Specimen Exam

Exam Name: Taxation (E1 PKN)
Time Allowed: 3 hours
Pass Mark: 50%

This exam contains 2 sections:

Section A:
15 questions, each worth 2 marks
30 marks in total

Section B:
4 questions, each worth 10 marks
2 questions, each worth 15 marks
70 marks in total

Note: This specimen examination has been prepared based on legislation passed by 30 September 2025 (to be updated).

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Section A

Question 1

Junaid's deemed assessment for the tax year 2026 was amended on 15 November 2026 by the Deputy Commissioner Inland Revenue. In the amended assessment order, an income tax demand of Rs. 15,000,000 was determined. The amendment was based upon interpretation of a provision of law and did not involve any factual controversy.

Which TWO of the following authorities can hear Junaid's appeal if he exercises his option to file an appeal before either one of them?

A Commissioner Inland Revenue
B Commissioner Inland Revenue (Appeals)
C Appellate Tribunal Inland Revenue
D High Court

Question 2

Faheem supplied electronic goods of the value of Rs. 980,000 to Maleeha Enterprises (Private) Limited, a small company, on 15 June 2026. The payment was made on 22 June 2026.

Faheem's name does not appear on the active taxpayers' list.

Calculate the amount of income tax which Maleeha Enterprises (Private) Limited was required to withhold while making the payment of Rs. 980,000.

Rs. ☐

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Question 3

On 15 November 2025, Yasin sold 100,000 shares in Organic Grains Limited (OGL) for Rs. 3,000,000.

Yasin had purchased the shares for Rs. 1,800,000 on 15 June 2022. At the time of purchase, OGL's shares were held on the Pakistan Stock Exchange, but the shares were delisted on 1 July 2025. On 15 November 2025, a 60% shareholding of OGL was in the name of the Government of the Punjab. Yasin's other income during the tax year 2026 consisted of a salary of Rs. 550,000 from part-time employment.

What is the amount of income tax payable by Yasin for the tax year 2026?

A Rs. 150,000
B Rs. 90,000
C Rs. 215,000
D Rs. 112,500

Question 4

Waheed (Private) Limited (WPL), a manufacturer of detergents, made the following contributions during the tax year 2026:

- Rs. 1,300,000 to a provident fund NOT recognised by the Commissioner Inland Revenue; and
- Rs. 1,000,000 to an approved gratuity fund.

WPL is preparing its return for the tax year 2026 under the normal law tax regime.

Calculate the amount of contributions to the provident fund and gratuity fund which Waheed (Private) Limited can claim as deductions while computing its taxable income for the tax year 2026.

Rs. ☐

Question 5

Which TWO of the following are NOT included in the definition of a company for income tax purposes?

A A public international organisation
B A Local Government in Pakistan
C The Federal Government
D A Provincial Government in Pakistan

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Question 6

The Federal Board of Revenue (FBR) issues Circulars setting out the FBR's interpretation of the Income Tax Ordinance, 2001.

On which TWO of the following persons is an interpretation, issued by the FBR through a circular, binding?

A Commissioner Inland Revenue (Appeals)
B Taxpayer
C Chief Commissioner Inland Revenue
D A chartered accountant employed to conduct the tax audit of a taxpayer

Question 7

Mona (Private) Limited (MPL) purchased a locally used machine from another company on 1 January 2026 for Rs. 8,000,000. The machine was put to use in MPL's business on 1 February 2026.

What is the amount of capital allowances (depreciation allowance and initial allowances) in respect of the machine which Mona (Private) Limited can claim as an admissible deduction while computing its taxable income for the tax year 2026?

A Rs. 600,000
B Rs. 1,200,000
C Rs. 2,900,000
D Rs. 2,375,000

Question 8

For the tax year 2026, Tahir has declared taxable income of Rs. 1,600,000 under the head income from business and profit from debt of Rs. 700,000.

Tahir is also a member of an association of persons (AOP). During the same tax year, he received Rs. 900,000 as his share of income from the AOP. The income of the AOP is assessable under normal law tax regime.

What is the amount of income tax payable by Tahir for the tax year 2026?

