Suggested solution

Section A

1 B and C

The following authorities can hear Junaid's appeal:

- Commissioner Inland Revenue (Appeals)
- Appellate Tribunal Inland Revenue

The Deputy Commissioner Inland Revenue acts under the delegated powers of the Commissioner Inland Revenue, hence, the Commissioner Inland Revenue cannot act as an appellate authority.

The Deputy Commissioner Inland Revenue cannot be referred directly to the High Court.

2 Rs. 107,800

(Rs. 980,000 x 11%) = Rs. 107,800

A company, being a withholding agent, is required to deduct income tax at the rate of 5.5% of the amount paid to a non-corporate supplier of goods whose name appears on the Active Taxpayers' List (ATL). However, if the name of the supplier does not appear on the ATL, the rate of tax deduction i.e. 5.5% increases by 100%.

3 A

(Rs. 3,000,000 – Rs. 1,800,000) x 12.5% + Rs. 0 = Rs. 150,000

Although Organic Grains Limited (OGL) was not listed on the day Yasin sold the shares, OGL is to be treated as a public company because more than fifty percent of its shares are held by the Punjab Government. Shares in a public company are treated as securities and any gain on the disposal of such securities is to be taxed as a separate block of income.
The applicable rate of tax on capital gains where the securities were acquired between 1 July 2013 to 30 June 2022 is 12.5%. Tax on salary income below Rs. 600,000 is 0.

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4 Rs. 500,000

Rs. 0 + (Rs.1,000,000 x 50%)

Any contribution made to a provident fund, not recognised by the Commissioner Inland Revenue (CIR), is not an admissible deduction. Further to this, only 50% of the amount contributed to an approved gratuity fund is admissible as a deduction. [s.21(e) & (ea)]

5 A and C

The following are NOT included in the definition of a company for income tax purposes;

- A public international organisation
- The Federal Government

A Local Government in Pakistan and a Provincial Government in Pakistan both are included in the definition of a company

6 C and D

A Circular issued by the Federal Board of Revenue (FBR) is binding on the following:

- Chief Commissioner Inland Revenue
- A chartered accountant employed to conduct the tax audit of a taxpayer

The FBR may issue its interpretation of different provisions of the Income Tax Ordinance, 2001 for the guidance of taxpayers and the officers of the FBR. The interpretation contained in a circular is binding on all Income Tax Authorities and other persons employed in the execution of the Ordinance.

A Circular issued by the FBR is not binding on either the Commissioner Inland Revenue (Appeals) or a taxpayer.

7 B

(Rs. 8,000,000 x 15%) = Rs. 1,200,000

A taxpayer is allowed a deduction for the depreciation of a depreciable asset used in the taxpayer's business during the tax year. Even if the asset is used for only one day, depreciation is allowed for the whole year [s.22(1)]. However, initial allowance is not allowed on an asset which has already been used by any other taxpayer in Pakistan [s.23(1)].

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8 C

Rs. 421,600, calculated as follows:

	Rs.
Total income including share of income from the AOP (Rs.1,600,000 + Rs. 900,000)	2,500,000
Tax on above income (Rs. 170,000+(Rs. 2,500,000 – Rs.1,600,000) x 30%)	440,000
Tax on taxable income	
((Rs. 440,000 / Rs. 2,500,000) x Rs. 1,600,000)	281,600
Tax on profit on debt (Rs. 700,000 x 20%)	140,000
Total tax (Rs. 281,600 + Rs. 140,000)	**421,600**

The share of income received from an association of persons (AOP) is added to the taxable income of the individual for the purpose of computing the applicable rate of tax. Tax is, however, charged only on the individual's taxable income, excluding the share of income received from the AOP. [s. 88] Profit on debt (being less than Rs. 5 million) is chargeable to tax under the final tax regime at 20%. [s.7B]

