Filing of Income Tax Return and Wealth Statement

Tax Year 2024

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Tax Year 2024

A few topics are added from Finance Act 2024 only for information purpose and relate to return for tax year 2025.

Agenda

Chapter #	Topic
Chapter 1	Penal Provisions
Chapter 2	Basics & Applicability of section 114, 116 & 116C
Chapter 3	Computation of taxable income and tax liability for salaried or non-salaried individual (without business income)
Chapter 4	Computation of taxable income (business income)
Chapter 5	Key points for company tax return
Chapter 6	New retro topics - Deemed rental income & Super tax
Chapter 7	Minimum tax & alternate corporate tax
Chapter 8	Losses & unabsorbed depreciation
Chapter 9	Preparation of Wealth statement and wealth reconciliation statement

PENAL PROVISIONS

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Non-Filers & Late filers, Section 100BA

Section 100BA read with Tenth Schedule provides higher rate of tax for persons not appearing in active taxpayers' list. The section and Tenth Schedule have been modified to provide higher rates of tax for late filers i.e. persons who have not filed return by the due date specified in section 118 or by the due date as extended under section 119 or 214A.

Powers to enforce filing of tax return, Section 114B

Rate of collection of tax internet, phone calls, Section 236

Section 114B grants FBR powers to disable mobile phone/ sims and disconnect electricity & gas connections through a general order in respect of persons not appearing in active taxpayer's list but are liable to file tax returns.

Section 114B has been further amended and now FBR is granted power to restrict non-filers from foreign travel if the person is a citizen of Pakistan. This restriction shall not apply on persons holding National Identity Card for Overseas Pakistanis (NICOP), minors, students, persons proceeding abroad for Hajj or Umrah and such other classes of persons as notified by the Board. The persons restricted from travel shall be notified through a general order by FBR.

Anomaly if a person becomes filer or it is confirmed that person is not required to file return

Section 114B (3) provides power to the board and Commissioner to restore mobile phones, sims, electricity connection and gas connections. Such power shall be exercised when the Commissioner is satisfied that the person has filed the return, or the person was not liable to file the return. However, no power has been granted to the Board or Commissioner to allow foreign travel to a person whose name is included in the income tax general order but has now filed tax return or satisfies the Board or Commissioner that he was not required to file the return. This appears to be an inadvertent omission but likely to lead to severe consequences in genuine cases.

Please also see discussion under section 236C and 236K for rates of tax on non-filers and later filers.

Generally, rate of tax on non-filer is 100% increased as compared to filer however following specific rates have been provided for non-filers in Tenth Schedule because of amendments by Finance Act 2024:

Sr. No	Section	Description	Rate of tax
1	151	Profit on debt	35%
2	236G	Sale to distributors, wholesalers etc.	2%
3	236H	Sale to retailers	2.5%

Penalty, Section 182

Section 182 has been modified to enhance penalties as follows:

Enforce filing of tax return - measures

Penalty under section 182:

From July 01, 2022
penalty is higher of – • 0.1% of the tax payable for each day of default; • Rs. 1,000 for each day of default • Rs. 10,000 for salaries, Rs.50,000 for others Maximum penalty – 200% of tax payable Provided also that the amount of penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law

Sr. No	Default	Penalty	Section
35	Any company and an association of persons who – a) fails to fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer. b) furnishes any annexure, statement or document specified in the return of income as blank or with incomplete or irrelevant particulars; or a) attaches blank or incomplete annexures, statements or documents where such annexures, statements or records were required to be filed.	Such company, including a banking company and an association of persons shall pay a penalty of Rs.500,000 or 10% of the tax chargeable on the taxable income, whichever is higher.	114(2)

1.50 Penalty for failure to furnish information in tax return, Section 191A

A company including a banking company or an AOP may be punished with fine and/or imprisonment of year or more if it:

a) fails to fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer.
b) furnishes any annexure, statement or document specified in the return of income as blank or with incomplete or irrelevant particulars; or
c) attaches blank or incomplete annexures, statements or documents where such annexures, statements or records were required to be filed.

However, the section does not appear to be suitably worded as company or AOP cannot be imprisoned.

Chapter 1

Basics Section 4

- Subject to this Ordinance, income tax shall be imposed for each **tax year**, at the rate or **rates** specified in Division I or II of Part I of the First Schedule, as the case may be, on every **person** who has **taxable income** for the year.

Basics

- Three types of persons:
  - Individual
  - AOP
  - Company
- Importance of residential status
  - ✓If resident person than both Pakistan source and foreign source income are taxable
  - ✓If non-resident person than only Pakistan source income is taxable

Resident Individual

- **82. Resident individual. —** An individual shall be a resident individual for a tax year if the individual —
- (a) is present in Pakistan for a period of, or periods amounting in aggregate to, one hundred and eighty-three days or more in the tax year; [or]
- (c) is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year.
- (d) being a citizen of Pakistan is not present in any other country for more than one hundred and eighty-two days during the tax year or who is not a resident taxpayer of any other country

Resident Company & Resident AOP

- **83. Resident company.—**
- A company shall be a resident company for a tax year if —

(a) it is incorporated or formed by or under any law in force in Pakistan;

(b) the control and management of the affairs of the company is situated wholly in Pakistan at any time in the year; or

(c) it is a Provincial Government or [Local Government] in Pakistan.

- **84. Resident association of persons. —** An association of persons shall be a resident association of persons for a tax year if the control and management of the affairs of the association is situated wholly or partly in Pakistan at any time in the year.

