

- (iv) A taxpayer was selected for audit by the Commissioner Inland Revenue using internal risk parameters. Upon request, the tax authority refused to disclose the basis of selection, citing operational secrecy.

Which pillar of tax administration is primarily compromised by this refusal?

- | | | |
|--------------|--------------------|------------------|
| (a) Fairness | (b) Transparency | |
| (c) Equity | (d) Accountability | (01 mark) |

- (v) Ahmed Mustafa operates a flour-milling business and also grows wheat on his own agricultural land. A portion of the wheat so grown is used as raw material in his flour-milling business. The wheat is ordinarily sold in the market in its raw state.

While computing income chargeable under the head 'Income from business' under the provisions of the Income Tax Ordinance, 2001, which of the following amounts is allowable as a deduction in respect of the wheat so used?

- | | |
|--|------------------|
| (a) Cost of cultivation incurred plus land taxes paid | |
| (b) Market value of wheat at the time it is used in the business | |
| (c) Market value of wheat plus expenses of cultivation | |
| (d) Nil, as agricultural produce constitutes exempt income | (01 mark) |

- (vi) Ashiq Ali is a non-resident Pakistani citizen. During tax year 2026, he derived Pakistan-source income of Rs. 800,000 chargeable under the Normal Tax Regime and earned foreign-source income of USD 15,000.

Which of the following statements is he required to submit for tax year 2026, under the provisions of the Income Tax Ordinance, 2001?

- (I) Return of income
 (II) Wealth statement
 (III) Foreign income and assets statement

- | | | |
|---------------|--------------|------------------|
| (a) I and II | (b) I only | |
| (c) I and III | (d) III only | (01 mark) |

- (vii) Almas Handicrafts (AH), a cottage industry, supplies digitally ordered goods within Pakistan through an online marketplace. Orders are placed digitally, and the customers pay through Cash on Delivery. The courier withholds sales tax at the rate of 2% on the gross value of supply at the time of supply.

Under the provisions of the Sales Tax Act, 1990, which of the following statements is correct?

- | | |
|--|--------------------|
| (a) AH is required to register for sales tax and treat the 2% sales tax withheld as advance tax | |
| (b) AH may claim input tax adjustment of the 2% sales tax withheld | |
| (c) AH is exempt from sales tax; therefore, no sales tax is required to be withheld by the courier | |
| (d) The 2% sales tax withheld by the courier constitutes the final discharge of sales tax liability for AH, which is not required to obtain sales tax registration | (1.5 marks) |

- (viii) Emerald Traders (ET), a registered wholesaler, purchases electronic goods from Sapphire Electronics (SE), another registered person, and pays the invoice value inclusive of sales tax. Subsequently, the tax authorities discovered that SE failed to deposit the sales tax amount relating to this supply.

Under the provisions of the Sales Tax Act, 1990, which of the following statements is correct?

- | | |
|---|--------------------|
| (a) Only SE is liable for the unpaid sales tax, as it was responsible for collecting and depositing the tax | |
| (b) Both ET and SE are jointly and severally liable irrespective of ET's knowledge or suspicion | |
| (c) ET may be held jointly and severally liable if it is established that it knew or had reasonable grounds to suspect that the tax would remain unpaid | |
| (d) The burden of proving ET's knowledge or reasonable grounds to suspect non-payment lies on SE | (1.5 marks) |

QUESTION 2

Assume that the current date is 31 August 2026.

Zamarrud Khan was employed as Production Director at Uranium Engineering Limited (UEL), a listed company, for the last many years and resigned on 31 May 2026. During the year ended 30 June 2026, he received the following monthly emoluments from UEL:

	Rupees
Basic salary	495,000
Medical allowance	60,000
Dearness allowance (to offset inflation)	50,000

Additional information:

- (i) UEL provided Mr. Khan a furnished apartment having a fair market rental value of Rs. 180,000 per month. In addition, UEL reimbursed Rs. 20,000 per month towards apartment maintenance charges.
- (ii) During the year, total contributions to the recognised provident fund amounted to Rs. 1,089,000, shared equally between the employer and the employee.
- (iii) Under an employee share scheme, 30,000 shares of UEL, originally allotted to Mr. Khan on 1 July 2021 at Rs. 20 per share, became transferable during the year. Under the terms, he was not allowed to sell/transfer the shares before 31 July 2025. The fair market value of each share was Rs. 35 on the grant date and Rs. 65 on 31 July 2025. On 1 February 2026, Mr. Khan sold 20,000 shares at Rs. 140 per share (net of expenses).
- (iv) Due to failure to serve the mandatory one-month notice period, UEL adjusted the notice period requirement against Mr. Khan's accumulated leave balance. Consequently, no leave encashment was payable to him.
- (v) On 30 June 2026, Mr. Khan received his final settlement amount, which comprised his salary for the month of May and the accumulated balance in his recognised provident fund amounting to Rs. 17,022,000. The accumulated provident fund balance includes profit of Rs. 2,837,000 credited in respect of the tax year 2026.
- (vi) During the year, Mr. Khan invested Rs. 2,500,000 in an approved pension scheme.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the total income, taxable income and tax liability for Zamarrud Khan for tax year 2026. **(10 marks)**