9 D

Rs. 5,000,000 + Rs. 0 + Rs. 90,000 = Rs. 5,090,000

Income from a poultry farm is assessable under the head, 'income from business'. Whilst a refund received from the Federal Board of Revenue (FBR) is not chargeable to tax (being a capital receipt), an additional amount received from the FBR in respect of a delayed payment of a refund to the taxpayer is chargeable to tax under the head, 'income from other sources.' [s.39]

10 Rs. 210,000

(Rs. 1,400,000 – Rs. 0) x 15% = Rs. 210,000

A loss incurred on the sale of a painting is not recognised under the Income Tax Ordinance, 2001. Therefore, the whole amount of the capital gain accrued on the sale of the securities is taxed as a separate block of income. [s. 38(5)]

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11 A

Rs. 4,000,000 – Rs. 2,500,000 - Rs.10,000 = Rs. 1,490,000

Since the cost of the necklace exceeded Rs. 1 million, any amount paid in cash does not form part of the cost. However, the broker's fee, although paid in cash, is an admissible deduction as the amount was less than Rs. 25,000. [ss. 37, 21(l) & 75A.]

12 B

Rs. 6,000, calculated as follows:

	Rs.
Taxable income (Rs. 1,200,000 + Rs. 0)	1,200,000
Tax on Rs. 1,200,000	6,000

(First Sch. to the Ordinance)
Where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad until the close of that tax year, any salary income earned abroad by such person shall be exempt from tax. [s.51(2)]

13 D

25 March 2026 to 29 June 2026

In the case of a company, the instalment of advance income tax for the March quarter is due on 25 March of the relevant tax year. The period of default commences on the day the instalment was due and ends on the day it was paid or the date on which the return is due, whichever is earlier. [s.205(1A)]

14 C

August 2026

Where a registered person omits to deduct input tax within the relevant period, the unclaimed amount of input tax can be claimed in the sales tax return for any of its succeeding six tax periods. [Proviso to s. 7(1) of the Sales Tax Act, 1990]

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15 B and D

Pulses and Newsprint

The import and supply of pulses and newsprint are exempt from sales tax [Sr. Nos. 14 & 32 of Table 1 of the 6th Schedule to Sales Tax Act, 1990]

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Section B

16

(a) Authorities to select persons for audit of their income tax affairs

The following two authorities can select persons for audit of their income tax affairs:

(i) The Federal Board of Revenue (FBR) [s.214C(1)]

(ii) The Commissioner Inland Revenue (CIR) [s. 177(1)]

Tutorial notes:

1. *The FBR may select persons or classes of persons for audit of their income tax affairs through computer ballot which may be either random or parametric. [s.214C(1)]*

2. *The CIR having jurisdiction over the person's case, can call documents, books of accounts, etc. required to be maintained under the law for conducting audit. While calling such documents, the CIR will communicate the reasons to the person for selecting their case for audit. [s. 177(1)]*

(b) Time limit to amend an assessment order after issuance of a show cause notice

An order of amended assessment can be issued within 180 days of the issuance of show cause notice. However, this time limit can be extended to a further period of 90 days if reasons for such extension are recorded in writing.

(c) Criteria for amendment of a deemed order or for further amendment of an already amended order

A deemed assessment order shall only be amended or an amended assessment order shall be amended further only if the CIR is satisfied that:

(i) any income chargeable to tax has escaped assessment; or
(ii) total income has been under-assessed; or
(iii) total income has been assessed at too low a rate of tax; or
(iv) total income has been the subject of excessive relief or refund; or
(v) any amount under a head of income has been mis-classified; or
(vi) the order to be amended is erroneous insofar it is prejudicial to the interest of revenue.

