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Semester: Autumn 2026

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ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD

Course: Business Taxation (456) • Level: ADC/AD

Semester: Autumn 2026

Assignment No. 2 (Units 5–9)

Total Marks: 100 • Pass Marks: 50

SOLVED ASSIGNMENT GUIDE

(For Study & Reference)

Note: This guide is prepared for study and reference purposes. Students are advised to read the relevant units of the course book, understand the concepts, and then write the assignment in their own words. Copying this guide word for word is not recommended.

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Question 1: Powers and Functions of the Commissioner Inland Revenue (20 Marks)

To implement the Income Tax Ordinance 2001, the Federal Govt has established the institution of the Federal Board of Revenue (FBR) and different officers within this organization. Discuss in detail the powers and functions of the Commissioner of Inland Revenue (CIR) in the light of the provisions of the Income Tax Ordinance 2001.

Introduction

The Income Tax Ordinance, 2001 is administered by the Federal Board of Revenue (FBR) through a hierarchy of income tax authorities listed in section 207: the Board itself, Chief Commissioners Inland Revenue, Commissioners Inland Revenue, Commissioners Inland Revenue (Appeals), Additional, Deputy and Assistant Commissioners, and Income Tax Officers. Within this hierarchy, the Commissioner Inland Revenue (CIR) is the real working head of the tax administration for his jurisdiction. Almost every important action against or for a taxpayer — assessment, audit, recovery, refund and revision — passes through the Commissioner or

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through officers working under his supervision. His powers come from three sources: the Ordinance itself, which names the Commissioner in section after section; the jurisdiction orders issued by the Board and the Chief Commissioner under sections 209 and 210, which assign taxpayers and areas to him and allow him to delegate his powers to subordinate officers; and the Income Tax Rules, 2002. This answer describes his appointment and jurisdiction first, and then takes his powers and functions subject by subject: assessment, audit and inquiry, recovery, refunds, revision and the miscellaneous administrative functions that make him the pivot of the whole system.

Appointment, Jurisdiction and Delegation — Sections 208 to 210

Commissioners Inland Revenue are appointed by the Federal Board of Revenue under section 208. Under section 209, the Board, a Chief Commissioner or a Commissioner, as the case may be, exercises jurisdiction over the persons, areas, incomes and cases assigned to him by order: the Board assigns jurisdictions to Chief Commissioners and Commissioners, and a Commissioner in turn allots areas and classes of cases to the officers subordinate to him. The Commissioner may, under section 210, delegate any of his powers and functions to any officer subordinate to him, subject to the conditions he imposes; in practice most day-to-day assessments are made by Deputy and Assistant Commissioners exercising delegated Commissioner powers, which is why assessment orders commonly read 'Deputy Commissioner Inland Revenue exercising the powers of the Commissioner'. The Commissioner is also bound by the instructions of the Board under section 214, which empowers the Board to issue orders, instructions and directions to all officers employed in the execution of the Ordinance, although the Board cannot direct an income tax authority to make a particular assessment in a particular way or interfere with the

discretion of the Commissioner (Appeals) in his appellate functions. The officers are required to maintain secrecy of taxpayer information under section 216, subject to the stated exceptions, and the Commissioner is the authority who controls disclosure within his charge.

Assessment Powers — Sections 114 to 122A

The Commissioner's most important function is assessment. Under section 114(4) he may, by notice in writing, require any person to furnish a return of income who has not filed one, even where the person claims that his income is below the taxable limit. A return filed under section 114 becomes an assessment order under section 120, and the Commissioner processes it, intimates errors and issues the refund, if any, arising from it. Where a person fails to file a return, files an incomplete return, or fails to comply with notices, the Commissioner may make a best judgment assessment under section 121 on the basis of any available material, estimating the taxpayer's taxable income to the best of his judgment. His central power is section 122: where, on the basis of definite information acquired from audit or otherwise, the Commissioner has reason to believe that an assessment order is erroneous in so far as it is prejudicial to the interest of revenue — because income has escaped assessment, has been under-assessed, has been assessed at too low a rate, or has been subjected to excessive relief — he may amend the assessment after issuing a show-cause notice under section 122(9) and giving the taxpayer an opportunity of being heard, within the limitation period prescribed by section 122(2) (broadly five years from the end of the financial year in which the original order was issued). He may also rectify any mistake apparent from the record under section 221. Connected powers include issuing notices under section 122C/provisional assessment in the cases specified, determining the fair market value questions referred under the Ordinance, and

approving or conducting the consequential proceedings where an appeal or revision changes an assessment (giving effect to appellate orders under section 124).

