on progressive taxation instead of regressive taxation.
- Focus on direct taxation rather than in-direct taxes.
- It is suggested to develop bench marks for different sizes of small sized business and introduce a fixed tax. It is difficult to assess small business where many times informal book keeping is being done. So having a fixed tax liability will not only raise tax collection but will also encourage small businesses to promote as credible tax payers.
- Majority of direct tax is collected from the industry where as service and agriculture sector do not contribute as per their share in the GDP. As agriculture income tax is a provincial subject after the 18th amendment in the constitution of Pakistan. The federation should consider a stronger focus on matching the tax collection from the service sector as per its contribution in the GDP. The Telecom companies are the only major contributor of tax in service sector.
- Tax payers need to be encouraged by schemes where the tax payer is benefited and appreciated for his due contribution. Unfortunately the tax payer already in the tax net is neither appreciated but rather feels harassed due to the behavior of tax collection agency.
- Stronger penalties need to set for tax evaders to discourage them from this practice.
- The most comprehensive database in the country is operated by NADRA. Hence, it is proposed to make CNIC number into tax number for individuals and centralizes different available

databases for example data of Capital Development Authority (CDA) and Motor Registration Department so FBR could track non-filing high income individuals.

- The law of the land dictates that it is mandatory for every person owning a vehicle above 1000cc to file a tax return. Enforcement of this needs to more rigorous.
- A research economist at PIDE wrote in his article "Monetizing Perks" published in that we do not need more taxes but need to increase our tax base/net.
- During research recommended the following points
  - Income Tax Ordinance is ambiguous. The ordinance needs to be revised to ensure effective compliance implementation.
  - Filing an income tax return is very complex for a layman. The filing needs to be simplified and welcoming.
  - It is generally difficult to collect tax on voluntary basis. Hence it is suggested to ensure tax filing for every professional.
  - Bridge trust gap between the Tax collector and Tax payer.

Recently, eTax has been introduced by FBR on its website where records of income are filed and the website calculates the tax due objectively given the income declarations with the end of making tax payment convenient for taxpayers. However, online collection of taxes is not available and tax payments have to be made in National Bank of Pakistan by means of conventional methods of payments which are time consuming and inconvenient.

Reasons for Tax Evasion

Before trying to recommend how to curb tax evasion it is necessary to find out why tax evasion takes place. All ten of hypothesized reasons for tax evasion were significant. These include absence of tax morality, high tax rates, poverty, proliferation of taxes, illiteracy of tax calculation, lack of adequate enforcement for default, lack of adequate tax incentives, non-existence of equitable & efficient tax system, no public enlightenment campaign, and poor relationship between taxpayer and tax authority.

The most common reason is poor relationship between taxpayers and authority, followed by lack of adequate tax incentives, then proliferation of taxes, then illiteracy of tax collection and then comes no public enlightenment campaign. However, if factor loadings are taken into account which is a better measure as it is adjusted with the weighted effect of the reason, the ranking is from no public enlightenment campaign, lack of adequate tax incentives, poor relationship between tax payers and authority, proliferation of taxes and lastly illiteracy of tax calculation.

Recommendations

- Lower corporate tax rates so that they match rates of other developing countries, increase tax revenue from increasing tax base instead of increasing tax rates.
- In the case of income tax, tax base should be widened and tax slab should be increased and made adjustable to CPI annually according to an agreed upon formula.
- Fixed taxes such as turnover tax should be levied in the situation when proper documentation of income is not made available by any company, this rate should be higher than the tax rate to be charged otherwise.
- There should be incentives for paying taxes such as priority in public services, in government contracts, etc.

- Details of tax receipts and expenditure should be made available and debated upon for transparency purposes.
- High income services such as credit cards, travel agents, consultancies, etc. should be levied higher taxes to reduce general sales tax to make tax more progressive.
- Tax base could be increased by information sharing between different government departments such as electricity connections for commercial or industrial units should be matched with filing of tax returns.
- Tax should be based on value addition, on input as well as output so that the tax rate at output position is reduced and it becomes more progressive.
- Revise gross annual rental values of properties, very often these values are extremely outdated.
- Tax should be imposed on assets at 1% of total asset value exceed a certain level of asset range.
- To avoid tax collector corruptions tax payment certificates be issued to taxpayers by an independent audit body.
- Special courts for tax evasion should be established that deliver verdict within a year's time after filing of the case.
- Awareness of tax payment importance, its payment procedure and its transparency mechanisms should be made widespread.
- It should be ensured that the top management team of FBR should comprise of both honest as well as competent members.
- Online transfer of taxes from all banks should be permitted to ease the payment of taxes.
- Bank cheque guarantee system should be introduced as in many developed countries, banks issue customers cheque books in accordance with their transactions and any cheque issued from that account should be guaranteed by banks so the documenting of the economy becomes easy and switching from cash transactions to bank based transactions becomes easier, with the effect of promoting documentation in the economy, cash transactions should be penalized.
- Devolution of tax collection and expenditure powers to municipal governments, with fixed proportions for provincial and federal levels would promote transparency as well as ease in spotting of tax evaders.
- Monitoring of these municipal tax authorities by multiple authorities would make bribery an expensive option for taxpayers and promote tax payments.

These recommendations cover all the five areas reasons for tax evasion and are likely to significantly reduce the tax evasion problem with effective implementation.

Low Tax to GDP Ratio

Exempted or zero-rated tax sectors: The eminent reason behind the low tax to GDP ratio in Pakistan is the tax exemption given to powerful political figures, capitalists and various industrial sectors. According to Economic Survey (2020-21), the tax-to-GDP ratio (federal taxes) fell to 9.6 percent in 2019-20 against 10.1 percent in 2018-19. During the last five years, overall tax-to-GDP ratio (federal and provincial) remained within a range of 11.4 percent and 12.9 percent. This ratio fell to 11.4 percent in 2019-20, down from 11.7 percent in 2018-19. The economic downturn caused by the COVID-19 pandemic resulted in a further drop in the tax-to-GDP ratio during FY2020.

Structural Flaws in FBR

(a) Incompetent Tax Officers: Work efficiency of the tax officers is a matter of significant importance in reference to the narrow tax base. In FBR, over the course of time, it has been witnessed that many officers were inducted without the relevant background or expertise. "The system through which the non-officers are inducted is highly politicized" and "current training and development practices do not expose the staff to best practices in tax administration". There exists a structural flaw in the working of FBR, where the competent employee has a lesser chance to get promoted and "the inadequate compensation system fails to attract and retain highly qualified professionals".

(b) Lack of Proper Database: Despite the fact that FBR has introduced a mechanized system, there still exists the need to improve the database, so that tax evasions and frauds could be tracked down easily.

Exemption of Agricultural Sector

Agricultural sector contributes nearly 20 percent to Pakistan's GDP, whereas, its contribution to taxes is hardly 2.5 percent. This overdue exemption from tax has adversely affected the economy of Pakistan since long. There is no proper implementation of agricultural income tax, the main reason of which is the on-going political power enjoyed by the feudal lords. "The agro lobby has allegedly prevented the Federal Government from bringing about any change in the Constitution, while also restraining provincial governments from utilizing their authority effectively to impose AIT".

Trade Liberalization

This involves the removal or reduction of the restrictions or barriers on the free exchange of goods between the nations- which includes both; the tariff and non-tariff obstacles. By reduction of these tariffs, not only the local market is affected but it also negatively affects the trade revenues that could be earned. The idea of trade liberalization is viable for countries which have other sources to recover these revenues from. "For low income countries, in contrast, a steady reduction in trade tax revenues over the last twenty years has been accompanied by a reduction in total revenues", and recovery of these revenues from other sources is uncertain, so despite the fact that trade contributes towards the economic growth of a country, trade liberalization beyond a certain limit, decreases the trade taxes which remains a huge barrier in the economic growth of a country.

Trust Deficit- Low tax Filings

The existence of trust deficit among the public is one of the major reasons behind the low tax to GDP ratio. People have a general conception that the state is unable to manage their taxes well, so they are not motivated to give taxes. In nations like Sweden, "public trust is supported by tax procedures and transparency on tax collection, tax invoices can be received even on cell phones" These measures, if taken in Pakistan, can contribute towards increasing the tax base and enhancing the tax to GDP ratio.

Lack of Tax Facilitation Policies

In this context, we could take the example of Sri Lanka, where, "for the facilitation of the tax payers, tax is collected in five installments, while in Pakistan, under the law, tax payers have to pay the tax in lump sum". Moreover, there are no incentives associated with taxes in Pakistan, unlike Sri Lanka, "where there is noticeable provision of incentives in the form of discounts and privilege cards". This could be an eminent initiative to increase the tax to GDP ratio.

Flawed Taxation Policy and Lack of Enforcement Mechanism

In Pakistan, rich are exempted from the tax net due to which "government is constrained to pounce upon the poor with regressive taxes- sales tax and presumptive taxes under the income tax code. Whereas, the "countries with high tax to GDP ratio, follow a policy with focus on progressive taxes" To increase the tax to GDP ratio, the government should focus on progressive taxes, which would also deal with the problem of income inequality.

In Pakistan, the mechanism of tax enforcement is flawed, which gives exemption to ruling class, creating economic and social disparity among the citizens. Considering the example of India, the foremost thing which they did while reforming taxation system was to ensure the strong enforcement of taxes and make sure that nobody is exempted from the tax net. In Pakistan, irrespective of the fact that there are policies related to the tax system, the major issue remains the enforcement of these policies.

Recommendations

- Improvement in tax administrative structure – qualified and competent tax officers
- Transparency in recruitment process
- Simplification of tax filing processes.
- Education of tax payers.
- GST to VAT transition
- Expansion of e-taxation system to replace manual tax systems– Increases efficiency
- Removal of Trust Deficit-Confidence building measures to encourage taxation (targeting the health and education sector to build confidence among people that their taxes are not being wasted, rather spent on development projects)
- Improving governance.
- Autonomy of Tax administration
- Advance training program for tax officials

Tax Exemptions and the SRO regime Introduction

Studying Pakistan's economic activity from the dynamic of the rising revenues of major businesses in Pakistan we can conclude that Pakistan's economic outlook is at the very least good. The revenues of almost all the major companies have been rising and many of the companies have been posting revenues exceeding 1 billion USD.

The Industrial Production in Pakistan has also cast an overall upward glance, augmenting the fact that the economy is experiencing an overall upward trend.

The household consumption has also been looking up in the last four years with consumer's confidence in the economy strengthening.

Background of the Problem

Despite all these positive outlooks the position of Pakistan's fiscal development has more or less been stagnant or worsened. The government agencies seem to have lost any interest in the documentation of this increasingly large economy. The Pakistan Economic Survey of each year starts with an optimistic vision of the future and reviews the situation after the situation to be gloomy. The collected tax as a percentage of GDP has been decreasing which indicates that our agencies have not been able to keep track of the increased activities.

The decreased potency of the enforcement agencies is not the only factor that explains the dip in the fiscal development performance. Another aspect has been the increasing tax exemptions in the face of difficult fiscal situation.

Recommendations – Discussion and Implementation

Based on the identification of the issue and discussion of the problem, following are the recommendations, which are proposed by this report. It should be noted that where appropriate, implementation strategies are also discussed along with suggestions for improvements.

Structural Changes in the Tax System

The non-active taxpayers need to be scrutinized stringently. The government should not only limit their bank accounts but should also focus on the overall portfolio i.e. assets, business activities, registered and non-registered accounts et cetera. The principle of tax at source should be applied to all the industries, which will generate appropriate sales tax revenue. Utilities should have a strict team, which should ensure that despite of proper collection full amount of total tax collected should reach the authorities.

Incentives for the Tax Payers

Majority of the non-tax payers are of the opinion that what they will get in return. Of course the government cannot give monetary benefits for every single tax amount received however, there can be certain schemes introduced which can act as fruitful for the tax payers e.g. free membership of respective chambers of commerce and industry, free access to airport business lounges across the country, full refund of one international business expo trip per single person per financial year, interest free loan for first five years on new projects and et cetera.

Improvising the Tax Exemption Parameters

Major loss of the tax revenue is incurred due to the inadequately structured tax exemption parameters. The officials need to form much tighter parameters for those individuals with heavy bank accounts but do not hold an NTN. While those who hold a registered NTN but are not paying tax, should be made to make tax payments for the missing years and asked to follow a regular tax payment schedule. The senior citizens should be exempted from tax on their savings in fact the rate charged to the regular citizens and especially those involved in business activity should be increased.

Improvements in the SRO Regime

Based on the pressure through the external aid providers e.g. IMF and World Bank, the government needs to make major structural changes in the SRO regime in the form of diminishing the rate of tax rebates. Checks should be placed on the export activity of individual companies based on the total revenue collected through them over the years; they should be given leverage only if they fulfill the criteria of successively paying a high tax amount.

Institutional Changes in FBR

The strength of an institution is the backbone of successful operations. FBR needs to create high profile requirements for the officers designated at crucial positions. The policy makers need to have an international perspective of LDCs and should be trained locally or internationally in order to properly equip them with appropriate measures which are in fact the need of the hour with respect to Pakistan's economy.

OBJECTIVES OF REFORM

(a) Overall increase in the revenue collection and contribute to the achievement of fiscal targets;
(b) Increase in tax to GDP ratio;
(c) Collection of optimum tax revenues;
(d) Broadening of the tax base;
(e) Strengthening audit and enforcement procedures;
(f) Guarantee fairer and more equitable application of tax laws;
(g) Increase in transparency and integrity;
(h) Improve effectiveness, responsiveness and efficiency;
(i) Facilitate & promote voluntary compliance with tax laws;
(j) Provide transparent and high quality tax services

OUTCOMES OF REFORMS

(a) Gaining Stakeholders' Respect
(b) Substantial reduction of corruption - Transparency International Report
(c) On Tax Facilitation 's Ranking improved to 32 in 133 countries (recent report)
(d) Improved performance - Revenue targets not only achieved but surpassed
(e) Increase in Tax to GDP ration by 0.3 % each year from 2004-05 as against agreed KPI's of 0.2 %
(f) Creating business friendly environment
(g) Introducing professionalism, integrity, teamwork, courtesy, responsiveness, transparency and fairness
(h) Facilitating and providing service to the taxpayers
(i) Reducing the cost of doing business
(j) Adversarial relations turned to mutual trust and confidence.

ARTICLE ON REFORMS

Pakistan continues to face deep fiscal crisis which cannot be resolved easily. Taxes are insufficient to meet Pakistan's debt servicing and defense needs. The tax-to-GDP ratio does not enable Pakistan to counter inflation or improve governance, deliver quality public services or improve human resource to reach a take-off stage for economic development. To address these issues, GoP initiated a Tax Administration Reforms Program (TARP) in FBR in the year 2005 to achieve objectives to include overall increase in the revenue collection for achieving fiscal targets; increase in tax to GDP ratio through broadening of the tax base; strengthening audit and enforcement procedures through professional capacity building of FBR officials; ensuring more equitable & transparent application of tax laws through provision of high quality tax services. By completing TARP in 2011 FBR has substantially achieved the desired objectives despite various obstacles in the existing operational

environment. The successful completion of TARP rests upon Government's firm resolve to reform FBR's Tax Administration

In June, 2000 when GoP appointed a Task Force on Reforming the Tax Administration. This Task Force presented its report in May, 2001 which was shared with stakeholders to include trade bodies, accounting institutes, tax bar associations and donor agencies for framing an implementation strategy in the light of viable recommendations from the concerned stakeholders.

Subsequently, on the request from the GoP for input on FBR's reform effort, an IMF Mission visited Pakistan in August, 2001 which carried out in-depth discussions with various stakeholders including Ministry of Finance, Establishment Division, Federal Public Service Commission and trade bodies. The Mission presented its draft report in August, 2001 which was condensed with other similar studies to extend recommendations for a tax system having simpler laws and efficient procedures for promoting self-assessment, reducing physical controls and creating reliance on audit & risk assessment.

Consequent to these reports and discussions with various opinion makers FBR prepared a tax reform strategy, which was approved by GoP in November, 2001. The reform strategy had three main planks (a) policy reforms, (b) administrative reforms and (c) organizational reforms. *Policy reforms* included simple laws, universal self-assessment, elimination of exemptions, less dependence on withholding taxes, effective dispute resolution mechanism. *Administrative reforms* aimed at (I) transforming income tax organization on functional lines (ii) re-engineering of manual processes of all taxes with the aim to reduce face to face contact between taxpayers and tax collectors, increasing effectiveness of FBR and improve skills and integrity of the workforce and facilitation of taxpayers. Organizational reforms also included re-organization of FBR on functional lines, reduction in number of tiers and reduction in workforce.

With a view to supplement the level of skills in FBR for meeting the above said objectives, the Government in March-April, 2002 appointed professional Members from private sector for (i) Human Resource Management (HRM), (ii) Information Management System (IMS). (iii) Audit, (iv) Facilitation and Taxpayers Education (FATE) and (v) Fiscal Research & Statistics (FR&S). FBR prepared new recruitment policy (with greater emphasis on skills that match FBR needs), incentive & merit based remuneration, promotion mechanism and extensive training.

In 2002, FBR received a Project Preparation Facility (PPF) of US $ 2.9 million from World Bank which was used for hiring of international consultants, namely M/s Maxwell Stamp PLC, UK, and establishing Large Taxpayer Unit & Model Sales Tax House at Karachi and a Medium Taxpayer Unit at Lahore. M/s. Maxwell Stamp prepared a Comprehensive Medium and Long term Tax Reform Strategy including an implementation time-table defining the precise reform steps and their time frame.

To bridge the financial gap between the PPF and the funding for main phase of Tax Administration Reform an amount of US $ 6 million was also allocated out of World Bank funded "Public Sector Capacity Building Project" which was later utilized for completion of Pilot Projects i.e. Large Taxpayers Unit at Lahore, 5-Medium Taxpayers Units at Karachi, Peshawar, Rawalpindi, Quetta and Faisalabad and a Dispute Resolution Complex (DRC) & Model Customs Collectorate at Karachi, capacity-building & training of FBR's employees, Taxpayers Education Programs, introduction of Universal Self Assessment Scheme (USAS) and holding of Change Management Workshops. Part of this funding was also utilized for appointment of M/s. NESPak Pakistan as Consultants for preparation of design layouts, procurement support and supervision of works at sites for LTU Lahore, 5 MTUs at Karachi, Quetta, Peshawar, Rawalpindi & Faisalabad, DRC and Care Pilot Project Karachi.

To achieve Reforms objectives, FBR established Large Taxpayer units (LTUs) and Regional Tax Offices (RTOs) to test the re-organized structure of income tax & Sales Tax and various Taxpayers Education and Facilitation Centres to improve voluntary compliance. Customs processes were also re-engineered by initiating Customs Administration Reform (CARE) which aimed at minimizing the clearance time of goods and reducing the cost of doing business. Re-engineered business processes were automated for e-filing of income Tax returns and Goods Declarations followed by establishment of an FBR website for information dissemination and a helpline for taxpayers.

Executive Committee of the National Economic Council (ECNEC) in its meeting held on 25.02.2005 approved the main phase of TARP with a capital cost of Rs. 9,501 million. Completion period of this main phase of TARP was five years starting from 01.01.2005. During the World Bank Mid-Term Review Mission in August-September 2007, the Bank reviewed the implementation progress of this project in detail and on the basis of slow utilization of funds mainly due to problems in development of Information Technology Systems during first two and half years, recommended restructuring of TARP budget for remaining life of the project on the basis of anticipated expenditures. Accordingly, a detailed exercise was undertaken on the basis of which a revised PC-I with reduced capital cost of Rs. 6,473 millions was prepared and submitted to the competent forum i.e. CDWP/ECNEC. Revised PC-I was approved by the CDWP on 30.04.2009 and ECNEC on 20.08.2009.

TARP has so far gained Stakeholders respect through improved performance and creating business friendly environment. Imbuing professionalism, integrity & responsiveness, and introduction of transparent ssimplified procedures have reduced the cost of doing business. Moving towards optimum use of automation and IT, professional training and better working conditions have further infused confidence among tax collectors who intend to strive hard for increased taxpayers facilitation in the areas of Income Tax and Customs.

TARP has been closed by 31.12.2011 at a cost of Rs. 5,528 million against revised project cost of Rs. 6,472.817 million. All the physical progress has been achieved. i.e. (a) establishment of 57 RTOs, MCCs, TFCs & Transit accommodations, (b) four soft wares i.e., Integrated Tax Management System (ITMS), Human resource Information System (HRIS), SAP Materials Management (MM) & Financial (FI) Modules, & Data Warehouse software have been completed and are functional (c) 11,445 machinery & equipment as per PC-I target were procured and distributed. Tax revenue of Rs. 1,558 billion has been collected during 2010-11 against PC-I set target of Rs. 1,350 billion. TARP PMU, during this process, through professional training and hands-on exposure, has gained sufficient professional capability to utilize the same for achieving any future project development objectives in terms of project planning, procurement of works, Goods and services and subsequent monitoring & evaluation.

COMPONENT OF REFORMS

Management and Institutional Development

- Organizational Design
- Human Resource Management
- Training
- Improving Professional Ethics
- Internal Audit Function

- Internal Affairs and Vigilance Function
- Managing Organizational Change

Improving Revenue Operations

- Direct Taxes
- Sales Tax
- Customs

Strengthening Revenue Services

- Establishing Audit Function
- Establishing Collection & Enforcement Function
- Establishing National Intelligence and Risk management Function
- Establishing Custom and Tax Fraud Function

Tax Compliance Culture

- Establishing Taxpayers Identification, Registration, Return Processing and Accounts Function
- Establishing Facilitation and Tax Education Function
- Impact Evaluation, Quality Assurance and Monitoring

Adopting Responsive IT Systems

- HQ Information Systems
- Direct Tax Information System
- Sales Tax Information System
- Customs Information system

FBR registers historic growth again in Federal Board of Revenue (FBR) has released the provisional revenue collection figures for the first ten months of current fiscal year. According to the provisional information, FBR has collected net revenue of Rs.3780 billion during Jul-April period, which has exceeded the target of Rs.3637 billion by more than Rs.143 billion. This represents a growth of about 14% over the collection of Rs.3320 billion during the same period last year.

The net collection for the month of April was Rs.384 billion, against a required increase of Rs.242 billion, representing an increase of 57% over Rs.240 billion collected in April 2020 and 159% of the target. The year-on-year growth of 57% is unprecedented particularly as it is realized on the heel of 46% in March. These figures would further improve before the close of the day and after book adjustments have been taken into account.

On the other hand, the gross collections increased from Rs. 3438 billion during this period last year to Rs.3976 billion, showing an increase of 16 %. The amount of refunds disbursed was Rs.195 billion compared to Rs.118 billion paid last year, showing an increase of 65%. This is reflective of FBR's resolve to fast-track refunds to prevent liquidity shortages in the industry.

The improved revenue performance is a reflection of growing economic activities in the country despite facing the challenge of third wave of COVID-19. However, in the closing days of the Aprii, revenue collection slowed down considerably as measures to fight COVID were put in place.

Collections in May and June would be affected in case fighting pandemic reduces the space for economic activities.

Meanwhile, FBR's efforts to broaden the tax base are expending apace. Early signs suggest such efforts are bearing fruits. As on 1-5-2021, income tax returns for tax year 2020 have reached 2.9 million compared to 2.6 million in tax year 2019, showing an increase of 12%. The tax deposited with returns was Rs.50.6 billion compared to only Rs.33.1 billion, showing an increase of 53%.

FBR has also released the information about Tier-I retailers who have been integrated with Point of Sales system. According to the information, 10,583 sales points have been integrated with POS Sales Linked Invoicing System.

Pakistan Customs has collected Rs. 606 billion under the head of customs duty in first ten months of FY 2020-21 against the assigned target of Rs. 507 billion and exceeded its target by Rs. 99 billion which is 20% more than the assigned target. Whereas during the month of April, 2021 an amount of Rs. 65 billion has been collected under the head of customs duty against the monthly target of Rs. 59 billion which is again 10% more than the assigned monthly target. It is quite important to mention that an amount of Rs. 88 billion was collected more under the head of customs duty in first 10 months of current financial year as compared to FY 2019-20, despite the re-arrival of COVID-19 pandemic and has shown a growth of 17% as compared to previous financial year, which is quite remarkable.

During April 2021 smuggled goods worth Rs. 4.54 billion have been seized so far, while in April 2020 smuggled goods worth Rs. 3.43 billion were seized, thus showing a monthly increase of 32 %. Similarly, during last 10 months (July 2020- April 2021) of current financial year smuggled goods worth Rs. 48.55 billion have been seized as compared to Rs. 31 billion in Jul 2019-April 2020 of the last financial year thus showing an increase of 56 %.

MULTIPLE CHOICE QUESTIONS (MCQS)

Note: Answers are Bold and Underlined.

1. Which of the following taxes can be supported by the benefits principle of taxation?

(a) **<u>All these answers can be supported by the benefits principle of taxation</u>**
(b) Progressive income taxes used to pay for national defense
(c) Petrol taxes used to pay for roads
(d) property taxes used to pay for policies and the court system

2. A tax system is regarded as horizontally equitable if?

(a) All taxpayers pay the same amount of tax
(b) Taxes on all goods are levied at the same rate
(c) Taxes are as low as possible
(d) The system comprises only lump sum taxes
(e) **<u>Taxpayers with similar abilities to pay taxes pay the same amount</u>**

3. The appropriate tax rate to consider gauging how much the tax system distorts incentives and decision making is the ?

(a) Proportional tax rate
(b) Average tax rate
(c) **<u>Marginal tax rate</u>**
(d) Vertical tax rate
(e) Horizontal tax rate

4. The ability-to-pay principle of taxation suggests that if a tax system is to be vertically equitable it should be?

(a) Efficient
(b) **<u>Progressive</u>**
(c) Regressive
(d) Proportional

5. The average tax rate is ?

(a) **<u>Total Taxes paid divided by total income</u>**
(b) The extra taxes paid on an additional dollar or income.
(c) The taxes paid by the marginal worker
(d) Total income divided by total taxes paid

6. The marginal tax rate is ?

(a) The taxes paid by the marginal worker
(b) Total income divided by total taxes paid
(c) **<u>The extra taxes paid on an additional unit of income</u>**
(d) Total taxes paid divided by total income

7. A tax for which high income taxpayers pay a smaller fraction of their income than do low income taxpayers is known as ?

(a) A proportional tax
(b) **<u>A regressive tax</u>**
(c) An equitable tax
(d) A progressive tax

8. If the Pakistani government runs a budget surplus there is?

(a) **<u>An excess of government receipts over government spending.</u>**
(b) An equality of government spending and receipts.
(c) A surplus of government workers.
(d) An excess of government spending over government receipts.

9. The reduction of tax ?

(a) Will have no impact on tax revenue.
(b) Will always reduce tax revenue regardless of the prior size of the tax
(c) **<u>Could increase tax revenue if the tax had been extremely high</u>**
(d) Causes a market to become less efficient

10. The graph that shows the relationship between the size of a tax and the tax revenue collected by the government is known as a?

(a) None of these answers
(b) Reagan curve
(c) Keynesian curve
(d) **<u>Laffer curve</u>**
(e) Henry George curve.

11. **Which of the following is true with regard to a tax on labor income? Taxes on labor income tend to encourage ?**
(a) The unscrupulous to enter the underground economy
(b) The elderly to retire early.
(c) All the things described in these answers.
(d) Second earners to stay home.
(e) Workers to work fewer hours

12. **Deadweight loss is greatest when ?**
(a) Supply is elastic, and demand is perfectly inelastic
(b) Demand is elastic, and demand is perfectly inelastic
(c) Both supply and demand are relatively inelastic
(d) Both supply and demand are relatively elastic

13. **Which of the following would likely cause the greatest deadweight loss?**
(a) A tax on salt
(b) A tax on cigarettes
(c) A tax on petrol
(d) A tax on cruise line tickets

14. **A progressive tax system is one where ?**
(a) Marginal tax rates are high.
(b) Higher income taxpayers pay more taxes than do lower income taxpayers.
(c) Marginal tax rates are low.
(d) Higher income taxpayers pay a greater percentage of their income in taxes than lower income taxpayers.

15. **The appropriate tax rate to consider judging the vertical equity of a tax system is the?**
(a) Marginal tax rate
(b) Average tax rate
(c) Horizontal tax rate
(d) Proportional tax rate

16. **An efficient tax ?**
(a) Minimizes the administrative burden form the tax
(b) Does all the things describe in these answers
(c) Raises revenue at the smallest possible cost to taxpayers.
(d) Minimize the deadweight loss from the tax.

17. **Sana values a pair of blue jeans at Rs400. If the price is Rs350 Sana buys the jeans and generates consumer surplus of Rs50 Suppose a tax is placed on blue jeans that causes the price of blue jeans to rise to Rs450 Now sana chooses not to buy a pair of?**
(a) The deadweight has demonstrated
(b) the ability-to-pay principle
(c) The benefits principle
(d) horizontal equity

18. **When a tax distorts incentives to buyers and sellers so that fewer goods are produced and sold than otherwise the tax has ?**
(a) Caused a deadweight loss
(b) Decreased equity
(c) Generated no tax revenue
(d) Increased efficiency

19. **If a tax on a good is doubled the deadweight loss from the tax ?**
(a) Doubles
(b) Stays the same
(c) Increase by a factor of four
(d) Could rise or fall

20. **When a tax on a good start small and is gradually increased tax revenue ?**
(a) Will fall
(b) Will rise
(c) Will first rise and then fall
(d) Will first fall and then rise

21. **Since the supply of undeveloped land is relatively inelastic a tax on undeveloped land would generate ?**
(a) A small deadweight loss and the burden of the tax would fall on the renter
(b) A large deadweight loss and the burden of the tax would fall on the landlora
(c) A large deadweight loss and the burden of the tax would fall on the renter.
(d) A small deadweight loss and the burden of the tax would fall on the landlord

22. **A tax on petrol is likely to ?**
(a) Generate a deadweight loss that is unaffected by the time period over which it is measured
(b) Cause a greater deadweight loss in the long run when compared to the short run
(c) None of these answers
(d) Cause a greater deadweight loss in the short run when compared to the long run.

SALES TAX ACT 1990
AS AMENDED UP TO 2021

SALES TAX ACT 1990

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IMPORTANT DEFINITIONS

"arrears", in relation to a person, means, on any day, the sales tax due and payable by the person under this Act before that day but which has not yet been paid.

"Associates" means where two persons associate and the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person;

"banking company" means a banking company as defined in the Banking Companies Ordinance, 1962 (LVII of 1962) and includes any body corporate which transacts the business of banking in Pakistan.

"Board" means the Federal Board of Revenue established under section 3 of the Federal Board of Revenue Act, 2007.

"Chief Commissioner" means a person appointed as the chief Commissioner Inland Revenue under section 30.

"Commissioner" means the Commissioner of Inland Revenue appointed under section 30.

"computerized system". means any comprehensive information technology system to be used by the Board or any other office as may be notified by the Board, for carrying out the purposes of this Act.

"cottage industry". means a manufacturer whose annual turnover from taxable supplies made in any tax period during the last twelve months ending any tax period does not exceed five million rupees or whose annual utility (electricity, gas and telephone) bills during the last twelve months ending any tax period do not exceed hundred thousand rupees.

"CREST" means the computerized program for analyzing and cross matching of sales tax returns, also referred to as Computerised Risk-Based Evaluation of Sales Tax.

"Manufacture" or 'produce' includes –

(a) any process in which an article singly or in combination with other articles, materials, components, is either converted into another distinct article or product or is so changed, transformed or reshaped that it becomes capable of being put to use differently or distinctly and includes any process incidental or ancillary to the completion of a manufactured product;

(b) process of printing, publishing, lithography and engraving; and

(c) process and operations of assembling, mixing, cutting, diluting, bottling, packaging, repacking or preparation of goods in any other manner.

Change in the rate of tax

Change in the rate of tax.– If there is a change in the rate of tax-

(a) taxable supply made by a registered person shall be charged to tax at such rate as is in force at the time of supply;

(b) imported goods shall be charged to"tax at such rate as" is in force,-

(i) in case the goods are entered for home consumption, on the date on a [goods declaration] is presented under section 79 of the Customs Act, 1969 (IV of 1969);

(ii) in case the goods are cleared from warehouse, on the date on which a [goods declaration] for clearance of such goods is presented under section 104 of the Customs Act, 1969 (IV of 1969);

Provided that where a [goods declaration] is presented in advance of the arrival of the conveyance by which the goods are imported, the tax shall be charged as is in force on the date on which the manifest of the conveyance is delivered:

Provided further that if the tax is not paid within seven days of the of the [goods declaration] [under section 104 of the Customs Act,] the tax shall be charged at the rate as is in force on the date on which tax is actually paid.

Offences and Penalties

Offences	Penalties	Section of the Act to which offence has reference
(1)	(2)	(3)
Notification issued under any of the provisions of this Act		
18. Where any officer of [Inland Revenue] authorized to act under this Act, acts or omits or attempts to act or omit in a manner causing loss to the sales tax revenue or otherwise abets or connives in any such act	Such officer of [Inland Revenue] shall be liable, upon conviction by a Special Judge, to imprisonment for a term which may extend to three years, or with fine which may extend to amount equal to the amount of tax involved, or with both.	General
19. Any person who contravenes any of the provision of this Act [or the rules made thereunder] for which no penalty has, specifically, been provided in this section 5	Such person shall pay a penalty of five thousand rupees or three per cent of the amount of tax involved, whichever is higher.]	General.]
[21. Where any person repeats an offence for which a penalty is provided under this Act	Such person shall pay twice the amount of penalty provided under the Act for the said offence	General.
22. Any person who,- (a) knowingly and without lawful authority gains access to or attempts to gain access to the computerized system; or (b) unauthorizedly uses or discloses or publishes or otherwise disseminates information obtained from the computerized system; or (c) falsifies any record or information stored in the computerized system; or (d) knowingly or dishonestly damages or impairs the computerized system; or (e) knowingly or dishonestly damages or impairs any duplicate tape or disc or other medium on which any information obtained from the computerized system is kept or stored; or (f) unauthorizedly uses unique user identifier of any other registered user to authenticate a transmission of information to the computerized system; or (g) fails to comply with or contravenes any of the conditions prescribed for security of unique user identifier.	Such person shall pay a penalty of twenty-five thousand rupees or one hundred per cent of the amount of tax involved, whichever is higher. He shall, further be liable, upon conviction by the Special Judge, to imprisonment for a term which may extend to one year, or with fine which may extend to an amount equal to the loss of tax involved, or with both.	50A.]
[23. Any person who manufactures, possesses, transports, distributes, stores or sells cigarette packs with counterfeited tax stamps, banderoles, stickers, labels or barcodes or without tax stamps, banderoles, stickers, labels or barcodes	(i) Such cigarette stock shall be liable to outright confiscation and destruction. Any person committing the offence shall pay a penalty of twenty-five thousand rupees or one hundred per cent of the amount of tax involved, whichever is higher. He shall, further be liable, upon conviction by a Special Judge, to simple imprisonment for a term which may extend to three years, or with additional fine which may extend to an amount equal to the loss of tax involved, or with both. (ii) In case of transport of cigarettes with counterfeited tax stamps, banderoles, stickers, labels or barcodes, or without tax tamps, banderoles, stickers, labels or barcodes, permanent seizure of the vehicle used for transportation of on-conforming or counterfeit cigarette packs;	40C(2)]

	and (iii) In case of repeat sale of cigarettes without or with counterfeited, tax stamps, banderoles, stickers, labels or barcodes, the premises used for such sale be sealed for a period not exceeding fifteen days.	
["24. Any person, who is integrated for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, conducts such transactions in a manner so as to avoid monitoring, tracking, reporting or recording of such transactions, or issues an invoice which does not carry the prescribed invoice number or barcode or bears duplicate invoice number or counterfeit barcode, or any person who abets commissioning of such offence.	Such person shall pay a penalty of five hundred thousand rupees or two hundred per cent of the amount of tax involved, whichever is higher. He shall, further be liable, upon conviction by a Special Judge, to simple imprisonment for a term which may extend to two years, or with additional fine which may extend to two million rupees, or with both. Any person who abets commissioning of such offence, shall be liable, upon conviction by a Special Judge, to simple imprisonment for a term which may extend to one year, or with additional fine which may extend to two hundred thousand rupees, or with both.	sub-section (9A) of section 3 and section 40C.
25. Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under the Act, and if registered, fails to integrate in the manner as required under law.	Such person shall be liable to pay a penalty up to one million rupees, and if continues to commit the same offence after a period of [two] months after imposition of penalty as aforesaid, his business premises shall be sealed [till such time he integrates his business in the manner as stipulated under subsection (9A) of section 3 or section 40C, as the case may be.]	40C

26. Any person, being a manufacturer or importer of an item which is subject to tax on the basis of retail price, who fails to print the retail price in the manner as stipulated under the Act.	Such person shall pay a penalty of ten thousand rupees or five percent of the amount of tax involved, whichever is higher: Further, such goods shall also be liable to confiscation. However, the adjudication authority, after such confiscation, may allow redemption of such goods on payment of fine which shall not be less than twenty percent of the total retail price of such goods.	sub-section (27) of section 2 and clause (a) of sub-section (2) of section 3.
27. Any person, being owner of the goods, which are brought to Pakistan in violation of section 40D.	Such person shall pay a penalty of ten thousand rupees or five percent of the amount of tax involved, whichever is higher: Further, such goods shall also be liable to confiscation. However, the adjudication authority, after such confiscation, may allow redemption of such goods on payment of fine which shall not be less than twenty percent of value, or retail price in case of items falling in Third Schedule, of such goods.	section 40D";]
[28. Any person who is required to share information under section 56AB, fails to do so in the manner as required under the law	Such person shall pay a penalty of twenty five thousand rupees for first default and fifty thousand rupees for each subsequent default	56AB]

SALES TAX GLOSSARY

What is Sales Tax

Sales Tax is a tax levied by the Federal Government under the Sales Tax Act, 1990, on sale and supply of goods and services and on the goods imported into Pakistan.

Definitions

Definitions and meanings of commonly used terms.

Adjudication

It is the process leading to a judicial decision by an officer of sales tax vested with power and jurisdiction under section 45 of the Sales Tax Act, 19990, in case of dispute between Sales Tax authorities and the taxpayer regarding matters such as, assessment of tax, charging of additional tax, imposition of penalty, recovery of amount erroneously refunded or any other contravention under the sales tax law or the rules made thereunder.

Authorised Representative

A person authorized by a taxpayer to represent him or appear on his behalf before the Appellate Tribunal or any other adjudicating authority.

Commercial Importer

An importer who imports taxable goods for further supply in same state.

Composite Invoice

An invoice which shows the sale of taxable as well as exempt goods.

Due Tax

It is the amount of net tax payable by a registered person along with the return.

Exempt Supply

Exempt supply means a supply which is exempt from tax under section 13 of The Sales Tax Act 1990.

Goods

Goods include every kind of movable property other than actionable claims, money, stocks, shares and securities.

Invoice

Under section 23 of the Act a registered person making a taxable supply has to issue a serially numbered tax invoice at the time of supply of goods.

Input tax

Input tax is the tax paid by registered person on the taxable goods and services purchased or acquired by him. This includes the sales tax paid on imports.

Input Tax Adjustment

Input tax adjustment is the deduction of input tax from out put tax to arrive at the net amount of sales tax payable by the taxpayer. Since sales tax is a value added tax, it is to be charged at each incremental stage of value addition, otherwise there may occur double taxation. Input tax is adjusted against output tax so as to avoid such double taxation and to calculate the correct amount of tax due to the government.

Output tax

It is the sales tax charged and levied on the sale or supply of goods or services on which sales tax is leviable.

Services

Sales tax is also leviable on rendering of certain services such as hotels, marriage halls, clubs, caterers, advertisements, custom agents, ship chandlers, stevedores, courier services, beauty parlors, beauty clinics and slimming clinics. .

Supply

Supply includes sale or other disposition of goods in furtherance of business carried out for consideration including putting to private, business or non business use of goods acquired, produced or manufactured in the course of business.

Tax Period

Tax period means a period of one month or such other period as the Federal Government in the Official Gazette may specify.

Taxable Goods

Taxable Goods means all goods other than those which have been exempted from sales tax under section 13 of the Sales Tax Act 1990.

Value of Supply

It is the value of goods or services determined to arrive at the amount of tax due.

Value of Imported Goods

Value for the purpose of sales tax on imported goods means the value determined under section 25 or section 25-B of the Customs Ac 1969, including the amount of customs duties and central excise duty levied thereon.

Zero –Rated Supply

Zero rated supply means a taxable supply which is charged to tax at the rate of zero percent. It is different from exempt supply in the sense that in case of exemption no sales tax is leviable whereas zero rated goods are chargeable to sales tax but at the rate of zero percent. Added benefit of zero-rated supplies is that input adjustment/refund of sales tax paid on inputs is admissible.

SCOPE OF THE TAX

Sales tax applies to the following:

Goods

All goods are taxable except those that have been exempted under section 13 of the Sales Tax Act, 1990. For sales tax purposes goods include every kind of movable property other than actionable claims, money, stocks, shares and securities.

Services

The following services have been brought under the sales tax regime through respective Provincial Ordinances and Islamabad Capital Territory Ordinance. Any person providing or rendering the following services should register with the sales tax department and pay sales tax.

- Services provided or rendered by hotels, marriage halls, lawns, clubs and caterers.
- Advertisements on Television and Radio excluding advertisements;
  - sponsored by a Government Agency for health education;
  - public service messages if telecast on television by World Wildlife Funds for Nature or UNICEF.
- Services provided or rendered by persons authorized to transact business on behalf of others;
  - custom agents;
  - ship chandlers;
  - stevedores.
- Courier Services

Beside these services there are three excisable services on which Federal Excise duty is collected in the sales tax mode. These are:

- Telecommunication services;
- Travel by air or rail (A/C, 1st class only); and
- Carriage of goods by air

Imports into Pakistan

All goods imported into Pakistan are liable to sales tax at the time of import, except goods specifically exempted under section 13 as mentioned in Sixth Schedule to the Act.

Exempt Goods

Under section 13 of The Sales Tax Act 1990, the Sixth Schedule of the Sales Tax Act, 1990 specifically and explicitly mentions those goods on which exemption of sales tax is available. Other exemptions are available in various notifications (SROs) issued by the Government under section 13. A complete list of such goods can be obtained from local Sales Tax Office or sales tax official web site , www.cbr.gov .pk.

Registration

Who is to be registered?

a. All importers

b. All wholesalers (including dealers) and distributors

c. Manufacturers not falling in cottage industry. {Cottage industry is defined as having annual turnover below Rs.5 million and whose annual utility bill (including electricity , gas and telephone) does not exceed rupees six hundred thousand}.

d. A retailer whose cumulative electricity bill during the immediately preceding twelve consecutive months exceeds Rupees [twelve] hundred thousand

e. A person required under any Provincial or Federal Law to be registered for purpose of any duty or tax collected or paid as if it were a levy of sales tax, e.g. service providers like hotels, clubs, caterers, customs agents, ship chandlers, stevedores, courier services etc.

f. Persons making zero-rated supplies, including commercial exporter who intends to obtain sales tax refund against his zero rated supplies.

g. A person who is required to be registered by virtue of aforesaid criteria but still avoids registration, can be compulsorily registered by the department, after proper enquiry, under sub-rule 1 of Rule 6 of Sales Tax Rules, 2006.

