

*This Book Is Dedicated
To*

*My Late Parents
Who Were Keen To See
Me*

*Contributing Something
Towards The Nation*

PREFACE TO THE FORTY-THIRD EDITION

With the grace of Almighty Allah, the earlier editions of the book were welcomed and widely appreciated by the readers. The journey of *updating* is still on and the forty-third edition of the book is in your hands. This edition contains a sufficient number of examples within the chapters. It is hoped that the book will be in a better position to cater the requirements of its readers, especially the students at various levels of professional examinations. This edition is updated on the basis of amendments introduced in the tax laws by the Finance Act, 2024 and SROs notified till Publication of this book.

It is important to note that till the time of this publication certain necessary modifications have not been made in the Income Tax Rules, 2002 corresponding to the recent amendments incorporated in the Income Tax Ordinance, 2001 and other Federal revenue laws by different fiscal legislations. Resultantly, the reader may encounter difficulties while going through relevant parts of the book, especially relating to Appellate Tribunal, Alternative Dispute Resolution and ADRC, etc., where Rules are not compatible with the updated versions of the Federal revenue laws.

Examples and the examination questions have been solved on the basis of the assessment for the Tax Year 2025.

We are thankful to Mr. Waheed Ahmed for his logistic support and hardworking tendered by him in handling the distribution channel.

It is hoped that the book will pave a step forward in understanding the major taxation laws in Pakistan. But, still there is a room for betterment. The readers are requested to intimate the shortcomings and come forward with their suggestions for improvement.

Mirza Munawar Hussain
&
Mirza Behzad Munawar
194-Qayyum Block, Mustafa Town,
Wahdat Road,
Lahore, Pakistan.
Phone: 0333-4249620
September 05, 2024

PREFACE TO THE FIRST EDITION

To author a book on a subject which keeps on changing continuously is not an easy decision. It is the acceptance of a challenge, a self-imposed obligation and commitment to the readers regarding provision of updated and correct information on the subject.

The triggers of my decision, among other things, were the difficulties being faced by the students during preparation for their examinations. As a teacher of M. Com., PIPFA and ICAP classes, I observed that although a lot of good books are available in the market, yet none of these is capable to cater the demand of all courses. Further, these books cover only one or two taxes, whereas the syllabus outline of various professional institutions includes almost all the major taxation laws.

This book comprehensively covers the laws relating to Income Tax, **Wealth Tax**, Capital Value Tax, Sales Tax, Central Excise Duty and Zakat and Ushr. It also deals with such parts of the Customs Act, which are included in the syllabus of ICMAP.

An attempt has been made to explain the provisions of the law in a simplest way and use such language that could easily be understood even by general readers. To render the book more useful, the references of relevant 'Sections' and 'Rules' are also made available. For practice purposes, a handsome number of examination questions together with their solutions have been included in the book. This will provide an opportunity to apply and test the theoretical knowledge acquired by the reader. These questions are carefully selected from the past papers of the examinations conducted by the Institute of Chartered Accountants of Pakistan, the Institute of Cost and Management Accountants of Pakistan and the Pakistan Institute of Public Finance Accountants.

I am thankful to all those who tendered their co-operation in presentation of this book. I am especially indebted to Messers Jamil Baig FCA, Syed Hamid Bokhari, Khalid Aziz APA, Ghulam Sabir APA and Waheed Ahmed. The name for the book has been suggested by my dear colleague Mr. Masroor Mirza, Advocate, for which I am grateful.

I do hope that the book will serve the purpose and be useful to the students, professionals and general readers. I will be honoured if the shortcomings and errors in the book are pointed out. Any suggestions for the improvement of the book shall be welcomed with thanks.

MIRZA MUNAWAR HUSSAIN

442-Pak Block,
Allama Iqbal Town, Lahore.

March 10, 2000.

SUMMARIZED CONTENTS

TOPICS	CHAPTERS
INCOME TAX ORDINANCE, 2001	1 – 25
ICT – SALES TAX ON SERVICES	26
SALES TAX ACT, 1990	27 – 35
FEDERAL EXCISE ACT, 2005	36 – 37
CAPITAL VALUE TAX	38
EXAMINATION QUESTIONS & ANSWERS	39 – 42

CONTENTS

INCOME TAX

CHAPTER – 1: INTRODUCTION (Pages 1–28)

- Definition of Law 1-1
- Sources of Law 1-1
- Imposition of Taxes and Sources of Income Tax Law 1-2
- The Income Tax Ordinance, 2001 1-2
- Short Title Applicability and Enforcement Date 1-3
- Objects of the Income Tax Ordinance 1-3
- Status of the Ordinance 1-3
- Tax Treaties 1-3
- The Income Tax Rules, 2002 1-4
- FBR's Power to Make Rules 1-4

DEFINITIONS:

- Definitions discussed in relevant chapters 1-6
- Active Taxpayers' List 1-8
- Amalgamation 1-8
- Amalgamating Company 1-8
- Amalgamated Company 1-9
- Approved Gratuity Fund 1-9
- Approved Annuity Plan 1-9
- Approved Income Payment Plan 1-9
- Approved Pension Fund 1-9
- Approved Employment Pension or Annuity Scheme 1-9
- Approved Occupational Savings Scheme 1-9
- Approved Superannuation Fund 1-9

• Asset Management Company	1-9
• Asset Move	1-10
• Association of Persons	1-10
• Banking Company	1-10
• Bonus Shares	1-10
• Charitable Purpose	1-10
• Collective Investment Scheme	1-10
• Company	1-11
• Concealment of Income	1-11
• Consumer Goods	1-12
• Contribution to an Approved Pension Fund	1-12
• Co-operative Society	1-12
• Debt	1-12
• Developmental REIT Scheme	1-12
• Terms Adopted from Electronic Transactions Ordinance	1-12
• Telecommunication System	1-13
• Fair Market Value	1-13
• Financial Institution	1-14
• Finance Society	1-14
• Firm	1-14
Foreign-Source Income	1-14
House Building Finance Corporation	1-14
Imputable Income	1-15
Industrial Undertaking	1-15
Investment Company	1-16
IRIS	1-16
Information Technology (IT) Services	1-16
IT Enabled Services	1-16
Leasing Company	1-16
Liaison Office	1-16
Liquidation	1-16
Local Government	1-16
Member	1-17

Minor Child	1-17
Modaraba, Modaraba Company and Modaraba Certificate	1-17
Mutual Fund	1-17
Non-Banking Finance Company	1-17
Non-Profit Organization	1-18
Online Marketplace	1-18
Originator	1-18
Pakistan-Source Income:	1-18
Salary Income	1-18
Business Income	1-18
Significant Economic Presence in Pakistan	1-18
Dividend Income	1-19
Profit on Debt	1-19
Royalty Income	1-19
Rental Income	1-19
Pension or Annuity	1-19
Fee for Technical Services	1-20
Fee for Offshore Digital Services	1-20
Capital Gain	1-20
Insurance or Re-insurance Premium	1-20
Any Other Income	1-20
Pension Fund Manager	1-20
Person	1-20
PMEX	1-21
Prescribed	1-21
Principal Officer	1-21
Private Company	1-21
Profit on Debt	1-21
Public Company	1-21
REIT Scheme	1-22
Real Estate Investment Trust Management Company (RMC)	1-22
Rental REIT Scheme	1-22
Resident and Non-Resident:	1-22
Non-Resident Person	1-22
Non-Resident Taxpayer	1-22
Resident Association of Persons	1-22
• Resident Company	1-23
Resident Individual	1-23
Resident Person	1-23
Resident Taxpayer	1-23
Schedule	1-23
Securitization	1-23
Share	1-24
Shareholder	1-24
Small and Medium Enterprise	1-25
Special Purpose Vehicle	1-24

Stock Fund	1-24
Taxpayer	1-24
Tax Treaty	1-24
Tax Year:	
Normal Tax Year	1-25
Special Tax Year	1-25
Special Income Year under Income Tax Ordinance, 1979	1-25
Change in Tax Year	1-26
Permission by CIR	1-26
Permission by Board	1-26
Transitional Tax Year	1-26
General Provisions Regarding Tax Year	1-26
Trust	1-27
Underlying Ownership	1-27
Units	1-27
Unit Trust	1-27
Venture Capital Company and Venture Capital Fund	1-27
Associates	1-27

•	
•	CHAPTER – 2 INCOME TAX AUTHORITIES 29-49
•	Income Tax Authorities
	Federal Board of Revenue
	Functions and Powers of Board
	Circulars issued by Board
	Tax Authorities to Follow Orders of Board
	Chief Commissioner Inland Revenue
	Commissioner Inland Revenue
	Functions and Powers of CIR
	Officer of Inland Revenue
	Jurisdiction of Income Tax Authorities
	Delegation of Powers
	Delegation of Approving Authority by Board
	Condonation of Time Limit
	Furnishing of Returns, Etc.
	Confidentiality of the Information given to Tax Department
	Jurisdictions of the Courts, Etc.
	Forms, Etc., and Authentication of Documents
•	Guidance to Tax Authorities
	Expert
	Fees and Service Charges
	Director-General of Internal Audit
	Inland Revenue Services Academy
	Director-General (Intelligence and Investigation) Inland Revenue
	Directorate-General of Withholding Taxes
	Directorate-General of Law
	Directorate-General of Research and Development

Directorate-General of Broadening of Tax Base	2-44
Directorate-General of International Tax Operations	2-44
Directorate-General of Immovable Properties	2-44
Directorate-General of Special Initiative	2-46
Directorate-General of Valuation	2-46
Directorate General of Compliance Risk Management	2-46
International Centre of Tax Excellence	2-47
Tax Fraud Investigation Wing	2-48
Reference to Tax Authorities	2-48
Removal of Difficulties	2-49
Validation of Notifications and Orders	2-49
Uniforms	2-49

•	
•	CHAPTER – 3 SCOPE OF TAX 50-69
•	Tax 3-50
	Charge of Tax 3-50
	Categories of Taxpayers 3-50
	Tax Regimes 3-50
	Tax Withholding 3-51
	Taxable Income 3-51
	Income 3-53
	Total Income 3-53
	Deductible Allowance 3-54
	Deductible Allowance for Education Expenses 3-54
	Geographical Source of Income 3-55
	Impact of Residential Status on Scope of Income 3-55
	First Schedule 3-56
	Rates of Income Tax for Tax Year 2025 2023 3-56
	Individuals – Non Salaried & Association of Persons 3-56
	Individuals – Salaried 3-57
	Reduction in Tax Rate for Professional Firms 3-57
	Reduction in Tax Liability of Teachers or Researchers 3-58
	Other Tax Credits 3-59
	Surcharge 3-59
	Super Tax for Rehabilitation of Temporary Displaced Persons 3-59
	Super Tax on High Earning Persons 3-59
•	Tax on Dividend3-61
•	Rates of Tax on Dividends..... 3-61
•	Dividend3-61
	Accumulated Profits..... 3-64
•	Tax on Incomes from Sukuks3-65
•	Income Tax Rates for Companies..... 3-65
•	Small Company..... 3-66
•	General Provisions Applicable to Incomes under FTR/PTR/STR..... 3-66

• Advanced Ruling in Case of Non-Resident.....	3-67
Avoidance of Double Taxation and Prevention of Fiscal Evasion.....	3-67
Calculation of Tax to the Nearest Rupee.....	3-68
• Benefits of Repealed Provisions	3-68
• Procedure for Computation of Tax Liability.....	3-69
CHAPTER - 4	
• EXEMPTIONS AND CONCESSIONS.....	70-111
Exemptions and Concessions	4-70
• Exemptions under Other Laws.....	4-71
• Limitation of Exemption	4-71
• Exemption from Total Income.....	4-72
• Agricultural Income	4-72
• Agricultural Produce used as Raw Materials	4-73
Diplomatic and United Nations Exemption.....	4-74
Pension of United Nations Employees.....	4-75
• Employee of a Foreign Government.....	4-75
• Exemption under International Agreements.....	4-75
• Exemption as a Result of a Tax Treaty.....	4-75
• Salary Income of an Individual Serving under an Aid Agreement	4-75
• Income of Contractor, Consultant or Expert.....	4-75
Official Development Assistance Financed Loans and Grants-in-Aid	4-76
Exemption under Foreign Investment (Promotion and Protection) Act, 2022	4-76
Allowances Attached to Honours, Awards, Etc.	4-77
Profit on Debt.....	4-77
• Scholarships.....	4-77
• Support Payment to Live Apart.....	4-77
• Income of Governments.....	4-77
• Income of Short-Term Residents	4-78
• Income of Returning Expatriates.....	4-78
• Exemption under Second Schedule.....	4-79
• Exemption from Total Income.....	4-79
• Salary Income.....	4-79
• Employees of Agha Khan Development Network, (Pakistan).....	4-79
• Allowances, etc., to Person Working Outside Pakistan.....	4-79
Pension Received by a Pakistani.....	4-79
• Gratuity or Commutation of Pension.....	4-79
• Leave Encashment.....	4-80

Amount Received from Voluntary Pension System 4-80

Withdrawal of Accumulated Balance from Approved Pension Fund 4-80

Income Received form Funds 4-81

Special Allowances to Armed Forces Personnel 4-81

Income of Newspaper Employee 4-81

Perquisites by Virtue of Employment 4-81

Pension/Gratuities Received by President, Etc. 4-81

Profit on Debt 4-82

Income of Collective Investment Scheme or REIT Scheme 4-82

Gain on Sale of Immovable Property 4-83

Income of Special Purpose Vehicle (SPV) 4-83

Inter-Corporate Dividend 4-83

Dividend and Capital Gains of Venture Capital Fund 4-83

Capital Gains 4-83

Income of Public Sector Universities 4-83

Income of China Overseas Ports Holding Company 4-83

Income from Business in Gwadar Free Zone Area 4-83

Profit on Debt under Financing Agreement 4-84

Incomes of contractors of China Overseas Ports Holding Company, Etc. 4-84

Dividend Income of China Overseas Ports Holding Company 4-84

Dividend Income of China Overseas Ports Holding Company Pakistan (Pvt) Ltd 4-84

Income of a Refinery 4-84

Income of Industrial Undertaking in EPZ Gawadar 4-85

Income of Enterprises in Special Economic Zones 4-85

Income of Persons Connected with Special Technology Zones 4-85

Income from Transmission Line Projects 4-86

Income from Electric Power Generation Project 4-86

Incomes of National Power Parks Management Company 4-86

Incomes of Cogeneration Power Project 4-86

Certain Incomes of Specified Institutions 4-87

Incomes of Mutual Funds, Etc. 4-87

Incomes of Certain Funds, Etc. 4-88

Income of Certain Institutions, Etc. 4-88

Medical Facility or Allowance 4-92

Receipts of Overseas Private Investment Corporation 4-93

Profit on Debt Received by Japan International Cooperation Agency 4-93

Income of Social Security Institutions 4-93

Income of Persons of Erstwhile Tribal Areas 4-93

Transactions Connected with International Buying House 4-93

Income from Cinemas 4-94

Income from Feature Films 4-94

Profits and Gains of Venture Capital Company and Venture Capital Fund 4-94

Reduction in Tax Rates 4-94

Withholding Tax on Profit on Debt to a Non-Resident 4-94

Tax on Profit on Debt from Debt Instruments 4-94

Tax on Profit on Debt 4-95

Tax on Dividend from Cogeneration Power Project 4-95

Tax on Distributor of Cigarettes and Pharmaceutical Products 4-95

Withholding Tax and Minimum Tax on Certain Persons 4-95

Compulsory Monetization or Transport Facility 4-96

Withholding Tax on Online Marketplace 4-96

Minimum Tax on Yarn Trader 4-96

Withholding Tax on Oil Tanker Contractor 4-96

Withholding Tax on Sale of Gold and Silver 4-96

Reduction in Tax Liability 4-96

Reduction in Tax Liability in case of Teachers or Researchers 4-96

Minimum Tax on Import of Used Vehicles 4-96

Tax on Profit on Debt u/s 151(1)(c) 4-97

Tax on Low Cost Housing Projects 4-97

Tax on Capital Gains on Immovable Property 4-97

Tax on Low Income Housing Projects by NAPHDA 4-97

Maximum Tax on Cotton Ginners 4-97

Withholding Tax on Cotton Ginners 4-98

Tax on Women Enterprises 4-98

Exemption from Specific Provisions 4-98

Approval of Security from FBR 4-98

Donations to Agha Khan Hospital and Medical College 4-98

Markup of Tax Credit 4-99

Non-Applicability of Provisions Relating to Unexplained Income or Asset 4-99

Non-Applicability of Section 153(1)(a) to Certain Persons 4-99

Non-Applicability of Turnover Tax u/s 113 4-99

Non-Applicability of Tax on Source and Other Provisions of Law 4-101

Exemption to Foreign Expert 4-111

Exemption to Civil Aviation Authority (CAA) 4-111

CHAPTER - 5 TAXATION OF PERSONS 112-143

Taxation of Individuals 5-112

Clubbing of Income - Splitting of Income 5-113

Income of Minor Child 5-113

Taxation of Association of Persons and its Members 5-114

Change in Constitution of an AOP 5-116

Discontinuation of Business or Dissolution of an AOP 5-116

Taxation of Foreign-Source Income of Residents 5-116

Minimum Tax on Cotton Ginners 5-116

Tax on Woman Enterprises 5-117

Taxation of Companies 5-117

Disposal of Business by Resident Individual to Wholly Owned Company 5-117

Disposal of Business by Resident AOP to Wholly Owned Company 5-119

Disposal of Assets between Wholly-Owned Companies 5-119

Disposal of Assets under a Scheme of Arrangement and Reconstruction 5-119

Change in Control of an Entity 5-120

Gain on Disposal of Assets outside Pakistan 5-120

Controlled Foreign Company 5-122

Permanent Establishment 5-123

Taxation of a Permanent Establishment 5-125

Tax on Certain Incomes of Non-Residents 5-126

Fee for Technical Services 5-126

Fee for Offshore Digital Services 5-126

Royalty 5-127

Shipping Business of Non-Residents 5-129

Air Transport Business of Non-Residents 5-129

Shipping Business of Residents 5-129

Tax on Profit on Debt 5-130

Tax on Builders 5-130

Tax on Developers 5-131

Tax on Builders and Developers u/s 7F 5-131

Tax on Builders and Developers u/s 100D 5-132

Special Provisions Relating to Builders and Developers 5-135

Eleventh Schedule 5-135

Reduction in Tax 5-140

Thin Capitalization 5-140

Group Taxation 5-141

Special Procedure for Small Traders and Shopkeepers 5-141

Special Procedure for Certain Persons 5-142

Taxation of Small and Medium Enterprises 5-142

Fourteenth Schedule 5-142

Additional Tax on Certain Income, Profits and Gains 5-143

CHAPTER - 6 SALARY 144-160

Employment 6-144

Employee 6-144

Employer 6-144

Salary 6-144

Perquisites 6-144

Profit in lieu of or in Addition to Salary 6-145

Salary Income 6-145

Tax Free Salary to Employee 6-146

Tax on Amounts Received on Termination of Employment 6-147

Tax on Salary Received in Arrears 6-148

Perquisites, Allowances and Benefits 6-150

Services of Domestic Servants 6-150

Utilities to Employee 6-151

Loan from Employer 6-151

Loan from Employer used for Acquisition of an Asset 6-152

Waiver of an Amount Payable by Employee 6-153

Obligation of an Employee Paid by the Employer 6-153

Transfer of Property or Provision of Services to Employee 6-153

Any other Perquisite 6-153

Employee Share Scheme 6-154

Valuation of Accommodation 6-157

Self-Hiring of a Property 6-157

Valuation of Conveyance 6-158

Exemptions 6-158

Computation of Taxable Salary Income 6-159

CHAPTER - 7 PROVIDENT FUND 161-164

Definition 7-161

Recognized Provident Fund 7-161

Recognition of Provident Fund 7-161

Conditions of Approval 7-162

Effective Date for Recognition 7-162

Appeal against Non-Recognition or Withdrawal of Recognition 7-163

Taxation of Provident Fund 7-163

Treatment of Accumulated Balance on Withdrawal of Recognition 7-164

CHAPTER - 8 INCOME FROM PROPERTY 165-179

Rent 8-165

Rent of Properties not Taxable as Income from Property 8-166

Advance against a Rented Buildings 8-166

Amount Received for Vacating the Possession of a Property 8-168

Rent Chargeable to Tax under Salary Income 8-169

Admissible Deductions 8-169

Irrecoverable Rent for the Current Year 8-171

Recovery of Unrealized Rent 8-172

Non-Payment of an Allowable Deduction 8-172

Payment of Unpaid Liability 8-173

Liability in case of Co-owners 8-173

Rent Inclusive of Utilities 8-174

Owner's Burden Payable by Tenant 8-175

Repair Charges Payable by Tenant 8-176

Self-Hiring of a Property 8-176

Withholding Tax on Rent 8-176

Computation of Taxable Income from Property 8-178

CHAPTER - 9 INCOME FROM BUSINESS 180-195

Business 9-180

Income Chargeable Under Business 9-180

Income of Co-Operative Societies 9-181

Amount Received against Lease 9-181

Income from Mutual Funds 9-181

Speculation Business 9-181

Admissible Deductions 9-182

Deductions on Account of Financial Costs 9-183

Deductions Not Admissible 9-186

Amount Subsequently Recovered 9-189

Abnormal Losses 9-189

Expenses on Scientific Research 9-190

Expenses on Employees' Welfare and Training 9-190

Bad Debts 9-190

Consumer Loans by Banking Companies, etc. 9-191

Profit on Non-Performing Loans 9-192

Transfer to Participatory Reserve 9-192

Apportionment of Common Deductions 9-192

Non-Payment of a Liability 9-194

Benefit from a Trading Liability 9-194

Computation of Taxable Business Income 9-195

CHAPTER - 10 ASSETS AND DEPRECIATION 196-222

Assets 10-196

Capital Asset 10-196

Depreciable Asset 10-196

Eligible Depreciable Asset 10-196

Intangible 10-197

Pre-Commencement Expenditure 10-197

Stock-in-Trade 10-198

Acquisition of an Asset 10-198

Disposal of an Asset 10-198

Purchase of Assets through Banking Channel 10-198

Cost of an Asset 10-199

Consideration on Disposal of an Asset 10-204

FBR's Powers to Prescribe Rules 10-207

Cost and Disposal Value in Non-Arms-Length Transactions 10-207

Fair Market Value 10-207

Non-Recognition of Gain or Loss on Disposal of an Asset 10-208

Depreciation 10-208

Depreciation under Income Tax 10-209

Depreciation Rules 10-209

Assets on which Depreciation is allowed 10-209

Asset Used Partly for Business 10-210

Asset not used for Whole Year 10-210

Treatment of Depreciation if Business is Exempt from Tax 10-211

Asset with Useful Life up to One Year 10-211

Rates for Depreciation Allowance 10-211

Initial Allowance for Depreciation 10-212

Accelerated Depreciation to Alternate Energy Projects 10-212

Asset Leased by a Leasing Company, Bank, Etc. 10-213

Asset Owned by Islamic Financial Institution 10-213

Conditions Applicable to Depreciation Allowance 10-214

Particular of Assets Disposed During the Year 10-215

General Provisions 10-215

Gain or Loss on Disposal of Asset 10-215

Written Down Value 10-216

Exceptions Regarding Cost Incurred and Consideration Received 10-217

Passenger Transport Vehicle Not Plying for Hire 10-218

Cost and Disposal Consideration of Immovable Property 10-219

Export of a Depreciable Asset 10-220

Amortization of Intangibles 10-220

Amortization of Pre-Commencement Expenses 10-222

CHAPTER - 11 METHOD OF ACCOUNTING AND RECORDS 223-236

Power of Board to Prescribe Method, Etc. 11-223

Change in Method of Accounting 11-223

Cash Basis Accounting and Accrual-Basis Accounting 11-223

Cost of Stock-in-Trade 11-224

Terms used in Cost of Stock-in-Trade 11-224

Income from Long Term Contracts 11-225

Record to be kept by a Taxpayer 11-225

Place where Books are to be kept 11-226

Prescribed Books of Accounts 11-226

General Provisions 11-227

Specific Provisions 11-227

Electronic Tax Register (ETR) 11-229

Non-Business Taxpayers 11-230

Record of Beneficial Owner 11-231

Electronic Record 11-231

CHAPTER - 12 CAPITAL GAINS 237-247

Capital Asset 12-237

Computation of Capital Gain 12-237

Capital Gain on Immovable Property 12-238

Tax Withholding on Shares of a Company 12-239

Capital Gain on Disposal of Securities 12-241

Capital Gain Tax 12-244

Rules for Computation of Capital Gain on Listed Securities 12-244

Treatment of Capital Losses 12-246

Cost of Acquisition 12-247

Exemption of Capital Gain 12-247

Scope of other Incomes 13-248

Profit on Debt Received in Arrears 13-250

Amount Received for Vacating the Possession of Property 13-250

Deductions 13-250

Adjustment of Royalties or Copy-Right Fee 13-251

Unexplained Incomes, Expenditures or Assets 13-252

Exemption of Profit on Debt 13-256

CHAPTER - 14 INSURANCE BUSINESS 257-259

Special Provisions Relating to Insurance Business 14-257

Segregation of Income from Business 14-257

Life Insurance business 14-257

General Insurance 14-257

Miscellaneous 14-258

Super Tax on High Earning Persons 14-259

Additional Tax 14-259

CHAPTER - 15 OIL, GAS AND OTHER MINERAL DEPOSITS 260-266

Scope of the Chapter 15-260

Petroleum, Oil and Natural Gas 15-261

Separate Business 15-261

Computation of Profits 15-261

Depletion Allowance 15-263

Limitation of Payment to Federal Government and Taxes 15-264

Mineral Deposits (Other Than Oil and Natural Gas) 15-265

Separate Business 15-265

Computation of Profits 15-265

Depletion Allowance 15-265

Super Tax on High Earning Persons 15-266

Additional Tax 15-266

CHAPTER - 16 BANKING BUSINESS 267-275

Banking Company 16-267

Incomes and Tax Liability of Banking Companies 16-267

Additional Tax 16-268

Special Provisions under Seventh Schedule 16-269

Computation of Income 16-269

Shariah Compliant Banking 16-271

Transfer of Assets in Diversified Payment Rights 16-271

Head Office Expenditure of Foreign 16-271

Advance Tax 16-272

Exemption from Tax Withholding 16-272

Tax on Income from Government Securities 16-272

Application of section 113 16-273

Dividend and Capital Gains 16-273

Tax on Additional Advances for Micro, Small and Medium Enterprises 16-273

Tax on Additional Advances for Low Cost Housing 16-274

Tax on Additional Advances as Farm Credit 16-274

Exemptions 16-275

Provisions of Income Tax Ordinance 16-275

CHAPTER - 17 TAX CREDITS 276-292

Tax Credits 17-276

Foreign Tax Credit 17-277

Tax Credit for Charitable Donations, Voluntary Contributions or Subscriptions 17-279

Tax Credit for Contribution to Approved Pension Fund 17-280

Tax Credit for Employment Generation by Manufacturers 17-281

Tax Credit for Point of Sale Machine 17-282

Important Notes 17-282

Tax Credit for Investment in Plant and Machinery 17-283

Credit for Industrial Undertakings Established Before 01-07-2011 17-283

Tax Credit for Certain Persons 17-284

Tax Credit for Specified Industrial Undertakings 17-285

Non-Applicability of Certain Provisions 17-286

Tax Credit for Charitable Organizations 17-286

Priority of Tax Credits 17-289

Tax Credit to a Company for Tax Withheld from AOP 17-289

The Thirteenth Schedule 17-290

CHAPTER - 18 SET-OFF AND CARRY FORWARD OF LOSSES 293-301

Set-off of losses 18-293

Rules for Set-off and Carry Forward of Losses 18-293

Set-Off of Losses of Companies Operating Hotels 18-295

Carry Forward of Losses 18-295

Rules for Carried Forward 18-295

Set-off of Losses of Amalgamating Companies 18-296

Set-off and Carry Forward of Losses of AOPs 18-297

Limitations as to Set-off or Carry Forward of Losses 18-297

Carry Forward and Set-off of Depreciation Allowance 18-297

Foreign Losses 18-298

Carry Forward of Losses of Exempt Business 18-298

Change in Control of an Entity 18-299

Losses of Subsidiary Company 18-299

Losses under 'Group Taxation' 18-301

CHAPTER - 19 PAYMENT OF TAX 302-342

Payment of Tax 19-302

Deduction or Collection of Tax at Source 19-303

Table of Tax Withholding 19-303

Notes on Withholding Tax 19-313

Non-Applicability of Provisions Regarding Tax at Source 19-328

Time for Deduction of Tax 19-328

Tax Deducted Treated as Final Tax 19-328

Exemption or Lower Rate Certificate 19-328

Payment of Tax Collected or Deducted 19-328

Liability of Person Failing to Deduct or Pay Tax 19-329

Recovery of Tax from whom it was not Deducted or Collected 19-330

Recovery of Tax Not Deducted or Short Deducted 19-330

Issuance of Certificate of Tax Deducted 19-330

Settlement of Transactions Liable to Withholding Tax by SWAPS Agents 19-331

Filing of Statement 19-331

Deduction of Service Charges from Tax Withheld 19-332

Advance Payment of Tax 19-332

Advance Tax from Provincial Sales Tax Registered Persons 19-336

Payment of Tax with Return 19-336

Payment of Tax on Demand 19-336

Recovery of Tax from Other Persons 19-337

Recovery of Tax by Commissioner 19-337

Recovery of Tax by District Officer (Revenue) 19-338

Estate in Bankruptcy 19-338

Recovery of Tax from Persons Assessed in AJK or Gilgit-Baltistan 19-338

Miscellaneous Provisions Regarding Recovery of Tax 19-338

Tax Arrears Settlement Incentive Scheme 19-339

Assistance in the Recovery and Collection of Taxes 19-339

Recovery of Liabilities Outstanding Under Other Laws 19-339

Priority of Tax Collected or Deducted 19-339

Indemnity 19-340

Status of Tax Deducted or Collected at Source 19-340

Procedure for Amounts Paid 19-340

Liquidator 19-340

Recovery of Tax Due by Non-Resident Member of an AOP 19-340

Reward to Officials 19-341

Reward to Whistleblowers 19-341

Reward and Benefits for Certain Persons 19-342

8CHAPTER - 20 ASSESSMENT PROCEDURE 343-371

Assessment 20-343

Filing of Return of Income 20-343

Conditions Applicable to a Return 20-344

Filing of Return Electronically 20-344

Return Not Filed Within Due Date 20-345

Taxpayer's Profile 20-346

Enforcing Filing of Returns 20-347

Wealth Statement 20-348

Foreign Income and Assets Statement 20-349

Date of Filing of Return 20-349

Extension in Filing Period 20-350

Method of Furnishing of Return 20-351

Furnishing of a Return on Demand 20-351

Demand of Return for a Period of Less than Twelve Months 20-351

Revised Return of Income 20-352

Business Bank Account 20-353

Assessment 20-353

Selection of Person for Audit 20-354

Restrictions of Proceedings 20-354

Best Judgment Assessment 20-356

Amended Assessment 20-356

Revision by Commissioner 20-357

Revision by Chief Commissioner 20-357

Agreed Assessment in Certain Cases 20-358

Provisional Assessment 20-358

Offshore Asset 20-359

Assessment after Appellate Decision 20-359

Limitation for Assessment 20-359

Power of Tax Authorities to Modify Orders 20-359

Assessment in Case of a Disputed Property 20-360

Assessment in Case of Discontinued Business 20-360

Assessment in Case of Succession to Business 20-361

Assessment of Person about to Leave Pakistan 20-361

Liability in the Case of a Deceased Person 20-362

Liability in the Case of a Private Company 20-362

Tax Liability of an AOP or its Member 20-362

Rectification of Mistakes 20-363

Service of Notice 20-363

Power to Enter and Search Premises 20-364

Real-Time Access to Information and Data-Base 20-365

National Database and Registration Authority (NADRA) 20-366

Power to Obtain Information or Evidence, Etc. 20-367

Audit 20-367

Selection for Audit by Board 20-370

Closure of Audit 20-370

Automated Impersonal Tax Regime 20-371

E-Hearing 20-371

CHAPTER - 21 OFFENCES AND PUNISHMENT 372-384

Default Surcharge 21-372

Reduction in Default Surcharge 21-373

Penalties 21-373

Imprisonment and Prosecutions 21-377

Trial by Special Judge 21-379

Appeal against Order of Special Judge 21-380

Power to Arrest and Prosecute 21-380

Procedure to be Followed on Arrest of a Person 21-381

Special Judges 21-382

Cognizance of Offences by Special Judges 21-383

Special Judge, etc., to have Exclusive Jurisdiction 21-383

Provisions of Code of Criminal Procedure, 1898, to Apply 21-384

Transfer of Cases 21-384

Place of Sitings 21-384

Immunity from Prosecution 21-384

CHAPTER - 22 REFUND OF TAX 385-388

Refund 22-385

Instances of Refund 22-385

Persons Entitled to Claim a Refund 22-385

Conditions Applicable to Refund 22-385

Period for Making and Application for Refund 22-386

Orders by the Commissioner 22-386

Electronic Processing and Issuance of Refunds by FBR 22-386

Additional Payment for Delayed Refund 22-387

When a Refund Becomes Due 22-387

Payment of Refund through Income Tax Refund Bonds 22-387

CHAPTER - 23 APPEALS AND REVISIONS 389-406

Appeal 23-389

Revision 23-389

Summary Jurisdiction in Appeals 23-389

Commissioner (Appeals) 23-390

Appeal to the Commissioner (Appeals) 23-390

Appellate Tribunal Inland Revenue 23-393

Appeal to the Appellate Tribunal 23-394

Reference to High Court 23-397

Appeal to the Supreme Court 23-398

Alternative Dispute Resolution 23-399

Burden of Proof 23-401

Representatives 23-401

Liabilities and Obligations of Representatives 23-402

Appearance by Authorized Representative 23-403

Misconduct by Authorized Representative 23-403

Registration as Income Tax Practitioner 23-404

Computation of Limitation Period 23-404

Bar on Suits in Civil Courts 23-404

Proceedings under the Income Tax Ordinance 23-405

Proceedings against Companies under Liquidation 23-405

Jurisdiction of the Courts 23-405

Fora of Appeals 23-406

CHAPTER - 24 MISCELLANEOUS 407-422

Furnishing of Different Statements 24-407

Furnishing of Information by Banks 24-408

Furnishing of Information by Financial Institutions 24-408

Taxpayers' Registration 24-409

E-Enrollment 24-410

Active Taxpayers' List 24-410

Compulsory Registration in Certain Cases 24-411

Taxpayer Card 24-411

Displaying of NTN 24-411

Business Licence Scheme 24-411

Receipt of Income 24-411

Received Expenditure 24-412

Currency Conversion 24-412

Income from a Ceased Source of Income 24-412

Principle Regarding Recognition of Income or Expenditure 24-412

Transactions between Associates 24-413

Report from Independent Accountant 24-413

Transactions under Dealership Arrangement 24-413

Recharacterisation of Income and Deductions 24-414

Application of Income Tax Ordinance on Erstwhile Tribal Areas 24-414

Capital and Revenue 24-414

Capital Expenditures 24-415

Revenue Expenditures 24-415

Active Taxpayer's List 24-415

Special Procedure for Persons not in Active Taxpayers' List 24-416

Regulation for Active Taxpayers' List 24-420

Online Integration of Business 24-421

CHAPTER - 25 FINAL TAX REGIME & MINIMUM TAX LIABILITY 423-428

Final Tax Regime 25-423

Sundry Provisions Applicable to FTR / STR 25-424

Minimum Tax on Income of Certain persons 25-425

Alternative Corporate Tax 25-427

ISLAMABAD CAPITAL TERRITORY SALES TAX ON SERVICES

CHAPTER - 26 ICT - SALES TAX ON SERVICES 429-436

Islamabad Capital Territory (Sales Tax on Services) Ordinance, 2001 26-429

Interpretation 26-429

Scope of Tax 26-429

The Schedule 26-431

SALES TAX

CHAPTER - 27 INTRODUCTION 437-455

Introduction 27-437

Enforcement of Sales Tax in Northern Areas 27-438

Exemption from Sales Tax Act to Erstwhile Tribal Areas 27-438

Definitions 27-438

Active Taxpayer 27-438

Appellate Tribunal 27-438

Appropriate Officer 27-439

Arrears 27-439

Associates (Associated Persons) 27-439

Association of Persons 27-440

Banking Company 27-440

Board 27-440

Chief Commissioner 27-440

Commissioner (Appeals) 27-440

Commissioner 27-441

Common Taxpayer Densification Number 27-441

Company 27-441

Computerized System 27-441

Cottage Industry 27-441

CREST 27-441

Customs Act 27-441

Defaulter 27-442

Default Surcharge 27-442

Distributor 27-442

Document 27-442

Due Date 27-442

E - Intermediary 27-442

Establishment 27-442

Exempt Supply 27-442

FBR Refund Settlement Company 27-443

Film 27-443

Goods 27-443

Greenfield Industry 27-443

Importer 27-443

Input Tax 27-443

KIBOR 27-444

Local Inland Revenue Office 27-444

Manufacture or Produce 27-444

Manufacturer or Producer 27-444

Officer of Inland Revenue 27-444

Online Market Place 27-444

Open Market Price 27-444

Output Tax 27-445

Person 27-445

Prescribed 27-445

Provincial Sales Tax 27-445

Registered Office 27-445

Registration Number 27-446

Registered Person 27-446

Retail Price 27-446

Retailer 27-446

Return 27-447

Sales Tax 27-447

Sales Tax Account 27-447

Schedule 27-447

Similar Supply 27-447

Special Audit 27-447

Special Judge 27-447

Supply 27-448

Supply Chain 27-448

Tax 27-448

Taxable Activity 27-448

Tax Fraction 27-449

Tax Fraud 27-449

Taxable Goods 27-450

Tax Invoice 27-450

Taxable Supply 27-450

Tax Period 27-450

Tier - 1 Retailers 27-450

Time of Supply 27-451

Trust 27-452

Unit Trust 27-452

Value of Supply 27-452

Whistleblower 27-454

Wholesaler 27-454

Zero Rated Supply 27-454

CHAPTER - 28 SALES TAX AUTHORITIES 456-468

Federal Board of Revenue 28-456

Appointment of Authorities 28-457

Jurisdiction of Chief Commissioners and Commissioners 28-457

Directorate General Intelligence and Investigation 28-457

Tax Fraud Investigation Wing 28-458

Directorate General Internal Audit 28-458

Inland Revenue Services Academy 28-459

Directorate General of Digital Initiatives 28-459

Directorate General of Valuation 28-459

Directorate of Post Clearance Audit 28-459

Directorate General of Input Output Co-Efficient Organization 28-459

Directorate General of Law 28-460

Powers and Functions of Directorates 28-460

Powers of the Officers 28-460

Delegation of Powers 28-460

Posting of Officer to the Premises of Registered Person 28-460

Audit by Special Audit Panels 28-460

Sales Tax Special Audit Rules 28-461

Reference to Tax Authorities 28-462

Selection for Audit by the Board 28-463

Power to call for Information 28-464

Searches under Warrant 28-464

Posting of Inland Revenue Officer 28-465

Monitoring or Tracing by Electronic or Other Means 28-465

Judicial Authorities 28-465

FBR's Power to Make Rules 28-466

Agreement for Exchange of Information or Assistance in Recovery of Taxes 28-466

Real-Time Access to Information and Data-Base 28-466

Disclosure of Information by Public Servant 28-467

Prize Schemes to Promote Tax Culture 28-467

Officers to Follow Board's Orders 28-467

Reward to Office etc. 28-467

Reward to Whistleblowers 28-468

Uniform 28-468

CHAPTER - 29 SCOPE OF TAX 469-517

Sales Tax 29-469

Tax on Supplies to Non-Registered Persons 29-469

Sales Tax Rates 29-471

Tax on Imported Goods 29-472

Tax on Production Capacity & on Fixed Basis 29-473

Tax on Goods Specified in Third Schedule 29-473

Goods taxable @25% 29-475

Sales Tax on Electricity Supply by DISCOs 29-476

Tax on Goods Specified in Eighth Schedule 29-477

Government's Power to Apply Higher or Lower Rates 29-477

Tax on Goods Specified in Ninth Schedule 29-477

Extra Tax 29-478

Tax in Lieu of Sales Tax 29-481

Tax Fraud Investigation Wing 28-458

Directorate General Internal Audit 28-458

Inland Revenue Services Academy 28-459

Directorate General of Digital Initiatives 28-459

Directorate General of Valuation 28-459

Directorate of Post Clearance Audit 28-459

Directorate General of Input Output Co-Efficient Organization 28-459

Directorate General of Law 28-460

Powers and Functions of Directorates 28-460

Powers of the Officers 28-460

Delegation of Powers 28-460

Posting of Officer to the Premises of Registered Person 28-460

Audit by Special Audit Panels 28-460

Sales Tax Special Audit Rules 28-461

Reference to Tax Authorities 28-462

Selection for Audit by the Board 28-463

Power to call for Information 28-464

Searches under Warrant 28-464

Posting of Inland Revenue Officer 28-465

Monitoring or Tracing by Electronic or Other Means 28-465

Judicial Authorities 28-465

FBR's Power to Make Rules 28-466

Agreement for Exchange of Information or Assistance in Recovery of Taxes 28-466

Real-Time Access to Information and Data-Base 28-466

Disclosure of Information by Public Servant 28-467

Prize Schemes to Promote Tax Culture 28-467

Officers to Follow Board's Orders 28-467

Reward to Office etc. 28-467

Reward to Whistleblowers 28-468

Uniform 28-468

CHAPTER - 29 SCOPE OF TAX 469-517

Sales Tax 29-469

Tax on Supplies to Non-Registered Persons 29-469

Sales Tax Rates 29-471

Tax on Imported Goods 29-472

Tax on Production Capacity & on Fixed Basis 29-473

Tax on Goods Specified in Third Schedule 29-473

Goods taxable @25% 29-475

Sales Tax on Electricity Supply by DISCOs 29-476

Tax on Goods Specified in Eighth Schedule 29-477

Government's Power to Apply Higher or Lower Rates 29-477

Tax on Goods Specified in Ninth Schedule 29-477

Extra Tax 29-478

Tax in Lieu of Sales Tax 29-481

Service of Orders, Decisions, Etc. 29-513

Removal of Difficulties 29-514

Representatives 29-514

Special Procedures 29-514

Condonation of Time Limit 29-515

Validation of Notifications and Orders 29-516

Application of Customs Act 29-516

Fee and Service Charges 29-516

Computation of Sales Tax Liability 29-517

CHAPTER - 30 REGISTRATION 518-527

Registration 30-518

Type of Registration 30-518

Registration through Application 30-518

Voluntary Registration 30-518

Temporary Registration 30-518

Compulsory Registration 30-518

Persons Liable to be Registered 30-518

Applicability of Rules 30-519

Application for Registration 30-520

Documents to be Attached with Application 30-520

Procedure for Registration 30-520

Temporary Registration 30-521

Compulsory Registration 30-521

Change of Registration 30-522

Transfer of Registration 30-522

Option to File Application with Commissioner 30-522

De-Registration 30-523

Suspension or Blacklisting of a Registered Person 30-524

Active Taxpayers List 30-527

Non Active Taxpayer 30-527

Restoration as an Active Taxpayer 30-527

Discontinuance of Gas and Electricity Connections 30-527

CHAPTER - 31 RECORDS AND BOOKS 528-532

Records to be Kept by Registered Persons 31-528

Use of Specified Bank Accounts 31-529

Keeping Records on Computer 31-529

Submission of Annual Audited Accounts 31-530

Tax Invoice 31-530

Procedure for Issuance of Electronic Sales Tax Invoices (ESTI) 31-530

Retention of Record and Documents 31-532

CHAPTER - 32 RETURNS 533-540

Return 32-533

Sales Tax Return 32-533

Annual Sales Tax Return 32-534

Electronic Filing of Return 32-534

Filing of Returns by Specified Persons 32-536

Filing of Specified Information 32-536

Revised Sales Tax Return 32-537

Extension of Time for Furnishing Returns 32-537

Sales Tax Return on Demand 32-537

Special Return 32-538

Final Return 32-538

Audit of Sales Tax Affairs 32-538

Payment of Tax Evaded 32-539

Return Filed by an Authorized Representative 32-540

Effect of Non-Filing of Return or Filing an Incorrect Return 32-540

Electronic Scrutiny and Intimation 32-540

CHAPTER - 33 OFFENCES AND PENALTIES 541-549

Penalties, Etc. 33-541

Default Surcharge 33-546

Exemption from Penalty and Default Surcharge 33-547

Special Judge 33-547

CHAPTER - 34 APPEALS 550-557

Pecuniary Jurisdiction in Appeals 34-550

Power to call for Records and Revise the Orders 34-550

Appeal to Commissioner (Appeals) 34-551

Appeal to Appellate Tribunal 34-552

Saving 34-553

Reference to High Court 34-553

Appeal to Supreme Court 34-553

Powers of Tax Authorities to Modify Orders 34-554

Alternative Dispute Resolution 34-554

Rectification of Mistakes 34-555

Computation of Limitation Period 34-555

Bar on Suits and Legal Proceedings 34-555

Appearance by Authorized Representative 34-556

Taxpayer's Authorized Representative Rules 34-556

CHAPTER - 35 REFUND AND RECOVERIES 558-573

Refund 35-558

Refund of Excess Amount of Input Tax 35-558

Sales Tax Refund Rules 35-559

Period for Claiming a Refund 35-559

Additional Payment for Delay in Refund 35-559

Payment of Refund through Sales Tax Refund Bonds 35-560

Recovery of Arrears of Tax 35-561

Exemption of Tax Not Levied 35-561

Recovery of Tax Where Liquidator Has Been Appointed 35-561

Summon for Evidence and Documents 35-562

Power to Arrest and Prosecute 35-562

Procedure for Arrest of a Person 35-563

Access to Premises, Stocks and Records 35-564

Repayment of Tax on Certain Goods 35-564

Drawback 35-565

Drawback Allowable 35-565

Drawback of Goods taken into use between Importation and Re-exportation 35-565

Prohibition of Drawback 35-565

Annexure - Sales Tax Refund Rules 35-565

SCHEDULES 574-578

FEDERAL EXCISE DUTY

CHAPTER - 36 INTRODUCTION 579-584

Basic Concepts 36-579

Brief Introduction 36-579

Definitions: 36-579

Adjudicating Authority 36-579

Adjustment 36-579

Appellate Tribunal 36-579

Board 36-579

Chief Commissioner 36-579

Commissioner 36-580

Conveyance 36-580

Default Surcharge 36-580

Distributor 36-580

Due Date 36-580

Dutiable Goods 36-580

Dutiable Supply 36-580

Dutiable Services 36-580

Duty 36-580

Duty Due 36-580

Establishment 36-581

Factory 36-581

Officer of Inland Revenue 36-581

Franchise 36-581

Goods 36-581

Goods Insurance 36-581

Import and Export 36-581

Manufacture 36-581

Manufacturer 36-582

Non-Fund Banking Service 36-582

Person 36-582

Prescribed 36-582

Property Developers or Promoters 36-582

Registered Person 36-583

Sale and Purchase 36-583

Sales Tax Mode 36-583

Schedule 36-583

Services 36-583

Supply 36-583

Un-Manufactured Tobacco 36-583

Whistleblower 36-583

Wholesale Dealer 36-584

Zero-Rated 36-584

CHAPTER - 37 LEVY AND COLLECTION OF DUTY 585-605

Levy of Federal Excise Duty 37-585

Basis of Federal Excise Duty 37-585

Fixation of Tariff Values 37-585

Levy of Duty of Production Capacity 37-586

Levy of Fixed Duty 37-586

Charge of Duty at Higher or Lower Rate 37-586

Liability to Pay Excise Duty 37-586

Minimum Production for a Month 37-587

Default Surcharge 37-588

Determination of Value and the Rate of Duty 37-588

Collection of Excess Duty 37-588

Valuation for the Purposes of Duty 37-588

Exemptions 37-590

Adjustment of Excise Duty 37-590

Filing of Return and Payment of Duty 37-591

Zero Rate of Duty 37-593

Drawback of Duty 37-593

Prohibition of Payment of Draw Back, Refund, Etc. 37-593

Recovery of Arrears of Duty 37-593

Recovery of Short Paid Amounts 37-595

Assessment Giving Effect to an Order 37-595

Power to Rectify Omissions, Etc. 37-595

Power to Rectify Mistakes 37-596

Application of Sales Tax Act, 1990 37-596

Application of Customs Act, 1969 37-597

Liability under Special Cases 37-597

Registration 37-598

Maintenance of Records 37-600

Invoice for Goods or Services 37-601

Special Judges 37-602

Appeal against the Order of Special Judge 37-603

Powers of the Officers 37-603

Power of Board to Make Rules 37-603

Bar of suit and Limitation of Suit and other Legal Proceedings 37-604

Observance of Board's Orders, Directions and Instructions 37-604

Reference to Authorities 37-604

Selection for Audit by the Board 37-604

Reward to Officials 37-604

Reward to Whistleblowers 37-605

CAPITAL VALUE TAX

CHAPTER - 38 DEFINITIONS 606-612

Historical Background 38-606

Charge of Capital Value Tax 38-606

CVT on Motor Vehicles 38-607

Farmhouses 38-608

Residential houses 38-608

CVT on Foreign Assets 38-609

CVT on Notified Assets 38-609

General Provisions 38-610

Collection from Defaulter 38-610

Refund 38-611

Revision by Commissioner 38-611

Appeal to Commissioner (Appeals) 38-611

QUESTIONS AND ANSWERS

CHAPTER - 39 QUESTIONS & ANSWERS - INDIVIDUALS 613-668

Suggested Pattern for Computation of Taxable Income and Tax Liability 39-613

39.1 Mr. A. D. Chughtai 39-620

39.2 Mr. Qais Mansoor 39-621

39.3 Mr. Awais 39-623

39.4 Mr. Asghar Abbas 39-627

39.5 Mr. Jehangir Ahmad 39-629

39.6 Mr. Shahbaz 39-632

39.7 Mr. Jamshaid 39-634

39.8 Mr. Saima 39-637

39.9 Mr. Imran 39-639

39.10 Mr. X 39-642

39.11 Mr. Fatima Hasan 39-643

39.12 Mr. Various 39-645

39.13 Mr. Zia 39-647

39.14 Mr. Manto 39-649

39.15 Mr. Khawaja 39-652

39.16 Mr. Khaled Hameed 39-653

39.17 Mr. A 39-655

39.18 Mr. A 39-656

39.19 Mr. A & Mr. B 39-659

39.20 Mr. Rehmat 39-660

39.21 Mr. Ilyas 39-662

39.22 Mr. Musaddique Noor 39-665

39.23 Mr. Zubair 39-667

CHAPTER - 40 QUESTIONS & ANSWERS - AOPs 669-712

40.1 M/s. Khan, Hassan & Simon 40-669

40.2 M/s. Baqar, Hadi & Mikdad 40-673

40.3 M/s. Arif, Baqar & Umar 40-676

40.4 Mr. & Mrs. Adil 40-679

40.5 Falah Associates 40-683

40.6 AB Associates 40-686

40.7 Saleem, Rashid & Moin 40-689

40.8 M/s. XYZ Associates 40-692

40.9 X & Y 40-694

40.10 JJ 40-696

40.11 ABC & Company 40-699

40.12 Akeel Hospital 40-701

40.13 Traders & Company. 40-704

40.14 Aftab, Bashir & Ch. 40-706

40.15 Skylight 40-708

40.16 ABC & Co. 40-710

CHAPTER - 41 QUESTIONS & ANSWERS - COMPANIES 713-753

41.1 Public Company 41-713

41.2 MM Securities Limited 41-716

41.3 Hina Industries Limited (HIL) 41-720

41.4 MNO Pakistan Limited 41-726

41.5 Zaigham Chemicals (Private) Limited 41-730

41.6 Chemical (Private) Ltd. 41-733

41.7 A B & C (Private) Ltd. 41-735

41.8 ABC Limited 41-736

41.9 XYZ Ltd. 41-739

41.10 Ahsan & Bilal Stores Ltd. 41-740

41.11 Al Hassan Exporters (Pvt.) Limited 41-742

41.12 A (Private) Limited 41-744

41.13 ABCD Corporation 41-745

41.14 OK Limited 41-747

41.15 A Limited 41-749

41.16 Leasing Company 41-750

41.17 ABC Leasing Co. Ltd. 41-751

41.18 M/s. Samadani (Pvt.) Limited 41-752

CHAPTER - 42 MULTIPLE CHOICE QUESTIONS 754-765

42.1 ICMAP Dec. 2003 42-754

42.2 ICMAP May 2003 42-755

42.3 ICMAP Nov. 2003 42-756

43.4 ICMAP May 2002 42-758

42.5 ICMAP Nov. 2001 42-759

42.6 ICMAP May 2001 42-760

42.7 ICMAP Nov. 2000 42-762

42.8 ICMAP May 2000 42-763

42.9 ICMAP Nov. 1999 42-764

Income Tax-Introduction [1-1]

CHAPTER-I

INTRODUCTION

DEFINITION OF 'LAW'

The Jurists have defined the term 'Law' in different ways. Some of the definitions are given below:

1. "A 'law' is a rule of conduct imposed and enforced by the sovereign." - Austin
2. "Law is the body of principles recognized and applied by the State in the administration of Justice. Law is not right alone or might alone, but a perfect combination between the two." - Salmond
3. "Law is the command of a sovereign, containing a common rule of life for its subjects and obliging them to obedience." - Jhon Erskine
4. "Law is the system of rights and obligations which the state enforces." - Green
5. According to Paton there are two sides of law, i.e., from one side it is an abstract body of rules, from the other it is a social process of compromising the conflicting interests of men.

