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TAXATION PRINCIPLES AND COMPLIANCE



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OBJECTIVE TEST AND LONG-FORM QUESTIONS

CHAPTER 1 – SYSTEM OF TAXATION IN PAKISTAN

1. DIRECT AND INDIRECT TAXATION

Briefly explain difference in direct and indirect taxes and different kind of such taxes prevailing in Pakistan?

2. REVENUE AND NON-REVENUE OBJECTIVES OF TAXATION

What are the revenue and non-revenue objectives of taxation with reference to;

- Tax on salary / income from business
- Any amount transferred otherwise than banking channel will be deemed as income
- Tax on moveable assets of the taxpayers
- Higher taxes on import of luxury goods
- Allowability of expenditure of research & developments
- Zero rating on Exports
- Tax credit on Donations to approved institutions
- Tax credit on investments
- Tax exemptions to software exports

3. TAX STRUCTURES

What are the various tax structures and which structure(s) are prevailing in Pakistan?

4. MAJOR CHARACTERISTICS OF EFFECTIVE TAXATION SYSTEM

What are the major characteristics of effective taxation system?

5. STRATEGIES OF TAXATION MANAGEMENT

Explain the strategies of taxation management?

6. TAX RELIEFS IN CROSS BORDER TRANSACTIONS

Which major countries enjoy the free trade agreements and avoidance of double taxation in Pakistan?

7. EXAMPLES OF INDIRECT TAXES

Briefly explain any three indirect taxes applicable in Pakistan?

8. INDIRECT TAXES UNDER THE PAKISTANI TAXATION SYSTEM.

Briefly explain indirect taxes applicable in Pakistan.

CHAPTER 2 – CONSTITUTIONAL PROVISION ON TAXATION

1. POWERS OF THE FEDERATION TO LEGISLATE ON TAXES

List the taxes on which Federal Government is authorised to legislate under the Constitution of Pakistan and taxes levied by using these provisions of constitution?

CHAPTER 3 – ETHICS

1. CANONS OF TAXATION

What are canons of taxation for legislators?

2. ETHICS FOR TAX PRACTITIONER

What are the ethics for tax practitioner?

3. PRINCIPLES OF LEVY OF TAXES

Briefly discuss three broad principles for levy of taxes?

4. TAX IMPLEMENTING AUTHORITIES

List any seven responsibilities of tax administrators arising from best ethical practices?

5. ETHICAL ISSUES

State any six ethical issues which the administrators may face while discharging their duties?

6. FUNDAMENTAL PRINCIPLES OF ETHICS

List the fundamental principles of ethics for tax practitioners. Also describe any one of the principles.

7. NON-REVENUE OBJECTIVES AND PRINCIPLES OF A SOUND TAX

- State any four non-revenue objectives which the government achieves by imposing taxation.
- Discuss any three principles of a sound tax system.

8. PRINCIPLES OF A SOUND TAX SYSTEM

Discuss the principles of a sound tax system?

9. FUNDAMENTAL PRINCIPLES

List the fundamental principles of ethics for tax practitioners. Also, describe any two of the principles?

10. JABBAR GAS SUPPLY LIMITED (JGSL)

Your firm is the auditor of a public interest entity, Jabbar Gas Supply Limited (JGSL). The management of JGSL has requested your firm to prepare current and deferred tax calculations for the purpose of determining its annual tax obligations

Required:

Your firm is the auditor of a public interest entity, Jabbar Gas Supply Limited (JGSL). The management of JGSL has requested your firm to prepare current and deferred tax calculations for the purpose of determining its annual tax obligations

11. COUNTRY'S DEVELOPMENT TAX

Identify any four ways by which taxes can be used in a country's development, beyond mere revenue collection?

12. principles governing the levy of taxes.

Briefly discuss the broad principles governing the levy of taxes.

13. pillars of tax administration that protect taxpayers'

Briefly describe the pillars of tax administration that protect taxpayers' interests and prevent the misuse of authority by tax officials.

14. level of threats

List down the factors that are relevant for a chartered accountant firm in evaluating the level of threats created by providing any tax service to an audit client.

CHAPTER 4 – BASIC CONCEPTS OF INCOME TAX LAW

1. DEDUCTIBLE ALLOWANCES

What are various deductible allowances which are deducted to arrive at taxable income?

2. PUBLIC COMPANY VS. PRIVATE COMPANY

What is the difference between a public company and a private company within the meaning of the Income Tax Ordinance, 2001?

3. DEFINITIONS/CONCEPTS

Explain the following as specified in the Income Tax Ordinance, 2001.

- Industrial Undertaking
- Fair Market Value
- Apportionment of deductions
- Receipt of Income

4. RESIDENTIAL STATUS

Determine the residential status in view of the provisions of Income Tax Ordinance, 2001 and the stated rules, of the following persons for the tax year ended June 30, 2026 under the given circumstances.

- i. Mr. Mubeen a citizen of Pakistan, came to Pakistan for the first time on a special assignment from his company on April 01, 2026 and left the country on September 30, 2026.
- ii. Mr. Rana, who had never travelled abroad in his life, got a job in Canada. He went to Canada on December 29, 2025 to assume his responsibilities as a CFO. In June, 2026 his company sent him to India on a training workshop. On June 30, 2026 on his way back to Canada he had to stay in Karachi for a whole day in transit.
- iii. Mr. Baber, a Federal Government employee was posted to the Pakistan mission in Geneva from July 01, 2025 to June 30, 2026.
- iv. Mr. Francis, a sugar dealer in Brazil, came to Pakistan on July 31, 2025. During his visit, he stayed at Lahore. Assume that the Commissioner has granted him permission to use calendar year as a special tax year.

5. TYPES OF TAX REGIMES

What are the different types of tax regimes and how is tax computed on them?

6. JEAN FRANCOIS

Jean Francois, a French designer, often visits to Pakistan for promotion of his products. During his last visit he stayed in Pakistan from 10 July 2025 to 25 February 2026. Determine the residential status of Jean Francois for tax year 2026, assuming that the Commissioner has granted him permission to use calendar year as special tax year.

7. FTR

Briefly explain the general provisions/rules which may apply to income subject to Final Tax Regime?

8. FAIR MARKET VALUE

Identify any situation in which the fair market value of the assets shall be treated to be the cost of the asset?

9. CHANGE IN TAX YEAR

State the provisions of the Income Tax Ordinance, 2001 relating to each of the following:

- i. Change of tax year from special to normal
- ii. Change in the method of accounting for income chargeable to tax under the head 'income from business'

10. OBJECTIVE OF TAX LAWS

State one objective of tax laws in each of the following independent cases:

- i. High tax rate on import of goods
- ii. Zero rating under the Sales Tax Act, 1990
- iii. Decrease in sales tax rate
- iv. Tax on cash deposit/withdrawal by non-filer
- v. Introduction of tax holiday period for construction related industries
- vi. High tax rate on interest income
- vii. Decrease in tax rate for online sales
- viii. Tax credit to persons employing fresh graduates
- ix. High tax rates on luxury items
- x. Allow expenditure on research and development

11. PUBLIC INTEREST ENTITIES

Discuss whether the following tax services can be provided to an audit client which is not a public interest entity:

- i. Preparation of tax returns
- ii. Tax calculation for the purpose of preparing accounting entries

Following is the list of various types of taxes/duties:

- i. Agriculture income tax
- ii. Custom duty
- iii. Tax on transfer of immovable property
- iv. Capital value tax
- v. Property tax
- vi. Sales tax on services

Required:

In respect of each of the above mentioned taxes/duties, identify whether they are covered under the scope of legislation of the Federation or the Provinces

12. FASTER & CO.

- a) Under the provisions of the Income Tax Ordinance, 2001 discuss the tax implication/treatment in each of the following independent matters:
- Purchase of immovable property in cash.
 - Payment of any sum by a private company to its shareholder by way of a loan.
 - Profit on debt received by a non-resident person on a security issued by a resident person.
- b) For the purpose of this part of the question, assume that the date today is 31 August 2026.

During the year ended 30 June 2026, Faster & Co. (FC) started a new project. Following information is available:

- Incurred Rs. 5 million on feasibility study of the project.
- Obtained a 3% loan of AED 2 million from a UAE bank on 1 January 2026 for the purchase of plant and machinery. The interest is payable annually and principal amount is repayable at the end of third year.
- Installed the plant and machinery at a cost of Rs. 150 million on 14 March 2026.

The exchange rates of 1 AED to PKR on different dates are as follows:

1-Jan-2026	30-Jun-2026	Average between 1-Jan-2026 to 30-Jun-2026
Rs. 50	Rs. 55	Rs. 53

Required:

Compute the amount of allowable deduction in determining the taxable income of FC for tax year 2026.

- c) List the persons or incomes that are allowed a tax credit equal to 100% of the tax payable. Also specify the conditions/limitations which are required to be fulfilled for availing the said tax credit. (Ignore tax credit available to charitable organisation)

13. A, B, C LIMITED

Following information pertains to three unlisted companies:

Company	Paid up capital	Total reserves	Annual turnover	Shareholders
----- Rs. in million -----				
A Limited	30	80	150	60% shares are held by a foreign company
B Limited	80	(35)	220	40% shares are held by the Provincial and Federal governments
C Limited	40	5	500	100% shares are held by a local group

Required:

Under the provisions of the Income Tax Ordinance, 2001 briefly discuss whether each of the above companies can be classified as small, public or private. Also state the additional information, if any, which may be required for determining the classification of these companies.

14. MR. MUJTABA HUSSAIN

- a) Mujtaba Hussain is engaged in the business of cashew nut processing. On 31 July 2025, he entered into a six-month forward contract for the purchase of raw materials used in his business to safeguard against losses due to price fluctuations. On 31 January 2026 i.e. the maturity date of the forward contract, he took the delivery of the raw materials and settled the contract by making the due payment.

Required:

Under the provisions of the Income Tax Ordinance, 2001 discuss the tax treatment of the above transaction?

- b) For the purpose of this part of the question, assume that the date today is 30 September 2026.

On 1 July 2025, Kulsoom, a widow, established an online garment retail business and employs various ecommerce platforms to market a diverse range of garments to customers throughout Pakistan. She operates the business from her residential house.

During the year, the sales from online business were Rs. 6,000,000 and total expenditures including her personal expenses were Rs. 5,800,000.

At the year end, her sole assets consisted of a 1300cc personal car and Rs. 800,000 as cash on hand.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, advise the requirement of filing of return of income and tax treatment of the above to Kulsoom. *(Calculation of taxable income and tax liability is not required)*

15. INCOME TAX ORDINANCE, 2001

Under the provisions of the Income Tax Ordinance, 2001 determine the residential status for tax year 2026 in each of the following cases:

- i. Arshad, an Emirati gold merchant, arrived in Pakistan for the first time on 15 March 2025, and departed the country on 30 September 2025.
- ii. Chang Li, a Chinese sugar manufacturer, arrived in Pakistan on 1 March 2025. During his stay until 1 September 2025 in Pakistan, he resided in Sargodha, Punjab until 31 May 2025 and thereafter until his departure from Pakistan, he stayed in Ghotki, Sindh. Assume that a calendar year serves as his special tax year.

16.

Consider each of the following independent cases:

- i. Alpha Limited, incorporated in Singapore, has established a branch office in Karachi to import and sell its products.
- ii. Beta plc., a Middle Eastern retail chain, has a Liaison Office in Lahore that is limited to negotiating purchase orders for its UAE head office.
- iii. Gamma Ltd., incorporated in China, provided engineering consultancy in Pakistan through employees, who stayed for two months in Pakistan.

Required:

Determine whether each foreign entity has a Permanent Establishment in Pakistan under the Income Tax Ordinance, 2001. Provide reasons for your conclusions.

17.

Consider each of the following independent cases:

- i. Delta Limited applied for delisting from Pakistan Stock Exchange on 1 January 2026, and was officially delisted on 28 February 2026.
- ii. Zeta Limited is an unlisted company incorporated on 1 August 2025, under the Companies Act, 2017. 49% of its shares are held by a Chinese company that is owned by the Chinese Government.
- iii. Eta Limited, incorporated on 1 January 2026, has 30% of its shares held by the Federal Government, 20% by the Punjab Government, and 50% by a private company.

Required:

Determine whether each of the above companies are public or private for the tax year 2026 under the Income Tax Ordinance, 2001. Provide reasons for your conclusions.

18. INTERNATIONAL BANKING ORGANIZATION

Arsalan, a citizen of Pakistan, is employed by an international banking organization, based in United Kingdom. The following details outline Arsalan's travel and work assignments across different countries during the tax year 2026:

Period	Country name
1 Jul – 15 Oct 2025	United Kingdom
16 Oct – 31 Dec 2025	United Arab Emirates
1 Jan – 26 Jan 2026	Pakistan (On vacation)
27 Jan – 2 Mar 2026	United Kingdom
3 Mar – 30 Jun 2026	Pakistan (Work from home)

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, assess the residential status of Arsalan for the tax year 2026.

CHAPTER 5 - SALARY INCOME**1. MR. A**

Mr. A is an employee of a multinational company incorporated in Pakistan. His remuneration during the year was as follows -

		Rupees
(1)	Basic salary	1,117,245
(2)	Reward	22,062
(3)	Bonus	300,000
(4)	House rent allowance	643,514
(5)	Utility allowance	111,724

The Company has provided him a car for personal and business use. The cost of the car was Rs.1,100,000.

During the year, Mr. A has been paid an interest free loan for construction of a house amounting to Rs.1,150,000.

In addition to the above, Mr. A was granted Stock Option of 2500 shares by the Head Office of the Company at US\$ 36 per shares. Out of the above stock option, 1250 shares vested to him during the year were immediately exercised by him. The price of the share at the time of exercise was US\$ 41 per share. The exchange rate between US\$ and Pak Rupee on the date on which Mr. A exercised his option was US\$ 1 = Rs.103.

Required:

During the year, the company has withheld tax from his salary amounting to Rs. 295,000. You are required to compute his taxable income and tax thereon for the Tax Year 2026.

2. MR. MUSHTAQ

Mr. Mushtaq has provided you with the following data for the computation of his total income and tax thereon for the tax year 2026.

	Rupees
Basic salary	1,225,000
Bonus	50,000
Conveyance allowance	50,000
House rent allowance	101,250
Leave fare assistance	60,000
Cash paid to a non-profit organization by way of donation Motor vehicle valuing Rs. 400,000 provided by employer and used partly for personal and partly for business purpose.	20,000
Running cost borne by employee	30,000

At the start of the tax year Mr. Mushtaq was issued 5,000 shares under an employee share option scheme whereby he was offered shares at 25% discount to the market value. The market value of shares is Rs.11 per share. House loan taken by Mr. Mushtaq amounted to Rs.200,000 and interest paid on such loan during the year amounted to Rs.6,000.

Required:

You are required to compute his taxable income and tax thereon for the tax year 2026. Show all computations and assumptions, as necessary.

3. MR. BASHIR AHMED

Mr. Bashir Ahmed is an employee who had joined his current employment during the tax year 2026. His details of salary, allowance and perquisites received from company "A" his previous employer and company "B" his present employer are as follows:

Particulars	Company A	Company B
Basic salary	714,158	572,572
Bonus	150,000	71,800
House rent allowance	258,663	222,746
Utility allowance	71,415	57,257
Conveyance provided by Company B partly used for business and private use. Cost of the car purchased by the company Rs.1,100,000		
Leave encashment	77,783	-
Medical reimbursement as per the terms of employment	35,000	25,000
Ex-gratia payment received under golden handshake scheme	2,048,300	-

The detail of assessed income and assessed tax in respect of past three years is as follows:

	Rs.	Rs.
2023	1,309,570	269,902
2024	1,545,850	371,255
2025	2,264,940	557,633

During the year Company "A" had deducted tax under section 149 amounting to Rs.270,000 and Company "B" had deducted tax under section 149 amounting to Rs.300,000 from payments made to Mr. Bashir.

Required:

Compute the taxable income and tax liability of Mr. Bashir based on the data provided above for the tax year 2026.

4. MR. HAYAT

Mr. Hayat, Chief Engineer in Mega Limited, had received 6,000 shares of the company in July 2023, under an employee share scheme. Mr. Hayat had the option to transfer the shares in tax year 2025 or thereafter. The market value of shares at the time of issue was Rs. 12 per share. In tax year 2025 the share attained a market value of Rs. 20; however, Mr. Hayat sold the shares in May 2026 when the share price was Rs. 35 per share.

Required:

- With reference to above, briefly explain the relevant provisions of the income tax Ordinance, 2001 relating to employee share scheme.
- Compute the amount to be included in the taxable income of Mr. Hayat for each tax year.

5. MR. AINUDDIN KHAN

Mr. Ainuddin Khan, a retired civil servant has joined a listed company during the year and provides you the following information relevant to the tax year 2026 related to the income year ended June 30, 2026:

a) **Payroll**

		Rupees
i.	Monthly payroll	220,000
ii.	Bonus (to the extent of 20% of annual payroll)	-
iii.	House rent allowance receivable in cash with monthly payroll	50,000
iv.	The company maintained 1000 CC. car valuing Rs 1,800,000 for personal and official use, on which total expenditure incurred by the company	80,000

b) **Other payments made by company on vouchers**

(i)	Residential electricity	200,000
(ii)	Petrol for residential generator	5,000
(iii)	Gas bills of residence	6,000
(iv)	Telephone bills of residence including withholding tax of Rs. 100	13,885
(v)	Club bills	4,000
(vi)	Internet usage reimbursement	9,000

c) **Mr. Ainuddin Khan also received the following sums:**

i.	Pension from government	80,000
ii.	Dividends from investment in WAPDA Bonds (net of tax @15%)	70,000

Required:

Compute total income of Mr. Khan for tax year 2026.

6. MR. MATEEN

Mr. Mateen was employed with Melody Limited (ML) as an event organizer. On June 30, 2025 he resigned from his employment without completion of notice period. On July 01, 2025 he joined another company Rock Star Limited (RSL) as a senior event organizer. Following information is available relating to his assessment for the tax year 2026:

- a) On July 01, 2025 RSL paid Rs. 280,000 to ML as compensation in lieu of un-served notice period by Mr. Mateen.
- b) On July 15, 2025 Mr. Mateen received a gratuity of Rs. 350,000 from an unrecognized gratuity fund maintained by ML. He also received Rs. 150,000 as leave encashment.
- c) In accordance with the terms of his employment with RSL, Mr. Mateen was provided with the following emoluments / benefits during the tax year 2026:
 - i. Basic salary of Rs. 245,000 per month and utility allowance of Rs. 21,000 per month.
 - ii. A reimbursement of personal medical expenses, upto 15% of the annual basic salary and Rs.250,000 on account of hospitalization charges for his daughter were made after procuring hospital bills showing the national tax number of the hospital. These bills were also attested and certified by RSL.
 - iii. For the first two months of his employment, a pick and drop facility was provided to Mr.Mateen at a monthly rent of Rs. 25,000. On September 01, 2025, RSL provided a company maintained 1300 CC., Honda City which was partly used for private purposes. The cost of the car was Rs. 2,500,000.
 - iv. Monthly salary of Rs. 6,000 was paid to Mr. Mateen's house keeper by RSL. Mr. Mateen however, reimbursed 20% of the house keeper's salary to RSL.
 - v. A special allowance of Rs. 50,000 was paid to meet expenses necessarily to be incurred in the performance of his official duties. Actual expenditure was Rs. 40,000.
 - vi. On January 01, 2026, he was provided an interest free loan of Rs. 1,500,000. The prescribed benchmark rate is 10% per annum.
 - vii. A commission of Rs. 500,000 was paid for introducing new clients to the company. Withholding tax was deducted by RSL at the rate of 12% from such payments.
 - viii. The tax deducted at source from his salary by RSL for the tax year 2026 amounted to Rs.550,000.
- d) Apart from his employment with RSL, Mr. Mateen also organized events for private clients. He received a total of Rs. 1,000,000 from such clients. No tax was deducted from such receipts. However, he incurred an overall loss of Rs. 350,000 on organizing these events.
- e) On May 31, 2026 he received Rs. 180,000 from Mr. Ali as consideration for vacating his bungalow.
- f) He also received a share of profit from a business in Malaysia equivalent to Rs. 535,000. He paid Rs. 130,000 in taxes in Malaysia on such income.
- g) Mr. Mateen acquired 10,000 shares of a listed company from the Privatization Commission of Pakistan at a price of Rs.10 per share on May 01, 2025. On May 20, 2026 he sold all the shares for Rs. 1,000,000.
- h) He paid Zakat of Rs. 250,000 to an approved organization, through crossed cheque.

Required:

Compute the taxable income, tax liability and tax payable / refundable, if any, by Mr. Mateen for the tax year 2026.

7. MR. ASLAM

Mr. Aslam has been appointed by Grace University of Commerce (GUC) on 01 December 2025, as its full time teacher to teach 'Taxation'. Mr. Aslam is experience teacher for 35 years and currently he is 62 years old. The break-up of his monthly salary from the employer is given below:

	(Rupees)
Basic salary	100,000
Utilities allowance	10,000
House rent allowance	30,000
Further, he has also received following amounts from the GUC:	
Re-imbursement of children's education fee	25,000
Bonus	24,000

GUC agreed to bear Rs. 5,000 monthly on account of tax chargeable on Mr. Aslam's salary. He was also provided with a motor vehicle having cost of Rs.1,500,000. The vehicle was to be used partly for official use. Medical re-imbursements in terms of employment amounted to Rs. 110,000.

On 1st January 2026, Mr. Aslam was granted an option to acquire 1,000 shares under the employee share scheme. Option was acquired at a cost of Rs. 5,000 whereas the exercise price was Rs.30 per share. Mr. Aslam sold half of the option at Rs. 4,000 and exercised the remaining option on 31st January 2026 when the fair market value of shares was Rs. 50 per share. These shares were, however, subject to restriction on transfer till 31st March 2026. On this date, the fair market value had climbed to Rs. 60 per share. GUC deducted tax at Rs. 5,000 per month out of Mr. Aslam's salary.

Required

On the basis of foregoing, compute Mr. Aslam's taxable income, tax liability, tax payable or refundable for tax year 2026.

8. MR. AKRAM

Mr. Akram is an employee of Royal Brands Ltd. (a listed Co). In tax year 2026, his basic salary aggregated to Rs. 1,500,000. The company offered him shares option for acquiring 5,000 shares under employee share scheme. Cost of option amounted to Rs. 1,000. He exercised the option @ Rs. 50/share on 1st September, 2025. Fair market value (FMV) at the time of exercise of shares was Rs. 70/share. After holding the shares for a period of 202 days, he disposed them off at:

- a) Rs 90 / share
- b) Rs 40 / share

Required

In each of the above scenarios, compute Mr. Akram's taxable income and tax liability for tax year 2026.

9. MR. AKBER

Mr. Akber was employed on 1st August 2025 at ABC Limited in the monthly Basic Pay Scale of Rs.150,000 - 10,000 - 175,000. His monthly emoluments during the year ended 30th June 2026 were as follows:

	(Rupees)
Basic Salary	160,000
Travelling allowance	12,000
Medical allowance	18,000

Mr. Akber was offered to either avail a monthly house rent allowance of Rs.50,000 or rent free accommodation. He opted for the accommodation. Mr. Aslam has been provided free utilities with a maximum limit of Rs. 10,000 per month. However, he generally consumed utilities worth Rs. 15,000 a month.

Mr. Akber has also been provided with a motor vehicle for official as well as private use. The vehicle was acquired by ABC Ltd on lease. The fair market value of vehicle was Rs. 1,500,000 at the inception of lease. However, under the lease agreement, ABC Ltd. was required to pay a total sum of Rs.2,000,000 over the lease term.

During the month of December 2025, the employer waived a Rs. 100,000 loan due from Mr. Akber. Further, the employer also re-imbursed children education expenses amounting to Rs.46,000. Tax deducted by employer at Rs. 7,000 per month out of Mr. Akber's salary.

Mr. Akber left the job as well as Pakistan on 30th April 2026 and joined a new job at UAE on a monthly salary of AED 12,000 effective from 1st June, 2026. Conversion rate Rs.40/AED

Required

Compute Mr. Akber's taxable income and tax liability for tax year 2026.

10. MR. SAEED

Saeed, a citizen of Pakistan, was working on a foreign vessel belonging to Delta Shipping Company (DSL) based in Spain for the past three years. His monthly salary was USD 15,000 which was remitted to his Pakistani bank account through normal banking channel. The amount received during the tax year 2025 was converted to Pak Rupees at an average exchange rate of USD 1 = PKR 170.

On 1 October 2025, he resigned from DSL and joined Haris Pharma Limited (HPL) in Pakistan as a General Manager. He was offered following monthly salary and allowance in HPL:

	Rupees
Basic salary	600,000
Medical allowance	66,000

In addition to the above, he was also provided the following:

- Bonus equal to two monthly basic salaries. However, bonus amount was adjusted in proportion to the duration of his stay in the company. The bonus amount was paid to him on 5 July 2026.
- Two company maintained cars. Both cars were purchased on 1 October 2024. The car costing Rs.3,500,000 was used for official purposes whereas the car costing Rs. 1,900,000 was used for personal purposes.
- Free lunch from the restaurant owned by one of HPL's directors. The fair market value of food provided to him during the year was Rs. 125,000.
- A fixed special allowance of Rs. 20,000 per month to meet expenses wholly and necessarily incurred in the performance of his official duties. Actual expenses incurred by him during the year were Rs.150,000.
- Provident fund contribution of Rs. 60,000 per month. An equal amount per month was also contributed by Saeed to the fund.

Other information relevant to tax year 2026 is as under:

- On 1 December 2025, Saeed obtained a loan of Rs. 25 million from a scheduled bank at 15% mark-up per annum to acquire a residential house having land area of 3,200 square feet.
- During the year, he received dividends of Rs. 575,000 from a listed company. The amount was net of withholding income tax at the rate of 15% and Zakat of Rs. 62,500 deducted under the Zakat and Usher Ordinance, 1980.
- Withholding tax deducted by HPL from Saeed's salary during the tax year 2026 amounted to Rs.1,300,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made there under, compute under the appropriate head of income, the total income, taxable income and net tax payable by or refundable to Saeed for the tax year 2026.

11. MR. SAJID

Sajid retired from Sun Chemicals Limited (SCL) as a Marketing Manager with effect from 31 December 2024. He received the following amounts in final settlement from SCL:

- i. Leave encashment of Rs. 600,000.
- ii. Rs. 4,000,000 from unapproved provident fund. 50% of this amount was contributed by Sajid.
- iii. Un-approved gratuity of Rs. 2,500,000.

He also acquired the vehicle, provided to him by SCL, at accounting written down value of Rs. 500,000. The market value of the vehicle at the time of retirement was Rs. 2,000,000.

Required:

Under the Income Tax Ordinance, 2001 and Rules made there under, discuss the tax treatment of the above benefits received by Sajid on retirement.

12. ASAAISH (PRIVATE) LIMITED (APL)

Nasir has been working as head of finance in Asaish (Private) Limited (APL). He received following monthly emoluments from APL during the year ended 30 June 2026:

	Rupees
Basic salary	800,000
Medical allowance	100,000
Cost of living allowance	200,000

In addition to the above, APL also provided him the following benefits:

- i. Residential house owned by APL for no rent. The fair market value of the rent was Rs. 300,000 per month.
- ii. Company maintained car. The car was acquired on lease by APL on 1 July 2024 at an annual rental of Rs. 1,100,000. The fair market value of the car as on 1 July 2024 and 30 June 2026 were Rs. 4,000,000 and Rs. 6,000,000 respectively. 70% of the car is used for office purpose while 30% is used for personal purposes.
- iii. 250 liter of fuel every month. The average petrol price during the year was Rs. 180 per liter.
- iv. Reimbursement of car maintenance expenses upto Rs. 20,000 per month. During the year, APL reimbursed Rs. 150,000 to him in this respect.
- v. Health insurance for Nasir and his dependents as per the terms of employment. For this purpose, APL is paying annual insurance premium of Rs. 100,000. The insurance company incurred expenses of Rs. 500,000 on hospitalization of his dependents.
- vi. Ad-hoc relief allowance equal to one month's basic salary keeping in view the increase in inflation.

Nasir incurred a monthly expenditure of Rs. 20,000 from July 2025 to November 2025 while working from home under the COVID guidelines issued by APL's management.

Withholding tax deducted by APL from his salary during the tax year 2026 amounted to Rs. 4,500,000.

Other information:

- i. During the year, he got married and received Rs. 1,000,000 in cash as gifts from various relatives and friends including Rs. 400,000 from his parents. In addition, his parents gifted him a car worth Rs. 5,000,000.
- ii. During the year, he paid a cash donation of Rs. 480,000 to a non-profit organization listed in the Thirteenth Schedule.
- iii. During the year, Nasir contributed Rs. 4,700,000 to an approved pension fund under the Voluntary Pension System Rules, 2005.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- compute the total income, taxable income and net tax payable by or refundable to Nasir for the tax year 2026. (Show all relevant exemptions, exclusions and disallowances)
- With reference to provision of residential house to Nasir by APL, discuss the tax implication for APL in this regard.

13. MR. CHENG

Cheng, a Chinese citizen, has been in Pakistan since the year 2017. For career growth, he left his employment with Hope Limited (HL), an unlisted FMCG, on 30 September 2025 and joined a leading chain of hotels namely Desire Hotels (DH) on 1 October 2025. The details of his emoluments during the year ended 30 June 2026 are as follows:

Particulars	HL	DH
	----- Rupees -----	
Basic salary per month	350,000	450,000
Medical allowance per month	35,000	60,000
Utilities allowance per month	20,000	30,000
Lunch provided by the employer at subsidized rate – per month cost to employer	10,000	25,000
Company maintained car (for both official as well as personal purposes):		
Cost	3,000,000	5,000,000
fair market value as on 30 June 2026	2,500,000	6,000,000
Annual bonus related to the tax year 2025	350,000	-
Gratuity under an unapproved scheme	1,225,000	-

Additional information (other benefits provided by DH):

- Two return air tickets to China to the extent of Rs. 600,000 for Cheng and his spouse. During the year, he incurred Rs. 550,000 on account of his traveling to China.
- Rs. 750,000 received for signing a bond with DH, according to which Cheng cannot leave the organization before 30 June 2026.
- Rs. 400,000 received from DH as commission for securing a large contract.
- Payment of the outstanding loan of Rs. 3,800,000 by DH as per the terms of the employment contract. Cheng had obtained this interest free loan from HL, for the construction of a house. On 1 July 2022, the house was given on rent under a 5-year rental agreement at an annual rental of Rs. 800,000.

Other information:

- During the year, he received CNY 31,500 (net of 30% tax) equivalent to Rs. 1,260,000 in his Pakistani bank account being a share of profit from a business in China.
- During the year, he received cash dividend of Rs. 97,750 (net of withholding tax at the rate of 15%) and bonus dividend of 2,000 shares from Ambitious Limited (AL), a company listed on the Pakistan Stock Exchange. The fair market value of AL's share on the date of entitlement of bonus shares and on 30 June 2026 were Rs. 25 and Rs. 20 respectively.
- He transferred an amount of Rs. 600,000 to the bank account of a non-profit organization as donation for the flood affectees.
- On 25 June 2026, he paid an annual premium of Rs. 300,000 on a life insurance policy.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute total income, taxable income and tax payable by or refundable to Cheng for the tax year 2026. (Show all relevant exemptions, exclusions and disallowances)

14. MR. SALMAN

Salman works as the head chef at Tasty Café (TC), which is owned by Zameendar Limited (ZL), a company listed on the Pakistan Stock Exchange. He received the following emoluments from TC during the year ended 30 June 2026:

	Rupees
Basic salary	2,400,000
House rent allowance	600,000
Annual bonus	480,000

In addition to the above, TC also provided him with the following benefits:

- Free meals while on duty worth Rs. 450,000.
- Staff discounts across all restaurants owned by ZL. Salman availed discount worth Rs. 40,000 during the year.
- Health insurance up to the amount of Rs. 500,000 covering his spouse and two children as per terms of his employment. The insurance premium related to this benefit amounted to Rs. 70,000. During the year, the insurance company incurred expenses of Rs. 300,000 on hospitalization of his dependents.
- A company-maintained car which was purchased by TC for Rs. 2,000,000. The fair market value (FMV) of the car on 30 June 2026 is Rs. 5,500,000. The car is used partly for official purposes and partly for personal use.
- An option to acquire 12,000 shares of ZL at a price of Rs. 98 per share under an employee share scheme. The option was granted on 1 February 2026 when the FMV of the shares was Rs. 104 per share. Salman exercised the option on 1 March 2026 when the FMV was Rs. 110 per share.
- Provident fund contribution at 8% of the basic salary in a recognized provident fund. During the year, 22% profit was credited to Salman's account. His balance in the fund amounted to Rs. 960,000.
- Training of three-week culinary chef course. Salman attended this course in Dubai, for which TC paid a course fee of Rs. 500,000. In relation to his stay in Dubai, he was provided a travel allowance of Rs. 250,000. However, Salman opted to stay at a relative's house in Dubai and only spent Rs. 100,000 out of the total travel allowance provided by TC.

Additional information:

- During the year, Salman received an interest income of Rs. 720,000 from his bank account. The amount was net of withholding income tax at the rate of 20%.
- Salman paid Rs. 300,000 as a donation to a non-profit organisation listed in the Thirteenth Schedule of the Income Tax Ordinance, 2001. 80% of the amount was paid through a crossed cheque, and the remaining amount was paid in cash.
- During the year, TC withheld Rs. 400,000 in tax from his salary.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the correct head of income, the total income, the taxable income, and net tax payable by or refundable to Salman for the tax year 2026.

(Show all relevant exemptions, exclusions and disallowances)

15. MR. NAJEEB

Najeeb is a resident individual who had been working at PGA Limited (PGAL) for the past 8 years. On 31 July 2025, he retired from PGAL and received his final settlement on 15 August 2025. Following are the details of his final settlement amount:

	Rupees
Gross salary for July 2025	180,000
Fuel allowance for July 2025	27,000
Leave encashment	140,000
Provident fund balance – Principal amount (50% contributed by the employer)	3,000,000
Provident fund balance – Interest amount	600,000
Gratuity	900,000

PGAL's provident fund is recognized and its gratuity fund is approved by the Commissioner Inland Revenue.

Additional information:

- Najeeb had obtained an interest-free loan amounting to Rs. 2,000,000 from PGAL. 80% of the amount had been recovered by PGAL, and the remaining amount was waived by PGAL at the time of his retirement.
- As per PGAL's policy, Najeeb purchased the company-owned laptop, which he had been using, at a written down value of Rs. 50,000, even though its fair market value upon purchase stood at Rs. 110,000.
- On 5 August 2025, Najeeb received a watch worth Rs. 80,000 from PGAL as a gift at his farewell party.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

- compute the taxable income of Najeeb for the tax year 2026.
- how would you treat the amount received from the provident and gratuity funds if they are unrecognized and unapproved, respectively?

16. PREMIERE TEXTILES LIMITED (PTL)

For the purpose of this question, assume that the date today is 31 August 2026.

Asjad joined Premiere Textiles Limited (PTL) on 1 July 2025. He received the following salary from PTL during the year ended 30 June 2026:

	Rupees
Basic salary per month	1,500,000
Medical allowance per month	150,000

Additional information:

- As per the terms of employment, Asjad received medical reimbursement of Rs. 800,000 from PTL.
- PTL also provided accommodation to Asjad by renting a property owned by him through a rental agreement. PTL paid a monthly rental of Rs. 200,000 to Asjad,
- While the fair market value of rent for a similar property was Rs. 250,000 per month.
- During the year, Asjad sold 100,000 shares of his ex-employer, Marvel Paints Limited (MPL), a listed company, at Rs. 100 per share (net of expenses). These shares were issued to him under an Employee Share Scheme in the tax year 2022 at Rs. 25 per share. The market value of the shares on the issuance date was Rs. 40 per share.
- During the year, Asjad received Rs. 500,000 from an unapproved gratuity scheme of MPL.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the total and taxable income of Asjad under the appropriate head of income for the tax year 2026. *(Show all relevant exemptions, exclusions, and disallowances)*

17. SOLAR ENERGY LIMITED (SEL)

On 1 July 2025, Saleem Khan joined Solar Energy Limited (SEL) as a Quality Control Manager with a gross monthly salary of Rs. 500,000, which includes a medical allowance of Rs. 45,000 i.e. 15% of the basic salary. The salary for each month is credited to his bank account at the beginning of the following month.

In addition to the abovementioned salary, Saleem Khan also received the following benefits:

- i. A company maintained car which was 60% used for personal and 40% for company purposes. The car was provided on 1 January 2026, when the fair market value of the car was Rs. 5,500,000. SEL had purchased the car in July 2025 for Rs. 5,000,000. To account for his personal use of the car, a total deduction of Rs. 100,000 was made from Saleem Khan's salary up to 30 June 2026.
- ii. A right to acquire 5,000 shares in SEL under the employee share scheme, granted on 1 May 2026. The right can be exercised upon payment of Rs. 80 per share within a year. On the grant date, the fair market value of each right to acquire a SEL's share was Rs. 230. On 30 June 2026, instead of exercising the rights, Saleem Khan disposed them of at Rs. 120 per share.

Other information:

- i. Prior to joining at SEL, Saleem Khan served as a Production Manager at Hydro Energy Limited (HEL). He retired from HEL on 25 June 2025, and became entitled to a monthly pension of Rs. 40,000, starting on 1 July 2025. This pension is deposited into his bank account at the end of each month.
- ii. He paid Zakat under the Zakat and Ushr Ordinance, 1980, amounting to Rs. 182,500.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the correct head of income, the taxable income of Saleem Khan for the tax year 2026. Also, provide reasons for ignoring any of the above benefits.

CHAPTER 6 - INCOME FROM PROPERTY**1. MR. ASAD**

Mr. Asad owns some buildings which are given on rent. The following information is available:

	Rupees
Annual rent received from tenants	1,800,000
Depreciation on building under the tax laws	400,000
Property tax	100,000
Municipal/local government taxes 100,000 (Agreement with tenants provide that tenants should pay the taxes,)	
General and administration expenses	200,000

Rent received includes Rs. 600,000 for three years commencing from July 01 of the current tax year.

Mr. Asad follow accrual basis of accounting and its income year is July-June 2026.

Required:

Compute the income of Mr. Asad under the heading 'income from property' for the tax year 2026.

2. MR. AKMAL

Mr. Akmal purchased four same-sized similar flats at top floor of an apartment block in Karachi in June 2025. He let out two flats at fair market rent of Rs. 25,000/- (per month) from the next month onwards. He also received security deposit at Rs. 200,000/- in connection with each of these two flats. Mr. Akmal entered into an agreement to sale of third flat, and received Rs.100,000/- as token money on 25/06/2025, the rest of the proceeds amount was to be paid in 15 days' time. However, the buyer failed to make the payment by the due date and the amount of token money was forfeited by Mr. Akmal. The said flat was then rented to his cousin at monthly rent of Rs.15,000/- on 01/08/2025 with a security deposit of Rs. 50,000/-. Fourth flat was used by Mr. Akmal for his own residential purposes. Mr. Akmal paid property tax at Rs. 20,000/- in connection with each of his four flats.

Required:

You are required to compute Mr. Akmal's taxable income and tax liability for Tax Year 2026.

3. MR. FARRUKH

On 1 July 2025 Farrukh borrowed Rs. 8,000,000 from Star Bank Limited and acquired a plot of land in Hub Industrial Zone of Rs. 6,500,000. He invested the rest of the loan in a business venture with his friend. The above loan carries mark-up at a rate of 12% per annum and is repayable in eight equal quarterly instalments starting from 1 July 2026. On 1 August 2025 Farrukh decided to sell the plot of land to Zufiqar Motors for Rs. 10,000,000 and received a deposit of Rs. 500,000 from them. On 15 August 2025 Farrukh forfeited the deposit on refusal of Zufiqar Motors to purchase the plot of land.

On 1 September 2025 Farrukh let out the plot of land to his friend Atif at a monthly rent of Rs. 150,000. He received an un-adjustable deposit of Rs. 200,000 from Atif and paid Rs. 80,000 for levelling the ground, Rs.50,000 as ground rent, Rs. 12,000 as insurance premium against the risk of damage or destruction by water logging and Rs.140,000 against rent collection charges. Farrukh had paid Rs. 25,000 to a firm of professional valuer, which determined the annual rental value of the plot of land at Rs. 2,160,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made there under, compute under the relevant head of income, taxable income of Farrukh of tax year 2026.

4. MR. AMJAD

- a) Explain the term 'Rent' with relation to 'Income from property'.
- b) During the tax year 2026 Amjad carried out the following transactions in respect of his properties:
 - i. On 1 July 2025, Amjad purchased a factory building in Sukkur along with the installed machinery at the price of Rs. 9 million and Rs. 3 million respectively. To manage the shortage of funds of Rs. 2,000,000, he borrowed the same on 1 July 2025 from his friend Shamshad through a crossed cheque. The loan carries interest at the rate of 18% per annum.
On 1 January 2025, he let out this building along with the machinery to Basit at a monthly rent of Rs. 500,000 payable in advance.
 - ii. On 1 July 2025 Amjad let out his residential property situated in DHA Karachi to Mirza Limited at a monthly rent of Rs. 300,000. Rent for the two years was received in advance on 1 August 2025.
 - iii. On 1 July 2025, Amjad also entered into an agreement with Zeeshan for the sale of his plot situated in Quetta for Rs. 50 million. The plot had been purchased for Rs. 40 million in 2017. Under the terms of sale agreement, he received Rs. 5 million at the time of signing the agreement and the balance was to be received on 30 September 2025. However, due to financial difficulties, Zeeshan failed to pay the balance amount on the due date and consequently, Amjad forfeited the advance in accordance with the terms of the agreement.
On 10 April 2026, he finally sold the plot to Jamshed for Rs. 65 million.

- iv. Following expenditures were incurred by Amjad in respect of his properties in Sukkur and Karachi:

Details of expenditures	Property situated in	
	Sukkur	Karachi
Repair & maintenance – building	270,000	70,000
- machinery	50,000	-
Ground rent	50,000	10,000
Insurance – building	150,000	20,000
Total	520,000	100,000

Required:

In view of the provisions of the Income Tax Ordinance, 2001 compute under appropriate head of income, taxable income of Amjad for the tax year 2026.

5. A, B & C

Following are the incomes of three resident individuals A, B and C during the tax year 2026:

	A	B	C
Head of income	Rupees		
Income from property	200,000	350,000	4,100,000
Income from business		360,000	160,000

Required:

Discuss the tax treatment of income from property of each of the above individuals

6. MR. KASHIF

Kashif is a resident filer who owns a single-storey bungalow in Karachi, including a basement. He solely uses the basement portion of the bungalow which constitutes 20% of the total bungalow area, for storing his personal belongings.

On 1 October 2022, he rented his bungalow, excluding the basement portion, to Ahmed under a three-year rental agreement. Other details of the rental agreement are given below:

	Rupees
Monthly rent	300,000
Non-adjustable security deposit	3,500,000
Monthly security charges	40,000

In addition to the above, Kashif also provides Ahmed with backup electricity from a generator during load shedding at a fixed monthly charge of Rs. 50,000. The electricity connection of the basement is separate from the rest of the bungalow.

On 30 September 2025, the rental agreement concluded, and Kashif agreed to sell the entire bungalow to Ahmed. The non-adjustable security deposit was retained as a down payment for the purchase.

On 25 October 2025, Ahmed backed out of the deal and declined to purchase the bungalow. As per the agreement, Kashif forfeited the non-adjustable security deposit.

On 1 November 2025, Kashif rented the bungalow to a new tenant, Rashid, under a rental agreement with the same terms as above.

During the year, Kashif paid salary of Rs. 360,000 to the security guard of the bungalow and incurred Rs. 450,000 for running the electricity generator.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income of Kashif under appropriate heads of income for the tax year 2026.

7. MR. FARAZ

Faraz is a resident filer who owns the following properties during the tax year 2026:

Description	Fair market value million	Remarks Rs. In
Bungalow located in Karachi	60	Faraz uses this as his residence.
Apartment located in Karachi	20	Faraz's son resides in this apartment.
Office premises located in Karachi	25	No construction has been commenced during the year.
Open plot in Multan	12	This property was purchased during the year and withholding tax under section 236K was duly paid.
Shop located in a commercial area of Lahore	18	This property was purchased during the year and withholding tax under section 236K was duly paid.
Bungalow located in Dubai	80	No tenant could be found for this property and it remained unoccupied during the year. Annual fair market value of the rent is Rs. 6 million.
	450	Received rent equivalent to Rs. 31.5 million during the year.

Required:

Under the provisions u/s 7E of the Income Tax Ordinance, 2001, compute total income of Faraz in respect of above-mentioned properties for the tax year 2026. Also, state the reason(s) for excluding any of the properties from this computation.

CHAPTER 7 - INCOME FROM BUSINESS - 1

1. SUN & MOON CO.

Sun & Moon have recently registered as partners. They have incurred the following expenditures during the tax year 2026.

	Rupees
Fees paid to consultants for preparation of registration deed	50,000
Preparation of feasibility report	100,000
Purchase of office equipment	150,000
Purchase of machinery	1,000,000
Freight charges	200,000
Installation cost	50,000

Required:

You are required to explain the tax treatment by computing the amount allowable as deduction for the tax year 2026 in accordance with the provisions of Income Tax Ordinance, 2001.

2. IDEAL ASSOCIATES

You are the tax consultant of Ideal Associates who are engaged in the business of manufacture and sale of electronic goods for the last twenty years. The firm has requested for your opinion in respect of the following expenditures incurred for tax year 2026:

- Provision for bad debts
- Payment against a trading liability which was outstanding since 2021 and had been added back into the taxable income of the firm in 2025.
- Initial allowance on a three-year old plant, which has been imported from China. The remaining useful life of the plant is 7 years.

Required:

Advise the management on the treatment of the above transactions, under the Income Tax Ordinance, 2001.

3. CARROT LTD

Carrot Ltd (CL) is engaged in the manufacture, import and sale of electronic appliances for the past twenty years. While reviewing the company's tax provisions, you noticed the following amounts appearing in the tax calculation for the year ended June 30, 2026.

- Expenditure of Rs. 450,000 on promotion of a product which is expected to generate revenue for twelve years.
- Bad debt in respect of a staff loan, Rs. 25,000.
- Reimbursement of expenses of Rs. 300,000 to CL by the parent company. This amount was incurred by CL in 2022 on marketing a new product imported from Dubai. Income of commercial importer was subject to final tax regime in tax year 2022.
- Initial allowance of Rs. 4,000,000 on a used equipment acquired locally from MSD Limited.
- Financial charges amounting to Rs. 100,000 and depreciation amounting to Rs. 200,000 on a vehicle acquired on finance lease from Radish Leasing. Lease rentals paid during the year amounted to Rs. 400,000. The principal cost of finance leased motor vehicle not plying for hire is within maximum upper limit of Rs. 2,500,000.

Required:

Under the provisions of Income Tax Ordinance, 2001 discuss the admissibility of each of the above amounts for tax purposes.

4. ENTERTAINMENT EXPENDITURE

Under the provisions of the Income Tax Ordinance, 2001 and Rules made there under, discuss the prescribed limits / conditions for the deduction of entertainment expenditure?

5. KAMYAB ENTERPRISES (KE)

Abbas, a resident individual, is engaged in the business of manufacturing various consumer goods under the name and style of 'Kamyab Enterprises (KE)'. Following information has been extracted from KE's records for the year ended 30 June 2026:

	Rupees
Sales	43,089,000
Cost of sales	(26,042,000)
Gross profit	17,047,000
Administrative and selling expenses	(7,800,000)
Financial charges	(2,100,000)
Other income	5,560,000
Profit before tax	12,707,000

Additional information:

Cost of sales includes:

- i. accounting depreciation of Rs. 1,200,000. The tax written down values of KE's fixed assets on 1 July 2025 were:

	Rupees
Plant and machinery	6,860,000
Computers and related products	800,000
Motor vehicles (80% for business purposes)	3,000,000

A new computer was purchased on 1 April 2026 for Rs. 150,000.

Motor vehicle which was purchased on 15 June 2024 at the cost of Rs. 1,000,000 was sold for Rs. 750,000 on 31 May 2026. Carrying value of this motor vehicle was equal to sale proceeds.

- ii. an amount of Rs. 40,000 paid to factory supervisor on 23 March 2026 as advance salary for the month of April. Since he was in urgent need of the amount and the banks were closed on 23 March 2026 due to the Pakistan Day, he was paid in cash.

Administrative and selling expenses include:

- i. expenditure on 'In-house scientific research' related to KE's business. It includes salaries of Rs. 880,000 paid to scientists, material of Rs. 230,000 used in the research and Rs. 700,000 paid to a company in China for supporting KE's scientists in the research work. This expenditure was not recorded as intangible asset as it could not provide an advantage for a period of more than one year.
- ii. an expense of Rs. 650,000 paid as an instalment towards the purchase price of an industrial plot.
- iii. purchase of goats worth Rs. 225,000 for sacrifice on Eid-ul-Azha. The payment was made through cross cheque.
- iv. donations of Rs. 1,000,000 to approved non-profit organisations. 40% of this amount was donated to organisations listed on the Thirteenth Schedule of the Income Tax Ordinance, 2001. All donations were made through crossed cheques.
- v. an insurance premium of Rs. 200,000 paid to a registered insurance company for health insurance of Abbas and his dependents.

Other income includes:

- i. an amount of Rs. 720,000 received from income tax department on account of tax refund related to tax year 2023. This amount includes an additional payment of Rs. 80,000 due to delay in tax refund.
- ii. capital gains of Rs. 430,000 and Rs. 250,000 on sale of investments in shares of Manzil Limited, a public unlisted company and Himmat Limited, a public listed company respectively on 20 June 2026. Both investments were made on 1 January 2025.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute total income, taxable income and net income tax payable by or refundable to Abbas for the tax year 2026.

Note: Your computation should commence with profit before tax figure of Rs. 12.707 million.

- Ignore minimum tax under section 113.
- Show all relevant exemptions, exclusions and disallowances.

6. MR. MASOOM

- a) Masoom is the sole owner of a business that is engaged in the trading of furniture. During the year, the following transactions took place:
- He withdrew a furniture set worth Rs. 3 million, from his business to present it to his daughter on the occasion of her wedding. The cost of the furniture set was Rs. 2.5 million.
 - He sold an antique table for Rs. 1 million. The table had been gifted to him by his father back in 2014. Its fair market value at the time of gift was Rs. 2.2 million. His father originally purchased the table for Rs. 0.5 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, discuss the tax treatment of the above transactions for Masoom.

- b) Under the provisions of the Income Tax Ordinance, 2001, if a person sustains a loss under any head of income in a tax year, the same can be set-off against the income from any other head of income. State **four** exceptions to this principle.

CHAPTER 8 - INCOME FROM BUSINESS-2**1. INTANGIBLE ASSETS**

In the context of Income Tax Ordinance 2001,

- State the meaning of "Intangible".
- Discuss the rules relating to claiming of amortization deduction on intangibles.

2. MR. QATEEL

Mr. Qateel, a resident individual, is engaged in the manufacture of various consumer goods under the name and style 'Qateel Enterprises (Q E)'. The following information has been extracted from the records of QE for the financial year ended 30 June 2026.

	Rupees
Total turnover	28,500,000
Cost of sales	(26,155,000)
Gross profit	2,345,000
Operating expenses	(4,500,000)
Operating loss	(2,155,000)
Finance charges on lease of machinery	(35,703)
Other income	5,000,000
Profit before tax	2,809,297

Additional information:

- Cost of sales includes:
 - Rs. 45,000 paid as fine for violation of contract with a customer for delay in supply of goods.
 - accounting depreciation of Rs. 1,900,000 (including depreciation on leased assets).
- Operating expenses include:
 - Rs.450,000 paid for renewal of a manufacturing licence for fifteen years.
 - vehicle tax paid in cash amounting to Rs. 55,000 for eight office cars.

- Rs. 200,000 paid as security deposit to K-Electric (KE) for replacement of transformer at the factory.
 - Rs. 300,000 collected by KE as advance tax through monthly electricity bills.
 - cash donation to poor families amounting to Rs. 64,600 and donation of Rs. 2,000,000 paid through cheque to Edhi Foundation, which is listed in Thirteenth Schedule of the Income Tax Ordinance, 2001.
 - penalty of Rs. 25,000 imposed by the Commissioner Inland Revenue for late filing of annual return of income for the tax year 2023.
 - entertainment expenditure of Rs. 128,000 incurred on arrival of foreign customers for business purposes.
- iii. Other income includes:
- dividend of Rs. 580,000 received from listed companies. The amount is net of income tax at the rate of 15% and Zakat of Rs. 100,000 deducted under the Zakat and Usher Ordinance, 1980.
 - Capital gain of Rs. 1,200,000 from sale of shares of a private limited company. Shares were acquired on 1 August 2020.
- iv. On 30 June 2026, leased machinery was transferred to Qateel on maturity of lease. The leasing company was asked to adjust the amount of security deposit against the residual value of Rs. 100,000. The date of commencement of lease was 1 July 2021.
- Lease rentals paid during the year amounted to Rs. 270,000.
- On the date of maturity, the accounting written down value and market value of the machinery was Rs. 590,490 and Rs. 800,000 respectively.
- v. During the year, a warehouse was constructed for storage of goods at a cost of Rs. 1,040,000. No accounting depreciation has been recorded on it.
- vi. Tax depreciation for the tax year 2026 without considering the effect of para (iv) and (v) above, amounted to Rs. 1,560,000.
- vii. Advance income tax paid during the year amounted to Rs. 480,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made there under compute the total income, taxable income and net tax payable by or refundable to QE for the year ended 30 June 2026.

Note:

- Ignore minimum tax under section 113.
- Show all the relevant exemptions, exclusions and disallowances.

3. MR. SALMAN SHAHID

During the tax year 2026, Salman Shahid sold the following assets:

- i. A vehicle used by manager-in-charge of his garment factory for Rs. 7.8 million. The vehicle was purchased for Rs. 8.1 million in tax year 2023.
- ii. A machine for Rs. 350,000 on 1 June 2026, which he had imported from Malaysia for Rs. 1,900,000 on 1 May 2026, to start a new business. The machine was badly damaged during the shipment from Malaysia, rendering it unfit for use. He received insurance claim of Rs. 1,840,000 as damages on 15 May 2026. Charges incurred in connection with the submission of claim with insurance company were Rs. 38,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute under the appropriate head of income, the amount to be included in the taxable income of Salman Shahid for the tax year 2026.

4. MISCELLANEOUS

- a) Sikandar has revalued his factory building in accordance with International Financial Reporting Standards and consequently charged depreciation on the revalued amount. Explain the tax implication of the revaluation?
- b) Shahbaz has acquired machinery for his new factory against a loan repayable in USD. Discuss what would be the cost of machinery for the purpose of depreciation deduction?

5. MR. SHAHID

For the purpose of this question, assume that the date today is 31 August 2026.

Shahid is engaged in the business of manufacturing and supplying of auto parts. Following is the extract of his profit or loss statement for the tax year 2026:

	Rs. in '000
Sales	29,058
Cost of goods sold	(18,724)
Gross profit	10,334
Operating expenses	(3,137)
Financial charges	(2,030)
Other income	1,260
Profit before tax	6,427

Additional information:

- i. The above accounts have been prepared on cash basis and stock-in-trade has been valued on prime cost method. However, Shahid wants to change the method of accounting from cash basis to accrual basis. In this respect, following information has been gathered:

	Opening balances	Closing balances
	----- Rs. in '000 -----	
Stock-in-trade using prime cost method	1,800	2,800
Stock-in-trade using absorption cost method	2,300	3,200

- ii. Cost of goods sold includes:
 - purchase of packing material of Rs. 440,000 from Nasir Traders. No withholding tax was deducted at the time of payment.
 - freight charges of Rs. 85,000. These were paid in cash for transporting goods from suppliers.
- iii. Operating expenses include:
 - salary of Rs. 80,000 per month paid to Shahid's brother who handles administrative matters of the business.
 - expenditure of Rs. 950,000 incurred on the development of a product which is expected to generate revenue for five years.
 - penalty of Rs. 15,000 for late filing of income tax return.
- iv. Financial charges include profit on debt of Rs. 450,000 earned on fixed deposit account maintained with a bank. The bank withheld income tax and Zakat amounting to Rs. 45,000 and Rs. 93,750 respectively.
- v. Other income includes:
- vi. In November 2025, Shahid received a capital gain of Rs. 51,750 from the sale of 20,000 shares of Metal Limited (ML), a listed company on the stock exchange. An advance tax of Rs. 6,750 was deducted at source. ML is listed on the PSX. On January 1, 2025, Shahid purchased these shares for Rs. 200,000 during the initial public offering. Rent of Rs. 980,000 received from an agriculture land in Badin. No withholding tax was deducted at the time of receipt.

- vii. Tax depreciation for the year amounts to Rs. 680,000.
- viii. Tax deducted at source by customers amounts to Rs. 875,000.
- ix. The unabsorbed tax depreciation brought forward from tax year 2025 amounts to Rs. 568,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made there under, compute total income, taxable income and net tax payable by or refundable to Shahid for the tax year 2026. (Use accrual basis of accounting)

Note: Your computation should commence with profit before tax figure.

Ignore minimum tax under section 113.

Show all relevant exemptions, exclusions and disallowances.

6. FAITH BROTHERS (FB)

For the purpose of this question, assume that the date today is 31 August 2026.

Faith Brothers (FB) is engaged in the business of manufacturing tools and equipment. Following information has been extracted from FB's records for the year ended 30 June 2026:

	Rs. in million
Revenue	1,400
Expenses	(1,270)
Other income	47
Net profit	177

Additional information:

i. Expenses include:

- accounting depreciation of Rs. 188 million.
- cash payment of Rs. 1 million for purchasing the ten air tickets.
- payment of Rs. 4 million to shipping line on account of demurrages for containers blocked at port. Moreover, penalties of Rs. 9 million were also paid to various clients on delaying their orders because of closure of production plant for two weeks during the year.
- payment of Rs. 50 million to a builder for the construction of a building. The work is still in progress at the year end.
- payment of AED 100,000 equivalent to Rs. 5 million to a research institute in UAE for the purpose of developing a new product.
- a foreign exchange loss of Rs. 15.8 million in respect of amount payable to FB's associated company in Qatar. This liability arose on 1 January 2025 from the import of a second-hand plant at a cost of QAR 400,000. As per the agreement, the payment would be made on 1 January 2027. Relevant exchange rates are as follows:

	1 January 2025	30 June 2025	30 June 2026
Rs. per QAR	45	40	79.5

ii. Other income comprises of:

- recovery of bad debts of Rs. 16 million. The amount of Rs. 30 million was written off three years ago, out of which only Rs. 10 million was allowed by the tax authorities.

- capital gain of Rs. 40 million on sale of following securities on 1 March 2026:

	Date of purchase	Capital gain (Rs. in million)
Modaraba certificates	10 July 2025	8
Shares of an unlisted company	20 February 2025	12
Shares of a listed company	15 January 2022	20

- a loss of Rs. 9 million in respect of an insurance claim. The claim was lodged against damage of a new machinery during the shipment that rendered it unfit for use.
- iii. Tax depreciation for the year on all fixed assets, other than imported second-hand plant, amounted to Rs. 214 million.
- iv. Following are the details of losses brought forward from previous years:

	Rs. in million
Loss from business relating to tax year 2024	52
Loss from speculation business relating to tax year 2025	14
Unabsorbed tax depreciation	168
Capital losses on sale of listed securities relating to:	
tax year 2022	8
tax year 2023	6

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- a) compute total income, taxable income and income tax liability of FB for the tax year 2026.
- Ignore minimum tax under section 113.
 - Show all relevant exemptions, exclusions and disallowances.
- b) determine the amount of FB's remaining unutilised tax losses along with the tax year up to which such losses may be carried forward.

7. SWEET BAKERS

Sweet Bakers (SB) is a bakery business owned by Mariam and her two brothers, Ehsan and Ghulam, who share profits in the ratio of 60:20:20, respectively. SB has three retail outlets located in Karachi, and it also owns agriculture land that is rented to a chicken farmer. SB is registered with sales tax authorities as a Tier-1 retailer.

The following information has been extracted from the records of SB for the year ended 30 June 2026:

	Rs. in million
Net sales	500
Less: Cost of sales	(350)
Gross profit	150
Less: Operating expenses	(73)
Profit before tax	77

Additional information:

- i. Net sales include rental received from the chicken farmer, as detailed below:
- A monthly payment of Rs. 0.5 million.
 - Supply of 120 paitis of eggs (agriculture produce) every month. Each paiti holds a market value of Rs. 7,200. SB consumed these eggs in the production of various bakery items, but they are not accounted for in the abovementioned cost of sales.

- ii. Cost of sales include:
- purchase of various raw materials worth Rs. 24 million on which no withholding tax was deducted at the time of payment. SB made total purchases of Rs. 200 million during the year.
 - purchase of milk powder worth Rs. 10 million, of which 10% is delivered to the homes of the three partners for their personal use.
 - salaries of Rs. 8.2 million, Rs. 6 million, and Rs. 4.8 million to Mariam, Ehsan, and Ghulam, respectively.
 - purchase of a new bakery plant worth Rs. 15 million.
- iii. Operating expenses include:
- purchase of point-of-sale machines worth Rs. 0.4 million which were installed on 1 July 2025 in all outlets to integrate with FBR's computerized system for real time reporting of sales.
 - payment of Rs. 5.5 million on 1 January 2026 to an IT company for the development of an application to facilitate online orders from customers. The useful life of this application is expected to be five years and is available for use from 1 October 2026.
- iv. On 1 February 2026, Mariam contributed her personal van to the business, which she had purchased at a cost of Rs. 6 million on 1 January 2025. The fair market value of the van at the time of transfer was Rs.9 million.

Required:

- i. Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the correct head of income, the total income, taxable income, and tax liability of SB for the tax year 2026.
- **Ignore minimum tax under section 113.**
 - **Show all relevant exemptions, exclusions and disallowances.**
- ii. Under the provisions of the Income Tax Ordinance, 2001, the tax payable by women enterprises on profit and gains derived from business chargeable to tax under the head 'Income from Business' shall be reduced by 25%.

Required:

Explain the term 'Women enterprise'. Also, discuss whether the abovementioned reduction in tax liability is available to Sweet Bakers.

8. JAMSHED CHEMICALS

For the purpose of this question, assume that the date today is 30 September 2026.