Filing requirements

- Annual tax return showing details of income from various sources
- Wealth statement showing assets including foreign assets & liabilities including foreign liabilities at cost as at June 30th
- Wealth reconciliation statement
- Foreign income and asset statement
- Statement of expenses
- Capital Value tax statement of foreign assets (where value exceeds Rs.100 million) for resident individual
- Capital Assets under 7E for resident individual

Applicability of section 114

- Every company;
- Every person (other than a company):
  - ✓With NTR, FTR taxable income
  - ✓has been charged to tax in respect of any of the two preceding tax years
  - ✓claims a loss carried forward under this Ordinance for a tax year
  - ✓owns immovable property (500sq yrds), vehicle (1000 cc), member of professional body etc.
  - ✓Required to file statement under 116A

Section 114 cont…

- Exemption from filing of return if required only because of ownership of immovable property or vehicles:
  - Widow
  - Orphan below age of 25 years
  - Disabled person
  - Non-resident (in case of ownership of immovable property)

Persons liable to file wealth statement u/s 116

- Every resident individual
- Every member of AOP shall furnish a wealth statement and wealth reconciliation statement for that year along with return.

Foreign income & Assets statement (116A)

- Every resident individual with
  - Foreign income not less than USD 10,000 or
  - Foreign assets not less than USD 100,000

Returns / Statements at IRIS

- Salary Return for Individuals
- Normal Return (Ind/AOP/COY)
- Simplified Return for Manufacturers
- Simplified Return for Traders
- Statement of Final Taxation
- Non-Resident Pakistan-Origin person having no Pakistan-source income
- Simplified Return for SMEs having turnover up to 250 Million

Chapter 2

Taxable income without business income

- Income from salary (NTR)
- Income from property (NTR)
- Capital Gain (NTR, FTR, Fixed)
- Income from other sources (generally FTR)

SALARY INCOME (General rules)

- Salary taxable on receipt basis.
- No loss adjusted against salary.
- Tax deducted at source by employer is adjustable
- Pakistan source, if employment is exercised in Pakistan

SALARY INCOME (General rules)

- Exemptions
- Medical allowance or medical facility
- Special allowance (only for reimbursement of expenses for the purpose of duty)
- Clause 53A exemptions to employees of hotel & restaurants, educational institutions, hospital or clinics

SALARY INCOME (General rules)

- Gratuity – Government, CIR(approved), FBR approved, Unapproved
- Provident Fund – Government, CIR(Approved), Unapproved
- Pension – Government, Private (exception continuity of employment and one out of two is exempt)
- Other retirement benefit – option, CIR approval?

S. No	Taxable Income	Rate of Tax
1	Where taxable income does not exceed Rs.600,000	0%
2	Where taxable income exceeds Rs.600,000 but does not exceed Rs.1,200,000	5% of amount exceeding Rs.600,000
3	Where taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,200,000	Rs.30,000 + 15% of amount exceeding Rs.1,200,000
4	Where taxable income exceeds Rs.2,200,000 but does not exceed Rs.3,200,000	Rs.180,000 + 25% of amount exceeding Rs.2,200,000
5	Where taxable income exceeds Rs.3,200,000 but does not exceed Rs.4,100,000	Rs.430,000 + 30% of amount exceeding Rs.3,200,000
6	Where taxable income exceeds Rs.4,100,000	Rs.700,000 + 35% of amount exceeding Rs.4,100,000

In addition to the above, a surcharge of 10% of tax liability under Division I above is also payable under section 4AB in case of an individual (including salaried individual) or Association of Person having taxable income in excess of Rs.10 million.

The surcharge is applicable in respect of tax liability under Division I only therefore if a person has FTR or fixed tax regime income, such FTR/ Fixed tax regime income and tax liability thereupon shall not be considered for the purpose of calculation of surcharge.

Section 149 has been modified whereby the employer is required to estimate tax liability including surcharge under section 4AB and deduct tax from salary accordingly.

Teachers and researchers working in Government and non-profit organizations are eligible for 25% reduction in tax liability in respect of their income from salary. In the finance bill, this facility was proposed to be withdrawn, however it was finally decided not to be withdrawn hence this proposed change has not been enacted through Finance Act 2024.

Please see below detailed workings of a salaried individual at various levels of income.

Income of salaried person		Tax liability 2025			Tax liability 2024	Effective tax rate		
Annual	Monthly	Tax Div I	Surcharge	Total	Tax Div I	2025	2024	Increase
900,000	75,000	15,000	-	15,000	7,500	2%	1%	100%
1,200,000	100,000	30,000	-	30,000	15,000	3%	1%	100%
1,500,000	125,000	75,000	-	75,000	52,500	5%	4%	43%
1,800,000	150,000	120,000	-	120,000	90,000	7%	5%	33%
2,100,000	175,000	165,000	-	165,000	127,500	8%	6%	29%
2,400,000	200,000	230,000	-	230,000	165,000	10%	7%	39%
2,700,000	225,000	305,000	-	305,000	232,500	11%	9%	31%
3,000,000	250,000	380,000	-	380,000	300,000	13%	10%	27%
3,600,000	300,000	550,000	-	550,000	435,000	15%	12%	26%
4,200,000	350,000	735,000	-	735,000	600,000	18%	14%	23%
4,800,000	400,000	945,000	-	945,000	765,000	20%	16%	24%
5,400,000	450,000	1,155,000	-	1,155,000	930,000	21%	17%	24%
6,000,000	500,000	1,365,000	-	1,365,000	1,095,000	23%	18%	25%
7,200,000	600,000	1,785,000	-	1,785,000	1,515,000	25%	21%	18%
8,400,000	700,000	2,205,000	-	2,205,000	1,935,000	26%	23%	14%
9,600,000	800,000	2,625,000	-	2,625,000	2,355,000	27%	25%	11%
10,800,000	900,000	3,045,000	304,500	3,349,500	2,775,000	31%	26%	21%
12,000,000	1,000,000	3,465,000	346,500	3,811,500	3,195,000	32%	27%	19%

