Taxation Management (FIN623)

Assignment # 02

Marks: 20

Please read the following Instructions carefully before attempting the Assignment:

- Last date for submission of Assignment is **June 9th, 2011**.
- The slab rates have been given in Lecture # 25 uploaded on the LMS.
- You can consult the concerned topics from handouts and recommended book for the assignment.
- Read the question carefully and provide complete solution. You are required to provide complete facts and reasons.
- Assignment must be in proper formatting. Poor formatting can lead to deduction of marks.
- Make sure that you upload the Assignment before due date. No assignment will be accepted through E-mail after the due date.
- According to **ZERO TOLERANCE POLICY**, cheating or copying of assignment is strictly prohibited; **NO CREDIT WILL BE GIVEN TO COPIED ASSIGNMENT**.

Please note that you will NOT be awarded any marks if:

- Your solution is submitted after due date.
- The file you uploaded is corrupt or does not open.
- Your assignment is found cheated or copied.

Question:

Mr. Nasir, after retirement from a multinational company as a senior executive, was rehired on contract for a period of three years. However, due to certain reasons, the contract was prematurely terminated six months earlier i.e. on December 31, 2010.

The details of emoluments received by him during the tax year 2010 are given below:

	Rs.
Basic salary (per month)	70,500
Rent of furnished accommodation (per month)	30,000
Utilities allowance (per month)	12,000
Medical benefits reimbursed during the year	25,000

House rent was paid by the company directly to the landlord. Medical benefits were reimbursed against bills submitted by Mr. Nasir.

On his retirement as a permanent employee, he had been paid gratuity from the approved fund. According to rules of the fund, he was also entitled to a special gratuity in lieu of his services rendered under the contract. Accordingly, an amount of Rs. 120,000 was also paid out of the fund, on termination of the contract.

In lieu of premature termination, the following additional benefits were allowed to Mr. Nasir:

A compensation for the early rumination of Rs. 150,000 was paid.
He had obtained an interest free loan of Rs. 200,000 on July 1, 2009 was payable in lump sum on March 31, 2010. 25% of the outstanding balance was waived and remaining amount of loan was deducted from his final settlement. The benchmark rate according to Income Tax Ordinance, 2001 is 12%.

He was allowed to retain a 1600cc car which was in his use, at accounting book value of Rs. 650,000. The fair market value of the car at the time of settlement was Rs. 700,000.

Required:

Calculate the taxable income and tax liability for the tax year 2010.