Procedure of Registration

1. The application may be submitted electronically on Form STR-1 as well as either through post or courier services to Central Registration Office (CRO). Application can also be sent to Local Registration Office (LRO) in the form of hard copy. The LRO after proper scrutiny of documents and necessary editing of the application and particulars, electronically forwards the application to CRO.
2. All the columns of the Forms have to be duly filled in as per instructions given with the Form.
3. After verification, the Central Registration Office will issue a Registration Certificate bearing registration number and mail the same to the Registered Person, on a prescribed Form (STR-5)

Office (CRO) normally verifies the contents from the data available with it, but has an authority to get an enquiry conducted through Local Registration Office, to verify contents of declaration by a person. The CRO may reject the application within fifteen days from the date, the complete application is received in CRO, under intimation to the applicant, specifying the reasons for such rejection.

Where a person is to be registered?

1. A corporate person (listed/ unlisted public company, private limited company) has to be registered under the Collectorate where the registered office of the business is located.
2. A non-corporate person is to be registered under the collectorate, where the business is actually carried on.
3. In case of non-corporate person having single manufacturing unit and the same is located in a different place than the business premises, in the Collectorate having jurisdiction over the manufacturing unit. A corporate person has the option of transferring his registration to the place of business.

Information to be furnished for registration

i. Complete business name

ii. . Business nature, main / activity or service;

iii. Complete address of Head Office and all business units, godowns, outlets mentioning, phone, fax, e - mail, electricity, gas consumer no. etc.

iv. All Bank account numbers, with name and address.

v. NTN (National Tax Number)

vi. NIC (National Identity Card Number) of the owner, partners or directors of the business (passport number in case of foreigner).

vii. In case of a company, registration number and date of incorporation.

viii. Every director / member of AOP has to fill in STR – 1 (A) Form.

ix. Date of commencement of business and initial capital employed.

x. The mode of maintenances of business records should also be mentioned.

Change in particulars of Registration

In case there is a change in the name address, or other particulars as stated in the registration certificate, the registered person shall notify the change in the prescribed form STR-2 to the CRO within fourteen days of such change. The change in the business category shall be allowed after LRO has verified the manufacturing facility and confirmed the status as industrial consumer of the electricity and gas distribution companies.

Transfer of Registration

In case a registered person intends to shift his business activity from the jurisdiction of one collectorate, to another collectorate, or as the case may be to an RTO or LTU, or he has any other valid reason for such transfer, he shall apply to the CRO for transfer of his registration, along with form STR-2. The CRO may subject to such conditions, limitations or restrictions as it may deem fit to impose, by an order, transfer the registration of a registered person from the jurisdiction of one collectorate , to another collectorate , or as the case may be to the LTU or RTO. The return for the tax period in which the registration is transferred shall be filed in the collectorate from where the registration is transferred.

Revised Registration Certificate.

In case of multiple registrations, the registered person shall apply on Form STR-1 for single registration to the CRO which after ascertaining tax liabilities from concerned Collectorate shall issue revised registration certificate in which previous registration number shall be merged.

Deregistration

A registered person can be deregistered

- who ceases to carry on the business, or
- whose supplies become exempt from sales tax, or
- whose turnover becomes less than the threshold level

can apply for cancellation of the registration.

Filing of Sales Tax Returns

A Sales Tax return is the taxpayer's document of declaration through which taxpayer not only furnishes the details of transactions during a tax period but also deposits his Sales Tax liability. On the return form, the taxpayer declares for a particular tax period and respective input tax and output tax, at prescribed rate of Sale Tax. In case input tax exceeds output tax, the amount of refund claimed or excess input tax is also declared in the return. For different categories of taxpayers, monthly, quarterly or annual returns may be filed on prescribed format as follows:

Monthly Return

Under the standard procedure a registered person is required to file monthly return by the 15th day of the month following the period in which the supplies were made, in the designated branches of National Bank of Pakistan. In case of certain categories as mentioned below procedure has been devised to file return on monthly and quarterly basis.

Quarterly Return

The taxpayers falling exclusively in the category of commercial importer, i.e the importer who imports taxable goods for business activity other than industrial use of such goods or manufacturing by himself, is required to file the return on quarterly basis.

Annual Return

A private or public, Ltd Company is to file annual Sales Tax return, for a financial year by the 30th September of the following financial year.

Electronic Filing

Facility of Electronic filing of Sales Tax return has also been made available to the following categories of registered persons.

(a) the registered persons falling in the jurisdiction of the Large Taxpayers Units, Karachi and, Lahore.

(b) the private and public Ltd companies registered in any Collectorate of Sales Tax.

(c) other taxpayers who may like to opt for electronic filing of sales tax returns.

The procedure for e-filing has been laid down in the Sales Tax General Order No.4/2007.Aregistered person shall obtain a unique identifier and password by visiting FBR's web portal at e.fbr.gov.pk. He can then file the return by selecting declaration "sales tax" from the web portal. The return data shall be filled in a web form and directly transferred to FBR's server.

Zero Rating

Zero rated goods are those goods on which the impact of tax paid is offset by subsequently allowing refund or input adjustment equivalent to the tax already paid. Zero rating is different from exemption in the sense that no tax is to be paid on the exempt goods whereas in case of zero rated goods not only that no sales tax is payable on supply but refund or input tax adjustment of tax already paid is allowed.

Following categories of goods fall in the category of zero rated goods:

(a) All exports (except those made by land route to Afghanistan) are zero-rated.

(b) Other zero-rated supplies are mentioned in section 4 and the Fifth Schedule of the Sales Tax Act, 1990, which include supplies to diplomats, privileged persons and privileged organizations, supplies of raw materials to Export Processing Zones, and

(c) Supplies made against international tenders.

A person making both zero-rated supplies and taxable supplies or providing taxable services will charge sales tax only on the taxable supplies /services

Value of Supply

For sales tax purposes, 'value' means the value on which amount of sales tax is calculated. In case of local supply, the value is the amount paid for the goods or services including all the federal and provincial taxes but excluding the amount of sales tax. Normal trade discounts are allowed under sales tax law.

For imported goods the value means the value determined under the Customs Act, 1969 including the amount of customs duty and federal excise duty.

The value of supply of goods as listed in the Third Schedule of the Sales tax Act 1990 is based on the retail price printed on the product. The goods include fruit and vegetable juices, ice cream, aerated water and beverages and cigarettes.

Time of Supply

Sales tax is chargeable at the time of supply of goods or services. The time of supply means the time of delivery of goods by the supplier.

Explanation

(a) Where any goods are supplied by the registered person to an associated person and the goods are not to be removed , the time of supply shall be the time at which the goods are made available to the recipient.

(b) Where the goods are supplied under hire – purchase agreement, the time of supply shall be the time at which the agreement is entered into.

Imported Goods

The time when sales tax is applicable for the imported goods is the time of importation i.e. filing of bill of entry or customs declaration. Sales tax on imported goods is collected in the same manner and at the same time as if it were customs duties on imported goods.

Services

The time of supply for services rendered is the date when the service to be performed is completed.

Sales Tax Invoice

In terms of section 23 of the Sales Tax Act, 1990 a registered person must provide a sales tax invoice for all taxable supplies.

The tax invoice should contain the following information;

- a serial number
- name, address & registration number of the supplier;
- name, address & registration number of the buyer;
- date of issue of invoice;
- description / quantity of goods;
- value, exclusive of tax;
- amount of sales tax; and
- the rate of discount, if offered;
- value inclusive of tax.

Composite Invoice

If more than one type of goods or services such as zero rated, exempt and taxable is included in the invoice, it must show the quantity, the amount payable, the rate of sales tax and the amount of tax for each type.

Electronic Invoicing Between Buyers And Sellers A procedure has been devised for the registered persons who opt for electronic transmission of sales tax invoices. Every registered person who wishes to use electronic invoicing system shall seek prior authorization in writing, from the concerned collector ,before issuing electronic invoices. The registered person shall issue an electronic sale tax invoice for every taxable supply made by him, containing such information as required under section 23 of the Act. The registered person shall retain the record and documents for a period of five years on electronic media,.

A sales tax invoice may be generated and transmitted electronically where the authenticity of the origin and integrity of the invoice data are guaranteed by means of either an advanced electronic signature or electronic data interchange or by any other means approved by the collector. The registered person shall simultaneously transmit a copy of all such electronically issued invoices to the Collector of Sales Tax. Same shall apply to the buyer who receives electronic invoices from the registered supplier.

Debit/Credit Notes

Debit or credit note may be issued to reduce or increase the amount of sales tax payable on a supply if the amount originally charged has changed because of return of goods or for some other valid reason.

Cancellation or return of supply

Where a registered person has made a supply, and such supply or part thereof is cancelled or returned, the buyer or the recipient shall issue a debit note (in duplicate) in respect of such supply or part thereof, indicating the quantity returned or the supply of which has been cancelled, its value determined on the basis of the value of supply, as shown in the tax invoice issued by the supplier and the amount of related sales tax paid thereon. In such a situation, the supplier shall issue a credit note with the following particulars.

i. Name and registration number of supplier
ii. Name and registration number of recipient.
iii. Number and date of original Sales Tax invoice.
iv. The original value and Sales Tax as in original invoice.
v. The revised value and Sales Tax.
vi. The difference of value and Sales Tax adjustable.
vii. The reason for revision of value; and signature and seal of authorized person issuing the note.

Increase in value of supply or amount of sales tax

If for any reason the value of supply or the amount of Sales Tax mentioned in the invoice issued has increased the supplier shall issue a debit note (in duplicate, with the particulars same as above) and vice versa the buyer shall issue a credit note. A debit note must be headed

"Debit Note" otherwise the contents of the debit note are similar to credit note.

Input tax adjustment in respect of supply which has been cancelled

The buyer shall not be entitled to claim input tax in respect of the supply which has been cancelled or returned to the supplier or in respect of which the amount of tax was reduced.

In situations, where input tax has already been claimed by the buyer, the amount of input tax shall be increased or reduced by the corresponding amount as mentioned in the Debit note or Credit note, in the return for the period in which respective note was issued.

Sales Tax Records

A registered person must keep a record in English or Urdu of all the goods and services supplied, purchased or imported in the course of business.

Record of Sales

The record of sales should indicate the following details of goods supplied or services rendered:

- description;
- quantity;
- value;
- name and address of the customer, and
- amount of tax charged.

At the end of each month, a registered person must add up the sales tax shown in these records, and transfer the total to sales tax account as output tax.

Record of Purchases and imports

The record of purchases and imports should indicate the following details of goods purchased or received or services hired:

- description;
- quantity;
- value;
- name, address and registration number of the supplier,
- amount of tax paid on purchases.

Record of Payments/Receipts

All payments or receipts of amount of sales tax on purchases or supplies above Rs. 50,000 (except utility bills) should be made through bank instruments indicating specified bank accounts of both the persons i.e., sellers and purchasers. It is recommended that records/ photocopies of all bank instruments through which payments of sales tax are made or received must be kept along with bank statements for the purpose of compliance of section 73 of the Act and to avoid audit complications.

Other Records

A registered person should also keep record of

- Zero-rated and exempt supplies,
- Record of invoices, credit notes, debit notes, bank statements, inventory records,

- Utility bills, salary and labor bills, rental agreements, sale purchase agreements and lease agreements.

Retention of Record and Documents

A registered person is required to maintain a record and documents for a period of five years after the end of the tax period to which such record and documents relate.

Input Tax and Output Tax

An important feature of the sales tax is the adjustment of input tax paid on purchases and imports, meaning thereby that a registered person has to pay sales tax only on his value addition.

Output tax

It is the total amount of sales tax charged at current rate of sales tax on taxable sales made during the month i.e. total sales excluding exempt and zero-rated supplies.

Input tax

It is the amount paid by the registered person on business purchases and imports. He/she can claim a deduction for the sales tax paid as input tax if used in the manufacture of taxable supplies.

Tax Due

For a particular tax period it will be the output tax minus input tax during that tax period.

Adjustable Input Tax

In a particular tax period, a registered person can adjust input tax paid on goods and services purchased from local market, imported from abroad and goods purchased in auction during that tax period. He/she can also claim input tax paid in the immediate twelve preceding tax periods by mentioning the reasons for not claiming it earlier on the sales tax return.

Extent of Adjustment of Input Tax

In relation to tax period, a registered person shall not be allowed to adjust input tax in excess of ninety percent of the output tax for that tax period. The adjustment or refund of remaining input tax shall be made on yearly basis in the second month following the end of the financial year of the registered person.

Input Tax Adjustment on Fixed Assets

The tax charged on acquisition of fixed assets shall be adjustable against the output tax in twelve equal monthly installments after the start of production of a new unit.

Non-Adjustable Input Tax

Input tax cannot be adjusted on purchases of goods and services that are not used in making of taxable supplies.

Input tax is also not adjustable on the following goods, if acquired other than as stock-in-trade:

- Vehicles falling in chapter 87 of the First Schedule to the Customs Act, 1969.
- Food, beverage, garments, fabrics etc and consumption on entertainment:
- Gifts and give away.

A tax credit cannot be claimed unless the registered person holds a valid tax invoice or bill of entry or treasury challan Form in case of goods purchased in auction.

Input tax credit cannot be claimed also if payment of the amount of sales tax is not made or received through banking channel as prescribed in section 73 of the Act.

Partial Exemption / Apportionment

Under the Sales Tax law, adjustment of input tax paid on raw materials, is admissible only in case of taxable supplies. The law does not allow adjustment of input tax paid on raw materials relating to exempt supplies.

There may be situations, where registered persons make taxable and exempt supplies simultaneously. In such situation following formula has been devised in Chapter iv of Sales Tax Rules 2006:

$$\text{RITC (on taxable supplies)} = \frac{VTS \times RIT}{(VTS + VES)}$$

Where

RITC=Residual input tax credit

VTS= Value of Taxable Supplies

VES= Value of Exempt Supplies

RIT= Residual Input Tax

In the above formula, "residual input tax" means the amount of tax paid on raw materials, components and capital goods having used for making taxable supplies as well as exempt supplies, but does not include the input tax paid on raw materials used wholly for making taxable or exempt supplies.

SALES TAX REFUNDS

- If the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded to the registered person not later than forty five days of filing of refund claim in such manner and subject to such conditions as the board may, by a notification in the official Gazette specify.

Who can claim refund?

Refund of sales tax paid as input tax can be claimed by the following registered persons in the respective situations:

(a) Registered manufacturer-cum-exporters and commercial exporters who zero rate all or part of their supplies under section 4 of the Act;

(b) registered persons who acquire tax paid inputs for use thereof in the manufacture of goods chargeable to sales tax at the rate of zero percent under the Act or a notification issued there-under

(c) Registered persons claiming refund of the excess amount of input tax which could not be consumed within three months;

(d) Registered persons who acquire tax paid inputs used in the export of goods, local supply of which is exempt under the Act or any notification issued there-under.

(e) Refund can also be claimed if an amount of sales tax is paid inadvertently or by mistake. may also be

(f) Refund may also be claimed if an amount is paid on demand of the department, but subsequently the demand is set aside by any competent authority, Tribunal or Court.

Filing of Refund Claim

Monthly sales tax return filed by a claimant shall be treated as a refund claim once all the supportive documents including the requisite data in the format or software has been received. No refund claim shall be entertained if the claimant fails to furnish the claim on the prescribed software alongwith the supportive documents within sixty days of the filing of return.

Required Supportive Documents For Refund Claim.

The refund claimant shall submit to the Refund Division of the concerned Collectorate, RTO or Large Taxpayer unit, as the case may be, the refund claim in computer diskette in the prescribed format or software along-with the following documents, namely:

(a) Input tax invoices or as the case may be, goods declaration for import in respect of which refund is being claimed;

(b) output tax invoices and summary of invoices for local zero rated goods.

(c) goods declaration for export (quadruplicate copy) indicating Mate Receipt number with date or airway bill or railway receipt or postal receipt besides the examination report endorsed on the reverse side thereof by the customs officers; in case of claims by persons other than manufacturer-cum-exporter of goods zero-rated in a notification issued under section 4 of the Act.

Provided that in case of imports or exports processed through PACCS, submission of goods declaration shall not be required and cases shall be processed by cross-matching of the declarations with the data available in the system.

(d) copy of House and Master bill of lading and airway bill or as the case may be, railway receipt in token or verification of the goods taken out of Pakistan; and

(e) statement of the tax paid inputs, in respect of which refund is claimed by the claimants other than the manufacturers of the goods zero-rated for supplies.

(2) In addition to the documents specified above, a commercial exporter shall submit bank credit advice issued by the concerned bank and copy of the duty drawback order, if issued by the customs authorities.

(3) Where the refund claim is filed under section 66 of the Act, the claimant shall submit an application for refund indicating his name, address, registration number, the amount of sales tax refund claimed and reasons for seeking such refund along-with following documents, namely:—

  (a) input tax invoices in respect of which refund is claimed;

  (b) proof of payment of input tax claimed as refund; and

  (c) copy of the relevant order on the basis of which refund is claimed.

(4) The refund claimed under section 66 of the Act shall be sanctioned after verifying that no adjustment or refund of input tax has been claimed earlier and that the goods have been duly accounted for in the inventory records and the invoices claimed are validated by the CREST (Computerised Risk – Based Evaluation of Sales Tax) System.

Refund of Amount Overpaid

If a registered person has over paid sales tax because of error, he/she may request a refund of the over paid amount from the tax authorities within one year after the payment is made or after the decision or order causing the refund is announced from the end of the period for which a claim is made.

Adjudication

In situations which involve contravention on the part of the registered person with respect to assessment of tax, recovery of amount erroneously refunded, charging of default surcharge, imposition of penalty and any other contravention under the Sales Tax Act, the sales tax officers are vested with the powers and jurisdiction to adjudicate such cases after issuing the proper show cause notice and providing opportunity of hearing to the taxpayer.

Requirement of show cause notices for adjudication

When the tax is not levied, short levied or erroneously refunded by reason of some collusion or some deliberate act, the person liable to pay the tax or refund shall be served with a notice within five years of the relevant date, requiring him to show cause for payment of amount specified in the notice.

When the recovery of tax or refund is necessitated due to any inadvertence , error or misconstruction, the person liable to make the payment shall be served with show cause notice within three years of the relevant date. The expression relevant date means the time when the tax was due to be paid , and in case where tax has been erroneously refunded, the date of its refund.

Appeal to the Collector Appeals

An appeal can be field with the Collector (Appeals) against the order-in-original passed by the Additional Collector, Deputy Collector, Assistant Collector and Superintendent.

Limitation of time

An appeal before the collector (Appeals), has to be filed within thirty days of the receipt of decision or order passed by the Additional Collector, Deputy Collector, Assistant Collector or Superintendent.

Condonation of delay

An appeal preferred after the expiry of thirty days may be admitted by the Collector (Appeals) if he is satisfied that the appellant has sufficient cause for not preferring the appeal within the specified period.

Format of Appeal

No specific format for appeal has been prescribed under the law. It is however advisable that Memo of appeal should be accompanied by supporting documents such as show cause notice issued to the appellant by the adjudicating officer at the original stage, order-in-original passed by the adjudicating authority and the documentary evidential material in support of the appellant.

Waiver of prior deposit of tax

In any case, where Collector (Appeals) is satisfied that the deposit of tax as aforesaid, is likely to cause undue hardship to the appellant, he may dispense with such deposit, subject to such conditions or restrictions, he may deem fit to impose.

How the appeal is settled

The Collector of Sales Tax (Appeals) may, after giving both parties to the appeal an opportunity of being heard, pass such order as be thinks fit, confirming, varying, altering, setting aside or annulling the decision or order appealed against.

Appeal to the Appellate Tribunal

An appeal can be filed against the order of the Collector(Appeals) before the Appellate Tribunal.

Condonation of delay

The Appellate Tribunal has been empowered to condone the delay in filing the appeal, if it is satisfied that the appellant had sufficient cause for not filing the appeal within time.

Reference to the High Court

Persons legible to file reference to the High Court

The person aggrieved by the order of Appellate Tribunal may prefer an application to the High Court.

Limitation of Time

The reference has to be filed within ninety days of the communication of the order of the Appellate Tribunal.

Issues on which reference can be filed:-Reference to the High Court can be filed if a question of law arises out of the Appellate Tribunal's order, against which application is being preferred.

Grant of stay by the High Court

Notwithstanding that a reference has been made to the High Court, the tax shall be payable in accordance with the order of the Appellate Tribunal. However, where a recovery of tax has been stayed by the High Court by an order, such order shall cease to have effect on the expiration of a period of six months following the day on which it is made unless the reference is decided, or such order is withdrawn , by the High Court, earlier.

Number of Copies of application

The application must be made in triplicate.

Application Fee

The application must be accompanied with a payment challan showing deposit of Rs. 100 in the treasury, or National Bank of Pakistan or State Bank of Pakistan.

Leave To Appeal To The Supreme Court

Against the order of the High Court a leave to appeal can be sought from the Supreme Court of Pakistan.

Alternative Dispute Resolution

With a purpose to reduce the volume of long pending disputes between the department and the taxpayers the government has devised an alternative arrangement whereby disputes may be settled between the parties out of court. This arrangement has been provided for in section 47- A of the Sales

Tax Act, 1990, whereby taxpayers can apply to the Board for constitution of Alternative Dispute Resolution Committee. Only those cases can be requested for alternative dispute resolution which are pending at some appellate forum. The committee comprises one chairman and two members. The chairman and one member of the committee are from the private sector whereas the second member is to be a Collector or an Additional Collector. The applicant taxpayer is to submit the application to the Board in four copies, i.e, one copy for each of the official on the panel of the committee and the remaining for the record. The application should contain facts and arguments on the case and supporting references such as copies of show cause notice, order- in –original, order- in- appeal and citations and authorities to be quoted, if any. The Board, after scrutinizing the application , constitutes the committee. The committee after affording the hearing opportunity to both the parties concludes its report of recommendations and forwards the same to the Board. The Board may on the recommendation of the committee, pass such order as it deems appropriate. In case the matter is already sub-judice before any authority, or tribunal or court, an agreement made between the registered person and the Board in the light of recommendations of the committee shall be submitted before that authority, tribunal or the court for consideration and orders as deemed appropriate.

TAXPAYER'S AUTHORIZED REPRESENTATIVES

Who can be authorized?

A taxpayer can authorize the following persons to represent the taxpayer before the adjudicating authority and the Appellate Tribunal.

i) A full time employer of the taxpayer, holding at least a bachelor degree.

ii) A practising lawyer

iii) A person holding a bachelor or Masters degree in Commerce.

iv) A retired officer of Sales Tax, Customs or Federal Excise department who has put in at least 10 years of satisfactory service not lower than post of an Assistant collector.

v) An accountant.

Who cannot be authorised?

i) A person who has been convicted of criminal proceedings.

ii) A person compulsorily dismissed or retired from service.

iii) A person who is undischarged insolvent.

On receipt of complaint for misconduct against an authorized representative, the adjudicating authority, Appellate Tribunal or the Board may disqualify him from representing the taxpayer

How to appoint an authorized representative

In order to appoint his authorized representative, a taxpayer shall issue a letter of authorization, duly signed by the proprietor, partner or director of the company or, business concern, which shall be submitted by the authorized representative before the adjudicating authority or Appellate Tribunal.

RECOVERY

Initiation of Recovery

Once an amount of government dues is adjudged against the taxpayer, on expiry of thirty days from the date of such judgment, the referring authority i.e, an officer not below the rank of an Assistant Collector, desiring to recover government dues may deduct the amount from any money

owing to the person from whom such amount is recoverable and which may be at the disposal or in the control of such officer.

In case the government dues are not fully recovered by way of aforesaid manner, the referring authority may,

(a) serve a notice to the Sales Tax, Customs, Federal Excise and Income Tax officers to deduct the Government dues from any money owing to the defaulter which may be under their control; and a copy of such notice shall be endorsed to the defaulter;

(b) require by notice in writing, any person or organization who holds, or may subsequently hold, any money for or on account of the defaulter, to pay to such officer the amount specified in the notice;

(c) require, by notice in writing, the customs officers to stop the clearance of any goods imported by the defaulter; and

(d) attach the bank accounts of the defaulter.

Either before or after the initiation of recovery proceedings, the Collector may, if so requested by the person concerned, recover the dues in such installments as he may deem proper.

In case a registered person pays the amount of tax less than the due tax as indicated in his return, the referring authority may directly proceed to recover the short-paid amount by attachment of the bank accounts of the defaulter or through stoppage of clearances from the business premises, , after serving a notice for payment of the short-paid amount in three days.

Stoppage of clearances and sealing of business premises.—

(1) In case the government dues are not recovered in the aforesaid manner, the referring authority shall serve upon the defaulter a notice , informing him that removal of any goods from his business premises shall be stopped with effect from the date specified in the notice till such time the dues are paid or recovered in full:

Provided that if the government dues still remain unpaid, the referring authority shall seal the business premises of the defaulter till such time the dues are paid or recovered in full.

(2) If the referring authority is satisfied that the defaulter is likely to conceal, remove or dispose of the whole or any part of such of his movable or immovable property, as shall be liable to attachment in the process of recovery, and that the realization of government dues in consequence be delayed or obstructed, he may at any time after the issuance of the notice direct, for reasons to be recorded in writing, execution of the notice by ignoring the specified time limit.

(3) The referring authority may, if he deems fit, publish such recovery notice, in one or more newspapers circulated in the district of normal residence of the defaulter.

Demand note.—

In the event of failure of aforesaid recovery measures taken by the referring authority ,the referring authority, shall issue a demand note, to the Recovery Officer, specifying therein the details of Government dues meant for recovery and shall also certify that the formalities under clauses (a), (b), (c), (ca), (d) and (f) of sub-section (1) of section 48 of the Act have been completed and there exists no bar or stay order against the proposed recovery.

Attachment and sale of property.—

The Recovery Officer, on receipt of the demand note, shall serve upon the defaulter a notice and his movable and immovable property shall stand attached and subsequently shall be sold if the recovery is not otherwise effected.

SALES TAX AUDIT

All registered/enrolled taxpayers are liable to audit by authorized sales tax Auditors at least once in a year.

In some cases Chartered Accountant or a Cost & Management Accountant appointed by the CBR may also conduct audit.

Advanced Audit Notice

The local Sales Tax Office informs the registered person about a proposed visit of the auditor in advance. The advance notice includes:

- details of the record required to be audited;
- the period to be covered;
- starting date for the audit; and
- name of the auditors.

Sometimes however, audit may be conducted without advance notice. In such an event, the auditors will identify themselves, and show their authority for the visit. If there are any doubts about the veracity of the audit or the auditors, a registered person may contact the Collector of the local Sales Tax Office to confirm the information given by the auditors.

A registered person is required to cooperate with the auditors and give all business records to them. This includes:

- sale and purchase invoices 14
- sale and purchase ledgers or records
- credit notes and debit notes
- record of daily aggregate sales (if applicable), etc.
- inventory records
- Import documents
- Bank statements

Audit Observation

On completion of audit, the auditors will give a copy of an audit observation pointing out any contraventions of the Act or Rules. The registered person has the right to present his point of view on these observations within fifteen days of the receipt of such observations.

Audit Report

In case the reply from the registered person is not received within 15 days or the Assistant Collector Audit is not satisfied with the reply, he/she issues an audit report specifying the violations of the Act or rules committed by the registered person along with the amount of tax or charge payable by the registered person.

Concessions

If a registered person deposits the amount of tax short paid or evaded along with additional tax before he/she receives a notice for audit, penalty shall not be payable.

Registry

CNIC

The registered person having the status of 'individual' or 'proprietor' is required to mention his Computerized National Identity Card number. In all other cases this information can be skipped.

Normal/ Revised

Normal return means the first return filed for any specific tax period. A revised return can be filed under section 26(3) of the Sales Tax Act, 1990. While filing the revised return, the taxpayer shall tick the relevant box and fill in all the relevant data for the month including the columns which were correctly filled in the normal return.

Monthly/ Quarterly

All registered persons are required to file return on monthly basis, except persons engaged exclusively in commercial imports, who shall file the same return on quarterly basis.

Inadmissible input tax relating to exempt supplies/ non-taxed services etc:

The input tax which is attributed to exempt supplies or to non-taxable services is to be mentioned here. Any other input tax which is not admissible as credit is also to be included. If any part of input tax relates to both taxable and exempt supplies or services, inadmissible input tax is to be calculated in accordance with the Apportionment Rules as in the Sales Tax Rules, 2006.

Ship imports by ship-breakers

The LDT of ships imported during the current month need to be mentioned.

Part of input tax attributed to zero-rated supplies/ exports

The registered person shall work out the amount of input tax relating to inputs consumed in zero-rated supplies or exports made during

Accumulated Credit

This is the total input tax available for adjustment against output tax. This is the sum of total admissible Input tax for the month plus Credit brought forward from the previous month minus Refund claim.

SALES TAX DEBIT

Taxable services rendered

The services chargeable to sales tax under provincial ordinances and the services subject to FED in VAT mode are to be mentioned here. For example courier services and domestic air travel services etc. will be mentioned here.

Others (Pl. specify)

Data of all supplies on which sales tax has not been paid on the standard rates shall be given here. A brief description must also be provided in the available space.

Commercial Importers

The commercial importer shall provide the value and sales tax charged on all invoices issued by him. In case the sales tax charged exceeds the amount paid on the same goods at import stage, the differential amount has to be mentioned in space provided.

Invoices issued under Special procedures

Where the registered person, other than a commercial importer, is allowed to issue invoices showing amount of sales tax but the actual tax liability has already been discharged, such as in case of steel sector, the registered person shall provide the value and sales tax charged on all invoices issued by him. This detail is for information only and does not add to the tax payable with the return.

Whether excluded from Section 8B(1), under SRO 647(I)/2007

The registered person should tick the relevant box and calculate net liability and the amount of tax to be carried forward in accordance with the formulas provided.

Sales Tax withheld by the return filer (STWH)

If a registered person is also withholding sales tax under SRO 660(I)/2007, he shall mention the tax deducted during the tax period from the amounts payable to suppliers.

FEDERAL EXCISE DUTY

Excisable goods cleared for domestic

Space has been provided for five types of excisable goods. If such goods are more than five, then top four in terms of highest duty payable should be specified and the rest should be clubbed and mentioned against the heading description 'others'. Following nomenclature should be adhered to while specifying the goods:

1 Vegetable ghee and cooking oil
2 Concentrates for aerated beverages
3 Aerated waters
4 Aerated waters with sweetener etc.
5 Aerated waters made from pulp/juice etc.
6 Unmanufactured tobacco.
7 Cigars, cheroots cigarillos and cigarettes
8 Cement
9 Clinker
10 Solvent oil (non-composite)
11 Other petroleum oils
12 Other fuel oils
13 Lubricating oils
14 Lubricating oil in bulk
15 Lubricating oil if manufactured from reclaimed oils
16 Mineral greases
17 Base lube oil

18 Transformer oil
19 Other mineral oils
20 Waste oil
21 Petroleum gases in liquefied state
22 Natural gas in gaseous state and other petroleum gases
23 Carbon black oil etc
24 Methyl tertiary butyl ether (MBTE)
25 Flavours and concentrates
26 Perfumes and toilet waters:
27 Beauty or make-up preparations etc.
28 Preparations for hair
29 Pre-shave, shaving or after-shave preparations etc.
30 Greases
31 Organic composite solvents and thinners
32 Other solvents excluding thinners

Exempt clearances

All clearances of exempt excisable goods as in the Third Schedule or under any notification should be mentioned here.

FED paid on goods used in manufacturing of Goods cleared for domestic consumption

The credit of FED paid on inputs consumed in excisable goods supplied during the tax period will be availed by mentioning the same. This value has to be less than excise duty payable on finished goods supplied. It would be greater only in case where the rate of excise duty on inputs is higher. In such cases no refund of higher duty on inputs is admissible.

Special FED on inputs used in Manufacturing of Goods cleared for domestic consumption

Special FED on inputs used in goods supplied during the tax period is to be given here.

Payment

Arrears and current liability

In this part sales tax and FED arrears arising from various orders, observations or voluntary assessments can be mentioned and paid. Separate space is provided for mentioning and paying default surcharge and penalty due to late filing of the return being filed.

Revision Credit (Credit due to revision of declaration)

In case the return is being revised, the credit of the amount paid on the normal/ original return can be availed by mentioning the said amount.

Balance Tax Payable (Total Taxes Payable - Rev. Credit)

Balance payable is the amount to be deposited on the return.

Declaration

Declaration can be filled in by any person duly authorized to file the return. CNIC mentioned here should belong to the person making the declaration.

Head of Accounts

The break-up of tax being payable on the return is to be provided. If the taxpayer is dealing in more than one type of taxes he should provide the head-wise break up of the total amount payable for the month i.e. the amount mentioned in the column "Total Taxes Payable (Net ST Payable + Net FED Payable + PDL)". The amount falling in FED and PDL can easily be determined. However, the problem may arise while providing break-up of sales tax, provincial sales tax and FED payable in VAT mode because of common inputs involved. In case the registered person is not conveniently able to determine such break-up, then the total payable amount for such heads can be apportioned on the basis of value of supplies/ services relating to a particular head of account."

Other Facilitation and Tax Education Material Produced by
Federal Board of Revenue

Publications

Brochure– Universal self-assessment and record keeping Brochure – Business accounts, documents and records Brochure – Taxation of income from salary

Brochure – Frequently asked questions about Taxation of Salary.Brochure –Collection and deduction of tax at source

Brochure –Charitable Organizations

Brochure –Taxation of income from dividend

Brochure– The Mechanism of Alternate Dispute Resolution Brochure –Taxpayers' Charter

Brochure –Import of vehicles

Brochure –Passenger Baggage Rules

Brochure - Sales Tax Facilitation Guide

Quarterly Review

Year Book

FEDERAL EXCISE ACT, 2005 AS AMENDED UP TO 2021

FEDERAL EXCISE ACT, 2005

14th July 2014

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THE FEDERAL EXCISE ACT, 2005

CHAPTER I
PRELIMINARY

(1) This Act may be called the Federal Excise Act, 2005,

(2) It extends to the whole of Pakistan

(3) It shall come into force on 1st day of July, 2005.

Important Definitions

"adjudicating authority" means any authority competent to pass any order or decision under this Act or the rules made there under, but does not include the Board or Appellate Tribunal;

"adjustment" means deduction of amount of duty paid on goods used in the manufacture or production of other goods from the amount of duty payable on such other goods in the prescribed manner;

"Appellate Tribunal" means the Appellate Tribunal Inland Revenue established under section 130 of the Income Tax Ordinance, 2001 (XLIX of 2001);

"Board" means the Federal Board of Revenue established under the Central Board of Revenue Act, 1924 (IV of 1924) and on the commencement of the Federal Board of Revenue Act, 2007, the Federal Board of Revenue established under section 3 .

"Chief Commissioner" means a person appointed as the Chief Commissioner Inland Revenue under section 29;

"Commissioner" means a person appointed as a Commissioner Inland Revenue under section 29;

"conveyance" means any means of transport used for carrying goods or passengers such as vessel, aircraft, vehicle or animal etc.;

"default surcharge" means surcharge levied under section 8;

"distributor" means a person appointed by a manufacturer in or for a specified area to purchase goods from him for sale to a wholesale dealer in that area;

"due date", in relation to furnishing a return under section 4, means the 15^{th} day of the month following the end of the month, or such other date as the Federal Government may, by notification in the official Gazette, specify.

"dutiable goods" means all excisable goods specified in the First Schedule except those which are exempt under section 16 of the Act;

"dutiable supply" means a supply of dutiable goods made by a manufacturer other than a supply of goods which is exempt under section 16 of the Act;

"dutiable services" means all excisable services specified in the First Schedule except those which are exempt under section 16 of the Act;

"duty" means any sum payable under the provisions of this Act or the rules made there under and includes the default surcharge and the duty chargeable at the rate of zero per cent;

"duty due" means duty in respect of supplies made or services provided or rendered during a month and shall be paid at the time of filing of return;

"establishment" includes an undertaking, firm or company, whether incorporated or not, an association of persons and an individual;

"factory" means any premises, including the precincts thereof, wherein or in any part of which goods are manufactured, or wherein or in any part of which any manufacturing process connected with the production of the goods is being carried on or is ordinarily carried on;

"Officer of Inland Revenue" means any person appointed by the Board as officer of Inland Revenue under section 29 or any person (including an officer of the Provincial Government) entrusted by the Board with any of the powers of an officer of Inland Revenue under this Act or rules made there under;

"franchise" means an authority given by a franchiser under which the franchisee is contractually or otherwise granted any right to produce, manufacture, sell or trade in or do any other business activity in respect of goods or to provide service or to undertake any process identified with franchiser against a fee or consideration including royalty or technical fee, whether or not a trade mark, service mark ,trade name, logo, brand name or any such representation or symbol, as the case may be, is involved;"

"goods" means goods leviable to excise duty under this Act or as specified in the First Schedule and includes goods manufactured or produced in non-tariff area and brought for use or consumption to tariff area;

"goods insurance" includes fire, marine, theft, accident and other such miscellaneous insurance;

"import" and "export" mean respectively bringing into, and taking out of Pakistan by sea, land or air and shall be deemed to have always been so defined;

"KIBOR" means Karachi Inter Bank Offered Rate prevalent on first day of each quarter of the financial year;"

"manufacture" includes,-

(a) any process incidental or ancillary to the completion of a manufactured product;

(b) any process of re-manufacture, remaking, reconditioning or repair and the processes of packing or repacking such product, and, in relation to tobacco, includes the preparation of cigarettes, cigars, cheroots, biris, cigarette and pipe or hookah tobacco, chewing tobacco or and the word

"manufacturer" shall be construed accordingly and shall include,-

(i) any person who employs hired labour in the production or manufacture of goods; or

(ii) any person who engages in the production or manufacture of goods on his own account if such goods are intended for sale; and

(iii) any person who engages in the production or manufacture of goods on his own account if such goods are intended for sale; and "**non-fund banking services**" includes all non-interest based services provided or rendered by the banking companies or non-banking financial institutions against a consideration in the form of a fee or commission or charges;";

"**non-tariff area**" means Azad Jammu and Kashmir, Northern Areas and such other territories or areas to which this Act does not apply;

"**person**" includes a company, an association, a body of individuals, whether incorporated or not, a public or local authority, a Provincial Government or the Federal Government;

"**prescribed**" means prescribed under this Act or by rules made there under;

"**franchise**" means an authority given by a franchiser under which the franchisee is contractually or otherwise granted any right to produce, manufacture, sell or trade in or do any other business activity in respect of goods or to provide service or to undertake any process identified with franchiser against a fee or consideration including royalty or technical fee, whether or not a trade mark, service mark ,trade name, logo, brand name or any such representation or symbol, as the case may be, is involved;"

"**registered person**" means a person who is registered or is required to be registered under this Act provided that a person who is not registered but is required to be registered shall not be entitled to any benefit or privilege under this Act or rules made there under, unless he is registered and such benefit and privilege, unless allowed by Board, shall be confined to period of registration;

"**sale**" and "**purchase**" with their grammatical variations and cognate expressions, mean any transfer of the possession of goods or rendering and providing of services by one person to another in the ordinary course of trade or business for cash or deferred payment or other consideration;

"**sales tax mode**" means the manner of collection and payment under the Sales Tax Act, 1990, and rules made there under, of the duties of excise chargeable under this Act specified to be collected and paid as if such duties were tax chargeable under section 3 of the said Act and all the provisions of that Act and rules, notifications, orders and instructions made or issued there under shall, *mutatis mutandis*, apply to the excise duty so chargeable;

"**Schedule**" means the schedule appended to this Act;

"**services**" means services, facilities and utilities leviable to excise duty under this Act or as specified in the First Schedule read with Chapter 98 of the Pakistan Customs Tariff, including the services, facilities and utilities originating from Pakistan or its tariff area or terminating in Pakistan or its tariff area;

[(23a) "**supply**" includes sale, lease or other disposition of goods and shall include such transaction as the [Board, with the approval of the Federal Minister-in-charge,] may notify in the official Gazette from time to time;]

tariff area" means area other than the non-tariff area;

"**wholesale dealer**" means a person who buys or sells goods wholesale for the purpose of trade or manufacture, and includes a broker or commission agent who, in addition to making contracts for the sale or purchase of goods for others, stocks such goods belonging to others as an agent for the purpose of sale; and

"**zero-rated**" means duty of Federal excise levied and charged at the rate of zero per cent under section 5 of this act.

Recent Amendments in the Act

[(5a) in respect of goods, specified in the fourth schedule, the minimum production for a month shall be determined on the basis of a single or more inputs as consumed in the production process as per criterion specified in the fourth schedule and if minimum production so determined exceeds the actual supplies for the month, such minimum production shall be treated as quantity supplied during the month and the liability to pay duty shall be discharged accordingly.]

- The [Board, with the approval of the Federal Minister-incharge,] may, by notification in the official Gazette, declare that any of the provisions of the Sales Tax Act,1990, relating to the levy of and exemption from sales tax, registration, book keeping and invoicing requirements, returns, offences and penalties, appeals and recovery of arrears shall, with such modifications and alterations as it may consider necessary or desirable to adapt them to the circumstances, be applicable in regard to like matters in respect of the duty leviable under this Act.]
- The Federal Government may, whenever circumstances exist to take immediate action for the purposes of national security, natural disaster, national food security in emergency situations and implementation of bilateral and multilateral agreements, by notification in the official Gazette, exempt subject to such conditions as may be specified therein, any goods or class of goods or any services or class of services from the whole or any part of the duty leviable under this Act.]
- a person who sells cigarettes in retail at a price lower than the retail price plus the amount of sales tax as printed thereon shall be guilty of an offence and for every such offence shall be liable to fine which may extend to twenty thousand rupees and in case of offence under clause (b), the fine may extend to one hundred thousand rupees and he shall be punishable with imprisonment for a term which may extend to five years or with both.

[19A. Proceedings against authority and persons.– (1) Subject to section 41, the Board shall prescribe rules for initiating criminal proceedings against any authority mentioned in section 29, including any officer or official subordinate to the aforesaid authority, who willfully and deliberately commits or omits an act which results in undue benefit or advantage to the authority or the officer or official or to any other person.

(2) Where proceedings under sub-section (1) have been initiated against the authority or officer or official, the Board shall simultaneously intimate the relevant Government agency to initiate criminal proceedings against the person referred to in sub-section (1).

(3) The proceedings under this section shall be without prejudice to any other liability that the authority or officer or official or the person may incur under any other law for the time being in force.]