Further, super tax is also applicable on salaried individual having income in excess of Rs.150 million as defined in section 4C of Income Tax Ordinance, 2001. Please note that the applicability of super tax is not introduced through current finance act but already applicable under section 4C and there is no change in rates of super tax.

S. No	Income Under Section 4C	Rate of Tax	
		TY 2022	TY 2023 & onwards
1	Where Income exceeds PKR 150 million but does not exceed PKR 200 million	1%	1%
2	Where Income exceeds PKR 200 million but does not exceed PKR 250 million	2%	2%
3	Where Income exceeds PKR 250 million but does not exceed PKR 300 million	3%	3%
4	Where Income exceeds PKR 300 million but does not exceed PKR 350 million	4%	4%
5	Where Income exceeds PKR 350 million but does not exceed PKR 400 million		6%
6	Where Income exceeds PKR 400 million but does not exceed PKR 500 million		8%
7	Above Rs. 500 million		10%

What should a salaried person do now?

- Zakat
- children education expenses can be claimed as deduction
- Medical facility and medical allowance
- Allowance for official expenses
- Reimbursement of official expenses
- Section 61 – tax credit on donations
- Section 63 – tax credit on contribution to approved pension fund
- Advance tax –
    - Purchase/Registration of new car (Section 231B)
    - On annual renewal of car registration (Section 234)
    - On Telephone and internet usage (including mobile phone) (Section 236)
    - Auction purchases (Section 236A)
    - Sale/ purchase of immovable property (Section 236C & 236K)
    - Remitting amounts abroad through cards (Section 236Y)

Doc/ info required for salary only individual

- Salary certificate – bifurcation of salary
- Look for items like accommodation, vehicle provided by employer, pension fund deductions, provident fund deductions
- Bank statement must be studied (for every individual client) – highlight and inquire about unusual high value items
- Proof of WHT, zakat, donation, children education and pension investments to be obtained
- Calculate tax liability yourself and cross match with employer's calculation & portal calculations

Income from Property (Sec-15)

- Actual or fair market rent taxable on accrual basis
- 10% of un-adjustable advance (security deposit) also to be included in income for ten years (building only)
- Forfeited deposit on sale of land or building is also income from property
- Repair allowance 20% of RCT is straight deduction (building only)
- Other allowable expenses include taxes (property tax), interest on loans, insurance premium legal charges, bad debts
- any expenditure (incurred wholly and exclusively for the purpose of deriving rent), not exceeding **four percent (4%)** of the rent chargeable to tax shall be allowed

Income from Property Cont..

- Property is only land & building for the purpose of section 15
- Income from property only for landlord, in case of sub-lease it is income from other source
- Building together with plant & machinery is income from other source
- Building together with amenities and utilities is bifurcated into income from property and income from other source
- In case of self hiring – instead of fair market rent, actual rent is included in income

Income from Property Cont..

- Doc/ info required for income from property
  - Rent agreement – do check rent, advance rent, security deposit provisions and try cross check with bank statement
  - Proof of property tax or any other related tax, insurance, legal charges, interest on loan, legal charges and other expenses.
  - For claim of expenses, the provisions of section 21 need to be adhered so ensure payment through banking channel, WHT compliance and other compliances
  - Proof of tax credits, tax withheld under section 155

NON-SALARIED & AOP TAX RATES

Sr. No	Taxable Income	Rate of Tax
1	Where taxable income does not exceed Rs.600,000	0%
2	Where taxable income exceeds Rs.600,000 but does not exceed Rs.1,200,000	15% of amount exceeding Rs.600,000
3	Where taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,600,000	Rs.90,000 + 20% of amount exceeding Rs.1,200,000
4	Where taxable income exceeds Rs.1,600,000 but does not exceed Rs.3,200,000	Rs.170,000 + 30% of amount exceeding Rs.1,600,000
5	Where taxable income exceeds Rs.3,200,000 but does not exceed Rs.5,600,000	Rs.650,000 + 40% of amount exceeding Rs.3,200,000
6	Where taxable income exceeds Rs.5,600,000	Rs.1,610,000 + 45% of amount exceeding Rs.5,600,000

The rate of tax under serial 6 above has been fixed at 40% instead of 45% for partnership firms (like CA, ICMA) who are prohibited by law to form a limited liability company.

The provisions relating to surcharge and super tax are same as explained above for salaried individuals i.e. surcharge under section 4AB will be calculated on tax liability arising on normal tax regime income while super tax will be applicable under section 4C as per definition of income defined therein.

The income of an individual representing share from association of person is exempt where AOP has paid tax on its income. A proviso has been added whereby such exemption shall not remain available to the individual if the AOP does not submit audited financial statements along with its tax return. The condition of submission of audited financial statements is only applicable in respect of an AOP whose turnover during the tax year or in any of the preceding financial year was more than Rs.300 million. The audit shall be conducted by a firm of chartered accountants of cost and management accountants. In our opinion, this being a procedural provision is applicable for the annual tax returns to be filed for tax year 2024 due on September 30, 2024.