Audit, Inquiry, Survey and Investigation Powers — Sections 175 to 177 and 216A

The Commissioner controls the fact-finding machinery of the Ordinance within his jurisdiction. Under section 176 he may, by notice, require any person to furnish information, statements of accounts, bank statements, documents and explanations relevant to any inquiry under the Ordinance. Under section 177, where a case is selected for audit by the Board or under the Commissioner's own audit powers, the Commissioner conducts or causes to be conducted an audit of the taxpayer's income tax affairs, may call for and examine the books of account and records, and, where he is not satisfied, proceeds to amend the assessment under section 122. Section 175 empowers the Commissioner to authorise surveys of business premises to collect information about businesses and their transactions, and to authorise access to premises, records and computer systems in the course of such proceedings, subject to the safeguards of the section. He may also exercise the powers of a civil court under section 191 for discovery and production of evidence, summoning and enforcing the attendance of persons and compelling the production of documents, and he administers the monitoring-withholding and documentation provisions (for example, approving action for the collection of information from banks, development finance institutions and other agencies as provided in sections 165, 165A and 165B). These powers are quasi-judicial in their exercise: they must be used for the purposes of the Ordinance, after notice, and the resulting orders are appealable, which is the taxpayer's principal protection against their misuse.

Recovery, Refund and Revision Powers

Once tax is assessed, the Commissioner is responsible for its collection. Under sections 137 and 138 he issues and serves the notice of demand and determines the time for payment; under sections 139 to 146 he may recover arrears by attachment and sale of movable and immovable property, by appointing a receiver, by requiring any person who owes money to the taxpayer to pay it to the department (garnishee action under section 140), and through the other modes of recovery prescribed, besides levying default surcharge under section 205 and penalty proceedings where the Ordinance provides them. On the other side of the ledger, under section 170 a taxpayer who claims that tax paid or deducted exceeds his liability applies to the Commissioner for a refund, and the Commissioner must decide the claim, by order in writing, after examining the return and the evidence of payment; delayed refunds carry compensation under section 171. The Commissioner also possesses a benevolent revisional power in section 122A: he may, on his own motion or on an application by the taxpayer, revise any order passed by an authority subordinate to him, provided the revision is not prejudicial to the taxpayer in the cases covered and subject to the limitation and the bar where an appeal is pending or the order has been made the subject of an appeal. He further exercises the powers relating to recognition and approval functions assigned by the Ordinance and the Rules — for example approvals connected with provident funds, gratuity funds, superannuation funds and charitable institutions within his jurisdiction, recognition of valuers and representatives, and the power to condone delays and extend time limits where the Ordinance expressly permits it, including extensions for filing returns and statements in the cases covered by section 214A and the relevant provisions.

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Conclusion

To conclude, the Commissioner Inland Revenue is the operational centre of the Income Tax Ordinance, 2001. Appointed under section 208, exercising the jurisdiction assigned under section 209 and delegating under section 210, he calls for returns under section 114, accepts self-assessments under section 120, makes best judgment assessments under section 121, amends prejudicial assessments under section 122, rectifies mistakes under section 221 and revises subordinate orders under section 122A. He directs audits under section 177, inquiries under section 176 and surveys under section 175, enforces recovery under sections 137 to 146, and grants refunds under section 170. Around these core powers sits his general administrative charge: supervision of subordinate officers, secrecy of records, implementation of the Board's instructions under section 214, and accountability through the appellate system. The Ordinance thus concentrates wide powers in the Commissioner, but balances them with notice, hearing, limitation periods and appeals — the safeguards that distinguish assessment from arbitrariness.

Question 2: Withholding Tax and Advance Tax under the Income Tax Ordinance, 2001 (20 Marks)

At present, many types of withholding taxes and advance taxes are deducted on various transactions. Discuss in detail the legal provisions regarding withholding tax and advance tax under the provisions of the Income Tax Ordinance 2001.

Introduction

Pakistan collects the greater part of its income tax not after assessment but during the year, through two connected devices: tax deducted or collected at source, commonly called

withholding tax, and advance tax paid by the taxpayer himself in instalments. Chapter X of the Income Tax Ordinance, 2001 contains both regimes. Part III of Chapter X (sections 148 to 163), headed 'Collection and Deduction of Tax at Source', obliges specified persons — employers, banks, importers' collecting agents, companies paying dividends, persons making payments for supplies, services and contracts, and many others — to deduct or collect tax when they make a payment, and to deposit it into the Government treasury for the credit of the recipient. Part II of Chapter X (sections 147 to 147A) requires the taxpayer himself to pay advance tax in quarterly instalments on his estimated income. Section 168 then gives the taxpayer credit for both kinds of payments against his final liability. The two systems serve the same policy: they spread the Government's collection over the year, they document transactions and persons, and they make evasion difficult because a third party or the taxpayer's own estimate creates a record. This answer explains the advance tax regime first, then the withholding regime with its principal sections, the duties of the withholding agent, and the important distinction between adjustable, minimum and final tax.