A Rs. 650,000
B Rs. 310,000
C Rs. 421,600
D Rs. 580,000

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Question 9

For the tax year 2026, Saud's income from different sources is as follows:

	Rs.
Income from running a poultry farm	5,000,000
Refund received from the Federal Board of Revenue (FBR)	1,000,000
Additional amount received from the FBR on its delayed payment of the amount of a refund	90,000

What is the total amount for which Saud is chargeable to tax under the Income Tax Ordinance, 2001, for the tax year 2026?

A Rs. 1,090,000
B Rs. 6,090,000
C Rs. 5,000,000
D Rs. 5,090,000

Question 10

On 25 June 2026, Khadim, an active taxpayer, derived a capital gain of Rs. 1,400,000 from the sale of shares in a listed public company. He had purchased these shares on 1 January 2026.

On 30 June 2026, Khadim incurred a loss of Rs. 800,000 on the sale of a painting which he had purchased on 1 June 2025.

Calculate the amount of income tax payable by Khadim for the tax year 2026.

Rs. ☐

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Question 11

Amina sold a necklace on 1 June 2026 for Rs. 4,000,000.

She had purchased the necklace for Rs. 3,500,000 on 15 January 2026 of which Rs. 1,000,000 was paid in cash, and the balancing amount of Rs. 2,500,000 was paid through a crossed pay order drawn on a scheduled bank.

Rs. 10,000 was paid in cash as a broker's fee at the time of sale of the necklace.

What is the amount of capital gain for which Amina is chargeable to income tax on for the tax year 2026?

A Rs. 1,490,000
B Rs. 490,000
C Rs. 4,000,000
D Rs. 500,000

Question 12

Nafeer, a citizen of Pakistan, resided in Pakistan from 1 July 2025 to 31 January 2026 and earned total salary income of Rs. 1,200,000.

Thereafter, he resided in the United Arab Emirates (UAE) from 1 February 2026 to 15 July 2026 and earned total income of Rs. 1,500,000 during his stay in the UAE, which was tax free in the UAE.

Nafeer returned to Pakistan on 16 July 2026.

What amount of income tax is payable in Pakistan by Nafeer for the tax year 2026?

A Rs. 231,000
B Rs. 6,000
C Rs. 0
D Rs. 500,000

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Question 13

For the tax year 2026, Shakeel Industries (Private) Limited (SIPL) paid its instalment of income tax of Rs. 400,000 for the March quarter on 30 June 2026 and filed its return of income on 30 November 2026.

Which of the following is the duration for which Shakeel Industries (Private) Limited will be subject to default surcharge for the late payment of its instalment of advance income tax for the March quarter of the tax year 2026?

A 25 March 2026 to 29 November 2026
B 31 March 2026 to 29 June 2026
C 31 March 2026 to 30 December 2026
D 25 March 2026 to 29 June 2026

Question 14

Shahid forgot to claim an amount of input tax which he paid on 15 February 2026 in his sales tax return for the tax period February 2026.

Which of the following is the latest tax period in which Shahid can claim the input tax not included in his sales tax return for the tax period February 2026?

A March 2026
B May 2026
C August 2026
D February 2027

Question 15

Which TWO of the following goods are exempt from sales tax on import and/or supply?

A Tea
B Pulses
C Mineral water
D Newsprint

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Section B

Question 16

The following scenario relates to three requirements.

You should assume that today's date is 15 July 2026.

Under the Income Tax Ordinance, 2001, a complete return of income filed by a person is treated as an assessment order. Any person can be selected for audit for their income tax affairs and consequently, if necessary, their deemed assessment can be amended after issuing a show cause notice to such person.

Requirements:

(a) Summarise which income tax authorities can select persons for audit of their income tax affairs.

(2 marks)

(b) Analyse the time limit after issuance of the show cause notice by which an amendment or further amended order can be issued by the Commissioner Inland Revenue.

(2 marks)

(c) Analyse the criteria on the satisfaction of which the Commissioner Inland Revenue may amend a deemed assessment order or further amend an already amended order.

(6 marks)

(10 marks)

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Question 17

The following scenario relates to one requirement.

You should assume that today's date is 15 July 2026.

Sabir is an active taxpayer residing in Pakistan. His sole source of income is a commercial building in Islamabad, which has been rented to Humair since 1 July 2021. At that time, Humair paid Sabir Rs. 2,500,000 as security, and this amount will be returned to Humair upon termination of the rental agreement.