Thus the law may shortly be described in terms of legal order tacitly or formally accepted by a community and it consists of the body of rules which that community considers essential ¹ for its welfare and which it is willing to enforce by the creation of specific mechanism for security compliance.

SOURCES OF LAW

Law is created either by legal means or by historical process. The legal sources are further classified into the following four categories:

1. Legislation (termed as Enacted law);
2. Rules, regulations or bye-laws (termed as procedural law);
3. Precedent (termed as case law);
4. Custom (termed as customary law having its source in custom); and
5. Agreement (termed as conventional law based on agreement between the parties).

In Pakistan it is the Majlis-e-Shoora (Parliament) which acts as legislature. Article-70 through Article-77 of the Constitution of Pakistan deal with the Legislative Procedure. Any enactment of the Parliament is termed as 'Act'.

Article-89 of the Constitution empowers the President of Pakistan to promulgate laws (termed as Ordinance) if the National Assembly is not in session. An Ordinance promulgated by the President bears the same force and effect as an Act of the Parliament. In a case where the parliament exists at the time of promulgation of an Ordinance, the Ordinance shall stand repealed if not passed before the parliament within four (4) months of its promulgation. However, if the parliament does not exist at the time of issuance of an Ordinance, the Ordinance shall be as valid as an Act of the Parliament. Under the latter case the Ordinance is presented before the parliament for ratification after constitution of the parliament

Income Tax-Introduction [1-2]

IMPOSITION OF TAXES AND SOURCES OF INCOME TAX LAW

Article-77 of the Constitution of Pakistan empowers the Federal Government to levy tax for the purposes of the Federation. The Federal Government may levy a tax through an Act of the Parliament or an ordinance promulgated by the President. The following are the main sources of the Income Tax Law:

1. The Legislative Law, i.e., The Income Tax Ordinance, 2001;
2. The Procedural Law, i.e., The Income Tax Rules, 2002 made by the Federal Board of Revenue (FBR) under the authority of section 237 of the Income Tax Ordinance, 2001;
3. The Notifications, Circulars, etc., issued by the FBR under section 206 of the Income Tax Ordinance, 2001; and
4. The Case Law, i.e., the judgments and interpretations of the Appellate Tribunal, High Courts and the Supreme Court of Pakistan.

THE INCOME TAX ORDINANCE, 2001

The Income Tax Ordinance was promulgated on September 13, 2001. It was published in the Extraordinary Gazette of Pakistan at pages bearing Nos. 969¹ through 1217.

[1. i2biz.blogspot.com](http://1.i2biz.blogspot.com)

i2biz.blogspot.com

The Income Tax Ordinance was promulgated in such a hurry that original text was full of ambiguities, shortcomings and flaws. In order to streamline the legal provisions the Government had to bring huge number of amendments in the Ordinance even prior to the date of its

enforcement. Thereafter a series of amendments were introduced through the Finance Ordinances, Finance Acts Income Tax (Amendment) Acts and Notifications. The Ordinance at present consists of the following chapters:

Chapter #	Sections	Chapter Title
I	1 to 3	Preliminary
II	4 to 8	Charge of Tax
III	9 to 65G	Tax on Taxable Income.
IV	66 to 79	Common Rules.
V	80 to 98C	Provisions Governing Persons.
VI	99 to 100E	Special Industries.
VII	101 to 107	International.
VIII	108 to 112	Anti - Avoidance.
IX	113 to 113C	Minimum Tax.
X	114 to 208A	Procedure.
XI	207 to 230I	Administration.
XII	231AB to 236Z	Transitional Advance Tax Provisions.
XIII	237 to 242	Miscellaneous.

Export to Sheets

Besides the above-referred chapters the Ordinance has the following Nine Schedules:

Schedule # Subject Matter

First	Rates of Tax.
Second	Exemptions and Tax Concessions.

Income Tax-Introduction [1-3]

Schedule Subject Matter

Third	Depreciation and Amortization.
Fourth	Rules for Insurance Business.
Fifth	Rules for Exploration and Production of Petroleum and Other Mineral Deposits.
Sixth	Rules Relating to Provident, Superannuation and Gratuity Fund.
Seventh	Rules for the Computation of the Profits and Gains of a Banking Company and Tax Payable Thereon.
Eighth	Rules for the Computation of Capital Gains on Listed Securities
Ninth	Special Provisions Relating to Traders
Tenth	Rules for Persons not Appearing in the Active Taxpayers' List

Eleventh	Rules for Computation of Gains and Profits of Builders and Developers and Tax Thereon
Twelfth	Categories of Goods for the Purpose of Imposing Advance Tax at Import Stage u/s 148
Thirteenth	Institutions for Section 61
Fourteenth	Rule for computation of profit and gains for small and medium enterprises
Export to Sheets	

SHORT TITLE, APPLICABILITY AND ENFORCEMENT DATE [1]

Like all other laws, section 1 of the Income Tax Ordinance (XLIX of 2001), 2001 deals with the following three issues, namely:

1. The short title (name) of the law;
2. The applicability of the law; and
3. The date of its enforcement.

The Ordinance specifies that "The Income Tax Ordinance, 2001" is the short title of the law and it extends to the whole of Pakistan. Further, it empowers the Federal Government to notify the date from which the Income Tax Ordinance, 2001 shall come into force.

The Income Tax Ordinance, 2001 came into force on 01-07-2002. [S.R.O. 381(I)/2002, dated 15th June, 2002]

OBJECT OF THE INCOME TAX ORDINANCE

The preamble of the Ordinance determines the objects of the law. It specifies that the Income Tax Ordinance is promulgated to consolidate and amend the law relating to income tax and provides for matters ancillary to and connected with the income tax.

STATUS OF THE ORDINANCE [3]

The Income Tax Ordinance, 2001 overrides other laws enforceable in Pakistan. It implies that any contradiction between the provisions of the Income Tax Ordinance, 2001 and any other law of the country, the provisions of the Income Tax Ordinance¹ shall prevail.

TAX TREATIES [107]

The Federal Government may enter into a bilateral or multilateral agreement with the foreign Government or Governments or Tax Jurisdictions. The agreement may contain provisions with respect to the taxes on income leviable under the corresponding taxation laws of the respective countries on matters regarding:

Income Tax-Introduction [1-4]

1. Avoidance of double taxation;
2. Prevention of fiscal evasion;
3. Assistance in the recovery of taxes; and
4. Exchange of information including automatic and spontaneous exchange of information.

The FBR is empowered to obtain and collect information when solicited by another country under a:

1. Tax treaty;
2. Tax information exchange agreement;
3. Multilateral convention;
4. Inter-governmental agreement; and
5. A similar arrangement or mechanism.

Any information received or supplied and any concomitant communication or correspondence made under these agreements shall be confidential. If necessary, it can be shared only with a person acting in the execution of the Income Tax Ordinance, 2001 [as permitted u/s 219(3)(a)].

Status of the Tax Treaty

Whenever there is any contradiction between the provisions of the Income Tax Ordinance, 2001 and any tax treaty, provisions of the tax treaty shall apply.

Tax treaty may provide relief from tax for any period before the commencement of the Income Tax Ordinance or before the making of the agreement.

THE INCOME TAX RULES 2002

FBR'S POWER TO MAKE RULES [237]

The Federal Board of Revenue (FBR) being the regulatory body in respect of Federal Taxes is empowered to make rules regarding the procedural matters connected with the implementation of the concerned laws (including the Income Tax Ordinance, 2001). The legal provisions in this respect are summarized below:

1. The rules are to be made by issuing a notification in the official Gazette. [237(1)]
2. The rules may provide for all or any of the following matters: [237(2)]
 - i) The procedure for determining the income chargeable to tax and tax payable in a case where the income is partly from agriculture and partly from other business.
 - ii) The procedure for determining the income and tax liability of a non-resident person.
 - iii) Determination of any income to be included in the total income of a taxpayer and also the deductions to be allowed against such income.

- iv) Amount of fees and other charges payable under the Income Tax Ordinance.
- v) Anything, which is to be or may be prescribed under the Income Tax Ordinance.
- vi) The procedure for furnishing of returns and other documents.
- vii) The procedure for issuance of orders or notices.
- viii) The procedure for approval of non-profit organization.
- ix) The procedure for levy of default surcharge and penalties

Income Tax-Introduction [1-4]

1. Avoidance of double taxation;
2. Prevention of fiscal evasion;
3. Assistance in the recovery of taxes; and
4. Exchange of information including automatic and spontaneous exchange of information.

The FBR is empowered to obtain and collect information when solicited by another country under a:

1. Tax treaty;
2. Tax information exchange agreement;
3. Multilateral convention;
4. Inter-governmental agreement; and
5. A similar arrangement or mechanism.

Any information received or supplied and any concomitant communication or correspondence made under these agreements shall be confidential. If necessary, it can be shared only with a person acting in the execution of the Income Tax Ordinance, 2001 [as permitted u/s 219(3)(a)].

Status of the Tax Treaty

Whenever there is any contradiction between the provisions of the Income Tax Ordinance, 2001 and any tax treaty, provisions of the tax treaty shall apply.

Tax treaty may provide relief from tax for any period before the commencement of the Income Tax Ordinance or before the making of the agreement.

THE INCOME TAX RULES 2002

FBR'S POWER TO MAKE RULES [237]

The Federal Board of Revenue (FBR) being the regulatory body in respect of Federal Taxes is empowered to make rules regarding the procedural matters connected with the implementation of

the concerned laws (including the Income Tax Ordinance, 2001). The legal provisions in this respect are summarized below:

1. The rules are to be made by issuing a notification in the official Gazette. [237(1)]
2. The rules may provide for all or any of the following matters: [237(2)]
 - i) The procedure for determining the income chargeable to tax and tax payable in a case where the income is partly from agriculture and partly from other business.
 - ii) The procedure for determining the income and tax liability of a non-resident person.
 - iii) Determination of any income to be included in the total income of a taxpayer and also the deductions to be allowed against such income.
 - iv) Amount of fees and other charges payable under the Income Tax Ordinance.
 - v) Anything, which is to be or may be prescribed under the Income Tax Ordinance.
 - vi) The procedure for furnishing of returns and other documents.
 - vii) The procedure for issuance of orders or notices.
 - viii) The procedure for approval of non-profit organization.
 - ix) The procedure for levy of default surcharge and penalties.

Income Tax-Introduction [1-6]

Sub-Sec. Incomes	Chapters
(1) Accumulated Profits	Scope of tax
(2) Appellate Tribunal	Appeals
(5) Assessment	Assessment procedure
(5C) Asset Move	Offences
(7A) Beneficial Owner	Method of accounting and records
(8) Board (FBR)	Tax authorities
(10) Business	Income from business
(10A) Business Bank Account	Income from business
(11) Capital Asset	Capital gains
(11B) Chief Commissioner	Income tax authorities
(13) Commissioner	Income tax authorities
(13A) Commissioner (Appeals)	Appeals
(16) Deductible Allowance	Scope of tax
(17) Depreciable Asset	Assets and depreciation

Income Tax-Introduction [1-7]

Sub-Sec. Incomes	Chapters
(17B) Digital Means	Income from business
(18) Disposal	Assets and depreciation
(18A) Distributor	Payment of tax
(19) Dividend	Scope of tax
(19A) Eligible Person	Tax credits
(19C) Electronic Record	Methods of accounting & records
(19D) Electronic Resource	Methods of accounting & records
(20) Employee	Salary
(21) Employer	Salary
(22) Employment	Salary
(22A) Fast Moving Consumer Goods	Payment of tax & final tax
(22B) Fee for Offshore Digital Services	Taxation of persons
(22C) FBR Refund Settlement Company Limited	Refund of tax
(23) Fee for Technical Services	Taxation of persons
(27A) Greenfield Industrial Undertaking	Tax credits
(29) Income	Scope of tax
(29B) Individual Pension Account	Tax credits
(30) Intangible	Assets and depreciation
(30A) Integrated Enterprise	Refund
(30AB) KIBOR	Refund
(30C) Liaison Office	Taxation of persons
(35AA) NCCPL	Capital gains
(36) Non-Profit Organization	Tax credits
(38A) Officer of Inland Revenue	Income tax authorities
(38AA) Offshore Asset	Assessment
(38AB) Offshore Enabler	Offences
(38AC) Offshore Evader	Offences
(41) Permanent Establishment	Taxation of persons
(43) Pre-Commencement Expenditure	Assets and depreciation
(48) Recognized Provident Fund	Provident fund

Income Tax-Introduction [1-8]

Sub-Sec. Incomes	Chapters
(249) Rent	Income from property
(54) Royalty	Taxation of persons

(55)	Salary	Salary income
(59AB)	Small Company	Scope of tax
(59B)	Special Judge	Offences
(60A)	Specified Jurisdiction	Offences
(73A)	Unspecified Jurisdiction	Offences
(61)	Speculation Business	Income from business
(62)	Stock-in-Trade	Assets and depreciation
(62A)	Startup	Tax credits
(62B)	SWAPS Agent	Payment of tax
(63)	Tax	Scope of tax
(64)	Taxable Income	Scope of tax
(66A)	Tax Invoice	Offences
(69)	Total Income	Scope of tax
(70A)	Turnover	FTR / MTR
(75)	Whistleblower	Payment of tax

Export to Sheets

ACTIVE TAXPAYERS' LIST [2(1A)]

Active Taxpayers List means a list instituted by FBR u/s 181A. It also includes the list issued by the AJK Central Board of Revenue or Gilgit-Baltistan Council Board of Revenue.

AMALGAMATION [2(1B)]

A merger of one or more companies or institutions shall be termed as amalgamation if the following conditions are satisfied:

1. The merger should be of banking companies, non-banking financial institutions, insurance companies, companies owning and managing industrial undertakings or companies engaged in providing services and not being trading companies;
2. At least one of the companies being merged should either be a public company or a company incorporated under any law other than the Companies Act, 2017; and
3. As a result of the amalgamation the assets and liabilities of the amalgamating company or companies become the assets and liabilities of the amalgamated company.¹

The assets of amalgamating company should not become the assets of amalgamated company by purchase of such assets or by distribution of such assets to the amalgamated company after winding-up of amalgamating company.

Amalgamating Company is a company that is being merged with another company.

Income Tax-Introduction [1-9]

Amalgamated Company is a company with which the amalgamating company/ companies are being merged or which is formed as a result of the merger.

APPROVED GRATUITY FUND [2(3)]

It means such a gratuity fund, which has been and continues to be approved by the Commissioner Inland Revenue under Part-III of Sixth Schedule of the Income Tax Ordinance.

APPROVED ANNUITY PLAN [2(3A)]

It means such an Annuity Plan which is approved by the Securities and Exchange Commission of Pakistan (SECP) under Voluntary Pension System Rules, 2005. It should be offered by B-Life Insurance Company registered with the SECP under the Insurance Ordinance, 2000.

APPROVED INCOME PAYMENT PLAN [2(3B)]

It means such an Income Payment Plan which is approved by the SECP under Voluntary Pension System Rules, 2005. It should be offered by Pension Fund Manager registered with the SECP under Voluntary Pension System Rules, 2005.

APPROVED PENSION FUND [2(3C)]

It means such a Pension Fund which is approved by the SECP under Voluntary Pension System Rules, 2005. It should be managed by Pension Fund Manager registered with the SECP under Voluntary Pension System Rules, 2005.

APPROVED EMPLOYMENT PENSION OR ANNUITY SCHEME [2(3D)]

It means any employment related retirement scheme approved under the Income Tax Ordinance, which makes periodical payment (i.e., pension or annuity) to a beneficiary. Examples of such schemes are:

1. Approved superannuation fund;
2. Public sector pension scheme; and
3. Employees Old-Age Benefit scheme.

APPROVED OCCUPATIONAL SAVINGS SCHEME [2(3E)]

'Approved Occupational Savings Scheme' means any approved gratuity fund or recognized provident fund.

APPROVED SUPERANNUATION FUND [2(4)]

It means a superannuation fund, or any of its part, which has been and continues to be approved by the Commissioner Inland Revenue under Part-II of Sixth Schedule of the Income Tax Ordinance.

ASSET MANAGEMENT COMPANY [2(5B)]

'Asset management company' means an asset management company as defined in the Non-Banking Finance Companies and Notified Entities Regulations, 2007 (NBFCNE).

The NBFCNE defines it as a company which has been licensed by the SECP to offer asset management services.

Income Tax-Introduction [1-10]

ASSOCIATION OF PERSONS [2(6) & 80 (2)(a)]

The term 'Association of Persons' (AOP) includes the following persons:

1. A firm;
2. A Hindu undivided family (HUF);
3. Any artificial juridical person (AJP); and
4. Any body of persons formed under a foreign law.

However, a company is not included in association of persons.

Briefly, all 'artificial legal persons' other than a company (as defined in the Income Tax Ordinance) shall be association of persons.

BANKING COMPANY [2(7)]

For the income tax purposes banking company has the same meanings as are assigned to this term by the Banking Companies Ordinance, 1962. It also includes a body corporate, which transacts the business of banking in Pakistan.

Under the Banking Laws 'banking company' means the following companies and institutions:

1. Any company, including a government saving bank, which transacts the business of banking or any associated or ancillary business in Pakistan.
2. A modaraba or modaraba management company, leasing company, investment bank, financing company, unit trust or mutual fund of any kind and credit or investment institution, corporation or company, whether industrial, agricultural or development.
3. Any company authorized by law to carry on any similar business specified in the Schedule to the Banking Companies (Recovery of Loans, Advances, Credits and Finances) Act, 1997.

'Banking' means the accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft or otherwise.

BONUS SHARES [2(9)]

'Bonus shares' includes bonus units in a unit trust.

Bonus shares are such shares that are issued by a company to its existing shareholders without receiving any amount from them. It is one of the modes of dividend distribution.

CHARITABLE PURPOSE [2(11A)]

The term 'charitable purpose' includes:

1. Relief of the poor;
2. Education;
3. Medical relief; and
4. Any other object of general public utility.

COLLECTIVE INVESTMENT SCHEME [2(11C)]

According to Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003, 'Collective Investment Scheme' means a 'closed-end fund' and an 'open-end scheme'.

'Closed-end fund' means an investment company or a 'closed-end scheme'.

Income Tax-Introduction [1-11]

'Closed-end scheme' means a scheme constituted by way of trust to raise funds through issue of certificates to the public for investing in securities including money market instruments for definite or indefinite period but which does not continuously offer certificates entitling the holder of such certificates, to receive, on demand, his proportionate share of the net assets of the closed-end scheme.

'Open-end scheme' means a scheme constituted by way of a trust deed that continuously offers for sale its units as specified in the constitutive document that entitles the holder of such units on demand to receive his proportionate share of the net assets of the scheme less any applicable charges.

COMPANY [2(12) & 80(2)(b)]

'Company' includes the following:

1. A company as defined in the Companies Act, 2017; [N-1]

2. A body corporate formed by or under any law in force in Pakistan; (e.g., the ICAP, ICMAP, NBP, etc.);
3. A modaraba; [N-2]
4. A company incorporated outside Pakistan;
5. A co-operative society;
6. A finance society;
7. Any other society;
8. A non-profit organization;
9. A trust, an entity or body of persons established under any law;
10. A foreign association declared by FBR as company;
11. A Provincial Government;
12. A Local Government in Pakistan; or
13. A Small Company as defined in section 2 (59AB).

Notes:

N-1 The Companies Act, 2017 defines a company as 'a company which is formed and registered under the Companies Act, 2017, Companies Ordinance, 2016, Companies Ordinance, 1984 or the Companies Act, 1913.'

N-2 According to the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980, 'modaraba' means a business in which a person participates with his money and another with his effort or skill or both and shall include unit trusts and mutual funds, by whatever name called.

CONCEALMENT OF INCOME [2(13AA)]

'Concealment of income' includes-

1. Suppression of any item of receipt liable to tax in whole or in part;
2. Failure to disclose income chargeable to tax;
3. Claiming any deduction or any expenditure not actually incurred;
4. **Income Tax - Introduction** [1-12]
5. Any act referred to in section 111(1); and
6. Claiming of any income or receipt as exempt which is otherwise taxable.
7. **Note:** None of the afore-mentioned acts would constitute concealment of income unless it is proved that the taxpayer has knowingly and willfully committed these acts.

8. _____

9. CONSUMER GOODS [2(13AB)]

10. "Consumer goods" means such goods that are consumed by the end consumer rather than used in the production of other goods.

11. _____

12. CONTRIBUTION TO AN APPROVED PENSION FUND [2(13B)]

13. Rule 2(i) of the Voluntary Pension System Rules, 2005 defines it as an amount as may be voluntarily determined by an individual payable annually, semi-annually, quarterly or

monthly to one or more Pension Fund Managers and held in one or more individual pension accounts of a participant.

14.

15. CO-OPERATIVE SOCIETY [2(14)]

16. It means a co-operative society registered under the Co-operative Societies Act, 1925 or under any other law for the time being in force in Pakistan for registration of co-operative societies.

17.

18. DEBT [2(15)]

19. "Debt" means any amount that is payable. It includes any:

20. Accounts payable; and

21. Amount payable under:

i) Promissory notes;

ii) Bills of exchange;

iii) Debentures;

iv) Securities;

v) Bonds; or

vi) Any other financial instruments.

22.

23. DEVELOPMENTAL REIT SCHEME [2(17A)]

24. It means REIT Scheme established for investment in Real Estate with the objective of development, construction and refurbishment of such real estate for industrial, commercial, residential purpose or a combination thereof. [REIT Regulations, 2015]

25.

26. TERMS ADOPTED FROM ELECTRONIC TRANSACTIONS ORDINANCE [2(19B)]

27. For the purpose of the Income Tax Ordinance, the following terms have been adopted from the Electronic Transactions Ordinance, 2002:

28. Addressee;

29. Automated;

30. Electronic;

31. Electronic signature;

32. Information;

33. Information system;

34. **Income Tax - Introduction** [1-13]

35. Originator; and

36. Transaction.

37. Definitions of these terms by the Electronic Transactions Ordinance, 2002 are as below.

38. **Addressee** means the person intended by the originator to receive the electronic communication but does not include an intermediary.

39. **Automated** means without active human intervention.

40. **Electronic** includes electrical, digital, magnetic, optical, biometric, electro chemical, wireless or electromagnetic technology.

41. **Electronic signature** means any letters, numbers, symbols, images, characters or any combination thereof in electronic form, applied to, incorporated in or associated with an

electronic document, with the intention of authenticating or approving the same, in order to establish authenticity or integrity, or both.

- 42. **Information** includes text, message, data, voice, sound, database, video, signals, software, computer programs, codes including object code and source code.
- 43. **Information system** means an electronic system for creating, generating, sending, receiving, storing, reproducing, displaying, recording or processing information.
- 44. **Originator** means a person by whom, or on whose behalf, electronic document purports to have been generated or sent prior to receipt or storage, if any, but does not include an intermediary.
- 45. *The Income Tax Ordinance has already defined the term "originator" in section 2(39). The definition given here is meant only for electronic transactions.*
- 46. **Transaction** means an act or series of acts in relation to creation or performance of rights and obligations.

- 47. _____
- 48. **TELECOMMUNICATION SYSTEM [2(19E)]**
- 49. "Telecommunication system" includes a system for the conveyance, through the agency of electric, magnetic, electro-magnetic, electro-chemical or electro-mechanical energy, of speech, music and other sounds, visual images and signals serving for the impartation of any matter otherwise than in the form of sounds or visual images and also includes real time online sharing of any matter in manner and mode as may be prescribed by the FBR from time to time.

- 50. _____
- 51. **FAIR MARKET VALUE (FMV) [2(22AA) & 68]**
- 52. FMV means the price, which a particular property, etc., would ordinarily fetch on sale or supply in the open market at a particular time. For certain transactions, FMV of a property, rent, asset, service, benefit or perquisite is taken as its value. Rules in this regard are:
- 53. FMV shall be determined disregarding any restriction on transfer of asset or to the fact that it is not otherwise convertible into cash.
- 54. Where price of an item (excluding immoveable property) is not ordinarily ascertainable, the CIR may determine the same. [88(3)]
- 55. FBR may determine and notify FMV of immoveable properties of the area or areas. Where no such price has been so notified, the value fixed for stamp duty shall be deemed as FMV. This value is to be used for purposes of ITO only. [68(4) & (5)]

- 56. **Income Tax - Introduction [1-14]**
- 57. Consideration received or value of an immovable property for the following purposes shall not be less than FMV notified by FBR or value fixed by District Officer (Revenue): [68(6)]
 - i) Consideration received on disposal of a capital asset u/s 37(2);
 - ii) Consideration received on transfer of immovable property (to be used for advance tax u/s 236C);
 - iii) Value for collection of advance tax u/s 236K on its purchase; and
 - iv) Value to be taken as income u/s 111 in respect of unexplained asset.
- 58. For cases under point No. 4 above, if there is difference between the FMV (as determined under point No. 3 above) and the 'auction price', the higher of the two shall be the applicable price.

FINANCIAL INSTITUTION [2(24)]

Financial institution means an institution, which has been defined as financial institution under the Companies Act, 2017. The Companies Act includes the following institutions in the definition of financial institution:

A company which transacts the business of banking or any associated or ancillary business through its branches within or outside Pakistan and includes a government savings bank, but excludes the State Bank of Pakistan.

A modaraba or modaraba management company;

A leasing company;

An investment bank;

A venture capital company;

A financing company;

An asset management company;

A credit or investment institution, corporation or company; and

Any company authorized by the law to carry on any 'similar business'. The Minister-in-Charge of the Federal Government is empowered to notify a business as 'similar business'.

FINANCE SOCIETY [2(25)]

'Finance society' includes a co-operative society, which accepts money for the purpose of advancing loans and making investments in the ordinary course of business.

FIRM [2(26) & 80(2)(c)]

'Firm' means the relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

FOREIGN-SOURCE INCOME [2(27) & 101(16)]

Any income that is not a '*Pakistan-source income*' is a foreign-source income.

HOUSE BUILDING FINANCE CORPORATION (HBFC) [2(28)]

HBFC means the Corporation constituted under the House Building Finance Corporation Act, 1952

IMPUTABLE INCOME [2(28A)]

"Imputable income" has been defined in relation to an amount which is subject to "final tax" and means the income which would have resulted in the same tax, had this amount not been subject to final tax.

Explanation: Under 'Normal Tax Regime' tax is computed by applying tax rates to the taxable income of a person, whereas under Final Tax Regime this method is not adopted; rather, certain transactions are treated as income and tax withheld on such presumed income is considered as final tax on such transaction.

Now question arises that how much income accruing from such transactions should be recognized for certain purposes under the Income Tax Law? That very purpose is served by the concept of 'imputable income', which simply means working-back of income presuming the tax withheld as tax under normal procedure.

INDUSTRIAL UNDERTAKING [2(29C)]

Industrial undertaking means such an undertaking, which fulfills the following conditions:

It is set up in Pakistan;

It employs: i) Ten (10) 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 ii) Twenty (20) 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

It is engaged in: i) Manufacture of goods or materials or subjection of goods or materials to any process which substantially changes their original condition; ii) Ship-building; iii) Generation, conversion, transmission or the distribution of electrical energy, or the supply of hydraulic power; or iv) Working of any mine, oil well or any other source of mineral deposits.

Following shall also be treated as industrial undertaking:

From 01-08-2020, a person directly involved in the construction of buildings, roads, bridges, and other such structures or the development of land. The person is industrial undertaking to the extent and for the purpose of import of plant and machinery to be utilized in such activity. It is subject to the conditions notified by FBR;

From 01-07-2020, a resident company engaged in the hotel business in Pakistan; and

Telecommunication companies operating under the license of Pakistan Telecommunication Authority (PTA).

INVESTMENT COMPANY [2(30AA)]

'Investment company' means an investment company as defined in the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

IRIS [2(30A)]

'IRIS' means a web-based computer programme for operation and management of Inland Revenue taxes and laws administered by FBR.

INFORMATION TECHNOLOGY (IT) SERVICES [2(30AD)]

'Information Technology (IT) services' include, but not limited to, software development, software maintenance, system integration, web design, web development, web hosting, and network design.

IT ENABLED SERVICES [2(30AE)]

'IT enabled services' include, but not limited to, the following services:

Inbound or outbound call centres,

Medical transcription,

Remote monitoring,

Graphics design,

Accounting services,

Human Resource (HR) services,

Telemedicine centers,

Data entry operations,

Cloud computing services,

Data storage services,

Locally produced television programs, and

Insurance claims processing.

LEASING COMPANY [2(30B)]

'Leasing company' means a leasing company as defined in the Non-Banking Finance Companies and Notified Entities Regulation, 2007. The Regulation has defined it as a company licensed by the SECP to provide leasing.

LIQUIDATION [2(21)]

'Liquidation' means the process through which a company is wound-up. For the purposes of the Income Tax Ordinance, it includes the termination of a trust.

LOCAL GOVERNMENT [2(31A)]

'Local Government' shall have the same meanings as are assigned in the following Acts:

Punjab Local Government Act, 2019;

Islamabad Capital Territory Local Government Act, 2015;

Sindh Local Government Act, 2013;

KPK Local Government Act, 2013; and

Balochistan Local Government Act, 2010.

MEMBER [2(32)]

'Member' has been defined in relation to an association of persons. Every person who is a member of an AOP or a partner in a firm is termed as a member of an AOP.

MINOR CHILD [2(33)]

'Minor Child' means an individual who, at the end of a tax year, is under the age of eighteen (18) years.

MODARABA, MODARABA COMPANY AND MODARABA CERTIFICATE [2(24) & (35)]

Under the Income Tax Ordinance, these terms carry the same meanings as are assigned under the Modaraba Companies and Modaraba Floatation and Control Ordinance, 1980.

'Modaraba' has already been defined earlier in this chapter under the head 'company'. Reader may refer to that part for its definition.

'Modaraba Company' means a company which is engaged in the business of floating and managing modarabas.

'Modaraba Certificate' means a certificate of definite denomination issued to the subscriber of the modaraba acknowledging receipt of money subscribed by him.

MUTUAL FUND [2(35A)]

Any mutual fund that is registered or approved by the Securities and Exchange Commission of Pakistan shall be termed as mutual fund under the Income Tax Ordinance.

'Mutual Fund' is an investment company that raises money by selling its own stock to the public and investing the proceeds in other securities, with the value of its stock fluctuating with its experience with the securities in its portfolio. Mutual funds are of two types: 'open-end', in which capitalization is not fixed and more shares may be sold at any time, and 'closed-end', in which capitalization is fixed and only the number of shares originally authorized may be sold. [Black's Law Dictionary]

NON-BANKING FINANCE COMPANY [2(35B)]

'Non-Banking Finance Company' means an NBFC as defined in the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.

The NBFC Rules, 2003 defines an NBFC in relation to the definition assigned to it under section 282A of the Companies Ordinance, 1984. An NBFC includes companies licensed by the SECP to carry out any one or more of the following forms of business:

Investment finance services;

Leasing;

Housing finance services;

Venture capital investment;

Discounting services;

Investment advisory services;

Asset management services; and

Any other form of business which the Federal Government may, by notification in the official Gazette, specify from time to time.

Part-VIIIA of the Companies Ordinance, 1984, which deals with the Non-Banking Finance Companies (containing sections 282A to 282N), is not yet repealed and is operative. [Section 509(1) of the Companies Act, 2017]

ONLINE MARKETPLACE [2(38B)]

'Online marketplace' means an information technology platform run by e-commerce entity over an electronic network that acts as a facilitator in transactions that occur between a buyer and a seller.

ORIGINATOR [2(39)]

The Companies (Asset-Backed Securitization) Rules, 1999 defines the 'originator' as a person who transfers to a Special Purpose Vehicle (SPV) any assets in the form of present or future receivables as a consequence of Securitization.

PAKISTAN-SOURCE INCOME [2(40) & 101]

'Pakistan-source income' means an income which is earned, accrued, or arisen in Pakistan. For rendering an income as a 'Pakistan-source income,' the law specifies different conditions for different incomes. The incomes and applicable conditions are discussed below.

Salary Income [101(1)]

A salary shall be a 'Pakistan-source income' if any of the following conditions is fulfilled:

The salary is received from an employment exercised in Pakistan. The place of payment of salary is immaterial in this case.

The salary is paid by or on behalf of any of the following persons: i) Federal Government, ii) A Provincial Government, or iii) A Local Government in Pakistan.

The place of rendering the services is immaterial in this case.

Business Income

In case of a resident person, the business income will be 'Pakistan-source income' if it is derived from a business carried on in Pakistan. [101(2)]

In case of a non-resident person, a business income shall be 'Pakistan-source income' if the income is from: [101(3)]

A permanent establishment (PE) of the non-resident in Pakistan;

Sales made by the non-resident in Pakistan of such goods as are being sold by him through his PE;

Any other business activity carried on by the non-resident as is being carried on by him through his PE; or

Any business connection in Pakistan, including 'significant economic presence in Pakistan';

Import of goods if the import is part of an overall arrangement for the supply of goods, installation, construction, assembly, commission, guarantees, or supervisory activities, and all principal activities are undertaken or performed either by the associates supplying the goods or its PE.

It is immaterial whether or not the title to the goods passes outside Pakistan.

Notes:

'Significant Economic Presence in Pakistan' shall mean:

Transaction in respect of any goods, services, or property carried out by a non-resident with any person in Pakistan, including provision of download of data or software in...

Pakistan, if the aggregate of payments arising from such transactions during the tax year exceeds the prescribed amount; and

1. Systematic and continuous soliciting of business activities or engaging in interaction through digital means with prescribed number of users in Pakistan, irrespective of whether or not the:

a) Agreement for such transactions or activities is signed in Pakistan; b) Non-resident has a residence or place of business in Pakistan; or c) Non-resident renders services in Pakistan.

Only so much of income as is attributable to above-referred transactions or activities shall be deemed to accrue or arise from a business connection in Pakistan.

2. Incomes which are taxable u/s 5A, 5AA, 6, 7, and 7A shall not be taxable as 'income from business.'
 3. If a non-resident renders independent services (e.g., professional services, services of entertainers and sportspersons), then any remuneration paid by a resident person or borne by a PE of the non-resident shall also be 'Pakistan-source income'. [101(4)]
 4. Any gain from disposal of any asset shall also be a 'Pakistan-source income' if the asset relates to business from which the income is a 'Pakistan-source income'. [101(5)]
-

Dividend Income [101(6)]

Dividend income shall be 'Pakistan-source income' if:

1. It is paid by a resident company; or
 2. It is a remittance of after-tax profit of a branch of a foreign company operating in Pakistan. (This remittance is treated as dividend.)
-

Profit on Debt [101(7)]

Profit on debt shall be 'Pakistan-source income' if any of the following conditions is met:

1. It is paid by a resident person. However, if it is paid in respect of such business which is carried outside Pakistan, then it will not be a 'Pakistan-source income'; or
 2. It is borne by a PE of a non-resident.
-

Royalty Income [101(8)]

Royalty shall be 'Pakistan-source income' if any of the following conditions is met:

1. It is paid by a resident person. However, if it is paid in respect of such business which is carried outside Pakistan, then it will not be a 'Pakistan-source income'; or
 2. It is borne by a PE of a non-resident.
-

Rental Income [101(9) & (10)]

Any income from the lease of immovable property in Pakistan or right to explore for, or exploit, natural resources in Pakistan shall be a 'Pakistan-source income'. Any gain from the sale of these assets shall also be a 'Pakistan-source income.'

Pension or Annuity [101(11)]

A pension or annuity shall be 'Pakistan-source income' if it is paid by a resident or borne by a PE of a non-resident.

Fee for Technical Services [101(12)]

Fee for technical services shall be 'Pakistan-source income' if any of the following conditions is met:

1. It is paid by a resident person. However, if it is paid in respect of such business, which is carried outside Pakistan, then it will not be a 'Pakistan-source income'; or
 2. It is borne by a PE of a non-resident.
-

Fee for Offshore Digital Services [101(12A)]

A fee for offshore digital services shall be a 'Pakistan-source income' if any of the following conditions is satisfied:

1. It is paid by a resident person, except where the fee is payable in respect of services utilized in a business carried on by the resident outside Pakistan through a permanent establishment; or
 2. It is borne by a PE of a non-resident.
-

Capital Gain [101(13)]

Any gain on disposal of shares in a resident company shall be a 'Pakistan-source income'.

Insurance or Re-Insurance Premium [101 (13A)]

Any amount paid on account of insurance or re-insurance premium by an insurance company to overseas insurance or re-insurance company shall be deemed to be Pakistan-source income.

Any Other Income [101(14)]

Any income which is paid by a resident person or which is borne by a PE of a non-resident person shall be treated as a 'Pakistan-source income.'

PENSION FUND MANAGER [2(40A)]

'Pension Fund Manager' means any of the following companies if duly authorized by the SECP and approved under Voluntary Pension System Rules, 2005, to manage the Approved Pension Fund:

1. An asset management company registered under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003; or
 2. A life insurance company registered under Insurance Ordinance, 2000.
-

PERSON [2(42) & 80(1)]

For the purpose of the Income Tax Ordinance, 2001, the following shall be treated as persons:

An Individual;

A Company;

An Association of Persons (AOP);

The Federal Government;

A Foreign Government;

A Political Sub-Division of a Foreign Government; or

A Public International Organization

PMEX [2(42A)]

'PMEX' means Pakistan Mercantile Exchange Limited, a futures commodity exchange company incorporated under the Companies Act, 2017 and is licensed and regulated by the Securities and Exchange Commission of Pakistan.

PRESCRIBED [2(44)]

'Prescribed' means any provision, rule, procedure, form, etc., as has been prescribed by the Rules made under the Income Tax Ordinance, 2001.

PRINCIPAL OFFICER [2(44A)]

This term, when used with reference to a company or any association of persons, includes the following persons:

Managing director, secretary, treasurer, manager, agent, or accountant of the authority, company, or association.

Any person connected with the management or administration of the company or association upon whom the Commissioner Inland Revenue (CIR) has served a notice of his intention of treating him as the principal officer.

PRIVATE COMPANY [2(45)]

It means such a company which is not a public company.

PROFIT ON DEBT [2(46)]

It means any profit, yield, interest, discount, premium, service fee, or other charge payable or receivable in any manner in respect of any of the following:

Borrowings,

Debt incurred (including a deposit, claim, or other similar right or obligation), and

Credit facility, which has not been utilized.

Note: Any payment which is 'return of capital' shall not be taken as profit on debt.

PUBLIC COMPANY [2(47)]

Any of the following companies will be a 'public company':

A company fifty percent (50%) or more of whose shares are held by the Federal Government or Provincial Government;

A company in which at least fifty percent (50%) of the shares are held by a foreign Government;

A foreign company owned by a foreign Government;

A company which is listed on a Pakistan Stock Exchange (and should remain registered at the end of the tax year);

A unit trust whose units are widely available to the public; or

Any other trust as defined in the Trusts Act, 1882.

REIT SCHEME [2(47A)]

The Real Estate Investment Trust Regulations, 2015 defines 'REIT Scheme' as a listed closed-end fund registered under these Regulations for investment in a single Real Estate Project.

REAL ESTATE INVESTMENT TRUST MANAGEMENT COMPANY (RMC) [2(47B)]

'REIT management company (RMC)' is defined by the Real Estate Investment Trust Regulations, 2015 as an RMC licensed by the SECP as an NBFC to launch REIT Schemes and provide REIT Management Services.

RENTAL REIT SCHEME [2(67A)]

The Real Estate Investment Trust Regulations, 2015 defines 'Rental REIT Scheme' as a REIT Scheme established with the object of making investments in industrial, commercial, or residential Real Estate with the purpose of generating rental income from it.

In order to have a clear concept of REITs, some of the other definitions appearing in the Real Estate Investment Trust Regulations, 2015 are being reproduced below.

'Real Estate' means land and includes: anything fixed, immovable, or permanently attached to such as buildings, walls, fixtures, improvements, roads, trees, shrubs, fences, sewers,

structures, and utility systems, etc., and all rights and interests therein, whether the interests are freehold or leasehold, as specified by the RMC.

'RMC' means a duly incorporated public limited company which has been licensed by the Commission under the Rules to undertake REIT Management Services.

'REIT Management Services' means services provided by an RMC for the management of a REIT Scheme in accordance with these Regulations.

RESIDENT & NON-RESIDENT

Residential status of a person is very important under the Income Tax Law. It is the residential status, not the nationality, which determines the scope of a person's income chargeable to tax during a tax year. The Income Tax Ordinance, 2001 introduces the following classes of persons based on their residential status:

1. Non-resident person;
 2. Non-resident taxpayer;
 3. Resident association of persons;
 4. Resident company;
 5. Resident individual;
 6. Resident person; and
 7. Resident taxpayer.
-

Non-Resident Person [2(37) & 8(12)]

A person shall be treated as non-resident for a tax year in which he is not a resident person.

Non-Resident Taxpayer [2(38)]

'Non-resident taxpayer' means a taxpayer who is a non-resident person.

Resident Association of Persons [84]

An AOP shall be resident in a tax year if the control and management of its affairs is situated wholly or partly in Pakistan during the tax year.

Resident Company [2(50) & 83]

For a tax year, a company shall be a resident company if any of the following conditions is satisfied:

1. The company is formed under any law in force in Pakistan;
 2. The control and management of the company's affairs is situated wholly in Pakistan in the tax year;
 3. It is a Provincial Government; or
 4. It is a Local Government in Pakistan.
-

Resident Individual [2(61) & 62]

An individual shall be resident if he satisfies any of the following conditions:

1. He is in Pakistan for a period of one hundred and eighty-three (183) days or more during the tax year;
2. He is an employee or official of the Federal Government or Provincial Government posted abroad in the tax year; or
3. He, being a citizen of Pakistan, is not present in any other country for more than 182 days during the tax year or who is not a resident taxpayer of any other country.

Notes:

1. It is immaterial that the period of stay in Pakistan is continuous or with intervals.
 2. The number of days a person is in Pakistan shall be determined in the light of the following rules (Rule-14): i) A part of day a person is in Pakistan shall be taken as a full day. ii) A public holiday, a day of sick leave, or any day in which an individual is in Pakistan (due to any reason except when he is in transit between two different places outside Pakistan) shall also be counted for computing his presence in Pakistan.
-

Resident Person [2(62) & 81(1)]

A person shall be resident for a tax year if:

1. For the tax year, the person is: i) A resident individual; ii) A resident association of persons; or iii) A resident company; or
2. The person is the Federal Government.

Resident Taxpayer means a taxpayer who is a resident person [2(63)].

SCHEDULE [2(56)]

'Schedule' means a schedule to the Income Tax Ordinance. For different purposes, the Ordinance contains twelve (12) schedules which have already been discussed earlier in this chapter.

SECURITIZATION [2(57)]

The Companies (Asset-Backed Securitization) Rules, 1999 defines the "Securitization" as a process whereby any 'Special Purpose Vehicle' (SPV) raises funds by issue of Term Finance Certificates or any other instruments with the approval of the SECP, for such purposes and uses.

SHARE [2(58)]

A share is a certificate indicating therein that the holder has invested a stated amount in the capital of a company. Under the Income Tax Ordinance, it includes a modaraba certificate and the interest of a beneficiary in a trust (including units in a trust).

SHAREHOLDER [2(59)]

A person who owns the shares of a company is termed as a shareholder. For the purposes of income tax, it also includes:

1. A modaraba certificate holder;
 2. A unit holder of a unit trust; and
 3. A beneficiary of a trust.
-

SMALL AND MEDIUM ENTERPRISE [2(59A)]

It means a person who is engaged in manufacturing as defined in section 153(7)(v) of the Income Tax Ordinance and his business turnover in a tax year does not exceed Rs. 250 million.

For a tax year in which the annual turnover of a person exceeds Rs. 250 million, and for any subsequent tax year, the person shall not qualify as a small and medium enterprise.

SPECIAL PURPOSE VEHICLE [2(60)]

It means such a Special Purpose Vehicle which has been registered by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of Securitization.

STOCK FUND [2(61A)]

'Stock fund' means a collective investment scheme or a mutual fund where the investable funds are invested by way of equity shares in companies, to the extent of more than seventy percent (70%) of the investment.

TAXPAYER [2(66)]

'Taxpayer' means a person who derives any income, which is chargeable to tax under any provision of the Income Tax Ordinance, 2001. The following persons shall also be treated as taxpayers:

1. Representative of a person who derives an income which is chargeable to tax;
 2. Any person who is required to deduct or collect tax at source;
 3. Any person who is required to furnish a return of income; and
 4. Any person who is required to pay tax under the Income Tax Ordinance, 2001.
-

TAX TREATY [2(67) & 107]

'Tax treaty' is an agreement entered into by the Federal Government with the government of a foreign country for the purpose of avoidance of double taxation and the prevention of fiscal evasion with respect to the taxes on income under the Income Tax Ordinance and the income tax law of that country.

TAX YEAR [2(68) & 74]

The Income Tax Ordinance, 2001 recognizes the following different types of tax years:

1. Normal tax year;
2. Special tax year; and
3. Transitional tax year.

The term 'tax year' includes all the above-stated tax years. Coming paragraphs contain the definitions of all types of tax years.

Normal Tax Year [74(1)]

Normal tax year is a period of twelve (12) months ending on 30th day of June. Tax year is denoted by the calendar year in which the last day of tax year falls:

- Financial year ending on: 30-06-200A, Tax year: 200A
- 30-06-2008, Tax year: 2008
- 30-06-2006, Tax year: 200C

Special Tax Year [74(2) & (2A)]

Special tax year is a period of twelve (12) months which is different from the normal tax year. A person is allowed to have a special tax year under the following cases:

1. Where a person had an income year under the Income Tax Ordinance, 1979, different from the normal tax year; or
2. Where the Commissioner Inland Revenue (CIR) has allowed a person (on his application) to use a special tax year.

Special Income Year under the Income Tax Ordinance, 1979

Under section 2(26)(c) of the Repealed Ordinance (i.e., the Income Tax Ordinance, 1979), the FBR had powers to specify special income year for any taxpayer, class of taxpayers, or source of income. By exercising its powers, the FBR (besides others) specified the following special income years, which are still effective:

Sr. #	Class of Taxpayers	Income Year	Starting From	Ending On
1.	All persons carrying on business of manufacturing and dealing in "Shawls"	1st April	31st March	
2.	All persons carrying on business of rice husking	1st September	31st August	
3.	All persons carrying on business of oil milling	1st September	31st August	
4.	Companies manufacturing sugar	1st October	30th September	
5.	All persons exporting rice	1st January	31st December	
6.	Insurance companies	1st January	31st December	

Previously, cotton textile had a financial year ending on 30th September. But SRO 684(1)/2004 dated 10-08-2004 has amended the provisions of SRO 134(R)/68 dated 31-07-1968, due to which now cotton textiles shall close accounting year on 30th June. The first financial year ending on June shall be 30-06-2005.