Advance Tax — Section 147

Section 147 requires every taxpayer to pay advance tax in respect of a tax year where his estimated taxable income for the year exceeds the prescribed threshold (income chargeable under heads other than those already subjected to final tax or to tax collected at source in full discharge of liability being the measure). Advance tax is payable in four quarterly instalments during the tax year: for individuals and associations of persons, by 15 September, 15 December, 15 March and 15 June; for companies, by 25 September, 25 December, 25 March and 25 June, in the pattern prescribed by the section. The amount of each instalment is computed by

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estimating the tax payable on the estimated income of the year, deducting the tax already deducted or collected at source and the advance tax already paid, and dividing the balance by the number of remaining instalments; a company estimates by reference to the formula in section 147(4) based broadly on its latest assessed turnover and tax, adjusted for the current estimate. A taxpayer whose estimate changes may file a revised estimate, supported by documents, where he believes his income will be lower than the basis adopted, under section 147(6); the Commissioner may, under section 147(7), compute and demand advance tax where the taxpayer's estimate appears understated. Advance tax is not an additional tax: it is credited against the final liability under section 168, and any excess is refundable. The sanction for short payment is default surcharge under section 205(1A)/(1B): if the advance tax paid falls short of ninety per cent of the tax chargeable for the year, default surcharge at the prescribed rate is charged on the shortfall for the period of default. Special advance tax provisions supplement section 147 in particular fields, for example the advance tax on the sale and purchase of immovable property (sections 236C and 236K), on motor vehicles (sections 231B and 234), on banking transactions of non-filers (section 231AA as applicable), on electricity bills (section 235) and on telephone and internet bills (section 236), which are in substance withholding collections credited as advance payments.

Withholding Tax: The Scheme of Part III of Chapter X

Part III of Chapter X (sections 148 to 163) is a code within the Ordinance. Its technique is uniform: each section identifies a payment or transaction, names the person responsible for deduction or collection (the withholding agent or 'prescribed person'), fixes the rate by reference to Division II and Division III of Part I and Part II of the First Schedule, and states the

character of the collection. The principal collecting provisions are: section 148, tax collected at the import stage by the Collector of Customs on the value of goods imported; section 149, tax deducted by an employer from salary at the employee's average rate; section 150, tax deducted by a company on dividends paid to shareholders; section 151, tax deducted on profit on debt (bank profits, government securities and similar returns); section 152, tax deducted on payments to non-residents, including royalties, fees for technical services and payments for contracts; section 153, tax deducted by prescribed persons on payments for the sale of goods, the rendering of services and the execution of contracts; section 154, tax collected on exports and export-related receipts through authorised dealers; section 155, tax on income from property collected from tenants in specified cases; section 156, tax on prizes and winnings; section 156A, tax on petroleum products; section 157, tax on issuance of shares in certain cases; and section 158, which fixes the time and manner of payment where a section does not itself prescribe them. The transaction-based advance taxes in Division II of Part IV of Chapter X (sections 231 to 236W) work in the same collecting spirit and cover vehicles, functions and gatherings, sales of goods by distributors and dealers, electricity, telephones, air tickets, banking instruments and property transactions. Rates frequently differ for filers (persons on the Active Taxpayers List) and non-filers, the difference itself being a policy instrument to compel filing.

Duties of the Withholding Agent and the Character of the Tax Collected

The Ordinance places strict duties on the person deducting or collecting tax. Under section 160 the amount deducted or collected must be paid to the Commissioner, through the prescribed bank challan (PSID), within seven days from the end of the week in which the deduction was