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17

Sabir

Taxable income for the tax year 2026 and tax thereon

	Tutorial note	Rs.	Rs.
Rent chargeable to tax on accrual basis (Rs.400,000 x 12) [s.15 (2)]	1		4,800,000
Refundable security deposit relating to the building treated as rent (Rs. 2,500,000 x 1/10) [s.16 (1)]	2		250,000
			5,050,000
Less:			
Administration and collection charges	3	202,000	
Actual expenses on repair [s.15A]	4	0	
Statutory repair allowance (Rs. 5,050,000 x 1/5) [s.15A(1)(a)]	4	1,010,000	
Property tax [s.15A(1)(c)]	5	300,000	
Infrastructure development charges (Rs. 140,000 / 2) [s.15A(1)(c)]	6	70,000	
Insurance premium [s.15A(1)(b)]	7	65,000	
Profit paid on loan [s. 15A(1)(f)]	8	500,000	
Fee to CDA [s.15A(6)]	9	0	
			(2,147,000)
Income from property / taxable income			**2,903,000**
Tax on taxable income (Rs. 170,000+(2,903,000 - 1,600,000) x 30%) [Para (1) Div. I, 1st Sch.]			560,900
Tax already paid			(450,000)
Tax payable with return of income [s.137(1)]			**110,900**

Tutorial notes:

1. *Income from property is computed in accordance with the method of accounting regularly employed by the person; it could be either accrual based or cash based. Since the method of accounting is accrual based, the rent for the whole tax year is taxable including the rent still receivable for the month of June 2026. [ss.15& 32(1)]*

2. *Any amount received from the tenant of a building which is not adjustable against the rent payable by the tenant is chargeable to tax in the tax year in which it was received and the following nine tax years in equal proportion. [s.16]*

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3. *Expenses incurred wholly and exclusively for the purpose of deriving income chargeable to tax under the head, 'income from property', including administration and collection charges are allowable on actual basis. However, these expenses are not allowable in excess of 4% of the amount of rent. Therefore, the claim of Rs. 345,000 is restricted to Rs. 202,000 (5,050,000 x 4%). [s.15A(1)(h)]*

4. *Any actual expense incurred on repairs of the rented-out building is disregarded for tax purposes. Instead, a repair allowance equal to one-fifth of the amount of rent chargeable to tax is allowed as an admissible deduction. [s. 15A(1)(a)]*

5. *Property tax actually paid at Rs. 300,000 is an admissible deduction as on the date Shabbir paid it, this was the due amount [instead of Rs. 330,000]. [s.15A(1)(c)]*

6. *Since the amount of infrastructure development charges paid (Rs. 140,000) to the Capital Development Authority (CDA) is for two years, on accrual basis only the amount relating to the current tax year is allowable. [s.15A(1)(c) read with s. 34(1)]*

7. *Any premium paid or payable by the person in the year to insure the building against the risk of damage or destruction is an admissible deduction. [s.15A(1)(b)]*

8. *Profit paid on a loan taken for the construction or renovation of a building given on rent is an admissible deduction. [s.15A(1)(f)] However, the repayment of the loan itself is not an admissible deduction being a capital expenditure. [s.15A(6)]*

9. *The amount paid to the CDA as a fee seeking approval for additional construction is not for deriving income under the head, 'income from property', rather to add to an already existing asset. Such expenditure is not included in the admissible deductions while computing income from property. [s.15A]*

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Rehana

Total tax payable on taxable income for the tax year 2026

	Working	Capital gain / (loss)	Tax
		Rs.	Rs.
Tax on taxable income under normal tax law			
Capital gain on sale of gold neckwear [s.37(5)]	1	1,000,000	
Capital gain on sale of shares in Fine Fabrics (Private) Limited [s. 37]	2	350,000	
Taxable income		**1,350,000**	
Tax on taxable income			
(Rs. 90,000 + ((Rs. 1,350,000 – Rs. 1,200,000) x 20%)) [Para (1), Div. I, Pt. I of 1st Sch.]			120,000
Tax payable on capital gains assessable as a separate block of income			
Sale of house	3	6,950,000	521,250
Total tax			**641,250**
Less:			
Income tax paid on sale of house [s.236C]		675,000	
Income tax paid with motor vehicle tax [ss. 234 & 168]		5,000	
			(680,000)
Tax refundable with the income tax return			**38,750**