Sabir accounts for his income on an accrual basis, with his accounting year ending on 30 June each year. He has provided the following information for the year ended 30 June 2026:

1. The monthly rental amount for the building is Rs. 400,000. Rent for the month of June 2026 was still receivable on 30 June 2026.

2. Sabir has employed a person who looks after the building affairs and collects rent from Humair on Sabir's behalf. Total expenses during the year in respect of this arrangement have been calculated as Rs. 345,000.

3. Expenditure of Rs. 1,250,000 was incurred on the repair of the building. This is the responsibility of Sabir, as the owner of the building, as per the terms of the rental agreement.

4. The due date for payment of property tax of Rs. 330,000 was 30 September 2025. However, Sabir availed a concession of Rs. 30,000 by paying the property tax (Rs. 300,000) before 1 September 2025.

5. Infrastructure development charges of Rs. 140,000 were paid by Sabir to the Capital Development Authority (CDA) for the two years commencing 1 July 2025.

6. On 1 June 2026, an insurance premium of Rs. 65,000 was paid by Sabir for the year ended 30 June 2026 against the risk of damage by fire or earthquake.

7. On 30 June 2026, Sabir paid a yearly instalment of Rs. 1,950,000 to a bank from which he had taken a loan of Rs. 40,000,000 in 2020. The amount paid back comprised the principal amount of the loan of Rs. 1,450,000 and a profit of Rs. 500,000.

8. On 30 June 2026, Sabir paid Rs. 250,000 to the CDA as an application fee for seeking approval for additional construction in the building.

9. Advance income tax paid by Sabir during the tax year 2026 is Rs. 450,000.

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Requirement:

Calculate the taxable income under the relevant heads of income, and tax payable by/refundable to, Sabir for the tax year 2026.

Note: You should include all items referred to in the question, indicating by the use of zero (0) any item which does not impact the calculation.

(10 marks)

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Question 18

The following scenario relates to one requirement.

You should assume that today's date is 15 July 2026.

Rehana is a resident taxpayer in Pakistan. She has always been an active taxpayer. She reported the following capital transactions during the year ended 30 June 2026:

1. **13 August 2025:** Rehana sold her car for Rs. 2,750,000. She had purchased this car for her family's use on 15 December 2021 for Rs. 2,150,000.

2. **20 September 2025:** Rehana sold her gold neckwear to her cousin for Rs. 1,900,000. The fair market value of the neckwear was Rs. 2,500,000. Rehana had bought this item on 15 November 2021 for Rs. 1,500,000.

3. **25 February 2026:** Rehana sold her house in Lahore for Rs. 22,500,000. The house had been received in exchange for her plot of land situated in Faisalabad on 20 February 2024. At the time of exchange, the fair market value of the house was Rs. 12,000,000, whereas the fair value of the plot given in exchange was Rs. 11,900,000. Before the sale of the house, the following expenses were incurred by Rehana in relation to the property:

	Rs.
Expenses on room renovations	3,500,000
Income tax paid at the time of the sale of the house	675,000
Amount paid to the real estate agent for the sale of the house	150,000

4. **28 June 2026:** Rehana gifted her London, UK, flat, valued at Rs. 35,000,000, to her brother, Babar. Babar is a British Citizen and non-resident taxpayer in Pakistan. Rehana had bought the flat for Rs. 20,000,000 on 1 January 2022.

5. **30 June 2026:** Rehana sold 25,000 shares in Fine Fabrics (Private) Limited (FFPL) at Rs. 39 per share. The shares held by Rehana in FFPL were acquired as follows:

   - 10,000 were acquired at the time of incorporation of FFPL at nominal value of Rs. 13 per share on 1 March 2021.
   - 10,000 were acquired on 15 October 2023 as right shares at Rs. 29 per share.
   - 8,000 shares were purchased on 15 June 2025 from another shareholder at Rs. 35 for each share.

   All the shareholders of FFPL are individuals.

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Other information:

- All payments were made through the permissible modes.
- Advance income tax of Rs. 5,000 was paid along with motor vehicle tax for the car on 15 July 2025.

Requirement:

Assess the taxable income of, and income tax payable by/refundable to, Rehana for the tax year 2026, including supporting notes for your treatment of any of the disposals (1) to (5) which are NOT included in your computation of taxable income.