Jamshed and Sultana are equal partners in Jamshed Chemicals (JC), which is engaged in the manufacturing and supply of industrial chemicals. The following information has been extracted from JC's records for the year ended 30 June 2026:

	Rs. in '000
Sales	49,000
Cost of sales	(31,000)
Gross profit	18,000
Administrative and selling expenses	(6,000)
Finance cost	(1,000)
Other income	2,000
Profit before taxation	13,000

Additional information:

- i. The cost of sales includes Rs. 250,000 against the provision for slow-moving stock.
- ii. Administrative and selling expenses include a salary of Rs. 450,000 paid to each partner.
- iii. Finance cost includes interest of Rs. 325,000 paid to each partner on their capital accounts.
- iv. Other income includes:
 - bad debts recovered of Rs. 225,000. JC had previously written off a debt of Rs. 400,000 in June 2024 and initiated a legal action against the debtor to recover it. Tax authorities allowed a deduction of Rs. 300,000 in tax year 2024.
 - a net loss of Rs. 1,325,000 from an energy derivative contract. On 1 January 2026, JC entered into this contract to purchase 300 barrels of crude oil for manufacturing various industrial chemicals, aiming to hedge against future price fluctuations. The contract, set to expire on 30 June 2026, was sold before its scheduled settlement date, leading to the loss.
- v. On 1 May 2026, Sultana, with Jamshed's permission, moved some of the office furniture to her residence for personal use. The market price of the furniture at that time was Rs. 2,000,000. The furniture was initially purchased on 1 July 2023 for Rs. 1,600,000.

Further information related to Sultana:

- i. On 1 July 2025, Sultana let out her plot of land in the Korangi industrial area to her brother's import house at a monthly rent of Rs. 100,000. The prevailing fair market rent in the area was Rs. 170,000 per month. Additionally, she received a non-adjustable deposit of Rs. 300,000. A non-adjustable deposit of Rs. 150,000, received from a previous tenant in July 2024, was refunded.
- ii. In 2023, Sultana received 2,000 shares of a foreign company, Lucky Inc. (listed in the USA) from her friend Jameela as a gift. Jameela acquired these shares in 2020 for the PKR equivalent of 45 per share while working in the USA. The fair market value of each share at the time of transfer to Sultana was PKR equivalent of 120. On 1 January 2026, Sultana disposed of these shares for the PKR equivalent of 200 per share and paid PKR equivalent of 82,000 in taxes in the USA.
- iii. Sultana is also a renowned author and has written numerous books on environmental pollution. She completed her latest work, titled 'The Ocean of Plastic,' over a period of two and a half years. In December 2025, she received a lump sum payment of Rs. 504,000 as royalty for her latest work.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

- a) compute under the correct head of income, the total income, taxable income and tax liability of the following for the tax year 2026:
 - i. Jamshed Chemicals
 - ii. Sultana
 - Ignore minimum tax under section 113.
 - Show all relevant exemptions, exclusions, and disallowances.
- b) What other option is available to Sultana for taxation of her royalty income? (Revised computation is not required)

9. Momin Maize Products (MMP)

For the purpose of this question, assume that the date today is 31 August 2026.

Momin Maize Products (MMP), a sole proprietorship owned by Momin Khan, specializes in the production of food ingredients. The following information has been extracted from MMP's records for the year ended 30 June 2026:

	Rs. in '000
Sales	138,000
Cost of sales	(86,000)
Gross profit	52,000
Administrative and selling expenses	(14,650)
Financial charges	(2,000)
Other income	650
Profit before taxation	36,000

Additional information:

i. Sales include:

1. an amount of Rs. 10,620,000, net of a 10% trade discount and inclusive of 18% sales tax, to a customer.
2. Rs. 1,925,000 received as compensation from an insurance company on

15 April 2026, for severe damage to machinery imported from China on 1 April 2026, costing Rs. 2,100,000. The machinery, deemed unfit for use, was later sold as scrap for Rs. 425,000 on 1 May 2026. The loss of Rs. 1,675,000 from the sale of machinery and the cost of Rs. 42,000 incurred for lodging the insurance claim have been included under administrative and selling expenses.

ii. Cost of sales include:

1. Rs. 8,000,000 paid for a used ingredient mixer machine imported from Malaysia. This includes import duty of Rs. 300,000 and advance income tax of Rs. 500,000 paid to custom authorities at import stage.
2. accounting depreciation of Rs. 18,000,000. The tax depreciation (excluding depreciation on imported machine) for the tax year amounted to Rs. 22,000,000.

iii. Administrative and selling expenses include:

1. sales commission of Rs. 325,000 paid to the marketing manager via a bearer cheque for exceeding the sales target.
2. a security deposit of Rs. 460,000 paid to K-Electric for a new connection.
3. an insurance premium of Rs. 395,000 paid for the health insurance of Momin Khan.
- iv. Financial charges include interest of Rs. 600,000 on a Rs. 5,000,000 bank loan obtained on 1 July 2025, at an annual interest rate of 12%. Rs. 4,000,000 was used to purchase a plot of land in Karachi for leasing purposes, and Rs. 1,000,000 was used to buy a car for Momin Khan's wife.
- v. Other income comprises of rental income of Rs. 450,000 and non-adjustable deposit of Rs. 200,000 from the same plot of land mentioned in point (iv), which was leased to a tenant starting 1 September 2025. MMP incurred Rs. 50,000 in expenses for land levelling, Rs. 20,000 for ground rent, and Rs. 25,000 for rent collection services. These expenses have been included under administrative and selling expenses.
- vi. Brought forward minimum tax u/s 113 related to tax year 2025 is Rs. 6,000,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the appropriate head of income, the total income, taxable income and tax liability of MMP for the tax year 2026. *(Show all relevant exemptions, exclusions, and disallowances)*

10. Nafees Enterprises (NE),

Nafees Enterprises (NE), a sole proprietorship owned by Nafees, is engaged in the business of manufacturing and selling power tools in Lahore. The following information has been extracted from NE's records for the tax year 2026:

	Rs. in '000
Sales	148,000
Cost of sales	(95,000)
Gross profit	53,000
Administrative and selling expenses	(21,000)
Financial charges	(1,000)
Other income	9,000
Profit before taxation	40,000

Additional information:

- i. Sales include an advance of Rs. 1,875,000 received from a retailer in Islamabad for the sale of impact drivers. The agreement stipulates that NE will deliver the tools in July 2026.
- ii. **Cost of sales includes:**
 - closing stock consisting of 5,000 units at a cost of Rs. 19,700,000. The market price of these units as on 30 June 2026 was Rs. 3,800 per unit, and the estimated costs incidental to sale were Rs. 300 per unit.
 - accounting depreciation amounting to Rs. 20,000,000.
- iii. **Administrative and selling expenses include:**
 - a penalty of Rs. 95,000 for the late payment of advance tax. The penalty amount was paid by cheque.
 - expenditure of Rs. 9,000,000 incurred on the development of a computer software for use in the manufacture of precision drills. Although the software was available for use from 1 May 2026, NE decided to start using the software from 1 July 2026.
 - cost of Rs. 720,000 for the construction of two ramps to provide access to persons with disabilities.
- iv. Financial charges include interest of Rs. 825,000 paid to a scheduled bank for a loan obtained by Nafees for the renovation of his ancestral house in Lahore.
- v. Other income includes:
 - gain of Rs. 5,000,000 from the sale of an unimproved land to one of Nafees's business colleague for Rs. 6,500,000, which was purchased in July 2025.
 - sale proceeds of Rs. 2,125,000 received on sale of 25,000 shares in Sky Limited, a listed company. NE purchased these shares in July 2018 at a cost of Rs. 25 per share.

Other information: (not reflected in the above financial results)

- i. Income from foreign speculation business amounting to Rs. 2,500,000.
- ii. A loan of Rs. 180,000 received through a bearer cheque.
- iii. Tax depreciation for the year amounting to Rs. 23,000,000.
- iv. Brought forward assessed losses from previous tax years:

	Rs. in '000
Non-speculation business loss- 2022	11,100
Speculation loss (Pakistan source) - 2025	2,700
Unabsorbed depreciation -2025	24,560
Loss on sale of listed securities - 2022	1,200

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute under the correct head of income, the total income, taxable income and tax liability of NE for the tax year 2026.

Note:

- *Ignore minimum tax under section 113.*
- *Show all relevant exemptions, exclusions and disallowances.*

CHAPTER 9 - CAPITAL GAINS

1. MR. SHAHBAZ

Mr. Shahbaz, a resident individual earned Rs. 700,000 from the sale of assets as shown below:

	Purchase		Sale		Gain/(loss) Rupees
	Date	Price Rupees	Date	Price Rupees	
Shares of a listed company	10/12/24	350,000	30/06/26	200,000	(150,000)
Shares of an unlisted company	15/07/24	500,000	30/11/25	900,000	400,000
Jewellery	15/05/24	750,000	20/12/25	1,400,000	650,000
Sculpture	01/07/24	400,000	31/01/26	300,000	(100,000)
Shares of a private limited company	01/01/26	1,300,000	15/02/26	1,200,000	(100,000)

Required:

Discuss the treatment and the implications of each of the above transactions under the Income Tax Ordinance, 2001. Give brief reasons to support your conclusion.

2. MS. SALEHA

Saleha is a resident person. She disposed of the following assets during the tax year 2026.

- A painting which she inherited from her father was sold for Rs. 1,250,000. The market value of the painting at the time of inheritance was Rs. 1,550,000. The painting was purchased by her father for Rs. 1,000,000.
- She sold jewellery for Rs. 2,300,000 which was purchased by her husband in March 2022 for Rs.1,300,000 and gifted to her on the same date.
- She disposed of her car for Rs. 1,800,000. The car was being used for the purposes of her business. The tax written down value of the car at the beginning of tax year 2026 was Rs.1,600,000. The rate of depreciation for tax purposes is 20%.
- On 20 October 2025 she sold a dining table to Faheem for Rs. 18,000, which she had purchased on 15 May 2023 for Rs. 15,000 for her personal use.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the taxability of each of the above transactions in the context of capital gain/loss.

3. VEHICLE AND SCULPTURES

- Haris sold two of his personal vehicles during the current year and earned profit of Rs. 550,000. Discuss the taxability of profit earned by Haris in the context of capital gain/loss.
- On 1 July 2020, Ahmed purchased two sculptures for Rs. 410,000 and Rs. 475,000 respectively. On 30 November 2025, during the shifting of his house, he lost both the sculptures. On 15 January 2026, he received insurance claim of Rs. 940,000 in a single transaction against the loss of two sculptures. The fair market value of both the sculptures at the time of loss was estimated at Rs. 360,000 and Rs. 540,000 respectively. Compute Ahmed's taxable income or loss for the above transaction.

4. MS. NARGIS

Nargis is a resident filer. During the tax year 2026, she disposed of various assets. Relevant details of these assets are as follows:

	Disposal			Purchase	
	Cash consideration	Fair market value	Date of disposal	Cost of purchase	Date of purchase
	---- Rs. in million ----			Rs. in million	
Investment in shares of a public unlisted company	2.8	3.0	01-Apr-26	2.0	01-Jun-24
Investment in shares of a listed company	3.5	3.5	01-Jul-25	2.1	30-Jun-17
Personal car	5.0	6.0	31-Dec-25	3.8	01-Jan-23
Painting	1.2	1.2	16-Sep-25	1.7	16-Feb-21
Jewelry	8.0	7.6	30-Jun-26	(see note 1)	01-May-20

Note 1: She received the jewelry as a gift from her mother in law at the time of her marriage when its fair market value was Rs. 4.8 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- compute the amount to be chargeable to tax under the head of capital gain. Also state the reason for ignoring gain / loss, if any.
- compute the tax liability of Nargis in respect of the capital gain computed in part -I above.
- above assuming that she has no other source of income.

5. MR. ASHFAQ

Ashfaq is a resident filer who made the following disposals during the tax year 2026.

- On 15 November 2025, he sold a bungalow located in Karachi for Rs. 51 million which was purchased on 1 January 2021 for Rs. 46 million. The values determined by the Federal Board of Revenue (FBR) at the time of sale and purchase were Rs. 48 million and Rs. 44 million respectively.
- He gifted his coin collection, having a fair market value of Rs. 2.2 million, to his friend. He had acquired this collection over the years at a cost of Rs. 0.3 million.
- He sold several pieces of antique furniture for a lump sum amount of Rs. 35 million. Details of the furniture items sold are given below.

	Purchase cost	Fair market value
	----- Rs. in million -----	
Antique dresser table	8	15
Antique vase	1.2	0.9
Antique clock	20	25

- An executive table which Ashfaq used at his residence, was moved to his office for office use and incurred transportation cost of Rs. 10,000 in this regard. The fair market value of the table at that time was Rs. 75,000. Ashfaq had purchased this table for Rs. 90,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

- a) compute the amount chargeable to tax and related tax liability under the head of capital gain. Also state the reason for ignoring gain / loss, if any.
- b) list the documents which Ashfaq is required to maintain in relation to capital gain.

6. MR. USMAN

Assume that the date today is 30 September 2026.

In the tax year 2025, Usman, 16 years old, inherited a 1300 cc car valued at Rs. 6 million upon death of his father. Furthermore, during the tax year, Usman opened a mobile shop and earned income of Rs. 500,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the chargeability of tax for Usman in the tax year 2026. Also, discuss whether Usman is required to file an income tax return for the tax year 2026.

7. DEEMED INCOME

For the purpose of this part, assume that the date today is 31 August 2026. Sohail, a resident individual, owned the following properties as at 30 June 2026:

- i. An office building with a fair market value (FMV) of Rs. 30 million.
- ii. An open plot with an FMV of Rs. 26 million. This plot was allotted by the Federal Government to an ex-army officer, who later sold it to Sohail.
- iii. Agricultural land with an annexed farmhouse, having an FMV of Rs. 70 million for the land and Rs. 26 million for the farmhouse. The land is cultivated by Sohail.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax treatment of each of the above properties, assuming that:

- Sohail's name appears on the active taxpayer's list (ATL)
- Sohail's name does not appear on the ATL (05)

(Calculations are not required)

8. LAL BUX

Lal Bux, a tax filer, made the following disposals during the tax year 2026:

- i. On 1 April 2026, he sold a packaging machine for Rs. 900,000. The machine was exclusively used for packaging products exported to the Middle East. The machine was purchased on 1 January 2025 at a special discounted price of Rs. 792,000. The book value of the machine at the time of sale was Rs. 696,220.
- ii. On 14 February 2026, he exported a cutting machine to the UAE against proceeds of Rs. 3,500,000. This machine was used in manufacturing goods sold domestically in Pakistan. The cost and tax written down value of the machine were Rs. 2,200,000 and Rs. 950,000 respectively.
- iii. On 30 June 2026, he received an insurance claim of Rs. 1,725,000 as a lump sum payment for the destruction by fire of two antique Mongolian Vases. Vase 1 was purchased on 1 July 2025 for Rs. 925,000, and Vase 2 was purchased on 15 July 2025 for Rs. 820,000. At the time of the fire, the fair market value of Vase 1 and Vase 2 were estimated at Rs. 975,000 and Rs. 900,000 respectively.
- iv. On 15 June 2026, he sold a grey parrot for Rs. 300,000. The grey parrot was purchased on 1 July 2024 at a price of Rs. 225,000 for his minor son.
- v. On 1 May 2026, he sold 6,000 shares in Garlic Limited (GL) at Rs. 70 per share, incurring incidental expenses of 0.5% of the sale proceeds. GL is an unlisted company with 52% of its shares held by the Turkish government. Lal Bux received 15,000 shares in GL on 1 July 2021 as a gift from his friend, who had purchased these shares from an investor for Rs. 45 each. The fair value of these shares at the time of the gift was Rs. 48 each.

Required:

- a) Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:
 - compute the amount chargeable to tax for the tax year 2026, specifying the relevant head of income. Also, state the reason for ignoring gain / loss, if any.
 - calculate the tax liability for the tax year 2026 in respect of those disposals that are
 - not subject to Normal Tax Regime. (11)
- b) Discuss the reasons for your treatment of disposal of the packaging machine made in
(a) above. (02)

CHAPTER 10 - INCOME FROM OTHER SOURCES

1. MULTIPLE INDIVIDUALS

- i. Mr. Danishwar, a renowned author, completed his book on “Human Behaviour” in two and a half years. He received a lump sum amount of Rs. 900,000 in May 2026 on account of royalty.
- ii. Mr. Bari, a Pakistani national, was working as a clearing agent in Taiwan for the past six years. He came back to Pakistan in July 2025 and joined the clearing house of his brother Ikram. In March 2026 he received, in Taiwan, Rs.1.0 million as his share of commission from the discontinued business.

Required:

In the light of the provisions of Income Tax Ordinance, 2001, briefly explain the taxability of income in each of the given situations.

2. MS. BEENA SIKANDAR

Ms. Beena Sikandar is a lawyer and owns a law firm under the name Beena & Co. She is also Director Legal Affairs at Ayesha Foods Limited. Details of her income for the tax year 2026 are as follows:

(A) INCOME FROM BEENA & CO.

Income Statement	Note	Rupees
Revenue	(i)	8,500,000
Less: Expenses		
Salaries	(ii)	(2,000,000)
Gifts and donations	(iii)	(400,000)
Lease charges	(iv)	(900,000)
Professional fee	(v)	(400,000)
Property expenses	(vi)	(350,000)
Travel expenses		(150,000)
Other expenses	(vii)	(600,000)
		(200,000)
Tax withheld by clients		(5,000,000)
Net profit		<u>3,500,000</u>

Notes to the Income Statement

- i. Revenue includes Rs. 750,000 recovered from Ms. Rafia in respect of bad debts that had been written off while calculating the taxable income for the tax year 2021. The amount was receivable against professional services rendered to Ms. Rafia.
- ii. Salary expenses include amounts of Rs. 50,000 and Rs. 75,000 per month paid to Beena and her brother respectively. Her brother looks after administration and financial matters of the firm.
- iii. Gifts and donations include gifts to clients, gift to her son and donation to Edhi Foundation amounting to Rs. 100,000, Rs. 50,000 and Rs. 250,000 paid through crossed cheques respectively.
- iv. A vehicle was obtained solely for official purposes on operating lease, from a bank. The lease commenced on 1 March 2026. Lease charges include Rs. 500,000 paid as security deposit to the bank.
- v. The professional fee includes an amount of Rs. 150,000 paid to a legal firm for defending a law suit filed against Ms. Beena, in a family court.
- vi. Ms. Beena lives in an apartment situated above her office, and two-fifths of the total property expenses relates to this apartment.
- vii. Other expenses include an amount of Rs. 150,000 paid for Ms. Beena's golf club membership, which she exclusively used to promote her business interests. The payment to the club was made in cash.

(B) DIRECTOR'S REMUNERATION FROM AYESHA FOOD LIMITED (AFL)

- i. Ms. Beena received monthly remuneration of Rs. 100,000 from AFL.
- ii. During the year, she also received two bonus payments of Rs. 100,000 each. One of the bonus pertains to tax year 2025. It was announced last year but disbursed to her in the current year.
- iii. Ms. Beena has also been provided a vehicle, by AFL, for her personal as well as business use. The car was acquired by AFL in May 2022 at a cost of Rs. 2,000,000. The fair market value of the car as at 30 June 2026 was Rs. 1,500,000.
- iv. She received a fee of Rs. 150,000 from AFL for attending the meetings of the Board of Directors (BOD).
- v. Details of tax deducted by AFL are as follows:

	Rupees
From salaries	390,000
From fee received for attending the meetings of BOD	9,000

Required:

Compute the taxable income, tax liability and tax payable by Ms. Beena Sikandar for the tax year 2026. Ignore Minimum Tax provisions. Provide appropriate comments on the items appearing in the notes which are not considered by you in your computations.

3. JAVED

On 1 July 2025, Javed, a citizen of Pakistan, travelled to Kenya to start a new job but returned to Pakistan on 25 November 2025 due to his father's death. During his stay in Kenya, Javed earned a salary equivalent to Rs. 4,000,000 from which tax equivalent to Rs. 800,000 was withheld and deposited with Kenyan tax authorities.

Following his father's death, he decided to join the family business in Pakistan. Meanwhile, he received rental income from a flat in Kenya starting 1 January 2026. The relevant details are given below:

Particulars	Equivalent to Rs.
Rent received per month (Note)	300,000
Property taxes paid in Kenya	*400,000
Interest on mortgage paid to a bank in Kenya	*1,200,000
Collection charges paid to an agent in Kenya	*90,000

**For the period January to June 2026*

Note:

The fair market value of the monthly rent during the months from January to April 2026 was equivalent to Rs. 350,000. However, starting from May 2026, the fair market value of the rent was reduced to Rs. 250,000 per month.

In addition to the above, Javed purchased a factory building along with a plant in Karachi for Rs. 120,000,000. Starting from 1 February 2026, it has been leased out for a monthly rent of Rs. 3,000,000. Considering the nature of the installed plant, the factory requires renovation every three years. Before renting out the factory building, Javed incurred renovation expenses of Rs. 10,000,000 on the factory building.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

- compute the taxable income of Javed for the tax year 2026 under the appropriate head of income. (10)
- assume that all information in the scenario remains the same, except that Javed had started his job in Kenya on 1 July 2024 instead of 1 July 2025. How would this alteration in the start date affect your response in part (a)? (Revised calculations are not required). (03)

CHAPTER 11 – TAXATION OF INDIVIDUALS

1. MR. ASHRAF

Mr. Ashraf made the following donations during the income year 2025-2026:

- Rs.200,000 in cash to a relief fund sponsored by the Government.
- Personal car to an institution approved as non-profit organisation. This car was purchased by Mr.Ashraf four years ago at the cost of Rs. 800,000. The fair market value is Rs. 600,000.
- Medicines to a private hospital purchased at the total cost of Rs.100,000.

Required:

Keeping in view the requirement of Section 61 of the Income Tax Ordinance, 2001, explain Mr. Ashraf regarding the tax credits for donation, which may be claimed by him, if his income for the relevant tax year has been assessed at Rs. 8,000,000.

2. MR. MUSADDIQUE NOOR

Mr. Musaddique Noor is a consultant in a group of companies. He derived following income during the income year July 01, 2025 to June 30, 2026:

	Particulars	Rupees
(i)	Salary income	
	Basic salary	200,000 per month
	House rent allowance	80,000 per month
	Utility allowance	10,000 per month
	Medical allowance	10,000 per month

He is also provided with a 1,000 CC. car valuing Rs 1,200,000, which is partly used for company's business. He has also been granted a housing loan of Rs. 550,000 on which no profit/interest has been charged.

In addition to above, he also received a gratuity of Rs. 75,000 from his previous employers during the year. The gratuity fund is not approved by the Commissioner of Income Tax or FBR.

Tax deducted at source from his salary amounted to Rs. 150,000.

(ii)	Property Income	Rupees
	Rent from a house let out	100,000 per month
	He incurred following expenses on this property during the year:	
	Repairs	30,000
	Collection & administrative charges	7% of the rent
	Ground rent	10,000
	Property Tax	15,000
	Rent-sharing with housing finance company	3,000 per month

He received a deposit of Rs. 2,000,000, not adjustable against rent, out of which he refunded Rs.1,000,000 to previous tenant, 'who vacated the house after 3 years' tenancy.

(iii)	Other Income	Rupees
	Profit on PLS Bank account (net of 20% withholding tax)	8,000
	Commission from Sale of plots (net of 10% withholding tax)	18,000
	Lecturing and examination services fees from	
	Professional institutes	20,000

Required:

As a tax consultant you are required to compute Mr. Musaddique's total income and his income tax liability for the tax year 2026 (ignore minimum tax u/s 153 application, if any).

3. DR. A. A. QURESHI

Dr. A. A. Oureshi, a medical-practitioner, furnishes his following receipt and payment account for the period; 1st July 2025 to 30th June 2026:

Payments	Amount	Receipts	Amount
	Rupees		Rupees
Rent of clinic	24,000	Consultation fees	450,000
Household expenses	996,000	Visiting fees	100,000
Purchase of motor car	300,000	Remuneration from articles	
Purchase of surgical		published in magazines	12,000
Equipment	40,000	Rental income	720,000
Salary to assistant	36,000	Gifts from patients	30,000
Advance income tax	60,000		
Car running expenses	30,000		
Property tax	12,000		
Depreciation of motorcar	80,000		
Stationery	5,000		
Utilities	25,000		

Required:

Compute the income for the relative tax year and tax thereon after taking into account the following facts:

- i. Two-third of car running expense is in-connection with personal use.
- ii. Depreciation on car should be charged according to the tax laws.

4. MR. QAIS MANSOOR

Mr.Qais Mansoor is a Director-cum-Company Secretary of Badar Salam Ltd., for several years.

His monthly remunerations are as follows:

	Rs.
Basic salary	120,000
House rent allowance	50,000
Utility allowance	20,000
Medical allowance	20,000
	210,000

He was paid maintenance cost of his private car valuing Rs 1,350,000 used wholly for the company business on actual basis aggregating to Rs. 50,000. He received a bonus equivalent to three basic salaries and a special merit reward equal to two basic salaries during the year.

The company disbursed funeral expenses of his parents in the amount of Rs. 20,000 and also medical costs on birth of his twin sons in the sum of Rs. 100,000/-, latter being as per employment terms.

The company has also provided him with free furnished accommodation costing Rs. 600,000 per annum. The company also paid his tax liability of Rs 50,000

He was awarded with the President's Award in March 2026 worth Rs. 500,000.

He earned capital gains on sale of listed shares held since June 2021 (Rs. 200,000) and on sale of land (Rs. 1,000,000) acquired in 2023.

Tax deducted from salary Rs. 200,000

He paid the following amounts evidenced by receipts bearing payees N.T.N number, wherever, applicable:

1. School fees @ Rs.30,000 per month, for each of his two daughters.
2. Fee to personal solicitor & tax adviser Rs. 20,000.
3. Prior year income and penalties Rs. 50,000.
4. Donations to approved institutions paid through crossed cheques Rs. 500,000.
5. Purchase of second hand car for Rs. 1,000,000 for family use.

Required:

As a tax consultant, you are required to calculate total income, taxable income and tax liability of Mr.Qais Mansoor for tax year 2026.

5. MR. A. D. CHUGHTAI

Being a Tax Consultant you have been provided with the following information in respect of Mr. A. D. Chughtai, a Senior Manager of a local company for the period 1st July. 2025 to 30th June, 2026 (Tax Year 2026):

	Rupees
Basic pay/wages	2,100,000
House rent	600,000

	Rupees
Medical allowance	100,000
Cost of living allowance	70,000
Utilities	60,000
Servant allowance	30,000
Bonus	210,000
Company car 1300 CC valuing (Partly used for company's business)	1,800,000
Leave fare assistance	50,000
Employer's contribution to provident fund	80,000
Employer's contribution to pension fund	80,000
Income tax deducted u/s 149	100,000
In addition to the above you have been provided with the following data:	

(i)	Dividend income	30,000
	(withholding tax deducted Rs. 4,500, Zakat deducted Rs. 750)	
(ii)	Profit on PLS Account	50,000
	(withholding tax deducted Rs: 10,000; Zakat deducted Rs. 1,250)	
(iii)	Professional fee received	50,000
(iv)	School Fee paid for two children	200,000
	(Receipts show National Tax Number)'	
(v)	Legal expenses (consultant fee)	60,000
	(Receipt show National Tax Number)	
(vi)	There is no time scale for this position.	

Required:

Work out the taxable income and tax liability of Mr. A. D. Chughtai for the tax year 2026 (ignore minimum tax liability on professional fee.)

6. MR. HYDER

Mr.Hyder is the legal representative of his deceased uncle since January 5, 2025 and manages his estate worth Rs. 10 million approximately. On August 10, 2025, he received two notices from the income tax department requiring him to:

- Submit details of his uncle's income for the tax year 2021.
- Make payment of Rs. 12 million against his uncle's income for the tax year 2017 and 2019.

Required:

- Advise Mr.Hyder about the extent of his tax liability in respect of the income earned by his uncle before January 5, 2025. Also advise him about his obligations relating to the tax assessment proceedings pending/arising against his uncle.

- b) List the situations referred to in Income Tax Ordinance, 2001 where expenditure is required to be apportioned for the purpose of claiming a deduction.

7. MR. QAMAR

Mr.Qamar intends to donate an amount of Rs. 10 million to certain educational and welfare institutions.

Required:

In your capacity as his tax consultant, explain the tax relief which may be available for tax year 2026 in respect of such donation and the conditions he must fulfil to avail such relief.

8. MR. ZAMEER ANSARI

Mr.Zameer Ansari is working as a Chief Executive Officer in Wimpy (Private) Limited (WPL).

Following are the details of his income / receipts during the tax year 2026:

- a) His monthly cash remuneration in WPL is as follows:

	Rupees
Basic salary	200,000
Medical allowance	30,000
Utilities allowance	10,000

- b) In addition to the above, he was also provided the following benefits in accordance with his terms of employment:
- Medical insurance for hospitalization and surgery, limited to Rs. 1,500,000 per annum.
 - Payment of his child's school fees of Rs. 15,000 per month. The fee is deposited directly into the school's bank account.
 - Rent free furnished accommodation on 1000 square yards. The accommodation is located within the municipal limits of Karachi.
 - Two company-maintained cars. One of the cars was purchased by WPL for Rs. 3,000,000 and is exclusively for his business use. The second car was obtained on lease on February 1, 2020 and is used partly for official and partly for personal purposes. The fair market value of the leased vehicle at the time of lease was Rs. 1,800,000.
 - Leave encashment amounting to Rs. 100,000 was paid to Mr.Zameer on July 5, 2026.
 - An amount equal to one basic salary was paid by WPL to an approved pension fund.
- c) Mr.Zameer had received 15,000 shares of WPL on December 1, 2023 under an employee share scheme. He had the option to transfer the shares on or after January 1, 2025. However, he sold all the shares on April 1, 2026. Fair value of the shares was as follows:
- Rs. 35 per share on December 1, 2023
 - Rs. 42 per share on January 1, 2025
 - Rs. 48 per share on April 1, 2026
- d) An apartment owned by Mr.Zameer was rented on July 1, 2024 to Mr. Abdul Ghaffar at a monthly rent of Rs. 22,000. He received a non-adjustable security deposit of Rs. 150,000 which was partly used to repay the non-adjustable security deposit amounting to Rs. 90,000 received from the previous tenant in July 2023. He also incurred Rs. 20,000 on account of repairs to the apartment.
- e) He earned profit amounting to Rs. 75,000 on fixed deposit account maintained with a bank. The bank withheld income tax amounting to Rs. 15,000 and Zakat amounting to Rs. 2,500.
- f) Tax deducted at source from his salary, amounted to Rs. 250,000.

Required:

Compute the taxable income, tax liability and tax payable by Mr.Zameer Ansari for the tax year 2026.

9. MS. SAIMA

Ms.Saima is a telecommunication engineer working with a leading GSM operator as their chief technical officer for the last many years. She has provided you with the following information relating to her assessment for the year ended June 30, 2026.

- i. Monthly salary of Rs. 500,000 was paid to her by the company consisting of the following:

	Rupees
Basic salary	400,000
Medical allowance	40,000
Conveyance allowance	60,000

The salary was credited to her bank account on the 25th of every month. She incurred actual medical expenses of Rs. 100,000 during the year. These expenses were reimbursed to her by the company in accordance with the terms of her employment.

- ii. Due to her excellent performance, she received a bonus of two month's basic salary during the last month of tax year 2026.
- iii. Her employer has agreed to bear tax of Rs. 200,000 on the salary.
- iv. Apart from her employment with a GSM operator, she also served as a visiting faculty member at a local engineering university and received a total of Rs.522,222. Ms. Saima incurred an expenditure of Rs. 70,000 towards this service.
- v. In August 2025, she participated and won a quiz competition arranged by Pakistan Urdu Academy. The prize money of Rs. 200,000 was paid to her after deduction of a tax of Rs. 40,000.
- vi. She inherited a plot of land from her father on his death in July 2016. On October 1, 2025 she entered into a contract of sale with Mr. Moin for a consideration of Rs. 50.0 million. Mr. Moin paid a deposit of Rs. 1.0 million and agreed to pay the balance within one month of the date of contract. On due date, Mr. Moin defaulted in making the payment upon which Ms. Saima forfeited the deposit in accordance with the terms of the contract. Later on, the plot was sold to Mr. Parkash at a price of Rs. 50.0 million on 1 August, 2026.
- vii. Ms. Saima purchased another plot of land for a consideration of Rs. 56 million. She borrowed Rs. 5.0 million from her sister for the purchase of this plot. The amount was received in cash.
- viii. Ms. Saima also inherited a painting from her father on his death in July 2016. The painting was purchased by her father at Rs. 500,000. On April 1, 2026 she sold the painting for Rs.1.0 million.

Required:

Compute the taxable income of Ms. Saima for the tax year 2026. Give brief reasons under the Income Tax Ordinance, 2001 in support of your treatment of each of the above items.

10. MR. BILAL

Mr. Bilal, a sole proprietor, had been filing his income tax returns and wealth statements for many years. He was not satisfied with his tax advisor and has appointed you as his consultant. He has asked you to review his returns for the past five years also.

On review of the wealth reconciliation for tax year, it was noticed that Mr. Bilal borrowed Rs. 1 million from his friend who is a foreign national. The amount was received in cash while his friend was on a visit to Pakistan and is still outstanding.

Required:

Advise Mr. Bilal about the tax implications, in the above situation.

11. MR. FAISAL

Mr. Faisal is a resident taxpayer and has been providing consultancy services to local and foreign clients since 2010. A friend has informed him that under the Income Tax Ordinance, 2001 he can claim a tax credit against any foreign income tax paid by him on his foreign source income.

Required:

Explain the provisions of the Income Tax Ordinance, 2001 pertaining to foreign tax credit available to a resident taxpayer for the tax year 2026.

12. MR. TAQI AHMED

Taqi Ahmed is working as Director Marketing with Zee Textiles Limited (ZTL) for the last twenty-five years. Details of his monthly emoluments during the year ended 30 June 2026 are as under:

	Rupees
Basic Salary	440,000
Conveyance allowance	44,000
Medical allowance	44,000

In addition to the above, Taqi Ahmed has provided the following information:

- He and his family members are covered under the health insurance policy in accordance with the terms of employment. The amount of annual premium paid by ZTL was Rs. 200,000.
- During the year, daily allowance of Rs. 400,000 was received to meet the expenses for working on assignments at ZTL's factories located in Lahore and Multan.
- On 31 July 2026, the HR Committee approved a performance bonus for all employees for the year ended 30 June 2026. Taqi received Rs. 1,200,000 as performance bonus on 15 August 2026.
- On 31 March 2026, in recognition of completion of twenty five years of his service with ZTL, the board of directors approved to waive the outstanding amount of loan taken by Taqi Ahmed. This interest free loan of Rs. 2,500,000 was taken on 1 January 2023 and was repayable in fifty equal monthly instalments commencing from May 2023. The prescribed benchmark rate is 10% per annum.
- During the year, he received Rs. 100,000 for attending board meetings of ZTL. No tax was withheld from this amount.
- Amount of tax withheld by ZTL from his salary amounted to Rs. 2,000,000.

Other information relevant to tax year 2026 is as under:

- Salary is transferred to the bank account on 10th of the following month.
- 10% annual increase was given to him effective 1st July in each of the last three years.
- Taqi has given his house on rent to his cousin at annual rent of Rs. 1,500,000. The rent was inclusive of amenities and utilities of Rs. 25,000 per month. However, annual rent for a similar house with same amenities and utilities, in the vicinity, is Rs. 1,800,000.
- He acquired 15,000 shares of a listed company from Privatization Commission of Pakistan at a price of Rs. 60 per share on 15 January 2022. On 15 June 2026, he sold all the shares at the rate of Rs. 85 each.
- On 31 August 2025, he was entitled to receive 5,000 interim bonus shares from Arian Limited (AL) a listed company. The market value of these shares on that date was Rs. 22 per share.
- He also received Rs. 150,000 as cash dividend declared by AL. The share registrar incorrectly treated Taqi as non-active taxpayer and deducted 30% withholding tax accordingly.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder compute under correct head of income, the total income, the taxable income and net tax payable by or refundable to Taqi Ahmed for the year ended 30 June 2026.

13. BABER – HI FI LIMITED

Baber is working as General Manager Finance with HI FI Limited (HFL) for the past two years, The details of his monthly emoluments during the year ended 30 June 2026 are as under:

	Rupees
Basic salary	250,000
Medical allowance	28,000
House rent allowance	120,000

In addition to above, Baber was also provided the following:

- Rs. 900,000 for signing a bond with HFL. According to the bond Baber would not resign from his employment before the expiry of 30 June 2026.
- Company maintained car for both official and private use. The car was purchased on 1 August 2025 at a fair market value of Rs. 1,500,000.
- On 1 January 2026, HFL sold an item of inventory to Baber for Rs. 12,000. The net realizable value of the item of inventory at the end of 31 December 2025 and 30 June 2026 was Rs. 22,000 and Rs. 24,000 respectively. HFL had acquired it in July 2024 at a cost of Rs. 35,000.
- An option was granted to Baber in August 2021 to acquire 2,500 shares in HFL's parent company, Mamoo plc, (MP), listed on Hong Kong stock exchange. However, the option was exercisable after completion of one year of service with HFL, Baber paid an amount equivalent to Rs. 200,000 to acquire the option when the fair market value of the option was Rs. 250,000.

On 1 September 2024, he paid an amount equivalent to Rs. 300,000 to acquire the shares in MP. The shares were issued to him on 15 September 2024, when the market value of each share was equivalent to Rs. 375

On 15 June, 2024, Baber sold 2,000 shares in MP and received net proceeds equivalent to Rs. 875,000 in his bank account in Pakistan. This amount was received after deduction of bank charges of Rs. 5,000 and brokerage commission equivalent to Rs. 10,000.

Other information relevant to tax year 2026 is as under:

- On 1 July 2025, Baber received following payments from his previous employer Sultan Hospital Limited:
 - Rs. 600,000 in respect of termination benefits under an agreement.
 - Rs. 485,000 against gratuity under an unapproved scheme.
- On 1 November 2025, Baber fell ill and was admitted to Sultan Hospital Limited. The hospital incurred Rs. 65,000 on his treatment but did not charge anything to Baber.
- On 1 December 2025, he paid a premium of Rs. 300,000 on a life insurance policy.
- On 1 January 2026, Baber purchased 35,000 listed shares in Muft Limited (ML) at a price of Rs. 25 per share. On 20 March 2026, he fully subscribed 15% right shares offered by ML to its existing shareholders at a price of Rs. 20 per share.
- Withholding tax deducted from Baber's salary during tax year 2026 amounted to Rs. 1,105,000
- His total assessed taxable income and total taxes paid thereon during the three preceding tax years amounted to Rs. 10,500,000 and Rs. 1,260,000 respectively.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, computer the taxable income and net tax payable by or refundable to Baber for tax year 2026.

14. LONE TRADERS

Lone Traders (LT), a sole proprietorship, is engaged in the business of buying and selling of Maize and Wheat in bulk quantities. Following information has been extracted from LT's records for the year ended 31 December 2025:

- i. Wheat sold to food companies in Punjab amounted to Rs. 13,000,000. The sale was made after allowing discount of Rs. 680,000 to some of the new customers. The gross profit margin was 25% on gross sale
- ii. LT paid Rs. 600,000 to a research institute for the development of a formula which is likely to improve the quality of wheat it purchases from the growers.
- iii. In August 2025, LT signed a future contract with Mubarak Enterprises (ME) for the purchase of 500 metric tons of maize at Rs. 15,800 per metric ton. The delivery was expected to be made in October 2025. ME also agreed to repurchase the entire lot at the price prevailing on the date of sale.
- iv. In October 2025, price of maize increased to Rs. 18,240 per metric ton and LT sold the entire lot to ME without taking delivery.
- v. LT incurred expenditure of Rs. 25,000 in respect of above future contract.
- vi. Administrative, selling and distribution expenses amounted to Rs. 2,500,000. These included a penalty of Rs. 45,000 which was imposed due to late payment of sales tax on wheat.
- vii. Assessed losses brought forward from previous year were as follows:

	Rupees
Trading business loss	550,000
Speculation business loss	300,000
Capital loss	250,000

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute LT's taxable income/(loss) and the amount of loss to be carried forward, if any, for tax year 2026.

15. MR. NAUMAN

Nauman has been working as manager finance in Dua Limited (DL), a public listed company, for many years. He received following monthly emoluments from DL during the year ended 30 June 2026:

	Rupees
Basic salary	120,000
Medical allowance	20,000
House rent allowance	60,000

In addition to the above, the employer also provided him the following benefits:

- i. Company maintained car for both official and personal use. The car was purchased on 1 July 2021 at the cost of Rs. 1,400,000. As per company policy, Nauman purchased this car at its book value of Rs. 450,000 on completion of five years i.e. 30 June 2026. Fair market value of this car on the date of sale to Nauman was Rs. 1,000,000.
- ii. Provident fund contribution of Rs. 18,000 per month to a recognized provident fund. An equal amount was also contributed by Nauman to the fund. Interest income of Rs. 540,000 at the rate of 18% of accumulated balance of the fund was credited to Nauman's account.
- iii. On 1 July 2025, he was transferred to Lahore and was paid relocation allowance of Rs. 300,000.
- iv. HR Committee approved a performance bonus for the year ended 30 June 2026 for all employees. Nauman received Rs. 400,000 as performance bonus on 15 July 2026.

- v. On 1 April 2026, Nauman obtained a loan of Rs. 5,000,000 @ 6% per annum from DL to purchase a new house for his own use. First instalment of the loan was paid on 30 June 2026. He incurred legal expenses of Rs. 20,000 for obtaining the loan.

Other information relevant to tax year 2026:

- i. During the year, Nauman received interest income of Rs. 510,000 on his investments in defence savings certificates. The amount was net of withholding income tax at the rate of 15% and Zakat of Rs. 200,000 was deducted under the Zakat and Usher Ordinance, 1980.
- ii. On 1 October 2025, Nauman received advance rent of Rs. 1,200,000 for 12 months for renting office premises. This amount includes Rs. 400,000 for utilities, cleaning and security. During the tax year 2026, Nauman incurred following expenditures in relation to the premises:

Repair and maintenance	
	70,000
Insurance premium	
	50,000
Administration and collection charges of rent	
	30,000
Utility, cleaning and security	
	250,000

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute total income and taxable income of Nauman for the tax year 2026. Show all relevant exemptions, exclusions and disallowances.

16. MS. AYESHA

Following information pertains to Ms. Ayesha for the tax year 2026:

	Rs. in million
Income from non-speculation business	15.0
Income from property	3.0
Gain on sale of Jewellery	2.5
Gain on sale of listed securities	4.0
Loss from speculation business	(4.5)
Loss on sale of shares of a private company	(3.6)
Loss on sale of antique	(1.6)
Loss on sale of listed securities	(6.0)
Loss from agriculture	(8.0)
Loss from other sources	(19.0)

Required:

Under the Income Tax Ordinance, 2001, discuss how the above losses can be set off against her aforesaid incomes. Also discuss the amount of losses that can be carried forward for adjustment against her future incomes.

17. MR. BASIT

For the purpose of this question, assume that the date today is 31 August 2026.

Basit, a senior manager at Master Limited (ML), resigned on 31 January 2026 after completion of three and a half year of service. During the tax year 2026, he received the following emoluments from ML:

- Salary of Rs. 610,000 per month.
- Allowance of Rs. 60,000 per month for services of domestic servant. Out of which, he paid Rs. 36,000 per month in respect of these services.
- Allowance equal to 5% of salary solely expended in the performance of his duties of employment.

Additional information:

- On 1 July 2025, he leased a car having fair market value of Rs. 4,800,000 at a monthly rental of Rs. 120,000. He pays lease rentals from his own sources but has used this vehicle for both official and personal purposes.
- On 1 July 2025, 13000 shares of ML were allotted to Basit under an employee share scheme, against the payment of Rs. 30 per share. According to the scheme, he was not allowed to sell / transfer the shares upto 31 December 2025. On 31 May 2026, he sold 5000 shares of ML at its fair market value (FMV). FMV of each share on different dates are as follows:

1 July 2025	31 December 2025	31 May 2026
Rs. 50	Rs. 90	Rs. 80

- On 15 February 2026, he received the following payments from ML as final settlement:
 - Rs. 320,000 on account of leave encashment.
 - Rs. 2,200,000 under gratuity scheme approved by the board.
 - Rs. 700,000 salary arrears related to tax year 2025.
- Withholding tax deducted by ML from Basit's salary during the tax year 2026 amounted to Rs.1,400,000.

Other information:

- On 31 January 2026, he received gold worth Rs. 200,000 as a gift from his old friend.
- On 1 February 2026, he purchased mutual fund units of Rs. 2,500,000.
- On 1 April 2026, he left for United Kingdom and joined Oliver Limited (OL) as an employee at a monthly salary of GBP 3,200. He remained abroad till end of the tax year 2026. No withholding tax was deducted by OL from his salary.
- While residing in UK, Basit served as a visiting faculty member at a university. He earned GBP 1,500 from the university and incurred an expenditure of GBP 500 for providing services at the university. Withholding tax deducted by the university
- amounted to GBP 225.
- Average exchange rate during 1 April 2026 to 30 June 2026 was GBP 1 = Rs. 250.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- compute the total income, taxable income and net tax payable by or refundable to Basit for the tax year 2026. (Show all relevant exemptions, exclusions and disallowances)
- what other option is available to Basit for the taxation of salary arrears of Rs. 700,000 received from ML as part of final settlement. (Revised computation is not required)
- identify the additional statement that Basit needs to file in respect of his foreign source income. Also briefly discuss the particulars to be mentioned in the additional statement.

18. MR. MUSHTAQ

Mushtaq is a sole proprietor of Mushtaq Enterprises (ME) engaged in the business of manufacturing of different products. ME's profit and loss account shows profit before taxation of Rs. 1.8 million for the year ended 30 June 2026. A review of ME's records has revealed the following information.

- i. ME employs five salesmen. Rs. 22,000 per month were paid to each salesman in cash which includes reimbursement of Rs. 6,000 per month incurred on entertainment of customers at the business premises.
- ii. Administrative expenses include Rs. 150,000 which were paid to a research institute in China for the purpose of developing a new product.
- iii. Accounting loss on the sale of patents was Rs. 65,000. The tax written down value of these patents at the beginning of the year was Rs. 430,000 and these were sold for Rs. 524,000. Amortization charged to the profit and loss account on these patents for the current year was Rs. 25,000.
- iv. Receivables from Atif and Aslam which had been written off in the previous year were recovered. Details are as follows:

	Atif	Aslam
	----- Rupees -----	
Claimed bad debts in last tax return	800,000	1,200,000
Allowed by tax authorities last year	550,000	600,000
Amount recovered during the year	700,000	400,000

- v. ME has opened a sales office in Dubai. In this respect, furniture costing Rs. 850,000 with written down value (WDV) of Rs. 650,000 was shifted to Dubai office. The tax WDV of the furniture at the beginning of the year was Rs. 610,000.
- vi. Accounting depreciation for the year is Rs. 580,450. However, no depreciation has been provided on the following fixed assets purchased on 1 March 2026:

	Rupees
Furniture	200,000
Used machinery imported from Germany	500,000

- vii. Tax depreciation for the year, prior to the adjustments mentioned in (vi) above, amounted to Rs.456,
- viii. Advance tax paid u/s 147 was Rs. 200,000.
- ix. The assessed business losses of tax year 2019, brought forward in year 2026 are Rs. 830,000. These include unabsorbed tax depreciation amounting to Rs. 705,000.

Other transaction of Mushtaq

On 1 June 2026, he sold 6,000 shares for Rs. 432,000 out of 15,000 shares which he received on 1 May 2022, on the death of his father. The cost of shares to his father was Rs. 25 per share.

Required:

Under the provisions of Income Tax Ordinance, 2001 and rules made thereunder, compute taxable income and net tax payable by or refundable to Mushtaq for the year ended 30 June 2026.

19. MR. WAJAHAT

Wajahat, aged 48 years, is a marketing manager in Nayaab (Pvt.) Limited (NPL), a company engaged in the manufacture and supply of tissue papers. The details of his monthly emoluments during the year ended 30 June 2026 are as under:

	Rupees
Basic salary	70,000
Dearness allowance	10,000
Conveyance allowance	8,000

In addition to the above, Wajahat was also provided the following:

- i. Provident fund (PF) contribution of Rs.8,400 per month. An equal amount per month was contributed by Wajahat to the fund. Interest income of Rs. 391,000 at the rate of 20% of accumulated balance of PF was credited to his PF account.
- ii. Reimbursement of electricity bills during the year amounting to Rs. 60,000.

Following further information is also available:

- i. Wajahat received net dividend of Rs. 78,200 from BEE Limited, a company listed on Pakistan Stock Exchange Limited. Withholding tax and zakat deducted from dividend amounted to Rs.9,200 and Rs. 4,600 respectively. He also received dividend of Rs. 65,000 from a company in U.A.E through normal banking channels. However, no tax was withheld either in Pakistan or U.A.E.
- ii. Wajahat contributed Rs. 890,000 in an approved pension fund under the Voluntary Pension System Rules, 2005.
- iii. On 1 September 2025, Wajahat started a tuition centre for the students of finance in a posh locality. He received tuition fees of Rs. 2,198,000 and incurred following expenses:

Monthly salary of Rs. 50,000 paid to himself and Rs. 35,000 to his friend Yousuf who taught financial accounting at the center.

Travelling, boarding and lodging expenses of Rs. 300,000. These expenses were incurred by Wajahat in Sri Lanka for attending teachers training workshop.

- iv. Rs. 250,000 against purchase of used computers for the centre.
- v. Other miscellaneous expenses amounting to Rs. 195,000.
- vi. Wajahat's total taxable income during the previous tax year was Rs. 1,850,000.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total income, taxable income and net tax payable by/refundable to Wajahat during the tax year 2026.

Note: Show all relevant exemptions, exclusions and disallowances. Tax rates are given on the last page.

20. MR. SHAHID

Shahid is a resident filer and has provided following information pertaining to tax year 2026:

- i. On 16 June 2025, he inherited a bungalow having a fair market value of Rs. 50 million from his father on his death. On 1 January 2026, he decided to sell the bungalow to Zamin for Rs. 60 million and received a deposit of Rs. 6 million. On 14 February 2026, he forfeited the deposit on refusal of Zamin to purchase the bungalow in accordance with the terms of the contract.
On 31 March 2026 he sold and transferred the bungalow to Kazim for Rs. 54 million.
- ii. He owns a factory building at Faisalabad. On 1 July 2025, he let out this factory building along with the plant and machinery at a monthly rent of Rs. 1 million. During the year, he incurred expenses of Rs. 3.5 million on the repair and maintenance of the factory.
- iii. He owns an agricultural land in Punjab. On 1 January 2026, he rented out the agriculture land at an annual rent of Rs. 4 million. The fair market value of the annual rent was Rs. 5 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the total and taxable income of Shahid under appropriate heads of income for the tax year 2026. Also compute his tax liability for the tax year 2026.

Note: Show all relevant exemptions, exclusions and disallowances.

21. MR. TAHA

Taha who has recently joined a tax consultancy firm, prepares the following table with regard to taxability of interest income earned by various persons during the tax year 2026:

Name of person	Status	Amount of interest income (Rs. in million)	Mode of investment	Taxability of interest income		
				Head of income	Tax regime	Admissibility of related expense
Aatif	Resident Individual	1.1	Term Deposit Receipts of a bank	Income from other sources	FTR	Yes
Bilal	Resident Individual	5.5	Term Deposit Receipts of a bank	Income from other sources	NTR	Yes
Seema	Resident Individual	5.2	Bahbood Savings Certificate	Income from other sources	Exempt	No
Kamal	Non-resident Individual	*3.3	Securities issued by the resident person	Income from other sources	NTR	Yes
Sikandar	Resident Individual	4.4	Loan agreement with Association of Persons being its member	Income from business	NTR	Yes
Dream Bank Limited	Resident Banking Company	10.1	Term Finance Certificates of a company	Income from other sources	NTR	Yes

*Profit was paid outside Pakistan on approved securities which were widely issued outside Pakistan.

Required:

Prepare the corrected 'Taxability of interest income' columns in the table.

22. REHAN

Rehan has various sources of income and has gathered the following information related to the tax year 2026:

Description	Rs. in million
Jewellery received from father	8
Gain on sale of jewellery	1
Profit on debt from a savings account	4
Loss on disposal of shares of a private company	(3)
Loss on disposal of shares of a public company	(6)
Gain on disposal of government securities	5
Business loss from UAE	(7)
Loss from other sources	(2)

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

- compute the total and taxable income of Rehan. **(Classification into heads of income is not required).**
- briefly explain your treatment of the losses in part (i), including their set-off and the carry-forward of any unutilised losses.

(Show all relevant exemptions, exclusions and disallowances)

CHAPTER 12 – TAXATION OF ASSOCIATION OF PERSONS (AOP)

1. AB ASSOCIATES (AOP)

AB Associates is an AOP (a registered firm) having 2 partners A and B sharing profit and loss in the ratio of 60:40, respectively. Profit and loss account for the tax year 2026 is as under:

Sales (without tax deduction)		2,000,000
Less: Cost of sales		
Purchases	850,000	
Salary to production manager	120,000	
Depreciation	180,000	
Other manufacturing expenses	150,000	(1,300,000)
Gross profit		700,000
Less: Salary to partner A	80,000	
Commission to partner B	10,000	
Rent of business premises to partner A	240,000	
Depreciation on owned assets	20,000	
Depreciation on assets subject to finance lease	15,000	
Financial charges on leased assets	2,500	
Advertisement	8,500	
Provision for doubtful debts	10,000	
Expense on scientific research	15,000	
Other expenses	30,000	(431,000)
Net profit		269,000

Additional information

- a) Salary to production manager consists of:

Basic salary	60,000
Bonus	10,000
House rent allowance	27,000
Overtime	5,000
Utility allowance	18,000
	120,000

- b) Lease rentals for the year Rs.18,000

- c) Information for tax depreciation purposes is:

	Opening tax WDV	WDV of Disposal	Sale Proceed	Purchases
Plant and machinery	250,000	80,000	90,000	40,000
Vehicles	400,000			1,300,000 (one car)
Furniture and fixtures	80,000	10,000	7,500	7,000

Purchased plant and machinery is eligible for initial allowance.

- d) Other expenses represent the following:

Loss on disposal of fixed assets	13,000
Miscellaneous expenses	40,000
Interest expense on loan utilized for purchase of fixed assets	5,000
Residential telephone bills of partner A	5,000
Bad debts recovered	(33,000)
	<u>30,000</u>

Bad debts recovered were disallowed by the tax department in the previous year when it was claimed as bad debt expense.

- e) Analysis of the liabilities reveals that the following amounts are outstanding for more than 3 years:

Liability against purchases	80,000
Bank Loan	200,000
Interest on the above bank loan	40,000
Advance from customers	60,000

- f) Mr. A claimed property related expenses of Rs.56,000 including actual repairs expense of Rs.16,000.

Required:

Calculate taxable income of AOP, share of profit of each partner and tax payable by Mr. A for the tax year 2026.

2. AB & CO.

AB & Co. is a registered firm; having 2 partners viz; A and B, sharing profit and loss equally. The net profit of the firm for the tax year 2026 was Rs.600,000 after accounting for the following disbursements to partners:

		A	B
		Rs.	Rs.
(a)	Salary per month	50,000	25,000
(b)	Monthly house rent	20,000	10,000
(c)	Hotel bills	5,000	5,000

Other information relating to accounts is as under:

- Commission of Rs.50,000 paid to a non-resident on which tax was not deducted at source.
- A vehicle was sold for Rs.1,200,000. WDV as per books was Rs.800,000 but as per tax records, it was Rs.600,000.
- Manager of the firm has been paid basic salary of Rs.20,000 PM, conveyance allowance of Rs.5,000 and house rent allowance of Rs.10,000 p.m.

- iv. Partners have declared the following income from their own sources:

	A	B
	Rs.	Rs.
Dividend from companies	40,000	20,000
Gain on public listed companies' shares were acquired in September 2025	200,000	150,000

Required:

- Compute the taxable and divisible income of the firm.
- Work-out the taxable income of each partner.
- Compute tax liability of each partner

3. MS. HAMEEDA & MS. KASHMALA

- a) In May 2026, Ms. Hameeda sold certain personal assets at the following prices:

	Rupees
Plot in DHA Karachi	10,000,000
Paintings	2,000,000
Jewellery	5,000,000

Additional information:

- Plot in DHA Karachi was inherited by her from her father in May 2014. It was purchased by her father for Rs. 4,000,000 and market value at the time of inheritance was Rs. 5,000,000.
- Paintings were inherited from her mother in July 2020. These paintings were purchased by her mother for Rs. 2,350,000 and market value at the time of inheritance was Rs.4,000,000.
- Jewellery costing Rs. 3,000,000 was purchased and gifted to her by her husband in March 2017.

Required:

Discuss the taxability of Ms. Hameeda in respect of the above gains/ losses on sale of assets in the context of Income Tax Ordinance, 2001.

- b) On 1 July 2024, Ms. Kashmala and Ms. Shumaila formed an Association of Persons (AOP) with the objective of providing information technology support services to corporate clients. They contributed Rs. 1.2 million and Rs. 0.8 million respectively in their capital accounts and agreed to share profits and losses in the ratio of their capitals.

For the year ended 30 June 2025, business loss and unabsorbed depreciation of Rs. 0.4 million and Rs. 0.3 million respectively were assessed and carried forward. The total turnover of the AOP in 2024 was Rs. 40 million.

During the year ended 30 June 2026, the AOP incurred a net loss of Rs. 0.8 million on a turnover of Rs. 50 million. The loss for the year was arrived after adjustment of the following:

- Salaries amounting to Rs. 0.5 million and Rs. 0.3 million were paid to Ms.Kashmala and Ms.Shumaila respectively.
- Accounting depreciation on office assets amounted to Rs. 0.3 million.
- The taxes withheld by the clients, for the year ended 30 June 2026 amounted to Rs. 0.55 million. AOP is entitled to claim tax depreciation of Rs. 0.25 million in respect of the office assets.

Required:

Calculate the taxable income, net tax payable and unabsorbed losses (including unabsorbed depreciation), if any, to be carried forward by the AOP for the year ended 30 June 2026. Ignore any working of minimum tax.

4. T & H ENTERPRISES

T & H Enterprises is a registered firm comprising of two equal members named Mr.Tariq and Mr.Hamid. During the tax year 2026 the partners, besides their shares in the firm, sustained losses from the sources given below:

	Mr. Tariq	Rupees
(a)	Income accrued abroad but not remitted to Pakistan	72,000
(b)	Share of a loss from another association of person	5,000
(c)	Zakat paid	26,500
	Mr. Hamid	
(a)	Speculation loss	25,000
(b)	Profit on sale of car	13,000
(c)	Income tax refund	5,000
(d)	Zakat paid	14,000

The profit and loss account of the registered firm for the year shows the following position:

	Rs.		Rs.
Salaries	300,000	Gross profit b/d	480,000
Office maintenance	5,000	Dividend from public co.	250,000
Repairs	38,000		
Provision for bad debts	14,000		
Income tax paid for last year	5,000		
Legal expenses	15,000		
Commission to Tariq	16,000		
Premium of life policies of			
Partners	5,000		
Depreciation	34,000		
Net profit:			
Mr. Tariq	149,000		
Mr. Hamid	149,000		298,000
	730,000		730,000

Notes

- Mr. Tariq and Mr. Hamid are paid Rs.45,000 and Rs.55,000 respectively as salary. This is included in total salary expense.
- Repairs include Rs.18,000 being cost of a typewriter.
- Legal expenses include Rs.6,000 on which no tax deducted.
- Tax depreciation excluding typewriter Rs.14,000.

Required:

- The taxable income of the firm and taxes payable by it for the tax year 2026.
- The taxable income of each member and tax thereon for the tax year 2026.

5. MR. SOHAIL, MR. KHALED AND MR. QAZI

Mr. Sohail, Mr. Khaled and Mr. Qazi are members of an association of persons (AOP) and share profit and loss in the ratio of 2:2:1. The principal activity of the AOP is trading of rice and wheat. Following are the details of the annual income / (loss) of the AOP and its members:

- i. The AOP suffered loss before tax amounting to Rs. 1,500,000. The loss has been arrived at after adjusting rental income earned by the AOP, the details of which are as follows:

	Rupees	
Rental income		2,000,000
Related expenses:		
Property tax	40,000	
Depreciation	457,500	497,500
Net rental income		1,502,500

No tax was withheld on the rental income.

- ii. The expenses debited to profit and loss account include the following amounts paid to the members of the AOP:

	Mr. Sohail	Mr. Khaled	Mr. Qazi
Salary (Rs.)	900,000	600,000	-
Interest on capital (Rs.)	300,000	300,000	500,000

- iii. Mr. Sohail earned Rs. 800,000 from another business, of which he is the sole proprietor.
- iv. Mr. Khaled received an amount of Rs. 255,000 as share of income before tax, from another AOP where he is entitled to 40% of the total profit. The tax on annual income of that AOP amounted to Rs. 112,500. He also earned income of Rs. 900,000 from a sole proprietorship concern owned by him.
- v. Mr. Qazi works as a freelance IT Consultant and provides consultancy services to corporate clients. He received Rs.1,000,000 from his clients. The total expenses incurred in providing the consultancy services amounted to Rs. 150,000.

Required:

Assuming that the above data pertains to the tax year 2026, compute the taxable income and tax liability of the AOP and each of its members. Ignore any minimum tax computation.

6. DAWOOD AND DEWAN

On 1 June 2025 Dawood and Dewan jointly purchased a bungalow for Rs. 35 million. They paid the amount in the ratio of 65:35 respectively. To arrange funds for the deal, Dawood borrowed Rs. 3,000,000 in cash from Shameem who is in the business of lending money. The rate of interest is agreed @ 20% per annum.

On 1 July 2025, the house was let out to a company at annual rent of Rs. 4,500,000 inclusive of an amount of Rs. 75,000 per month for utilities, cleaning and security. For providing these services Dawood and Dewan paid Rs. 35,000 per month. During the tax year 2026, they also paid Rs. 10,000 as collection charges and Rs. 230,000 for administering the property.

Required:

Compute taxable income of Dawood and Dewan under appropriate heads of income for the tax year 2026.

7. BAQIR, ASAD AND RAHIL

Baqir, Asad and Rahi are members of an association of persons (BAR) and share profits and losses in the ratio of 5:3:2 respectively. BAR is engaged in the business of trading consumer electronics and has two independent branches one each in Tehran and Dubai. Following information has been extracted from BAR's profit and loss account for the year ended.

	Rupees
Sales	30,000,000
Cost of sales	(20,500,000)
Gross profit	9,500,000
Administrative and selling expenses	(4,732,000)
Financial charges	(980,000)
Other income	1,700,000
Profit before taxation	5,488,000

Additional information:

Cost of sales includes:

- Closing stock which has been valued at net realizable value of Rs. 1,820,000. The cost of closing stock under absorption costing was Rs. 1,950,000.
- Provision of Rs. 75,000 against slow moving stores and spares.
- Freight charges of Rs. 160,000. These were paid in cash to Momin Goods Transport for transporting goods to customers in Multan.