REAL ESTATE SECTOR
CAPITAL GAINS

1C REAL ESTATE SECTOR

1.11 Tax on builders & developers, Section 7F
1.12 Surcharge, Section 4AB
1.13 Super Tax, Section 4C
1.14 Minimum Tax, Section 113
1.15 Alternate Corporate Tax, Section 113C

Section 7F has been inserted for introduction of a new tax regime for the real estate sector with following key elements:

- The tax will be levied on the "taxable profits" of the builders and developers.

- The taxable profit is fixed as follows:

Activity	Taxable profit	Applicable tax rate
construction and sale of residential, commercial or other buildings	10% of gross receipts from such activities	Slab rates for individuals & AOPs 29% for companies 20% for small companies
development and sale of residential commercial or other plots	15% of gross receipts from such activities	
activities as mentioned in (a) and (b) above	12% of gross receipts from such activities	

- A person cannot take credit of income more than above limits for the purpose of explaining source under section 111.
- However, if the person has taxable income more than above limits, then such person may pay tax and take benefit of excess taxable income.
- Any income other than income from above activities shall be taxable as per applicable tax law.

- The provisions of this section shall not apply to a builder or developer established by an Act of the Parliament or a Provincial Assembly or by a Presidential Order and who is 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.
- This is an interesting change and allows flexibility on claim of expenses which may lead to tax avoidance particularly with respect of withholding tax provisions and cash payments.
- The term “gross receipts” is not defined but plain reading appears to suggest that it shall include advances received during the year.

- Arguably super tax is no more applicable on builders & developers who are being taxed under section 7F.
- Arguably surcharge under section 4AB shall not be applicable on builders & developers who are being taxed under section 7F.
- Arguably minimum tax under section 113 is no more applicable on builders & developers who are being taxed under section 7F.
- Arguably Alternate corporate tax under section 113C is no more applicable on builders & developers who are being taxed under section 7F.

1.16 Advance tax on sale or transfer of immovable property, Section 236C

1.17 Exemption of capital gain, Clause 114B, Part I, Second Schedule

Section 236C provides for collection of tax at the time of disposal or transfer of immovable property. An exemption from collection of tax is available where:

1. The seller is dependent of 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.
2. The property has been allotted by acquired from or allotted by the Federal Government or Provincial Government or any authority duly certified by the official allotment authority, and the property acquired or allotted is in recognition of or for services rendered by the Shaheed or the person who dies in service; and
3. The sale is first sale of aforementioned immovable property.

This exemption is now extended to first sale of similar immovable property by a war wounded person while in service of Pakistan Armed Forces or Federal or Provincial Government or an ex-serviceman and serving personnel of armed forces or ex-employees or serving personnel of Federal and Provincial Government.

Clause 114B, Part I, Second Schedule has also been amended to provide exemption to capital gains on first sale of immovable property referred above.

Apart from above, the applicable rates of tax on sale or transfer of immovable property have been revised for filers and non-filers while a new category has also been introduced i.e. later filers.

The new rates of tax under section 236C prescribed for filers, non-filers and later filers are summarized hereunder:

Late filer not applicable in respect of persons who has timely filed returns for last three years and is a first-time defaulter for the tax year.

Consideration received	Filer	Late filer*	Non-filer
Up to Rs.50 million	3%	6%	10%
More than Rs.50 million up to Rs.100 million	3.5%	7%	
More than Rs.100 million	4%	8%	

1.18 Advance tax on purchase of immovable property, Section 236K

The applicable rates of tax on purchase of immovable property have been revised for filers and non-filers while a new category has also been introduced i.e. later filers.

The new rates of tax prescribed for filers, non-filers and later filers are summarized hereunder:

Fair Market Value	Filer	Late filer*	Non-filer
Up to Rs.50 million	3%	6%	12%
More than Rs.50 million up to Rs.100 million	3.5%	7%	16%
More than Rs.100 million	4%	8%	20%

1.19 Rate of tax on gain on sale of immovable property, Section 37(1A)

The following rate of tax are now provided under division VIII, Part I of First Schedule:

		Acquired on or before June 30, 2024			Acquired after June 30, 2024
S. No	Holding period	Plot	Constructed Property	Flat	
1	Up to one year	15%	15%	15%	15% for persons appearing on the Active Taxpayers' List on the date of disposal of property and at the rate specified in Division I for individuals and association of persons and Division II for companies in respect of persons not appearing on the Active Taxpayers' List on the date of acquisition and date of disposal of property: Provided that the rate of tax for individuals and association of persons not appearing on the Active Taxpayers' List, the rate of tax shall not be less than 15% of the gain.
2	More than one but less than two years	12.5%	10%	7.5%	
3	More than two but less than three years	10%	7.5%	0	
4	More than three but less than four years	7.5%	5%		
5	More than four but less than five years	5%	0%		
6	More than five but less than six years	2.5%			
7	More than six years	0%			

Capital gain

- Four types

Type of income	Treatment
Private company shares (NTR)	Normal tax regime, subject to adjustable WHT @ 10% of FMV
Personal movable property (NTR)	All exempt except 38(5) items which are under NTR
Immovable property (Fixed)	Fixed rates
Public company shares (FTR)	Fixed rates