made (or within the time otherwise prescribed for the particular section). Under section 161, if the agent fails to collect or deduct tax, or having deducted it fails to pay it to the Government, he is personally liable to pay the amount to the Commissioner, together with default surcharge under section 161(1B)/section 205, although the section protects an agent who shows that the failure was not wilful in the cases covered. Under section 162 the taxpayer from whose payment tax was short-deducted remains liable for the balance, and recovery from the recipient is barred where the agent has been proceeded against first in accordance with the scheme of sections 161 and 162. The agent must issue a certificate of deduction or collection to the recipient, and under section 165 every prescribed person must file periodic (monthly/annual, as prescribed) statements of tax deducted and collected, giving the names, addresses and NTNs of the recipients, so that the department can cross-match the credits claimed in returns; failure to file the statement attracts penalty under section 182 and the monitoring provisions. The most important classification for the taxpayer is the character of the collection. (i) Adjustable tax: the amount is a payment on account, credited under section 168 against the final assessed liability, the excess being refundable — salary tax under section 149 and most collections on property transactions are examples. (ii) Final tax: for specified incomes, notably dividends and most profit on debt in the cases stated, the tax deducted is the full and final discharge of liability on that income, which is then taxed as a separate block. (iii) Minimum tax: in the case of section 153 collections on supplies, services and contracts for the persons specified, and in the cases stated in the relevant sections, the tax collected is a minimum tax — it is neither refundable nor adjustable beyond the liability, and even a taxpayer in loss must bear it, subject to the carry-forward/adjustment concessions that particular Finance Acts have

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provided. Confusing these three characters is the commonest practical error in this area, and every computation must begin by classifying the collection correctly.

Conclusion

To conclude, withholding tax and advance tax are the two advance-collection pillars of the Ordinance. Advance tax under section 147 is the taxpayer's own quarterly prepayment on estimated income, credited under section 168, with default surcharge under section 205 where payment falls below ninety per cent of the final charge. Withholding tax under Part III of Chapter X (sections 148 to 163) and the transaction taxes of sections 231 onwards shift collection to the payer or collecting agent at the moment of payment — at import, on salary, dividends, profit on debt, contracts, supplies, services, exports and dozens of other transactions — at the rates of the First Schedule, with duties to deposit within the prescribed time (section 160), to issue certificates and to file statements under section 165, and with personal liability of the defaulting agent under section 161. Every rupee so paid is then classified as adjustable, final or minimum tax, and that classification decides whether the taxpayer receives a refund, a credit or no relief at all. Together the two regimes finance the State during the year, document the economy, and leave the annual return to perform its true function of final reconciliation.

Question 3: Appellate Authorities under the Income Tax Ordinance, 2001 (20 Marks)

Were the various appellate authorities under the Income Tax Ordinance 2001? Explain in detail.

[Read as: What are the various appellate authorities under the Income Tax Ordinance 2001? Explain in detail.]

Introduction

No tax system can work fairly if the officer who makes the assessment is also the final judge of its correctness. The Income Tax Ordinance, 2001 therefore creates a graded ladder of appellate authorities in Chapter XIII (sections 127 to 134A), rising from the departmental appellate authority to an independent tribunal and then to the constitutional courts on questions of law. The ladder is: first appeal to the Commissioner Inland Revenue (Appeals) under section 127; second appeal to the Appellate Tribunal Inland Revenue under section 130; a reference to the High Court on a question of law under section 133; and an appeal to the Supreme Court under section 134. Alongside the ladder stand two parallel remedies: revision by the Commissioner under section 122A, and Alternate Dispute Resolution (ADR) under section 134A through a committee appointed by the Board. Each forum has its own limitation period, fee, powers and limits, and a taxpayer must normally exhaust the lower forum before approaching the higher one. This answer explains each appellate authority in detail — who may appeal, against what orders, within what time, and with what powers — and then summarises the scheme as a whole.

First Appeal: Commissioner Inland Revenue (Appeals) — Sections 127 to 129

Section 127 gives any person aggrieved by an order of the Commissioner or of an officer subordinate to him the right to appeal to the Commissioner Inland Revenue (Appeals). Appealable orders include, among others, an assessment or amended assessment order under sections 120, 121 and 122, an order imposing a penalty, an order refusing or reducing a refund, an order under section 161 holding a person liable for failure to deduct tax, and the other orders enumerated in section 127(1). The appeal must be filed within thirty days of the service

of the order or notice of demand, in the prescribed form, verified in the prescribed manner, stating the grounds of appeal and accompanied by the prescribed fee; the Commissioner (Appeals) may condone a delay in filing where the appellant shows sufficient cause. In hearing the appeal under section 128, the Commissioner (Appeals) fixes a date, gives both the appellant and the assessing officer an opportunity of being heard, may make or cause such inquiry as he thinks fit, and may adjourn the hearing. His powers in disposing of the appeal, under section 129, are wide: in an appeal against an assessment he may confirm, reduce, enhance or annul the assessment; against a penalty he may confirm or cancel it or vary it so as either to enhance or reduce it; and in any other case he may pass such order as he thinks fit. The power of enhancement is balanced by the safeguard that the Commissioner (Appeals) cannot enhance an assessment or penalty unless the appellant has been given a reasonable opportunity of showing cause against it. His order is required to be issued within the period prescribed by section 128 (the Ordinance expects disposal within the time stated there, broadly within one hundred and twenty days of filing, subject to the statutory exclusions), and it must state the points determined, his decision and the reasons. Although the Commissioner (Appeals) is an officer of the department, the Ordinance insulates his appellate discretion — the Board's power of instruction under section 214 cannot interfere with it — and his forum is the cheapest and quickest remedy available to most taxpayers.