Administrative and selling expenses include:

- Commission of Rs. 290,000 paid to Baqir, annual performance award of Rs. 310,000 paid to Rahi and Rs. 455,000 paid to AB Bank Limited in final settlement of a loan obtained by Asad for the construction of his house in Muree.
- Provision for bad debts of Rs. 735,000. The opening and closing balances of provision for bad debts amounted to Rs. 1,100,000 and Rs. 1,435,000 respectively. Bad debts written off include a loan of Rs. 280,000 provided to a supplier.
- Sales promotion expenses of Rs. 275,000. These expenses were paid by Rahi through his personal credit card.
- Rs. 86,000 paid to an institution operated by Federal Government for the training of industrial workers in Punjab.

Further information:

For the year ended 31 December 2025, Dubai branch made a profit of Rs. 1,500,000 and Tehran branch made a loss of Rs. 1,800,000. These figures are not included in the above profit and loss account.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute the taxable income, net tax payable by BAR and the amount to be carried forward, if any, for tax year 2026. Assume tax and accounting depreciation are same.

Note:

Your computation should commence with the profit before tax figure of Rs. 5,488,000.

Show all relevant exemptions, exclusions and disallowances.

8. FARHAN AND IMRAN

Farhan and Imran jointly own a building in Quetta. The building has been rented out to a company. Discuss the tax treatment of income from such property.

9. M/S FARHAN, KAMRAN AND REHAN

Farhan, Kamran and Rehan are members of an association of persons (AOP) and share its profit and loss in the ratio of 2:2:1 respectively.

Following information is available with regard to AOP and its members for the tax year 2026

- i. During the year, AOP earned a profit before tax of Rs. 2,000,000 after making following payment to its members:

	----- Rupees -----		
	Farhan	Kamran	Rehan
Salary	1,000,000	800,000	600,000
Interest on capital	500,000	400,000	300,000

- ii. Kamran is running a business as a sole proprietor from which he earned Rs. 800,000. Kamran is also a member of another AOP where his share of profit or loss is 60%. During the year, the other AOP incurred a loss after tax of Rs. 350,000 and paid Rs. 150,000 on account of income tax.
- iii. Rehan received net dividend of Rs. 102,000 from a listed company after deduction of withholding tax @ 15%.
- iv. Farhan has no other source of income.

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute taxable income and tax liability of AOP and each of its members for the tax year 2026.

10. KAMKAJ & CO.

Kamkaj & Co. is an association of persons (AOP) with three members namely Baqir, Omer and Sadabahar (Pvt.) Limited (SPL), sharing profit and loss in the ratio of 20:30:50 respectively.

Following information is available with regard to AOP and its members for the tax years 2025 and 2026:

- i. AOP's income for tax years 2025 and 2026:

	2025	2026
	----- Rupees -----	
Income from business*	(18,000,000)	25,000,000
Dividend income	-	4,000,000
*Net of annual fixed commission of Rs. 7,000,000 to SPL		

- ii. On 1 February 2026, Baqir earned capital gain of Rs. 5,200,000 on sale of his property which was purchased on 1 January 2025.
- iii. Omer also operates a sole proprietor business from which he earned profits of Rs. 2,500,000 in tax years 2026.

Required:

Under the provisions of the Income Tax Ordinance, 2001 compute the following for the tax years 2026:

- Taxable income and tax liability of AOP
- Taxable income and tax liability of Baqir and Omer

Note: – Show all relevant exemptions, exclusions and disallowances.
– Ignore minimum tax under section 113.

11. AZAADI & CO. (AC)

Azaadi & Co. (AC) is an association of persons engaged in the business of manufacturing disposable products. Following information has been extracted from AC's records for the year ended 30 June 2026:

	Rs. in million
Sales	380
Less: Sales tax	(45)
Less: Trade discount	(15)
Net sales	320
Less: Cost of sales	(240)
Gross profit	80
Less: Operating expenses	(146)
Loss before tax	(66)

Additional information:

i. Cost of sales includes:

- payment of Rs. 12 million (including sales tax of Rs. 2 million) to Hashim Limited(HL) for the purchase of a new machine for making plastic container in exchange of an old machine having a book value and a fair market value of Rs. 5 million and Rs. 4 million respectively on exchange date. The transaction was carried out on 1 July 2025.
- Old machine was purchased on 1 January 2024. Disposal of old machine and depreciation of new machine were not recorded in AC's books of accounts. Tax WDV of old machine was the same as accounting WDV on the disposal date.
- purchase of raw materials of Rs. 40 million against which no withholding tax was deducted at the time of payment. During the year, AC purchased total raw material of Rs. 120 million.
- closing inventory of damaged finished goods of Rs. 18 million. Due to heavy rain, these goods were damaged and it is expected to fetch Rs. 12 million only.

ii. Operating expenses include:

- salary of Rs. 0.275 million paid to office boy in cash. He was paid a monthly salary of Rs. 25,000 for eleven months.
- warehouse rent of Rs. 1.6 million paid through credit card linked to notified business bank account.
- bad debt of Rs. 2.8 million written off against receivable from a customer on his insolvency.
- commission of Rs. 3.2 million paid to one of the members of AC, by crediting the amount to his bank account.
- scholarship of Rs. 4.5 million paid to Sara, one of AC's staff members, for higher studies in accordance with the terms of the employment.
- payment of Rs. 6.4 million for the purchase of a specialized software for AC's manufacturing department on 1 April 2026. The software is expected to be used for five years. Although the software is available for use from the date of purchase, AC's members have decided to implement this software from 1 July 2026.
- depreciation and financial charges of Rs. 2.1 million and Rs. 1.5 million respectively in respect of a car which was acquired on financial lease.

On 1 July 2025, AC entered into a lease agreement with a bank for a car of Rs. 10.5 million against the annual lease rentals of Rs. 3.0 million, payable in arrears. The car has been used 80% for business purposes and 20% for personal use of members.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- compute the total income, taxable income and tax liability of Azaadi & Co. for the tax year 2026
- discuss the tax implication in respect of scholarship received by Sara in her return of income for tax year

Note: Show all relevant exemptions, exclusions and disallowances

12. MR. AAKASH KUMAR

For the purpose of this question, assume that the date today is 31 August 2026.

Aakash Kumar owns an industrial undertaking under the name and style of Premjee & Co. (PJC) which is engaged in the business of manufacturing fast moving consumer goods. Following information is available from PJC's records for the year ended 30 June 2026:

- Loss before tax for the year was Rs. 87 million.
- Operating expenses include:
 - a penalty of Rs. 2 million for late delivery of goods to a customer.
 - commission of Rs. 2.5 million which was paid to a distributor, Liaquat Bashir, on sale of PJC's products of Rs. 50 million. These products are covered in the Third Schedule of the Sales Tax Act, 1990. Name of Liaquat Bashir is not appearing in the active taxpayers' list under the Income Tax Ordinance, 2001.
 - freight charges of Rs. 1.2 million which were paid in cash to a freight forwarding company in Karachi.
 - accounting depreciation of Rs. 40 million.

iii. Other income includes:

- an insurance claim of Rs. 6 million, equivalent to accounting book value, received on 8 November 2025 in respect of a vehicle which was completely destroyed by fire. The cost and fair market value of the vehicle before fire incident were Rs. 10 million and Rs. 8 million respectively. This vehicle was purchased on 1 October 2023.
- amounts recovered during the year from two debtors i.e. Shameem and Faheem. These amounts had been written off in the last year. Details are as follows:

	Shameem	Faheem
	---- Rs. in million ----	
Bad debts claimed in the last tax return	19.2	28.8
Bad debts allowed by tax authorities last year	13.2	14.8
Amounts recovered during the year	16.8	10.6

- rent of Rs. 21.6 million. On 1 July 2025, Aakash leased one of its factory buildings alongwith the plant to Kamran at a monthly rent of Rs. 1.8 million, payable in advance. The building was purchased for Rs. 85 million on 16 August 2023 whereas a second hand locally purchased plant was installed at a cost of Rs. 34 million on 1 July 2025. During the year, Aakash incurred Rs. 3.2 million on repair and maintenance of the factory building.
- PJC's liabilities include amounts of Rs. 14 million and Rs. 17 million in respect of purchases made on 18 March 2023 and 1 August 2023 respectively. These purchases were allowed as admissible deductions while computing income from business in their relevant tax years.
 - During the year, outstanding financial charges of Rs. 2.8 million were waived by the bank on rescheduling the loan. These charges were claimed as admissible deduction in the tax year 2024.
 - Tax depreciation for the year on all fixed assets, other than factory building and plant which were leased out to Kamran, amounted to Rs. 48 million.

Other information:

- i. On 15 August 2024, Aakash entered into a derivative contract for the purchase of gold. The contract was to be expired on 15 November 2025. Aakash sold the contract before the settlement date and earned a net gain of Rs. 23 million on the contract.
- ii. On 30 June 2026, Aakash earned capital gains of:
 - Rs. 20 million on sale of his immovable property which was purchased on 1 June 2025.
 - Rs. 3.6 million on sale of shares in a private company. These were acquired on 1 June 2025.
- iii. During the year, Aakash received his share of profit from an AOP of Rs. 70 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute total income, taxable income and net income tax payable by or refundable to Aakash for the tax year 2026.

Note: Ignore minimum tax under section 113.

- **Show all relevant exemptions, exclusions and disallowances.**

13. JAFFAR ASSOCIATES (JA)

For the purpose of this question, assume that the date today is 31 August 2026.

Jaffar Associates (JA) is an association of persons with two partners, Manzoor and Adeeb, sharing profit and loss in the ratio of 1:3 respectively. The following information has been extracted from JA's records for the tax year 2026:

	Rs. in '000
Sales	35,000
Cost of sales	(20,000)
Gross profit	15,000
Operating expenses	(8,000)
Other income	6,000
Profit before taxation	13,000

Additional information:

- The cost of sales includes raw material worth Rs. 2,900,000 from which no withholding tax was deducted.
- **Operating expenses include:**
 - a salary of Rs. 1,140,000 paid to Manzoor.
 - rent of Rs. 1,500,000 paid to Adeeb for letting out his bungalow to JA at a concessional rate for office purposes. The fair market value of the rent is Rs. 2,000,000.
 - a commission of Rs. 860,000 paid to Adeeb for acquiring a sales order from a customer.
- Other income comprises a dividend (net of tax) received from Agri Limited, a company whose income is exempt from tax.

Other information:

- Manzoor sold 5,000 shares of a listed company for Rs. 600 each on 30 September 2025. He acquired these shares in July 2024 for Rs. 500 each. Manzoor paid a brokerage fee of Rs. 2 per share to the brokerage house.
- Adeeb earned a gain of Rs. 300,000 from the sale of a painting to an art collector.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder:

- i. compute the total and taxable income of JA for the tax year 2026 under the appropriate head of income.
- ii. compute the total income, taxable income and tax liability of Manzoor and Adeeb for the tax year 2026 under the appropriate head of income.

Notes:

- *Show all relevant exemptions, exclusions, and disallowances.*
- *Ignore minimum tax under section 113.*

CHAPTER 13 – FOREIGN SOURCE INCOME OF RESIDENT PERSON

1. MS. MARGARET

- a) State the provisions of the Income Tax Ordinance, 2001 with regards to the residential status of individuals and companies.
- b) Ms. Margaret, a German national was employed as a Technical Manager of Faiza Chemicals Limited, a resident company, on 1 October 2023 for a term of three years. Under the terms of employment, she was allowed to deliver lectures at various professional organizations. During tax year 2026, she conducted three workshop sessions, the details of which are as follows:
 - Workshop Session in Lahore: A fee of US\$ 15,000 in equivalent Pak Rupees was received from a local event manager. The fee was credited to her bank account maintained in Karachi.
 - Workshop Session in Munich: A fee of US\$ 25,000 was received in Germany in her Munich bank account.
 - Workshop Session in Dubai: A fee of US\$ 20,000 was remitted to her bank account in Karachi.

Required:

- i. Discuss the taxability of the amounts received by Margaret for conducting the workshop sessions during tax year 2026.
- ii. Explain the provisions of the Income Tax Ordinance, 2001 pertaining to foreign tax credit available to a resident taxpayer.

2. KARAM LIMITED

Under the provisions of the Income Tax Ordinance, 2001, discuss the taxability of foreign source income of the following resident persons for tax year 2026. (Computation of tax amount, if any, is not required)

Li, a Chinese engineer, has been working since March 2024 as a production manager in a Karachi based company, Karam Limited. During the tax year 2026, his bank account in China was credited with CNY 40,000 on account of rental income for his apartment situated in China. He remitted 40% of this amount to his bank account in Pakistan.

Omar, a Pakistani national, came into Pakistan on 1 September 2025 after 20 years of service in UAE. On 1 January 2026, his bank account in UAE was credited with AED 50,000 on account of dividend received from a UAE based company. He remitted 50% of this amount to his bank account in Pakistan.

Sidra, a Pakistani national, left Pakistan on 1 July 2025 for employment in a Singapore based company at a monthly salary of SGD 10,000. However, due to personal reasons, she returned back to Pakistan on 20 December 2025 and remained in Pakistan till 30 June 2026. She brought the entire foreign salary amount to Pakistan

3. ABC PAKISTAN LIMITED

Akbar, a Pakistani citizen, worked at ABC Pakistan Limited, an unlisted public company and a wholly owned subsidiary of ABC International, which is based in the USA. Akbar's engagement was formed through a two-year agreement, with the provision that at the end of this period, he had the option to continue his employment with ABC International in USA.

The two-year period ended on 30 September 2025 and Akbar left for USA on 1 October 2025 to continue his employment in USA as per the agreement.

On 15 February 2026, he resigned from ABC International, USA, and joined DEF Limited in the UK under an employment agreement. However, due to his family problems, he resigned from DEF Limited and returned to Pakistan on 30 April 2026.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax treatment of Akbar's foreign source salary income earned during the tax year 2026.

4. AZAD ENTERPRISES (AE)

Azad Enterprises (AE), having two foreign branches in Kuwait and Syria also, is engaged in the trading business of consumer durables. In the tax year 2026, AE's reported profit before tax was Rs. 130 million, after adjusting for a Rs. 4.8 million profit from Kuwait and a Rs. 5.3 million loss from Syria. The Kuwait branch also paid taxes equivalent of Rs. 1.5 million in Kuwait on its income.

Assume that the average tax rate for AE in Pakistan is 30%.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implication(s) for AE, regarding its branches in Kuwait and Syria.

5. FOREIGN-SOURCE INCOME OF RETURNING EXPATRIATES:

Safdar Malik, a Pakistani citizen, returned to Pakistan on 20 December 2024, after residing in the UAE for seven years. He has remained in Pakistan since his return. On 28 August 2025, he received consultancy income equivalent to Rs. 1,960,000 from a client based in the UAE. The payment was made directly into his Pakistani bank account. Assume that consultancy income is not subject to tax in the UAE.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implication(s) of foreign-source income received in Pakistan by Safdar Malik.

6. FOREIGN GOVERNMENT OFFICIALS:

Robert Neil, a British government official, has been assisting Pakistani geophysicists in oil exploration in the rural areas of Balochistan for the past eight months. The British government has transferred a salary equivalent to Rs. 32 million into his bank account in Pakistan, which was specifically opened for this purpose.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implication on the salary received by Robert Neil.

CHAPTER 14 – RETURNS

1. MR. SAMI

Mr. Sami has recently received a notice from the Commissioner of income tax to file return of income for the tax years 2019 and 2020 within 20 days following the end of tax year 2026. In your capacity as a tax consultant, advise Mr. Sami on the following issues along with appropriate explanations.

Required:

- Is the Commissioner justified in issuing the above notice?
- If Mr. Sami is not in a position to meet the deadline for filing the returns, can he get an extension?

2. MR. ZAHID

Zahid, the sole proprietor of FG and company, is a resident individual and is in the process of filing his wealth statement for the tax year 2026. The relevant information is as under:

- Assets and liabilities disclosed in the wealth statement for the tax year 2025 were as follows:

Assets	Rupees
Agriculture land in Hyderabad	5,000,000
Residential property in DHA Karachi	3,000,000
Investment in shares of listed companies	1,100,000
Business capital – FG & Co.	4,000,000
Motor vehicle	1,540,000
Cash at bank	600,000
Cash in hand	300,000
	15,540,000
Liabilities	
Bank loan	(1,500,000)
Net assets	14,040,000

- Details relating to FG & Co. are as follows:

Income from business for the tax year 2026	2,540,000
Drawings during the year	450,000

- Balance of cash in hand and at bank, as on 30 June 2026 amounted to Rs. 157,500
- Transactions carried out by Zahid during the year were as follows:
 - Paid an advance of Rs. 1,000,000 against purchase of a bungalow for Rs. 10,000,000.
 - Sold shares of a listed company for Rs. 350,000. The shares were purchased on 1 May 2026 for Rs. 50,000. Capital gain tax collected by NCCPL amounted to Rs. 37,500.
 - Gifted shares of a listed company to his brother. The shares were purchased by Zahid in 2020 at a cost of Rs. 100,000 whereas market value of the shares at the time of gift was Rs. 150,000.
 - Paid Rs. 200,000 towards principal amount of the bank loan.

- Personal expenses amounted to Rs. 2,075,000.
- Net receipts against agricultural income amounted to Rs. 2,500,000.

Required:

Prepare Zahid's wealth statement and wealth reconciliation statement for the tax year 2026.

3. FOREIGN INCOME AND ASSETS STATEMENT

Under the provisions of the Income Tax Ordinance, 2001 and Rules made there under, discuss who is required to file the foreign income and assets statement? Also state the particulars to be included in such statement.

4. MR. MUKHTAR

Mukhtar, a resident individual, is in process of finalization of his wealth statement for the tax year 2026. He has provided you the following information:

- During the tax year 2026, Mukhtar received share of profit of Rs. 1,400,000 from an AOP. As on 30 June 2025, his total investment in the AOP was Rs. 5,300,000. He was also provided a car worth Rs. 2,500,000 by the AOP for office use only.
- In 2019, he had purchased 10 tola gold for Rs. 500,000. At 30 June 2026, the market value of the gold was Rs. 107,000 pertola.
- During the tax year 2026, he sold his personal car for Rs. 1,876,000. The car was purchased in 2024 for Rs. 1,700,000.
- During the tax year 2026, he paid Rs. 600,000 against outstanding interest free loan of Rs. 1,000,000. The loan was obtained in tax year 2025.

Required:

Under the provisions of the Income Tax Ordinance, 2001 advise Mukhtar that how the above matters would be dealt with in his wealth statement and its reconciliation for the tax year 2026.

5. ANNUAL INCOME TAX RETURN

Aoun has discovered an error in his annual income tax return which was submitted on the due date. Now he intends to file a revised return voluntarily.

Required:

Under the provisions of Income Tax Ordinance, 2001 state the conditions which Aoun must comply with for filing valid revised return.

6. RIAASAT LIMITED (RL) - I

Riaasat Limited (RL) is a manufacturing company. With effect from 1 July 2026, RL is considering to change its tax year from the normal to the special tax year ending on 31 December.

Required:

Identify the due/last date of filing of RL's tax return in respect of the following:

- Filing of tax return for the year ended 30 June 2026.
- Filing of tax return for the transitional period.
- Filing of first tax return for the special tax year.

7. INDEPENDENT SITUATIONS

- Hasan, a Pakistani citizen, has been working in the UK since 2017. In tax year 2025. Hasan invested in shares of a company, listed on the Pakistan Stock Exchange. Within the same tax year, he subsequently sold these shares and realized a gain of Rs. 500,000. However during the tax year 2026, he did not earn any Pakistan source income.

- ii. Mehjabeen, a US citizen, got married in Pakistan five years ago and has since been residing in the country. In January 2026, Mehjabeen's father passed away in the USA, bequeathing her a property worth USD 400,000, situated within the USA. She neither earns income nor holds any assets in Pakistan in her name, which has resulted in her not being required to file a return of income until tax year 2025.
- iii. XYZ (Pvt.) Limited ceased its business operations indefinitely on 31 August 2025. XYZ submitted a notice of discontinued business to the Commissioner in accordance with regulatory requirements. XYZ's year-end falls on 31 December.

Required:

Discuss whether the above persons are required to furnish the return of income for the tax year 2026 under the provisions of the Income Tax Ordinance, 2001.

8. MR. GHAFFAR BUX

Ghaffar Bux, responding to a notice from the Commissioner Inland Revenue (CIR), has preferred to settle his case by filing an offer of settlement before the Assessment Oversight Committee (AOC).

Required:

Under the provisions of the Income Tax Ordinance, 2001, explain Ghaffar Bux's position in each of the following independent situations, if AOC reaches a consensus to modify his offer:

- i. Ghaffar Bux disagrees with the AOC's decision
- ii. Ghaffar Bux disagrees with the AOC's decision

Under the provisions of the Income Tax Ordinance, 2001, identify the individuals required to file the return of income based on asset ownership, even if their income falls below the taxable threshold.

9. RUSTOM MIRZA

The following is the wealth statement of Rustom Mirza for the tax year 2025:

	Rupees
5,000 shares in a listed company - at cost	360,000
Residential house in Malir	4,500,000
Furniture and other household items	520,000
Personal car	1,850,000
Bank balance	435,000
Cash in hand	50,000
	7,715,000
Less: Loan payable to a friend	(800,000)
Net assets as on 30 June 2025	6,915,000

Additional information provided by Rustom Mirza for the tax year 2026:

- i. Gross salary earned during the year amounted to Rs. 3,600,000, while taxes deducted from his salary amounted to Rs. 435,000.

- ii. 1,000 new shares in a listed company were purchased for Rs. 80 each. On 30 June 2026, the market value of the 5,000 previously held shares was Rs. 375,000.
- iii. A new car was obtained on 30 June 2026 through a trade-in scheme, exchanging the old car. The price differential of Rs. 1,200,000 is payable on a two-month credit.
- iv. A payment of Rs. 400,000 was made to the friend in repayment of outstanding loan.
- v. Personal expenses amounted to Rs. 2,600,000, with Rs. 20,000 paid in cash.
- vi. A gift of Rs. 35,000 was made to his sister through a crossed cheque.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, prepare Rustom Mirza's wealth statement and wealth reconciliation statement for the tax year 2026, along with necessary workings.

CHAPTER 15 – ASSESSMENT AND AUDIT

1. CHANDI ENTERPRISES

After completion of the audit of tax year 2026 Chandi Enterprise (CE), an AOP under the Income Tax Ordinance, 2001, the Commissioner has ordered the following amendments in the income tax return filed by CE.

- i. Payment of minimum tax at the rate of 1.25% on its total turnover of Rs. 45 million.
- ii. Disallowance of the following expenditures:
 - Rs. 27,000 spent on annual Eid-Milan party arranged by the firm for its employees and their families.
 - Penalty for late delivery amounting to Rs. 60,000 which had to be paid to a client on account of negligence on the part of the shipment manager.
 - Donation of Rs. 150,000 paid to the National Institute of Cardio Vascular Diseases (NICVD), established by the Federal Government.
 - Salary of Rs. 850,000 paid to the Managing Director, who is also a partner in the firm.

Required:

Comment on the above amendments ordered by the Commissioner, in the light of Income Tax Ordinance, 2001.

2. PLASMA PAKISTAN (PVT.) LIMITED (PPL)

Plasma Pakistan (Pvt.) Limited (PPL) is engaged in the manufacture and sale of pharmaceutical products. During 2026, it started a new business related to aerated water. After scrutiny of the tax return filed by the company for the tax year 2026, the Commissioner Inland Revenue has issued a notice under section 122(5A) in which he has raised the following issues:

- i. The parent company reimbursed 60% of the expenses, incurred by PPL in 2026, on marketing export of technical service to Germany. The commissioner wants to add the recouped expenditure to the taxable income of the company.
- ii. Expenses incurred under the account head "travel fare" aggregating to Rs. 500,000 were paid in cash and should be added back.
- iii. The commissioner wants to disallow an expense of Rs. 90.0 million, incurred by PPL on the promotion of a vaccine which is expected to generate revenue for three years.

Required:

With reference to the provisions of Income Tax Ordinance, 2001 advise the management about the tax implications in each of the above situations.

3. BOOKS OF ACCOUNTS

Explain the requirements of books of account to be maintained by a taxpayer who has business income upto Rs. 500,000.

4. SPECIAL AUDIT PANEL

Explain the provisions regarding Special Audit Panel.

5. CONCEALED ASSET

Under the provisions of the Income Tax Ordinance, 2001 and Rules made there under, discuss the concept of 'Concealed asset' and state the powers of the Commissioner relating to concealed asset of any person when it is impounded by the Federal Government.

6. SECTORAL BENCHMARK RATIOS

Briefly explain the term 'Sectoral benchmark ratios. Also, explain the circumstances in which a Commissioner shall determine taxable income on the basis of sectoral benchmark ratios.

7. RIAASAT LIMITED (RL) - II

Assume that Royal Limited has changed its tax year from a normal tax year to a special tax year, a calendar year, and filed its tax returns for the relevant tax years.

Required:

Identify the due/last date of amendment of assessment related to:

- i. normal tax year for the year ended 30 June 2026.
- ii. first special tax year ending on 31 December 2026.

8. RUSTUM ENTERPRISES

- a) Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:
 - i. briefly discuss the terms 'Normal assessment' and 'Best judgement assessment'.
 - ii. state the requirements that should be complied with by a sole proprietor on discontinuance of business.
 - iii. list the additional records which are required to be kept by a sole proprietor whose business income exceeds Rs. 500,000 as compared to a sole proprietor whose business income is upto Rs. 500,000.
- b) Rustum Enterprises opts for the final tax regime with regard to its exports of services business.

Required:

Under the Income Tax Ordinance, 2001 list down the rules that shall apply to income subject to final tax

9. MS. ZUBAIDA

Ms. Zubaida has been operating a business as a Wedding Event Planner for past 12 years. She had filed her complete return for the tax year 2019 on 20 August 2019. On 1 September 2025, Commissioner Inland Revenue (CIR) served a Show Cause Notice, requiring her to explain certain receipts which were credited to her account during the tax year 2019-.

Ms. Zubaida is uncertain as to whether CIR is empowered to issue such a notice after a lapse of so many years.

Required:

Advise Ms. Zubaida about the validity of the Show Cause Notice issued by CIR under the Income Tax Ordinance, 2001.

10. ASSESSMENT ORDER

Under the provisions of the Income Tax Ordinance, 2001, specify the time period within which the Commissioner may amend and further amend an assessment order.

CHAPTER 16 – APPEAL

1. ASSURANCE & CO.

- a) Assurance & Co., a partnership firm, has filed an appeal against the order of the Commissioner (Appeals) to the Appellate Tribunal Inland Revenue (ATIR) which is pending before ATIR. Recently, the firm has appointed a new tax adviser who proposed seeking relief through Alternative Dispute Resolution (ADR) mechanism provided by the Income Tax Ordinance, 2001.

Required:

Under the provisions of the Income Tax Ordinance, 2001, advise Assurance & Co. in respect of the following matters:

- i. Cases eligible for settlement through ADR mechanism
 - ii. Composition of the ADR committee
- b) State the provisions of the Income Tax Ordinance, 2001 relating to the filing of revised return of income by a taxpayer.
- c) Under the provisions of the Income Tax Ordinance, 2001 who is required to furnish the foreign income and assets statement. Also list the particulars to be mentioned in the said statement.

CHAPTER 17 – SCOPE OF SALES TAX

1. RAVI LIMITED

Ravi Ltd. is engaged in the manufacture and sale of fertilizers. It has recently set up a cogeneration plant for the generation of electrical energy from oil and fuel to be used in the factory. Further the Company has also purchased a boiler for use in the cogeneration plant. You are the tax advisor of the Company.

Required:

Write a letter to the Finance Director explaining the sales tax implication of the above transaction.

2. REGISTRATION

- a) Mr. A has recently started his business as a General Order Supplier. His primary task is to provide the products to the ultimate customer at his door step. He supplied the Shoes worth Rs. 35,000 to M/s Shoukat Khanum Memorial Hospital and Research Centre during the year 2026 for their security staff. The hospital has deducted income tax amounting to Rs.1,225 under section 153 of the Income Tax Ordinance, 2001.
- b) Mr. B opened a shoe shop and his sales during the year were Rs. 5,500,000. He made his purchases from M/s AGK Distributors.
- c) Mr. C is working for the Service Industries Ltd. He is engaged in the project shoe sales. During the year, he forwarded orders worth Rs. 25,000,000 to the company. The company directly made the deliveries according to the orders and paid his commission (@ 5%) amounting to Rs.1,250,000.
- d) Mr. D is running a shoe showroom. He has made sale of shoes of Service Industries worth Rs. 7,500,000. During the year, Mr. D also purchased leather from the market and get it manufactured from the small shoe makers. The sale proceeds from the said produced goods were Rs. 5,500,000.
- e) Mr. E is running a hotel. In the first year, his sole income was from the hiring of room and his gross receipts aggregates to Rs. 6,000,000 during the year.

Required:

State whether the above persons are required to be registered under the sales tax laws. If yes, then in which category (manufacturer, retailer, etc.) and in which scheme of taxation (registration, services etc.)

3. MANUFACTURERS

Please state whether or not the following persons are required to be registered under the Sales Tax Act, 1990:

- i. Manufacturer with taxable turnover of Rs.1,000,000;
- ii. Manufacturer with taxable turnover of Rs.5,000,000; and
- iii. Manufacturer with total turnover of Rs.7,000,000 including taxable turnover of Rs.4,500,000.

4. MR. FURQAN

Mr. Furqan intended to commence a manufacturing business and obtained the sales tax registration in November 2025. Due to unavoidable circumstances, he could not start his business as stipulated. No sales tax returns were filed since he did not carry on any taxable activity. In April 2026, he received a notice from the department of Inland Revenue directing him to furnish the return by May 15, 2026.

Required:

Advise Mr. Furqan as regards the following:

- i. Whether he is required to file the sales tax return and the consequences, if any, for non-filing of such return under the Sales Tax Act, 1990.
- ii. Various reasons on account of which he may be liable for de-registration from sales tax. Also state briefly, the procedure for de-registration as enumerated under the Sales Tax Rules, 2006.

5. MANUFACTURER

Identify the persons who are considered as manufacturers under the Sales Tax Act, 1990.

6. MR. SHOAB

Under the provisions of the Sales Tax Act, 1990 and Rules made there under, discuss the following:

- i. Difference between zero rated supplies and exempt supplies.
- ii. How and under what circumstances the Inland Revenue Department may recover the amount of sales tax from a person without issuing him a show cause notice.
- iii. Concept of provisional and final adjustments in relation to 'Apportionment of input tax'.

7. TEMPORARY SALE TAX REGISTRATION

- a) In the light of the provisions of Sales Tax Act, 1990 and Rules made thereunder, briefly explain as to the chargeability/adjustment of sales tax in respect of each of the following independent matters:
 - i. Free provision of taxable goods to the company's CEO as per the terms of his employment.
 - ii. Free replacement of defective parts in the case of taxable goods, sold under warranty.
 - iii. Payment of machine fuel by one of the directors using his own credit card. The machine is used to manufacture taxable goods.
 - iv. Taxable goods sold on instalment to a customer at a price inclusive of mark up.
 - v. Advance payment received against taxable goods to be supplied to a registered person in next month.
 - vi. Local supplies of goods manufactured by a cottage industry.
 - vii. Material purchased for the construction of office building.
 - viii. Electronic cash register purchased for retail outlet.
- b) Under the Sales Tax Act, 1990 and Rules made thereunder, briefly describe temporary sale tax registration. Also state the rights, obligations and responsibilities of a person holding temporary registration.

8. VALUE OF SUPPLY

Following are the independent transactions carried out by different enterprises during the month of February 2026:

- i. Taxable goods of Rs. 800,000 were sold to one of the dealers. The amount was net of 20% trade discount which was in accordance with market norms. The discounted price was not shown on the tax invoice.
- ii. Taxable goods of Rs. 1,500,000 were used for internal testing and evaluation purposes. 40% of these goods were locally procured while remaining 60% of these goods were own manufactured.
- iii. Advance of Rs. 600,000 was received for goods to be delivered in April 2026.
- iv. 1,000 units of taxable goods listed in the Third Schedule were sold at a unit price of Rs. 5,000. Retail price of each unit was Rs.6,000.
- v. New parts of Rs. 1,200,000 were issued free of cost to replace the defective parts under warranty.
- vi. Taxable goods of Rs. 400,000 were sold at credit terms of 2/10, n/30. Customer paid the amount within ten days and availed the discount.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, state the value of supply chargeable to tax for the month of February 2026. Also state the reason for your treatment.

9. SHAJEE LIMITED (SL)

- a) Under the Sales Tax Act, 1990 and Rules made thereunder, briefly discuss the chargeability of sales tax in case of a retailer.
- b) Shajee Limited (SL) purchases cosmetic products from Tajee (Private) Limited (TPL). In the month of October 2025, SL received a consignment of 5000 units from TPL. On delivery, SL found that 50% of the items were expired and decided to return them.

Both SL and TPL are registered under the Sales Tax Act, 1990 and file sales tax return on regular basis.

Required:

Under the Sales Tax Rules, 2006 specify the document which must be issued by SL on return of goods to TPL. Also state the particulars that should be mentioned on the document to be issued.

10. INLAND REVENUE DEPARTMENT

- a) Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, explain whether the following persons are required to be registered with the Inland Revenue Department:
 - i. A manufacturer of taxable supplies located in the residential area of Korangi, Karachi.
 - ii. A retailer whose annual turnover is Rs. 20 million.
 - iii. A distributor of exempt supplies.
 - iv. An exporter of taxable goods.
- b) Goods exported shall be charged to tax at the rate of zero percent. What are the exceptions to this general rule?

11. SARFARAZ PROPRIETOR

Sarfraz is a sole proprietor. Under the provisions of the Sales Tax Act, 1990, discuss whether each of the following individuals/entities is an associate of Sarfraz:

- i. Jehanzeb: He has been working as an accountant for the past twenty years and has been responsible for filing the tax returns of both Sarfraz and his business.
- ii. Falah Limited (FL): Sarfraz owns 20% shares in FL, while his mother owns 30% shares in FL.

- iii. Sarah: She is the adopted daughter of Sarfraz's wife, Fatima. Sarah was adopted by Fatima before her marriage to Sarfraz.
- iv. Umeed Trust (UT): Sarfraz is one of the trustees of UT. The trust was established to oversee the operations of an orphanage.

12. TYPES OF RETURN

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, list different types of returns along with the due dates for filing of such returns.

Under the Sales Tax Act, 1990, briefly explain whether the following are considered taxable activities:

- i. Nadeem received a salary of Rs. 250,000 for the month of February 2026 from his employer.
- ii. Zahab provided consultancy services to his brother for his start-up business for an agreed amount of consideration.
- iii. Shahzeb played the piano, an instrument he has played since childhood, at his parents' anniversary party.
- iv. Furqan, who works as an accountant for Beenish Enterprises owned by Miss Beenish, gives Maths's tuitions to Beenish's daughter, Irham, for a monthly fee of Rs. 20,000.
- v. Quratulain, a homemaker with a hobby of baking cakes and pastries, rented a stall at the Karachi Food Festival and sold her baked items.

13. CHARGEABILITY/ADJUSTMENT OF SALES TAX

Consider the following independent situations:

- i. In February 2026, Baqir Associates (BA) acquired packaging materials worth Rs. 600,000 from Raheel Enterprises (RE) for its product. RE did not deposit the related sales tax with the authorities on time due to financial difficulties.
- ii. Goods worth Rs. 12 million, falling under the Third Schedule, were supplied to an unregistered person during the tax period of February 2026.

Required:

Under the provisions of the Sales Tax Act, 1990, and the Rules made thereunder, briefly explain the chargeability/adjustment of sales tax.

14. SUSPENSION

A Commissioner, having jurisdiction, if satisfied that a registered person has issued fake invoices, evaded tax or committed tax fraud, may suspend the registration of such person through the system, without prior notice, pending further inquiry'.

Required:

Under the Sales Tax Rules, 2006, list any four bases for such satisfaction of the Commissioner.

15. ALI ENTERPRISE (AE),

Ali Enterprise (AE), a registered person, sold taxable goods worth Rs. 16 million to Bali Enterprise (BE) on 15 February 2026.

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, discuss whether AE is entitled to claim the related input tax against abovementioned supply in each of the following independent situations:

- Where BE is not registered under the Sales Tax Act, 1990
- Where BE is not registered under the Sales Tax Act, 1990, and engaged in the sale of exempt supplies

- Where BE is registered under the Sales Tax Act, 1990, and engaged exclusively in the sale of third schedule items
- Where BE is registered under the Sales Tax Act, 1990 as an exporter
- Where BE is a retailer

16. JELLY ENTERPRISE (JE),

Jelly Enterprise (JE), a sales-tax registered person, failed to file its sales tax return despite receiving a notice from the Commissioner of Inland Revenue (CIR).

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, discuss the action(s) CIR may take against JE. Also, discuss the course of action available to JE against the action(s) of CIR.

17. ASIM MIR

Asim Mir planned to start a manufacturing business and obtained sales tax registration in March 2026. However, due to unforeseen circumstances, he was unable to start his business as planned. Consequently, no sales tax returns were filed from March to August 2026, as he did not engage in any taxable activity.

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, discuss the following:

- The requirement to file the sales tax return and the consequences, if any, for the non-filing of such returns.
- Power of the Commissioner in abovementioned scenario.

18. (WS) AND (HS)

Waseem and Sons (WS), a registered person under the Sales Tax Act, 1990 (STA), sold taxable goods to Haleem and Sons (HS) in February 2026.

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, for each of the following independent cases, specify the document that WS and HS are required to issue, if any, and state the effect (increase, decrease or no effect) on the sales tax liability of WS and HS:

- HS is registered under the STA and returned 25% of the goods in July 2026.
- HS is not registered under the STA and returned 25% of the goods in May 2026.
- HS is registered under the STA and returned 25% of the goods in September 2026.
- The value of supply and corresponding sales tax were erroneously understated by WS. The error was rectified in June 2026.
- The value of supply and corresponding sales tax were erroneously overstated by
- WS. The error was rectified in June 2026.

You should answer this part in the following format:

Case	Document to be issued by		Impact on sales tax liability of	
	WS	HS	WS	HS
(i)				
(ii)				
(iii)				
(iv)				
(v)				

CHAPTER 18 – DETERMINATION OF SALES TAX LIABILITY

1. M/S ABC

M/s ABC is engaged in diversified businesses. During the tax period March 2026, the gross commercial billing from sale was as under:

Nature of Business	Gross billing	Discount to dealers/agents
Export of garments manufacturing	1,200,000	
Ice Cream	1,000,000	20%

- The aforesaid billing is on gross basis, however, the firm offers discount to its dealers/agents in accordance with market norms. It is the policy of the company to raise invoice net of discount to the dealers.
- The company paid the following input tax in respect of each business:

Nature of Business	Input Tax
Export of garments manufacturing	142,292
Ice cream	75,000

- The input sales tax on electricity of manufacturing premises was Rs. 75,000 during the tax period.
- The input tax relating to garments business includes input tax amounting to Rs. 12,292 levied on the hotel bills of a meeting held with the foreign customers.

Required:

The management of the company hired your services to know what would be the sales tax liability for these activities.

2. M/S SAFI ELECTRONICS

M/s Safi Electronics are engaged in manufacturing of electronic goods and are registered under Sales Tax Act, 1990 as manufacturer-cum-exporter. During the month of March 2026, their sales /purchases data were recorded as under:

(i)	Local purchases	Rs.
(a)	From registered persons	4,500,000
(b)	From Un-registered persons	1,200,000
(ii)	Imports (Raw material for own consumption)	2,300,000
(iii)	Utility bills(exclusive of GST) (GST Rs 75,000)	500,000
(iv)	Sales to registered persons	3,200,000
(v)	Sales to un-registered persons	3,600,000
(vi)	Exports	3,000,000

Note:

- All the above figures are exclusive of sales tax paid or recovered.
- The owner also took goods worth Rs. 200,000 for his private use.
- Purchases include an invoice of Rs. 100,000 dated 27 February 2026 which was not included in the sales tax return for February, 2026 due to its late receipt.
- Un-adjusted input tax carried forward from last month amounted to Rs. 45,000

Required:

Calculate Sales Tax liability by M/S Safi Electronics for the month of March 2026.

3. ZETA PAKISTAN LIMITED

Zeta Pakistan Limited is principally engaged in the purchase, manufacture and supply of taxable goods and is registered under the Sales Tax Act, 1990. During the usual course of business, it also carried out the following transactions during the year:

- i. Use of taxable goods for internal testing, training and evaluation purposes. The goods included own manufactured as well as locally procured goods.
- ii. Free replacement of faulty parts of goods which had been sold under warranty.
- iii. Destruction of damaged goods.

Required:

Comment on the chargeability of sales tax in the above situations.

4. MR. KALEEM

Mr. Kaleem is registered under the Sales Tax Act, 1990 as a manufacturer as well as a commercial importer. He has provided you the following information for the month of February 2026:

	Rs. in million
Export sales – manufactured goods	30
Local sales of exempt manufactured goods	20
Taxable supplies – manufactured goods	120
Purchases	
Local purchases of raw material from:	
Registered persons	160
Unregistered persons	50

All the above amounts are exclusive of sales tax.

Required:

Compute the sales tax liability of Mr. Kaleem along with input tax to be carried forward (if any) in his sales tax return for the month of February 2026.

5. ZUBAIR ENTERPRISES LTD (ZEL)

Zubair Enterprises Limited (ZEL), a registered person under the Sales Tax Act, 1990, is engaged in the production of consumer goods. The company's business transactions for the month of June 2026 were:

	Rs.
Sale of taxable goods to registered persons	20,000,000
Sale of taxable goods to unregistered persons	25,000,000
Less: Trade discount at 10%	(2,500,000)
	22,500,000
Exports of goods to Saudi Arabia	18,000,000
Payment for purchases of raw materials for manufacturing taxable local supplies	42,000,000
Payment for purchases of raw materials for manufacturing of exports	16,000,000

The company's records further show that:

- (1) The figures for the sales of goods (including exports) are all stated exclusive of sales tax.
- (2) The rate of discount is in conformity with the normal business practice in the industry but was not shown on the tax invoices.
- (3) Goods with the value of Rs. 100,000 were given free of cost to the Chief Executive of the company in accordance with his terms of employment.
- (4) All payments were made inclusive of sales tax and paid through crossed cheques.
- (5) Payment on account of the purchase of a new machine for the manufacture of goods meant for export only, of Rs. 10,000,000 (inclusive of sales tax) was made during June 2026.
- (6) Input tax of Rs. 100,000 pertaining to the raw materials purchased for the manufacture of taxable goods on November 1, 2025 could not be claimed due to an oversight.

Required:

- a) Calculate the sales tax payable or refundable to Zubair Enterprises Ltd, for the month of June 2026, giving explanations for treatment of:
 - the trade discount allowed to unregistered persons;
 - the goods given to the Chief Executive;
 - the input tax on the machinery purchased for the manufacture of goods meant for export only; and
 - the input tax not claimed in the return for November 2025.
- b) Zubair Enterprises Ltd (ZEL) has made purchases of taxable goods from a registered person but suspects that the registered person has not paid the tax in respect of these supplies.
- c) State whether the amount of tax unpaid by the supplier can be recovered from ZEL, together with any actions that the company might take to mitigate any potential liability.

6. SUNGLOW PAKISTAN LIMITED

Sunglow Pakistan Limited, a registered person under the Sales Tax Act, 1990 is engaged in the manufacture of multimedia projectors. The business transactions of Sunglow Pakistan Limited for the month of February 2026 included the following:

	Rupees
Receipts from sale of multimedia projectors to registered persons	7,375,950
Receipts from sale of multimedia projectors to unregistered persons	8,040,150
Sale of accessories and lenses for the multimedia projectors to registered person.	1,615,785
Purchases of electronic components and lenses	6,987,354
Purchase of stores, supplies and raw material used in the manufacturing of multimedia projectors (Out of the total payment of Rs. 2,125,215 an amount of Rs. 225,215 was paid in cash)	2,125,215
Import of plant and machinery	2,350,000
Supplies purchased in January 2026 returned to the vendors for not meeting the specifications and required standard	1,050,650
Multimedia projectors sold in January 2026 returned by the customers for defective workmanship in February 2026.	980,500

Additional information:

- (1) All figures relating to sales of taxable goods are stated exclusive of sales tax.
- (2) All payments are stated inclusive of sales tax.
- (3) All payments for the purchase of goods and materials have been made by crossed cheque or pay order or credit card except where otherwise indicated.
- (4) In the case of the purchase returns and sales returns, the debit/credit notes have been issued in conformity with the provisions of Sales Tax Act, 1990.

Required:

Calculate the sales tax payable by or refundable to Sunglow Pakistan Limited for the month of February 2026.

7. LEPROC ASSOCIATES

Leproc Associates, a registered person under the Sales Tax Act, 1990 is engaged in the production of taxable and exempt consumer goods. The business transactions of Leproc Associates for the month of February 2026 included the following:

	Rupees
Sale of taxable goods to registered persons	6,296,000
Export of goods to Nigeria	5,790,000
Sale of taxable goods to unregistered persons	7,638,500
Less: trade discount at 10%	(763,850)
	6,874,650
Sale of exempt goods	2,364,000

Payment for purchase of raw materials for manufacturing of local taxable supplies 10,127,800

Payment for purchase of raw materials for manufacturing both exempt and taxable supplies 3,945,000

The Chief Accountant informs you that input tax amounting to Rs. 185,700 had inadvertently not been deducted in the return for the month of January 2026.

Notes:

- (1) All payments are stated inclusive of sales tax.
- (2) The figures for sales of taxable goods and export are stated exclusive of sales tax.
- (3) The trade discount on the sale of taxable goods to unregistered persons is stated on the face of the invoice and the rate of the discount is in accordance with normal business practice.

Required

Calculate the sales tax payable by or refundable to Leproc Associates for the month of February 2026.

8. BARQ RO (PAKISTAN) LTD (BRPL)

Barq Ro (Pakistan) Limited (BRPL), a registered person under the Sales Tax Act, 1990, is engaged in the manufacture and sale of insulated cables. BRPL's financial year ends on 30 June. The management of BRPL decided to start a new unit for the manufacture of underground cables that would require specialised machinery. The machinery was purchased on 1 June 2026 and the new unit commenced production on 4 June 2026. The business transactions of BRPL for the month of June 2026 were as follows:

	Rupees
Payment for purchase of raw materials	7,448,850
Payment for the purchase of machinery for the new unit	5,395,500
Sale of taxable goods in Pakistan	6,535,000
Export of cables to Tanzania	5,790,000

Notes:

(1) All payments are stated inclusive of sales tax.

(2) The figures for the sale of taxable goods and export are stated exclusive of sales tax. Sales tax rate is 18%.

Required:

Calculate the sales tax payable by or refundable to Barq Ro (Pakistan) Ltd. for the month of June 2026.

9. MR. YOUSHA

Mr. Yousha, a registered person under the Sales Tax Act, 1990, is carrying on business in the name of Yousha Associates. Ms. Yousha is informed by his chief accountant that a credit note has to be issued to a debtor in respect of an invoice issued on 30 June 2025. The chief accountant intends to issue the credit note in the month of January 2026.

Required:

State, giving reasons, whether or not you are in agreement with the chief accountant's proposal to issue the credit note in the month of January 2026.

10. FOLAD LTD (FL)

Folad Limited (FL) has supplied 50 tons of Iron Bars to Tameer Limited (TL). The market price of the supply is Rs. 2.5 million exclusive of sales tax. Owing to financial difficulties, TL has requested to settle the price by transferring a piece of land having a market value of Rs. 2.3 million and to pay Rs. 75,000 in final settlement along with the applicable sales tax by way of a cheque drawn in favour of FL.

Required

- Comment on the chargeability of sales tax in the above situation.
- Under the provisions of Sales Tax Rules, 2006 narrate the procedure to be followed by Tameer Limited, in the above situation, if it decides to return 20 tons of Iron Bars to Folad Limited due to sub-standard quality. Assume that both FL and TL are registered taxpayers.

11. KAMYAB ENGINEERING LIMITED (KEL)

Kamyab Engineering Limited (KEL) is registered under the Sales Tax Act, 1990. The company is engaged in the manufacture and supply of appliances. Following information has been extracted from the records of KEL for the month of January 2026.

	Rs. in '000
Purchases:	
Local:	
components from registered suppliers	70,700
components from un-registered suppliers	15,250
Supplies:	
Manufactured goods:	
• local taxable supplies to registered persons	40,000
• local taxable supplies to un-registered persons	24,000
• exempt goods	11,000
• export to Malaysia	13,000

Following additional information is also available:

- An amount of Rs. 200,000 on account of purchases made from a registered supplier is outstanding since August, 2025. The related input tax was accounted for in the relevant tax period.

- ii. A penalty of Rs. 50,000 and additional tax of Rs. 25,000 was levied on KEL under the Income Tax Ordinance, 2001 which was unpaid as of January 30, 2026.

Sales tax is payable at the rate of 18%. All the above figures are exclusive of sales tax, wherever applicable.

Required:

- Sales tax payable / refundable.
- Input tax credit to be carried forward, if any.

12. MR. ABDUL GHAFFAR

Mr. Abdul Ghaffar is registered as a manufacturer, under the Sales Tax Act, 1990. He carried out the following activities during the month of February 2026:

	Rs. in '000'
Supplies	
Manufactured goods	
Local – taxable goods	22,000
Local – exempt goods	3,000
Exports	5,000
Purchases	
Local purchases of raw material	8,000
Import of raw material	17,000

Other relevant information is as follows:

- All the above amounts are exclusive of sales tax.
- In January 2026, an amount of Rs. 365,000 was carried forward as sales tax credit.
- Sales tax is payable @ 18%

Required:

Compute the following for the month of February 2026:

- Sales tax payable / refundable.
- Input tax credit to be carried forward, if any.

13. OLIVE LIMITED (OL)

Olive Limited (OL) is registered at the Large Taxpayer Unit of the Inland Revenue Department. It is engaged in the manufacture and trading of FMCG in the country. During the month of January 2026 the following activities were carried out by the company:

	Rs. in '000
Purchases:	
Import of raw material for in-house consumption	15,000
Packing material manufactured locally	6,000
Supplies:	
Manufactured products:	
- Local sales	20,000
- Exempt goods	4,000
- Export to Bangladesh	4,000

Following information is also available:

- i. In order to meet the high consumer demand, OL purchased new machinery for Rs. 1,200,000. The machinery was put to use during the same month. The machinery is wholly used in the manufacturing of local taxable supplies. A motor vehicle of Rs. 1,500,000 was also acquired for the sales department.
- ii. Sales tax credit of Rs. 325,000 was brought forward from previous month. Sales tax is payable at the rate of 18%. All the above amounts are exclusive of sales tax, wherever applicable.

Required:

Compute the sales tax payable or refundable for the month of January 2026.

14. MR. INSAF

Mr. Insaf, the executive director of Super Tech (Pvt.) Ltd, a company engaged in the manufacture and sale of electronic goods, has reviewed the sales tax return for the month of May 2026, in place of its director finance, who is currently on leave. During the review he noticed that certain input tax has not been claimed by the company. He is of the opinion that all input tax paid by the company should be available for adjustment. You are required to clarify the following matters in the light of Sales Tax Act, 1990.

Required:

- i. The conditions that need to be satisfied for the adjustment of input tax against the output tax liability and the remedy available to the company if it fails to adjust the input tax in the period in which it is paid.
- ii. Identify the circumstances in which input tax is not allowed to be adjusted against the output tax liability.

15. MR. RIZWAN

- a) State the situations when a registered person shall not be entitled to claim or deduct input tax under the Sales Tax Act, 1990.
- b) Mr. Rizwan, a sales tax registered person, is carrying on business in the name of Rizwan Enterprises. On August 15, 2025, he sold certain goods to his customer against which he intends to issue a credit note in the month of March 2026.

Required:

Explain whether Mr. Rizwan can issue the credit note in the month of March 2026, under the Sales Tax Rules, 2006.

- c) Explain the provisions of Sales Tax Act, 1990 with regard to the following:
 - i. Change in rate of tax during a tax period
 - ii. Excess tax collected from the customer

16. ZERO RATING

- a) Identify the goods that shall be charged at the rate of zero per cent under the Sales Tax Act, 1990.
- b) List the situations in which the type of goods identified in (a) above would not be eligible for zero rating.

17. MS. ZAINAB

Zainab is registered under the Sales Tax Act, 1990 and is engaged in the manufacture and supply of Products A and B. Following information has been extracted from her records for the month of February 2026:

	Product A	Product B
	Rupees	
Supplies		
Local supplies	5,350,000	1,010,000
Exports to Thailand	2,550,000	3,950,000
Purchases		
Local materials from registered persons	6,000,000	
Local materials from unregistered persons	850,000	

Additional information:

- i. Product A is exempt from the charge of sales tax.
- ii. Sales tax credit brought forward from previous month amounted to Rs. 262,500.
- iii. Substandard supplies worth Rs. 150,000 were returned to the registered vendors and proper debit and credit notes were issued.
- iv. An invoice dated September 3, 2025 amounting to Rs. 100,000 had not been claimed inadvertently. This oversight was detected in the month of February 2026.
- v. Sales tax is payable at the rate of 18%. All the above amounts are exclusive of sales tax.

Required:

In the light of Sales Tax Act, 1990 and rules made thereunder, calculate the following for the month of February 2026:

- a) Sales tax payable / refundable
- b) Input tax to be carried forward, if any

18. SAMAD CORPORATION (SC)

Samad Corporation (SC) supplies specialized material to various industrial concerns. The company has entered into the following transactions during the month of February 2026.

- i. Supply of material costing Rs. 3 million to AB Limited (ABL). It has been agreed that ABL would settle the transaction by paying Rs. 1.5 million in cash and the balance amount by way of allowing SC to use ABL's import quota. The market price of the supply is Rs. 3.5 million.
- ii. Supply of material to DM Limited (DML) at a discounted price of Rs. 6.8 million. Due to particular relationship, DML has been allowed a special discount of 15% as against the normal business practice of 8%.
- iii. Supply of 20 tons of material, falling under third schedule, to BML at a wholesale price of Rs. 138,000 per ton. The retail price of the material is Rs. 150,000 per ton.

Required:

- a) In each of the above situations, advise the management about the value of supply on which sales tax would be levied under the provisions of Sales Tax Act, 1990.
- b) List down the particulars to be mentioned on the debit note issued by the supplier in the event of change in the value of supply, under the Sales Tax Rules, 2006.

19. MAROOF ENGINEERING LIMITED (MEL)

Maroof Engineering Limited (MEL) is registered under the Sales Tax Act, 1990. The company is engaged in the manufacture and supply of spare parts. Following information has been extracted from the records of MEL for the month of February 2026.

	Rupees
Purchases	
Local material:	
From registered suppliers	15,000,000
From un-registered suppliers	8,000,000
Supplies	
Manufactured goods	
Local taxable supplies to registered persons	10,000,000
Local taxable supplies to un-registered persons	3,000,000
Export to Taiwan	10,000,000
Exempt goods	2,000,000

Following additional information is also available:

- i. Purchases from registered suppliers include an amount of Rs. 1.0 million which was invoiced on May 15, 2025. The input tax on this invoice could not be claimed in the relevant period.
- ii. Material purchased from un-registered suppliers was exclusively used for making taxable supplies.
- iii. Goods worth Rs.500,000 were returned by different customers. Proper debit/credit notes were raised within the specified period.
- iv. A new machinery of Rs. 2.4 million was purchased and put to use during the same month.
- v. MEL's purchases from registered suppliers include material worth Rs. 2 million against which an advance was paid in the month of January 2026. However, due to a dispute, sales tax invoice was delayed and was received by the company after filing of return. Parts worth Rs. 15,000 were delivered to the CEO for his personal use, free of cost. Sales tax credit of Rs. 50,000 was brought forward from previous month. Sales tax is payable at the rate of 18%. All the above amounts are exclusive of sales tax.

Required:

- a) Compute the sales tax payable/refundable.
- b) Input tax credit to be carried forward, if any

20. FAIZ ASSOCIATES

Faiz Associates (FA) is a partnership concern and registered under the Sales Tax Act, 1990 as manufacturer-cum-distributor.

Following information has been provided by FA for the month of January 2026:

	Rupees
Supplies	
Taxable goods to registered customers	3,450,000
Taxable goods to un-registered customers	1,000,000
Consumable goods supplied on PIA's international flight	500,000
Export	700,000
Purchases	
Taxable goods from registered suppliers	2,000,000
Taxable goods from un-registered suppliers	450,000
Exempt goods from registered suppliers	600,000
Input tax brought forward from December 2025	265,000

Additional information:

- i. Supply of taxable goods to registered customers include the following:
 - Goods amounting to Rs. 80,000 sold to Hafiz Brothers (HB) on 31 January 2026. HB started business in January 2026 and had filed an application for registration under the Sales Tax Rules, 2006 on 30 January 2026. However, no sales tax registration number was issued till 31 January 2026.
 - Goods having market value of Rs. 600,000 which were supplied to Parveen Limited, an associated company, for Rs. 500,000.

- An invoice erroneously issued for Rs. 450,000 whereas the correct amount of the invoice was Rs. 540,000.
 - Sale to Ghalib Corporation of goods worth Rs. 225,000. The contract for sale has been signed but neither invoice was issued nor any delivery and payment was made in January 2026.
- ii. Purchases from registered suppliers include:
- purchase of two air-conditioners amounting to Rs. 150,000 for FA's new office.
 - an invoice of Rs. 500,000 dated 22 January 2026 issued by Taqi Corporation (TC).
- However, TC was blacklisted by the Commissioner on 6 February 2026.
- iii. FA destroyed certain goods worth Rs. 45,000 after following the due process under the Sales Tax Rules, 2006. Input tax on these goods was claimed in December 2025.
- iv. Free replacement of defective parts costing Rs. 400,000 relating to goods which were sold under 1-year warranty. The market value of such parts was Rs. 550,000.
- v. A debit note issued for Rs. 100,000 by a customer in respect of goods returned was duly settled and the relevant credit note has been issued within the stipulated time.
- vi. During the month, FA paid Sindh Sales Tax worth Rs. 8,500 on franchise services. Under the Sindh Sales Tax Laws, such tax is not an admissible credit.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 18%.

Required:

Compute sales tax payable by or refundable to Faiz Associates along with input tax to be carried forward, if any, in the sales tax return for the month of January 2026.

Note: Show all relevant exemptions, exclusions and disallowances.

21. CYMA ASSOCIATES

Cyma Associates (CA) is registered under the Sales Tax Act, 1990, as manufacturer-cum-distributor-cum-retailer. Following information has been extracted from its records for the month of August 2025:

	Rupees
Supplies	
Taxable goods to registered persons	15,000,000
Taxable goods to unregistered persons	2,800,000
Exports	1,500,000
Exempt supplies	1,700,000
Purchases	
Taxable goods from registered suppliers	20,000,000
Taxable goods from unregistered suppliers	1,800,000
Exempt goods from registered suppliers	400,000
Fixed assets (machinery) from a registered supplier	1,000,000

The following additional information is available for August 2025:

- i. Supply of taxable goods to registered persons include the following:
- Goods invoiced at Rs. 325,000 (net of special discount of Rs. 125,000) sold to a government official
 - On 1 August 2025, CA launched 'Halloween Tooth Brush' which is covered under 3rd schedule. The retail price of the tooth brushes is Rs. 100 each.

However, being the first month of launching, it was sold at a discounted price of Rs. 75 each. 4,000 tooth brushes were sold in August 2025.

- ii. Exports include supply of taxable goods of Rs. 500,000 to a retailer in Export Processing Zone.
- iii. Exempt supplies include distribution of free samples of exempt goods among the vendors. Value of such goods amounted to Rs. 80,000.
- iv. Purchases from registered suppliers include:
 - material worth Rs. 350,000 the payment of which was made by depositing cash directly in the business bank account of the supplier.
 - material worth Rs. 800,000 against which a discrepancy has been indicated by the CREST.
 - an amount of Rs. 2,000,000 paid for purchase of raw material. However, only 30% of the goods were supplied during August for which sales tax invoice has been issued by the supplier.
- v. On 1 August 2025, CA executed an agreement with Majeed Sons (MS) for sale of locally purchased goods worth Rs. 225,000. The agreement empowers MS to obtain delivery of these goods anytime it likes.
- vi. Supplies returned by different registered persons amounted to Rs. 756,000. Proper debit and credit notes were raised within the specified time.
- vii. The auditors have proposed a provision against obsolete and expired stock of Rs. 285,000 which is lying in CA's warehouse since January 2024.
- viii. Machinery purchased during the month was commissioned into operations on 31 August 2025.
- ix. Excess of input tax over output tax in July 2025 amounted to Rs. 75,000. Except where otherwise specified, all figures are exclusive of sales tax. Rate of sales tax is 18%.

Required:

Compute the sales tax liability of CA for the month of August 2025.

22. SAMAAJ ASSOCIATES

Sammaj Associates (SA) is registered under the Sales Tax 1990 and is engaged in the business of manufacturing, trading and export of electronic, chemical and other consumer goods, following information has been extracted from SA's records for the month of August 2025:

	Rupees
Supplies:	
To registered persons	2,500,000
To un-registered persons	875,000
To person registered as exporter	625,000
Purchases:	
Raw material from registered persons	930,000
Finished goods from un-registered persons	725,000
Packing material from registered persons	510,000
Local machinery from un-registered person	360,000
Import-finished goods	472,000

Packing material from registered persons include material worth Rs. 150,000 which was used for packing electric motors. On 31 August 2025 these motors were still part of SA's unsold stock.

Following transactions pertaining to August 2025 are not included in the above table:

- i. Sales tax of Rs. 70,000, Rs. 45,000 and Rs. 68,000 was paid in cash on electricity, gas and telephone bills respectively.

- ii. SA purchased high quality cables and wires worth Rs. 250,000 from a registered supplier for the installation of local machinery purchased from un-registered suppliers.
- iii. Three cartons of imported shampoo, falling under third schedule, were supplied to un-registered distributors at a price of Rs. 11,000 per carton. The distributors normally supply such shampoo to retailers at a price of Rs. 135,000 per carton.
- iv. Five electric kettles worth Rs. 75,000 were purchased for use in the offices of factory manager and first line-supervisors of production workers.
- v. On 5 August 2025, SA received advance of Rs. 600,000 against supply of electric shavers of Bari Electronics. SA agreed to deliver the goods in September 2025.
- vi. On 25 August 2025, SA issued discount coupons worth Rs. 450,000 its customers for participating in grand annual sales exhibition to be held in December 2025.