MULTIPLE CHOICE QUESTIONS (MCQS)

1. Without prejudice to other provisions of this Act, ________ may levy and collect duty on any class or classes of goods or services by notification in the official Gazette at such higher or lower rate or rates as may be specified in such notification.
(a) The Federal Government (b) The provincial Government
(c) Both of these (d) None of these

2. The liability to pay duty shall be ________
(a) in case of goods produced or manufactured in Pakistan, of the person manufacturing or producing such goods
(b) in case of goods imported into Pakistan, of the person importing such goods
(c) both of the above
(d) none of the above

3. For the purpose of determining net liability of duty in respect of any goods, the duty already paid on goods specified in the ________ and used directly as input goods for the manufacture or production of such goods shall be deducted from the amount of duty calculated on such goods.
(a) First Schedule (b) Second Schedule
(c) Third Schedule (d) None of these

4. Notwithstanding the provisions of ________ the Board may, by a notification in the official Gazette, disallow or restrict whole or part of the amount of or otherwise regulate the adjustment of duty in respect of any goods or class of goods.
(a) sub-section (2) (b) sub-section (3) (c) sub-section (1) (d) none of these

5. a person shall be entitled to ________ duty of excise paid or payable, on such goods or services as are acquired by him during a month, from the amount of duty of excise due from him on such goods manufactured or produced or services as are provided or rendered by him, during that month.
(a) Paid (b) Deduct (c) both of these (d) none of these

6. The Federal Government may, by notification in the ________, declare that any of the provisions of the Sales Tax Act, 1990, relating to the levy of and exemption from sales tax, registration, book keeping and invoicing requirements, returns, offences and penalties, appeals and recovery of arrears shall, with such modifications and alterations as it may consider necessary or desirable to adapt them to the circumstances, be applicable in regard to like matters in respect of the duty leviable under this Act.
(a) official Gazette (b) newspaper (c) both of these (d) none of these

7. If a person does not pay the duty due or any part thereof within the prescribed time or receives a refund of duty or drawback or makes an adjustment which is not admissible to him, he shall, in addition to the duty due, pay ________ at the rate of KIBOR plus three per cent" [per annum] of the duty due, refund of duty or drawback.
(a) Paid surcharge (b) additional surcharge
(c) default surcharge (d) none of these

8. ________ deals with Liability for payment of duty in the case of private companies or business enterprises or in case of sale of business ownership
(a) section9 (b) section10 (c) section 11 (d) none of these

9. Provided that no business enterprise or a part thereof shall be sold or transferred unless the outstanding duty is paid and a no objection certificate in this behalf from the ________ concerned is obtained.
(a) Commissioner (b) Federal Minister
(c) Both of these (d) None of these

10. In case of termination of a business or part thereof involving any outstanding charge of duty, a person terminating such business or part thereof shall be required to account for and pay the outstanding ________ of duty as if no such termination has taken place.
(a) Tax (b) Charge (c) Levy (d) None of these

11. The value and the rate of duty applicable to any goods or services shall be ________ and the rate of duty in force.
(a) the value (b) retail price (c) tariff value (d) all of these

12. Every person who for any reason whatever has collected or collects any duty, which is not payable as duty or which is in excess of the duty actually payable and the incidence of which has been passed on to the consumer, shall pay the amount so collected to the ____
(a) Federal Government (b) provincial Government
(c) both of these (d) none of these

13. Where any goods are liable to duty under this Act at a rate dependent on their value, duty shall be assessed and paid on the basis of value as determined in accordance with ________ of section 2 of the Sales Tax Act, 1990, excluding the amount of duty payable thereon.
(a) sub-section (48) (b) sub-section (47)
(c) sub-section (46) (d) none of these

14. The Board may fix the minimum price of any goods or class of goods, for the purpose of ________ and ________ of duty and duty on such goods shall be paid accordingly.
(a) Levying (b) Collecting (c) both of these (d) none of these

15. Where any person has not levied or paid any duty or has short levied or short paid such duty or where any amount of duty has been refunded erroneously, such person shall be serviced with notice requiring him to show cause for payment of such duty provided that such notice shall be issued within ________ from the relevant date.
(a) five years (b) six years
(c) seven years (d) none of the above

16. ________ may by notification in the official Gazette, exempt subject to such conditions as may be specified therein, any goods or class of goods or any services or class of services from the whole or any part of the duty leviable under this Act.
(a) The Federal Government (b) The provincial Government
(c) both of these (d) none of the above

17. The ________ may, by special order, exempt from the payment of the whole or any part of the duty leviable under this Act, under circumstances of exceptional nature, any goods or services on which such duty is leviable.
(a) The Federal Government (b) The provincial Government
(c) Board (d) none of the above

18. the provisions of sub-sections ________ the Federal Government or the Board may, by a notification in the official Gazette, for reasons to be recorded, exempt any person or class of persons from payment of the whole or part of the default surcharge imposed under section 8 2[and penalties] subject to the such conditions or limitations as may be specified in such notification.
(a) (2) and (3) (b) (3) and (5)
(c) (6) and (7) (d) None of the above

19. Every person registered for the purposes of this Act shall maintain and keep for a period of ________ or till such further period the final decision in any proceedings including proceedings for assessment, appeal, revision, reference, petition and any, proceedings before an Alternative
(a) five years (b) six years (c) seven years (d) none of these

20. The Board may, by notification in the ________ specify goods in respect of which a copy of the invoice shall be carried or accompanied with the conveyance during their transportation or movement in such manner and subject to such conditions as may be specified in this behalf either in such notification or otherwise.
(a) official Gazette (b) newspaper (c) both of these (d) none of these

21. section ________ deals the Power to summon persons to give evidence and produce documents in inquiries.-
(a) 21 (b) 22 (c) 23 (d) None of these

22. The cigarettes 1[or beverages] seized for the reasons of counterfeiting shall be liable to outright confiscation and shall be destroyed in the manner prescribed in sub-section (10) of ________
(a) Section 19 (b) Section 18 (c) Section 20 (d) None of these

23. Where any conveyance is seized which is liable to confiscation, the adjudicating authority may, subject to such conditions as may be prescribed, order its release pending adjudication of the case and on furnishing a guarantee by the owner of the seized conveyance, from a scheduled bank valid for at least ________ equal to the value of such conveyance.
(a) Two years (b) One year (c) Three years (d) None of these

24. In respect of cases pending before the ________, release of conveyance under sub-section (1) shall not be allowed without prior permission of the Special Judge.
(a) Special Judge (b) Session Judge (c) Both of these (d) None of these

25. Wherever ________ is adjudged under this Act or the rules made there under, the officer adjudging it may give the owner of the conveyance an option to pay in lieu of confiscation such fine as the officer thinks fit.
(a) Confiscation (b) Levy (c) Both of these (d) None of these

26. Any person or officer of Inland Revenue] aggrieved by any of the following orders may within sixty days of the receipt of such orders file appeal to the Appellate Tribunal against such orders,
(a) An order passed by the [Commissioner] (Appeals); and
(b) An order passed by the Board or the Commissioner Inland Revenue under section 35:
(c) Both of the above
(d) None of these

27. The Board may make rules to carry into effect the purposes of any or all the provisions of this Act including charging ________ for processing of returns, claims and other documents and for preparation of copies thereof.
(a) Fee (b) Tax (c) Levy (d) None of these

ANSWERS

1.	a	2.	c	3.	a	4.	c	5.	b	6.	a	7.	c
8.	a	9.	a	10.	b	11.	d	12.	a	13.	c	14.	c
15.	a	16.	a	17.	c	18.	a	19.	b	20.	a	21.	c
22.	a	23.	b	24.	a	25.	a	26.	c	27.	a		

INCOME TAX ORDINANCE 2001
AS AMENDED UPTO 2021

INCOME TAX ORDINANCE, 2001

Amended upto 2021

TAX ON TAXABLE INCOME

PART I
COMPUTATION OF TAXABLE INCOME

Taxable income.— The taxable income of a person for a tax year shall be the total income under clause (a) of section 10 of the person for the year reduced (but not below zero) by the total of any deductible allowances under Part IX of this Chapter of the person for the year.

10. Total Income.— The total income of a person for a tax year shall be the sum of the —

(a) person's income under all heads of income for the year; and

(b) person's income exempt from tax under any of the provisions of this Ordinance.

11. Heads of income.— (1) For the purposes of the imposition of tax and the computation of total income, all income shall be classified under the following heads, namely: —

(a) Salary;

(b) Income from Property;

(c) Income from Business;

(d) Capital Gains; and

(e) Income from Other Sources.

(2) Subject to this Ordinance, the income of a person under a head of income for a tax year shall be the total of the amounts derived by the person in that year that are chargeable to tax under the head as reduced by the total deductions, if any, allowed under this Ordinance to the person for the year under that head.

(3) Subject to this Ordinance, where the total deductions allowed under this Ordinance to a person for a tax year under a head of income exceed the total of the amounts derived by the person in that year that are chargeable to tax under that head, the person shall be treated as sustaining a loss for that head for that year of an amount equal to the excess.

(4) A loss for a head of income for a tax year shall be dealt with in accordance with Part VIII of this Chapter.

(5) 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.

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

PART II
HEAD OF INCOME: SALARY

12. Salary.— (1) Any salary received by an employee in a tax year, other than salary that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head 'Salary'.

(2) Salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including —

(a) any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements (such as for unpleasant or dangerous working conditions) :

Provided that any bonus paid or payable to corporate employees receiving salary income of one million rupees or more (excluding bonus) in tax year 2010, shall be chargeable to tax at the rate provided in paragraph (2) of Division I of Part I of the First Schedule;

(b) any perquisite, whether convertible to money or not;

(c) the amount of any allowance provided by an employer to an employee including a cost of living, subsistence, rent, utilities, education, entertainment or travel allowance, but shall not include any allowance solely expended in the performance of the employee's duties of employment;

[Explanation.– For removal of doubt, it is clarified that the allowance solely expended in the performance of employee's duty does not include –

(i) allowance which is paid in monthly salary on fixed basis or percentage of salary; or

(ii) allowance which is not wholly, exclusively, necessarily or actually spent on behalf of the employer;]

(d) the amount of any expenditure incurred by an employee that is paid or reimbursed by the employer, other than expenditure incurred on behalf of the employer in the performance of the employee's duties of employment;

(e) the amount of any profits in lieu of, or in addition to, salary or wages, including any amount received —

(i) as consideration for a person's agreement to enter into an employment relationship;

(ii) as consideration for an employee's agreement to any conditions of employment or any changes to the employee's conditions of employment;

(iii) on termination of employment, whether paid voluntarily or under an agreement, including any compensation for redundancy or loss of employment and golden handshake payments;

(iv) from a provident or other fund, to the extent to which the amount is not a repayment of contributions made by the employee to the fund in respect of which the employee was not entitled to a deduction; and

(v) as consideration for an employee's agreement to a restrictive covenant in respect of any past, present or prospective employment;

(f) any pension or annuity, or any supplement to a pension or annuity; and

(g) any amount chargeable to tax as 'Salary' under section 14.

(3) Where an employer agrees to pay the tax chargeable on an employee's salary, the amount of the employee's income chargeable under the head 'Salary' shall be grossed up by the amount of tax payable by the employer.

(4) No deduction shall be allowed for any expenditure incurred by an employee in deriving amounts chargeable to tax under the head 'Salary'.

(5) For the purposes of this Ordinance, an amount or perquisite shall be treated as received by an employee from any employment regardless of whether the amount or perquisite is paid or provided

(a) by the employee's employer, an associate of the employer, or by a third party under an arrangement with the employer or an associate of the employer;

(b) by a past employer or a prospective employer; or

(c) to the employee or to an associate of the employee or to a third party under an agreement with the employee or an associate of the employee.

(6) An employee who has received an amount referred to in sub-clause (iii) of clause (e) of sub-section (2) in a tax year may, by notice in writing to the Commissioner, elect for the amount to be taxed at the rate computed in accordance with the following formula, namely: —

A/B%

where —

A is the total tax paid or payable by the employee on the employee's total taxable income for the three preceding tax years; and

B is the employee's total taxable income for the three preceding tax years.

(7) Where —

(a) any amount chargeable under the head 'Salary' is paid to an employee in arrears; and

(b) as a result the employee is chargeable at higher rates of tax than would have been applicable if the amount had been paid to the employee in the tax year in which the services were rendered, the employee may, by notice in writing to the Commissioner, elect for the amount to be taxed at the rates of tax that would have been applicable if the salary had been paid to the employee in the tax year in which the services were rendered.

(8) An election under sub-section (6) or (7) shall be made by the due date for furnishing the employee's return of income or employer certificate, as the case may be, for the tax year in which the amount was received or by such later date as the Commissioner may allow.

13. Value of perquisites.— (1) For the purposes of computing the income of an employee for a tax year chargeable to tax under the head 'Salary', the value of any perquisite provided by an employer to the employee in that year that is included in the employee's salary under section 12 shall be determined in accordance with this section.

(2) This section shall not apply to any amount referred to in clause (c) or (d) of sub-section (2) of section 12.

(3) Where, in a tax year, a motor vehicle is provided by an employer to an employee wholly or partly for the private use of the employee, the amount chargeable to tax to the employee under the head Salary' for that year shall include an amount computed as may be prescribed.

(4) Omitted

(5) Where, in a tax year, the services of a housekeeper, driver, gardener or other domestic assistant is 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 total salary paid to the domestic assistant such house keeper, driver, gardener or other domestic assistant in that year for services rendered to the employee, as reduced by any payment made to the employer for such services.

(6) 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.

(7) Where a loan is made, on or after the 1st day of July, 2002, by an employer to an employee and either no profit on loan is payable by the employee or the rate of profit on loan is less than the benchmark rate, the amount chargeable to tax to the employee under the head 'Salary' for a tax year shall include an amount equal to—

(a) the profit on loan computed at the benchmark rate, where no profit on loan is payable by the employee, or

(b) the difference between the amount of profit on loan paid by the employee in that tax year and the amount of profit on loan computed at the benchmark rate,

as the case may be:

Provided that this sub-section shall not apply to such benefit arising to an employee due to waiver of interest by such employee on his account with the employer

Provided further that this sub-section shall not apply to loans not exceeding five hundred thousand rupees.

(8) For the purposes of this Ordinance not including sub-section (7), where the employee uses a loan referred to in sub-section (7) wholly or partly for the acquisition of any asset or property producing income chargeable to tax under any head of income, the employee shall be treated as having paid an amount as profit equal to the benchmark rate on the loan or that part of the loan used to acquire asset or property.

(9) Where, in a tax year, an obligation of an employee to pay or repay an amount owing by the employee to the employer is waived by the employer, the amount chargeable to tax to the employee under the head Salary' for that year shall include the amount so waived.

(10) Where, in a tax year, an obligation of an employee to pay or repay an amount owing by the employee to another person is paid by the employer, the amount chargeable to tax to the employee under the head Salary' for that year shall include the amount so paid.

(11) Where, in a tax year, property is transferred or services 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 property or services determined at the time the property is transferred or the services are provided, as reduced by any payment made by the employee for the property or services.

(12) Where, in the tax year, accommodation or housing is provided by an employer to an

employee, the amount chargeable to tax to the employee under the head 'Salary' for that year shall include an amount computed as may be prescribed.

(13) Where, in a tax year, an employer has provided an employee with a perquisite which is not covered by sub-sections (3) through (12), the amount chargeable to tax to the employee under the head 'Salary' for that year shall include the fair market value of the perquisite, except where the rules, if any, provide otherwise, determined at the time it is provided, as reduced by any payment made by the employee for the perquisite.

(14) In this section,—

(a) benchmark rate' means —

(i) for the tax year commencing on the first day of July, 2002, a rate of five per cent per annum; and

(ii) for the tax years next following the tax year referred to in sub-clause (i), the rate for each successive year taken at one per cent above the rate applicable for the immediately preceding tax year, but not exceeding ten per cent per annum in respect of any tax year;

(b) services' includes the provision of any facility; and

(c) utilities' includes electricity, gas, water and telephone.

14. Employee share schemes.— (1) The value of a right or option to acquire shares under an employee share scheme granted to an employee shall not be chargeable to tax.

(2) Subject to sub-section (3), where, in a tax year, an employee is issued with shares under an employee share scheme including as a result of the exercise of an option or right to acquire the shares, the amount chargeable to tax to the employee under the head 'Salary' for that year shall include the fair market value of the shares determined at the date of issue, as reduced by any consideration given by the employee for the shares including any amount given as consideration for the grant of a right or option to acquire the shares.

(3) Where shares issued to an employee under an employee share scheme are subject to a restriction on the transfer of the shares —

(a) no amount shall be chargeable to tax to the employee under the head 'Salary' until the earlier of —

(i) the time the employee has a free right to transfer the shares; or

(ii) the time the employee disposes of the shares; and

(b) the amount chargeable to tax to the employee shall be the fair market value of the shares at the time the employee has a free right to transfer the shares or disposes of the shares, as the case may be, as reduced by any consideration given by the employee for the shares including any amount given as consideration for the grant of a right or option to acquire the shares.

(4) For purposes of this Ordinance, where sub-section (2) or (3) applies, the cost of the shares to the employee shall be the sum of —

(a) the consideration, if any, given by the employee for the shares;

(b) the consideration, if any, given by the employee for the grant of any right or option to acquire the shares; and

(c) the amount chargeable to tax under the head 'Salary' under those sub-sections.

(5) Where, in a tax year, an employee disposes of a right or option to acquire shares under an

employee share scheme, the amount chargeable to tax to the employee under the head 'Salary' for that year shall include the amount of any gain made on the disposal computed in accordance with the following formula, namely:—

A—B

where —

A is the consideration received for the disposal of the right or option; and

B is the employee's cost in respect of the right or option.

(6) In this sub-section, 'employee share scheme' means any agreement or arrangement under which a company may issue shares in the company to —

(a) an employee of the company or an employee of an associated company; or

(b) the trustee of a trust and under the trust deed the trustee may transfer the shares to an employee of the company or an employee of an associated company.

PART III
HEAD OF INCOME: INCOME FROM PROPERTY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(h) any expenditure (not exceeding six per cent of the rent chargeable to tax in respect of the property for the year computed before any deduction allowed under this section) paid or payable by the person in the year for the purpose of collecting the rent due in respect of the property;

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

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

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

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

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

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

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

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

(5) Any expenditure allowed to a person under this section as a deduction shall not be allowed

as a deduction in computing the income of the person chargeable to tax under any other head of income.

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

16. Non-adjustable amounts received in relation to buildings.— (1) Where the owner of a building receives from a tenant an amount which is not adjustable against the rent payable by the tenant, the amount shall be treated as rent chargeable to tax under the head 'Income from Property' in the tax year in which it was received and the following nine tax years in equal proportion.

(2) Where an amount (hereinafter referred to as the 'earlier amount') referred to in sub-section (1) is refunded by the owner to the tenant on termination of the tenancy before the expiry of ten years, no portion of the amount shall be allocated to the tax year in which it is refunded or to any subsequent tax year except as provided for in sub-section (3).

(3) Where the circumstances specified in sub-section (2) occur and the owner lets out the building or part thereof to another person (hereinafter referred to as the 'succeeding tenant') and receives from the succeeding tenant any amount (hereinafter referred to as the 'succeeding amount') which is not adjustable against the rent payable by the succeeding tenant, the succeeding amount as reduced by such portion of the earlier amount as was charged to tax shall be treated as rent chargeable to tax under the head 'Income from Property' as specified in sub-section (1).

Section 17 omitted by the Finance Act, 2006. The omitted section 17 read as follows:

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

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

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

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

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

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

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

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

(g) any expenditure (not exceeding six per cent of the rent chargeable to tax in respect of the property for the year computed before any deduction allowed under this section) paid or payable by the person in the year for the purpose of collecting the rent due in respect of the property;

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

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

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

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

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

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

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

PART IV
HEAD OF INCOME: INCOME FROM BUSINESS

DIVISION I
INCOME FROM BUSINESS

18. Income from business.— (1) The following incomes of a person for a tax year, other than income exempt from tax under this Ordinance, shall be chargeable to tax under the head 'Income from Business' —

(a) the profits and gains of any business carried on by a person at any time in the year;

(b) any income derived by any trade, professional or similar association from the sale of goods or provision of services to its members;

(c) any income from the hire or lease of tangible movable property;

(d) the fair market value of any benefit or perquisite, whether convertible into money or not, derived by a person in the course of, or by virtue of, a past, present, or prospective business relationship.

Explanation. — For the purposes of this clause, it is declared that the word benefit includes any benefit derived by way of waiver of profit on debt or the debt itself under the State Bank of Pakistan Banking Policy Department's Circular No.29 of 2002 or in any other scheme issued by the State Bank of Pakistan;

(e) any management fee derived by a management company (including a modaraba management company).

(2) Any profit on debt derived by a person where the person's business is to derive such income shall be chargeable to tax under the head 'Income from Business' and not under the head 'Income from Other Sources'.

(3) Where a lessor, being a scheduled bank or an investment bank or a development finance institution or a modaraba or a leasing company has leased out any asset, whether owned by it or not, to another person, any amount paid or payable by the said person in connection with the lease of said asset shall be treated as the income of the said lessor and shall be chargeable to tax under the head 'Income from Business'.

(4) Any amount received by a banking company or a non-banking finance company, where such amount represents distribution by a mutual fund or a Private Equity and Venture Capital Fund out of its income from profit on debt, shall be chargeable to tax under the head 'Income from Business and not under the head 'Income from Other Sources'.

19. Speculation business.— (1) Where a person carries on a speculation business –

(a) that business shall be treated as distinct and separate from any other business carried on by the person;

(b) this Part shall apply separately to the speculation business and the other business of the person; b head 'Income from Business' for that year; and

(c) any loss of the person arising from the speculation business sustained for a tax year computed in accordance with this Part shall be dealt with under section 58.

(2) In this section, 'speculation business' means any business in which a contract for the purchase and sale of any commodity (including stocks and shares) is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity, but does not include a business in which —

(a) a contract in respect of raw materials or merchandise is entered into by a person in the course of a manufacturing or mercantile business to guard against loss through future price fluctuations for the purpose of fulfilling the person's other contracts for the actual delivery of the goods to be manufactured or merchandise to be sold;

(b) a contract in respect of stocks and shares is entered into by a dealer or investor therein to guard against loss in the person's holding of stocks and shares through price fluctuations; or

(c) a contract is entered into by a member of a forward market or stock exchange in the course of any transaction in the nature of jobbing arbitrage to guard against any loss which may arise in the ordinary course of the person's business as such member.

DIVISION II
DEDUCTIONS: GENERAL PRINCIPLES

20. Deductions in computing income chargeable under the head 'Income from Business'.— (1) Subject to this Ordinance, in computing the income of a person chargeable to tax under the head 'Income from Business' for a tax year, a deduction shall be allowed for any expenditure incurred by the person in the year wholly and exclusively for the purposes of business.

(1A) Subject to this Ordinance, where animals which have been used for the purposes of the business or profession otherwise than as stock-in-trade and have died or become permanently useless for such purposes, the difference between the actual cost to the taxpayer of the animals and the amount, if any, realized in respect of the carcasses or animals.

(2) Subject to this Ordinance, where the expenditure referred to in sub-section (1) is incurred in acquiring a depreciable asset or an intangible with a useful life of more than one year or is pre-commencement expenditure, the person must depreciate or amortise the expenditure in accordance with sections 22, 23, 24 and 25.

(3) Subject to this Ordinance, where any expenditure is incurred by an amalgamated company on legal and financial advisory services and other administrative cost relating to planning and implementation of amalgamation, a deduction shall be allowed for such expenditure.

21. Deductions not allowed.— Except as otherwise provided in this Ordinance, no deduction shall be allowed in computing the income of a person under the head 'Income from Business' for —

(a) any cess, rate or tax paid or payable by the person in Pakistan or a foreign country that is levied on the profits or gains of the business or assessed as a percentage or otherwise on the basis of such profits or gains;

(b) any amount of tax deducted under Division III of Part V of Chapter X from an amount derived by the person;

(c) any salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee paid by the person from which the person is required to deduct tax under Division III of Part V of Chapter X or section 233 of chapter XII, unless the person has paid or deducted and paid the tax as required by Division IV of Part V of Chapter X;

(d) any entertainment expenditure in excess of such limits or in violation of such conditions as may be prescribed;

(e) any contribution made by the person to a fund that is not a recognized provident fund , approved pension fund, approved superannuation fund or approved gratuity fund;

(f) any contribution made by the person to any provident or other fund established for the benefit of employees of the person, unless the person has made effective arrangements to secure that tax is deducted under section 149 from any payments made by the fund in respect of which the recipient is chargeable to tax under the head 'Salary';

(g) any fine or penalty paid or payable by the person for the violation of any law, rule or regulation;

(h) any personal expenditures incurred by the person;

(i) any amount carried to a reserve fund or capitalised in any way;

(j) any profit on debt, brokerage, commission, salary or other remuneration paid by an association of persons to a member of the association;

(k) omitted

(l) any expenditure for a transaction, paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees, made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer:

Provided that online transfer of payment from the business account of the payer to the business account of payee as well as payments through credit card shall be treated as transactions through the banking channel, subject to the condition that such transactions are verifiable from the bank statements of the respective payer and the payee:

Provided further that this clause shall not apply in the case of—

(a) expenditures not exceeding ten thousand rupees;

(b) expenditures on account of—

(i) utility bills;

(ii) freight charges;

(iii) travel fare;

(iv) postage; and

(v) payment of taxes, duties, fee, fines or any other statutory obligation;

(m) any salary paid or payable exceeding fifteen thousand rupees per month other than by a crossed cheque or direct transfer of funds to the employee's bank account; and

(n) except as provided in Division III of this Part, any expenditure paid or payable of a capital nature.

DIVISION III
DEDUCTIONS: SPECIAL PROVISIONS

22. Depreciation.— (1) Subject to this section, a person shall be allowed a deduction for the depreciation of the person's depreciable assets used in the person's business in the tax year.

(2) Subject to sub-section (3) , the depreciation deduction for a tax year shall be computed by applying the rate specified in Part I of the Third Schedule against the written down value of the asset at the beginning of the year.

(3) Where a depreciable asset is used in a tax year partly in deriving income from business chargeable to tax and partly for another use, the deduction allowed under this section for that year shall be restricted to the fair proportional part of the amount that would be allowed if the asset was wholly used to derive income from business chargeable to tax.

(5) The written down value of a depreciable asset of a person at the beginning of the tax year shall be —

(a) where the asset was acquired in the tax year, the cost of the asset to the person as reduced by any initial allowance in respect of the asset under section 23; or

(b) in any other case, the cost of the asset to the person as reduced by the total depreciation deductions (including any initial allowance under section 23) allowed to the person in respect of the asset in previous tax years.

(6) Where sub-section (3) applies to a depreciable asset for a tax year, the written down value of the asset shall be computed on the basis that the asset has been solely used to derive income from business chargeable to tax.

(7) The total deductions allowed to a person during the period of ownership of a depreciable asset under this section and section 23 shall not exceed the cost of the asset.

(8) Where, in any tax year, a person disposes of a depreciable asset, no depreciation deduction shall be allowed under this section for that year and —

(a) if the consideration received exceeds the written down value of the asset at the time of disposal, the excess shall be chargeable to tax in that year under the head 'Income from Business'; or

(b) if the consideration received is less than the written down value of the asset at the time of disposal, the difference shall be allowed as a deduction in computing the person's income chargeable under the head 'Income from Business' for that year.

(9) Where sub-section (3) applies, the written down value of the asset for the purposes of sub-section (8) shall be increased by the amount that is not allowed as a deduction as a result of the application of sub-section (3).

(10) Where clause (a) of sub-section (13) applies, the consideration received on disposal of the passenger transport vehicle for the purposes of sub-section (8) shall be computed according to the following formula —

A × B/C

where –

A is the amount received on disposal of the vehicle;

B is the amount referred to in clause (a) of sub-section (13); and

C is the actual cost of acquiring the vehicle.

(11) Subject to sub-sections (13) and (14), the rules in Part III of Chapter IV shall apply in determining the cost and consideration received in respect of a depreciable asset for the purposes of this section.

(12) The depreciation deductions allowed to a leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution in respect of assets owned by the leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution and leased to another person shall be deductible only against the lease rental income derived in respect of such assets.

(13) For the purposes of this section, —

(a) the cost of a depreciable asset being a passenger transport vehicle not plying for hire shall not exceed two and half million rupees;

(b) the cost of immovable property or a structural improvement to immovable property shall not include the cost of the land;

(c) any asset owned by a leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution and leased to another person is treated as used in the leasing company or the investment bank or the modaraba or the scheduled bank or the development finance institution's business; and

(d) where the consideration received on the disposal of immovable property exceeds the cost of the property, the consideration received shall be treated as the cost of the property.

(14) Where a depreciable asset that has been used by a person in Pakistan is exported or transferred out of Pakistan, the person shall be treated as having disposed of the asset at the time of the export or transfer for a consideration received equal to the cost of the asset.

(15) In this section, —

depreciable asset' means any tangible movable property, immovable property (other than unimproved land), or structural improvement to immovable property, owned by a person that —

(a) has a normal useful life exceeding one year;

(b) is likely to lose value as a result of normal wear and tear, or obsolescence; and

(c) is used wholly or partly by the person in deriving income from business chargeable to tax,

but shall not include any tangible movable property, immovable property, or structural improvement to immovable property in relation to which a deduction has been allowed under another section of this Ordinance for the entire cost of the property or improvement in the tax year in which the property is acquired or improvement made by the person; and

"structural improvement" in relation to immovable property, includes any building, road, driveway, car park, railway line, pipeline, bridge, tunnel, airport runway, canal, dock, wharf, retaining wall, fence, power lines, water or sewerage pipes, drainage, landscaping or dam.

23. Initial allowance.— (1) A person who places an eligible depreciable asset into service in Pakistan for the first time in a tax year shall be allowed a deduction (hereinafter referred to as an 'initial allowance') computed in accordance with sub-section (2), provided the asset is used by the person for the purposes of his business for the first time or the tax year in which commercial production is commenced, whichever is later.

(2) The amount of the initial allowance of a person shall be computed by applying the rate specified in Part II of the Third Schedule against the cost of the asset.

(3) The rules in section 76 shall apply in determining the cost of an eligible depreciable asset for the purposes of this section.

(4) A deduction allowed under this section to a leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution in respect of assets owned by the leasing company or the investment bank or the modaraba or the scheduled bank or the development finance institution and leased to another person shall be deducted only against the leased rental income derived in respect of such assets.

(5) In this section, 'eligible depreciable asset' means a depreciable asset other than —

(a) any road transport vehicle unless the vehicle is plying for hire;

(b) any furniture, including fittings;

(c) any plant or machinery that has been used previously in Pakistan; or

(d) any plant or machinery in relation to which a deduction has been allowed under another section of this Ordinance for the entire cost of the asset in the tax year in which the asset is acquired.

23A. First Year Allowance.— (1) Plant, machinery and equipment installed by any industrial undertaking set up in specified rural and under developed areas, and owned and managed by a company shall be allowed first year allowance in lieu of initial allowance under section 23 at the rate specified in Part II of the Third Schedule against the cost of the 'eligible depreciable assets' put to use after July 1, 2008.

(2) The provisions of section 23 except sub-sections (1) and (2) thereof, shall mutatis mutandis apply.

(3) The Federal Government may notify 'specified areas' for the purposes of sub-section (1).

23B. Accelerated depreciation to alternate energy projects.— (1) Any plant, machinery and equipments installed for generation of alternate energy by an industrial undertaking set up anywhere in Pakistan and owned and managed by a company shall be allowed first year allowance in lieu of initial allowance under section 23, at the rate specified in Part II of the Third Schedule against the cost of the eligible depreciation assets put to use after first day of July, 2009.

(2) The provisions of section 23 except sub-sections (1) and (2) thereof, shall mutatis mutandis apply.

24. Intangibles.— (1) A person shall be allowed an amortisation deduction in accordance with this section in a tax year for the cost of the person's intangibles–

(a) that are wholly or partly used by the person in the tax year in deriving income from business chargeable to tax; and

(b) that have a normal useful life exceeding one year.

(2) No deduction shall be allowed under this section where a deduction has been allowed under another section of this Ordinance for the entire cost of the intangible in the tax year in which the intangible is acquired.

(3) Subject to sub-section (7), the amortization deduction of a person for a tax year shall be computed according to the following formula, namely:—

$$\frac{A}{B}$$

where —

A is the cost of the intangible; and

B is the normal useful life of the intangible in whole years.

(4) An intangible —

(a) with a normal useful life of more than ten years; or

(b) that does not have an ascertainable useful life,

shall be treated as if it had a normal useful life of ten years.

(5) Where an intangible is used in a tax year partly in deriving income from business chargeable to tax and partly for another use, the deduction allowed under this section for that year shall be restricted to the fair proportional part of the amount that would be allowed if the intangible were wholly used to derive income from business chargeable to tax.

(6) Where an intangible is not used for the whole of the tax year in deriving income from business chargeable to tax, the deduction allowed under this section shall be computed according to the following formula, namely: —

$A \times B/C$

where —

A is the amount of amortization computed under sub-section (3) or (5), as the case may be;

B is the number of days in the tax year the intangible is used in deriving income from business chargeable to tax; and

C is the number of days in the tax year.

(7) The total deductions allowed to a person under this section in the current tax year and all previous tax years in respect of an intangible shall not exceed the cost of the intangible.

(8) Where, in any tax year, a person disposes of an intangible, no amortisation deduction shall be allowed under this section for that year and —

(a) if the consideration received by the person exceeds the written down value of the intangible at the time of disposal, the excess shall be income of the person chargeable to tax in that year under the head 'Income from Business'; or

(b) if the consideration received is less than the written down value of the intangible at the time of disposal, the difference shall be allowed as a deduction in computing the person's income chargeable under the head 'Income from Business' in that year.

(9) For the purposes of sub-section (8) —

(a) the written down value of an intangible at the time of disposal shall be the cost of the intangible reduced by the total deductions allowed to the person under this section in respect of the intangible or, where the intangible is not wholly used to derive income chargeable to tax, the amount that would be allowed under this section if the intangible were wholly so used; and

(b) the consideration received on disposal of an intangible shall be determined in accordance with section 77.

(10) For the purposes of this section, an intangible that is available for use on a day (including a non-working day) is treated as used on that day.

(11) In this section, —

cost in relation to an intangible, means any expenditure incurred in acquiring or creating the intangible, including any expenditure incurred in improving or renewing the intangible; and

intangible means any patent, invention, design or model, secret formula or process, copyright , trade mark, scientific or technical knowledge, computer software, motion picture film, export quotas, franchise, licence, intellectual property, or other like property or right, contractual rights and any expenditure that provides an advantage or benefit for a period of more than one year (other than expenditure incurred to acquire a depreciable asset or unimproved land).

25. Pre-commencement expenditure.— (1) A person shall be allowed a deduction for any pre-commencement expenditure in accordance with this section.

(2) Pre-commencement expenditure shall be amortized on a straight-line basis at the rate specified in Part III of the Third Schedule.

(3) The total deductions allowed under this section in the current tax year and all previous tax years in respect of an amount of pre-commencement expenditure shall not exceed the amount of the expenditure.

(4) No deduction shall be allowed under this section where a deduction has been allowed under another section of this Ordinance for the entire amount of the pre-commencement expenditure in the tax year in which it is incurred.

(5) In this section, 'pre-commencement expenditure' means any expenditure incurred before the commencement of a business wholly and exclusively to derive income chargeable to tax, including the cost of feasibility studies, construction of prototypes, and trial production activities, but shall not include any expenditure which is incurred in acquiring land, or which is depreciated or amortised under section 22 or 24.

26. Scientific research expenditure.— (1) A person shall be allowed a deduction for scientific research expenditure incurred in Pakistan in a tax year wholly and exclusively for the purpose of deriving income from business chargeable to tax.

(2) In this section —

'scientific research' means any activity undertaken in Pakistan in the fields of natural or applied science for the development of human knowledge;

'scientific research expenditure' means any expenditure incurred by a person on scientific research undertaken in Pakistan for the purposes of developing the person's business, including any contribution to a scientific research institution to undertake scientific research for the purposes of the person's business, other than expenditure incurred –

(a) in the acquisition of any depreciable asset or intangible;

(b) in the acquisition of immovable property; or

(c) for the purpose of ascertaining the existence, location, extent or quality of a natural deposit; and

'scientific research institution' means any institution certified by the Board as conducting scientific research in Pakistan.

27. Employee training and facilities.— A person shall be allowed a deduction for any expenditure (other than capital expenditure) incurred in a tax year in respect of—

(a) any educational institution or hospital in Pakistan established for the benefit of the person's employees and their dependents;

(b) any institute in Pakistan established for the training of industrial workers recognized, aided, or run by the Federal Government or a Provincial Government or a Local Government; or

(c) the training of any person, being a citizen of Pakistan, in connection with a scheme approved by the Board for the purposes of this section.

28. Profit on debt, financial costs and lease payments.— (1) Subject to this Ordinance, a deduction shall be allowed for a tax year for —

(a) any profit on debt incurred by a person in the tax year to the extent that the proceeds or benefit of the debt have been used by the person for the purposes of business;

(b) any lease rental incurred by a person in the tax year to a scheduled bank, financial institution, an approved modaraba, an approved leasing company or a Special Purpose Vehicle on behalf of the Originator for an asset used by the person for the purposes of business;

(c) any amount incurred by a person in the tax year to a modaraba or a participation term certificate holder for any funds borrowed and used by the person for the purposes of business;

(d) any amount incurred by a scheduled bank in the tax year to a person maintaining a profit or loss sharing account or a deposit with the bank as a distribution of profits by the bank in respect of the account or deposit;

(e) any amount incurred by the House Building Finance Corporation (hereinafter referred to as 'the Corporation') constituted under the House Building Finance Corporation Act, 1952 (XVIII of 1952), in the tax year to the State Bank of Pakistan (hereinafter referred to as 'the Bank') as the share of the Bank in the profits derived by the Corporation on its investment in property made under a scheme of partnership in profit and loss, where the investment is provided by the Bank under the House Building Finance Corporation (Issue and Redemption of Certificates) Regulations, 1982;

(f) any amount incurred by the National Development Leasing Corporation Limited (hereinafter referred to as 'the Corporation') in the tax year to the State Bank of Pakistan (hereinafter referred to as 'the Bank') as the share of the Bank in the profits derived by the Corporation on its leasing operations financed out of a credit line provided by the Bank on a profit and loss sharing basis;

(g) any amount incurred by the Small and Medium Enterprises Bank (hereinafter referred to as 'the SME Bank') in the tax year to the State Bank of Pakistan (hereinafter referred to as the 'Bank') as the share of the Bank in the profits derived by the SME Bank on investments made in small business out of a credit line provided by the Bank on a profit and loss sharing basis;

(h) any amount incurred by a person in the tax year to a banking company under a scheme of musharika representing the bank's share in the profits of the musharika;

(i) any amount incurred by a person in the tax year to a certificate holder under a musharika scheme approved by the Securities and Exchange Commission and Religious Board formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) representing the certificate holder's share in the profits of the musharika; or

(j) the financial cost of the securitization of receivables incurred by an Originator in the tax year from a Special Purpose Vehicle being the difference between the amount received by the Originator and the amount of receivables securitized from a Special Purpose Vehicle.

(2) Notwithstanding any other provision in this Ordinance, where any assets are transferred by an Originator, as a consequence of securitisation, to a Special Purpose Vehicle, it shall be treated as a financing transaction irrespective of the method of accounting adopted by the Originator.

(3) In this section, —

'approved leasing company' means a leasing company approved by the Board for the purposes of clause (b) of sub-section (1); and

'approved modaraba' means a modaraba approved by the Board for the purposes of clause (b) of sub-section (1).

29. Bad debts.— (1) A person shall be allowed a deduction for a bad debt in a tax year if the following conditions are satisfied, namely:—

(a) the amount of the debt was –

(i) previously included in the person's income from business chargeable to tax; or

(ii) in respect of money lent by a financial institution in deriving income from business chargeable to tax;

(b) the debt or part of the debt is written off in the accounts of the person in the tax year;

and

(c) there are reasonable grounds for believing that the debt is irrecoverable.

(2) The amount of the deduction allowed to a person under this section for a tax year shall not exceed the amount of the debt written off in the accounts of the person in the tax year.

(3) Where a person has been allowed a deduction in a tax year for a bad debt and in a subsequent tax year the person receives in cash or kind any amount in respect of that debt, the following rules shall apply, namely:–

(a) where the amount received exceeds the difference between the whole of such bad debt and the amount previously allowed as a deduction under this section, the excess shall be included in the person's income under the head 'Income from Business' for the tax year in which it was received; or

(b) where the amount received is less than the difference between the whole of such bad debt and the amount allowed as a deduction under this section, the shortfall shall be allowed as a bad debt deduction in computing the person's income under the head 'Income from Business' for the tax year in which it was received.

29A. Provision regarding consumer loans.— (1) A non-banking finance company or the House Building Finance Corporation shall be allowed a deduction, not exceeding three per cent of the income for the tax year, arising out of consumer loans for creation of a reserve to off-set bad debts arising out of such loans.

(2) Where bad debt can not be wholly set off against reserve, any amount of bad debt, exceeding the reserves shall be carried forward for adjustment against the reserve for the following years.

Explanation.— In this section, 'consumer loan' means a loan of money or its equivalent made by a non-banking finance company or the House Building Finance Corporation to a debtor (consumer) and the loan is entered primarily for personal, family or household purposes and includes debts created by the use of a lender credit card or similar arrangement as well as insurance premium financing.

30. Profit on non-performing debts of a banking company or development finance institution.— (1) A banking company or development finance institution or Non-Banking Finance Company (NBFC) or modaraba shall be allowed a deduction for any profit accruing on a non-performing debt of the banking company or institution or Non-Banking Finance Company (NBFC) or modaraba where the profit is credited to a suspense account in accordance with the Prudential Regulations for Banks or Non-Banking Finance Company or modaraba Non-bank Financial Institutions, as the case may be, issued by the State Bank of Pakistan or the Securities and Exchange Commission of Pakistan.

(2) Any profit deducted under sub-section (1) that is subsequently recovered by the banking company or development finance institution or Non-Banking Finance Company (NBFC) or modaraba shall be included in the income of the company or institution or Non-Banking Finance Company (NBFC) or modaraba chargeable under the head 'Income from Business' for the tax year in which it is recovered.

31. Transfer to participatory reserve.— (1) Subject to this section, a company shall be allowed a deduction for a tax year for any amount transferred by the company in the year to a participatory reserve created under section 120 of the Companies Ordinance, 1984 (XLVII of 1984) in accordance with an agreement relating to participatory redeemable capital entered into between the company and a banking company as defined in the Financial Institutions (Recovery Of Finances) Ordinance,2001 (XLVI of 2001).

(2) The deduction allowed under subsection (1) for a tax year shall be limited to five per cent of the value of the company's participatory redeemable capital.

(3) No deduction shall be allowed under subsection (1) if the amount of the tax exempted accumulation in the participatory reserve exceeds ten per cent of the amount of the participatory redeemable capital.

(4) Where any amount accumulated in the participatory reserve of a company has been allowed as a deduction under this section is applied by the company towards any purpose other than payment of share of profit on the participatory redeemable capital or towards any purpose not allowable for deduction or exemption under this Ordinance the amount so applied shall be included in the income from business of the company in the tax year in which it is so applied.