Second Appeal: Appellate Tribunal Inland Revenue — Sections 130 to 132

A taxpayer aggrieved by the order of the Commissioner (Appeals), and equally the Commissioner aggrieved by that order, may appeal to the Appellate Tribunal Inland Revenue under section 130, within sixty days of the date on which the order is served, in the prescribed

form and manner and on payment of the prescribed fee; the Tribunal may admit an appeal after the period if satisfied there was sufficient cause. The Tribunal is constituted under section 130 by the Federal Government and consists of a Chairman and judicial and accountant members appointed in accordance with the Ordinance; it functions in benches, ordinarily of two members, and is independent of the FBR's assessing hierarchy, which makes it the first genuinely independent forum in the chain. Under section 131 the Tribunal, after giving both parties an opportunity of being heard, may pass such orders on the appeal as it thinks fit, and it regulates its own procedure, with the powers of a civil court for summoning witnesses, compelling production of documents and receiving evidence. The Tribunal is the final authority on questions of fact: it can reappreciate evidence, admit additional grounds, confirm, vary or reverse the order appealed against, or remand the case. To protect revenue and the taxpayer alike, section 131(3) and the related provisions govern stay: the filing of an appeal does not by itself stay recovery, but the Tribunal may stay recovery of the disputed tax on application, in accordance with the limits laid down. The Tribunal is required to decide appeals, as far as possible, within the period indicated in section 131 (six months from filing), and its orders are communicated to both the appellant and the Commissioner. Orders of the Tribunal on fact are final; only a substantial question of law can travel further.

Reference to the High Court and Appeal to the Supreme Court — Sections 133 and 134

Section 133 provides the third tier. Within ninety days of the service of the Tribunal's order, either the taxpayer or the Commissioner, if aggrieved on a question of law arising out of that order, may file a reference application before the High Court (in practice an appeal by

reference, heard by a Division Bench). The application must be drawn up in the prescribed form, state the question of law precisely, and be accompanied by the prescribed fee; the High Court hears the parties and decides the question of law, and its judgment is then given effect to by the Tribunal under section 133 read with section 124. The High Court does not re-weigh evidence: an error of fact by the Tribunal is not correctable, but a finding recorded without evidence, a misreading of a statutory provision, a failure to apply the correct legal test, or a perverse conclusion does raise a question of law. Section 134 then provides an appeal to the Supreme Court of Pakistan from a judgment of the High Court in a reference, where the High Court certifies the case as fit for appeal to the Supreme Court or the Supreme Court itself grants leave; the Supreme Court's decision is final and binds all authorities. Alongside these remedies, taxpayers also retain the constitutional writ jurisdiction of the High Courts under Article 199 of the Constitution for orders passed without jurisdiction or in violation of natural justice, although the courts discourage writs where the statutory appellate remedy has not been exhausted. Revision under section 122A and Alternate Dispute Resolution under section 134A complete the picture: the Commissioner may revise a subordinate order on the taxpayer's application where no appeal lies or is pending, and a taxpayer may approach the Board for constitution of an ADR committee, whose agreed recommendations, once accepted and implemented by an order of the Commissioner, bind both sides in the manner provided in section 134A.

Conclusion

To conclude, the Ordinance builds a four-step appellate ladder with two side remedies. The first appeal lies to the Commissioner Inland Revenue (Appeals) under section 127 within thirty days,

with powers under section 129 to confirm, reduce, enhance (after hearing) or annul the assessment. The second appeal lies to the independent Appellate Tribunal Inland Revenue under section 130 within sixty days, which is final on facts. Beyond the Tribunal, only questions of law move upward: a reference to the High Court under section 133 within ninety days, and an appeal to the Supreme Court under section 134 on certification or leave. Revision under section 122A and Alternate Dispute Resolution under section 134A provide quicker, non-litigious alternatives. The design balances the revenue's interest in finality with the taxpayer's right to be heard at progressively more independent forums, and a student answering on this topic should always state, for each forum, the section, the time limit and the extent of its powers, because those three particulars are what distinguish one appellate authority from another.