Other related information is as under:

- i. On 10 February 2025, SA purchased liquid nitrogen worth Rs. 300,000 from Mughal Chemical (MC), a registered supplier, on credit. On 15 August 2025, SA paid the outstanding amount to MC by way of a crossed cheque drawn on SA's bank account.
- ii. In April 2025, SA inadvertently charged sales tax of Rs. 58,000 instead of Rs.85,000 on supply of chemicals to one of its registered customers. So far, SA has not obtained permission from the commissioner Inland Revenue for revision of return.
- iii. In July 2025, SA claimed Input tax of Rs. 80,000 on purchase of hydrochloric acid from JB Traders. The supplier has not yet deposited the amount of sales tax collected from SA in Government treasury.

In July 2025, the excess of input tax over output tax amounted to Rs. 20,000. Whereas, unadjusted input tax in excess of 90% of output tax amounted of Rs 10,000.

All the above figures are exclusive of sales tax, wherever applicable, Sales tax is payable at the rate of 18%

Required:

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to SA and the amount of sales tax to be carried forward, if any, for the tax period August 2025.

23. MULAQAT ASSOCIATES (MA)

Mulaqat Associates (MA), an association of persons is registered under the Sales Tax Act, 1990 and is engaged in the business of manufacture and distribution of various products. Following information has been extracted from MA's records for February 2026:

	Rupees
Supplies	
Jet fuel to Pak Airways proceeding to Oslo	800,000
Taxable goods to registered customers	500,000
Taxable goods to un-registered customers	375,000
Purchases	
Taxable goods from registered suppliers	650,000
Taxable goods from un-registered suppliers	150,000
Exempt goods from registered suppliers	100,000
Imports – raw material	280,000

Following information is also available:

- i. Taxable goods purchased from registered suppliers include furniture of Rs. 45,000 which was acquired for use in the office of marketing manager.
- ii. Imports include raw materials worth Rs.125,000 for the manufacture of shaving cream covered under Third Schedule. However, in route from port to MA's warehouse, serious damage was caused to the consignment. MA received insurance claim of Rs. 90,000 after surrendering the right of disposal of consignment in favour of the insurance company.
- iii. MA purchased 150 bags of cement covered under Third Schedule, for the construction of a bungalow for managing partner. Cement was purchased at the wholesale price of Rs. 400 per bag. However, the retail price was Rs. 500 per bag.
- iv. Advance of Rs. 268,000 was made to Nomi Corporation for the purchase of packing materials. However, Nomi Corporation has not issued any document against the advance receipt.
- v. Taxable goods to un-registered customers include goods worth Rs. 200,000 sold to cottage industry in Bela. The rest of the goods were sold to educational institutions in Zhob.
- vi. On 15 February 2026, MA signed an agreement with Bali Traders(BT), a registered customer, for the sale of goods worth Rs. 290,000. On 20 February 2026, the goods were made available to BT. However, BT took the delivery of goods on 5 March 2026.
- vii. MA sold goods worth Rs. 52,000 to one of its customers on two months credit. The amount was inclusive of 4% mark-up.
- viii. MA distributed free samples of one of its new detergents Zeta among corporate clients. The value of these samples amounted to Rs. 65,000.
- ix. MA issued a debit note of Rs. 35,000 to Hali Brothers to rectify a mistake in MA's sales invoice. The invoice was originally raised in November 2025.
- x. On 1 February 2026, MA sold 4,000 packs of a new caramel ice cream, covered under Third Schedule, at a discounted price of Rs. 100 per litre pack. The retail price of the ice cream was Rs. 160 per litre pack.
- xi. Sales tax credit brought forward from January 2026 amounted to Rs. 245,000. This amount was inclusive of input tax of Rs. 120,000 paid on a chemical which could not be used before the expiry date and was consequently destroyed in February 2026.

All the above figures are exclusive of sales tax, wherever applicable. Sales tax is payable at the rate of 18%.

Required

Under the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by/refundable to MA and the amount of sales tax to be carried forward, if any, for the tax period February 2026.

Note: show all relevant exemptions, exclusions and disallowances.

24. RECORDING OF PARTIAL PAYMENT AND CHANGE IN TAX RATES

Under the provisions of the Sales Tax Act, 1990 and Rules made there under, briefly describe the treatment of the following;

- i. Recording of partial payments received in advance during a tax period in respect of both taxable and exempt supplies.
- ii. Change in rate of tax during a tax period.

25. DESTRUCTION OF GOODS

There are certain goods returned by the customer as they are unfit for consumption and the seller has no option but to destroy them.

Specify the procedure which must be followed by a registered person under the Sales Tax Rules, 2006 for the destruction of such goods.

26. MH ASSOCIATES

MH Associates (MHA) is registered under the Sales Tax Act, 1990 as a manufacturer, distributor and retailer. Following information has been provided by MHA for the month of August 2025:

	Rupees
Supplies Taxable goods to registered persons	7,850,000
Taxable goods to unregistered persons	815,000
Exempt goods to unregistered persons	800,000
Purchases	5,400,000
Taxable goods from registered persons	
Exempt goods from registered persons	1,500,000
Taxable goods from unregistered persons	1,100,000

Additional information:

- Supplies of taxable goods to registered persons include an invoice erroneously issued to Rasheed for Rs. 270,000 whereas the correct amount of invoice was Rs. 720,000.
- Supplies of taxable goods to unregistered persons include sale of Rs. 365,000 to end consumers.
- Purchases from registered suppliers of taxable goods include:
 - an amount of Rs. 1,800,000 paid for purchase of raw material. However, only 40% of the goods were supplied during August 2024.
 - goods worth Rs. 1,200,000 against which a discrepancy has been indicated by the CREST.

Two machines A and B costing Rs. 900,000 and Rs. 1,200,000 respectively were acquired and commissioned into operation on 15 August 2025. Machine A has been used for taxable supplies only whereas Machine B has been used for exempt supplies only.

- Input tax amounting to Rs. 120,000 was paid on 15 March 2025 but inadvertently it could not be claimed in the return for March 2025 and thereafter.
- An electricity bill of Rs. 670,000 was paid in cash which included sales tax amounting to Rs. 95,000.
- Taxable supplies of Rs. 90,000 were returned by the registered customers during the period.

Proper debit/credit notes were issued within the specified time.

- Sales tax credit brought forward from previous month amounted to Rs. 255,000.

Except where otherwise specified, all figures are exclusive of sales tax. Rate of sales tax is 18%.

Required

In the light of the provisions of the Sales Tax Act, 1990 and Rules made there under, compute the amount of sales tax payable by or refundable to MHA and input tax to be carry forward, if any, for tax period August 2025.

27. TAHA AND AHAN

Following information has been extracted from the records of two different persons registered under the Sales Tax Act, 1990 for the month of February 2026:

	Registered persons	
	Taha	Shan
	----- Rupees -----	
Purchases		
Taxable supplies from registered persons	-	11,000,000
Taxable supplies from unregistered persons	3,500,000	-
Exempt goods	-	3,000,000
Fixed assets (machinery) from a registered supplier (Note A)	5,000,000	6,000,000
Supplies	-	10,000,000
Taxable supplies to registered persons		
Taxable supplies to unregistered persons	2,000,000	-
Exempt supplies to registered persons	3,800,000	5,500,000
Zero rated supplies	2,500,000	-

Note A:

In case of Taha, the machinery has been used for exempt as well as zero rated supplies.

In case of Shan, the machinery has been used for taxable supplies only.

All the above figures are exclusive of sales tax. Sales tax is payable at the rate of 18%.

Required

In the light of the provisions of the Sales Tax Act, 1990 and Rules made there under, compute the amount of sales tax payable by or refundable to each of the above registered persons and input tax to be carried forward, if any, for the tax period February 2026.

28. MEHRBAN ASSOCIATES (MA)

Mehrban Associates (MA) is registered under the Sales Tax Act, 1990. MA is engaged in the business of manufacturing and supplying of various consumer goods. Following information is available from MA's records for the month of August 2025:

	Rupees
Purchases	
Taxable goods from registered persons	4,960,000
Taxable goods from unregistered persons	1,400,000
Exempt goods from unregistered persons	520,000
Supplies	
Taxable goods to registered persons	8,650,000
Taxable goods to unregistered persons	1,560,000
Exempt goods to local unregistered persons	1,740,000
Export of taxable goods to UAE	3,200,000
Export of purchased exempt goods to UAE	1,900,000

Additional information:

- i. Taxable goods from registered persons include:
 - materials worth Rs. 296,000, which were exclusively used for manufacturing exempt supplies.
 - materials worth Rs. 675,000, which were exclusively used for manufacturing export related goods.
 - goods worth Rs. 150,000 which were purchased in cash from a supplier.
 - 500 kg of tea purchased at a cost of Rs. 360,000 in one kg packing, covered under Third Schedule. Retail price of tea per kg is Rs. 900. By end of August 2024, 300 kg were supplied to an unregistered wholesaler at a price of Rs. 790 per kg.
- ii. Taxable goods supplied to unregistered persons include goods worth Rs. 320,000 which were sold to a distributor who did not provide his CNIC or NTN details. The raw material pertaining to these goods was purchased from a registered supplier for Rs. 275,000 during August 2025.
- iii. Following fixed assets were purchased during the month of August 2025:

Fixed assets	Purchase cost (Rs.)	Usage
Machine A	2,000,000	To ensure quality standards of packing for exports
Machine B	3,000,000	To manufacture taxable (local) as well as exempt (local) goods
Furniture and fittings	1,000,000	To use in office premises

- iv. Electricity bill of Rs. 959,450 was paid in cash. The bill was inclusive of sales tax of Rs. 154, 250.
- v. Sales tax credit brought forward from last month amounted to Rs. 1,137,580.
- vi. Input tax of Rs. 186,000 pertaining to purchase made on 1 February 2025 was inadvertently remain unclaimed.

All the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of 18%.

Required

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to MA and input tax to be carried forward, if any, for the tax period August 2025. (Show all relevant exemptions, exclusions and disallowances)

29. KAZMI TRADERS (KT)

Kazmi Traders (KT) is registered under the Sales Tax Act, 1990. KT is engaged in the business of manufacturing and supply of paper products. Following information is available from KT's records for the month of February 2026:

	Rupees
Purchases	
Taxable goods from registered persons (20% of these goods were returned to suppliers)	320
Taxable goods from unregistered persons	32
Exempt goods from registered persons	56
Electrical and sanitary fittings (60% used in factory building and 40% used in office building)	17
Plant and machinery	84
Supplies	
Taxable goods to registered persons (10% of these goods were returned by the customers)	200
Exports	98

Electricity bill paid in February 2026 includes sales tax of Rs. 1.36 million. 60% of the amount was related to the factory building while remaining amount was related to the office building.

All the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of 18%.

Required

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by or refundable to KT and input tax to be carried forward, if any, for the tax period February 2026. (Show all relevant exemptions, exclusions and disallowances)

30. ZAHID ENTERPRISE (ZE)

Zahid Enterprise (ZE) is registered under the Sales Tax Act, 1990. ZE is engaged in the business of manufacturing garments. Usman who recently joined ZE as an officer, has prepared the following computation of ZE's sales tax liability for the month of June 2025:

Description	Taxable Amount	Sales Tax
Input Tax:	---- Rs. in million ----	
Purchases from registered persons	140	25.2
Purchases dated 21 December 2024 inadvertently not claimed in December 2024 return	10	1.8
Gas bill paid in cash	2	0.36
Electricity bill of rented premises showing particulars of landlord	3	0.54
Debit note dated 20 June 2025 issued to a supplier for taxable supply against invoice dated 31 March 2025	6	1.08
Payment on 3 June 2025 against sales tax invoice dated 5 April 2025	70	12.6
Payment of provincial sales tax @ 15% against transporter's invoice dated 17 June 2025 for supplying goods to export processing zone	6.93	1.04
Advance paid to a supplier at the time of placing an order for customized goods. The goods will be delivered in October 2025	12	2.16
Purchase of plant and machinery	20	3.6
		48.38
Output Tax:		
Sales of taxable goods to registered persons Note 1	180	32.4
Sales of taxable goods to unregistered persons Note 2	44	7.92
Credit note dated 15 June 2025 issued to a customer for taxable supply against invoice dated 1 December 2024 Note 3	(7)	(1.26)
Garments withdrawn by owner during June 2025	4	-
		39.06
Sales tax refundable		9.32

Note 1: It includes goods of Rs. 50 million supplied to the export processing zone for further manufacturing.

Note 2: 20% of these customers are end users.

Note 3: Assume that the collector has not extended the time period for the issuance of debit or credit note(s).

All the above figures appeared in taxable amount column are exclusive of sales tax. Sales tax is payable at the rate of 18% except where it is specified otherwise.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder:

- a) prepare ZE's corrected computation of sales tax liability for the month of June 2025.
- b) state the reason(s) for ignoring the transaction, if any, while computing ZE's corrected sales tax liability in part (a) above.

31. CONFIDENCE ENGINEERING (CE)

Confidence Engineering (CE), a sole proprietorship, is registered under the Sales Tax Act, 1990. CE is engaged in the business of manufacturing and supplying auto parts. Following information is available from CE's records for the month of February 2026:

	Rs. in million
Purchases	
Taxable goods from registered persons	338
Taxable goods from unregistered persons	60
Supplies	
Taxable goods to registered persons	220
Taxable goods to unregistered persons	40

Additional information:

- i. Taxable goods from registered persons include wires and cables of Rs. 6 million, which were used in the repair of machinery.
- ii. Taxable goods from unregistered persons include goods worth Rs. 14 million purchased from a cottage industry.
- iii. Taxable goods to registered persons include:
 - auto parts of Rs. 5 million, which were supplied free of cost in exchange of defective parts covered under warranty.
 - auto parts of Rs. 4 million, which were withdrawn by the owner for his personal use.
 - raw materials of Rs. 2 million, which were given to factory engineer for his personal use.
 - goods of Rs. 32 million, which were sold to Pray Traders (PT) at a credit term of 2/10, n/30. PT paid the amount within 10 days and availed the discount.
- iv. Taxable goods to unregistered persons include goods of Rs. 16 million provided to a cottage industry.
- v. Raw materials of Rs. 25 million were destroyed due to a fire incident at the factory store. All such materials were purchased from registered suppliers.
- vi. Raw materials of Rs. 26 million were returned to suppliers. The materials were purchased in November 2025.
- vii. A sales tax invoice of Rs. 8 million dated 15 July 2025 was erroneously not declared in the sales tax returns for the month of July 2025 and onwards.
- viii. Taxable goods of Rs. 19 million were returned by the customers. These goods were sold in July 2025.
- ix. Electricity bill of Rs. 1.2 million was paid in cash.
- x. Sales tax credit brought forward from last month amounted to Rs. 27 million.

All the above figures are exclusive of Sales Tax which is payable at the rate of 18%. Assume that proper debit/credit notes were issued for the purchase and sales returns.

Required:

- a) In the light of the provisions of the Sales Tax Act, 1990 and Rules made thereunder, compute the amount of sales tax payable by CE and input tax to be carried forward, if any, for the tax period February 2026. (Show all relevant exemptions, exclusions and disallowances)
- b) State the reason(s) for your treatment of all exemptions, exclusions and disallowances while computing CE's sales tax liability in part (a).

32. Zeenat Enterprises

Zeenat Enterprises (ZE), a sole proprietorship, is registered under the Sales Tax Act, 1990. ZE is engaged in the business of manufacturing and supplying cosmetic products. The following information has been extracted from the records of ZE for the month of August 2026:

	Rs. in million
Purchases	44
Taxable goods from registered persons	9
Taxable goods from unregistered persons	
Supplies	
Taxable goods to registered persons	30
Taxable goods to unregistered persons	8
Exports	12

Additional information:

- i. Purchases of taxable goods from registered persons include:
 - raw material of Rs. 9.2 million (net of special discount of Rs. 1.2 million) from an associated undertaking.
 - glass bottles worth Rs. 4 million. Among these, 20% of the total cost corresponds to bottles that sustained damage in transit due to an accident. As a goodwill gesture, the supplier provided replacement bottles without any additional consideration, accompanied by a sales tax invoice.
 - a machine of Rs. 15 million procured from an importer. 60% of the payment was made during the month, while the remaining amount is scheduled to be paid in equal instalments over the next three months.
 - pigments in retail packing, listed in the Third Schedule, for Rs. 7.5 million. The retail price of these pigments is Rs. 7.9 million.
- ii. Purchases of taxable goods from unregistered persons comprise of beeswax obtained from a bee farmer.
- iii. Supplies of taxable goods to registered persons include various cosmetics products, listed in the Third Schedule, sold to a distributor for Rs. 23 million. The retail price of these products were Rs. 25 million. During the month, the distributor returned 10% of the goods. Corresponding debit/credit notes were issued on 5 September 2026.
- iv. Supplies of taxable goods to unregistered persons comprise of various cosmetic products, listed in the Third Schedule, to unregistered Tier-1 retailers.
- v. Exports comprise of various cosmetic products shipped to the UAE.
- vi. Packaging material worth Rs. 6 million were returned to the supplier on 10 August 2026, and corresponding debit/credit notes were issued on the same date. These returned materials were purchased on 2 February 2026.
- vii. A purchase of raw material from a registered person for Rs. 2.9 million on 10 February 2026, was inadvertently omitted in the sales tax returns for the month of February 2026 and onwards.

- viii. Perfumes having the retail price of Rs. 1 million were provided to the marketing staff as part of a promotional campaign, allowing walk-in-customers at malls and kiosks to try the fragrances for free.
- ix. All the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of 18%.

Required:

In light of the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to ZE and input tax to be carried forward, if any, for the tax period August 2026. *(Show all relevant exemptions, exclusions and disallowances)*

33. ABC persons

Following information has been extracted from the records of three registered persons for the month of February 2026:

	Registered Persons		
	A	B	C
	----- Rs in million -----		
Purchases			
Taxable supplies from registered persons	(Note i) 10	(Note ii) 20	-
Taxable supplies from unregistered persons	-	-	(Note v) 6
Machinery from a registered persons	4	(Note iii) 8	(Note vi) 12
Exempt supplies from registered persons	2	-	-
Zero-rated supplies from unregistered persons	-	3	-
Supplies			
Taxable supplies to registered persons	8	28	42
Taxable supplies to unregistered persons	5	(Note iv) 10	-
Exempt supplies to registered persons	-	9	15
Zero-rated supplies to registered persons	-	-	7
Input tax brought forward from January 2026	3	2	-

Note:

- These supplies are net of trade discount and cash discount of Rs. 2 million and Rs. 1 million respectively.
- 20% of supplies are Third Schedule items, the retail value of which is 30% more than the purchase value.
- The machine is used exclusively for exempt supplies.
- 10% of supplies are made to the cottage industry.
- This includes supplies of Rs. 2 million from the cottage industry.
- The machine is used exclusively for taxable supplies.

All the above figures are **exclusive of sales tax**, wherever applicable. Sales tax is payable at the rate of 18%.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to each of the above registered persons. Also, compute input tax to be carried forward, if any, for the tax period February 2026. *(Show all relevant exemptions, exclusions and disallowances)*

34. BILAL AND SONS (BS)

Bilal and Sons (BS) is registered under the Sales Tax Act, 1990, as a manufacturer and exporter. The accountant of BS has prepared the following computation of sales tax liability for the month of February 2026:

Description	Taxable Value (Rs.)	Sales Tax Rate	Sales Tax (Rs.)
Input tax			
Raw material purchased from registered suppliers	2,900,000	18%	522,000
Raw materials purchased from registered suppliers against which CREST discrepancy was identified	2,180,000	18%	392,400
Raw materials purchased from Salman Enterprises (SE) on 5 February 2026 – Note 1	3,100,000	18%	558,000
Building material purchased from registered suppliers for its head office	2,800,000	18%	504,000
Taxable goods from unregistered suppliers	640,000	inadmissible	-
Machine purchased from a registered supplier for its production department	2,000,000	18%	360,000
			2,336,400
Output tax			
Taxable supplies to registered persons	1,185,000	18%	213,300
Taxable supplies to associate - net of 30% special discount	700,000	18%	126,000
Insurance claim for raw material destroyed – Note 2	1,068,000	-	-
Advance received for goods to be delivered to Hameed & Co in April 2026	645,000	-	-
Supplies to an unregistered cottage industry	980,000	*22%	215,600
Export of goods	1,000,000	18%	180,000
Supply of goods to unregistered retailers operating in air-conditioned shopping plaza	395,000	*22%	86,900
			821,800
Excess of input tax over output tax			(1,514,600)
<i>*Inclusive of further tax</i>			

Notes:

1. On 10 February 2026, BS discovered that the Commissioner of Inland Revenue had suspended SE's registration, effective 1 February 2026.
2. The insurance claim was settled after BS surrendered the right of disposal of the consignment to the insurance company.

Additional information (not included in above calculation):

- Taxable supplies pledged with a bank were sold in an auction for Rs. 535,000 to settle a debt of Rs. 550,000 owed by BS. The selling price of these supplies in the market was Rs. 575,000.
- On 13 February 2026, BS entered into an agreement with Roshan Enterprise (RE), a registered supplier, to purchase goods worth Rs. 635,000. The goods were made available by RE on 18 February 2026. However, due to storage issues, BS collected the goods on 2 March 2026.
- Goods valued at Rs. 425,000 were used by the CEO at his residence.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above figures appearing in the taxable value column and amounts provided in the additional information are exclusive of sales tax.

Sales tax is payable at the rate of 18%, unless specified otherwise.

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, prepare the revised computation of BS's sales tax liability including amount of input tax to be carried forward, if any, for the tax period February 2026.

35. SARMAYA ASSOCIATES (SA)

Sarmaya Associates (SA) is engaged in the manufacturing and supply of personal care items. It is registered with the sales tax authorities as manufacturer, importer and distributor. The following information has been extracted from SA's records for the month of August 2026:

- i. Purchases from registered suppliers:
 - Raw materials for manufacturing taxable and exempt supplies of Rs. 8,700,000 and Rs. 500,000 respectively.
 - 800 kg of detergent, purchased for Rs. 840,000. The retail price of detergent is Rs. 1,200 per kg.
 - Goods worth Rs. 350,000, purchased from Khazana Enterprise, with payment made in cash.
- ii. Purchases of taxable goods from unregistered suppliers, valued at Rs. 3,850,000.
- iii. Import of 2,000 bottles of shampoo from France, valued at Rs. 2,000,000. The retail price of each bottle is Rs. 1,900.
- iv. Acquisition of a machine valued at Rs. 2,750,000, inclusive of a 10% mark-up, under a hire purchase agreement. A down payment of Rs. 500,000 was made during the month, with the remaining amount to be paid in 24 equal monthly instalments starting from August 2026.
- v. Supplies to registered persons:
 - Toilet soaps, valued at Rs. 243,000, supplied to a factory in the Export Processing Zone for consumption by factory staff.
 - 500 kits of shaving cream, supplied for consumption on-board an aircraft proceeding from Karachi to New York. These kits were purchased on credit from a distributor for Rs. 450,000 on 1 February 2026. The retail price of each kit is Rs. 1,200. Payment for these kits is still outstanding.
 - Goods valued at Rs. 325,000, supplied to a creditor against the final settlement of his debt of Rs. 350,000.

- Goods valued at Rs. 7,931,000, sold to Asaasa & Co. (AC), a registered retailer, on 12 August 2026. 90% of the goods were delivered to AC during the month, with remaining 10% to be delivered in September 2026 due to shortage of storage space at AC's warehouse. As per the agreement, AC makes payment to SA at the time of delivery of the goods.
- vi. Supplies to unregistered persons:
 - 500 bottles of imported shampoo, sold for Rs. 800,000 to a wholesaler.
 - Goods valued at Rs. 575,000, supplied to end consumers.
- vii. Exports comprised 1,500 bottles of imported shampoo sold for Rs. 3,750,000 to a departmental store in the UAE.

Additional information:

- i. An electricity bill of Rs. 354,000, including sales tax of Rs. 54,000, was paid in cash.
- ii. In January 2026, SA purchased taxable goods worth Rs. 455,000. The input tax of Rs. 81,900 on these goods was inadvertently left unclaimed.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above figures are exclusive of sales tax, except where it is specified otherwise. Sales tax is payable at the rate of **18%**.

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to SA and the amount of input tax to be carried forward, if any, for the tax period August 2026. *(Show all relevant exemptions, exclusions and disallowances)* (20)

CHAPTER 19 - RETURN RECORD KEEPING

1. SALES TAX RECORDS

- a) Which sales tax records are required to be maintained by a registered sales tax person?
- b) How long the taxpayers are required to retain these records?

2. NATURE OF RETURN

Who is required to file the following sales tax returns? Also mention the due date of filing of these returns.

- i. Monthly return
- ii. Final return
- iii. Special return
- iv. Annual return

3. MR. RAHEEL

Raheel, an unregistered person, runs a garment shop in the posh area of Karachi. He has received a notice from the Commissioner Inland Revenue requiring him to register with the sales tax authorities within 30 days.

Under the provisions of the Sales Tax Act, 1990 and Rules made there under, advise Raheel regarding the following:

- i. Whether the Commissioner is justified in issuing the notice to him.
- ii. Would it be necessary for him to respond to the notice?

4. TAX EVASION

- a) Following are the independent transactions carried out by different enterprises:
- i. In November 2025, an agreement for the acquisition of machine on hire purchase was signed. In December 2025, the machine was acquired under this agreement against 25% down payment of Rs. 30 million. The remaining balance is to be paid in 24 equals monthly installments of Rs. 4.5 million each.
 - ii. In December 2025, an advance of Rs. 12 million was received against delivery of goods to be made in March 2026.
 - iii. A machine of Rs. 38 million was purchased in July 2025 but it was put to use in November 2025.
 - iv. Goods of Rs. 7 million were sold in September 2025 but due to limited storage at buyer's premises, the goods were delivered in January 2026.

Required:

In the light of the provisions of the Sales Tax Act, 1990 and Rules made there under, identify and discuss the time (month) of supply for the chargeability of sales tax in respect of the above transactions.

- b) In the light of the Sales Tax Act, 1990 and Rules made thereunder, identify the situation(s) under which the Inland Revenue Department may recover the amount of sales tax from a person without issuing him a show cause notice. Also state the procedure for the recovery of the said amount.

OBJECTIVE AND LONG FORM ANSWERS

CHAPTER 1 – SYSTEM OF TAXATION IN PAKISTAN

1. DIRECT AND INDIRECT TAXATION

Federal taxes in Pakistan like most of the taxation systems in the world are classified into two broad categories, viz., direct and indirect taxes. A broad description regarding the nature of administration of these taxes is explained below:

DIRECT TAXES

A tax which is paid directly by an individual or organization to the imposing entity. A taxpayer pays a direct tax to a government for different purposes, including property tax, income tax or taxes on assets.

Income Tax

Direct taxes primarily comprise of Income Tax Ordinance, 2001. In the Income Tax Ordinance, 2001, tax is levied on the gross income such as Salary or net income such as Income from Business, of a taxpayer earned during a tax year computed by applying the specified tax rates as applicable to respective taxpayer.

For the purpose of the charge of tax and the computation of total income, all income is classified under the following heads:

- Salary
- Income from property
- Income from business
- Capital gains; and
- Income from other sources

Capital Value Tax

Capital value tax on different transactions such as transfer of rights.

INDIRECT TAXES

An indirect tax is a tax collected by an intermediary (such as a retail store) from the person who bears the ultimate economic burden of the tax (such as the consumer). The term indirect tax is contrasted with a direct tax which is collected directly by government from the persons (legal or natural) on which it is imposed. Some commentators have argued that "a direct tax is one that cannot be shifted by the taxpayer to someone else, whereas an indirect tax can be".

Following are the indirect taxes under the Pakistani Taxation System.

Customs Duty

Goods imported and exported from Pakistan are liable to rates of Customs duties as prescribed in Pakistan Customs Tariff. Customs duties in the form of import and export duties constitute a major part of the total tax receipts. The rate structure of customs duty is determined by a large number of socio-economic factors. However, the general scheme envisages higher rates on luxury items as well as on less essential goods. The import tariff has been given an industrial bias by keeping the duties on industrial plants and machinery and raw material lower than those on consumer goods.

Federal Excise Duty

Federal Excise duties are leviable on a limited number of goods produced or manufactured, and services provided or rendered in Pakistan. On most of the items Federal Excise duty is charged on the basis of value or retail price. Some items are, however, chargeable to duty on the basis of weight or quantity. Classification of goods is done in accordance with the Harmonized Commodity Description and coding system which is being used all over the world. All exports are liable to zero per cent Federal Excise Duty.

Sales Tax

Sales tax is levied at various stages of economic activity at the rate of 18% on:

- All goods imported into Pakistan, payable by the importers;
- All supplies made in Pakistan by a registered person in the course of furtherance of any business carried on by him;
- There is an in-built system of input tax adjustment and a registered person can make adjustment of tax paid at earlier stages against the tax payable by him on his supplies. Thus, the tax paid at any stage does not exceed 18% of the total sales price of the supplies.

2. REVENUE AND NON-REVENUE OBJECTIVES OF TAXATION

Tax Law	Objective
Tax on salary / income from business	Revenue Collection
Any amount transferred otherwise than banking channel will be deemed as income	Documentation of economy (non-revenue)
Tax on moveable assets of the taxpayers	Fair distribution of wealth (revenue)
Higher taxes on import of luxury goods	Reduction in imports of unnecessary goods and create good balance of trade (non-revenue)
Allowability of expenditure of research & developments	Promotion of research & developments (non-revenue)
Zero rating on Exports	Promotion of Exports (non-revenue)
Tax credit on Donations to approved institutions	To promote culture of payment of donation to only organised and regulated institutions (non-revenue)
Tax credit on investments	Promote investments in listed companies (non-revenue)
Tax exemptions to software exports	Promote software industry (non-revenue)

3. TAX STRUCTURES

There are broadly three different tax structures;

i. Proportionate / Flat Tax

A tax system that requires the same percentage of income from all taxpayers regardless of their earnings. For instance, if a tax is levied at 10% per annum, a person earning Rs.100,000 will be responsible to pay Rs.10,000 in taxes. Similarly, a person who earns Rs.500,000 p.a will be responsible to pay Rs.50,000 in taxes.

ii. Regressive tax

It is a tax imposed in such a manner that the tax rate decreases as the amount subject to taxation increases. This tax takes a larger percentage from a person's low-income than from another person's high-income. This means that it hits lower-income individuals harder.

iii. Progressive tax

A tax that takes a larger percentage from high-income earners than it does from low-income earners. In other words, the more one earns, the more tax he would have to pay. The tax amount is proportionately equal to someone's status in the society. A rich man should pay more than a poor man. For instance, if a person earns Rs.2,000,000 in a tax year, with a progressive tax rate of 10%, he would be responsible for paying Rs.200,000. Meanwhile, another person, who earns Rs.5,000,000 in a tax year, may be taxed at 20%, which totals Rs.1,000,000 per year in taxes.

Tax structure prevailing in Pakistan

There are two different tax cultures that is prevalent in Pakistan;

i. Flat rate

This type of structure is usually prevalent in indirect taxes e.g. sales tax or federal excise duty. For instance, supply of goods in Pakistan would attract 17% of sales tax on the value of taxable goods that is collected by the seller from a buyer and paid to the Federal Government.

ii. Progressive rate

It is usually prevalent in direct taxes i-e. salary, income from property, income from business, capital gains and income from other sources. Since, it is directly deposited by the taxpayer to the government without any intermediary therefore it is termed as direct tax.

4. MAJOR CHARACTERISTICS OF EFFECTIVE TAXATION SYSTEM**i. Tax is an enforced contribution**

Tax payment is not voluntary in nature and the imposition is not dependent upon the will of the person taxed.

ii. Tax is proportionate in character

Payment of taxes should be based on the ability to pay principle; higher income of the tax payer, the bigger amount of the tax paid.

iii. Tax is levied (*to impose; collect*) on income, transactions or property

There are taxes that are imposed or levied on acts, rights or privileges.

iv. Tax is levied by the state which has jurisdiction over the person or property

As a general rule, only persons, properties, acts, right or transaction within the jurisdiction of the taxing state are subjects for taxation.

v. Tax is levied for public purposes

Taxes are imposed to support the government in implementation of projects and programs.

vi. Fiscal adequacy

The sources of revenue taken as a whole should be sufficient to meet the expenditures of the government, regardless of business, export taxes, trade balances and problems of economic adjustments.

vii. Equality or Justice

Taxes levied must be based upon the ability of the citizen to pay.

viii. Administrative Feasibility

In a successful tax system, tax should be clear and plain to taxpayers, capable of enforcement by the adequate and well-trained public officials, convenient as to the time and manner of payment and not unduly burdensome to discourage business activity.

5. STRATEGIES OF TAXATION MANAGEMENT

Tax practitioners and taxpayer normally adopts any of the following technique to lessen tax burden:

Tax avoidance is generally the legal exploitation of the tax regime to one's own advantage, to attempt to reduce the amount of tax that is payable by means that are within the law whilst making a full disclosure of the material information to the tax authorities. Examples of tax avoidance involve using tax deductions, changing one's business structure through incorporation or establishing an offshore company in a tax haven.

By contrast tax evasion is the general term for efforts by individuals, firms, trusts and other corporate entities to evade the payment of taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as under declaring income, profits or gains; or overstating deductions).

6. TAX RELIEFS IN CROSS BORDER TRANSACTIONS

i. Free trade agreements

Under this type of trade, countries enjoy the tax exemption from trading between them.

ii. Agreement for avoidance of double taxation

The Government of Pakistan has so far signed agreements to avoid double taxation with more than 70 countries including almost all the developed countries of the world. These agreements lay down the ceilings on tax rates applicable to different types of income arising in Pakistan. They also lay down some basic principles of taxation which cannot be modified unilaterally.

7. EXAMPLES OF INDIRECT TAXES

Following are the indirect taxes under the Pakistani Taxation System.

a. Custom Duty

Goods imported and exported from Pakistan are liable to rates of customs duties as prescribed in Pakistan Custom Tariff.

b. Federal Excise Duty

Generally, federal excise duty is charged on the basis of excise value or retail price. However, some items are chargeable to duty on the basis of weight or quantity. All exports are liable to Zero per cent Federal Excise Duty.

c. Sales Tax

Sales tax is levied on:

- Import of goods into Pakistan, payable by the importers;
- Supplies made in Pakistan by a registered person in the course of furtherance of any business carried on by him;

A registered person can make adjustment of tax paid at earlier stages against the tax payable by him on his supplies. For most of the goods sales tax is payable @ 18%.

8. INDIRECT TAXES UNDER THE PAKISTANI TAXATION SYSTEM.

Following are the indirect taxes under the Pakistani Taxation System.

Custom Duty

Goods imported and exported from Pakistan are liable to rates of customs duties as prescribed in the Pakistan Customs Tariff. Customs duties in the form of import duties and export duties constitute a major part of the total tax receipts. The rate structure of customs duty is determined by a large number of socio-economic factors. However, the general scheme envisages higher rates on luxury items as well as on less essential goods. The import tariff has been given an industrial bias by keeping the duties on industrial plants and machinery and raw material lower than those on consumer goods.

Federal Excise Duty

Federal Excise duties are levied on a limited number of goods produced or manufactured, and services provided or rendered in Pakistan. On most of the items, Federal Excise duty is charged on the basis of value or retail price. Some items are, however, chargeable to duty on the basis of weight or quantity. Classification of goods is done in accordance with the Harmonized Commodity Description and Coding system which is being used all over the world. All exports are liable to Zero percent Federal Excise Duty.

Sales Tax

Sales tax is levied at various stages of economic activity:

- All taxable goods imported into Pakistan, payable by the importers;
- All taxable supplies made in Pakistan by a registered person in the course of furtherance of any business carried on by him; and
- All taxable services are provided in Pakistan.

There is an in-built system of input tax adjustment and a registered person can make adjustments of tax paid at earlier stages against the tax payable by him on his supplies. Thus, the tax paid at any stage does not exceed 18% of the total sales price of the supplies. In Pakistan, the government has the flexibility to levy sales taxes at varying rates, which may be higher or lower than 18%.

CHAPTER 2 – CONSTITUTIONAL PROVISION ON TAXATION

1. POWERS OF THE FEDERATION TO LEGISLATE ON TAXES

Following entries in the Federal legislative list as contained in the Constitution of Pakistan relates to taxes and following laws are enacted by the Federal Government:

Legislative powers of Federation	Laws enacted there under
Taxes on income other than agricultural income; Taxes on corporations. Taxes on mineral oil, natural gas and minerals for use in generation of nuclear energy.	Income Tax Ordinance, 2001 (Direct tax)
Taxes on the sales and purchases of goods imported, exported, produced, manufactured or consumed, except sales tax on services Taxes and duties on the production capacity of any plant, machinery, undertaking, establishment or installation in lieu of any one or more of them.	Sales Tax Act, 1990, Federal Excise Act, 2005, Customs Act, 1969 (Indirect tax)
Taxes on the capital value of the assets, not including taxes on immovable property.	Capital Value Tax levied through Finance Act, 1989 (Direct tax)

CHAPTER 3 – ETHICS

1. CANONS OF TAXATION

Canons of Taxation are the main basic principles set to build a 'Good Tax System'. Canons of Taxation were first originally laid down by economist Adam Smith in his famous book "The Wealth of Nations". Adam Smith only gave four canons of taxation. These original four canons are now known as the "Original or Main Canons of Taxation". Adam Smith's Four Main Canons of Taxation are:

1. Canon of Equity:

The principle aims at providing economic and social justice to the people. Every person should pay to the government depending upon his ability to pay. The rich class people should pay higher taxes to the government, because without the protection of the government authorities (Police, Defence, etc.) they could not have earned and enjoyed their income. Adam Smith argued that the taxes should be proportional to income, i.e., persons should pay the taxes in proportion to the revenue which they respectively enjoy under the protection of the state.

2. Canon of Certainty:

The tax which a person has to pay should be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time and in what form the tax is to be paid to the government. At the same time a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax.

3. Canon of Convenience:

The mode and timing of tax payment should be as far as possible, convenient to the tax payers. For example, for an agricultural country, tax is collected at the time of harvest income tax, is deducted at source. Convenient tax system will encourage people to pay tax and will increase tax revenue.

4. Canon of Economy:

This principle states that there should be economy in tax administration. The cost of tax collection should be lower than the amount of tax collected. It may not serve any purpose, if the taxes imposed are widespread but are difficult to administer. Therefore, it would make no sense to impose certain taxes, if it is difficult to administer.

2. ETHICS FOR TAX PRACTITIONER

There are five fundamental principles of ethics for tax practitioners. These are set out below:

1. Integrity

Tax Practitioners should be straightforward and honest in all professional and business relationships. Integrity implies not just honesty but also fair dealing and truthfulness.

2. Objectivity

Tax practitioners should not allow bias, conflicts of interest or undue influence of others to override their professional or business judgments.

3. Professional competence and due care

Tax Practitioners have a duty to maintain their professional knowledge and skill at such a level that a client or employer receives competent service, based on current developments in practice, legislation and techniques. Tax practitioners should act diligently and in accordance with applicable technical and professional standards.

4. Confidentiality

Tax Practitioners should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose such information to third parties without authority or unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of tax practitioners or third parties.

5. Professional behaviour

Tax practitioners should comply with relevant laws and regulations and should avoid any action which discredits the profession.

They should behave with courtesy and consideration towards all with whom they come into contact in their professional capacity.

3. PRINCIPLES OF LEVY OF TAXES

Following are some broad principles for levy of taxes:

i. The Benefit Principle

This principle holds that the individuals should be taxed in proportion to the benefits they receive from the governments and that taxes should be paid by those people who receive the direct benefit of government programs and projects out of the taxes paid.

ii. The Ability-to-Pay Principle

This principle holds that taxes should relate with the person's income or the ability to pay, that is, those with greater income or wealth who can afford to pay should be taxed. Similarly, even rate of tax could increase with higher income.

iii. The Equal-Distribution Principle

Income, wealth and transaction may be taxed at a fixed percentage; that is, people who earn more and spend more should pay more taxes, but not pay a higher rate of tax

4. TAX IMPLEMENTING AUTHORITIES

Responsibilities of the tax implementing authorities:

A concise code which can enlist responsibilities of Tax Administrators can be as under:

- Obey all laws relating to taxation and grant no exemptions, credit or advantage to any taxpayer that is not provided by the law;
- Be dedicated to the highest ideals of honesty and integrity in all matters in order to maintain the respect and confidence of the government and taxpayers;
- Strive to be impartial, fair, neutral and consistent in administering the law without regard to race, social status or economic circumstances;
- Provide prompt, efficient and quality service to all stakeholders in an effort to exceed their expectations;
- Refrain from actively participating in partisan political activities;
- Accurately record proceedings and maintain taxpayer information in the strictest confidence and highest level of security;
- Refrain from soliciting gifts for actions and non-actions;

5. ETHICAL ISSUES

Ethical issues facing tax administration in the discharge of their duties are:

- i. Acceptance of gifts
- ii. Conflict of interest
- iii. Selective application of the law
- iv. Political influence
- v. Confidentiality
- vi. Discretion

6. FUNDAMENTAL PRINCIPLES OF ETHICS

- i. Integrity
- ii. Objectivity
- iii. Professional competence and due care
- iv. Confidentiality
- v. Professional behaviour

Integrity:

Tax practitioners should be straightforward and honest in all professional and business relationships. Integrity implies not just honesty but also fair dealing and truthfulness.

7. NON-REVENUE OBJECTIVES AND PRINCIPLES OF A SOUND TAX

- (a)
 - To strengthen anemic enterprises by granting them tax exemptions or other conditions or incentives for growth;
 - To protect local industries against foreign competition by increasing local import taxes;
 - As a bargaining tool in trade negotiations with other countries;
 - To counter the effects of inflation or depression;

- (b) (i) Fiscal adequacy

The sources of revenue taken as a whole should be sufficient to meet the expenditures of the government, regardless of business, export taxes, trade balances and problems of economic adjustments. Revenues should be capable of expanding or contracting annually in response to variations in public expenditures.

- (ii) Equality or theoretical justice

Taxes levied must be based upon the ability of the citizen to pay.

- (iii) Administrative feasibility

In a successful tax system, tax should be clear and plain to taxpayers, capable of enforcement by the adequate and well-trained public officials, convenient as to the time and manner of payment and not unduly burdensome to discourage business activity.

8. PRINCIPLES OF A SOUND TAX SYSTEM

Fiscal adequacy

The sources of revenue taken as a whole should be sufficient to meet the expenditures of the government, regardless of business, export taxes, trade balances and problems of economic adjustments. Revenues should be capable of expanding or contracting annually in response to variations in public expenditures.

Equality or Theoretical justice

Taxes levied must be based upon the ability of the citizen to pay.

Administrative feasibility

In a successful tax system, tax should be clear and plain to taxpayers, capable of enforcement by the adequate and well-trained public officials, convenient as to the time and manner of payment and not unduly burdensome to discourage business activity.

Consistency or compatibility with economic goals

Tax laws should be consistent with economic goals or programs of the government which pertain to basic services intended for the masses.

9. FUNDAMENTAL PRINCIPLES

- i. Objectivity
- ii. Professional competence and due care
- iii. Confidentiality
- iv. Professional behaviour

Integrity:

Tax practitioners should be straightforward and honest in all professional and business relationships. Integrity implies not just honesty but also fair dealing and truthfulness.

Objectivity:

Tax practitioners should not allow bias, conflicts of interest or undue influence of others to override their professional or business judgments.

Professional competence and due care:

Tax practitioners have a duty to maintain their professional knowledge and skill at such a level that a client or employer receives competent service, based on current developments in practice, legislation and techniques. Tax practitioners should act diligently and in accordance with applicable technical and professional standards.

Confidentiality:

Tax practitioners should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose such information to third parties without authority or unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of tax practitioners or third parties.

Professional behavior:

Tax practitioners should comply with relevant laws and regulations and should avoid any action which discredits the profession. They should behave with courtesy and consideration towards all with whom they come into contact in their professional capacity.

10. JABBAR GAS SUPPLY LIMITED (JGSL)

Due to the self-review threat, a firm cannot prepare calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion. However, if such calculation are immaterial to the financial statements on which the firm will express an opinion, this service may be provided by adopting following safeguards:

- i. Using professionals who are not audit team members to perform the service.
- ii. Having an appropriate reviewer who was not involved in providing the service reviews the audit work or service performed.

11. COUNTRY'S DEVELOPMENT TAX

- i. The Government can declare some areas as free zone, industrial zone, and economic zone and provide tax incentives to such areas. Such incentives could attract businessman/industrialist who may opt to establish business concerns/industrial units that would bring employment, opportunities and overall prosperity in these under developed areas.
- ii. Taxing the rich at higher rates while taxing the low income groups at lower tax rates to address economic disparities among citizens within the country.
- iii. Imposition of high custom duty rates on luxury items. This promotes local manufacturing industry.
- iv. Tax credits on charitable donations to promote welfare activities.
- v. Tax exemptions to charity organisation/educational institutions to promote these activities.
- vi. Exemption of tax to Agriculture sector to promote agriculture.

12. PRINCIPLES GOVERNING THE LEVY OF TAXES.**Principles for levy of Tax**

Following are some broad principles for levy of taxes:

Benefit Principle

This principle holds that the individuals should be taxed in proportion to the benefits they receive from the government and that taxes should be paid by those people who receive the direct benefit of government programs and projects out of the taxes paid.

The Ability-to-Pay Principle

This principle holds that taxes should relate to the person's income or the ability to pay, that is, those with greater income or wealth who can afford to pay should be taxed. Similarly, even a rate of tax could increase with higher income.

The Equal-Distribution Principle

Income, wealth, and transaction may be taxed at a fixed percentage; that is, people who earn more and spend more should pay more taxes, but not pay a higher rate of tax.

13. PILLARS OF TAX ADMINISTRATION THAT PROTECT TAXPAYERS'

Pillars of Tax Administration

Pillars of tax administration which safeguard the interest of taxpayers and avoid abuse of powers by the tax administration are as follows:

Fairness

Strive to be impartial, fair, neutral and consistent in administering the law without regard to race, social or economic circumstances.

Transparency

All proceedings must be transparent and must be seen as transparent.

Equity

Treating all taxpayers fairly. Refraining from unduly pressurizing a taxpayer or a body of taxpayers merely to achieve tax targets.

Accountability

There must be a strong system of accountability for wrongdoers which should curb corruption, nepotism and maladministration.

14. level of threats

Factors that are relevant in evaluating the level of threats created by providing any tax service to an audit client include:

- (i) The particular characteristics of the engagement.
- (ii) The level of tax expertise of the client's employees.
- (iii) The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- (iv) The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

CHAPTER 4 – BASIC CONCEPTS OF INCOME TAX LAW

1. DEDUCTIBLE ALLOWANCES

The deductible allowances which are deducted from total income to arrive at taxable income are given as under;

Zakat (Sec 60)

A person is 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. Where the amount of Zakat is more than total income, the excess amount shall not be refunded or carried forward or carried back.

Worker's welfare fund (Sec 60A)

A person shall be entitled to a deductible allowance for the amount of any Workers' Welfare Fund (WWF) paid by the person in the tax year under Workers' Welfare Fund Ordinance, 1971 or under any law relating to the Workers Welfare Fund enacted by Provinces after the Eighteenth Constitutional Amendment Act, 2010. However, no deductible allowance will be allowed where any amount is paid to provinces by trans-provincial organizations (a person having operations in more than one province).

Worker's participation fund (Sec 60B)

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 or under any law relating to the Workers profit participation Fund enacted by Provinces after the eighteenth Constitutional amendment Act, 2010. However, no deductible allowance will be allowed where any amount is paid to provinces by trans-provincial organizations (a company having operations in more than one province).

Deductible allowance for education expenses (Sec 60D)

- Every individual shall be entitled to a deductible allowance in respect of tuition fee paid by the individual in a tax year provided that the taxable income of the individual is less than Rs.1,500,000.
- The amount of an individual's deductible allowance allowed for a tax year shall not exceed the lesser of —
 - a. 5% of the total tuition fee paid by the individual in the year;
 - b. 25% of the person's taxable income for the year; and
 - c. an amount computed by multiplying Rs.60,000 with number of children of the individual.
- Any allowance or part of an allowance for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.
- Allowance shall be allowed against the tax liability of either of the parents making payment of the fee on furnishing national tax number (NTN) or name of the educational institution.
- Allowance shall not be taken into account for computation of tax deduction from Salary under section 149.

2. PUBLIC COMPANY VS. PRIVATE COMPANY

- a. Public company means:
 - i. A company in which not less than 50% of the shares are held by the Federal or Provincial Government;
 - ii. A company in which not less than 50% of the shares are held by a Foreign Government, or a foreign company owned by a foreign government;
 - iii. A company whose shares were traded on a registered stock exchange in Pakistan at any time in the tax year and which remained listed on that exchange at the end of that year;
 - iv. A unit trust whose units are widely available to the public and any other trust as defined in the Trusts Act, 1882.
- b. Private company means a company that is not a public company.

3. DEFINITIONS/CONCEPTS**i. Industrial undertaking means —**

- an undertaking which is set up in Pakistan and which employs,
 - ten or more persons in Pakistan and involves the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy; or
- twenty or more persons in Pakistan and does not involve the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy;
- and which is engaged in,—

- i. the manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition; or
- ii. ship-building; or
- iii. generation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power; or
- iv. the working of any mine, oil-well or any other source of mineral deposits; and
- v. from the 1st day of May, 2020, a person directly involved in the construction of buildings, roads, bridges and other such structures or the development of land, to the extent and for the purpose of import of plant and machinery to be utilized in such activity, subject to such conditions as may be notified by the Board;
- vi. from the first day of July, a resident company engaged in the hotel business in Pakistan; and
- telecommunication companies operating under the license of Pakistan Telecommunication Authority (PTA).

ii. The fair market value

- Fair market value (FMV) of any property, or rent, asset, service, benefit or perquisite at a particular time shall be the price which the property, or rent, asset, service, benefit or perquisite would ordinarily fetch on sale or supply in the open market at that time.
- The fair market value of any property, or rent, asset, service, benefit or perquisite shall be determined without having regard to any restriction on transfer or to the fact that it is not otherwise convertible to cash.
- Where the price referred above is not ordinarily ascertainable, the Board may, from time to time, by notification in the official gazette determine the fair market value of the immoveable property of the area and areas as may be specified in the notification.
- Where the fair market value of any immoveable property of an area or areas has not been determined by the board in the notification referred as above, the fair market of such immoveable property shall be deemed to be the value fixed by the district officer (revenue) or provincial or any other authority authorize in this behalf for the purposes of stamp duty.

iii. Apportionment of deductions

This concept implies that the expenditures, deductions and allowances which relate to the following shall be apportioned on any reasonable basis taking into account the relative nature and size of the activities to which the amount relates:

- the derivation of more than one head of income; or
- derivation of taxable income and any class of income subject to Final Tax Regime
- the derivation of income chargeable to tax under any head of income and to some other purpose.

iv. Receipt of income

This rule states that a person shall be treated as having received an amount when:

- it is actually received by the person;
- it is applied on behalf of the person; or
- it is made available to the person.

4. RESIDENTIAL STATUS

Resident Individual:

Residential status of the following persons for the tax year ended June 30, 2026 under the given circumstances.

- (i) For the tax year ended June 30, 2026, the relevant period is July 01, 2025 to June 30, 2026. Therefore, the stay of Mr. Mubeen for the purpose of tax year 2026 is:

Month	Days
April 2026	30
May 2026	31
June 2026	30
Total	91

Since his stay in Pakistan is less than 183 days in tax year 2026, he is a non-resident for tax purposes.

However, Mr. Mubeen can still be treated as resident if he is not present in any other country for more than 182 days during the tax year or he is not a resident taxpayer of any other country.

- (ii) Since Mr. Rana never travelled abroad in his life before proceeding to Canada for assuming his job responsibilities, the number of days he spent in Pakistan for the tax year 2026 is:

Month	Days
July 2025	31
August 2025	31
September 2025	30
October 2025	31
November 2025	30
December 2025	29
Total	182

The day he spent in Pakistan on June 30, 2026, while in transit, would not be counted as day of his presence in Pakistan. Therefore, Mr. Rana total stay in tax year 2026 is less than 183 days and he will be considered non-resident.

- (iii) A Federal Government Employee posted abroad in terms of his employment is considered as a resident person irrespective of his physical presence in Pakistan. Therefore Mr. Baber is a resident individual for tax year 2026.
- (iv) In case of Mr. Francis, it is immaterial where he stayed in Pakistan. The calculation will be made from the day of his arrival in Pakistan to the day of his departure from Pakistan. Therefore, the total number of days he spent in Pakistan during the calendar year 2025 i.e. the year starting from January 01, 2025 to December 31, 2025 (Special tax year 2026) is:

Month	Days
July 2025	1
August 2025	31
September 2025	30
October 2025	31
November 2025	30
December 2025	31
Total	154

In view of the permission granted by Commissioner Income Tax to Mr. Francis to use special tax year, the number of days he spent in Pakistan beyond December 31, 2025 would fall under tax year 2026. Therefore, 31 days which he spent in January 2026 would not be included in tax year 2026. As a result, Mr. Francis is a non-resident person as his total stay in tax year 2026 is less than 183 days.

Summary (Just for your convenience not for exam purpose)

Person	Days in Pakistan (tax year basis)	Rule Applied	Status
Mr. Mubeen	91	Sec. 82(a)/(c)	Non-resident unless 82(c) applies
Mr. Rana	182 (transit excluded)	Sec. 82(a)	Non-resident
Mr. Baber	N/A (Govt posted abroad)	Sec. 82(b)	Resident
Mr. Francis	154 (special year)	Sec. 82(a)	Non-resident

5. TYPES OF TAX REGIMES

The mechanism for determination of taxable income is categorised under four regimes which are as under:

i. Normal tax regime (Net income basis)

Under the normal tax regime, tax is charged on taxable income of the taxpayer. For each head of income, there may be certain expenses which can be claimed as deduction to arrive at the total income. From total income, certain straight deductions are made (e.g. Zakat, WPPF, WWF etc.) which are known as Deductible Allowance in order to compute the Taxable Income. Tax Liability is computed by applying the relevant tax rates to the Taxable Income. Moreover, against the tax liability, certain specified tax credits (e.g. contribution to pension fund etc. are allowed to the taxpayer which result in the ultimate tax payable / (refundable).

Total income = Five heads of income (NTR) + Exempt income

Taxable Income = Total Income – Deductible Allowance

Tax = Taxable income x rate of tax

Tax payable / (refundable) with return = Tax – Tax Credits

ii. Income subject to separate charge (Sec 5-8)

- Income subject to separate charge, are the incomes which do not form part of total income or taxable income and are subject to tax on the basis of gross income.
- Section 5, 5A, 5AA, 6, 7, 7A, 7B and 8 of the Income Tax Ordinance, 2001 govern the taxation of such income and these are:
 - i. Dividend
 - ii. Tax on return on Investments in sukuks
 - iii. Tax on certain payments to non-resident
 - iv. Shipping income of non-resident.
 - v. Shipping income of a resident person.
 - vi. Profit on debt in case of individual and AOP
 - vii. Air transport income of non-resident.

- Following rules apply to income subject to separate charge:
 - i. Tax imposed is a final tax
 - ii. Such income is not chargeable to tax under any head of income in computing the taxable income of the person
 - iii. No deduction is allowed for any expenditure incurred in deriving such income
 - iv. The amount of such income is not reduced by:
 - a. Any deductible allowance
 - b. The set off of any loss
 - v. The final tax payable is not reduced by any tax credit allowed (foreign tax credit or tax credits on donations, investments etc.)
 - vi. The liability of the recipient of such income is discharged to the extent that:
 - a. In the case of shipping and air transport income, the tax is paid in accordance with relevant sections of the Ordinance; or
 - b. In any other case, the final tax payable has been deducted at source.

iii. Final tax regime (Gross income basis)

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

iv. Minimum tax regime

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

Various incomes which are treated as minimum tax under the Income Tax Ordinance, 2001 are:

- i. Minimum tax under section 113 on turnover
- ii. Tax collected at import stage on commercial imports
- iii. Tax deducted @ 1% at the time of realization of export proceeds
- iv. Tax deduction at source @ 15% from gross amount of service rendered under section 153
- v. Tax collected upto the electricity bill amount of Rs.360,000 per annum for a person other than company under section 235.

Tax Regime	Basis of Taxation	Key Features	Example Incomes
Normal Tax Regime (NTR)	Net income basis – tax on taxable income after deductions and allowances	- Income computed under 5 heads of income + exempt income. - Deductible allowances (e.g., Zakat, WPPF) reduce total income. - Relevant tax rates applied to taxable income. - Tax credits allowed against liability.	Salary, business income, rental income (unless under final tax), capital gains (where not under separate/final charge)
Income Subject to Separate Charge	Gross income basis – taxed separately at specified rates; does not form part of taxable income	- Covered by specific sections (5–8). - Final tax; no deductions, allowances, loss set-off, or tax credits. - Tax is either deducted at source or paid directly, liability discharged.	Dividend, profit on debt (individual/AOP), shipping/air transport income of non-residents
Final Tax Regime (FTR)	Gross income basis – tax deducted/collected at source treated as final liability	- Governed by Sec. 169. - Tax at source is non-adjustable. - Income excluded from taxable income. - No deductions, allowances, loss set-off, or tax credits. - Usually no return filing required for such income.	Contract payments under Sec. 153 (where final), certain commercial imports, specified transactions notified under law

6. JEAN FRANCOIS

In view of the permission granted by Commissioner IR to Jean Francois to use special tax year, the number of days he spent in Pakistan beyond 31 December 2025 would fall under tax year 2027. As a result, John is a non resident person because his total stay in tax year 2026 is 175 days (i.e. from 10 July to 31 December) which is less than 183 days.

7. FTR

Following rules are applicable on the income subject to FTR:

- i. Such income is not chargeable to tax under any head of income in computing the taxable income;
- ii. No deduction is allowed for any expenditure incurred in deriving the income
- iii. The amount of the income is not reduced by
 - Any deductible allowance; or
 - The set off of any loss
- iv. The tax deducted is not reduced by any tax credit
- v. There is no refund of the non-adjustable tax collected or deducted at source unless such tax is in excess of the amount of final tax for which the taxpayer is chargeable and
- vi. An assessment is treated to have been made and the person is not required to furnish a return of income in respect such income.

8. FAIR MARKET VALUE

The cost of a personal assets treated as acquired by the business shall be the fair market value of the asset determined at the date it is applied to business use.

9. CHANGE IN TAX YEAR

- i. A person may apply in writing to the Commissioner for a change in tax year from a special tax year to the normal tax year. The Commissioner shall grant permission only if satisfied that there is a compelling need to adopt the normal tax year. While granting permission, the Commissioner may impose such conditions as he deems fit. The Commissioner's order for a change of tax year shall take effect from the date specified in the order, being the first day of the normal tax year.
- ii. A person may apply in writing to the Commissioner for a change in the person's method of accounting. The Commissioner may, by written notice, approve the application only if satisfied that the change is necessary to clearly reflect the person's income chargeable to tax under the head "Income from Business." Where a person's method of accounting has changed, the person shall make the necessary adjustments to items of income, deductions, credits, or any other affected items to ensure that no item is omitted and no item is taken into account more than once.

10. OBJECTIVE OF TAX LAWS

- i. To protect local industries against foreign competition.
- ii. To promote exports of the country.
- iii. To counter the effects of inflation.
- iv. To document the economy.
- v. To bring the investments in construction related sectors.
- vi. To discourage savings in bank account.
- vii. To promote online businesses
- viii. To increase employment rate in the country
- ix. To remove inequality in distribution of wealth
- x. To promote science and innovation

11. PUBLIC INTEREST ENTITIES

- (a) (i) Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat. The significance of the threat will depend on:
- The complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them;
 - The level of tax expertise of the client's personnel; and
 - The materiality of the amounts to the financial statements.

Safeguards

Safeguards shall be applied, when necessary, to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using professionals who are not members of the audit team to perform the service;
- If the service is performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the tax calculations; or
- Obtaining advice on the service from an external tax professional.

(b)	i.	Agriculture income tax	Provinces
	ii.	Custom duty	Federation
	iii.	Tax on transfer of immovable property	Provinces
	iv.	Capital value tax	Federation
	v.	Property tax	Provinces
	vi.	Sales tax on services	Provinces

12. FASTER & CO.

- (a) (i) In case any immovable property having fair market value (FBR value or DC rate whichever is higher) greater than five million rupees is purchased in cash, then it will have following implications:
- Such asset shall not be eligible for initial allowance or depreciation.
 - Such amount shall not be treated as cost for computation of any gain on disposal (sale value will be treated as capital gain).
 - Such person shall pay a penalty of 5% of the FBR value or DC rate whichever is higher.
- (ii) Any payment by way of loan by a private company as defined under the Companies Act, 2017 to its shareholder to the extent of accumulated profits is treated as dividend. Therefore, the amount will be taxed as dividend in the hands of shareholder. Accordingly, company is required to deduct withholding tax on payment.

Where subsequently any loan or advance is repaid, shareholder will be entitled to a refund of the tax, if any, paid by him as a result of such advance or loan having been treated as dividend.

- (iii) Any profit received by a non-resident person on a security issued by a resident person shall be exempt from tax if:
- the persons are not associates;
 - the security was widely issued outside Pakistan for the purposes of raising a loan outside Pakistan for use in a business carried on by the resident person in Pakistan;
 - the profit was paid outside Pakistan; and
 - the security is approved by the Board for the purposes of this section.

(b) Faster & Co.

Computation of amount of allowable deduction in determining taxable income

	Rs.in million
Initial allowance on plant and machinery $[160(\mathbf{W-1}) \times 25\%]$	(40.00)
Depreciation on plant and machinery $[\mathbf{18}(160(\mathbf{W-1}) \times 75\% \times 15\%)]$	(18.00)
Amortization of pre-commencement expenditure $(5 \times 20\%)$	(1.00)
Finance charges $[(\text{Rs } 53 \times \text{AED } 2\text{M}) \times 3\% \times 6/12]$	(1.59)
	(60.59)

W-1: Cost of plant and machinery	Rs. in million
Acquisition cost	150
Change in AED rate $[2 \times (55-50)]$	10
Total Cost (Please also see the note)	160

Note: Section 76(5) requires that foreign currency fluctuations be accounted for *in the year of occurrence*. However, it does not explicitly specify which portion of the foreign loan should be adjusted. One approach is to recognize the exchange loss on the entire outstanding loan balance, as has been done in this question. An alternative approach is to account for the impact only on the portion of the loan repaid during the year. In that case, no foreign exchange impact would be taken into account, and the cost of the plant would remain at Rs. 150 million.