Division IV
Tax Accounting

32. Method of accounting.— (1) Subject to this Ordinance, a person's income chargeable to tax shall be computed in accordance with the method of accounting regularly employed by such person.

(2) Subject to sub-section (3), a company shall account for income chargeable to tax under the head 'Income from Business' on an accrual basis, while other persons may account for such income on a cash or accrual basis.

(3) The Board may prescribe that any class of persons shall account for income chargeable to tax under the head 'Income from Business' on a cash or accrual basis.

(4) A person may apply, in writing, for a change in the person's method of accounting and the Commissioner may, by order in writing, approve such an application but only if satisfied that the change is necessary to clearly reflect the person's income chargeable to tax under the head 'Income from Business'.

(5) If a person's method of accounting has changed, the person shall make adjustments to items of income, deduction, or credit, or to any other items affected by the change so that no item is omitted and no item is taken into account more than once.

33. Cash-basis accounting.— A person accounting for income chargeable to tax under the head Income from Business' on a cash basis shall derive income when it is received and shall incur expenditure when it is paid.

34. Accrual-basis accounting.— (1) A person accounting for income chargeable to tax under the head 'Income from Business' on an accrual basis shall derive income when it is due to the person and shall incur expenditure when it is payable by the person.

(2) Subject to this Ordinance, an amount shall be due to a person when the person becomes entitled to receive it even if the time for discharge of the entitlement is postponed or the amount is payable by instalments.

(3) Subject to this Ordinance, an amount shall be payable by a person when all the events that determine liability have occurred and the amount of the liability can be determined with reasonable accuracy

(5) Where a person has been allowed a deduction for any expenditure incurred in deriving income chargeable to tax under the head 'Income from Business' and the person has not paid the liability or a part of the liability to which the deduction relates within three years of the end of the tax

year in which the deduction was allowed, the unpaid amount of the liability shall be chargeable to tax under the head 'Income from Business' in the first tax year following the end of the three years.

(5A) Where a person has been allowed a deduction in respect of a trading liability and such person has derived any benefit in respect of such trading liability, the value of such benefit shall be chargeable to tax under the head 'Income from Business' for the tax year in which such benefit is received.

(6) Where an unpaid liability is chargeable to tax as a result of the application of sub-section (5) and the person subsequently pays the liability or a part of the liability, the person shall be allowed a deduction for the amount paid in the tax year in which the payment is made.

35. **Stock-in-trade.**— (1) For the purposes of determining a person's income chargeable to tax under the head 'Income from Business' for a tax year, the cost of stock-in-trade disposed of by the person in the year shall be computed in accordance with the following formula, namely:—

(A + B) – C

where —

A is the opening value of the person's stock-in-trade for the year;

B is cost of stock-in-trade acquired by the person in the year; and

C is the closing value of stock-in-trade for the year.

(2) The opening value of stock-in-trade of a person for a tax year shall

(a) the closing value of the person's stock-in-trade at the end of the previous year; or

(b) where the person commenced to carry on business in the year, the fair market value of any stock-in-trade acquired by the person prior to the commencement of the business.

(3) The fair market value of stock-in-trade referred to in clause (b) of sub-section (2) shall be determined at the time the stock-in-trade is ventured in the business.

(4) The closing value of a person's stock-in-trade for a tax year shall be the lower of cost or net realisable value of the person's stock-in-trade on hand at the end of the year.

(5) A person accounting for income chargeable to tax under the head 'Income from Business' on a cash basis may compute the person's cost of stockin-trade on the prime-cost method or absorption-cost method, and a person accounting for such income on an accrual basis shall compute the person's cost of stock-in-trade on the absorption-cost method.

(6) Where particular items of stock-in-trade are not readily identifiable, a person may account for that stock on the first-in-first-out method or the average-cost method but, once chosen, a stock valuation method may be changed only with the written permission of the Commissioner and in accordance with any conditions that the Commissioner may impose.

(7) In this section, —

'absorption-cost method' means the generally accepted accounting principle under which the cost of an item of stock-in-trade is the sum of direct material costs, direct labour costs, and factory overhead costs;

'average-cost method' means the generally accepted accounting principle under which the valuation of stock-in-trade is based on a weighted average cost of units on hand;

'direct labour costs' means labour costs directly related to the manufacture or production of stock-in-trade;

'direct material costs' means the cost of materials that become an integral part of the stock-in-trade manufactured or produced, or which are consumed in the manufacturing or production process;

'factory overhead costs' means the total costs of manufacturing or producing stock-in-trade, other than direct labour and direct material costs;

'first-in-first-out method' means the generally accepted accounting principle under which the valuation of stock-in-trade is based on the assumption that stock is sold in the order of its acquisition;

'prime-cost method' means the generally accepted accounting principle under which the cost of stock-in-trade is the sum of direct material costs, direct labour costs, and variable factory overhead costs;

'stock-in-trade' means anything produced, manufactured, purchased, or otherwise acquired for manufacture, sale or exchange, and any materials or supplies to be consumed in the production or manufacturing process, but does not include stocks or shares; and

'variable factory overhead costs' means those factory overhead costs which vary directly with changes in volume of stock-in-trade manufactured or produced.

36. **Long-term contracts.**— (1) A person accounting for income chargeable to tax under the head 'Income from Business' on an accrual basis shall compute such income arising for a tax year under a long-term contract on the basis of the percentage of completion method.

(2) The percentage of completion of a long-term contract in a tax year shall be determined by comparing the total costs allocated to the contract and incurred before the end of the year with the estimated total contract costs as determined at the commencement of the contract.

(3) In this section, —

'long-term contract' means a contract for manufacture, installation, or construction, or, in relation to each, the performance of related services, which is not completed within the tax year in which work under the contract commenced, other than a contract estimated to be completed within six months of the date on which work under the contract commenced; and

'percentage of completion method' means the generally accepted accounting principle under which revenue and expenses arising under a long-term contract are recognised by reference to the stage of completion of the contract, as modified by sub-section (2).

PART V
HEAD OF INCOME: CAPITAL GAINS

37. **Capital gains.**— (1) Subject to this Ordinance, a gain arising on the disposal of a capital asset by a person in a tax year, other than a gain that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head 'Capital Gains'.

(1A) Notwithstanding anything contained in sub-sections (1) and (3) gain arising on the disposal of immovable property by a person in a tax year, shall be chargeable to tax in that year under the head Capital Gains at the rates specified in Division VIII of Part I of the First Schedule.

(2) Subject to sub-sections (3) and (4), the gain arising on the disposal of a capital asset by a person shall be computed in accordance with the following formula, namely:–

A – B

where —

A is the consideration received by the person on disposal of the asset; and

B is the cost of the asset.

(3) Where a capital asset has been held by a person for more than one year, other than shares of public companies including the vouchers of Pakistan Telecommunication Corporation, modaraba certificates or any instrument of redeemable capital as defined in the Companies Ordinance, 1984 (XLVII of 1984), the amount of any gain arising on disposal of the asset shall be computed in accordance with the following formula, namely: —

A x ¾

where A is the amount of the gain determined under sub-section (2).

(4) For the purposes of determining component B of the formula in sub-section (2), no amount shall be included in the cost of a capital asset for any expenditure incurred by a person –

(a) that is or may be deducted under another provision of this Chapter; or

(b) that is referred to in section 21.

(4A) Where the capital asset becomes the property of the person —

(a) under a gift, bequest or will;

(b) by succession, inheritance or devolution;

(c) a distribution of assets on dissolution of an association of persons; or

(d) on distribution of assets on liquidation of a company,

the fair market value of the asset, on the date of its transfer or acquisition by the person shall be treated to be the cost of the asset.

(5) In this section, 'capital asset' means property of any kind held by a person, whether or not connected with a business, but does not include —

(a) any stock-in-trade , consumable stores or raw materials held for the purpose of business;

(b) any property with respect to which the person is entitled to a depreciation deduction under section 22 or amortisation deduction under section 24; or

(d) any movable property excluding capital assets specified in sub-section (5) of section 38 held for personal use by the person or any member of the person's family dependent on the person.

37A. Capital gain on disposal of securities.— (1) The capital gain arising on or after the first day of July 2010, from disposal of securities held for a period of less than a year , other than a gain that is exempt from tax under this Ordinance, shall be chargeable to tax at the rates specified in Division VII of Part I of the First Schedule:

Provided that this section shall not apply to a banking company and an insurance company.

(1A) The gain arising on the disposal of a security by a person shall be computed in accordance with the following formula, namely: —

A – B

Where —

(i) 'A' is the consideration received by the person on disposal of the security; and

(ii) 'B' is the cost of acquisition of the security.

(2) The holding period of a security, for the purposes of this section, shall be reckoned from the date of acquisition (whether before, on or after the thirtieth day of June, 2010) to the date of disposal of such security falling after the thirtieth day of June, 2010.

(3) For the purposes of this section 'security' means share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital ,debt Securities and derivative products.

(3A) For the purpose of this section, 'debt securities' means -

(a) Corporate Debt Securities such as Term Finance Certificates (TFCs), Sukuk Certificates (Sharia Compliant Bonds), Registered Bonds, Commercial Papers, Participation Term Certificates (PTCs) and all kinds of debt instruments issued by any Pakistani or foreign company or corporation registered in Pakistan; and

(b) Government Debt Securities such as Treasury Bills (T-bills), Federal Investment Bonds (FIBs), Pakistan Investment Bonds (PIBs), Foreign Currency Bonds, Government Papers, Municipal Bonds, Infrastructure Bonds and all kinds of debt instruments issued by Federal Government, Provincial Governments, Local Authorities and other statutory bodies.

(4) Gain under this section shall be treated as a separate block of income.

(5) Notwithstanding anything contained in this Ordinance, where a person sustains a loss on disposal of securities in a tax year, the loss shall be set off only against the gain of the person from any other securities chargeable to tax under this section and no loss shall be carried forward to the subsequent tax year.

38. Deduction of losses in computing the amount chargeable under the head 'Capital Gains'.— (1) Subject to this Ordinance, in computing the amount of a person chargeable to tax under the head 'Capital Gains' for a tax year, a deduction shall be allowed for any loss on the disposal of a capital asset by the person in the year.

(2) No loss shall be deducted under this section on the disposal of a capital asset where a gain on the disposal of such asset would not be chargeable to tax.

(3) The loss arising on the disposal of a capital asset by a person shall be computed in accordance with the following formula, namely: —

A – B

where —

A is the cost of the asset; and

B is the consideration received by the person on disposal of the asset.

(4) The provisions of sub-section (4) of section 37 shall apply in determining component A of the formula in sub-section (3).

(5) No loss shall be recognized under this Ordinance on the disposal of the following capital assets, namely:—

(a) A painting, sculpture, drawing or other work of art; jewellery;

(b) a rare manuscript, folio or book;

(c) a postage stamp or first day cover;

(d) a coin or medallion; or

(e) an antique.

PART VI

HEAD OF INCOME: INCOME FROM OTHER SOURCES

39. Income from other sources. — (1) Income of every kind received by a person in a tax year, if it is not included in any other head, other than income exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head 'Income from Other Sources', including the following namely: —

(a) Dividend;

(b) royalty;

(c) profit on debt;

(cc) additional payment on delayed refund under any tax law;

(d) ground rent;

(e) rent from the sub-lease of land or a building;

(f) income from the lease of any building together with plant or machinery;

(fa) income from provision of amenities, utilities or any other service connected with renting of building;

(g) any annuity or pension;

(h) any prize bond, or winnings from a raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale or cross-word puzzle;

(i) any other amount received as consideration for the provision, use or exploitation of property, including from the grant of a right to explore for, or exploit, natural resources;

(j) the fair market value of any benefit, whether convertible to money or not, received in connection with the provision, use or exploitation of property;

(k) any amount received by a person as consideration for vacating the possession of a building or part thereof, reduced by any amount paid by the person to acquire possession of such building or part thereof.

(l) any amount received by a person from Approved Income Payment Plan or Approved Annuity Plan under Voluntary Pension System Rules, 2005; and

(m) income arising to the shareholder of a company, from the issuance of bonus shares.

(2) Where a person receives an amount referred to in clause (k) of sub-section (1), the amount shall be chargeable to tax under the head 'Income from Other Sources' in the tax year in which it was received and the following nine tax years in equal proportion.

(3) Subject to sub-section (4), any amount received as a loan, advance, deposit for issuance of shares or gift by a person in a tax year from another person (not being a banking company or financial institution) otherwise than by a crossed cheque drawn on a bank or through a banking channel from a person holding a National Tax Number shall be treated as income chargeable to tax under the head 'Income from Other Sources' for the tax year in which it was received.

(4) Sub-section (3) shall not apply to an advance payment for the sale of goods or supply of services.

(4A) Where —

(a) any profit on debt derived from investment in National Savings Deposit Certificates including Defence Savings Certificate paid

(b) to a person in arrears or the amount received includes profit chargeable to tax in the tax year or years preceding the tax year in which it is received; and

(c) as a result the person is chargeable at higher rate of tax than would have been applicable if the profit had been paid to the person in the tax year to which it relates,

the person may, by notice in writing to the Commissioner, elect for the profit to be taxed at the rate of tax that would have been applicable if the profit had been paid to the person in the tax year to which it relates.

(4B) An election under sub-section (4A) shall be made by the due date for furnishing the person's return of income for the tax year in which the amount was received or by such later date as the Commissioner may allow by an order in writing.

(5) This section shall not apply to any income received by a person in a tax year that is chargeable to tax under any other head of income or subject to tax under section 5, 6 or 7.

40. Deductions in computing income chargeable under the head 'Income from Other Sources'. — (1) Subject to this Ordinance, in computing the income of a person chargeable to tax under the head Income from Other Sources' for a tax year, a deduction shall be allowed for any expenditure paid by the person in the year to the extent to which the expenditure is paid in deriving income chargeable to tax under that head, other than expenditure of a capital nature.

(2) A person receiving any profit on debt chargeable to tax under the head 'Income from Other Sources' shall be allowed a deduction for any Zakat paid by the person under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), at the time the profit is paid to the person.

(3) A person receiving income referred to in clause (f) of sub-section section (1) of section 39 chargeable to tax under the head 'Income from Other Sources' shall be allowed —

(a) a deduction for the depreciation of any plant, machinery or building used to derive that income in accordance with section 22; and

(b) an initial allowance for any plant or machinery used to derive that income in accordance with section 23.

(4) No deduction shall be allowed to a person under this section to the extent that the expenditure is deductible in computing the income of the person under another head of income.

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

(6) Expenditure is of a capital nature if it has a normal useful life of more than one year.

PART VII

EXEMPTIONS AND TAX CONCESSIONS

41. Agricultural income. — (1) Agricultural income derived by a person shall be exempt from tax under this Ordinance.

(2) In this section, 'agricultural income' means, —

(a) any rent or revenue derived by a person from land which is situated in Pakistan and is used for agricultural purposes;

(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

(c) any income derived by a person from —

(i) any building owned and occupied by the receiver of the rent or revenue of any land described in clause (a) or (b);

(ii) any building occupied by the cultivator, or the receiver of rent-in-kind, of any land in respect of which, or the produce of which, any operation specified in sub-clauses (ii) or (iii) of clause (b) is carried on,

but only where the building is on, or in the immediate vicinity of the land and is a building which the receiver of the rent or revenue, or the cultivator, or the receiver of the rent-in-kind by reason of the person's connection with the land, requires as a dwelling-house, a store-house, or other out-building.

42. Diplomatic and United Nations exemptions. — (1) The income of an individual entitled to privileges under the Diplomatic and Consular Privileges Act, 1972 (IX of 1972) shall be exempt from tax under this Ordinance to the extent provided for in that Act.

(2) The income of an individual entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948 (XX of 1948), shall be exempt from tax under this Ordinance to the extent provided for in that Act.

(3) Any pension received by a person, being a citizen of Pakistan, by virtue of the person's former employment in the United Nations or its specialised agencies (including the International Court of Justice) provided the person's salary from such employment was exempt under this Ordinance.

43. Foreign government officials.— Any salary received by an employee of a foreign government as remuneration for services rendered to such government shall be exempt from tax under this Ordinance provided —

(a) the employee is a citizen of the foreign country and not a citizen of Pakistan;

(b) the services performed by the employee are of a character similar to those performed by employees of the Federal Government in foreign countries; and

(c) the foreign government grants a similar exemption to employees of the Federal Government performing similar services in such foreign country.

44. Exemptions under international agreements.— (1) Any Pakistan-source income which Pakistan is not permitted to tax under a tax treaty shall be exempt from tax under this Ordinance.

(2) Any salary received by an individual (not being a citizen of Pakistan) shall be exempt from tax under this Ordinance to the extent provided for in an Aid Agreement between the Federal Government and a foreign government or public international organization, where –

(a) the individual is either not a resident individual or a resident individual solely by reason of the performance of services under the Aid Agreement;

(b) if the Aid Agreement is with a foreign country, the individual is a citizen of that country; and

(c) the salary is paid by the foreign government or public international organisation out of funds or grants released as aid to Pakistan in pursuance of such Agreement.

(3) Any income received by a person (not being a citizen of Pakistan) engaged as a contractor, consultant, or expert on a project in Pakistan shall be exempt from tax under this Ordinance to the extent provided for in a bilateral or multilateral technical assistance agreement between the Federal Government and a foreign government or public international organisation, where —

(a) the project is financed out of grant funds in accordance with the agreement;

(b) the person is either a non-resident person or a resident person solely by reason of the performance of services under the agreement; and

(c) the income is paid out of the funds of the grant in pursuance of the agreement.

45. President's honours.— (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.

46. Profit on debt.— Any profit received by a non-resident person on a security issued by a resident person shall be exempt from tax under this Ordinance where—

(a) the persons are not associates;

(b) the security was widely issued by the resident person outside Pakistan for the purposes of raising a loan outside Pakistan for use in a business carried on by the person in Pakistan;

(c) the profit was paid outside Pakistan; and

(d) the security is approved by the Board for the purposes of this section.

47. Scholarships.— Any scholarship granted to a person to meet the cost of the person's education shall be exempt from tax under this Ordinance, other than where the scholarship is paid directly or indirectly by an associate.

48. Support payments under an agreement to live apart.— Any income received by a spouse as support payment under an agreement to live apart shall be exempt from tax under this Ordinance.

49. Federal Government, Provincial Government, and Local Government income.— (1) The income of the Federal Government shall be exempt from tax under this Ordinance.

(2) The income of a Provincial Government or a Local Government in Pakistan shall be exempt from tax under this Ordinance, other than income chargeable under the head 'Income from Business' derived by a Provincial Government or Local Government from a business carried on outside its jurisdictional area.

(3) Subject to sub-section (2), any payment received by the Federal Government, a Provincial Government or a Local Government shall not be liable to any collection or deduction of advance tax.

(4) Exemption under this section shall not be available in the case of corporation, company, a regulatory authority, a development authority, other body or institution established by or under a Federal law or a Provincial law or an existing law or a corporation, company, a regulatory authority, a development authority or other body or institution set up, owned and controlled, either directly or indirectly, by the Federal Government or a Provincial Government, regardless of the ultimate destination of such income as laid down in Article 165A of the Constitution of the Islamic Republic of Pakistan:

Provided that the income from sale of spectrum licenses by Pakistan Telecommunication

Authority on behalf of the Federal Government after the first day of March 2014 shall be treated as income of the Federal Government and not of the Pakistan Telecommunication Authority.

50. Foreign-source income of short-term resident individuals.— (1) Subject to sub-section (2), the foreign-source income of an individual —

(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,

shall be exempt from tax under this Ordinance.

(2) This section shall not apply to —

(a) any income derived from a business of the person established in Pakistan; or

(b) any foreign-source income brought into or received in Pakistan by the person.

51. Foreign-source income of returning expatriates.— (1) Any foreign-source income derived by a citizen of Pakistan in a tax year who was not a resident individual in any of the four tax years preceding the tax year in which the individual became a resident shall be exempt from tax under this Ordinance in the tax year in which the individual became a resident individual and in the following tax year.

(2) Where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad during that tax year, any income chargeable under the head 'Salary' earned by him outside Pakistan during that year shall be exempt from tax under this Ordinance.

53. Exemptions and tax concessions in the Second Schedule.— (1) The income or classes of income, or persons or classes of persons specified in the Second Schedule shall be —

(a) exempt from tax under this Ordinance, subject to any conditions and to the extent specified therein;

(b) subject to tax under this Ordinance at such rates, which are less than the rates specified in the First Schedule, as are specified therein;

(c) allowed a reduction in tax liability under this Ordinance, subject to any conditions and to the extent specified therein; or

(d) exempted from the operation of any provision of this Ordinance, subject to any conditions and to the extent specified therein.

(2) The Federal Government may, from time to time, by notification in the official Gazette, make such amendment in the Second Schedule by —

(a) adding any clause or condition therein;

(b) omitting any clause or condition therein; or

(c) making any change in any clause or condition therein,

as the Government may think fit, and all such amendments shall have effect in respect of any tax year beginning on any date before or after the commencement of the financial year in which the notification is issued.

(3) The Federal Government shall place before the National Assembly all amendments made by it to the Second Schedule in a financial year.

54. Exemptions and tax provisions in other laws.— No provision in any other law providing for

(a) an exemption from any tax imposed under this Ordinance;

(b) a reduction in the rate of tax imposed under this Ordinance;

(c) a reduction in tax liability of any person under this Ordinance; or

(d) an exemption from the operation of any provision of this Ordinance,

shall have legal effect unless also provided for in this Ordinance.

55. Limitation of exemption.— (1) Where any income is exempt from tax under this Ordinance, the exemption shall be, in the absence of a specific provision to the contrary contained in this Ordinance, limited to the original recipient of that income and shall not extend to any person receiving any payment wholly or in part out of that income.

PART VIII
LOSSES

56. Set off of losses.— (1) Subject to sections 58 and 59, where a person sustains a loss for any tax year under any head of income specified in section 11, the person shall be entitled to have the amount of the loss set off against the person's income, if any, chargeable to tax under any other head of income except income under the head salary or income from property for the year.

(2) Except as provided in this Part, where a person sustains a loss under a head of income for a tax year that cannot be set off under sub-section (1), the person shall not be permitted to carry the loss forward to the next tax year.

(3) Where, in a tax year, a person sustains a loss under the head 'Income from Business' and a loss under another head of income, the loss under the head 'Income from Business shall be set off last.

56A. Set off of losses of companies operating hotels.— Subject to sections 56 and 57, where a company registered in Pakistan or Azad Jammu and Kashmir (AJ&K), operating hotels in Pakistan or AJ&K, sustains a loss in Pakistan or AJ&K for any tax year under the head 'income from business' shall be entitled to have the amount of the loss set off against the company's income in Pakistan or AJ&K, as the case may be, from the tax year 2007 onward.

57. Carry forward of business losses.— (1) Where a person sustains a loss for a tax year under the head 'Income from Business' (other than a loss to which section 58 applies) and the loss cannot be wholly set off under section 56, so much of the loss that has not been set off shall be carried forward to the following tax year and set off against the person's income chargeable under the head 'Income from Business' for that year.

(2) If a loss sustained by a person for a tax year under the head 'Income from Business' is not wholly set off under sub-section (1), then the amount of the loss not set off shall be carried forward to the following tax year and applied as specified in sub-section (1) in that year, and so on, but no loss can be carried forward to more than six tax years immediately succeeding the tax year for which the loss was first computed.

(2A) Where a loss, referred to in sub-section (2), relating to any assessment year commencing on or after 1st day of July, 1995, and ending on the 30th day of June 2001, is sustained by a banking company wholly owned by the Federal Government as on first day of June, 2002, which is approved by the State Bank of Pakistan for the purpose of this sub-section, the said loss shall be carried forward for a period of ten years.

(3) Where a person has a loss carried forward under this section for more than one tax year, the loss of the earliest tax year shall be set off first.

(4) Where the loss referred to in sub-section (1) includes deductions allowed under sections 22, 23 23A, 23B and 24 that have not been set off against income, the amount not set off shall be added to the deductions allowed under those sections in the following tax year, and so on until

completely set off.

(5) In determining whether a person's deductions under sections 22, 23 23A, 23B and 24 have been set off against income, the deductions allowed under those sections shall be taken into account last.

57A. Set off of business loss consequent to amalgamation.— (1) The assessed loss (excluding capital loss) for the tax year, other than brought forward and capital loss, of the amalgamating company or companies shall be set off against business profits and gains of the amalgamated company, and vice versa, in the year of amalgamation and where the loss is not adjusted against the profits and gains for the tax year the unadjusted loss shall be carried forward for adjustment upto a period of six tax years succeeding the year of amalgamation.

(2) The provisions of sub-section (4) and (5) of section 57 shall, mutatis mutandis, apply for the purposes of allowing unabsorbed depreciation of amalgamating company or companies in the assessment of amalgamated company and vice versa

Provided that the losses referred to in sub-section (1) and unabsorbed depreciation referred to in sub-section (2) shall be allowed set off subject to the condition that the amalgamated company continues the business of the amalgamating company for a minimum period of five years from the date of amalgamation.

(2A) In case of amalgamation of Banking Company or Non-banking Finance Company, modarabas or insurance company, the accumulated loss under the head 'Income from Business (not being speculation business losses) of an amalgamating company or companies shall be set off or carried forward against the business profits and gains of the amalgamated company and vice versa, up to a period of six tax years immediately succeeding the tax year in which the loss was first computed in the case of amalgamated company or amalgamating company or companies.

Provided that the provisions of this sub-section shall in the case of Banking companies be applicable from July 1, 2007.

(3) Where any of the conditions as laid down by the State Bank of Pakistan or the Securities and Exchange Commission of Pakistan or any court, court, as the case may be, in the scheme of amalgamation, are not fulfilled, the set off of loss or allowance for depreciation made in any tax year of the amalgamated company or the amalgamating company or companies shall be deemed to be the income of that amalgamated company or the amalgamating company or companies, as the case may be, for the year in which such default is discovered by the Commissioner or taxation officer, and all the provisions of this Ordinance shall apply accordingly.

58. Carry forward of speculation business losses.— (1) Where a person sustains a loss for a tax year in respect of a speculation business carried on by the person (hereinafter referred to as a 'speculation loss'), the loss shall be set off only against the income of the person from any other speculation business of the person chargeable to tax for that year.

(2) If a speculation loss sustained by a person for a tax year is not wholly set off under sub-section (1), then the amount of the loss not set off shall be carried forward to the following tax year and applied against the income of any speculation business of the person in that year and applied as specified in sub-section (1) in that year, and so on, but no speculation loss shall be carried forward to more than six tax years immediately succeeding the tax year for which the loss was first computed.

(3) Where a person has a loss carried forward under this section for more than one tax year, the loss of the earliest tax year shall be set off first.

59. Carry forward of capital losses.— (1) Where a person sustains a loss for a tax year under the head 'Capital Gains' (hereinafter referred to as a 'capital loss'), the loss shall not be set off against the

person's income, if any, chargeable under any other head of income for the year, but shall be carried forward to the next tax year and set off against the capital gain, if any, chargeable under the head 'Capital Gains' for that year.

(2) If a capital loss sustained by a person for a tax year under the head 'Capital Gains' is not wholly set off under sub-section (1), then the amount of the loss not set off shall be carried forward to the following tax year, and so on, but no loss shall be carried forward to more than six tax years immediately succeeding the tax year for which the loss was first computed.

(3) Where a person has a loss carried forward under this section for more than one tax year, the loss of the earliest tax year shall be set off first.

59A. Limitations on set off and carry forward of losses.—

(3) In case of association of persons any loss shall be set off or carried forward and set off only against the income of the association.

(4) Nothing contained in section 56, 57, 58 or 59 shall entitle —

(a) any member of an association of persons to set off any loss sustained by such association of persons, as the case may be, or have it carried forward and set off, against his income; or

(b) any person who has succeeded, in such capacity, any other person carrying on any business or profession, otherwise than by inheritance, to carry forward and set off against his income, any loss sustained by such other person.

(5) Where in computing the taxable income for any tax year, full effect cannot be given to a deduction mentioned in section 22, 23, 24 or 25 owing to there being no profits or gains chargeable for that year or such profits or gains being less than the deduction, then, subject to sub-section (12) of section 22, and sub-section (6), the deduction or part of the deduction to which effect has not been given, as the case may be, shall be added to the amount of such deduction for the following year and be treated to be part of that deduction, or if there is no such deduction for that year, be treated to be the deduction for that year and so on for succeeding years.

(6) Where, under sub-section (5), deduction is also to be carried forward, effect shall first be given to the provisions of section 56 and sub-section (2) of section 58.

(7) Notwithstanding anything contained in this Ordinance, no loss which has not been assessed or determined in pursuance of an order made under section 59, 59A, 62, 63 or 65 of the repealed Ordinance or an order made or treated as made under section 120, 121 or 122 shall be carried forward and set off under section 57, sub-section (2) of section 58 or section 59.

59AA. Group taxation.— (1) Holding companies and subsidiary companies of 100% owned group may opt to be taxed as one fiscal unit. In such cases, besides consolidated group accounts as required under the Companies Ordinance, 1984 (XLVII of 1984), computation of income and tax payable shall be made for tax purposes.

(2) The companies in the group shall give irrevocable option for taxation under this section as one fiscal unit.

(3) The group taxation shall be restricted to companies locally incorporated under the Companies Ordinance, 1984 (XLVII of 1984).

(4) The relief under group taxation would not be available to losses prior to the formation of the group.

(5) The option of group taxation shall be available to those group companies which comply with such corporate governance requirements and group designation rules or regulations as may be

specified by the Securities and Exchange Commission of Pakistan from time to time and are designated as companies entitled to avail group taxation.

(6) Group taxation may be regulated through rules as may be made by the Board.

59B. Group relief.— (1) Subject to sub-section (2), any company, being a subsidiary of a holding company, may surrender its assessed loss (excluding capital loss) for the tax year (other than brought forward losses and capital losses), in favour of its holding company or its subsidiary or between another subsidiary of the holding company:

Provided that where one of the company in the group is a public company listed on a registered stock exchange in Pakistan, the holding company shall directly hold fifty-five per cent or more of the share capital of the subsidiary company. Where none of the companies in the group is a listed company, the holding company shall hold directly seventy-five per cent or more of the share capital of the subsidiary company.

(2) The loss surrendered by the subsidiary company may be claimed by the holding company or a subsidiary company for set off against its income under the head 'Income from Business' in the tax year and the following two tax years subject to the following conditions, namely:—

(a) there is continued ownership for five years, of share capital of the subsidiary company to the extent of fifty-five per cent in the case of a listed company, or seventy-five per cent or more, in the case of other companies;

(b) a company within the group engaged in the business of trading shall not be entitled to avail group relief;

(c) holding company, being a private limited company with seventy-five per cent ownership of share capital gets itself listed within three years from the year in which loss is claimed;

(d) the group companies are locally incorporated companies under the Companies Ordinance, 1984 (XLVII of 1984);

(e) the loss surrendered and loss claimed under this section shall have approval of the Board of Directors of the respective companies;

(f) the subsidiary company continues the same business during the said period of three years;

(g) all the companies in the group shall comply with such corporate governance requirements and group designation rules or regulations as may be specified by the Securities and Exchange Commission of Pakistan from time to time, and are designated as companies entitled to avail group relief; and

(h) any other condition as may be prescribed.

(3) The subsidiary company shall not be allowed to surrender its assessed losses for set off against income of the holding company for more than three tax years.

(4) Where the losses surrendered by a subsidiary company are not adjusted against income of the holding company in the said three tax years, the subsidiary company shall carry forward the unadjusted losses in accordance with section 57.

(5) If there has been any disposal of shares by the holding company during the aforesaid period of five years to bring the ownership of the holding company to less than fifty-five per cent or seventy-five per cent, as the case may be, the holding company shall, in the year of disposal, offer the amount of profit on which taxes have not been paid due to set off of losses surrendered by the subsidiary company.

(6) Loss claiming company shall, with the approval of the Board of Directors, transfer cash to the loss surrendering company equal to the amount of tax payable on the profits to be set off against the acquired loss at the applicable tax rate. The transfer of cash would not be taken as a taxable event in the case of either of the two companies.

(7) The transfer of shares between companies and the share holders, in one direction, would not be taken as a taxable event provided the transfer is to acquire share capital for formation of the group and approval of the Security and Exchange Commission of Pakistan or State Bank of Pakistan, as the case may be, has been obtained in this effect. Sale and purchase from third party would be taken as taxable event.

PART IX
DEDUCTIBLE ALLOWANCES

60. Zakat.— (1) A person shall be entitled to a deductible allowance for the amount of any Zakat paid by the person in a tax year under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

(2) Sub-section (1) does not apply to any Zakat taken into account under sub-section (2) of section 40.

(3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted under section 9 for the year shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year.

60A. Workers' Welfare Fund.— A person shall be entitled to a deductible allowance for the amount of any Workers' Welfare Fund paid by the person in tax year under Workers' Welfare Fund Ordinance, 1971 (XXXVI of 1971).

60B. Workers' Participation Fund.— A person shall be entitled to a deductible allowance for the amount of any Workers' Participation Fund paid by the person in a tax year in accordance with the provisions of the Companies Profit (Workers' Participation) Act, 1968 (XII of 1968).

PART X
TAX CREDITS

61. Charitable donations.— (1) A person shall be entitled to a tax credit in respect of any sum paid, or any property given by the person in the tax year as a donation to —

(a) any board of education or any university in Pakistan established by, or under, a Federal or a Provincial law;

(b) any educational institution, hospital or relief fund established or run in Pakistan by Federal Government or a Provincial Government or a Local Government; or

(c) any non-profit organization.

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely:—

$(A/B) \times C$

where —

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person's taxable income for the tax year; and

C is the lesser of—

(a) the total amount of the person's donations referred to in sub-section (1) in the year, including the fair market value of any property given; or

(b) where the person is —

(i) an individual or association of persons, thirty per cent of the taxable income of the person for the year; or

(ii) a company, twenty per cent of the taxable income of the person for the year.

(3) For the purposes of clause (a) of component C of the formula in sub-section (2), the fair market value of any property given shall be determined at the time it is given.

(4) A cash amount paid by a person as a donation shall be taken into account under clause (a) of component C of sub-section (2) only if it was paid by a crossed cheque drawn on a bank.

(5) The Board may make rules regulating the procedure of the grant of approval under sub-clause (c) of clause (36) of section 2 and any other matter connected with, or incidental to, the operation of this section.

62. Tax credit for investment in shares and insurance. — (1) A resident person other than a company shall be entitled to a tax credit for a tax year either—

(i) in respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan, provided the resident person is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan; or

(ii) in respect of any life insurance premium paid on a policy to a life insurance company registered by the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000 (XXXIX of 2000), provided the resident person is deriving income chargeable to tax under the head 'salary' or 'income from business'.

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —

(A/B) × C

where—

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person's taxable income for the tax year; and

C is the lesser of—

(a) the total cost of acquiring the shares, or the total contribution or premium paid by the person referred to in sub-section (1) in the year;

(b) twenty per cent of the person's taxable income for the year; or

(c) one million rupees.

(3) Where —

(a) a person has been allowed a tax credit under sub-section (1) in a tax year in respect of the purchase of a share; and

(b) the person has made a disposal of the share within twentyfour months of the date of acquisition, the amount of tax payable by the person for the tax year in which the shares were disposed of shall be increased by the amount of the credit allowed.

63. Contribution to an Approved Pension Fund.— (1) An eligible person as defined in sub-section (1 9A) of section 2 deriving income chargeable to tax under the head 'Salary' or the head 'Income from Business' shall be entitled to a tax credit for a tax year in respect of any contribution or premium paid in the year by the person in approved pension fund under the Voluntary Pension System Rules, 2005.

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: —

(A/B) × C

Where —

A is the amount of tax assessed to the person for the tax year, before allowance of any tax credit under this Part;

B is the person's taxable income for the tax year; and

C is the lesser of —

(i) the total contribution or premium referred to in sub-section (1) paid by the person in the year; or

(ii) twenty per cent of the eligible person's taxable income for the relevant tax year;

Provided that an eligible person joining the pension fund at the age of forty-one years or above, during the first ten years starting from July 1, 2006 shall be allowed additional contribution of 2% per annum for each year of age exceeding forty years.

Provided further that the total contribution allowed to such person shall not exceed 50% of the total taxable income of the preceding year.

(3) The transfer by the members of approved employment pension or annuity scheme or approved occupational saving scheme of their existing balance to their individual pension accounts maintained with one or more pension fund managers shall not qualify for tax credit under this section.

64. Profit on debt.— (1) A person shall be entitled to a tax credit for a tax year in respect of any profit or share in rent and share in appreciation for value of house paid by the person in the year on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the Local Government Government or a statutory body or a public company listed on a registered stock exchange in Pakistan where the person utilizes the loan for the construction of a new house or the acquisition of a house.

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely:—

(A/B) × C

where —

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person's taxable income for the tax year; and

C is the lesser of —

(a) the total profit referred to in sub-section (1) paid by the person in the year;

(b) fifty per cent of the person's taxable income for the year; or

(c) seven hundred and fifty thousand rupees.

(3) A person is not entitled to tax credit under this section for any profit deductible under section 17.

65. Miscellaneous provisions relating to tax credits.— (1) Where the person entitled to a tax credit under this Part is a member of an association of persons to which sub-section (1) of section 92 applies, the following shall apply—

(a) component A of the formula in sub-section (2) of section 61, sub-section (2) of section 62, sub-section (2) of section 63 and sub-section (2) of section 64 shall be the amount of tax that would be assessed to the individual if any amount derived in the year that is exempt from tax under sub-section (1) of section 92 were chargeable to tax; and

(b) component B of the formula in sub-section (2) of section 61, sub-section (2) of section 62, sub-section (2) of section 63 and sub-section (2) of section 64 shall be the taxable income of the individual for the year if any amount derived in the year that is exempt from tax under sub-section (1) of section 92 were chargeable to tax.

(2) Any tax credit allowed under this Part shall be applied in accordance with sub-section (3) of section 4.

(3) Subject to sub-section (4), any tax credit or part of a tax credit allowed to a person under this Part for a tax year that is not able to be credited under sub-section (3) of section 4 for the year shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year.

(4) Where the person to whom sub-section (3) applies is a member of an association of persons to which sub-section (1) of section 92 applies, the amount of any excess credit under sub-section (3) for a tax year may be claimed as a tax credit by the association for that year.

(5) Sub-section (4) applies only where the member and the association agree in writing for the sub-section to apply and such agreement in writing must be furnished with the association's return of income for that year.

65A. Tax credit to a person registered under the Sales Tax Act, 1990. — (1) Every manufacturer, registered under the Sales Tax Act, 1990, shall be entitled to a tax credit of two and a half per cent of tax payable for a tax year, if ninety per cent of his sales are to the person who is registered under the aforesaid Act during the said tax year.

(2) For claiming of the credit, the person shall provide complete details of the persons to whom the sales were made.

(3) No credit will be allowed to a person whose income is covered under final tax or minimum tax.

(4) Carry forward of any amount where full credit may not be allowed against the tax liability for the tax year, shall not be allowed.

65B. Tax credit for investment.— (1) Where a taxpayer being a company invests any amount in the purchase of plant and machinery, for the purposes of extension, expansion, balancing, modernization and replacement of the plant and machinery, already installed therein, in an industrial undertaking set up in Pakistan and owned by it, credit equal to ten per cent of the amount so invested shall be allowed against the tax payable, including on account of minimum tax and final taxes payable under any of the provisions of this Ordinance, by it in the manner hereinafter provided.

(2) The provisions of sub-section (1) shall apply if the plant and machinery is purchased and installed at any time between the first day of July, 2010, and the 30th day of June, 2015.

(3) The amount of credit admissible under this section shall be deducted from the tax payable by the taxpayer in respect of the tax year in which the plant or machinery in the purchase of which the amount referred to in sub-section (1) is invested and installed.

(4) The provisions of this section shall mutatis mutandis apply to a company setup in Pakistan before the first day of July, 2011, which makes investment, through hundred per cent new equity, during first day of July, 2011 and 30th day of June, 2016, for the purposes of balancing, modernization and replacement of the plant and machinery already installed in an industrial undertaking owned by the company. However, credit equal to twenty per cent of the amount so invested shall be allowed against the tax payable, including on account of minimum tax and final taxes payable under any of the provisions of this Ordinance. The credit shall be allowed in the year in which the plant and machinery in the purchase of which the investment as aforesaid is made, is installed therein.

Explanation.— For the purpose of this section the term 'new equity' shall, have the same meaning as defined in sub-section (7) of section 65E.

(5) Where no tax is payable by the taxpayer in respect of the tax year in which such plant or machinery is installed, or where the tax payable is less than the amount of credit as aforesaid, the amount of the credit or so much of it as is in excess thereof, as the case may be, shall be carried forward and deducted from the tax payable by the taxpayer in respect of the following tax year and so on, but no such amount shall be carried forward for more than two tax years in the case of investment referred to in sub-section (1) and for more than five tax years in respect of investment referred to in sub-section (4), however, the deduction made under this section shall not exceed in aggregate the limit specified in sub-section (1) or sub-section (4), as the case may be.

(6) Where any credit is allowed under this section and subsequently it is discovered by the Commissioner Inland Revenue that any one or more of the conditions specified in this section was, or were, not fulfilled, as the case may be, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner, notwithstanding anything contained in this Ordinance, shall re-compute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall, so far as may be, apply accordingly.

65C. Tax credit for enlistment. — (1) Where a taxpayer being a company opts for enlistment in any registered stock exchange in Pakistan, a tax credit equal to fifteen per cent of the tax payable shall be allowed for the tax year in which the said company is enlisted.

65D. Tax credit for newly established industrial undertakings. — (1) Where a taxpayer being a company formed for establishing and operating a new industrial undertaking including corporate dairy farming sets up a new industrial undertaking including a corporate dairy farm, it shall be given a tax credit equal to hundred per cent of the tax payable , including on account of minimum tax and final taxes payable under any of the provisions of this Ordinance, on the taxable income arising from such industrial undertaking for a period of five years beginning from the date of setting up or commencement of commercial production, whichever is later.

(2) Tax credit under this section shall be admissible where—

(a) the company is incorporated and industrial undertaking is setup between the first day of July, 2011 and 30th day of June, 2016;

(b) industrial undertaking is managed by a company formed for operating the said industrial undertaking and registered under the Companies Ordinance, 1984 (XLVII of 1984) and having its registered office in Pakistan;

(c) the industrial undertaking is not established by the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an industrial undertaking established in Pakistan at any time before 1st July 2011; and

(d) the industrial undertaking is set up with hundred per cent equity raised throug issuance of new shares for cash consideration:

Provided that short term loans and finances obtained from banking companies or non-banking financial institutions for the purposes of meeting working capital requirements shall not disqualify the taxpayer from claiming tax credit under this section.

(4) Where any credit is allowed under this section and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner Inland Revenue that any of the conditions specified in this section were not fulfilled, fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner Inland Revenue may, notwithstanding anything contained in this Ordinance, re-compute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall, so far as may be, apply accordingly.