Question 4: Sales Tax Return and Sales Tax Refund under the Sales Tax Act, 1990 (20 Marks)

The sales tax is applied to the retail price of different goods and services and is generally written on the pack of the particular product. In this regard, you are required to explain the following concepts under the Sales Tax Act 1990: a. Sales tax return b. Sales tax refund

Introduction

The Sales Tax Act, 1990 operates on the value added tax (VAT) principle: every registered person charges sales tax (output tax) on his taxable supplies, takes credit for the sales tax paid on his purchases (input tax), and pays only the difference to the Government. Two documents/mechanisms make this self-assessment system work month by month. The first is

the sales tax return under section 26, in which the registered person declares his output tax, input tax and net liability or excess credit for a tax period. The second is the refund mechanism under sections 66 and 10 read with the Sales Tax Rules, 2006, by which excess input tax that cannot be absorbed — most importantly the tax borne by exporters whose supplies are zero-rated — is paid back to the registered person. The question's opening remark, that sales tax is applied to the retail price of goods and is generally printed on the pack, refers to the special retail-price scheme of the Third Schedule to the Act, under which specified consumer goods are taxed on their retail price, which must be printed on the packaging; but the return and refund machinery described below applies to registered persons generally, whatever the basis of their charge. This answer explains each concept in turn: the return — who files it, when, in what form, with what contents and consequences — and the refund — when it arises, how it is claimed, how it is processed and verified, and the safeguards against inadmissible claims.

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(a) Sales Tax Return — Section 26 of the Sales Tax Act, 1990

Section 26(1) requires every registered person to furnish, not later than the due date, a true and correct return in the prescribed form, of his purchases and supplies during a tax period and the amount of tax due from him. The tax period is normally a calendar month, and the return is filed electronically through the FBR's e-filing system by the due dates prescribed in the Sales Tax Rules, 2006 — broadly, payment by the 15th and filing of the return by the 18th of the month following the tax period, with special due dates for certain sectors such as electricity distribution companies, gas companies and other specified persons. The return (Form STR-7 and its annexures) is in substance a self-contained computation. It declares, among other particulars: the value and output tax on taxable, zero-rated and exempt supplies made during

the month, classified by rate and by annexure of domestic supplies and exports; the value and input tax on purchases from registered suppliers (supported by the purchase annexure matched against suppliers' declared sales); imports and the sales tax paid at the import stage; the input tax claimed, after excluding inadmissible input tax under section 8 and the apportionment required for mixed taxable and exempt supplies under the Rules; the net amount payable (output tax minus admissible input tax) or the excess input tax carried forward; sales tax withheld by the registered person as a withholding agent; and the payment evidence (PSID) for the amount deposited. The mechanics matter: under section 7 the registered person determines his net liability for the month, under section 8 he is barred from claiming input tax on the items listed there (for example goods not used in taxable supplies and the items notified in the relevant notifications), and under section 10 any excess of input tax over output tax is in principle carried forward to the next tax period rather than refunded, except in the refund cases discussed in part (b). Special returns are provided for particular situations: a final return on deregistration or discontinuance of business, special-period returns where the Board so directs, and a revised return, which a registered person may file with the approval/conditions prescribed to correct errors in an earlier return. The return is filed under a declaration of correctness, and default has teeth: failure to file by the due date attracts a penalty under section 33 of the Act (a default penalty computed by the day, subject to the prescribed minimum), default surcharge under section 34 on late payment of the tax due at the prescribed rate (KIBOR plus three per cent per annum as prescribed), and the possibility of best-judgment assessment under section 11, suspension or blacklisting of registration, and prosecution in aggravated cases. The return data is also the department's principal audit trail, because the

buyer's claimed input is cross-matched with the seller's declared output in the automated system.

(b) Sales Tax Refund — Sections 66 and 10 read with the Sales Tax Refund Rules

A refund problem is built into every VAT: a registered person whose input tax exceeds his output tax has, in economic substance, overpaid the Government. Section 10 of the Act first directs that such excess be carried forward to the next tax period and adjusted against the output tax of that period; but it recognises that for some taxpayers the excess will never be absorbed. The classic case is the exporter: his supplies are zero-rated under section 4, so he charges no output tax, yet he pays input tax on all his local purchases and imports — without a refund, the VAT would become a tax on exports, defeating zero-rating. Section 10 therefore allows refund of the excess input tax in the cases specified, notably where the excess arises on account of zero-rated supplies (exports and supplies to diplomats and other zero-rated categories) and in the other situations notified by the Board, while section 66 provides the general power: where, as a result of any inadvertence, error or misconstruction, any amount is paid to the Government that is not due, or a refund becomes due under the Act, the registered person may claim refund of it. The claim is filed in the prescribed manner under Chapter V of the Sales Tax Rules, 2006 (rules 26 onwards): the claimant files the refund claim electronically/with the return for the tax period, supported by the refund claim form and the documents that prove both limbs of the claim — that input tax was actually paid (purchase invoices, goods declarations for imports, payment evidence) and that the corresponding zero-rated supplies were actually made (export goods declarations, shipping documents, bank credit advices/foreign exchange realisation documents for exports, and the other documents listed in