Change in Tax Year (74(3) to (11))

Under the Income Tax Ordinance, two different tax authorities (i.e., the CIR and the FBR) have the powers to grant permission for use of a special tax year or normal tax year in place of a special tax year. Legal provisions in this regard are discussed below.

Permission by CIR (74(2))

The Income Tax Ordinance, 2001 allows a person to change his tax year, i.e., from normal tax year to special tax year or vice versa. The provisions of the Ordinance regarding change in tax year are summarized below:

1. In order to change the tax year, the taxpayer has to apply to the CIR for his permission.
 2. The change is allowed by the CIR only if the taxpayer has shown a compelling need to change the tax year.
 3. Before deciding the case, the CIR shall provide the applicant an opportunity of being heard. Where the application is rejected, the decision shall be communicated to the taxpayer along with the reasons for rejection.
 4. The CIR may withdraw his permission. But before such withdrawal, he shall have to provide the concerned person an opportunity of being heard.
 5. Any person who is dissatisfied with the order of CIR may file a review application to the Federal Board of Revenue (FBR). FBR's decision on the application shall be final.
-

Permission by FBR (74(2A))

The FBR may permit a class of persons to use a normal tax year instead of a special tax year or vice versa. The FBR shall accord its permission through notification in the official Gazette.

Transitional Tax Year [74(9)]

Whenever a person changes his tax year from normal tax year to a special tax year or vice versa, then he is allowed to use the period between the end of the last tax year prior to the change and

the date on which the changed tax year commences as a tax year. This period is termed as 'transitional tax year'.

General Provisions Regarding Tax Year

The general provisions regarding tax year (primarily based on the previous legislature and court rulings) are summarized below:

1. Where a taxpayer is a partner in a firm, the firm's tax year shall be deemed to be the tax year of the taxpayer in respect of his income from all sources.
2. Where a taxpayer is a partner of more than one firm with different tax years, the tax year ending later shall be deemed as tax year of the taxpayer for his income from all sources.
3. Where a taxpayer has two different sources of income, one filing under the category which has normal tax year (ending on 30th June) as tax year and the other having special tax year (such as oil milling business), the special tax year shall be deemed as the tax year of the taxpayer for his all sources of income.
4. Where the income of a taxpayer includes two or more sources having different special tax years, the tax year of the source ending last shall be taken as the tax year of the taxpayer from his all sources of income.

2. An individual and a relative of the individual.

3. Members of an association of persons.

4. A member of an AOP and the AOP, if the member alone or together with his associates controls 50% or more rights to income or capital of the AOP.

The persons specified under serial No. 3 and 4 above shall not be associates where the CIR is satisfied that neither person may reasonably be expected to act in accordance with the intentions of the other.

Trust and any person who benefits or may benefit under the trust.

A shareholder in a company and the company, if the shareholder alone or together with his associates controls the company:

1. 50% or more of the voting power;
2. 50% or more of the rights to dividends; or
3. 50% or more of the rights to capital.

Two companies shall be associates if a person either alone or together with his associates controls:

1. 50% or more of the voting power in both companies;
 2. 50% or more of the rights to dividends in both companies; or
 3. 50% or more of the rights to capital of both companies.
-

Notes:

1. The control may be direct or through one or more interposed persons.
2. 'Relative' in relation to an individual means – [S85(5)(i)(a)]
 - i) An ancestor, a descendant of any of the grandparents, or an adopted child of the individual, or a spouse of the individual; or
 - ii) A spouse of the individual or of any person specified above.
3. 'Jurisdiction with Zero Taxation Regime' means jurisdiction as may be prescribed. [S85(5)(i)(a)]
4. Two persons shall not be associates solely by reason of the fact that one person is an employee of the other or both are employees of a third person.

Tax Authorities

- **Commissioner Inland Revenue (CIR)**
 - **Commissioner Inland Revenue (Appeals)**
 - **Additional Commissioner Inland Revenue**
 - **Deputy Commissioner Inland Revenue**
 - **Assistant Commissioner Inland Revenue**
 - **Special Audit Panel**
 - **Inland Revenue Officer**
 - **Inland Revenue Audit Officer**
 - **District Taxation Officer**
 - **Assistant Director Audit**
 - **Superintendent Inland Revenue**
 - **Inspector Inland Revenue**
 - **Auditor Inland Revenue**
 - **Valuers**
 - **Firms of Chartered Accountants or Cost and Management Accountants to conduct audits of any person.**
-

The FBR shall examine, supervise, and oversee the general administration of the ITO. The table below contains the administrative setup of different tax authorities. [207(2) to (4A)]

S. No. | Tax Authorities | Subordinate to

1. **All tax authorities (other than the FBR) - FBR**
2. **Commissioners - Chief Commissioner**
 - Additional Commissioners
 - Deputy Commissioners
 - Assistant Commissioners
 - Inland Revenue Officers
 - Inland Revenue Audit Officers
 - District Taxation Officer
 - Assistant Director Audit
 - Superintendents
 - Auditors
 - Inspectors
3. **Additional Commissioner - Commissioner**
 - Deputy Commissioners
 - Assistant Commissioners
 - Inland Revenue Officers
 - Inland Revenue Audit Officers
 - District Taxation Officer
 - Assistant Director Audit
 - Superintendents

Auditors

Inspectors

Deputy Commissioners

Additional Commissioner

- Assistant Commissioners
- Inland Revenue Officers
- Inland Revenue Audit Officers
- District Taxation Officer
- Assistant Director Audit
- Superintendents
- Auditors
- Inspectors

Note: An officer vested with the powers and functions of Commissioner shall be subordinate to the Chief Commissioner instead of the Commissioner. [207(5)]

The FBR shall determine the jurisdiction of different tax authorities. All officers and persons, employed in the execution of the ITO, shall observe and follow the orders, instructions, and directions of FBR. [209(1) & 214(1)] However, the FBR cannot issue such orders, instructions, or directions, which may be considered as interference in the appellate functions of the Commissioner (Appeals). [214(2)]

Note: All appointments made by FBR shall be subject to the rules and orders of the Federal Government regulating the terms and conditions of persons in public services. However, the appointments of valuers, chartered accountants, and experts shall be regulated by their 'Terms of Reference' (TOR) issued at the time of their appointment. [208(3)]

Functions and Powers of FBR

FBR is the highest authority within the framework of the ITO. It enjoys several powers and performs certain functions under the Ordinance. The FBR, besides others, is empowered to:

1. Grant exemption from tax to the newly established industrial undertakings and make rules for granting such exemption.
2. Make rules for appointment of valuers and other matters relating to their smooth functioning.
3. Make rules for the recovery of tax from a taxpayer who is in default.
4. Make rules for tax credit for certain investments.
5. Certify an institution as conducting research in Pakistan. [26(2)]
6. Approve a scheme regarding employee training. [27(6)]
7. Grant approval to leasing companies and modarabas. [28(3)]
8. Specify the method of accounting for certain business, or class of business, or any other source of income or any class of persons. [32(3)]
9. Approve a security for the purposes of taxation of profit on debt. [46(6)]
10. Approve charitable institutions for the purposes of ITO, especially for donation purposes. [81]
11. Make rules for apportionment of deductions. [87(2)]
12. Decide an application submitted by a person against the decision of Commissioner for granting or withdrawing the permission regarding use of a specific tax year. [74(11)]
13. **13.** Make rules for valuation and taxation of unexplained income or asset. [111(5)]
14. **14.** Authorize any department or agency of the Government to collect and compile any data in respect of income from industrial and commercial undertakings exempt from tax. [180]
15. **15.** Issue circulars for the guidance to taxpayers and officers of FBR. [206]
16. **16.** Issue advance ruling on application of a non-resident. [206A]
17. **17.** Exercise general administration of ITO. [207]
18. **18.** Appoint any of the income tax authorities including valuers. [208]
19. **19.** Determine the jurisdiction of income tax authorities. [209]

20. **20.** Authorize a CCIR or CIR to grant approval on behalf of FBR. [212]
21. **21.** Prescribe forms, etc., for the purposes of the ITO. [217]
22. **22.** Make rules for carrying out the purposes of the ITO. [237]
23. **23.** Appoint a firm of Chartered Accountants or Cost and Management Accountants to conduct the audit of any person. [176 & 177]
24. **24.** Appoint any private agency, firm, or company to carry out survey in respect of specified persons or areas.

25. _____

26. CIRCULARS ISSUED BY FBR [206]

27. For the purpose of the interpretation of the ITO, FBR may issue Circulars. The main object of the circulars is to achieve consistency in the administration of the Ordinance and to provide guidance to the taxpayers and officers of the FBR.
28. It is to be noted that a Circular issued by FBR is binding on the FBR and its officers except the Commissioner (Appeals) and other persons employed in the execution of the ITO, but is not binding on a taxpayer.

29. _____

30. TAX AUTHORITIES TO FOLLOW ORDERS OF FBR [214]

31. FBR is the highest administrative authority for the implementation of the taxation laws. The ITO requires that all income tax authorities and other persons employed in the execution of income tax law shall observe and follow the orders, instructions, and directions issued by FBR.
32. However, the law also specifies that the FBR shall not give any orders, instructions, or directions that may interfere with the discretion of the Commissioner (Appeals) in the exercise of his appellate function.

33. _____

34. CHIEF COMMISSIONER INLAND REVENUE

35. 'Chief Commissioner' means a person appointed to be a Chief Commissioner Inland Revenue (CCIR) under section 208 of the ITO. It also includes a Chief Investigator, Regional Commissioner Inland Revenue, and a Director-General of Income Tax and Sales Tax. [211(8)]
36. The Chief Commissioner is appointed by FBR. His functions, duties, and jurisdiction are also specified by FBR. He works under the supervision of FBR and supervises the Commissioners Inland Revenue and other subordinate officers working within his jurisdiction.
37. The Chief Commissioner has to oversee the functioning of his subordinate tax authorities. He will make arrangements to ensure that the provisions of the law and directions given by FBR are being complied with.
38. The Chief Commissioner shall possess the following powers and perform the following functions:

1. Transfer the jurisdiction in respect of cases or persons from one Commissioner subordinate to him to another. [209(2)]

2. Revise certain orders passed by his subordinate authorities.

3. Call for the record of any proceedings relating to issuance of an exemption or lower rate certificate with regards to collection or deduction of tax at source. [122(6)]

4. Appoint any of his subordinate authorities with the approval of FBR. [208(2)]

COMMISSIONER INLAND REVENUE

'Commissioner' means a person appointed to be a Commissioner Inland Revenue (CIR) under section 208 of the ITO. It also includes any other authority vested with all or any of the powers and functions of the Commissioner. [2(13)]

CIR is appointed by FBR and is subordinate to FBR and the Chief Commissioner under whose jurisdiction he works. The following authorities are subordinate to the CIR [207]:

- Additional Commissioners
- Deputy Commissioners
- Assistant Commissioners
- Inland Revenue Officers
- Inland Revenue Audit Officers
- Superintendents
- Auditors

Functions and Powers of CIR

CIR is head of a Revenue Zone. He performs all such functions as are required by any provision of the ITO and as directed by FBR. He oversees the performance and functions of all subordinate authorities working within his jurisdiction.

Under the ITO, the CIR is the most powerful authority. Almost all functions concerning the administration of the Ordinance are vested in him. His powers are manifold. CIR enjoys the following powers and has to perform the following functions under the law:

Allow an employee to pay tax on his retirement payments and golden handshake payments as per normal procedure or pay tax on the basis of average rate of tax based on the three preceding tax years. [12(6)]

Allow an employee to pay tax on salary received in arrears in the tax year in which services were rendered. [12(7)]

Extend the date of selection out of the options available to an employee. [12(8)]

Allow a person to change his method of accounting. [32(4)]

Permit the change of stock valuation method. [35(6)]

Allow a person to use special tax year. [74(3)]

Allow a person to use normal tax year instead of special tax year. [74(7)]

Impose conditions while permitting a person to use a special tax year or normal tax year. [74(5)]

Withdraw the permission granted to a person to use a specific tax year. [74(7)]

10. Distribute, apportion, or allocate incomes, deductions, or tax credits in respect of any transaction between associates. [108(1)]

11. Charge to tax the value of any unexplained income or asset and determine the value if it is declared less than the fair market value. [111(3)]

12. Require a person or his representative to furnish the return of income. [111(9) & (4)]

13. Require a person to furnish his wealth statement. [116(1)]

14. Require a person to furnish the return if the business is discontinued and the person has not furnished his return of income. [117(3)]

15. Extend the time for filing a return. [118]

16. Make an assessment order if the taxpayer has not furnished his return of income. [121]

17. Make an amended assessment order. [122]

18. Make a provisional assessment order. [123]

19. Make an assessment order to give effect to an order of an appellate authority or court. [124]

20. Make an assessment in the light of a point of law decided by the High Court or the Appellate Tribunal. [124A(1)]

21. Modify the original order if the orders of the Tribunal or the High Court are changed at the higher appellate forum. [124A(2)]

22. Take all necessary and appropriate actions for the recovery of tax from a taxpayer. [138]

23. Recover the tax from a person who holds money on behalf of the taxpayer. [140]

24. Notify and recover the tax from the liquidator of a company, which has gone into liquidation. [141]
 25. Allow a person to make payment without deducting tax at source. [153(4)]
 26. Issue an exemption certificate. [159]
 27. Extend the period for filing of different statements. [165]
 28. Adjust the amount of excess tax paid by a taxpayer and if there is any balance after the adjustment of any other tax liability, refund the same to the taxpayer. [170]
 29. Authorize a person to maintain the prescribed records, books, accounts, etc. [174]
 30. Enter and search premises. [175]
 31. Issue notice in order to obtain information or evidence. [176]
 32. Select any person for audit. [177]
 33. Approve a person as a translator in case the accounts, etc., are kept by a taxpayer in a language other than Urdu or English.
 34. Impose penalties for different defaults. [Part-X of Chapter-X]
 35. Initiate prosecution for offenses committed by a taxpayer. [Part-XI of Chapter-X]
 36. Impose default surcharge if the taxpayer fails to pay the tax by the due date. [205]
 37. Appoint any of his subordinate authority with the approval of FBR. [208(2)]
 38. Delegate any of his powers to any Officer of Inland Revenue. [210]
 38. Rectify any mistake in his order, apparent from the record. [221]
 40. Appoint an expert for the purposes of valuation, audit, etc. [222]
-

OFFICER OF INLAND REVENUE [2(38A)]

Any of the following officers appointed by FBR for the purposes of the ITO shall be officers of Inland Revenue:

1. Additional Commissioner Inland Revenue
2. Deputy Commissioner Inland Revenue

3. Assistant Commissioner Inland Revenue
 4. Officer of Inland Revenue
 5. District Taxation Officer
 6. Assistant Director Audit
 7. Special officer, or
 8. Any other officer.
-

An Officer of Inland Revenue is subordinate to the Commissioner under whose jurisdiction he is working. However, if he is vested with the powers and functions of the Commissioner (as allowed by section 205(2)), he shall be subordinate to the Chief Commissioner instead of the CIR. [207(4) & (8)]

The Ordinance does not specify any function or authority of an Officer of Inland Revenue. Thus, an Officer of Inland Revenue has no authority of his own. However, the Ordinance permits that the FBR, Chief Commissioner, or CIR may delegate their functions to an Officer of Inland Revenue. Normally, the functions of CIR may be delegated to him.

JURISDICTION OF INCOME TAX AUTHORITIES [208]

Provisions of the ITO regarding jurisdiction of various tax authorities are discussed below:

1. The FBR shall determine the jurisdiction of CCIRs, CIRs, and Commissioners (Appeals). These persons shall perform such functions and exercise such powers as may be assigned to them by FBR in respect of persons, classes of persons, or areas. [209(1)]
2. The FBR or the Chief Commissioner may transfer jurisdiction in respect of cases or persons from one Commissioner to another.
3. The FBR or the CCIR may assign an Officer of Inland Revenue the powers and functions of the CIR. Under such a case, the Officer of Inland Revenue shall have the jurisdiction in respect of such persons, classes of persons, or areas as are specified in the order. Where an Officer of Inland Revenue is delegated with the powers and functions of a CIR, then he shall be treated as CIR. The CIR shall make such order only if he has obtained approval of FBR.

The FBR may also confer upon or assign to any Officer of Inland Revenue the aforesaid powers and functions through the Automated Case Selection System. For the purpose of conferment or assignment of such powers and functions, it may make rules.

Automated Case Selection System means an algorithm for randomized allocation of cases by using suitable technological modes. [209(2) & (4)]

4. The CIR is assigned a specific area, within which he shall have the jurisdiction. While doing so the following shall be taken into account. [209(6)]

S.No. | Type of Person | Jurisdiction Over a Person

1. **Person carrying on business.**

If the person's *place of business* is within that area.

Where the business of a person is carried on in many places, then if the principal place of the business is within that area.

2. **Any other person.**

If the person resides in that area.

'Place of Business' means:

A) For listed or unlisted public limited company, the place where the registered office of the company is situated; and

B) In case of other companies:

1. If the company is primarily engaged in manufacture or processing, the place where the factory is situated;
 2. If the company is primarily engaged in business other than manufacture or processing, the place where main business activities are actually carried on.
-

5. Where there is a dispute regarding jurisdiction of a CIR over a person, the matter will be decided by:

- (i) The concerned Chief Commissioner;
- (ii) The concerned Chief Commissioners; or
- (iii) The FBR, if the CIRs are not in agreement. [209(6)]

6. A person is not entitled to call into question the jurisdiction of a CIR under the following cases:

- (i) Where the person has filed the return of income to the CIR; or
- (ii) Where a person has been served a notice for furnishing of a return of income and the person has not furnished it within the time specified in the notice. Under such a case, the person may challenge the jurisdiction only if the time specified in the notice has not expired. [209(7)]

7. Irrespective of the above-discussed provisions, a CIR has the jurisdiction in respect of any income arising within the area assigned to him. [209(8)]

8. The power to confer jurisdiction includes the power to transfer jurisdiction from one income tax authority to another. [209(8A)]

9. Where any tax authority has succeeded the jurisdiction, then it may continue the proceedings from the stage where it was left by its predecessor. [209(9)]

DELEGATION OF POWERS [209(2) & 210]

Delegation of powers means the assignment of the powers and functions of an authority to another authority. As, for the sake of its implementation, the whole Ordinance revolves against the CIR, thus there was a need to authorize delegation of his functions and powers to his subordinates (covered under the term "Officer of Inland Revenue"). The functions and powers of the Commissioner may be delegated to an Officer of Inland Revenue in any of the following ways:

Delegation by FBR [209(2)]

The FBR may assign all or any of the powers and functions of the Commissioner in respect of any person, class of persons, or area.

Delegation by Chief Commissioner [209(2) & (3)]

The Chief Commissioner with the approval of FBR may assign all or any of the powers and functions of the Commissioner in respect of any person, class of persons, or area.

Delegation by CIR [210]

The CIR may delegate all or any of his powers and functions under the ITO to any Officer of Inland Revenue. However, he cannot delegate his power of delegation. It means the Officer of Inland Revenue cannot further delegate the powers assigned to him. [210(1)]

The CIR shall not delegate the following powers to an officer below the rank of Additional Commissioner: [210(14)]

1. Amendment of assessment u/s 122(5A); and
2. Amendment of an order of recovery u/s 191(3).

The CIR may delegate all or any of the powers and functions to conduct the audit u/s 177 to a special audit panel or to a firm of Chartered Accountants or Cost and Management Accountants. [210(18)]

The order regarding delegation may cover all or any of the persons, classes of persons, or areas within the jurisdiction of the Commissioner. [210(2)]

The CIR has the power to cancel or modify the order issued by him for delegation of powers. [210(3)]

Where under a delegation order, an Officer of Inland Revenue or a special audit panel has exercised the powers and functions of the CIR, it shall be treated that such powers have been exercised and the functions have been performed by the CIR. [211(1)]

The CIR, irrespective of the delegation of powers to an Officer of Inland Revenue, is entitled to exercise any of his powers or perform any of his functions under the Ordinance. [211(2)]

The FBR or any other authority, with the approval of FBR, shall be competent to exercise all powers of any authority subordinate to it. [211(3)]

The FBR may authorize any income tax authority to assist, guide, or instruct the CIR or any Officer of Inland Revenue in the course of the proceedings under the ITO. [213]

Notes:

1. The delegation by FBR, CCIR, or CIR shall be in writing. The Officer of Inland Revenue to whom the powers are so delegated shall for all purposes be treated as Commissioner and he shall in this case be subordinate to the CCIR instead of CIR. [210(4) & 207(5)]
2. Where the delegation is done by FBR or CCIR, the Officer of Inland Revenue cannot further delegate the functions and powers assigned to him through delegation. [208(6) & 211(1)]

DELEGATION OF APPROVING AUTHORITY BY FBR [212]

Certain provisions of the ITO empower the FBR to grant approval as required under the ITO. This approving authority may be exercised by the FBR itself or it may empower the Chief Commissioner or Commissioner to do so. This delegation may be made either through general or special order.

CONDONATION OF TIME LIMIT (214A)

The ITO and the Income Tax Rules, 2002 prescribe certain time or period limits for making an application or any action to be done by either the taxpayer or tax authorities specified in Section 207. Where the desired act is not taken within the specified period, the FBR may condone the limit and permit, in any case or class of cases, to make application, take action or do things within such time or period as it may consider appropriate.

The FBR may empower any Commissioner or Chief Commissioner to exercise FBR's authority of condonation. The FBR shall delegate such powers by a notification in the official Gazette, which may contain conditions or limitations to be observed by the CIR or CCIR.

The FBR may condone the time limit at any time before or after the expiry of such time or period.

FURNISHING OF RETURNS, ETC. [215]

The returns, documents, etc., under the ITO are to be furnished to the CIR. Where the functions and powers of the CIR are delegated to an Officer of Inland Revenue, he shall have the power to receive or call for and receive such documents. Further, where a person is allowed to make an application to CIR, the same shall be made to the Officer of Inland Revenue to whom such powers have been delegated.

Under above-referred cases, it shall be treated that documents have been received and call been saved by and the application been made to the Commissioner as required under the law.

CONFIDENTIALITY OF THE INFORMATION GIVEN TO TAX DEPARTMENT [216(1)]

All particulars contained in any document submitted before the Tax Department under any provision of the ITO shall be treated as confidential and no public servant shall disclose any such particulars, except where it is permitted by the Ordinance. The information disclosed in the following documents is treated as confidential:

1. Any statement made, return furnished or accounts or document produced under the Ordinance.
2. Any evidence given or affidavit made in the course of any proceedings under the Ordinance other than the proceedings for offences and prosecution.
3. Any record of any assessment proceedings.
4. Any records of any proceedings relating to recovery of a demand raised under the Ordinance.

Exceptions to General Rule [216(3) & (5)]

The above provisions do not apply to the following disclosures:

Disclosure of any particulars to any person acting in the execution of the ITO and such disclosure is necessary for his action.

Disclosure to any person authorized by Commissioner, for the purpose of processing of data relating to returns or calculation of tax.

3. Disclosure of any particulars during a process, which is necessary for the service of any notice or the recovery of any demand.

4. Disclosure of any particulars to the Auditor General of Pakistan in order to enable him to discharge his functions under the Constitution.

5. Disclosure to any person appointed by the Auditor General of Pakistan or the Commissioner to audit the income tax receipts or refunds.

6. Disclosure of any facts to an officer authorized by a Provincial Government or the Federal Government necessary or enabling that government to levy or realise any tax imposed by it.

7. Disclosure of any necessary facts to any authority working under the following laws: i) The Federal Excise Act, 2005 ii) The Sales Tax Act, 1990 iii) The Customs Tax Act, 1969 iv) The Stamps Act, 1899 v) The Foreign Exchange Regulation Act, 1947 vi) The Security and Exchange Ordinance, 1969 vii) The Competition Act, 2010 viii) The Companies Act, 2017 ix) The Securities and Exchange Commission of Pakistan Act, 1997 x) Employees Old Age Benefit Institution in respect of information regarding salaries in statements furnished u/s 165 xi) NADRA to process and analyze the data for the purposes of broadening of the tax base xii) The Pakistan Penal Code Act, 1860 xiii) The Federal Tax Ombudsman Ordinance, 2000; and xiv) The Financial Monitoring Unit (FMU) for performing its function under the Anti-Money Laundering Act, 2010

8. Disclosure to the State Bank of Pakistan to enable it to compile financial statistics of international investment and balance of payments.

9. Disclosure relevant to any inquiry against a legal practitioner or an accountant in charge of misconduct in income tax proceedings.

10. Disclosure of particulars to any Civil Court in a suit to which the Government or any Income Tax Authority is a party, relating to any proceedings under the ITO.

11. Disclosure of any particulars, during an inquiry examining the conduct of any person of the Income Tax Department.

12. Disclosure of such particulars, which are required for investigation by the Government.

13. Disclosure of any necessary particulars to an authorized foreign country with which Pakistan has an agreement for avoidance of double taxation.

14. Disclosure of facts to the Federal Tax Ombudsman.

15. Any publication by the FBR, with the prior approval of the Federal Minister-in-charge.

Special Permissions and Conditions Applicable Thereto [216 (6A) to (8)]

1. The FBR may provide data to any person approved by the Federal Government to process and analyze such data for broadening of tax base or for checking evasion. The data before its transmission shall be anonymized and the identifying particulars of the taxpayer shall be kept confidential. [216(6A)]
 2. The FBR may publish, in the print and electronic media, the names of such offshore evaders who have evaded offshore tax equal to or more than Rs. 25 million. [216(6B)]
 3. The FBR may publish, in the print and electronic media, the names of such offshore enablers who have enabled offshore tax evasion. [216(6C)]
 4. Any person to whom any information or particulars are provided u/s 216 shall have the same rights, privileges, obligations, and liabilities as if he were a public servant and all the provisions of the ITO shall apply to him accordingly. [216(7)]
 5. Prior approval of the FBR shall be required instituting a prosecution for the default of the provisions of section 216. [216(8)]
-

JURISDICTIONS OF THE COURTS, ETC. [216(2)]

Where any particulars or information is rendered as confidential, then:

1. No public servant shall disclose the confidential particulars, except where permitted by the ITO; and
2. No court or any other authority shall be entitled to require any public servant to produce before it any return, accounts, or documents, etc., relating to any proceedings under the ITO, or declarations made under the Voluntary Declaration of Domestic Assets Act, 2016, the Foreign Assets (Declaration and Repatriation) Act, 2018 or the Assets Declaration Act, 2019 or any records of the Income Tax Department, or to give evidence before it in respect thereof, except where permitted by the ITO.

This rule shall apply, notwithstanding anything contained in the Qanun-e-Shahadat, 1984, the National Accountability Ordinance, 1999, the Federal Investigation Agency Act, 1974, the Right of Access to Information Act, 2017 or any other law for the time being in force.

FORMS, ETC., AND AUTHENTICATION OF DOCUMENTS [217]

The ITO specifies that certain information shall be furnished, demanded, or communicated in such form as determined by FBR. In order to accomplish this requirement, the FBR is empowered to prescribe the forms, tables, returns, documents, and notices for the efficient administration of the law. Publication of these documents in the official Gazette is not required.

It will be the responsibility of the Commissioner to make the documents available to the public in the manner as prescribed by FBR.

Where the name or title of the Commissioner, or other authorized officer, is printed, stamped, or written on a notice or document issued, served, or given by the CIR, then it shall be sufficiently authenticated by the concerned officer or if it is computer-generated, it should bear the authentication in the manner prescribed by the FBR.

GUIDANCE TO TAX AUTHORITIES [213]

During any proceedings under the ITO, the CIR or any taxation officer may be assisted, guided, or instructed by any authority to whom he is subordinate or any other person authorized by FBR in this behalf.

EXPERT [222]

Expert means an individual who possesses such qualification, which enables him to express his independent opinion, e.g., accountants, auditors, bankers, and valuers. Section 222 of the ITO empowers the Commissioner to appoint any expert for the purposes of audit, valuation, etc.

Appointment of Valuers [Rule-226(1)]

The main function of the Valuer is to assist the CIR in ascertainment of the proper value of the assets belonging to a taxpayer. It is not obligatory on the CIR to make a reference to a Valuer or Valuers or to adopt the value determined by him. The CIR may disagree with the value determined by a Valuer. Under such a case he must state the reasons of his disagreement.

The CIR may, on an application of a person desiring to be appointed as a Valuer, appoint him as Valuer. The applicant must state the basis on which he applies for the position of Valuer. In case of refusal of an application the CIR shall intimate the applicant along with the reasons for refusal.

The appointment of Valuer may be terminated by CIR at any time without assigning any reason and without paying any compensation. [Rule-226(7)]

Qualification of Valuer [Rule-226(2)]

The following persons are qualified for appointment as Valuer under the ITO:

1. A person who holds a recognized degree or equivalent qualification in civil engineering, mechanical engineering, or mechanical and electrical engineering.
 2. A person who holds an internationally recognized qualification in architecture equivalent to the associate ship of Royal Institute of British Architects.
 3. A person who has worked with a qualified architect or engineer or in a Government or quasi-Government Department for a period of three (3) years after completion of a diploma course in architecture, civil engineering, mechanical engineering, mechanical and electrical engineering, or automobile engineering from a recognized institution.
 4. A person who has held the insurance surveyor certificate issued by the Department of Insurance, for a period of five years.
 5. A person who retired from Income Tax Department, Customs Department, Judiciary or any other revenue collecting agency of the Government. Such person must have a service of at least ten years in a grade not less than grade 17.
 6. Any other person who, in the opinion of CIR, is fit to be appointed as Valuer.
-

Disqualification of a Valuer [Rule-226(3)]

The following persons are not qualified for appointment as Valuer:

1. A person who has been dismissed or removed from Government service.
 2. A person who is an un-discharged insolvent.
 3. A person who has been found guilty of misconduct in his professional capacity.
 4. A person who has been representing a taxpayer before income tax authorities.
-

Remuneration, Fees, and Allowances to a Valuer [Rule-227]

A valuer is not entitled to receive any retention fee. He shall be remunerated according to the value of the assets valued by him. A valuer is entitled to receive the remuneration as per the following scales:

Sr. No. | Value of the Assets: | Amounts (RS)

1. Upto Rs. 1,000,000 — 5,000
2. Rs. 1,000,001 to Rs. 5,000,000 — 10,000
3. Rs. 5,000,001 to Rs. 10,000,000 — 20,000
4. Exceeding Rs. 10,000,000 — 30,000

The following additional benefits are also available to a Valuer:

1. A fee of Rs. 500 per day if he appears before Appellate Tribunal in connection with the valuation made in any case; and
2. Traveling expenses to which a Government Servant in Grade-17 is entitled.

FEES AND SERVICES CHARGES [222]

Provisions regarding fees and services charges are as below:

- The FBR with approval of Federal Minister-in-charge may levy fee and service charges for valuation or in respect of any other service or control mechanism provided by any formation under the control of the FBR, including ventures of public-private partnership.
- The fee, etc., shall be at such rates and subject to such conditions, limitations, or restrictions as noted in the official Gazette; and
- FBR may authorize and prescribe the manner in which fee and service charges collected are expended.

DIRECTORATE-GENERAL OF INTERNAL AUDIT [228]

The Directorate-General of Internal Audit is an independent authority appointed by the FBR. The FBR shall appoint as many officers as are required to discharge the functions of the Directorate-General of Internal Audit. These officers are appointed from the office of Income Tax Group.

The Directorate-General shall be headed by the Director-General of Internal Audit (DGIA). The following officers shall perform their functions under the supervision of the DGIA:

1. Directors of Internal Audit
2. Additional Directors of Internal Audit
3. Deputy Directors of Internal Audit
4. Assistant Directors of Internal Audit
5. Extra Assistant Directors of Internal Audit
6. Inspectors of Internal Audit

INLAND REVENUE SERVICES ACADEMY [229]

The FBR shall establish the Inland Revenue Services Academy and shall notify the functions, jurisdiction, and powers of the Academy and its officers. The Inland Revenue Services Academy shall consist of:

1. A Director-General;
2. An Additional Director.

3. A Deputy Director
4. An Assistant Director, and
5. Any other Officer

The Inland Revenue Services Academy and its subordinate authorities are appointed by FBR and shall perform such functions as may be specified by the FBR.

DIRECTOR-GENERAL (INTELLIGENCE AND INVESTIGATION) INLAND REVENUE [230]

Director-General of Intelligence and Investigation (DGII) means a person appointed to be a Director-General of Intelligence and Investigation under the Ordinance.

The DGII and his subordinate authorities are appointed by the FBR. He shall perform such functions as may be specified by the FBR. The jurisdiction of DGII shall also be assigned by the FBR.

The following authorities are subordinate to the DGII:

- Directors
- Additional Directors
- Deputy Directors
- Assistant Directors
- Any other officers appointed by the FBR

DIRECTORATE-GENERAL OF WITHHOLDING TAXES [230A]

The Directorate General of Withholding Taxes is headed by the Director-General and may have other officers with the following designations:

- Directors
- Additional Directors
- Deputy Directors
- Assistant Directors
- Any other officers

The FBR is the appointing authority for all officers in the Directorate. It shall specify the functions, jurisdiction, and powers of the Directorate-General of Withholding Taxes.

DIRECTORATE-GENERAL OF LAW [230B]

This Directorate shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, Law Officers, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General of Law.

DIRECTORATE-GENERAL OF RESEARCH AND DEVELOPMENT [230C]

This Directorate shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General of Research and Development.

DIRECTORATE-GENERAL OF BROADENING OF TAX BASE [230D]

This Directorate shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General of Broadening of Tax Base and its officers.

DIRECTORATE-GENERAL OF INTERNATIONAL TAX OPERATIONS [230E]

The Directorate General of International Tax Operations shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General and its officers.

Functions of the Directorate-General

The functions and powers of the Directorate-General include the following:

1. Receive and send information from other jurisdictions under spontaneous, automatic, and on-demand exchange of information under exchange of information agreements.
2. Levy and recover tax by passing an assessment order u/s 123(1A) of the ITO in case of undeclared offshore assets and incomes.
3. Receive, transmit, and exchange country reports to the jurisdictions that are parties to international agreements with Pakistan, and
4. Conduct transfer pricing audit in cases selected for such audit by the director general of international tax operations.

The FBR shall notify the criteria for selection of taxpayer for transfer pricing audit.

Transfer pricing audit shall be conducted as per procedure given in section 177. In this case the following provisions of section 177 shall not apply:

- i) Call for record under first proviso to sub-section (1)
 - ii) Amendment of assessment sub-section (6A)
 - iii) Making best judgement assessment under sub-section (10); and
 - iv) Making best judgement assessment under sub-section (14).
6. A CIR is empowered to determine transfer price at arm's length in transactions between associates while conducting audit of income tax affairs of a taxpayer u/s 177 or 214C during proceedings u/s 122.

"Transfer pricing audit" is an audit for determination of transfer price at arm's length in transactions between associates. It is independent of audit of income tax affairs of the taxpayer conducted u/s 177 and 214C of the ITO.

DIRECTORATE-GENERAL OF IMMOVABLE PROPERTIES (DGIP) [230F]

The DGIP shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions and jurisdiction of the Directorate-General and its officers.

This Directorate is established to cater to the issue of "transfer of immovable property" at a value less than the "fair market value" (FMV). Legal provisions in this regard are the following:

1. The FBR shall prescribe the rules for the following purposes:

- i) The mode and manner of initiation of proceedings for the acquisition of property by the Directorate-General;
- ii) The mode and manner for appointment of a valuer or expert for determining the valuation including the FMV of the property; and
- iii) Constitution of Appellate Tribunal of Immovable Property (ATIP) and appointment of its members and the mode and manner of disposal of appeals.

The DGIP shall initiate proceedings for acquisition of an immovable property if, on the basis of its own valuation, it has reasons to believe that any immovable property which has a FMV has been transferred for a consideration which is less than the FMV. The

consideration agreed between the transferor and the transferee has been understated for:

1. Avoidance or reduction of withholding tax obligations under the ITO;
2. Concealment of unexplained amount of investment in immovable property u/s 111(1); or
3. Avoidance or reduction of capital gain tax u/s 37.

If considered necessary, DGIP may appoint any valuer or expert for determination of valuation including FMV of the property.

The valuation made by DGIP and the reasons that the agreed consideration is less than the FMV shall be recorded in writing.

The proceedings may be initiated only within six (6) months from the end of the month in which the instrument of transfer of the property is registered, recorded, or attested. Thereafter no proceedings may be initiated.

Before initiation of proceedings the transferee shall be provided an opportunity of being heard. The transferee may object the proceedings upon which the DGIP has to follow the following procedure:

- i) Where objections have been rejected, the rejection order shall be in writing and contain the reasons for rejection; and
- ii) Where the objections or reasons furnished by the transferor or the transferee are satisfactory, the DGIP shall, by an order in writing, declare that the property shall not be acquired.

The DGIP shall make an order for acquisition of the property, if satisfied after hearing the objections and taking into account all the relevant material on record that FMV exceeds the consideration by more than fifty percent (50%) of the consideration and that transfer has not been truly stated in the instrument of transfer.

The transferee may file an appeal to ATIP against the acquisition order within sixty (60) days of receipt of the copy of the order.

The ATIP shall provide an opportunity of being heard to both the parties (i.e., the appellant and the DGIP) and may pass such order as thinks fit.

Within sixty (60) days of the order of the ATIP, any of the aggrieved party may prefer an appeal to the High Court

11. Immediately after the order of acquisition becomes final, the DGIP may order the transferee or any other person who may be in possession of the property to hand over the possession to the DGIP. The possession is to be surrendered within thirty (30) days of the service of notice in this regard.

12. The order becomes final under any of the following situations:

- i) No appeal has been filed against the order of DGIP;
- ii) An appeal is filed before the APIT and the order is confirmed by it and no appeal is filed before High Court against the order of the Tribunal; or
- iii) An appeal is filed before the High Court and the order is confirmed by it.

13. Where an order becomes final, notwithstanding anything contained in any law or any agreement for the time being in force, the immovable property and all rights attached to it shall be vested in the Federal Government. It shall be treated that the Federal Government shall have the same rights as the person in whom such rights would have come to vest had the order not become final.

14. Immediate after acquisition of the property in favour of Federal Government, the FBR shall make the payment of 'consideration for acquisition' to the person or persons entitled thereto.

'Consideration for acquisition' means a sum equal to the amount of consideration for the transfer and hundred percent (100%) of such consideration.

'Fair market value' in relation to immovable property means a price which it would ordinarily fetch on sale in the open market on the date of execution of the instrument of its transfer.

'Immovable property' means any land with or without a superstructure or any building or part of a building or any rights therein. It also includes any machinery, plant, equipment, future, and fittings if the property is transferred along with these assets.

'Transfer' of immovable property means transfer by way of sale or exchange or lease for a term of not less than ten (10) years.

DIRECTORATE GENERAL OF SPECIAL INITIATIVE [2206]

This Directorate-General shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General and its officers.

DIRECTORATE GENERAL OF VALUATION [230H]

This Directorate-General shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed

and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General and its officers.

DIRECTORATE GENERAL OF COMPLIANCE RISK MANAGEMENT [230]

The Directorate-General of Compliance Risk Management shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as the FBR may, by notification in the official Gazette, appoint.

11. Immediately after the order of acquisition becomes final, the DGIP may order the transferee or any other person who may be in possession of the property to hand over the possession to the DGIP. The possession is to be surrendered within thirty (30) days of the service of notice in this regard.

12. The order becomes final under any of the following situations:

- i) No appeal has been filed against the order of DGIP;
- ii) An appeal is filed before the APIT and the order is confirmed by it and no appeal is filed before High Court against the order of the Tribunal; or
- iii) An appeal is filed before the High Court and the order is confirmed by it.

13. Where an order becomes final, notwithstanding anything contained in any law or any agreement for the time being in force, the immovable property and all rights attached to it shall be vested in the Federal Government. It shall be treated that the Federal Government shall have the same rights as the person in whom such rights would have come to vest had the order not become final.

14. Immediate after acquisition of the property in favour of Federal Government, the FBR shall make the payment of 'consideration for acquisition' to the person or persons entitled thereto.

'Consideration for acquisition' means a sum equal to the amount of consideration for the transfer and hundred percent (100%) of such consideration.

'Fair market value' in relation to immovable property means a price which it would ordinarily fetch on sale in the open market on the date of execution of the instrument of its transfer.

'Immovable property' means any land with or without a superstructure or any building or part of a building or any rights therein. It also includes any machinery, plant, equipment, future, and fittings if the property is transferred along with these assets.

'Transfer' of immovable property means transfer by way of sale or exchange or lease for a term of not less than ten (10) years.

DIRECTORATE GENERAL OF SPECIAL INITIATIVE [2206]

This Directorate-General shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General and its officers.

DIRECTORATE GENERAL OF VALUATION [230H]

This Directorate-General shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as appointed and notified by the FBR. The FBR shall also notify the functions, jurisdiction, and powers of the Directorate-General and its officers.

DIRECTORATE GENERAL OF COMPLIANCE RISK MANAGEMENT [230]

The Directorate-General of Compliance Risk Management shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, and such officers as the FBR may, by notification in the official Gazette, appoint.

The FBR may notify the functions, jurisdiction, and powers of the Directorate General of Compliance Risk Management and its officers. It may also confer the powers of authorities (specified in section 207 of the ITO) upon the Directorate General and its officers.

INTERNATIONAL CENTRE OF TAX EXCELLENCE [230]

1. An Institute established with the name of "International Centre of Tax Excellence" shall perform the following functions:
 - i) Help in contributing to the development of tax policy;
 - ii) Prepare model national tax policy;
 - iii) Deliver interdisciplinary research in tax administration and policy, international tax cooperation, and revenue forecasting;
 - iv) Conduct international seminars, workshops, and conferences on the current issues faced by tax authorities in the field of international taxation;
 - v) Capacity building of Inland Revenue Officers;
 - vi) Tax analysis;

- vii) Improve the design and delivery of tax administration for maximizing revenue within existing provisions to close the tax gap; and
 - viii) Any other function as directed by FBR or FG.
-

2. A Nominating Committee comprising the Minister-in-Charge, Secretary Revenue Division, and Secretary Finance shall recommend a panel to FG for appointment of an Executive Director (ED) and independent members of the Executive Committee (EC).
3. The Nominating Committee shall apply the prescribed criteria for making recommendations of the panel for ED and independent members of EC. These persons shall be appointed by the FG.
4. EC shall comprise of Chairman FBR, Member (IR-Policy), Member (IR-Operations), and two independent members appointed by FG. ED shall act as Secretary of EC.
5. EC may make and notify rules for carrying out the purposes of the Institute.
6. ED (being Chief Executive of the Institute) shall ensure efficient functioning and day-to-day administrative functions of the institute and shall be independent in the discharge of its functions assigned by EC and the requirements of FBR to be undertaken by the Institute during every fiscal year.
7. For recruitment of the employees of the Institute, ED shall act in accordance with the rules prescribed by EC. At least 80% of the employees shall be serving or retired Inland Revenue officers having at least 5 years of experience in tax policy or tax administration. The remuneration and term of employment of the employees shall be as prescribed by FG.
8. FBR may establish a committee to monitor the establishment of the Institute including the appointment of the Project Director for the purpose.
9. FBR may provide necessary data to the Institute for processing and analysis and for discharging its obligations. The data so provided shall be anonymized before transmission to the Institute and identifying particulars of the taxpayers shall be kept confidential. In this regard, provisions of section 216(7) of the ITO shall apply.

TAX FRAUD INVESTIGATION WING [230K]

"Tax Fraud Investigation Wing-Inland Revenue" shall be established to detect, analyze, investigate, combat, and prevent tax fraud. This Wing shall comprise the following units to be notified by FBR in the official Gazette:

1. Fraud Intelligence and Analysis Unit
2. Fraud Investigation Unit
3. Legal Unit
4. Accountants Unit
5. Digital Forensic and Scene of Crime Unit
6. Administrative Unit, or
7. Any other Unit as may be notified.

The Tax Fraud Investigation Wing shall consist of the following officers:

1. Chief Investigator.
 2. Senior investigators, investigators, junior investigators, or any other officer of Inland Revenue with any other designation.
 3. A Senior Forensic Analyst and as many Forensic Analysts and Junior Forensic Analysts; and
 4. A Senior Data Analyst and as many Data Analysts and Junior Data Analysts.
-

Functions and Jurisdiction

The FBR may specify the functions and jurisdiction of the Tax Fraud Investigation Wing and its Units and its officers. FBR may confer the powers of sales tax authorities (as specified u/s 30) upon the tax fraud Investigation Wing and its officers.

Note: This section does not prevent the income tax authorities (appointed u/s 207 & 208) or any other authority or officer from conducting investigations and prosecution proceedings under the ITO.

REFERENCE TO TAX AUTHORITIES [239A & 239B]

During the last many years there were substantial changes in the administration of tax authorities resulting in the use of various designations in different laws, notifications, orders, circulars, and clarifications, which may create confusion and ambiguity. In order to remove the same, it is enacted that reference to certain tax authorities in any document may be construed as below:

Reference To	May be Construed As
Central Board of Revenue	FBR
Regional Commissioner of Income Tax	Chief Commissioner Inland Revenue
Commissioner of Income Tax	Commissioner Inland Revenue
Commissioner of Income Tax (Appeals)	Commissioner Inland Revenue (Appeals)
Taxation Officer	Officer of Inland Revenue

REMOVAL OF DIFFICULTIES [240]

Where any difficulty arises in giving effect to any of the provisions of the ITO, the Federal Government may make such order as may appear to it to be necessary for the purpose of removing the difficulty. For this purpose, it is to be ensured that:

1. The order so made is not inconsistent with the provisions of the ITO; and
2. The order is made by a notification in the official Gazette.

VALIDATION OF NOTIFICATIONS AND ORDERS [241]

The Federal Government has powers to issue notifications and orders under the ITO. All such notifications and orders issued and notified before 01-07-2017 by the Federal Government while exercising its authority under the law shall be deemed to have been validly issued.

Notwithstanding any omission, irregularity or deficiency in the establishment, or conferment of powers and functions, of the Directorate-General (Intelligence and Investigation) (DGII), Inland Revenue and authorities specified in section 230, all orders passed, notices issued, and actions taken in exercise or purported exercise of the powers and functions of the Commissioner under this Ordinance by the DGII, Inland Revenue, or the authorities specified in section 230 shall be deemed to have been validly passed, issued, and taken under the ITO.

UNIFORM [209A]

The FBR may prescribe rules for the wearing of uniforms by officers and staff of Inland Revenue Service of Pakistan.

CHAPTER-3

SCOPE OF TAX

TAX [269]

'Tax' means any amount chargeable, leviable or payable under the Income Tax Ordinance, 2001 (ITO). It may be:

1. Income tax
 2. Default surcharge
 3. Penalty
 4. Fee; and
 5. Any other charge under the Income Tax Ordinance
-

CHARGE OF TAX [4]

Income tax is an annual charge upon a person deriving such income, during the tax year, which is chargeable to tax under any provision of the ITO. The ITO requires a person to:

1. Pay income tax

2. Deduct or collect the tax-at-source and deposit it in Government Treasury
3. Pay tax in advance during the tax year
4. Pay default surcharge and penalties, in case of default; and/or
5. Pay fees

The payment, collection, and deduction of income tax (whether advance, at source or with return) shall be made in accordance with the rates specified in the First Schedule. Any amendment in the rates shall be effective from the date specified in the notification. Such amendment shall not be applicable to the assessments of the incomes pertaining to previous tax years. [4 (1) & (2)]

While computing the tax liability, a taxpayer is allowed different types of tax credits. These tax credits shall be allowed according to the rules set out in the ITO. [4(3)]

CATEGORIES OF TAXPAYERS

The ITO segregates the taxpayers into different classes. These classes are based on sources of income and/or taxability of the persons. Major categories of the taxpayers are:

1. Individuals (salaried and non-salaried)
2. Associations of persons (AOPs); and
3. Companies (banking companies, small companies, and other companies)

Each of the above-referred classes may further be classified into resident and non-resident taxpayers.

TAX REGIMES [4(4) & (6)]

There are various modes of charging income tax under the ITO, which are commonly known as 'Tax Regimes'. Coming paragraphs contain a brief description of each of the tax regimes.

SCOPE OF TAX

Normal Tax Regime (NTR) is that method of taxation under which the income of a person under each head of income is computed and included in total income. While computing income under each head of income, all deductions admissible under that head are deducted from gross income.

To compute *taxable income*, the total income is reduced by *deductible allowances* on account of Zakat, WPPF, WWF, Profit on debt on loan for houses & Education expenses.

Tax is computed by applying the tax rates applicable to the person under the First Schedule. The tax so computed shall be reduced by the amount of any tax credit available to the taxpayer. The resultant figure shall be the amount of tax payable or refundable.

Separate Tax Regime (STR) is that method of taxation under which certain incomes are not included under any head of income; rather, they are kept separate and charged to tax at some special tax rates (other than the normal tax rates applicable to incomes under NTR). The amount so calculated shall be the tax payable on such income. It shall not be reduced by any deductions, deductible allowances, or tax credits otherwise available to the taxpayer.

Tax under this regime is added in the amount of tax for the year under NTR and thus total tax for the year is computed.

Final Tax Regime or Presumptive Tax Regime (FTR/PTR) is that method of taxation under which certain incomes or transactions are treated or presumed as income and tax deductible or collectible at source on such transactions is considered as full and final discharge of tax liability in respect of such incomes/transactions.

The amount treated as income is not reduced by any deductions and deductible allowances. It shall not be included in total income and no tax credits shall be allowed against tax computed under this regime.

Where any amount is taxable under STR or FTR, it shall not be included in the taxable income under NTR. [4(5)]

Minimum Taxation (MTR) is that method of taxation under which the tax deducted or collected at source is treated as minimum tax in respect of such incomes. Under this regime, the tax liability of a person shall be the higher of the tax under:

1. Normal tax regime (NTR); or
 2. The minimum tax specified under the law.
-

TAX WITHHOLDING [6]

Where under any provision of the ITO, any transaction is subject to tax withholding or advance tax, the prescribed persons shall deduct or collect tax at source and pay the tax in advance. The tax withheld shall be deposited in government treasury within the prescribed period.