(5) For the purposes of this section and sections 65B and 65E, an industrial undertaking shall be treated to have been setup on the date on which the industrial undertaking is ready to go into production, whether trial production or commercial production.

65E. Tax credit for industrial undertakings established before the first day of July, 2011.— (1) Where a taxpayer being a company, setup in Pakistan before the first day of July, 2011, invests any amount, with hundred per cent new equity raised through issuance of new shares, in the purchase and installation of plant and machinery for an industrial undertaking, including corporate dairy farming, for the purposes of-

(i) expansion of the plant and machinery already installed therein; or

(ii) undertaking a new project,

a tax credit shall be allowed against the tax payable in the manner provided in sub-section (2) and sub-section (3), as the case may be, for a period of five years beginning from the date of setting up or commencement of commercial production from the new plant or expansion project, whichever is later.

(2) Where a taxpayer maintains separate accounts of an expansion project or a new project, as the case may be, the taxpayer shall be allowed a tax credit equal to one hundred per cent of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, attributable to such expansion project or new project.

(3) In all other cases, the credit under this section shall be such proportion of the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, as is the proportion between the new equity and the total equity including new equity.

(4) The provisions of sub-section (1) shall apply if the plant and machinery is installed at any time between the first day of July, 2011 and the 30th day of June, 2016.

(5) The amount of credit admissible under this section shall be deducted from the tax payable, including minimum tax and final taxes payable under any of the provisions of this Ordinance, by the taxpayer in respect of the tax year in which the plant or machinery referred to in sub-section (1) is installed and for the subsequent four years.

(6) Where any credit is allowed under this section and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner Inland Revenue that any of the condition specified in this section was not fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner Inland Revenue may, notwithstanding anything contained in this Ordinance, re-compute the tax payable by the taxpayer for the relevant year and the provisions of this Ordinance shall apply accordingly.

(7) For the purposes of this section, "new equity" means equity raised through fresh issue of shares against cash by the company and shall not include loans obtained from shareholders or directors:

Provided that short term loans and finances obtained from banking companies or non-banking financial institutions for the purposes of meeting working capital requirements shall not disqualify the taxpayer from claiming tax credit under this section.

PROCEDURE

PART IV
COLLECTION AND RECOVERY OF TAX

137. Due date for payment of tax.— (1) The tax payable by a taxpayer on the taxable income of the taxpayer including the tax payable under section 1 13 or 11 3A for a tax year shall be due on the due date for furnishing the taxpayer's return of income for that year.

(2) Where any tax is payable under an assessment order or an amended assessment order or any other order issued by the Commissioner under this Ordinance, a notice shall be served upon the taxpayer in the prescribed form specifying the amount payable and thereupon the sum so specified shall be paid within fifteen days from the date of service of the notice:

Provided that the tax payable as a result of provisional assessment order under section 1 22C, as specified in the notice under sub-section (2) shall be payable immediately after a period of sixty days from the date of service of the notice :

Provided further that the taxpayer may pay the tax payable prior to expiry of the period of sixty days specified in the first proviso.

(3) Nothing in sub-section (2) or (4) shall affect the operation of sub-section (1).

(4) Upon written application by a taxpayer, the Commissioner may, where good cause is shown, grant the taxpayer an extension of time for payment of tax due under sub-section (2) or allow the taxpayer to pay such tax in installments of equal or varying amounts as the Commissioner may determine having regard to the circumstances of the case.

(5) Where a taxpayer is permitted to pay tax by installments and the taxpayer defaults in payment of any installments, the whole balance of the tax outstanding shall become immediately payable.

(6) The grant of an extension of time to pay tax due or the grant of permission to pay tax due by installments shall not preclude the liability for default surcharge arising under section 205 from the due date of the tax under sub-section (2).

138. Recovery of tax out of property and through arrest of taxpayer.— (1) For the purpose of recovering any tax due by a taxpayer, the Commissioner may serve upon the taxpayer a notice in the prescribed form requiring him to pay the said amount within such time as may be specified in the notice.

(2) If the amount referred to in the notice issued under sub-section (1) is not paid within the time specified therein or within the further time, if any, allowed by the Commissioner, the Commissioner may proceed to recover from the taxpayer the said amount by one or more of the following modes, namely:—

(a) attachment and sale of any movable or immovable property of the taxpayer;

(b) appointment of a receiver for the management of the movable or immovable property of the taxpayer; and

(c) arrest of the taxpayer and his detention in prison for a period not exceeding six months.

(3) For the purposes of recovery of tax under sub-section (2), the Commissioner shall have the same powers as a Civil Court has under the Code of Civil Procedure, 1908 (Act V of 1908), for the purposes of the recovery of any amount due under a decree.

(4) The Board may make rules regulating the procedure for the recovery of tax under this section and any other matter connected with, or incidental to, the operation of this section.

138A. Recovery of tax by District Officer (Revenue).— (1) The Commissioner may forward to the District Officer (Revenue) of the district in which the taxpayer resides or carries on business or in which any property belonging to the taxpayer is situated, a certificate specifying the amount of any tax due from the taxpayer, and, on receipt of such certificate, the District Officer (Revenue) shall proceed to recover from the taxpayer the amount so specified as, it were an arrear of land revenue.

(2) Without prejudice to any other power of the District Officer (Revenue) in this behalf, he shall have the same powers as a Civil Court has under the Code of Civil Procedure, 1908 (Act V of 1908), for the purpose of the recovery of the amount due under a decree.

138B. Estate in bankruptcy.— (1) If a taxpayer is declared bankrupt, the tax liability under this Ordinance shall pass on to the estate in bankruptcy.

(2) If tax liability is incurred by an estate in bankruptcy, the tax shall be deemed to be a current expenditure in the operations of the estate in bankruptcy and shall be paid before the claims preferred by other creditors are settled.

139. Collection of tax in the case of private companies and associations of persons.— (1) Notwithstanding anything in the Companies Ordinance, 1984 (XLVII of 1984), where any tax payable by a private company (including a private company that has been wound up or gone into liquidation) in respect of any tax year cannot be recovered from the company, every person who was, at any time in that tax year —

(a) a director of the company, other than an employed director; or

(b) a shareholder in the company owning not less than ten per cent of the paid-up capital of the company,

shall be jointly and severally liable for payment of the tax due by the company.

(2) Any director who pays tax under sub-section (1) shall be entitled to recover the tax paid from the company or a share of the tax from any other director.

(3) A shareholder who pays tax under sub-section (1) shall be entitled to recover the tax paid from the company or from any other shareholder to whom clause (b) of sub-section (1) applies in proportion to the shares owned by that other shareholder.

(4) Notwithstanding anything in any law, where any tax payable by a member of an association of persons in respect of the member's share of the income of the association in respect of any tax year cannot be recovered from the member, the association shall be liable for the tax due by the member.

(5) The provisions of this Ordinance shall apply to any amount due under this section as if it were tax due under an assessment order.

140. Recovery of tax from persons holding money on behalf of a taxpayer.— (1) For the purpose of recovering any tax due by a taxpayer, the Commissioner may, by notice, in writing, require any person –

(a) owing or who may owe money to the taxpayer; or

(b) holding or who may hold money for, or on account of the taxpayer;

(c) holding or who may hold money on account of some other person for payment to the taxpayer; or

(d) having authority of some other person to pay money to the taxpayer,

to pay to the Commissioner so much of the money as set out in the notice by the date set out in the notice.

(2) Subject to sub-section (3), the amount set out in a notice under sub-section (1) —

(a) where the amount of the money is equal to or less than the amount of tax due by the taxpayer, shall not exceed the amount of the money; or

(b) in any other case, shall be so much of the money as is sufficient to pay the amount of tax due by the taxpayer.

(3) Where a person is liable to make a series of payments (such as salary) to a taxpayer, a notice under sub-section (1) may specify an amount to be paid out of each payment until the amount of tax due by the taxpayer has been paid.

(4) The date for payment specified in a notice under sub-section (1) shall not be a date before the money becomes payable to the taxpayer or held on the taxpayer's behalf.

(5) The provisions of sections 160, 161, 162 and 163, so far as may be, shall apply to an amount due under this section as if the amount were required to be deducted from a payment under Division III of Part V of this Chapter.

(6) Any person who has paid any amount in compliance with a notice under sub-section (1) shall be treated as having paid such amount under the authority of the taxpayer and the receipt of the Commissioner constitutes a good and sufficient discharge of the liability of such person to the taxpayer to the extent of the amount referred to in such receipt.

(10) In this section, "person" includes any Court, Tribunal or any other authority.

141. Liquidators.— (1) Every person (hereinafter referred to as a 'liquidator') who is –

(a) a liquidator of a company;

(b) a receiver appointed by a Court or appointed out of Court;

(c) a trustee for a bankrupt; or

(d) a mortgagee in possession,

shall, within fourteen days of being appointed or taking possession of an asset in Pakistan, whichever occurs first, give written notice thereof to the Commissioner.

(2) The Commissioner shall, within three months of being notified under sub-section (1), notify the liquidator in writing of the amount which appears to the Commissioner to be sufficient to provide for any tax which is or will become payable by the person whose assets are in the possession of the liquidator.

(3) A liquidator shall not, without leave of the Commissioner, part with any asset held as liquidator until the liquidator has been notified under sub-section (2).

(4) A liquidator —

(a) shall set aside, out of the proceeds of sale of any asset by the liquidator, the amount notified by the Commissioner under sub-section (2), or such lesser amount as is subsequently agreed to by the Commissioner;

(b) shall be liable to the extent of the amount set aside for the tax of the person who owned the asset; and

(c) may pay any debt that has priority over the tax referred to in this section notwithstanding any provision of this section.

(5) A liquidator shall be personally liable to the extent of any amount required to be set aside under sub-section (4) for the tax referred to in sub-section (2) if, and to the extent that, the liquidator fails to comply with the requirements of this section.

(6) Where the proceeds of sale of any asset are less than the amount notified by the Commissioner under sub-section (2), the application of sub-sections (4) and (5) shall be limited to the proceeds of sale.

(7) This section shall have effect notwithstanding anything contained in any other law for the time being in force.

(8) The provisions of this Ordinance shall apply to any amount due under this section as if it were tax due under an assessment order.

142. Recovery of tax due by non-resident member of an association of persons.— (1) The tax due by a non-resident member of an association of persons in respect of the member's share of the profits of the association shall be assessable in the name of the association or of any resident member of the association and may be recovered out of the assets of the association or from the resident member personally.

(2) A person making a payment under this section shall be treated as acting under the authority of the non-resident member and is hereby indemnified in respect of the payment against all proceedings, civil or criminal, and all processes, judicial or extra-judicial, notwithstanding any provisions to the contrary in any written law, contract or agreement.

(3) The provisions of this Ordinance shall apply to any amount due under this section as if it were tax due under an assessment order.

143. Non-resident ship owner or charterer.— (1) Before the departure of a ship owned or chartered by a non-resident person from any port in Pakistan, the master of the ship shall furnish to the Commissioner a return showing the gross amount specified in sub-section (1) of section 7 in respect of the ship..

(2) Where the master of a ship has furnished a return under sub-section (1), the Commissioner shall , after calling for such particulars, accounts or documents as he may require, determine the amount of tax due under section 7 in respect of the ship and, as soon as possible, notify the master, in writing, of the amount payable.

(3) The master of a ship shall be liable for the tax notified under sub-section (2) and the provisions of this Ordinance shall apply to such tax as if it were tax due under an assessment order.

(4) Where the Commissioner is satisfied that the master of a ship or non-resident owner or charterer of the ship is unable to furnish the return required under sub-section (1) before the departure of the ship from a port in Pakistan, the Commissioner may allow the return to be furnished within thirty days of departure of the ship provided the non-resident owner or charterer has made satisfactory arrangements for the payment of the tax due under section 7 in respect of the ship.

(5) The Collector of Customs or other authorised officer shall not grant a port clearance for a ship owned or chartered by a non-resident person until the Collector or officer is satisfied that any tax due under section 7 in respect of the ship has been paid or that arrangements for its payment have been made to the satisfaction of the Commissioner.

(6) This section shall not relieve the non-resident owner or charterer of the ship from liability to pay any tax due under this section that is not paid by the master of the ship.

144. Non-resident aircraft owner or charterer. — (1) A non-resident owner or charterer of an aircraft liable for tax under section 7, or an agent authorised by the non-resident person for this purpose, shall furnish to the Commissioner, within forty-five days from the last day of each quarter of the financial year, a return, in respect of the quarter, showing the gross amount specified in sub-section (1) of section 7 of the non-resident person for the quarter.

(2) Where a return has been furnished under sub-section (1), the Commissioner shall , after calling for such particulars, accounts or documents as he may require, determine the amount of tax due under section 7 by the non-resident person for the quarter and notify the non-resident person, in writing, of the amount payable.

(3) The non-resident person shall be liable to pay the tax notified under sub-section (2) within the time specified in the notice and the provisions of this Ordinance shall apply to such tax as if it were tax due under an assessment order.

(4) Where the tax referred to in sub-section (3) is not paid within three months of service of the notice, the Commissioner may issue to the authority by whom clearance may be granted to the aircraft operated by the non-resident person a certificate specifying the name of the non-resident person and the amount of tax due.

(5) The authority to whom a certificate is issued under sub-section (4) shall refuse clearance from any airport in Pakistan to any aircraft owned or chartered by the non-resident until the tax due has been paid.

145. Assessment of persons about to leave Pakistan. — (1) Where any person is likely to leave Pakistan during the currency of tax year or shortly after its expiry with no intention of returning to Pakistan, he shall give to the Commissioner a notice to that effect not less than fifteen days before the probable date of his departure (hereinafter in this section referred to as the "said date").

(2) The notice under sub-section (1) shall be accompanied by a return or returns of taxable income in respect of the period commencing from the end of the latest tax year for which an assessment has been or, where no such assessment has been made, a return has been made, as the case may be, and ending on the said date, or where no such assessment or return has been made, the tax year or tax years comprising the period ending on the said date; and the period commencing from the end of the latest tax year to the said date shall, for the purposes of this section, be deemed to be a tax year (distinct and separate from any other tax year) in which the said date falls.

(3) Notwithstanding anything contained in sub-sections (1) and (2), the Commissioner may serve a notice on any person who, in his opinion, is likely to leave Pakistan during the current tax year or shortly after its expiry and has no intention of returning to Pakistan, to furnish within such time as may be specified in such notice, a return or returns of taxable income for the tax year or tax years for which the taxpayer is required to furnish such return or returns under sub-section (2).

(4) The taxable income shall be charged to tax at the rates applicable to the relevant tax year and all the provisions of this Ordinance shall, so far as may be, apply accordingly.

146. Recovery of tax from persons assessed in Azad Jammu and Kashmir.— (1) Where any person assessed to tax for any tax year under the law relating to income tax in the Azad Jammu and Kashmir has failed to pay the tax and the income tax authorities of the Azad Jammu and Kashmir cannot recover the tax because —

(a) the person's residence is in Pakistan; or

(b) the person has no movable or immovable property in the Azad Jammu and Kashmir, the Deputy Commissioner in the Azad Jammu and Kashmir may forward a certificate of recovery to the Commissioner and, on receipt of such certificate, the

Commissioner shall recover the tax referred to in the certificate in accordance with this Part.

(2) A certificate of recovery under sub-section (1) shall be in the prescribed form specifying

(a) the place of residence of the person in Pakistan;

(b) the description and location of movable or immovable property of the person in Pakistan; and

(c) the amount of tax payable by the person.

146A. Initiation, validity, etc., of recovery proceedings.— (1) Any proceedings for the recovery of tax under this Part may be initiated at any time.

(2) The Commissioner may, at any time, amend the certificate issued under section 1 38A, or recall such certificate and issue fresh certificate, as he thinks fit.

(3) It shall not be open to a taxpayer to question before the District Officer (Revenue) the validity or correctness of any certificate issued under section 1 38A, or any such certificate as amended, or any fresh certificate issued, under sub-section (2).

(4) The several modes of recovery provided in this Part shall be deemed to be neither mutually exclusive nor affect in any way any other law for the time being in force relating to the recovery of debts due to the Government and the Commissioner may have recourse to any such mode of recovery notwithstanding that the tax due is being recovered from a taxpayer by any other mode.

146B. Tax arrears settlement incentives scheme.— (1) Subject to provisions of this Ordinance, the Board may make scheme in respect of recovery of tax arrears or withholding taxes and waiver of [default surcharge or penalty levied thereon.

MULTIPLE CHOICE QUESTIONS (MCQS)

SET - I

1. **Pakistan has one of the lowest ________ to-GDP ratios in Asia and the country faces serious budget deficits.**
(a) Tax (b) Fee (c) Both of these (d) None of these

2. **in the report that result in low tax collection including SROs, inefficient________, administrative issues of FBR, low tax incentives for taxpayers, trust deficit in tax collectors, and others.**
(a) Indirect tax (b) direct taxes (c) Both of these (d) None of these

3. **Top management of ________ should include honest and competent professionals with regular training programs.**
(a) CIA (b) FBR (c) Both of these (d) None of these

4. **4. ________ of tax collection and its monitoring by multiple bodies to ensure honesty and professionalism is also recommended to make the system more efficient.**
(a) Devolution (b) Evolution (c) Levy (d) None of these

5. **Tax payment ________ to be issued to taxpayers to avail benefits of tax payment as well as evidence of tax payment.**
(a) Certificates (b) Bonds (c) White papers (d) None of these

6. **Tax should be made fairer, value added tax should be promoted and ________ should be lowered instead sales tax should be increased on luxury items.**
(a) GST (b) Sst (c) Both of these (d) None of these

7. **proportion of indirect taxes should be ________**
(a) Lowered (b) Higher (c) Constant (d) None of these

8. **________ contribution in tax is disproportionately low and should be increased.**
(a) Service sector's (b) Applied sectors
(c) Both of these (d) None of these

9. **________ should be lowered, tax base should be increased and tax slab limits should increase and be tied to CPI.**
(a) Company tax (b) Corporate taxes
(c) actories tax (d) none of the above

10. **________ annual rental values should be revised**
(a) Gross (b) National (c) Domestic (d) none of these.

11. **Special tax evasion courts should be established to facilitate legal problems between ________ and tax payers.**
(a) Levy office (b) tax department (c) both of these (d) none of these

12. **________ by banks should be promoted for proper documentation of the economy fixed tax liability to be imposed on non-taxpayers which should be proportionately high rate of tax,**
(a) Check guarantee system (b) Cheque guarantee system
(c) company guarantee system (d) none of these

13. **________ a low but fixed tax should be imposed where tax accounting difficulties persist**
(a) Large scale firms (b) small scale firms (c) both of these (d) none of these

14. **________ are imposed in Pakistan through the 4th Schedule of the Federal Legislative List of the Constitution of Pakistan**
(a) Federal taxes (b) Provincial taxes
(c) Territorial taxes (d) None of the above

15. **Major federal taxes include Income tax, Sales tax________ and________.**
(a) Custom duties (b) Excise duties
(c) Both of the above (d) None of the above

16. **Income Tax is levied under the "________".**
(a) Income tax Ordinance 2001 (b) Income tax Ordinance 2002
(c) Income tax Ordinance 2009 (d) None of the above

17. **Sales Tax is levied under the "Sales Tax Act ________"**
(a) 1991 (b) 1990
(c) 1999 (d) None of the above

18. Custom Duties is levied under the Customs Act ________"
(a) 1969 (b) 1991
(c) 1981 (d) None of the above

19. Excise Duties is levied under the "Federal Excise Act ________"
(a) 2004 (b) 2005
(c) 2001 (d) None of the above

20. For a developing country like Pakistan to successfully meet its recurring obligations and invest in development, it should ideally have a tax to GDP ratio of around ______
(a) 20% (b) 15%
(c) 10% (d) None of the above

21. The Government of (Pakistan, 1986) in the final report of National Taxation Reform Commission suggests ________ as one of the major source of leakage in system due to vague policy and weak implementation.
(a) Fee aversion (b) tax aversion (c) both of the above (d) None of these

22. In Pakistan we are heavily reliant on ________ like General Sales Tax (GST).
(a) in-direct taxes (b) direct tax
(c) constant tax (d) none of the above

23. Sustainable Development Policy Institute reported very few Pakistanis pay________.
(a) Sales tax (b) income taxes
(c) direct tax (d) none of the above

24. Out of a total work force of 58 million less than 2 million are registered taxpayers and last year only__________ people actually paid income tax.
(a) 0.7 million (b) 0.6 million
(c) 0.5 million (d) None of the above

25. When the Government finds it difficult to collect ________ like income tax than it resorts to rely on the easy way out of in-direct taxes.
(a) indirect taxes (b) direct taxes
(c) both of the above (d) none of the above

26. Direct taxes are _________ in-direct taxes are regressive as applied uniformly.
(a) regressive (b) progressive
(c) both of the above (d) none of the above

27. It is clearly visible from the data above that we have a heavy reliance on _________ taxes whereas the case should be vice versa.
(a) in-direct (b) regressive
(c) progressive (d) none of the above

28. Consecutive governments have failed to increase tax to _________ ratio and effectively develop measuring mechanism to gauge Income Tax.
(a) GNP (b) GDP (c) Both of the above (d) None of these

29. For the fiscal year 2012-2013 FBR was not able to meet its target and achieved only ________ increase in their tax collection.
(a) 1 percent (b) 4 percent (c) 3 percent (d) None of these

30. The single largest contributor of direct taxation in Pakistan is __________.
(a) Income tax (b) Sales tax (c) Both of these (d) None of these

31. Of the three major in-direct taxes applied by the Federation, the largest contributor is ________.
(a) Sales Tax (b) Income tax (c) Factories tax (d) None of these

32. __________ will ensure that the tax is applied at input and output rather than just taxing the output in the case of General Sales Tax.
(a) VAT (b) GAT (c) Both of these (d) None of these

33. The corporate income tax rate is 35% for Pakistan which is on a higher side when compared to other emerging economies of the world especially _________ countries.
(a) G-8 (b) SAARC (c) E.U (d) None of these

34. The reduction in tax rate will encourage corporatization, a concept Pakistan is far behind its neighboring _________ and will motivate business to expand.
(a) India (b) China
(c) Iran (d) None of the above

35. 39. It is suggested to develop bench marks for different sizes of small sized business and introduce a _________.
(a) fixed tax (b) constant tax
(c) free tax (d) none of the above

36. Majority of direct tax is collected from the industry where as service and agriculture sector do not contribute as per their share in the _________.
(a) GNP (b) GDP
(c) Both of the above (d) none of the above

37. As agriculture income tax is a provincial subject after the _________ in the constitution of Pakistan.
(a) 18th amendment (b) 19th amendment
(c) 21th amendment (d) none of the above

38. The federation should consider a stronger focus on matching the tax collection from the _________ as per its contribution in the GDP.
(a) Factory sector (b) service sector
(c) industrial sector (d) none of the above

39. The _________ are the only major contributor of tax in service sector.
(a) Factory sector (b) Telecom companies
(c) industrial sector (d) none of the above

40. Tax payers need to be encouraged by _________ where the tax payer is benefited and appreciated for his due contribution.
(a) Schemes (b) Announcements
(c) Proclamation (d) none of the above

41. Unfortunately the tax payer already in the tax net is neither appreciated but rather feels harassed due to the behavior of tax _________.
(a) Spending agency (b) collection agency
(c) both of the above (d) none of the above

42. _________ need to set for tax evaders to discourage them from this practice.
(a) Stronger penalties (b) weaker penalties
(c) feeble penalties (d) none of the above

43. **The most comprehensive database in the country is operated by ________**
(a) NADRA
(b) OMEGA
(c) CIA
(d) none of the above

44. **It is proposed to make ________ into tax number for individuals and centralizes different available databases for example data of Capital Development Authority (CDA) and Motor Registration Department so FBR could track non-filing high income individuals.**
(a) Personal number
(b) CNIC number
(c) Both of these
(d) none of the above

45. **The ________ dictates that it is mandatory for every person owning a vehicle above 1000cc to file a tax return.**
(a) tax of the land
(b) sale of the land
(c) law of the land
(d) none of the above

46. **There should be Bridge trust gap between the ________ and ________.**
(a) Tax collector
(b) Tax payer
(c) Both of the above
(d) None of the above

ANSWERS

1.	a	2.	b	3.	b	4.	a	5.	a	6.	a	7.	a
8.	a	9.	b	10.	a	11.	b	12.	a	13.	b	14.	a
15.	c	16.	a	17.	b	18.	a	19.	b	20.	a	21.	b
22.	a	23.	b	24.	a	25.	b	26.	b	27.	a	28.	b
29.	c	30.	a	31.	a	32.	a	33.	b	34.	a	35.	a
36.	b	37.	a	38.	b	39.	b	40.	a	41.	b	42.	a
43.	a	44.	b	45.	c	46.	c						

SET - II

1. **Business means any activity the motive of which is:**
(a) To loss business
(b) To earn profit
(c) To earn extraordinary amount by illegal way
(d) None of above

2. **Essential of Business is:**
(a) Trade
(b) Commerce
(c) Manufacture
(d) All of above

3. **Income taxable under the head of income from business are:**
(a) Gains & profit
(b) Income from trade
(c) Profession
(d) Services & property
(e) Management fee & value of any benefit
(f) Profit on debt
(g) All of above.

4. **Income which are not taxable:**
(a) Remuneration received by an examiner
(b) Enrolment fee received by Bar Council

(c) Income of non-professional writer
(d) All of above

5. **Any profit and gains arising from sale of capital asset is taxable under the head of capital gains:**
(a) True
(b) False

6. **What are not capital assets:**
(a) Any stock in trade & law materials
(b) Any land from which agriculture is derived
(c) Any immovable property for personal use
(d) All of above

7. **Essentials of capital gains are:**
(a) Profit
(b) Capital asset.
(c) Transfer
(d) All of above

8. **Where asset is disposed off after one year:**
(a) 75% of capital gain is taxable
(b) Remaining 25% is exempt from tax
(c) Both (a) & (b)
(d) None of above

9. **Modes of transfer of capital gains are:**
(a) By sale & exchange
(b) By disposition
(c) By relinquishment
(d) All of above

10. **Expenses incurred in any business or borne by a tax payer may be:**
(a) Capital expenditure
(b) Revenue/business expenditure
(c) Both (a) & (b)
(d) None of above

11. **Legal fee paid to legal adviser for drafting Memorandum or a partnership deed for partnership firm represents:**
(a) Capital expenditures
(b) Revenue expenditures
(c) Business expenditure
(d) None of above.

12. **Objects of differentiating between capital expenditure and business expenditure are:**
(a) Correct assessment expenditure
(b) Correct preparation of balance sheet
(c) Correct preparation of profit and loss
(d) All of above

13. **Income means:**
(a) Profit or gains
(b) Amount
(c) Chargeable to tax and loss of income
(d) All of above

14. **What are include in income:**
(a) Profit gains
(b) Income from imports
(c) Income from exports
(d) All of above

15. **What are not included in income:**
(a) Face value of any bonus shares
(b) Bonus paid to share holders of company
(c) Both (a) & (b)
(d) None of above

16. **Any amount received in installments is called:**
(a) Capital income
(b) Revenue income
(c) Both (a) & (b)
(d) None of above

17. **Any amount which is received lump sum is called:**
(a) Capital income
(b) Revenue income
(c) Both (a) & (b)
(d) None of above

18. **Meaning of word income is that which comes as the periodical produce of:**
(a) One's work (b) One's business
(c) One's land or investments (d) All of above

19. **Salary means fixed:**
(a) Weekly remuneration (b) Monthly remuneration
(c) Both (a) & (b) (d) None of above

20. **Gratuity is a lump sum amount given by the employer normally at the time of:**
(a) Appointment (b) During continuous service
(c) Retirement (d) None of above

21. **Income Tax is an annual charges upon a person deriving such income during tax:**
(a) Month (b) Year (c) Day (d) None of above

22. **Classification of income of the person under five different heads does:**
(a) Not mean that a person will have to pay five different taxes
(b) Mean that a person will have to pay five different taxes
(c) Both (a) & (b) (d) None of above

23. **Section 39 of Income Tax Ordinance 2001 enumerates the income from:**
(a) Other sources (b) Business (c) Property (d) None of above

24. **What include in income from other source i.e:**
(a) Dividend (b) Profit on Debt (c) Royalty (d) All of above

25. **Income from other sources which are not taxable but included in income from other sources:**
(a) Director's fee (b) Tips
(c) Interest on Bank Deposits (d) All of above

26. **Deductions are admissible under section 40 of Income Tax Ordinance 2001:**
(a) Zakat (b) Repair & maintenance
(c) Insurance charges (d) All of above

27. **Section 41 to 56 of the Income Tax Ordinance 2001 deal with the exemptions and tax concessions available to a tax payer:**
(a) True (b) False

28. **Section 60 to 65 of income tax ordinance are relating to:**
(a) Exemptions (b) Deductible allowances
(c) Income from other sources (d) None of above

29. **The word depreciation has not been defined in Income Tax Ordinance 2001 however it means a:**
(a) Decrease in a value of an asset (b) Increase in a value of an asset
(c) Decrease in capital gain (d) None of above

30. **Kinds of depreciation are:**
(a) Initial depreciation (b) Additional initial depreciation
(c) Normal depreciation (d) All of above

31. **Reasons of depreciation are:**
(a) New invention (b) Decrease in market value
(c) Passage of time & loss (d) All of above

32. **Assets on which depreciation is allowed:**
(a) Building, plant (b) Machinery, furniture, Aero engines
(c) Computer, motor vehicles ships, Air crafts, Air photographic apparatus, laboratory equipments:
(d) All of above

33. **A firm is an association of person for the purpose of:**
(a) Income (b) Property (c) Business (d) None of above

34. **Time for application for the registration of firm is:**
(a) Start in income year (b) End of income year
(c) Mid of income year (d) None of above

35. **Return is a statement by which assesses shows his income:**
(a) During a income year (b) End of year
(c) Start of year (d) None of above

36. **Return if income is a prescribe form which is used by a person to inform his income during particular tax year to the:**
(a) Income Tax department or Authority (b) Provincial Govt. for levy of tax
(c) Federal Govt. for levy of tax (d) None of above

37. **When tax payer is file an application on the prescribe form along with the returned income, when this return duly completed, is submitted to the authorities it is known as:**
(a) Furnishing the return of income (b) Return of income
(c) Return of Business (d) None of above

38. **Persons who are not required to furnish a return of income for a tax year are:**
(a) A widow (b) Any non-profit organization
(c) Any approved Welfare institution (d) All of above

39. **In case of company who tax year ends between 1st January and 30th June, the time for filing return is upto:**
(a) 31st December of the same year (b) 31th January of next year
(c) 30th June of same year (d) None of above

40. **In other cases all person should furnish the return of income or prescribed certificate upto:**
(a) 30th September next following end of their tax-year
(b) 30th June of same year
(c) 31st December of same year (d) None of above

41. **Grounds for extension of filing of return provided by tax payer (assessee) are:**
(a) Absence from Pakistan (b) Sickness
(c) A misadventure or any other genuine difficulty
(d) All of above

42. **Penalty for not filing return is:**
(a) 1/10 of one percent of tax payable for each day of default.
(b) minimum 25% of tax, payable
(c) Both (a) & (b) (d) None of above

43. **Section 120 to 126 of Income Tax Ordinance 2001, are relating to:**
(a) Assessment (b) Return (c) Business (d) None of above

44. **Who can amend the assessment:**
(a) Commissioner (b) Deputy Commissioner
(c) Assistant Commissioner (d) None of above

45. **Period of amend of the assessment is:**
(a) Within five years after the issuance of commissioner order
(b) Within six years after the issuance of commissioner order
(c) Within seven years after the issuance of commissioner order
(d) None of above

46. **The persons who can file appeal in income tax ordinance 2001 are:**
(a) Tax payer (b) Third party
(c) Commissioner of income tax (d) Both (a) & (b)

47. **Authorities to whom the appeal can be submitted:**
(a) Commissioner (Appeals) (b) Appellate tribunal
(c) Reference to high court (d) Supreme Court
(e) All of above

48. **Sections 127 to 129 of Income Tax Ordinance describe the procedure of appeal to:**
(a) Commissioner (Appeals) (b) Appellate tribunal
(c) Both (a) & (b) (d) None of above

49. **The appellate tribunals is disposing of an appeal under section:**
(a) 132 (b) 133 (c) 134 (d) None of above

50. **Reference filed before High Court under section:**
(a) 132 (b) 133 (c) 134 (d) None of above

51. **When ever a case is reconsidered by the same or the higher administration authority it is known as:**
(a) Revision (b) Review (c) Appeal (d) None of above

52. **A person may be appointed as a judicial member of the appellate Tribunal if the person:**
(a) Has exercised powers of a District Judge or Judge of a High Court
(b) Is or has been an advocate of a High Court and is qualified to be a Judge of the High Court
(c) Both (a) & (b)
(d) None of above

53. **Alternative dispute resolution is described under section:**
(a) 134 (b) 134A (c) 135 (d) None of above

54. **Recovery proceeding can be initiated against defaulter of income tax by income tax authorities:**
(a) False (b) True

55. **Authorities who can recover income tax:**
(a) Commissioner Inland (b) Deputy Commissioner Inland Revenue
(c) Both (a) & (b) (d) None of above

56. **Modes of Recovery of income tax under section 138 of income tax ordinance 2001 are:**
(a) Attachment of property (b) Sale of property
(c) Appointment of receiver (d) Arrest & detention
(e) All of above

57. **Deduction of tax at source have great importance**
(a) It saves time (b) Collection of tax becomes easy
(c) Both (a) & (b) (d) None of above

58. **Principles in respect of deduction are laid down:**
(a) Method of accounting regularly used by assessee
(b) Expenditure should be from tax payer
(c) Expenditure should be in that income year in which such income assessed
(d) All of above

59. **The principle of deduction of tax at source is applicable as under:**
(a) Salary (b) Dividend (c) Profit on debt (d) All of above

60. **A tax payer can take back the amount which has been paid by him it is in excess this is called:**
(a) Refund (b) Deduction (c) Dividend (d) None of above

ANSWERS

1.	b	2.	d	3.	g	4.	d	5.	a	6.	d	7.	d
8.	c	9.	d	10.	c	11.	a	12.	d	13.	d	14.	d
15.	c	16.	b	17.	b	18.	d	19.	c	20.	c	21.	b
22.	a	23.	a	24.	d	25.	d	26.	d	27.	a	28.	b
29.	a	30.	d	31.	d	32.	d	33.	c	34.	b	35.	a
36.	a	37.	a	38.	d	39.	a	40.	a	41.	d	42.	c
43.	a	44.	a	45.	a	46.	d	47.	e	48.	a	49.	a
50.	b	51.	a	52.	c	53.	b	54.	b	55.	c	56.	e
57.	c	58.	d	59.	a	60.	a						

SET III

Note: Answers are Bold and Underlined.

1. **Section 41 to 56 of the Income Tax Ordinance 2001 deal with the exemptions and tax concessions available to a tax payer:**
(a) **True** (b) FALSE

2. **Deductions are admissible under section 40 of Income Tax Ordinance 2001:**
(a) Zakat (b) Repair & maintenance
(c) Insurance charges (d) **All of above**

3. **Income from other sources which are not taxable but included in income from other sources:**
(a) Director's fee (b) Tips
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5. **Section 39 of Income Tax Ordinance 2001 enumerates the income from:**
(a) Other sources (b) Business (c) Property (d) None

6. **Classification of income of the person under five different heads does:**
(a) Not mean that a person will have to pay five different taxes
(b) Mean that a person will have to pay five different taxes
(c) Both (a) 8 (b) (d) None-of above

7. **Income tax is an annual charges upon a person deriving such income during tax:**
(a) Month (b) Year (c) Day (d) None

8. **Capital gain is the fourth source of income for a person and is chargeable to tax under the head of "Capital gain".**
(a) True (b) FALSE

9. **According to section 155(2) the tax deducted under sub-section(1) shall be a final tax on the income from property:**
(a) True (b) FALSE

10. **Alternative dispute resolution is described under section:**
(a) 134 (b) 134A
(c) 135 (d) None

11. **A person may be appointed as a judicial member of the appellate Tribunal if the person:**
(a) Has exercised powers of a District Judge or Judge of a High Court
(b) Is or has been an advocate of a High Court and is qualified to be a Judge of the High Court
(c) Both (a) & (b)
(d) None

12. **Whenever a case is reconsidered by the same or the higher administration authority it is known as:**
(a) Revision (b) Review (c) Appeal (d) None

13. **Reference filed before High Court under section:**
(a) 132 (b) 133 (c) 134 (d) None

14. **Reference filed before High Court does not effect the recovery:**
(a) False (b) TRUE

15. **The appellate tribunals is disposing of an appeal under section:**
(a) 132 (b) 133 (c) 134 (d) None

16. **Sections 127 to 129 of Income Tax Ordinance describe the procedure of appeal to:**
(a) Commissioner (Appeals) (b) Appellate tribunal
(c) Both (a) & (b) (d) None

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(c) Income of non-professional writer
(d) All of above

20. **Incomes taxable under the head of income from business are:**
(a) Gains & profit (b) Income from trade
(c) Profession (d) Services & property
(e) Management fee & value of any benefit
(f) Profit on debt
(g) All of above

21. **All professions " are business but all business are not professions:**
(a) True (b) FALSE

22. **Essential of Business are:**
(a) Trade (b) Commerce
(c) Manufacture (d) All of above

23. **Business means any activity the motive of which is:**
(a) To loss business (b) To earn profit
(c) To earn extraordinary amount by illegal way
(d) None

24. **Return is a statement by which assesses shows his income:**
(a) During a income year (b) End of year
(c) Start of year (d) None

25. **Time for application for the registration of firm is:**
(a) Start in income year (b) End-of income year
(c) Mid of income year (d) None

26. **A firm is an association of person for the purpose of:**
(a) Income (b) Property (c) Business (d) None

27. **Assets on which depreciation is allowed:**
(a) Building, plant
(b) Machinery, 'furniture, Aero engines
(c) Computer, motor vehicles, ships, Air crafts Air photographic apparatus, laboratory equipments
(d) All of above

28. **Reasons of depreciation are:**
(a) New invention (b) Decrease in market value
(c) Passage of time & loss (d) All of above

29. **Kinds of depreciation are**
(a) Initial depreciation (b) Additional initial depreciation
(c) Normal depreciation (d) All of above

30. **The word depreciation has not been defined in Income Tax Ordinance 2001 however it means a:**
(a) Decrease in a value of an asset (b) Increase in a value of an asset
(c) Decrease in capital gain (d) None

31. **Section 60 to 65 of income tax ordinance are relating to:**
(a) Exemptions (b) Deductible allowances
(c) Income from other sources (d) Non of above

32. **Rectification of Mistakes is described under section:**
(a) 221 (b) 222 (c) 223 (d) None

33. **The highest executive authority of income tax in Pakistan is:**
(a) Board (b) Commissioner
(c) Deputy Commissioner (d) None

34. **Service of Notices and other documents is described under section:**
(a) 218 (b) 219 (c) 220 (d) None

35. **Legal fee paid to legal adviser for drafting Memorandum or a partnership deed for partnership firm represents:**
(a) Capital expenditures (b) Revenue expenditures
(c) Business expenditure (d) None

36. **All the expenditures made at the initiation of business are capital expenditures:**
(a) True (b) FALSE

37. **Expenses incurred in any business or borne. by a tax payer may be:**
(a) Capital expenditure (b) Revenue/business expenditure
(c) Both (a) & (b) (d) None

38. **Modes of transfer of capital gains are:**
(a) By sale & exchange (b) By disposition
(c) By relinquishment (d) All of above

39. **Where asset is disposed off after one year:**
(a) 75% of capital gain is taxable
(b) Remaining 25% is exempt from tax
(c) Both (a) & (b) (d) None

40. **Essentials of capital gains are:**
(a) Profit (b) Capital asset.
(c) Transfer (d) All of above

41. **What are not capital assets:**
(a) Any stock in trade & law materials
(b) Any land from which agriculture is derived
(c) Any immovable property for personal use
(d) All of above

42. **Movable property is included in the definition of capital asset.**
(a) True (b) FALSE

43. **Any profit and gains arising from sale of capital asset is taxable under the head of capital gains:**
(a) True (b) FALSE

44. **Capital assets means property of any kind held by a person (assessee):**
(a) True (b) FALSE

45. **Period of amend of the assessment is:**
(a) 'Within five years after the issuance of commissioner order
(b) Within six years after the issuance of commissioner order
(c) Within - seven years after the issuance of commissioner order
(d) None

46. **Who can amend the assessment:**
(a) Commissioner (b) Deputy Commissioner
(c) Assistant Commissioner (d) None

47. **How many cycle of assessment:**
(a) Five (b) Six (c) Seven (d) None

48. **Assessment means process of:**
(a) Ascertaining (b) Collection (c) Depositing (d) None

49. **Section 120 to 126 of Income Tax Ordinance 2001, are relating to:**
(a) Assessment (b) Return (c) Business (d) None

50. **Penalty for not filing return is:**
(a) 1/10 of one percent of tax payable for each day of default
(b) Minimum 25% of tax, payable
(c) Both (a) & (b) (d) None

51. **Grounds for extension of filing of return provided by tax payer (assessee) are:**
(a) Absence from Pakistan
(b) Sickness
(c) A misadventure or any other genuine difficulty
(d) All of above

52. **Gratuity is a lump sum amount given by the employer normally at the time of:**
(a) Appointment (b) During continuous service
(c) Retirement (d) None

53. **Salary means fixed:**
(a) Weekly remuneration (b) Monthly remuneration
(c) Both (a) & (b) (d) None

54. **Meaning of word income is that which comes as the periodical produce of:**
(a) One's work (b) One's business
(c) One's land or investments (d) All of above

55. **Any amount which is received lump sum is called:**
(a) Capital income (b) Revenue income
(c) Both (a) & (b) (d) None

56. **Any amount received in installments is called:**
(a) Capital income (b) Revenue income
(c) Both (a) & (b) (d) None

57. **What are not included in income:**
(a) Face value of any bonus shares (b) Bonus paid to share holders of company
(c) Both (a) & (b) (d) None

58. **What are include in income:**
(a) Profit gains (b) Income from imports
(c) Income from exports (d) All of above

59. **Income means:**
(a) Profit or gains (b) Amount
(c) Chargeable to tax and loss of income (d) All of above

60. **Objects of differentiating between capital expenditure and business expenditure are:**
(a) Correct assessment expenditure (b) Correct preparation of balance sheet
(c) Correct preparation of profit and loss (d) All of above

61. **Who is entitled to claim refund:**
(a) Person who paid tax/tax payer (b) Guardian
(c) Receiver & Trustee (d) Legal representative of tax payer
(e) All of above

62. **A tax payer can take back the amount which has been paid by him it is in excess this is called:**
(a) Refund (b) Deduction (c) Dividend (d) None

63. **The principle of deduction of tax at source is applicable as under:**
(a) Salary (b) Dividend (c) Profit on debt (d) All of above