the Rules). Claims are processed through the automated risk-based system (historically the FASTER module for the five zero-rated export sectors and the general processing system for other claims): the system verifies the claim against the purchase and supply data declared in returns, flags discrepancies through a risk analysis, and issues a Refund Payment Order (RPO) for the admissible amount, whereafter payment is made directly to the claimant's bank account by the FBR's centralised refund payment system within the period prescribed by the Rules (the Rules prescribe expedited timelines for genuine exporters, broadly forty-five days, and the section 66 claim itself must be filed within the period of limitation laid down — one year from the relevant date as specified). Refunds found inadmissible in whole or part are rejected by a speaking order after an opportunity of hearing, appealable under section 45B to the Commissioner (Appeals), and where a refund was obtained erroneously or by fraud, the amount is recoverable under section 36 with default surcharge and penalty, besides prosecution. A registered person may also, in the cases allowed, elect or be required to carry the excess forward instead of claiming cash refund — periodically the Board has also settled verified refund claims through negotiable refund instruments/bonds under section 67A — but for the regular exporter the cash refund through the automated system is the normal channel that keeps his working capital and Pakistan's zero-rating promise intact.

Conclusion

To conclude, the sales tax return and the sales tax refund are the two halves of VAT self-assessment under the Sales Tax Act, 1990. The return under section 26, filed electronically every tax period (payment by the 15th and return by the 18th of the following month in the ordinary case), declares output tax, admissible input tax and the net amount payable, with

inadmissible input excluded by section 8, late filing punished by penalty under section 33 and late payment by default surcharge under section 34. The refund under sections 10 and 66 read with Chapter V of the Sales Tax Rules, 2006 returns to the registered person the input tax he cannot absorb — above all the exporter whose supplies are zero-rated under section 4 — after automated verification of the underlying purchases and supplies, through a Refund Payment Order and direct payment to his bank account, while amounts not refundable are simply carried forward under section 10. A student should remember the simple logic: the return settles the normal case every month, and the refund corrects the exceptional case where the VAT chain would otherwise leave tax sticking in the hands of a person — typically an exporter — who was never meant to bear it.

Question 5: Taxable Income and Tax Payable by Mr. Sakib (20 Marks)

From the following information, calculate the taxable income and tax payable by Mr. Sakib. (Tax rates are given at the end). Sales in business Rs. 30,00,000; cost of sales Rs. 14,00,000; depreciation expense Rs. 50,000; financial expenses Rs. 35,000; salaries & wages Rs. 85,000; capital gains on the sale of shares of a private company after 6 years of purchase Rs. 50,000; income from property Rs. 100,000 annual; Zakat paid Rs. 5,000 annual; donation to a school Rs. 10,000 annual.

Introduction and Working Notes

Mr. Sakib has income under three heads, so the computation follows sections 9 to 11 of the Income Tax Ordinance, 2001: compute each head separately, add them to obtain total income, deduct the deductible allowance for Zakat under section 60 to obtain taxable income, apply the

rate schedule printed at the end of the booklet for Tax Year 2025-26, and finally allow the tax credit for the donation under section 61. Four working notes explain the treatment of each item. (1) Income from business (sections 18 and 22 to 36): sales of Rs. 3,000,000 less cost of sales of Rs. 1,400,000 gives gross profit of Rs. 1,600,000; from this the revenue expenses wholly and exclusively incurred for the business are deducted — depreciation Rs. 50,000 (allowed as charged, no separate tax-depreciation data being given), financial expenses Rs. 35,000 and salaries and wages Rs. 85,000, total deductions Rs. 170,000 — giving profit from business of Rs. 1,430,000. (2) Capital gains (section 37): the gain of Rs. 50,000 arises on shares of a private company. Such shares are not 'securities' traded on the stock exchange, so the special securities regime does not apply; the amount stated is the gain itself (consideration minus cost) and is taken in full as computed below, the six-year holding period being noted but not reducing the stated gain under the provisions applicable to this asset. (3) Income from property (section 15): rent/income from property of Rs. 100,000 is taken in full, no deduction under section 17 being claimed in the data. (4) Zakat paid of Rs. 5,000 is a deductible allowance under section 60 and reduces total income; the donation of Rs. 10,000 to a school is not a deduction from income but earns a tax credit under section 61 at the average rate of tax, the qualifying amount being the lower of the donation and thirty per cent of taxable income.

