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Business Income and related concepts



13 December 2021

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Professional Development Program-2021

Topics

- **Business income**
- **Small & medium enterprise**
- **Advance Tax**
- **Exemptions**
- **Deductible allowances**
- **Tax credits**

Business Income

“**Business**” include:

- Any trade, commerce, manufacture, profession, vocation, or
- An adventure or concern in the nature of trade, commerce, manufacture, profession or vocation, but
- does not include employment. S 2(10)

Income from Business deals with two types of businesses:

(1) Normal business

(2) Speculation business.

While computing ‘Income from Business’, speculation business is treated as separate and distinct from any other business carried on.

Business Income

The following incomes of a person for a tax year, other than income exempt from tax under the Ordinance, shall be chargeable to tax under the head “**Income from Business**”:

- (a) the profits and gains of any business carried on by a person at any time in the year;
- (b) any income derived by any trade, professional or similar association from the sale of goods or provision of services to its members;
- (c) any income from the hire or lease of tangible movable property;
- (d) the fair market value of any benefit or perquisite, whether convertible into money or not, derived by a person in the course of, or by virtue of, a past, present, or prospective business relationship;
- (e) any management fee derived by a management company (including a modaraba management company).

Business Income

Profit on Debt derived by a person whose business is to derive such income:

- Any profit on debt derived by a person where the person's business is to derive such income shall be chargeable to tax under the head **"Income from Business"** and not under the head "Income from Other Sources".

Lease Rental Received by Lessor:

- Where a lessor, being a scheduled bank or an investment bank or a development finance institution or a modaraba or a leasing company has leased out any asset, whether owned by it or not, to another person, any amount paid or payable by the said person in connection with the lease of said asset shall be treated as the income of the said lessor and shall be chargeable to tax in the hands of lessor under the head **"Income from Business"**.

Business Income

Distribution by a mutual fund or a Private Equity and Venture Capital Fund out of its income from profit on debt:

- Any amount received by a banking company or a non-banking finance company, where such amount represents distribution by a mutual fund or a Private Equity and Venture Capital Fund out of its income from profit on debt, shall be chargeable to tax under the head **“Income from Business”** and not under the head “Income from Other Sources”.

Business Income

Deductions from Income from Business:

- 1) In computing taxable income from business, a deduction is allowed for
 - an expenditure
 - incurred by a person in a tax year
 - wholly and exclusively for the purpose of business
- 2) Any expenditure incurred by a person in a tax year wholly and exclusively for the purpose of business in connection with:
 - acquisition of depreciable assets,
 - acquisition of an intangible with a useful life of more than one year, or
 - pre-commencement expenditureis depreciated or amortized in accordance with the provisions of the Income Tax Ordinance, 2001 (i.e. section 22, 23, 24, and 25).

Business Income

Deductions not allowed:

Except as otherwise provided in the Ordinance, no deduction shall be allowed in computing the income of a person under the head “**Income from Business**” for:

- a) any cess, rate or tax paid or payable by the person in Pakistan or a foreign country that is levied on the profits or gains of the business or assessed as a percentage or otherwise on the basis of such profits or gains;
- b) any amount of tax deducted under Division III of Part V of Chapter X from an amount derived by the person;
- c) any expenditure from which the person is required to deduct or collect tax under Part V of Chapter X or Chapter XII, unless the person has paid or deducted and paid the tax as required by Division IV of Part V of Chapter X:

Provided that disallowance in respect of purchases of raw materials and finished goods under this clause shall not exceed twenty per cent of purchases of raw materials and finished goods.

Provided further that recovery of any amount of tax under sections 161 or 162 shall be considered as tax paid.

Business Income

Deductions not allowed:

- d) any amount of commission paid or payable in respect of supply of products listed in the Third Schedule of the Sales Tax Act, 1990, where the amount of commission paid or payable exceeds 0.2 percent of gross amount of supplies thereof unless the person to whom commission is paid or payable, as the case may be, is appearing in the active taxpayer list under this Ordinance.
- e) any entertainment expenditure in excess of such limits or in violation of such conditions as may be prescribed;
- f) any contribution made by the person to a fund that is not a recognized provident fund approved pension fund, approved superannuation fund or approved gratuity fund;
- g) any contribution made by the person to any provident or other fund established for the benefit of employees of the person, unless the person has made effective arrangements to secure that tax is deducted under section 149 from any payments made by the fund in respect of which the recipient is chargeable to tax under the head "Salary";

Business Income

Deductions not allowed:

- h) any fine or penalty paid or payable by the person for the violation of any law, rule or regulation;
- i) any personal expenditures incurred by the person;
- j) any amount carried to a reserve fund or capitalised in any way;
- k) any profit on debt, brokerage, commission, salary or other remuneration paid by an association of persons to a member of the association
- l) any expenditure for a transaction, paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees, made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer:

Business Income

Deductions not allowed:

Provided that online transfer of payment from the business account of the payer to the business account of payee as well as payments through credit card shall be treated as transactions through the banking channel, subject to the condition that such transactions are verifiable from the bank statements of the respective payer and the payee:

Provided further that this clause shall not apply in the case of:

- a) expenditures not exceeding ten thousand rupees;*
- b) expenditures on account of:*
 - i. utility bills;*
 - ii. freight charges;*
 - iii. travel fare;*
 - iv. postage; and*
 - v. payment of taxes, duties, fee, fines or any other statutory obligation*

Business Income

Deductions not allowed:

(1a) any expenditure for a transaction, paid or payable under a single account head which, in aggregate, exceeds two hundred and fifty thousand rupees, made other than by digital means from business bank account of the taxpayer notified to the Commissioner under section 114A:

Provided that this clause shall not apply in the case of—

(i) expenditures not exceeding twenty-five thousand rupees;

(ii) expenditures on account of —

A. utility bills;

B. freight charges;

C. travel fare;

D. postage; and

E. payment of taxes, duties, fee, fines or any other statutory obligation;

Business Income

Deductions not allowed:

- m) any salary paid or payable exceeding fifteen thousand rupees per month other than by a crossed cheque or direct transfer of funds to the employee's bank account or through digital mode;
- n) except as provided in Division III of this Part, any expenditure paid or payable of a capital nature and
- o) any expenditure in respect of sales promotion, advertisement and publicity in excess of **Ten per cent** of turnover incurred by pharmaceutical manufacturers.

Business Income

Depreciation:

1. A person is allowed a deduction for the depreciation of the person's depreciable asset used in person's business in the tax year.
2. For claim of depreciation deduction, following conditions must be fulfilled:
 - The asset has to be a depreciable asset.
 - Ownership of depreciable asset belongs to the person.
 - The depreciable asset is used (fully or partially) in person's business.
3. Where depreciable asset is used in person's business for first time in a tax year commencing on or after 1 July 2020, the depreciation deduction shall be reduced by 50%
4. Where depreciable asset is used in person's business for first time in a tax year commencing on or after 1 July 2020, the depreciation deduction equal to 50% of the specified rate shall be allowed in year of disposal
5. The total deductions allowed to a person in respect of a depreciable asset cannot exceed the cost of that asset. –S.22(7)

Business Income

Depreciation:

5. Depreciable asset means

- any 1) tangible movable property, 2) immovable property (other than unimproved land), or 3) structural improvement to immovable property owned by a person that
 - has normal useful life exceeding one year,
 - is likely to lose value as a result of normal wear and tear, or obsolescence, and
 - is used wholly or partly by the person in deriving income from business chargeable to tax.

Business Income

Depreciation:

Depreciable asset shall not include:

- any tangible movable property,
- immovable property, or
- structural improvement to immovable property
- in relation to which a deduction has been allowed under another section of Ordinance for the entire cost of the property or improvement in the tax year in which the property is acquired or improvement made.

Business Income

Computation of Depreciation Deduction:

Depreciation deduction for a tax year is computed

- by applying the prescribed rates of depreciation
- against the written down value of the depreciable asset
- at the beginning of a tax year.

Computation of Written Down Value (WDV)

Written down value at the beginning of a tax year is computed in the following way:

- WDV for the tax year in which depreciable asset is acquired:
$$\text{Written Down Value} = \text{Cost} - \text{Initial Allowance}$$
- WDV for the subsequent tax year:
$$\text{WDV} = \text{Cost} - \text{Total Depreciation Deductions including Initial Allowance}$$

Business Income

S.No.	DEPRECIABLE ASSET	RATES
I.	Building (all types)	10%
II.	Furniture (including fittings) and machinery and plant (not otherwise specified), Motor vehicles (all types), ships, technical or professional Books	15%
III.	Computer hardware including printer, monitor and allied items, machinery and equipment used in manufacture of I.T. products, aircrafts and aero Engines	30%
IV.	In case of mineral oil concerns the income of which is liable to be computed in accordance with the rules in Part-I of the Fifth Schedule. "Offshore platform and production installations"	20%
V	A ramp built to provide access to person with disabilities not exceeding Rs. 250,000 each	100%

Business Income

Initial Allowance:

1. A person

- who places
 - an eligible depreciable asset (EDA) into service in Pakistan
 - for the first time in a tax year
- is allowed a deduction (“initial allowance”)
- provided the asset is used by the person for the purposes of his business
 - for the first time or
 - the tax year in which commercial production is commenced, whichever is later.