64. **Principles in respect of deduction are laid down:**
(a) Method of accounting regularly used by assessee
(b) Expenditure should be from tax payer
(c) Expenditure should be in that income year in which such income assessed
(d) All of above

65. **Deduction of tax at source have great importance**
(a) It saves time (b) Collection of tax becomes easy
(c) Both (a) & (b) (d) None

66. **Modes of Recovery of income tax under section 138 of income tax ordinance 2001 are:**
(a) Attachment-of property (b) Sale of property
(c) Appointment of receiver (d) Arrest & detention
(e) All of above

67. **Authorities who can recover income tax;**
(a) Commissioner Inland (b) Deputy Commissioner Inland Revenue
(c) Both (a) & (b) (d) None

68. **Recovery proceeding can be initiated-against defaulter of income tax by income tax authorities:**
(a) False (b) TRUE

69. **Income tax authority mean such authority which are appointed for the administration of taxation system:**
(a) True (b) FALSE

70. **Different authorities of income tax are described in Income Tax Ordinance 2001 under section:**
(a) 207 (b) 209 (c) 211 (d) None

71. **Income Tax authorities has great importance in the proper administration of tax system. It provide:**
(a) Revenue for the country in order to run the economic affairs
(b) Administration for justice
(c) Both (a) & (b)
(d) None

72. **Any person obstructs any income tax authority is discharge of function a penalty imposed is:**
(a) Rs.25000/-
(b) 100% of the amount of tax involved which is higher
(c) Both (a) & (b)
(d) None

73. **Any person without reasonable cause fails to comply with the notice penalty imposed is:**
(a) First default Rs.5000/-
(b) Rs.10,000/- for each subsequent default
(c) Both (a) & (b)
(d) None

74. **Any person without reasonable cause fails to maintain accounts, the penalty imposed is:**
(a) Rs.10,000/-
(b) 5% of the amount of tax on income which ever is higher
(c) Both (a) & (b)
(d) None

75. **Any person conceals his income before tax authorities penalty imposed is:**
(a) Rs.25000/-
(b) Equal to tax which person evaded
(c) Both (a) & (b)
(d) None

76. **In other cases all person should furnish the return of income or prescribed certificate upto:**
(a) 30th September next following end of their tax-year
(b) 30^{th} June of same year
(c) 31^{st} December of same year. (d) None

77. **In case of company who tax year ends between 1st January and 30th June, the time for filing return is upto:**
(a) **31st December of the same year**
(b) 31st January of next year
(c) 30th June of same year
(d) None

78. **Persons who are not required to furnish a return of income for a tax year are:**
(a) A widow
(b) An orphan below the age of 25 year
(c) A disabled person
(d) **All of above**

79. **According to section 114 of income tax ordinance 2001, it is necessary for the persons to furnish the returns of income:**
(a) Every company irrespective of its income
(b) Any non-profit organization
(c) Any approved Welfare institution
(d) **All of above**

80. **When tax payer is file an application on the prescribe form alongwith the returned income, when this return duly completed, is submitted to the authorities it is known as;**
(a) **Furnishing the return of income**
(b) Return of income
(c) Return of Business
(d) None

81. **Return of income is a prescribe form which is used by a person to inform his income during particular tax year to the:**
(a) Income Tax department or Authority
(b) **Provincial Govt. for levy of tax**
(c) Federal Govt. for levy of tax
(d) None

82. **Any tax payer fails to pay the tax within specified time, the amount of penalty imposed is:**
(a) First default 5% of tax
(b) Second default additional penalty 25% of the tax
(c) Third default 50%
(d) **All of above**

83. **Any person without reasonable cause fails to furnish the required statement within the time allowed the commissioner Inland Revenue the amount of penalty imposed is:**
(a) Initial penalty of Rs.2000
(b) Additional penalty of Rs.200 for each day during which default continues
(c) **Both (a) & (b)**
(d) None

84. **Person fail to furnish income tax return within reasonable time, the amount of imposed penalty is:**
(a) Equal to 1/10 of one percent of taxable for each day of default
(b) Minimum penalty of Rs.50,000/-
(c) Maximum penalty of 25% of tax payable in respect of that tax year
(d) **All of above**

85. **Ignorance of law provides no defence against penal liability:**
(a) **True** (b) FALSE

86. **The principle of mens-rea is not applicable under the tax laws regarding:**
(a) **Imposition of penalty** (b) Imposition of deduction
(c) Imposition of refund (d) None

87. **Penalty is a punishment:**
(a) Corporeal or pecuniary (b) Civil or Criminal
(c) **Both (a) & (b)** (d) None

88. **Section 170 of Income Tax Ordinance 2001 described the procedure of:**
(a) **Refunded** (b) Deduction
(c) Dividend (d) None

89. **The Directorate-General - of inspection and internal Audit shall 'consist of:**
(a) A Director-General (b) Directors
(c) Additional Directors (d) Assistant Directors
(e) Extra Assistant Directors (f) Inspectors
(g) **All of these** (h) None
(i) Only a, b and c (j) Only d, e and f

90. **Ordinary "amalgamation" means:**
(a) Unity (b) Separation
(c) **Merger** (d) None

91. **A dividend shall be Pakistani source income if it is paid by:**
(a) A foreign company (b) **A resident company**
(c) Neither a nor b (d) Both a & b

92. **An amount shall be__________ income to the extent to which it is not Pakistani source income.**
(a) Domestic-source income (b) **Foreign-source income**
(c) Neither a nor b (d) Both a & b

93. **An asset held wholly or party for use in a business is called:**
(a) Commercial assets (b) **Business asset**
(c) Trade asset (d) None
(e) All of these

94. **For the purpose of this Ordinance, the tax year shall be period of twelve months ending on the:**
(a) 30th day of July (b) **30th day of June**
(c) 31st day of August (d) 31st Day of December

95. A person shall be entitled to a tax credit in respect of any sum paid, or any property given by the person in the tax year as a donation to:
(a) Any board of Education or any university in Pakistan established by, or under a federal or a provincial law;
(b) Any educational institution, hospital or relief fund established or run in Pakistan by Federal Government or a Provincial Government or local authority;
(c) Any non-profit organization; (d) None;
(e) Both a and b; (f) All of these

96. Where a person has a loss carried forward for more than ______ the loss of the earlier tax year shall be set off first.
(a) One year (b) Two years (c) three years (d) Four years
(e) None

97. The Federal Government shall place before the National Assembly all amendments made by it to______ the in a financial year:
(a) First Schedule; (b) Second Schedule;
(c) Third Schedule; (d) None

98. The following persons shall not be required to furnish a return of income for a tax year solely by reason of sub-clauses (iii) through (vii) of clause (b) of sub-Section (i) of Section 114
(a) A widows;
(b) An orphan below the age of 25 years;
(c) In the case of ownership of immovable property, a non-resident person;
(d) All of these;
(e) None

99. Any person who hiving furnished a return discovers any omission or wrong statement therein may furnish a revised return within______ of the date that the original return was furnished.
(a) Seven years (b) Five years (c) Two years (d) None

100. Every company ____________ to furnish a return of income for a tax.
(a) Is not required (b) Is required
(c) Neither a nor b (d) Either a or b

101. Where the time taken by an another of literary or artistic work to complete the work exceeds_________, the author may elect to treat any lump-sum amount received by the author in a tax year on account of royalties in respect of the work as having been received in that tax year and the preceding two tax years in equal proportion:
(a) Six months (b) Twelve months
(c) Twenty-four months (d) None

102. The legal representative of a deceased individual shall be liable for:
(a) Any tax that the individual would have become liable for if the individual had not died:
(b) Any tax payable in respect of the income of the deceased's estate
(c) Neither a nor b
(d) Both a and b

103. Subject to this Ordinance, the taxable income of each individual shall be determined:
(a) Collectively (b) Separately (c) Neither a nor b (d) Both a and b

104. There are_________ kinds of share capital.
(a) Three (b) Four (c) Two (d) None

105. In tenancy-in-Common, the shares may be:
(a) Equal; (b) Unequal; (c) Both a and b; (d) Either a or b;

106. Royalty is a payment to a landowner by the ________ of the mine in return for the privilege of working.
(a) Lessee; (b) Lessor; (c) Mortgagor; (d) Mortgagee;

107. Salary" includes:
(a) Wages; (b) Any annuity; (c) Pension; (d) Any gratuity;
(e) Any advance of salary;
(f) None;
(g) All of these

108. Specific percentage which was required to be paid under any law or direction having sanctity of law is:
(a) Bonus (b) Dividend (c) Share (d) Excise duty
(e) Royalty (f) None

109. Private Company means a company that is:
(a) A public company; (b) Not a public company;
(c) Either a or b; (d) Neither a nor b;

110. Any undertaking pertaining to a scheduled industry carried oil in- one or more factories by any person or authority including the Government is called:
(a) Commercial Undertaking; (b) Industrial Undertaking;
(c) Employer's Undertaking; (d) None;

111. Income includes
(a) Profits and gains; (b) Dividend;
(b) Any capital gains chargeable under Section 45;
(d) None; (e) All of these

112. Any distribution by a company to its share holders on the reduction of its capital, to the extent to which the company possesses accumulated profits, whether such accumulated profits have been capitalized or not is called:
(a) Profit; (b) Bonus;
(c) Supporting fund; (d) Dividend;

113. As soon as possible after making 'an' amended assessment, the Commissioner shall issue an amended assessment order to the tax payer stating:
(a) The amended taxable income of the taxpayer;
(b) The amended amount of tax;
(c) The amount of tax paid, if any;
(d) The time, place, and manner of appealing the amended assessment;
(e) None; (f) All of these; (g) Both a and d;

114. **Assessment order shall only be amended under sub-Section (I) within after the Commissioner has issued or is treated as having issued the assessment order on the tax payer:**
(a) Two years; (b) One years; (c) Three years; (d) Five years;
(e) None

115. **As soon as possible after making an assessment under this Section, the Commissioner shall issue the assessment order to the Tax payer stating:**
(a) The taxable income; (b) The amount of tax due;
(c) The amount of tax paid;
(d) The time, place and manner of appealing the assessment order;
(e) None; (f) Both a and b; (g) Both c and d;
(h) All of these; (i) Both a and d

116. **An extension of time under sub-Section (3) should not exceed ______ from the due date for furnishing the return of income, employer's certificate, or statement, as the case may be, unless these are exceptional circumstances justifying a longer extension of time:**
(a) Twenty days (b) Ten days (c) Fifteen days (d) None

117. **Any profit received by a non-resident person on a security issued by a resident person.**
(a) Shall be exempt from Tax; (b) Shall not be exempt from Tax;
(c) Neither a nor b; (d) Both a and b

118. **Any monetary award granted to a person by the president of Pakistan:**
(a) Shall be exempt from Tax; (b) Shall not be exempt from Tax;
(c) Neither a nor b (d) Both a and b

119. **Any allowance attached to any Honour, Award or Medal awarded to a person by the President of Pakistan shall:**
(a) Be exempt from Tax; (b) Not be exempt from Tax;
(c) Neither a nor b; (d) Both a and b

120. **Any salary received by an individual (not being a citizen of Pakistan):**
(a) Shall not be exempt from Tax (b) Shall be exempt from Tax
(c) Neither a nor b (d) Either a or b

121. **Any salary received by an employee of a foreign government as remuneration for services rendered to such government:**
(a) Shall not be exempt from Tax: (b) Shall be exempt from Tax;
(c) Neither a nor b (d) Either a or b

122. **Any rent or revenue derived by a person from land which is situated in Pakistan and is used for agricultural purposes is called:**
(a) Agricultural Profit (b) Agricultural Gain
(c) Agricultural Income (d) None
(e) Both a and b

123. **Agricultural income derived by a person shall:**
(a) Not be exempt from tax (b) Be exempt from tax
(c) None (d) All of these

124. **A Company means:**
(a) A company is defined in the Companies Ordinance, 1984
(b) A body cooperate formed by or under any law in force in Pakistan
(c) A foreign association (d) A modaraba
(e) None
(f) All of these (g) Both a and b
(h) Both c and d

125. **A company shall be liable to tax from its shareholders:**
(a) Collectively (b) Separately (c) None (d) Either a or b

126. **In determining whether a person's deductions under Section 22, 23, and 24 have been set off against income, the deductions allowed under those Sections shall be taken into account:**
(a) First (b) Last (c) Third (d) None

127. **Where, in a tax year, a person sustains a loss under the-head "Income from Business" and a loss under another head of income, the loss under the head "Income from Business" shall be:**
(a) Set off first (b) Set off last (c) Neither a nor b (d) Both a and b

128. **Any gain arising on the disposal of shares in a resident Company shall be:**
(a) Foreign-source income (b) Self-earned income:
(c) Pakistani-source income (d) None

129. **An amount shall be foreign-source income to the extent to which it is:**
(a) Pakistani-source income (b) Not Pakistani-source income
(c) None (d) Both a and b

130. **Any expenditure allowed to a person as a deduction shall allowed as a deduction in competing the incense of the person chargeable to tax under any other head of income:**
(a) Be (b) Not be (c) Neither nor b (d) Either a or b

GLOSSARY OF TAX TERMS

-A-

Abatement – A reduction in the assessment of tax, penalty or interest when it is determined the assessment is incorrect

Abuse of Law – The doctrine which allows the tax authorities to disregard a civil law form used by the taxpayer which has no commercial basis

Accelerated Depreciation – Method of depreciation under which taxpayers may allocate larger depreciation deductions to the first year or first few years of useful business assets, such as plant and machinery

Accounting Basis -- Method of calculating amounts subject to income tax and VAT. In respect of VAT, tax would be computed as a percentage levy on the excess of sales over purchases. This is a theoretical concept and no country uses it.

Accounting Period -- A period of time used by taxpayer for the determination of tax liability

Accounts Payable -- A list of the debts currently owed by a person or business, mainly for the purchase of services, inventory, and supplies

Accounts Receivable -- A list of the money owed on current account to a creditor, which is kept in the normal course of the creditor's business and represents unsettled claims and transactions

Accounting Records -- All documents and books used in the preparation of the tax return and all financial statements, including general ledger, subsidiary ledgers, sales slips, and invoices.

Accrual Basis (Accrual Method) -- An accounting method whereby income and expense items are included in taxable income or expense as they are earned or incurred, rather than when they are received or paid

Ad Valorem Tax -- A tax on goods or property expressed as a percentage of the sales price or assessed value

Administrative Company -- See: Service company

Administrative Expenses -- Expenses that are not as easily associated with a specific function as are the direct costs of manufacturing and selling. It typically includes expenses of the headquarters office and accounting expenses.

Administrative Office -- Office frequently located in a country other than that of the headquarters office, the parent company or country of operation.

Advance Pricing Arrangement (APA) -- An arrangement that determines, in advance of controlled transactions, an appropriate set of criteria (e.g. method, comparables and appropriate adjustments thereto, critical assumptions as to future events) for the determination of the transfer pricing for those transactions over a fixed period of time. An advance pricing arrangement may be unilateral involving one tax administration and a taxpayer or multilateral involving the agreement of two or more tax administrations.

Advance Ruling -- A letter ruling, which is a written statement, issued to a taxpayer by tax authorities, that interprets and applies the tax law to a specific set of facts

Affiliated Companies -- General term used to describe the relationship between two or more companies linked by a common interest

Affiliation Privilege -- Tax relief or exemption accorded to dividend distributions made by a resident subsidiary company to its parent company which owns a certain minimum percentage of shares, in order to mitigate double taxation of such dividends.

Agency -- A business that provides a particular service to a company (that are outside of the country where the agency is located). Dependent agency constitutes a permanent establishment for the other company and the income achieved through the agency is taxed on the income earned from the country where the agency is located whereas independent agency does not.

Aggregation -- Term used to denote the adding together of the taxpayer's income from all sources in order to determine the applicable tax rate for income tax purposes.

Alien, Tax Treatment Of -- A person who is not a citizen of the country in which he or she lives. In general, most countries do not distinguish between nationals and aliens for tax purposes; rather tax liability is based on residence and/or domicile.

Alienation Of Income -- Term generally used to describe the transfer of the right to receive income from a source while not necessarily transferring the ownership of that source to the same person.

Allocation -- The apportionment or assignment of income or expense for various tax purpose, e.g., between permanent establishments in various jurisdictions

Allowance -- Deduction or exemptions generally made in computing income taxes, inheritance and gift taxes and some forms of sales taxes.

Amortization -- Process of writing off the cost of an intangible asset over its useful life.

Amortization Method -- Method of computing a credit under a VAT regime where investment goods are purchased which have a useful life in the business for a period exceeding one year. The tax embodied in the price paid for the assets may be credited to the trader over a period of years corresponding to the life of the assets.

APA -- See: Advance Pricing Arrangement

Apportionment Method -- One of the methods used to allocate income and expenses between related enterprises using a formula consisted of some factors such as sales, property, or payroll.

Arbitrage -- Process of buying a commodity (which may include currency or securities) and simultaneously selling it in another market in order to profit from price differentials.

Arbitrage, Tax -- Process of entering into a tax motivated transaction (i.e. to obtain profit from the application of tax rules).

Arbitration -- Term used for the determination of a dispute by the judgment of one or more persons, called arbitrators, who are chosen by the parties and who normally do not belong to a normal court of competent jurisdiction

Arm's Length Principle -- The international standard which states that, where conditions between related enterprises are different from those between independent enterprises, profits which have accrued by reason of those conditions may be included in the profits of that enterprise and taxed accordingly

Arm's Length Range -- A term used in transfer pricing to describe a range of values that can be defined for purpose of selecting an appropriate arm's length price from comparable transactions.

Arm's Length Transaction -- A transaction among parties, each of whom acts in his or her own best interest.

Assessment -- Act of computing the tax due

Associated Enterprises -- Generally speaking, enterprises are associated where the same persons participate directly or independently in the management, control or capital of both enterprises, i.e. both enterprises are under common control.

Attribution Rules -- Rules that create ownership by attributing stock to one party even though the shares are legally owned by another party; often called constructive ownership of stock.

Audit -- Examination and verification carried out by an outside agency (such as an accountancy firm or the tax authorities) of a taxpayer's books and accountants and/or the general accuracy of returns and declarations, either as a routine operation, or where evasion is suspected.

Auxiliary Activities -- A fixed place of business through which an enterprise exercises solely an activity which has, for the enterprise, a preparatory or auxiliary character, is, under tax treaties generally, deemed not to be a permanent establishment. The decisive criterion is whether the activity of the fixed place of business in itself forms an essential and significant part of the activity of the enterprise as a whole.

Auxiliary Company -- Company which is part of a group of companies and which supplies auxiliary services to group companies.

Avoidance -- A term that is difficult to define but which is generally used to describe the arrangement of a taxpayer's affairs that is intended to reduce his tax liability and that although the arrangement could be strictly legal it is usually in contradiction with the intent of the law it purports to follow. Cf. evasion

-B-

Back-To-Back Loan -- Method of borrowing between related parties where a loan is channelled through an independent third-party intermediary.

Bad Debt -- Debt which is unlikely to be paid. Bad debts may usually be treated as losses and written off against a reserve for such debts.

Balance Sheet -- Statement of the financial position of a business as of a particular date. The statement will show the business's assets in one column and its liabilities and owner's equity in another column.

Balancing Payment -- A payment, normally from one or more participants to another, to adjust participants' proportionate shares of contributions, that increases the value of the contributions of the payer and decreases the value of the contributions of the payee by the amount of the payment, in the context of CCA (Cost Contribution Arrangements).

Bank Secrecy Provisions -- Provisions which require that a bank refuse to disclose information about its customers to third parties, including the tax authorities.

BAPA -- Bilateral advance pricing arrangement. Also called MAP APA.

Base Company -- Company situated in a low-tax or non-tax country (i.e. tax haven), which is used to shelter income and reduce taxes in the taxpayer's home country. Base companies carry on certain activities on behalf of related companies in high-tax countries (e.g. management services) or are used to channel certain income, such as dividends, interest, royalties and fees.

Base Cost -- Term used in capital gains tax legislation to denote the cost of an asset to an owner.

Bearer Securities -- Stocks, bonds, etc. in which ownership can be transferred from one holder to another without registration of the transaction by the issuing company, that is, title passes with delivery.

Beneficial Owner -- A person who enjoys the real benefits of ownership, even though the title to the property is in another name. Often important in tax treaties, as a resident of a tax treaty partner may be denied the benefits of certain reduced withholding tax rates if the beneficial owner of the dividends etc is resident of a third country.

Beneficiary -- The person who receives or is to receive the benefits resulting from certain acts. In a tax context, the beneficiary is the person entitled to the benefits from trust property or from an insurance policy.

Benefits In Kind -- Term which refers to earnings, usually from employment, other than in cash, as part of compensation for services rendered.

Benefit Test -- In considering whether a company may be allowed to deduct, as an expense, payments made to a related company in a multinational group on account of expenses incurred by that related company in providing intra-group services, tax authorities would refuse a deduction unless a real benefit had been conferred on the company claiming the deduction.

Berry Ratio -- Ratio used to establish an arm's length profit. The Berry ratio is the ratio of a business' gross income to operating costs.

Best Method Rule -- Transfer pricing rule requiring that a taxpayer use the transfer pricing method that results in the most reliable measure of an arm's length price. This rule doesn't prescribe priorities between various methods.

Bilateral Advance Pricing Arrangement (BAPA) APA -- involving two or more tax authorities

Bond -- Interest-bearing debt obligation to a government or entrepreneur. The rate of interest is usually fixed.

Book Value -- The value of individual asset as recorded in the accounting records of a taxpayer, calculated as actual cost less allowances for any depreciation

Brackets -- Term used in connection with graduated system of taxation to refer, for example, to the slabs or slices of taxable income subject to particular rates of income tax.

Branch -- Division, office or other unit of business located at a different location from the main office or headquarters. It is not a separate legal entity.

Branch Profits Tax (BPT) -- See: Branch tax

Branch Tax -- Tax imposed on branches of foreign companies in addition to the normal corporate income tax on the branch's income. This is equivalent to the tax on dividends which would be due if the branch had been a subsidiary (see: subsidiary company) of the foreign company and had distributed its profit as dividends.

Brother-Sister Corporations -- Two or more companies which are owned and controlled by the same shareholders.

Burden Of Proof -- Obligation to persuade a court or other entity of the validity of a factual assertion.

Business Assets -- Assets used for purposes of carrying on a business

"Business Purpose" Test -- Test used as a weapon against tax avoidance schemes. Artificial schemes which create circumstances under which no tax or minimal tax is levied may be disregarded if they do not serve a "business purpose".

Buy-In Payment – A payment made by a new entrant to an already active CCA (Cost Contribution Arrangements) for obtaining an interest in any results of prior CCA activity.

Buy-Out Payment – Compensation that a participant who withdraws from an already active CCA may receive from the remaining participants for an effective transfer of its interests in the results of past CCA activities.

-C-

Capital Assets – All property held for investment by a taxpayer.

Call Option – Contract under which the holder of the option has the right but not the obligation to purchase securities or commodities on or before a specified date for a specified exercise price.

Capital Expenditure – Expenditure on improvement rather than repair. Where expenditure is more closely connected with the business income-earning structure than its income earning capacity, it is capital expenditure.

Capital Gain – A gain on the sale of capital asset.

Capital Tax – A tax based on capital holdings, as opposed to a capital gains tax.

Capitalize – To record capital outlays as additions to asset accounts, not as expenses.

Capital Loss – The loss from the sale of a capital asset.

Captive Bank – Wholly owned subsidiary of a multinational group of companies whose purpose is to provide banking service to the group and those with whom the group deals. A captive bank is generally located in a tax haven in order to avail itself of the low capital requirements and freedom from exchange control.

Captive Insurance Company – Wholly owned subsidiary of a multinational group of companies which exclusively insures or reinsures the risks of companies that belong to the group. A captive insurance company is usually established in a low-tax country. Whether premiums paid to captive insurance companies are recognized as business expenses depends on the country in question.

Carryback – See: Carryover

Carryforward – See: Carryover

Carryover – A process by which the deductions or credits of one taxable year that cannot be used to reduce tax liability in that year are applied against a tax liability in subsequent years (carryforward) or previous years (carryback).

Cash Basis (Cash Method) – The accounting method which recognizes income and deductions when money is received or paid.

CCA – See: Cost Contribution Arrangements

Central Management And Control – Where the central management and control is located is a test for establishing the place of residence of a company. Broadly speaking, it refers to the highest level of control of the business of a company.

Centre Of Vital Interest – This is one of the criteria used to resolve the problem of dual residence of individuals. It refers to the place where the taxpayer's personal and economic relationships are closer.

CFC – See Controlled foreign company

Cherry Picking – Term used in the USA in R&D arrangements to prevent a contracting party from selecting or funding only the technologies that are successfully developed, i.e. "cherry picking". In transfer pricing context, it often describes a situation where a tax authority tries to impose a TP

adjustment on a taxpayer based on a few of "cherry picked" related party transactions of other comparable companies with an intention to maximize its adjustment.

Cif Value – The value of imported goods which includes cost, insurance and freight.

Civil Law – Systems of law based primarily on statutes or codes rather than judicial decisions. Examples are the French and German systems.

Close (Closely Held) Company – Company which is owned or controlled by a single shareholder or closely knit group of shareholders.

Commensurate With Income Standard – See: Super royalty provision

Commercial Intangible – An intangible that is used in commercial activities such as the production of a good or the provision of a service, as well as an intangible right that is itself a business asset transferred to customers or used in the operation of business.

Commodities Futures – Contracts, traded on recognized futures markets, in which sellers promise to deliver a given commodity by a certain date at a predetermined price.

Commodity Tax – Tax based on a selective number of commodities.

Common Law – The body of law developed by the judiciary in systems based on English law and which is followed under the doctrine of precedent, i.e. past judicial decisions on similar cases. Much of it is now incorporated in statute. Also this term is used to describe a system ultimately based on English legal systems, as opposed to civil law systems.

Common Stock – The ordinary stock of a corporation. An equity or ownership interest in a corporation. The holder of common stock usually has a vote in deciding company affairs. Common stock is usually last in priority when profits or assets are distributed.

Company – Often used to mean a separate legal entity (a corporation) organized to perform an activity, business or industrial enterprise. Sometimes it has a broader meaning to mean individual or collective enterprises seeking profit.

Comparability Analysis – Comparison of controlled transaction conditions with conditions prevailing in transactions between independent enterprises (uncontrolled transactions). Controlled and uncontrolled transactions are comparable if none of the differences between the transactions could materially affect the factor being examined in the methodology (e.g. price or margin), or if reasonably accurate adjustments can be made to eliminate the material effects of any such differences.

Comparable Profit Method (CPM) – Under US regulations CPM is a method to determine an arm's length consideration for transfers of intangible property. If the reported operating income of the tested party is not within a certain range, an adjustment will be made. In effect this method requires a comparison of the operating income that results from the consideration actually charged in a controlled transfer with the operating income of similar taxpayers that are uncontrolled.

Comparable Uncontrolled Price (CUP) Method – A transfer pricing method that compares the price for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.

Comparable Uncontrolled Transaction (CUT) Method – A transfer pricing methodology used in the US, which determines an arm's length royalty rate for an intangible by reference to uncontrolled transfers of comparable intangible property under comparable circumstances.

Compensating Adjustment – An adjustment in which the taxpayer reports a transfer price for tax purposes that is, in the taxpayer's opinion, an arm's length price for a controlled transaction, even though this price differs from the amount actually charged between the associated enterprises. This adjustment would be made before the tax return is filed.

rewards to employees.

Compensation – Direct and indirect monetary and non-monetary rewards to employees.

Compensatory Stock Options – Options offered to employees as partial compensation for their services.

Competent Authority (CA) – Forum to resolve disputes arising from the application and/or interpretation of a double tax treaty. Both treaty countries appoint a representative (frequently the Ministry of Finance or its authorized representative) as the CA to assist aggrieved taxpayers by acting as the official liaison with the foreign CA. The CA is generally indicated in the definitions sections of tax treaties.

Compliance – See: Tax compliance

Conduit Approach – A method whereby income or deductions flow through to another party

Conduit Company – Company set up in connection with a tax avoidance scheme, whereby income is paid by a company to the conduit and then redistributed by that company to its shareholders as dividends, interest, royalties, etc.

Consideration – Anything of value, including property, given in return for a promise or performance by another party to form a contract

Consolidated Tax Return – A combined tax return in the name of the parent company filed by companies organized as a group.

Consortium – Association of business enterprises, whether individuals, partnerships or companies, operating together on a temporary basis for some specific venture.

Constructive Dividend – A variety of payments whether in cash or in kind made by companies to shareholders or associated persons, which are not expressed as dividends, may nevertheless be regarded by the tax law as distributions of profits and treated for tax purposes as if they were dividends.

Constructive Ownership – A taxpayer may be considered to own property or stock which he only indirectly owns.

Consumption Tax – Tax generally intended to fall on the ultimate consumption of goods and services.

Contract Manufacturer – A manufacturer, in most cases, located in a low-cost jurisdiction, which has a license to use an intangible property developed by its parent company. The manufacturer uses the intangible property to produce tangible property which is then resold to the parent for distribution to ultimate customers.

Contribution Analysis – Where the profit-split method is applied in transfer pricing cases, a contribution analysis requires that the combined profit be divided between associated enterprises based upon the relative value of the functions performed by each of the associated enterprises participating in the controlled transaction.

Control – The capacity of one person to ensure that another person acts in accordance with the first person's wishes, or the exercise of that capacity. The exercise of control by one person over another could enable individuals and corporations to avoid or reduce their tax liability. A company is usually regarded as controlling another company if it holds more than 50% of the latter company's voting shares. However, the definitions vary according to country and situation.

Controlled Foreign Companies (CFC) – Companies, usually located in low tax jurisdictions, that are controlled by a resident shareholder. CFC legislation is usually designed to combat the sheltering of profits in companies resident in low- or no-tax jurisdictions. An essential feature of such regimes is that they attribute a proportion of the income sheltered in such companies to the shareholder resident

in the country concerned. Generally, only certain types of income fall within the scope of CFC legislation, i.e. passive income such as dividends, interest and royalties.

Controlled Transaction – Transactions between two enterprises that are associated enterprises with respect to each other.

Controlling Interest – Ownership of more than 50% of a corporation's voting shares.

Cooperative Society – In general, cooperative societies are founded to reduce the purchase price or increase the sales price of certain products for the benefit of their members or to serve the interest of their members in some other way, among small traders, farmers, consumers, etc.

Coordination Centre – Enterprise whose only purpose is to coordinate the activities of affiliated companies, to do research or to carry out support activities for the benefit of such corporations.

Copyright – Exclusive right granted to authors and artists to publish, use and exploit their literary or artistic works.

Corporate Income Tax – Income tax on the income of companies

Corporate Veil – As a corporation is a separate legal entity, and shareholders have an interest in the company rather than in its assets, the corporate veil is used to describe the inability to look behind the legal entity and attribute the actions assets, debts and liabilities of a company to those standing behind it, notably the shareholders. Courts may sometimes be able to "pierce" (look through) the corporate veil to make an attribution to the underlying person or persons.

Corporation – In technical terms, it means a legal entity generally chartered by a relevant government and separate and distinct from the persons who own it. However it is now commonly used as another way of referring to a company. (See: Company)

Corporation Shopping – Term sometimes used in addition to treaty shopping to denote the use of tax treaty provisions by interposing a company instead of a different form of association for which tax relief would not been available.

Corresponding Adjustment – An adjustment to the tax liability of the associated enterprise in a second jurisdiction made by the tax administration of that jurisdiction, corresponding to a primary adjustment made by the tax administration in a first tax jurisdiction, so that the allocation of profits by the two jurisdictions is consistent.

Cost – Purchase price paid for property or the value of the exchange for which property is given.

Cost Contribution Arrangement (CCA) – A CCA is a framework agreed among enterprises to share the costs and risks of developing, producing, or obtaining assets, services, or rights, and to determine the nature and extent of the interests of each participant in the result of the activity of developing, producing, or obtaining those assets, services, or rights.

Cost Funding – Contribution of an affiliate company to the general research and development (R&D) costs of another affiliate or group member, in proportion to its turnover or some other criterion

Cost Of Goods Sold (COGS) – A figure representing the cost of buying raw materials and producing finished goods. Included are clear-cut factors, such as direct factory labour, as well as others that are less clear-cut, such as overhead

Cost-Plus Mark-Up – A mark up that is measured by reference to margins computed after the direct and indirect costs incurred by a supplier of property or services in a transaction

Cost-Plus Method – A transfer pricing method using the costs incurred by the supplier of property (or services) in a controlled transaction. An appropriate cost plus mark up is added to this cost, to make an appropriate profit in light of the functions performed (taking into account assets used and risks assumed) and the market conditions. What is arrived at after adding the cost plus mark up to the above costs may be regarded as an arm's length price of the original controlled transaction.

Cost-Sharing Agreement – See: Cost-contribution agreement

CPM – See: Comparable profit method

Credit, Foreign Tax – A method of relieving international double taxation. If income received from abroad is subject to tax in the recipient's country, any foreign tax on that income may be credited against the domestic tax on that income. The theory is that this means foreign and domestic earnings of an entity will as far as possible be similarly taxed, although usually the credit allowed is limited to the amount of domestic tax, with no carry over if tax is higher abroad.

Credit, Tax – Allowance of deduction from or a direct offset against the amount of tax due as opposed to an offset against income.

Credit, Underlying (Indirect) Tax – In relation to a dividend, credit for underlying tax is credit for the tax levied on the profits of the company out of which the dividends have been paid. Such relief may be given either under a tax treaty or in accordance with unilateral provisions.

Credit, Withholding Tax – Various kinds of income (such as dividends, interest, royalties) are taxed at source by requiring the payer to deduct tax and account for it to the tax authorities (abroad). The taxpayer recipient is entitled to credit the tax withheld at source against his final tax liabilities determined by (domestic) tax law of the country in which he is resident.

Credit Method – See: Credit, foreign tax

Creditor – A person who extended credit and to whom money is owed; a lender

Cup Method – Comparable uncontrolled price method

Current Assets -- The cash, accounts receivable, inventory, and other assets that are likely to be converted into cash, sold, exchanged, or expensed in the normal course of business, usually within a year.

Customs Duties – Taxes on goods imported into a country

-D-

Damages – The amount received (other than worker's compensation) through prosecution of a legal suit or action based on tort or tort-type rights, or through a settlement agreement entered into in lieu of such prosecution.

Death Duties --Taxes imposed on the transfer of property on account of a person's death.

Debenture -- Interest-bearing bond which is not secured by any specific property, usually issued by a corporation or government to the general public

Debt Capital -- Funds obtained through various types of loan which normally comprehends debentures and bonds bearing fixed interest.

Debt Dumping -- Transferring a bad debt to a group company located in a higher-tax rate country in order to write off the debt in that country.

Debt/Equity Ratio -- Relationship of total debt of a company to its ordinary share capital. If a corporate debt is disproportionately high in comparison with its equity, the debt may be recharacterised as equity, resulting in a disallowance of the interest deduction and taxation of the funds as dividends.

Debt Instrument -- A written promise to repay a debt, such as a bill, bond, banker's acceptance, note, certificate of deposit, or commercial paper.

Debtor -- A person who owes money; a borrower

Deduction At Source -- See: Withholding tax

Deductions -- Deduction denotes, in an income tax context, an item which is subtracted (deducted) in arriving at, and which therefore reduces, taxable income.

Deemed Interest -- If a member of a multinational enterprise (MNE) receives an interest-free loan from an affiliated company, the tax authorities of the lender's country may readjust the lender's profits by adding an amount equal to the interest which would have been payable on the loan had it been made at arm's length.

Deep Discount Bond -- See: Zero coupon bond

Default -- The failure of a debtor to make timely payments of interest and principal amounts as they come due or to meet some other provision of a bond, mortgage, lease, or other contract.

Deferment Of Tax -- The postponement of tax payments from the current year to a later year. A number of countries have introduced legislation to counter the kind of tax avoidance whereby a taxpayer obtains a deferment of tax which is not intended by law. Ex) CFC legislation

Deferred Income -- Term used to describe income which will be realized at a future date, thus delaying any tax liability.

Deficiency -- The excess of a taxpayer's correct tax liability for the taxable year over the amount of taxes previously paid for that year. A US concept

Delinquency -- Tax which is in default (i.e. due but not yet paid) is often referred to as a "delinquent" tax in North American parlance.

Delivery -- Transfer of goods or an interest in goods from one person to another.

Demand Loan -- A loan payable on request by the creditor rather than on a specific date.

DE Minimis -- Phrase used in connection with circumstances in which the full rigour of the tax law is not enforced because, in particular, of the small amount or minor breach which may be involved, particularly in the context of under-assessed or underpaid tax which are not pursued on "de minimis" grounds.

Dependent Agent -- See: Agency

Dependent Personal Services -- The OECD model tax treaty provides rules for the treatment of salaries, wages and other similar remuneration (i.e. employment income) under the heading "dependent personal services". As a general rule, with some exceptions, the right to tax income from dependent personal services is allocated to the country where the employment activities are exercised.

Depletion -- Deductible expense which reflects the decrease of a natural resource due to extraction of the resource.

Depreciation -- An accounting technique in which the cost of an asset is allocated over its useful life.

Derivative Financial Instruments -- Also known as derivatives. These are financial instruments whose values are linked to or depend on the value of a primary (underlying) asset, e.g. debt assets, liabilities and equity securities, commodities or currency. The primary types of derivatives include forward contracts, futures, options and swaps.

Destination Principle -- Principle under a VAT regime which mandates that VAT on goods be paid in the country where the purchaser is resident (i.e. the country of consumption) at the rate that would have applied had the goods been purchased from a domestic supplier.

Direct Charge Method A -- method of charging directly for specific intra-group services on a clearly identified basis.

Direct Cost -- Cost identified with a particular transaction, such as raw materials, components and goods, wages and other processing expenses.

Direct Investment -- Description often given to a substantial investment in the shares of a company.

Directive -- An official order or instruction. In EU context, it means one of the legal instruments issued by the competent institutions of the European Union. A directive is addressed to the Member States requiring them to make such changes to their domestic legislation as necessary to satisfy a provision of one of the EC treaties.

Direct Method Of Allocation Of Costs -- Allocation method where the parent company or group service centre of a multinational enterprise providing central management and other services charges each member of the group directly for individual services rendered.

Direct Tax -- Direct taxes are taxes imposed on income, capital gains and net worth. Gift tax, death duties and property tax are also considered direct taxes.

Discount -- Amount by which the face value of a debt obligation exceeds its issue or selling price.

Disolution Of Corporation -- The termination of the legal existence of a corporation.

Distribution -- A payout of cash or property from a corporation to a shareholder.

Dividends -- A payment by a corporation to shareholders, which is taxable income of shareholders. Most corporations receive no deduction for it.

Documentation -- Official documents that are used to prove that something is true or correct

Domestic Corporation -- Corporation which is organized or has its place of effective management in a country.

Domicile -- A person's domicile in English common law is his permanent home, the place to which he always intends to return. Residence is the place where an individual lives for a certain period of time, while domicile is the place where an individual makes his permanent home.

Domicile, Fiscal -- Term sometimes used to mean the same as residence. Fiscal domicile does not necessarily have the same meaning as domicile.

Double Dipping -- Term used to indicate the possibility for dual resident companies to deduct the same expenses in two jurisdictions.

Double Taxation, Domestic And International -- Domestic double taxation arises when comparable taxes are imposed within a federal state by sovereign tax jurisdictions of equal rank. International double taxation arises when comparable taxes are imposed in two or more states on the same taxpayer in respect of the same taxable income or capital, e.g. where income is taxable in the source country and in the country of residence of the recipient of such income.

Double Taxation, Economic And Juridical -- Double taxation is juridical when the same person is taxed twice on the same income by more than one state. Double taxation is economic if more than one person is taxed on the same item.

Double Taxation Treaty -- See: Tax treaty

DTA -- Double tax agreement. See Tax treaty.

Dual Residence -- Person or company resident in two or more countries under the law of those countries, because the two countries adopt different definitions of residence.

Duty -- Customs duties (sometimes called a tariff) levied on imported products.

Duty-Free Zone -- Zone usually located next to an international port or airport where imported goods may be unloaded, stored and reshipped without payment of customs duties or other types of indirect taxes, provided the goods are not imported.

-E-

Earned Income -- Income or compensation derived from personal services in an employment, trade, business, profession or vocation. (cf. investment income)

Earnings & Profits (E&P) -- A term referring to the economic capacity of a corporation to make a distribution to shareholders that is not a return of capital. Such a distribution would constitute a taxable dividend to the shareholder to the extent of current and accumulated earnings and profit under US tax law.

Earnings Before Taxes -- Sales revenue less cost of sales, operating expenses, and interest, before taxes have been paid.

Earnings Stripping -- Practice of reducing the taxable income of a corporation by paying excessive amounts of interest to related third parties.

Economic Double Taxation -- See: Double taxation, economic and juridical

Eco Tax -- See: Environmental tax

Effectively Connected Income (ECI) -- Non-resident alien individuals and foreign corporations engaged in trade or business within the US are subject to US income tax on income, from sources both within and outside the US, which is "effectively connected" with the conduct of the trade or business within the US. Income is effectively connected if it is derived from assets which are used in or held for use in the US, and the activities of the US business were a material factor in the realization of the income.

Effective Tax Rate -- The rate at which a taxpayer would be taxed if his tax liability were taxed at a constant rate rather than progressively. This rate is computed by determining what percentage the taxpayer's tax liability is of his total taxable income.

Employee Profit Sharing -- System under which the employees of an enterprise are entitled by employment contract or by law to a share in the profits made by the enterprise.

Employee Stock Option -- An opportunity for employees to purchase stock (shares) in the company they work for, often at a discount from fair market value. Generally it is provided as an incentive to stay with the employer until the options vest.

Employment Income -- Income source of individuals, covering income derived from labour or other current or former dependent personal services such as salaries, wages, bonuses, allowances, compensation for loss of office or employment, pensions and, in some countries, certain social security benefits.

Entertainer -- Income of a professional entertainer e.g. a musician, actor or other artiste, or sportsman is, in many cases, treated differently from income of persons carrying on other independent profession.

Entity -- In general for tax purposes, an organization, person or party that possesses separate existence. Options include corporations, partnerships, estates and trusts.

Environmental Tax -- Tax imposed for environmental reasons, e.g. to provide an incentive to reduce certain emissions to an optimal level or taxes on environmentally harmful products.

Equal Treatment -- General principle of taxation that requires that taxpayers pay an equal amount of tax if their circumstances are equal.

Equitable Interest -- An equitable interest in an asset is the interest of the beneficial owner; this may or may not be the same person as the legal owner.

Equity --

1.The extent of a person's beneficial ownership of a particular asset. This is equivalent with the value of the asset minus the liability to which the asset is subject.

2. Paid-in capital plus retained earnings in a corporation

3. The ownership interest possessed by shareholders in a corporation - stock as opposed to bonds.

Equity Capital -- A method of financing a business where money is received by the issuance of shares in the enterprise.

Esop -- Employee stock ownership plan

Estate -- Broadly, all that a person owns, whether real property or personal property, for instance, the estate one leaves at death.