(c) Tax credit for certain persons

Following incomes or taxpayers shall be allowed a tax credit equal to one hundred per cent of the tax payable:

- Persons engaged in coal mining projects in Sindh, to the extent, the income is derived from supplying coal to power generation project
- A start-up for the tax year in which the startup is certified by the Pakistan Software Export Board and for the following two years;

The above tax credit shall be available subject to fulfillment of the following conditions:

- Annual return of income has been filed;
- Withholding tax statements for the relevant tax year have been filed, where the person is a withholding agent; and
- Sales tax returns for the tax periods corresponding to the relevant tax year have been filed, if the person is required to file sales tax return under any of the Federal or Provincial sales tax laws.

13. A, B, C LIMITED

Company	Status of company
A Limited	Not a small company because its paid up capital plus undistributed reserves exceeds Rs. 50 million.
	It can be a public company if foreign company is owned by a foreign government.
	Otherwise, A Ltd. will be a private company.
B Limited	If remaining 60% holding is with foreign government or foreign Company owned by foreign government then public company.
	- Otherwise, small company being its paid-up capital plus undistributed reserves are below 50 million and annual turnover is below Rs. 250 million if: – employee not exceeding 250 at any time during the year. – is not formed by splitting up or the reconciliation of a company already in existence (1 July 2005). – is not a small and medium enterprise.
	If any of the above condition shall not be met then it shall be classified as private company.
C Limited	Not a small company because its annual turnover exceeded Rs. 250 million.
	Not a public company because 100% shareholding is with local group.
	Therefore, it shall be classified as private company.

14. MR. MUJTABA HUSSAIN

- The forward contract entered into by Mujtaba Hussian for the purchase of raw materials used in his business is in the nature of a hedging contract. He entered into this contract to safeguard against losses due to price fluctuation. Such contracts have specifically been excluded from the definition of speculative business. Consequently, payment to settle the forward contract is an expenditure incurred in the normal course of business and is a deductible expenditure.
- As a widow she has been exempt from filing an income tax return despite owning a 1300 cc car. However starting a new business during the tax year 2026 obligates her to file an income tax return if her income from business exceeds Rs. 300,000.

Although the reported figures in the question depict income of Rs. 200,000 which is below the threshold limit of Rs. 300,000 the expenditure amount is comprised of both personal as well as business expenses. However for computing taxable income only business expenses shall be allowed. Therefore by considering business expenses only her income may exceed Rs.300,000 and consequently she will be required to file the income tax return.

Moreover , if her taxable income from business exceeds Rs. 600,000, she is required to pay tax based on rates given in the First Schedule of the Income Tax Ordinance 2001.

15. INCOME TAX ORDINANCE, 2001

- i. For the tax year 2026, the relevant period is 1 July 2025 to 30 June 2026. The stay of Arshad for the purpose of tax year 2026 is:

July 2025	31 days
August 2025	31 days
September 2025	30 days
	92 days

His stay is less than 183 days. Further, as Arshad is not a citizen of Pakistan, the other criteria for resident shall not be applicable on him so he shall be classified as non-resident.

- ii. Since he has chosen the calendar year as his tax year, his stay will be calculated from the day of arrival to the day of departure within the same calendar year, as follows:

Accounting period: 1 January 2025 to 31 December 2025 (Special tax year 2026)

March 2025	31 days
April 2025	30 days
May 2025	31 days
June 2025	30 days
July 2025	31 days
August 2025	31 days
September 2025	01 day
	185 days

As status of "resident" or "non-resident" has to be determined in respect of the relevant tax year. For tax year 2026 Chang Li is "resident" in Pakistan.

16.

- i. Yes, a branch office conducting business activities qualifies as a permanent establishment.
- ii. No, a liaison office that is limited to coordination activities without generating income does not constitute a permanent establishment in Pakistan.
- iii. Yes, providing services through employees in Pakistan qualifies as a permanent establishment.

17.

- i. Private company. Delta Limited was not listed at the end of the tax year 2026. Therefore it does not meet the criteria of a public company.
- ii. Private company. Since less than 50% of Zeta Limited's shares i.e. 49% are owned by a foreign company that is owned by the Chinese Government it does not meet the criteria for a public company.
- iii. Public company. Since 30% of Eta Limited's shares are held by the Federal Government and 20% are held by the Punjab Government. It qualifies as a public company.

18. INTERNATIONAL BANKING ORGANIZATION,

a. Following are the no. of days Arsalan stayed in each country:

Country	Time Period of Stay	Number of Days
United Kingdom	1 Jul – 15 Oct 2025	107
	27 Jan – 2 Mar 2026	36
Total days		143
UAE	16 Oct – 31 Dec 2025	77
Pakistan	1 Jan – 26 Jan 2026	26
	3 Mar – 30 Jun 2026	120
Total days		146

Since Arsalan did not spend 183 or more days in Pakistan, he does not meet the first criteria for tax residency in Pakistan. However, being a citizen of Pakistan, he was not present for more than 182 days in any other country. Given that he is not a resident of any other country, he will be considered a resident of Pakistan for the tax year 2026.

CHAPTER 5 - SALARY INCOME**1. MR. A**

Residential status: Resident individual

TAX YEAR 2026

COMPUTATION OF TAXABLE INCOME AND TAX LIABILITY

Particulars	Gross income (Rs.)	Exempt (Rs.)	Taxable Income (Rs.)
Basic salary	1,117,245	-	1,117,245
Rewards	22,062	-	22,062
Bonus	300,000	-	300,000
House rent allowance	643,514	-	643,514
Utilities allowance	111,724	-	111,724
Company maintained Car (1,100,000 x 5%)	55,000	-	55,000
Interest free loan (1,150,000 x 10%)	115,000	-	115,000
Stock options exercised (1,250 x US\$5 x 103)	643,750	-	643,750
Taxable Income			3,008,295
Computation of Tax liability (for a salaried individual)			
Tax on Rs. 3,008,295 [Rs. 116,000+ (3,008,295 – 2,200,000) x 23%]			301,908
Less: Tax already deducted			(295,000)
Tax Payable (with return)			6,908

2. MR. MUSHTAQ

COMPUTATION OF TAXABLE INCOME

Residential Status: Resident individual

TAX YEAR 2026

Particulars	Gross income (Rs.)	Exempt (Rs.)	Taxable Income (Rs.)
Basic salary	1,225,000	-	1,225,000
Bonus	50,000	-	50,000
Conveyance allowance	50,000	-	50,000
House Rent Allowance	101,250	-	101,250
Leave fare assistance	60,000	-	60,000
Conveyance provided by the employer (Rs. 400,000 x 5%)	20,000	-	20,000
Employee share scheme (5,000 x Rs. 11 x 25%)	13,750	-	13,750
Taxable Income			1,520,000
Computation of tax liability (for salaried individual)			
Tax on Rs.1,520,000 [{Rs. 6,000 + (1,520,000 – 1,200,000)} x 11%]			41,200
Assumptions / Basis:			
i.	Tax credit on Donation is not available as the said amount has been paid in cash.		
ii.	Interest is not computed as the said loan is less than Rs.1,000,000.		

3. Mr. BASHIR AHMED

COMPUTATION OF TAXABLE INCOME AND TAX LIABILITY

TAX YEAR 2026

Particulars	CO. A	CO. B	Total	Exempt	Taxable
Basic Pay	714,158	572,572	1,286,730	-	1,286,730
Bonus	150,000	71,800	221,800	-	221,800
House Rent Allowance	258,663	222,746	481,409	-	481,409
Utility Allowance	71,415	57,257	128,672	-	128,672
Co maintained car [1,100,000x5%]	-	55,000	55,000	-	55,000
Leave Encashment	77,783	-	77,783	-	77,783
Medical Reimbursements	35,000	25,000	60,000	60,000	0
EX Gratia Payments	2,048,300	-	2,048,300	-	2,048,300
Taxable Income					4,299,694

Computation of tax liability (for salaried individuals)

There are two options available with the taxpayer for taxation of his income including Ex-gratia Payments i.e. Option 1- Ex-gratia will be part of the taxable income in the current tax year as per applicable tax rates.

Option 2

Taxable income will be taxed as per applicable tax rates whereas Ex-gratia will be taxed at average rate of tax of last three years. Taxpayer may choose the less tax liability under any of the two mentioned options. Tax liability under two options is as under:

Option 1		
Tax on Rs. 4,299,694 [616,000 + (4,299,694 – 4,100,000) x 35%]		685,893
Option 2		
Tax on income excluding ex gratia (4,299,694 - 2,048,300) = 2,251,394 [Rs.116,000 + (2,251,394 – 2,200,000) x 23%]		127,820
Add: Tax on Ex gratia Rs. 2,048,300 @ 23.41% (1,198,790 / 5,120,360 x 100)		479,507
Total Tax		607,327
Tax payable as per Option 2 is less than Option 1		607,327
Less Tax payments		
Deduction of tax by Co A	270,000	
Deduction of tax by Co B	300,000	
Total deductions		(570,000)
Balance tax payable (with return)		37,327

4. MR. HAYAT**i. Employee share scheme:**

Where shares issued to an employee under an employee share scheme are subject to a restriction on the transfer of the shares -

- No amount shall be chargeable to tax to the employee under the heading "Salary" until the earlier of:
 - the time the employee has a free right to transfer the shares; or
 - the time the employee disposes of the shares; and
- The amount chargeable to tax to the employee shall be the fair market value of the shares prevailing:
 - at the time the employee has a free right to transfer the shares or
 - disposes of the shares
- The said amount chargeable to tax will be 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.

- The cost of the shares to the employee shall be the sum of:
 - The consideration, if any, given by the employee for the shares;
 - The consideration, if any, given by the employee for the grant of any right or option to acquire the shares; and
 - The amount chargeable to tax under the heading "Salary".

Capital gain

Subsequently when these shares are disposed of, capital gain will be calculated as follows:

Sale proceed	Xxx
Less cost of shares as calculated above	(xxx)
Capital gain	Xxx

In case of shares of private company, gain will be taxable under the normal tax regime, whereas in case of shares of public company, gain will be taxable as separate block.

ii. Tax Year 2024:

In the tax year 2024, no income would be added to Mr. Hayat's salary as he did not have a right to transfer the shares.

Tax Year 2025:

In tax year 2025, when Mr. Hayat got the option to transfer the shares, the market value was Rs.20 per share, therefore, Rs. 120,000 (6,000 x Rs.20) would be added to his income under the head "Salary".

Tax Year 2026:

In tax year 2026, following amount would be added to Mr. Hayat's income.

Consideration received on sale of shares (6,000 x Rs. 35)	210,000
Less: Deemed cost of shares (6,000 x Rs. 20)(amount charged in 2024 to salary income)	(120,000)
Gain on sale to be taxed as Capital gain	90,000

5. MR. AINUDDIN KHAN

Name: Mr. Ainuddin Khan

Tax year: 2026

Status: Resident Individual

COMPUTATION OF TAXABLE INCOME	Rs.
Salary	
Pay (Rs.220,000 * 12)	2,640,000
Bonus (Rs. 2,640,000 x 20%)	528,000
House rent allowance	600,000
Co. maintained car – Rs.1,800,00 @ 5%	90,000
Residential electricity	200,000
Petrol for residential generator	5,000

Gas bills	6,000
Telephone bill	13,885
Club bills	4,000
Internet usage reimbursement	9,000
Pension Exempt (Note)	-
Taxable Salary	4,095,885
Income from other source	
Dividend Income chargeable to tax as separate block u/s 5 (70,000/0.85)	82,353
Total income	4,178,238

Note:

(1)	Pension upto Rs. 10 million is taxable @ 0%; therefore, the same is not included in the total income.
(2)	Tax deducted from dividend income is final discharge of tax liability.
(3)	It is assumed that internet personal usage expenses are reimbursed by the employer.

6. MR. MATEEN

Computation of taxable income & tax thereon

Tax Year 2026

SALARY	Rupees
Income from ML	
Compensation in lieu of unserved notice	280,000
Gratuity (Rs. 350,000 – Rs. 75,000)	275,000
Leave encashment	150,000
Income from RSL	
Basic salary (Rs.245,000 x 12)	2,940,000
Utility allowance (Rs.21,000 x 12)	252,000
Reimbursement of personal medical expenses [(2 nd Sch. Part 1, Clause 139(a))]	-
Reimbursement of hospitalization charges [(2 nd Sch. Part 1, Clause 139(a))]	-
Rent a car (Rs. 25,000 x 2) since in lieu of Car	-
Company maintained Honda City (Rs. 2.5 million x 5% x 10/12 months)	104,167
House-keepers salary (Rs. 6,000 x 12 months x 80%)	57,600
Special allowance	-
Amount in lieu of notice period paid to ML	280,000
Interest free loan (1,500,000 x 10% x 6/12)	75,000

Commission received from RSL		500,000
Total taxable salary income		4,913,767
Income from business		
Loss from private event organization		(350,000)
Profit received from business in Malaysia		535,000
Taxable Business Income		185,000
Capital Gain		
Sale of share of a listed company (Rs. 1,000,000 – Rs. 100,000)		900,000
Income from other sources		
Consideration received on vacating the bungalow (Rs. 180,000/10)		18,000
Total income for the year		6,016,767
Sale of share of a listed company (separate block of income)		(900,000)
Less: Zakat paid – (Assumed that not paid under Zakat and Ushr Ordinance)		-
Taxable income		5,116,767
Computation of tax liability and tax payable:		
(As salary income is more than 75% of the total income so Mr. Mateen shall be treated as salaried person)		
Tax on Rs. 4,100,000		616,000
Tax on balance Rs.1,016,767 @35%		355,868
Total tax payable excluding capital gain		971,868
Add: Tax on capital gain Rs.900,000 @ 15%		135,000
Total tax liability including in capital gain		1,106,868
Less: foreign tax credit	(W-1)	(35,132)
Income tax liability		1,071,736
Less: Tax deducted at source		
On salary income		(550,000)
On commission from RSL (Rs. 500,000 x 0.12)]		(60,000)
Tax payable (with tax return)		461,736
W-1 Foreign tax credit		
Lesser of: Foreign tax i.e. Rs. 130,000 or		
Average Pakistan tax on foreign income i.e. (971,868 / 5,116,767 x 185,000)		35,132
Note: - It is assumed that zakat is not paid under zakat and usher ordinance		

7. MR. ASLAM

Computation of Taxable Income and Tax Liability

For the Tax Year 2026

Particulars	Gross	Exempt	Taxable
Basic salary (Rs. 100,000 x 7)	700,000	-	700,000
Utilities allowance (Rs. 10,000 x 7)	70,000	-	70,000
House rent allowance (Rs. 30,000 x 7)	210,000	-	210,000
Children's education fee re-imbursement	25,000	-	25,000
Bonus	24,000	-	24,000
Tax borne by employer (Rs. 5,000 x 7)	35,000	-	35,000
Company maintained Car (1,500,000 x 5% x 7/12)	43,750	-	43,750
Medical re-imbursement - Note 1	110,000	(110,000)	-
Income under employee share scheme - Note 2	14,000	-	14,000
Taxable Income			1,121,750

Tax Liability (Salaried Case)

Tax on Rs. 1,121,750 (Rs.1,121,750 – Rs.600,000) x 1%	5,217
Reduction in tax liability @ 25% for full time teacher- not available for tax year 2026 onwards	
Less: Credit for tax deducted out of salary (Rs. 5,000 x 7)	(35,000)
Tax refundable	(29,782)

Note 1: Medical re-imbursements

It has been assumed that hospital bills show NTN and were duly certified by the employer

Note 2: Income under employee share scheme

- Disposal of option			
Sale of option	4,000		
Cost of option (Rs. 5,000 x 500/1000)	(2,500)		1,500
- Exercise of option / Restriction removal			
Fair market value (Rs. 60 x 500)	30,000		
Less: Cost of shares (Rs. 30 x 500)	15,000		
Cost of option (Rs. 5,000 x 500/1000)	2,500		
	(17,500)		12,500
			14,000

8. MR. AKRAM

a) Computation of Taxable Income and Tax Liability - Under Scenario (a) Rs 90 / share

For the Year Ended 30 June, 2026

Tax Year 2026

Particulars	Gross	Exempt	Taxable
Basic salary	1,500,000	-	1,500,000
Income under employee share scheme - Note 1	99,000	-	99,000
Capital gain – Note 2	100,000	-	100,000
Taxable Income (including separate block of income)			1,699,000
Less: Capital gain as separate block of income			(100,000)
Taxable Income (excluding separate block of income)			1,599,000
Tax Liability (Salaried Case)			
Tax on Rs.1,599,000 [Rs.6,000 + (1,599,000 – 1,200,000) x 11%]			49,890
- On Separate block income (Rs. 100,000 @ 15%)			15,000
Total Tax Payable (with tax return)			64,890
<u>Note 1: Income under employee share scheme</u>			
- Exercise of option			
Fair market value (Rs. 70 x 5,000)			350,000
Less: Cost of shares (Rs. 50 x 5,000)			250,000
Cost of option			1,000
			(251,000)
			99,000
<u>Note 2: Capital gain on securities (Separate block income)</u>			
Consideration received (Rs. 90 x 5,000)			450,000
Less: Cost of shares (Rs. 50 x 5,000)			250,000
Cost of option			1,000
Amount already charged to salary			99,000
			(350,000)
			100,000

b) Computation of Taxable Income and Tax Liability - Under Scenario (b) Rs 40 / share

For the Year Ended 30 June, 2026

Tax Year 2026

Particulars	Gross	Exempt	Taxable
Basic salary	1,500,000	-	1,500,000
Income under employee share scheme - Note 1	99,000	-	99,000
Capital gain / (loss) - Note 2	-	-	-
Taxable Income			1,599,000
Tax Liability			
Tax on Rs. 1,599,000 (Rs. 30,000 + 1,599,000 - 1,200,000) x 15%			49,890
Tax Payable			49,890

Note 1: Income under employee share scheme			
- Exercise of option			
Fair market value (Rs. 70 x 5,000)			350,000
Less: Cost of shares (Rs. 50 x 5,000)			250,000
Cost of option			1,000
			(251,000)
			99,000
Note 2: Capital gain/loss on securities (Separate block income)			
Consideration received (Rs. 40 x 5,000)			200,000
Less: Cost of shares (Rs. 50 x 5,000)			250,000
Cost of option			1,000
Amount already charged to salary			99,000
			(350,000)
Note: Capital loss carried forward – Cannot be set off with any other income except securities			(150,000)

9. MR. AKBER

Computation of Taxable Income and Tax Liability

For the Year Ended 30 June, 2026

Tax Year 2026

Particulars	Gross	Exempt	Taxable
Basic salary (Rs. 160,000 x 9)	1,440,000	-	1,440,000
Travelling allowance (Rs. 12,000 x 9)	108,000	-	108,000
Medical allowance (Rs. 18,000 x 9) - Exempt upto 10% of basic salary	162,000	(144,000)	18,000
Accommodation - Note 1	607,500	-	607,500
Utilities (Rs. 10,000 x 9)	90,000	-	90,000
Company maintained car [Rs. 1,500,000 (FMV) x 5% (Business + Pvt. Use) x 9/12]	56,250	-	56,250
Loan waived	100,000	-	100,000
Children's education fee re-imbursement	46,000	-	46,000
Foreign source salary - Note 2	480,000	(480,000)	-
Taxable Income			2,465,750

Particulars	Gross	Exempt	Taxable
Tax Liability			
Tax [Rs. 116,000 + (2,465,750 – 2,200,000)] x 23%			177,122
Less: Credit for tax deducted out of salary (Rs. 7,000 x 9)			(63,000)
Balance Tax Payable			114,122

Note 1: Value of accommodation

Offered equivalent cash amount (Rs. 50,000 x 9)	450,000
45% of Minimum of time scale (Rs. 150,000 x 9 x 45%)	607,500
Higher of the two	607,500

Note 2: Foreign source salary

Foreign source salary (AED 12,000 x Rs. 40)	480,000
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Foreign source salary of a citizen leaving Pakistan and remained outside Pakistan at the end of tax year is exempt under section 51(2) of the Income Tax Ordinance, 2001.

10. MR. SAEED

Computation of total income, taxable income and net tax payable/refundable

For tax year 2026

Income from salary	Rupees
Received from HPL	
Basic salary (Rs. 600,000 × 9 months)	5,400,000
Medical allowance (Rs. 66,000 × 9 = 594,000 – 5,400,000 × 10%)	54,000
Bonus (Received after year end)	-
Company maintained car for:	
- office use only	-
- personal use only (1,900,000 × 10%)	190,000
Free food provided in lunch	125,000
Special allowance (fixed amount on monthly basis – fully exempt)	-
Provident fund contribution [60,000 × 9 = 540,000 – 150,000] (Allowed limit is 1/10 of the basic salary or 150,000 whichever is lower)	390,000
	6,399,000
Received from DSL	
Salary received from DSL (From July 24 to September 24) (US \$ 15,000 × 3 = 45,000 @ Rs.170) Note-1	7,650,000
Total	14,049,000
Income from other source	750,000
Dividend income from a listed company (575,000 + 62,500 = 637,500 + 112,500 for withholding tax)	
Taxable income (including separate block of income)	14,799,000
Less:	
FTR – Dividend income (575,000 + 62,500) × 100/85)	(750,000)
	14,049,000
Less: Deductible allowance	
Zakat deducted on dividend	(62,500)
Taxable income (excluding separate block of income)	13,986,500

Tax liability (salaried Case)	
Tax on Rs. 4,100,000	616,000
Tax on amount exceeding 4,100,000 $[(13,986,500 - 4,100,000) \times 35\%]$	3,460,275
	4,076,275
Surcharge $(4,076,275 \times 9\%)$ Note-2	366,865
Gross liability	4,443,140
Tax credit on Mark-up paid to a Schedule Bank- available on land area upto 2,500 square feet	-
Tax under final tax regime	
Tax on dividend received $(750,000 \times 15\%)$	112,500
Total tax liability	4,555,640
Less: Tax already deducted	
Tax on dividend income	(112,500)
Tax withheld from salary	(1,300,000)
Net tax payable (with tax return)	3,143,140
Note-1. It is assumed that Mr. Saeed is not a returning expatriate	
Note-2. Surcharge @ 9% of gross Income tax where income is greater than 10 million	

11. MR. SAJID

The benefit received by Sajid on his retirement would be treated as follows:

Leave encashment comes under the definition of salary and therefore it would be fully taxable.

Since the amount was received from unapproved PF, the employer's contribution and interest on accumulated balance would be taxable in the year of receipt.

In the case of unapproved gratuity, exemption is available up to Rs. 75,000 or 50% of the amount receivable, whichever is lower. Therefore, the amount to be included in Sajid's taxable income would be Rs. = 2,425,000 $(2,500,000 - 75,000)$. Since the market value of the vehicle was more than cost of acquisition the difference i.e. 1,500,000 shall be included in his taxable income.

12. ASAAISH (PRIVATE) LIMITED (APL)

Mr. Nasir

Computation of total income, taxable income and net tax payable/refundable

For tax year 2026

Salary	
<u>Income from salary:</u>	
Basic salary $(800,000 \times 12)$	9,600,000
Medical allowance $(100,000 \times 12)$	1,200,000
Cost of living allowance $(200,000 \times 12)$	2,400,000
Housing $[360,000\{300,000 \text{ OR } 360,000(45\% \times 800,000) \text{ whichever is higher}\} \times 12]$	4,320,000
Company maintained car $(4,000,000 \times 5\%)$	200,000
Fuel $[(250 \times 180) \times 12 \times 30\%]$	162,000

Maintenance of car	-
Hospitalization born by insurance company	-
Ad-hoc relief allowance	800,000
Expenses incurred for work from home	-
	18,682,000
Income from other sources	
Gift - Cash	1,000,000
Gift - Car	-
	1,000,000
Taxable income	19,682,000
Tax liability (salaried case)	
On Rs. 4,100,000	616,000
On remaining 15,682,000 (19,682,000 – 4,100,000) @ 35%	5,453,700
	6,069,700
Surcharge @ 9% as income is greater than 10 million	546,273
Gross liability	6,615,973
Tax credit on donations (No tax credit, being donation in cash form)	-
Less: Tax credit on contribution to approved pension fund, lower of following:	
Total contribution paid by Nasir i.e. Rs. 4,700,000	
20% of taxable income (19,682,000×20%) i.e. Rs. 3,936,400	
Tax credit on contribution	(6,615,976 / 19,682,000 × 3,936,400)
	(1,323,195)
	5,292,778
Less: withholding tax	(4,500,000)
Tax payable (with tax return)	792,778
Note-1 APL will not be considered to have earned any rental income from this property and accordingly there will be no tax consequences for it.	
Note-2. Surcharge @ 9% of gross Income tax where income is greater than 10 million for salaried case.	

13. MR. CHENG

Computation of total income, taxable income and tax liability for the tax year 2026

Income from salary:	HL	DH	Total
	----- Rupees -----		
Basic salary	1,050,000	4,050,000	5,100,000
	(350,000×3)	(450,000×9)	
Medical allowance	105,000	540,000	
	(35,000×3)	(60,000×9)	
Less: Exempt up to 10% of the Basic Salary	(105,000)	(405,000)	
	-	135,000	135,000
Utilities allowance	60,000	270,000	330,000

	(20,000×3)	(30,000×9)	
Subsidized food provided by the employer	30,000	Exempt	30,000
	10,000×3		
Company maintained car	37,500	187,500	225,000
	150,000 (3,000,000×5%) × (3/12)	250,000 (5,000,000 ×5%) × (9/12)	
Annual bonus	350,000	-	350,000
Gratuity under an unapproved scheme	1,225,000		
Less: Exempt	(75,000)		
	1,150,000	-	1,150,000
Return tickets to China		550,000	550,000
Amount received for signing a bond		750,000	750,000
Commission for securing a contract		400,000	400,000
Loan paid off by DH		3,800,000	3,800,000
Profit on loan at benchmark rate (10%)	95,000		95,000
	3,800,000× 10%×3/12		
			12,915,000
Income from property:			
Rent			800,000
Less: Repair allowance @ 1/5 x 800,000			(160,000)
Less: Profit on loan (as above)			(95,000)
			545,000
Income from business:			
<i>Foreign source income</i>			
Share of profit in business		1,260,000÷0.7	1,800,000
Income from Other Sources (FTR)			
Dividend from a listed company	97,750÷0.85		115,000
Bonus dividend-taxable under FTR (2,000X25)			50,000
			165,000
Total income			15,425,000
Less: FTR income			(165,000)
Taxable income			15,260,000

Tax liability:				
Upto Rs. 4,100,000				616,000
Above Rs. 4,100,000 [15,260,000 – 4,100,000] @ 35%				3,906,000
				4,522,000
Surcharge (4,606,000 x 10%)				406,980
Gross liability				4,928,980
Less: Foreign tax credit				
Actual tax paid (1,800,000 – 1,260,000)		540,000		
Tax liability at average rate of tax [(4,928,980÷15,260,000)×1,800,000]		581,400		(540,000)
				4,388,980
Less: Tax credit on donations				
Donation amount			600,000	
30% of taxable income		15,360,000×30%	4,608,000	
Tax credit on donation	[4,388,980/15,260,000×600,000 being lower]			(172,568)
No tax credit on payment of insurance premium				-
Tax liability – NTR				4,216,412
Add: Tax liability on FTR income				
Dividend (115,000 x 15%)				17,250
Bonus Shares (50,000 x 10%)				5,000
Total tax liability				4,238,662
Less: Tax withheld on dividend and Bonus shares (17,250+5,000)				(22,250)
Income tax payable (with tax return)				4,216,412

14. MR. SALMAN

Computation of total income, taxable income and net tax payable by or refundable For the tax year 2026

Income from salary:	Rupees
Basic salary	2,400,000
House rent allowance	600,000
Annual bonus	480,000
Free meals while on duty – exempt	-
Staff discount	40,000
Health insurance – exempt	-
Company maintained car (2,000,000 × 5%)	100,000
Employee share scheme [12(110–98) × 12,000]	144,000

PF contribution (2,400,000 × 8%)	192,000	
Less: Exempt (150,000 OR 1/10 of basic salary i.e 240,000, whichever is lower)	(150,000)	42,000
Profit on provident fund (960,000×22%)	211,200	Exempt
960,000×16%		
Exempt: Higher of interest i.e 800,000 (1/3rd of basic salary i.e. (2,400,000÷3))	153,600 OR 800,000	
Culinary chef course		-
Travelling allowance – not spent on behalf of the employer (250,000 – 100,000)		150,000
		3,956,000
Interest income (765,000÷0.85)		900,000
Total income		4,856,000
Less: interest income being separate block		(900,000)
Taxable income		3,956,000
Tax liability		
on Rs. 3,200,000	346,000	
on excess amount (3,956,000 – 3,200,000 = 756,000 × 30%)	226,800	572,800
Less: Tax credit on donations:		
Donations amount through cheque (300,000×80%)	240,000	
30% of taxable income (3,956,000×30%)	1,186,800	
Tax credit [(572,800 ÷ 3,956,000) × 240,000, being lower]		(34,750)
		538,050
Tax on interest income (900,000×20%)		180,000
Tax payable		718,050
Less: Tax withheld by TC		(400,000)
Less: Tax withheld by Bank		(180,000)
Net Tax payable		138,050

15. MR. NAJEEB

a) Computation of taxable income Tax year: 2026

Salary income	Rupees
Salary	180,000
Fuel allowance	27,000
Leave encashment	140,000
Provident fund balance – Principal amount	-
Provident fund balance – Interest amount	-

Gratuity	-
Profit on loan at benchmark rate $(2,000,000 \times 10\% \div 12)$	16,667
Interest-free loan waived $(2,000,000 \times 20\%)$	400,000
Company owned laptop $(110,000 - 50,000)$	60,000
Farewell gift	80,000
	903,667

b) Unrecognised provident fund:

Employer contribution of 1,500,000 $(3,000,000 \times 50\%)$ and the entire interest amount of Rs. 600,000 shall be chargeable to tax under the head salary.

Unapproved gratuity fund:

Lower of Rs. 75,000 or Rs. 450,000 $(900,000 \times 50\%)$ would be exempt so Rs. 825,000 $(900,000 - 75,000)$ shall be chargeable to tax.

16. PREMIERE TEXTILES LIMITED (PTL)

Computation of Taxable income For the tax year 2026

	Rupees
Income from salary	
Basic salary $(Rs. 1,500,000 \times 12)$	18,000,000
Medical allowance $(Rs. 150,000 \times 12)$	1,800,000
Medical reimbursement	-
Furnished accommodation	
Higher of: FMV rentals $(Rs. 250,000 \times 12 = 3,000,000)$ or 45% of Basic Salary $(Rs. 18,000,000 \times 45\% = 8,100,000)$	8,100,000
Gratuity	500,000
Less: Exempt $[75,000 \text{ or } 250,000 (50\% \text{ of } 500,000) \text{ whichever is lower}]$	(75,000)
	425,000
	28,325,000
Income from property	
Rental income from PTL $[(Rs. 200,000 \times 12) \text{ [FMV of Rs. 250,000 ignored considering section 15(5)}]$	2,400,000
Less: Repairs allowance $1/5\text{th}$ of rental income	(480,000)
	1,920,000
Capital Gains	
Disposal of MPL's shares $100,000 \times 60(100-40)$	6,000,000
Total income	36,245,000
Less: Capital gain (Separate block of income)	(6,000,000)
Taxable income	30,245,000

17. SOLAR ENERGY LIMITED (SEL)

Computation of Total and Taxable Income For the tax year 2026	
	Rupees
Income from Salary:	
Salary other than medical allowance [$455,000(500,000 - 45,000) \times 11$]	5,005,000
Medical allowance [$15,000[(45,000 - 30,000)\{300,000(45,000 \div 0.15) \times 10\% \}] \times 11$]	165,000
Perquisite representing car (W-1)	24,657
Employee share option scheme [$5,000 \times 120$]	600,000
Pension (Note-1)	-
	5,794,657
Less: Zakat paid under the Zakat and Ushr Ordinance	(182,500)
Taxable income	5,612,157

W-1: Perquisite representing car	Rupees
Cost of the car to SEL	5,000,000
5% of the cost ($5,000,000 \times 5\%$)	250,000
Amount of perquisite restricted to the number of days in use ($182 \div 365 \times 250,000$)	124,657
Less: Amount paid by Saleem	(100,000)
	24,657

Note-1:

Any amount or perquisite paid by a past employer is treated as received by an employee from employment and is classified as salary. Therefore, Saleem Khan received Rs. 480,000 (Rs. 40,000 $\times$ 12) from HEL as his pension for the tax year 2026 is considered part of his salary income. However, pension upto Rs. 10 million per annum is chargeable to tax @ 0%.

CHAPTER 6 - INCOME FROM PROPERTY

1. MR. ASAD

COMPUTATION OF TAXABLE INCOME TAX YEAR 2026	
Rental income (Note1)	1,500,000
Less deductions:	
Repair allowance ($1/5^{\text{th}}$ of gross rent chargeable to tax)	(300,000)
Property tax	(100,000)
Municipal/local government taxes	(100,000)
General and administration charges - upto 4% of rent	(60,000)
Taxable property income	940,000
Note-1	
Rental gross receipts are computed in the following manner:	

Particulars	Amount Rs.
Annual rent received	1,800,000
Add taxes paid by tenants on behalf of the owner – Note 2	100,000
Total receipts	1,900,000
Advance received for next two years $(600,000/3 \times 2)$ – Note 2	(400,000)
Rent chargeable in the current year	1,500,000
Note 2	
Rent is not chargeable to tax on receipt basis. Rent relating to a tax year, whether received or receivable is chargeable to tax in that tax year. Therefore, the sum of Rs 400,000 is deducted from the rent receipts as the same is an advance rent for the next two years and will be charged to tax in the respective tax years.	
Note 3	
Other taxes are paid by the tenant; therefore, addition in rent is made.	

2. MR. AKMAL

Computation of Taxable Income and Tax Liability – Under Separate Block of Income
Tax Year 2026

Particulars	Flat 1	Flat 2	Flat 3	Total
Rent - Higher of actual rent or fair market rent	300,000 (25,000 x 12)	300,000 (25,000 x 12)	275,000 (25,000 x 11)	875,000
Un-adjustable advance - (1/10 of deposit)	20,000 (200,000/10)	20,000 (200,000/10)	5,000 (50,000/10)	45,000
Forfeited deposit (From first buyer)	-	-	100,000	100,000
Rent chargeable to tax	320,000	320,000	380,000	1,020,000
Less deductions:				
Repair allowance $(1,020,000 \times 1/5)$				(204,000)
Property tax $(20,000 \times 3)$				(60,000)
Taxable Income from Property				756,000
Tax Liability (Non-Salaried Case)				
Tax on Rs. 756,000 $[(756,000 - 600,000) \times 15\%]$				23,400

3. MR. FARRUKH

Name of Taxpayer: Farrukh

Tax Year: 2026

Personal Status: Individual

INCOME FROM PROPERTY U/S 15	Rupees
Forfeited deposit	500,000
Rent received from tenants Higher of actual rent (Rs. 150,000 x 10) or fair market rent Rs. 1,800,000 (Rs.2,160,000 x 10/12)	1,800,000
Un-adjustable advance - nothing to be added in case of plot	-
Chargeable Rent	2,300,000
Less deductions:	
Repair allowance - not allowed in case of open land / plot	
Ground rent	(50,000)
Insurance premium	(12,000)
Collection & admin charges –	(92,000)
Actual expenses or $4\% \times 2,300,000$ (whichever is lower).	
Markup on loan $\text{Rs.} 6,500,000 \times 12\% \times 10/12$	(650,000)
Taxable Income from Property	1,496,000

4. MR. AMJAD

- a. '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.

Where the owner of a building receives from a tenant an amount which is not adjustable against the rent payable by the tenant, 1/10th of the amount shall be treated as rent in each year.

- b. Mr. Amjad

Computation of taxable income

For tax year 2026

Income from property		Rupees
i.	Residential property at DHA – Karachi (W-1)	2,850,000
ii.	Amount forfeited from Zeeshan for the sale of plot	5,000,000
Income from other sources		
iii.	Factory building at Sukkur – Basit (W-1)	1,625,000
Income from capital gain		
iv.	Sale of plot in Quetta – Jamshed	-
<i>Since the plot was bought in 2017, therefore no tax is payable under the law as holding is greater than 6 years</i>		
Taxable income		9,475,000

W-1:	Income from property	Income other Sources
	DHA - Karachi	Sukkur – Factory
Rental Income (300,000×12), (500,000×6)	3,600,000	3,000,000
Less: Admissible expenses		
Repair to building (allowed upto 1/5 of the rental amount)	720,000	270,000
Repair to machinery	-	50,000
Ground rent	10,000	50,000
Insurance – Building	20,000	150,000
Depreciation: Building – Normal [Rs. 9m @ 10%×6/12]	-	450,000
Plant – Normal [Rs. 3m @ 15%×6/12]	-	225,000
Interest on loan Rs. 2,000,000 x18%×6/12	-	180,000
	(750,000)	(1,375,000)
Taxable Income	2,850,000	1,625,000

5. A, B & C

In the case of A

Mr. A does not have any salary income and will be taxed as a non-salaried case. An individual's income is exempt up to Rs. 600,000, and his income is Rs. 200,000, which falls below this limit, making him exempt from taxation. A salaried person is an individual whose taxable salary is more than 75% of his total taxable income.

In the case of B

In this case net income from property will be clubbed with income from business and chargeable to tax as per the applicable slabs as a non-salaried case.

In the case of C

Since C's income from property, will be chargeable to tax under NTR where he would be taxed at the rate applicable on non-salaried individuals. However, he is allowed to claim deductions of expenditure incurred to earn income from property and business as per rules.

6. MR. KASHIF

Computation of income for tax year 2026	
<u>Income from property</u>	Rupees
Monthly rent from Ahmed (300,000×3)	900,000
Forfeited deposit	3,500,000
Monthly rent from Rashid (300,000×8)	2,400,000
Non-adjustable security deposit from Rashid (2,450,000(W-1)÷10)	245,000
	7,045,000
Less: Repair allowance (1/5 x 7,045,000)	(1,409,000)
Total income from property	5,636,000
<u>Income from other sources</u>	
Security charges (40,000×11)	440,000
Electricity generation (50,000×11)	550,000
	990,000
Less: Security guard's salary - 20% is personal expense (360,000×80%)	(288,000)
Less: Cost of running electricity generator	(450,000)
	252,000
Total income	5,888,000
W-1:	
Non-adjustable security deposit from Rashid	3,500,000
Less: Previous advance from Ahmed charged to tax [(3,500,000÷10)×3]	(1,050,000)
	2,450,000

7. MR. FARAZ

Computation of Total Income

For the tax year 2026

Income from property:

	Rs. in million
Rental of bungalow in Dubai	31.5
Less: Repair allowance (1/5 of chargeable Rent x 31.5M)	(6.3)
	25.2
Deemed income u/s 7E:	
Bungalow in Karachi (60Mx5%)	3
Apartment (20Mx5%)	1.0
Office premises (Note-2)	-
Open plot located in Karachi (12x5%)	0.6
Open plot in Multan (Note 3)	-
Shop located in Lahore- (Note 1)	
	4.6
Total income	29.8
Notes:	
1.	One immovable property is excluded from the ambit of section 7E so shop located in Lahore being highest in value is not subjected to tax.
2.	Office premises is not subject to tax under section 7E.
3.	Since Multan plot has been acquired and related withholding tax under section 236k has been paid during the year so this property is also excluded from section 7E.

CHAPTER 7 - INCOME FROM BUSINESS-1**1. SUN & MOON CO.**

The tax treatment of expenditures of Sun and Moon is as under:

Payment nature	Amount	Status of admissibility of expenditure
Fees paid to consultants for preparation of registration deed	Rs.50,000	This is a cost incurred before the registration of partnership. The expense is incurred wholly and exclusively for the purpose of business. It will be allowed as pre-commencement expenditure and amortized @ 20% of the cost incurred.
Preparation of feasibility report	Rs.100,000	This is allowable as pre-commencement expenditure. Under the law, the taxpayer may claim amortization deduction of pre-commencement expenditure @ 20% of the cost incurred.
Purchase of office equipment	Rs.150,000	It is asset of the company and will be capitalized to avail the depreciation deduction. Depreciation will be allowed when asset is put into use.
Purchase of machinery	Rs.1,000,000	It is asset of the company and will be capitalized to avail the depreciation deduction. Depreciation will be allowed when asset is put into use. Initial allowance is also allowed as per the provisions of Income Tax Ordinance, 2001.
Freight charges	Rs.200,000	Both of these expenses are incurred in connection with bringing the machinery in commercial operations. These will be capitalized as a part of cost of respective assets and depreciation and initial allowance deductions will be allowed on this cost also.
Installation cost	Rs.50,000	

2. IDEAL ASSOCIATES

- i. Expense on account of mere provision for bad debts cannot be allowed due to following two conditions:
 - All the events, that determine liability, have not occurred; and
 - The amount of the liability cannot be determined with reasonable accuracy.
 However actual bad debts (not provision) shall be allowed as deductions if the following conditions are satisfied:
 - The amount of debt was previously included in the person's income from business chargeable to tax; or
 - In respect of money lent by a financial institution in deriving income from business chargeable to tax;
 - The debt or part of the debt is written off in the accounts of the person in the tax year; and
 - There are reasonable grounds for believing that the debt is irrecoverable.
- ii. Since the trading liability pertaining to the year 2021 has been outstanding since last three years, therefore, it would have been added back to the income for the tax year 2025 under section 34(5). However, as the payment has been made in the tax year 2026 the same shall be allowed as admissible deduction under section 34(6)
- iii. The firm can claim the initial allowance against the imported used plant as:
 - It is used in Pakistan for the first time in a tax year:
 - It is used by the firm for the purposes of its business; and
 - It falls in the definition of eligible depreciable asset.

The depreciation on plant will be charged at the rate of 15%, irrespective of his useful life.

3. CARROT LTD

Comments on the deductibility of expenditures charged by CL:

- i. Any expenditure that provides an advantage or benefit for a period of more than one year is included in the definition of intangibles and is required to be amortized over the period of expected benefit
 As such CL would be allowed to charge only 1/12th of the expense i.e. Rs. 37,500 in tax year 2026.
- ii. Bad debts
 Only those bad debts are allowed as admissible deductions which have previously been included in the taxpayer's business income chargeable to tax and on fulfillment of some more conditions.
 Since the staff loan was not previously offered to tax as business income, it shall not be admissible.
- iii. Recouped expenditure:
 Recoupment of an expenditure, in cash or in kind, can only be included in the income chargeable to tax, in the tax year in which it is received, if previously, the same has been allowed as a deduction in computing the taxable income.
 Since the expenditure incurred by CL on marketing of a commercially imported product was never allowed as an admissible expense as it related to an income which was taxable under Final Tax Regime in tax year 2022, it cannot be added to the taxable income of the company in tax year 2026 at the time of its recoupment.
- iv. Initial allowance:
 Initial allowance is only admissible on such plant and machinery which was not previously used in Pakistan.
 Since in this case, the equipment was previously used in Pakistan, the initial allowance is not admissible.

v. Vehicle on finance lease:

Entire lease rentals paid during the year, on leased assets, i.e. Rs. 400,000 shall be allowed as admissible deduction.

Following expenditures however, shall not be admissible:

Finance charges Rs. 100,000

Depreciation Rs. 200,000

4. ENTERTAINMENT EXPENDITURE

The prescribed limits / conditions for the deduction of entertainment expenditure are as under:

- The expenditure should be incurred in deriving income from business chargeable to tax and should be limited to expenditure incurred which satisfies the following conditions:
- expenditure incurred outside Pakistan on entertainment in connection with business transactions or is allocated as head office expenditure;
- expenditure incurred in Pakistan on entertainment of foreign customers and suppliers;
- expenditure incurred on entertainment of customers and clients at the person's business premises;
- expenditure incurred on entertainment at a meeting of shareholders, agents, directors or employees; or
- expenditure incurred on entertainment at the opening of branches.

A deduction shall only be allowed for expenditure incurred on the entertainment of persons related directly to person's business.

5. KAMYAB ENTERPRISES (KE)

Computation of total income, taxable income and net tax payable/refundable For tax year 2026

	Rupees
Income from business	
Profit before tax	12,707,000
Add: Inadmissible expenses / admissible income	
Accounting depreciation	1,200,000
Salary paid in cash	40,000
Cost related to scientific research incurred in Pakistan	-
Expenditure paid to Chinese company for research work	700,000
Instalment of industrial plot being capital payment in nature	650,000
Purchase of goats for Eid-ul-Azha	225,000
Donation to approved NPO	1,000,000
Health insurance premium	200,000
	4,015,000

Less: Admissible expenses and inadmissible / FTR income			
Tax refund received from Income tax department			(720,000)
Tax depreciation (W-1)			(1,606,890)
Loss on disposal of motor vehicle (W-2)			(28,000)
Capital gain not to be taxed under business income	(430,000+250,000)		(680,000)
			(3,034,890)
Income from business			13,687,110
Capital gain			
Capital gain on sale of shares 430,000 and securities 250,000 (securities are taxed as a separate block of income)	(430,000+250,000)		680,000
Income from other sources			
Additional payment received on delayed tax refund			80,000
Total taxable income for the year from all sources			14,447,110
Less:			
Capital gain on disposal of investment in Himmat Limited as separate block of Income			(250,000)
Taxable income (excluding separate block of income)			14,197,110
Tax liability (Non-Salaried case)			
Tax on Rs. 5,600,000			1,610,000
On balance	(14,197,110-5,600,000)×45%		3,868,700
Tax liability under normal tax regime			5,478,700
Surcharge @ 10% × 5,478,700 (as taxable income exceeds Rs 10 million)			547,870
			6,026,570
Tax credit on:			
Donations 6,026,570 ÷ 14,197,110 × 600,000			(254,695)
Rs. 600,000 (Rs 1,000,000 × 60%) which is within 30% limit			
health insurance premium- Not allowed from tax year 2023			
			5,771,875
Capital gain under section 37A	250,000×15%		37,500
Tax payable (with tax return)			5,809,375

W-1: Tax depreciation:		Rupees
Opening balances:		
Plant and machinery (6,860,000×15%)		
Computer and related products (800,000×30%)		240,000
Motor vehicles 2,222,000[3,000,000–778,000(W-2)]×15%×80%		266,640
		1,535,640
New computer:		
Initial allowance (150,000×25%)		37,500
Normal depreciation (150,000-37,500)×30%×)		33,750
		1,606,890
W-2: Computation of tax loss on sale of motor vehicle		
Cost		1,000,000
Depreciation TY 2024	(1,000,000×15%)	(150,000)
TY 2025	(1,000,000 -150,000) ×15%)	(127,500)
TY 2026		-
		(277,500)
Tax WDV		722,500
Add: Disallowed depreciation (277,500×20%)		55,500
		778,000
Sale proceeds		750,000
Loss on disposal		28,000

6. MR. MASOOM

(a)	(i)	Applying a business asset (stock) for personal use is treated as a disposal of the asset by the owner. Therefore, withdrawing the furniture set from stock for personal use is treated as a disposal.	
		The consideration received for this disposal shall be the fair market value of the furniture set, determined at the time it was utilized for personal use. The cost of furniture set can be claimed an allowable expense against the consideration received.	
		Consequently, the following income shall be subject to tax under income from business.	
			Rs. in million
		Fair market value (treated as consideration received)	3.0
		Less: Cost	2.5
			0.5

	(ii)	Antique is a capital asset. During the year, it is sold therefore gain or loss on its disposal shall be computed as follows:	
		Sales proceeds	1.0
		Less: Cost (equal to FMV at the time of transfer)	0.5
		Loss	0.5
(b)	Following are exceptions to the given rule:		
	(i)	Loss from any head of income cannot be set-off against salary.	
	(ii)	Loss in speculation business cannot be set-off against any other income.	
	(iii)	Capital loss cannot be set-off against any other income.	
	(iv)	Loss from any head of income falling under final tax regime cannot be set off with income subject to normal tax regime.	
	(v)	Loss in a case where the income would have been an exempt income e.g. loss of agriculture income cannot be set-off against any taxable income.	
	(vi)	Loss from foreign source of income cannot be set-off with Pakistan source income.	
	(vii)	Loss under the head business cannot be set-off against income from property.	

CHAPTER 8 - INCOME FROM BUSINESS-2

1. INTANGIBLE ASSETS

- a. **"Intangible"** means any patent, invention, design or model, secret formula or process, copyright, scientific or technical knowledge, computer software, motion picture film, export quotas, franchise, license, 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) **but shall not include self-generated goodwill or any adjustment arising on account of accounting treatment in the manner as may be prescribed..**
- b. A person shall be allowed an amortization deduction in a tax year for the cost of the person's intangibles
 - That are wholly or partly used by the person in the tax year in deriving income from business chargeable to tax; and
 - That has a normal useful life exceeding one year.

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

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

The amortization deduction of a person for a tax year shall be computed according to the following formula, namely: -

A / B

Where -

- A Is the cost of intangible; and
 B Is the normal useful life of the intangible in whole years

An intangible that does not have an ascertainable useful life, shall be treated as if it had a normal useful life of 15 years.

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 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.

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
 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.

Where, in any tax year, a person disposes of an intangible, no amortization deduction shall be allowed for that year.

An intangible that is available for use on a day (including a non-working day) is treated as used on that day.

2. MR. QATEEL

Computation of income tax liability For the tax year 2026		Rupees
<u>Income from business</u>		2,809,297
Accounting profit before taxation		
Add: Inadmissible expenses/admissible income		
Fine paid – violation of the contract with customer for delay in supplies (inadmissible where violating a law/ rule/ regulation)		-
Vehicle tax (inadmissible where violating a law/ rule/ regulation)		-
Accounting depreciation		1,900,000
Renewal of license fee		450,000
Replacement of transformer (KESC) – security deposit		200,000
Advance tax collected (KESC)		300,000
Donation paid in cash to poor families		64,600
Donation paid to Edhi Foundation in cash		2,000,000
Penalty paid to CIR for late filing of return		25,000
Entertainment expenditures – foreign customer		-
Finance charges on lease machinery		35,703
		4,975,303

Less: Admissible expenses & inadmissible/FTR income			
Renewal of license fee [450,000/15]			30,000
Gain on sale of a private limited company shares			1,200,000
Tax depreciation as given			1,560,000
Tax depreciation on warehouse constructed			W-1 104,000
Lease rental paid			270,000
Dividend income			580,000
Tax depreciation on leased machinery acquired by paying residual value (100,000 x 15%)			15,000
			3,759,000
			4,025,600
Income from other source			
Dividend (580,000+100,000) / .85			800,000
Capital gain			
Sale of shares			1,200,000
Total income for the year			6,025,600
Less: Separate block of income and Zakat			
Less: Dividend income (FTR income)			(800,000)
Zakat deducted on dividend			(100,000)
			5,125,600
Taxable income under NTR			5,125,600
Computation of tax liability (Non-Salaried Case)			
Tax on Rs. 5,125,600 [Rs.650,000+ (5,125,600-3,200,000)x 40%]			1,420,240
Gross Tax under NTR			1,420,240
Less: tax credit on donation to institutions mentioned in 13 th schedule Rs. 1,420,240 / 5,125,600 x Rs.1,537,680 [i.e. lower of Rs.2m or 30% (Rs.1,537,680) of taxable income]			(426,072)
Tax liability under NTR			994,168
Add: Tax on dividend – FTR (800,000 x 15%)			120,000
Total tax liability			1,114,168
Less: Advance tax (WHT)			
Advance tax collected on electricity bill			(300,000)
Advance tax paid			(480,000)
Advance tax on dividend			(120,000)
			(900,000)
Tax payable (with tax return)			214,168
W-1:	Warehouse constructed		1,040,000
	Tax depreciation @ 10% x Rs. 1,040,000		104,000
	WDV		936,000

3. MR. SALMAN SHAHID

a.	Gain on disposal of a vehicle used by manager	
	Fair market value	(Rupees)
	Consideration received on disposal of passenger transport vehicle not plying for hire $A \times B/C$ Where $7.8 \times 7.5/8.1$ (A is the amount received on disposal of the vehicle; B is the amount allowed as per law i.e. Rs. 7.5 million; and C is the actual cost of acquiring the vehicle.)	7,222,222
	Written down value of vehicle $(7.5 \times 85\% \times 85\% \times 85\%)$ No depreciation has been charged in the year of disposal as the same will have no effect on the taxable income of the taxpayer	(4,605,937)
	Income from business	2,616,285

b.	Disposal of machine The capital gain is determined as follows:	
		Rupees
	Insurance claim received from the shipping company	1,840,000
	Scrap value of the machine	350,000
		2,190,000
	Purchase price of the machine	(1,900,000)
	Documentation charges incurred	(38,000)
	Income from capital gain	252,000

4. MISCELLANEOUS

- Accounting revaluation of factory building has no bearing on tax written down value. Consequently, depreciation will be allowed on tax written down values of building without taking into account the effect of revaluation.
- Since Shahbaz has purchased the machinery with a loan repayable in USD and before full and final repayment of the loan if there is an increase or decrease in the loan liability in terms of rupee due to exchange rate fluctuation the amount by which the liability is increased or reduced shall be added to or reduced from the cost of the asset as the case may be.

However, difference if any on account of foreign currency fluctuation shall be taken into account in the year of occurrence for the purposes of depreciation.

Note: Section 76(5) requires that foreign currency fluctuations be accounted for "in the year of occurrence." However

it does not explicitly specify which portion of the foreign loan should be adjusted. One approach is to recognize the exchange loss on the entire outstanding loan balance. An alternative approach is to account for the impact only on that portion of the loan that was repaid during the year.

5. MR. SHAHID

Mr. Shahid

Computation of total income, taxable income and net tax payable/refundable

For tax year 2026

	Rupees
Computation of profit under accrual basis of accounting	
Profit as given in the question - on cash basis	6,427,000
Adjustment on account of:	
- closing stock under absorption cost method	3,200,000
- closing stock under prime cost method	(2,800,000)
	400,000
Profit under accrual basis of accounting	6,827,000
Income from business	Rupees
Profit before taxation	6,827,000
Add: Inadmissible expenses/admissible income	
Purchases of packing material (440,000×20%)	88,000
Freight charges on goods - allowed expenditure	-
Salary allowed as paid for business activities (brother)	-
Penalty for late filing of income tax return	15,000
Expenditure on promotion of a product	950,000
	1,053,000
Less: Admissible expenses/inadmissible income	
Expenditure made for promotion of a product = 950,000/5	(190,000)
Tax depreciation	(680,000)
Gain on sale of shares	(45,000)
Agriculture income - Exempt income	(980,000)
Profit on debt	(450,000)
	(2,345,000)
	5,535,000
Less: Unabsorbed tax depreciation - brought forward	(568,000)
Total business income for the year	4,967,000
Capital gain	
Gain on the sale of 20,000 shares	51,750
Income from other sources	
Profit on fixed deposit account (FTR income)	450,000
Exempt income	
Rent received for the agriculture land	980,000
Total income	6,448,750

Less:	
Capital gain on sale of shares (Separate block of income)	51,750
Profit on fixed deposit account Separate block	450,000
Rent received for the agriculture income (Exempt)	980,000
	1,481,750
	4,967,000
Less: Deductible allowance	
Zakat paid / deducted	(93,750)
Taxable income for the year	4,873,250
Tax liability	
Tax on Rs. 3,200,000	650,000
Tax on amount exceeding Rs. 3,200,000@ 40%	669,300
Tax liability on NTR	1,319,300
Add: tax on separate block of income	
Profit on debt taxable as separate block Rs.450,000 x 20%	90,000
Tax on capital gain @ 15% x Rs. 51,750)	7,763
	1,417,063
Less: Tax deducted	
by customers	875,000
on capital gain	6,750
on fixed deposit account	45,000
	926,750
Net tax payable	490,313

6. FAITH BROTHERS (FB)

a.	Computation of total income, taxable income and tax payable/refundable for the tax year 2026.	
		Rs. in million
Income from business		
Profit before tax		177.0
Add: Inadmissible expenses		
Accounting depreciation		188.0
Payment to builder		50.0
Payment to a research institute in UAE		5.0
Foreign exchange loss-N-1		15.8
Loss on disposal of a capital asset (new machinery damaged during shipment)		9.0
		267.8

Less: Admissible expenses			
Cash payment for the purchase of ten air ticket			-
Payment of demurrages			-
Payment of penalties			-
Bad debts recovered not allowed in the previous year			(16.0)
Shortfall in recovery of bad debts	16-(30-10)		(4.0)
Reversal of capital gain			(40.0)
			(60.0)
Income before tax depreciation			384.8
Less: b/f business loss			(52.0)
Tax depreciation		(214.0)	
Tax depreciation on plant	(W-1)	(3.9)	
	(217.9)		(269.9)
Income before unabsorbed tax depreciation			114.9
Less: Unabsorbed tax depreciation	114.9×50%		(57.5)
Taxable business income			57.4
Capital gain			
Modaraba certificates			8.0
Shares of an unlisted company			12.0
Loss on disposal of a capital asset (new machinery damaged during shipment)			(9.0)
			3.0
Shares of a listed company			20.0
Less: B/F capital loss			(6.0)
			14.0
Taxable Income (including separate block of income)			82.4
Less: Separate block of income			
Capital gain on Modaraba			(8.0)
Capital gain on listed company share			(14.0)
			(22.0)
Taxable income (excluding separate block of income)			60.4

Tax liability		
Upto 5.6 million		1.61
Above 5.6 million	54.8×45%	24.7
		26.3
Surcharge @ 10% of 26.3 million (as income is greater than Rs. 10 million)		2.6
		28.9
Tax on capital gain – on madaraba	8×15%	1.2
– on listed company shares	14×12.5%	1.8
		31.9
W-1: Cost of plant and depreciation thereon		

	Rs. in million
Purchase cost (400,000×45)	18.0
Foreign exchange gain – June 2025	400,000×5(45–40)
	16.0
Initial allowance @ 25%	(4.0)
	12.0
Depreciation – tax year 2025	12×15%
	(1.8)
	10.2
Foreign exchange loss – June 2026	400,000×39.5(79.5–40)
	15.8
	26.0
Depreciation – tax year 2026	26×15%
	(3.9)
	22.1

Note 1: Section 76(5) requires that foreign currency fluctuations be accounted for “in the year of occurrence.” However, it does not explicitly specify which portion of the foreign loan should be adjusted. One approach is to recognize the exchange loss on the entire outstanding loan balance, as has been done in this question. An alternative approach is to account for the impact only on that portion of the loan that was repaid during the year.

b. Amount of unutilized losses along with maximum period to which these losses can be carried forward:

	Given	Utilized	c/f	Maximum period (TY)
	----- Rs. in million -----			
Loss from business - Tax year 2024	52	52	-	-
Speculation - Tax year 2025	14	-	14	2028
Unabsorbed tax depreciation	168	57.5	110.5	No time limit
Capital loss on sale of listed securities:				
- Tax 2022	8	-	-	Already lapsed
- Tax 2023	6	6	-	-

7. SWEET BAKERS (SB)

a.	Computation of total income, taxable income and tax liability For tax year 2026	Rs. in million
Income from business:		
	Profit before tax	77.00
	Less: Rental income	
	- in cash (0.5×12)	(6.00)
	- in kind (120×7,200×12)	(10.37)
		(16.37)
	Less: Market value of eggs received as a rent and used as a raw Material	(10.37)
	Add: Purchase of various raw material on which no withholding tax was deducted [24 or 40 (20% of 200 i.e. total purchase, whichever is lower)]	24.00
	Add: Purchase of milk powder for personal use (10×10%)	1.00
	Add: Salaries to partners (8.2+6+4.8)	19.00
	Add: Purchase of new bakery plant	15.00
	Less: Initial allowance (15×25%)	(3.75)
	Less: Normal depreciation [11.25(15-3.75)×15%]	(1.69)
	Add: Purchase of POS machines	0.40
	Less: Initial allowance and Depreciation on POS machines- IA 0.4 x 25%=0.1, Depreciation Rs.(0.4-0.1) x 15%-(cost of POS machines upto Rs.150,000 per machine are also allowed as a tax credit)	(0.1) (0.04)
	Add: Payment to IT company for development of an app.	5.50
	Less: Amortization expense (App is available to use subsequent to the year-end)	-
	Less: Depreciation of van (9×15%)	(1.35)
		108.2
Exempt income:		
	Rent from agriculture land	16.37
Total income		124.6
	Less: Rent from agriculture land	(16.37)
Taxable income		108.2
Tax liability:		
	- On Rs. 5.6 million	1.61
	- On excess amount @ 45%	46.2
		47.8
	Surcharge @ 10% as income is greater than Rs. 10 million	4.8
		52.6
	Less: Tax credit u/s 64D [Amount invested i.e. Rs. 0.4 OR maximum limit i.e 0.45(0.15×3), whichever is lower]	(0.40)
		52.2

b. Definition

Woman enterprise means a start-up established on or after first day of July 2021 as sole proprietorship concern owned by a woman or an AOP all of whose members are women or a company, whose 100% shareholding is held or owned by women.

Reduction in tax liability:

Since all partners of SB are neither women nor this is the startup business, the given reduction in tax liability shall not be available to Sweet Baker.

8. JAMSHED CHEMICALS

a. Computation of total income, taxable income and tax liability For the tax year 2026

Income from business:	Rs. in '000
<i>Non speculation:</i>	
Profit before tax	13,000
Add: Provision for slow moving stock	250
Add: Salaries paid to partner (450,000×2)	900
Add: Interest paid to partners (325,000×2)	650
Less: Reversal of bad debts recovered	(225)
Add: Bad debts recovered [225,000-100,000 (400,000-300,000)]	125
Add: Loss on derivative contract	1,325
Add: Gain on disposal of furniture [2,000,000-1,156,000(1,600,000×0.85×0.85)]	844
	16,869
<i>Speculation business:</i>	
Loss on derivative contract	*(1,325)
Tax liability:	
Upto Rs. 5,600,000	1,610
Exceeding Rs. 5,600,000 (11,269×45%)	5,071.1
Total	6,681.1
Surcharge @ 10% as income is greater than Rs. 10 million	668.1
Gross liability	7,349.2
*(Since there is no speculation gain during tax year 2026, this loss shall not be set off with non-speculation business and the same shall be carried forward up to next 6 tax years.)	