Explanation of items not included in the computation of taxable income

Gain on sale of car

Subject to certain exceptions, movable properties held for personal use by the person or any member of the person's family dependent on the person are not included in the definition of capital assets. A car does not fall in the exceptions. Hence, no capital gain (Rs. 2,750,000 – Rs. 2,150,000) is recognised. [s. 37(5)]

Gift of flat

Rehana gifted her flat in London to her brother. No gain or loss is deemed to arise on such gift of an asset to a relative. [s.79(1)(c)]

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Workings:

Working 1

	Rs.
Deemed consideration received [s. 77(1)]	2,500,000
Purchase price [s.76(2)(a)]	(1,500,000)
Capital gain	**1,000,000**

Working 2

Shares in a private limited company are capital assets (but not securities). Any gain or loss on the disposal of such assets is assessable under the head, 'capital gains' as part of total income of the taxpayer. The computation of the gain/loss is as below:

	Rs.	**Rs.**
Sale proceeds of 25,000 shares (25,000 x Rs. 39) [s.77]		975,000
Less:		
Cost of acquisition on:		
- 1 March 2020 of 10,000 shares Rs. (10,000 x Rs. 13) [s.76(2)(a)]	130,000	
- 15 October 2022 of 10,000 shares Rs. (10,000 x Rs. 29) [s.76(2)(a)]	290,000	
- 15 June 2025 of 8,000 shares Rs. (8,000 x Rs. 35) [s.76(2)(a)]	280,000	
Total cost of 28,000 shares	**700,000**	
Cost of shares sold Rs. (Rs. 700,000/28,000) x 25,000		(625,000)
Capital gains		**350,000**

Working 3

	Rs.	**Rs.**
Sale proceeds of the house 25 February 2025 [s.77(1)]		22,500,000
Less:		
Deemed cost on 20 February 2023 [s.76(2)(a)]	11,900,000	
Expenses on room renovations [s.76(2)(c)]	3,500,000	
Income tax paid is a personal expense	0	
Amount paid to real estate agent [s.76(2)(b)]	150,000	
		(15,550,000)
Capital gain		**6,950,000**
Tax (Rs. 6,950,000x7.5%)		521,250

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Arsalan

Sales tax liability for the tax period March 2026

	Rs.
Calculation of output tax	
Sales of taxable goods to unregistered persons (Rs. 1,400,000 x 18%) [s.3(1)]	252,000
Further sales tax on taxable goods sold to unregistered persons (Rs. 1,400,000 x 4%) [s.3(1A)]	56,000
Sales of taxable goods to registered persons (Rs. 3,100,000 x 18%) [s.3(1)]	558,000
Sale of goods for further manufacturing in an Export Processing Zone (Rs. 1,800,000 x 0%) [s.4 read with Entry 5 of Fifth sch.]	0
Sales of exempt goods to registered persons (Rs. 1,100,000) [s.13]	0
Total output tax	**866,000**
Calculation of input tax	
Purchase of raw materials used exclusively for making taxable supplies (*see working 1*)	252,000
Purchase of raw materials used for making both taxable and exempt supplies *(see working 2)*	429,081
Total input tax	**681,081**
Sales tax payable (refundable)	
Output tax	866,000
Input tax paid during the period does not exceed 90% of the output tax, hence credit of the total amount is allowed [s.8B(1)]	(681,081)
Sales tax payable with sales tax return of March 2026	**184,919**

Workings:

Working 1

	Rs.	**Rs.**
Total purchases used exclusively for making taxable supplies only		2,360,000
Less:		
Payment of which sales tax invoice is not available [s.7(2)(i)]	118,000	

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Payment made from the personal bank account of the buyer to the personal bank of the supplier through online transaction. [First proviso to s.73 (1)]	590,000	
Closing stock of Rs. 236,000 not consumed yet	0	
		(708,000)
Eligible purchases for claim of input tax against taxable supplies		**1,652,000**
Admissible input tax (Rs. 1,652,000 x 18/118)		**252,000**