Estate Duty/TAX -- See: Death duties

Estimated Assessment -- For income tax purposes, where the records kept, particularly by small traders, are inadequate for a precise calculation of tax due, it may be necessary for the taxable income or profits to be calculated by the tax authorities on the basis of an estimate.

Estoppel -- Rule under which one is precluded and forbidden by law to speak against his own act or deed. If a certain position has been taken, another person has relied on that, and you are aware of that reliance, there is often an estoppel against you arguing the contrary to your original position in a court proceeding.

Eurobond -- International bond issued by a company in a market other than its domestic market. Eurobonds may take the form of loans, debentures or convertible debentures, and maybe designated in any currency.

Eurodollars -- Dollars originally deposited in US banks that are acquired by persons resident outside the United States and held abroad, mainly in Europe. Eurodollars are used by foreign banks as a method of financing loans to other local or foreign banks or to commercial borrowers.

European Commission -- The Commission is the executive institution of the European Union charged with the task of administering all policy within the Union.

European Union -- See: Treaty on European Union

Evasion -- A term that is difficult to define but which is generally used to mean illegal arrangements where liability to tax is hidden or ignored, i.e. the taxpayer pays less tax than he is legally obligated to pay by hiding income or information from the tax authorities.

Examination -- The checking of a taxpayer's tax return, accounts, self-assessment calculations, etc. The process may or may not include an audit of the taxpayer's own books.

Exchange Control -- Restriction of the amount of a particular foreign currency that can be bought or sold

Exchange Of Information -- Most tax treaties contain a provision under which the tax authorities of one country may request the tax authorities of the other country to supply information on a taxpayer. Information may only be used for tax purposes in the receiving country and it must be kept confidential, i.e. it can only be disclosed to the persons or authorities concerned with the assessment or collection of taxes covered by the treaty.

Excise Tax -- A tax imposed on an act, occupation, privilege, manufacture, sale, or consumption.

Exclusions -- Term used to describe income which is exempt, i.e. not included, in the calculation of gross income for tax purposes.

Exemption Method -- See: Foreign tax relief

Exemptions -- Tax laws frequently provide specific exemptions for persons, items or transactions, etc. which would otherwise be taxed. Exemptions may be given for social, economic or other reasons.

Expatriate -- Persons who have left their country and live abroad.

EXPATRIATION Rules -- Rules under which a taxpayer continues to be subject to tax when he relinquishes his residence or his citizenship in order to avoid tax.

Expenses -- Costs that are currently deductible, as opposed to capital expenditures, which may not be currently deducted but must be depreciated or amortized over the useful life of the property.

Export Duty -- Tax levied on exports of basic commodities entering into world trade, such as rubber, copper, palm oil, sisal, tea, cocoa and coffee

Extended Limited Tax Liability -- Principle according to which certain taxpayers (i.e. those subject to individual income tax, net worth tax and succession duty) who leave a tax jurisdiction and move to a low-tax country are subject to taxation in the former country of residence for a certain period of time after the move.

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Factoring -- Financial transaction whereby an enterprise sells its debt-claims to a third party in order to obtain cash (although less than the full amount of the debt). The third party then assumes responsibility for the administration and collection of the debt on the due date for its own account.

Fair Market Value -- The price a willing buyer would pay a willing seller in a transaction on the open market.

Federal Register -- A daily publication by the U.S government that prints the regulations of the various governmental agencies.

Federal Tax -- In federal states, taxation may exist on two levels: taxation by the federation or confederation, and taxation by the state or provinces.

FEE -- Fees charged by central or local governments can be distinguished from taxes when they are charged as payments for the supply of particular services by the authorities. Fees are usually not considered taxes when listing taxes to be included in a double tax treaty.

Fiduciary -- A person, company, or association holding assets in trust for a beneficiary.

Field Audit -- An examination of a tax return by tax authorities at the taxpayer's place of business.

FIFO -- Method of valuing inventory on the basis of "first in, first out", where goods or materials purchased first are regarded as those which are sold first.

Final Tax -- Under tax treaties the withholding tax charged by the country of source may be limited to a rate lower than the rate which would be charged in other circumstances - this reduced rate is then the final tax in the country of source.

Finance Company -- A company, usually a wholly owned subsidiary, which borrows funds from within or outside a group of companies and onlends the funds to affiliates. A finance company is, in many cases, established in a low or no tax jurisdiction.

Finance Lease -- Lease where the lessor is considered only as a financier. The lessee is regarded as the owner of the leased assets. Cf. Operating Lease

Financial Statement -- Report which contains all of the financial information about a company. The report generally consists of a balance sheet, income statement and may include other information as well.

Financial Structure -- The makeup of the right-hand side of a company's balance sheet, which includes all the ways it assets are financed.

First In, First Out (FIFO) -- See: FIFO

Fiscal Domicile – See: Domicile, fiscal

Fiscal Nullity Doctrine -- Common law doctrine used in the UK in cases of avoidance of tax, whereby certain transactions are ignored for fiscal purposes. Cf. Substance over form doctrine.

Fiscal Policy – Part of economic policy which relates to taxation and public expenditure.

Fiscal Residence – See: Residence

Fiscal Transparency -- "Looking through" an entity and attributing profits and losses directly to the entity's members. The profits of certain forms of enterprises are taxed in the hands of the members rather than at the level of the enterprise. Often occurs in the case of a partnership for example.

Fiscal Year – Any 12-month period which is set for accounting purpose of an enterprise.

Fixed Assets – Assets that are held by an enterprise either continuously or for a comparatively long period of time, generally more than one year

Fixed Base – This term was used in the OECD and UN model tax treaties in the context of independent personal services, but the former Article 14 has been removed from the OECD Model and these issues are now generally dealt with under Article 7, dealing with business profits attributed to permanent establishments. It denotes a centre of activity of a fixed or permanent character from which such services can be carried out such as a physician's consulting room. The fixed base provision attributes the right to tax income from independent personal services to the "other" country (i.e. the source country) if the taxpayer has a fixed base available to him in that country and income is attributable to that fixed base.

Fixed Income – Income which does not fluctuate over a period of time, such as interest on bonds and debentures, or dividends from preference shares as opposed to dividend income from ordinary shares.

Flag Of Convenience -- The flag of ship is the flag of the country where it is registered. This term is used in international shipping where a ship's country of registration is selected on the basis of country's legal Requirement and tax regime.

Flat Tax – A tax applied at the same rate to all levels of income. It is often discussed as an alternative to the progressive tax.

Floors – The lower limits on tax benefits and detriments, e.g. in medical expense. A taxpayer must spend more than the floor for a deduction, and only the amount above the floor is deductible.

Flow-Through Entity -- See Fiscal transparency

Fob Value – FOB denotes "free on board". FOB value is value of goods excluding carriage, insurance and freight, i.e. roughly speaking, the domestic price in the country of origin.

Force Of Attraction -- Concept under which a permanent establishment is taxed by the country in which it is located not only on the income and property, but also on all income derived by its foreign head office from source in, and all property owned by the foreign head office situated in, the country where the permanent establishment is located. The OECD model treaty does not allow application of it.

Foreign Currency Forward -- See Forward contract. This contract serves the same purpose as a foreign currency futures contract, except that it is not standardized and entered on the informal, interbank market rather than on a formalized commodities exchange.

Foreign Currency Futures -- Exchange traded contract for the delivery of a standardized amount of foreign currency on a specific future date. The price for the foreign currency is agreed on the day the contract is bought or sold. Unlike forward contracts, futures are tradable, reflecting the standardization of contract size, specification and delivery date.

Foreign Currency Option -- Contract with an option to buy/sell foreign currency. See: option.

Foreign Currency Swap -- An agreement under which two or more parties agree to exchange specified amount of two different currencies for a defined period. Over the term of the agreement, the parties exchange fixed or floating rate interest payments in their swapped currencies.

Foreign Exchange Control -- See: Exchange control

Foreign Exchange Tax -- Special tax imposed on transactions involving sales of foreign exchange by domestic banking institutions and authorized exchange brokers.

Foreign-Source Income -- Generally income realized from countries outside the country of residence of the taxpayer.

Foreign Tax Credit (FTC) -- See: Credit, foreign tax

Foreign Tax Relief -- Relief from domestic tax on income from abroad which has already suffered foreign tax. Generally speaking, two approaches are taken to foreign tax relief, i.e. the credit method or the exemption method.

Forfait – In a number of countries tax is sometimes levied on an estimated taxable base (forfait), particularly in respect of the imposition of income tax or turnover tax on small enterprises.

Forms, Tax -- See: Tax form

Formula Apportionment -- See: Unitary tax system

Formulatory Approach -- See: Unitary tax system

Forward Contract -- Contract for the delivery of an amount of asset (e.g. foreign currency, securities, commodities) on a specific future date.

Franchise Taxes -- Nearly all states in the US levy an annual franchise tax on resident and non-resident corporations for the privilege of the right to do business in that state.

Fraud – Tax fraud is a form of deliberate evasion of tax which is generally punishable under criminal law. The term includes situations in which deliberately false statements are submitted, fake documents are produced, etc.

Fringe Benefits -- Benefits supplementing normal wages or salaries. Fringe benefits may be given in the form of a money allowance, e.g. a holiday bonus or in the form of benefits in kind, e.g. free accommodation. Although most countries tax the benefit of employer-provided automobiles and accommodation, the tax treatment of other fringe benefits varies considerably.

Frivolous Position -- A tax position that is knowingly advanced in bad faith and is patently improper.

Frontier Workers -- For tax purposes, a frontier worker is a person who commutes across a border (e.g. on a daily basis) between his place of residence and his place of employment.

Fronting -- Term used to describe the practice of interposing a third party in a transaction so as to circumvent transfer pricing legislation.

Fruit And Tree Doctrine -- A judicial doctrine that an individual who earns income from property of services may not assign such income to another person for tax purposes.

FTC – See Foreign tax credit

Functional Analysis -- An analysis of the functions performed (taking into account assets used and risks assumed) by associated enterprises in controlled transactions and by independent enterprises in comparable uncontrolled transactions.

Furniss V. Dawson -- This case is 1984 UK case, decided by the House of Lords, which is generally considered to be a landmark case. It made ineffective tax avoidance schemes which have no commercial purpose other than the avoidance of tax.

Futures Contract -- An agreement between a buyer and seller to exchange particular goods (e.g. securities or commodities) for a particular price at a future date as specified in a standardized contract common to all participants in a market on an organized futures exchange.

-G-

GAAP -- Generally Accepted Accounting Principles are the rules and practices required to be followed in keeping financial records and books of account.

Gain, Capital -- See: Capital gain

Gearing -- Term broadly used in the context of a company's debt/equity ratio. A company is highly geared if the ratio of debt to equity is high. Sometimes referred to as capital gearing or leveraging.

General Partner -- In a partnership, a partner whose liability is not limited. All partners in an ordinary partnership are general partners. A limited partnership must have at least one general partner and at least one limited partner.

General Partnership -- See: Partnership

Generation-Skipping Tax -- Tax imposed to prevent the avoidance of transfer tax (i.e. estate tax and gift tax) over successive generations.

Gift Causa Mortis -- A transfer of property by a person who faces impending death. The donee thereby becomes the owner of the property, but on the condition that the gift is revoked if the donor does not die.

Gift Inter Vivos -- A gratuitous transfer of property made during the transferor's (donor's) lifetime. In many countries the gratuitous transfer of property is subject to a gift tax.

Global Formulary Apportionment Method -- See: Global method

Global Hedging -- A risk-management strategy to balance positions of different business units or with unrelated third parties.

Global Income Tax -- Income tax that aggregate income from all sources at the individual (or family unit) level. The income is then taxed at a single progressive rate.

Global Method -- Under the global method, the profits of each member of a multinational enterprise (MNE) are not calculated on the basis of arm's length dealings, but rather the total profit of the enterprise is allocated to the members of the multinational enterprise on the basis of, for example, the turnover of each member, the expenses incurred by each member or the labour cost of each member.

Global Trading -- Term used to describe transactions carried out by, inter alia, investment banks and securities dealers, involving financial instruments, financial services and financial goods. Also known as 24-hour trading since the transactions are carried out continuously during a day in financial markets worldwide.

Going Concern -- A business which is actually operating, e.g. at the time of takeover. The advantage of taking over a business as a going concern (if it is operating profitably) is usually recognized by a payment for goodwill as well as for other assets.

Going Concern Value -- The element of value that attaches to property as a result of the ability of a trade or business to continue to operate and generate income after a transfer of ownership.

Good Faith -- "Good faith" denotes a state of mind, whereby a person honestly and truly believes that certain facts or circumstances are as he says they are.

Goods And Sales Tax Vat -- style multi-stage sales tax levied on purchases (and lessees). Sellers (and lessors) are generally responsible for collection.

Goodwill -- Intangible asset which consists of the value of the earning capacity, location, marketing organization, reputation, clientele, etc. of a trade or business. Goodwill can be transferred for a consideration to another entrepreneur upon the sale of the business as a going concern.

Gordon Report -- 1981 report submitted to the US Treasury, entitled "Tax Havens and Their Use by United States Taxpayers - An Overview"; it explains the use of US taxpayers make of tax havens, existing anti-abuse measures and proposals for measures to counter such activities.

Grace Period -- The period following the due date of taxes during which legal action for recovery of delinquent taxes will not be instituted and interest will not commence to run.

Graduated Rate -- System where the rate of tax increases on marginal amounts as the amount of taxable income rises. Synonym for progressive rate.

Grandfather Clause -- Clause temporarily preserving legislation which exists at the time a law is modified or a (tax) treaty is concluded (or modified).

Green Card -- Entry document issued by the US immigration and Naturalization Service (INS) that permits foreign nationals to live permanently in the US and undertake employment.

Green Card Test -- A test in the US to determine residence of an alien individual, i.e. an alien is considered resident if at any time during the calendar year he is a lawful permanent resident of the US under the immigration laws.

Gross Income -- Gross receipts, whether in the form of cash or property, of the taxpayer received as compensation for independent personal services, and the gross receipts of the taxpayer derived from a trade, business or services, including interest, dividends, royalties, rentals, fees or otherwise.

Gross Income, Taxes On -- In some countries income taxes are levied on gross income (usually at low rates) without deduction for expenses.

Gross Margin -- Ratio of gross profits to gross revenue.

Gross Profits -- The gross profits from a business transaction are the amount computed by deducting from the gross receipts of the transaction the allocable purchases or production costs of sales, with due adjustment for increases or decreases in inventory or stock-in-trade, but without taking account of other expenses.

Gross Profit Ratio -- Ratio of gross profit to the sales of a business or, alternatively, to the adjusted purchases or "goods consumed" during the accounting period.

Gross Profits Tax -- Tax imposed usually at low rates on the gross receipts of a business

Gross Up -- Add back the amount of tax which has been paid to the value of property or other income received. The term includes the process by which corporation add credits (e.g. imputation credits or foreign tax credits) received to net income received before calculating their tax liabilities.

Group Service Center -- Term used in the 1984 OECD Report on Transfer Pricing and Multinational Enterprises to denote a special department within a parent company or regional holding company or any other associated enterprise within a multinational enterprise (MNE) providing services to associated enterprises.

Group Treatment -- Term used to describe the tax treatment where the profits and losses of associated companies may be grouped together and, in effect, be treated as the aggregated profits of a single enterprise (sometimes called a "fiscal unity").

Guarantor -- A person who guarantees, endorses, or provides indemnity agreements with respect to debts owed to others.

-H-

Habitual Abode -- In the context of the tie-breaker rule of the OECD model tax treaty, habitual abode is one of the criteria used to resolve the problem of dual residence. It refers to the period of time a taxpayer spends in each country.

Hardship Clause -- Discretionary power of the tax authorities to mitigate any harsh results of the tax law.

Harmonization Of Tax, Eec Directive -- Term usually used to refer to the process of removing fiscal barriers and discrepancies between the tax systems of the various countries comprising the European Union. To this end the EU has issued directives in the area of indirect and direct taxation.

Head Office Expenses -- Where an enterprise with its head office in one country operates through a branch or other permanent establishment in another country, some expenses incurred by the head office, e.g. for general management and administrative expenses or the cost of specific services provided to the permanent establishment, may be deducted in computing the taxable profits of the permanent establishment.

Hedging Transaction -- Transaction where a person tries to protect himself against price, interest rate or foreign exchange rate fluctuations, for example, by buying or selling commodities or currencies using derivative contracts such as forwards, futures, options and swaps.

Hidden Reserves -- Reserves which are not disclosed on the balance sheet of an enterprise, either by overvaluing debts or undervaluing assets.

Hidden Tax -- Indirect tax paid by the consumer without his knowledge.

Historical Cost -- Amount expended in obtaining an asset at the time of acquisition, i.e. the purchase price and associated costs.

Holding -- A decision of a court

Holding Company -- Company whose main purpose is to hold substantial shares of other companies.

Holding Period -- The length of time that an investment is owned or expected to be owned.

Homestead -- A house and surrounding land owned and used as a dwelling.

Horizontal Equity -- Doctrine which holds that similarly situated taxpayers should receive similar tax treatment, e.g. taxpayers who earn the same amount of income or capital should be accorded equal treatment.

House Ways And Means Committee -- The committee of the US House of Representatives that introduces most tax provisions.

Hut Tax -- Type of poll tax levied on inhabited dwellings or huts generally at an early stage in the development of an economy when it is not feasible to introduce an income tax.

Hybrid Accounting Methods -- Term which refers to the situation where a taxpayer used a combination of accounting methods (such as accruals basis accounting or cash basis accounting) for different items of income.

Hybrid Derivative -- Financial instrument which has the characteristic of more than one type of instrument, i.e. a swap plus an option.

Hybrid Entity -- Entity that is characterized differently in two or more jurisdictions, for example, an entity that is treated as a partnership in one jurisdiction and as a corporation in another.

Hybrid Instrument -- See: Hybrid derivative

-I-

IMF -- See: International Monetary Fund

Immovable Property -- Also known as real property, immovable property comprises land, houses and buildings.

Import Duty -- See: Duty

Impost -- The term "impost" means tax and refers particularly to a duty on imported goods and to clarification (by customs) of (imported) goods in order to assess the proper (import) taxes.

Imputation System -- System under which at least part of the tax paid by a company on its profits is credited against the tax liability of shareholders in receipt of distributions paid by the company out of those profits.

Imputed Income -- The economic benefit a taxpayer obtains through performance of self-provided services or through the use of self-owned property.

Imputed Interest -- Implied interest. In a mortgage that states an insufficient interest rate, tax law will impute a higher rate and a lower principal, which will increase taxes on the receipt of payment.

Inbound Transaction -- Term which refers to the tax treatment of foreigners doing business and investment in other countries.

Incentive Stock Option (ISO) -- An equity-type compensation plan under which qualifying stock options are free of tax at the date of grant and the date of exercise but are taxed when sold. US system.

Incidence Of Tax -- The person who bears the tax burden in economic sense, which could be different from the person paying the tax.

Income Property -- Often, real estate that is bought for the income it produces.

Income Shifting -- Income splitting

Income Splitting -- A number of arrangements, the essential feature of which is that income, which would have been taxed at a higher rate in the hands of the person who derived it, is taxed in the hands of another person at a lower rate.

Income Statement -- Statement showing the results of a business operation for a particular period of time. The statement will show the business's revenues and expenses.

Income Subject To Tax -- All sources of income liable to tax without taking account of tax allowances.

Income Tax Credit -- See: Credit, tax

Incorporation -- The process by which a company receives a government charter allowing it to operate as a corporation.

Indemnification -- Amount of money received by persons or entities as compensation for damages or for losses incurred.

Independent Agent -- See: Agency

Independent Contractor -- A contractor who is self-employed.

Independent Enterprises -- Two enterprises are independent enterprises with respect to each other i[illegible] they are not associated enterprises with respect to each other.

Independent Personal Services -- Services performed by an independent contractor. An independen[illegible] contractor is hired to do work according to his own methods and is not subject to the control of a[illegible] employer except as to the result of his work. With the removal of Article 14 from the OECD Mode[illegible] this issue is now dealt with by Article 7 as business profits in most cases.

Index-Linked Adjustment -- Expedient adopted in many commercial transactions to provide a workable solution to some of the problems created by inflation and monetary depreciation. The mechanism is essentially one of adjusting payments, profits, gains, taxable income brackets, tax allowances, etc. by discounting or otherwise modifying them by reference to an accepted index of inflation or other indices.

Indexation -- See: Index-linked adjustment

Indirect-Charge Method -- A method of charging for intra-group services based upon cost allocation and apportionment methods.

Indirect Cost -- Costs that cannot be identified in relation to a particular activity but that, nevertheless, are related to the direct costs (e.g. overhead expenses, costs of supporting departments, and a proper share of research and development (R&D) costs).

Indirect Tax -- Tax imposed on certain transactions, goods or events. Examples include VAT, sales tax, excise duties, stamp duty, services tax, registration duty and transaction tax

Indirect Tax Credit -- See: Credit, underlying (indirect) tax

Information Return -- Declaration made by a person who has economic information about a potential taxpayer, regardless of whether that person is liable for withholding tax.

Inheritance -- Real property or personal property that is received by heirs.

In Kind -- Broadly speaking, a distribution or payment other than in money.

Input Tax -- Term used in connection with VAT to denote the tax embodied in purchases made by a trader or entrepreneur who will usually be able to obtain a credit for the tax that his suppliers have paid on the goods supplied to him which form his "inputs".

Insolvency -- Inability to pay debts when due

Instalment Sale -- Sale for which the consideration is received by way of more than one payment or instalment.

Instrument -- A legal document that records an act or agreement and provides the evidence of that act or agreement. Instruments include contracts, notes, and leases (e.g. a debt instrument).

Insurance Premiums -- The amount paid to an insurance company to cover potential hazards.

Insurance Settlement -- Receipt of proceeds of an insurance policy.

Intangible Property -- Property which has no physical existence but which has a value based on a legal right of the owner, e.g. goodwill, patent, trade mark, copyright, software, inventions, designs, i.e. all manner of intellectual property. Intangible property is usually transferred by way of a licensing agreement, and payments for the intangible are made in the form of royalties.

Integration, Full -- System which provides for retained as well as distributed profits to be included within the framework of an imputation system. All corporate-source income, whether retained or distributed, is taxed at the appropriate marginal rate in the hands of ultimate shareholders.

Intellectual Property -- Literary, dramatic, musical, artistic and scientific works are intellectual property which is protected by copyright, patent, registered design, trade mark, etc.

Intentional Set-Off -- A benefit provided by one associated enterprise to another associated enterprise within the group that is deliberately balanced to some degree by different benefits received from that enterprise in return.

Inter Alia -- Latin for "among other things"

Intercompany Pricing -- See: "Transfer pricing"

Intercompany Transactions -- Transactions between members of an affiliated group filing a consolidated return; gain or loss is deferred until a property is disposed of outside the group.

Intercorporate Dividends -- Dividends distributed between two companies (domestic or foreign) arising from a shareholding or participation in the capital of the paying company.

Intermediary Company -- See: Conduit company

Internal Market -- In the context of the European Union, an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured.

Internal Revenue Bulletin (Irb) -- A weekly publication summarizing various IRS administrative rulings.

Internal Revenue Code (IRC) -- Legislation passed by US Congress that specifies what income is to be taxed, how it is to be taxed, and what may be deducted from taxable income.

Internal Revenue Manual (IRM) -- An official compilation of policies, procedures, instructions, and guidelines for the organization, functions, operation, and administration of the Internal Revenue Service. The IRM guidelines do not confer any rights on taxpayers.

Internal Revenue Service (IRS) -- The agency of the US federal government that is responsible for the administration and collection of federal taxes.

International Double Taxation -- See: Double taxation, domestic and international

International Monetary Fund (IMF) -- An international organization established in 1945, headquartered in Washington, DC. The purposes of the IMF are, inter alia, to promote international monetary cooperation, facilitate the expansion and balance growth of international trade and promote stability in foreign exchange.

International Taxation -- Traditionally, international taxation refers to treaty provisions relieving international double taxation. In broader terms, in includes domestic legislation covering foreign income of residents (worldwide income) and domestic income of non-residents.

Intra Group Services -- Services provided by a group company to another affiliated company. The cost of general services such as management, administrative and similar services may be often allocated among the various members of the group without any profit mark-up, whereas services performed in the ordinary course of business are subject to arm's length conditions.

Investment -- The purchase of stocks, bonds, mutual fund shares, real property, an annuity, collectibles, or other assets, with the expectation of obtaining income or capital gains-or both-in the future.

Investment Allowance -- Allowance with respect to a qualifying depreciable asset. It adds a certain percentage of the asset's initial cost to the full depreciation write-off and is usually given in the year of acquisition or as soon as possible thereafter.

Investment Company -- Corporation whose activities consist exclusively or substantially of making investments (i.e. holding property and collection of income therefrom) and whose buying and selling of shares, securities, real estates or other investment property is only incidental to this purpose.

Investment Deduction -- See: Investment allowance

Investment Goods -- See: Fixed assets

Investment Incentives -- Financial and tax incentives used to attract local or foreign investment capital to certain activities or particular areas in a country.

Investment Income -- Income derived from the investment of capital, whether money or other property, in income-producing assets or in a profit-making venture without active participation in the production of the income or in the affairs of the venture.

Investment Method -- Method used in connection with VAT where an immediate credit is granted against tax for that part of expenditure incurred during the year for acquisition of business assets (such as plant and machinery by a manufacturer) which related to the tax element in the price of such assets.

Investment Reserve -- This system permits eligible taxpayers to set aside part of their profits as a reserve for future investment and deduct from their income the amount of the annual contribution to the reserve.

Invoice Basis -- Method of applying VAT to the price at which the goods or service are invoiced, with a deduction for the tax (if any) charged at previous stages.

Invoice Company -- Term used in the context of transfer pricing to refer to a company established in a low-tax or no-tax jurisdiction for the purpose of shifting profits to that jurisdiction.

IRB -- See: Internal revenue bulletin

IRC -- See: Internal revenue code

IRM -- See: Internal revenue manual

IRS -- See: Internal revenue service

Issued Share Capital -- Shares that have been sold to shareholders by the corporation

Itemized Deductions -- In the US a deduction as specifically set forth in the Internal Revenue Code. The deductions in this part are individually listed, item by item.

-J-

Jeopardy Assessment -- Tax assessment made where there is some danger of tax being lost. .

Joint Return -- A single return made jointly by husband and wife.

Joint-Stock Company -- Company with legal personality and whose capital is divided into shares. The shareholders are generally liable only to the extent of the nominal value of their shares.

Joint Venture -- Term which is loosely used to describe a relationship between parties carrying on an undertaking in common for their individual or common gain. This can be either an incorporated venture or an unincorporated venture.

Junk Bond -- Bonds and debentures issued by companies that have a low credit evaluation (i.e. below investment grade) from a rating agency such as Standard & Poor's or Moody's

Juridical Double Taxation -- See: Double taxation, economic and juridical

Jurisdiction -- The power, right, or authority to interpret and apply tax laws or decisions.

-K-

Kiddie Tax -- Term used to describe tax levied in the US on the unearned income of a child under 14. The income is taxed at the parent's highest rate of tax.

Know-How -- All undivulged technical information, whether or not capable of being patented, that is necessary for the industrial reproduction of a product or process, i.e. knowing how a product is made or how a particular process works. Payments for know-how may be taxed as royalties in many cases. The distinction from contracts for the provision of services is addressed in the OECD Commentary to Article 12.

-L-

Landed Cost -- Term used in relation to the importation of goods which means the sum total of the cost of the goods concerned, the amount of customs duties levied on those goods and the expense incurred in unloading them.

Last In, First Out -- See: LIFO

Lease -- In general, a lease is a contract in respect of real or personal property, under which the owner of the property grants to another the right to possess, use and enjoy the property for a specified period of time in exchange for periodic payments.

Leaseback -- See: Sale and leaseback

Legal Entity -- Generally, corporations, joint-stock companies and limited liability companies are regarded for tax purposes as having an existence separate from that of their shareholders. Conversely, for tax purposes a partnership is often not regarded as a separate legal entity, its profits being taxed in the hands of the individual partners. What constitutes a legal entity for tax purposes may or may not coincide with what constitutes a legal entity for general law purposes.

Legal Reserve -- Under the civil law of some countries corporations are required to maintain a legal reserve for all needs which may arise in the course of the business. Tax law does not allow a deduction for such a reserve.

Letter-Box Company -- A paper company, shell company or money box company, i.e. a company which has compiled only with the bare essentials for organization and registration in a particular country. The actual commercial activities are carried out in another country.

Letter Ruling -- See: Advance ruling

Level Playing Field -- This term denotes to reduce, by means of tax policy, the differences in the taxation of internationally mobile entities or transactions allowing countries to compete fairly on non-tax factors.

Leveraging -- See: Gearing

Libor -- The London inter-bank offering rate is the rate at which London money banks lend to each other.

License Duties (Or Fee) -- Annual duties payable for the privilege of carrying on a certain trade.

Licensing -- Licensing is an agreement by which a licensor transfers the right to use his technology and/or know-how to a licensee for the production or manufacturing of a product in the licensee's country. Royalties are generally paid for the right to use the technology or know-how.

Lien -- A charge against property, making it security for the payment of a debt, judgment, mortgage, or taxes.

Life Interest -- Assets may be given to a person for his lifetime use or benefit, with the stipulation that after his (the life tenant's) life, the asset will pass to another beneficiary.

Life Tenancy -- Under common law an interest in possession whereby the individual beneficiary is entitled to the income of a trust or settlement until his death.

LIFO -- Method ("last in, first out") of valuing inventory or stock-in-trade whereby the goods or materials purchased last are regarded as those which are sold first.

Limitation On Benefits Provision -- Tax treaty provisions designed to restrict treaty-shopping opportunities by limiting treaty benefits to persons who meet one of several enumerated tests, which may require minimum level qualifications, e.g. local ownership.

Limitations, Statute Of -- See: Statute of limitations

Limited Liability -- Liability of investor which is limited to the extent of his investment

Limited Liability Company (LLC) -- Business form that combines the flexibility and tax advantages of a partnership with the limited liability features of a joint-stock company. An LLC may be taxed as a partnership or a corporation depending on the nature of the status under which it is organized.

Limited (Special) Partner -- See: Limited partnership

Limited Partnership -- Business entity made up of two types of partners: general partners and limited partners, the extent of whose liability depends on their role and contribution to partners. A general partner is involved in the management and day-to-day operation of the partnership and is jointly and severally liable for all obligations of the partnership. A limited partner only makes a financial contribution to the partnership and shares in the profits; he is liable for partnership obligations only to the extent of his investment. Limited partners are usually restricted from taking an active part in the management of the business of the partnership or from allowing their name to be used in the conduct of the business.

Link Structure -- Structure operating as a result of the different rules in various countries for determining the place of residence; it is a means used by dual resident companies to obtain tax relief in two countries.

Liquidation -- A company in liquidation is a company in the process of being dissolved or wound up, and its assets, if any, after payment of its debts, distributed to the shareholders.

Listed Company -- Company whose shares are traded on a recognized stock exchange.

Listed Securities -- See: Quoted securities

LLC -- See: Limited liability company

Loan Capital -- See: Debt capital

Local Tax -- In countries where there is a central or federal government and separate levels of government at state, provincial, county or city levels, taxes levied at the lower levels of government are commonly referred to as "local" taxes.

Location Of Assets -- The location of an asset is relevant to the determination of whether it is within a taxing authority's jurisdiction. Location of immovable property in a country means, in most countries, that the country taxes the income derived therefrom and possibly the value and capital gains realized on alienation, even if the owner is not a resident of that country.

Location Savings -- Term used in the context of transfer pricing to refer to the savings or benefits such as cheaper production or service costs obtained by siting particular manufacturing operations in an offshore jurisdiction.

Long-Term Capital Gains -- In countries where capital gains are subject to special tax treatment, a distinction may be made between capital gains realized after a short period of time and capital gains realized after a longer period of time. Long-term capital gains may be taxed at reduced rates.

Looking Through -- Term typically used when disregarding the separate legal identity, for example, a company, in order to charge tax on a shareholder in respect of his share of the company profits.

Loophole -- Opportunities available in tax law to minimize a taxpayer's tax burdens.

Losses -- The term may broadly be defined as the excess of expenses over revenues for a period, or the excess of the cost of assets over the proceeds when the assets are sold or otherwise disposed of, or abandoned or destroyed.

Loss Relief -- Most income tax laws provide some form of relief for losses incurred, either by carrying over the loss to offset it against profits in previous years (carry-back) or in future years

(carry-forward) or by setting off the loss against other income of the same taxpayer in the year in which the loss was incurred.

Lottery Tax -- Tax on the sale of lots or on the receipt of prizes after the drawing of lots.

Lump-Sum Deductions -- Deduction, often from income, for the computation of taxable income, which does not reflect the factual situation.

Lump-Sum Exempt Amounts -- Fixed sum of income, net worth, etc., below which no tax is due.

Lump-Sum Rates -- In specific cases, income tax (and other taxes) may be levied at a fixed rate instead of the rates usually applicable.

Lump-Sum Taxation -- The tax laws of some countries allow the tax authorities to levy a fixed amount of taxes on income in certain circumstances which deviates from the normal method of applying a rate to income to ascertain taxes payable.

Luxury Taxes -- Indirect ad valorem tax imposed on supplies of specific non-essential and normally expensive commodities that are arbitrarily considered (e.g. toiletries, cosmetics, jewelry, pearls and precious stones and metals, etc.)

-M-

Maintenance Expenses -- 1. Expenses incurred by a taxpayer to provide for his family, former spouse or other relatives. 2. Expenses for the upkeep or preservation of a building or equipment.

Malpractice -- Improper or immoral conduct of a professional in the performance of his duties, done either intentionally or through carelessness or ignorance; commonly applied to accountants, tax preparers, and lawyers to denote negligent or unskilful performance of duties where professional skills are obligatory.

Management, Place Of -- See: Place of management

Management, Place Of Effective -- See: Place of effective management

Management Expenses -- Generally the expenses of management are deductible in arriving at the taxable profits of an enterprise carrying on a trade. In the case of a group of companies it may be important to decide how far the general expenses of management of the group should be charged out to and recovered from the members of the group.

Management Fee -- Broadly, a fee or charge imposed for management and/or administrative services of a parent company or head office.

Management Service -- See: Intra-group services

MAP -- See: Mutual agreement procedure

MAP APA -- See: BAPA

Marginal Rate Of Tax -- Tax rate applicable to the top slice or bracket of a taxpayer's income or other taxable income, where the relevant tax on such items is levied at progressive rates.

Marketable Securities -- See: Quoted securities

Marketing Intangible -- An intangible that is concerned with marketing activities, which aids in the commercial exploitation of a product or service and/or has an important promotional value for the product concerned.

Mark To Market -- Tax and/or accounting convention under which the value of assets/liabilities is adjusted to reflect fair market value of a specific date.

Mark-Up -- An increase in the price of something, especially from the price a trader pays for something to the price he sells it for. In the context of transfer pricing, one method to estimate an arm's length price for transactions between affiliated companies is to increase the supplier's cost by an appropriate profit mark-up (Cost-plus method).

Memorandum Of Understanding (MOU) -- In the context of a tax treaty, a document exchanged between the treaty partners which sets out the understanding of the parties regarding the convention. Usually this does not have treaty status, but the status depends on the document itself.

Merger -- Term generally used to describe a number of operations involving the reorganization of companies.

Mineral Royalties -- Regular payments, usually based on the volume or price of minerals extracted, made by mining enterprises to national states or other owners of mineral resources as consideration for the right to exploit particular mineral resources.

Minimum Tax -- In certain countries corporations are always liable to a certain amount of annual tax, regardless of whether they have realized a profit.

Ministry Of Finance (MOF) -- Department of government generally responsible for formulating monetary policy, implementing the tax laws, collecting revenue, etc.

Mixer Company -- Term used to designate an intermediate holding company the purpose of which is to "mix" income from various foreign sources in order to maximize the benefit of foreign tax credits. The mixer company receives income both from countries with a higher tax rate than that of the destination country and from countries with a lower tax rate, which it then pays out as a dividend. This structure has the effect of averaging out the rate of foreign tax paid.

MNC -- Abbreviation for multinational corporation

MNE -- Abbreviation for multinational enterprises

Model Tax Conventions (Treaties) -- A model tax treaty is designed to streamline and achieve uniformity in the allocation of taxing right between countries in cross-border situations. Model tax treaties developed by OECD and UN are widely used and a number of countries have their own model treaties.

Mortgage -- A written instrument that creates a lien upon real estate as security for the payment of a specified debt.

Mortgage Tax -- Tax on mortgages usually in the form of a stamp duty levied on the mortgage document.

Motive Test -- Test often found in tax rules which are designed to prevent tax avoidance. For example, the rules may provide that certain consequences will follow if the sole, main or principal purpose of certain transaction is the reduction of tax.

Mou -- See: Memorandum of Understanding

Multinational Enterprises (MNE) -- Company or group of companies with business establishments in two or more countries.

Multiple Captives -- Company which has more than one captive insurance company.

Multi-Stage Tax System -- Indirect tax charged on the same goods at successive stages of production and distribution.

Mutual Agreement Procedure (MAP) -- A means through which tax administrations consult to resolve disputes regarding the application of double tax conventions. This procedure, described and authorized by Article 25 of the OECD Model Tax Convention, can be used to eliminate double taxation that could arise from a transfer pricing adjustment.

Mutual Assistance -- "Mutual assistance" in the context of tax treaties is that one of the contracting states will collect taxes due to the other contracting state. See optional Article 27 of the OECD Model.

Mutual Fund -- A type of regulated investment company that raises money from shareholders and invests it in stocks, bonds, options, commodities, or money market securities. Or portfolio of securities held by an investment company on behalf of investors.

-N-

Nationality Principle -- The nationality of a taxpayer may affect the manner in which he is taxed and the nature of his tax burden, but comprehensive income tax treaties commonly provide that foreign taxpayers should not suffer discriminatory taxation by reason of their nationality.

Negative Income Tax -- A proposed system of providing financial aid to poverty-level individuals and families, using the mechanisms already in place to collect income taxes. Low-income person or family would receive a direct subsidy, called a negative income tax.

Negligence -- A lack of due care or failure to do what a reasonable and ordinarily prudent person would do under the given circumstances.

Net Income -- Net income is gross income less deductible income-related expenses. Many countries levy income tax on this basis.

Net Operating Loss -- Amounts by which business expenses exceed income in a tax year. A trader's operating losses constitute broadly the excess of his operating expenditure over receipts from his operations.

Net Profit -- Difference between receipts from business transactions and deductible business expenses, subject to any adjustments for tax purposes.

Net Profit Margin -- Ratio of operating profits to gross income (or revenue)

Net Wealth Tax -- See: Net worth tax

Net Working Capital -- Current assets less current liabilities.

Net Worth Tax -- Many European countries impose the net worth tax in the context of property taxation. The taxable base for resident taxpayers is normally the taxpayer's worldwide net worth, i.e. total assets less liabilities along with deductions and exemptions specially allowed by tax laws.

NEXUS Link. -- Often a requirement in tax law for determination of taxability or deductibility. For example, expenses are deductible if they have a "nexus" with gross income. In US, the taxable income of a multistate corporation may be apportioned to a specific state only if the corporation has a sufficient nexus in the state.

Nominal Capital -- Amount of capital that is defined as such in the articles of incorporation. Usually, a certain minimum amount of nominal capital is required to establish a legal entity.

Nominal Value -- See: Par value

Nominative Securities -- See: Registered securities

Non-Discrimination -- Tax treaties frequently contain a "non-discrimination" article which stipulates that citizens or nationals of one country resident in the other country may not be subjected to local taxation which is different from or more burdensome than the tax to which citizens and nationals of the host country are subjected under the same circumstances (including as to residency).

Non-Qualified Stock Option -- A stock option that does not meet the incentive stock option requirement under US tax law. The spread is taxed as ordinary income.

Non-Recourse Debt – A debt for which an individual has no personal liability. For example, a lender may take the property pledged as collateral to satisfy a debt, but has no recourse to other assets of the borrower.

Non-Resident – Broadly speaking, a person who spends most of the calendar year outside his country of domicile. Non-residents are usually taxed on income derived from sources within the taxing jurisdiction whereas residents may be taxed on worldwide income.

Non-Resident Alien – A non-resident individual who is not a citizen or national of the taxing jurisdiction.

Notice Of Assessment – The written decision of the tax authorities after a review of a taxpayer's return, whereby the amount of taxable income is determined and the amount of tax due is calculated.

Notice Of Deficiency – See: Deficiency

-O-

Oecd – The OECD (Organization for Economic Co-operation and Development) is a multilateral organization comprised of 30 countries, which are mostly Western European countries and other industrialized countries including US and Japan. Founded in 1961, the OECD provides a forum for representatives of countries to discuss and attempt to coordinate economic and social policies. It has an especially significant role in international tax matters. Its website is www.oecd.org.

OECD Model Tax Treaty – See: Model tax treaty

Offence, Tax – Tax offences may be specified in the tax laws covering matters such as late filing, late payment, failure to declare taxable income or transactions, and negligent or fraudulent misstatements in tax declarations.

Office – For purpose of the application of a tax treaty, the office of an enterprise normally forms a permanent establishment if the business of that enterprise is wholly or partly carried on through that office.

Office Audit – An examination at a tax authority's office, generally of an uncomplicated tax matter.

Offshore Bank – Offshore banking business basically consists of borrowing in foreign currencies for non-resident depositors outside the country and relending the foreign currencies to other non-residents. A number of countries have special regime for the taxation of offshore banks.

Offshore Company – Term usually applied to a company registered in a country (often a tax haven) other than the country or countries in which it carries on its business activities. An offshore (or non-resident owned) company is commonly used for captive insurance, marketing abroad, international shipping and tax shelter schemes.

OID – See: Original issue discount

Ombudsman – A member of the US IRS Commissioner's immediate staff who directs the IRS's Problem Resolution Program

"On Call" Services – Services provided by a parent company or a group service centre, which are available at any time for members of an MNE group.

One Hundred And Eighty-Three (183) Days' Rule -- Presence in a country for 183 days or more in any 12-month period may have tax consequences, particularly in respect of an individual's residence for tax purposes or for the taxation of employment income (although other tests must also be met).

Onshore Company -- Term sometimes used to denote the converse of offshore company.

Onus Of Proof -- The burden and responsibility of proving an assertion. Widely adopted [illegible] tax law, for example, where the taxpayer has the basic responsibility of declaring his taxable income or transactions.

Operating Lease -- Lease where the lessor is regarded as the owner of the leased asset for tax purposes. Cf. Finance Lease

Option -- Derivative financial instrument consisting of a firm agreement granting one party the right but not the obligation to buy or sell commodities, securities or currencies at a specified future date at a specified price.

Option To Be Taxed -- In the VAT context, a VAT exempt entrepreneur sometimes can claim to be subject to VAT, the advantage being that to be entitled to his input tax against his output tax.