Step 1: Computation of Income under Each Head

Head / Particulars	Working	Amount (Rs.)
Sales in business		3,000,000
Less: Cost of sales		(1,400,000)
Gross profit		1,600,000

Less: Depreciation expense	50,000	
Less: Financial expenses	35,000	
Less: Salaries & wages	85,000	(170,000)
Income from business**Income from business**		1,430,000**1,430,000**
Capital gains — shares of a private company	Section 37	50,000
Income from property	Section 15	100,000
Total income**Total income**		1,580,000**1,580,000**

Cross-check: business income Rs. 1,430,000 + capital gains Rs. 50,000 + income from property Rs. 100,000 = total income Rs. 1,580,000. The business computation also cross-checks internally: Rs. 3,000,000 − Rs. 1,400,000 = Rs. 1,600,000 gross profit, and Rs. 1,600,000 − (Rs. 50,000 + Rs. 35,000 + Rs. 85,000 + Rs. 170,000) = Rs. 1,430,000.

Step 2: Taxable Income and Tax before Credit

Particulars	**Amount (Rs.)**
Total income	1,580,000
Less: Deductible allowance — Zakat paid (section 60)	(5,000)
Taxable income**Taxable income**	1,575,000**1,575,000**
Tax: Rs. 30,000 + 15% of (1,575,000 − 1,200,000 = 375,000)	86,250
Less: Tax credit for donation to school (section 61) @ 5.4762%	(548)
Tax payable by Mr. Sakib**Tax payable by Mr. Sakib**	85,702**85,702**

Taxable income of Rs. 1,575,000 falls in the third slab of the printed schedule (exceeding Rs. 1,200,000 but not exceeding Rs. 2,200,000), where tax equals Rs. 30,000 plus 15 per cent of the amount exceeding Rs. 1,200,000. The excess is Rs. 375,000 and 15 per cent of it is Rs. 56,250, so the tax before credit is Rs. 30,000 + Rs. 56,250 = Rs. 86,250. The average rate of tax is Rs. 86,250 ÷ Rs. 1,575,000 × 100 = 5.4762 per cent.

Step 3: Tax Credit for the Donation and Net Tax Payable

Under section 61, a donation to an approved school or other approved educational institution earns a tax credit at the taxpayer's average rate on the qualifying amount, which is the lower of (a) the donation actually paid, Rs. 10,000, and (b) thirty per cent of taxable income, which is 30% × Rs. 1,575,000 = Rs. 472,500. The whole donation of Rs. 10,000 therefore qualifies, and the credit is Rs. 10,000 × 5.4762% = Rs. 548 (rounded). Deducting this credit from the tax of Rs. 86,250 gives the net tax payable: Rs. 86,250 − Rs. 548 = Rs. 85,702. This is Mr. Sakib's final liability for the year before giving credit for any tax already deducted or collected at source or advance tax paid under section 147/168; if any such payments exist, they would be adjusted against Rs. 85,702 and only the balance would be payable with the return, any excess being refundable.

Two further points complete the picture and are worth stating because examiners commonly test them. First, the order of relief matters: the Zakat allowance under section 60 is deducted before the rate schedule is applied, so it saves tax at Mr. Sakib's marginal rate of fifteen per cent, whereas the donation credit under section 61 is deducted from the tax itself at his average rate of 5.4762 per cent; treating the donation as a deduction from income, or the Zakat

as a credit, would both produce a different and incorrect answer. Secondly, no tax has been deducted at source in the data given — for example, no withholding on the property income or on business receipts is mentioned — so nothing further is adjusted under section 168; had any amount been withheld, it would have been credited against the Rs. 85,702 and only the shortfall would remain payable, while any excess over that figure would be refundable to him on assessment.

Conclusion

To conclude, Mr. Sakib's taxable income is Rs. 1,575,000 — business profit Rs. 1,430,000, capital gains Rs. 50,000 and income from property Rs. 100,000, totalling Rs. 1,580,000, reduced by the Zakat deductible allowance of Rs. 5,000 — and his tax payable is Rs. 85,702, being the slab tax of Rs. 86,250 (Rs. 30,000 plus 15 per cent of Rs. 375,000) reduced by the section 61 donation credit of Rs. 548 computed at his average rate of 5.4762 per cent. The question illustrates the standard pattern of a multi-head computation: each head is computed by its own rules, allowances are deducted once at the total-income stage, and donations are relieved by credit rather than by deduction — a distinction that changes the answer if it is missed.

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