Working 2

		Rs.	**Rs.**
Total taxable supplies during the tax period (Rs. 1,400,000 + Rs. 3,100,000 + Rs. 1,800,000)	A		6,300,000
Exempt supplies	B		1,100,000
Total supplies [A + B]	C		**7,400,000**
Purchases for making both taxable and exempt supplies			
Total purchases		3,304,000	
Less ineligible for input tax credit:			
Payment of Rs. 49,560 made in cash (Since the payment was less than Rs. 50,000 during the relevant tax period, therefore, input tax paid was adjustable) [s. 73(1)]		0	
		3,304,000	
Input tax paid (Rs. 3,304,000 x 18/118)	(D)	504,000	
Apportionment of input tax relating to taxable supplies			
(A /C) x D [Rs. (Rs. 6,300,000/Rs. 7,400,000) x Rs. 504,000]		429,081	

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Nawaz Electronic Goods Ltd (NEGL)

(a) NEGL Taxable income for the tax year 2026 (accounting year ended 30 June 2026)

	Tutorial note	Rs.	Rs.
Income from business			
Profit before income taxes			11,970,000
Add:			
Payment for software *(See working 1)*		3,500,000	
Income tax collected on imports	1	185,000	
Contribution to approved pension fund (Rs. 1,900,000 x 50%)	2	950,000	
Depreciation *(see working 2)*		2,900,000	
Office rent	3	1,870,000	
Furniture bought during the year		230,000	
			9,635,000
Less:			
Amortisation of software *(See working 1)*		46,795	
Tax depreciation *(see working 2)*		1,944,500	
			(1,991,295)
Taxable income			**19,613,705**

Explanation of items not included in the computation of taxable income

Excise duty - Rs. 600,000

As a general rule, any expenditure under a single head of account in excess of Rs. 250,000 paid other than by a crossed bank cheque or a crossed bank draft or through digital means is not deductible. One of the exceptions to this rule is payment of duties. Therefore, excise duty paid in cash is an allowable deduction. [21(l)]

Demurrage for late lifting of raw material - Rs. 75,000

Demurrage paid is not a penalty or fine for violation of any law, rule or regulation, therefore, there is no bar on its admissibility as an allowable deduction being incurred for the purposes of business by NEGL. [s. 20(1)]

Bad debt - Rs. 1,460,000

Pendency of civil suit is not a bar to claim a bad debt. The trade debt has been written off in the accounts of the taxpayer and there are reasonable grounds to believe that it is

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irrecoverable. As the conditions for deduction are fulfilled, the deduction is allowable.

Expenditure to defend title of the property - Rs. 300,000

The expenditure is for the purposes of the business. Further, the expenditure is revenue in nature as it has neither added to the value of the existing assets nor created a new asset. Therefore, it is allowable as business expense.

Workings:

Working 1

The total cost of the software cannot be claimed in a single tax year. Being an intangible asset, the cost of the software is to be amortised over its useful life. Where the useful life is not ascertainable, as here, the useful life is deemed to be 25 years. [s.24(4)] Since the intangible has not been used for the whole year, the amortised amount will be restricted accordingly on proportionate basis as below:

	Rs.
Total cost of the intangible	3,500,000
Per year amortisation over its deemed useful life of 25 years (Rs. 3,500,000/25)	140,000
Admissible deduction in the tax year 2026 for 122 days (from 1 March 2026 to 30 June 2026) (Rs. 140,000 x122/365)	46,795

Working 2

While computing taxable income, accounting depreciation is to be added back and tax depreciation is to be allowed as a deduction according to the provisions of the Income Tax Ordinance, 2001 (Ordinance). [s.22 read with Third sch.]