Ordinary Shares -- Ordinary shares (also known as common stock) are generally shares with an equal par value and bear equal rights and obligations such as the right to participate in the management of the company by voting at the shareholders' meeting and the right to receive dividends. The rights of ordinary shareholders to receive dividends are generally subordinate to the rights of bond holders and preference shareholders.

Original Issue Discount (OID) -- A discount from par value at the time a bond is issued. The most extreme version of an OID is a zero-coupon bond, which is originally sold far below par value and pays no interest until it matures.

Origin Principle -- Principle under a VAT regime where goods are taxed in the country where they are produced, i.e. they are taxed on the basis of their place of production or origin.

Other Income -- Income not otherwise mentioned in a tax treaty is frequently dealt with in a separate article, entitled "other income".

Outbound Transaction -- Term which refers to the tax treatment of a country's residents (and perhaps citizens) doing business and investing abroad.

Output Tax -- Term used in connection with VAT to denote the tax payable on the sales of goods or services by those who are subject to the tax and in contrast to the input tax for which a credit will be available.

Overhead Expenses -- The general expenses of a business as opposed to the direct cost of producing a good or service. "Overhead costs" is a term which may, in tax matters, also be used for costs incurred by the head office of a concern for the benefit of branches or subsidiaries.

Overseas -- In the United Kingdom the term "overseas" is generally used instead of "foreign" because "foreign" cannot be applied to commonwealth countries or to territories which are British possessions, such as the British Virgin Islands, the Isle of Man and the Channel Islands.

-P-

Paid-In Capital -- The capital received by a corporation from investors for stock, as distinguished from capital generated by earnings or donated.

Paper Company -- See: Letter-box company

Parent Company -- Company with a substantial participation in the share capital of another company, called the subsidiary.

Participation Exemption -- See: Affiliation privilege

Partner -- A member of partnership

Partnership – Association of two or more person (individuals or companies) formed for the purpose of making a profit. A partnership can be a general partnership or a limited partnership depending on the extent of each party's liability. A general partnership is characterized by the unlimited liability of the general partners for partnership debts. Also see: Limited partnership.

Some countries treat a partnership as a separate taxpayer and may subject it to tax on its income and losses as a corporation. Other countries do not consider a partnership to be a separate legal entity and the partnership is treated as tax transparent, with each individual partner being taxed on his share of the profits according to his interest in the partnership. Taxation of partnerships is addressed in the Commentary to Article 1 of the OECD Model.

Par Value -- Assigned value printed on a share certificate. Face value.

Passive Income – Income in respect of which, broadly speaking, the recipient does not participate in the business activity giving rise to the income, e.g. dividends, interest, rental income, royalties, etc.

Pass-Through Entity -- A nontaxable entity such as a partnership. Generally, the income or expense is passed to the underlying owner.

Patent -- Form of intellectual property. The inventor of a new article or process usually registers his invention with a government department which confers on him the sole right (known as a patent right) to use the invention for a limited period of time.

Patron -- A person who does business with a cooperative, but is not necessarily a member.

Patronage Dividend -- A payment to a patron of a cooperative.

Payroll Tax – Tax charged on an employer's payroll (i.e. gross salaries, wages and other remunerations) paid to his employee without regard to their domicile, family status or other individual circumstances.

PE -- See: Permanent establishment

Penalties -- Administrative penalties are imposed for tax offences, such as failure to make a timely return or payment, negligence, and making a false return or statement. They take the form of additions to the tax and are assessed as part of the tax. Criminal penalties, on the other hand, are enforceable only by prosecution. A prison sentence may be imposed for serious tax fraud.

Per Capita -- Latin for "for each person"

Per Diem -- Latin for "by the day"; referring to daily allowance, usually for travel, entertainment, employee compensation, or miscellaneous out-of pocket expenses incurred while conducting a business transaction.

Permanent Establishment (PE) -- Term used in double taxation agreement (although it may also be used in national tax legislation) to refer to a situation where a non-resident entrepreneur is taxable in a country; that is, an enterprise in one country will not be liable to the income tax of the other country unless it has a "permanent establishment" thorough which it conducts business in that other country. Even if it has a PE, the income to be taxed will only be to the extent that it is 'attributable' to the PE.

Personal Allowances -- Personal allowances are granted to individuals as deductions from income in computing their taxable income. There is usually a deduction for the individual himself, spouse, children and other dependents.

Personal Holding Company -- Company, the shares of which are principally owned by or attributed to the taxpayer, and which is set up to receive his investment income.

Personal Property -- Things movable, as distinguished from real property or things attached to the realty; also called "personalty".

Personal Service Corporation -- personal services; for example, a manage prepare a report on a client company.

Petition -- A written application addressed to a court or judge, relied upon as a cause for judicial action.

Phantom Stock Plan -- A deferred-compensation plan that uses the employer's stock as a measuring rod for determining the value of the compensation payment. Hypothetical shares stock are allocated to the employee, and accrued appreciation and/or dividends to the hypothetical shares are paid in cash to the employee.

Piercing The Corporate Veil -- The process of imposing liability for corporate activity, in disregard of the corporate entity, on a person or entity other than the offending corporation itself; a US legal doctrine.

Place Of Effective Management -- Place of effective management is the test suggested in the tie-breaker rule of the OECD model tax treaty to determine the residence of a company where under the domestic laws of both contracting states the company is resident in both of them. The test determines that in such cases the company would, for treaty purposes, be resident in the state in which its place of effective management is situated.

Place Of Management -- For purposes of the application of a tax treaty, the place of management of an enterprise normally forms a permanent establishment. The term "place of management" as such is not defined in the OECD model tax treaty, but may be defined in national tax law.

Pool Basis -- Collective basis for the purpose of depreciation of business assets falling within the same category. For example, all depreciable assets of a similar kind are effectively treated as a single asset for depreciation purposes.

Portfolio Interest -- Category of interest that may be paid from US sources free of withholding tax provided certain requirements are met. The portfolio interest exemption does not apply to bank loans made in the ordinary course of business.

Portfolio Investment -- A portfolio investment in a company would be a holding of shares amounting to a small portion of the total shares of the company, e.g. less than 10%. Portfolio investors may receive different tax relief or other treatment in respect of their dividends under tax treaties from those accorded to other direct investors.

Possessions of U.S. -- In general, any US island, cay or reef that is not part of any of the 50 states. For tax purposes, possessions include Puerto Rico, the Virgin Islands, the Marshall Islands, the Federated States of Micronesia, American Samoa, Guam, the Canal Zone, Mariana Islands, Johnson Island, and Wake Island.

Power of Attorney -- Instrument in writing by which one person, as principal, appoints another as his agent and confers upon him the authority to perform certain specified acts or kinds of acts on behalf of the principal.

Precedent -- The doctrine of precedent in Anglo-American legal system obliges courts to adhere to principles enunciated in previously decided cases when making adjudications in cases involving the same material facts and legal issues.

Preference Shares -- Shares which carry a right to a prior and usually fixed dividend, ahead of dividends paid to ordinary shareholders.

Preferred Stock -- See: Preference shares

Premium -- In the context of a derivative financial instrument, a premium is the amount a purchaser pays for an option. In the context of a bond or other debt instrument, it is the amount paid in excess of the face amount.

Premium at The Issue of Shares -- Excess of issue value over par value in issuing corporate shares. It is a contribution to capital and not taxed as profits.

Preparatory Activities -- See: Auxiliary activities

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

Pre-Tax Profits -- Profit after deducting depreciation, costs, etc., but before deducting taxes.

Price Increase Reserve -- Reserve to take account of expected increase in prices of goods, raw materials, etc. which must be replaced in the course of business.

Primary Adjustment -- An adjustment that a tax administration in a first jurisdiction makes to a company's taxable profits as a result of applying the arm's length principle to transactions involving an associated enterprise in a second tax jurisdiction.

Principal Amount -- The face value of an obligation, such as a bond or a loan, which must be repaid at maturity, as separate from the interest.

Principal Place Of Business -- The place where a person does business most of time.

Private Ruling -- Ruling granted by the tax authorities to a single taxpayer, usually with respect to a single transaction or series of transactions. Normally the ruling can be relied upon only by the taxpayer to whom it is issued, not by other taxpayers, and is binding upon the tax authority provided all relevant facts have been disclosed.

Privileged Tax Regime -- Euphemism for the tax regime of a tax haven.

Privilege (Diplomatic) -- Under the general rules of international law or under the provisions of special agreements, diplomatic agents and consular officers are in most cases exempt from tax in the state to which they are seconded. Many tax treaties include a clause that the right to tax income arising from outside the state is reserved to the sending state.

Professional Services -- Services independently performed by members of the liberal professions (i.e. physicians, lawyers, accountants, etc.) and other activities of an independent character.

Profit -- Broadly, the excess of revenue over expenditure.

Profit And Loss Statement -- Income statement

Profit Mark-Up -- Method to find an arm's length price, by taking the vendor's cost and adding an appropriate profit mark-up.

Profit Method -- Method used in transfer pricing cases that looks at the profits arising from controlled transactions of one or more of the associated enterprises participating in such transactions.

Profit Ratio -- Term used to denote the ratio of profits of an enterprise to its capital or net worth, and sometimes used as a basis for taxation.

Profit Shifting -- Allocation of income and expenses between related corporations or branches of the same legal entity (e.g. by using transfer pricing) in order to reduce the overall tax liability of the group or corporation.

Profit Split Method -- Transfer pricing method that allocates the combined operating income or loss from a transaction among the separate parties by determining the relative value of each party's contribution to such overall profits or loss.

Profits Tax -- Tax imposed on business profits in addition to ordinary income tax or as distinct from income tax imposed on other forms of income.

Progression -- The rates of individual income tax are usually progressive, i.e. an increasing proportion of income must be paid in tax as the income increases.

Property Tax -- Group of taxes imposed on property owned by individuals and businesses based on the assessed value of each property.

Proprietorship -- An unincorporated business owned by a single person. The individual proprietor has the right to all the profits from the business and also the responsibility for all its liabilities.

Pro Rata -- Latin for "proportionally"

Pro Rata Rule -- Under most VAT systems, a credit for part of the input tax is allowed for VAT previously paid on goods and services when they are used in taxable and exempt (without credit) transactions and total transactions occurring during a calendar year.

Protocol -- Signed document containing the points on which agreement has been reached by the negotiating parties preliminary to a final treaty. For tax purposes, a protocol is signed and ratified by the parties in addition to an existing tax treaty. The protocol may be signed simultaneously with the tax treaty or later, and it clarifies, implements or modifies treaty provisions.

Provisional Assessment -- Assessment of tax made before it is possible to make a final assessment which is often based on, for example, estimated figure or the previous year's figures.

Publicly Held Corporation -- A corporation that has a class of common stock registered on a national stock exchange; a US concept.

Publicly Traded Limited Partnership (PTLP) -- Partnership in the US that is listed and traded on an established stock exchange or a secondary market. With some exceptions, PTLPs are taxed in the US as corporations rather than partnerships.

Put Option -- Contract under which the holder of the option has a right but not an obligation to sell securities or commodities, including foreign currencies, for a specified price during a specified period.

-Q-

Quarantining -- In the context of the foreign tax credit system, this term denotes the separate calculation of the foreign tax payable on all foreign income of a particular category which may be credited against the domestic tax payable on that category of foreign income.

Quoted Securities -- This term denotes the securities which have been admitted to an official stock exchange and are traded therein through sale, purchase or other disposal.

-R-

Ramsay Case -- The Ramsay case (W.I. Ramsay Ltd. v. IRC, Eilbeck (Inspector of Taxes) v. Rawling), decided by the UK House of Lords in 1981, involved complicated tax avoidance scheme which were marketed in the UK in the 1970s. The case established that a series of transactions with the purpose of tax avoidance, which ultimately cancelled each other out, could be ignored for tax purposes.

Rates -- Local tax levied in Ireland and previously the UK. Rates are levied on the occupiers of real property on the basis of the annual rental value of the property.

Ratification -- The formal legislative consent or acceptance required by the constitution or domestic law of a country before a treaty to which it is a party can come into effect.

Realization – A legal concept referring to a time when rights have become legally receivable or obligations have become legally payable.

Realized Gain/Loss – Actual gain/loss realized from the disposal of an asset.

Real Property (Real Estate) – Land and everything more or less attached to it. Also referred to as "Realty".

Rebate – Term which in certain countries is synonymous with a tax credit.

Reciprocity Principle The principle of give-and-take operates in a variety of tax contexts (particularly in the case of tax treaties) where an exchange of tax privileges between countries is desired. Reciprocity is a basis for relieving a taxpayer under domestic law, e.g. relief is granted for foreign tax if the other country gives corresponding or equivalent relief.

Recourse – The ability of a lender to claim money from a borrower in default, in addition to the property pledged as collateral.

Recovery Of Tax – From the taxpayer's point of view, this may mean a refund of tax. From the tax authorities' point of view, it may mean the collection of tax which is in arrears.

Redemption – The acquisition by a corporation of its own stock in exchange for property, without regard to whether the redeemed stock is cancelled, retired, or held as treasury stock.

Reduced Rates – In many countries the ordinary rates of tax charged under various tax laws may be reduced in particular situations. For example, under tax treaties, reduced withholding tax rates often apply to dividends, interest and royalties.

Refund (Of Tax) – Tax repaid to a taxpayer

Registered Security – A nominative (or registered) security is a security in respect of which the owner's name is recorded in a register by the issuing company and the registered owner is the person entitled to all relevant rights.

Registration Duty – Fixed or variable duty levied on documents which relate to the transfer of ownership or the right to use movable or immovable property, the formation or any change of status of a company, etc.

Regulated Investment Company (RIC) – Company, also known as a mutual fund, formed under US law to make diversified investment with funds provided by investors who receive dividends and capital gains realized by RIC.

Reimbursement – The payment of an employee or another party for incurred expenses or losses.

REINSURANCE Transfer by a primary insurer to another insurer of all or part of any risk it has accepted in a contract of insurance. A number of countries have adopted special regimes to deal with cross-border reinsurance.

Remuneration – Employment income and fringe benefits received by an employee for services rendered.

Repatriation – Individuals and legal entities investing their capital in a foreign country in order to derive income from such capital may wish to transfer this capital or income back to their home country, i.e. to repatriate it. Repatriation also takes place when expatriate employees working in a foreign country want to send income to their home country.

Resale Price Margin – Gross margin measured by reference to the price at which goods purchased from another party are resold to independent enterprises.

Resale Price Method – Method used in transfer pricing between affiliated companies, under which an arm's length price is ascertained by deducting a normal profit margin from the resale price at which a buyer of inventory assets resells these assets to an unrelated party.

Research And Development (R&D) – Any systematic or intensive study carried out in the manufacturing and industrial field, the results of which are to be used for the production or improvement of products and processes.

Reserves – Funds made to fulfil future costs or expenditures. There are legal reserves which may be required by company law and may be necessary before dividends are distributed.

Residence – Residence is a basis for the imposition of taxation. Usually a resident taxpayer is taxed on a wider range of income or other taxable items than a non-resident. Residence in a state is a criteria for invoking a tax treaty of that state, and residence for treaty purposes involves considering the domestic law of residence for tax purposes, and then the requirements in Article 4 of the OECD Model, especially in the case of tiebreaker tests in cases of dual residence.

Residence Principle Of Taxation – Principle according to which residents of a country are subject to tax on their worldwide income and non-residents are only subject to tax on domestic-source income.

Resident – A person who is liable for tax in a country or state because of domicile, residence, place of management, or other similar criterion.

Resident Alien – A person is said to be a resident alien of a country if he resides in that country but is a citizen of another country.

Residual Analysis – An analysis used in the profit split method which divides the combined profit from the controlled transactions under examination in two stages. In the first stage, each participant is allocated sufficient profit to provide it with a basic return appropriate for the type of transactions in which it is engaged. Ordinarily this basic return would be determined by reference to the market returns achieved for similar types of transactions by independent enterprises. Thus, the basic return would generally not account for the return that would be generated by any unique and valuable assets possessed by the participants. In the second stage, any residual profit (or loss) remaining after the first stage division would be allocated among the parties based on an analysis of the facts and circumstances that might indicate how this residual would have been divided between independent enterprises.

Restricted Stock Plan – A stock option plan under which the transferred stock option is subject to restrictions regarding transferability and to substantial risk of forfeiture. Restricted stock is includable in the gross income of the employee in the first taxable year in which the rights become transferable or no longer subject to forfeiture.

Retail Sales Tax – Single-stage tax on the sale of goods to ultimate consumers, whether by retailers or other traders.

Retained Earnings – The portion of a corporation's after-tax profits that is not distributed to the shareholders, but rather is reinvested in the business.

Retroactive Effect – The effect of tax law provision towards the past, which is allowed only to the advantage of a taxpayer.

Return – Declaration of income, sales and other details made by or on behalf of the taxpayer. Forms are often provided by the tax authorities for this purpose.

Return Of Capital – A distribution that is not paid out of the earnings and profits of a corporation. Rather, it is a return of the shareholder's investment in the stock of the company.

Revenue Neutrality -- Constraints on tax reform that it should not change revenues available to government in any significant way.

Revenue Procedure (Rev. Proc.) -- An official published statement by the IRS of US about procedural and administration aspects of the tax laws.

Ring Fence -- Theoretical enclosure established by tax legislation around certain profits, losses, transactions or groups of transactions in order to isolate them for tax purposes.

Rollover Relief -- Relief by means of which liability to capital gains tax is deferred. The essential feature of roll-over relief is that a gain which would otherwise have arisen on the occurrence of a taxable event for capital gains tax purposes is deferred, or rolled over, until there is a subsequent disposal of the asset concerned.

Round Trip Transaction -- Potential transfer pricing abuse where intangible property is developed by a parent company which licenses it to a related party manufacturer located in a low-tax jurisdiction. The manufactured goods are resold to the parent for distribution to ultimate consumers.

Royalties -- Payments of any kind received as consideration for the use of, or the right to use intellectual property, such as a copyright, patent, trade mark, design or model, plan, secret formula or process.

Ruling -- Decisions or opinions of the tax authorities in respect of actual fact situations which come before it as part of an assessment procedure or in response to taxpayer questions.

-S-

Safe Harbour -- Where tax authorities give general guidelines on the interpretation of tax laws, these may state that transactions falling within a certain range will be accepted by the tax authorities without further questions.

Sale And Leaseback -- In a sale and leaseback transaction, the owner of property will sell it to a buyer who then leases it back to the original owner. This method is sometimes used to release the value of capital assets for use in a business.

Sales Tax -- Tax imposed as a percentage of the price of goods (and sometimes services). The tax is generally paid by the buyer but the seller is responsible for collecting and remitting the tax to the tax authorities.

Salvage Value -- Value of tangible depreciable property when it is retired from service.

Schedular Tax System -- Tax system in which income from different sources is taxed separately (i.e. under a different "schedule"); thus, separate tax assessments are made on industrial and commercial profits, wages and salaries, income from securities and shares, income from land, etc.

S Corporation -- See: Small business corporation

Secondary Adjustment -- An adjustment that arises from imposing tax on a secondary transaction.

Secondary Transaction -- A constructive transaction that some countries will assert under their domestic legislation after having proposed a primary adjustment in order to make the actual allocation of profits consistent with the primary adjustment. Secondary transactions may take the form of constructive dividends, constructive equity contributions, or constructive loans.

Second-Tier Subsidiary -- A taxable entity controlled by another taxable entity that is in turn controlled by a third entity.

Secret Comparable -- A term used in the transfer pricing context. It denotes a comparable whose data is not disclosed to the public or the taxpayer but known only to the tax authority which is making the transfer pricing adjustment.

Section 482 -- The part of the US income tax code that gives the IRS the power to adjust distribute, apportion, or allocate gross income, deductions, credits, or allowances in order to prevent evasion of taxes or to clearly reflect income (often between controlled taxpayers); in short, US transfer pricing rule provision.

Section 482 White Paper -- Study of intercompany pricing transactions made by the Office of International Tax Counsel at the US Treasury Department which presented a new methodology to govern transactions involving the sale, licensing or transfer of intangible property, published in 1988.

Securities -- Documents providing evidence of a share in the capital of a company (e.g. share certificate), or the indebtedness of some person to the holder (e.g. government or corporate bonds) or similar legal rights.

Self-Assessment -- System under which the taxpayer is required to declare the basis of his assessment (e.g. taxable income), to submit a calculation of the tax due and, usually, to accompany his calculation with payment of the amount he regards as due. The role of tax authorities is to check (perhaps in random cases) that the taxpayer has correctly disclosed his income.

Self-Employed -- Referring to persons who work for themselves and are not employed by another. The owner-operator of a sole proprietorship or a partner is considered self-employed.

Senate Finance Committee -- A committee of the US Senate that hears proposed new tax laws.

Separate Assessment -- See: Separate taxation

Separate Taxation -- Separate taxation is a method of taxing a married couple on the basis of their joint income. It is mandatory in some countries and optional in others. Upon exercising an option for separate taxation, a husband and wife are treated as separate individuals for the purpose of computing income tax.

Service Company -- Company within a multinational group of companies which generally provides support services, such as administration, sales information, post-sales service or market research, for the operating divisions of the group.

Service Fee -- A fee for the rendering of services is generally regarded as income from business activities or, in the case of a liberal profession, as income from independent personal services.

Severance Payments -- Payment made as a result of the termination of any office or employment of a person.

Sham Transaction -- A transaction without substance, which will be ignored for tax purposes.

Shareholder Activity -- An activity which is performed by a member of an MNE group (usually the parent company or a regional holding company) solely because of its ownership interest in one or more other group members, i.e. in its capacity as shareholder.

Shareholders' Equity -- The total assets minus total liabilities of a corporation, also called stockholders' equity or net worth.

Share (Stock) Options For Employees -- Some companies grant directors and employees an option to acquire at a future date shares or stock in the company at a predetermined price. It gives an employee the opportunity to benefit from the future success of the company when the market value of the shares increases over the predetermined option acquisition price.

Shell Company -- A company set up by fraudulent operators as a front to conceal tax evasion schemes.

Shifting Of Profits -- See: Profit shifting

Shifting An Incidence Of Taxation -- Determination of the economic entity that actually ends up paying a particular tax. In the case of indirect taxation tax is normally intended to fall upon consumption and be borne by consumers, so that entrepreneur who pays the tax on his supplies of goods and services in general passes on the tax, or "shifts" it "forward" to the consumer by adjusting his prices appropriately. Such taxes are said to be shifted "backward" in the case that entrepreneurs are forced to absorb some of new or increased tax.

Short-Term Capital Gains -- Capital gain derived from the disposal of assets which have been held for a comparatively short period of time.

Simultaneous Tax Examination -- A simultaneous tax examination, as defined in Part A of the OECD Model Agreement for the Undertaking of Simultaneous Tax Examinations, means an "arrangement between two or more parties to examine simultaneously and independently, each on its own territory, the tax affairs of (a) taxpayer(s) in which they have a common or related interest with a view to exchanging any relevant information which they so obtain".

Single Entity Approach -- Method of taxing a legal entity that conducts its business through a permanent establishment rather than through a subsidiary company. Under the single entity approach, a head office and a permanent establishment are treated as one taxpayer for tax purposes, even though they may be considered separate entities for purposes of accounting or commercial law.

Single Taxpayer -- A person who is not married on the last day of the tax year.

Sister Corporation -- See: Brother-sister corporation

Situs Rule -- Provision of tax law setting out the factors which determine where a particular asset is situated or deemed to be situated for tax purposes.

Six Months' Rule -- See: One hundred and eighty-three (183) days' rule

Small Business Corporation -- Under US tax law, this term refers to a domestic corporation which does not have more than 35 individual shareholders, all of whom are US citizens or residents and which does not have more than one class of stock. Also known as an "S corporation", this form permits income at the corporate level to be taxed only once at the shareholder level.

Small Business Relief -- Term used to denote tax concessions which are available only to or principally to small businesses.

Small Traders, Special Tax Regime For -- In many countries small traders are subject to a special tax regime, particularly in respect of VAT, in which exemption, lower tax burden or lower administrative burden are granted.

Soak-Up Tax -- Tax or levy which is conditioned on the availability of a foreign tax credit in another country.

Social Security Contributions -- Charges levied on employees, employers or self-employed or on all persons subject to individual income tax to cover the cost of providing future social security payments.

Sole Proprietorship -- Ownership of all of the assets of an unincorporated business by a single individual. The individual owner is personally liable for all debts of the business.

Source Of Income -- The place (or country) where a particular item of income is deemed to originate or where it is deemed to be generated. National rules vary, depending on which concept of source is used.

Source Principle Of Taxation -- Principle for the taxation of international income flows according to which a country consider as taxable income those income arising within its jurisdiction regardless of the residence of the taxpayer, i.e. residents and non-residents are taxed on income derived from the country.

Source Rule -- Provision in the national law of a country or in a tax treaty which defined the concept of source for a particular type of income.

Speculative Gains -- Gains from the disposal of capital assets which were originally acquired with a view to selling them for more than the cost of acquisition.

Spin-Off -- A type of corporate reorganization by which the shares of a new corporation (or the subsidiary company) are distributed to the original shareholders (or the parent's shareholders) without these shareholders surrendering any of their stock in the original (or parent) corporation.

Split-Off -- A type of corporate reorganization by which the shares of a new corporation (or the subsidiary company) are distributed to the original shareholders (or the parent's shareholders) with these shareholders surrendering part of their stock in the original (or parent) corporation.

Split-Up -- Under a split-up the shareholders of a parent company surrender all their stock in liquidation of that company and in return receive new shares in corporation which the parent controlled or created immediately before the distribution.

Spread -- Can be used in many contexts to denote the margins on financial transactions. For example, the spread of an option is the difference between the fair market value of stock at the exercise date and the option price.

Stamp Duties -- Duty levied upon the issue of official documents such as passports, deeds, contracts for the transfer of ownership, etc. Usually, stamp duties are "levied" by way of a stamp being fixed to the document in question. Stamp tax

Statute Of Limitations -- A statute limiting the period within which a specific legal action may be taken, such as the collection of tax, appeal from a decision of the tax authorities or lower court, etc.

Stock -- Any shares representing ownership in any corporation or certificates or ownership interest in any corporation.

Stock Dividends -- Dividend distribution by a company to its shareholders in the form of additional shares in the company.

Stock Exchange Turnover Tax -- Tax levied on the sale of securities on the stock exchange market.

Stock Option -- (1). The right to purchase or sell a stock at a specified price within a stated period (2). Employee stock option

Stripped Bond -- Bond or debenture from which the interest coupons have been removed and sold separately.

Subpart F -- Term which refers to those sections of the US tax code which provide for the taxation of US shareholders of controlled foreign corporations (CFC) in order to prevent the tax-free accumulation of earnings outside the US.

Subpoena -- Latin for "under penalty"; a writ issued under the authority of a court to compel the appearance of a witness or of documents for a tax judicial proceeding.

Subsidiary Company -- Company effectively controlled by another company (i.e. the parent company). A variety of criteria, including share ownership ratio, may be employed to determine whether one company is a subsidiary of another company for tax purposes.

Substance Over Form Doctrine -- Doctrine which allows the tax authorities to ignore the legal form of an arrangement and to look to its actual substance in order to prevent artificial structures form being used for tax avoidance purposes.

Substantial Presence Test -- Test used to determine residence status based on the number of days, months, etc. of physical presence within a country.

Super Royalty Provision -- The US Income Tax Reform Act of 1986 provides that royalties for the transfer (by sale, license or otherwise) of intangible property to related foreign companies, which have been determined at the time of the transfer on an arm's length basis, may be adjusted in future years by the IRS if they are not commensurate with the income attributable to that intangible. This is called the super royalty provision.

Supplemental Assessment -- Determination of tax liabilities at the discretion of the tax authorities if an original assessment is incomplete or incorrect in any material respect.

Surcharge -- Additional amount which is calculated on and added to the normal charge or levy. In other words, the base on which a surcharge is assessed is the normal or basic amount due. Surtax

Swap -- Derivative financial instrument in which two parties agree to exchange payments calculated by reference to a notional principal amount. In the classic interest rate swap agreement two parties contract to exchange interest payments based on the same amount of indebtedness of the same maturity and with the same payment dates; one party provides fixed interest rate payments in return for variable rate payments from the other party and vice versa.

Syndicate -- A group of individuals who have formed a joint venture to undertake a project that the participants would be unable or unwilling to pursue alone.

-T-

Tangible Property -- Property with a physical form, e.g. personal property, real property as distinguished from intangible property.

Tariff -- In general the term "tariff" refers to a list (schedule) or system of levies (taxes, duties, charges) imposed by countries on foreign trade transactions (especially importations).

Tax -- The OECD working definition of a tax is a compulsory unrequited payment to the government.

Taxable Base -- The thing or amount on which the tax rate is applied, e.g. corporate income, personal income, real property.

Taxable Event -- Term used to define an occurrence which affects the liability of a person to tax.

Taxable Period -- Taxes are levied by reference to a period of time called the "taxable period". Tax year

Taxable Year -- The period (usually 12 months) during which the tax liability of an individual or entity is calculated.

Tax Agent -- Term which refers to a tax adviser who assists the taxpayer in fulfilling his obligations under the legislation.

Tax Avoidance -- See: Avoidance

Taxation At Source -- See: Withholding tax

Tax Authorities -- The body responsible for administering the tax laws of a particular country or regional or local authority.

Tax Base -- Taxable base

Tax Basis -- Term used in the US to refer to an amount that represents the taxpayer's investment in an asset.

Tax Bill -- Draft law on a tax matter which, after approval by the government of a country, is submitted to the Parliament for debate.

Tax Burden -- For public finance purposes the tax burden, or tax ratio, in a country is computed by taking the total tax payments for a particular fiscal year as a fraction or percentage of the Gross National Product (GNP) or national income for that year.

Tax Clearance Certificate -- Document issued to a taxpayer by the tax authorities certifying that the taxpayer has either paid all taxes due or that he is not liable to any taxes. In certain countries a tax clearance certificate must be produced before a person can leave the country.

Tax Compliance -- Degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner.

Tax Deposit Certificate -- Certificate available for purchase in US to taxpayers liable to income or corporate tax, etc. Liability to taxes may be paid by cashing in the deposit certificate. Interest is credited on the deposit by the Inland Revenue.

Tax Credit -- See: Credit, tax

Tax Declaration -- See: Return

Tax Equality -- See: Horizontal equity; Vertical equity

Tax Evasion -- See: Evasion

Tax Exile -- Generally speaking, a natural or legal person who severs all ties which make him fiscally resident in a particular country and moves to another jurisdiction for tax reasons.

Tax Expenditure -- This term denotes special preferences provided in income tax laws which depart from the normal tax structure and which are designed to favour a particular industry, activity or class of taxpayer.

Tax Foreclosure -- The process of enforcing a lien against property for non-payment of delinquent property taxes.

Tax Form -- It is usual to design special forms for taxpayers to declare their taxable income, sales, etc. for tax purposes. Forms are designed to facilitate the task of the tax authorities in assessing and collecting tax, and will usually draw the taxpayer's attention to any relief he may claim, etc. as well as to his statutory duty to make accurate declarations and the penalties that may be imposed if his declaration is incomplete or false.

Tax-Free Zone -- Area within the territory of a country in which customs duties and other types of indirect taxes are not applied.

Tax Haven -- Tax haven in the "classical" sense refers to a country which imposes a low or no tax, and is used by corporations to avoid tax which otherwise would be payable in a high-tax country. According to OECD report, tax havens have the following key characteristics; No or only nominal taxes; Lack of effective exchange of information; Lack of transparency in the operation of the legislative, legal or administrative provisions.

Tax Holiday -- Fiscal policy measure often found in developing countries. A tax holiday offers a period of exemption from income tax for new industries in order to develop or diversify domestic industries.

Tax Home -- A taxpayer's regular place of business or post of duty, regardless of where the taxpayer a family home.

Tax Information Exchange Agreement (TIES) -- Agreement which allows governments to share tax and other information with a view to combating tax evasion, drug trafficking, etc.

Tax Law, Sources Of -- The main domestic sources of tax law are primary legislation, such as acts or laws, and secondary legislation such as regulation, decisions, circulars, orders, etc. The main international sources of tax law are bilateral or multilateral treaties, and one important source for the interpretation of treaties is the OECD model tax treaty and the accompanying commentary. Another model is UN model.

Tax On Tax -- The charging of tax on tax-inclusive prices.

Taxpayer Identification Number -- In some countries taxpayers are given an identification number which must be used when filing a tax return and assessing taxes and for all other correspondence between the taxpayer and the tax authorities.

Tax Planning -- Arrangement of a person's business and /or private affairs in order to minimize tax liability.

Tax Relief -- Generic term to describe all methods used to reduce tax liability without regard to the particular way it is accomplished.

Tax Return -- See: Return

Tax Secrecy -- Obligation usually imposed on tax officials not to reveal particulars about the identity and personal circumstances of taxpayers, or about any of the various aspects governing their tax liability, except in certain strictly limited circumstances.

Tax Shelter -- (1) An opportunity to use, quite legitimately, a relief or exemption from tax to pay less tax than one might otherwise have to pay in respect of similar activities, or the deferment of tax. (2) The polite term usually given to a contrived scheme to avoid or reduce a liability to taxation.

Tax Sparing Credit -- Term used to denote a special form of double taxation relief in tax treaties with developing countries. Where a country grants tax incentives to encourage foreign investment and that company is a resident of another country with which a tax treaty has been concluded, the other country may give a credit against its own tax for the tax which the company would have paid if the tax had not been "spared (i.e. given up)" under the provisions of the tax incentives.

Tax Threshold -- Level (of income, capital, sales, etc.) at which tax commences to be levied.

Tax Treaty -- An agreement between two (or more) countries for the avoidance of double taxation. A tax treaty may be titled a Convention, Treaty or Agreement.

Tax Unit -- Term used in the context of personal income tax, where taxation may be imposed by reference to separate individuals or to a group of individuals treated as one unit.

Temporary Importation -- Many countries allow temporary importation without levying customs duties and turnover tax on items which are to be within their borders for only a short time.

Terrtoriality Principle -- Term used to connote the principle of levying tax only within the territorial jurisdiction of a sovereign tax authority or country, which is adopted by some countries. Residents are not taxed on any foreign-source income.

Thin Capitalisation -- A company is said to be "thinly capitalised" when its equity capital is small in comparison to its debt capital.

Thin Corporation -- A corporation whose capital is supplied primarily by shareholder loans rather than stock investment.

Three-Factor Apportionment Formula -- A formula used by most US states to apportion total federal business income for out-of-state entities in order to determine the tax due a particular state. The formula equally weights the payroll factor, property factor, and sales factor.

Tiea -- See: Tax information Exchange Agreement

Tiebreaker Rule -- Tax treaty provision designed to prevent an individual from being deemed resident, for purpose of the treaty, in both treaty countries. Generally a multi-step procedure will be provided to resolve the problem of dual residence, usually the place of a permanent home available being the first criterion.

Tort -- A private and civil wrong or injury, other than breach of contract, for which a court will provide a remedy in the form of an action for damages.

Trade -- A business, profession, or occupation. A trade often implies a skilled handicraft, which is pursued on a continuing basis, such as carpentry.

Trade Intangible -- A commercial intangible other than a marketing intangible.

Trademark -- Legally registered name, word, symbol or design which identifies the goods or services of a particular manufacturer, business or company.

Trade Or Business -- A regular and continuous activity undertaken for a profit, other than that of an investor trading in securities.

Traditional Transaction Methods -- The comparable uncontrolled price method, the resale price method, and the cost plus method.

Transactional Net Margin Method -- A transactional profit method that examines the net profit margin relative to an appropriate base (e.g. costs, sales, assets) that a taxpayer realizes from a controlled transaction (or transactions that it is appropriate to aggregate under the principles of OECD TP guideline Chapter I).

Transactional Profit Method -- A transfer pricing method that examines the profits that arise from particular controlled transactions of one or more of the associated enterprises participating in those transactions.

Transaction Taxes -- Tax that uses a specific type of transaction as its object, e.g. sales tax, immovable property transfer tax, etc.

Transfer Pricing -- A transfer price is the price charged by a company for goods, services or intangible property to a subsidiary or other related company. Abusive transfer pricing occurs when income and expenses are improperly allocated for the purpose of reducing taxable income.

Transfer Pricing Adjustment -- Adjustment made by the tax authorities after making a determination that a transfer price in a controlled transaction between associated enterprises is incorrect or where an allocation of profits fails to conform to the arm's length principle.

Transfer Tax -- Tax levied on the transfer of goods and rights, e.g. purchase and/or sale of securities and immovable property.

Transportation Tax -- Tax levied on vehicles, ships and aircraft using public highways, rivers, and airports maintained by the government.

Treaty On European Union (EU) -- The treaty on European Union was signed on 7 February 1992 and entered into force on 1 November 1993. This treaty creates a single economic and monetary union (EMU). The main characteristics of this union will be a single currency and a more federal political structure. By virtue of the Union Treaty, the former European Economic Community has been extended with additional goals and powers in order to become a single market in a European Union. The member states of the EU are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. On May 2nd 2004, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia newly joined the EU.

Treaty Override -- Term broadly used to refer to the subsequent enactment of legislation which conflicts with prior treaty obligations. As a general rule, the provisions of a tax treaty implemented domestically prevail over other domestic legislation. However, in some countries the relations is governed by the "last in time" rule.

Treaty Shopping -- An analysis of tax treaty provisions to structure an international transaction or operation so as to take advantage of a particular tax treaty. The term is normally applied to a situation where a person not resident of either the treaty countries establishes an entity in one of the treaty countries in order to obtain treaty benefits.

Trust -- A trust is a legal arrangement whereby the owner of property (i.e. settlor) transfers ownership to a person(s) (i.e. trustee) who is to hold and control the property according to the owner's instructions, for the benefit of a designated person or persons (i.e. the beneficiaries). Legal title to the trust property is vested in the trustee, while equitable title belongs to the beneficiaries.

Trustee -- See: Trust

Turnkey Contract -- Broadly, a contract to construct a complete project; for example, a factory, plant or installation, from the bare site to the stage where the user only need to "turn the key" to put the project to immediate use.

Turnover -- Volume of business of an enterprise as set forth in the profit and loss account. It is usually measured by reference to the gross receipts, or gross amounts due, from the sale of goods or services, etc. supplied by the entity.

Turnover Tax -- General term used to refer to the different forms of consumption and sales taxes.

-U-

Uncontrolled Transaction -- Transaction between independent and unrelated enterprises.

Under-Capitalisation -- See: Thin capitalisation

Underlying Tax -- Tax which is charged on corporate income out of which dividends are paid, but which does not appear as a direct deduction or withholding from the dividend itself.

Underlying Tax Credit -- See: Credit, underlying tax

Undistributed Profits Tax -- Annual tax imposed, in addition to the normal corporate income tax, on the undistributed portion of the profits or surplus of a corporation.

Undue Hardship -- A substantial financial loss that would result to a taxpayer from making payment on the due date of the amount of taxes with respect to which the extension is desired. Undue hardship is a condition precedent to the granting of an extension of time to make a tax payment.

Unearned Income -- Term used to describe investment income such as dividends, interest and royalties.

Unilateral Relief -- Granting of relief from the effects of international double taxation on the basis of domestic legislation rather than the provisions of a tax treaty.

Unimproved Property -- Land that has received no development, construction, or site preparation (i.e. raw land).

Unitary Tax System -- Under a unitary tax system, the profits of the various branches of an enterprise or the various corporations of a group are calculated as if the entire group is a unity. A formula is used to apportion the net income of the whole group to the various parts of the group. Usually a combination of property, payroll, turnover, capital invested, manufacturing costs, etc. are formula factors.

Unlimited Liability -- Liability of an investor which extends to the full extent of his personal assets, as in the case of a sole proprietor or general partner.

Upstream Dividend -- Dividends flowing from a subsidiary company to its parent company.

Useful Life -- Period during which it is estimated that a depreciable asset will provide useful service to the business in which it is used.

Use Tax -- Tax on goods which are used within the taxing jurisdiction although the goods were purchased in another jurisdiction

-V-

Valuation Principles -- Tax law principles regarding valuation of business and non-business assets, and inventory.

Value Added Tax (VAT) -- Specific type of turnover tax levied at each stage in the production and distribution process. Although VAT ultimately bears on individual consumption of goods or services, liability for VAT is on the supplier of goods or services. VAT normally utilizes a system of tax credits to place the ultimate and real burden of the tax on the final consumer and to relieve the intermediaries of any final tax cost.

Venture Capital -- Form of capital investment for the establishment of a new business or new product development in an existing business, often in exchange for equity.

Vertical Equity -- Doctrine which holds that differently situated taxpayers should be treated differently, i.e. taxpayers with more income and/or capital should pay more tax.

Vienna Conventions -- There are three multilateral "Vienna Conventions" which are relevant for taxation purposes. Among them, the Convention of 23 May 1969 on the Law of Treaties is particularly related to the interpretation of tax and other treaties. This convention contains generally accepted rules applying to tax treaties, the conclusion of treaties, their observance, application and interpretation, etc.

There are also Vienna Conventions on Diplomatic and Consular Relations, which address taxation and other issues in that context.

Voting Stock -- Shares in a corporation that entitle the shareholder to voting and proxy rights.

-W-

Wage Tax Tax -- levied at source as a withholding on wages; taxes thus withheld are usually offset against final income tax liability (if any).

Wear And Tear -- Decline in value through the ordinary use of an asset. Income tax systems usually allow deductions in calculating the profits of a business using buildings, plant and machinery which are subject to wear and tear in the course of the business.

White Paper -- Government document announcing government policy and practice on a specific issue or issues.

Will -- A legal document that serves as a key vehicle of transfer at death.

Winding Up -- The process of liquidating a corporation.

Withdrawals --When income or goods are withdrawn from a business by the entrepreneur to his private household (without a consideration), the income or the value of such goods normally constitutes a taxable event in the hands of the recipient for income tax purposes. Similarly, a withdrawal of goods or services for private use constitutes a taxable transaction for VAT purposes in most countries using such a system.

Withholding Tax -- Tax on income imposed at source, i.e. a third party is charged with the task of deducting the tax from certain kinds of payments and remitting that amount to the government. Withholding taxes are found in practically all tax systems and are widely used in respect of dividends, interest, royalties and similar tax payments. The rates of withholding tax are frequently reduced by tax treaties.

World Wide Income -- Criterion for the income tax liability of a resident company or individual of a certain country. In many countries a resident company or individual is subject to corporate/individual income tax on its worldwide income, subject to double taxation relief.

Working Capital -- Funds invested in a company's cash, accounts receivable, inventory, and other current assets (gross working capital). The term usually refers to net working capital, that is, current asset minus current liabilities.

Written Down Value -- The value of an asset which is depreciable for income tax purposes, determined by deducting from the total cost, including installation, etc. the deduction that have been made for wear and tear or depreciation in previous tax years.

-Z-

Zero Coupon Bond -- Long-term bond on which interest is not payable on a regular basis, but rather upon maturity of the bond. It is sold at a deep discount from its face value.

Zero Rate -- The term is used in relation to VAT, where the rate of tax which is in principle levied but at a rate of 0% so that in effect no tax is payable, but will result in refunds of input tax credits.