INCOME TAX ORDINANCE 2001

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INCOME TAX MANUAL

PART II

INCOME TAX ORDINANCE, 2001

AMENDED UPTO JULY, 2007

Published by:
FACILITATION AND TAXPAYERS
EDUCATION WING

[1]F.No.2(1)/2001-Pub.- The following Ordinance promulgated by the President is hereby published for general information:-

AN

ORDINANCE

to consolidate and amend the law relating to income tax

WHEREAS it is expedient to consolidate and amend the law relating to income tax and to provide for matters ancillary thereto or connected therewith;

WHEREAS the President is satisfied that circumstances exist which render it necessary to take immediate action;

NOW, THEREFORE, in pursuance of the Proclamation of Emergency of the fourteenth day of October, 1999, and the Provisional Constitution Order No. 1 of 1999, read with Provisional Constitutional Amendment Order No. 9 of 1999, and in exercise of all powers enabling him in that behalf, the President of the Islamic Republic of Pakistan is pleased to make and promulgate the following Ordinance:-

CHAPTER I
PRELIMINARY

1. Short title, extent and commencement.- (1) This Ordinance may be called the Income Tax Ordinance, 2001.

(2) It extends to the whole of Pakistan.

(3) It shall come into force on such date as the Federal Government may, by notification in official Gazette, appoint *.

2. Definitions.- In this Ordinance, unless there is anything repugnant in the subject or context –

(1) "accumulated profits" in relation to [2][distribution or payment of] a dividend, [3][include] –

(a) any reserve made up wholly or partly of any allowance, deduction, or exemption admissible under this Ordinance;

---

*Vide notification S.R.O.381(I)/2002 dated 15.06.2002 the Federal Government appointed the first day of July, 2002 on which the Ordinance shall come into force.

[2] Inserted by the Finance Act, 2003.

[3] The word “includes” substituted by the Finance Act, 2005.

(b) for the purposes of [1][sub-clauses (a), (b) and (e) of clause (19)"] all profits of the company including income and gains of a trust up to the date of such distribution or such payment, as the case may be; and

(c) for the purposes of [2][sub-clause (c) of clause (19)], includes all profits of the company including income and gains of a trust up to the date of its liquidation;

[3][(1A) "amalgamation" means the merger of one or more banking companies or non-banking financial institutions, [4][or insurance companies,] [5][or companies owning and managing industrial undertakings] [6][or companies engaged in providing services and not being a trading company or companies] in either case [7][at least one of them] being a public company, or a company incorporated under any law, other than Companies Ordinance, 1984 (XLVII of 1984), for the time being in force, (the company or companies which so merge being referred to as the "amalgamating company" or companies and the company with which they merge or which is formed as a result of merger, as the "amalgamated company") in such manner that –

(a) the assets of the amalgamating company or companies immediately before the amalgamation become the assets of the amalgamated company by virtue of the amalgamation, otherwise than by purchase of such assets by the amalgamated company or as a result of distribution of such assets to the amalgamated company after the winding up of the amalgamating company or companies; [8][and]

(b) the liabilities of the amalgamating company or companies immediately before the amalgamation become the liabilities of the amalgamated company by virtue of the amalgamation [9][.]

---

[1] Substituted for "clauses (a), (d) and (e) of sub-section (20)", by the Finance Act, 2002.
[2] Substituted for "clause (c) of sub-section (20)", by Finance Act, 2002.
[3] Inserted by the Finance Act, 2002.
[4] Inserted by the Finance Act, 2004.
[5] Inserted by the Finance Act, 2005.
[6] Inserted by the Finance Act, 2007.
[7] Inserted by the Finance Act, 2005.
[8] Added by the Finance Act, 2005.
[9] The semi-colon and word "and" substituted by the Finance Act, 2005.

[1][ ]

(2) "Appellate Tribunal" means the Appellate Tribunal established under section 130;

(3) "approved gratuity fund" means a gratuity fund approved by the Commissioner in accordance with Part III of the Sixth Schedule;

[2][(3A) "Approved Annuity Plan" means an Annuity Plan approved by Securities and Exchange Commission of Pakistan (SECP) under Voluntary Pension System Rules, 2005 and offered by a Life Insurance Company registered with the SECP under Insurance Ordinance, 2000 (XXXIX of 2000);]

[3][(3B) "Approved Income Payment Plan" means an Income Payment Plan approved by Securities and Exchange Commission of Pakistan (SECP) under Voluntary Pension System Rules, 2005 and offered by a Pension Fund Manager registered with the SECP under Voluntary Pension System Rules, 2005;]