Sultana

Computation of total income, taxable income and tax liability For the tax year 2026

Income from business:	Rs. in '000
Share of profit from AOP (for rate purpose only) $(16,869 \times 50\%)$	8,435
Income from property:	
Rent from plot of land $(170,000 \times 12)$	2,040
Non-adjustable rent – not taxable in case of land	-
Capital gain – Foreign source income:	
Disposal of shares in Lucky Inc. USA $[(200-45) \times 2,000]$	310
Income from other sources:	
Royalty	504
Total / taxable income (including share from AOP)	11,289
Less: Share of profit from AOP	(8,435)
Total / taxable income (excluding share from AOP)	2,854
Tax on Rs 11.289 million (For rate purpose only)	
Upto 5,600,000	1,610
Exceeding Rs. 5,600,000 $(5,689 \times 45\%)$	2,560.1
Total	4,170.1
Surcharge @ 10% as income is greater than Rs. 10 million	417
Gross liability	4,587.1
Tax liability $[40.63\% (4,587.1 \div 11,289) \times 2,854]$	1,159.7
Less: Tax credit (Lower of Pakistan tax or foreign tax) $(310 \times 40.3\% = 124.9 \text{ or } 82)$	(82)
Tax liability	1,077.7
b.	Since Sultana took more than twenty four months to complete the book she may elect to treat lump sum amount of Rs. 504 as having been received in tax year 2026 and the preceding two tax years (2025 and 2024) in equal proportion.

9. Momin Maize Products (MMP)

Computation of Total Income, Taxable Income and Tax Liability For the tax year 2026		
Income from Business:		Rs. in '000
Profit before taxation		36,000
Add/(Less): Inadmissible expenses / (income)		
Sales tax included in sales (10,620×18/118)		(1,620)
Trade discount		-
Insurance claim		(1,925)
Loss on sale of machinery at scrap value		1,675
Cost incurred for lodging the insurance claim		42
Ingredient mixer machine		8,000
Accounting depreciation		18,000
Sales commission- paid in cash		325
Security deposit to KE for new connection		460
Health insurance premium – personal in nature		395
Interest on bank loan (partly personal and partly related to income from property)		600
Income related to property – net of expenses (450+200–25–50–20)		(555)
		61,397
Less: tax depreciation		(22,000)
Initial allowance and tax depreciation	(W-1)	(2,719)
		36,678
Income from property:		
Rent from plot		450
Non-adjustable security deposit		-
<i>(Nothing is to be included in the chargeable income as this provision of law is attracted where the owner of the building and not land receives such amount.)</i>		
Less:		
Repairs 1/5th of rent <i>(Admissible only against the building rent)</i>		-
Interest on loan 500[5 million×12%×10÷12] × 80% <i>(interest on only that portion of the loan which is utilized for the acquisition of land is admissible)</i>		(400)
Ground rent		(20)
Rent collection charges 18 (450 × 4%) or 25, whichever is lower		(18)
		(438)
		12
Capital Gain:		
Disposal of machine:	(W-2)	208
Total and taxable income for the year		36,898

Computation of net tax liability:	Rs. in '000
Tax on taxable income up to Rs. 5,600	1,610
Tax on taxable income exceeding Rs. 5,600 [Rs. 31,298 × 45%]	14,084
	15,694
Surcharge @ 10% under section 4AB	1,569
Tax on taxable income	17,263
Minimum tax under section 113 [(138,000–1,925–1,620) × 1.25%]	1,681
Tax liability (Higher of tax on taxable income or minimum tax)	17,263
Less: Minimum tax brought forward from last tax year	(6,000)
	11,263
W-1:	
Cost of Machine	8,000
Less: Advance Income tax	(500)
	7,500
Initial allowance @ 25%	1,875
Depreciation @ 15%	844
	2,719
Written down value	4,781
W-2:	
Insurance claim received	1,925
Scrap value received on sale of machine	425
	2,350
Less: Cost of machine	(2,100)
Expenses incurred on lodging the insurance claim	(42)
	208

10. Nafees Enterprises (NE)

Computation of Taxable Income and Income Tax Liability For the tax year 2026	
Income from Business:	Rs. in '000
Non-speculative business	
Profit before taxation	40,000

Adjustments:		
Advance against the future sale of impact drivers		(1,875)
Adjustment of closing stock to be valued at net realizable value [19,700–17,500{3500(3,800–300) × 5,000}]		(2,200)
Accounting depreciation		20,000
Penalty for non-payment of taxes on time		95
Computer software		9,000
Cost of ramps		720
Interest on a bank loan (personal expenditure)		825
Gain on disposal of an unimproved land		(5,000)
Sale of 25,000 shares in Sky Limited		(2,125)
		59,440
Less: Business loss brought forward from the tax year 2022		(11,100)
		48,340
Less: Tax depreciation		(23,000)
Dep. - 2 ramps @100% (restricted to Rs. 250 each)		(500)
Amortization of software expenses (9,000/15)×(61/366)		(100)
		24,740
50% of income from business set off with unabsorbed tax depreciation		(12,370)
Total non-speculative business income for the year	[A]	12,370
Speculative business:		
Add: Income from foreign speculation business		2,500
Less: Brought forward loss on speculation business (Pakistan Source)		(2,700)
Total speculative business loss		*(200)
<i>*This speculation loss cannot be set off with non-speculation income.</i>		
Capital Gain:		
Gain on sale of unimproved land		5,000
Gain on sale of securities [Rs. 2,125 – 625(25,000 × Rs. 25)]		1,500
Less: Brought forward loss on sale of listed securities (Older than 3 years)		-
	[B]	6,500

Income from other sources:		
Loan received through bearer cheque	[C]	180
Total income for the year	[A+B+C]	19,050
Less: separate block income:		
Gain on sale of unimproved land		(5,000)
Gain on sale of securities		(1,500)
		(6,500)
Taxable income for the year		12,550
Computation of net tax liability: (Normal Tax Regime – NTR)		
Tax on taxable income up to Rs. 5.6 million		1,610
Tax on taxable income exceeding Rs.5.6 million [Rs. 6,950 × 45%]		3,128
Tax liability (NTR)		4,738
Surcharge @ 10% as income is greater than 10 million		474
		5,212
Tax on gain- unimproved land (Rs. 5,000 × 15%)		750
Tax on gain on securities (Rs. 1,500 × 12.5%)		188
Total tax payable		6,150

CHAPTER 9 - CAPITAL GAINS

1. MR. SHAHBAZ

- This is a loss on sale of shares of a listed company sustained in tax year 2026. This can be set off against the gain from any securities chargeable to tax in the tax year 2026. This can be carried forward in the next three tax years.
- It is a taxable gain. Full amount will be taxable.
- It is a taxable gain. Full amount will be taxable.
- Loss from sales of sculpture is not allowed to be recognized.
- It is a capital loss and it can be set off against capital gains only. It can also be carried forward for adjustment against capital gains under section 37 during the succeeding six tax years.

2. MS. SALEHA

- i. Since Saleha inherited paintings from her father, the value at which her father originally purchased the painting would be treated to be its cost. Hence, cost of the painting would be Rs. 1,000,000. and there is a gain of Rs. 250,000.
- ii. The cost of the Jewellery would be Rs. 1,300,000 i.e. the value thereof at the time of gift. Therefore, the gain of Rs. 1,000,000 should be recognized.
- iii. The car sold by Saleha was being used by her for business purposes and therefore depreciation was also being charged on it. However, depreciable assets are specifically excluded from the definition of capital assets. Therefore, no capital gain or loss would arise on the disposal of car. However, the gain on disposal of business used car shall be taxable under the head income from Business under section 22(8)(a) of the Income Tax Ordinance, 2001.
- iv. No capital gain/loss will arise as any movable property held for personal use by the person is excluded from the definition of capital assets.

3. VEHICLE AND SCULPTURES

a.	Under the ITO 2001, any movable property held for personal use are excluded from the definition of capital assets. Therefore, income from sale of personal vehicles are not taxable under the head Capital Gains		
b.	Gain/ Loss on disposal of sculpture	Sculpture I	Sculpture II
	Fair market value of sculpture when they lost	360,000	540,000
	Consideration allocation ratio (360/900, 540/900) based on fair market value	40%	60%
	Consideration on the basis of allocation ratio	376,000	564,000
	Less: Cost of acquisition	(410,000)	(475,000)
	(Loss)/Gain on disposal of sculpture	*(34,000)	89,000
	Taxable income	-	89,000
	*The loss shall not be recognised on the disposal of sculpture Alternate solution:		

Capital Assets	FMV	Apportioned Sale Price	Purchased Price	Gain / (Loss) Sale-Cost
Sculpture -1	360,000	376,000 (360,000/900,000 x 940,000)	410,000	(34,000)
Sculpture -2	540,000	564,000 (540,000/900,000 x 940,000)	475,000	89,000
Total	900,000	940,000		

4. MS. NAGRIS

i.	Capital gain	Cash consideration / FMV (whichever is higher)	Cost of purchase	Capital gain/loss	Taxable capital gain
		----- Rs. in million -----			
	Investment in shares of a public unlisted company	3.0	2.0	1.0	1.0
	Investment in shares of a listed company	3.5	2.1	1.4	1.4
	Personal car (not covered under the definition of capital asset)	6.0	3.8	-	-
	Painting (loss on painting not to be recognized)	1.2	1.7	-	-
	Jewellery	8.0	4.8	3.2	3.2
				5.6	5.6
ii.	Taxation of capital gain				
	Capital gain to be taxed under NTR:				
	Gain on investment in shares of public unlisted company				0.75
	Gain on disposal of jewellery				2.40
	Taxable Capital gain other than separate block of income				3.15
	Tax liability (Non-salaried case)				
	On Rs. 1.6 million				0.17
	Above Rs. 1.6million (3.15-1.6)@30%				0.47
					0.64
	Capital gain to be taxed under separate block of income:				
	Tax on gain on disposal of investment in shares of a listed company (1.4×12.5%)				0.175
	Total Tax liability				0.815

5. MR. ASHFAQ

a.	Computation of taxable income for tax year 2026
Capital gains	Rupees
Gain on sale of bungalow (51-46)	5,000,000
Disposal of coin collection (2.2-0.3)	1,900,000
Disposal of antique furniture (W-1)	6,229,829
Disposal of table	-
Total capital gain	13,129,829
Less: Gain on sale of bungalow (Separate block of income)	(5,000,000)
Taxable income	8,129,829

Tax liability:	
Upto 5,600,000	1,610,000
Add: 45% x (8,129,829 - 5,600,000)	1,138,423
	2,748,423
Add: Tax on gain on sale of Bungalow (5,000,000×0%)-Holding greater than 4 years	-
Tax payable (with return)	2,748,423

W-1:				
	FMV	Consideration received	Cost	Gain/loss
	----- Rupees -----			
Antique dresser table	15,000,000	12,836,186	8,000,000	4,836,186
Antique vase	900,000	770,171	1,200,000	-429,829
Antique clock	25,000,000	21,393,643	20,000,000	1,393,643
	40,900,000	35,000,000	29,200,000	
Loss on disposal of antiques shall not be deductible from capital gain therefore capital gain would be (4,836,186+1,393,643)				6,229,829
Table which was in personal use of Ashfaq is not classified a capital asset so no gain or loss shall be recognized.				
b.	Evidence of cost of acquiring the capital asset			
	Evidence of deduction for any other costs claimed			
	Evidence in respect of consideration received on disposal of the capital asset.			

6. MR. USMAN

- (a) Usman, a minor for the tax year 2026, earned income from business of Rs. 500,000. Consequently, this income shall be chargeable to tax as the income of his parent with the highest taxable income for the tax year 2026.

Furthermore, under the ITO-2001, an Orphan below the age of 25 years is exempt from the requirement of filing a return, if the sole reason for his obligation would be the ownership of a motor vehicle having engine capacity above 1000 cc. Therefore, Usman, being orphan having age of 16 years, is not required to file an income tax return for the tax year 2026.

- (b) A net loss of Rs. 0.5 million (Rs. 4.8 m – Rs. 5.3 m) from foreign source, i.e., Syria Branch, shall not be adjusted against Pakistan source income. Instead, this shall be carried forward for adjustment against any foreign source income in the subsequent tax year.

Further, foreign tax credit shall not be available in respect of tax of Rs. 1.5 million, paid in Kuwait.

7. DEEMED INCOME:

- Assuming Sohail is appearing in ATL
 - Office building is not subject to tax because business premises from where the business is carried out are excluded from the ambit of section 7E.
 - Open plot is subject to tax since Sohail is not an original allottee to the plot. However, the plot is excluded due to one capital asset being excluded from the ambit of 7E.
 - Agriculture land is not subject to tax however the annexed farmhouse is subject to tax being its FMV is more than Rs. 25 million, provided that minimum covered area of farmhouse is 2000 square yards with a dwelling unit having minimum covered area of 5000 square feet.
- Assuming Sohail is not appearing in ATL

As Sohail is not appearing in ATL, his all properties are subject to tax under section 7E except for agricultural land.

8. LAL BUX

Amount chargeable to tax for the tax year 2026		Rupees
Income from business:		
Gain on sale of packaging machinery	w-2	395,100
Less: Accounting gain on sale of machinery (W-2)		(203,780)
Gain on export of machinery to UAE	(2,200,000 – 950,000)	1,250,000
		1,441,320
Capital gain:		
Gain on disposal of Vases	(W-1)	8,000
Gain on sale of grey parrot	(Note-1)	-
Gain on sale of shares in GL (public company): $[6,000 \times 21.65 \{69.65(70 \times 0.995) - 48\}]$		129,900
W-1: Gain / (loss) on disposal of Vases:		
	Vase-1	Vase-2
Fair market value of Vases at the time of fire	975,000	900,000
Consideration on the basis of fair value (52:48)	897,000	828,000
Less: Cost of purchase	(925,000)	(820,000)
(loss) / gain on disposal of Vases	(28,000)	8,000

The loss on disposal of Vase-1 shall not be recognized

W-2: Gain or loss on Disposal of Machinery	Tax Base	Accounting Base	
Sale Price	900,000	900,000	
WDV	504,900	(696,220)	
Gain on Disposal	395,100	203,780	
Tax WDV			
Cost of the machine	792,000		
Initial Allowance @ 25% (previous year)	(198,000)		
	594,000		
Depreciation @ 15%	(89,100)		
WDV	504,900		

Note-1: Reason for ignoring on sale of grey parrot

Grey parrot was neither a capital nor a depreciable asset and was in personal use of Lal Bux's dependent family (minor son). Therefore, the gain on such asset is not taxable.

- Tax liability not subject to NTR

Capital gain subject to tax under the separate block of income $[12.5\% \times \text{Rs. } 129,900]$	16,237.5
--	----------

- b. The plant was used in a business taxed under the Normal Tax Regime, so it is a depreciable asset for tax purposes. Section 37(5) excludes depreciable assets from "capital assets," meaning gains on disposal are treated as business income.

For tax purposes, the gain = sale price – tax WDV, and the accounting gain is reversed in the tax computation to replace it with the tax-adjusted

CHAPTER 10 - INCOME FROM OTHER SOURCES

1. MULTIPLE INDIVIDUALS

- (i) Authors

Section 89 states that where the time taken by an author of a literary or artistic work to complete the work exceeds twenty-four months, 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 proportions.

Therefore, Mr. Danishwar can spread the amount of Rs. 900,000 over the period of three years in equal proportions i.e. Rs. 300,000 each starting from tax year 2026 to preceding two tax years 2025 and 2024.

- (ii) Foreign-source income of returning expatriates

Section 51 of the Ordinance states that 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 in the tax year in which the individual became a resident and in the following tax year.

Since, Mr. Bari became a resident in tax year 2026 the foreign source income derived in the tax year 2026 would be exempt from tax.

2. MS. BEENA SIKANDAR

Computation of total income, taxable income and tax payable/refundable

For the tax year 2026

INCOME FROM SALARY	Rupees
Director's remuneration (Rs. 100,000 × 12)	1,200,000
Bonus (Rs. 100,000 × 2)	200,000
Fee received for attending the BOD's meetings	150,000
Company maintained car (Rs. 2,000,000 × 5%)	100,000
	1,650,000
Income from business W-1	5,540,000
Taxable income	7,190,000

COMPUTATION OF TAX PAYABLE (For non-salaried individuals)	Rupees
Income tax on Rs. 7,190,000 [Rs.1,610,000 + (7,190,000 – 5,600,000) x 45%]	2,325,500
Less: Tax credit on donations (Rs. 250,000 × 2,325,500/7,190,000) u/s 61	(80,858)
Total tax liability	2,244,641
Less: Tax withheld / deducted at source	
By clients	(200,000)
By AFL (tax deducted from salary)	(390,000)
By AFL (tax deducted from payment for attending the BOD meeting)	(9,000)
Balance Tax Payable (with tax return)	1,645,641

WORKING 1	
Computation of Business Income	
Net profit for the year	3,500,000
Add: Inadmissible expenses	
Salary drawn by Beena (Rs. 50,000 × 12)	600,000
Donation not allowed (Only tax credit allowed u/s 61)	250,000
Gift to her son	50,000
Security deposit of leased vehicle	500,000
Professional fee (personal)	150,000
Property expenses (350,000 × 2/5)	140,000
Payments to Golf Club (Cash payment over Rs. 50,000)	150,000
Tax withheld by clients	200,000
Income from business	5,540,000

COMMENTS

Bonus pertaining to tax year 2025: Salary is taxable on the basis of receipt. Therefore, salary income for the tax year 2026 will include bonus for tax year 2025 as it is paid after the fiscal year end.

Bad debts recovered: The recovered bad debt is treated as income because it was claimed and allowed as expense in tax year 2021.

Salary to brother: Salary paid to her brother is an allowable expense as he is working as an employee in the firm.

Gift to clients are allowable business expense and therefore not added back.

Lease rental paid to the bank is allowable business expense.

3. JAVED

Computation of Taxable Income for the Tax Year 2026

	Rupees
Income from Salary (Foreign Source)	4,000,000
Income from Property (Foreign Source)	
Rent received [(Rs. 350,000 × 4) + (Rs. 300,000 × 2)]	2,000,000
Repair Allowance (1/5 of rent) (	(400,000)
Collection charges - Lower of actual or 4% of rent [Rs. 90,000 or Rs. 80,000 (Rs. 2M × 4%)]	(80,000)
Property tax paid in Kenya	(400,000)
Interest on mortgage paid to a bank in Kenya	(1,200,000)
Loss from Property	*(80,000)
Income from Other Sources (Pakistan Source)	
Rent received from factory and plant (Rs. 3×5)	15,000,000
Depreciation on factory building 130 (Rs. 120M+Rs. 10)×10%	(13,000,000)
	2,000,000
Total income	6,000,000
Less: Exempt income – Income from salary	(4,000,000)
Taxable income	2,000,000
*Loss from foreign source shall not be set off with Pakistan source income.	

- b. The alteration in the start date of job does not make any change in his taxable income for tax year 2026 and it remains same as computed in part (a) above i.e. income from salary remains exempt and income from property and income from other sources remain chargeable to tax.

CHAPTER 11 – TAXATION OF INDIVIDUALS**1. MR. ASHRAF**

Sub: Tax credit for Donations u/s 61 of the Income Tax Ordinance 2001

Dear Sir,

We explain as under allowance for donation, which you can claim under the provisions of section 61 of the Income Tax Ordinance, 2001:

a. PAID RS. 200,000 IN CASH TO A RELIEF FUND SPONSORED BY THE GOVERNMENT

Under section 61(4), a taxpayer is entitled to a tax credit in respect of any sum paid through crossed cheque. As in your case the payment has been made in cash, you cannot claim the tax credit on the donation stated above.

b. PERSONAL CAR GIVEN TO AN INSTITUTION APPROVED AS NON PROFIT ORGANISATION

Donations given to an approved non-profit organization in kind are admissible under section 61 of the Income Tax Ordinance, 2001.

As per rule 228(4) of Income Tax Rules 2002 this shall be original cost reduced by 10% for each year but not less than the 50% of the cost therefore the admissible amount of the donation is:

Cost	800,000
Reduced by 10% for 4 years $(800,000 \times 10\%) \times 4$	(320,000)
	<u>480,000</u>

c. MEDICINE TO A PRIVATE HOSPITAL PURCHASED AT THE TOTAL COST OF Rs.100,000

Donation to private hospital is not admissible under section 61 of the Income Tax Ordinance, 2001 and tax credit on donations is only admissible where the said donation is paid to the organizations mentioned in section 2(36). This list does not include a private hospital and as such no tax credit shall be available in respect of this donation.

Donation on which credit can be claimed are calculated as follows:

	Donation	Gross Amount	Amount Admissible
(i)	Paid in cash to a relief fund	200,000	0
(ii)	Personal car given to an approved non-profit organization	800,000	480,000
(iii)	Medicine to private hospital	100,000	0
	Total		480,000

Section 61 of the income tax ordinance, 2001 also requires that the aggregate amount of the donation must not be in excess of 30% of the taxable income in the case of an individual. In your case this limit is:

Taxable income	8,000,000
30% of the taxable income	<u>2,400,000</u>

As the admissible amount is less than Rs. 2,400,000, hence, you are entitled to claim tax credit on Rs.480,000 at the average rate of tax.

2. MR. MUSADDIQUE NOOR

RESIDENT INDIVIDUAL

TAX YEAR 2026

COMPUTATION OF TAXABLE INCOME

Particulars	Gross amount	Exemption/ admissible deductions	Taxable income
Basic salary	2,400,000 (200,000 x 12)	-	2,400,000
House rent allowance	960,000 (80,000 x 12)	-	960,000
Utility allowance	120,000 (10,000 x 12)	-	120,000
Medical allowance Exempt up to 10% of basic salary U/c 139 Part I, 2nd Sch.	120,000 (10,000 x 12)	120,000	-

Particulars	Gross amount	Exemption/ admissible deductions	Taxable income
Company maintained car	60,000 (1,200,000 x 5%)	-	60,000
Interest on housing loan (Not taxable upto Rs. 1 million)	55,000	-	-
Gratuity (50% of gratuity is Exempt u/c 13 of 2nd Sch.)	75,000	37,500	37,500
Income from salary (A)			3,577,500
Rent from house let out	1,200,000 (100,000 x 12)		1,200,000
Un-adjustable advance N-1			170,000
Gross Chargeable Rent (GCR)			1,370,000
Less: deductions			
Repair allowance (1/5th of GCR)	274,000s		
Collection charges-up to 4% of GCR	54,800		
Ground rent	10,000		
Property tax	15,000		
HBFC Rent sharing	<u>36,000</u>		
Taxable Income from Property (B)			980,200
Business Income			
Commission	(18,000/0.9)		20,000
Lecturing and examination fee			20,000
			40,000
Profit on debt	(8,000/0.8)		10,000
Income from other sources (C)			50,000
Total Income			4,607,700
Less: profit on debt (FTR Income)			(10,000)
Taxable income			4,597,700
Computation of Income tax liability			
Tax on Rs. 4,597,700 (616,000+ (4,597,700-4,100,000) x 35% (Salaried slab to be used as salary income is more than 75% of total income)			790,195
Tax on profit on debt 10,000 @ 20%			2,000
Total tax liability			792,195
Less tax deducted			
Tax on salary		150,000	
Tax on PLS account profit		1,000	
Tax on commission		2,000	
Total tax paid			(153,000)
Balance tax payable (with tax return)			639,195

Note 1: Un-adjustable advance		Rs.
Un adjustable advance		2,000,000
Less advance already changed	$1,000,000 / 10 \times 3$	(300,000)
Balance amount		1,700,000
Advance chargeable as rent	$1,700,000 / 10$	170,000

Note 2: Lecturing and examination fee

Lecturing and examination fee has been offered to tax under the normal tax regime. In case tax was deducted on the same, tax deductible @ 15% would have been treated as minimum tax and compared against the proportionate income tax liability calculated under the normal tax regime.

3. DR. A. A. QURESHI

RESIDENT INDIVIDUAL

TAX YEAR 2026

COMPUTATION OF TAXABLE INCOME

Particulars	Rupees
Taxable income from business N-1	441,000
Rental income net of repair allowance $(720,000 - 1/5 \times 720,000)$	576,000
Taxable income	1,017,000
Computation of tax liability (Non-Salaried Case)	
Tax on Rs. 1,017,000 $[15\% \times (1,017,000 - 600,000)]$	62,550
Total tax	
Tax deducted	60,000
Balance tax payable	2,550

Note 1

INCOME AND EXPENDITURE ACCOUNT

Payments	Amount	Receipts	Amount
Rent of clinic	24,000	consultation fees	450,000
Salary to assistant	36,000	visiting fees	100,000
Car running expenses			
$(30,000 \times 1/3)$	10,000	remuneration from articles	
Stationery	5,000	published in magazines	12,000
Depreciation of motorcar			
$(300,000 \times 15\% \times 1/3)$	15,000		
Utilities	25,000		
Depreciation on			
Surgical Equipment			
$(40,000 \times 15\%)$	6,000		
Balance Income	441,000		
Total	562,000		562,000

Note:

EXPLANTORY NOTES:

- Under the law, the admissible depreciation on the vehicle is 15%, whereas the rate of depreciation on the surgical equipment is 15% of cost.

2. It is assumed that advance tax has been deducted on rent, therefore, consultancy and visiting fee has been offered to tax under the normal tax regime. In case tax was deducted on consultancy and visiting fee, tax deductible @ 15% would have been treated as minimum tax and compared against the proportionate income tax liability calculated under the normal tax regime.

4. MR. QAIS MANSOOR

RESIDENT INDIVIDUAL

TAX YEAR 2026

Particulars	Gross amount	Exemption / admissible deductions	Taxable income	Remarks
Income from salary				
Basic salary	1,440,000	-	1,440,000	
House rent allowance	600,000	-	600,000	HR allowance is totally taxable under section 12(2)(c)
Utility allowance	240,000	-	240,000	
Medical allowance	240,000	-	240,000	Medical allowance in addition to expenses borne according to terms of employment, therefore, the medical allowance is not exempt from tax.
Bonus	360,000	-	360,000	
Special merit award	240,000	-	240,000	
Co maintained car	-	-	-	Reimbursement of car maintenance expenses used for official purpose is not to be added to salary income.
Funeral expenses of parents	20,000	-	20,000	
Medical expenses	100,000	100,000	-	Exempt U/c 139 Part I, 2nd Sch.
Free furnished accommodations	648,000	-	648,000	Higher of Rs.648,000 (i.e. 45% of Rs. 1,440,000) or Rs. 600,000
Tax borne by employer	50,000	-	50,000	Section 13(10)
Income from Salary			3,838,000	
Income from other source	500,000	500,000		To be added for calculation of total income Section 45
President award				
Capital gains				
Gain on disposal of listed company shares	200,000	-	200,000	Gain on disposal of securities shall be chargeable to tax under separate block income
Gain on disposal of land	1,000,000	-	1,000,000	Gain on disposal of land within 6 years' time is taxable under Separate block of income.
Total Income			5,538,000	
Less gain on sale of listed shares and land			(1,200,000)	
Less exempt income (President award)			(500,000)	
Taxable Income			3,838,000	

Particulars	Gross amount	Exemption / admissible deductions	Taxable income	Remarks
Computation of income tax liability on the taxable income				
Tax on normal rates for salaried individual			537,400	
Tax on Rs. 3,838,000 [Rs.346,000 + 30% of amount exceeding Rs.3,200,000]				
Tax credit on approved donations 537,400/3,838,000 x 500,000			(70,010)	
Tax after tax credit			467,390	
Tax on gain on disposal of land [(Rs. 1,000,000 x 10%)]			100,000	
Listed company shares Rs.200,000 x 12.5%			25,000	
Tax liability			592,390	
Less: Tax paid by employer on behalf of employee			(50,000)	
Less: Tax deducted from Salary			(200,000)	
Tax payable (with tax return)			342,390	

Note: Tax credit on donation is only available to a maximum of 30% of taxable income of an individual.

No tax credit is available on children education expenses paid and fee to solicitor.

Prior year income is not taxable in the current year as it is taxable in the relevant year by revising the last year tax returns.

Purchase of car is increase in assets and it is not allowable as an expense.

No deductible allowance on education expenses will be admissible as taxable income is greater than Rs. 1.5 million.

5. MR. A. D. CHUGHTAI

RESIDENT INDIVIDUAL

TAX YEAR 2026

COMPUTATION OF TAXABLE INCOME

Particulars	Gross amount	Exemption/admissible deductions	Taxable income	Remarks
Income from salary				
Basic pay	2,100,000	-	2,100,000	
House rent allowance	600,000	-	600,000	
Utility allowance	60,000	-	60,000	
Medical allowance	100,000	100,000	-	Medical allowance is exempt up to 10% of basic salary from tax u/c 139 part I, 2nd Sch.
Bonus	210,000	-	210,000	
Cost of living allowance	70,000	-	70,000	
Co. maintained car	90,000	-	90,000	[Rs. 1,800,000 x 5%]
Servant allowance	30,000	-	30,000	

Particulars	Gross amount	Exemption/admissible deductions	Taxable income	Remarks
Leave fare assistance	50,000	-	50,000	
Employer contribution to Provident fund	80,000	80,000	-	It is assumed that provident fund is recognized. Lesser of 10% of (basic salary + cost of living allowance) (2,100,000 + 70,000) = Rs.2,170,000 x 10% or Rs. 150,000 is exempt.
Employer contribution to pension fund	80,000	80,000	-	Exempt
Income from Salary			3,210,000	
Income from other sources				
Dividend (FTR)			30,000	
Profit on PLS account (FTR)			50,000	
Professional fee	50,000		50,000	
Total income			3,340,000	
Less: Zakat deducted	(750+1,250)		(2,000)	
Dividend (FTR)			(30,000)	
Profit on PLS account (FTR)			(50,000)	
Taxable income			3,258,000	
Computation of income tax liability on the taxable income (salaried case)				
Tax on Rs.3,258,000 [Rs.346,000 + 30% of amount exceeding Rs.3,200,000]			363,400	
Tax on Profit on PLS account Rs. 50,000 @20%			10,000	
Tax on dividend income (assumed gross) (30,000 @ 15%)			4,500	
Tax Liability			377,900	
Less: tax deducted from:				
Salary			(100,000)	
Dividend			(4,500)	
Profit on PLS account			(10,000)	
Balance tax payable			263,400	

Note: Profession fee income has been offered to tax under the normal tax regime. In case tax was deducted on the same, tax deductible @ 15% would have been treated as minimum tax and compared against the proportionate income tax liability calculated under the normal tax regime.

No deductible allowance on education expenses will be admissible as taxable income is greater than Rs. 1.5 million.

6. MR. HYDER

- a. As a legal representative, Mr. Hyder is liable for any tax, which would have been payable by his uncle, if he had not died. However, such liability is limited to the extent of Rs. 10 million i.e. value of his deceased uncle's estate.

Any proceeding taken against his uncle shall be continued against Mr. Hyder from the stage at which it stood on the date of his uncle's death. Further, any proceeding which could have been taken against the deceased if he had survived may be taken against the legal representative.

- b. A person should apportion the expenditure, deductions and allowances for the purpose of claiming deduction, where expenditure relates to:
- The derivation of more than one head of income; or
 - Derivation of income comprising of taxable income and any class of income subject to separate taxation or on which the tax collected at source is treated to be the final tax liability of the person.
 - The derivation of income chargeable to tax under a head of income and to some other purpose.

7. MR. QAMAR

Mr. Qamar shall be entitled for A tax credit in respect of any sum paid in the tax year as a donation

Tax credit

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:

- any board of education or any university in Pakistan established by, or under, a Federal or a Provincial law;
- any educational institution, hospital or relief fund established or run in Pakistan by Federal Government or a Provincial Government or a local Government; or
- any non-profit organization.
- Entities. Organizations and funds mentioned in 13th Schedule
 - The amount of a person's tax credit allowed 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

B is the person's taxable income for the tax year; and

C is the lesser of:

- the total amount of the person's donations including the fair market value of any property given; or
- where the person is:
 - an individual or association of persons, 30% of the taxable income of the person for the year; or

Above limit of 30%/20% shall be reduced by 50% in case donation is paid to associate.

8. MR. ZAMEER ANSARI

Computation of taxable income and tax thereon

For the tax year 2026

Income from salary (A)	Rupees
Basic salary (Rs. 200,000 x 12)	2,400,000
Medical allowance (Rs. 30,000 x 12) [Note 2]	360,000
Utilities allowance (Rs. 10,000 x 12)	120,000
School fees (Rs. 15,000 x 12)	180,000
Rent free furnished accommodation (Rs. 2,400,000 x 45%)	1,080,000
Car used for business purposes only (exempted)	-
Car used for personal as well as business purposes (Rs.1,800,000x5%)	90,000
Payment to an approved pension fund (exempted)	-
Employee share option - charged to salary in tax year 2023 and Leave encashment (paid after tax year 2026)	-
Payment to approved pension fund-exempt	
Income from Salary	4,230,000
Income from property (B)	
Rental income	264,000
Add: Un-adjustable security deposits {132,000 (W-1) x 1/10}	13,200
–Chargeable Rent	277,200
Less: 1/5 th repair allowance (277,200 x 1/5)	(55,440)
Taxable Income from property	221,760
Capital gain (C)	
Gain on sale of shares [15,000 shares x Rs. (48-42)]	90,000
Income from other sources (D)	
Profit on fixed deposit (FTR)	75,000
Total income (A+B+C+D)	4,616,760
Less: Zakat	(2,500)
Less: Profit on fixed deposit (FTR)	(75,000)
Taxable income	4,539,260
Computation of tax liability (Salaried Case)	
Tax on Rs. 4,539,260 [616,000+(4,539,260 – 4,100,000) x 35%]	769,741

Tax liability on profit on debt under FTR (Rs.75,000 x 20%)	15,000
Total tax liability	784,741
Less: Tax deducted at source	
On salary income	(250,000)
On profit on debt	(15,000)
Balance tax payable	519,741
W-1: Un-adjustable security deposits	
Received from new tenants	150,000
Amount charged to tax in 2024 & 2025 (Rs. 90,000 x 2/10)	(18,000)
	132,000

Note 1: No addition in salary income is needed for car provided by the employer solely for business use.

Note 2: As medical facility was also available, medical allowance is fully chargeable.

Note3: The deductible allowance u/s 60D on child's educational expenses shall not be allowed as the taxable income is more than Rs.1,500,000.

9. MS. SAIMA

Computation of taxable income For the Tax year 2026

Income from salary (A)	Rupees
Basic salary (Rs.400,000 x 12)	4,800,000
Medical allowance (Note 1 - Rs.40,000 x 12)	480,000
Medical reimbursement - fully exempt	
Conveyance allowance (Rs.60,000 x 12)	720,000
Bonus	800,000
Tax borne by the employer (Note 1.1)	200,000
Income from salary (A)	7,000,000
Capital gain	Rupees
Consideration received	1,000,000
Less: Cost of the painting to be taken as original cost of transferor	(500,000)
	500,000
Capital gain (B) (Note 2)	500,000
Sale of plot-not taxable	
Income from property	1,000,000
Income from other source	
Teaching fee	522,222
Less expenses	(70,000)
	452,222

Loan received from sister (Note 3)	5,000,000
Prize and winnings	200,000
Income from other sources (D)	5,652,222
Total Income (A+B+C+D)	14,152,222
Less: Prize and winnings	(200,000)
Taxable income (A+B+D)	13,952,222

Income from property

Forfeited deposit under the agreement for sale of land is covered by the definition of rent, therefore taxed accordingly.

Gain on the sale of plot by Ms. Saima would not be taxable as the plot is being sold after six years from the date of acquisition.

Prizes and winnings

The tax deducted on a prize won in quiz competition is subject to final tax and, therefore, the related income is not included in the taxable income.

Note 1

No exemption shall be allowed on medical allowance as she is also eligible for medical reimbursement under the terms of the employment. Such reimbursement is, however, not taxable.

Note 1.1

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.

Note 2

Where the capital asset becomes the property of the person by inheritance, the cost of original transferor is treated to be the cost of the asset.

Note 3

Any amount received as a loan, advance, deposit 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. Therefore, the amount received by Ms. Saima from her sister would be chargeable to tax as income from other sources.

Note 4

Teaching fee has been offered to tax under the normal tax regime. In case tax was deducted on the same, tax deductible @ 15% would have been treated as minimum tax and compared against the proportionate income tax liability calculated under the normal tax regime.

10. MR. BILAL

Section 39(3) of the Income Tax ordinance states that any amount received on account of followings:

- a loan,
- advance,
- deposit for issuance of shares or
- gift

by a person in a tax year from another person (other than a banking company or financial institution).

- otherwise than by a crossed cheque drawn on a bank/digital means 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. Therefore, the amount received in cash by Mr. Bilal can be treated as income, in the tax year 2026.

11. MR. FAISAL

Following are the provisions regarding claiming foreign tax credit available to a resident taxpayer:

- The amount of tax credit available to a resident taxpayer will be the lesser of:
 - - Income tax paid abroad; and
 - - Pakistan tax payable on foreign-sourced income.
- The Pakistan tax payable in respect of foreign source income derived by a taxpayer in a tax year shall be computed by applying the average rate of Pakistan income tax applicable to the taxpayer for the year against the taxpayer’s net foreign source income for that year.
- The amount of tax credit is calculated separately for taxable income under each head of income.
- Foreign tax credit is given only if foreign income tax is paid within two (02) years after the end of the tax year in which related foreign income was derived.
- While determining tax liability for a tax year, the amount of foreign tax credit is reduced from the gross tax liability before reduction for any other tax credits, such as, those relating to donations, investments and income tax paid in Pakistan.
- In case credit for foreign tax is not fully utilized in the year it is generated, the excess amount is neither refundable nor can it be carried to another tax year.
- Tax credit is not allowed for tax paid outside Pakistan on foreign-sourced income which is not chargeable to tax or is exempt from tax in Pakistan.

12. MR. TAQI AHMED

Computation of total income, taxable income and net tax payable/refundable For the tax year 2026

Income from Salary:	Rupees
Basic Salary $[(400,000 + (440,000 \times 11))]$	5,240,000
Conveyance allowance $[(40,000 + (44,000 \times 11))]$	524,000
Medical allowance $[(40,000 + (44,000 \times 11))]$	524,000
Health insurance benefit - Exempt as it is per terms of employment	-
Daily allowance (Special allowance) [Sec 12(2c)]	400,000
Performance bonus for tax year 2026 but received in August 2026	-
Director's fees for attending board meeting - ZTL	100,000
Loan waived by ZTL (Rs.2,500,000 $\times$ 15/50) (Repayment is made in advance for each month)	750,000
Imputed/deemed interest on loan (Note-1)	75,000
	7,613,000
Income from property	
Rental amount (1,800,000–300,000)	1,500,000
Less 1/5th repair allowance	(300,000)
Net property income	1,200,000
Income from other sources	
Bonus shares received taxable as FTR	110,000
Dividend income (FTR) (Rs.150,000/0.7)	214,286
Value of amenities and utilities included in rent	300,000
	624,286
Capital gain	
Consideration received on disposal $[15,000 \times 85]$	1,275,000
Less: cost of acquisition $[15,000 \times 60]$	(900,000)
Gain on disposal of 15,000 shares	375,000
Total income for the year from all sources	9,812,286
Less:	
Gain on disposal of 15,000 shares - Covered under separate block of income	(375,000)
Dividend income (FTR)	(214,286)
Bonus shares-FTR	(110,000)
	(699,286)
Taxable income under NTR (Salaried Case)	9,113,000
Tax liability	
Tax on Rs. 4,100,000	616,000
Tax on exceeding amount $[(9,113,000 - 4,100,000) \times 35\%]$	1,754,550
	2,370,550

Capital Gain - Separate block income	
Listed company shares (Rs. 375,000 x 12.5%)	46,875
Dividend income (Rs. 214,286 @ 15%)	32,143
Bonus shares (Rs.110,000 x 10%)	11,000
Tax payable	2,460,568
Less: Tax deducted by ZTL	(2,000,000)
Tax wrongly deducted on dividend @ 30%	(64,287)
Net tax payable (with tax return)	396,281

Note:-1

Installment No	Date	Installment	Balance Due	Interest	Taxable Income
26	Jun-25	50,000	1,200,000	X 10% x 1/12	10,000
27	Jul-25	50,000	1,150,000	X 10% x 1/12	9,583
28	Aug-25	50,000	1,100,000	X 10% x 1/12	9,167
29	Sep-25	50,000	1,050,000	X 10% x 1/12	8,750
30	Oct-25	50,000	1,000,000	X 10% x 1/12	8,333
31	Nov-25	50,000	950,000	X 10% x 1/12	7,917
32	Dec-25	50,000	900,000	X 10% x 1/12	7,500
33	Jan-26	50,000	850,000	X 10% x 1/12	7,083
34	Feb-26	50,000	800,000	X 10% x 1/12	6,667
35	Mar-26	50,000	750,000	X 10% x 1/12	-
					75,000

Note: Because the loan amount exceeded 1 million, interest was calculated even as the balance decreased.

Alternatively, interest could cease once the loan amount falls below 1 million.

26	Jun-25	50,000	1,200,000	10,000
27	Jul-25	50,000	1,150,000	9,583
28	Aug-25	50,000	1,100,000	9,167
29	Sep-25	50,000	1,050,000	8,750
30	Oct-25	50,000	1,000,000	8,333
31	Nov-25	50,000	950,000	
32	Dec-25	50,000	900,000	
33	Jan-26	50,000	850,000	
34	Feb-26	50,000	800,000	
35	Mar-26	50,000	750,000	45,833

13. BABER – HI FI LIMITED

Name of Taxpayer : Mr. Bader
Income year ended : 30th June, 2026
Tax Year : 2026
Personal Status : Individual
Residential Status : Resident

INCOME FROM SALARY U/S 12	(Rs.)	(Rs.)
Basic Salary (250,000 x 12)		3,000,000
Medical allowance (28,000 x 12)	336,000	
Exempt upto 10% of Basic Salary	(300,000)	36,000
House rent allowance (120,000 x 12)		1,440,000
Bond amount on restriction of resigning before 30 June, 2026		900,000
Conveyance facility for both official and private use (1,500,000 x 5% x 11/12)		68,750
Perquisites in the shape of inventory provided by the employer (22,000 – 12,000)		10,000
Fair market value of shares at the time of issue of shares (2,000 x 375)	937,500	
Less: Amount already paid as consideration (200,000 + 300,000)	(500,000)	437,500
Gratuity under an unapproved scheme	485,000	
Less: Exemption upto 75,000 or 50% of the amount payable	(75,000)	410,000
Termination benefit from previous employer		600,000
Medical facility free of cost from previous employer-exempt being benefit without marginal cost		-
Taxable Salary Income		6,902,250
CAPITAL GAIN (Section 37)		
FMV of shares at the time of sale		875,000
Less: Amount paid against option and shares (200,000 + 300,000) x 2,000 / 2,500		(400,000)
Amount taxable under the head of Salary (437,500 / 2500 x 2000)		(350,000)
Capital Gain		125,000
TOTAL INCOME		7,027,250
Less		
Terminal benefits		(600,000)
Taxable income		6,427,250
Since salary income is more than 75% of the taxable income, therefore, the slab applicable to salaried individuals shall be applied:		
Computation of net tax liability:		
Tax on Rs. 4,100,000		700,000
Tax @ 35% on the amount exceeding Rs. 4,100,000		814,537
Tax payable on taxable income		1,430,538

Tax on terminal benefit amount: (tax of last 3 years / Taxable Income of last 3 years x 100) x Amount of golden hand shake Rs. (1,260,000 / 10,500,000 x 600,000)		72,000
Tax payable under NTR		1,502,538
Tax liability		
Tax credit on investment in shares and life insurance- Not allowed from tax year 2023 onwards		
Tax Liability		1,502,538
Less: tax already paid or deducted at source		
Tax deducted on salaries		(1,105,000)
Tax payable (with tax return)		397,538

14. LONE TRADERS

Lone Traders (Sole proprietorship)

Computation of taxable income and income tax liability For the tax year 2026

	Speculation Business	Trading Business	Total
	----- Rupees -----		
Sales Ratio	40%	60%	100%
Gross sales [18,240 x 500] & [13,000,000 + 680,000]	9,120,000	13,680,000	22,800,000
Less: Discount	-	(680,000)	(680,000)
Net sales	9,120,000	13,000,000	22,120,000
Gross profit [9,120,000 - 7,900,000] & [13,680,000 x 25%]	1,220,000	3,420,000	4,640,000
Less: Exp. – Direct			
Scientific research	-	(600,000)	(600,000)
Expenditure in respect of future contract	(25,000)	-	(25,000)
Less: Common expenses [gross sales basis i.e. 40:60]			
Admin., selling and distribution 2,500,000			
Less: inadmissible - penalty (45,000)			
Allowable common expenses 2,455,000			
Admin., selling and distrib. [2,455,000 x 40% & 60%]	(982,000)	(1,473,000)	(2,455,000)
Net business income	213,000	1,347,000	1,560,000
Brought forward losses	(300,000)	(550,000)	
Taxable income/(loss) for the year [Notes]	(87,000)	797,000	
(Note 1) Speculation loss of Rs. 87,000 would be carried forward to next year for adjustment against speculation income.			
(Note 2) Speculation loss cannot be set off against trading business income of Rs. 797,000.			
(Note - 3) Similarly, capital loss of Rs. 250,000 would be carried forward to next year as it cannot be set off against any other heads of income.			

15. MR. NAUMAN

Computation of total income taxable income and net tax payable/refundable for tax year 2026

		Rupees
Income from salary		
Basic salary $[120,000 \times 12]$		1,440,000
Medical allowance $[240,000(20,000 \times 12) - 144,000(1,440,000 \times 10\%)]$		96,000
House rent allowance $(60,000 \times 12)$		720,000
Company maintained car for both official and personal use $(1,400,000 \times 5\%)$		70,000
Purchase of car on book value $(1,000,000 - 450,000)$		550,000
Employer's contribution to provident fund $[18,000 \times 12 = 216,000 - 144,000(1,440,000 \times 10\%)$ (Allowed limit is 1/10 of the basic salary OR 150,000 whichever is lower)		72,000
Interest on provident fund $[540,000 - 480,000\{\text{higher of: interest @ } 16\% \text{ i.e. } 480,000$ $(540,000 \div 18\%) \times 16 \text{ OR } 480,000(1/3\text{rd of basic salary i.e. } (1,440,000 \div 3))\}]$		60,000
Relocation allowance – exempt		-
Bonus – [not taxable in TY2026 as it is received in July 2026]		-
Loan obtained on concession rate $[5,000,000 \times 4\%(10\% - 6\%) \times (3 \div 12)]$		50,000
Legal expenses – Not deductible being no deduction shall be allowed for expenses incurred in earning salary income		-
Total income from salary		3,058,000
Income from property		
Rent income	800,000 $(1,200,000 - 400,000) \times 9/12$	600,000
Less: Repair allowance	$(600,000 \div 5)$	(120,000)
Insurance premium		(50,000)
Administration and collection charges to the extent of 4% of chargeable rent $600,000 \times 4\%$		(24,000)
		406,000
Income from other sources		
Interest income $(510,000 \div 0.85) + 200,000$		800,000
Income from utility, cleaning and security		400,000
Less: Expenditure		(250,000)
		150,000
		950,000
Total income from all sources		4,414,000
Less: Separate block of income (interest income)		(800,000)
		3,614,000

Less: Deductible allowances	
Zakat	(200,000)
Profit on debt Not allowed	-
Taxable income under NTR	3,414,000

16. MS. AYESHA

Nature	Rs. in million	Set off	Carried forward
Loss from speculation business	(4.5)	It cannot be set off against any other head of income. OR It can only be set off against any other gain From speculation business.	It can be carried forward against future speculation gain upto next 6 tax years following the tax year in which the loss occurred.
Loss on sale of shares of private company	(3.6)	This is a capital loss and it can be set off against capital gain on sale of jewellery of Rs. 2.5m.	The loss of Rs. 1.1m (3.6–2.5) can be carried forward only against future capital gain upto 6 tax years next following the tax year in which the loss occurred.
Loss on sale of antique	(1.6)	This loss shall not be recognized. So no question of set off or carried forward of this loss arises.	
Loss on sale of listed securities	(6.0)	This is a capital loss and it can only be set off against capital gain on sale of listed securities of Rs. 4m.	The loss of Rs.2m (6–4) can be carried forward only against future capital gain on disposal of securities under section 37A upto 3 subsequent tax years.
Loss from agriculture	(8.0)	Since agriculture income is exempt from tax, this loss cannot be adjusted against any other income.	
Loss from other sources	(19)	It can be set off with income from normal (other than speculation) business of Rs.15m and income from property of Rs. 3m be set off with income from property.	The loss of Rs.1m (19–18) cannot be carried forward.

17. MR. BASIT

- a) Computation of total income, taxable income and net tax payable/refundable For tax year 2026

Salary	Rupees
Pakistan source income:	
Salary [610,000×7]	4,270,000
Allowance for services of domestic servant [60,000×7]	420,000
Allowance @ 5% of salary solely expended in the performance of his duties of employment (4,270,000×5%)	213,500
Acquired car on lease	-
Shares acquired under employee share scheme [1,170,000(13,000×90)–390,000(13,000×30)]	780,000
Leave encashment	320,000
Gratuity (2,200,000–300,000)	1,900,000
Salary arrears of tax year 2025	700,000
Foreign source income:	Rupees
Salary (3,200×250×3)	2,400,000
Total income from salary	11,003,500
Capital gain	
Loss on sale of ML's shares [400,000(5,000×80)–450,000(5,000×90)]	
(50,000) C/F	
Income from other sources	
Pakistan source income:	
Gift received	200,000
Foreign source income:	
Income earned from university [1,000(1,500–500)×250]	250,000
	450,000
Total income	11,453,500
Less: Foreign source salary – Exempt	(2,400,000)
Taxable income	9,053,500
Tax liability (Salaried Case)	
On Rs. 4,100,000	616,000
On remaining Rs. 4,953,500@ 35%	1,733,725
	2,349,725
Less: Foreign tax credit [(2,349,725/9,053,500×250,000) = 64,884] OR [225×250 = 56,250] whichever is lower.	(56,250)
	2,293,475
Less: Withholding tax	(1,400,000)
Tax payable (with tax return)	893,475

- b) arrears amount may be taxed at the rates of tax year 2025 that would have been applicable if the salary had been paid to the Basit in tax year 2025.
- c) Basit is required to furnish a foreign income and assets statement giving particulars of:
- his total foreign assets and liabilities as on 30 June 2026;
 - any foreign assets transferred by him to any other person during tax year 2026 and the consideration for the said transfer; and
 - complete particulars of foreign income, the expenditure derived during the tax year 2026 and the expenditure wholly and necessarily for the purposes of deriving the said income.

18. MR. MUSHTAQ

Computation of total income, taxable income and net tax payable/refundable			
For tax year 2026			
Income from Business:			Rupees
Profit before taxation			1,800,000
Add: Inadmissible expenses/admissible income			
Salary paid to salesmen-admissible upto Rs. 22,000 per month			
Entertainment expenditures -			-
Research expenditure incurred outside Pakistan			150,000
Accounting loss on the sale of patents			65,000
Amortisation charged on patents for the year			25,000
Gain on sale of patents (524,000 – 430,000)			94,000
Bad debts recovered: Atif [700,000 – (800,000 – 550,000)]			450,000
Accounting depreciation			580,450
Transfer of furniture to Dubai (850,000–610,000)			240,000
Less: Admissible expenses/inadmissible income			
Bad debts recovered: Aslam [1,200,000–600,000–400,000]			(200,000)
Bad debts recovered - accounting entry			(1,100,000)
Income before tax depreciation			2,104,450
Less:			
B/f business loss		(125,000)	
Tax depreciation for the year-W-1		(667,650)	
Unabsorbed tax depreciation – brought forward		(705,000)	
Total business income for the year			606,800
Capital Gain			
Gain on the sale of 6,000 shares [432,000 – (6,000 × 25)]			282,000
Taxable income for the year under NTR			888,800

Computation of net tax liability (Non-Salaried Case)			
Tax on Rs. [15% x (Rs.888,800-600,000)]			43,320
Less: Tax paid under section 147			(200,000)
Balance tax refundable			(156,680)
W-1: Computation of tax depreciation			
Depreciation on furniture (200,000 × 15%)		30,000	
Used imported machine			
Initial allowance (500,000 × 25%)		125,000	
Depreciation [(500,000 – 125,000) × 15%]		56,250	
Depreciation for the year (given)		456,400	
			667,650

19. MR. WAJAHAT

Computation of Income Tax Liability

For the Year 2026

Income from Salary		Rupees
Basic salary (70,000 × 12)		840,000
Dearness allowance (10,000 × 12)		120,000
Conveyance allowance (8,000 × 12)		96,000
PF contrib. [(8,400 × 12) - (lower of Rs. 150,000 or 1/10th of basic + DA)]		4,800
Working: (100,800) or (lower of Rs.150,000 or (840,000+120,000)/10= 96,000		
Interest on PF [391,000 - (higher of: interest @16% or 1/3rd of basic + DA)]		71,000
Working: (391,000/20% × 16% = 312,800 or ((840,000+120,000)/3= 320,000)		
Reimbursement of electricity bill		60,000
Income from Salary		1,191,800
Income from Business		
Tuition fees (for ten months ended 30 June 2026)		2,198,000
Less: Admissible expenses:		
Salaries paid: Wajahat (inadmissible being the owner)		-
Friend (35,000 × 10)		(350,000)
Training expenses		(300,000)
Dep.: Used computers (250,000 × 30%) [no initial allowance is admissible]		(75,000)
Other misc. expenses		(195,000)
Income from Business		1,278,000
Income from other source		Rupees
Dividend received from BEE Limited (78,200 + 9,200 + 4,600)		92,000
Dividend received from a company in UAE		65,000
		157,000
Total income		2,626,800

Less: FTR income: Dividend		(157,000)
Deductible allowance: Zakat		(4,600)
Taxable income		2,465,200
Since salary income is less than 75% of the taxable income, therefore, the slab applicable to non-salaried individuals shall be applied		
Computation of net tax liability:		
Tax on Rs.1,600,000		170,000
Tax @ 30% on the amount exceeding Rs. 1,600,000		259,560
Tax payable under NTR		429,560
Less: Tax credit on investment in pension: $(493,040 \times 429,560 / 2,465,200)$		(85,912)
Which is lesser of (A), (B) or (C):		
• Total contribution paid by Wajahat (A)	890,000	
• 20% of taxable income $(2,465,200 \times 20\%)(B)$	493,040	
A or B whichever is lower	493,040	
		343,648
Add: Tax payable on dividend income $(157,000 \times 15\%)$ (FTR)		23,550
Total tax liability for the year		367,198
Less: Tax withheld at source (Dividend)		(9,200)
Balance tax payable		357,998
(Note 1) As the turnover during the tax year 2026 is less than Rs. 100 million hence minimum tax u/s 113 is not applicable on the taxpayer.		

20. MR. SHAHID

Computation of total and taxable income for the tax year 2026

	Rs. in million
Income from property	
Forfeited deposit	6.00
Less: Repair allowance @ 1/5	(1.20)
	4.80
Capital gain	
Disposal of bungalow (54-50)	4.00
Income from other sources	
Rent of factory building along with plant and machinery (1×12)	12.00
Less: Repair & maintenance	(3.50)
	8.50
Exempt income	
Rental income of agricultural land $[5 \div 2]$	2.50
Total income	19.8
Less: Exempt income (rental of agricultural land)	(2.50)
Less: Separate block of income (capital gain)	(4.00)
Taxable income	13.30

Tax Liability (Non-Salaried Case)	
On 5.6 million	1.61
Above 5.6 million @ 45%	3.47
	5.08
Surcharge @ 10% as income is greater than 10 million	0.51
Gross liability	5.59
Tax on capital gain (4M×15%)	0.6
Total tax liability	6.19

21. MR. TAHA

Name of person	Head of income	Tax regime	Admissibility of related expenses
Atif	-	FTR	No
Bilal	Income from other sources	NTR	Yes
Seema	Income from other sources	NTR	Yes
Kamal	-	Exempt	No
Sikandar	-	Exempt (Include in income just for rate purpose)	No
Dream Bank	Income from business	NTR	Yes

22. REHAN

(i)	Rs. in million	
Total income	(8+1+4-3-6+5-7-2)	0
Jewellery received from father (Exempt income)		(8)
Profit on debt from a savings account (Final Tax Regime Income)		(4)
Loss on disposal of shares of public company (Separate block of income)		6
Gain on disposal of government securities (Separate block of income)		(5)
Business loss from UAE		7
Taxable income		(4)
ii.		
Loss description	Set off requirements	Carry forward requirements
Loss on disposal of shares of private company	It can be set off against related capital gain only. In this case, there is only the gain on sale of jewelry that can be used for set off. The remaining loss of Rs. 2 million shall not be set off with any other provided income.	The unutilized loss of Rs. 2 million shall be carried forward for following six tax years and can only be offset against related capital gains
Loss on disposal of shares of public company	Loss on disposal of shares of public company of Rs. 6 million can only be set off with gain on disposal of government securities of Rs. 5 million and the remaining loss of Rs. 1 million shall not be set off with any other provided income.	Unutilized loss related to public company shares of Rs. 1 million shall be carried forward for the following three tax years and can only be offset against capital gains from disposal of public securities.

Loss description	Set off requirements	Carry forward requirements
Loss from other sources	Loss from other sources could not be set off this year as there is no income left against which this loss could be adjusted. Alternatively, loss from other sources could be set off with gain on sale of Jewelry.	Unutilized loss from other sources could not be carried forward.
Business loss from UAE	Business loss from UAE is a foreign source so it could not be set off with any Pakistan source income.	This loss will be carried forward for the following six tax years and can only be offset against foreign source income.

CHAPTER 12 – TAXATION OF ASSOCIATION OF PERSONS (AOP)

1. AB ASSOCIATES (AOP)

INCOME YEAR ENDED 30.6.2025

TAX YEAR 2026

COMPUTATION OF TAXABLE AND DIVISIBLE INCOME

Net profit as per accounts				269,000
Add: Inadmissible items				
Depreciation (180,000 + 20,000)				200,000
Salary to partner A				80,000
Commission to partner B				10,000
Depreciation on assets subject to finance lease				15,000
Finance charge on leased assets				2,500
Provision for doubtful debts				10,000
Accounting loss on disposal of fixed assets				13,000
Residential telephone bills of partner A				5,000
Liabilities outstanding for more than one year				
Liability against purchases	80,000			
Interest on bank loan	40,000			120,000
Tax gain on disposal of plant (90,000 – 80,000)				10,000
				734,500
Less: Tax depreciation			306,550	
Tax loss on disposal of furniture (7,500 – 10,000)			2,500	
Lease rentals			18,000	
Already taxed bad debts recovered			33,000	(360,050)
Taxable income				374,450
Income tax				nil
Divisible income-Profit before tax				374,450

TAX DEPRECIATION				
Plant and machinery				
Opening tax WDV			250,000	
Less: WDV of disposal			80,000	
			170,000	
Addition (cost as reduced by initial allowance)			30,000	
			200,000	
Initial allowance 25% of Rs.40,000				10,000
Opening WDV (Rs.170,000 x 15%)				25,500
Addition (Rs.30,000 x 15%)				4,500
				30,000
				40,000
Vehicles				
Opening tax WDV			400,000@ 15%=60,000	
Addition			1,300,000@ 15%=195,000	
			1,700,000	
Normal depreciation @ 15%				255,000
Furniture and Fixtures				
Opening tax WDV			80,000	
Less: WDV of disposal			(10,000)	
			70,000 @ 15%=10,500	
Addition			7,000@15%=1,050	
			77,000	11,550
Normal depreciation @ 15%				
				306,550

Share of Profit from AOP

	A	B	Total
Salary	80,000	-	80,000
Commission	-	10,000	10,000
Residential telephone bills	5,000	-	5,000
Balance (60:40)	167,670	111,780	279,450
Share of profit for the year	252,670	121,780	374,450

TAXABLE INCOME AND TAX LIABILITY OF Mr. A

Income from property	
Chargeable rent (given in P&L Account)	240,000
Less 1/5th repair allowance	(48,000)
Other property related expenses	(40,000)
Net property income	152,000
Share of profit of AOP	252,670
Total income inclusive of AOP share	404,670
Tax on income inclusive of AOP share	Nil
Actual tax liability- No taxable as income is less than Rs. 600,000	Nil

2. AB & CO.

TAX YEAR 2026

INCOME YEAR ENDED 30-06-2026

i. Computation of total and divisible income

	Rs.
Accounting profit	600,000
Add:	
Salary to partner A	600,000
Salary to partner B	300,000
House rent to partner A	240,000
House rent to partner B	120,000
Hotel Bills to partner A (assumed to be personal)	60,000
Hotel Bills to partner B (assumed to be personal)	60,000
Commission without tax deduction	50,000
Gain on sale of vehicle as per tax	600,000
Less: accounting gain on disposal of vehicle [1,200,000-800,000]	(40,000)
Divisible Taxable income	2,120,000

ii. Taxable income of each partner

Distribution of divisible income

	Partner A	Partner B	Total
Salary	600,000	300,000	900,000
House rent	240,000	120,000	360,000
Hotel bills	60,000	60,000	120,000
Balance (equal share)	370,000	370,000	740,000
Total income of each Partner	1,270,000	850,000	2,120,000
From sources other than share of AOP			
Gain on public listed company's shares (covered under SBI)	200,000	150,000	
Dividend from company	40,000	20,000	
Share of profit from AOP	1,270,000	850,000	

Mr. A and B does not have any other normal taxable income, therefore, share of profit before tax from AOP cannot be included in their income for rate purpose.

iii. Tax liability of partners

	Partner A	Partner B
Tax on capital gain u/s 37A (200,000 x 15%) - (150,000 x 15%) -	30,000	22,500
Tax on dividend income (15%)	6,000	3,000
Total tax liability	36,000	25,500

3. MS. HAMEEDA & MS. KASHMALA

- a. Tax implications in respect of sale of assets by Ms. Hameeda are as under:
- Capital gain on disposal of immovable properties acquired before 01 July 2024, where holding period exceeds 6 years is taxable @ 0%; therefore, disposal of plot in DHA Karachi shall not be taxable.
 - Painting
The cost of the painting for Ms. Hameeda is Rs. 2,350,000 i.e. the cost of her mother. However, no loss can be recognized on such assets.
 - Jewelry
The cost of jewelry for Ms. Hameeda is Rs. 3,000,000 i.e. cost of her husband. The gain of Rs. 2,000,000 is taxable under the head capital gains.
- b. Ms. Kashmala & Ms. Shumaila

Computation of taxable income & tax there on for the tax year 2026

	Rupees
Net loss	(800,000)
Add: Inadmissible expenses	
Salary to members of AOP (500K+300K)	800,000
Accounting depreciation	300,000
Business Income before depreciation and amortization	300,000
Less: Brought forward business loss from the year 2024	(400,000)
Un-adjusted Business loss	(100,000)
Business loss carried forward to next year	(100,000)
Tax depreciation for the year	250,000
Unabsorbed depreciation B/F	300,000
Unabsorbed depreciation to be carried forward	550,000
as there is loss under NTR & minimum tax liability ignored therefore no tax is payable by the AOP under the given case.	