S. No.	Hoding period	Acquired 01.07.22 to 30.06.24	Acquired after June 30, 2024
1	Up to one year	15%	15% for persons appearing on the Active Taxpayers' List on the date of acquisition and the date of disposal of securities and at the rate specified in Division I for individuals and association of persons and Division II for companies in respect of persons not appearing on the Active Taxpayers' List on the date of acquisition and date of disposal of securities: Provided that the rate of tax for individuals and association of persons not appearing on the Active Taxpayers' List, the rate of tax shall not be less than 15% in any case.
2	More than one but less than two years	12.5%	
3	More than two but less than three years	10%	
4	More than three but less than four years	7.5%	
5	More than four but less than five years	5%	
6	More than five but less than six years	2.5%	
7	More than six years	0%	
8	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	5%

Doc for capital gain

- Purchase deed, date, amount and other relevant info
- Sale deed, date, amount and other relevant info
- CPR of 236C or 236K

Income from other source

- Section 5 read with section 150 – Dividend FTR – 15% (25% if from exempt entity)
- Section 7B – Profit on debt FTR for individuals & AOP up to Rs.5,000,000
- Note: 15% final tax rate on Federal Government securities is not applicable for tax year 2023 onwards.
- Bahbood Savings, Pensioner Benefit and Shuhada family welfare account maximum tax rate is 5%.

Profit on debt	Rate of withholding tax
Profit on debt not exceeding Rs. 5,000,000	15%
Amount exceeding Rs. 5,000,000/-	Chargeable to tax under head “Income from Other Sources”-NTR

Deductible Allowances

- Zakat paid under Zakat and Ushr Ordinance 1980
- Education Expenses
- Workers Welfare Fund
- Workers Participation Fund

Reduction in tax liability and tax credits

- Full time teacher/ researcher (non-profit or govt) – tax reduction 25%
- Tax credit on
  - Charitable donations
  - Investment in pension schemes
  - POS machine
  - Persons (Coal Mining Projects, Startups) u/s 65F
  - Specified industrial undertaking u/s 65G

Note: The last three only available against business income

Note: No allowance, loss or tax credit adjustable against FTR

Chapter 3

Business income-key points

Separate profit & loss & balance sheet is required to be prepared for business income as sole proprietor.

An individual has two bank accounts:

- One is used only for personal — Wealth statement
- One is used only for business — Balance sheet
- And only capital is reflected in the wealth statement.

Similarly for example

- Mr. A purchased a laptop for Rs.200,000 – personal use – This will always appear in wealth statement at cost.
- Mr. A purchased a laptop for Rs. 200,000 – business use – 15% Normal depreciation will be allowed

Business income-key points

- The capital appearing in the balance sheet should be reported in the wealth statement of the individual however it is observed that business assets and personal assets are intermingled leading to an incorrect return and wealth statement.
- Minimum tax under section 113 for business individuals & AOPs must be considered if they exceed threshold.

Business income-key points

- Sales tax implications of business individuals should also be considered at the time of preparation of their returns.
- In case of share from AOP, the amount to be included in taxable income, tax credits and tax liability need to be carefully worked out.

Business income-key points

- Opening balances like fixed assets, stock in trade, capital should be appropriately considered for the purpose of balance sheet.
- If the person preparing the return is not confident about his accounting skills, he should take on board an accountant to ensure the financial statements, wealth statement and tax returns are properly prepared, cross matched and reconciled.

Admissible / inadmissible deductions

- Depreciation, initial allowance, sale of fixed assets
- Cost of vehicle not plying for hire (Rs.7.5m)
- Expenses paid in cash, tax not withheld (20% RM & FG)
- Penalties levied on violation of law
- Contributions to unapproved PF & GF while for approved funds only 50% allowed

Admissible / inadmissible deductions

- Unrealized & realized exchange gains & losses
- Commission paid to inactive (s.tax) on third schedule items in excess of 0.2%
- Sales tax unregistered person
- Pre-commencement expenditure (5 years)
- Right of use assets depreciation and interest
- Bad debts
- POS integration failure – up to 8% of exp attributable to sales

Business income computation

Profit & Loss Account of business (all figures 000)

Revenue	500,000
Expenses	
Salaries	(200,000)
Printing & stationery	(50,000)
Utilities	(30,000)
Misc	(20,000)
Net profit before tax (accounting profit)	**200,000**

Notes:

Expenses include commission paid of Rs. 3,000 to a non-active commission agent in respect of products included in thirds schedule of STA 1990. The commission is paid on goods costing/ valuing/ amounting to Rs.100,000.

expenses include accounting depreciation of Rs.50,000 and gratuity contribution of Rs. 20,000 paid to an unapproved fund and PF contribution of Rs.10,000 paid to an approved fund.

Tax depreciation on assets is Rs.100,000 however assets are used 70% for business and 30% for personal use.

Revenue includes income from property of Rs. 60,000 and capital gain of Rs. 20,000.

Assumed tax has been deducted Rs.20,000.