Business Income

Initial Allowance:

2. Eligible depreciable asset means a depreciable asset other than the following:
 - i. Road transport vehicle not plying for hire (i.e. a vehicle that is used in person's own business and cannot be hired by others for fare)
 - ii. Furniture and fittings
 - iii. Plant or machinery that has been used previously in Pakistan (i.e. second hand plant or machinery purchased from within Pakistan).
 - iv. Plant or machinery in relation to which a deduction has been allowed under another section of Ordinance for the entire cost of the asset in the tax year in which the asset is acquired

Business Income

How to compute Initial Allowance

The amount of the initial allowance is computed

- by applying the rate specified in Part II of the Third Schedule
- against the cost of the asset

Rates specified in Part II of the Third Schedule

- For Plant & Machinery – 25%

Business Income

Accelerated Depreciation to alternate energy projects:

Accelerated depreciation to alternate energy project

- is allowed to an industrial undertaking
- at 90% of the cost of the plant, machinery and equipment
- installed for generation of alternate energy
- in the year in which the plant, machinery or equipment is put to use
- by the industrial undertaking.

The deduction for accelerated depreciation to alternate energy projects is subject to the following conditions:

- The industrial undertaking is set up anywhere in Pakistan and is owned and managed by a company.
- The plant, machinery or equipment for generation of alternative energy is an eligible depreciable asset, and is put to use after July 1, 2009.

Business Income

Intangibles:

1. Amortization deduction is allowed to a person in respect of cost of person's intangible asset that:
 - is wholly or partly used in deriving income from business chargeable to tax, and
 - has normal useful life exceeding one year.
2. Total amortization deduction allowed in the current as well all previous tax years cannot exceed the cost of the intangible.
3. An intangible that does not have an ascertainable useful life shall be treated as if it had a normal useful life of twenty-five years.

Business Income

Bad debts:

1. A person shall be allowed a deduction for a bad debt in a tax year if the following conditions are satisfied, namely:
 - a) the amount of the debt was –
 - i. previously included in the person's income from business chargeable to tax; or
 - ii. in respect of money lent by a financial institution in deriving income from business chargeable to tax;
 - b) the debt or part of the debt is written off in the accounts of the person in the tax year; and
 - c) there are reasonable grounds for believing that the debt is irrecoverable.
2. The amount of the deduction allowed to a person for a tax year shall not exceed the amount of the debt written off in the accounts of the person in the tax year.

Business Income

Bad debts:

3. Where a person has been allowed a deduction in a tax year for a bad debt and in a subsequent tax year the person receives in cash or kind any amount in respect of that debt, the following rules shall apply, namely:
 - a) where the amount received exceeds the difference between the whole of such bad debt and the amount previously allowed as a deduction under this section, the excess shall be included in the person's income under the head **Income from Business** for the tax year in which it was received; or
 - b) where the amount received is less than the difference between the whole of such bad debt and the amount allowed as a deduction under this section, the shortfall shall be allowed as a bad debt deduction in computing the person's income under the head **Income from Business** for the tax year in which it was received.

Small and medium enterprise

- Vide Finance Act 2021, special tax regime has been introduced for manufacturing sector's small and medium enterprises (SME) from 1 July 2021.
- SMEs have been defined in clause (59A) of Section 2 as manufacturing enterprises irrespective of their status as an individual, AOP or company having turnover up to Rs 250 million.
- The manufacturing SMEs being companies falling under this definition have been excluded from the definition of small companies.
- Under the new legal framework for the SMEs, the enabling legal provision has been provided in Section 100E and Fourteenth Schedule of the Ordinance.
- The rules for taxability of the SMEs have been prescribed in Fourteenth Schedule of the Income Tax Ordinance.
- The SMEs have been divided into two categories for taxation purposes:
 - ❑ Category-I: SMEs having turnover up to Rs100 million would pay tax at 7.5 percent of their taxable income.
 - ❑ Category-II: SMEs having turnover exceeding Rs100 million and up to Rs 250 million would pay tax at 15 percent of their taxable income.

Small and medium enterprise

- SMEs have been given option to pay tax on turnover basis under the final tax regime.
 - ❑ Category-I SMEs having turnover up to Rs100 million may opt to pay tax at 0.25 percent of their turnover.
 - ❑ Category-II SMEs having turnover exceeding Rs100 million and up to Rs250 million may opt to pay tax at 0.5 percent of their turnover.
- Above option can be exercised at the time of filing of return and option once exercised shall be irrevocable for three years.
- Provision of section 177 and 214C related to audit shall not apply to SME who opt for taxation under final tax regime.
- Provisions of Section 113 shall not apply and tax deducted under Section 153 shall not be minimum tax.
- The export proceeds of SMEs shall be taxed at the reduced rate of 0.25 percent and 0.5 percent final tax on the basis of their category.

Quarterly Advance Tax under section 147

1. Person liable to pay advance tax

Section 147 of the Ordinance provides that every taxpayer, whose income was charged to tax for the latest tax / assessment year, is liable to pay advance tax, other than:

- a) Income chargeable to tax under sections 5, 6 & 7 relating to dividends, income of non-residents on account of fee for technical services and royalties, and income from shipping and air transport business of non-resident person, respectively.
- b) Income subject to deduction of tax under section 149 relating to salary.
- c) Income from which tax has been collected or deducted and for which no tax credit is allowed under section 168(3).

An individual whose latest assessed taxable income excluding income referred to in clauses (a), (b), and (c) above is less than one million rupees shall not be required to pay advance tax.