Notes:

- *Show all relevant exemptions, exclusions and disallowances.*
- *Ignore surcharge, if any.*

QUESTION 3

- (a) Under the provisions of the Income Tax Ordinance, 2001, specify the statutory due dates for filing the following:
 - Return of income for companies with year ending between January to June
 - Return of income for companies with year ending between July to December
 - Return of income for individuals and association of persons
 - Notice of discontinuance of business
 - Return of income upon discontinuance of business
 - Return of income filed pursuant to a notice issued by the Commissioner
 - Revised return of income filed without prior approval of the Commissioner
 - Revised wealth statement**(06 marks)**

- (b) Copper Limited (CL), a manufacturing company, has a financial year ending on 30 June. CL filed its return of income for tax year 2019 on 30 September 2019.

On 20 May 2025, the Assistant Commissioner Inland Revenue (ACIR) issued an amended assessment order on the grounds that certain expenses had been over-claimed. CL did not challenge the amended assessment order and paid the resulting tax demand of Rs. 3 million.

Subsequently, upon receipt of information regarding undisclosed income relating to tax year 2019, the ACIR issued a further amended assessment order on 26 February 2026, creating an additional tax demand of Rs. 10 million. The order, along with the notice of demand, was served on 2 March 2026, requiring immediate payment to avoid coercive recovery proceedings.

Required:

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

- (i) Discuss the legal validity of both amended assessment orders with reference to the statutory time limits. **(02 marks)**
- (ii) Advise CL on the legal remedies available against the further amended assessment order dated 26 February 2026 and the related recovery proceedings. **(04 marks)**

QUESTION 4

Consider each of the following independent cases:

- (i) Feroz Shah owns an office premises that was purchased on 1 July 2022 at a cost of Rs. 24 million. He originally used the office premises for his clearing and forwarding business; however, in September 2025, he ceased to use this premises for business.

With effect from 1 October 2025, he leased it to a friend at an annual rent of Rs. 4 million. On 1 October 2025, the fair market value of the property was Rs. 50 million and the fair market annual rental value was Rs. 5 million. **(05 marks)**

- (ii) Chromite Limited (CL), a manufacturing company, purchased machines on 1 December 2022 at a cost of Rs. 100 million.

CL's income remained exempt from tax up to tax year 2025. CL follows an accounting year ending on 31 December. On 30 June 2025, CL disposed of the machines for Rs. 35 million. **(03 marks)**

- (iii) On 1 July 2022, Gypsum Enterprises (GE) purchased a delivery vehicle for business use at a cost of Rs. 3 million. 50% of the purchase price was paid through a cash cheque, and the remaining 50% was paid through a crossed cheque payable to the seller.

On 31 January 2026, GE sold the vehicle for Rs. 2 million. **(03 marks)**

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, discuss the deductions allowed against their respective income and the amount chargeable to tax for tax year 2026, in each of the above case. *(Provide necessary calculations)*

QUESTION 5

- (a) **Assume that the current date is 31 August 2026.**

Gohar, a citizen of Pakistan, left Pakistan on 1 July 2021 to pursue higher education in the USA and completed his education on 30 June 2025. During this period, he visited Pakistan for only 30 days.

Upon completion of his studies, he resided in the UAE from 1 July 2025 to 30 November 2025. Thereafter, he travelled to the USA from 1 December 2025 to 28 February 2026 to attend a short course. He returned to Pakistan on 1 March 2026 and remained there until 30 June 2026.

After coming back to Pakistan, interest income equivalent to Rs. 700,000 was credited to his U.S. bank account and was subsequently remitted to Pakistan by Gohar.

Required:

Under the provisions of the Income Tax Ordinance, 2001, discuss the tax implication(s) of the interest income received in Pakistan by Gohar during tax year 2026. **(04 marks)**

- (b) (i) Briefly describe tax evasion and tax avoidance. **(02 marks)**
- (ii) Specify with reason, whether each of the following situations falls under tax evasion or tax avoidance.
- In order to reduce the tax liability, an individual made donations to an approved charitable institution.
 - A company is planning to set up a new factory in export processing zone to get tax incentives.
 - A resident individual failed to declare foreign-source income in the income tax return and wealth statement.
 - A retailer deliberately defers recording current year sales to the next accounting year in order to reduce income tax and sales tax liability. **(04 marks)**
- (c) Under the provisions of the Sales Tax Act, 1990, compare the implications for a registered person when making taxable supplies to:
- a registered person
 - an unregistered person **(03 marks)**

QUESTION 6

Assume that the current date is 31 August 2026.