Tax depreciation on brought forward fixed assets:

Asset	**Tax written down value on 1 July 2025**	**Rate of Depreciation**	**Depreciation**
	Rs.		**Rs.**
(1)	(2)	(3)	(4)=(2)x(3)
Factory building	6,500,000	10%	650,000
Plant and machinery	5,400,000	15%	810,000
Computers	1,300,000	30%	390,000
Printers and allied items	200,000	30%	60,000
Total depreciation on brought forward assets			1,910,000

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Tax depreciation on furniture purchased and used during the year is also eligible for tax depreciation at Rs. 34,500 (Rs. 230,000 x 15%).

The total amount of admissible tax depreciation is, therefore, Rs. 1,944,500.

Tutorial notes:

1. *Income Tax collected by the Collector of Customs is not to be allowed as deduction while computing taxable income. However, since NEGL is not a commercial importer, it will be eligible to claim it as advance tax against the tax liability to be computed at the time of filing of the income tax return for the year. [ss.148 &168]*

2. *Only 50% of the contribution to an approved pension fund is allowable as a deduction during the relevant tax year, the excess is to be added back. [s21(ea)]*

3. *As NEGL, being a withholding agent, has failed to deduct income tax from the rent paid to the landlady, and deposit it with the Commissioner Inland Revenue, the amount of rent paid became an inadmissible expenditure. [s.21(c)]*

4. *Expenditure incurred to buy furniture is of capital in nature, it is not allowable as a straight deduction while computing taxable income. However, the resultant asset is eligible for depreciation at the specified rates as per Third Schedule to the Ordinance. [see working above] [s.21(n)]*

(b) Tax payable by/ or (refundable) to NEGL for the tax year 2026

	Rs.	**Rs.**
Taxable income for the tax year 2026 from (a) above		19,613,705
Income tax being higher of:		
(i) Tax at 29% of (Rs.19,613,705 x 29%) [Div.II, 1st Sch.]; and	5,687,974	
(ii) Minimum tax at 1.25% of Rs. 200,000,000 (Rs. 200,000,000 x 1.25%) [s.113]	2,500,000	
		5,687,974
Less:		
Income tax paid at the import stage [ss.148 &168]	185,000	
Income tax paid along with electricity bills [ss. 235&168]	24,000	
Advance income tax [ss.147&168]	4,600,000	
		(4,809,000)
Income tax payable with return of income		**878,974**

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Salamat

Taxable income and tax payable for the tax year 2026 (accounting year ended 30 June 2026)

	Tutorial note	Rs.	Rs.
Taxable income under the head Salary			
Basic salary received during the tax year (Rs. 550,000 x 12) [s.12(1)]	1		6,600,000
Big city allowance (Rs. 55,000 x 12) [s.12(2)(c)]	2		660,000
Performance bonus [s.12(1) & (2)(a)]	3		600,000
House rent allowance (Rs. 6,600,000 x 45%) [s.12(2)(c)]	4		2,970,000
Medical allowance (Rs. 6,600,000 x ((12-10) %)) [Cl. 139 of Pt. I of the 2nd Sch.]	5		132,000
Payment in lieu of leave [s. 12(2)(a)]	6		300,000
Perquisite of car use (Rs. 3,000,000 x 10%) [s.13(3)]	7		300,000
Reimbursement of tuition fee [s.12(2)(d)]	8		125,000
Waiver of loan [s.13(9)]	9		10,000
Benefit under the employee share scheme *[see working]*			468,000
Total/salary income			**12,165,000**
Less:			
Zakat paid [s. 60(1)]	10		(300,000)
Taxable income			**11,865,000**
Tax on taxable income			
Rs. 700,000 + ((Rs. 11,865,000 – Rs. 4,100,000) x 35%) [Para (2) of Div. I of Pt. I of 1st Sch.]			3,417,750
Surcharge at 10% of tax [s. 4AB]			341,775
Total tax			**3,759,525**
Less:			
Tax deducted by LCL			
(Rs. 250,000 x 12) ss.149& 168]		3,000,000	
Tax paid at the time of purchase of plot [ss. 236K & 168]		460,000	
			(3,460,000)
Tax payable with return			**299,525**