TAXABLE INCOME [8, 60, 60A, 60B, 60C & 60D]

A person is liable to pay income tax on his taxable income for a tax year. Taxable income is computed as below:

Total income from all heads of income (other than the exempt incomes)

Less: *Deductible allowances*

Taxable income

Notes:

1. Due to deductible allowances, the taxable income shall never be negative. It means that if the deductible allowances are more than the total income, there will be no taxable income for that tax year.
2. *Total income* in itself may be negative. Under such a case, there shall be a loss, which may be set-off and carried forward as per tax rules.
3. Where the Zakat has been deducted out of the "profit on debt" (which may be taxable as "Income from Other Sources"), such Zakat shall not be deducted out of the total income; rather, it may be allowed as deduction while computing income under "Other Sources". [40(2)(b)(6)]
4. Currently, "profit on debt" received by an individual up to Rs. 5,000,000 in a tax year is taxable under Final Tax Regime. In that case, deduction of Zakat from *Income from Other Sources* is not possible. It can only be claimed as *deducible allowance*.
5. Where the amount of Zakat is more than the total income, the excess amount shall not be refunded or carried forward or carried back. [60(3)]
6. Taxable income due to deduction of *deducible allowance* can never be below Zero. It means that if the amount of *deductible allowances* is more than total income for the year, only so much of the amount shall be allowed as deduction as is equal to the amount of total income. [9]

Example 3.1

Compute the taxable income of a person who has provided the following incomes (determined as per tax rules) and other information:

Incomes:

- Salary income: Rs. 480,000
- Business income: Rs. 720,000
- Income from sales of shares of a private company: Rs. 60,000
- Miscellaneous incomes: Rs. 20,000

Payments and Contributions:

- Zakat paid under the Zakat and Ushr Ordinance: Rs. 30,000
- Zakat privately paid to the poor: Rs. 40,000
- Income tax: Rs. 40,000

Answer:

Total income:

- Salary: Rs. 480,000
- Business income: Rs. 720,000
- Capital gain (on sale of shares): Rs. 0
- Income from other sources: Rs. 20,000
- Total income: Rs. 1,200,000

Less: Zakat paid under Zakat and Ushr Ordinance: Rs. 30,000

Taxable income: Rs. 1,170,000

Notes:

- **N-1:** Only such Zakat is allowed as deductible allowance as is paid or is deducted/collected under the Zakat and Ushr Ordinance. Any Zakat which is paid privately cannot be deducted while computing the taxable income.
- **N-2:** Any payment on account of income tax has no implication on the computation of taxable income.

INCOME [2(29)]

Income is the flow of returns over a period of time from providing *Factors of Production* (i.e., natural resources, labor, and capital) in the form of rent, wages, interest, profit, etc. For the purposes of Income Tax, *income* includes:

1. Any incomes, profits, or gains chargeable to tax under any of the heads of income specified in the Income Tax Ordinance, 2001.
2. Any amount, which is subject to collection or deduction of tax at source under the following sections:
 - 148 (imports)
 - 150 (dividends)
 - 152(1) (royalty or fees for technical services to non-residents)
 - 153 (payment for supply of goods or rendering of services)
 - 154 (exports)
 - 156 (prizes and winnings)
 - 156A (sale of petroleum products to petrol pump operators)
 - 233 (payment of brokerage and commission)
 - 234(5) (collection from transporters in respect of the vehicles owned by them)

- 2362 (bonus shares issued by companies)
 - 3. Any amount treated as income under any provision of the Income Tax Ordinance, 2001.
 - 4. Any loss of the above-stated incomes, profits, or gains. It is a negative income and may be adjusted against other incomes during the tax year.
-

TOTAL INCOME [2(69), 10 & 11]

Total income of a person for a tax year means the total of his following incomes:

1. Incomes under each of the following heads of income:
 - Salary
 - Income from property
 - Income from business:
 - Non-speculation business
 - Speculation business
 - Capital gains
 - Income from other sources
 2. Incomes exempt from income tax.
-

Notes:

1. All such incomes which are chargeable to tax under a specific head of income shall be determined collectively by considering the deductions allowed under law. [1(12)]
2. Where allowable deductions exceed the incomes chargeable to tax under a head of income, the excess amount of deductions shall be a loss under that head. [11]

3. A loss may be set-off or carried forward according to the provisions laid down in the Income Tax Ordinance. (114)

4. For all purposes, Speculation Business is to be treated as a separate head of income. [19(1)]

Only such incomes shall become part of *Total income* as are taxable under Normal Tax Regime (NTR).

DEDUCTIBLE ALLOWANCE [2(6), 60, 60A, 60B, 60C & 60D]

'Deductible allowance' means an allowance that is deductible from total income in order to arrive at the taxable income.

Under the Income Tax Ordinance, the following payments made by a person during the tax year shall be included in *deductible allowance*:

1. An amount of Zakat paid under the Zakat and Ushr Ordinance, 1860. [69(1)]
 2. Amount of Workers' Welfare Fund paid under the Workers' Welfare Fund Ordinance 1971 or under any law relating to the Workers' Welfare Fund enacted by Provinces after the Constitution (Eighteenth Amendment) Act, 2010 [60A]
 - *Deductible allowance shall not be available in respect of any amount of Workers' Welfare Fund paid to the Provinces by a trans-provincial establishment.*
 3. Amount of any Workers' Participation Fund paid under the Companies Profit (Workers' Participation) Act, 1988 or under any law relating to the Workers' Profit Participation Fund enacted by Provinces after the Constitution (Eighteenth Amendment) Act, 2010 [60B]
 - *Deductible allowance shall not be available in respect of any amount of Workers' Profit Participation Fund paid to the Provinces by a trans-provincial establishment.*
 4. Deductible allowance for tuition fee paid by an individual for the education of his children. [60D]
-

Notes:

1. Zakat on the following transactions only shall be allowable as *deductible allowance*:
 - Zakat deducted by financial institutions on deposits;
 - Zakat deducted by companies on shareholdings (at the time of payment of dividends);
 - Zakat deposited by a person in Zakat Fund maintained by the Government under the Zakat and Ushr Ordinance.
 2. Deductible allowance on account of Zakat shall be deductible up to the amount of total income for the tax year. Any excess amount of *deductible allowance* shall not be refunded, carried forward, or carried back. [60(3)]
-

DEDUCTIBLE ALLOWANCE FOR EDUCATION EXPENSES [60D]

An individual shall be entitled to a *deductible allowance* in respect of tuition fees paid in a tax year for the education of his children. This allowance shall be subject to the following conditions:

1. The taxable income of the individual for the tax year is less than Rs. 1,500,000.
2. Maximum amount to be allowed as 'deductible allowance' should be the lower of the following amounts:
 - 5% of the total tuition fee paid;

- 25% of the person's taxable income for the year; and
 - An amount computed by multiplying Rs. 60,000 with the number of studying children of the individual.
3. This allowance shall be allowed to any of the parents making payment of the fee.
 4. The claiming parent has to furnish the NTN or the name of the educational institution.
 5. Allowance for education expenses shall not be considered for computation of tax to be withheld by an employer against salary (Rule 140) payable to an individual entitled to such allowance.
 6. Where any part of the allowance could not be adjusted against tax liability for the year, the unadjusted amount shall not be carried forward to the subsequent tax year.

GEOGRAPHICAL SOURCE OF INCOME [101]

All incomes, which are chargeable to tax under the Income Tax Ordinance, 2001, may broadly be classified into the following two categories:

1. Pakistan-source incomes; and
2. Foreign-source incomes.

Tax treatment in respect of both categories differs. Pakistan-source income, taxable, shall be included in the total income of both resident and non-resident persons, whereas, foreign-source income is included only in the total income of a resident person. Further, a resident may be allowed certain tax credits in respect of his foreign-source incomes.

IMPACT OF RESIDENTIAL STATUS ON SCOPE OF INCOME [11]

The residential status of a taxpayer (i.e., resident or non-resident) has an important impact on the scope of his total income. In case of a resident, all incomes of a person (from wherever derived) are taxable in Pakistan, whereas in the case of a non-resident person, only such incomes are chargeable to tax which are Pakistan-source income.

Scope of Total Income for Resident [11(5)]

In case of a resident, all incomes, from whatever source derived, shall be included in the total income if during the tax year the income is:

1. Received in Pakistan;
2. Deemed to be received in Pakistan;
3. Accrued or arisen in Pakistan;
4. Deemed to accrue or arise in Pakistan; and
5. Accrued or arisen outside Pakistan.

From the above, it's evident that a resident person's total income shall consist of:

1. The Pakistan-source income; and
2. The foreign-source income.

Scope of Total Income for Non-Resident [11(6)]

In the case of non-resident, the following incomes shall be included in the total income:

1. An income which is received in Pakistan;
2. An income which is deemed to be received in Pakistan;
3. An income which accrues or arises in Pakistan; and
4. An income which is deemed to accrue or arise in Pakistan.

From the above, it is obvious that a non-resident's total income shall comprise on Pakistan-source income only.

Notes:

1. An income may be received by the taxpayer himself or by any other person on his behalf.
2. If any income or a part of any income has been included in the total income on the basis on its accrual, it shall not be included again on its actual receipt.
3. Incomes are taxable in relation to a specific tax year. Only such incomes can be included in the total income that relate to the tax year under assessment.
4. Incomes of each tax year are separately chargeable to tax.

FIRST SCHEDULE

A taxpayer is charged to tax at the rates specified in the First Schedule to the Income Tax Ordinance, 2001. This schedule consists of the following four parts:

Part | Title of the Part

- I: Rates of Income Tax
- II: Rates of Advance Tax
- III: Rates for Deduction of Tax at Source
- IV: Rates for Deduction or Collection of Advance Tax

RATES OF INCOME TAX FOR TAX YEAR 2025

INDIVIDUALS – NON SALARIED & ASSOCIATION OF PERSONS

[Para (1), Division-I, Part-I of First Schedule]

S. No.	Taxable Income	Rate of tax
1.	Up to Rs. 600,000	0%

S. No.	Taxable Income	Rate of tax
2.	Rs. 600,001 to Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
3.	Rs. 1,200,001 to Rs. 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs. 1,200,000
4.	Rs. 1,600,001 to Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5.	Rs. 3,200,001 to Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6.	Exceeding Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

Reduction in Tax Rate for Professional Firms [Proviso to Clause 1 of Division I of Part I]
The highest tax rate (under S. No. 6 above) shall be 40% instead of 45% if the AOP is a professional firm prohibited from incorporating by any law or the rules of the body regulating their profession.

INDIVIDUALS - SALARIED

[Para (2), Division-I, Part-I of First Schedule]

S. No.	Taxable Income	Rate of Tax
1.	Up to Rs. 600,000	0%
2.	Rs. 600,001 to Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3.	Rs. 1,200,001 to Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
4.	Rs. 2,200,001 to Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
5.	Rs. 3,200,001 to Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
6.	Exceeding Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

‘Salaried Individual’ means an individual whose 'salary income' exceeds seventy-five per cent (75%) of his taxable income for the tax year.

Example: 3.2

Mr. Asif has a total income of Rs. 2,570,000. During the tax year he deposited in the Zakat Fund Rs. 20,000 as Zakat. Compute his taxable income and tax liability for the year, assuming that Asif is:

- A) Salaried Taxpayer and
 - B) Non-Salaried Taxpayer
-

Answer:**Total income**

Rs. 2,570,000

Less: Zakat

(20,000)

Taxable income

2,550,000

Tax for the year:**A) Salaried Taxpayer**

Tax on Rs. 2,200,000 @ 25%

180,000

Tax on balance of Rs. 350,000 @ 25%

87,500

Total

267,500

B) Non-Salaried Taxpayer

Tax on Rs. 1,600,000

170,000

Tax on balance of Rs. 950,000 @ 30%

285,000

Total

455,000

Example: 3.3

Compute the tax liability of M/s. Sajid Rashid Associates, a registered partnership firm, which has a taxable income from business for the tax year amounting to Rs. 2,520,000

Answer:

Taxable Business Income of AOP

2,520,000

Tax liability:

- Tax on Rs. 1,600,000 @ 30% = 170,000
 - Tax on balance of Rs. 920,000 @ 30% = 276,000
- Total Tax:** 446,000

REDUCTION IN TAX LIABILITY IN CASE OF TEACHERS OR RESEARCHERS

[Clause (1)(2) of Part-III of Second Schedule]

In the case of a full-time teacher or a researcher, employed in a non-profit educational or research institution (including government research institutions) duly recognized by the Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, **tax payable shall be reduced by an amount equal to 25% of tax payable on income from salary.**

Note: This tax credit shall not be available to teachers of medical profession who derive income from private medical practice or who receive share of consideration received from patients.

Example: 3.4

Mr. Fazal Karim is a professor in a Government University. He has a taxable salary income of Rs. 1,900,000. Compute his tax liability for the year.

Answer:

Tax on Rs. 1,200,000 = 30,000

Tax on balance of Rs. 700,000 @ 13% = 95,000

Total Tax: 135,000

Less: Reduction in tax being teacher (25% of Rs. 135,000) = (33,750)

Tax liability for the year: 101,250

Teachers or Researchers Having Non-Salary Income Also

A teacher, etc., is allowed a reduction in tax @ 25% tax payable on his **income from salary**. Where such person has some other taxable income also, then the benefit of reduction in tax shall be restricted to the tax payable in respect of his salary income.

Example: 3.5

Ms. Jamila is a lecturer in a Government college. Further, she is also running a boutique on part-time basis. She has provided the following information for computation of her tax liability:

- (a) Taxable salary income for the year Rs. 1,800,000; and
- (b) Taxable income from business Rs. 400,000.

Answer:

Description	Amount (Rs.)
Taxable Income	
Income from salary	1,800,000
Income from business	400,000
Total taxable income	2,200,000
Tax liability	
Tax on taxable income – as per tax rate table	180,000
Less: Reduction in tax being teacher (N-1)	(36,818)
Tax liability for the year	143,182

N-1 Reduction in Tax

Tax on salary income [N-2] @ 25% = $147,273 \times 25\% = 36,818$

N-2 Tax on Salary Income

Tax on Taxable Income + Taxable Income * Salary Income

$180,000 - 2,200,000 + 1,800,000 = 147,273$

OTHER TAX CREDITS

Various other tax credits are also available to a taxpayer under different provisions of the Ordinance. All those tax credits are discussed in the Chapter titled as "Tax Credits".

SURCHARGE [4B]

Where the taxable income of an individual or an Association of Persons exceeds rupees ten (10) million, he shall also pay a surcharge @ 10% of gross income tax imposed under Division I of Part I of the First Schedule to ITO.

SUPER TAX FOR REHABILITATION OF TEMPORARILY DISPLACED PERSONS [4B & Division II A, Part-I of First Schedule]

‘Super Tax’ is a tax levied in addition to the basic income tax. For the purpose of rehabilitation of temporarily displaced persons, super tax shall be payable by a banking company for tax years from 2015 till 2022 @ 4% of the ‘income’.

Income for the purpose of super tax shall be the sum of the following amounts:

1. Profit on debt, dividend, capital gains, brokerage and commission;

2. Taxable income computed u/s 9 of the Income Tax Ordinance, 2001, excluding the brought forward depreciation and business losses;
3. Imputable income as defined in section 2(28A); and
4. Incomes computed (other than brought forward depreciation, brought forward amortization and brought forward business losses) under Fourth, Fifth, Seventh and Eighth Schedules of the Income Tax Ordinance, 2001.

The super tax shall be paid by the due date for furnishing of the return of income for the tax year. All relevant provisions of the law shall be applicable to such payment.

Where the super tax is not paid, the Commissioner shall determine its amount and serve a notice upon the person liable to pay the super tax, demanding payment within a period of thirty (30) days. Where the demanded tax has not been paid within the due date, all provisions of the Income Tax Ordinance shall apply.

The FBR may make and notify the rules regarding determination and payment of super tax.

SUPER TAX ON HIGH EARNING PERSONS [4C & Division III of Part-I of First Schedule]

Super tax shall be imposed on the 'income' of every person for the tax year 2022 and onwards. Other provisions in this regard are as below:

1. Tax shall be imposed on 'income' at the following rates

Rate of Tax for Tax Year Income u/s 4C

S. #	Income u/s 4C	Rate of Tax for Tax Year
1.	Upto Rs. 150 million	0% of the income
2.	Exceeding Rs. 150 million but upto Rs. 200 million	1% of the income
3.	Exceeding Rs. 200 million but upto Rs. 250 million	2% of the income
4.	Exceeding Rs. 250 million but upto Rs. 300 million	3% of the income
5.	Exceeding Rs. 300 million but upto Rs. 350 million	4% of the income
6.	Exceeding Rs. 350 million but upto Rs. 400 million	4% of the income
7.	Exceeding Rs. 400 million but upto Rs. 500 million	8% of the income
8.	Exceeding Rs. 500 million	10% of the income

Additional Details:

1. Tax rate for tax year 2022 shall be 10% of the income for persons engaged, whether partly or wholly, in the business of airlines, automobiles, beverages, cement, chemicals, cigarette and tobacco, fertilizer, iron and steel, LNG terminal, oil marketing, oil refining, petroleum and gas exploration and production, pharmaceuticals, sugar and textiles. [First provision of Division II(B)]
 2. The tax shall be paid, collected and deposited on the due date for furnishing of return of income. All relevant provisions of the ITO shall apply.
 3. Where a person has not paid the due tax, the CIR shall determine the tax payable and serve a notice of demand specifying the tax payable and the time for its payment.
 4. The CIR shall recover the tax, if not paid by a person liable to pay. All provisions of the ITO relating to recovery and collection of tax not paid shall be applicable in this case.
 5. The FBR may make rules for carrying out the purposes of this tax.
-

Advance Tax u/s 147 [4C(5A)]

Super tax payable shall be subject to advance tax u/s 147 of ITO.

Income [4C(2)]

Income subject to tax for 'super tax' shall be the sum of the following incomes:

1. Profit on debt, dividend, capital gains, brokerage and commission;
 2. Taxable income under all heads of income (excluding income specified under S. No. 1 above);
 3. Imputable income as defined u/s 2(28A) of ITO (excluding amounts covered under S. No. 1 above); and
 4. Income computed under Fourth, Fifth, Seventh and Eighth Schedules to the ITO.
-

Note: While computing income under S. No. 2 & 4 above, brought forward depreciation and brought forward business losses shall not be taken into account.

TAX ON DIVIDENDS

[Section 5 & Division-III, Part-I of First Schedule]

Dividend received by a taxpayer from any company (whether resident or non-resident) or treated as dividend u/s 2(19) shall be considered as a separate block of income and charged to tax at the rates applicable to the person (i.e., an individual, an AOP or a company) receiving a dividend.

Tax rate is applied on the gross amount of dividend (i.e., before any deduction on account of tax source or Zakat, etc.). Where net realized amount is given, it is to be grossed-up by adding the deductions made by the company at the time of making payment of dividend. These deductions may be that of Zakat and Tax at Source.

Normally tax at source is deducted by a company at the time of making payment of dividend. Tax deducted at source is treated as full and final discharge of tax liability on dividend income of a person (i.e., an individual, AOP or a company).

Rates of Tax on Dividend

[Division-III, Part-I of First Schedule]

Dividend is treated as a separate block of income and shall be taxable at the following rates:

S. #	Dividend Received From	Tax Rate
1.	Independent Power Producer (Where such dividend is a pass-through item under an Implementation Agreement or Power Purchase Agreement or Energy Purchase Agreement and is required to be reimbursed by Central Power Purchasing Agency (CPPA-G) or its predecessor or successor entity)	7.5%
2.	Mutual funds	15%
3.	Mutual funds deriving 50% or more income from profit debt	25%
4.	Real Estate Investment Trusts	15%
5.	A company, where no tax is payable by such company, due to exemption of income or carry forward of business losses or claim of tax credits	25%
6.	Any other person (General rate)	15%
7.	A company out of its incomes attributable from a bagasse/biomass based co-generation power project having one or more boilers of less than 60 bar (kg/cm ³) pressure each	7.5%

DIVIDEND [2(19)]

Dividend is that part of *Accumulated Profits* of a company which is distributed among its members. For the purposes of Income Tax, dividends include the following transactions:

1. Any distribution of accumulated profits by a company to its shareholders.
2. Any distribution of profits to mudaraba certificate holders.
3. Any distribution of profits to the shareholders or mudaraba certificate holders by way of debenture or any other deposit certificate

Example: 3.6

The balance sheet of ABC Limited showed the following position at the time of its liquidation:

Liabilities

- Paid-Up Share Capital (1,000,000 ordinary shares of Rs. 10 each) 10,000,000
- Retained earnings 1,000,000
- General reserves 2,000,000
- Liabilities to outsiders 7,000,000
- **Total Liabilities** 20,000,000

Assets

- Cash and bank balances 2,000,000
- Land 6,000,000
- Government securities 3,000,000
- Plant and machinery 5,000,000
- Other assets 4,000,000
- **Total Assets** 20,000,000

The assets and liabilities are shown on their net realizable and payable values, respectively.

Required: Compute the amount receivable by the holder of each share at the time of liquidation. Also, determine the amount which can be treated as dividend income, if any.

Answer:

- Amount Receivable Against Each Share
 - Total assets (after realization) = Rs. 20,000,000
 - Less: Liabilities to outsiders = Rs. 7,000,000
 - Amount available for distribution to shareholders = Rs. 13,000,000
 - Contribution against each share (Rs. 13,000,000 ÷ 1,000,000 shares) = Rs. 13 per share
- Amount to be Treated as Dividend
 - Contribution received on liquidation = Rs. 13 per share
 - Less: Paid-up value of the share = Rs. 10
 - Dividend income against each share = Rs. 3

Note:

Any distribution to the shareholders or mudaraba certificate holders on the reduction of capital to the extent of the accumulated profits of the company.

Example: 3.7

Considering the same data as in Example 3.6 and assuming that instead of liquidation, the company has decided to reduce its paid-up capital to the extent of 100,000 shares, compute

the amount of dividend of Mr. Ahmad who is owner of 20,000 shares which are being reduced.

Answer:

- **Assets** = Rs. 20,000,000
- **Liabilities** = Rs. 7,000,000
- **Net Worth of the Company** = Rs. 13,000,000
- **Amount payable against each share on reduction** (Rs. 13,000,000 ÷ 100,000 shares) = Rs. 13 per share
- **Dividend Income of Mr. Ahmad** = 20,000 shares × Rs. 13 = Rs. 260,000

Amount received on reduction of shares = Rs. 260,000

Example: 3.8

Following information have been taken from the records of M/s. Shandaar (Private) Limited, which has two shareholders, i.e., Mr. Ayub and Mr. Akbar. Each of the shareholders is possessing 10,000 shares of the company.

Year	Accumulated Profits (Rs.)	Loan to Shareholders (Rs.)	Dividend for the year (Rs.)
20x1	200,000	50,000 (To Ayub)	Nil
20x2	300,000	Nil	Rs. 3 per share
20x3	450,000	Nil	Rs. 5 per share

Required:

Compute the amount of dividend income of both the shareholders for the years 20X1, 20X2, and 20X3.

Answer:

The dividend income of the shareholders is computed as below:

Tax Year	Loan to Shareholders (Rs.)	Actual Dividend (Rs.)	Tax Dividend (Rs.)
20x1	50,000 (Ayub)	Nil	30,000
20x2	-	30,000 (Ayub)	30,000
20x3	50,000 (Ayub)	50,000 (Akbar)	50,000
20x3	80,000 (Ayub)	80,000 (Akbar)	80,000

Note:

Although the company did not declare the dividend during the tax year 20x1, yet Mr. Ayub has a tax dividend. It is the amount of loan which is treated as dividend due to the reason that the company has the profit for the year.

N-2

During the tax year 20X2, the amount received as dividend is adjusted against the amount of loan treated as dividend in the tax year 20X4. So, there is no tax dividend of Mr. Ayub for this year.

N-3

The balance of undistributed deemed dividend of Mr. Ayub (i.e., Rs. 20,000 = Rs. 50,000 - Rs. 30,000) is adjusted against the amount of dividend for the tax year 20X3. Thus his taxable dividend for the year is Rs. 30,000 (i.e., Rs. 50,000 Less Rs. 20,000).

7. Remittance of after-tax profit of a branch of a foreign company operating in Pakistan.

Payments Excluded from Purview of Dividend

The following payments shall not be treated as dividend:

- i) Any loan or advance made in the ordinary course of the company's business where the lending of the money is the business of the company;
- ii) Any dividend which is adjusted against the amount of loan or advance given by a private company to its shareholders and was previously treated as dividend;
- iii) Any distribution to such a shareholder or debenture holder who is not entitled to participate in surplus assets of the company in the event of its winding-up; and
- iv) Remittance of after tax profit: by a branch of Petroleum Exploration and Production (E&P) foreign company operating in Pakistan.

For the purposes of section 219(1)(e), *private company* has the same meanings as are assigned to it by the Companies Act, 2017.

It is worth mentioning that the Income Tax Ordinance, 2001 itself has defined the *private company*, but loan given by a company shall be treated as dividend only if it is a private company as defined in the Companies Act, 2017. Section 2(1)(49) of the Companies Act, 2017 has defined *private company* as below:

‘Private Company’ means a company which, by its articles:

1. Restricts the right to transfer its shares, if any;
2. Limits the number of its members to fifty not including persons who are in the employment of the company; and
3. Prohibits any invitation to the public to subscribe for the shares, if any, or debentures of the company.

The dividend may be distributed under the normal procedure (i.e., declaration and payment of dividend), or on the reduction of capital or may be treated as dividend in a case where the private company has given loans, etc., to its shareholders.

3. In case of liquidation of a company or a trust, all profits up to the date of its liquidation.

Note: Any reserve created by a company from whatever source is included in “*accumulated profits*”. Examples of allowances, deductions or exemptions from which a reserve may be created are given below, respectively:

- i) Allowance for depreciation under Third Schedule.
- ii) Normally, allocations are expenses. However, under certain cases the amount allowed as deduction may not be an expense, e.g., section 31 of the Income Tax Ordinance allows a company to claim deduction on account of an amount transferred to "Participatory Reserve" created under section 6 of the Companies Act, 2017.
- iii) Certain incomes are exempt from tax, e.g., the agricultural income, the income from export of computer software. A company may create reserve out of such exempted incomes.

TAX ON INCOMES FROM SUKUKS [SAA & Division-IIIB, Part-I of First Schedule]

Every person who receives a return on investment in sukuk from a special purpose vehicle (SPV) or a company shall pay tax under STR at the following rates:

S. No.	Sukuk-Holder	Tax Rate
1.	Company	25%
2.	Individual or Association of Persons:	
	Return on investment is less than Rs. 1,000,000	10%
	Return on investment is more than Rs. 1,000,000	12.5%

Notes:

- 1. Relevant tax rate is applied to the gross amount of return on investment in sukuk.
- 2. The above provisions are not applicable to a return on investment in sukuk that is exempt from tax under the Income Tax Ordinance, 2001.

Exemption from Tax [46 & Clause (1A) of Part IV of Second Schedule]

Income received by a non-resident sukuk-holder from the Second International Sukuk Company Limited and the Third International Sukuk Company Limited shall be exempt from tax. Approval of FBR shall not be required for sukuk issued by these companies.

INCOME TAX RATES FOR COMPANIES [Division-II of Part-I of First Schedule]

Every company shall pay income tax on its taxable income for the tax year 2023 (subject to the provisions of the Income Tax Ordinance, 2001) at the following applicable tax rates:

S. No.	Type of Company	Tax Rates
1.	Small company	20% of taxable income

S. No.	Type of Company	Tax Rates
2.	Banking company	39% of taxable income
3.	Any other company	29% of taxable income

Example: 3.9

A company has a taxable income of Rs. 4,000,000 for the tax year. Compute its tax liability if the company is:

1. Abaseen (Private) Limited
2. Mehran Limited – A company listed on Pakistan Stock Exchange
3. Thal Bank Limited
4. Small Company (as defined in the Income Tax Ordinance)

Answer:

Tax liability of each company for tax year is computed as below:

Company	Taxable Income (Rs.)	Tax Rate (%)	Tax Liability (Rs.)
1. Abaseen (Private) Limited	4,000,000	29%	1,160,000
2. Mehran Limited – A Listed Company	4,000,000	29%	1,160,000
3. Thal Bank Limited	4,000,000	39%	1,560,000
4. Small Company	4,000,000	20%	800,000

SMALL COMPANY [2(59A)(B)]

‘Small company’ means a company which fulfills the following conditions:

1. It is a company registered under the Companies Act, 2017;
2. The company: i) Has paid-up capital plus undistributed reserves up to rupees fifty (50) million; ii) Has employees not exceeding two hundred and fifty (250) at any time during the year; iii) Has total annual turnover up to rupees two hundred and fifty (250) million; and iv) Is not formed by the splitting up or the reconstitution of business already in existence; and
3. It is not a 'small and medium enterprise' as defined in section 2(59A) of the Income Tax Ordinance.

GENERAL PROVISIONS APPLICABLE TO INCOMES UNDER FTR / PTR / STR [8]

Certain incomes (taxable u/s 5, 5A, SAA, 6, 7, 7A, 7B & 7E) are covered under FTR or STR. The Income Tax Ordinance specifies some special provisions applicable to such incomes, which are discussed below:

1. Incomes covered under this category are:
 - i) Dividends;
 - ii) Undistributed profits of public companies (other than banks and modarabas) treated as income;
 - iii) Royalties, fees for offshore digital services and fees for technical services received by non-residents;
 - iv) Shipping and air transport business income of non-residents;
 - v) Shipping business income of residents; and
 - vi) Profit on debt received by taxpayers other than companies

Advance Ruling in Case of Non-Resident [206A(1)]

The FBR is empowered to issue an advance ruling setting out the CIR's position regarding the application of the provisions of the Income Tax Ordinance, 2001 to a transaction, which is proposed or entered into by a taxpayer. Such an advance ruling is issued on a written application of a non-resident taxpayer. [206A(1)]

The ruling issued by FBR shall be binding on the CIR with respect to the application of the law (to the transaction under the ruling) as it stood at the time the ruling was issued. The ruling shall be binding if the following conditions are fulfilled: [206A(2)]

1. The taxpayer has made a full and true disclosure of all aspects of the transaction relevant to the ruling; and
2. The transaction has proceeded in all material respects as described in the application for the ruling.

Status of Advance Ruling [206A(3)]

In case of any inconsistency between a circular and an advance ruling issued by FBR, the priority shall be given to the terms specified in the advance ruling.

Avoidance of Double Taxation and Prevention of Fiscal Evasion [107]

The Federal Government may enter into a tax treaty or other agreement with a foreign Government, containing provisions with respect to the taxes on income levied under the Income Tax Ordinance, 2001 or any other law for time being in force and the corresponding taxation laws of that country on matters regarding:

1. Avoidance of double taxation;
2. Prevention of fiscal evasion; and
3. Exchange of information including automatic and spontaneous exchange of information in respect of taxes on income.

The agreements may fall under any of the following categories:

1. A tax treaty;

2. A tax information exchange agreement;
3. A multilateral convention;
4. An inter-governmental agreement; and
5. A similar agreement or mechanism for the avoidance of double taxation or for the exchange of information.

The Federal Government may notify the necessary provisions for the purpose of implementation of the treaty or agreement entered by it.

Notwithstanding the provisions of the Freedom of Information Ordinance, 2002, any information received or supplied, and any concomitant communication or correspondence made as above shall be confidential. However, disclosure to any person acting in execution of the Income Tax Ordinance is permitted if such disclosure is necessary.

Depending upon the terms and conditions, such agreement may provide for at least one of the following matters:

1. Relief from the tax payable;
2. Determining the income accruing or arising, or deemed to accrue or arise to non-residents from sources within Pakistan;
3. Determining the income attributable to operations carried on within or outside Pakistan;
4. Determining the income chargeable to tax in Pakistan in the hands of agents, branches or establishments, etc., in Pakistan;
5. Determining the income attributable to a resident having any special relationship with the non-resident; and
6. Exchange of related information for the prevention of fiscal evasion or avoidance of taxes between the two countries.

Note: The above provisions are subject to the provisions of section 109 of the Income Tax Ordinance, 2001.

CALCULATION OF TAX TO THE NEAREST RUPEE [219]

While computing the amount of tax or refund, the fractions shall be rounded to the nearest rupee. Any amount of fifty paisa or above shall be treated as one rupee and below fifty paisa shall be disregarded.

BENEFITS OF REPEALED PROVISIONS [242]

The existing beneficiaries of exemptions or concessionary provisions of the Income Tax Ordinance, 2001 already expired or expiring, on 30-06-2021 or repealed by Tax Laws (Second Amendment) Ordinance, 2021 shall continue to enjoy benefits of the repealed

provisions for the periods prescribed therein and subject to conditions and limitations specified therein.

PROCEDURE FOR COMPUTATION OF TAX LIABILITY [3-691]

Following steps are required to compute the tax liability under the normal tax regime (NTR):

1. Determine the total income for the year. For this purpose following points must be kept in mind:
 - (i) Income under each head of income is computed separately;
 - (ii) Income under each head of income is determined on the basis of the rules applicable to the respective head of income; and
 - (iii) Only such incomes shall be included in total income, which are taxable in the relevant tax year.
2. Losses as determined under the provisions of the income tax law shall be set-off only in such manner as is permitted by the law.
3. Deduct “Deductible Allowances” from the total income in order to arrive at the “taxable income”.
4. Tax rates as are applicable to the person under the First Schedule are applied to the taxable income in order to compute the tax for the year.
5. Certain tax credits are available to a person under the law. These tax credits are allowed by taking into account the conditions, limitations and procedure laid down in the law. The resultant figure will be the tax liability for the tax year.
6. Deduct the tax already deposited by the taxpayer himself as advance payment and by other persons on his behalf (i.e., tax deducted or collected at source) out of the tax liability for the year. The balance will either be the tax liability for the year payable by the taxpayer or refund receivable by him from the Tax Department.
7. In a case where tax already paid is more than the tax liability for the year, the excess amount shall be claimed as refund.
8. Any tax payable by a taxpayer for his taxable income shall be deposited at the time of filing of return of income

EXEMPTIONS AND CONCESSIONS [4-70]

EXEMPTIONS AND CONCESSIONS [53]

Sections 41 through 55 of the Income Tax Ordinance, 2001 (ITO) deal with the exemptions and tax concessions available to a taxpayer.

The Second Schedule to the ITO specifies the incomes or classes of incomes, persons or classes of persons which shall either be exempt from tax or whose tax liability shall be reduced or upon whom certain provisions of the ITO shall not apply.

The incomes or classes of incomes, the persons or classes of persons specified in the Second Schedule fall under any of the following categories: [53(1)]

1. **Exempt from tax** (i.e., the incomes specified in this part shall not be included in total income of the persons). [Part-I]
2. **Liable to tax at the rates lower than the rates specified in the First Schedule.** [Part-II]
3. **Enjoy reduction in tax liability.** [Part-III]
4. **Exempt from the operation of any specified provision of the Income Tax Ordinance, 2001.** [Part-IV]

Amendment in the Second Schedule [53(2) & (3)]

The Federal Government or the FBR may make any amendment in the Second Schedule. However, all amendments made during the financial year shall be placed before the National Assembly. Amendments made by the Federal Government may fall under any of the following natures:

1. Adding a new Clause;
2. Adding condition to a Clause;
3. Omitting a Clause;
4. Omitting any condition to a Clause; or
5. Making any change in a Clause or condition in a Clause.

The amendments in the Second Schedule may be enforced from any date, whether present, past or future. Further, if the law so directs, an exempt income may be added in taxable income for rate purposes only.

Conditions for Approval of Amendments

The Federal Government or the FBR (after approval of the Federal Minister-in-charge) may, from time to time, make amendments in the Second Schedule subject to the following conditions:

- Approval of the Economic Coordination Committee of the Cabinet has been obtained; and
- The circumstances exist needing immediate action for the purposes of:
 - i) National security;

EXEMPTIONS AND CONCESSIONS [4-71]

(ii) Natural disaster;

(iii) National food security in emergency situations;

(iv) Protection of national economic interests in situations arising out of abnormal fluctuations in international commodity prices;

(v) Implementation of bilateral and multilateral agreements; or

(vi) Granting an exemption from any tax imposed under the Income Tax Ordinance, 2001 to any international financial institution or financial institution owned by a foreign government, operating under an agreement or memorandum of understanding (MOU) or any other arrangement with the Government of Pakistan.

The exemption may include reduction in tax rate, reduction in tax liability or exemption from applicability of certain provision of the Income Tax Ordinance, 2001.

Life of Exemption Notifications [53(4)]

Exemption Notifications issued u/s 53(2) of the Income Tax Ordinance, 2001 may, for the purpose of their life, be divided into two categories, namely:

1. **Notifications Issued Till 30-06-2015:** These notifications shall stand rescinded if not presented before the National Assembly.
2. **Notifications Issued On or After 01-07-2015:** Such notification shall, if not earlier rescinded, stand rescinded on the expiry of the financial year in which it was issued.

Such notifications shall be deemed to have been in force w.e.f. 01-07-2016 and, if not earlier rescinded, shall continue to be in force till 30-06-2018.

Notifications Issued On or After 01-07-2016: All such notifications which were issued and placed before the National Assembly shall continue to be in force till 30-06-2018, if not earlier rescinded by the Federal Government or the National Assembly.

EXEMPTIONS UNDER OTHER LAWS [54]

Any exemption, etc., granted under any other law shall not be effective unless it is also provided under the Income Tax Ordinance, 2001. The provisions may relate to:

1. An exemption from income tax;
2. A reduction in the tax rates;
3. A reduction in tax liability of a person; or
4. An exemption from the operation of any provision of the Income Tax Ordinance.

LIMITATION OF EXEMPTION [55]

Any exemption under the Income Tax Ordinance shall be limited to the original recipient of the income. This exemption, generally, shall not be extended to any person receiving any payment out of such income.

Loss During Exemption Period

Where a business income of a person is exempt from tax either permanently or for a specific period and a person sustains a loss from such business during exemption period, such loss may also be carried forward and set-off as per normal procedure. [Discussed in the chapter "Set-Off and Carry-Forward of Losses"]

EXEMPTION FROM TOTAL INCOME [4-72]

Certain incomes and persons are exempt from the levy of income tax under certain sections of the Income Tax Ordinance, 2001. Further, Part-II of the Second Schedule also contains certain incomes, classes of incomes, persons or classes of persons specified which are fully exempt from tax.

Coming pages contain a brief discussion of all those incomes, persons, etc., which are exempt from tax. The conditions and limitations applicable to those exemptions, if any, are also discussed at their appropriate places.

AGRICULTURAL INCOME [41]

Where a taxpayer has an agricultural income it shall be exempt from tax.

Agricultural Income means an income, which satisfies the following conditions:

1. The income is derived from land. The income may be in the form of rent or revenue;
2. The land from which the income is derived is situated in Pakistan; and
3. The land is used for agricultural purposes.

Sources of Agricultural Income

An agricultural income may be derived from any of the following ways:

1. Rent or revenue from the land used for agricultural purposes.
2. Income from the agriculture.
3. Income of the cultivator or receiver of rent-in-kind from the sale of agricultural produce without performing any further process.
4. Income from the performance of any process, by the cultivator or receiver of rent-in-kind, generally employed to render the produce fit to be taken to market.
It is to be noted that the process should be undertaken by the cultivator or receiver of rent-in-kind and it should be necessary for rendering the produce marketable. If any of these two elements is missing, the income shall not be an agricultural income.
5. Income from a building shall also be agricultural income, if the following conditions are satisfied:
 - i) The building is owned and occupied by the cultivator or receiver of rent-in-kind;
 - ii) The building is situated in the immediate vicinity of the land used for agricultural purposes; and
 - iii) The building is required by the cultivator or the receiver of rent-in-kind, due to his connection with the agricultural land. It is required as:
 - a) A dwelling house;
 - b) A store house; or
 - c) Other out building.

Examples of Agricultural Income

The following are some of the examples of agricultural income:

1. Income arising from the forests grown and maintained by persons (e.g., Changa Manga forest).

Examples of Non-Agricultural Income

A selection of the non-agricultural incomes is given below:

1. Income from spontaneous forests.
2. Income from sale of fruits and flowers growing on land spontaneously.
3. Income from sale of grass and weeds of spontaneous growth.
4. Profit of a merchant from purchase and resale of agricultural produce or the growing crop.
5. Interest received by a moneylender in the form of agricultural produce.
6. Income from sale of agricultural produce received as remuneration for services rendered in connection with the agricultural land or agricultural produce.
7. Dividend paid by a company out of its agricultural income.
8. Income from fisheries.
9. Income from poultry farming.
10. Income from a manufacturing process undertaken in connection with the agricultural produce.
11. Royalty income of mines.
12. Income from cattle or sheep farming.
13. Income from stud farms.
14. Income from supply of water for agricultural purposes.

AGRICULTURAL PRODUCE USED AS RAW MATERIALS [Rule-11]

Where a cultivator or receiver of rent-in-kind uses the agricultural produce as raw materials in his business, then the income chargeable to tax under the head "Income from Business" shall be computed as below:

Total Income

Less: Market value of the agricultural produce utilized in business as raw material

Notes:

1. Only the market value of the agricultural produce is deducted. No further deduction shall be made in respect of any expenditure incurred by the taxpayer as cultivator or as a receiver of rent-in-kind.
2. The market value shall be calculated as below

A company is engaged in agricultural as well as industrial activities. It has its own farms where fruits, tomato, etc., are produced. These items along with those purchased from the market are used in manufacturing Ketchup, Jams, Jelly and Marmalade. Compute the business and the agricultural income from the following information for the year ended on 30th June, 20X1:

- Sales of goods manufactured: Rs. 11,250,000
- Expenses on agriculture: Rs. 1,500,000

- Purchases from the market: Rs. 2,250,000
- Manufacturing expenses: Rs. 1,125,000
- Selling expenses: Rs. 750,000
- Financial expenses: Rs. 375,000
- Administration expenses: Rs. 1,275,000

Note: The market value of the goods produced by the company and utilized in manufacturing is Rs. 3,750,000.

Answer:

Business Income

- Sales: Rs. 11,250,000
- Less: Cost of Sales: Rs. 7,125,000
 - Market value of self-produced raw material: Rs. 3,750,000
 - Raw material purchased: Rs. 2,250,000
 - Manufacturing expenses: Rs. 1,125,000
- Gross Profit: Rs. 4,125,000
- Less: Operating expenses: Rs. 2,400,000
 - Selling expenses: Rs. 750,000
 - Administration expenses: Rs. 1,275,000
 - Financial expenses: Rs. 375,000
- Net Profit from business: Rs. 1,725,000

Agricultural Income

- Market value of the goods produced and used as raw material: Rs. 3,750,000
- Less: Expenses on agricultural: Rs. 1,500,000
- Agricultural income: Rs. 2,250,000

DIPLOMATIC AND UNITED NATIONS EXEMPTIONS [42(1) & (2)]

The income of an individual entitled to privileges under any of the following laws shall be exempt from tax

PENSION OF UNITED NATIONS' EMPLOYEES [42(3)]

Pension received by a Pakistani shall be exempt from tax if:

1. The pension is by virtue of his employment in United Nations or its specialized agencies (including International Court of Justice); and
2. The salary income of the person from such employment was exempt from tax under the Income Tax Ordinance.

EMPLOYEE OF A FOREIGN GOVERNMENT [43]

The salary income of an employee of a foreign government is exempt from tax if the following conditions are fulfilled:

1. The employee is not a citizen of Pakistan;
2. The person performs such services as are being performed by the employees of the Government of Pakistan in foreign countries; and
3. The foreign government also grants a similar tax exemption to the employees of Government of Pakistan performing services in that country.

EXEMPTIONS UNDER INTERNATIONAL AGREEMENTS [44]

Exemption as a Result of a Tax Treaty [44(1)]

A Pakistan-source income shall be exempt from tax if it cannot be taxed in Pakistan due to the tax treaty entered into by the Government of Pakistan.

Salary Income of an Individual Performing Services under an Aid Agreement [44(2)]

The salary income of an individual shall be exempt from tax if the following conditions are fulfilled:

1. The person is not a citizen of Pakistan.
2. He is performing services under an Aid Agreement between the Federal Government and a foreign government or public international organization.
3. The person is either not a resident or is resident only due to his service under the Aid Agreement.
4. The person is a citizen of that country with which the Aid Agreement has been entered into.
5. The salary is being paid to the person out of the funds or grants released as aid to Pakistan.

Income of Contractor, Consultant or Expert [44(3)]

Income of any person shall be exempt from tax if the following conditions are satisfied:

1. The person is engaged as a contractor, consultant or expert;
2. He is engaged on a project in Pakistan being undertaken under a bilateral or multilateral technical assistance agreement between the Federal Government and a foreign government or public international organization;
3. The project is being financed out of the funds available in accordance with the agreement

Official Development Assistance Financial Loans and Grants-In-Aid [44(4)]

The Federal Government may exempt income of any person on a case-to-case basis, in respect of an official development assistance financial loans and grants-in-aid. The exemption shall be notified in the official Gazette and shall be subject to specified conditions and limitations.

EXEMPTION UNDER FOREIGN INVESTMENT (PROMOTION AND PROTECTION) ACT, 2022 (FIPPA) [44A]

Certain exemptions are available to persons and incomes under FIPPA as below:

1. The exemption is from taxes on income (including capital gains), withholding taxes, minimum and final taxes under the ITO.
2. Exemption is in respect of "qualified investment" and for the period and to the extent as provided in Second and Third Schedule to the FIPPA.
3. The income may (instead of exemption) be subject to tax at the rate and in the manner specified in FIPPA.
4. This exemption is also available to all investors and shareholders of the qualified investment, their associates and companies specified in Second and Third Schedule including third party lenders on account of any loan.
5. Anti-avoidance provisions of the ITO (including sections 106, 106A, 108, 109 and 109A) shall not apply to persons entitled to exemption as above for such periods as specified in FIPPA.
6. Tax depreciation rates (u/s 22, 23 & 25 and Third Schedule to ITO) as effective on 20-03-2022 shall apply to these persons for 30 years.

Notes:

1. 20-03-2022 is the date of agreement between Antofagasta plc, Barrick Gold Corporation and the Governments of Pakistan and Balochistan on a framework that provides for reconstitution of the Reko Diq project and a pathway for Antofagasta plc to exit the project.
2. For the purpose of section 44A of ITO, the terms defined under the Second and Third Schedules to the said Act shall apply mutatis mutandis to ITO.
3. "Qualified investment" means the investments, sectors, industries or projects as may be chosen, approved and duly notified by the FG as qualified investment in the First Schedule to FIPPA.
4. First Schedule to FIPPA primarily describes the different projects by Reko Diq Mining Company (Private) Limited (RDMC).
5. "Investor" means:
 - i) a foreign natural person or enterprise who invests or has invested in Pakistan, including:
 - (a) foreign enterprises and any of their respective direct and indirect agents

ALLOWANCES ATTACHED TO HONOURS, AWARDS, ETC. [45]

Any allowance attached to any Honour, Award or Medal and any monetary award granted by the President of Pakistan is exempt from tax.

PROFIT ON DEBT [46]

Any profit on debt received by a non-resident person shall be exempt from tax if the following conditions are satisfied:

1. The profit is received on a security issued by a resident person.

2. The recipient and the payer of the profit are not associates of each other.
3. The security (e.g., debentures, etc.) was widely issued outside Pakistan for raising a loan therefrom to be used in the business in Pakistan.
4. The profit has been paid outside Pakistan.
5. The security is approved by FBR for the purpose of this exemption.

Approval of FBR shall not be required for Sukuks issued by the Second Pakistan International Sukuk Company Limited and the Third Pakistan International Sukuk Company Limited. [Clause (1A) of Part-IV of Second Schedule]

SCHOLARSHIPS [47]

The amount of any scholarship granted to a person shall be exempt from tax. However, where it is paid (directly or indirectly) by an associate then this exemption shall not be available.

SUPPORT PAYMENT TO LIVE APART [48]

Any amount received by a spouse shall be exempt from tax if it is received as a support payment under an agreement to live apart.

INCOME OF GOVERNMENTS [49]

Income of the following persons shall be exempt from tax:

1. The Federal government;
2. A Provincial Government; and
3. A Local Government in Pakistan.

However, any "Business Income" of a Provincial Government or a Local Government in Pakistan shall be taxable if it is derived from such business which is carried on outside its respective jurisdictional area. [49(2)]

- Any payment received by the Government (i.e., Federal, Provincial or Local) shall not be liable to any collection or deduction of advance tax. But where the business income of a Provincial Government or a Local Government is taxable, then advance tax may be deducted or collected from such income. [49(3)]

This exemption (i.e., exemption u/s 49) shall not be available in case of corporation, company, regulatory authority, development authority, other body or institution, whether:

1. It is established by or under a Federal law or a Provincial law or an existing law; or
2. It is set up, owned and controlled (directly or indirectly) by the Federal Government or a Provincial Government. [49(4)]

Notes:

1. The above-mentioned provision shall be applicable regardless of the ultimate destination of the income of corporation, company, regulatory body, institution, etc.

2. Income from sale of spectrum licences and renewal thereof by Pakistan Telecommunication Authority on behalf of the Federal Government after 01-03-2014 shall be treated as income of the Federal Government and not of the Pakistan Telecommunication Authority.

INCOME OF SHORT-TERM RESIDENTS [50]

The foreign-source income of a person shall be exempt from tax if the following conditions are met:

1. The person is an individual.
2. The nationality of the person is immaterial.
3. The person is resident only due to his employment in Pakistan; and
4. The person is in Pakistan for a period which is not more than three years.

However, the following incomes of such person shall not be exempt from tax:

1. Any income derived from his business established in Pakistan.
2. Any foreign-source income brought into or received in Pakistan.

INCOME OF RETURNING EXPATRIATES [51]

Foreign-source income of a Pakistani settling back in Pakistan is exempt for two years starting from the year in which he became resident. [51(1)]

1. The income accrues or arises outside Pakistan; and
2. The person was not resident in any of the four years immediately preceding the year in which he became resident.