Net profit before tax (accounting profit) (all figures 000)	**200,000**
Add: Inadmissible expenses:	
Commission (3,000 less 0.2% of 100,000 (200)	2,800
Accounting depreciation	50,000
GF contribution to an unapproved fund	20,000
Less: Admissible expenses	
Income from property	60,000
Capital gain	20,000
Tax depreciation	70,000
Taxable income (tax profits-bus income)	**122,800**
Capital Gain	**20,000**
Income from property	**60,000**
Taxable Income (Normal Tax Regime)	**202,800**
Tax liability (Non –salaried) assumed rate10%	**20,280**
Less: tax deducted at source	**(20,000)**
Tax payable/ (refundable)	**280**

Tax rate is applied on taxable income not accounting income

Chapter 4

Key points for company tax return

- Study cash flow statement to identify non-cash items like depreciation, provisions etc.
- Minimum tax (113) and alternate corporate tax to be considered
- Profit on debt is not FTR for companies
- Dividend is FTR for companies
- Rest is same as income from business calculations

Chapter 5

Deemed rental income

- Deemed rental income applicable for **<u>tax year 2022</u>** and onwards
- Rental income deemed equal to equal to 5% FMV
- Tax rate = FTR = 20% (effectively 1% of FMV)
- Applicable on a resident person owning capital assets in Pakistan held on the last day of the tax year.

Deemed rental income

- Definition of capital asset
- “capital asset” means property of any kind held by a person, whether or not connected with a business, but does not include –

(i)any stock-in-trade, consumable stores or raw materials held for the purpose of business;

(ii)any shares, stocks or securities;

(iii)any property with respect to which the person is entitled to a depreciation deduction under section 22 or amortization deduction under section 24; or

(iv)any movable asset not mentioned in clauses (i), (ii) or (iii)

Deemed rental income

Exclusions 1

a. one self-owned immovable property;
b. self-owned business premises from where the business is carried out by the persons appearing on the active taxpayers' list at any time during the year;
c. self-owned agriculture land where agriculture activity is carried out by person excluding farmhouse and land annexed thereto;

Deemed rental income

Exclusions 2 (these are declared discriminatory by LHC)

a. Capital asset allotted to –

(i)A Shaheed or dependents of a shaheed belonging to Pakistan Armed Forces;

(ii)A person or dependents of the person who dies while in the service of Pakistan armed forces or Federal or provincial government;

(iii)A war wounded person while in service of Pakistan armed forces or Federal or provincial government; or

(iv)Ex-serviceman and serving personal of armed forces or ex-employees or serving personal of Federal and provincial governments, being original allottees of the capital asset duly certified by the allotment authority.

Deemed rental income

Exclusions 3

e. Any property from which income is chargeable to tax under ITO 2001 and tax leviable is paid thereon;
f. Capital asset in the first tax year of acquisition where section 236K has been paid;
g. where the fair market value of the capital assets in aggregate excluding the capital assets mentioned in clauses (a), (b), (c), (d), (e) and (f) does not exceed Rupees twenty-five million;
h. Capital asset owned by a Provincial Government, a Local Government, a local authority, a development authority, builders and developers for land development and construction who are registered as DNFBP.

Deemed rental income

Farm house

"farmhouse" means a house constructed on a total minimum area of 2000 square yards with a minimum covered area of 5000 square feet used as a single dwelling unit with or without an annex:

Provided that where there are more than one dwelling units in a compound and the average area of the compound is more than 2000 square yards for a dwelling unit, each one of such dwelling units shall be treated as a separate farmhouse.

Gain on Immovable property and deemed rental income

A proviso has been added whereby the below property shall also be included for the purpose of calculation of tax under section 7E for the person who are not appearing in the active taxpayers' list except those in respect of whom exemption has been provided under rule 2 of Tenth Schedule.

i. One capital asset owned by the resident person;
ii. any property from which income is chargeable to tax under the Ordinance and tax leviable is paid thereon;
iii. capital asset in the first tax year of acquisition where tax undersection 236K has been paid;
iv. where the fair market value of the capital assets in aggregate excluding the capital assets mentioned in clauses (a), (b), (c), (d), (e) and (f) does not exceed Rupees twenty-five million.

Super tax on high income earners

The definition of "income" for the purpose of section 4C shall be the sum of following:

i. Profit on debt, dividend, capital gains, brokerage and commission;
ii. Taxable income (other than brought forward depreciation and brought forward business losses) under section 9 of the Ordinance excluding amounts specified in clause (i);
iii. imputable income as defined in clause (28A) of section 2 excluding amounts specified in clause (i); and
iv. Income computed, other than brought forward depreciation, brought forward amortization and brought forward business losses under Fourth, Fifth and Seventh Schedules.

Super tax on high income earners

Sr. No.	Income Under Section 4C	Rate of Tax	
		TY 2022	TY 2023 & onwards
1	Exceeding PKR 150 m to PKR 200 m	1%	1%
2	Exceeding PKR 150 m to PKR 200 m	2%	2%
3	Exceeding PKR 250 m to PKR 300 m	3%	3%
4	Exceeding PKR 300 m to PKR 350 m	4%	4%
5	Exceeding PKR 350 m to PKR 400 m		
6	Exceeding PKR 400 m to PKR 500 m		6%
7	Above Rs. 500 million		8% 10%

Super tax on high income earners

For the following sectors the rate of super tax is 10% for tax year 2022 where the income exceeds Rs.300 million: (this is under challenge at Supreme Court being discriminatory)

1. Airlines
2. Automobiles
3. Beverages
4. Cement
5. Chemicals
6. Cigarette and tobacco
7. Fertilizer
8. Iron and steel
9. LNG terminals
10. Oil marketing
11. Petroleum and gas exploration and production
12. Pharmaceuticals
13. Sugar and
14. Textiles