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Explanation of items NOT included in the computation of taxable income

Loan at concessional rate of markup - Rs. 1,000,000

Since the amount of loan does not exceed Rs. 1,000,000, the charging of rate of markup less than the benchmark rate of 10% is not treated as taxable perquisite. [2nd proviso to section 13(7)]

Working:

	Rs.	Rs.
Sale proceeds of 2,000 rights	200,000	
Less:		
Cost of acquisition of the rights (Rs. 1 x 2,000)	(2,000)	
Salary income [s.14(5)]		198,000
Fair market value of shares at the time of issue (Rs. 100 x 3,000)	300,000	
Less:		
Cost of rights (Rs. 1 x 3,000)	(3,000)	
Cost of shares (Rs. 9 x 3,000)	(27,000)	
Salary income [s.14(2)]		270,000
Total		**468,000**

Tutorial notes:

1. *Any amount received from an employer is treated as salary income. The basic salary, as the name indicates, is the basic part of the salary and taxable. [s.12(2)]*

2. *Big city allowance is taxable as salary income. Though it is allowed to compensate for higher cost of living in big cities, it is not a reason which could render it exempt from tax. [s.12(2)(c)]*

3. *Although the total amount of the performance bonus due to Salamat was Rs. 1,100,000, the amount taxable during the year on receipt basis is Rs. 600,000. The balance amount will be taxable in the tax year in which it is received. [s.12(1) & (2)(a)]*

4. *The amount of house rent allowed actually received by Salamat is taxable. The taxability is not affected by the fact that he is receiving house rent allowance at a lesser rate than other employees of the company. [s.12(2)(c)]*

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5. *Since Salamat is not allowed reimbursement of medical expenses, any medical allowance not exceeding 10% of the basic salary is exempt from tax. [Cl. (139) of Pt. I of the 2nd sch.] The excess amount (i.e. 2% of the basic salary) is taxed.*

6. *Any amount received in lieu of leave is taxable and is not exempt for the reason that it was received for forgoing his creational leaves. [s.12(2)(a)]*

7. *Since the car was used only for the personal purposes of the employee, 10% of the fair market value at the commencement of the finance lease is treated as the value of the perquisite of car used by Salamat. The total lease rentals to be paid or those paid during the tax year are not relevant to determine the value of the perquisite of the car. [s. 13(3) read with Rule 5(2) of the Income Tax Rules, 2002]*

8. *The amount of any expenditure incurred by an employee that is reimbursed by the employer is treated as salary. However, if an expenditure reimbursed is one which was incurred by the employee in the performance of its duties of employment, it is not to be treated as salary. [s.12(2)(d)]*

9. *Where an amount owing by the employee to the employer is waived by the employer, the amount so waived shall be taxable as salary income. [s.13(9)]*

10. *Zakat paid under the Zakat and Ushr Ordinance, 1980 is a deductible allowance against total income [s.60]*

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	- The Federal Board of Revenue - The Commissioner Inland Revenue	1 1
Maximum 2 marks		
b	- An order of amended assessment can be issued within 180 days - Time limit can be extended to a further period of 90 days	1 1
Maximum 2 marks		
c	Criteria for amendment: - Income chargeable to tax has escaped assessment - Total income has been under-assessed - Total income has been assessed at too low a rate of tax - Total income has been the subject of excessive relief or refund - Any amount under a head of income has been mis-classified - The order to be amended is erroneous insofar it is prejudicial to the interest of revenue	 1 1 1 1 1 1
Maximum 6 marks		
Total 10 marks		

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Question 17

	Sabir – taxable income for tax year 2026	
	Income from Property:	
	- Rent chargeable to tax	1
	- Refundable security deposit	1
	- Administration and collection charges	1
	- Actual expenses on repair	1
	- Statutory repair allowance	1
	- Property tax	0.5
	- Infrastructure development charges	1
	- Insurance premium	0.5
	- Profit paid on loan	1
	- Fee to CDA	1
	- Tax on taxable income	1
Total 10 marks		