Note:

Salary income of a Pakistani shall be exempt from tax if the person: [51(2)]

- Left Pakistan during the tax year;
- Remained abroad during the tax year; and
- Earned 'Salary' income from outside Pakistan during the tax year.

EXEMPTIONS UNDER SECOND SCHEDULE

EXEMPTION FROM TOTAL INCOME

Part I of Second Schedule contains certain incomes or classes of income, or persons or classes of persons which are exempt from tax. This exemption shall be restricted to the extent specified under each case.

Normally the exempted incomes are not included in the total income of a person. However, under some specified cases it shall be included in total income for the purpose of computing the average rate of tax which shall be applied to actually taxable income.

SALARY INCOME

Employees of Agha Khan Development Network, (Pakistan) [Clause (3)]

The salary income of a person working as expert, advisor, consultant or senior management staff in any institution run by AKDN is exempt if the said person is not citizen of Pakistan.

Allowances, etc., to Person Working Outside Pakistan [Clause (5A)]

Any allowances and perquisites paid by the Government to a Pakistani, rendering services outside Pakistan are exempt from tax.

Pension Received by a Pakistani

Any amount received as pension by a Pakistani is exempt. This exemption shall be withdrawn if the retired person is re-employed by the same employer or an associate of the employer.

Where a person receives more than one pension, then only one pension having higher amount will be exempt and remaining others will be taxable. [Clause (6)]

Pension received by the following persons is exempt from tax:

1. Any citizen of Pakistan. [Clause (8)]
2. Members of Armed Forces of Pakistan. [Clause (9)]
3. Employees of the Federal Government or a Provincial Government. [Clause (9)]
4. Families and dependents of public servants or members of Armed Forces of Pakistan died during service. [Clause (9)]
5. Commutation of pension received from Government or under any pension scheme approved by FBR. [Clause (12)]
6. Any income (including pension) received by families and dependents of Shaheeds and public servants died during service. [Clause (16) & (17)]

GRATUITY OR COMMUTATION OF PENSION [Clause (13)]

Any amount of gratuity or commutation of pension received by an employee on his retirement or his heirs upon his death is exempt from tax subject to the following limits:

Sr. No.	Received From	Exemption Limit
1.	Government (Federal, Provincial or Local), Statutory body or Corporation.	Full amount
2.	Gratuity Fund approved by Commissioner.	Full amount

Exemption from Total Income [4-80]

Any payment received by the Government (i.e., Federal, Provincial, or Local) shall not be liable to any collection or deduction of advance tax. But where the business income of a Provincial Government or a Local Government is taxable, then advance tax may be deducted or collected from such income.

Exemption shall not be granted if:

1. The payment is not received in Pakistan;
2. The payment is received by a director (who is not a regular employee) of a company;
3. The recipient is a non-resident; and
4. The gratuity is received by an employee who has already received a gratuity from the same or any other employer.

Leave Encashment [Clause (19)] Any amount received on encashment of 'leave preparatory to retirement' (LPR) is exempt, if it is received by a member of Armed Forces of Pakistan or a Government employee.

It is important to note that only encashment of LPR by Government employees is exempt. Any other leave encashment by Government employees shall be taxable. Leave encashment by private sector employees is taxable.

Amount Received from Voluntary Pension System [Clause (23A)] Fifty per cent (50%) of the accumulated balance received shall be exempt from tax if the following conditions are satisfied:

1. It is received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005; and
2. It is received by: i) An eligible person on his retirement or on disability rendering him unable to work; or ii) Nominated survivors on death of the eligible person.

Note: Treatment for the remaining 50% shall be as follows:

1. Withdrawal in case of disability or death of the person, the excess amount shall be added in salary income and charged to tax under income tax.
2. Withdrawal in case of retirement, (either before retirement age or at time of or after retirement age) excess of fifty percent (50%) of accumulated balance, shall be taxed under 1/26 as separate block of income and charged at average rate of tax (ART) based on preceding three tax years.

Withdrawal of Accumulated Balance from Approved Pension Fund [Clause (23C)] Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said pension fund shall be exempt from tax.

Exemptions and Concessions [4-80]

Any other employer (other than those specified under Sr No.1 above) under a scheme approved by FBR (the scheme should be applicable to all employees of the employer):

- Rs. 300,000/-
- Lesser of Rs. 75,000 or 50% of the amount received

Note: Exemption shall not be granted if:

1. The payment is not received in Pakistan;
2. The payments are received by a director (who is not a regular employee) of a company;
3. The recipient is a non-resident; and
4. The gratuity is received by an employee who has already received a gratuity from the same or any other employer.

"Any commutation of pension under a scheme approved by FBR under Clause-12 shall be fully exempt. However, if the scheme is approved under Clause-13(i), the exemption is restricted to Rs. 300,000."

LEAVE ENCASHMENT [Clause (19)]

Any amount received on encashment of leave preparatory to retirement (LPR) is exempt, if it is received by a member of the Armed Forces of Pakistan or a Government employee.

It is important to note that only encashment of LPR by Government employees is exempt. Any other leave encashment by Government employees shall be taxable. Leave encashment by private sector employees is taxable.

AMOUNT RECEIVED FROM VOLUNTARY PENSION SYSTEM [Clause (23A)]

Fifty percent (50%) of the accumulated balance received shall be exempt from tax if the following conditions are satisfied:

1. It is received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005; and
2. It is received by:
 1. Eligible person on his retirement or on disability rendering him unable to work; or
 2. Nominated survivors on death of the eligible person.

Note: Treatment for the remaining 50% shall be as below:

1. Withdrawal in case of disability or death of the person, the excess amount shall be added in salary income and charged to tax under NTR.
2. Withdrawal in case of retirement, (either before retirement age or at the time of or after retirement age) excess of fifty percent (50%) of accumulated balance, shall be taxed under Us 12(6) as separate block of income and charged at average rate of tax (ART) based on preceding three tax years.

WITHDRAWAL OF ACCUMULATED BALANCE FROM APPROVED PENSION FUND [Clause (23C)]

Any withdrawal of accumulated balance from approved pension fund that represents the transfer of balance of approved provident fund to the said pension fund shall be exempt from tax.

Judges of the Supreme Court or a High Court

These following perquisites received by Judges of the Supreme Court or a High Court shall be exempt from tax:

1. Rent-free accommodation or house rent allowance, where Judge chooses to reside in a house not provided by the Government.
Benefits on account of: i) Expenses of the Government on use of official car;
ii) Superior judicial allowance; and
iii) Transfer allowance.
2. The following perquisites during their whole life (in service and after retirement), to the extent specified against each benefit:

Sr. No.	Nature of Perquisite	Exempt upto
(i)	Service of driver	Totally exempt
(ii)	Service of an orderly	Totally exempt
(iii)	Telephone	1,000 local calls per month
(iv)	Electricity	1,000 units per month
(v)	Gas	25 m ³ per month
(vi)	Water supply	Totally exempt
(vii)	Petrol	200 liters per month

Note: These benefits and their exemption from tax shall also be available to the widow of a judge who dies during the service.

PROFIT ON DEBT

Profit on debt is exempt from tax as per the following:

S. No.	Nature of Income	Exemption Limit
1.	Any profit on debt and capital gains derived by any agency of foreign Government or any non-resident person approved by the Federal Government from approved debt and debt instruments.	Full amount
2.	Profit on debt from foreign currency accounts held with a scheduled bank in Pakistan or certificate of investment issued by investment banks by non-resident individuals, non-resident association of persons and non-resident companies.	Full amount
3.	Profit on Rupee account held with a scheduled bank in Pakistan by a non-resident individual holding a Pakistani Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC), if the deposits are made from remittances from outside Pakistan.	Full amount

INCOME OF COLLECTIVE INVESTMENT SCHEME OR REIT SCHEME

Income of a collective investment scheme or REIT Scheme shall be exempt from tax if at least ninety per cent (90%) of their accounting income less the accumulated losses and the capital gains (whether realized or unrealized) is distributed amongst the unit or certificate holders.

"Accounting Income" means the income calculated under the Generally Accepted Accounting Principles (GAAP) and verified by the auditors.

GAIN ON SALE OF IMMOVABLE PROPERTY [Clause (9A)]

Profit and gains accruing to a person on sale of immovable property to any type of REIT scheme shall be exempt from tax if the property is sold up to 30-06-2023.

INCOME OF SPECIAL PURPOSE VEHICLE (SPV) [Clause (99B)]

Income of a SPV buying Diversified Payment Rights from the Authorized Dealers in Pakistan.

'Diversified Payment Rights', 'Special Purpose Vehicle' and 'Authorized Dealers' shall have the same meanings as are assigned in the State Bank of Pakistan's Circular(s) or Regulations on Diversified Payment Rights.

INTER-CORPORATE DIVIDEND [Clause (103A)]

Any income derived from inter-corporate dividend within the group companies entitled to group taxation under section 59AA of Income Tax Ordinance shall be exempt from tax. This exemption is subject to the condition that return of the group has been filed for the tax year.

DIVIDEND AND CAPITAL GAINS OF VENTURE CAPITAL FUND [Clause (103D)]

Dividend income and long-term capital gains of any venture capital fund from investments in 'zone enterprises' shall be exempt for ten (10) years commencing from issuance of licence to the zone enterprise by the Special Technology Zones Authority.

'Zone enterprises' means any public, private, or public-private person developing, operating and managing a technological enterprise within the zone and licensed as such by the Authority.

[Section (21) of the Special Technology Zones Authority Act, 2021]

CAPITAL GAINS [Clause (114B)]

'Any Capital Gains' shall be exempt from tax subject to the following:

- Gain is from first sale of immovable property by dependent of a Shaheed belonging to Pakistan Armed Forces or a person who dies while in the service of the Pakistan Armed Forces or the service of Federal or Provincial Government, and
- The property was acquired from or allotted by the Federal Government or Provincial Government or any authority duly certified by the official accountant authority in recognition of services rendered by the persons specified in proviso to section 236T(i).

INCOME OF PUBLIC SECTOR UNIVERSITIES [Clause (126)]

Any income of a public sector university established solely for educational purposes and not for profit shall be exempt from tax. This exemption shall be effective from 01-07-2013.

INCOME OF CHINA OVERSEAS PORTS HOLDING COMPANY [Clause (126A)]

Income derived by the China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited from Gwadar Port and Gwadar Free Zone operations shall be exempt from tax for a period of twenty-three (23) years beginning from 06-07-2007.

INCOME FROM BUSINESS IN GWADAR FREE ZONE AREA [Clause (126A)]

Profit and gains derived by a taxpayer from businesses set up in Gwadar Free Zone Area shall be exempt from tax for a period of twenty three (23) years beginning from 01-07-2016

Income Tax - Exemptions and Concessions**PROFIT ON DEBT UNDER FINANCING AGREEMENT [Clause (126A8)]**

Profit on debt derived under a financing agreement with the China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminals Limited, Gwadar Marine Services Limited, and Gwadar Free Zone Company Limited shall be exempt from tax for a period of twenty-three (23) years beginning from 01-07-2016.

This exemption is available for the following persons:

1. Any foreign lender;
2. Any local bank having more than 75% shareholding of the Government or the State Bank of Pakistan.

INCOME OF CONTRACTORS OF CHINA OVERSEAS PORTS HOLDING COMPANY, Etc.

[Clause (126A0)]

Income derived by contractors and sub-contractors of the China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited, and Gwadar Free Zone Company Limited from Gwadar Port and Gwadar Free Zone operations shall be exempt from tax for a period of twenty (20) years beginning from 01-07-2016.

DIVIDEND INCOME OF CHINA OVERSEAS PORTS HOLDING COMPANY

[Clause (126AD)(1)]

Dividend received by China Overseas Ports Holding Company Limited from China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited,

Gwadar Marine Services Limited, and Gwadar Free Zone Company Limited shall be exempt from tax for a period of twenty-three (23) years beginning from 01-07-2016.

DIVIDEND INCOME OF CHINA OVERSEAS PORTS HOLDING COMPANY PAKISTAN (PRIVATE) LIMITED [Clause (1264D)(2)]

Dividend received by China Overseas Ports Holding Company Pakistan (Private) Limited from Gwadar International Terminal Limited, Gwadar Marine Services Limited, and Gwadar Free Zone Company Limited shall be exempt from tax for a period of twenty-three (23) years beginning from 01-07-2016.

INCOME OF A REFINERY (Clause (126B))

Profit and gains derived by a refinery shall be exempt from tax subject to the following conditions:

1. The income is:
 - (i) From new deep conversion refinery of at least 100,000 barrels per day for which approval is given by the Federal Government before the 31-12-2021;
 - (ii) For the purpose of up-gradation, modernization, or expansion project of any existing refinery which makes undertaking to the Federal Government in writing before the 31-12-2021 in its regard.
2. The exemption shall only be available to those refineries whose products fully comply with Euro 5 standards.
3. Exemption shall be available for a period as below:
 - (i) In the case of a new refinery, twenty (20) years beginning from the date of commencement of commercial production; and

(i) In the case of existing refinery, ten (10) years from the date of completion of up-gradation, modernization or expansion project.

INCOME OF INDUSTRIAL UNDERTAKING IN EPZ GAWADAR [Clause (126D)]

Profits and gains derived by a taxpayer from an industrial undertaking set up in Export Processing Zone, Gwadar shall be exempt for a period of ten (10) years beginning with the month and year in which the industrial undertaking is set up or commercial operation commenced, whichever is the later.

INCOME OF ENTERPRISES IN SPECIAL ECONOMIC ZONES [Clause (126E)]

Income of 'Zone Enterprise' shall be exempt from tax for a period of ten (10) years starting from the date the 'developer' certifies that the 'zone enterprise' has commenced commercial production.

Income of 'Developer of Zone' shall be exempt from tax for a period of ten (10) years starting from the date of signing of development agreement in Special Economic Zones (SEZ) announced by the Federal Government.

The Special Economic Zones Act, 2012 has defined the above-referred terms as below:

- **'Zone Enterprise'** means an enterprise admitted into SEZ by a developer.
- **'Developer'** means an enterprise which has entered into a development agreement with a SEZ Authority.

Exemption to Co-Developer

This exemption shall also be available to a co-developer (as defined in Special Economic Zone Rules, 2018) with a condition that a certificate has been furnished by the:

1. Developer that he has not claimed exemption under this clause and has relinquished his claim in favour of the co-developer; and
2. Special Economic Zone Authority validating that the developer has not claimed exemption under this clause and has relinquished claim in favour of the co-developer.

'Co-Developer' means a partner of the developer for establishment, development, and operations of SEZ.

INCOME OF PERSONS CONNECTED WITH SPECIAL TECHNOLOGY ZONES

[Clause (126EA)]

Income of the following persons functioning under the Special Technology Zones Authority Act, 2021 shall be exempt from tax for a period as specified against each of them:

1. **Zone Developer**, income from development and operations of the zones, for ten (10) years starting from the date of signing of the development agreement.
2. **Zone Enterprise**, ten years from the date of issuance of license by the Special Technology Zone Authority, and
3. Special Technology Zones Authority, permanently.

'Zone Developer' means a public, private, or public-private person responsible for development, operation, or management of the whole, or part of the whole special technology zone, and licensed by the Authority as such, and includes a co-zone developer.

'Zone Enterprise' means any public, private, or public-private person developing, operating, and managing a technological enterprise within the zone and licensed as such by the Authority

'Special Technology Zones Authority' means the 'Authority' established u/s 3 of the Special Technology Zones Authority Act, 2021.

INCOME FROM TRANSMISSION LINE PROJECTS [Clause (126M)]

Profits and gains derived by a taxpayer from a transmission line project shall be exempt for a period of ten (10) years. This exemption is subject to the following conditions:

1. The project is set up in Pakistan between 03-07-2018 and 30-08-2022;
2. It is owned and managed by a company formed under the Companies Act, 2017 for operating the said project. The company has its registered office in Pakistan;

3. It is not formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan at any time before the commencement of the new business; and
4. The project is not owned by a Government company, i.e., 50% of whose shares are held by the Government (Federal, Provincial or Local) or by a company which is controlled by the Government.

INCOMES FROM ELECTRIC POWER GENERATION PROJECT [Clause (132)]

Any profits and gains from an electric power generation project set up in Pakistan shall be exempt from tax if:

1. The project is set up on or after 01-07-1988;
2. The project is owned and managed by a company whose registered office is in Pakistan; and
3. The project is not formed by splitting up or reconstitution of a business already in existence.

Notes:

1. The condition in point No. 2 above does not apply to Hub Power Company Limited.
2. Any project, which is oil-fired power plant, shall not be exempt from tax if set up between 22-10-2002 and 30-06-2008. However, the Dual Fuel (Oil / Gas) power projects set up on or after September 01, 2008 shall be exempt from tax.
3. This exemption shall be available to companies registered in Pakistan or AJ&K owning and managing Hydel Power Projects, setup in Pakistan or AJ&K.
4. This exemption shall not be available to persons, who enter into an agreement or to whom letter of intent is issued by Federal or Provincial Government for setting up an electric power generation project in Pakistan after the 30-06-2021.

INCOMES OF NATIONAL POWER PARKS MANAGEMENT COMPANY [Clause (132AA)]

Profits and gains derived from sale of electricity by National Power Parks Management Company (Private) Limited or demerged entities of National Power Parks Management Company (Private) Limited shall be exempt from tax. This exemption shall commence from the commercial operation date and continue after the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan.

INCOMES OF COGENERATION POWER PROJECT [Clause (132C)]

Profits and gains derived by a taxpayer from a bagasse/biomass-based cogeneration power project having one or more boilers of not less than 60 bar (kg/cm) pressure each, commissioned after 01-01-2013 shall be exempt from tax.

CERTAIN INCOMES OF SPECIFIED INSTITUTIONS [Clause (57)(1)]

Any income from voluntary contributions, property, and investment in securities of the Federal Government of the following persons shall be exempt from tax:

1. **National Investment Trust**, if the following conditions are satisfied:
 - i) At the end of the tax year, at least ninety percent (90%) of its Units are held by the public; and
 - ii) At least ninety percent (90%) of its income for the year is distributed among the Unit-holders.
2. Any **Mutual Fund of the Investment Corporation of Pakistan**, if the following conditions are met:
 - i) The Fund is approved by the Securities and Exchange Commission of Pakistan (SECP);
 - ii) At the end of the tax year, at least ninety percent (90%) of its certificates are held by the public; and
 - iii) At least ninety percent (90%) of its income for the year is distributed among the certificate-holders.

INCOMES OF MUTUAL FUNDS, Etc. [Clause (57)(2)]

Income of any mutual fund, investment company, collective investment scheme, a REIT scheme, or Private Equity and Venture Capital Fund or National Investment Trust of Pakistan from any instrument of redeemable capital are exempt if at least ninety percent (90%) of their income of that year (whether realized or unrealized) is distributed among Unit or certificate holders.

However, capital gain on stock and shares of public companies, Pakistan Telecommunication Corporation vouchers, Modaraba certificates, or any instrument of redeemable capital and derivative products held for less than twelve (12) months shall not be exempt under this clause.

INCOMES OF CERTAIN FUNDS Etc. [Clause (57)(3)]

Any income of the following funds and institutions shall be exempt from tax:

1. Any provident fund to which the Provident Fund Act, 1925 applies.
2. Any recognized provident fund, approved superannuation fund, or approved gratuity fund.
3. Any benevolent fund or group insurance scheme approved by FBR.
4. Any **Service Fund**.

'Service Fund' means a fund established with the approval of the Federal Government for:

- i) Securing deferred annuities to the subscribers after their service;
- ii) Making provisions for their dependents after their death;
- iii) Making payments to their nominees upon their death.

5. Employees Old Age Benefit Institution.
6. Any Unit, Station, or Regimental Institute.
7. Any recognized Regimental Thrift and Savings Fund.
8. A Pension Fund approved by SECP under the Voluntary Pension System Rules, 2005

Any profit, gain, or benefit derived by a Pension Fund Manager from a Pension Fund approved under the Rules on redemption of seed capital invested in Pension Fund.

- **International Irrigation Management Institute**
- **Punjab Pension Fund** established under the Punjab Pension Fund Act, 2007 and the trust established thereunder.
- **Sindh Province Pension Fund** established under the Sindh Province Pension Fund Ordinance, 2002.
- **Punjab General Provident Investment Fund** established under the Punjab General Provident Investment Fund Act, 2009 and the trust established thereunder.
- **KPK Retirement Benefits and Death Compensation Fund**
- **KPK General Provident Investment Fund**
- **KPK Pension Fund**

INCOMES OF CERTAIN INSTITUTIONS, Etc. [Clause (65A) & (66)]

1. Any income from Welfare Fund created under rule-26 of the Emigration Rules, 1979 (made under section 16 of the Emigration Ordinance, 1979 (XVIII of 1979), except the income generated by the aforesaid fund through commercial activities. [Clause (65A)]
2. Any income derived by the following institutions, foundations, societies, boards, trusts, and funds shall be exempt from tax:

Name

- 1 International Islamic Trade Finance Corporation
- 2 Islamic Corporation for Development of Private Sector
- 3 National Memorial Bab-e-Pakistan Trust
- 4 Pakistan Agricultural Research Council
- 5 The corporatized entities of Pakistan Water and Power Development Authority from the date of their creation up to the date of completion of the process of corporatization i.e., till the tariff is notified.
- 6 The Prime Minister's Special Fund for victims of terrorism.
- 7 Chief Minister's (Punjab) Relief Fund for Internally Displaced Persons (IDPs) of NWFP.
- 8 The Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1984, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network.
- 9 Pakistan Council of Scientific and Industrial Research.
- 10 The Pakistan Water and Power Development Authority established under the Pakistan Water and Power Development Authority Act, 1958 (W.P. Act XXXI of 1958).
- 11 WAPDA First Sukuk Company Limited.
- 12 Pension of a former President of Pakistan and his widow.

☐ **State Bank of Pakistan and State Bank of Pakistan Banking Services Corporation.**

☐ **International Finance Corporation** established under the International Finance Corporation Act, 1956 (XVII of 1956) and provided in section 9 of Article VI of Articles of Agreement 1955 as amended through April 1993.

- ☐ **Pakistan Domestic Sukuk Company Ltd.**
- ☐ **ECO Trade and Development Bank.**
- ☐ **The Islamic Chamber of Commerce and Industry** under the Organization of Islamic Conference (OIC).
- ☐ **Commission on Science and Technology for Sustainable Development in the South (COMSATS)** formed under International Agreement signed on 5th October, 1994.
- ☐ **WAPDA** on issuance of twenty billion rupees TFC's/SUKUK certificates for consideration of Diamer Bhasha Dam Projects.
- ☐ **Federal Board of Revenue Foundation.**
- ☐ **WAPDA Second Sukuk Company Limited.**
- ☐ **Pakistan International Sukuk Company Limited.**
- ☐ **Second Pakistan International Sukuk Company Limited.**
- ☐ **Third Pakistan International Sukuk Company Limited.**
- ☐ **Asian Infrastructure Investment Bank** and persons as provided in Article 51 of Chapter IX of the Articles of Agreement signed and ratified by Pakistan and entered into force on the 25th December, 2015.
- ☐ **Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund.**
- ☐ **National Disaster Risk Management Fund.**
- ☐ **Deposit Protection Corporation** established under sub-section (1) of section 3 of Deposit Protection Corporation Act, 2016 (XXXVIII of 2016).
- ☐ **SAARC Energy Centre.**
- ☐ **The Asian Development Bank** established under the Asian Development Bank Ordinance, 1971 (X of 1971).
- ☐ **The Prime Minister's COVID-19 Pandemic Relief Fund-2020.**
- ☐ **SAARC Arbitration Council (SARCO).**
- ☐ **International Parliamentarians' Congress.**

- ☐ **Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT.**
- ☐ **Shaukat Khanum Memorial Trust.**
- ☐ **National Endowment Scholarship for Talent (NEST).**
- ☐ **Islamic Naya Pakistan Certificates Company Limited (INPCCL).**
- ☐ **Abdul Sattar Edhi Foundation**
- ☐ **Patient's Aid Foundation**
- ☐ **Indus Hospital and Health Network**
- ☐ **Securities and Exchange Commission of Pakistan**
- ☐ **Dawat-e-Hadiya, Karachi**
- ☐ **Privatization Commission of Pakistan**
- ☐ **The Citizens Foundation**
- ☐ **Sundus Foundation**
- ☐ **Ali Zaib Foundation**
- ☐ **Fauji Foundation**
- ☐ **Make a Wish Foundation**
- ☐ **Audit Oversight Board**
- ☐ **Supreme Court Water Conservation Account**
- ☐ **Layton Rahmatullah Benevolent Trust (LRBT)**
- ☐ **Baluchistan Education Endowment Fund (BEEF)**
- ☐ **Saylani Welfare International Trust**
- ☐ **Chiniot Anjuman Islamia**
- ☐ **Army Welfare Trust**
- ☐ **Pakistan Mortgage Refinance Company Limited**

- ☐ **Pakistan Global Sukuk Programme Company Limited**
- ☐ **Karandaaz Pakistan from tax year 2015 onwards**
- ☐ **Pakistan Sweet Homes Angles and Fairies Place**
- ☐ **Public Private Partnership Authority for tax year 2022 and subsequent four tax years**
- ☐ **Dawat-e-Islami Trust**
- ☐ **Hamdard Laboratories (Waqf) Pakistan**
- ☐ **The Prime Minister's Relief Fund for Flood, Earthquake, and Other Calamities with effect on and from the 5th August, 2022.**
- ☐ **Film and Drama Finance Fund**
- ☐ **Export-Import Bank of Pakistan**
- ☐ **Shaheed Mohtarma Benazir Bhutto Institute of Trauma, Karachi**
- ☐ **Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology**

Any income derived by the following institutions, foundations, societies, boards, trusts, and funds shall be exempt from tax. This exemption is subject to the provisions of section 100C of the Income Tax Ordinance: [Table-2 of Clause (66)]

Name

- 1 Al-Shifa Trust
- 2 Bilquis Edhi Foundation
- 3 Fatimid Foundation
- 4 Pakistan Engineering Council
- 5 The Institution of Engineers
- 6 Greenstar Social Marketing Pakistan (Guarantee) Limited
- 7 Gulab Devi Chest Hospital
- 8 Liaquat National Hospital Association
- 9 Pakistan Poverty Alleviation Fund
- 10 National Academy of Performing Arts
- 11 National Rural Support Programme
- 12 Pakistan Bar Council
- 13 Pakistan Centre for Philanthropy
- 14 Aziz Tabba Foundation
- 15 The Kidney Centre Post Graduate Training Institute

Name

- 16 Pakistan Disabled Foundation
- 17 Forman Christian College
- 18 Habib University Foundation
- 19 Begum Akhtar Rukhsana Memorial Trust Hospital
- 20 Al-Khidmat Foundation
- 21 Sardar Trust Eye Hospital, Lahore
- 22 Akhuwat
- 23 Al-Shifa Trust Eye Hospital
- 24 SARMAYA-E-PAKISTAN LIMITED
- 25 Lahore University of Management Sciences, Lahore
- 26 Ghulam Ishaq Khan Institute of Engineering Sciences and Technology
- 27 Society for the Promotion of Engineering Sciences and Technology in Pakistan (SOPREST)
- 28 Businessmen Hospital Trust
- 29 Baitussalam Welfare Trust

- 30. **Alamgir Welfare Trust International**
- 31. **Foundation University**
- 32. **Burhani Qazi Hassan Trust**
- 33. **Saifee Hospital Karachi**
- 34. **Saifyah Girls Taalim Trust**
- 35. **Balochistan Bar Council**
- 36. **Islamabad Bar Council**
- 37. **Khyber Pakhtunkhwa Bar Council**
- 38. **Punjab Bar Council**
- 39. **Sindh Bar Council**
- 40. **Shaheed Zulfikar Ali Bhutto Foundation (SZABF)**

Any wholly owned subsidiary of Islamic Development Bank, if it is set up in Pakistan and is engaged in owning and leasing of tankers. [Clause (107)]

Any income of Islamic Development Bank from its operations in Pakistan in connection with its social and economic development activities. [Clause (107A)]

Any income of Federal Government Employees Housing Authority and Naya Pakistan Housing and Development Authority for the tax years 2020 to 2024. [Clause (147)]

MEDICAL FACILITY OR ALLOWANCE [Clause (139)]

Any benefit or reimbursement of medical expenses or hospitalization charges to an employee is a

perquisite in his hands. The tax treatment depends upon the terms of employment, which is as follows:

1. Any benefit to the employee in the form of free medical treatment or hospitalization by an employer shall be exempt from tax if it is provided in accordance with the terms of employment.
2. Any benefit to the employee in the form of reimbursement of charges shall be exempt from tax if the following conditions are satisfied:
 - i) The reimbursement is in accordance with the terms of employment; and
 - ii) The employee has submitted proper receipts bearing NTN and complete address of the hospital or clinic and the bills are attested and certified by the employer.
3. Maximum ten percent (10%) of the basic salary shall be exempt from tax, if the medical allowance has been received by an employee and no other benefit in this regard is provided for under the terms of employment.
4. Any amount exceeding 10% of basic salary shall be taxable under the head "Salary".
5. Total amount of medical allowance shall be taxable if the employer has provided facility of medical treatment or reimbursement of medical expenses. Under this case, medical facility shall be treated as discussed in earlier paragraphs.

RECEIPTS OF OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) [Clause (140)]

All payments (principal, interest, etc.) received by OPIC from development projects undertaken in pursuance to the Investment Incentive Agreement signed between the Governments of Pakistan and USA, dated 18-11-1997.

PROFIT ON DEBT RECEIVED BY JAPAN INTERNATIONAL COOPERATION AGENCY (JICA) [Clause (140A)]

All profit on debt received by JICA from Islamabad-Burhan Transmission Reinforcement Project (Phase-I) in pursuance to the loan agreement for this project. [Clause (140A)]

INCOME OF SOCIAL SECURITY INSTITUTIONS [Clause (142)]

Income of the following institutions derived from social security contributions shall be exempt from tax:

1. Baluchistan Employees' Social Security Institution
2. Employees' Social Security Institution Khyber Pakhtunkhwa
3. Punjab Employees' Social Security Institution
4. Sindh Employees' Social Security Institution

Only such income shall be exempt which is derived from social security contributions. All other incomes of these institutions shall be taxable.

INCOME OF PERSONS OF ERSTWHILE TRIBAL AREAS [Clause (145A)]

Any income of any individual domiciled or company and association of persons resident in the Tribal Areas forming part of the Provinces which was not chargeable to tax prior to the merger of Tribal Areas into provinces shall be exempt from tax from 07-06-2018 to 30-06-2024.

TRANSACTIONS CONNECTED WITH INTERNATIONAL BUYING HOUSE [Clause (149)]

Following amounts shall be exempt from tax:

1. Any sum received by an **International buying house** remitted in foreign currency to Pakistan by its non-resident principal through banking channels to meet its expenses in Pakistan; and
2. Any "Salary" received by a person who is not a citizen or resident of Pakistan and is engaged as an expert by an **International buying house**.

'International buying house' means persons acting as buying offices, buyers' agents, or representatives of international buyers for facilitating exports from Pakistan and are registered as liaison offices with the Board of Investment or companies registered with SECP.

Such buying houses act as cost centers with the sole purpose to bring export orders to Pakistan on behalf of their principals and do not enter into any local business transactions in Pakistan and their expenses are remitted to Pakistan.

INCOME FROM CINEMAS [Second Schedule: Clause (151) of Part-I & Clause (12P) of Part-IV]

Income of a person from cinema operations shall be exempt from tax for five (5) years from the commencement of cinema operations. This exemption is subject to the following conditions:

1. Cinema is being operated in a tehsil or town where there is no cinema; and
2. The person starts cinema construction on or before 31-12-2023.

Import of cinematographic equipment notified by the FG shall be exempt from tax withholding under section 148 of ITO

INCOME FROM FEATURE FILMS [Clause (153) of Part-I of Second Schedule]

Income of a resident producer or a resident production house from production of feature films shall be exempt from tax from 01-07-2022 to 30-08-2027.

PROFITS AND GAINS OF VENTURE CAPITAL COMPANY AND VENTURE CAPITAL FUND [Clause (152) of Part-I of Second Schedule]

Profits and gains of a venture capital company and venture capital fund shall be exempt from tax if:

1. The income is derived between 01-07-2022 and 30-06-2025; and
2. The company and the fund are registered under relevant Venture Capital Companies and Funds Management Rules issued by SECP.

REDUCTION IN TAX RATES

Part-II of the Second Schedule deals with the cases in which a taxpayer is charged to tax at a rate lower than the rates specified in the First Schedule. Those cases are as below.

WITHHOLDING TAX ON PROFIT ON DEBT TO A NON-RESIDENT [Clause (54)]

Where an amount is payable on account of profit on debt to a non-resident person having no PE in Pakistan, the rate of tax to be deducted is 15(2) shall be 10% of the gross amount paid.

Tax deducted on profit on debt from debt instruments, Government securities (including treasury bills) and Pakistan Investment Bonds shall be final tax if the following conditions are fulfilled:

1. The profit on debt is payable to a non-resident person having no PE in Pakistan; and
2. The investments are exclusively made through a Special Rupee Convertible Account maintained with a bank in Pakistan.

This exemption shall not be available to persons who are covered under clauses (78) and (79) of Part-I of the Second Schedule.

TAX ON PROFIT ON DEBT IN DEBT INSTRUMENT [Clause (5AA)]

Tax @ 10% of gross amount shall be deducted (as per 15(2)) on profit on debt on debt instruments (whether conventional or Shariah compliant) issued by the Federal Government, with a condition that the instrument was purchased exclusively through a bank account maintained abroad, a non-resident Rupee account repatriable (NRAR), or a foreign currency account maintained with a banking company in Pakistan.

Note: Tax so deducted shall be the final tax in respect of such profit on debt.

TAX ON PROFIT ON DEBT FROM DEBT INSTRUMENTS [Clause (5AB)]

Tax to be deducted u/s 151 shall be 10% of the profit on debt, subject to the following conditions:

1. Profit on debt from a debt instrument, whether conventional or Shariah compliant;
2. The instrument is issued by the Federal Government under the Public Debt Act, 1944 (XVII of 1944) or its wholly owned special purpose company; and
3. The instrument is purchased by a resident citizen of Pakistan who has already declared foreign assets to the FBR through a Foreign Currency Value Account (FCVA) maintained in authorized banks in Pakistan under the foreign exchange regulation issued by the State Bank of Pakistan.

TAX ON PROFIT ON DEBT [Clause (5AC)]

The rate of tax to be deducted u/s 152(2) or 151, as the case may be, shall be zero percent of the gross amount of profit on debt paid, covered under clauses (78) and (79) of Part-I of the Second Schedule.

TAX ON DIVIDEND FROM COGENERATION POWER PROJECT [Clause (18C)]

Dividends declared by a company as are “attributable” to profits and gains derived from a bagasse and biomass-based cogeneration power project qualifying for exemption under clause (132C) of Part-I of the Second Schedule shall be reduced to 7.5%. Amount of “attributable” dividends shall be computed in accordance with the following formula:

$$A \times B / C \text{ or } \frac{A \times B}{C}$$

Where:

A = Total amount of dividend for the year.

B = Accounting profit for the year attributable to the bagasse and biomass-based cogeneration power project.

C = Total accounting profit before tax for the year.

Note: Accounting profit attributable to the bagasse/biomass-based cogeneration power project would be determined by the external auditor of the company who shall issue a certificate for this effect.

TAX ON DISTRIBUTORS OF CIGARETTES AND PHARMACEUTICAL PRODUCTS [Clause (24A)]

Every prescribed person while making payment for the goods supplied by distributors of cigarettes and pharmaceutical products and for large distribution houses (who fulfill the conditions for a large import house as laid down in section 148(7)(d)) shall deduct tax u/s 153(1a) at the following rates applied to the gross amount of payment:

1. Distribution of cigarettes: 2.5%
2. Distribution of pharmaceutical products and others: 1%

WITHHOLDING TAX AND MINIMUM TAX ON CERTAIN PERSONS [Clauses (24C) & (24D)]

Withholding Tax [Clause (24C)]

Withholding tax u/s 153(1a) shall be @ 0.25% of gross amount of payments subject to the following conditions:

1. Recipient of payment are distributors, dealers, sub-dealers, wholesalers, and retailers of the following goods:
 - i) Fast moving consumer goods,
 - ii) Fertilizer,
 - iii) Electronics excluding mobile phones,
 - iv) Sugar,
 - v) Cement,
 - vi) Steel, and
 - vii) Edible oil.
2. The persons are appearing on the Active Taxpayers' List issued under the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001).

Note: This benefit under shall only be available to those Tier-1 retailers (as defined in Sales Tax Act, 1990) who are integrated and configured with FBR or its computerized system for real-time reporting of sales or receipts

Minimum Tax [Clause (24D)]

Minimum tax u/s 113(1)(2) shall be @ 0.25% in case of above-referred distributors, dealers, sub-dealers, wholesalers, and retailers, if the conditions discussed above are fulfilled.

COMPULSORY MONETIZATION OF TRANSPORT FACILITY [Clause (27)]

Tax on payments under Compulsory Monetization of Transport Facility for Civil Servants in BS-20 to BS-22 (as reduced by deduction of driver's salary) shall be charged @ 5% as a separate block of income.

WITHHOLDING TAX ON ONLINE MARKETPLACE [Clause (28C)]

Tax u/s 233 on brokerage and commission shall be deducted @ 5% from a person running online marketplace as defined in section 2(38B) of the Income Tax Ordinance, 2001.

MINIMUM TAX ON YARN TRADER [Clause (28E)]

An individual doing business as a trader of yarn shall be subject to minimum tax u/s 113 @ 0.5%.

WITHHOLDING TAX ON OIL TANKER CONTRACTOR [Clause (28F)]

Tax u/s 153(1)(b) on oil tanker contractor services shall be deducted @ 2% of the gross amount of the payments.

WITHHOLDING TAX ON SALE OF GOLD AND SILVER [Clause (31)]

Tax u/s 153(1)(a) of ITO on sale of gold and silver and their articles shall be deducted @ 1% on payment for sale. Tax so deducted shall be adjustable.

REDUCTION IN TAX LIABILITY

Part-III of the Second Schedule deals with the provisions which reduce the tax liability of a taxpayer. These provisions are briefly discussed below:

REDUCTION IN TAX LIABILITY OF TEACHERS OR RESEARCHERS [Clause (1)(2)]

In the case of a full-time teacher or a researcher, employed in a non-profit educational or research institution (including government training and research institutions) duly recognized by the Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, tax payable shall be reduced by an amount equal to 25% of tax payable by him on his income from salary.

Note: This tax credit shall not be available to teachers of the medical profession who derive income from private medical practice or who receive a share of consideration received from patents.

MAXIMUM TAX ON IMPORT OF USED VEHICLES [Clause (4)]

All duties and taxes (Customs, Sales, and Income) u/s 148 at the import of old and used automotive vehicles specified in SRO 577(1/2005 dated 06-06-2005 shall not exceed the amounts specified in the table given below:

S. No.	Engine capacity of vehicles meant for transport of persons	Maximum Tax (US\$)
1	Upto 800cc (Asian makes only)	4,400
2	Upto 800 cc (other than Asian makes)	8,800
S. No.	Engine Capacity of Vehicles Meant for Transport of Persons	Maximum Tax (US\$)
3	801cc to 1000cc	5,500
4	1001cc to 1300cc	11,000
5	1301cc to 1500cc	15,400
6	1501cc to 1600cc	18,700
7	1601cc to 1800cc (Asian makes only, but excluding jeeps)	23,100

TAX ON PROFIT ON DEBT U/S 39(1)(i) [Clause (6)]

Tax payable on "profit on debt," i.e., yield or profit on investment in Bahbood Savings Certificate or Pensioners' Benefit Account and Shuhada Family Welfare Account shall not exceed 5% of such profit.

TAX ON LOW COST HOUSING PROJECTS [Clause (9)]

Tax payable by a company on its profits and gains from low-cost housing projects shall be reduced by 50% if the following conditions are satisfied:

1. The project is owned and managed by a company registered under the Companies Act, 2017, and having its registered office in Pakistan. It is formed for operating the said project.
2. The company is not formed by splitting up or the reconstruction or reconstitution of a business already in existence or by transfer of any machinery or plant used in a business being carried on in Pakistan at any time before the commencement of the new business.
3. The project is having a maximum sale price of Rs. 2,500,000 of a single housing unit.

Note: This exemption shall continue to remain available to such projects which commence on or before the 30th day of June, 2024.

TAX ON CAPITAL GAINS ON IMMOVABLE PROPERTY [Clause (9A)]

Tax payable on capital gains on sale shall be reduced by 50% subject to the following conditions:

1. It's the first sale of immovable property acquired or allotted to Government employees (serving or retired); and
2. The seller is the original allottee of the immovable property, duly certified by the allotment authority.

Tax on capital gains shall be reduced by 75% if the immovable property is sold after completion of three years from the date of its acquisition.

TAX ON LOW COST HOUSING PROJECTS BY NAPHDA [Clause (9B)]

Tax payable on income, profits, and gains from projects of low-cost housing developed or approved by Naya Pakistan Housing and Development Authority or under the Ehsaas Programme shall be reduced by 90%.

Note: This exemption shall continue to remain available to such projects which commence on or before the 30th day of June, 2024.

MAXIMUM TAX ON COTTON GINNERS [Clause (17)]

Tax payable by cotton ginner on their income and profits shall not be more than 1% of their turnover from cotton lint, cottonseed, cotton seed oil, and cotton seed cake.

Tax so payable shall be final tax in respect of their cotton ginning and milling activities only.

WITHHOLDING TAX ON COTTON GINNERS [Clause (18)]

Withholding tax on value of offshore supply contract of an Independent Power Producer located wholly or partly in the territories of AJ&K shall be 1% if:

1. PIB has issued Letter of Support for the project;
2. Its EPC Contract has been executed and submitted to NEPRA for EPC stage tariff determination prior to the enactment of Finance Act, 2018; and
3. Offshore supply contract arrangement of offshore supply contractor having permanent establishment in Pakistan falls under the purview of cohesive business operation.

Note: Tax so deducted shall be full and final liability of the offshore contractor.

TAX ON WOMEN ENTERPRISERS [Clause (19)]

Tax payable by 'woman enterprise' on profit and gains under the head "Income from Business" shall be reduced by 25%.

'Woman enterprise' means a startup established on or after 01-07-2021 as a 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.

Note: This benefit shall not be available to a business that is formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

EXEMPTION FROM SPECIFIC PROVISIONS

Part-IV of the Second Schedule enlists the incomes or classes of incomes, or persons or classes of persons upon whom certain provisions of the Income Tax Ordinance do not apply. The incomes of persons, which are exempt from the application of specific provisions, are given below:

APPROVAL OF SECURITY FROM FBR [Clause (14)]

Section 46 exempts the income of a non-resident on account of profit on debt if certain

conditions, including approval of the security from FBR, are fulfilled. The condition of approval from FBR shall not be required in case the Sukuk are issued by:

1. The Second Pakistan International Sukuk Company Limited;
2. The Third Pakistan International Sukuk Company Limited.

DONATIONS TO AGHA KHAN HOSPITAL AND MEDICAL COLLEGE [Clause (3)]

The maximum limit of 20% of taxable income in case of donations made respectively by companies or other taxpayers, shall not apply to donations made to Agha Khan Hospital and Medical College, Karachi. Donations to these institutions may be made without any limit and the taxpayer shall be allowed a tax credit on such donations at the average rate of tax.

RECOUP OF TAX CREDIT [Clause (4A)]

No provision of the Income Tax Ordinance, 2001 shall apply for recoup of tax credit already allowed for investments in plant and machinery.

NON-APPLICABILITY OF PROVISIONS RELATING TO UNEXPLAINED INCOME OR ASSET [Clauses (5)]

The provisions of Section 111 (unexplained income or assets), Chapter XI (Penalties), and Chapter XII (Offences and Prosecution) are not applicable to an amount invested in:

1. Foreign exchange deposited in a private foreign currency account held with an authorized bank in Pakistan. This exemption shall not be available in respect of any incremental deposits made or new accounts opened on or after 16-12-1990.
2. Rupees withdrawn or assets created out of such withdrawal from private foreign currency account;
3. Encashment of foreign exchange bearer certificates;
4. Encashment of US Dollar bearer certificates; and
5. Encashment of foreign currency bearer certificates.

NON-APPLICABILITY OF SECTION 153(1)(a) TO CERTAIN PERSONS [Clause (9AA)]

Provisions of the section 153(1)(a) shall not apply to ship breakers as recipients of payment in respect of such ships only which are imported after 01-07-2014.

NON-APPLICABILITY OF TURNOVER TAX U/S 113 [Clause (11A)]

According to section 113 of the Income Tax Ordinance, 2001, certain persons are required to pay at least a minimum amount of income tax based on their turnover. This tax is commonly known as "Turnover Tax." Under this provision, the higher of the tax calculated as per normal procedure or u/s 113 shall be the tax liability of a company.

Note: For further details, readers may refer to the Chapter 'Final Taxation Regime and Minimum Tax Liability'.

Certain clauses of Part-IV of the Second Schedule exempt the following persons from the applicability of the turnover tax u/s 113:

1. On the following institutions, in respect of turnover representing transactions in shares, or securities listed on a registered stock exchange:
 - National Investment (Unit) Trust
 - Collective Investment Scheme authorized or registered under the NBFCs Rules, 2003;
 - A real estate investment trust approved and authorized under the REIT Regulations, 2018;
 - A pension fund registered under Voluntary Pension System Rules, 2005; or
 - Any other company.
2. Any petroleum dealer in so far as they relate to turnover on account of sale of petroleum and its products through petrol pumps (except those which are directly operated or managed by companies engaged in the distribution of these products).
3. **Hub Power Company Limited** so far as they relate to its receipts on account of sale of electricity.
4. Any company qualifying for exemption under Clauses (132) of Part-I of the Second Schedule in respect of the receipts from sale of electricity
5. • **Provincial Government and Local Government**, qualifying for exemption under section 49 of the Income Tax Ordinance, other Government or Semi-Government bodies which are otherwise exempt from tax.
6. • **Pakistan Red Crescent Society.**
7. • **Special purpose, non-profit companies** engaged in securitizing the receivables of Provincial Governments.
8. • **Corporate and Industrial Restructuring Corporation (CIRC).**
9. • **A morabaha bank** or financial institution approved by SBP or SECP for the purpose of Islamic Banking and Finance in respect of turnover under a **morabaha agreement.**
10. • **Banking and Finance** in respect of turnover under a **morabaha agreement.**
11. • **WAPDA First Sukuk Company Limited.**
12. • **LNG Terminal Operators and LNG Terminal Owners.**
13. • **China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited, and Gwadar Free Zone Company Limited** for a period of twenty years, w.e.f. 06-02-2007.
14. • Companies qualifying for exemption under **Clause (126M)** of Part-I of this Schedule, in respect of profits and gains derived from a transmission line project.
15. • **Third Pakistan International Sukuk Company Limited.**
16. • **Public sector universities** established solely for educational purposes and not for the purposes of profit, qualifying for exemption under **Clause (128)** of Part-I of Second Schedule w.e.f. 01-07-2018.
17. • **National Disaster Risk Management Fund.**
18. • **Deposit Protection Corporation** established u/s 3(1) of the Deposit Protection Corporation Act, 2016.
19. • **SARMAYA-E-PAKISTAN LIMITED.**
20. • **The Prime Minister's COVID-19 Pandemic Relief Fund-2020.**

21. • **The Federal Government Employees Housing Authority and Naya Pakistan Housing and Development Authority** for the tax year 2020 and the following four tax years.
22. • **Islamic Naya Pakistan Certificates Company Limited (INPCCL).**
23. • Receipts from sale of electricity produced from a **bagasse and biomass-based co-generation power project** qualifying for exemption under **Clause (132E)** of Part-I of Second Schedule.
24. • **National Power Parks Management Company (Private) Limited** or demerged entities of National Power Parks Management Company (Private) Limited commencing from the commercial operation date and continuing after the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan.
25. • Persons qualifying for exemption under **Clauses (128E) and (128EA)** of Part-I of Second Schedule.
26. • Persons mentioned in **Table-I** Clause (66) of Part-I of Second Schedule.
27. • **Mobile phone manufacturers** engaged in the local manufacturing of mobile phone devices.
28. • **The Prime Minister's Relief Fund for Flood, Earthquake, and Other Calamities** w.e.f. 05-08-2022
29. **Institutions of the Agha Khan Development Network (Pakistan)** [Clause (16)]
30. **Non-residents** in respect of their receipts from Pak rupees denominated Government and corporate securities and redeemable capital listed on stock exchange, where the investments are made exclusively from foreign exchange remitted into Pakistan through a Special Convertible Rupee Account maintained with a bank in Pakistan. [Clause (19)]
31. **Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams Fund** [Clause (108)]

NON-APPLICABILITY OF TAX AT SOURCE AND OTHER PROVISIONS OF LAW

Certain provisions regarding deduction/collection of tax at source do not apply to certain persons, transactions, and incomes. Such transactions, etc., are enumerated below:

Clause Section Not Applicable to:

11B	150	Inter-corporate dividend within the group companies entitled to Group Taxation, subject to the condition that the return of the group has been filed for the latest completed tax year.
11C	151	Inter-corporate profit on debt within the group companies entitled to Group Taxation, subject to the condition that the return of the group has been filed for the latest completed tax year.
11D	113C	LNG Terminal Operators and LNG Terminal Owners.
15E	153(1)(b)	Payments received by Sui Southern Gas Company Limited and Pakistan LNG Terminal Limited from Sui Northern Gas Pipelines Limited on account of re-gasification charges.

Clause Section Not Applicable to:

- | | | |
|-------|-----------|---|
| 12(a) | 210B | Purchase of agricultural produce directly from the grower, if he provides a specified certificate to withholding agent. |
| 12(b) | 153(1)(a) | Cash payments made for meeting the incidental expenses of a business trip to the crew of oil tanker. This exemption shall not apply in case of any other payments made by owners of oil tankers. |
| 12A | 150 | Dividend paid to Transmission Line Projects under Transmission Line Policy 2015. |
| 12D | 148 | Import of finished drug Remdesivir 100 mg injection and injectable solution 100 mg vial for the period starting from the 22nd day of June 2020 and ending on the date as may be notified by FBR. |
| 12E | 148 | Import of medicines for treatment of life-threatening rare diseases not manufactured in Pakistan, subject to the following conditions: |
| | | <ol style="list-style-type: none">1. The import is approved by FBR;2. The specification and quantity of medicine is recommended by the National Health Services, Regulation, and Coordination Division in a prescribed format on a case-to-case basis; and3. Such medicine is required for the personal use of the importing person or his immediate family member. |

Where circumstances exist to take immediate action, the FBR may provisionally allow import of such quantity of medicine which does not exceed sixty days usage.