[4][(3C) "Approved Pension Fund" means Pension Fund approved by Securities and Exchange Commission of Pakistan (SECP) under Voluntary Pension System Rules, 2005, and managed by a Pension Fund Manager registered with the SECP under Voluntary Pension System Rules, 2005;]

[5][(3D) "Approved Employment Pension or Annuity Scheme" means any employment related retirement scheme approved under this Ordinance, which makes periodical payment to a beneficiary *i.e*. pension or annuity such as approved superannuation fund, public sector pension scheme and Employees Old-Age Benefit Scheme;]

[6][(3E) "Approved Occupational Savings Scheme" means any approved gratuity fund or recognized provident fund;]

---

[1] Omitted by the Finance Act, 2005. The omitted clause (c) read as follows: -
"(c) the scheme of amalgamation is approved by the State bank of Pakistan or by the Securities and Exchange Commission of Pakistan [A][on or before thirtieth day of June, [B][2006]];"
[A] Inserted by the Finance Act, 2003.
[B] Substituted for "2004" by the Finance Act, 2004.
[2] Inserted by the Finance Act, 2005.
[3] Inserted by the Finance Act, 2005.
[4] Inserted by the Finance Act, 2005.
[5] Inserted by the Finance Act, 2006.
[6] Inserted by the Finance Act, 2006

(4) "approved superannuation fund" means a superannuation fund, or any part of a superannuation fund, approved by the Commissioner in accordance with Part II of the Sixth Schedule;

[1][(5) "assessment" includes re-assessment and amended assessment and the cognate expressions shall be construed accordingly;]

[2][(5A) "assessment year" means assessment year as defined in the repealed Ordinance;]

[3][(5B) "assets management company" means a company registered under the Assets Management companies Rules, 1995;]

(6) "association of persons" means an association of persons as defined in section 80;

(7) "banking company" means a banking company as defined in the Banking Companies Ordinance, 1962 (LVII of 1962) and includes any body corporate which transacts the business of banking in Pakistan;

(8) "bonus shares" includes bonus units in a unit trust;

(9) "business" includes any trade, commerce, manufacture, profession, vocation or adventure or concern in the nature of trade, commerce, manufacture, profession or vocation, but does not include employment;

(10) "capital asset" means a capital asset as defined in section 37;

[4][(11) "Board" means the Central Board of Revenue established under the Central Board of Revenue Act, 1924 (IV of 1924), and on the commencement of Federal Board of Revenue Act, 2007, the Federal Board of Revenue established under section 3 thereof;]

---

[1] Substituted by the Finance Act, 2002. The substituted clause read as follows:

"(5) "assessment" means –

(a) an assessment referred to in section 120;
(b) an assessment raised under section 121;
(c) an amended assessment under section 122;
(d) a demand for an amount due under sections 141, 142, 143 and 144; or
(e) an assessment of penalty under section 190;".

[2] Inserted by the Finance Act, 2002

[3] Inserted by the Finance Act, 2002

[4] Substituted by the Finance Act, 2007. The substituted clause read as follows:

"(11) "Central Board of Revenue" means the Central Board of Revenue established under the Central Board of Revenue Act, 1924 (IV of 1924);".

[1][(11A) "charitable purpose" includes relief of the poor, education, medical relief and the advancement of any other object of general public utility;]

(12) "company" means a company as defined in section 80;

[2][(13) "Commissioner" means a person appointed as a Commissioner of Income Tax under section 208, and includes a taxation officer vested with all or any of the powers and functions of the Commissioner;]

[3][(13A) "Commissioner (Appeals)" means a person appointed as a Commissioner of Income Tax (Appeals) under section 208;]

[4][(13B) "Contribution to an Approved Pension Fund" means contribution as defined in rule 2(j) of the Voluntary Pension System Rules, 2005 [5][ ];]

(14) "co-operative society" means a co-operative society registered under the Co-operative Societies Act, 1925 (VII of 1925) or under any other law for the time being in force in Pakistan for the registration of co-operative societies;

(15) "debt" means any amount owing, including accounts payable and the amounts owing under promissory notes, bills of exchange, debentures, securities, bonds or other financial instruments;

(16) "deductible allowance" means an allowance that is deductible from total income under Part IX of Chapter III;

(17) "depreciable asset" means a depreciable asset as defined in section 22;

(18) "disposal" in relation to an asset, means a disposal as defined in section 75;

(19) "dividend" includes -

---

[1] Inserted by the Finance Act, 2002.
[2] Substituted by the Finance Act, 2002. The substituted clause read as follows:
"(13) "Commissioner" means a person appointed as a Commissioner of Income Tax under section 209".
[3] Inserted by the Finance Act, 2002
[4] Inserted by the Finance Act, 2005.
[5] The comma and words ", but not exceeding five hundred thousand rupees in a tax year" omitted by the Finance Act, 2006.