4. T & H ENTERPRISES

TAX YEAR 2026

INCOME YEAR ENDED 30-06-2026

COMPUTATION OF TOTAL INCOME AND TAX PAYABLE

Net profit (149,000+149,000)		298,000
Add: in-admissible expenditures		
Salary to Tariq		45,000
Salary to Hamid		55,000
Cost of typewriter		18,000
Legal expense on which tax is not to be deducted		6,000
Provision for bad debts		14,000
Income tax paid for last year		5,000
Commission to Tariq		16,000
Premium of life policies of members		5,000
Accounting depreciation		34,000
		496,000
Less: Tax depreciation [14,000 + (2,700=18,000x15%)]	16,700	
Dividend income to be taxed separately	250,000	(266,700)
Taxable income excluding dividend income		229,300
Income tax		-
Divisible income excluding dividend income		229,300
Income tax (0% upto Rs. 600,000)		-
Dividend income to be taxed under FTR	250,000	
Tax on dividend @ 15%	37,500	
Total divisible income		229,300

- FBR has clarified that it is the divisible income (profit before tax) of AOP that will be included in the taxable income of its members for rate purpose.
- If AOP has any income that falls under final tax regime (FTR) then members share from such income shall not be added in the taxable income of the member. Section 4(4) read with Section 169(2) clearly states that income falling under FTR is not to be included in any taxable income.
- Tax depreciation of Rs. 2,700 on type writer is computed @ 15% as per third schedule

Share of profit from AOP

	Tariq	Hamid	Total
	60%	40%	
Salary	45,000	55,000	100,000
Commission	16,000	-	16,000
Life insurance premium	2,500	2,500	5,000
Balance in equal share	64,980	43,320	108,300
	128,480	100,820	229,300

Share of each partner Tariq $1.2/2 = 60\%$ and Hamis $0.8/2=40\%$

Taxable income of Mr. Tariq

Income accrued abroad but not remitted to Pakistan

(Resident person is taxable in Pakistan for his world over income subject to agreement for the

Avoidance of double taxation	72,000
Less: Zakat	(26,500)
Taxable income	45,500
Add: Share of profit from AOP for rate purpose	128,480
Taxable income for rate purpose	173,980

Tax Liability

Income tax on 173,980 @ 0% 0

Taxable income of Mr. Hamid

- Speculation loss (can be set-off only against speculation gain) 0
- Profit on sale of car – capital receipt

(It is assumed that car was for personal use) 0

As Mr. Hamid does not have any other normal taxable income, share of profit from AOP cannot be included for rate purpose.

Note:

Loss of AOP will be carried forward only in the hands of AOP, hence no effect of share of loss of from another AOP has been given in the hands of Mr. Tariq.

5. MR. SOHAIL, MR. KHALED AND MR. QAZI

Computation of taxable income and tax liability of association of persons

For Tax year 2026

Income from business	Rupees
Business loss for the year	(1,500,000)
Less: Accounting income from property	(1,502,500)
Add: Inadmissible expenses	
Salary to Mr. Sohail	900,000
Salary to Mr. Khaled	600,000
Interest to Mr. Sohail	300,000
Interest to Mr. Khaled	300,000
Interest to Mr. Qazi	500,000
Business loss (set off)	(402,500)
Taxable income from property (Rs.2,000,000-400,000 Less: (repair allowance)-40,000	1,560,000
Net income before tax (only for computation of divisible profit)	1,157,500
Tax liability on AOP income of Rs. 1,157,500	83,625

Share from AOP will be worked in the following manner:

	Sohail	Khalid	Qazi	Total
	2/5	2/5	1/5	
Salaries	900,000	600,000	-	1,500,000
Interest paid to partners	300,000	300,000	500,000	1,100,000
Balancing share 2:2:1	(577,000)	(577,000)	(288,500)	(1,442,500)
Total	623,000	323,000	211,500	1,157,500

Computation of taxable income and tax liability of each member

Income under NTR	Mr. Sohail	Mr. Khaled	Mr. Qazi
	Rupees		
Income from other businesses	800,000	900,000	-
Income from consultancy (1,000,000 – 150,000)	-	-	850,000
Taxable income	800,000	900,000	850,000
Divisible profit from another AOP	-	255,000	-
Share of AOP	623,000	323,000	211,500
Income including share of AOPs	1,423,000	1,478,000	1,061,500
Income tax	134,600	145,600	69,225
Income tax payable u/s 88 by Partners			
[income Tax ÷ Total income] × Taxable Income	75,671	88,660	55,432

Note: Consultancy services by Mr. Qazi has been offered to tax under the normal tax regime. In case tax was deducted on the same, tax deductible @ 15% would have been treated as minimum tax and compared against the proportionate income tax liability calculated under the normal tax regime.

6. DAWOOD AND DEWAN

Taxable income of Dawood		Rupees
Income from property (Rs. 2,736,000 (W-1) × 65%)		1,778,400
Less markup on borrowed funds 3,000,000 × 20%		(600,000)
Income from other sources (Rs. 480,000 (W-2) × 65%)		312,000
Income from other sources – Cash Borrowings		3,000,000
Taxable income		4,490,400
Taxable income of Dewan		
Income from property (Rs. 2,736,000 (W-1) × 35%)		957,600
Income from other sources (Rs. 480,000 (W-2) × 35%)		168,000
Taxable income		1,125,600

W-1: Computation of joint taxable income under income from property		
Income from property:		
Rent received by joint owners for 12 months		4,500,000
Less: Amount received on account of utilities, cleanliness & security(75,000×12)		(900,000)
Rent chargeable to tax (RCT)		3,600,000
Less repair allowance (1/5 x RCT)		720,000
Collection and administration charges-up to 4% of RCT		144,000
Net property income		2,736,000
W-2: Computation of income from other sources		
Income from other sources		
Amount received on account of utilities, cleanliness & security(75,000×12)		900,000
Less: Actual expenses incurred (35,000×12)		(420,000)
		480,000

7. BAQIR, ASAD AND RAHIL

BAR (AOP)		
Computation of taxable income and income tax liability		
For the tax year 2026	Rupees	Rupees
Accounting profit before taxation		5,488,000
Add: Inadmissible expenses:		
Closing stock-in-trade adj. [1,950,000 - 1,820,000]		130,000
Provision for slow moving stock		75,000
Freight charges paid in cash		-
Commission paid to Baqir		290,000
Annual performance award – Rahi		310,000
Bank loan of Asad paid by BAR		455,000
Provision for bad debts		735,000
Sales promotion expenses		275,000
Employee training and facilities (FG run institution)		-
Loss from Tehran branch	1,800,000	
Profit from Dubai branch	(1,500,000)	
Net loss from foreign source (to be carried forward for adjustment against foreign source income of the following tax year, if any.)	300,000	
		2,270,000
		7,758,000

Less: Admissible expenses:		
Bad debts written off	(W-1)	(120,000)
Net taxable income		7,638,000
Computation of tax liability:		
Tax on Rs. 5,600,000		1,610,000
On balance Rs. 2,038,000 tax @ 45%		917,100
Net Liability		2,527,100

W-1: Computation of bad debts written off:	Rupees
Opening balance of provision for bad debt account	1,100,000
Add: provision during the year	735,000
	1,835,000
Less: Closing balance of provision for bad debt A/c	(1,435,000)
Debts written off during the year	400,000
Less: loan to supplier written off [W-1(a)]	(280,000)
Bad debt written off allowed for tax purpose	120,000

8. FARHAN AND IMRAN

Share not definite

If the respective shares of Farhan and Imran as a partner in that property are not definite and ascertainable, they shall be assessed as an association of persons and taxable income and tax thereon will be computed as per principles of taxation of AOP.

Share definite

In this scenario, net rental income after allowing for all deductions will be proportionately allocated to each owner. Each owner will pay tax on such income as per their applicable rates.

9. M/S FARHAN, KAMRAN AND REHAN

Computation of Taxable Income and Tax Liability of AOP	
For the tax year 2026	
Income from business	Rupees
Business profit for the year	2,000,000
Add: Inadmissible expenses	
Salary to Farhan	1,000,000
Salary to Kamran	800,000
Salary to Rehan	600,000
Interest to Farhan	500,000
Interest to Kamran	400,000
Interest to Rehan	300,000
	3,600,000
Taxable income for the year	5,600,000
Tax liability	
Tax on Rs. 5,600,000	1,610,000
Computation of Taxable Income and Tax Liability of each Member	

	Farhan	Kamran	Rehan	Total
	----- Rupees -----			
Income under NTR	40%	40%	20%	
Salary from AOP	1,000,000	800,000	600,000	2,400,000
Interest from AOP	500,000	400,000	300,000	1,200,000
Share of profit (Balance amount distributed in accordance with the p&l sharing ratio)	800,000 (40% x 2million)	800,000 (40% x 2million)	400,000 (20% x 2million)	2,000,000 (bal)
Share of profit from (AOP) before tax [u/s 92]	2,300,000	2,000,000	1,300,000	5,600,000
Share of loss from another AOP(Not allowed)		-	-	-
Income from sole proprietorship businesses		800,000	0	-
Taxable income for rate purpose		2,800,000	1,300,000	
Tax liability of Kamran on income from other business				
Tax on Rs. 1,600,000				170,000
@ 30% on amount exceeding Rs.1,600,000				360,000
Total tax payable on Rs 2,800,000				530,000
Tax rate to be charged $530,000 / 2,800,000 \times 100 =$				18.9%
Tax liability of Kamran without share from AOP (Rs. 800,000 x 18.9%) =				151,429
Tax Liability of Rehan				
Dividend income (Rs.102,000 /0.85)				120,000
Tax on dividend income (Rs. 120,000×15%)				18,000
Tax deducted at source				(18,000)
Tax liability of Rehan				-
Note 1: As income of Rehan is taxable under FTR therefore, share of profit from AOP will not be added for rate purpose.				
Note 2: As Farhan has no other source of income, therefore, there will be no treatment of share of profit from AOP.				

10. KAMKAJ & CO.

Computation of Taxable Income

	Tax Year 2025	Tax Year 2026
	----- Rupees -----	
Income from Business	(18,000,000)	25,000,000
Add: Commission to SPL	7,000,000	7,000,000
	(11,000,000)	32,000,000
Dividend income	-	4,000,000
Total income	(11,000,000)	36,000,000
Less: FTR income	-	(4,000,000)
Taxable income	(11,000,000)	32,000,000
B/F loss		(11,000,000)
Taxable income		21,000,000
Less: SPL's share of 50%		(10,500,000)
Taxable income (distributable income) of AOP after deducting SPL's share		10,500,000
Tax liability of AOP:		
Up to 5,600,000		1,610,000
On balance @ 35%		2,205,000
		3,815,000
Surcharge @ 10% as income is greater than 10 million		381,500
Gross liability		4,196,500

Computation of taxable income and tax liability of Baqir:

	Tax Year 2025	Tax Year 2026
	----- Rupees -----	
Capital gain on sale of property 5,200,000 (Separate block of income)	-	5,200,000
Tax liability on capital gain related to sale of immoveable property [5,200,000×15%]		780,000

Computation of taxable income and tax liability of Omer:

	Rupees
Income from Business	2,500,000
Taxable income	2,500,000
Share of profit of AOP [10,500,000×60% (30/50)]	6,300,000
Taxable income for rate purpose	8,800,000
On 5,600,000	1,610,000
On balance @ 45%	1,440,000
	3,050,000
Tax rate to be charged (1,610,000/8,800,000 x 100) = 34.7%	34.7%
Tax liability of Omer (2,500,000 x 34.7%)	866,477

11. AZAADI & CO. (AC)

(a)	Azadi and Co.	
	Computation of total taxable income and tax liability for tax year 2026	
		Rs. in million
	Loss before tax	(66.00)
	Add: Inadmissible expenses / admissible income	
	Payment for purchase of machine	12.00
	Purchase of raw material for which no withholding tax was deducted (120×20%)	24.00
	Salary paid to office boy in cash	-
	Warehouse rent	-
	Bad debt written off	-
	Commission paid to member of AOP	3.20
	Payment for purchase of accounting software	6.40
	Depreciation on leased car	2.10
	Lease financial charges	1.50
		49.20
	Less: Admissible expenses and inadmissible income	Rs. in million
	Tax depreciation on machine $[3.5(W-1)+1.57(W-1)]$	(5.07)
	Loss on disposal of old machine (4-5)	(1.00)
	NRV adjustment (18-12)	(6.00)
	Scholarship given to Sara	-
	Amortization of ERP software $[6.4 \div 5 \times (91 \div 365)]$	(0.32)
	Lease rentals $[0.71(3 \times 2.5 \div 10.5) \times 80\%]$	(0.57)
		(12.96)
	Business Loss	(29.76)
	Computation of minimum tax:	
	Turnover (380 - 45 - 15)	320.00
	Tax liability @ 1.25% x 320 million	4.00
	W-1: New Machine	
	Cost:	Rs. in million
	Payment through cheque	12.00
	Sales tax on purchase	(2.00)
	Fair market value of old machine	4.00
	Cost for tax purposes	14.00
	Initial allowance @ 25%	(3.50)
		10.50
	Depreciation for the year @ 15%	(1.57)
		8.93
(b)	As Sara is an employee of AC and employee is not considered as an associate of employer, the scholarship received by Sara from AC is exempt from tax.	

12. MR. AAKASH KUMAR

Computation of total income, taxable income and net tax payable/refundable

For tax year 2026

Income from business	Rs. in million
Loss before tax	(87.0)
Add: Inadmissible expenses / admissible income	
Commission expense disallowed due to sale to inactive tax payer $[2.5 - 0.1(50 \times 0.2\%)]$	2.4
Accounting depreciation	40.0
Bad debts recovered from Shameem $[16.8 - 6(19.2 - 13.2)]$	10.8
Outstanding payments for more than 3 years	14.0
Financial charges waived by the bank	2.8
	70.0
Less: Admissible expenses and inadmissible / FTR income	Rs. in million
Penalty	-
Freight charges paid in cash	-
Tax depreciation	(48.0)
Insurance claim received	(6.0)
Loss on disposal of vehicle (W-1)	(1.2)
Reversal of Bad debts recovered recorded as other income $(16.8 + 10.6)$	(27.4)
Bad debts recovered from Faheem $[10.6 - 14(28.8 - 14.8)]$	(3.4)
Rental income – Chargeable under income from other sources	(21.6)
	(107.6)
Income from non-speculation business	(124.6)
Income from speculation business	
Net gain from derivative contract	23.0
Income from business (A)	(101.6)
Capital gain	
Sale of property (20)	20
Sale of private company shares (3.6)	3.6
(B)	23.6

Income from other sources		Rs. in million
Rental income from leasing of property comprised of building and 2 nd hand locally purchased plant (1.8×12)		21.6
Less: Deductions		
Repair and maintenance (actual)		(3.2)
Depreciation of building (85×90%×90%×10%)		(6.9)
Depreciation of plant (34×15%)		(5.1)
(C)		6.4
Gross Loss (A+B+C)		(71.6)
Less: Capital gain on sale of property (separate block of income)		(20)
Net Loss		(91.6)
Since Aakash's taxable income for tax year 2025 is negative, his share of profit from associate is ignored.		
Tax Liability		
Tax on capital gain on sale of property (separate block of income) (20×15%)		3
W-1: Loss / Gain on disposal of vehicle		
Insurance claim		6.0
Cost		10
Depreciation TY 2024	(10×15%)	(1.5)
TY 2025	(10×85%×15%)	(1.3)
TY 2026		-
		7.2
Loss on disposal of vehicle		(1.2)

Note: Answers in which loss has been computed by treating the vehicle as passenger transport not plying for hire, has also been considered correct.

13. JAFFAR ASSOCIATES (JA)

For the tax year 2026

	Rs. in '000
Income from business:	
Profit before tax	13,000
Less/add: Inadmissible expenses/(income)	
Payment for raw material without deduction of withholding tax (2,900×20%)	580
Salary paid to Manzoor	1,140
Office rent paid to Adeeb	-
Commission paid to Adeeb	860
Dividend – FTR	(6,000)
	9,580
FTR income	
Dividend – FTR (Rs. 6,000÷75%)	8,000
Total income	17,580
Less: Dividend – FTR	(8,000)
Taxable income	9,580

ii. Computation of total income, taxable income and tax liability of Manzoor

	Rs. in '000
Capital gain:	
Gain on sale of 5,000 shares in a listed company. [(Rs. 600 – Rs. 500) × 5,000]	500
Less: brokerage commission (Rs. 2 × 5,000)	(10)
Total and taxable income – Capital gain as separate block of income	490
Tax liability:	
securities acquired after 01 July 2024 (490×15%)	73.5

Computation of total income, taxable income and tax liability of Adeeb

Income from property:	
Rent received from JA – fair market rent	2,000
Less: Expenses - 1/5th for repair	(400)
	1,600
Capital gain:	
Gain on sale of a painting	300
Total and taxable income	1,900
Share of profit from JA for rate purposes (W-1)	6,545
Taxable income for rate purpose	8,445
Tax liability:	
Tax liability [Rs. 1,900 × 34.22%(W-2)]	650

W-1: Computation of share from AoP of each member

Particulars	Manzoor	Adeeb	Total
	----- Rs. in '000 -----		
Salary	1,140	-	1,140
Commission	-	860	860
Balance share	1,895 (25%)	5,685 (75%)	7,580
	3,035	6,545	9,580

W-2: Determination of tax rate	Rs. in '000
On Rs. 5,600	1,610
On Rs. 2,845 (8,445–5,600) @ 45%	1,280
	2,890
Tax rate to be charged (2,890÷8,445×100)	34.22%

CHAPTER 13 – FOREIGN SOURCE INCOME OF RESIDENT PERSON

1. MS. MARGARET

- (a) An individual shall be a resident individual for a tax year if the individual is:
- (i) Present in Pakistan for a period of, or periods amounting in aggregate to, one hundred and eighty-three days or more in the tax year;
 - (ii) An employee or official of the Federal Government, or a Provincial Government posted abroad in the tax year.
 - (iii) A citizen of Pakistan who is not present in Pakistan for 183 days or more can still be treated as resident if he is not present in any other country for more than 182 days during the tax year or he is not a resident taxpayer of any other country.

A company shall be resident company in a tax year if it is:

- (i) Incorporated or formed by or under any law in force in Pakistan.
 - (ii) The control and management of the affairs of the company is situated wholly in Pakistan at any time in the year, or
 - (iii) A Provincial Government or Local Authority in Pakistan.
- (b) (i) The foreign-source income of a short term resident individual shall be exempt from tax if
- 1. A resident individual solely by reason of the individual's employment; and
 - 2. Present in Pakistan for a period or periods not exceeding three years

However, the above rule is not applicable to:

- Any income derived from a business of the person established in Pakistan; or
- Any foreign-source income brought into or received in Pakistan.

Ms. Margaret is a short term resident individual as she is in Pakistan for employment and her stay is less than three years. Based on the above rule:

- 1. Receipt of US\$ 15,000 in equivalent Pak Rupees for conduction the workshop session at Lahore shall be taxable as it is received in Pakistan.
- 2. Receipt of US\$ 25,000 for conducting the workshop session at Munich shall not be taxable as it has neither been received in nor brought into Pakistan.
- 3. Receipt of US\$ 20,000 for conducting the workshop session at Dubai shall be taxable as it has been brought into Pakistan.

- (ii) Following are the provisions regarding claiming of foreign tax credit available to a resident taxpayer:

The amount of tax credit available to a resident taxpayer in respect of his foreign source income which is chargeable to tax under the Ordinance, will be lesser of:

- Income tax paid abroad; and
- Pakistan tax payable on foreign-sourced income.

The Pakistan tax payable in respect of foreign source income derived by a taxpayer in a tax year shall be computed by applying the average rate of Pakistan income tax applicable to the taxpayer for the year against the taxpayer's net foreign source income for that year.

The amount of tax credit is calculated separately for taxable income under each head of income.

Foreign tax credit is allowed only if foreign income tax is paid within two (02) years after the end of the tax year in which related foreign income was derived.

While determining tax liability for a tax year, the amount of foreign tax credit is reduced from the gross tax liability before reduction for any other tax credits, such as, those relating to donations, investments and income tax paid in Pakistan.

If credit for foreign tax is not fully utilized in the year it is generated, the excess amount is neither refundable nor can it be carried to another tax year.

Tax credit is not allowed for tax paid outside Pakistan on foreign-sourced income which is not chargeable to tax or is exempt from tax in Pakistan.

2. KARAM LIMITED

(a) Short term resident individual:

As Li is a resident individual solely by reason of the employment and his presence in Pakistan for not more than three years, he is treated as short term resident individual. Consequently, his foreign source income (rental income) shall be exempt from tax provided that foreign source income shall not be brought into Pakistan. However, he remitted 40% of the amount to his bank account in Pakistan so 40% of his rental income shall be taxable while the remaining i.e. 60% shall be exempt from tax.

(b) Returning expatriates:

As Omar is citizen of Pakistan and he was not a resident person in any of the four preceding tax years i.e. from tax year 2022 to tax year 2025, he is treated as a returning expatriate for tax year 2026 and his dividend income (foreign source income) shall be exempt from tax. In this case, there is no implication of amount remitted to Pakistan.

(c) Foreign source salary income of a resident person:

Foreign source salary of Sidra shall be exempt from tax if she paid foreign income tax in respect of her salary. In this case, there is no implication of amount remitted to Pakistan.

3. ABC PAKISTAN LIMITED

Under the ITO-2001, where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad during that tax year, any salary income earned by him outside Pakistan during that year shall be exempt from tax.

Since Akbar returned to Pakistan before the end of tax year, his foreign source salary will not be exempt from tax in Pakistan.

However, if he paid foreign income tax in respect of his foreign salary, his foreign- source salary will be exempt from tax. This exemption is only available if he is a resident.

His residency determination is based on his presence in different countries during the tax year 2026, as depicted below:

Country	Period	Days
Pakistan	1 July – 30 Sept. 25	92
	30 April – 30 June 26	62
		154
USA	1 Oct 25 – 14 Feb 26	137
UK	15 Feb 26 – 29 April 26	74

First criterion for residency

As the above table shows that Akbar was present in Pakistan for 154 days, which is less than 183 days, he does not fulfill the first criterion for residency.

Second criterion for residency

With respect to the second criterion, Akbar being a citizen of Pakistan, was not present in any other country for more than 182 days. If he was not a resident taxpayer in USA or UK, he was to be recognised in Pakistan as a resident for the tax year 2026.

If Akbar is classified as resident of other countries then he would be classified as a non-resident in Pakistan, and therefore his foreign source salary would not be subject to tax in Pakistan.

4. AZAD ENTERPRISES (AE)

A net loss of Rs. 0.5 million (Rs. 4.8 m – Rs. 5.3 m) from foreign source, i.e., Syria Branch, shall not be adjusted against Pakistan source income. Instead, this shall be carried forward for adjustment against any foreign source income in the subsequent tax year.

Further, foreign tax credit shall not be available in respect of tax of Rs. 1.5 million, paid in Kuwait.

5. FOREIGN-SOURCE INCOME OF RETURNING EXPATRIATES:

Safdar Malik was a non-resident for seven years, i.e., more than four preceding tax years. He returned to Pakistan on 20 December 2024 and stayed for more than 182 days by 30 June 2025, making him a resident for tax year 2025. His foreign source income received in the tax year 2026 will be exempt from tax, irrespective of foreign tax paid or not, as the exemption applied to both the year of becoming a resident (2025) and the following tax year (2026).

The foreign consultancy income of Rs. 1,960,000 from a UAE-based client was received on 28 August 2025, which falls under the tax year 2026. So, it is exempt.

6. FOREIGN GOVERNMENT OFFICIALS:

The salary received by Robert Neil, being an employee of a foreign government as remuneration for services rendered to such government, shall be exempt from tax provided that:

- The employee is a citizen of the foreign country (the UK) and not a citizen of Pakistan;
- The services performed by the employee are of a character similar to those performed by employees of the Federal Government in the UK;
- The foreign government (UK) grants a similar exemption to the employees of the Federal Government performing similar services in the UK.

CHAPTER 14 – RETURNS

1. MR. SAMI

- (i) Where the Commissioner is of the view that Mr. Sami is required to file the return of income but has failed to do so, the Commissioner is empowered to issue a notice requiring him to furnish the return of income.

A notice under section 114 may be issued in respect of one or more of the last five completed tax years or assessment years.

Provided that in case of a person who has not filed return for any of the last five completed tax years, notice under section 114 may be issued in respect of one or more of the last ten completed tax years.

However, he can issue such notice in respect of the last five tax years and therefore issuance of notice for the tax year 2019 cannot be justified. In the absence of information, it has been assumed that the taxpayer has filed his income tax returns from tax year 2021 to 2025.

Moreover, Commissioner may require any person to file return of income within 30 days of service of notice or such longer or shorter period as may be specified in such notice.

- (ii) The Commissioner may extend the time frame for furnishing the return, if he is satisfied that the applicant is unable to furnish the return of income by the due date because of:

- his absence from Pakistan;
- sickness or other misadventure; or
- any other reasonable cause

However, an extension of time shall not exceed 15 days from the due date for furnishing the return of income unless there are exceptional circumstances justifying a longer extension of time.

Provided that where the Commissioner has not granted extension for furnishing return, the Chief Commissioner may on an application made by the taxpayer for extension or further extension, as the case may be, grant extension or further extension for a period not exceeding fifteen days unless there are exceptional circumstances justifying a longer extension of time.

An extension of time shall not change the due date for the purpose of charge of default surcharge.

2. MR. ZAHID

Mr. Zahid		
Wealth Statement		
For the tax year 2026		2026
		Rupees
Agriculture land in Hyderabad		5,000,000
Residential property in DHA Karachi		3,000,000
Investment in shares of listed companies (1,100,000–100,000–50,000)		950,000
Business capital FG & Co. (4,000,000+2,540,000–450,000)		6,090,000
Advance against bungalow		1,000,000
Motor Vehicle		1,540,000
Cash at banks		730,000
Cash		157,500
Total		18,467,500
Less: Bank loan – closing balance		(1,300,000)
Wealth as on 30 June 2026		17,167,500
Wealth reconciliation statement		
Wealth as on 30 June 2026		17,167,500
Wealth as on 30 June 2025		14,040,000
Net increase in wealth		3,127,500
Inflows		
Income from business		2,540,000
Agriculture income – Exempt		2,500,000
Capital gain [(350,000 – 50,000 – 37,500)]		262,500
		5,302,500
Outflows		
Gift to brothers – Listed company shares and shares sold		100,000
Personal expenses		2,075,000
		2,175,000
Net increase in wealth		3,127,500

3. FOREIGN INCOME AND ASSETS STATEMENT

1. Every resident taxpayer being an individual having foreign income of not less than ten thousand United States dollars or having foreign assets with a value of not less than one hundred thousand United States dollars shall furnish a statement, hereinafter referred to as the foreign income and assets statement, in the prescribed form and verified in the prescribed manner giving particulars of:
 - (i) the person's total foreign assets and liabilities as on the last day of the tax year;
 - (ii) any foreign assets transferred by the person to any other person during the tax year and the consideration for the said transfer; and
 - (iii) complete particulars of foreign income, the expenditure derived during the tax year and the expenditure wholly and necessarily for the purposes of deriving the said income.
2. The Commissioner may also by a notice in writing require any person being an individual who, in the opinion of the Commissioner on the basis of reasons to be recorded in writing, was required to furnish a foreign income and assets statement but who has failed to do so to furnish the foreign income and assets statement on the date specified in the notice.

4. MR. MUKHTAR

	Treatment in wealth statement	Treatment in wealth reconciliation
(i)	Investment in AOP is shown as Rs.6,700,000 (5,300 + 1,400). However, car being provided by AOP is not shown in wealth statement.	Share of profit in AOP of Rs.1,400,000 is reflected as inflow.
(ii)	10 tola gold at value of Rs.500,000 is shown. Current market value is ignored in wealth statement.	No effect
(iii)	Cash and bank balance of Rs.1,876,000 being sale proceeds are shown.	Gain on sale of Rs.176,000 (1,876,000 - 1,700,000) is reflected as inflow.
(iv)	Loan outstanding at 30 June 2026 of Rs.400,000 (1,000,000-600,000) is shown as liability.	No effect

5. ANNUAL INCOME TAX RETURN

Aoun has to comply with the following conditions in order to submit a valid revised return:

The revised return should be accompanied by the revised accounts.

- The reasons for revision of return, in writing duly signed by the taxpayer, should be filed with the return.
- Permission of the Commissioner in writing for revision of return should be obtained. However, this condition shall not apply if revised return is filed within 60 days of filing of return.
- Taxable profit declared is not less than profit determined by an order or loss declared is not more than loss determined by an order.
- Approval required from Commissioner shall be deemed to have been granted by the Commissioner if:
 - The Commissioner has not made an order of approval in writing for revision of return, before the expiration of 60 days from the date when the revision of return was sought; or
 - Taxable income declared is more than or the loss declared is less than the income or loss, as the case may be determined under Assessments.

6. RIAASAT LIMITED (RL) - I

	Particulars	Due /last date
•	Filing of normal tax year return for the year ended 30 June 2026	31 Dec 2026
•	Filing of transitional tax year return	30 Sep 2027
•	Filing of first special tax year return	30 Sep 2028

7. INDEPENDENT SITUATIONS

- (i) Although Hasan did not earn any Pakistan source income during tax year 2026, he had been charged to tax in respect of his capital gain, under separate block of income, during the tax year 2025. Therefore, he is required to furnish a return of income for tax year 2026.
- (ii) In tax year 2026, Mehjabeen, a resident individual, has become an owner of foreign assets worth USD 400,000, which is above the threshold of USD 100,000, requiring her to file a foreign income and assets statement.
- Consequently, Mehjabeen is required to file a return of income in tax year 2026.
- (iii) XYZ (Pvt.) Ltd is required to furnish a return of income for the period from 1 January 2025 to 31 August 2025.

This period will be considered a separate tax year.

8. MR. GHAFFAR BUX**(a) (i) Ghaffar Bux agrees with the AOC's decision:**

- He is required to pay the determined tax amount, including any amount of penalty and default surcharge, as per the decision of the Committee.
- Ghaffar Bux forfeits the right to prefer an appeal against such amended assessment.
- No further proceedings shall be undertaken under the Ordinance in respect of issues decided by the Committee unless the tax as per above has not been deposited by Ghaffar Bux.

(ii) Ghaffar Bux disagrees with the AOC's decision:

The case shall be referred back to the Commissioner for a decision based on the reply submitted by Ghaffar Bux in response to notice notwithstanding proceedings or decision, if any, of the Committee.

(b) The following individuals are required to file the return of income based on ownership of assets even if their income is below the taxable threshold.

- an individual who owns immovable property with a land area of 500 square yards or more, or owns any flat located in areas falling within the municipal limits existing immediately before the commencement of local government laws in the provinces, or areas in a cantonment, or the Islamabad Capital Territory
- an individual who owns immovable property with a land area of five hundred square yards or more located in a rating area
- an individual who owns a flat having a covered area of two thousand square feet or more located in a rating area;
- an individual who owns a motor vehicle having an engine capacity above 1000cc
- a resident individual who has foreign assets with a value of not less than USD 100,000

9. RUSTOM MIRZA

Wealth statement as of 30 June 2026	
	Rupees
5,000 shares in a listed company (at cost) (360,000 + 80,000)	440,000
Residential house in Malir	4,500,000
Furniture and other household items	520,000
Personal car (1,850,000 + 1,200,000)	3,050,000
Bank balance (W-1)	505,000
Cash-in-hand [Rs. 50,000 – Rs. 20,000 (Personal expenses paid in cash)]	30,000
Total assets	9,045,000
Less: Loan payable to a friend (Rs. 800,000 – Rs. 400,000)	(400,000)
Payable against trade-in of old car	(1,200,000)
Net assets as of 30 June 2026	7,445,000
Wealth reconciliation statement	
	Rupees
Net assets – 30 June 2025	6,915,000
Net assets – 30 June 2026	7,445,000
Net increase in assets	530,000
Inflows:	
Income from salary	3,600,000
Outflows:	
Personal expenses	2,600,000
Tax paid on salary	435,000
Gift to sister	35,000
	3,070,000
Net inflows	530,000
W-1: Bank balance	
	Rupees
Opening balance	435,000
Salary	3,600,000
Tax on Salary	(435,000)
Purchase of shares	(80,000)
Repayment of loan	(400,000)
Personal expenses	(2,580,000)
Gift to sister	(35,000)
Closing balance	505,000

CHAPTER 15 – ASSESSMENT AND AUDIT

1. CHANDI ENTERPRISES

CE is a partnership firm and therefore its tax status is an AOP. The provisions of minimum tax are applicable to an AOP if its turnover for the tax year is Rs. 100 million or more. Since CE's turnover for the tax year is Rs. 45 million, the minimum tax provisions are not applicable to CE.

Disallowance of expenditures incurred on annual Eid Millan party

The expenditure incurred on arranging Eid Milan party is in the nature of an amenity provided to the employees. This helps the firm to maintain cordial and friendly relations with its employees which is necessary for their motivation and increasing their productivity. Therefore, the expenditure on Eid Milan party should be considered to be incurred wholly and exclusively for the purpose of business.

Disallowance of late delivery penalty

The late delivery damages paid to the client is an expense connected and incidental to the carrying on of firm's business. The expenditure incurred is wholly and exclusively for the purpose of the business and should not have been added back.

Disallowance of donations

The donation paid to a hospital established by the Federal Government is not a deductible expenditure. However, CE is entitled to a tax credit at average rate of tax in respect of donation paid to the hospital but if paid in cash then no tax credit shall be allowed.

Disallowance of Salary to Managing Director

Since the Managing Director is a member of the AOP, the salary paid to him is not a deductible expenditure.

2. PLASMA PAKISTAN (PVT.) LIMITED (PPL)

(i) Recouped expenditure:

Recoupment of an expenditure, in cash or in kind, can only be included in the income chargeable to tax, in the tax year in which it is received, if previously, the same has been allowed as a deduction in computing the taxable income. Since the expenditure incurred by PPL on marketing export of technical services was never allowed as an admissible expense as it related to an income which was taxable under FTR, it cannot be added to the taxable income of the company at the time of its recoupment.

(ii) Expenses on account of "Travel fare" even if paid in cash, can be claimed as admissible deductions. Therefore, the company can claim the entire amount of Rs. 500,000 as admissible deduction.

(iii) Any expenditure that provides an advantage or benefit for a period of more than one year is included in the definition of intangibles and is required to be amortized over the period of the expected benefit. As such PPL would be allowed to charge only 1/3rd of the expense in 2026 which would be Rs. 30 million.

3. BOOKS OF ACCOUNTS

The books of accounts required to be maintained by a taxpayer who has business income (only) up to Rs. 500,000 are as follows:

- Serially numbered and dated cash-memo / invoice / receipt for each transaction of sale or receipt containing the following:
 - (i) taxpayer's name or the name of his business, address, national tax number or CNIC and sales tax registration number, if any the description, quantity and value of goods sold or services rendered;
 - (ii) Where each transaction does not exceed Rs. 100, one or more cash-memos per day for all such transactions may be maintained
 - (iii) Daily record of receipts, sales, payments, purchases and expenses a single entry in respect of daily receipts, sales, purchases and different heads of expenses will suffice; and
 - (iv) Vouchers of purchases and expenses.

4. SPECIAL AUDIT PANEL

The Board may appoint as many special audit panels as may be necessary, to conduct an audit, including a forensic audit, of the income tax affairs of any person or classes of persons and the scope of such audit shall be as determined by the Board or the Commissioner on a case to case basis.

Relevant provisions in this regard are summarized below:

- The panel shall comprise of any two or more members from:
 - an officer of Inland Revenue;
 - a firm of chartered accountants;
 - a firm of cost and management accountants; or
 - any other person as directed by the Board.
 - A tax audit expert deployed under audit assistance program of an international tax organization or tax authority outside Pakistan.
- The Panel shall be headed by a Chairman who shall be an officer of Inland Revenue;
- Powers for conducting an audit shall only be exercised by officer(s) of Inland Revenue who are member(s) of the panel, and authorized by the Commissioner;
- Where a person fails to produce any accounts, documents and records, required to be maintained or any other relevant document, electronically kept record, electronic machine or any other evidence that may be required by the Commissioner or the panel for the purpose of audit or determination of income and tax due thereon, the Commissioner may proceed to make best judgment assessment and the assessment treated to have been made on the basis of return or revised return filed by the taxpayer shall be of no legal effect.
- If any member of the panel, not being the Chairman, is absent from conducting an audit, the proceedings may continue and the audit conducted by the special audit panel shall not be invalid or be called into question merely on account of such absence;
- Functions performed by the officer or officers of Inland Revenue as members of the special audit panel to conduct audit, shall be treated as having been performed by the special audit panel;
- The Board may prescribe the mode and manner of constitution, procedure and working of the special audit panel.

5. CONCEALED ASSET

Under the Income Tax Ordinance, 2001 if in the opinion of the Commissioner, an asset is acquired from any income chargeable to tax but could not be charged to tax, it is considered to be a concealed asset.

The Commissioner may at any time before issuing any assessment order under section 121 (best assessment order) or 122 (amended assessment order) issue to the person a provisional assessment order or provisional amended assessment order as the case may be.

While issuing the assessment order the Commissioner, shall take into account the computation of taxable income and tax payable for the last completed tax year of the person during which the concealed asset was accounted for.

The Commissioner shall finalize the provisional order or provisional amended assessment order as soon as possible.

6. SECTORAL BENCHMARK RATIOS

Sectoral benchmark ratios' means standard business sector ratios notified by the Board on the basis of comparative cases and includes financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio and such other ratios in respect of such sectors as may be prescribed.

The Commissioner shall determine taxable income on the basis of sectoral benchmark ratios in the following two cases:

Where a taxpayer:

- has not furnished record or documents including books of accounts;
- has furnished incomplete record or books of accounts; or
- is unable to provide sufficient explanation regarding the defects in records, documents or books of accounts,

it shall be construed that taxable income has not been correctly declared and the Commissioner shall determine taxable income on the basis of sectoral benchmark ratios prescribed by the Board.

For the purposes of making a best judgment assessment, the Commissioner may determine taxable income on the basis of sectoral benchmark ratios prescribed by the Board.

7. RIAASAT LIMITED (RL) – II

•	Amendment of assessment related to normal tax year for the year ended 30 June 2026	30 June 2032
•	Amendment of assessment related to first special tax year	30 June 2033

8. RUSTUM ENTERPRISES

(a) (i) Normal assessment

If a taxpayer has furnished a complete return of income other than a revised return, the Commissioner shall be treated to have assessed the income and tax due thereon.

Best judgment assessment:

This type of judgment is made where a person fails to:

- furnish return of income in response to notice of a Commissioner; or
- furnish a return as required to be filed by air carrier or shipping companies; or
- furnish the wealth statement;
furnish return of income in response to notice under sec 117(3) notice of business discontinuance or
- produce before the commissioner, or a special audit panel or any person employed by a firm of chartered accountants or a firm of cost and management accountants, accounts, documents and records required to be maintained or any other relevant document or evidence that may be required by him for the purpose of making assessment of income and determination of tax due thereon.

Under any of the above cases, the Commissioner may, based on any available information or material and to the best of his judgment, make an assessment of the taxable income of the person and the tax due thereon.

For the purposes of making a best judgment assessment, the Commissioner may determine taxable income on the basis of sectoral benchmark ratios prescribed by the Board.

(ii) Notice of discontinued business:

Sole proprietor shall give the Commissioner a notice in writing to that effect within fifteen days of the discontinuance of business.

He shall furnish a return of income for the period commencing on the first day of the tax year in which the discontinuance occurred and ending on the date of discontinuance and this period shall be treated as a separate tax year.

(iii) Additional record

Following additional records are required to be kept by sole proprietor whose business income exceeding Rs. 500,000 as compared to a sole proprietor whose business income is upto Rs. 500,000.

- In case of a wholesaler, distributor, dealer and commission agent, where a single transaction exceeds Rs. 10,000, the name and address of the customer;
- Cash book and/or bank book;
- General ledger or annual summary of receipts, sales, payments, purchases and expenses under distinctive heads;
- Where a single transaction exceeds Rs. 10,000 with the name and address of the payee; and
- Where the taxpayer deals in purchase and sale of goods, quarterly inventory of stock-in-trade showing description, quantity and value.

(b) Following rules apply to the income subject to final tax:

- (i) Such income is not chargeable to tax under any head of income in computing the taxable income.
- (ii) No deduction is allowed for any expenditure incurred in deriving the income.
- (iii) The amount of the income is not reduced by:
 - any deductible allowance; or
 - the set off of any loss
- (iv) The tax deducted is not reduced by any tax credit
- (v) There is no refund of the non-adjustable tax collected or deducted at source unless such tax is in excess of the amount of final tax for which the taxpayer is chargeable.
- (vi) An assessment is treated to have been made and the person shall be required to furnish a return of income in respect such income.

9. MS. ZUBAIDA

The return submitted by Ms. Zubaida on 20 August 2019 would be considered as deemed assessment. Under the Ordinance, no order should be amended by CIR after the expiry of five years from the end of financial year in which CIR have issued or treated to have issued the assessment order to the tax payer. Since assessment was deemed to be finalized on 20 August 2019, CIR was empowered to amend the order up to 30 June 2025.

In the light of the above, the notice issued by CIR is not valid.

10. ASSESSMENT ORDER

Amendment of assessment by the Commissioner shall not be made after the expiry of five years, from the end of the financial year in which the order is issued or treated as issued.

Commissioner is empowered to amend further as many times as may be necessary, the original assessment order as amended previously within the later of:

- five years from the end of the financial year in which the original assessment order is issued or treated as issued by the Commissioner; or
- one year from the end of the financial year in which the amended assessment order is issued or is treated as issued.

CHAPTER 16 – APPEAL

1. ASSURANCE & CO

- (a) (i) Assurance & Co. may apply for settling the dispute through the ADR mechanism in the following cases:

- Where the liability of tax is Rs. 50 million or above or the admissibility of a refund;
- The extent of waiver of default surcharge or penalty; or
- Any other specific relief required to resolve the dispute.

may apply to the Board for the appointment of a committee for the resolution of any hardship or dispute mentioned in detail in the application, which is under litigation in any court of law or an appellate authority, except where criminal proceedings have been initiated.

Where the aggrieved person is a state-owned enterprise (SOE), the limit of tax liability of fifty million rupees or above as mentioned above shall not apply and it shall be mandatory for such aggrieved SOE to apply to the Board for the appointment of a committee for the resolution of any dispute.

- (ii) • The Board may, after examination of the application of an aggrieved person, appoint a committee, within fifteen days of receipt of such application in the Board, comprising, -
- (i) a retired judge not below the rank of a judge of a High Court, who shall also be the Chairperson of the Committee, to be nominated by the Board from a panel notified by the Law and Justice Division for such purpose;
 - (ii) the Chief Commissioner Inland Revenue having jurisdiction over the case; and
 - (iii) a person to be nominated by the taxpayer from a panel notified by the Board comprising
 - chartered accountants, cost and management accountants and advocates having a minimum of ten years' experience in the field of taxation;
 - officers of the Inland Revenue Service who stood retired in BS 21 or above; or
 - reputable businessmen as nominated by the Chambers of Commerce and Industry:

Provided that the taxpayer shall not nominate a chartered accountant or an advocate if the said chartered accountant or the advocate is or has been an auditor or an authorized representative of the taxpayer.

- (b) Any person who has furnished a return, discovers any omission or wrong statement therein, may file a revised return subject to the following conditions:

- (i) It is accompanied by the revised accounts or revised audited accounts, as the case may be.

Provided that the Commissioner may waive this condition if satisfied that filing of revised accounts or audited accounts is not necessary.

- (ii) The reasons for revision of the return, in writing, duly signed by the taxpayer are filed with the return.

- (iii) Taxable income declared is not less than or loss declared is not more than income or loss.

A revised return may be filed within sixty days from the date of return filing without the Commissioner's approval.

However, after sixty days, a revised return may be filed with the approval of the Commissioner in writing for revision of the return.

Approval from Commissioner shall be deemed to have been granted by the Commissioner if:

- (i) the Commissioner has not made an order of approval in writing for revision of return, before the expiration of 60 days from the date when the revision of return was sought, or
- (ii) taxable income declared is more than or the loss declared is less than the income or loss, as the case may be determined u/s 120.

- (c) Every individual resident taxpayer who has foreign income of not less than USD 10,000 or foreign assets with a value of not less than USD 100,000 shall furnish a foreign income and assets statement. The statement must be in the prescribed form and verified in the prescribed manner, and should include the following particulars:

- The person's total foreign assets and liabilities as of the last day of the tax year;
- Any foreign assets transferred by the person to any other person during the tax year and the consideration for the said transfer; and
- Complete particulars of foreign income, the expenditure derived during the tax year, and the expenditure wholly and necessarily for the purposes of deriving the said income.

CHAPTER 17 – SCOPE OF SALES TAX

1. RAVI LIMITED

23 July, 2025
Finance Director
Ravi Limited
Lahore
Dear Sir

SALES TAX APPLICATION ON THE PRODUCTS OF THE COMPANY

This is with reference to your telephonic conversation with the undersigned wherein you asked about the sales tax implication on the different products of your company. In this regard, we learnt that your company is engaged in the following activities:

- (a) Sale of fertilizers
- (b) Generation and supply of electricity

Now we discuss the sales tax implication on all these activities one by one in the ensuing paragraphs:

Sale of fertilizers

Fertilizer items excluding DAP are exempt from levy of sales tax under 6th schedule, therefore no sales tax is chargeable on supplies related thereto. Consequently, any input tax paid on raw material used in manufacturing of Fertilizer products other than DAP will not be admissible.

Generation and supply of electricity

Supply of electricity is also liable to sales tax either it is consumed for self-consumption or used for supply to any other buyer. However, sales tax will be charged only on energy purchase price. The sales tax paid on the purchase of furnace oil or other raw materials for production of electricity will be admissible for adjustment against output tax. However, the input tax paid on electricity consumed for production of fertilizer goods other than DAP will not be admissible.

As far as your query about the sales tax on boiler is concerned, we wish to convey that the boiler falls within the definition of machinery and it is equally liable to sales tax @ 18%. Sales tax paid thereon will be allowed as input sales tax. Further, adjustment of input upto 90% of output will not be applicable on machinery.

We hope the aforesaid information will meet your requirement. However, should you need any further discussion in this regard, please do let us know.

Thanking You

M H A

2. REGISTRATION

Person Name	Category of Registration	Scheme of Taxation
Mr. A	Wholesaler	Registration
Mr. B	Retailer	Registration required only if it falls in Tier-1 category.
Mr. C	Nil	No Registration as commission agent only
Mr. D	Manufacturers and Retailer	Registration
Mr. E	Service Provider	No registration required under the Sales Tax Act 1990, however, will have to get registered under the respective Provincial Sales Tax Act for services.

3. MANUFACTURERS

- (i) Taxable supplies upto Rs.8,000,000 of a manufacturer/cottage industry are exempt from levy of sales tax under the Sixth Schedule to the Sales Tax Act, 1990. Therefore, such manufacturer is not required to get registration under Sales Tax Act. In the absence of information, it is assumed that other conditions of cottage industry also met in the given case.
- (ii) A manufacturer having turnover from taxable supplies of Rs.8,000,000 is required to be registered as manufacturer. Therefore, person is not liable to be registered.
- (iii) A manufacturer having turnover of Rs. 7,000,000 including taxable turnover of Rs 4,500,000 is not required to be registered.

4. MR. FURQAN**(i) Returns:**

Being a registered person, Mr. Furqan was required to file a nil return for each tax period irrespective of the fact that he did not carry out any taxable activity after the registration. Failure of Mr. Furqan to file a return by the due date may result in imposition of penalty.

(ii) De-registration:**Reasons for De-registration:**

Mr. Furqan may be liable for deregistration due to any of the following reasons:

- He ceases to carry on his business;

- His supplies have become exempt from tax;
- His taxable turnover during the last 12 months has remained below the threshold;
- He transfers or sells his business;
- Merger with another person; or
- Failure to file tax return for six consecutive months.

Procedure for de-registration:

Every registered person who ceases to carry on his business or whose supplies become exempt from tax, or who ceases to remain registered shall apply to the Commissioner Inland Revenue having jurisdiction for cancellation of his registration in Form STR-3, and the Commissioner, on such application or on its own initiative, may issue order of de-registration or cancellation of the registration of such person from such date as may be specified, but not later than ninety days from the date of such application or the date all the dues outstanding against such person are deposited by him, whichever is later and such person shall be de-registered through computerized system accordingly.

The Commissioner, upon completion of any audit proceedings or inquiry which may have been initiated consequent upon the application of the registered person for de-registration, shall complete the proceedings or inquiry within ninety days from the date of application and direct the applicant to discharge any outstanding liability which may have been raised therein by filing a final return under section 28:

The person applying for de-registration shall not be de-registered unless he provides record for the purpose of auditor inquiry.

If a registered person fails to file tax return for six consecutive months, the Commissioner, without prejudice to any action that may be taken under any other provision of the Act, after issuing a notice in writing and after giving an opportunity of being heard to such person, shall issue order of de-registration of such person and the computerized system shall be caused to de-register the person accordingly.

The obligations and liabilities of the person whose registration is cancelled relating to the period when he conducted business as a registered person shall not be affected by the fact that his registration has been cancelled or that he has ceased to be a registered person.

5. MANUFACTURER

Under the Sales Tax Act, 1990, a manufacturer is a person who engages, whether exclusively or not, in the manufacture of goods whether or not the raw material of which the goods are manufactured are owned by him; and shall include:

- (i) A person who by any process or operation assembles, mixes, cuts, dilutes, bottles, packages, repackages or prepares goods by any other manner;
- (ii) An assignee or trustee in bankruptcy, liquidator, executor, or curator, of any manufacturer, or producer and any persons who disposes of his assets in any fiduciary capacity; and
- (iii) Any person, firm or company which owns, holds, claims or uses any patents, proprietary, or other right to goods being manufactured, whether in his or its name, or on his or its behalf, as the case may be, whether or not such person, firm or company sells, distributes, consigns, or otherwise disposes of goods.

Provided that for the purpose of refund, only such person shall be treated as manufacturer-cum-exporter who owns or has his own manufacturing facility to manufacture or produce the goods exported or to be exported.

6. MR. SHOAB

(i) Features distinguishing the concept of 'Zero rating' from 'Exempt supply':

Distinction points	Zero Rated Supply	Exempt Supply
Definition	"Zero rated supply means a taxable supply which is charged to tax at the rate of zero per cent.	"Exempt Supply means a supply which is exempt from tax.
Products covered	Goods exported or listed in the Fifth Schedule are charged to sales tax at the rate of zero per cent.	Goods specified by Federal Government / FBR and goods specified in the Sixth Schedule are exempt supplies.
Invoicing Requirements	Invoice shall be raised for the goods supplied but sales tax shall be charged at the rate of zero per cent	No sales tax invoice be issued.
Registration	A person engaged in zero rated supplies has to be registered with the Sales tax department.	A person engaged exclusively in the exempt supplies is not liable to be registered.
Input tax credit	Input tax paid related to zero rated supplies is refundable.	Input tax paid related to exempt supplies is inadmissible, therefore, neither adjustable nor refundable.

(ii) Short paid amounts recoverable without notice:

Where a registered person pays the amount of tax less than the tax due as indicated in his return, the short paid amount of tax along with default surcharge shall be recovered from such person by stopping removal of any goods from his business premises and through attachment of his business bank accounts, without giving him a show cause notice and without prejudice to any other action prescribed under section 48 of this Sales Tax Act or the rules made thereunder:

(iii) Provisional and final adjustment:

Monthly adjustment of input tax claimed by a registered person is treated as a provisional adjustment, whereas at the end of each financial year, an adjustment is made on the basis of taxable and exempt supplies made during the course of that year. This is termed as final adjustment.

7. TEMPORARY SALE TAX REGISTRATION

- (a) (i) As this is covered under the definition of supply, this is subject to sales tax by applying tax % on open market price of these goods.
- (ii) The free replacement of defective parts is considered as original supply and not a separate supply. Therefore, such replacement is not chargeable to tax.
- (iii) Payment must be verifiable from the business bank accounts of both the buyer and the seller. In given matter, company will not be able to obtain input tax on its payment due to non-verifiability of the said payment from the business bank account of the company.
- (iv) Value of supply in this case should be open market price so value of supply does not include the mark up.
- (v) Time of supply is the earlier of delivery of goods or made available or any payment is received. So the advance received will be subject to sales tax in this month.
- (vi) These are exempt from sales tax.
- (vii) Input tax paid on purchase of construction material for office building is not admissible.
- (viii) Input tax paid on purchase of electronic cash register is admissible and registered person shall be entitled to deduct this input tax from output tax.

(b) Temporary registration

- Where a person files application for sales tax registration as a manufacturer without having installed machinery, for the purpose of import of machinery to be installed by him, temporary registration as manufacturer shall be allowed to him for a period of sixty days subject to furnishing of the complete list of machinery to be imported along with Bill of Lading or Goods Declaration.
- The temporary registration shall be issued by the computerized system within seventy-two hours of filing of the complete application.
- After receiving temporary registration, the person shall be allowed to import plant, machinery and raw materials, etc. as a manufacturer, subject to submission to the customs authorities of a post-dated cheque equal to the difference in duties and taxes to be availed as a manufacturer.
- In case the list of machinery is not provided within sixty days of issuance of the temporary registration, such temporary registration shall be disabled and the post-dated cheques submitted shall be encashed.
- A person holding temporary registration shall file monthly return, but shall not issue a sales tax invoice and if such invoice is issued, no input tax credit shall be admissible against such invoice.
- No sales tax refund shall be paid to the person during the period of temporary registration and the amount of input tax may be carried forward to his returns for subsequent tax periods.

8. VALUE OF SUPPLY

	Value of supply (Rs.)	Reason
(i)	1,000,000 (800,000 ÷ 80%)	Discount can be claimed if it is as per market norms and has been shown on tax invoice. Since the amount of discount has not been shown on tax invoice, it shall be chargeable to tax at gross amount.
(ii)	900,000 (1,500,000 × 60%)	Use of own manufactured items for in-house consumption will be subject to sales tax. However, goods locally procured is not deemed to be supply.
(iii)	Nil	Time of supply is earlier of the time at which goods are delivered or made available to the recipient or any consideration is received. As advance was received in February, this will be subject to sales tax in the month of February.
(iv)	6,000,000 (1000 × 6,000)	For taxable supplies specified in third schedule, sales tax is charged on the retail price of goods.
(v)	Nil	Free replacement of defective parts is considered as original supply and not a separate supply so this was not chargeable to tax in February return.
(vi)	400,000	Cash discount shall not be deducted while computing value of supply, so gross amount shall be chargeable to tax.

9. SHAJEE LIMITED (SL)**(a) Tier-1 retailers:**

Tier-1 retailers are required to be registered under Sale Tax Act, 1990. They shall pay tax at the rate as applicable to the goods sold under relevant provisions of the Sales Tax Act or a notification issue thereunder.

Tier-1 retailers shall integrate their retail outlets with Board's computerized system for real-time reporting of sales.

In case a Tier-1 retailer does not integrate his retail outlet in the manner as prescribed during a tax period or part thereof, the adjustable input tax for whole of that tax period shall be reduced by 60%.

Other than Tier-1 retailers:

Tax shall be charged from retailers other than those falling in Tier-1, through their monthly electricity bills in the following manner:

- (i) Sales tax @ 5% where the monthly bill amount does not exceed Rs 20,000.
- (ii) Sales tax @ 7.5% where the monthly bill amount exceeds Rs 20,000.

The electricity supplier shall deposit the amount so collected directly without adjusting against his input tax.

The above tax on other than tier-I retailers is other than normal tax of 18%, further tax of 4% and extra tax.

(b) Return of supply

SL shall issue a debit note (in duplicate) in respect goods returned, indicating the quantity being returned, 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, as well as the following, namely:

- name and registration number of SL;
- name and registration number of TPL;
- number and date of the original sales tax invoice;
- the reason of issuance of the debit note; and
- signature and seal of the authorized person issuing the note.

10. INLAND REVENUE DEPARTMENT**(a) Registration requirements**

- (i) All manufacturers of taxable supplies are required to be registered under the Sales Tax Act, 1990, unless the manufacturer falls in the category of cottage industry. A manufacturer located in residential area of Korangi, Karachi shall be considered to fall under cottage industry if it also fulfills the following conditions:
 - it does not have an industrial gas or electricity connection;
 - it does not have a total labour force of more than ten workers; and
 - its annual turnover from all supplies does not exceed eight million rupees.

(ii) Tier 1 retailer is required to register while other than Tier 1 is not required to register.

(iii) Distributors of exempt supplies is not required to register.

(iv) An exporter of taxable goods who intends to obtain sales tax refund against his zero rated supplies is required to register.

(b) Following is the list of goods which are exported but shall not be charged at the rate of zero percent:

- (i) Goods exported but have been or are intended to be re-imported into Pakistan; or
- (ii) Goods which have been entered for export under section 131 of the Customs Act, 1969 (IV of 1969), but are not exported; or
- (iii) Have been exported to countries specified by the Federal Government, by notification in the official Gazette in this regard.

11. Sarfaraz Proprietor

- (i) Two persons cannot be associates solely by reason of the fact that one is employee of another. Therefore, Jahanzeb is not an associate of Sarfraz.
- (ii) A shareholder in a company and the company can be associates where the shareholder either alone or together with an associate controls fifty percent or more of the voting power in the company.
In the given scenario, Sarfraz together with his mother holds 50% shareholding in FL so FL is the associates of Sarfraz.
- (iii) Adopted child falls under the definition of relative. Therefore, Sarah is the associates of Sarfraz.
- (iv) Trust and any person who benefits or may benefit under the trust shall be associates. In the given scenario, although the beneficiaries are orphans, UT may be an associate of Sarfraz, if he is deriving any benefit from the trust.

12. Types of Return

Monthly return	15th of next month following any tax period (Electronic filing – 18th of next month, where sales tax payable with the return paid till 15th day as specified above.)
Annual return	30th of September following the year end
Special return	On the date specified by the commissioner in its notice calling for such return
Final return	On the date specified by the commissioner

13.

- (i) The activities of an employee conducting services in the capacity of his employment does not constitute a taxable activity.
- (ii) Rendering of services is a taxable activity.
- (iii) Playing a piano is a hobby/non-commercial activity of Shahzeb, and therefore, it does not constitute a taxable activity.
- (iv) The tuition services given by Furqan is an activity involving rendering of services, and therefore it will be considered as a taxable activity
- (v) Although Quratulain is not involved in carrying out trade on a regular basis, this is a one off concern in the nature of a trade and therefore it will be a taxable activity.

147. Chargeability/adjustment

- (i) In the given situation, both BA and RE are jointly and severally liable for payment of such unpaid amount of tax. Moreover, the unpaid tax amount by RE shall not be admissible to claim as input tax by BA.
- (ii) A registered person shall not be entitled to deduct input tax (credit adjustment or deduction of input tax) exceeding such amount as may be prescribed in a tax period when made to an unregistered person under the Sales Tax Act, 1990. Consequently, input tax incurred on supplies exceeding this threshold to an unregistered person shall not be deducted against the output tax for the tax period.

Sales tax @ 18% had to be applied on retail price of these goods. Moreover, further tax @ 4% for supplies made to unregistered person shall not be applied in given situation because the goods fall under the third schedule.

14. SUSPENSION

The basis for such satisfaction may inter alia include the following:

- Non-availability of the registered person at the given address;
- Refusal to allow access to business premises or refusal to furnish records to an authorized Inland Revenue Officer;
- Abnormal tax profile, such as taking excessive input tax adjustments, continuous carry-forwards, or sudden increase in turnover;
- Making substantial purchases from or making supplies to other blacklisted/suspended persons;
- Non-filing of sales tax returns;
- On the recommendation of a commissioner of any other jurisdiction;
- Any other reason to be specified by the Commissioner.

15. ALI ENTERPRISE (AE)

AE is entitled to claim input

AE is entitled to claim input tax.

AE is entitled to claim input tax.

AE is entitled to claim input tax.

If BE is a non-tier 1 retailer, AE is entitled to claim input tax since they are not required to be registered.

If BE is a tier 1 registered retailer, AE is entitled to claim input tax.

If BE is tier 1 unregistered retailer, AE is entitled to claim input tax

16. JELLY ENTERPRISE (JE)**Best judgement assessment**

As JE failed to file its sales tax return despite receiving a notice, the CIR can pass a best judgment assessment order based on the available information.

If JE files the return within 60 days of the issuance of the best judgment assessment order and pays the tax due along with the penalty and default surcharge, the show cause notice and the order of assessment will be considered void

17. ASIM MIR

- i. Being a registered person, Asim Mir was required to file a nil return for each tax period irrespective of the fact that he has not carried out any taxable activity since March 2026.

Failure of Asim Mir to file a return by the due date may result in the imposition of a penalty.

- ii. Since Asim Mir failed to file a sales tax return for six consecutive months, the Commissioner, without prejudice to any action that may be taken under any other provision of the Act, after issuing a notice in writing and after giving an opportunity of being heard to Asim Mir, shall issue order of de-registration to him and the computerized system shall be caused to de-register the person accordingly. The obligations and liabilities of Asim Mir relating to the period when he conducted business as a registered person shall not be affected by the fact that his registration has been canceled or that he has ceased to be a registered person.