Quarterly Advance Tax under section 147

2. Due dates for payment of advance tax

Quarter	Other than Individual	Individual
March	25 March	15 March
June	15 June	15 June
September	25 September	15 September
December	25 December	15 December

Quarterly Advance Tax under section 147

3. Computation of advance tax liability – Other than Individual

The amount of advance tax due for a quarter is computed according to the following formula:

$$(A \times B / C) - D$$

Where:

- **A** is the taxpayer's turnover for the quarter;
[provided that where the tax payer fails to provide turnover or the turnover for the quarter is not known, it shall be taken to be one-fourth of the hundred and ten percent of the turnover of the latest tax year for which return has been filed]
- **B** is the tax assessed to the taxpayer for the latest tax year; is
- **C** the taxpayer's turnover for the latest tax year; and
- **D** is the tax paid in the quarter for which a tax credit is allowed under section 168.

Quarterly Advance Tax under section 147

4. Computation of advance tax liability – Individual

Where the taxpayer is an individual having latest assessed income of one million rupees or more, the amount of advance tax due for a quarter shall be computed according to the following formula, namely:

$$(A / 4) - B$$

Where:

- **A** is the tax assessed to the taxpayer for the latest tax year
- **B** is the tax paid in the quarter for which a tax credit is allowed under section 168, other than tax deducted under section 149.

Quarterly Advance Tax under section 147

5. Filing of Estimate

- The taxpayer is required to estimate the tax payable by him for the relevant tax year, at any time before the last instalment is due.
- In case if tax payable is likely to be more than the amount that the taxpayer is required to pay, the taxpayer shall furnish to the Commissioner on or before the due date of the second quarter an estimate of the amount of tax payable by the taxpayer and thereafter pay fifty percent of such amount by the due date of the second quarter of the tax year after making adjustment for the amount, if any, already paid in earlier instalments for that tax year.
- The remaining fifty percent of the estimate shall be paid after the second quarter in two equal instalments by the due date of the third and fourth quarter of the tax year.

Quarterly Advance Tax under section 147

- If a taxpayer estimates at any time before the last instalment is due, that the tax payable by him for the relevant tax year is likely to be less than the amount calculated, he may furnish to the Commissioner an “estimate” of the amount of tax payable by him, and thereafter pay such estimated amount, as reduced by the amount already paid, in equal instalments on such dates as have not expired.
- An estimate of the amount of tax payable shall contain turnover for the completed quarters of the relevant tax year, estimated turnover of the remaining quarters alongwith reasons for any decline in estimated turnover, documentary evidence of the estimated expenses or deductions.
- Where the Commissioner is not satisfied with the documentary evidences provided, the Commissioner may reject the estimate after providing an opportunity of being heard to the tax payer and the tax payer shall pay advance tax according to the formula prescribed above.

Quarterly Advance Tax under section 147

6. Default Surcharge

- A taxpayer who fails to pay advance tax computed according to formula above by the due date or tax paid is less than 90% of the tax chargeable for the relevant tax year;
- the taxpayer shall be liable for payment of default surcharge under section 205(1A) at the rate equal to **twelve percent per annum** on the unpaid amount.
- Default surcharge shall be calculated from the first day of April in that year to the date on which assessment is made or the thirtieth day of June of the financial year next following, whichever is the earlier.
- In the case of person having a special tax year, the default surcharge shall be calculated on and from the first day of the fourth quarter of the special tax year till the date on which assessment is made or the last day of special tax year, whichever is earlier.

Quarterly Advance Tax under section 147

7. Powers to recover due advance tax if not paid

- Sub-section (7) of section 147 of the Ordinance specifies that provisions of the Ordinance shall apply to any advance tax due as if it were a tax due under an assessment order.
- Consequently, the Commissioner has the powers to initiate recovery proceedings for the amount of advance tax due for the quarter, if not paid by the taxpayer.

Exemptions

The income or classes of income, or persons or classes of persons specified in the Second Schedule to the Income Tax Ordinance, 2001 are:

- totally exempt from tax (subject to any conditions and to the extent specified in the said schedule)
- subject to lower rates of tax
- allowed a reduction in tax liability (subject to any conditions and to the extent specified in the said schedule) or
- exempted from the operation of any provision of the Ordinance (subject to any conditions and to the extent specified in said schedule).

Exemptions

Federal Government's Power to Amend Provisions of 2nd Schedule

The Federal Government may, from time to time, by notification in the official Gazette, make such amendment in the Second Schedule by:

- adding any clause or condition therein,
- omitting any clause or condition therein, or
- making any change in any clause or condition therein, as the Government may think fit, and all such amendments shall have effect in respect of any tax year beginning on any date before or after the commencement of the financial year in which the notification is issued.

The Federal Government is required to place before the National Assembly all amendments made by it to the Second Schedule in the financial year.