12N | 148 | Import of specified goods which takes place within the jurisdiction of Border sustenance markets

120 | 148 | Import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route.

12P | 148 | Import of cinematographic equipment as notified by the Federal Government

154 | Export of specified goods which takes place within the jurisdiction of Border sustenance markets

19 | 119, 148 | Institutions of the Agha Khan Development Network (Pakistan).

151, 159 | These institutions shall continue to collect and deduct tax u/s 149, 151, 152, 153, 155, 156 or 233 from others persons.

20 | 119, 151 | Non-residents in respect of their receipts from Pak rupees denominated Government and corporate securities and redeemable capital listed on Pakistan Stock Exchange, where the investments are made exclusively from foreign exchange remitted into Pakistan through a Special Convertible Rupee Account maintained with a bank in Pakistan. Exemption does not apply to local branches or subsidiaries or offices of foreign banks, companies, associations of persons, or any other persons operating in Pakistan.

36A | 151(1)(c)

Any amount paid as yield or profit on investment in Bahbood Saving Certificates or Pensioner's Benefit Account and Shuhada Family Welfare Account.

36B | 151

Profit on debt paid on promissory notes and sales tax refund bonds issued under the provisions of the Sales Tax Act, 1990.

36C | 151

Profit on debt paid on Pakistan Banao Certificate.

36D | 150, 151

SARMAYA-E-PAKISTAN LIMITED.

35E | 151

Profit on debt paid on bonds issued under the Federal Government Duty Drawback Bonds Rules, 2010.

38 | 151, 153, 233 & 236

Special Purpose Vehicle (SPV) for the purpose of securitization or issue of sukuks.

38A | 150, 151, 233

A Venture Capital Company.

38AA | 150

China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited, and Gwadar Free Zone Company Limited for a period of twenty-three years.

38A1 | 152

Special Purpose Vehicle referred to in clause 9B of Part-I of Second Schedule.

38C | 150, 151, 152, 153, and 233

Islamic Development Bank.

38D | 150, 151, 152, 153

National Disaster Risk Management Fund

42 | 153(1) | Payments received by a resident person for providing services by way of operation of container or chemical oil terminal at a seaport in Pakistan.

43A | 153 | Payments received by a person against supply of petroleum products imported by him under the Government's deregulation policy of POL products.

43B | 153(1)(a) | Payments received on sale of tickets by traveling agents, who have paid withholding tax on their commission income.

43C | 153(1)(a) | Payments received on account of petroleum products by a petroleum agent or distributor who is registered under the Sales Tax Act.

43D | 153(1)(a) & (b) | Payments to oil tank contractor for carriage services if such person pays tax @ 2.5% on such payments.

43E | 153(1)(a) & (b) | Payments to goods transport contractor for carriage services if such person pays tax @ 3.5% of such payments.

43F | 153 | Payments received by a start-up.

43G | 153 | Commodity futures contracts listed on a Futures Exchange licensed under the Futures Market Act, 2016.

43H | 153(1)(b) | An exhibitor or a distributor of a feature film, as a payer, on payment made to a distributor, producer, or importer of a feature film.

45 | 153(1) | Manufacturer-cum-exporter as prescribed person.

The manufacturer-cum-exporter shall deduct tax from payments made in respect of goods sold in Pakistan. Where tax has not been so deducted, the manufacturer-cum-exporter shall pay the tax, if sales in Pakistan are in excess of 5% of export sales.

45A | 153(1)(a) & (b) | Withholding tax shall be @ 1% on local sales, supplies, and services provided or rendered to the taxpayer falling in the following categories:

i) Textile and articles thereof;

ii) Carpets;

iii) Leather and articles thereof including artificial leather footwear;

iv) Surgical goods; and

v) Sports goods.

Local sales, supplies, and services made by traders of yarn to the above-mentioned categories of taxpayers are subject to withholding tax @ 0.5%.

45B | 153 | On the purchase of used motor vehicles from the general public.

46 | 153(1) | Payment received by an oil distribution company or an oil refinery for supply of its products.

46A | 152(2A) | Payment received by a PE of a Non-resident Petroleum Exploration and Production (E&P) companies for supply of its products.

46B | 153(3) | Payment received by a manufacturer of iron and steel products relating to sale of goods manufactured by him

Income Tax - Exemptions and Concessions [4-104]

46A | 153

Provincial government, local government, and certain other persons, with specified conditions.

47A | 153

Payments received by a resident person for supply of such goods, which were imported by him and on which tax was paid u/s 148.

47B | 150, 151, 233 & Part-I, Division-VII of First Schedule

Any person who is making payment to:

- i) National Investment (Unit) Trust;
- ii) A collective investment scheme;
- iii) Approved Pension Fund;
- iv) Approved Income Payment Plan;

- v) A REIT Scheme;
- vi) A recognized provident fund;
- vii) An approved superannuation fund; or
- viii) An approved gratuity fund.

47C | 154(1)

An exporter, in respect of cooking oil or vegetable ghee exported to Afghanistan, from whom tax u/s 148 has been collected on import of edible oil.

47D | 153 (3A)

Cotton ginner.

56 (i) (a) | 148

Goods classified under PCT falling under chapters 86 and 99 except PCT Heading 9918.

56 (ii) | 148

Import of the following products, if made by the companies listed below:

1. Petroleum oils and oils obtained from bituminous minerals crude (PCT Code 2709.0000).
2. Furnace oil (PCT Code 2710.1941).
3. High-speed diesel oil (PCT Code 2710.1931).
4. Motor spirit (PCT Code 2710.1210).
5. J.P.1 (PCT Code 2710.1912).
6. Base oil for lubricating oil (PCT Code 2710.1993).
7. Light diesel oil (PCT Code 2710.1921).
8. Super Kerosene Oil.

Imported by:

- Pakistan State Oil Company Limited
- Shell Pakistan Limited
- Attock Petroleum Limited
- Byco Petroleum Pakistan Limited
- Admore Gas Private Limited
- Chevron Pakistan Limited
- Total-PARCO Pakistan (Private) Limited
- Hascol Petroleum Limited
- Bakri Energy (Private) Limited
- Overseas Oil Trading Company (Pvt) Ltd.

Income Tax - Exemptions and Concessions [4-105]

- **Gas and Oil Pakistan (Pvt) Ltd, or**
- **Any other oil marketing company licensed by Oil and Gas Regulatory Authority (OGRA); and**
- **Oil refineries.**

56 (ii) | 148

Goods imported by direct and indirect exporters covered under SRO 450(I)/2001.

56 (iii) | 148

Goods temporarily imported into Pakistan for subsequent exportation and which are exempt under SRO 492(I)/2008, dated 13-08-2008.

56 (iv) | 148

Goods temporarily imported into Pakistan by international athletes which would be subsequently taken back by them within one hundred and twenty days of temporary import.

56 (v) | 148

Manufacturing Bond as prescribed under SRO 450(I)/2001.

56 (vi) | 148

Mineral oil imported by a manufacturer or formulator of pesticides which is exempt from customs duties under the Customs Notification No. S.R.O. 857(I)/2008, dated the 16th August, 2008.

56(vii) | 148

- i) The Federal Government;
- ii) A Provincial Government;
- iii) A Local Government;
- iv) A foreign company and its associations whose majority share capital is held by a foreign government;
- v) A person who imports plant and machinery for execution of a contract with the Federal Government or a provincial government or a local government and produces a certificate from that government;
- vi) Companies importing high-speed diesel oil, light diesel oil, high-octane blending component or kerosene oil, crude oil for refining and chemical used in refining thereof in respect of such imports.
- vii) Petroleum (E&P) companies covered under the Customs and Sales Tax Notification No. S.R.O 6/8 (II)2004, dated the 7th August, 2004, except motor vehicles imported by such companies.

56 (viii) | 148

Goods produced or manufactured and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation, provided conditions of section 22 of the Customs Act, 1969 (VI of 1969) are complied with.

- Plant and machinery imported for setting up of a bagasse/biomass-based cogeneration power project qualifying for exemption under Clause (132C) of Part-I of Second Schedule.
- Persons authorized under Export Facilitation Scheme 2021 notified by the FBR with such scope, conditions, limitations, restrictions, and specifications of goods.
- Motor vehicles up to 1000cc in CBU condition.

- Printed books excluding brochures, leaflets, and similar printed matter, whether or not in single sheets (PCT code 49.01).
- Newspapers, journals, and periodicals, whether or not illustrated or containing advertising material (PCT code 48.02).

60B | 148

Import of 35 Armoured and Security vehicles by or for Ministry of Foreign Affairs for security of visiting foreign dignitaries. This exemption is subject to conditions that these vehicles will be used only for the purpose and shall not be re-exported, sold or otherwise disposed of without prior approval of FBR.

60C | 148

Import of equipment to be furnished or installed for Rail Based Mass Transit Projects in Lahore, Karachi, Peshawar, and Quetta under CPEC.

60D | 148

Import of fire-fighting equipment by industrial undertakings set up in the special economic zones established by the Federal Government.

60DA | 148

Following persons functioning under Special Technology Zone Authority Act, 2021 for import of capital equipment:

- i) Zone developers;
- ii) Zone enterprises; and
- iii) Special Technology Zone Authority.

60E | 148

Mobile phones brought in personal baggage under the Baggage Rules, 2008.

62 | 97

Transfer of assets on amalgamation of companies or their business or acquisition of shares, requiring that transferor be resident company and belong to a wholly-owned group of resident companies.

66 | 235

The taxpayers who are registered with sales tax as exporter or manufacturers of:

- i) Carpets;
- ii) Leather and its articles including artificial leather footwear;
- iii) Surgical goods;
- iv) Sports goods; and
- v) Textile and its articles.

67 | 150, 151, 152, 153 & 233

Payments made to the International Finance Corporation established under the International Finance Corporation Act, 1956.

67A | 100B & 8th Schedule

Payments made to the International Finance Corporation established under the International Finance Corporation Act, 1956.

68 | 151, 153 & 155

Payments made to the Pakistan Domestic Sukuk Company Ltd.

69 | 150, 151, 152, 153 & 233

Payments made to the Asian Development Bank established under the Asian Development Bank Ordinance, 1971.

71 | All provisions of ITO

M/s. TAISEL corporation under the agreement between National Highway Authority, GOP, which falls under the zero-rated regime of sales tax in respect of supply of products, services, and equipment.

72 | 150, 151, 152, 153 & 233

Payments made to The ECO Trade and Development Bank.

72A | 152

Hajj Group Operator in respect of Hajj operations.

77 | 148, 153

Import of:

1. Solar PV panels/modules, along with related components,
2. LVD induction lamps,
3. SMD LEDs with or without ballast with fittings and fixtures,
4. Fully assembled wind turbines including alternator and mast,
5. Solar torches, lantern and related instruments.

78 | 150

Dividend income of a shareholder from such project till thirty (30) years from the date of commencement of business.

153

The payments made on sale/supply of goods or providing/rendering of services during project construction and operations.

79A | 153(1)(b)

Payments received by National Telecommunication Corporation against provision of

telecommunication services including ancillary services specified in section 41(3) of the Pakistan Telecommunication (Reorganization) Act, 1996.

91 | 148

- i) Specified tillage and seed bed preparation equipment;
- ii) Specified seeding or planting equipment;
- iii) Specified irrigation, drainage and agro-chemical application equipment;
- iv) Specified harvesting, threshing and storage equipment;
- v) Specified post-harvest handling and processing & miscellaneous machinery.

92 | 148

- i) Aircraft - imported or leased.
- ii) Maintenance kits for use in trainer aircrafts.
- iii) Spare parts for aircrafts.
- iv) Machinery for MRO workshop.
- v) Operational tools, machinery for setting up Greenfield airports.
- vi) Aviation simulators imported by Airline Company.

93 | 154(1)

Taxpayers operating halal meat production and qualifying for exemption under Clause (126K) of Part-I of Second Schedule, for the period specified in that clause.

95 | 147, 151, 152, 230A & 236K

The Second Pakistan International Sukuk Company Limited, the Third Pakistan International Sukuk Company Limited, and the Third Pakistan Global Sukuk Programme Company Limited, as a recipient.

95A | 236A

Auction of franchise rights to participating teams in a national or international league organized by any board or other organization established by the Government in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by the Government, w.e.f. 01-07-2019.

96 | 147, 153, 185 & 230K

The Second Pakistan International Sukuk Company Limited, the Third Pakistan International Sukuk Company Limited, and the Third Pakistan Global Sukuk Programme Company Limited, as a recipient

111A | 100B & Rule 1 of 10th Sch.

Non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or Non-resident Pakistan Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by SBP.

111AC | 100BA & Rule 1 of 10th Sch.

Non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) in respect of transactions on which tax is collectible under section 236C and 236K.

113 | 147(5B)

Capital gains arising to a non-resident company having no permanent establishment in Pakistan from investment in debt instruments and Government securities including treasury bills and Pakistan investment bonds through special convertible rupee account maintained with a banking company or financial institution in Pakistan.

114 | 114(1)(a) & 181

A non-resident company having no permanent establishment in Pakistan solely by reason of capital gain or profit on debt earned from investments in debt securities and Government securities including treasury bills and Pakistan investment bonds through special convertible rupee account maintained with a banking company or financial institution in Pakistan.

114A | 114(1)(a) & 181

Non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or Non-resident Pakistan Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by SBP.

Note: This clause does not apply to Pakistan-source taxable income of the person (except those specified in the clause).

115 | 153

Traders being individuals having turnover up to one hundred million Rupees as a prescribed person.

116 | 151

The Prime Minister's COVID-19 Pandemic Relief-2020.

118 | All tax withholding provisions

Islamic Naya Pakistan Certificates Company Limited (INPCCL) as a recipient.

119 | 153(1)(b)

Distributors, dealers, wholesalers, and retailers of locally manufactured mobile phone devices as withholding agent, w.e.f. 01-07-2020.

120 | Tax Withholding

The persons mentioned in Table 1 of clause (66) of Part-I of the Second Schedule as recipients of payment.

Such persons shall continue to act as withholding and collecting agent.

121 | 151

Prime Minister's Relief Fund for Flood, Earthquake, and other calamities with effect on and from the 5th August, 2022.

122 | 236

The amount donated through SMS to the Prime Minister's Relief Fund, for Flood, Earthquake, and other calamities w.e.f. 05-08-2022.

EXEMPTION TO FOREIGN EXPERT [Clause (73)]

Income tax payable by a foreign expert shall be exempted in order to mitigate part of the cost of obtaining foreign support to fill productivity gaps, if the expert is acquired with the prior approval of the Ministry of Textile Industry.

EXEMPTION TO CIVIL AVIATION AUTHORITY (CAA)

Following exemptions are available to CAA:

1. No gain (or loss) shall be computed by CAA on transfer of assets for the purpose of a new agreement between Pakistan Domestic Sukuk Company Limited and the Federal Government [Clause (9A)].
2. The assets acquired by CAA from the Federal Government, which were previously transferred for the purpose of the new agreement between Pakistan Domestic Sukuk Company Limited and the Federal Government, shall not be treated as depreciable assets for CAA. (The CAA shall not charge depreciation on these assets) [Clause (5D)].

Note: Provision 5D provides that depreciation shall be allowed at the written down value of the assets immediately before their transfer for the purpose of the given agreement.

CHAPTER-5: TAXATION OF PERSONS

The Income Tax Ordinance, 2001 lays down certain provisions for taxation of a specific category or class of persons. The provisions which deal with taxation of different persons are discussed in the coming paragraphs.

TAXATION OF INDIVIDUALS

For the purposes of determining the taxable income and tax liability, individuals are broadly categorized as:

1. **Salaried Individuals** (i.e., a person whose salary income exceeds 75% of his taxable income for the tax year).
2. **Non-Salaried Individuals** (i.e., individuals other than the salaried persons).

Computation of taxable income under both cases is almost the same. Rules in this regard are equally applicable to both types of individuals. However, the tax rates for both cases are different. The following principles apply to the taxation of individuals:

Taxation of a Deceased Individual [§87]

The tax liability of a deceased individual shall be computed in the like manner as if he had not died. However, his tax liability shall be recovered from his legal representative. The liability of the legal representative shall be limited to the amount of income, which is received from or on behalf of the deceased person.

The income tax liability of the deceased shall be the first charge on the deceased's estate. The person acting under the Income Tax Ordinance, as a representative of the deceased person, shall act in the capacity of the legal representative of the deceased.

CLUBBING OF INCOMES - SPLITTING OF INCOME

While making assessments under the Income Tax Ordinance, incomes of certain persons may be clubbed with the incomes of some other persons. Sections 90 and 91 lay down the legal provisions in this regard, which are discussed below.

Income from Receivable Transfer of an Asset

Any income arising from a *revocable transfer of an asset* shall be included in the total income of the transferor. [§90(1)]

However, if the transfer is not revocable during the lifetime of the person and there are no benefits or rights from such income, then the income from such assets shall not be included in the income of the transferor. [§90(2)]

Notes:

1. "Transfer" includes any disposition, settlement, trust, covenant, agreement, or arrangement. [§90(6)]
2. A transfer shall be deemed to be a revocable one if:
 - It contains any provision for the re-transfer, directly or indirectly, of the whole or any part of the assets to the transferor; or
 - It gives the transferor a right to resume power, directly or indirectly, over the whole or any part of the assets. [§90(8)]

Income from Transfer of Assets [§90(3)]

1. All incomes from transferred assets shall be included in the income of the transferor if the assets remain the property of the transferor. It is immaterial that the transfer was received by another person. [§90(3)]
2. All incomes from any asset shall be included in the total income of the transferor if the asset is transferred by him to any of the following persons:
 - His spouse;
 - His minor child (excluding a married daughter); or
 - Any other person for the benefit of his spouse or minor child.

Notes:

- The transfer must be backed by an adequate consideration in connection with an agreement between the parties, where the income and asset not included in the income of the transferor.
 - Where the transferor has provided (by way of cash or otherwise) funds to the transferee for the purchase of the asset, it shall be treated as a transfer if adequate proof is provided.
-

INCOME OF MINOR CHILD [§91]

Business Income:

The income of a minor child shall be clubbed with the income of his parent whose taxable income is greater. However, if the child has invested out of the property received by him through inheritance, his income shall be taxed separately.

Non-Business Income

A minor child shall be taxed separately for his income under any head (excluding 'Income from Business').

TAXATION OF ASSOCIATION OF PERSONS AND ITS MEMBERS [§2 & 88]

- An association of persons (AOP) is taxed separately from its members. In income tax law, AOP is considered as a separate person. Provisions relating to taxation of an AOP are as below:
 1. An AOP shall be liable to tax in respect of its incomes, which are chargeable to tax.
 2. Where an AOP has paid tax on its incomes, any amount received by a member out of its income shall be exempt from tax.
 - All provisions regarding filing of return (u/s 114), method of furnishing the return (u/s 118) and assessment in respect of an AOP apply as to AOPs.
 - The AOP is entitled to set off and carry forward its losses as per normal procedure. Its members are not allowed to set off their respective shares of the losses.
 - A member who has a share of the income of the AOP but whose income is not required to be included in the return of income, will pay tax on the income that is transferred to him through the AOP. The AOP is required to include the income in the return of income. (Such a member should also be treated as receiving income from the AOP and taxed accordingly).
-

Example:

- **Compute the tax liability of Hammand who has the following sources of income:**
 - Income of the AOP (Hammand in the hands of its members): 200,000

- Total income of the AOP: 320,000
- **Compute the tax liability of the individual:**
 - Tax on assessable income = Income from AOP: 650,000
 - Tax liability for the individual: 121,875

Exempt Income of AOP

Where income of an AOP is exempt from tax and results in no tax payable by the AOP, the share received by a member out of the income of the AOP shall remain exempt.

Share of a Member from AOP

The share of a member in total income of AOP shall comprise the following amounts received by him:

1. Share in the divisible income of AOP,
 2. Profit on debt,
 3. Brokerage,
 4. Commission,
 5. Salary; and
 6. Any other remuneration received or due from AOP.
-

Company as Member of AOP [First Proviso to §92]

Where at least one member of an AOP is a company then the tax liability of the AOP and the company shall be determined as below:

1. Share of the company (being member of the AOP) shall be excluded from the total income of the AOP. The AOP shall be taxable for its residual income.
 2. The company shall be taxed separately in respect of its share from AOP at the rates applicable to the companies.
-

Example 5.2

Neelum Limited is a listed company engaged in manufacturing. During the tax year it earned a taxable income of Rs. 5,000,000. Further, it is a member of Sharda Associates (an AOP) and its share of income from AOP is Rs. 200,000. Compute the tax liability of M/s. Sharda Associates and Neelum Limited.

Taxable Income and Tax Liability of Sharda Associates:

- Total Income for the year: Rs. 5,000,000
 - Taxable Income for the year (50% of Rs. 2,600,000) = Rs. 1,300,000
 - Tax on Rs. 1,300,000
 - Tax payable (Example for calculation): Rs. 1,21,875
-

Taxable Income and Tax Liability of Neelum Limited:

- Total Income for the year: Rs. 5,000,000
 - Taxable Income from AOP (excluding AOP's share): Rs. 5,000,000
 - Tax payable after exemption: Rs. 1,87,500
-

NHF:

Shares received by a company must comply with the tax rates applicable to its income from AOP

AOP Having Turnover of Rs. 300 Million or Above [Second proviso to section 92]

Share received by a member from AOP which has turnover of Rs. 300 million or above during the tax year or any of the preceding tax years, shall be exempt only if financial statements duly audited by a firm of Chartered Accountants (CAs) have been filed with the income tax return. Share received shall not be exempt; rather, the share will be taxable.

CHANGE IN THE CONSTITUTION OF AN AOP [§94]

The following procedure shall be adopted if at the time of filing of return, it is found that during the tax year a change has occurred in the constitution of the AOP:

1. The returning officer shall include the new AOP as constituted at the time of filing of return.
2. The AOP shall be assessed as constituted at the time of filing of return.

The member shares in the AOP shall be determined by taking into account:

- The share of the member before the period prior to the change and after the change in the constitution of the AOP.

Note: Where, due to any reason, the tax liability is assessed separately from the AOP and received from him, the AOP shall be liable to pay the tax liability of such member.

DISCONTINUANCE OF BUSINESS OR DISSOLUTION OF AN AOP [§98]

Where the business carried on by an AOP has been discontinued or the AOP has been dissolved, the members shall continue to be liable for the tax liability of the AOP in proportion to their respective shares in the AOP.

The tax liability of a member of an AOP shall continue as the liability until the dissolution or discontinuance of the business.

TAXATION OF FOREIGN-SOURCE INCOME OF RESIDENTS

As a general principle, income received by a resident is taxable if it is a Pakistani-source income or foreign-source income. However, there are some specific provisions for taxation of foreign-source income:

- A foreign-source income of a resident individual will be exempt from tax if he has paid foreign taxes on such income. The individual may claim a foreign tax credit for the taxes paid.

Foreign-source Income [§103]

- The taxpayer may claim credit for taxes paid to a foreign government in respect of income which is subject to taxation in Pakistan.
-

MAXIMUM TAX ON COTTON GINNERS [Clause (17) of Part-II of Second Schedule]

Maximum tax payable by cotton ginner on their income and profits shall be 1% of their turnover from cotton lint, cotton seed, cotton seed oil, and cotton seed cake.

TAX ON WOMAN ENTERPRISES [Clause (19) of Part-III of Second Schedule]

Tax payable by **woman enterprises** on profit and gains from business shall be reduced by 25%.

"Woman Enterprise" means a startup established on or after 01-07-2021 as sole proprietorship owned by a woman or an AOP whose members are women or a company whose 100% shareholding is held or owned by women.

TAXATION OF COMPANIES [§94]

A company is a separate legal entity distinct from its members (shareholders). The liability of a company and its members shall be determined separately, and each member shall be liable to tax on his income, including dividends from the company.

The company shall be taxed on its total income, and the shareholders shall be taxed on dividends received.

DISPOSAL OF ASSETS BY A RESIDENT COMPANY

If the company makes any disposal of assets, including immovable property, the following steps are involved:

1. Disposal of assets by the company will be recorded, and the tax on the gain will be computed.
2. If an asset is disposed of by the company, the disposal is subject to tax on capital gains.

Strength of Taxes Income Tax - Taxation of Persons [S-118]

3. Where at the time of disposal of assets, any amount of depreciation or amortization has not been set off against the income of transferor, the company shall be entitled to deduct the same against income in the year in which transfer is made. [Sec(2)(xii)]

The deduction shall be subtracted from the income of the company after allowing all other deductions under the law. [Sec(3)]

4. The value of the shares shall be equal to the net worth (cost less liabilities) of the assets transferred to the company. [Sec(2)(xii)]

Example: 5.3

Mr. Yaqoob has disposed of his business to Ms Hunza Limited, a resident company. Compute the capital gains accrued on the consideration by Mr. Yaqoob assuming that the assets and liabilities as per the date of the transfer were as below:

- The company issued 250,000 ordinary shares of Rs. 10 each as consideration.
- The company acquired assets (for which to discharge) Rs. 10,000,000

Value of Assets:

- Fixed assets Rs. 4,000,000
- Losses/ liabilities undertaken by the company Rs. 6,000,000
- Value of shares Rs. 10,000,000

Price per share Rs. 16 per share.

Example 5.4

Further, assume that Mr. Yaqoob sold these shares as per the following details:

- 250,000 shares @ Rs. 20 per share.
 - 75,000 shares @ Rs. 18 per share.
 - 75,000 shares @ Rs. 15 per share.
-

Answer:

The amount of Capital gains can be computed as below:

Consideration on disposal (Rs. 10,000,000 + Rs. 6,000,000) = Rs. 2,500,000

Capital gain 1 (Rs. 6,000,000 - Rs. 5,000,000) = Rs. 1,000,000

Capital gain 2 (Rs. 2,250,000 - Rs. 1,425,000) = Rs. 850,000

Total Capital gains: Rs. 1,879,000

Strength of Taxes - Income Tax - Taxation of Persons [S-119]

DISPOSAL OF BUSINESS BY RESIDENT AOP TO WHOLLY OWNED COMPANY [96]

Where a resident AOP disposes of all its assets to a company, which is wholly-owned by the association, then the treatment and legal provisions applicable for the transferor, transferee and the company shall be the same in case of disposal of business to a wholly-owned subsidiary company. However, there are some conditions, i.e., each member of the association must have the same interest in shares as was vested to him immediately preceding the disposal of assets.

DISPOSAL OF ASSETS BETWEEN WHOLLY-OWNED COMPANIES [97]

Transfer or loss on disposal of an asset shall be taken to arise if the following conditions are satisfied:

1. The asset is disposed of by a resident company to another resident company.

2. At the time of disposal both resident companies belong to a wholly-owned group of companies.
3. Transferee has undertaken to discharge any liability in respect of the asset acquired.
4. The liability against the asset must not be more than the transferor's cost of the asset at the time of disposal.
5. The time period is not exempt from tax for the tax year in which disposal takes place.

Notes:

- The provisions regarding cost of acquisition of an asset, depreciation, etc., are the same as discussed in previous cases.
- The transferor and the transferee companies shall belong to the wholly-owned group if any of the following conditions are satisfied:

- A. Holding company beneficially holds all the issued shares of the other company; or
- B. A third company beneficially holds all the issued shares of both companies.

DISPOSAL OF ASSETS UNDER SCHEME OF ARRANGEMENT AND RECONSTRUCTION [97A]

Following are the conditions where disposal of asset from one company to another company will not result in gain or loss at the time of disposal:

1. The disposal of asset is by virtue of a Scheme of Arrangement and Reconstruction under the Banking Companies Ordinance, 1962, and sections 284 to 287 of the Companies Act, 2017 or section 48 of the Banking Companies Ordinance, 1962.
2. The transferee is a resident company.
3. The liability in respect of such asset must not exceed the transferor's cost of the asset.
4. The transferee must not be exempt from tax for the tax year in which the disposal takes place.
5. The Scheme of Arrangement and Reconstruction is approved by the High Court, SBP or SECP, as is applicable; and
6. The Scheme is approved on or after 01-07-2007

Strength of Taxes - Income Tax - Taxation of Persons [S-120]

In case of disposal of asset under above-referred scheme, the asset acquired by the transferee shall be treated as having the same character as it had in the hands of the transferor. The transferee's cost in respect of acquisition of the asset shall be determined as below:

1. **Depreciable Asset or Intangible:** The written down value of the asset or intangible immediately before its disposal.
2. **Stock-in-Trade:** The lower of cost or net realizable value of the stock-in-trade.
3. **Any Other Asset:** The transferor's cost at the time of disposal.

Where any company has any unabsorbed depreciation/amortization before the disposal of asset, such amount shall be allowed as a deduction under section 22 and 24(b) to the transferee in the tax year in which transfer is made. These deductions shall be taken into account.

No gain or loss shall be taken to arise on issuance, cancellation, exchange or receipt of shares as a result of scheme of arrangement and reconstruction, approved by the Court, SBP or SECP, as the case may be, on or after 01-07-2007.

Where the loss is carried forward by virtue of the Scheme of Arrangement and Reconstruction, any change in the cost of shares shall not be treated as change in ownership of the shares.

CHANGE IN CONTROL OF AN ENTITY [98]

Where there is a change of fifty percent (50%) or more in the **underlying ownership** of an entity from the time the loss was incurred, no person or entity shall be allowed to set off the loss for any year after change. However, the rule shall not apply where:

1. The entity continues to conduct the same business on the same line it was doing until the loss was incurred; and
2. The entity does not engage in any new business or investment that either change until the loss is fully adjusted.

TRANSFER OF LOSS BETWEEN ASSOCIATIONS OF PERSONS [98(2)]

If an individual has sustained a loss, the entity may set off its losses incurred prior to the change in underlying ownership if it continues to conduct the same business and if it does not engage in any new business/investment.

Person means an individual or association of persons. [98(2)]

Association of Persons means two or more persons who have agreed to pool their resources for business purposes. The term “person” may mean:

- An individual, company or an entity, whereby an individual or by a person not ultimately owned by resident individual of Pakistan.

Beneficial Interest means a share in a company or the interest of a member in an Association of Persons. [98(4)]

GAIN ON DISPOSAL OF ASSETS OUTSIDE PAKISTAN [101A]

A gain on disposal of an asset situated outside Pakistan or an asset located in Pakistan of a non-resident person shall be treated as Pakistan-source income as per the special provisions applicable to such gain. The relevant provisions are discussed below:

1. **Gain on disposal of such asset shall be treated as Pakistan-source income**, if:
 - The share or interest derives, directly or indirectly, its value wholly or principally from the assets located in Pakistan.
2. **Where the disposal is by a non-resident to a non-resident company**, the asset shall be treated to be located in Pakistan, if:
 - The share or interest derives, directly or indirectly, its value wholly or principally from the assets located in Pakistan; and

Strength of Taxes – Income Tax – Taxation of Persons [S-121]

(i)

The assets (i.e., shares or interest disposed or alienated) are 10% or more of the share capital of the non-resident company.

(ii)

The share or interest shall be treated to derive its value principally from the assets located in Pakistan if the value of such assets exceeds Rs. 100,000,000 and represents at least 50% of the value of all the assets owned by the non-resident company.

The valuation date for this purpose shall be the last day of the tax year preceding the date of transfer of a share or an interest in the company.

- For the purpose of this section, the value of the asset shall be the price prescribed for market value without reduction of liabilities.

4.

Where the entire assets of the non-resident company are not located in Pakistan and the share or interest in such company is disposed or alienated outside Pakistan, then the income of the non-resident company shall be treated as Pakistan-source income, to the extent it is reasonably attributable to assets located in Pakistan.

This notional income shall be determined as per the procedure laid down:

a) The resident company or person responsible for making the payment on disposal or alienation of asset, shall furnish to the CIR the prescribed information or document within 60 days of the transaction as below:

- That the share or interest derives, directly or indirectly, its value wholly or principally from assets located in Pakistan; and
- The non-resident company holds directly or indirectly, such assets through a resident company.

b) The information, etc., shall be submitted to the CIR in a prescribed statement.

c) The CIR may, by a written notice, require a resident company to furnish information, documents and statements within a period of less than 60 days.

d) The above-withholding person or entity, before making the payment to the non-resident company, shall withhold tax from the fair market value or sale price at the higher of:

- i. 20% of the gain; or
- ii. 10% of the gross amount of the consideration of the asset; or
- iii. 10% of the fair market value of the asset.

e) The amount of tax withheld from the non-resident person shall:

- i. Be paid by the resident person; and
- ii. The resident person must pay such consideration within 15 days of the month of deduction of the tax; and
- iii. Submit a prescribed form to the Federal Government within 15 days of that month.

5.

Where tax has been deducted in the manner as discussed under point No. 4 above in a case of disposal mentioned in No. 7 above, the tax so deducted shall be outputted against the amount of tax chargeable under Part V of this Ordinance.

6. Where no tax has been paid as per the above-discussed procedure, the non-resident company shall have no tax liability in respect of gain on disposal of depreciable asset u/s 22(8) or capital gain u/s 37 or 37A

Strength of Taxes – Income Tax – Taxation of Persons [S-122]

Note: Where any gain is taxable under 101A and also under any other provision of the Income Tax Ordinance, the said gain shall not be taxable under 101A; rather, shall be taxable under that other provision.

CONTROLLED FOREIGN COMPANY [109A]

“Controlled foreign company” (CFC) means a non-resident company (NRC), if:

1. The share capital or voting rights of the NRC are directly or indirectly held:
 - More than 50% by one or more persons resident in Pakistan;
 2. More than 40% is by a single person resident in Pakistan;
 3. Tax paid after foreign tax credits by NRC to any foreign tax authority on its income is less than 60% of the tax on such income under this Ordinance (i.e., the tax payable on that income under the Income Tax Ordinance);
 4. The NRC does not declare "**active business income**"; and
 5. The shares are not traded on any stock exchange recognized by law of the country or jurisdiction in which the NRC is resident for tax purposes.
-

Active Business Income

A company shall be treated to have derived active income if:

- More than 80% of its income does not include income from dividend, interest, property, royalty, capital gains, annuity payment, supply of goods or services to an associate, sale or license of intangibles and management, holding of investment in securities and financial assets;
 - It principally derives income from businesses in the country or jurisdiction of which it is a resident.
-

Taxation of CFC

The income of the CFC shall be dealt with as below:

1. The resident person shall include his share of CFC that shall be included in his taxable income for a tax year.
2. The attributable share of such income shall be computed by multiplying the percentage of capital held by the resident person with the total income of CFC in that tax year.
3. The income of CFC shall be converted to rupees at the rate notified by SBP and converted into rupees at the SBP rate prevailing at the end of the day of the tax year.
4. Income of a person from CFC shall not be taxed, where: i) CFC income is less than 10% of the total income;
 - ii) CFC is subject to tax in that foreign country under the provisions of the Income Tax Ordinance, 2001 (Corresponding foreign CFC and resident taxpayer);
 - iii) The income of CFC is subject to a special rate applicable to dividends (as specified in section 5);
 - iv) If attributable income share of a resident person is less than 10%, the amount of attributable income shall be treated as zero.
5. Income of a CFC shall not be taxed as zero, if it is less than Rs. 10,000,000.

Strength of Taxes – Income Tax – Taxation of Persons [S-123]

7.

Where the resident person has paid the tax in Pakistan in respect of the income attributable to CFC, then:

- i) That income shall not be taxed again on its receipt in Pakistan by the resident person;
 - ii) The resident person shall be allowed to tax credit, if in subsequent tax year he receives dividend distributed by CFC after deduction of tax on that dividend.
8. The amount of tax credit shall be the lesser of the following amounts:
- i) Foreign tax paid on dividends; and
 - ii) Pakistan income tax calculated and computed by applying the average rate of tax for the tax year to the dividend received.

"Foreign tax year" in relation to a NRC means any year or period of reporting for income tax purposes in any NRC in the country or jurisdiction of residence of, or that is considered to be under income tax law, shall be the financial reporting year of that company.

PERMANENT ESTABLISHMENT [2(41)]

“Permanent Establishment” (PE) of a person means a place of business through which the business of a person is wholly or partly carried on. It also includes:

1. A place of management, branch, office, factory, workshop, sales premises for soliciting orders, warehouse for sales, farm, plantation or other place of extraction of natural resources.
 - o It also includes a permanent sales establishment to solicit excluding a liaison office. However, if an individual is engaged in negotiation or conclusion of contracts on behalf of the NRC in respect of the PE, it shall be deemed to be a PE.
2. Any place of extraction of natural resources (e.g., mine, oil and gas well, quarry, etc.)
3. An agricultural, pastoral or forestry property.
4. A building site, construction, installation or assembly project where business transactions are carried on.
5. Any kind of premises used as supervisory activities along with the above-referred projects.
6. A place for rendering sales, project and its connected activities as PE if it is necessary that the premises be held for more than the aggregate of 90 days within the ninety (90) days within a 12-month period.
7. Furnishing of services (including consultancy) by any person through employees or other personnel shall be deemed as PE, if:

- a) A person other than NRC habitually exercises in Pakistan the authority to conclude contracts on behalf of the non-resident or habitually secures orders or maintains stock for delivery; or
- b) The person has no such authority but maintains the following situations for NRC's benefit:
 - i. In the name of the principal;
 - ii. In the manner of the ownership of or for the granting of the right to use property; or

c) For the provision of services by the principal.

ii) The agent has no such authority as specified above but he habitually maintains stock-in-trade and regularly delivers goods on behalf of the other person.

Note: The above provision shall apply only if the agent has no independent status. Where the agent has an independent status, then he shall not be considered as PE of a non-resident person.

'An agent of independent status' acting in the ordinary course of business does not include a person acting exclusively or almost exclusively on behalf of the person to which it is an associate.

7. Any substantial equipment, asset or property capable of activity giving rise to income.

8. A place of business that is used or maintained by a person if the person or its associate carries on business at that place or at another place in Pakistan and—

- i) That place constitutes a PE of the person or its associate; or
 - ii) Business carried on by the person or its associate at the place constitute complementary functions that are part of a *'cohesive business operation'*.
-

Notes:

1. *'Cohesive business operation'* includes an overall arrangement for the *'supply of goods'*, installation, construction, assembly, commission, guarantees or supervisory activities and all or principal activities are undertaken or performed either by the person or the associates of the person.
 2. *'Supply of goods'* includes the goods imported in the name of the associate or any other person, whether or not the title to the goods passes outside Pakistan.
-

Liaison Office [2(30C)]

'Liaison office' means a place of business acting for the principal, head office or any entity of which it is a part if:

1. Its activities do not result in deriving income in Pakistan; and
2. It is maintained out of any amount remitted from outside Pakistan through normal banking channels.

A place of business shall be treated as a liaison office if it undertakes activities of:

1. An exploratory or preparatory nature, to investigate the possibilities of trading with, or in, Pakistan;
2. Exploring the possibility of joint collaboration and export promotion;
3. Promoting products where such products are yet to be supplied to, or sold in, Pakistan;
4. Promoting technical and financial collaborations between its principal and taxpayers in Pakistan; or
5. Provision of technical advice and assistance

Notes:

1. A place of business shall not be treated as liaison office if it is engaged in:
 - i) Commercial activities;
 - ii) Trading or industrial activities; or
 - iii) The negotiation and conclusion of contracts.
2. An activity shall be treated as '*commercial activity*' if it includes:
 - i) Providing after sales services for goods or services; or
 - ii) Marketing or promoting pharmaceutical and medical products or services.

TAXATION OF A PERMANENT ESTABLISHMENT [105]

The Income Tax Ordinance, 2001 has introduced a new type of person, i.e., a Permanent Establishment (PE) in Pakistan of a Non-resident person. While determining the taxable income and tax liability of a PE, the following additional points must also be taken into account:

1. The PE shall be treated as a distinct and separate entity from the non-resident of which it is a PE. Its profit shall be computed on the basis of this principle.
2. Deduction on account of expenses (including executive and administrative expenses) shall be allowed as per normal procedure.
3. A PE shall not be allowed a deduction for any amount paid or payable by it to its head office or to another PE on account of the following expenses:
 - i) Royalties, fees or other similar payments for the use of any tangible or intangible asset;
 - ii) Compensation for any services (including management services);
 - iii) Profit on debt on money lent to the PE, except in connection with a banking business.
4. While determining the income, any amount which is received or receivable by a PE from its head office or from another PE on account of the following incomes shall not be taken into account:
 - i) Royalties, fees or other similar payments for the use of any tangible or intangible asset;

- ii) Compensation for any services (including management services);
 - iii) Profit on debt on money lent by the PE except in connection with a banking business.
5. **Head office expenses** shall be allowed as deduction equal to an amount which is computed as below:

$$\frac{\text{Total head office expenses of non-resident}}{\text{Total world-wide turnover of non-resident}} \times \text{Turnover of PE}$$

Any excess amount allocated to PE shall not be allowed as deduction.

6. A PE shall not be allowed a deduction on account of the following expenses paid or payable by the non-resident:
- i) Any profit on debt to finance the operations of PE; or
 - ii) Any insurance premium in respect of the above-stated debt.

Notes:

1. All the above provisions relate to the computation of income chargeable under the head “Income from Business”. These are not applicable to following incomes earned by a non-resident person, which are taxable as a separate block of incomes u/s 6 & 7:
 - i) Royalty,
 - ii) Fee for technical services;
 - iii) Shipping business; and
 - iv) Air transport business.
2. **‘Head Office Expenses’** means any executive or general administration expenses incurred by a non-resident for the business of his PE. It also includes the following expenses:
 - i) Any rent, local rates (other than foreign income tax), repairs or insurance outside Pakistan;
 - ii) Any salary paid to an employee outside Pakistan;
 - iii) Any traveling expenses of the employee employed outside Pakistan; and
 - iv) Any other expenditure which may be prescribed by the Income Tax Rules, 2002.

TAX ON CERTAIN INCOMES OF NON-RESIDENTS

(6, 7 & 8, Division IV & V of Part-I of First Schedule)

Certain incomes of non-residents are treated as a separate block of incomes and charged to tax at some special tax rates, which are given below. Other legal provisions in this regard are also discussed in coming paragraphs.

Section	Nature of Payment / Income	Tax Rate
6	Royalty	15% of the gross amount.
6	Fee for offshore digital services	15% of the gross amount.
6	Fee for Technical Services	15% of the gross amount.
6	Fee for money transfer operations, card network services, payment gateway services, interbank financial telecommunication services	15% of the gross amount.
7	Shipping income.	8% of the gross amount received or receivable.
7	Air transport income.	3% of the gross amount received or receivable.

FEE FOR TECHNICAL SERVICES [2(23)]

It means any consideration for the rendering of any managerial, technical or consultancy services (including services of technical or other personnel). Fee may be paid periodically or in lump sum.

However, the '*fee for technical services*' does not include a consideration:

1. For services rendered in relation to a construction, assembly or like project; or
2. Which would be taxable under the head "*Salary*".

FEE FOR OFFSHORE DIGITAL SERVICES [2(22B)]

It means any consideration for providing or rendering services by a non-resident person for **online advertising**.

‘Online Advertising’

Includes digital advertising space, designing, creating, hosting or maintenance of websites, digital or cyber space for websites, advertising, e-mails, online computing, blogs, online content and online data, providing any facility or service for uploading, storing or distribution of digital content including digital text, digital audio or digital video, online collection or processing of data related to users in Pakistan, any facility for online sale of goods or services or any other online facility.

ROYALTY [2(54)]

‘Royalty’ is consideration for transfer or use of an *intangible*. For the purposes of Income Tax, this term has been defined by taking into account the nature of the intangible or asset. Legal provisions in this regard are summarized below:

1. Patent, Invention, Model, Design, Secret Process or Formula, Trademark, etc.

In respect of above assets the ‘royalty’ means any consideration for the:

- i) Transfer of all or any rights;
- ii) Granting of a licence;
- iii) Imparting of any information concerning the working or use of such assets; or
- iv) Use of such assets.

2. Copy Right, Literary, Artistic or Scientific Work, etc.

‘Royalty’ means the consideration for the transfer of all or any rights in respect of any copy right, literary, artistic or scientific work including films or video tapes for use in connection with television or tapes for use in connection with radio broadcasting.

However, it does not include any consideration for the sale, distribution or exhibition of cinematograph films.

3. Services

Any consideration for the rendering of any services in connection with any of the above stated activities is also ‘royalty’.

Note: The consideration may be in installment or in lump sum.

Pakistan-Source Royalty or Fees [6]

Any Pakistan-source income on account of royalty or any fee received by a non-resident person shall be treated as above and charged to tax separately. However, the following incomes shall **not** be so treated; rather, shall be treated as income from business attributable to the *permanent establishment* in Pakistan of that person (PE):

- 1. Royalty from such property or right which is effectively connected with a PE of the non-resident person;
- 2. Fee from such services which are rendered through a PE of the non-resident person; and
- 3. Any royalty or fee, which is exempt from tax.

Computation of Royalty Income or Fee for Technical Services

[Rules-18 & 19]

While computing the income of a non-resident by way of ‘royalty’ or ‘fee for technical services’ received from a resident person or PE of a non-resident person, the following points shall be considered:

1. Royalty In Pursuance of an Agreement Prior to 08-03-1980 [Rule-18(a)]

Where the royalty is received in pursuance of an agreement made before 08-03-1980, the income shall be computed as below:

Computation Details for Royalty & Technical Fees

1. Gross amount of royalty

Less: Deductions allowed u/s 40 (i.e., Income from Other Sources)
= **XXX**

2. Royalty to Which Section 6(2) Applies [6(2)]

The royalty income of a non-resident shall be taxable as a separate block of income and tax shall be charged @ **15%** of the gross amount of the royalty. It means that under this case no deduction shall be allowed while computing the royalty income.

3. Royalty to Which Section 6(2) Does Not Apply [Rule-18(b) & (c)]

Under such a case, the royalty income shall be computed as below:

Gross amount of royalty – XXX

Less:

- Expenses incurred in Pakistan to earn royalty – XXX
 - Expenses incurred outside Pakistan – XXX (XXX)
(Maximum up to 10% of gross amount)
- = **XXX**
-

4. Fee for Technical Service as per an Agreement Prior to 08-03-1980 [Rule-19(e)]

Where the fee for technical services is received in pursuance of an agreement made before 08-03-1980, the income shall be computed as below:

Gross amount of fee – XXX

Less: Deductions allowed u/s 40 (i.e., “Income from Other Sources”) – (XXX)
= **XXX**

5. Fee for Technical Service as per an Agreement after 08-03-1980 but Before 04-05-1981 [Rule-19(b)]

Where the fee for technical services is received in pursuance of an agreement made after 08-03-1980 but before 04-05-1981, the income shall be computed as below:

Gross amount of fee – XXX

Less:

- Expenses incurred in Pakistan to earn fee – XXX
- Expenses incurred outside Pakistan – XXX (XXX)
(Maximum up to 20% of gross amount)
= XXX

6. Fee for Technical Service to Which Section 6(2) Applies [6(2)]

The fee for technical services of a non-resident shall be taxable as a separate block of income and tax shall be charged @ **15%** of the gross amount of the fee for technical services. It means that under this case no deduction shall be allowed while computing the income.

7. Fee for Technical Service to Which Section 6(2) Does Not Apply [Rule-19(c)]

Under such a case the fee for technical services income shall be computed as below:

Gross amount of fee for technical services – XXX

Less:

- Expenses incurred in Pakistan to earn fee – XXX
- Expenses incurred outside Pakistan – XXX (XXX)
(Maximum up to 10% of gross amount)
= XXX

Notes:

1. A non-resident may opt for taxation under FTR (u/s 6) by filing a written declaration/option within **15 days** of the commencement of the contract. Such option shall remain operative till completion of the said contract. [Proviso to Rule 19(c)]
2. A non-resident or his duly authorized agent shall furnish a return to the CIR within thirty (30) days from the last day of **December and June** in every financial year. This return shall...

SHIPPING BUSINESS OF NON-RESIDENTS [7 & 143]

Where a non-resident is carrying on business of operation of ships, he is required to pay tax on his aggregate amount of income before the departure of the ship from a port in Pakistan. Other provisions in this regard are the following:

1. The master of the ship shall furnish to the CIR a return showing the aggregate amount of incomes received or deemed to have been received by the principal from his business in Pakistan. This return shall disclose:
 - i) The amount paid or payable to the principal on account of carriage of any goods and passengers shipped at a port in Pakistan since the last arrival of the ship.
 - ii) The amount received or deemed to have been received in Pakistan on account of the carriage of goods, etc., at any port outside Pakistan.
 2. The above-mentioned return shall be furnished before the departure of the ship. The CIR may allow the departure of the ship if he is satisfied that arrangement for the payment of tax has been made in Pakistan.
 3. Tax shall be charged @ **8%** of the aggregate amount of income as per the return furnished by the master of the ship.
 4. This payment of tax shall be deemed as full and final discharge of the tax liability and the taxpayer is not required to file a return of total income.
-

AIR TRANSPORT BUSINESS OF NON-RESIDENTS [7 & 144]

Any non-resident deriving income from the business of operation of aircraft shall be liable to pay tax on his total income received or generated in Pakistan. The relevant provisions of the law are summarized below:

1. The following receipts of such a taxpayer shall be taxable:
 - i) Amount paid or payable to the principal on account of carriage of anything loaded from any place in Pakistan.
 - ii) Amount received or deemed to have been received in Pakistan, by the principal, on account of carriage of anything from any place outside Pakistan.
 2. Tax @ **3%** of the aggregate amount of receipts shall be charged. This shall be treated as full and final discharge of the tax liability.
 3. A quarterly return shall be furnished by the principal or any other person on his behalf within **45 days** of the end of each quarter.
-

SHIPPING BUSINESS OF RESIDENTS [7A]

Any resident person engaged in the business of shipping shall be charged a presumptive income tax as per the following:

1.