Chapter 6

Minimum tax and alternate corporate tax

Small Company	Other than small company	Individual/ AOP with more than Rs.100 million turnover in any year after tax year 2017	Individual/ AOP with less than Rs.100 million turnover
Tax liability is higher of following: i. 20% of taxable income ii. 17% of accounting income iii. 1.25% of turnover iv. Minimum tax paid under section 153	Tax liability is higher of following: i. 29% of taxable income ii. 17% of accounting income iii. 1.25% of turnover iv. Minimum tax paid under section 153	Tax liability is higher of following: i. % of taxable income as per slab rates ii. 1.25% of turnover iii. Minimum tax paid under section 153 Add: Surcharge @ 10% of NTR tax liability if taxable income exceeds Rs.10 million	i. % of taxable income as per slab rates ii. Minimum tax paid under section 153 Add: Surcharge @ 10% of NTR tax liability if taxable income exceeds Rs.10 million

Minimum & Alternate corporate tax

Particulars	Total	NTR	MTR
Sales	400,000,000	300,000,000	100,000,000
Less: Expenses	300,000,000	225,000,000	75,000,000
Taxable income	100,000,000	75,000,000	25,000,000
Tax liability (NTL)		21,750,000	7,250,000
MTL (113)		3,750,000	1,250,000
MTL 153		-	8,000,000
ACT		12,750,000	4,250,000
Higher		21,750,000	8,000,000

Chapter 7

SET OFF – LOSSES

- **Section 56, 58, 59 – Set off of losses** – Loss of any income can be set off against any other income except salary ~~and property income~~ however:
  - Speculation losses cannot be adjusted against any other income except speculation gain
  - Capital losses cannot be adjusted against any other income except capital gains
  - Note that speculation losses and capital losses can only be adjusted against respective gains but it is not vice versa i.e. loss of any other source of income can be adjusted against speculation gain and capital gain

SET OFF – LOSSES

Loss/ Gain	Property Loss	IOS Loss	Capital Loss	Speculation Loss	Normal Loss	Unabsorbed Depreciation
Salary	X	X	X	X	X	X
Property	Y	Y	X	X	Y	Y
IOS	Y	Y	X	X	Y	Y
Capital Gains	Y	Y	Y	X	Y	Y
Spec Bus	Y	Y	X	Y	Y	Y
Normal Bus	Y	Y	X	X	Y	Y
C/f	X	X	Y	Y	Y	Y
Limit C/f	X	X	6 yrs	6 yrs	6 yrs	No limit
C/f adjust	X	X	C.Gain	Sp.Gain	B.I	B.I
Amount limit	X	X	X	X	X	50% of BI

CARRY FORWARD OF LOSSES

Accounting profit	(200,000)
Add inadmissible expenses	
Accounting depreciation	100,000
Less:	
Admissible expenses	
Tax depreciation	(150,000)
Business income/ (loss)	**(250,000)**
Income from other source	130,000
Taxable income/ (loss)	**(120,000)**
Break up of loss	
Normal loss (other than depreciation)	(NIL)
Unabsorbed depreciation	(120,000)

CARRY FORWARD OF LOSSES

TY 2016	
Business loss	(500,000)
Unabsorbed dep	(200,000)
IOS loss	(100,000)
TY 2017	
Business Loss	(100,000)
Unabsorbed Dep	(50,000)
TY 2018	
Business income	550,000
Loss 2016	(500,000)
Loss 2017	(50,000)
Remaining C/F	
Bus loss 2017	(50,000)
Unabsorbed Dep	(250,000)

CARRY FORWARD OF LOSSES

TY 2016	
Business loss	(500,000)
Unabsorbed dep	(200,000)
IOS loss	(100,000)
TY 2017	
Business Loss	(100,000)
Unabsorbed Dep	(50,000)
TY 2018	
Business income	200,000
Income from other source	550,000
Remaining C/F	
Business loss 2016	(300,000)
Bus loss 2017	(100,000)
Unabsorbed Dep	(250,000)

CARRY FORWARD OF LOSSES

- **Section 57, 58, 59 – Carry forward of losses**
- Only loss of "Income from business, speculation loss & capital loss" can be carried forward for a period of six years from tax year in which loss was first computed.
- However unabsorbed depreciation can be carried forward for an indefinite period until fully set off.
- **Section 59A** Loss sustained by AOP can be set off and carry forward by AOP and are not available to members of AOP for adjustment against their income.

Adjustment of Carry forward losses

- Carry forward non-speculation business losses can only be adjusted against non-speculation business income
- Speculation losses can only be adjusted against speculation gains
- Capital losses can only be adjusted against capital gains
- Unabsorbed depreciation can be adjusted against ~~any other income~~ business income only

Text of new sub-section

- "(4) The loss attributable to deductions allowed under
- sections 22, 23, 23A, 23B and 24 that has not been set off against income, the loss not set off shall be set off against fifty percent of the person's balance income chargeable under the head "income from business" after setting off loss under sub-section (1), in the following tax year and so on until completely set off:
- Provided that such loss shall be set off against hundred percent of the said balance income if the taxable income for the year is less than ten million Rupees.

Text of new sub-section

- Note: SK converted for ease of understanding

- "(4) Unabsorbed depreciation shall be set off against fifty percent of the person's balance income chargeable under the head "income from business" after setting off loss under sub-section (1), in the following tax year and so on until completely set off:
- Provided that such loss shall be set off against hundred percent of the said balance income if the taxable income for the year is less than ten million Rupees.