Exemptions

Significant exemptions from Second Schedule:

1. Any payment from a provident fund to which the Provident Funds Act, 1925 (XIX of 1925) applies.
2. Any income of the following funds and institution, namely:
 - i. a provident fund to which the Provident Funds Act, 1925 (XIX of 1925), applies;
 - ii. trustees on behalf of a recognized provident fund or an approved superannuation fund or an approved gratuity fund;
 - iii. a benevolent fund or group insurance scheme approved by the Board for the purposes of this clause;
 - iv. Service Fund;
 - v. Employees Old Age Benefits Institution established under the Employees Old Age Benefit Act, 1976 (XIV of 1976);
 - vi. any Unit, Station or Regimental Institute; and
 - vii. any recognized Regimental Thrift and Savings Fund, the assets of which consist solely of deposits made by members and profits earned by investment thereof

Exemptions

- viii. a Pension Fund approved by the Securities and Exchange Commission of Pakistan under the Voluntary Pension System Rules, 2005;
- ix. any profit or gain or benefit derived by a pension fund manager from a pension Fund approved under the Voluntary Pension System Rules, 2005, on redemption of the seed capital invested in pension fund as specified in the Voluntary Pension System Rules, 2005
- x. International Irrigation Management Institute.
- xi. Punjab Pension Fund established under the Punjab Pension Fund Act, 2007 (I of 2007) and the trust established thereunder.
- xii Sindh Province Pension Fund established under the Sindh Province Pension Fund Ordinance, 2002.
- xiii Punjab General Provident Investment Fund established under the Punjab General Provident Investment Fund Act, 2009 (V of 2009) and the trust established thereunder.

Exemptions

Significant exemptions from Second Schedule:

3. Profits and gains derived by a taxpayer from an electric power generation project set up in Pakistan on or after the 1st day of July, 1988. The exemption under this clause shall apply to such project which is:
 - a) owned and managed by a company formed for operating the said project and registered under the Companies Ordinance, 1984 (XLVII of 1984), and having its registered office in Pakistan;
 - b) not formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence or by transfer to a new business of any machinery or plant used in a business which was being carried on in Pakistan at any time before the commencement of the new business; and
 - c) owned by a company fifty per cent of whose shares are not held by the Federal Government or Provincial Government or a Local Government or which is not controlled by the Federal Government or a Provincial Government or a Local Government

Exemptions

Significant exemptions from Second Schedule:

Provided that the condition laid down in sub-clause (a) shall not apply to the Hub Power Company Limited

Provided further the exemption under this clause shall not apply to oil fired power plants setup 3[between 22nd October, 2002 and 30th June, 2006 but shall apply to Dual Fuel (Oil/Gas) power projects set up on or after the first September, 2005

Provided further that the exemption under this clause shall be available to companies registered in Pakistan or Azad Jammu and Kashmir owning and managing Hydel Power Projects, set up in Azad Jammu and Kashmir or Pakistan

Provided further that exemption under this clause shall also be available to the expansion projects of the existing Independent Power Projects already in operation

Provided also that conditions laid down in sub-clause (b) shall not apply to electric power generation project formed by the splitting up, or the reconstruction or the reconstitution of an electric power generation business already in existence and availing exemption under this clause.

Provided that no exemption shall be available to persons, who enter into agreement or to whom letter of intent is issued by Federal or Provincial Government for setting up an electric power generation project in Pakistan after 30 June 2022

Deductible Allowances:

“deductible allowance” means an allowance that is deductible from total income
60. Zakat:

1. A person shall be entitled to a deductible allowance for the amount of
 - any Zakat paid by the person in a tax year
 - under the Zakat and Ushr Ordinance, 1980
 - except zakat deducted on profit on debt classified under section 40.
2. Any such allowance or part of an allowance for a tax year that is not able to be deducted completely or partially for the year shall not be
 - refunded,
 - carried forward to a subsequent tax year, or
 - carried back to a preceding tax year.

Deductible Allowances:

60A. Workers' Welfare Fund:

A person shall be entitled to a deductible allowance for the amount of any Workers' Welfare Fund paid by the person in tax year under Workers' Welfare Fund Ordinance, 1971 or under any law relating to the Workers' Welfare Fund enacted by Provinces after the eighteenth Constitutional amendment Act 2010:

Provided that this section shall not apply in respect of any amount of Workers' Welfare Fund paid to the provinces by a trans-provincial establishment.

60B. Workers' Participation Fund:

A person shall be entitled to a deductible allowance for the amount of any Workers' Participation Fund paid by the person in a tax year in accordance with the provisions of the Companies Profit (Workers' Participation) Act, 1968 or under any law relating to the Workers' Welfare Fund enacted by Provinces after the eighteenth Constitutional amendment Act 2010:

Provided that this section shall not apply in respect of any amount of Workers' Welfare Fund paid to the provinces by a trans-provincial establishment.