Ships and all floating crafts purchased or bare-boat chartered and flying Pakistan flag shall pay tonnage tax of an amount equivalent to one US\$ per gross registered tonnage per annum.

2.

Ships and all floating crafts not registered in Pakistan and hired under any charter other than bare-boat charter shall pay tonnage tax of an amount equivalent to fifteen US cents per ton of gross registered tonnage per chartered voyage. However, this tax shall not exceed one US\$ per ton of gross registered tonnage per annum.

3.

A Pakistani resident ship owning company registered with the SECP after the 15-11-2019 and having its own sea worthy vessel registered under Pakistan Flag shall pay tonnage tax of an amount equivalent to seventy five US Cents per ton of gross registered tonnage per annum.

4.

Payment of tax under above system will be effective till 30-06-2030.

‘Equivalent amount’ means the rupee equivalent of a US dollar according to exchange rate prevalent on the first day of December in the case of a company and the first day of September in other cases in the relevant tax year.

TAX ON PROFIT ON DEBT [7B & Division IIIA, Part-I of First Schedule]

Any taxable profit on debt received by a non-corporate taxpayer (i.e., individuals and AOPs) shall be taxable as a separate block of income and charged to tax at special rates. Other legal provisions are as below:

1. **Profit on debt has been received from:**
 - i) National Savings Scheme or Post Office Savings Account;
 - ii) A banking company;
 - iii) A financial institution;
 - iv) The Government (Federal, Provincial and Local);
 - v) A company as defined in the Companies Act, 2017; and
 - vi) A body corporate formed by or under any law in force in Pakistan.
2. For the purpose of computing the tax, rate shall be applied to the **gross amount** of the profit on debt.
3. Profit on debt shall be taxable @ **15%**.

4. Tax under this section shall not be charged if the profit on debt is:
 - i) Exempt from tax; or
 - ii) More than Rs. 5,000,000.

Note: Profit on debt shall be taxable as "*Income from Other Source*" if it exceeds Rs. 5 million in a tax year.

Person Not Appearing in Active Taxpayers' List

(Third Proviso of Rule 1 of Tenth Schedule)

Tax required to be collected u/s 151 of ITO on yield or profit on debt shall be **35%** if the recipient is not appearing in Active Taxpayers' List.

TAX ON BUILDERS [7C & Division-VIIIA, Part-I of First Schedule]

Special procedure for taxing the profits and gains from the business of residential and commercial buildings was effective for tax year 2020.

TAX ON DEVELOPERS [7D & Division-VIIIB, Part-I of First Schedule]

Special procedure for taxing the profits and gains from the business of **development and sale** of residential and commercial plots was effective for tax year 2017 only. Hence, being irrelevant has not been discussed.

TAX ON BUILDERS AND DEVELOPERS [7F]

1. Every person (individual, AOP, company) deriving income from the below-mentioned business shall pay tax on *taxable profit* from such business:
 - o i) Construction and sale of residential, commercial or other buildings;
 - o ii) Development and sale of residential, commercial or other plots; or
 - o iii) Activities relating to above-referred construction, development and sale.
2. Tax shall be charged at the normal rates applicable to the person under Division I or II of Part-I of the First Schedule of ITO.

Section 7F applies only to such income accruing from gross receipts from activities specified in it. It shall not be applicable to incomes from any other source or under any head of income.

3. Taxable Profit shall be the amount determined as below:

S. No.	Business	Taxable Profit
1.	Construction and sale of residential, commercial or other buildings	10% of gross receipts
2.	Development and sale of residential, commercial or other plots	15% of gross receipts
3.	Activities relating to above-referred construction, development and sale	12% of gross receipts

Explanation of the Nature and Source of Amount u/s 111

Where 'Taxable Income' u/s 9 is Less Than 'Taxable Profit' u/s 7F:

- Only so much amount shall be treated as a valid source as is equal to the amount of *taxable profit* subject to tax u/s 7F of ITO.

Where 'Taxable Income' u/s 9 is More Than 'Taxable Profit' u/s 7F:

1. So much amount shall be treated as a valid source as is equal to the amount of *taxable profit* subject to tax u/s 7F of ITO; and
 2. Excess amount of *taxable income* over *taxable profit* may be considered as a valid source if tax on it is paid at the normal rates of tax applicable (under Division I or II of Part I of First Schedule) to the person on such excess amount.
-

Non-Application of Section 7F

Section 7F shall not apply to a builder or developer who is:

1. Established by an Act of the Parliament or a Provincial Assembly or by a Presidential Order; and
 2. Engaged in activities for the benefit of its employees or otherwise including activities for the planning and development of and for providing and regulating housing and ancillary facilities in a specified or notified area.
-

Important to Note:

There are two different sections of ITO (i.e., **7F & 100D**) which deal with taxation of income of builders and developers. Perusal of these sections results in the following:

1. Incomes accruing from the projects completed up to **30-09-2023** shall be taxable u/s **100D**; and
 2. "*Taxable profit*" accruing from **01-07-2024 and onwards** shall be taxable u/s **7F**.
-

TAX ON BUILDERS AND DEVELOPERS [100D & 11th Schedule]

1. For tax year 2020 and onwards, the tax payable by a builder or a developer who opts to pay tax under this special procedure shall be computed and paid in accordance with the rules in the Eleventh Schedule on a project-by-project basis on the income, profits, and gains derived from the sale of buildings or sale of plots from:
 - i) A new project to be completed by 30-09-2023; or
 - ii) An incomplete existing project to be completed by 30-09-2023.

Any other income of a builder or developer shall be subject to tax normally.

2. Where tax is paid under these special provisions:
 - i) The income shall not be chargeable to tax under any head of income;
 - ii) No deduction shall be allowed for any expenditure incurred in deriving the income;
 - iii) The amount of the income shall not be reduced by:
 - o a) any deductible allowance under Part IX of Chapter III; or
 - o b) the set-off of any loss;
 - iv) No tax credit shall be allowed against the tax payable.
 - o However, tax collected u/s 236A or 236K on purchase of immovable property utilized in a project after 17-04-2020 shall be adjustable.
 - v) No refund of any tax collected or deducted shall be allowed;
 - vi) All provisions of the Income Tax Ordinance shall apply for recovery of the tax not paid or short paid; and
 - vii) Provision of sections 113 and 113C shall not apply on the turnover, income, profits and gains of a builder or developer from a project.
3. Provisions of section 111 shall not apply to capital investment made in a new project in the form of money or land, subject to the following conditions:
 - o In case of individual, if the investment is made:
 - a) In the form of money, a new bank account is opened and the amount is deposited therein on or before **30-06-2021**; or

3. Provisions of section 111 shall not apply to capital investment made in a new project in the form of money or land, subject to the following conditions:

- b) In the form of land, the individual shall have the ownership title of the land on 17-04-2020.**
- ii) If the investment is made by a person through a company or an association of persons:**

- **a)** Such company or AOP shall be a single object (builder or developer) company or association of persons registered under the Companies Act, 2017, the Limited Liability Partnership Act, 2017 or the Partnership Act, 1932 after the date of commencement of the Tax Laws (Amendment) Ordinance, 2020 and on or before 30-06-2021; and
- **b)** The person shall be a member or shareholder of such association of persons or company.

If capital investment is made:

a) In the form of money, such amount shall be invested through a crossed banking instrument deposited in the bank account of such AOP or company on or before 30-06-2021; or

b) In the form of land, such land shall be transferred to such AOP or company on or before the 30-06-2021.

The person shall have the ownership title of the land at the time of commencement of the Tax Laws (Amendment) Ordinance, 2020;

iii) A person making an investment shall submit a prescribed form on Iris web portal;

iv) The money or land invested shall be wholly utilized in a project; and

v) Completion of the project shall be certified in the following manner:

- **a)** In case of a builder, the map approving authority or NESPAK shall certify that grey structure as per the approved map has been completed by the builder on or before 30-09-2023; and
- **b)** In case of a developer:
 - **(A)** The map approving authority or NESPAK shall certify that landscaping has been completed on or before 30-09-2023;
 - **(B)** A firm of chartered accountants having an ICAP QCR rating of *satisfactory* (notified by the FBR) shall certify that at least 50% of the plots have been booked for sale and at least 40% of the sale proceeds have been received by 30-09-2023; and
 - **(C)** At least 50% of the roads have been laid up to sub-grade level as certified by the approving authority or NESPAK.

4. The provisions of section 111 shall also not apply to:

i) First purchaser of a building or a unit of the building purchased from the builder in respect of purchase price of the building or unit of the building subject to the following conditions

4. The provisions of section 111 shall also not apply to:

i) First purchaser of a building or a unit of the building purchased from the builder in respect of purchase price of the building or unit of the building subject to the following conditions:

a) *Where purchase is from a new project:* Full payment is made through a crossed banking instrument to the builder during a period starting from the date of registration of the project with the FBR and ending on 31-03-2023;

b) *Where purchase is from an existing incomplete project:* Full or balance amount of payment is made through a crossed banking instrument to the builder during a period starting from the date of registration of the project with the FBR under this section and ending on 31-03-2023.

ii) The purchaser of a plot who intends to construct a building thereon, if:

- a) The purchase is made on or before 30-06-2021;
 - b) Full payment is made on or before 30-06-2021 through a crossed banking instrument;
 - c) Construction on such plot is commenced on or before 31-12-2021;
 - d) Construction is completed on or before 30-09-2023; and
 - e) The person registers himself with the FBR on the online Iris web portal.
-

5. The value or price of land or building shall be the higher of the following:

- i) 130% of the fair market value as determined by the FBR u/s 68(4); or
 - ii) At the option of the person making investment, the lower of the values as determined by at least two independent valuers from the list of valuers approved by the State Bank of Pakistan.
-

6. Provisions of section 111 shall apply under the following cases:

- i) Holder of any public office as defined in the Voluntary Declaration of Domestic Assets Act, 2018 or his **benamidar** as defined in the Benami Transactions (Prohibition) Act, 2017 or his spouse or dependents;
 - ii) A public listed company, a real estate investment trust or a company whose income is exempt under any provision of the Income Tax Ordinance; or
 - iii) Any proceeds derived from the commission of a criminal offence including the crimes of money laundering, extortion or terror financing but excluding the offences under the Income Tax Ordinance.
-

7. Dividend income paid to a person by a builder or developer being a company out of the profits and gains derived from a project shall be exempt from tax.

8. Irrespective of the provision of section 100D or the Eleventh Schedule, where a return or declaration has been made through misrepresentation or suppression of facts, such return or declaration shall be void and all the provisions of the Income Tax Ordinance shall apply.

No action shall be taken if such misrepresentation has been made on account of a bona fide mistake.

Before taking an action prior approval of the FBR shall be obtained and an opportunity of being heard shall be provided to the person.

9. The provisions of the Income Tax Ordinance not specifically dealt with in section 100D or the rules made thereunder shall apply *mutatis mutandis* to builders and developers in so far as they are not inconsistent with above-referred provisions

Definitions:

- **‘Builder’** means a person who is registered as a builder with the FBR and is engaged in the construction and disposal of residential or commercial buildings.
 - **‘Capital investment’** means investment as equity resources and does not include borrowed funds.
 - **‘Developer’** means a person who is registered as a developer with the FBR and is engaged in the development of land in the form of plots of any kind either for itself or otherwise.
 - **‘Existing project’** means a construction or development project, which:
 1. Has commenced before the date of commencement of the Tax Laws (Amendment) Ordinance, 2020;
 2. Is incomplete;
 3. Is completed on or before 30-09-2023; and
 4. A declaration is provided in the registration form under Eleventh Schedule to the effect of percentage of the project completed up to the last day of the accounting period pertaining to tax year 2019 or tax year 2020 at the option of the taxpayer.
 - **‘First purchaser’** means a person who purchases a building or a unit, as the case may be, directly from the builder and does not include a subsequent or a substituted purchaser.
 - **‘New project’** means a construction or development project, which:
 1. Is commenced during the period starting from the date of commencement of the Tax Laws (Amendment) Ordinance, 2020 and ending on 31-12-2021; and
 2. Is completed on or before 30-09-2023.
 - **‘Project’** means a project for construction of a building with the object of disposal, or a project for development of land into plots with the object of disposal or otherwise.
 - **‘Registered with the FBR’** means registered after submission of form on project-by-project basis on the online Iris web portal.
-

RULES FOR COMPUTATION OF PROFITS AND GAINS OF BUILDERS AND DEVELOPERS AND TAX PAYABLE THEREON (Eleventh Schedule)

Scope and Payment of Tax (*Rule-10 of Eleventh Schedule*)

Income and tax payable shall be on **project-by-project basis** which shall be computed and paid at the following tax rates. Tax liability so calculated and paid shall be final tax.

Area in	Karachi, Lahore and Islamabad	Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	Urban Areas not specified in column (2) and (3)
TAX ON BUILDERS – FOR COMMERCIAL BUILDINGS	Rs. 250 per Sq. ft.	Rs. 230 per Sq. ft.	Rs. 210 per Sq. ft.

FOR RESIDENTIAL BUILDINGS

Size	Karachi, Lahore & Islamabad	Hyderabad etc.	Other Urban Areas
Upto 3000 Sq. ft.	Rs. 80 per Sq. ft.	Rs. 65 per Sq. ft.	Rs. 50 per Sq. ft.
3000 Sq. ft. and above	Rs. 125 per Sq. ft.	Rs. 110 per Sq. ft.	Rs. 100 per Sq. ft.

TAX ON DEVELOPERS (ENTIRE PROJECT)

Size	Karachi, Lahore & Islamabad	Hyderabad etc.	Other Urban Areas
Any size (in Sq. Yds.)	Rs. 150 per Sq. yd.	Rs. 130 per Sq. yd.	Rs. 100 per Sq. yd.

FOR DEVELOPMENT OF INDUSTRIAL AREA

Size	Karachi, Lahore & Islamabad	Hyderabad etc.	Other Urban Areas
Any size (in Sq. Yds.)	Rs. 20 per Sq. yd.	Rs. 20 per Sq. yd.	Rs. 10 per Sq. yd.

Notes:

1. For mixed-use buildings having both commercial and residential areas, respective rates shall apply.

2. For development of plots and constructing buildings on the same plots as one project, both rates shall apply.
3. In the case of "low cost housing" and all projects developed by NAPHDA, the higher rates shall apply.
4. These rates shall be applicable for computing tax liability for the project on an **annual basis**. The annual tax liability shall be worked out as:

csharp

CopyEdit

Tax liability as per above rates / Estimated project life in years

5. The estimated project life shall not exceed **three years**. In case of existing incomplete projects, the estimated project life shall be treated as four years maximum from tax year 2020 through tax year 2023 and the tax payable shall be reduced by the percentage of completion up to the last day of the accounting period pertaining to tax year 2019 or tax year 2020 as declared in the registration form.
6. Year shall include fraction of a year.

Registration and Filing of Return

1. A builder or developer shall electronically register a project on Iris by **31-12-2021** by submitting:
 - i) **Registration form** which shall include, *inter alia*, details of a member or shareholder of a builder or developer. A developer who is also a builder in case of a project shall submit two separate forms for registration as a developer and as a builder.
 - o For the purpose of availing exemption from application of section 111, the project shall be registered by **30-06-2021**; and
 - ii) An **irrevocable option** to be assessed under special procedure in respect of each project.
2. A builder or developer shall **electronically file a return and wealth statement** on Iris with evidence of payment of due tax. Return so filed shall be treated as a valid return under the law.

Certification

A certificate from approving authority or map approving authority or NESPAK shall be obtained by the builder or developer and provided to the FBR. The certificate shall be regarding the following matters:

1. **Total land area** in square yards;
2. **Covered area** in square feet;
3. **Saleable area** in square feet; and
4. **Type** (commercial, residential, or industrial) of saleable area or the total land area.

Advance Tax by Builders and Developers

[147(5C) & Part-IIB of First Schedule & Rule 5 of 11th Schedule]

Builders and developers shall pay **advance tax** for a tax year in four equal installments. Other provisions in this regard are:

1. Advance tax shall be payable on a **Project-by-Project basis** as may be prescribed in the ITR.
2. Quarterly advance tax installment shall be paid by due date for payment of advance tax u/s 147 of ITO.
[Due dates for individuals, AOPs and companies are discussed respectively in relevant chapters]
3. Advance tax payable shall be treated as **tax due under an assessment order**.
4. It shall be **adjustable and credit shall be allowed** in accordance with section 4(3) of ITO.
5. Where advance tax paid is **more than tax liability** for the tax year, the **excess shall be refunded**.
6. Tax payable (by persons deriving income from below-mentioned business) shall be determined considering the area (in sq. ft. or sq. yds.) and at the following rates:

Rate in Respect of:

Area	Karachi, Lahore and Islamabad	Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Other Sahiwal, Sialkot, Bahawalpur, Peshawar, Mardan, Abbottabad, Quetta	Urban Areas
1. Income from Construction and Disposal of Commercial Buildings [u/s 147(5C)(i)]	Rs. 250 per sq. ft.	Rs. 230 per sq. ft.	Rs. 210 per sq. ft.
2. Income from Construction and Disposal of Residential Buildings [u/s 147(5C)(i)]			

Area	Karachi, Lahore and Islamabad	Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Sialkot, Bahawalpur, Peshawar, Mardan, Abbottabad, Quetta	Other Urban Areas
- Upto 3000 sq. ft.	Rs. 80 per sq. ft.	Rs. 65 per sq. ft.	Rs. 50 per sq. ft.
- 3000 sq. ft. and above	Rs. 125 per sq. ft.	Rs. 110 per sq. ft.	Rs. 100 per sq. ft.

3. Income from Development and Sale of Residential or Commercial Plots

[u/s 147(5C)(ii)]

Area	Rate
Karachi, Lahore and Islamabad	Rs. 150 per sq. yd.
Hyderabad, Sukkur, Multan, Faisalabad, etc.	Rs. 130 per sq. yd.
Other Urban Areas	Rs. 100 per sq. yd.

4. Income from Development of Industrial Area

[u/s 147(5C)(ii)]

Area	Rate
Any area	Rs. 20 per sq. yd. (Karachi, Lahore, Islamabad, etc.)
Rs. 20 per sq. yd. (Other major cities)	
Rs. 10 per sq. yd. (Other Urban Areas)	

Notes:

1. Where a building has both commercial and residential areas, advance tax shall be computed by applying their respective rates.
2. Where development of plots and constructing buildings on those plots is undertaken as one project, both rates (for development and construction) shall apply.
3. Advance tax on Project-by-Project basis (as required u/s 147(5C) of ITO) is yet to be prescribed. In that case, the general procedure provided in the Eleventh Schedule may be applied.

Incorporation of Profits and Gains for Computation of Income

- A builder or developer may incorporate profits and gains accruing from projects up to **ten times** the tax paid under special procedure.
 - A builder or developer shall not be allowed to incorporate profits and gains accruing from a **low cost housing project** in excess of ten times of the tax liability.
 - Where profits and gains accruing from a project are in excess of ten times of the tax paid, such excess profits and gains shall be incorporated in the books of account or wealth statement. As the case may be, such excess shall be **taxable @ 20%** on profits and gains which are in excess of ten times of the tax paid.
-

Exemption from Tax Withholding

1. Tax withholding u/s 153 shall not apply to builders and developers on:
 - **i)** Purchase of building material except steel and cement; and
 - **ii)** Services of plumbing, electrification, shuttering and other similar services.
Where these services are provided by companies, then section 153 shall apply.
 2. Tax u/s 150 shall not be withheld from dividend, which is exempt u/s 100D(7).
-

Restriction on Change in Pattern of Ownership

Exemption from section 111 is subject to the following restrictions:

1. A shareholder or a partner of a builder or developer shall not be allowed a change in ownership of an incomplete project except where **at least 50%** of the total project cost has been incurred up to the date of change of ownership. It shall be certified by a QCR 'satisfactory' rating CA firm;
2. The additional partners or shareholders in a builder or developer after 30-06-2021 may join, but **additional partners or shareholders shall not be eligible for exemption**; and
3. The succession to legal heirs in case of deceased shareholder or a partner shall be allowed.

Area means,—

1. **In case of a builder:**
 - **i) For a Commercial or Residential Building (excluding a House):** Saleable area of the building.
 - **ii) For a House:** Covered area of house.
 2. **In case of a developer:** The total land area of the project.
-

Building means a residential or commercial building or unit thereof.

Commercial Building includes any building or part thereof which is to be used for commercial purposes in accordance with the relevant laws.

Commencement of Project means:

1. **For a Construction Project:** Approval of layout plan by the concerned authority.
2. **For a Development Project:** Approval of the development plan by the concerned authority.

FBR may provisionally accept commencement of a project on a case-to-case basis where:

- The builder or developer has taken all actions and done all things which are required and necessary to procure any approvals but any approval is delayed beyond a period of 30 days from the date of relevant application; and
 - The cutoff date of **31-12-2021** is not adhered to by the builder or developer.
-

Completion of Project means:

1. **For a Builder:** The date on which the **grey structure** is completed.
 - Grey structure shall only be considered as completed when the roof of the top floor has been laid as per the approved plan.
 2. **For a Developer:** The date on which –
 - i) At least **50% of the total plots** have been booked in name of buyers;
 - ii) At least **40% of the sale proceeds** have been received;
 - iii) **Landscaping** has been completed; and
 - iv) At least **50% of the roads** have been laid up to sub-grade level as certified by the approving authority or NESPAK.
-

Low Cost Housing means a housing scheme as developed or approved by NAPHDA or under the Ehsaas Programme.

- **NAPHDA** means **Naya Pakistan Housing and Development Authority.**
 - **NESPAK** means **National Engineering Services Pakistan (Private) Limited.**
-

Residential Building means a building which is not a commercial building but does not include buildings used for industrial purposes.

Saleable Area in case of buildings, means saleable area as determined by the approving authority or map approving authority or NESPAK under the relevant laws.

Unit means a self-contained or independent building or part thereof including houses, apartments, shops, offices, etc.

REDUCTION IN TAX

[Clause (09B) of Part-III of Second Schedule]

Tax payable on income, profits, and gains from **‘low cost housing’** projects developed or approved by:

- **Naya Pakistan Housing and Development Authority (NAPHDA), or**
- **under the Ehsaas Programme,**
shall be **reduced by 90%.**

This exemption **shall continue to remain available** to projects which commence on or before **30-06-2024.**

THIN CAPITALIZATION [106]

Thin capitalization is a situation where a company has a very lesser amount of capital as compared to its debts. A **foreign-controlled resident company** shall not be allowed a deduction for the profit on debt paid by it on that part of the debt as exceeds the prescribed ratio. The provisions in this regard are as below:

1. The company has a **foreign debt to foreign equity** ratio in excess of **three to one** at any time during the tax year.
 2. Profit on debt shall be allowed as a deduction **if the debt-equity ratio remains up to three to one.**
 - As and when it exceeds this ratio, any amount paid as profit on that part of the debt as exceeds three to one ratio **shall not be allowed.**
 3. The above provisions do not apply to:
 - i) A financial institution;
 - ii) A banking company; or
 - iii) A branch of a foreign company operating in Pakistan.
-

Foreign-Controlled Resident Company [106(2)]

It means a resident company in which **fifty percent (50%) or more underlying ownership** of the company is held by a non-resident person either alone or together with an associate or associates.

Foreign Debt [106(2)]

Foreign debt has been defined in relation to a foreign-controlled resident company and it means the greatest amount of the total of the following amounts:

1. The balance of any debt owed by the company to a foreign controller or to his non-resident associates, the profit on which is either:
 - exempt from tax, or
 - taxable at a rate which is lower than the corporate rate; and
2. The balance of any debt owed by the company to a person other than specified in No. 1 above, **if that other person is owing a similar amount of debt** to the foreign controller or his associates.

Note: The **greatest amount at any time** in a tax year shall be taken as foreign debt.

Foreign Equity [106(2)]

The amount of foreign equity of a foreign-controlled resident company shall be computed as below:

- **Amounts representing share in the equity** of the company of the foreign-controller or his non-resident foreign associates

Paid-up Value of Shares Held:

1. Paid up value of shares held – XXX
 2. Share premium – XXX
 3. Accumulated profit – XXX
 4. Asset revaluation reserve – XXX
- = XXX**

Less:

1. Debt obligation owed to the company by the foreign-controller and his non-resident associates – XXX
2. Share in accumulated losses – XXX

Foreign equity = XXX

Note: All the above mentioned amounts should be taken at the balance appearing in the books at the beginning of the tax year.

GROUP TAXATION [59AA]

The Finance Act, 2007 introduced a new concept of ‘**Group Taxation**’. Under this concept, the holding and subsidiary companies may opt to be taxed as one fiscal unit. Provisions in this regard are summarized below:

1. Holding companies and subsidiary companies of **100% owned group** may opt to be taxed as **one fiscal unit**.
 2. The group as a whole, besides consolidated group accounts (as are required under the Companies Act, 2017), shall make computation of income and tax payable.
 3. The companies in the group shall give **irrevocable option** for taxation as one fiscal unit.
 4. The group taxation shall be restricted to only such companies which are **locally incorporated under the Companies Act, 2017**.
 5. Losses prior to the formation of the group shall **not be entitled** to any relief under group taxation.
 6. The option of group taxation shall be available to those group companies which:
 - comply with the corporate governance requirements specified by the SECP; and
 - are designated as companies entitled to avail group taxation.
 7. The **FBR may make rules** for regulation of group taxation.
-

SPECIAL PROCEDURE FOR SMALL TRADERS AND SHOPKEEPERS [99B]

In respect of small traders and shopkeepers, the FBR with the approval of the Minister-in-charge may prescribe special procedure for the following matters:

1. Scope and payment of tax, and
2. Filing of return and assessment.

The **Federal Government shall also notify** in the official Gazette the cities or territories where special procedure shall apply.

Penalty for Not Getting Registration [98B, 182(1)-Sr.3A & 191B]

1. Where a trader or shopkeeper who is required to apply for registration, fails to register or pay advance tax specified in a scheme of special procedure, **the shop or such person shall be sealed:**
 - for **seven (7) days** for the first default; and

- for **twenty-one (21) days** for each subsequent default

Where a trader or shopkeeper who is required to apply for registration, fails to apply shall commit an offence punishable with imprisonment up to **six (6) months** or fine or both.

SPECIAL PROCEDURE FOR CERTAIN PERSONS [99C]

In respect of small businesses, construction businesses, medical practitioners, hospitals, educational institutions and any other sector the FBR with the approval of the Minister-in-charge may prescribe special procedure for the following matters:

1. Scope and payment of tax,
2. Record keeping, and
3. Filing of return and assessment.

The Federal Government shall also notify in the official Gazette the cities or territories where special procedure shall apply.

TAXATION OF SMALL AND MEDIUM ENTERPRISES [100E & Fourteenth Schedule]

For tax year 2021 and onwards, the tax payable by a ‘**small and medium enterprise**’ shall be computed and paid in accordance with rules made under the Fourteenth Schedule.

FBR may prescribe a simplified return for a small and medium enterprise.

‘**Small And Medium Enterprise**’ means a person who is engaged in manufacturing as defined in section 153(7)(iv) of the Income Tax Ordinance and his business turnover in a tax year does not exceed Rs. 250 million.

For a tax year in which **annual turnover of a person exceeds Rs. 250 million**, and for any subsequent tax year, the person shall **not qualify** as small and medium enterprise. [2(59A)]

****RULES FOR COMPUTATION OF PROFIT AND GAINS**

FOR SMALL AND MEDIUM ENTERPRISES**
(*Fourteenth Schedule*)

Registration [Rule-2]

Small and medium enterprise shall be required to register with FBR on its Iris web portal or Small and Medium Enterprises Development Authority on its SME registration portal (SMERP).

Categories and tax rates [Rule-3]

Categories of small and medium enterprises and tax rate applicable on their taxable income shall be as below:

Category	Turnover	Rates
Category- 1	Where annual business turnover does not exceed Rs. 100 million	7.5% of taxable income
Category- 2	Where annual turnover exceeds Rs. 100 million but does not exceed Rs. 250 million	15% of taxable income

Option for Final Tax Regime [Rule-4]

The small and medium enterprises may opt for taxation under final tax regime. In this case the following tax rates shall apply

Option for Final Tax Regime (continued from previous page)

Category	Turnover	Rates
Category- 1	Where annual business turnover does not exceed Rupees 100 million	0.25% of gross turnover
Category- 2	Where annual business turnover exceeds Rupees 100 million but does not exceed Rupees 250 million	0.5% of gross turnover

The option shall be exercised at the time of filing of return of income and once exercised, shall be irrevocable for three tax years.

The provisions of section 177 and 214C of the Income Tax Ordinance shall not apply to SME who opts for taxation under final tax regime.

Audit [Rule-5]

SMEs who opt for taxation under normal tax regime may be selected for tax audit through risk-based parametric computer ballot under section 214C of the Income Tax Ordinance if its tax to turnover ratio is below tax rates applicable to final tax regime under rule-4.

The cases selected for audit shall not exceed 5% of the total population of SMEs whose tax to turnover ratio is below tax rates applicable to final tax regime.

Provisions of Ordinance to apply [Rule-6]

The other provisions of the Income Tax Ordinance, 2001 shall apply mutatis mutandis to the SMEs.

ADDITIONAL TAX ON CERTAIN INCOME, PROFITS AND GAINS [99D]

In addition to any tax charged or chargeable, paid or payable under any provision of ITO, every company shall be liable to an additional tax subject to the following conditions:

1. It is imposed for any of the last three tax years preceding the tax year 2023 and onwards and notwithstanding anything contained in any law (including ITO) in force for the time being.
2. The company has any income, profit or gains that have arisen due to any economic factor or factors that resulted in windfall income, profits or gains.
3. FG may, by a notification:
 - i. Specify sector or sectors subject to additional tax;
 - ii. Determine windfall income, profits or gains and economic factor or factors including but not limited to international price fluctuation having bearing on any commodity price in Pakistan or any sector of the economy or difference in income, profit or gains on account of foreign currency fluctuation;
 - iii. Provide the rate not exceeding fifty percent of such income, profits or gains;
 - iv. Provide for the scope, time and payment of tax payable in specified manner and with applicable conditions; and
 - v. Exempt any person or classes of persons, any income or classes of income from additional tax with applicable condition, if any.

CHAPTER-6: SALARY INCOME

In order to render an income chargeable under the head “*Salary*”, the relationship of the **employee** and the **employer** must exist between the payer and the payee. The employer may be the current, former or prospective.

EMPLOYMENT

Employment is the rendering of services by an employee against the remuneration receivable from the employer. It includes: [2(22)]

1. A directorship or any other office involved in the management of a company;
 2. A position which entitles its holder to a fixed or ascertainable remuneration; or
 3. The holding or acting in any public office.
-

EMPLOYEE

Means an individual who is engaged in an *employment*. [2(20)]

EMPLOYER

Means any person who engages and remunerates an *employee*. [2(21)]

SALARY [12(2)]

Salary is a reward or recompense for services performed. In a more limited sense, a fixed periodical compensation paid by an employer for the services rendered by an employee is termed as salary. For the purpose of Income Tax, "*Salary*" means any amount received by an employee from any employment. It includes any:

1. Pay
 2. Wages
 3. Leave pay
 4. Overtime
 5. Bonus
 6. Gratuity
 7. Work conditions supplements (i.e., additional pay for unpleasant or dangerous work)
 8. Fees
 9. Commission
 10. Allowances
 11. Perquisites
 12. Profit in lieu of or in addition to the salary or wages; and
 13. Any other benefit provided by the employer to his employee.
-

Allowance Solely Expended in Performance of Employee's Duty [12(2)(c)]

"*Allowance solely expended in the performance of employee's duty*" are **not included** in salary income of an employee. This term does not include:

1. Allowance which is paid in monthly salary on fixed basis or percentage of salary; or
 2. Allowance which is not wholly, exclusively, necessarily or actually spent on behalf of the employer.
-

PERQUISITES [13]

Black's Law Dictionary defines the perquisites as "emoluments, fringe benefits or other incidental profits or benefits attaching to an office or position". Under the Income Tax Law, "perquisites" includes:

Perquisites (continued)

1. The value of rent-free accommodation.
 2. The value of any concession in rent of any accommodation.
 3. Any payment by the employer for the benefit of the employee, his spouse or dependent child, such as:
 - (i) Payment of life insurance, and
 - (ii) Payment towards a contract of annuity.
 4. The value of any benefit provided free of cost;
 5. The value of any benefit provided at a concessional rate;
 6. Any sum paid by an employer in respect of any obligation of an employee; and
 7. Facility of motor vehicle provided by an employer to his employee wholly or partly for private use of the employee.
-

PROFIT IN LIEU OF OR IN ADDITION TO SALARY [12(2)(e)]

"Profit in lieu of or in addition to salary" includes:

1. Any amount received as consideration for an agreement to enter into an employment relationship;
2. Any amount received as consideration for an employee's agreement to any conditions of employment or any change therein;
3. Any amount received as compensation for the termination of employment. It includes any compensation for redundancy or loss of employment and golden handshake payments;
4. Any amount received from any fund (e.g., provident fund, etc.) constituted by the employer to the extent to which the amount is not a repayment of contributions made by the employee to the fund;
5. Any amount received as consideration for an employee's agreement to a restrictive covenant in respect of any past, present or prospective employment;
6. Any pension or annuity or any supplement to a pension or annuity; and
7. Any amount chargeable to tax on account of employee share option scheme u/s 14.

SALARY INCOME

The following incomes are chargeable to tax under the head “*salary*”:

1. Any salary received during the year. The receipt may be on account of current salary, arrears or advance [12(1)(i)]; and
 2. Valuation of perquisites, allowances and benefits according to sections 13 & 14 of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002.
-

Notes:

1. Salary income is chargeable to tax on the “*receipt basis*”. It means any salary that is actually received during the tax year (which may be current salary, arrears of salary and advance salary) shall be charged to tax. Normally, the salary is not taxed on accrual basis. However, there are two exceptions to this general rule, which are:

Exceptions to Receipt Basis of Salary Income:

i) In case of an employee of a Private Limited Company, the CIR may opt the accrual basis for taxation of salary income if he has reasonable grounds to believe that payment of salary was deliberately deferred for tax avoidance [110]; and
ii) Where the employee has opted that his income be charged to tax on an accrual basis. It is permitted in a case where the taxpayer has received ‘salary in arrears’ resulting in the application of higher rate of tax in the year of receipt of the arrears. [12(7)]

2. An employee shall not be entitled to deduct any expenditure incurred by him in deriving salary income. [12(4)]
 3. An amount or perquisite shall be treated as received by an employee whether it is paid or provided:
 - i) By his employer (including present, past or prospective), an associate of his employer or a third party on behalf of his employer; or
 - ii) To him, to his associate or to a third party on his behalf. [12(5)]
-

TAX FREE SALARY TO EMPLOYEE [12(3)]

Where an employer agrees to pay the tax liability of his employee, then the amount so paid shall be treated as an additional benefit to the employee. The salary income of the employee shall be increased by the amount of tax paid by the employer.

Example 6.1:

Mr. Ahsan is an employee of a company and draws an annual salary of Rs. 2,200,000. As per terms of employment his employer has undertaken to pay the amount of tax on his salary income. Compute his tax liability for the year assuming that he is liable to pay tax @ 5% of his taxable income.

Answer:

- Salary received: Rs. 2,200,000
- Add: Tax paid by the Employer (Rs. 2,200,000 @ 5%) = Rs. 110,000
- **Total taxable salary income = Rs. 2,310,000**

Tax computation:

- Total tax liability for the year (Rs. 2,310,000 @ 5%) = Rs. 115,500
- Less: Tax already paid (by the employer on behalf of Mr Ahsan) = Rs. 110,000
- **Net tax payable = Rs. 5,500**

For the simplicity of the calculations a tax rate of 5% has been applied. In order to compute the exact tax liability the rates specified in the First Schedule shall be applied.

Example 6.2:

Compute the exact tax liability of Mr. Ahsan under the Income Tax Ordinance, 2001 by using the information of Example 6.1.

Answer:

- Salary received: Rs. 2,200,000
- Add: Tax paid by the Employer on Rs. 2,200,000 [N-1] = Rs. 180,000
- **Total taxable salary income = Rs. 2,380,000**

Tax Liability

- Tax on Rs. 2,200,000 = Rs. 180,000
- Tax on Rs. 180,000 @ 25% = Rs. 45,000
- **Total = Rs. 225,000**
- Less: Tax paid by the employer = Rs. 180,000
- **Net tax payable = Rs. 45,000**

N-1: Amount of tax as is provided in the tax rate table.

TAX ON AMOUNTS RECEIVED ON TERMINATION OF EMPLOYMENT [12(2)(e)(iii) & 12(6)]

The amount of any profit in lieu of or in addition to salary (i.e., compensation for redundancy or loss of employment, golden handshake payments, etc.) may, at the option of the employee, be taxed in any of the following ways:

1. It may be included in total income of the employee for the tax year in which it is received; or
2. It may be taxed as a separate block. The rate of tax applicable to such amount shall be computed in accordance with the following formula:

$$A / B \%$$

Where:

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

Notes:

1. In the above formula **total taxable income** has been used, which depicts that while computing the applicable tax rate, income of the employee from all sources taxable under NTR shall be taken into account.
 2. Withdrawal from accumulated balance from the voluntary pension fund is exempt up to 50% of the accumulated balance. Treatment for the remaining 50% shall be as below:
[Clause 23A]
 - i) Withdrawal in case of disability or death of the person, the excess amount shall be added in salary income and charged to tax under NTR.
 - ii) Withdrawal in case of retirement (either before retirement age or at time of or after retirement age), excess of fifty percent (50%) of accumulated balance, shall be taxed u/s 12(6) as separate block of income and charged at average rate of tax (ART) based on preceding three tax years.
-

Example: 6.3

Mr. Azeem has a taxable salary income of Rs. 2,200,000 during the tax year. At the end of the year he opted to retire under a scheme announced by his employer and received Rs. 3,000,000 as a golden handshake payment. The taxable incomes and tax liabilities of Mr. Azeem for the three immediately preceding tax years were as below:

Tax Year Taxable Income Tax Liability

1.	Rs. 800,000	Rs. 10,000
2.	Rs. 1,200,000	Rs. 30,000
3.	Rs. 1,800,000	Rs. 120,000

Compute the tax liability for the current tax year assuming that he opted that:

1. The golden handshake payment be taxed as a separate block; and
2. The golden handshake payment be taxed together with salary income

Answer:

1. Golden Handshake Taxable as a Separate Block of Income

- **Income taxable as per normal rates:** Rs. 2,200,000
- **Income taxable at a special rate (i.e., golden handshake payment):** Rs. 3,000,000
- **Total income for the year:** Rs. 5,200,000

Tax Liability

- **Tax on taxable income of Rs. 2,200,000 [N-1]:** Rs. 180,000
- **Tax on golden handshake payment (3,000,000 @ 4.21%) [N-2]:** Rs. 126,300
- **Total tax liability for the year:** Rs. 306,300

N-1: Tax on regular income is as per tax rate table.

N-2: Tax Rate applicable to Golden Handshake Payments**Tax Year Taxable Income Tax Liability**

1.	Rs. 800,000	Rs. 10,000
2.	Rs. 1,200,000	Rs. 30,000
3.	Rs. 1,800,000	Rs. 120,000
Total:	Rs. 3,800,000	Rs. 160,000

- **Average Rate** = (Tax of last 3 years ÷ Taxable income of last 3 years) × 100
= (160,000 ÷ 3,800,000) × 100 = **4.21%**

2. Golden Handshake Payment Taxable Together with Salary Income for the Year

- **Salary received during the year:** Rs. 2,400,000

- **Amount received on account of Golden Handshake:** Rs. 3,000,000
- **Total income taxable under the head “Salary”:** Rs. 5,200,000

Tax Liability

- **Tax on Rs. 4,100,000:** Rs. 700,000
- **Tax on Rs. 1,100,000 @ 35%:** Rs. 385,000
- **Total:** Rs. 1,085,000

Note: *The taxpayer should go for that option which reduces his overall tax liability. It is observed that where the golden handshake payment is treated as a separate block of income, tax liability shall be the lesser.*

TAX ON SALARY RECEIVED IN ARREARS [12(7)]

An employee may opt that the amount of salary received in arrears be taxed at such **rates** that would have been applicable if the salary had been paid to him in the tax year **when the services were rendered**. This option may be exercised if the following conditions are fulfilled:

1. The taxpayer has received a ‘**salary in arrears**’;
 2. This receipt has been **included in the total income** for the year in which it is received; and
 3. This inclusion has **resulted in the application of the higher rate of tax** on such income.
-

“The option available to the employee in respect of salary received in arrears or amount received on termination of employment shall be exercised in writing and furnished to the Commissioner by the due date for filing the return, etc.” [12(8)]

Example: 6.4

Mr. Rashid is drawing a taxable salary income of Rs. 200,000 per month. During the tax year 20x1 he was paid a salary for 10 months. The salary for the remaining 2 months was paid along with the salary of the tax year 20x2. Determine the amount of tax refund or tax payable for the tax year 20x2.

Answer:

For the purpose of uniformity in calculations, the tax liability is calculated on the basis of the rates applicable to the Tax Year 2025

Step-1: Tax Liability on Receipt Basis

	Tax Year 20x1	Tax Year 20x2
Total income [N-1]	2,000,000	2,800,000
Tax payable [N-2]	150,000	330,000

N-1: Total Income

- For Tax year 20x1: Rs. 200,000 \times 10 = Rs. 2,000,000
 - For Tax year 20x2: Rs. 200,000 \times 14 = Rs. 2,800,000
-

N-2: Tax Liability

Tax Year 20x1:

- Tax on Rs. 1,200,000 = Rs. 30,000
- Tax on balance of Rs. 800,000 @ 15% = Rs. 120,000
- **Total:** Rs. 150,000

Tax Year 20x2:

- Tax on Rs. 2,200,000 = Rs. 180,000
 - Tax on balance of Rs. 600,000 @ 25% = Rs. 150,000
 - **Total:** Rs. 330,000
-

Step-2: Tax Liability on Accrual Basis

- **Total Income (Rs. 200,000 \times 12)** = Rs. 2,400,000 for both years

	Tax Year 20x1	Tax Year 20x2
Tax on Rs. 2,200,000	Rs. 180,000	Rs. 180,000
Tax on Rs. 200,000 @ 25%	Rs. 50,000	Rs. 50,000
Total	Rs. 230,000	Rs. 230,000

Step-3: Refund of Tax

- **Tax paid (withheld and deposited by employer)**
(Rs. 150,000 + 330,000) = Rs. 480,000
 - **Less: Tax payable as per step-2 (Rs. 230,000 + 230,000) = Rs. 460,000**
 - **Refund for the year: Rs. (20,000)**
-

Alternate Treatment

The above treatment is operative where the employer has deducted tax at source while making salary payments. The tax so deducted would have been deposited by the employer in the Government treasury, so there may be a **refund of tax** for the year in which arrears are received.

However, if the **employer is not a withholding agent**, then the tax source cannot be traced. In that case, the **tax liability for tax year 20x2** shall be determined as below:

- **Total tax liability for both years on accrual basis = Rs. 230,000 + 230,000 = Rs. 460,000**
- **Less: Tax paid for the tax year 20x1 (by employee on cash basis) [see note] = Rs. 150,000**
- **Tax payable for tax year 20x2 = Rs. 310,000**

Note:

While filing *return of income*, a person has to pay the tax due on the taxable income. Where employer is not a *tax withholding agent* and has not deducted tax from salary, the employee has to pay tax himself, (as is the case of tax year 20x1 in the instant example). Tax so paid shall be adjusted against tax liability for the both tax years.

PERQUISITES, ALLOWANCES AND BENEFITS

[Section 13 & Rule-3]

Section 13 of the Income Tax Ordinance, 2001 and Rule-3 through Rule-7 of the Income Tax Rules, 2002 discuss the provisions regarding the valuation of different perquisites, allowances and other benefits for the purposes of determining the 'salary income chargeable to tax under the Income Tax Ordinance, 2001.

SERVICES OF DOMESTIC SERVANTS [13(5)]

The total amount of salary paid by the employer to the domestic servants of an employee (e.g., housekeeper, driver, gardener or other domestic servants) shall be included in the salary income of the employee for the tax year in which the services are rendered.

Example: 6.5

Mr. Raza is an officer in an autonomous corporation. He is in pay scale of 30,000-2,000-50,000. During the tax year he received Rs. 480,000 as basic salary. Further, he was also paid the following amounts:

1. Dearness allowance – Rs. 36,000
2. Cost of living allowance – Rs. 48,000
3. Bonus – Rs. 40,000
4. Commission – Rs. 60,000

The employer of Mr. Raza has also provided the services of a driver and a housekeeper. The corporation paid Rs. 8,000 p.m. to each of these employees.

Compute the taxable income of Mr. Raza:

Answer:

Description	Amount (Rs.)
Basic salary	480,000
Dearness allowance	36,000
Cost of living allowance	48,000
Bonus	40,000
Commission	60,000
Salaries of domestic servants:	
Driver (Rs. 8,000 × 12)	96,000
Housekeeper (Rs. 8,000 × 12)	96,000
Total Taxable Income	856,000

UTILITIES TO EMPLOYEE [13(6)]

Where the employer has provided any facility to his employee in the form of **utilities**, the salary income of the employee shall be determined as below:

- Fair market value of the utilities provided – XXX
- Less: Any amount paid by the employee for utilities – XXX
- **Taxable Value** – XXX

‘Utilities’ includes electricity, gas, water and telephone

Utilities may be in the form of a free or concessional facility or a utility allowance receivable in cash.

Under both the cases any benefit provided by an employer to an employee on account of utilities shall be taxable and included in salary income of the employee.

Example: 6.6

Further assume to the example 6.5 that during the year following domestic bills of Mr. Raza were also paid by his employer:

1. Telephone – Rs. 24,000
2. Water – Rs. 12,000
3. Electricity – Rs. 19,200
4. Gas – Rs. 9,600

Determine the taxable income of Mr. Raza.

Answer:

Description	Amount (Rs.)
Income as determined in Example 6.5	856,000
Add taxable utilities:	
a) Telephone	24,000
b) Water	12,000
c) Electricity	19,200
d) Gas	9,600
Total utilities	64,800
Taxable Income	920,800

LOAN FROM EMPLOYER [13(7)]

Where a loan is received from an employer (whether interest bearing or otherwise), then any of the following two amounts shall be added to the salary income of the employee:

1. The amount of interest/profit computed at the **benchmark rate**, if no interest/profit is payable by the employee; or
2. The amount computed at the *benchmark rate* less the actual amount of interest/profit paid by an employee, if lower rate is applicable on the loan.

Note: This benefit shall not be taxable if the loan amount is up to Rs. 1,000,000.

‘Benchmark rate’ means a rate of ten percent (10%) per annum.

Example: 6.7

Take another assumption along with the data of example 6.6, i.e., Mr. Raza obtained a loan of Rs. 1,200,000 from his employer on the first day of tax year, which remained unpaid till end of the year.

Compute taxable income in each of the following situations:

1. The loan was interest-free;
 2. The employer charged interest at a rate of 8% p.a.; and
 3. The employer charged interest @ 15% p.a.
-

Answer:

1. Interest-Free Loan

Description	Amount (Rs.)
Income as determined in Example 6.6	920,800
Add: Taxable benefit on account of interest-free loan	
Loan amount \times Benchmark Rate (Rs. 1,200,000 \times 10%)	120,000
Taxable Income	1,040,800

2. Interest Charged @ 8%

Description	Amount (Rs.)
Income as determined in Example 6.6	920,800
Add: Taxable benefit on account of interest at a lower rate:	
Interest at benchmark rate (1,200,000 \times 10%)	120,000

Description	Amount (Rs.)
Less: Interest charged by employer ($1,200,000 \times 8\%$)	(96,000)
Taxable Income	944,800

3. Interest Charged @ 15%

As the employer has charged the interest at a rate, which is higher than the **benchmark rate**, thus nothing will be included in the income of Mr. Raza. His taxable income shall remain the same as given in Example 6.6.

Taxable Income: Rs. 920,800

Waiver of Interest by Employee on His Account with Employer

[*Proviso to 13(7)*]

Any notional benefit arising to an employee on interest-free loan from his employer **shall be exempt** from tax if the employee waives his right of interest on his account with the employer.

This consideration is based on the **proviso to section 13(7)** and ‘**Note on Clauses**’ of the **Finance Act, 2010**, issued by FBR at the time of presentation of Finance Bill, 2010, which read as below:

Proviso to section 13(7):

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

‘Note on Clauses’ of the Finance Act, 2010:

“This amendment seeks to provide exemption to the benefit arising to an employee due to the waiver of his right of interest.”

LOAN FROM EMPLOYER USED FOR ACQUISITION OF AN ASSET [13(6)]

Where an employee has utilized a loan obtained from his employer for the acquisition of any asset or property the income of which is chargeable to tax under any head of income, then the amount of interest on such loan (whether paid to the employer and/or treated as perquisite) shall be allowed as **deduction against income from such asset**. The amount to be allowed as deduction shall be determined as below:

1. Interest-Free Loan or Mark-up up to Benchmark Rate

An amount equal to the “**Benchmark Rate**” shall be allowed as deduction under any of the following cases:

- i) Where the employer has not charged interest on the loan; or
 - ii) Where the employer has charged the interest but the interest rate does not exceed the “**Benchmark Rate**”.
-

2. Interest at a Rate Higher than Benchmark Rate

Where the interest charged by the employer is higher than the **benchmark rate**, the whole amount paid by the employee shall be allowed as deduction.

Example: 6.8

Rehan is an employee of ABC Limited. He purchased a machine amounting to Rs. 2,000,000. For purchase of this machinery he, besides his own savings, utilized a loan of Rs. 1,200,000 obtained from the company.

Rehan rented out the machinery against an annual rent of Rs. 400,000. He spent an amount of Rs. 14,400 on repair and maintenance of the machinery. Determine the amount to be included in his taxable income on account of machinery rent under each of the following cases:

- 1. The loan from employer is interest-free;
 - 2. The employer charged interest on the loan @ 8% p.a.; and
 - 3. The employer charged interest on the loan @ 15% p.a.
-

Answer:

Particulars	No Interest	Interest @ 8%	Interest @ 15%
Annual Rent	400,000	400,000	400,000
Less Allowable Deductions:			
Repairs [N-1]	14,400	14,400	14,400
Interest on Loan from Employer [N-2]	120,000	120,000	180,000
Total Deductions	(134,400)	(134,400)	(194,400)
Taxable Income from Other Sources	265,600	265,600	205,600

N-1

While computing the taxable income from other sources, a deduction on account of **repairs of the machinery** is allowed.