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Question 18

	Rehana –income tax refundable for tax year 2026:	
	- Capital gain on sale of gold neckwear (W1)	1
	- Capital gain on sale of shares (W2 see below)	
	- Tax on taxable income	0.5
	- Sale of house (W3 - see below)	
	- Income tax paid on sale of house	0.5
	- Income tax paid with motor vehicle tax	0.5
	Explanation of items not included in the computation:	
	- Gain on sale of car	1
	- Gift of flat	1
	Capital gain on sale of shares (W2)	
	- Sale proceeds	0.5
	- Cost of acquisition	1.5
	- Cost of shares sold	1
	Sale of house (W3)	
	- Deemed cost	0.5
	- Expenses on room renovations	0.5
	- Income tax paid	0.5
	- Amount paid to real estate agent	0.5
	- Tax	0.5
Total 10 marks		

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Question 19

	Arsalan – sales tax liability for the tax period March 2026	
	- Sales of taxable goods to unregistered persons	1
	- Sales of taxable goods to registered persons	0.5
	- Sale of goods for further manufacturing in an Export Processing Zone	1
	- Sales of exempt goods to registered persons	0.5
	- Raw materials used exclusively for making taxable supplies (W1 – see below)	
	- Raw materials used for making both taxable and exempt supplies (W2 - see below)	
	- Input tax paid during the period does not exceed 90% of the output tax	1
	Raw materials used exclusively for making taxable supplies (W1)	
	- Payment of which sales tax invoice is not available	1
	- Payment made from the personal bank account	0.5
	- Closing stock	0.5
	- Admissible input tax	0.5
	Raw materials used for making both taxable and exempt supplies (W2)	
	- Total supplies	1
	- Ineligible for input tax credit	1
	- Input tax paid	0.5
	- Apportionment of input tax relating to taxable supplies	1
Total 10 marks		

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Question 20

a	Nawaz Electronic Goods Ltd - Taxable income for the tax year 2026	
	Income from business:	
	- Payment for software	0.5
	- Income tax collected on imports	0.5
	- Contribution to approved pension fund	1
	- Depreciation	0.5
	- Office rent	1
	- Furniture bought during the year	0.5
	- Amortisation of software (W1)	1.5
	- Tax depreciation (W2 – see below)	
	Explanation of items not included in the computation:	
	- Excise duty	1
	- Demurrage for late lifting of raw material	1
	- Bad debt	1
	- Expenditure to defend title of the property	1
	Tax depreciation (W2)	
	- Factory building	0.5
	- Plant and machinery	0.5
	- Computers	0.5
	- Printers and allied items	0.5
	- Tax depreciation on furniture purchased	0.5
Maximum 12 marks		
b	Nawaz Electronic Goods Ltd - tax payable for the tax year 2026	
	- Tax at 29%	0.5
	- Minimum tax at 1.25%	1
	- Income tax paid at the import stage	0.5
	- Income tax paid along with electricity	0.5
	- Advance income tax	0.5
Maximum 3 marks		
Total 15 marks		

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Question 21

	Salamat – computation of the taxable income	
	Taxable income	
	- Basic salary received during the tax year	0.5
	- Big city allowance	1
	- Performance bonus	1
	- House rent allowance	1
	- Medical allowance	1
	- Payment in lieu of leaves	1
	- Perquisite of car use	1
	- Reimbursement of tuition fee	1
	- Waiver of loan	1
	- Benefit under the employee share (W1 – see below)	
	- Zakat paid	1
	- Tax on taxable income	1
	- Tax deducted by LCL	1
	Explanation of items NOT included in the computation	
	- Loan at concessional rate of markup	1
	Benefit under the employee share (W1)	
	- Sale proceeds	0.5
	- Cost of acquisition of the rights	0.5
	- Fair market value of shares	0.5
	- Cost of rights	0.5
	- Cost of shares	0.5
Total 15 marks		

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