(a) any distribution by a company of accumulated profits to its shareholders, whether capitalised or not, if such distribution entails the release by the company to its shareholders of all or any part of the assets including money of the company;

(b) any distribution by a company, to its shareholders of debentures, debenture-stock or deposit certificate in any form, whether with or without profit, [1][ ] to the extent to which the company possesses accumulated profits whether capitalised or not;

(c) any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalised or not;

(d) any distribution by a company to its shareholders on the reduction of its capital, to the extent to which the company possesses accumulated profits, whether such accumulated profits have been capitalised or not; or

(e) any payment by a private company [2][as defined in the Companies Ordinance, 1984 (XLVII of 1984)] or trust of any sum (whether as representing a part of the assets of the company or trust, or otherwise) by way of advance or loan to a shareholder or any payment by any such company or trust on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company or trust, in either case, possesses accumulated profits;

but does not include -

(i) a distribution made in accordance with [3][sub-clause] (c) or (d) in respect of any share for full cash consideration, or redemption of debentures or debenture stock, where the holder of the share or debenture is not entitled in the event of liquidation to participate in the surplus assets;

(ii) any advance or loan made to a shareholder by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company; and

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[1] The words "and any distribution to its shareholders of shares by way of bonus or bonus shares", omitted by the Finance Act, 2002

[2] Inserted by the Finance Act, 2003.

[3] Substituted for "clause" by the Finance Act, 2002

(iii) any dividend paid by a company which is set off by the company against the whole or any part of any sum previously paid by it and treated as a dividend within the meaning of [1][sub-clause] (e) to the extent to which it is so set off;

[2][(19A) "Eligible Person", for the purpose of Voluntary Pension System Rules, 2005, means an individual Pakistani who [3][holds] a valid National Tax Number [4][or Computerized National Identity Card issued by the National Database and Registration Authority] [5][ ] [6][:]]

[7][Provided that the total tax credit available for the contribution made to approved employment pension or annuity scheme and approved pension fund under Voluntary Pension System Rules, 2005, should not exceed the limit prescribed or specified in section 63.]

(20) "employee" means any individual engaged in employment;

(21) "employer" means any person who engages and remunerates an employee;

(22) "employment includes –

(a) a directorship or any other office involved in the management of a company;

(b) a position entitling the holder to a fixed or ascertainable remuneration; or

(c) the holding or acting in any public office;

(23) "fee for technical services" means any consideration, whether periodical or lump sum, for the rendering of any managerial, technical or consultancy services including the services of technical or other personnel, but does not include –

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[1] Substituted for "clause" by the Finance Act, 2002
[2] Inserted by the Finance Act, 2005.
[3] The words "has obtained" substituted by the Finance Act, 2007.
[4] Inserted by the Finance Act, 2007.
[5] The words "but does not include an individual who is entitled to benefit under any other approved employment pension or annuity scheme" omitted by the Finance Act, 2006.
[6] The semicolon substituted by the Finance Act, 2006.
[7] Inserted by the Finance Act, 2006.

(a) consideration for services rendered in relation to a construction, assembly or like project undertaken by the recipient; or

(b) consideration which would be income of the recipient chargeable under the head "Salary";

(24) "financial institution" means an institution [1][as defined] under the Companies Ordinance, 2[1984 (XLVII of 1984)] [3][ ];

(25) "finance society" includes a co-operative society which accepts money on deposit or otherwise for the purposes of advancing loans or making investments in the ordinary course of business;

(26) "firm" means a firm as defined in section 80;

(27) "foreign-source income" means foreign-source income as defined in sub-section (16) of section 101.