Text of new sub-section

- Note: Further description through bullet points

- Unabsorbed depreciation shall be set off against fifty percent of the person's balance income
- What is balance income = current year business income less brought forward normal business loss
- if the taxable income for the year is less than ten million Rupees then unabsorbed depreciation can be adjusted against 100% of the taxable income/ balance income

CARRY FORWARD OF LOSSES

- **First Example**
- **TY 2016**
- Unabsorbed dep (12,000,000)
- **TY 2017**
- Business Income 9,000,000
- Adjust unabsorbed dep (12,000,000)
- Remaining dep c/f (3,000,000)
- **2nd Example**
- TY 2016
- Unabsorbed dep (12,000,000)
- TY 2017
- Business Income 14,000,000
- Adjust unabsorbed dep (7,000,000)
- Taxable income 7,000,000

Unabsorbed depreciation of Rs.5 million is carry forward to TY 2018 and so on until adjusted.

CARRY FORWARD OF LOSSES

- **3rd Example**
- TY 2016
- Business loss (2,000,000)
- Unabsorbed dep (12,000,000)
- TY 2017
- Business Income 14,000,000
- Business loss 2016 (2,000,000)
- Balance income 12,000,000
- Adjust unabsorbed dep (6,000,000)
- Taxable income 6,000,000
- Unabsorbed depreciation of Rs.6 million is carry forward to TY 2018 and so on until adjusted.

CARRY FORWARD OF LOSSES

- **4th Example**
- TY 2016
- Business loss (2,000,000)
- Unabsorbed dep (12,000,000)
- TY 2017
- Business Income 11,000,000
- Business loss 2016 (2,000,000)
- Balance income 9,000,000
- Adjust unabsorbed dep (4,500,000)
- Taxable income 4,500,000
- Unabsorbed depreciation of Rs.7.5 million is carry forward to TY 2018 and so on until adjusted.

Unabsorbed Depreciation

- Adjustment of unabsorbed depreciation is now limited
- Depreciation is to be adjusted against 50% of balance income where balance income = current year BI reduced by brought forward business loss (other than b/f UAD)
- However if taxable income for the year is less than Rs. 10 million, unabsorbed depreciation can be adjusted against 100% of balance income.
- The depreciation loss (UAD), however, can be carried forward for unlimited period until fully set off i.e. same position as earlier.

Unabsorbed Depreciation

Rs. (million)									
BI before dep	Dep for the year	BI after dep	b.loss b/f excluding dep	bal income	50% of bal.income	UAD b/f	UAD c/f	Taxable profits	B.loss c/f excluding dep
100.00	(120.00)	(20.00)	-	-	-	-	(20.00)	-	-
60.00	(36.00)	24.00	-	24.00	12.00	(20.00)	(8.00)	12.00	-
80.00	(76.00)	4.00	-	4.00	-	(8.00)	(4.00)	-	-
(20.00)	(30.00)	(50.00)	-	-	-	(4.00)	(34.00)	-	(20.00)
80.00	(46.00)	34.00	(20.00)	14.00	7.00	(34.00)	(27.00)	7.00	-
(10.00)	(8.00)	(18.00)	-	-	-	(27.00)	(35.00)	-	(10.00)
80.00	(66.00)	14.00	(10.00)	4.00	2.00	(35.00)	(33.00)	2.00	-
100.00	(20.00)	80.00	-	80.00	40.00	(33.00)	-	47.00	-

Chapter 8

Wealth statement & Reconciliation

- The wealth statement and wealth reconciliation statement are very important particularly from the perspective of notices received under section 111 of Income Tax Ordinance, 2001.
- All bank credits entries should be discussed with client and appropriate treatment of all bank credit entries should be made in the return, wealth statement and wealth reconciliation statement.
- Major debit entries in the bank statement should also be checked.
- If the cash & bank balances are going too high, check again and again with client if he is forgetting something and also cross check your calculations.

Wealth statement & Reconciliation

- Usually Provident fund balance, accumulated balance of insurance is missed in wealth statement, please ensure taking care of these.
- It is sometimes noted that wealth is reported on a fair market value basis or even at depreciated value when it is required to be on cost basis.
- Taxable income sometimes includes non-cash benefits like car, accommodation, security deposits deemed as property income etc. These are included in taxable income but do not increase wealth of an individual so need to be careful in adjusting these in calculation of wealth reconciliation statement.

Wealth statement & Reconciliation

- Always ask your client about identifiable expenses like children education, rent, utility bills, medical expenses club fees etc. which are required to be reported in expense schedule. It is agreed that individuals do not have an absolute record of all expenses and they are not expected to have however their identifiable expenses should be appropriately taken into account. Smaller expenses like routine kitchen expenses can be taken on estimate basis after due to consideration to cash in hand balance and other assets at the close of financial year.

1.35 Wealth Statement, Section 116

Section 116 requires filing of wealth statement by resident persons and empowers Commissioner to require wealth statement from an individual providing details of assets and liabilities. The word “assets and liabilities” has been replaced by “assets including foreign assets and liabilities including foreign liabilities”.

This replacement can provide a significant boost to the argument that foreign assets and foreign liabilities were not previously required to be disclosed in the wealth statement. An explanation to this effect would have strengthened FBR’s case but this replacement is likely to weaken FBR’s case.

Assets in the name of spouse

Another change has been made to clarify that assets of the spouse shall only be included in the wealth statement if the spouse is dependent. Accordingly, the preparers of wealth statement need to take note of this.

Wealth Reconciliation Statement

Opening Wealth	*****
Closing Wealth	*****
Net Increase/ Decrease in wealth	*****

Increase in wealth = Net Income

Decrease in wealth = Net Loss

Thank You

for your attention!

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