18. (WS) AND (HS)

Case	Document to be issued by		Impact on Sales Tax Liability of	
	WS	HS	WS	HS
(i)	None	Debit note	Decrease	Increase
(ii)	Credit note subject to CIR approval	None	Decrease	None
(iii)	None	Debit note	None	Increase
(iv)	Debit note	None	Increase	Decrease
(v)	Credit note	Debit note	Decrease	Increase

CHAPTER 18— DETERMINATION OF SALES TAX LIABILITY**1. M/S ABC**

Computation of sales tax under value addition mode in respect of sales tax registration under Sales Tax Act 1990

FOR THE TAX PERIOD MARCH

Particulars	Export	Local	Total
Sales	1,200,000	800,000	2,000,000
Output tax (A)	-	136,000	136,000
Less input tax			
Directly attributable			
Export related (142,292-12,292) (D)	130,000	-	130,000
Local sale related (B)	-	75,000	
Common input electricity (C)	45,000	30,000	75,000
Net tax payable (A-B-C)		31,000	
Tax refundable (C+D)	175,000	30,000	200,000

2. M/S SAFI ELECTRONICS

SAFI ELECTRONICS

COMPUTATION OF SALES TAX LIABILITY

TAX PERIOD: MARCH 2026

Particulars	Computation	Sales Tax
Input tax		
Purchases from registered person	4,500,000 - 100,000) @18%=	792,000
Purchases from un-registered persons	1,200,000	
Utility bills		75,000
Imports	2,300,000 @18%	414,000
Input tax omitted to be claimed in the relevant month of February	100,000@18%	18,000
Input tax for the month		1,299,000
Input tax brought forward from the preceding month		45,000
Input tax related to exports to be refunded	1,299,000 x 3/(3.2+3.6+0.2+3)	(389,700)
Accumulated credit to be claimed	1,299,000 - 389,700	909,300
Output tax		
Sales to registered person	3,200,000 @18%	576,000
Sales to un-registered person	3,600,000 @18%	648,000
Supply on account of personal use of goods	200,000 @18%	36,000
Exports	3,000,000 @0%	0
Total output tax		1,260,000
Input Adjustment: (Lower of 90% of output and actual input tax)		350,700
Sales tax payable Rs.(1,260,000-909,300)		
Add: Further tax on sales to un-registered person	3,600,000 @ 4%	144,000
Sales tax payable with return		494,700
Refund of tax on zero rated		389,700

3. ZETA PAKISTAN LIMITED

- (i) Under the amended provisions of Sales Tax Act, 1990, self-consumption of goods not produced or manufactured but acquired for trading or otherwise, is not deemed to be "supply" and therefore not chargeable to tax. Consequently, input tax relating to such products is not deductible. Sales tax is chargeable on self-consumption of only manufactured products and input tax relating thereto is also deductible.
- (ii) The 'sale price' of the product sold includes the cost of parts, if any, to be supplied during the warranty period, therefore it is not considered as a 'separate supply' and hence no sales tax is chargeable at the time of disposal of 'parts' to meet the warranty claim.
- (iii) Sales Tax Rules, 2006 disallow the claim of input tax where the goods have been returned by the buyer on the grounds that such goods are not fit for consumption.

4. MR. KALEEM

Computation of Sales Tax Liability TAX PERIOD: FEBRUARY,

	Rs. in million
Output tax (W-1)	21.6
Less: Input tax	
- relating to manufactured goods (W-2)	(19.44)
Sales tax payable	2.16
Amount to be carried forward to March (Rs. 20.34m - Rs. 19.44m)	0.9
Sales Tax Refundable on exports (Rs. 160 m x 18%) x Rs. 30m ÷ Rs. 170m	5.08
W-1: Output tax	
Taxable supplies	
Manufactured goods (Rs. 120m x 18%)	21.6
Exports - Zero rated supplies (30m x 0%)	0
Exempt supplies (20m)	Exempt
	21.6

W-2: Input tax – manufacturing (lower of actual and 90% of output tax)

On purchase of raw (Rs. 160 m x 18%)	28.8
Inadmissible input tax- W-3	(8.46)
	20.34
Restricted to 90% of output tax (Rs. 21.6 x 90%)	19.44

Note:

As the zero-rated supplies are less than 50% of all taxable supplies, therefore 90% limitation is applicable u/s 8B of the Sales Tax Ordinance, 1990.

Purchase from un-registered persons will have no implication on the above computation.

It is assumed that sales are only to registered persons.

W-3: Apportionment of input tax

Residual input tax	28.8
Inadmissible input tax	
Exempt supplies (20/170 x 28.8)	3.38
Export (30/170 x 28.8)	5.08
Total inadmissible input tax	8.46

5. ZUBAIR ENTERPRISES LTD (ZEL)**a) Sales tax payable/(refundable) for June**

Output tax	Rs.
On sale of taxable goods in Pakistan (Note 1)	
Rs. 45,000,000 x 18%	8,100,000
On sale of goods exported to Saudi Arabia	
Rs. 18,000,000 x 0%	0
On goods given to the Chief Executive free of cost (Note 2)	
Rs. 100,000 x 18%	18,000
Total output tax (A)	8,118,000
Input tax	
Purchases of raw material for manufacturing goods (see working)	6,406,780
Total input tax (B)	6,406,780
Further Sales Tax on supplies to unregistered parties (C) Rs. 25,000,000 x 4%	1,000,000
Balance tax payable (A-B+C)	2,711,220

Working:

A registered person is not allowed to adjust input tax for a tax period in excess of 90% of the output tax for that tax period. [S.8B]

As the zero-rated supplies are less than 50% of all taxable supplies, therefore 90% limitation is applicable u/s 8B of the Sales Tax Ordinance, 1990.

	Rs.
Input tax related to local sales (42,000,000 x 18/118)	6,406,780
Restricted to 90% of output tax for June 2026 (90% of Rs. 8,118,000)	7,306,200
Tax Refundable on exports (16,000,000+10,000,000 x 18/118)	3,966,102

Explanations:**Note 1**

Total supplies other than exports are Rs. 45,000,000. The value of a supply can be reduced by a trade discount only if:

- (i) the trade discount is in conformity with the normal business practices; and
- (ii) is shown on the sales tax invoices.

In the instant case the second condition is not fulfilled; therefore, the value of the supply is not reduced for the purpose of charging sales tax. [S.2(46)(b)]

Note 2

The goods given to the chief executive are not exempt but fall within the definition of a supply and are liable to payment of sales tax.

Note 3

The input tax on Rs. 10,000,000 paid for the acquisition of the machinery is adjustable wholly and restriction of 90% of the output tax is not applicable in such case. [First proviso to S.8B]

Note 4

The input tax of Rs. 100,000 pertaining to the raw material purchased in November 2025 cannot be claimed in June 2026 as it is older than 6 months and so ineligible for adjustment. It could only have been claimed up to April 30, 2026. [Sec. 7(1)]

(b) Tax liability on behalf of a supplier of goods

A registered person receiving a supply from another registered person can be held liable to pay tax on the supplies received where the person receiving the supplies has knowledge or reasonable grounds to suspect that the person making the supplies has not paid of which burden to prove shall be on the department tax in respect of:

- current supplies;
- previous supplies; or
- subsequent supplies.

(c) Zubair Enterprises Ltd (ZEL) should avoid dealing with this supplier as it is exposing ZEL to the risk of a tax liability to the extent of any non-payment of tax on the supplies made to ZEL. However, the Federal Board of Revenue (FBR) can notify in the Official Gazette certain transactions on which this liability will not arise. If the transactions made by ZEL with the supplier are included in such notification, there would be no liability on ZEL on this basis.

6. SUNGLOW PAKISTAN LIMITED

	Rupees
Output tax	
On sale of multimedia projectors to registered persons 7,375,950 @ 18%	1,327,671
On sale of multimedia projectors to unregistered persons 8,040,150 @ 18%	1,447,227
On sale of accessories and lenses for the multimedia projectors 1,615,785 @ 18% to registered persons	290,841
	3,065,739
Less: Return of multimedia projectors sold in January 2026 980,500 @ 18%	(176,490)
Total Output Tax (A)	2,889,249
Input tax	
On purchase of electronic components and lenses (Rs. 6,987,354 x 18/118)	(1,065,867)
Purchase of stores, supplies and raw material for use in the Manufacture of multimedia projectors	2,125,215
Less: Amount paid in cash	(225,215)
Purchase on which input is admissible (Rs. 1,900,000 x 18/118)	(289,830)
On import of plant and machinery (Note 1) (2,350,000 x 18/118)	(358,474)
Purchases returned (Rs. 1,050,650 x 18/118)	160,269
Total Input tax (B)	1,553,902
A-B	1,335,347
Add: Further tax on sale of multimedia projectors to unregistered 8,040,150 @ 4%	321,606
Sales tax payable for the month of February 2026	1,656,953

Note 1: The limitation of 90% has not been used as the input tax (without input tax on fixed assets) is already less than 90% of output tax.

7. LEPROC ASSOCIATES

	Rupees
Input tax	
On purchase of raw materials for manufacturing taxable supplies (Rs. 10,127,800 x 18/118)	1,544,918
On purchase of raw material for manufacturing both taxable and exempt supplies (3,945,000 x 18/118)	601,780
Input tax not deducted in the return for the month of January, 2026	185,700
Total	2,332,398
Input tax inadmissible/nonadjustable being related to export and exempt goods (Note - 1)	(230,105)
Net input tax admissible against local supplies	2,102,293
Output tax	Rupees
On sale of taxable goods to registered persons (Rs. 6,296,000 x 18%)	1,133,280
On sale of taxable goods to unregistered persons (Rs. 6,874,650 x 18%)	1,237,437
On export of goods to Nigeria Rs. 5,790,000 – zero rated	0
On exempt goods	-
	2,370,717
Sales tax payable for the month of February 2026	
Output tax	2,370,717
Input tax – Lower of Rs. 2,102,293 or 90% of output tax of Rs. 2,370,717) As the zero rated supplies are less than 50% of all taxable supplies, therefore 90% limitation is applicable u/s 8B of the Sales Tax Ordinance, 1990. However, input tax is below 90% of output tax, hence not applicable.	(2,102,293)
Net Payable	268,424
Further Tax on sale of taxable goods to unregistered persons (Rs. 6,874,650 x 4%)	274,986
Sales tax payable with return	543,410
Sales tax carry forward to the next month	-
Sales tax refundable (Note-1)	163,393

Note-1

	Rupees
Apportionment of residual input tax	
Total residual input tax	601,780
Total sales (6,296,000+5,790,000+6,874,650+2,364,000)	21,324,650
Input tax apportioned on export sales (601,780 X 5,790,000/21,324,650)	163,393
Input tax apportioned on exempt sales (601,780 X 2,364,000/21,324,650)	66,712
Total input tax inadmissible/nonadjustable	230,105

Note: It is assumed that input tax not claimed in January 2026 pertains to taxable supply only.

8. BARQ RO (PAKISTAN) LTD (BRPL)

	Rupees
Output tax	
On the sale of taxable goods (Rs. 6,535,000 x 18%)	1,176,300
On export of cables to Tanzania (zero rated)	0
	1,176,300
Input tax	
On payment for purchases of raw materials (Rs. 7,448,850 x 18/118)	1,136,265
On payment for machinery of the new unit - (5,395,500 x 18/118)	823,042
	1,959,307
Input tax non-adjustable being related to export (Note -1)	(920,437)
	1,038,870

	Rupees
Sales Tax payable and refundable for the month of June 2026	
Output tax	1,176,300
Input tax allowed	1,038,870
Net payable	137,430
Sales tax refundable (Note-1)	920,437

Amount of input tax excluding input tax on machinery (Rs. 1,082,312 – 876,732) is less than the 90% of 1,110,950 (999,855). Therefore, full input tax would be allowed.

Note-1

	Rupees
Apportionment of residual input tax	
Total residual input tax	1,959,307
Total sales (6,535,000+5,790,000)	12,325,000
Input tax apportioned on export sales	920,437
(1,959,307 X 5,790,000/12,325,000)	

9. MR. YOUSHA

A credit note can be issued within 180 days of the date of the relevant supply. As the supply was made on 30 June 2025, 180 days would expire on 27 December 2025. Therefore, the credit note cannot be issued by Yousha Associates in the month of January 2026 unless the Commissioner, at the request of Yousha Associates, extends the period for the submission of the credit note. The collector has been empowered to extend the period of 180 days by a further 180 days at the request of the supplier in writing, giving reasons for the desired extension in time.

10. FOLAD LTD (FL)

- (a) In case the consideration for a supply is in kind, or is partly in kind and partly in money, the value of the supply shall mean the open market price of the supply excluding the amount of tax. Therefore, value of supply shall be Rs. 2,500,000 and not the consideration received i.e. Rs.2,375,000. However, if the sales tax invoice reflects trade discount of Rs. 125,000 and discount allowed is in conformity with the normal business practices, then the value of taxable supply will be taken at Rs. 2,375,000.
- (b) Return of supply:
Tameer Limited (TL) would follow the following procedure:
- (i) TL shall issue a Debit Note (in duplicate) in respect of Iron Bars supplied to it by Folad Limited (FL), indicating the quantity being returned, its value determined on the basis of the value of Iron Bars as shown in the tax invoice issued by FL and the amount of related sales tax paid thereon, as well as the following, namely:-
- name and registration number of the recipient i.e. TL;
 - name and registration number of the supplier i.e. FL
 - number and date of the original sales tax invoice;
 - the reason of issuance of the debit Note; and
 - signature and seal of the authorized person issuing the note.
- (ii) The original copy of the debit note shall be sent to FL and the duplicate copy shall be retained by TL for record

11. KAMYAB ENGINEERING LIMITED (KEL)

Computation of sales tax payable/refundable for the tax period January 2026

	Rs. in '000	
	Taxable Value	Sales Tax
Input Tax		
Domestic purchases from registered persons	70,700	12,726
Input tax on liability outstanding-180 days not lapsed		
Less: Inadmissible / un-adjustable input tax (W-1)		(3,471)
Input tax for the month		9,255
Output tax		
Domestic supplies of manufactured goods:		
to registered persons @ 18%	40,000	7,200
to unregistered persons @ 18%	24,000	4,320
Exempt goods	-	-
Export to Malaysia @ 0%	13,000	
Output tax for the month		11,520
Sales tax payable		2,265
Add: Further tax on supplies to unregistered persons @ 4%		960
		3,225
Sales tax refundable		1,880
Less:		
Penalty		(50)
Additional tax		(25)
Net amount refundable		1,805

Note: If a registered person is liable to pay any tax, default surcharge or penalty payable under any law administered by the Board, the refund of input tax shall be made after adjustment of unpaid outstanding amount of tax or, as the case may be, default surcharge and penalty.

Amount of input tax is less than the 90% of output tax. Therefore, full input tax would be allowed.

W-1: Apportionment of input tax

Residual Input tax purchases from registered persons (70.70 M x 18%= 12,726)

Supplies	Rs	%age	Input Tax
Taxable			
Registered	40,000		
un-Registered	24,000		
	64,000	73%	9,255
Zero Rated	11,000	13%	1,591
Exempt	13,000	15%	1,880
	88,000		12,726

12. MR. ABDUL GHAFAR

Computation of sales tax liability For the period February 2026

	Rs. in '000	
	Gross Value	Taxable Value
SALES TAX CREDIT (INPUT TAX)		
Input tax for the month (W-1)		3,300
Add: previous month credit brought forward		365
Accumulated credit (Input Tax)		3,665
SALES TAX DEBIT (OUTPUT TAX)		
Domestic supplies of manufactured goods@18%	22,000	3,960
Exempt goods	3,000	Exempt
Export @ 0%	5,000	Zero
Debit for the month		3,960
*Admissible credit lower of accumulated credit, Or 90% of output tax [3,665 (w-1) or (3,564= 90% of 3,960)]		(3,564)
Sales tax payable (3,960 - 3,564)		396
Refund claim (Input consumed in export) [W-1]		750
Balance carried forward (Rs. 3,665 - 3,564)		101

W-1: APPORTIONMENT OF INPUT TAX

	Rs(000)
Sales Tax on Imports for domestic consumption	3,060
Sales Tax on local purchases	1,440
Residual input tax	4,500

Supplies	Rs	%age	Input Tax
Taxable	22,000	73%	3,300
Zero Rated	5,000	17%	750
Exempt	3,000	10%	450
	30,000		4,500

13. OLIVE LIMITED (OL)

Computation of net sales tax liability for the tax period January 2026

	Rs. in '000		
	Gross Value	Taxable Value	Sales Tax
Sales Tax Credit (Input Tax)			
Input Tax for the month (w-1)			2,700
(+) Previous month credit brought forward			325
+ Credit on plant & machinery			216
Accumulated credit			3,241
SALES TAX DEBIT (OUTPUT TAX)			
Domestic supplies of manufactured goods	20,000	18%	3,600
Exempt goods	4,000	0	-
Exports	4,000	N/A	0
Output tax for the month			3,600
Admissible credit			(3,240)
Lower of 90% of 3,600 (3,240) or accumulated input tax 3,241			
Sales Tax Payable			360
Sales Tax to be carried forward (3,241-3,240)			1
Refund claim (input consumed in export)- (W-1)			571

W-1: Apportionment of input tax

Domestic Purchases (excluding fixed assets)	6,000	18%	1,080
Imports excluding fixed assets-domestic consumption	15,000	18%	2,700
Residual Input tax on Purchases			3,780
Purchase of machinery	1,200	18%	216
Supplies	Rs (000)	% Age	Input Tax
Taxable	20,000	71%	2,700
Zero Rated	4,000	14%	540
Exempt	4,000	14%	540
	28,000	100%	3,780

14. MR. INSAF**Requirements for claiming input tax,**

- (i) Following are the conditions that need to be satisfied for the adjustment of input tax against the output tax liability:
1. Input tax paid or payable during the tax period for the purpose of taxable supplies made or to be made is deductible from the output tax that is due in respect of that tax period provided that where a registered person did not deduct input tax within the relevant period,
 - he may claim it in the return for any six succeeding tax periods; or
 - may file a revised return, subject to the approval of CIR, within 120 days of the filing of original return; or
 - the CIR may, after satisfying himself that input tax adjustment is due and admissible, allow the registered person to take such adjustment in the tax period as specified by the CIR.
 2. In order to claim input tax, the taxpayer in each of the following cases must hold in his name, bearing his sales tax registration number,
 - in case of local purchases, a valid tax invoice or where the supplier has not declared such supply in his return or has not paid amount of tax due as indicated in his return.
 - in case of imported goods, a bill of entry or goods declaration, duly cleared by the customs under the Customs Act.
 - in case of goods purchased in auction, a treasury challan.
 3. Input tax may also be claimed if allowed by the Board with the approval of the Minister Incharge of the Federal Government, by a special order, or by a Gazette notification, subject to such conditions, limitations or restrictions as may be specified therein.
- (ii) In the following cases a registered person shall not be entitled to reclaim or deduct input tax.
- Tax on goods or services used or to be used for any purpose other than for taxable supplies made or to be made
 - Extra tax levied under Section 3(5)
 - Tax on goods or services in respect of which sales tax has not been deposited into the government treasury by the supplier
 - On fake invoices
 - On purchases made by such person who fails to furnish the information required by the FBR
 - Such proportion of the input tax which is attributable to non-taxable supplies
 - Tax on such goods or services which the Board with the approval of the Minister Incharge of the Federal Government may specify through a Gazette notification
 - Tax on goods which cannot be supplied to a non-registered person, as specified by the federal government by way of a Gazette notification
 - Purchases in respect of which a discrepancy is indicated by CREST or input tax of which is not verifiable in the supply chain;
 - Goods and services acquired for personal or non-business consumption;
 - Goods used in, or permanently attached to, immoveable property, such as building and construction materials, paints, electrical and sanitary fittings, pipes, wires and cables, but excluding Pre-fabricated buildings and such goods acquired for sale or re-sale or for direct use in the production or manufacture of taxable goods; and

- Vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969 (IV of 1969), parts of such vehicles, electrical and gas appliances, furniture furnishings, office equipment (excluding electronic cash registers), but excluding such goods acquired for sale or re-sale.
- Services in respect of which input tax adjustment is barred under the respective provincial sales tax law;
- Import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7% under Eighth Schedule to this Act; and
- From the date to be notified by the Board, such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return.
- the input goods attributable to supplies made to unregistered distributor, on pro-rata basis, for which sale invoices do not bear the NIC number or NTN, as the case may be, of the recipient as stipulated in section 23.
- If the payment against purchases exceeding Rs. 50,000 per party per period is not made through proper banking channel.
- If payment, in case of a transaction on credit, is not made within one hundred and eighty days of issuance of the tax invoice.

15. MR. RIZWAN

- (a) A registered person shall not be entitled to claim or deduct input tax paid on:
- (i) goods or services used or to be used for any purpose other than for taxable supplies made or to be made by him; OR goods or services used or to be used for making the exempt goods supplies.
 - (ii) any other goods which the Board with the approval of the Minister Incharge of the Federal Government may, by a notification in the official Gazette, specify.
 - (iii) the goods which are subject to extra tax in addition to normal tax payable at 18%.
 - (iv) fake invoices.
 - (v) taxable goods or services which have not been deposited into government treasury by the supplier.
 - (vi) purchases made by a registered person, who fails to furnish the information required by the Board through a notification.
 - (vii) purchases where payment has not been made through crossed cheque.
 - (viii) supplies used for specified goods if such good are supplied to unregistered person.
 - Purchases in respect of which a discrepancy is indicated by CREST or input tax of which is not verifiable in the supply chain;
 - Goods and services acquired for personal or non-business consumption;
 - Goods used in, or permanently attached to, immovable property, such as building and construction materials, paints, electrical and sanitary fittings, pipes, wires and cables, but excluding Pre-fabricated buildings and such goods acquired for sale or re-sale or for direct use in the production or manufacture of taxable goods; and
 - Vehicles falling in Chapter 87 of the First Schedule to the Customs Act, 1969 (IV of 1969), parts of such vehicles, electrical and gas appliances, furniture furnishings, office equipment (excluding electronic cash registers), but excluding such goods acquired for sale or re-sale.

- Services in respect of which input tax adjustment is barred under the respective provincial sales tax law;
 - the input goods attributable to supplies made to unregistered distributor, on pro-rata basis, for which sale invoices do not bear the NIC number or NTN, as the case may be, of the recipient as stipulated in section 23.
 - Import or purchase of agricultural machinery or equipment subject to sales tax at the rate of 7% under Eighth Schedule to this Act; and
 - From the date to be notified by the Board, such goods and services which, at the time of filing of return by the buyer, have not been declared by the supplier in his return.
- (b) A credit note can only be issued within 180 days of the date of relevant supply. As the supply was made on August 15, 2025, the 180 days expired on February 10, 2026. Therefore, the credit note cannot be issued in the month of March 2026. However, the CIR, at the request of Rizwan Enterprise to the board may extend the period for the submission of the credit note. The CIR has been empowered to extend the period of 180 days by a further 180 days at the request of the supplier in writing giving reason for the desired extension in time.
- (c) (i) 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 in force at the time of supply.
 - imported goods shall be charged to tax at such rate as is in force -
 - in case the goods are entered for home consumption, on the date on which a goods declaration is presented.
 - in case the goods are cleared from warehouse, on the date on which a goods declaration for clearance of such goods is presented.
 - where 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.
 - If the tax is not paid within seven days of the presenting of the goods declaration the tax shall be charged at the rate as is in force on the date on which tax is actually paid.
- (ii) Any person who has collected or collects any tax or charge, whether under misapprehension of any provision of the Sales Tax Act, 1990 or otherwise, which was not payable as tax or charge or which is in excess of the tax or charge actually payable and the incidence of which has been passed on to the consumer. Such person is required to pay the amount of tax or charge so collected to the Federal Government.
- Any amount payable to the Federal Government by virtue of the above shall be deemed to have been paid as an arrear of tax or charge payable under the Sales Tax Act, 1990 and shall be recoverable accordingly and no claim for refund in respect of such amount shall be admissible. The burden of proof that the incidence of tax or charge has been or has not been passed to the consumer shall be on the person collecting the tax or charge.

16. ZERO RATING

- (a) Following are the goods which shall be charged to tax at the rate of zero per cent:
- Goods exported.
 - Goods specified in the Fifth Schedule.
 - Supply of stores and provisions for consumption aboard a conveyance proceeding to a destination outside Pakistan.
 - such other goods, as the Federal Government may specify by notification in the official Gazette, 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
- (b) Goods identified in (a) above shall not be qualified for zero rating in the following situations:
- Goods are exported but have been or are intended to be re-imported into Pakistan.
 - Goods have been entered for export u/s 131 of the Customs Act, 1969, but are not exported.
 - Goods have been exported to a country specified by the Federal Government, by notification in the official gazette.

17. MS. ZAINAB

Computation of Sales Tax Liability for the month of February 2026

	Gross Value	Taxable Value	Sales Tax @18%
	Amount in Rupees		
Sales tax credit (input tax)			
<i>Local purchases:</i>			
- from registered persons	6,000,000	6,000,000	1,080,000
- from unregistered persons	850,000	-	-
			1,080,000
(-) Purchase returned	(150,000)	(150,000)	(27,000)
(A)			1,053,000
(+) Input tax, not claimed in the return for September 2025 (B)	100,000	100,000	18,000
Input tax attributable to both taxable and exempt supplies (A+B)			1,071,000
Inadmissible/nonadjustable input tax (W-1)			(986,886)
Input tax for the month			84,114
(+) Previous month credit brought forward			262,500
			346,614
Sales tax debit (Output tax)			
Taxable supplies to registered persons	1,010,000	1,010,000	181,800
Exports to Thailand	(3,950,000 + 2,550,000)	6,500,000	0
Exempt supplies	5,350,000		-

Output tax for the month			181,800
Admissible credit 346,614 (90% restriction is not applicable as zero rated supplies are more than 50% of all taxable supplies)			(346,614)
Sales tax carried forward			(164,814)
Refund claim (W-1)			541,330
W-1: Apportionment of Residual Input Tax			
Total input tax on purchases			1,071,000
Total supplies (5,350,000+1,010,000 + 2,550,000+3,950,000)			12,860,000
<i>Allocation of input tax to exempt and zero rated supplies</i>			
Input tax on exempt supplies $1,071,000 \times (5,350,000) / 12,860,000$			445,556
Zero rated supplies $1,071,000 \times (3,950,000 + 2,550,000) / 12,860,000$			541,330
Inadmissible/nonadjustable input tax			986,886

18. SAMAD CORPORATION (SC)

- (a) (i) In case the consideration for a supply is partly in kind and partly in money, the value of the supply shall mean the open market price of the supply excluding the amount of tax;
Therefore, in this case sales tax would be payable on the market price of Rs. 3.5 million.
- (ii) In case of trade discounts, sales tax would be levied on the discounted price excluding the amount of tax; provided the tax invoice shows the discounted price and the related tax and the discount allowed is in conformity with the normal business practices;
In this case the discounted price to be shown on the sales tax invoice would be the one computed at 8% discount. Therefore, value of supply would be Rs. 7.36 million (Rs. 6.8m/0.85 x 0.92).
- (iii) On items specified in the Third Schedule, sales tax is charged on the retail price of goods excluding the amount of retail tax.
Therefore, in this case sales tax would be levied on Rs. 3.0 million (Rs. 150,000 x 20 tons).
- (b) Change in value of supply: If a debit note is issued on account of change (increase) in the value of supply mentioned on the invoice, it shall contain the following particulars:
- Name and registration number of the supplier;
 - Name and registration number of the recipient;
 - Number and date of the original sales tax invoice;
 - The original value and sales tax as in original invoice;
 - The revised value and sales tax;
 - The difference of value and sales tax adjustable;
 - The reason for revision of value; and
 - Signature and seal of the authorized person issuing the note.

19. MAROOF ENGINEERING LIMITED (MEL)

Computation of Sales Tax Payable/ Refundable
For the tax period February 2026

	Rs. In '000	
	Taxable Value	Sales Tax
Sales Tax Credit (Input Tax)		
<i>Local purchases:</i>		
From registered persons (Rs. 15.0 m – Rs.1.0 m)	14,000	2,520
From unregistered persons	8,000	-
Fixed assets (Machinery)	2400	432
Material against which sales tax invoice has not been received	2,000	-
Input tax attributable to both taxable and exempted supplies		2,952
Less: Inadmissible/ un-adjustable input tax (W-1)		(1,445)
Input tax for the month		1,507
(+) Previous month credit brought forward		50
Accumulated credit		1,557
Sales Tax Debit (Output Tax)		
Domestic supplies of manufactured goods:		
to registered persons	10,000	1,800
to unregistered persons	3,000	540
Export to Taiwan	10,000	0
Exempt goods	2,000	-
Parts provided to the CEO	15	2.7
Output tax for the month		2,342.7
Less: Sales return	500	(90)
Debit for the month		2252.7
Admissible credit (90% of Rs. 2027 or 1557 whichever is lower)		1557
Sales tax payable		695.7
Add Further tax on supplies to un-registered persons		120
Total sales tax payable with the return		815.7
Input tax to be carried forward		-
Refund claim (input consumed in export) (W-1)		1,204
W-1: Apportionment of input tax		Rs. In '000
Total residual input tax		2,952
Allocation of residual input tax to exempt and zero rated supplies		
Exempt supplies (2,000/24,515 x 2,952)		241
Zero rated supplies (10,000/24,515 x 2,952)		1,204
Inadmissible/ non-adjustable input tax		1,445

20. FAIZ ASSOCIATES

Computation of sales tax payable/refundable
For the period January 2026

	Taxable Value	Sales Tax Rate	Sales Tax
	----- Rupees -----		
Sales tax credits - Input Tax			
Purchases from registered suppliers	2,000,000		
Less: Purchases of air conditioners for office use	(150,000)		
	1,850,000	18%	333,000
Purchases from unregistered suppliers	450,000	inadmissible	-
Purchases exempt goods from registered suppliers	600,000	exempt	-
Invoice issued by Taqi Corporation which was declared blacklisted in next period			-
Sindh sales tax paid on franchise service	-	inadmissible	-
Total input tax			333,000
Less: Input tax refundable (W-1)			(72,457)
Input tax for the month (A)			260,543
Input tax brought forward from December			265,000
Less: Input tax on goods destroyed (45,000×18%)			(8,100)
(B)			256,900
Accumulated credit (A+B)			517,443
Sales tax debits - Output Tax			
Local taxable supplies	3,450,000		
Local taxable supplies - *to Hafiz Brothers	(80,000)		
Local taxable supplies - to Ghalib Corporation	(225,000)		
Local taxable supplies - to Parveen Limited – associated undertaking (600,000–500,000)	100,000		
Local taxable supplies - correction of invoice (540,000–450,000)	90,000		
	3,335,000		600,300
- unregistered persons	1,000,000	un-registered	180,000
Local taxable supplies - to Hafiz Brothers*	80,000	un-registered	14,400
	4,415,000		
Export (zero rated)	700,000	Zero Rated	-
Consumer goods supplied to PIA international flight	500,000	Zero Rated	-
	1,200,000		
Output tax for the month	5,615,000		794,700
Less: Sales return	(100,000)		(18,000)
Total supplies/Output tax for the month	5,515,000		776,700
Free replacement of defective parts	-		-

Admissible credit [90% of output tax i.e. Rs.(776,700×0.9 = 699,030) or input tax Rs. 517,443 whichever is lower]			(517,443)
			259,257
Further tax on supplies to unregistered persons (1,000,000+80,000)=1,080,000×4%			43,200
Sales tax payable			302,457
Sales tax to be carried forward (503,419–503,419)			-
Working -1			
Sales tax refundable [333,000×(700,000+500,000)/5,515,000]			72,457

21. CYMA ASSOCIATES

Computation of Sales Tax Payable/Refundable

For the tax period August 2025

	Taxable	Sales tax	Sales Tax
	Value	Rate	
	----- Rupees -----		
SALES TAX CREDITS (INPUT TAX)			
Purchases from registered suppliers (20,000,000–350,000–800,000–1,400,000)	17,450,000	18%	3,141,000
Purchases from unregistered suppliers	1,800,000	inadmissible	
Purchases of exempt goods from registered suppliers	400,000	inadmissible	
Purchases against which cash deposited in bank account	350,000	inadmissible	
Purchases against which discrepancy indicated by CREST	800,000	inadmissible	
Fixed assets (Machinery)	1,000,000	18%	180,000
Total input tax	23,200,000		3,321,000
Less: Inadmissible/unadjusted input tax (W-1)			-433,300
Input tax for the month			2,887,700
Add: Excess of input tax over output tax of July 2025			75,000
Accumulated credit			2,962,700
SALES TAX DEBIT (OUTPUT TAX)			
Local taxable supplies - to registered suppliers (15,000,000+500,000–325,000–300,000)	14,875,000	18%	2,677,500
Local taxable supplies - to unregistered persons	2,800,000	18%	504,000

			Taxable	Sales tax	Sales Tax
			Value	Rate	
			----- Rupees -----		
Local taxable supplies - according to agreement with Majeed sons			225,000	18%	40,500
Local taxable supplies - to government official (325,000+125,000)			450,000	18%	81,000
Local taxable supplies - sale of tooth brushes			400,000	18%	72,000
			18,750,000		
Exempt supplies - no effect of free samples given			1,700,000		-
Export (zero rated) (1,500,000–500,000)			1,000,000		-
Output tax for the month			21,450,000		3,375,000
Less: Sales return			-756,000	18%	-136,080
Total supplies/Output tax for the month			20,694,000		3,238,920
Admissible credit (90% of output tax i.e. Rs.2,915,028 (3,238,920 × 0.9) or input tax excluding Fixed Assets (2,962,700-156,515=2,806,185) whichever is lower.					(2,915,028)
					323,892
Less: Input tax on fixed assets (180,000x17,994,000/20,694,000)					(156,515)
					167,377
Further tax on supplies to unregistered persons = 2,800,000 × 4%					112,000
Sales tax payable					279,377
Sales tax to be carried forward (2,962,700-2,915,028)					47,672
Sales tax refundable (3,321,000 × 1,000,000 / 20,694,000)					160,481
W-1: Apportionment of input tax					
Residual input tax					3,321,000
Exempt supplies and export sales (1,700,000+1,000,000)					2,700,000
Total supplies					20,694,000
Inadmissible and nonadjustable input tax [(2,700,000/20,694,000)×3,321,000]					433,300

22. SAMAAJ ASSOCIATES

	Rs.	Rs.
Output tax		
Local taxable supplies to registered persons (Rs. 2,500,000 x 18%)		450,000
Taxable supplies to unregistered persons U/S 3 (Rs.875,000 x 18%) (Note - 2)		157,500
Person registered as exporter (625,000 x 18%) - assumed not registered under DTRE		112,500
Supply of shampoo (Rs. 135,000 x 3 = 405,000 x 18%)		72,900
Sales tax not charged		27,000
Advance against supply- subject to sales tax-Rs.600,000 x 18/118		91,525
Total output tax		911,425
Input tax		
Input tax (Note - 1)	255,160	
Sales tax paid on electricity, gas and utility bills (Rs. 70,000 + 45,000 + 68,000)	183,000	
	30,000	
Add sales tax credit b/f (20,000+10,000)		
Total input (A)	468,160	
90% of output tax (B)	737,910	
Less: Admissible input tax: lower of (A) or (B)		(468,160)
Sales tax payable		443,265
Add 4% further tax on supplies to un registered persons (Rs.875,000 x 4%)		35,000
Net total sales tax payable		478,265
Input tax working		
Raw material purchased from registered persons (Rs. 930,000 x 18%)		167,400
Packing material from registered person (Rs. 510,000 x 18%)		91,800
Imports (Rs. 472,000 x 18%)		84,960
Cables and wires purchase (Rs. 250,000 x 18%)		45,000
Electric kettles purchased [Tax credit not allowed u/s 8(1)(a)]		-
Input tax claimed on HCL		(80,000)
Input tax disallowed due to late payment (Rs. 300,000 x 18%)		(54,000)
Total input tax to be apportioned		255,160

23. MULAQAT ASSOCIATES (MA)

Computation of Net Sales Tax Liability

For the tax period February 2025

	Taxable Value	Sales Tax Rate	Amount of Sales Tax
SALES TAX CREDIT (INPUT TAX)			
Taxable goods from registered suppliers [650,000-45,000]	605,000	18%	108,900
Furniture for use in marketing manager's office	45,000	inadmissible	-
Taxable goods from un-registered suppliers	150,000	inadmissible	-
Exempt goods from registered suppliers	100,000	-	-
Import of raw material	280,000	18%	50,400
Purchase of cement [being personal in nature] [150x500]	75,000	inadmissible	-
Advance against purchase of packing material- inadmissible as advance payment receipt is not available			
			159,300
Add: Credit brought forward from previous month			245,000
Less: input tax on chemicals destroyed			(120,000)
			125,000
Input Tax for the month (Accumulated credit) (159,300 + 125,000)			284,300
Less input inadmissible-W-1			(44,794)
Adjustable Input tax			239,506
Output tax			
Jet fuel to Pak Airways	800,000	0%	-
Taxable goods to registered customers	500,000	18%	90,000
Taxable goods to Cottage Ind. In Bela	200,000	18%	36,000
Taxable goods to un-registered -end consumers	175,000	18%	31,500
Raw material to insurance company [treated as supply]	90,000	18%	16,200
Taxable goods to Bali Traders	290,000	18%	52,200
Taxable goods on two months credit	50,000	18%	9,000
Free samples of detergent Zeta	65,000	18%	11,700
Debit note issued to Hali Brothers	35,000	18%	6,300
Caramel ice cream [4,000 x 160]	640,000	18%	115,200
Output tax for the month	2,845,000	(A)	368,100
Less: Lower of 90% of output	331,290		

Actual input	239,506	(B)	(239,506)
Balance payable		A-B	128,594
Further tax @ 4% on sale to Un-registered person cottage industry- not payable as cottage industry is not liable to be registered			
Sales tax payable with return			128,594
Sales tax refundable on zero rated supplies (W-1)			44,794
W-1: Apportionment of input tax			
Residual input tax			159,300
Zero rated supplies			800,000
Total supplies			2,845,000
Inadmissible input tax [(800,000/2,845,000)×159,300]			44,794

24. RECORDING OF PARTIAL PAYMENT AND CHANGE IN TAX RATES

- (i) Where any part payment is received in a tax period in respect of a:
- taxable supply, it shall be accounted for in the return for that tax period; and
 - exempt supply, it shall be accounted for in the return for the tax period during which the exemption is withdrawn from such supply.
- (ii) 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 in force at the time of supply.
 - imported goods shall be charged to tax at such rate as is in force -
 - in case the goods are entered for home consumption, on the date on which a goods declaration is presented.
 - in case the goods are cleared from warehouse, on the date on which a goods declaration for clearance of such goods is presented.
 - 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.
 - where the tax is not paid within seven days of the presenting of the goods declaration the tax shall be charged at the rate as is in force on the date on which tax is actually paid.

25. DESTRUCTION OF GOODS

In order to destroy the goods, the following conditions must be fulfilled:

- (i) Prior permission from the Collector of Sales Tax having jurisdiction.
- (ii) Goods should be destroyed under the supervision of an inland revenue officer of Sales Tax not below the rank of an Assistant Collector as may be deputed by the Collector for the purpose.

26. MH ASSOCIATES

MH Associates (MHA)		
Computation of sales tax liability		
For the month of August 2025		
W-1 Sales tax credits - Input Tax		Rs.
Purchase of taxable goods from registered persons	5,400,000	
Purchase of exempt goods from registered persons: inadmissible	-	
Purchase of taxable goods from unregistered persons: inadmissible	-	
Less: Purchase of Rs.1,200,000 for which discrepancy indicated by CREST	-1,200,000	
Less: advance on paid on goods August Rs.1,800,000 x 60%	-1,080,000	
	3,120,000	
18% of 3,120,000		561,600
Input tax unclaimed in March 2025		120,000
Input tax on electric bill paid in cash: Admissible		95,000
Residual input tax other than fixed asset		776,600

W-2 Input tax on Fixed Assets		
Use for taxable supplies (900,000 x 18%)		162,000
Use for exempt supplies (1,200,000)		0
Apportionment of residual input tax	Value of Supplies	Input tax
Supplies of taxable goods to registered persons	7,850,000	
Supply to Mr. R (Rs.720,000 – 270,000)	450,000	
Supplies of taxable goods to unregistered persons	815,000	
Less: Sales return	(90,000)	
Taxable supplies	9,025,000	713,365
Exempt	800,000	63,235
	9,825,000	776,600
Sales tax payable		
Output tax on taxable supplies (W-2) Rs.9,025,000 x 18%		1,624,500
Supply of Exempt Goods		800,000
		2,424,500

Less: Input tax		
Input tax of August 2025	713,365	
Input tax b/f from July 2025	255,000	
Total input tax	968,365	(968,365)
90% of output tax Whichever is lower	2,182,050	
		1,456,135
Less: Input tax on machine		(162,000)
		1,294,135
Add: Further tax @ 4% on (815,000 – 365,000)		18,000
Sales tax payable		1,312,135

27. TAHA AND AHAN

	Taxable amount	Sales tax @ 18%
	----- Rupees -----	
Registered person (Taha)		
Input tax		
Supplies from unregistered persons	3,500,000	-
Purchase of machine	5,000,000	900,000
Less: Machinery used for zero rated and exempt goods		(900,000)
Input tax for the month		-
Output tax		
Taxable supplies to unregistered persons	2,000,000	360,000
Exempt supplies to registered persons	3,800,000	-
Zero rate supplies	2,500,000	-
Output tax for the month		360,000
Further tax on supplies to unregistered persons (2,000,000×4%)		80,000
Sales tax payable		440,000
Sales tax refundable [Input tax paid on machines relating to zero rated supplies (900,000×2,500÷6,300)]		357,143
Registered person (Shan)		
Input tax		
Supplies from registered persons	11,000,000	1,980,000
Exempt goods	3,000,000	-
Machine for taxable supplies	6,000,000	1,080,000
		3,060,000

Output tax		
Taxable supplies to registered persons	10,000,000	1,800,000
Exempt supplies to registered persons	5,500,000	-
Output tax for the month		1,800,000
90% of output tax (1,800,000×0.9=1,620,000)(excluding tax on fixed assets)(3,060,000–1,080,000 = 1,980,000) OR actual input tax whichever is lower.		(1,620,000)
		180,000
Less: Input tax on machine		(1,080,000)
Carried forward input tax		(900,000)
Total Sales tax to be carried forward [360,000 (1,980,000–1,620,000)+900,000]		1,260,000

28. MEHRBAN ASSOCIATES (MA)

Computation of Sales Tax Payable/Refundable for the tax period August 2025

	Taxable amount	Sales tax @ 18%
	----- Rupees -----	
W-1 Sales tax credits - Input Tax		
Taxable goods from registered persons	4,960,000	892,800
Materials exclusively used for exempt supplies	(296,000)	(53,280)
Materials exclusively used for zero rated	(675,000)	(121,500)
Goods purchased on cash	(150,000)	(27,000)
500 kg of tea covered under Third Schedule to be taxed at retail price [450,000(500×900)-360,000]	90,000	16,200
Goods sold to unregistered who have not provided their CNIC or NTN	(275,000)	(49,500)
	3,654,000	657,720
Taxable goods from unregistered persons	1,400,000	-
Exempt goods from unregistered persons	520,000	-
Sales tax paid on electricity bill	959,450	154,250
Input tax related to purchase made in February 2025 (It may be claimed in August return being input tax can be claimed in six succeeding tax periods)		186,000
Residual Input tax on Purchases		997,970
Input tax on Fixed Assets		
Machine A (used in export of goods)	2,000,000	360,000
Machine B (Local and Exempt goods)	3,000,000	540,000
Furniture and fittings (inadmissible)	1,000,000	-

W-2 Apportionment of Redidual Input tax		
Local taxable goods to registered persons	8,650,000	
Taxable goods to unregistered persons	1,560,000	
300 kg of tea covered under third schedule to be taxed at retail price [300×(900–790)]	33,000	
Taxable supplies local	10,243,000	598,385
Export of taxable goods to UAE (zero rated supplies)	3,200,000	
Export of exempt goods to UAE (Exempt	1,900,000	
Total taxable supplies / output tax	5,100,000	297,936
Exempt goods to local unregistered persons	1,740,000	101,649
Total supplies / output tax for the month	17,083,000	997,970
W-3 Apportionment of Input tax on Machinery B		
Taxable supplies local (W-2)	10,243,000	461,589
Exempt goods to local unregistered persons	1,740,000	78,411
	11,983,000	540,000

	Taxable amount	Sales tax @ 18%
	----- Rupees -----	
		W-1
Sales tax debits - Output Tax		
Local taxable goods to registered persons	8,650,000	1,557,000
Taxable goods to unregistered persons	1,560,000	280,800
300 kg of tea covered under third schedule to be taxed at retail price [300×(900–790)]	33,000	5,940
Export of taxable goods to UAE (zero rated supplies)	3,200,000	-
Export of exempt goods to UAE (Exempt	1,900,000	-
Exempt goods to local unregistered persons	1,740,000	-
Total supplies / output tax for the month		1,843,740
Less: Unadjusted/inadmissible input tax (W-2)	598,385	
Add: Input tax b/f from previous month	1,137,580	
Accumulated credit	1,735,965	
or 90% of Output tax	1,659,366	
Admissible credit (90% of output tax i.e. Rs. 1,659,366 (1,843,740×90%) or input tax		(1,659,366)
		184,374
Less: Input tax on fixed assets – Machine B (Taxable supplies portion only) (W-3)		(461,589)
Sales tax to be carried forward (fixed asset portion only)		(277,215)
Further tax payable on supplied to unregistered persons (1,560,000– 237,000(300×790)×4%		52,920
Sales Tax Payable		52,920

Sales Tax Carried Forward		
Sales tax to be carried forward (1,735,965–1,659,366)		76,599
Sales Tax on Fixed Assets		277,215
Total sales tax to be carried forward (76,599 + 277,215)		353,814
Sales tax refundable on zero rated supplies:		
Machine A (used in export of goods) (2 million x 18%)		360,000
Input tax on material exclusively used for export items (675,000×18%)		121,500
Input tax computed in working 2		297,936
		779,436

29. KAZMI TRADERS (KT)

Computation of tax payable / refundable For the tax period February 2025

		Taxable Amount	Sales Tax @ 18%
		--- Rs. in million ---	
Input Tax			
Taxable goods from registered persons		256 (320×80%)	46.08
Taxable goods from unregistered persons		32	-
Exempt goods from registered persons		56	-
Electrical and sanitary fitting		17	-
Electricity bills			1.36
			47.44
Less: Refundable input tax (for zero rated)	(W-1)		(16.71)
			30.73
Output Tax:			
Taxable goods to registered persons		180 (200×90%)	32.4
Exports		98	-
			32.4
Admissible credit (90% of output tax i.e. 29.16 (32.4×90%) or input tax i.e. Rs. 30.73 , whichever is lower			29.16
Sales tax payable			3.24
Less: input tax on fixed assets (taxable supplies)	(W-1)		(9.79)
Sale tax to be carried forward (fixed asset portion only)			6.55
Sale tax to be carried forward (30.73–29.16)			1.57
Total sale tax to be carried forward			8.12
Sales tax refundable on zero rated supplies	[16.71(W-1)+5.33(W-1)]		22.04

W-1: Apportionment of input tax

Value of supply	Input tax on plant and machinery	Residual input tax
180	9.79	30.72
98	5.33	16.71
278	15.12	47.4
	(84×18%)	

30. ZAHID ENTERPRISES (ZE)

Computation of tax payable / refundable For the tax period June 2025

	Taxable Amount	Sales Tax @ 18%
	--- Rs. in million ---	
Input Tax		
Purchases from registered persons during June 2025	140	25.2
Purchases - invoice dated 21 December 2025	10	1.8
Gas bill paid in cash	2	0.36
Electricity bill of rented premises showing particulars of landlord	-	-
Debit note dated 20 June 2025 issued to supplier against invoice dated 31 March 2025	(6)	(1.08)
Payment on 3 June 2025 against invoice dated 5 April 2025	-	-
Payment of provincial sales tax @ 15% against transporter's invoice dated 17 June 2025 for supplying goods to export processing zone	6.93	1.04
Advance paid to supplier at the time of placing order for customized goods which will be delivered in October 2025- Assuming advance payment receipt not available	12-	-
		27.32
Less: Refundable input tax (for zero rated) (5.76 (W-1) +1.04)		(6.80)
		20.52
Output Tax:		
Sales of taxable goods to registered person	130	23.4
Supplies for further manufacturing to export processing zone (Zero rated)	50	-
Sales of taxable goods to unregistered person	44	7.92
Credit note dated 15 June 2025 issued to customer for taxable supply against invoice dated 1 Dec 2024	-	-
Garments withdrawn by owner	4	0.72
		32.04
Admissible credit (90% of output tax i.e. 28.84 (32.04×90%) or input tax i.e. Rs. 20.52, whichever is lower		20.52
		11.52
Less: Input tax on plant and machinery (other than zero rated) (W-1)		(2.81)
Sales tax payable		8.71
Further tax payable for sales to unregistered persons (44×80%×4%)		1.41
Sales tax payable with return		10.12-
Sales tax refundable (5.76 + 1.04 + 0.79)		7.59

W-1: Apportionment of input tax			
Description	Value of supply	Plant and machinery	Residual input tax
	----- Rs. in million -----		
Taxable supplies (Non zero rated)	178 (130+44+4)	2.81	20.52
Taxable supplies (Zero rated)	50	0.79	5.76
	228	3.6	26.28
			(27.32-1.04)

Reason for ignoring the transaction:

- (i) For claiming input tax against electricity bill, it should have registration number and the address where the connection is installed for which a return is furnished. Since bill does not contain the said particulars of Zahid Enterprise, input tax thereon shall not be allowed.
- (ii) Input tax is claimed once in purchase period so it shall not be claimed again at the time of payment.
- (iii) Time of supply is the time earlier of at which goods are delivered or made available to the recipient or payment is received. So, sales tax will be charged at the time of advance payment. In the absence of any information, it has been assumed that advance payment receipt was not available.
- (iv) Since credit note to a customer is issued after one hundred and eighty days from related taxable supply, reduction in output tax shall not be made.

31. CONFIDENCE ENGINEERING (CE)**a) Confidence Engineering Computation of tax payable for tax period February 2026**

	TaxableAmount	Sales tax@ 18%
	----- Rs. in million -----	
Input Tax:		
Wires and cables	6	1.08
Taxable goods from remaining registered persons	332 (338-6)	59.76
Purchases from cottage industry	14	-
Purchases from remaining unregistered person	46 (60-14)	-
Raw material given to the factory engineer	(2)	(0.36)
Raw material destroyed by fire	(25)	(4.50)
Purchase return within 180 days	(26)	(4.68)
Electricity bill	1.2	0.216
		51.52
Input tax brought forward from last year		27.00
Total input tax		78.52

	Taxable Amount	Sales tax@ 18%
	----- Rs. in million -----	
Output Tax:		
Supplies under warranty period	5	-
Goods withdrawn by owner for personal use	4	0.72
Raw material given to factory engineers	2	-
Sales to Pray Traders	32	5.76
Remaining sales to registered person	177	31.86
	(220-5-4-2-32)	
Sales to a cottage industry	16	2.88
Remaining sales to unregistered person	24	4.32
	(40-16)	
Invoice dated 15 July 2025 (The relevant month return should be revised)	8	-
Sales return (lapse of 180 days)	19	-
		45.54
Admissible credit (90% of output tax i.e. 41 (45.54×90%) or input tax i.e. 78.52, whichever is lower)		(41.00)
Sales tax payable		4.54
Further tax payable for sales to unregistered person (24×4%)		0.96
Sales tax payable with return		5.5
Sales tax to be carried forward (78.52 - 41)		37.52

b)

- (i) Input tax on purchases from unregistered person including cottage industry shall not be allowed.
- (ii) The 'sale price' of the product sold includes the cost of parts, if any, to be supplied during the warranty period, therefore it is not considered as a 'separate supply' and hence no sales tax is chargeable at the time of disposal of 'parts' to meet the warranty claim.
- (iii) Putting to private use of raw material is not a supply and therefore it is not chargeable to tax.
- (iv) The adjustment on account of sale return credit can only be claimed if credit note is issued within 180 days of the relevant supply. Therefore, no tax credit will be available to CE.

32. Zeenat Enterprises

Computation of tax liability For the month of August 2026

	Taxable Amount	Sales Tax @ 18%
	--- Rs. in million ---	
Input Tax		
Raw material from associated company	10.40	1.87
	(9.2+1.2)	
Glass bottles	4.00	0.72
Glass bottles – free of cost	0.80	0.14
	(4×20%)	
Pigments in retail packaging	7.90	1.42
Remaining purchases	8.30	1.50
	(44–35.7)	
Purchases from unregistered persons	9.00	-
Purchase return	-	-
Purchase dated 10 February 2026	2.90	0.52
		6.17
Less: Refundable input tax		(1.40)
		4.77
Output Tax:		
Cosmetics products	25.00	4.5
Sales return	-	-
Remaining sales to registered person	7.00	1.26
	(30–23)	
Sales to unregistered Tier 1 retailer	8.00	1.44
Exports	12.00	-
Perfume for marketing staff	1.00	0.18
		7.38
Less: Admissible credit [90% of output tax i.e. 6.64 (7.38×90%) or input tax i.e. Rs. 4.77 million, whichever is lower]		(4.77)
		2.61
Less: Input tax on machine (other than zero rated)		(2.09)
Sales tax payable		0.52
Further tax payable		-
Sales tax to be carried forward		-
Sales tax refundable (0.61+1.40)		2.01

W-1: Apportionment of input tax

Description	Taxable supplies	Machine	Residual
	----- Rs. in million -----		
Exports	12.00	0.61	1.40
Local sales	41.00	2.09	4.77
	(25+1+7+8)		
	53.00	2.70	6.17

33. ABC persons

		Amount of supplies	Sales tax @ 18%
		----- Rs. in million -----	
Registered person A:			
Input tax:			
Supplies from registered persons (10+1)		11.00	1.98
Exempt supplies		2.00	-
			1.98
Input tax b/f			3.00
			4.98
Output tax:			
Supplies to registered persons		8.00	1.44
Supplies to unregistered persons		5.00	0.90
			2.34
Lower of:			
90% of output	2.11		
Input tax	4.98		2.11
			0.23
Less: Input tax on machine		4.00	(0.72)
			0.49
Input tax c/f (4.98-2.11)			2.87
Total input tax c/f			3.36
Further tax payable (5×4%)			0.2

	Amount of supplies	Sales tax @ 18%
	----- Rs. in million -----	
Registered person B:		
Input tax:		
Supplies from registered persons $[20 - 4(20 \times 20\%) + 5.2(4 \times 1.3)]$	21.20	3.82
Machine from registered persons	8.00	1.44
Zero rated supplies from unregistered person	3.00	-
		5.26
Less: Input tax pertain to exempt supplies $[1.44 + 0.73(9 \div 47 \times 3.82)]$		(2.17)
		3.09
Input tax b/f		2.00
		5.09
Output tax:		
Taxable supplies to registered persons	28.00	5.04
Taxable supplies to unregistered persons	10.00	1.80
Exempt supplies to registered persons	9.00	-
		6.84
Lower of:		
90% of output	6.16	
Input tax	5.09	5.09
		1.75
Further tax payable $[9(10 \times 90\%) \times 4\%]$		0.36
Sale tax payable		2.11
Sales tax carried forward		-
Registered person C:		
Input tax:		
Taxable supplies from unregistered persons	6.00	-
Output tax:		
Taxable supplies to registered persons	42.00	7.56
Exempt supplies	15.00	-
Zero rated supplier to registered persons	7.00	-
		7.56
Less: Input tax on machine (W-1)		(1.85)

Sales tax payable		5.71
Sales tax refundable (W-1)		0.31
Sales tax carried forward		-

W-1: Apportionment of input tax between taxable and zero rated supplies

	Supplies	Input tax
Taxable other than zero rated	42.00	1.85
Zero rated	7.00	0.31
	49.00	2.16
		(12×18%)

34. BILAL AND SONS (BS)

Computation of Net Sales Tax Liability For the tax period February 2026

SALES TAX CREDIT (INPUT TAX)	Taxable value (Rs.)	Sales tax rate	Sales tax (Rs.)
Raw material purchased - registered suppliers	2,900,000	18%	522,000
Raw materials - CREST discrepancy	2,180,000	inadmissible	-
Raw materials - Salman Enterprise	3,100,000	inadmissible	-
Building material	2,800,000	inadmissible	-
Taxable goods from unregistered suppliers	640,000	inadmissible	-
Taxable goods purchased from RE	635,000	18%	114,300
			636,300
SALES TAX DEBIT (OUTPUT TAX)			
Taxable supplies to registered persons	1,185,000	18%	213,300
Supply of goods to associate	1,000,000	18%	180,000
	(700,000÷70%)		
Insurance claim for goods destroyed	1,068,000	18%	192,240
Advance received for supply of goods to Hameed & Co.	645,000	18%	116,100
Supply of goods to cottage industry - unregistered	980,000	18%	176,400
Export of goods	1,000,000	0%	-
Supply of goods to unregistered retailers	395,000	18%	71,100
Goods auctioned by bank in settlement of a debt	575,000	18%	103,500
Goods used by the CEO at his residence	425,000	18%	76,500
	7,273,000		1,129,140
Admissible credit [lower of (548,812(W-1) or 90% of 1,129,140 = 1,016,226]			(548,812)

			580,328
Input tax on the machine			(310,502)
			269,826
Further tax on supply of goods to cottage industry - not required to be registered			-
Further tax on supply of goods to unregistered retailers - (395,000×4%)			15,800
Sales tax payable			285,626
Sales tax refundable {49,498+87,488}(W-1)			136,986
W-1 Apportionment of input tax	Value of Supplies	Plant and machinery	Input tax
Taxable supplies other than zero rated	6,273,000	310,502	548,812
Zero rated supplies	1,000,000	49,498	87,488
	7,273,000	360,000	636,300

35. SARMA ASSOCIATES

Computation of Sales Tax Liability For the month of August 2026

	Taxable Value (Rs.)	Sales Tax Rate	Sales Tax (Rs.)
Sales Tax Credit (Input Tax):	----- Rs. in million -----		
Taxable goods from registered suppliers	8,700,000	18%	1,566,000
Raw materials used for exempt products	500,000	Inadmissible	-
Purchase of 800 kg of detergent	960,000 (800×1,200)	18%	172,800
Goods purchased in cash	350,000	Inadmissible	-
Taxable goods from unregistered suppliers	3,850,000	Inadmissible	-
Import of shampoo- higher of 2,000,000/2000 × 130% or Rs.1,900	3,800,000 (2,000×Rs. 1,900)	25%	950,000
Purchase of 500 kits of shaving cream - payment not made (Since the payment has not been made within 180 days of the invoice date, the input tax has been reversed)	(600,000) (500×Rs. 1,200)	18%	(108,000)
Electricity bill paid in cash	-	18%	54,000
Unclaimed input tax on goods purchased in January 2026 (Since six tax periods have lapsed, it cannot be claimed without Commissioner's approval)	455,000	Inadmissible	-
Less: Input tax related to Exports (1,500×Rs. 1,900 × 25%)	-	-	(712,500)
Input Tax for the month			1,922,300

Sales Tax Debit (Output Tax)			-
Supply of toilet soap to export processing zone	243,000	18%	43,740
Supply of shaving cream on board an aircraft	600,000 (500×Rs. 1,200)	0%	-
Supply of goods in settlement of debt	325,000	18%	58,500
Taxable supplies to Asaasa & Co.	7,931,000	18%	1,427,580
Supply of shampoo to unregistered wholesaler	950,000 (500×Rs. 1,900)	25%	237,500
Supply of taxable goods to unregistered end consumers	575,000	18%	103,500
Export of 1,500 bottles of shampoo to UAE	2,850,000 (1,500× Rs.1,900)	0%	-
Output tax for the month			1,870,820
Admissible credit (lower of 1,922,300 or 90% of 1,870,820 = 1,683,738)			(1,683,738)
Sales tax payable			187,082
Less: Input tax on fixed assets under hire purchase agreement	2,500,000 (2,750,000×100÷110)	18%	(450,000)
Input tax Carried forward			(262,918)
Input tax carried forward (1,922,300 – 1,683,738)			238,562
Total input tax carried forward (262,918+238,562)			501,480
Further tax on supply of shampoo to unregistered wholesaler- Rules not applicable- 3rd Sch. Item			-
Further tax on supply of goods to unregistered persons - end consumers			-
Refundable input related to exports			712,500

CHAPTER 19 - RETURN RECORD KEEPING

1. SALES TAX RECORDS

- (a) Under the Sales Tax Act, 1990 the following types of records are required to be kept in prescribed form and manner as would permit ready ascertainment of his tax liability during a tax period:
- (i) records of supplies made shall indicate the description, quantity and value of goods, name and address of the person to whom supplies were made and the amount of the tax charged;
 - (ii) records of goods purchased shall show the description, quantity and value of goods, name, address and registration number of the supplier and the amount of the tax on purchases;
 - (iii) records of goods imported shall show the description, quantity and value of goods and the amount of tax paid on imports;
 - (iv) records of zero-rated and exempt supplies.

- (v) double entry sales tax accounts;
 - (vi) invoices, credit bills, debit notes, bank statements, banking instrument, inventory records, utility bills, salary and labor bills, rental agreements, sale purchase agreements and lease agreements.
 - (vii) record relating to gate pass, inward or outwards and transport receipts.
 - (viii) Electronic version of records mentioned in clause (i) to (vii) above.
 - (ix) such other records as may be specified by the Board
- (b) A registered person is required to retain the records and documents for a period of six years after the end of the tax period to which such record or documents relate or till the final decision in any proceedings including proceedings for assessment, appeal, revision, reference, petition and any proceedings before an alternative Dispute Resolution Committee.

2. NATURE OF RETURN

	Nature of return	Filer	Due date
(i)	Monthly return	Registered person	15 th of next month following any tax period (Electronic filing – 18 th of next month, where sales tax payable with the return paid till 15 th day as specified above.)
(ii)	Special return	Registered or Unregistered persons	On the date specified by the Commissioner in its notice calling for such return.
(iii)	Final return	Person applied for deregistration	On the date specified by the Commissioner.
(iv)	Annual return	Every private or public limited company	30 th of September following the year end.

3. MR. RAHEEL

- (i) Yes, the Commissioner is justified in issuing the notice to Raheel. According to STR 2006 if the Commissioner Inland Revenue or any other officer, as may be authorized by the Board, after such inquiry as deemed appropriate, is satisfied that a person is required to be registered, but does not apply for registration. He may issue a notice to such person.
 - (ii) Under the STR 2006, Raheel may submit his response within the specified time, contesting his liability to be registered. Based on his response, the Commissioner shall grant him opportunity of personal hearing, if so desired by him, and shall there after pass an order whether or not such person is liable to be registered compulsorily. He shall cause the said person to be registered through computerized system.
- However, if Raheel fails to respond within the time specified in the notice, the Commissioner shall cause to compulsorily register him through computerized system.

4. TAX EVASION

(a)		Time of supply	Reasons
	(i)	November 2025	Time of supply in relation to the supply of goods under a hire purchase is the time at which the agreement is entered into.
	(ii)	December 2025	Time of supply is the period earlier of (i) goods are delivered (ii) made available or (iii) any payment is received. Therefore, sales tax will be charged at the time of making advance payment in December 2025.
	(iii)	July 2025	Time of supply is the time when goods are available to the recipient of the supply irrespective of their use.
	(iv)	September 2025	Time of supply is the time when goods are available to the recipient for the supply irrespective of actual delivery.

(b) Short paid amounts recoverable without notice:

Where a registered person pays the amount of tax less than the tax due as indicated in his return, the short paid amount of tax along with default surcharge shall be recovered from a such person without giving him a show cause notice and without prejudice to any other action prescribed under the Sales Tax Act or the rules made thereunder, as follows:

- By stopping the removal of any goods from his business premises, and
- Through the attachment of his business bank accounts,

Provided that no penalty under the Sales Tax Act shall be imposed unless a show cause notice is given to the such person.