Yaqoot and Marjan formed an Association of Persons (AOP) under the name Y&M, contributing capital in equal proportions and sharing profits and losses equally. Y&M is engaged in the provision of cloud infrastructure management and data hosting services. An extract from the profit and loss account of Y&M for the year ended 30 June 2026 is as follows:

	Rs. in million
Revenue	110
Expenses	(115)
Net loss before tax	(5)

Expenses include:

- reimbursement of Rs. 20 million to Yaqoot for business related expenses.
- technical advisory fee of Rs. 9 million paid to Marjan for improving system efficiency.

Additional information:

- (i) Prior to the formation of the AOP, Yaqoot and Marjan jointly purchased a property as a long-term real estate investment for Rs. 50 million, sharing the cost and any subsequent gains in the ratio of 60% and 40%, respectively. With effect from 1 July 2025, the property was rented out at an annual rent of Rs. 6 million. This rental income has not been included in the profit and loss account of Y&M.
- (ii) Yaqoot also operates a separate trading business and earned income of Rs. 3 million from that business during tax year 2026.
- (iii) Marjan received profit of Rs. 6 million on bank deposits. The bank deducted Zakat amounting to Rs. 1.5 million under the provisions of the Zakat and Ushr Ordinance, 1980.

Required:

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

- (a) Compute the taxable income and tax liability of Y&M for tax year 2026. **(03 marks)**
- (b) Compute the taxable income and tax liability of Yaqoot and Marjan for tax year 2026. **(07 marks)**

Notes:

- *Show all relevant exemptions, exclusions and disallowances.*
- *Ignore surcharge, if any.*

SECTION B

QUESTION 7

Assume that the current date is 31 August 2026.

Rock Salt & Co. (RSC) operates a chain of restaurants and is wholly owned by Amber Fatima. An extract from RSC's statement of profit or loss for the year ended 30 June 2026 is as follows:

	Notes	Rs. in million
Sales	(i)	200
Cost of sales	(ii)	(81)
Gross profit		119
Administrative expenses	(iii)	(65)
Financial charges	(iv)	(6)
Other income	(v)	22
Profit before taxation		70

Notes to the statement of profit or loss:

- (i) 35% of sales were received through card-based payments, while 65% were received in cash. All sales invoices were below Rs. 0.1 million.
- (ii) Cost of sales includes:
- purchase of meat amounting to Rs. 30 million, of which 60% was procured directly from farms and 40% from wholesalers. None of the suppliers possessed a National Tax Number.
 - freight charges amounting to Rs. 2 million, paid in cash.
 - purchases of vegetables amounting to Rs. 5 million, paid in cash.
- (iii) Administrative expenses include:
- acquisition of a trademark for branding, advertising, and operation of RSC's restaurant outlets, costing Rs. 15 million. The trademark was acquired on 1 February 2026.
 - payment made to a marketing agency for brand promotion, amounting to Rs. 8 million, on which no tax was deducted at source.
 - construction of a ramp for disable persons at each of three restaurant outlets, with a cost of Rs. 0.2 million per ramp.
 - purchase of an unimproved plot of land for Rs. 16 million, situated along a highway for establishing a future restaurant outlet. Stamp duty of Rs. 0.2 million was paid in respect of this acquisition.
- (iv) Financial charges include interest expense of Rs. 2.6 million paid to a leasing company. RSC acquired five generators having cost of Rs. 16 million under a lease arrangement.
- (v) Other income comprises of:
- rental income of Rs. 4 million earned from sub-leasing of a portion of the commercial space to a third party. The commercial space, located in a shopping mall was originally taken on rent at an annual rental of Rs. 14 million, which has been included in administrative expenses.
 - capital gain of Rs. 18 million arising on disposal of shares listed on the Pakistan Stock Exchange. These shares were acquired on 1 July 2023.

Other information:

- Both accounting and tax depreciation for the year amounted to Rs. 28 million.
- RSC has brought forward business losses of Rs. 22 million relating to tax year 2019 and Rs. 13 million relating to tax year 2024. Unabsorbed depreciation brought forward from tax year 2018 is Rs. 50 million.