N-2

Under the first two cases, the interest computed at the **benchmark rate (i.e., 10% p.a.)** is allowed as deduction. Whereas in the third case, **actual interest paid** by the employee (which is @ 15%) is allowed as deduction.

WAIVER OF AN AMOUNT PAYABLE BY EMPLOYEE [13(9)]

Any amount waived off by the employer out of the amount payable by the employee shall be included in the income of the employee.

OBLIGATION OF AN EMPLOYEE PAID BY THE EMPLOYER [13(10)]

Any payment by the employer to another person on account of an obligation of the employee (e.g., insurance premium, etc.) shall be included in the salary income of the employee.

TRANSFER OF PROPERTY OR PROVISION OF SERVICES TO EMPLOYEE [13(11)]

Where an employer transfers his property or provides services to the employee, the amount calculated as below shall be included in the income of the employee:

- Fair market value of the property, etc. – **XXX**
- Less: Payment made by the employee, if any – **(XXX)**
- **Amount to be included in the salary income – XXX**

ANY OTHER PERQUISITE [13(13)]

The amount calculated as below shall be included in the income of the employee:

- Fair market value of the perquisite – **XXX**
 - Less: Payment made by the employee, if any – **(XXX)**
 - **Amount to be included in the salary income – XXX**
-

Example: 6.9

Using the data available in **Example 6.6**, compute the taxable income of Mr. Raza, if the following additional information is also provided:

1. The employer has waived off a loan of Rs. 100,000 receivable from Mr. Raza.

Additional Items for Taxable Income (continued from Example 6.9):

2. Life insurance premium of Mr. Raza amounting to **Rs. 30,000** has been paid by his employer; and
 3. A car with fair market value of **Rs. 800,000** has been transferred to Mr. Raza against **Rs. 600,000**.
-

Answer:

Total Income as determined in Example 6.6: **Rs. 920,800**

Add: The value of benefits provided to Raza

- i) Waiver of an amount payable by Raza — **Rs. 100,000**
 - ii) Life insurance premium of Raza paid by his employer — **Rs. 30,000**
 - iii) Fair market value of the car — **Rs. 800,000**
Less: Payment made by Raza — **Rs. (600,000)**
Net benefit from car = Rs. 200,000
-

Total Additions = Rs. 100,000 + 30,000 + 200,000 = **Rs. 330,000**

Taxable Income = 920,800 + 330,000 = **Rs. 1,250,800**

EMPLOYEE SHARE SCHEME [14]

‘Employee Share Scheme’ means an agreement or arrangement under which a company issues shares to the following persons:

1. An employee of the company;
 2. An employee of an associated company; or
 3. The trustee of a trust (in such case, the trustee may transfer the shares to the employee or a company/associated company employee).
-

Tax Treatment:

- The **value of any right or option** to acquire shares (in itself) is **not chargeable to tax**.
- When the **right or option is exercised** without receiving consideration (or below value), the **difference in value** becomes taxable.
- The **amount to be included** in the salary income shall be calculated as:

Fair market value of shares at date of issue

Less: Consideration given by employee for shares

Amount paid for right/option (if any)

= Amount chargeable to salary income

Example: 6.10

On 14th August 20x1, Sindh Limited issued a scheme under which every employee of the company is entitled to acquire **2,000 ordinary shares** of the company.

Mr. Riaz, an employee, receives this benefit. Relevant values:

- **Face value of each share: Rs. 10**
 - **Value of right: Rs. 4**
 - **Price to be paid by employee per share: Rs. 20**
 - **Market value of the shares: Rs. 35**
-

Also determine the value of shares in the hands of Mr. Riaz assuming that:

A) The company has not charged any amount for granting the right/option to purchase shares; or

Example 6.10 (continued)

B) An employee has to pay Rs. 2 per share as a price for obtaining the right to purchase shares

Answer:

Amount to be Included in Salary Income

A) Where the Right to Purchase Shares is Granted Free of Cost

- Fair Market Value of the Shares ($2,000 \times \text{Rs. } 35$) = Rs. **70,000**
 - Less: Amount paid for Purchase of Shares ($2,000 \times \text{Rs. } 20$) = Rs. **(40,000)**
 - **Taxable as Salary Income = Rs. 30,000**
-

B) Where Amount is Payable for Acquiring the Right

- Fair Market Value of the Shares ($2,000 \times \text{Rs. } 35$) = Rs. **70,000**
 - Less:
 - Amount paid for purchase of shares = Rs. **40,000**
 - Amount paid for acquiring the right ($2,000 \times \text{Rs. } 2$) = Rs. **4,000**
 - **Total deduction = Rs. (44,000)**
 - **Taxable as Salary Income = Rs. 26,000**
-

Cost of the Share

A) Where Right is Acquired Free of Cost

- Amount paid for purchase of shares = Rs. **40,000**
 - Amount taxable as salary income = Rs. **30,000**
 - **Total cost of shares = Rs. 70,000**
 - **Cost per share = Rs. $70,000 / 2,000 = \text{Rs. } 35$**
-

B) Where Some Amount is Payable for Acquiring the Right

- Amount paid for purchase of shares = Rs. **40,000**
- Amount paid for acquiring the right = Rs. **4,000**
- Amount taxable as salary income = Rs. **26,000**
- **Total cost of shares = Rs. 70,000**
- **Cost per share = Rs. $70,000 / 2,000 = \text{Rs. } 35$**

Notes:

- i) The **face value** of the shares has no relevance to the amount determined under the Income Tax Ordinance.
- The **fair market value** at the date of grant and the **price paid for acquisition or exercise of the right** are what determine the taxable amount.
- ii) In both cases, the fair market value of shares **equals the total cost** of shares acquired by the employee.
-

4. Restricted Shares

- If shares are issued with a restriction on their transfer, no amount is included in the employee's income until either:
 1. The employee is free to transfer the shares; or
 2. The shares have actually been disposed of.

In that case, the taxable amount is:

Fair market value at time of free transfer/disposal
Less:

- Consideration given for shares
 - Amount paid for right or option, if any
- = **Amount chargeable to tax**

Example: 6.13

Compute the amount to be included in salary income of Mr. Riaz if, instead of exercising his right to purchase the shares, he sells the right at the fair market value (i.e., Rs. 4 per share), assuming that:

1. The right is given **free of cost**; and
 2. The company has received **Rs. 2 for granting right** to purchase one share.
-

Let's compute the answer step-by-step:

- **Total rights sold** = 2,000 shares
- **Fair market value of each right** = Rs. 4
- **Total consideration received from selling rights** = $2,000 \times 4 = \text{Rs. 8,000}$

- **Cost incurred by Mr. Riaz (Rs. 2 per right) = $2,000 \times 2 = \text{Rs. 4,000}$**

So the **amount chargeable to tax** =
 $8,000 - 4,000 = \text{Rs. 4,000}$

Example 6.13 - Continued Answer:

- 1. Where the Right is Given Free of Cost**
 - Consideration received on disposal of the right ($2,000 \times \text{Rs. 4}$): **Rs. 8,000**
 - Less: Cost incurred for obtaining right: **Nil**
 - **Taxable salary income: Rs. 8,000**
 - 2. Where an Amount is Received for Granting Right**
 - Consideration received on disposal of the right ($2,000 \times \text{Rs. 4}$): **Rs. 8,000**
 - Less: Cost incurred for obtaining right ($2,000 \times \text{Rs. 2}$): **Rs. 4,000**
 - **Taxable salary income: Rs. 4,000**
-

VALUATION OF ACCOMMODATION (Section 13(12) & Rule-4)

General Provision:

- **House rent allowance or accommodation** provided by the employer is **fully taxable**.
- If an **accommodation is provided**, its **value = rent amount the employee would have paid**.
- This value is **included in salary income**.

Important Clause:

- Value **shall not be less than 45%** of Minimum Time Scale (MTS) or basic salary (if time scale not known).
 - The value to be included in salary income = **higher of**:
 1. Fair market rent of the accommodation, or
 2. 45% of MTS or basic salary.
-

Accommodation in Small Cities

- Allowance allowed = **30% of MTS or basic salary**.
 - If the area has a **30% rate**, then value taken = not less than 30% of MTS or basic salary.
 - Value to be included = **higher of**:
 1. Fair market rent, or
 2. 30% of MTS or basic salary.
-

SELF-HIRING OF A PROPERTY

If the employee or spouse **owns a building** rented out to the employer, and then **uses the same building as rent-free accommodation**, then:

a. Property Income

- Rent received is taxable under “**Income from Property.**”
- Treated as **property income** for the owner.

b. Salary Income

- Since building is used as **rent-free accommodation**, its **value is added to salary income** as a **perquisite**

VALUATION OF CONVEYANCE [13(3) & Rule-5]

When an employer provides a **conveyance** (motor vehicle) to an employee, the **value to be included in salary income** is calculated as per the following table:

Use of Motor Vehicle	Amount to be Included in Salary
Only for private use of the employee	10% of the cost to the employer for acquiring the motor vehicle or the fair market value at the commencement of lease (if leased)
Partly for private use and partly for official use	5% of the cost to the employer for acquiring the motor vehicle or the fair market value at the commencement of lease (if leased)

Note:

For the purposes of Rule-3 through Rule-5, the term “**employee**” includes a **whole-time working director** of a company. [Rule-6]

EXEMPTIONS

- Exemptions from tax and tax concessions or rebates in tax liability for salaried taxpayers are **specified in various sections of the Income Tax Ordinance** and in the **Second Schedule**.
- These provisions are fully detailed in the chapter titled “**Exemptions and Concessions.**”
- For specifics, refer to the relevant part of that chapter.

COMPUTATION OF TAXABLE SALARY INCOME

Component	Rs.
Basic salary	XXX
Dearness allowance	XXX
Cost of living allowance (COLA)	XXX
Overseas allowance [N-1]	XXX
Bonus	XXX
Commission	XXX
Leave encashment [N-2]	XXX
Overtime	XXX
Gas	XXX
Water	XXX
Electricity	XXX
Telephone	XXX
Tax on salary paid by the employer (in case of tax-free salary)	XXX
Receipts on termination of employment (e.g., golden handshake payment) [N-3]	XXX
Salary received in arrears [N-4]	XXX
Services of domestic servants (e.g., housekeeper, driver, etc.)	XXX
Interest free loan [N-5]	XXX
Waiver of an amount payable by employee	XXX
Obligation of an employee paid by employer	XXX
Transfer of property or provision of services to employee:	
— Fair market value of property or services	XXX

Component	Rs.
— Less: Payment made by the employee, if any	(XXX)
House rent allowance	XXX
Rent-free accommodation — Higher of FMR or 45% (or 30%) of MTS or basic salary	XXX
Conveyance allowance	XXX
Value of Conveyance [N-6]	XXX
Leave fare assistance (LFA) [N-7]	XXX
Medical allowance [N-8]	XXX
Entertainment allowance	XXX
— Less: Amount expended for official purposes	(XXX)
Employer's contribution to provident fund:	
— Government provident fund → Totally exempt	—
— Unrecognized provident fund → No tax treatment	—
— Recognized provident fund	XXX
— Less: Exempt up to lesser of 10% of the salary or Rs. 150,000 [N-9]	(XXX)
Interest on provident fund:	
— Government provident fund → Totally exempt	—
— Unrecognized provident fund → No tax treatment	—
— Recognized provident fund	XXX
— Less: Exempt (Higher of 1/3rd of salary or amount calculated @ 16%)	(XXX)
Receipt of accumulated balance of provident fund	
— Government provident fund → Totally exempt	—
— Recognized provident fund → Totally exempt	—

Component	Rs.
— Unrecognized provident fund [N-10]	XXX
Profit in lieu of or in addition to salary	XXX
Gratuity or commutation of pension received from:	
— Government (Federal, Provincial or Local) → Totally exempt	—
Fund approved by CIR – Totally exempt	
Approved superannuation fund – Totally exempt	
Gratuity scheme approved by FBR	
XXX	
Less: Exempt Rs. 300,000	XXX
Any other case	XXX
Less: Exempt (Lesser of Rs. 75,000 or 50% of amount received)	XXX
XXX	
Pension – only one pension with higher amount is exempt	XXX XXX
Any other benefits, allowances, etc.	XXX
Benefit under Employee Share Option Scheme	XXX
Total taxable salary income	XXX

NOTES:

N-1

Any allowances and perquisites paid by the Government to a Pakistani rendering services outside Pakistan are exempt from tax.

N-2

Encashment of all types of leaves is taxable if received by private sector employees. However, encashment of "leaves preparatory to retirement" (commonly known as LPR) received by government employees shall be exempt from tax. Encashment of all other leaves by government employees is taxable.

N-3

These amounts may be included in the salary income for the tax year in which it is received or may be treated as a separate block and charged to tax at the average tax rate based on the three immediately preceding tax years.

N-4

At the option of the taxpayer, salary received in arrears may be included in the tax year in which it is received or in the tax year in which services were rendered.

N-5

An amount equal to the benchmark rate (i.e., 10% per annum) shall be treated as income. Where the interest charged by the employer is less than the benchmark rate, the difference shall be treated as income. Furthermore, this benefit will be taxable if the loan amount exceeds Rs. 1,000,000.

N-6

The value of the conveyance to be included in the salary income of an employee shall be determined according to the principles laid down in Rule-5.

N-7

The entire amount spent by the employer on Leave Fare Assistance (LFA) is included in the salary income of an employee.

N-8

Medical allowance is exempt up to 10% of the basic salary if no other medical facility is provided by the employer.

N-9

For provident fund purposes, "salary" means the actual drawn basic salary plus the dearness allowance.

N-10

Only the employer's contribution and the interest thereon shall be taxable in the year of receipt.

CHAPTER-7**PROVIDENT FUND****DEFINITION**

The provident fund is a fund created by an employer for the future welfare and benefits of his employees. Under this scheme, a certain percentage of an employee's salary is deducted every month. Generally, the employer also contributes an equal amount. Contribution of both the employer and the employee is handed over to a fund known as Provident Fund. The amount is invested in securities and the income generated from the investment is proportionately credited to the employees' accounts. Upon retirement, the total amount standing to the credit of an employee is paid to him. The final payment represents the following:

1. The employee's contribution.
2. The employer's contribution.
3. The interest on both contributions.

RECOGNIZED PROVIDENT FUND [2(48)]

Recognized provident fund means a provident fund, which has been recognized by the Commissioner Inland Revenue in accordance with the rules, contained in Part-I of the Sixth Schedule.

RECOGNITION OF THE PROVIDENT FUND

[Rule 1 of the Sixth Schedule & Rule 91 of the Income Tax Rules, 2002]

Recognition of the provident fund is granted or withdrawn by the Commissioner. The application shall be submitted through the Deputy Commissioner of the area:

1. In which the accounts of the fund are kept; or
2. If the accounts are kept outside Pakistan, in which the local headquarters of the employer are situated.

The application for recognition of the provident fund shall be made by the employer maintaining the fund, sought to be recognized.

The application shall contain the following information and be accompanied by the following documents:

1. Name and particulars of the employer together with the nature of the business and principal place of the business.
2. Names of the employees subscribing the funds:
 - i) In Pakistan; and
 - ii) Outside Pakistan.
3. The address of the place where the accounts of the fund are being kept or shall be kept.
4. If the fund already exists, then a copy of the latest balance sheet of the fund and the detail of the investments made.

5.

A verification that all particulars declared and documents submitted are true and correct.

6.

Original and a copy of the trust deed.

7.

The Rules of the fund.

CONDITIONS FOR APPROVAL

[Rule 2 of Part-1 of Sixth Schedule]

In order to receive or retain recognition, a provident fund shall satisfy the conditions specified in the Sixth Schedule or the Income Tax Rules, 2002. These conditions are the following:

1. All employees shall be employed in Pakistan or by an employer whose principal place of business is in Pakistan.

The Commissioner may recognize a fund maintained by an employer whose principal place of business is outside Pakistan, if the total number of employees outside Pakistan does not exceed 10% of the total employees.

2. The employer shall also deduct every month a definite proportion of the salary of the employees and credit to the employees' individual account in the fund.
3. The employer shall also contribute an amount, which should not exceed the amount contributed by an employee.

The Commissioner may relax the above provision in case of:

- i) An employee whose salary does not exceed Rs. 500/- per month; and
 - ii) Credit to the individual accounts of the employees on account of periodical bonuses or other contribution of a contingent nature.
4. The employer's contribution shall be credited to the individual employee's account maintained in the provident fund at least once in a year.

5. The employer shall not be entitled to recover any sum from the fund.

However, he may recover the amount of his contribution and interest thereon under the following situations:

- i) Termination of the services of an employee due to misconduct.
- ii) Voluntary resignation from service before the expiry of the term of service specified in the Fund Regulations.

Note: *Under this case the employer shall not be entitled to recover any sum if the employee has left the employment due to ill-health or other unavoidable reason.*

6. The fund shall be vested in at least two trustees.
7. The trust shall not be revoked without the consent of all the beneficiaries.
8. The accumulated balance shall be payable to an employee on the day he ceases to be an employee.

EFFECTIVE DATE FOR RECOGNITION

[Rule 92(4)]

Unless otherwise specified by the Commissioner, an order recognizing a provident fund shall be effective from the last day of the month in which the application is submitted

APPEAL AGAINST NON-RECOGNITION OR WITHDRAWAL OF RECOGNITION

[Rule 12 of the 6th Schedule and Rule 94 of the Rules]

An employer objecting an order of the Commissioner may appeal to the Federal Board of Revenue (FBR). The order may be regarding disallowing the recognition of the provident fund or withdrawing the recognition already accorded. The appeal may be filed by fulfilling the following conditions:

1. The appeal shall be filed within sixty (60) days of the orders. The FBR may extend the filing period.
2. The appeal shall be filed in the Form specified in Rule 94 of the Income Tax Rules, 2002.
3. Filing fee of Rs. 100 shall be paid and a copy of the treasury challan be attached as evidence to the payment.

TAXATION OF PROVIDENT FUND

For taxation, the provident fund is categorized into the following three categories:

1. Government provident fund.
2. Recognized provident fund.
3. Unrecognized provident fund.

The provisions relating to the taxability of the contributions made by the employee and the employer, credit of interest, and receipt of accumulated balance at the time of termination of service are tabulated hereunder:

Event	Government PF	Recognized PF	Unrecognized PF
Employee's Contribution	No Treatment	No Treatment	No Treatment
Employer's Contribution	Exempt	Exempt lesser of 1/10th (one-tenth) of the salary or Rs. 150,000. Any excess amount is taxable.	No treatment at this stage.
Interest Credited during the year	Exempt	Exempt up to higher of 1/3rd of the salary or the amount of interest calculated at the rate of 16% (See Note No. 2)	No treatment at this stage.
Payment of Accumulated Balance	Exempt	Exempt	Employer's contribution and interest thereon is taxable in the year of receipt.

Notes:

1. There will be no tax treatment for the employee's contribution towards the provident fund as he has contributed this amount out of his salary which has already been included in the taxable income
2. Rule 3(b) of Part-I of Sixth Schedule specifies that *“interest credited on the balance to the credit of an employee in so far as it exceeds one third of the salary of the employee or is allowed at a rate exceeding such rate as may be fixed by the Federal Government in this behalf shall be treated to have been received by the employee in that year and shall be included in the total income for that year and shall be liable to income tax.”*
(Notification No. SRO-1097(I)/84, dated 27-12-1984 specifies the rate as 16%).
 - From the paragraph quoted above it is not clear that either the lower or the higher of 1/3rd of salary or the amount calculated @ 16% be allowed as exemption.
 - It is a generally accepted rule that where a provision can be interpreted in more than one way, the interpretation that favors the taxpayer shall prevail.
 - The principle that the benefit of ambiguity should be given to the taxpayer has been decided in various legal cases. Some of the cases are quoted below:
 - i) Dreamland Cinema, Multan V CIT Lahore. [Lahore High Court]
 - ii) Searle Pakistan (Private) Limited V Government of Pakistan. [Sindh High Court]
 - iii) Mehran Associates Limited V CIT Karachi. [Supreme Court of Pakistan]
 - iv) Ripaz (Private) Limited V Wealth Tax Officer, Lahore [Lahore High Court]
 - By applying the above rule, the higher of 1/3rd of salary or amount of interest calculated @ 16% shall be taken as exempt to the taxpayer. The exceeding amount, if any, shall be included in the total income and charged to tax in the year in which it is credited.
3. For the purpose of provident fund the term 'salary' includes only dearness allowance. All other allowances and perquisites are excluded.

TREATMENT OF ACCUMULATED BALANCE ON WITHDRAWAL OF RECOGNITION [Rule-101]

If the Commissioner withdraws the recognition from a recognized provident fund, the amount of accumulated balance shall be treated as per the following:

1. **Balance at the End of the Financial Year Prior to the Date of Withdrawal**
That part of the total accumulated balance received by an employee, which is equal to the balance at the end of the financial year prior to the date of withdrawal of recognition, is taken as tax-free.

2. Remaining Accumulated Balance

Any amount received by an employee over and above the amount as in No. 1 above shall be taxable in the same way as in case of an unrecognized provident fund

CHAPTER-8

INCOME FROM PROPERTY

The *rent* received or receivable by a person for a tax year is taxable under the head ‘**Income from Property**’. However, any rent which is exempt from tax under any provision of the Income Tax Ordinance shall be ignored while computing the “Rent Chargeable to Tax” (RCT) under this head. [15(1)]

Although in section 15(1) the phrase “*rent received or receivable*” is used, which gives an impression that *property income* may also be taxed on receipt-basis but Circular 7 of 2003 dated 11-07-2003 specifies that “*income from property including advance receipt would be charged to tax in the tax year to which the income pertains.*”

In the light of this explanation, income from property income shall be taxable on accrual-basis.

RENT [2(49), 15(2) to (5), 16]

Rent means any amount **received or receivable** for a tax year by the owner of the land or the building for its use or occupation by some other person.

Generally, the amount received or receivable is taken as rent. However, where the ‘**fair market rent**’ (FMR) is more than the actual rent, then the fair market rent shall be taken as rent. [15(4)]

For the purposes of the Income Tax, the following amounts are also included in “*Rent Chargeable to Tax*”:

1. Any forfeited deposit received under a contract for the sale of land or a building.

Example 8.1

Mr. Junaid is the owner of a property, which is rented out at a monthly rent of Rs. 30,000. During the month of June, he contracted with Mr. Javed for sale of the property and received Rs. 50,000 as token money. Thereafter, Mr. Javed breaches the contract and as per terms of agreement token money is forfeited by Mr. Junaid. Amount of RCT for the year shall be:

- Rent received (Rs. 30,000 × 12): Rs. 360,000
- Token money forfeited: Rs. 50,000

Total: Rs. 410,000

2. Any obligation of the owner (e.g., property tax, etc.) paid by the tenant.

3. Any amount received by the owner from his tenant as advance, which is not adjustable against rent.
(Amount determined as per section 16 of the Income Tax Ordinance shall be included in RCT. Generally, one-tenth of such advance is charged to tax for every year.)
-

Summary

“Rent Chargeable to Tax (RCT)” shall include the following amounts:

1. Higher of the rent received/receivable or the fair market rent for the period for which the property was actually rented out;
2. Forfeited deposit received under a contract for the sale of land or a building;
3. Any obligation of the owner paid by the tenant; and
4. One-tenth (1/10th) of the advance not adjustable against rent.

Example: 8.2

A person has rented out his house @ Rs. 40,000 p.m. As per rent deed he has received an amount of Rs. 100,000 as advance, which is not adjustable against rent. Further, the tenant has agreed to pay the property tax of Rs. 20,000 per annum. Compute the amount of Rent Chargeable to Tax under the following cases:

- A) Where the FMR is Rs. 400,000; and
B) Where the FMR is Rs. 600,000.
-

Answer:

Particulars	A	B
Annual rent [N-1]	480,000	600,000
Add: 1/10th of advance not adjustable against rent (Rs. 100,000)	10,000	10,000
Property tax paid by tenant	20,000	20,000
Rent chargeable to tax	510,000	630,000

Note:

N-1 Annual rent is taken as higher of the actual rent or the FMR.

RENT OF PROPERTIES NOT TAXABLE AS “INCOME FROM PROPERTY”

Rental income of the following properties shall not be chargeable to tax under the head “*Income from Property*”:

1. Any building which is let out together with the plant and machinery installed therein shall not be taxable under this head. Rather, it shall be taxable under “*Income from Other Sources*”.

Examples of such buildings are cotton ginning factories, rice mills, etc. [15(3) & 39(1)(f)]

2. Any agricultural building whose income is treated as agricultural income. [41(2)(c)]
3. Any property which is sublet by the tenant.

Only the rental income of the owner is taxable under this head and the income of the tenant from subletting the property is chargeable to tax as “Income from Other Sources”.

ADVANCES AGAINST RENTED BUILDING [16]

Generally, the owner of a building receives two types of advances at the time of letting out the property to a tenant. These are:

1. The advance **which is adjustable against the rent.**
After the expiry of a certain period this amount will become zero as being fully adjustable against the rent payable by the tenant.
2. The advance **which is not adjustable against the rent.** This may further fall into:
 - i. Security, or
 - ii. Pledge.

Both types of above-stated advances are treated separately under the Income Tax Ordinance. The legal provisions in this regard are discussed below:

Advances Adjustable Against Rent

Where, as per rent agreement, the advance given by the tenant is **adjustable against the rent** payable by him to the owner of the building, then the amount of advance is totally ignored while computing the RCT.

The amount of rent (as agreed between the parties) is taken as **actual rent** for the period.

Example: 8.3

A building was rented out to Mr. A at a rent of Rs. 30,000 per month and an amount of Rs. 120,000 was also received as advance not adjustable against rent.

After four (4) years Mr. A vacated the building and another Mr. B acquired the same at a monthly rent of Rs. 40,000 and paid an advance of Rs. 80,000. Calculate the amount of RCT for the fifth year.

Answer:

Rent Chargeable to Tax for Fifth Year

(Rs. 40,000 × 12) = **Rs. 480,000**

Portion of advance received deemed as rent:

java

CopyEdit

$$A = 80,000 - (40,000 \times 4) = 80,000 - 160,000 = -80,000 \rightarrow 0$$

10

$$B = \text{Portion of old advance already charged to tax} = \text{Rs. 5,600}$$

$$\text{Total RCT} = \text{Rs. 485,600}$$

Where:

- **A** = Amount of new advance
- **B** = Portion of old advance already charged to tax

Note:

Deductions on account of “repair allowance” and “collection charges”, wherever admissible, are calculated on the total rent chargeable to tax (RCT) including the amount deemed as annual value on account of “advance not adjustable against rent”.

Example: 8.5

A building was rented out to Mr. Iftikhar at a monthly rent of Rs. 30,000. An amount of Rs. 60,000 was received as security. He occupied the building for a period of six (6) months. During the second half of the year the building was rented out to Mr. Junaid at a rent of Rs. 40,000 per

month and an amount of Rs. 80,000 was received as security. Calculate the amount of RCT for the year.

Answer:

Rent Chargeable to Tax for the Year

Actual Rent

From Mr. Iftikhar: $(30,000 \times 6) = 180,000$

From Mr. Junaid: $(40,000 \times 6) = 240,000$

Total Actual Rent = 420,000

Portion of security deemed as rent:

$(80,000 \times 1/10) = 8,000$

Total RCT = 428,000

Note:

Security received from Mr. Iftikhar will be refunded to him at the time of vacating the building. At the end of the tax year an amount of Rs. 80,000 shall be standing as an advance which is not adjustable against rent. So one-tenth of the same shall be taken at the time of computing RCT.

Example: 8.6

Considering the data of Example 8.5 compute the amount of RCT under each of the following situations:

1. Fair market rent (FMR) of the building is Rs. 360,000; or
2. FMR of the building is Rs. 450,000.

Answer:

Rent Chargeable to Tax Where FMR is Rs. 360,000

- Rent: Higher of actual rent or FMR (i.e., 420,000 or 360,000) = 420,000
- One-tenth of security deemed as rent (i.e., $80,000 \div 10$) = 8,000
- **Total RCT = 428,000**

Rent Chargeable to Tax Where FMR is Rs. 450,000

- Rent: Higher of actual rent or FMR (i.e., 420,000 or 450,000) = 450,000
 - One-tenth of security deemed as rent (i.e., $80,000 \div 10$) = 8,000
 - **Total RCT = 458,000**
-

AMOUNT RECEIVED FOR VACATING THE POSSESSION OF A PROPERTY

Where a taxpayer receives any amount for vacating the possession of any building or any part of the building, such income less the amount paid by him for taking possession of that building shall be deemed as his income. This will be charged to tax under the head "**Income from Other Sources**" in ten (10) years (starting from the year in which it is received) in equal proportion. [39(1)(k) & 39(2)]

Example: 8.7

Mr. Umar acquired a shop on rent and paid Rs. 160,000 as *pugree*. After five (5) years he vacated the shop and received Rs. 240,000 as consideration for vacating the shop. Compute the amount to be included in his income on account of the amount received by him

Answer:

Particulars	Rs.
Amount received at the time of vacating the property	240,000
Amount paid as advance	160,000
Excess amount received	80,000
Amount to be charged to tax every year (upto ten (10) years): (i.e., $80,000 \div 10$)	8,000

RENT CHARGEABLE TO TAX AS "SALARY INCOME" [15(5)]

Where the lessee (tenant) is a salaried person and the *fair market rent* of the property is treated as a perquisite while determining his taxable salary income, it is a case where the property is hired by the employer and the rent is payable by the employer, then the treatment of the rent shall be as below:

1. The **fair market rent** shall be taken into account while determining value of the rent-free accommodation at the time of computing taxable salary income of the person.
 2. The **actual rent received or receivable** shall be taken as rent chargeable to tax under *Income from Property* of the owner. Under this case the comparison of the *actual rent* and the *fair market rent* shall not be made.
-

Example: 8.8

Mr. Aslam acquired an unfurnished house from Mr. Babar at an annual rent of Rs. 300,000 (the fair market rent is Rs. 360,000 per annum) which is payable by M/s. Iqra Limited, the employer

of Mr. Aslam. Annual basic salary of Mr. Aslam is Rs. 600,000. Compute the amount to be included in total income of both Mr. Aslam and Mr. Babar.

Answer:

Person	Particular	Rs.
Mr. Aslam	Basic Salary	600,000
	Rent-free unfurnished accommodation (i.e., Fair market rent)	360,000
	Total	960,000
Mr. Babar	Annual Rent (Actual rent instead of fair market rent)	300,000

ADMISSIBLE DEDUCTIONS [15A]

While computing *Income from Property* of a person, the following deductions shall be made out of the rent chargeable to tax:

1. In respect of repair of building, a repair allowance equal to one-fifth (1/5th) of the rent chargeable to tax (RCT).

Note:

The actual repair expenses are immaterial while computing the taxable income under the head *Income from property*. Whether the owner has expended any amount on repairs or not, a deduction equal to one-fifth (1/5th) of RCT shall be allowed.

This deduction shall be allowed before allowing any other deduction.

2. Insurance premium paid or payable to insure the building against risk of damage and destruction.
3. Any amount paid or payable to any local authority or Government on account of local rates, tax, charge or cess

In this regard, the following points should be noted:

- i) The payment is made in respect of the property or rent from property;
 - ii) The amount is paid or payable by the owner; and
 - iii) The payment should not be under any provision of the Income Tax Ordinance.
-

4. Amount paid by a person as ground rent, if any.
5. Amount paid or payable to any person or institution as cost of borrowed capital (profit, interest, share in rent, share towards appreciation in the value of property, etc.). If the amount has been borrowed for any of the following objects:
 - i) Acquisition of the property;

- ii) Construction of the property;
- iii) Renovation of the property; and
- iv) Reconstruction of the property.

“Return of capital” is not allowed as deduction. It is the profit, interest, etc., which is admissible deduction under this head.

6. Amount of profit or interest paid on money borrowed by way of mortgage or other capital charge, if any.
 7. Rent collection charges including administration and collection charges shall be allowed as deduction with the following conditions:
 - i) It should have been actually incurred and paid or payable by the person in the tax year wholly and exclusively for the purpose of deriving taxable rent;
 - ii) It should not exceed 4% of rent chargeable to tax (RCT); and
 - iii) RCT for this purpose shall be the amount of rent before allowing any other deduction.
 8. Legal expenses incurred for defending the title or any other suit connected with the property.
 9. The amount of irrecoverable rent. In order to claim a deduction on account of irrecoverable rent, the following conditions are to be fulfilled:
 - i) The tenancy was bona-fide;
 - ii) The defaulting tenant has vacated or steps have been taken to compel him to vacate the property;
 - iii) The defaulting tenant is not in occupation of any other property of the taxpayer;
 - iv) The taxpayer has taken all legal steps for the recovery of unpaid rent or has reasonable grounds to believe that legal proceedings would be useless; and
 - o The amount of unrealized rent was included in the total income of the tax year to which it relates and tax was paid thereon.
-

Notes:

1. The expense on account of irrecoverable rent is possible only if the RCT has been computed on **‘accrual basis’**. Where irrecoverable rent relates to the current tax year, it may be allowed as deduction irrespective of the fact that the tax on this income has not yet been paid.
2. The above deductions are admissible only for computing the income under the head *'Income from Property'*. These deductions cannot be claimed against any other head of income.
[15A(5)]
3. Any deduction, which is inadmissible u/s 21 (under the head *'Income from Business'*) shall also be inadmissible while determining *'Income from Property'*.
[15A(6)]

Example: 8.9

M/s. Hassan (Private) Limited has rented out a house at a monthly rent of Rs. 50,000. During the year the company incurred the following expenses in respect of the house:

1. Repair of house – Rs. 30,000
2. Insurance premium – 20,000
3. Property tax – 12,000
4. Municipal tax – 10,000
5. Interest on loan from HBFC – 24,000
6. Salary to Mr. Ramzan whose sole duty is to collect rent – 30,000
7. Legal expenses – 4,000

In the previous year the tenant vacated the property without paying the rent of two months (Rs. 30,000 per month) which could not be recovered. Compute the amount which is chargeable to tax under the head "*Income from Property*".

Answer:

Particulars	Rs.
Rent Chargeable to Tax (RCT) $[50,000 \times 12]$	600,000

Less: Allowable Deductions:

- Repair allowance (1/5th of Rs. 600,000) [N-1] – 120,000
- Insurance premium – 20,000
- Property tax – 12,000
- Municipal tax – 10,000
- Interest on loan from HBFC – 24,000
- Rent collection charges (Lesser of Rs. 30,000 or 4% of RCT) [N-2] – 24,000
- Legal expenses – 4,000
- **Irrecoverable rent $(30,000 \times 2)$ [N-3] – 60,000**
- Total deductions: (274,000)**

Taxable Income from Property: 326,000

Notes:

N-1:

Actual expenses on repair shall be ignored while computing taxable income from property. Under all cases a repair allowance equal to 1/5th of RCT is allowed as deduction.

N-2:

Actual collection charges or 4% of RCT, whichever is lesser is allowed as deduction.

N-3:

It is assumed that the unrealized rent was included in previous year's income and was charged to tax.

IRRECOVERABLE RENT FOR THE CURRENT YEAR [15A(1)(i)]

The Income Tax Ordinance (along with other conditions), provides that in order to claim a deduction on account of irrecoverable rent, the taxpayer has to prove that the unpaid rent was included in taxable income for the relevant tax year and tax was also paid on such income

This condition cannot be fulfilled if the unpaid rent pertains to the current tax year as the income and tax liability is being computed and the tax is yet to be paid. Under such a case the following points should be considered:

1. Where the taxpayer computes his income on the basis of **actual receipt**, then there will be no question of including and thereafter allowing deduction on account of irrecoverable rent. In this case it will be immaterial whether the unpaid rent pertains to any previous tax year or the current tax year. An amount shall be included in income only when it is actually received.
 - There will be no treatment for unpaid rent.
2. Where the taxpayer has adopted **accrual system** for recognizing his incomes and the irrecoverable rent belongs to the current tax year, the irrecoverable rent shall be allowed as deduction although tax on this amount has not been paid.

RECOVERY OF UNREALIZED RENT [15A(2)]

Where a deduction has been allowed on account of irrecoverable rent and later on it is recovered (whether partly or wholly), the amount so recovered shall be included in the RCT of the tax year in which it is recovered.

Example: 8.10

Mr. Abid has given a property on a yearly rent of Rs. 300,000. Two years ago he claimed an amount of Rs. 40,000 as irrecoverable rent. During the current year the defaulting tenant paid the whole amount to Mr. Abid. Compute the gross amount of rent for the year.

Answer:

Particulars	Rs.
Annual rent	300,000
Add: Realization of irrecoverable rent	40,000
Gross Rent	340,000

NON-PAYMENT OF AN ALLOWABLE DEDUCTION [15A(3)]

Where a person has been allowed a deduction on **accrual basis** and the same has not been paid within a period of **three (3) years** of the end of the tax year in which deduction was allowed, the amount so unpaid shall be treated as income. It shall be included in the RCT of the tax year immediately after expiry of three (3) years.

Example: 8.11

A company has a property which is rented out at a yearly rent of Rs. 600,000. Two years ago he received Rs. 400,000 as advance not adjustable against rent. He incurred the following expenses in respect of the property:

1. Repair charges – Rs. 20,000
2. Interest on loan obtained for acquisition of the property – 10,000
3. Income tax – 6,000
4. Property tax – 4,000
5. Rent collection charges – 6,000
6. Ground rent – 10,000

It appeared from the record that the taxpayer has not paid an amount of Rs. 100,000 allowed as deduction on account of interest on loan even after the expiry of three (3) years.

Compute the taxable income of the company for the year.

Answer:

Computation of Taxable Income

Particulars	Amount (Rs.)
Annual Rent	600,000
Unpaid liability treated as income	100,000
1/10th of advance not adjustable against rent ($400,000 \div 10$)	40,000
Rent Chargeable to Tax (RCT)	740,000

Less: Allowable Deductions:

Deduction	Amount (Rs.)
Repair allowance (1/5th of RCT i.e., Rs. 740,000)	148,000
Interest on loan	10,000
Property tax	4,000
Rent collection charges [N-1]	6,000
Ground rent	10,000
Total	178,000

| **Taxable Income** | **562,000** |

N-1:

Lesser of the actual expenditure (i.e., Rs. 6,000) or 4% of RCT (i.e., Rs. 29,600, being 4% of Rs. 740,000) shall be allowed as deduction.

N-2:

Income tax is not allowed as deduction while computing the taxable income. It is assumed that the income tax pertains to the property income for the previous tax year.

PAYMENT OF AN UNPAID LIABILITY [15A(4)]

Where an unpaid liability has been treated as income and is later on paid by the taxpayer, so much of the amount as has been paid shall be allowed as deduction in the tax year in which it is paid.

LIABILITY IN CASE OF CO-OWNERS [§66]

Where two or more persons jointly own a property and their respective shares in the property are definite and ascertainable, such property shall **not** be taxed as **association of persons (AOP)**. Rather, share of each person shall be included in his total income.

Example: 8.12

Asif and Kashif are co-owners of a building, which is rented at a monthly rent of Rs. 50,000. The following expenses were paid during the year:

1. Repair charges – Rs. 30,000
2. Insurance premium – 24,000
3. Property tax – 26,000
4. Corporation tax – 22,000

Compute the amount which is to be included in each person's income if the ratio of their ownership is **60:40**, respectively.

Answer:

Particulars	Rs.
Annual Rent ($50,000 \times 12$)	600,000

Less: Admissible Deductions:

Deduction	Amount (Rs.)
Repair allowance (1/5th of 600,000)	120,000
Insurance	24,000
Property tax	26,000

Corporation tax: Rs. 22,000

Taxable income from property: Rs. 408,000

Share of the Owners:

- **Asif** ($408,000 \times 60\%$) = Rs. 244,800
 - **Kashif** ($408,000 \times 40\%$) = Rs. 163,200
- Total: Rs. 408,000**

RENT INCLUSIVE OF UTILITIES [15(3A)]

Where the rent includes charges for utilities (e.g., electricity, gas, water, air-conditioning, sanitation, lift, security, etc.), the whole amount received from the tenants shall be charged to tax under the head '**Income from Property**'. Under such a case, the amount received for utilities shall be taxed under the head '**Income from Other Sources**'. The balance amount of rent shall be taxed as income from property.

Notes:

1. While computing the taxable income for services rendered, the actual expenditure (including the depreciation) incurred by the owner shall be allowed as deduction.
2. Where the portion of the rent and the services cannot be segregated from each other, the expenses actually incurred by the owner for provision of utilities shall be deducted from the rent. The resultant figure shall be treated as Rent Chargeable to Tax.

Example: 8.13

M/s. Ali Limited has a building, which is rented out at a monthly rent of Rs. 60,000. As per agreement, the rent includes the payment on account of utility bills. The company incurred the following annual expenses in respect of the house:

- Repair charges: Rs. 20,000
- Insurance premium: Rs. 16,000
- Interest on loan from HBFC for the house: Rs. 24,000
- Property tax: Rs. 10,000
- Electricity bills: Rs. 32,000
- Water bills paid to WASA: Rs. 34,400
- Gas bills: Rs. 29,800

Required:

Compute the taxable income under each of the following conditions:

1. The rent includes Rs. 10,000 p.m. on account of utilities provided to the tenant.
2. The rent deed does not clearly specify the amount being received on account of utilities.

Answer:**Where Utility Income Can Be Segregated From Rent****Income from Property**

- **Rent Chargeable to Tax** $(50,000 \times 12)$ [N-1] = Rs. 600,000

Less: Admissible deductions:

Deduction	Amount (Rs.)
Repair allowance – 1/5th of RCT (i.e., Rs. 600,000) [N-2]	120,000
Insurance premium	16,000

Deduction	Amount (Rs.)
Interest paid to HBFC	24,000
Property tax	10,000
Total	170,000

Taxable property income: Rs. 430,000

Income from Other Sources

Gross income from utilities (Rs. 10,000 × 12): Rs. 120,000

Less: Expenses on provision of utilities:

- Electricity: Rs. 32,000
- Water: Rs. 34,400
- Gas: Rs. 29,600
- Total:** Rs. (96,000)

Total and taxable income for the year: Rs. 24,000

Total Income (Property + Other Sources): Rs. 454,000

N-1

Total monthly receipt from tenant: Rs. 60,000

Less: Receipt on account of utilities: Rs. 10,000

= Actual rent of the house: Rs. 50,000

N-2

Actual repair expenses are ignored while computing the property income; rather, an amount equal to 1/5th of RCT is allowed as deduction.

Where Utility Income Cannot Be Segregated From Rent

Income from Property

Total receipt from the tenant (Rs. 60,000 × 12): Rs. 720,000

Less: Expenses on provision of utilities:

- Electricity: Rs. 32,000

- Water: Rs. 34,400
- Gas: Rs. 29,600
- Total:** Rs. (96,000)

Rent Chargeable to Tax (RCT): Rs. 624,000

Less: Admissible deductions:

- Repair allowance – $1/5$ th of RCT = $[1/5$ th of Rs. 624,000]: Rs. 124,800
- Insurance premium: Rs. 16,000
- Interest paid to HBFC: Rs. 24,000
- Property tax: Rs. 10,000
- Total deductions:** Rs. (174,800)

Taxable property income: Rs. 224,600

OWNER'S BURDEN PAYABLE BY THE TENANT

Where the liability, which in the ordinary course is payable by the owner, is paid by the tenant, the rent (RCT) of the property shall be increased by the amount actually paid by the tenant.

Example: 8.14

A company has rented out one of its properties at a monthly rent of Rs. 40,000. Further, as per agreement, tenant has paid an amount of Rs. 20,000 as property tax. Compute amount of income from property.

Answer:

- **Annual rent** ($40,000 \times 12$): Rs. 480,000
- **Property tax paid by tenant:** Rs. 20,000
- **Total RCT:** Rs. 500,000

Less: Admissible deductions:

- Repair allowance ($1/5$ th of Rs. 500,000): Rs. 100,000
- Property tax: Rs. 20,000
- Total deductions:** Rs. (120,000)

Taxable income from property: Rs. 420,000

REPAIR CHARGES PAYABLE BY TENANT

Where the repair charges of the property are to be borne by the tenant, an amount equal to the 1/5th of RCT shall be added to the amount of rent so as to arrive at the annual value of such property. For this purpose the actual rent shall be taken as 4/5th of the rent chargeable to tax.

Example: 8.15

M/s. Abdullah (Private) Limited has rented out a house at a monthly rent of Rs. 24,000. He has incurred the following expenses in respect of the house:

- i) Property tax – Rs. 9,000
- ii) Rent collection charges – Rs. 24,000
- iii) Interest on loan from HBFC – Rs. 18,000

As per rent deed, the tenant shall bear the repair charges. Compute the income of Mr. Abdullah chargeable under the head '*Income from Property*'.

Answer:

Particulars	Amount (Rs.)
Annual rent ($24,000 \times 12$)	288,000
Add: 1/4th of the rent ($288,000 \times \frac{1}{4}$)	72,000
Rent Chargeable to Tax (RCT) [N-1]	360,000

Less: Admissible deductions:

- Repair allowance (1/5th of RCT, i.e., Rs. 360,000) – Rs. 72,000
- Property tax – Rs. 9,000
- Interest on loan from HBFC – Rs. 18,000
- Collection charges ($360,000 \times 4\%$) [N-2] – Rs. 14,400
- Total deductions: Rs. (113,400)**

Taxable income: Rs. 246,600

N-1 Amount of RCT may also be computed by $96,000 \times \frac{5}{4} = \text{Rs. } 120,000$

N-2 Actual collection charges are Rs. 24,000. However, the admissible deduction is restricted upto 4% of the RCT.

SELF-HIRING OF A PROPERTY

When an employee or his spouse is the owner of any such building (i.e., house, flat or apartment) that is given on rent to the employer and the employer has provided the same building to the employee against his entitlement for a rent-free accommodation, then it will have two-fold effect under the Income Tax Law. The same is discussed below.

1. **Property Income**

Receipt of rent of building is chargeable to tax under the head '*Income from Property*'. Any rent received by the employee or his spouse shall be a property income of the recipient and be treated accordingly.

2. **Salary Income**

The building is provided by the employer to his employee as a rent-free accommodation. It will be a perquisite and will be included in the '*Salary Income*' of the employee as per Income Tax Rules.

WITHHOLDING TAX ON 'RENT' [15B of Division-V, Part-III of First Schedule]

Following *prescribed persons* are required to deduct tax at the prescribed rates while making payment of rent, whether full, part or advance, (of immovable property, furniture and fixtures, and amount for services for such property)

1. The Government (Federal, Provincial or Local);
2. A company;
3. A non-profit organization or a charitable institution;
4. A diplomatic mission of a foreign state;
5. A private educational institution, a boutique, a beauty parlour, a hospital, a clinic or a maternity home;
6. Individuals or AOPs paying an annual gross rent of Rs. 1,500,000 or above; and
7. Any other person notified by the FBR.

Individuals or AOPs:

Tax shall be deducted from rent paid to an individual or AOP by applying the following rates on the gross amount of rent:

S.#	Gross Amount of Rent	Rate of Tax
1	Upto Rs. 300,000	Nil
2	Rs. 300,001 to Rs. 600,000	5% of the gross amount exceeding Rs. 300,000

S. #	Gross Amount of Rent	Rate of Tax
3	Rs. 600,001 to Rs. 2,000,000	Rs. 15,000 + 10% of the gross amount exceeding Rs. 600,000
4	Exceeding Rs. 2,000,000	Rs. 155,000 + 25% of the gross amount exceeding Rs. 2,000,000

Companies:

Tax shall be deducted from rent paid to a **company** @ **15%** of the gross amount of rent received. Tax so deducted shall be treated as advance tax adjustable against tax liability of the person for the tax year.

"**Gross rent**" includes any part of the amount received as advance not adjustable against rent.
155(1)155(1)155(1)

COMPUTATION OF TAXABLE INCOME FROM PROPERTY [N-8]

Rent Chargeable to Tax (RCT)

- Rent received/receivable [N-1] XXX
- 1/10th of advance not adjustable against rent XXX
- Forfeited advance against sale of property XXX
- Owner's burden (i.e., tax, etc.) paid by tenant XXX
- Irrecoverable rent received [N-2] XXX
- Non-payment of an expense (previously allowed as deduction) [N-3] XXX

Total net rent chargeable to tax (RCT) XXX

Less: Allowable Deductions:

- Repair allowance (1/5th of RCT) [N-4] XXX
- Any tax in connection with property [N-5]
 - Property tax XXX
 - Corporation/Municipal taxes XXX
 - Local taxes or rates XXX
 - Any other tax XXX
- Ground rent (if the property is on leased land) XXX
- Interest on moneys borrowed for property XXX
- Interest on loan against mortgage of property XXX
- Share of rent paid to HBFC XXX
- Rent collection charges (up to 4% of RCT) [N-6] XXX

- Legal charges in connection with property XXX
- Irrecoverable rent XXX
- Payment of expense already treated as income due to its non-payment XXX

Taxable Income from Property XXX

Notes:

N-1

Amount of rent received or receivable shall be computed for the period for which the property was actually rented out. Amount to be charged to tax shall be determined according to the method of accounting adopted by the taxpayer.

N-2

Where a rent could not be recovered, it is allowed as deduction. If in succeeding years this amount is recovered (whether full or any part of it) it is treated as income and clubbed with the rent chargeable to tax for the year in which it is received.

N-3

An expense not paid within three (3) years from the end of the tax year in which it was allowed as deduction shall be treated as income and charged to tax.

N-4

Repair allowance equal to 1/5th of the RCT is allowed as deduction. Actual expenditure on repair has no concern with the computation of taxable income from property.

N-5

Any amount paid as tax in connection with the property or its income is allowed as deduction. However, tax paid under the Income Tax Ordinance is not allowed as deduction.

N-6

Rent collection charges equal to lesser of actual expenses or 4% of RCT is allowed as deduction