(10 marks)

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Question 19

The following scenario relates to one requirement.

Arsalan, a registered person under the Sales Tax Act, 1990 (the Act), is engaged in the manufacture of different types of goods. Arsalan's business transactions for March 2025 are as follows:

	Note	Rs.
Sales	1	
Sales of taxable goods to unregistered persons.		1,400,000
Sales of taxable goods to registered persons.		3,100,000
Sales of taxable goods to a registered person for further manufacture of goods in an Export Processing Zone in Sindh.		1,800,000
Sale of exempt goods to registered persons.		1,100,000

	Note	Rs.
Purchases	2	
Purchase of raw materials from registered persons. These materials were meant for the use of manufacturing taxable supplies only.	3	2,360,000
Purchase of raw materials from registered persons for use in manufacturing of both taxable and exempt supplies.	4	3,304,000

Notes:

1. All sales figures are stated exclusive of sales tax wherever applicable at the standard rate of 18%.

2. Unless stated otherwise, payments for purchases are inclusive of sales tax at a rate of 18% duly charged on the sales tax invoices.

3. Payments were made as follows:

   - Rs. 118,000 paid through a crossed cheque drawn on a scheduled bank to a registered person. Arsalan's accountant has lost the sales tax invoice.
   - Rs. 590,000 was paid through an online transfer of funds from Arsalan's personal bank account to the personal bank account of a supplier. Their banks have duly verified the transfer of funds.
   - The balance of payments of Rs 1,652,000 was made through crossed cheques drawn on Arsalan's bank account, maintained with a scheduled bank, in favour of the suppliers of raw materials.

4. The payments include Rs. 49,560 paid in cash to Jameel, a supplier of raw materials. In February 2026, another payment of Rs. 59,000 was made in cash to the same supplier.

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Additional information:

5. In relation to purchases meant for the manufacturing of taxable goods, goods of the purchase value of Rs. 236,000 were still in stock on 31 March 2026.

Requirement:

Calculate the sales tax payable by, or refundable to, Arsalan for the tax period March 2026.

Note: You should indicate any items in the question which are exempt, outside of the scope of sales tax, or do not impact the calculation by the use of a zero (0).

(10 marks)

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Question 20

The following scenario relates to two requirements.

You should assume that today's date is 15 July 2026.

Nawaz Electronic Goods Ltd (NEGL) is a tax resident company in Pakistan. The following information is available from its statement of profit or loss for the year ended 30 June 2026:

	Note	**Rs.**	**Rs.**
Sales			200,000,000
Cost of goods sold	1		(174,000,000)
Gross profit			**26,000,000**
Less: Expenses and deductions			
Salaries and wages	2	6,200,000	
Depreciation	3	2,900,000	
Rentals of the office	4	1,870,000	
Bad debts written off	5	1,460,000	
Miscellaneous expenses	6	1,600,000	
			(14,030,000)
Profit before income taxes			**11,970,000**

Notes:

1. Cost of goods sold includes:
   - Payment of Rs. 3,500,000 to a software company for developing quality control software used in NEGL's manufacturing process. NEGL started using the software with effect from 1 March 2026. NEGL is not certain about its useful working life due to frequent changes in the field of electronics.
   - Excise duty of Rs. 600,000 paid in cash and not through crossed cheques or crossed bank drafts drawn on a scheduled bank.
   - Income tax of Rs. 185,000 collected by the Collector of Customs on the value of raw materials imported by NEGL for its own use.
   - Demurrage of Rs. 75,000 paid to the Gwadar Port Trust for the late lifting of imported raw materials from the port's premises.

2. Salaries and wages include a contribution of Rs. 1,900,000 to an approved pension fund maintained by NEGL for its regular employees.

3. NEGL charged depreciation at a uniform rate of 14% on all of its assets. The tax notes show the tax written down values (tax WDVs) of its fixed assets as at 1 July 2025 were as follows:

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	Rs.
Factory building	6,500,000
Plant and machinery	5,400,000
Computers	1,300,000
Printers and allied items	200,000

4. The rent of the office has been paid to the owner of the premises without deduction of income tax at source.

5. The bad debts have been written off in the accounts of NEGL. However, the civil suit filed against the relevant trade debtor is still pending in the court of law. The management of NEGL thinks that the probability of recovery is low due to the precarious financial position of the debtor.