Deductible Allowances:

64A. Deductible allowance for profit on debt:

- 1) Every individual shall be entitled to a deductible allowance for the amount of
 - any profit or share in rent and
 - share in appreciation for value of house paid by the individual in a tax year on a loan by a

64A. Deductible allowance for profit on debt:

- scheduled bank or
- non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or
- advanced by Government or the Local Government, Provincial Government or
- a statutory body or a
- public company listed on a registered stock exchange in Pakistan

where the individual utilizes the loan for the construction of a new house or the acquisition of a house.

Deductible Allowances:

60C. Deductible allowance for profit on debt:

- 2) The amount of an individual's deductible allowance allowed for a tax year shall not exceed
 - a) fifty percent of taxable income or
 - b) Rs. 2,000,000whichever is lower.
- 3) Any allowance or part of an allowance for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.

Deductible Allowances:

60D. Deductible allowance for education expenses:

- 1) Every individual shall be entitled to a deductible allowance (Not allowed to be carried forward to a subsequent tax year) in respect of tuition fee paid by the individual in a tax year provided that the taxable income of the individual is less than one and half million rupees.
- 2) The amount of an individual's deductible allowance allowed for a tax year shall not exceed the lesser of —
 - a) 5% of total tuition fee paid by the individual in the year;
 - b) 25% of the person's taxable income for the year; and
 - c) Rs. 60,000 per child * No. of children
- 3) Allowance shall be allowed against the tax liability of either of the parents making payment of the fee on furnishing
 - national tax number (NTN) or
 - name of the educational institution.
- 4) This deductible allowance under shall not be taken into account for computation of tax deduction under section 149.

Tax Credits:

Tax on taxable income

- 1) The income tax payable by a taxpayer for a tax year shall be computed by applying the rate or rates of tax applicable to the taxpayer under the Ordinance to the taxable income of the taxpayer for the year, and from the resulting amount shall be subtracted any tax credits allowed to the taxpayer for the year.
- 2) Where a taxpayer is allowed more than one tax credit for a tax year, the credits shall be applied in the following order:
 - a) any foreign tax credit allowed under section 103; then
 - b) any tax credit allowed for group of tax credits under Part X of Chapter III; and then
 - c) any tax credit allowed for advance tax and adjustable withholding tax under sections 147 and 168.

The tax payable by a person under FTR under [section 5, 5A, 6, 7, 7A, 7B, 7C and 7D] shall not be reduced by any tax credits allowed under this Ordinance.

Tax Credits:

Tax credit under Second Schedule:

Full time teacher or researcher allowance (Clause 2, Part III, Second Schedule):

1. The tax payable by a
 - a) full time teacher employed in a non profit education duly recognized by
 - Higher Education Commission,
 - a Board of Education or
 - a University recognized by the Higher Education Commission,
 - including government research institution,
- or

Tax Credits:

Tax credit under Second Schedule:

Full time teacher or researcher allowance (Clause 2, Part III, Second Schedule):

b) a researcher, employed in a research institution duly recognized by

- Higher Education Commission,
- a Board of Education or
- a University recognized by the Higher Education Commission,
- including government research institution,

shall be reduced by an amount equal to 25% of tax payable on his income from salary.

This clause shall not apply to teacher of medical profession who derive income from private medical practice or who receive share of consideration received from patients.

Tax Credits:

Bahbood saving certificate (Clause 6, Part III, Second Schedule):

The tax payable on profit on debt in respect of any amount paid as

- yield or profit on investment
- in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account.

shall not exceed 10% of such profit.

Tax Credits:

61. Charitable donations.—

1. A person shall be entitled to a tax credit in respect of

- any sum paid, or
- any property given

by the person in the tax year as a donation, voluntary contribution or subscription to:

any board of education,	established by or under, a Federal or a Provincial law or
any university in Pakistan,	
any educational institution	established or run in Pakistan by <ul style="list-style-type: none">• Federal Government or• a Provincial Government or• a Local Government
hospital or	
relief fund; or	
any non-profit organization or any person eligible for tax credit u/s 100C	Entities, organizations and funds mentioned in Thirteenth Schedule

Tax Credits:

61. Charitable donations.—

2. The amount of a person's tax credit allowed above for a tax year shall be computed according to the following formula, namely:—

$$(A/B) \times C$$

Where:

- A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;
- B is the person's taxable income for the tax year; and
- C is the lesser of:
- a) the total amount of the person's donations in the year,

In cash = only if it was paid by a crossed cheque drawn on a bank.

In kind = the fair market value of any property given determined at the time it is given; or

Tax Credits:

61. Charitable donations:

b) where the person is:

- i. an individual or association of persons, 30% of the taxable income of the person for the year; or
- ii. a company, 20% of the taxable income of the person for the year.