Required:

Under the provisions of the Income Tax Ordinance, 2001 and the Rules made thereunder, compute the total income, taxable income, and tax liability for RSC for tax year 2026. **(17 marks)**

Notes:

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

QUESTION 8

Marble Associates (MA) is registered with the sales tax authorities as a manufacturer and importer. The following information has been extracted from the records of MA for the tax period of February 2026:

- (i) Purchases from registered suppliers:
- Raw materials exempt from sales tax, used in the manufacture of taxable supplies, amounting to Rs. 13 million.
 - 20,000 units of goods specified in the Third Schedule, purchased for Rs. 22 million. The retail price of these goods is Rs. 1,400 per unit.
 - A packaging machine costing Rs. 20 million and office equipment costing Rs. 3 million.
- (ii) Taxable goods worth Rs. 2 million were purchased from an unregistered wholesaler who was subsequently registered under the Sales Tax Act, 1990.
- (iii) Imports:
- 12,000 units of goods specified in the Third Schedule with a custom assessed value of Rs. 38.4 million. The retail price fixed by MA for these goods is Rs. 4,000 per unit.
 - Taxable goods worth Rs. 1.8 million for the cleaning and maintenance of manufacturing facilities.
- (iv) Supplies to registered persons:
- 12,000 units of abovementioned imported goods specified in the Third Schedule supplied on board a plane en-route to Italy.
 - 20,000 units of abovementioned goods specified in the Third Schedule supplied for Rs. 26 million on 4 months' credit. The price is inclusive of a mark-up of 12% per annum.
 - Taxable goods worth Rs. 6 million to a factory located in the Export Processing Zone for its administrative and operational use.
 - Advance of Rs. 8.2 million received from a wholesaler against future supply of taxable goods. The supply will be made in April 2026.
- (v) Supplies to unregistered persons:
- Taxable goods supplied to a local government authority for Rs. 19 million, after allowing a discount of 5%, whereas the normal trade discount allowed is 2%.
 - Taxable goods worth Rs. 1.5 million supplied to un-registered distributors.

Additional information:

- On 15 February 2026, MA paid Rs. 5 million to settle the outstanding balance relating to taxable raw materials purchased on 10 August 2025.
- During February 2026, MA distributed gift vouchers worth Rs. 3.8 million among its customers. These vouchers are redeemable between April and June 2026.
- In the sales tax return for October 2025, input tax on purchases of taxable goods from a registered person was inadvertently claimed at Rs. 4.5 million instead of Rs. 5.4 million.

Unless specified otherwise, all payments were made by crossed cheque or pay order. Moreover, all the above figures are exclusive of sales tax, except where it is specified otherwise.

Required:

Under the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to MA and the amount of input tax to be carried forward, if any, for the tax period February 2026. *(Show all relevant exemptions, exclusions and disallowances)* **(17 marks)**

(THE END)

EXTRACTS FROM THE INCOME TAX ORDINANCE, 2001**Tax rates for non-salaried individuals and AOP**

S. No.	Taxable income	Rate of tax
4.	Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the 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 the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

Tax rates for salaried individuals

S. No.	Taxable income	Rate of tax
4.	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 116,000 + 23% of the amount exceeding Rs. 2,200,000
5.	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 346,000 + 30% of the amount exceeding Rs. 3,200,000
6.	Where taxable income exceeds Rs. 4,100,000	Rs. 616,000 + 35% of the amount exceeding Rs. 4,100,000

Capital gains on disposal of securities

S. No.	Holding period	Rate of Tax on disposal of securities acquired between 1 July, 2022 to 30 June, 2024	Rate of Tax on disposal of securities acquired on or after 1st day of July, 2024
1.	Where the holding period does not exceed one year	15%	15% for persons appearing on the Active Taxpayers' List on the date of acquisition and the date of disposal of securities.
2.	Where the holding period exceeds one year but does not exceed two years	12.5%	
3.	Where the holding period exceeds two years but does not exceed three years	10%	
4.	Where the holding period exceeds three years but does not exceed four years	7.5%	
5.	Where the holding period exceeds four years but does not exceed five years	5%	
6.	Where the holding period exceeds five years but does not exceed six years	2.5%	
7.	Where the holding period exceeds six years	0%	

Provided that for securities:

- (i) the rate of 12.5% tax shall be charged on capital gain arising on disposal where the securities are acquired on or after the first day of July 2013, but on or before the 30th day of June 2022.

Depreciation rates

1.	Building (all types)	10%
2.	Furniture (including fittings) and machinery and plant (not otherwise specified), Motor vehicles (all types)	15%
3.	A ramp built to provide access to person with disabilities not exceeding Rs. 250,000 each	100%

The rate of initial allowance shall be 25% for plant and machinery.

Other rates

The tax rate for profit on debt is 20%.

The minimum tax under section 113 as a percentage of the person's turnover for the year is 1.25%.