6. Miscellaneous expenses include Rs. 300,000 incurred on defending the title to the company's factory building. Other expenses are on account of admissible utility bills.

Additional information:

7. Purchases of items of furniture costing less than Rs. 5,000 each were debited to the statement of profit or loss. Total purchases during the year were Rs. 230,000.

8. Income tax paid by NEGL, deducted or collected by withholding agents of NEGL, other than by the Collector of Customs mentioned at Note (1) above, during the tax year 2026 is as follows:
   - Rs. 24,000 paid at the time of the payments of electricity bills
   - Rs. 4,600,000 paid in cash as advance income tax

9. Unless stated otherwise, all payments were made through digital means from the business bank account of the company after withholding the due amount of tax.

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Requirements:

(a) Prepare a computation of the taxable income of Nawaz Electronic Goods Limited (NEGL) for the tax year 2026.

Notes:
1. You are required to start with profit before income taxes figure of Rs. 11,970,000.
2. Include supporting notes for each item NOT included in the computation of taxable income.

(12 marks)

(b) Calculate the tax payable by, or refundable to, NEGL for the tax year 2026.

Note: The provisions of law relating to the Workers' Welfare Fund should be ignored.

(3 marks)

(15 marks)

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Question 21

The following scenario relates to one requirement.

You should assume that today's date is 15 July 2026.

Salamat, an active taxpayer, is an employee of Lyallpur Chemicals Limited (LCL). In the year ended 30 June 2026, his remuneration package consisted of the following:

1. A basic salary of Rs. 550,000 per month.

2. A monthly big city allowance of Rs. 55,000 to offset the higher cost of living in large cities compared to smaller cities.

3. A performance bonus of Rs. 1,100,000 out of which Rs. 600,000 was received during the year and the balance was still receivable until 30 June 2026.

4. A house rent allowance at a rate of 45% of basic salary. Other employees of LCL are paid a house rent allowance at a rate of 60% of basic salary.

5. A medical allowance at a rate of 12% of basic salary. Whilst other employees are entitled to reimbursement of medical expenses incurred by them during the year, Salamat is not entitled to any such reimbursement.

6. Salamat is entitled to 15 recreational leave days annually. However, to meet certain LCL deadlines, he did not take any leave this year. Consequently, LCL compensated him with an amount of Rs. 300,000.

7. A car for the personal use of Salamat. The car was taken on a finance lease on 1 February 2024 when the fair market value of the car was Rs. 3,000,000. The total amount of lease rentals payable by LCL over the five-year lease term will be Rs. 3,500,000 and the lease rentals paid by LCL during the year ended 30 June 2026 were Rs. 700,000.

Additional information:

8. LCL reimbursed Salamat a tuition fee of Rs. 125,000, which he had paid for his daughter's schooling.

9. Salamat was granted a personal loan of Rs. 1,000,000, given on 1 July 2025 by LCL at a markup rate of 4% per annum. Had Salamat taken this loan from a bank, the bank would have charged markup at 16%. On 30 June 2026, Salamat paid Rs. 990,000 to LCL and the remaining balance of Rs. 10,000 was waived by LCL.

10. Under LCL's employee share scheme, Salamat was granted rights to buy 5,000 shares at Rs. 10 per share, including Rs. 1 per right. He accepted and paid Rs. 5,000 on 15 July

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2025. On 30 November 2025, Salamat sold 2,000 rights for Rs. 200,000 and exercised his right to acquire 3,000 shares, paying Rs. 9 per share (having already paid Rs. 1 per share). The market price per share on the date of issuance of these shares was Rs. 100. The shares were not sold during the year ended 30 June 2026.

11. Tax withheld by different withholding agents of Salamat was:

- Income tax at Rs. 250,000 per month by LCL; and
- Income tax of Rs. 460,000 at the time of purchase of a plot of land.

12. Salamat voluntarily paid Zakat of Rs. 300,000 under the Zakat and Ushr Ordinance, 1980.

Requirement:

Assess the amount of taxable income of, and tax payable by or refundable to, Salamat for the tax year 2026, including supporting notes for items NOT included in the computation of taxable income.

(15 marks)

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