Tax Credits:

62. Tax credit for investment in shares and insurance:

A resident person other than a company (Individual only as per Circular 7 of 2003) shall be entitled to a tax credit for a tax year either:

- i. in respect of the cost of acquiring in the year
 - new shares offered to the public by a public company listed on a stock exchange in Pakistan, provided the resident person is the original allottee of the shares or
 - the shares are acquired from the Privatization Commission of Pakistan;
 - *[Note: a person has been allowed a tax credit for investment in shares in a tax year in respect of the purchase of a share; and*
 - *the person has made a disposal of the share within twenty-four months of the date of acquisition,*
 - *the amount of tax payable by the person for the tax year in which the shares were disposed of shall be increased by the amount of the credit allowed.]*

Tax Credits:

62. Tax credit for investment in shares and insurance. —

- ii. in respect of cost of acquiring in the tax year, sukuks offered to the public by a public company listed and traded on stock exchange in Pakistan, provided the resident person is the original allottee of the sukuks; or
- iii. in respect of any life insurance premium paid on a policy to a life insurance company registered by the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000,
 - *Provided the resident person is deriving income chargeable to tax under the head “salary” or “income from business”.*

[Note: where there is investment in both of the above (i), (ii) and (iii) then the higher one shall be considered]

Tax Credits:

62. Tax credit for investment in shares and insurance:

2. The amount of a person's tax credit allowed above for a tax year shall be computed according to the following formula, namely: —

$$(A/B) \times C$$

Where:

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person's taxable income for the tax year; and

C is the lesser of —

- a) the total cost of acquiring the shares or sukuks, or the total contribution or premium paid by the person in the year;
- b) 20% of the person's taxable income for the year; or
- c) Rs. 2,000,000.

Tax Credits:

62A. Tax credit for investment in health insurance:

A resident person other than a company shall be entitled to a tax credit for a tax year in respect of any

- health insurance premium or contribution paid to any insurance company registered by the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000,
- provided the resident person is deriving income chargeable to tax under the head “salary” or “income from business”.

Tax Credits:

62A. Tax credit for investment in health insurance. —

The amount of a person's tax credit allowed above for a tax year shall be computed according to the following formula, namely:

$$(A/B) \times C$$

where—

- A is the amount of tax assessed to the person for the tax year before allowance of tax credit under this section;
- B is the person's taxable income for the tax year; and
- C is the lesser of
 - a) the total contribution or premium paid by the person in the year;
 - b) 5% of the person's taxable income for the year; and
 - c) Rs. 150,000.

Tax Credits:

63. Contribution to an Approved Pension Fund:

An eligible person [means an individual Pakistani who holds a valid NTN or CNIC or NIC for Overseas Pakistanis issued by the NADRA]

- deriving income chargeable to tax under the head “Salary” or the head “Income from Business” shall be entitled to a tax credit for a tax year in respect of
- any contribution or premium paid in the year by the person in approved pension fund under the Voluntary Pension System Rules, 2005.

The amount of a person’s tax credit allowed above for a tax year shall be computed according to the following formula, namely:

$$(A/B) \times C$$

Tax Credits:

63. Contribution to an Approved Pension Fund.—

Where.-

- A is the amount of tax assessed to the person for the tax year, before allowance of any tax credit under this Part;
- B is the person's taxable income for the tax year; and
- C is the lesser of —
 - a) the total contribution or premium referred above paid by the person in the year; or
 - b) twenty per cent of the eligible person's taxable income for the relevant tax year;

41 years or above during the first ten years [starting from July 1, 2006] = 2% per annum for each year of age > 40 years. Contribution shall not exceed 50% of the total taxable income of the preceding year and 30% of total taxable income of the preceding year if eligible person joined after 30 June 2016 and upto 30 June 2019.

Tax Credits:

64B. Tax credit for employment generation by manufacturers:

1. Where a taxpayer being a company formed for
 - establishing and operating a new manufacturing unit sets up a new manufacturing unit (treated to have been setup on the date on which the manufacturing unit is ready to go into production, whether trial production or commercial production.
 - between the 1st day of July, 2015 and the 30th day of June, 2019, (both days inclusive) it
 - shall be given a tax credit for a period of ten years.
2. The tax credit above for a tax year shall be equal to
 - 2% of the tax payable for every fifty employees registered with EOBI (The Employees Old Age Benefits Institution) or ESSI (the Employees Social Security Institutions) of Provincial Governments during the tax year,
 - subject to a maximum of ten percent of the tax payable.
 - Includes tax credit against ACT [per section 113C(10)]

Tax Credits:

64B. Tax credit for employment generation by manufacturers.—

- 3) Tax credit under this section shall be admissible where all of the following conditions are met:

S.No.	Condition	Description
a	company is incorporated and manufacturing unit is setup between	1st July, 2015 and the 30th day of June, 2019, both days inclusive
b	No. of employees	> 50 employees in a tax year registered with EOBI & ESSI of PG.
c	Manufacturing unit managed by	company formed for operating the said manufacturing unit and registered under the Companies Ordinance, 1984 and having its registered office in Pakistan
d	manufacturing unit is not established by	the splitting up or reconstruction or reconstitution of an undertaking already in existence or by transfer of machinery or plant from an undertaking established in Pakistan at any time before the 1st July 2015.

Tax Credits:

	Section 65B- Part I	Section 65B- Part II	Section 65E
	Tax credit for investment		Tax credit for industrial undertakings established before the first day of July, 2011
Type of Investment	Extension, expansion and BMR of P&M.	BMR of P&M.	Expansion of P&M, undertaking a new project.
Nature of investment	Not Specified	100% new equity	70% new equity
Company already setup before	Not Specified	1-July-2011	1-July-2011

Tax Credits:

	Section 65B- Part I	Section 65B- Part II	Section 65E
Date of Purchase and Installation	1-July-2010 to 30-June-2019	1-July-2011 to 30-June-2016	1-July-2011 to 30-June-2021
Tax Credit formula	<p>10% * Amount Invested; when P&M is installed</p> <p>For tax year 2019 5% * Amount Invested.</p>	<p>20% * Amount Invested; when P&M is installed</p>	<p>$A*(B/C)$ A=Amount before tax credit B=New shares (in cash) C=Total investment</p> <p>Tax Credit for 5 years.</p> <p>(5 years beginning from date of setting up or commencement of commercial production from new plant & expansion project, whichever is later.)</p>

Tax Credits:

	Section 65B- Part I	Section 65B- Part II		Section 65E
Taxes Included	Minimum & Final + ACT 113C(10)	Minimum & Final + ACT 113C(10)		Minimum & Final
C/F period of unadjusted tax credit	2 years	5 years	-	-
Wrong Credit	Where any credit is allowed and subsequently it is discovered by the Commissioner Inland Revenue that any one or more of the conditions specified in this was, or were, not fulfilled, as the case may be, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner, shall re-compute the tax payable by the taxpayer for the relevant year.		Where any credit is allowed and subsequently it is discovered, on the basis of documents or otherwise, by the Commissioner Inland Revenue that the business has been discontinued in the subsequent five years after the credit has been allowed or any of the condition specified was not fulfilled, the credit originally allowed shall be deemed to have been wrongly allowed and the Commissioner Inland Revenue may, re-compute the tax payable by the taxpayer for the relevant year.	

Tax Credits:

Section 65F : Tax credit for certain Persons

Following persons or incomes shall be allowed a tax credit equal to 100% of the tax payable including minimum tax, alternate corporate tax and final tax subject to fulfilment of conditions:

- (a) Persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects
- (b) A startup as defined in clause 62A of section 2 for tax year in which startup is certified by the Pakistan Software Export Board and the next following two tax years
- (c) Income from exports of computer software or IT services or IT enabled services as defined in clause 30AD and 30AE of section 2 upto the period ending on 30th day of June, 2025

Provided that eighty per cent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels.

IT services are defined under clause 30AD and 30AE of section 2 as under:

- a) IT Services include software development, software maintenance, system integration, web design, web development, web hosting, and network design, and
- b) IT enabled services include inbound or outbound call centres, medical transcription, remote monitoring, graphics design, accounting services, HR services, telemedicine centers, data entry operations, locally produced television programs and insurance claims processing.

Tax credit shall be available subject to following conditions:

- Return has been filed
- Withholding statement for relevant tax year has been filed; and
- Sales tax return for the period have been filed if the person is required to file sales tax return

Tax Credits:

Section 65G : Tax credit for specified industrial undertakings

- When making certain eligible capital investments, the eligible taxpayers shall be allowed to take an investment tax credit of:
 - ❑ twenty five percent of the eligible investment amount, against tax payable under the provisions of this Ordinance including minimum and final taxes.
 - ❑ The tax credit not fully adjusted during the year of investment shall be carried forward to the subsequent tax year subject to the condition that it may be carried forward for a period not exceeding two years.
- The eligible investment means investment made in purchase and installation of new machinery, buildings, equipment, hardware and software, except self-created software and used capital goods.

Tax Credits:

Section 65G : Tax credit for specified industrial undertakings

- Eligible person means —
 - green field industrial undertaking as defined in clause (27A) of section 2 engaged in —
 - (i) the manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition; or
 - (ii) ship building:

Provided that the person incorporated between the 30th day of June, 2019 and the 30th day of June, 2024 and the person is not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery, plant or building from an undertaking established in Pakistan prior to commencement of the new business and is not part of an expansion project; and
- industrial undertaking set up by the 30th day of June 2023 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind, for a period of five years beginning from the date such industrial undertaking is set up.

Tax Credits:

Section 65G : Tax credit for specified industrial undertakings

Green filed industrial undertaking is defined under clause (27A) of section 2 as:

- (a) a new industrial undertaking which is –
 - (i) setup on land which has not previously been utilized for any commercial, industrial or manufacturing activity and is free from constraints imposed by any prior work;
 - (ii) built without demolishing, revamping, renovating, upgrading, remodeling or modifying any existing structure, facility or plant;
 - (iii) not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery, plant or building from an undertaking established in Pakistan prior to commencement of the new business and is not part of an expansion project;
 - (iv) using any process or technology that has not earlier been used in Pakistan and is so approved by the Engineering Development Board; and
- (b) is approved by the Commissioner



Thank
you