(28) "House Building Finance Corporation" means the Corporation constituted under the House Building Finance Corporation Act, 1952 (XVIII of 1952);

[4][(29) "income" includes any amount chargeable to tax under this Ordinance, any amount subject to collection [5][or deduction] of tax under section 148, [6][150, 152(1), 153, 154, 156, 156A, 233, 233A and], sub-section (5) of section 234, [7][any amount treated as income under any provision of this Ordinance] and any loss of income but does not include, in case of a shareholder of a [8][ ]company, the amount representing the face value of any bonus share or the amount of any bonus declared, issued or paid by the company to the shareholders with a view to increasing its paid up share capital;]

[9][(29A) "income year" means income year as defined in the repealed Ordinance;]

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[1] The word "notified" substituted by the Finance Act, 2005.
[2] Substituted for "1980 (XXXI of 1980)" by the Finance Act, 2002
[3] The words "by the Federal Government in the official Gazette as a financial institution" omitted by the Finance Act, 2003.
[4] Substituted by the Finance Act, 2002. The substituted clause read as follows:
"(29) "income" includes any amount chargeable to tax under this Ordinance, any amount subject to collection of tax under Division II of Part V of Chapter X, sub-section (5) of 234 Division III of Chapter XII, and any loss of income;"
[5] Inserted by the Finance Act, 2003.
[6] The figures, commas and word "153, 154 and 156," substituted by the Finance Act, 2005.
[7] Inserted by the Finance Act, 2003.
[8] The word "domestic" omitted by the Finance Act, 2003.
[9] Inserted by the Finance Act, 2002

[1][(29B) "Individual Pension Account" means an account maintained by an eligible person with a Pension Fund Manager approved under the Voluntary Pension System Rules, 2005;]

[2][(29C) "Industrial undertaking" means –

(a) an undertaking which is set up in Pakistan and which employs, (i) ten or more persons in Pakistan and involves the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy; or (ii) twenty or more persons in Pakistan and does not involve the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy and which is 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;

(ii) ship-building;

(iii) generation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power; or

(iv) the working of any mine, oil-well or any other source of mineral deposits; and

(b) any other industrial undertaking which the [3][Board] may by notification in the official Gazette, specify;]

(30) "intangible" means an intangible as defined in section 24;

[4][(30A) "investment company" means a company registered under the Investment Companies and Investment Advisors Rules, 1971;]

[5][(30B) "leasing company" means a company licensed under the Leasing Companies (Establishment and Regulation) Rules, 2000;]

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[1] Inserted by the Finance Act, 2005.
[2] Inserted by the Finance Act, 2005.
[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[4] Inserted by the Finance Act, 2002
[5] Inserted by the Finance Act, 2002

(31) "liquidation" in relation to a company, includes the termination of a trust;

(32) "member" in relation to an association of persons, includes a partner in a firm;

(33) "minor child" means an individual who is under the age of eighteen years at the end of a tax year;

(34) "modaraba" means a modaraba as defined in the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 (XXXI of 1980);

(35) "modaraba certificate" means a modaraba certificate as defined in the Modaraba Companies and Modarabas (Floatation and Control) Ordinance, 1980 (XXXI of 1980);

[1][(35A) "Mutual Fund" means a mutual fund [2][registered or approved by the Securities and Exchange Commission of Pakistan];]

[3][(35B) "non-banking finance company" means an institution notified under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003.]

[4][(36) "non-profit organization" means any person other than an individual, which is –

(a) established for religious, educational, charitable, welfare or development purposes, or for the promotion of an amateur sport;

(b) formed and registered under any law as a non-profit organization;

(c) approved by the Commissioner for specified period, on an application made by such person in the prescribed form and

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[1] Inserted by the Finance Act, 2002

[2] Substituted for the words "set up by the Investment Corporation of Pakistan or by an investment company" by the Finance Act, 2003.

[3] Inserted by the Finance Act, 2004.

[4] Substituted by the Finance Act, 2002. The substituted clause read as follows:

"(36) "non-profit organization" means any person –

(a) established for religious, charitable or educational purposes, or for the promotion of amateur sport;

(b) which is registered under any law as a non-profit organization and in respect of which the Commissioner has issued a ruling certifying that the person is a non-profit organization for the purposes of this Ordinance; and

(c) none of the income or assets of the person confers, or may confer a private benefit on any other person";.

manner, accompanied by the prescribed documents and, on requisition, such other documents as may be required by the Commissioner;

and none of the assets of such person confers, or may confer, a private benefit to any other person;]

(37) "non-resident person" means a non-resident person as defined in Section 81;

(38) "non-resident taxpayer" means a taxpayer who is a non-resident person;

(39) "Originator" means Originator as defined in the Asset Backed Securitization Rules, 1999;

(40) "Pakistan-source income" means Pakistan-source income as defined in section 101;

[1][(40A) "Pension Fund Manager" means an asset management company registered under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003, or a life insurance company registered under Insurance Ordinance, 2000 (XXXIX of 2000), duly authorized by the Securities and Exchange Commission of Pakistan and approved under the Voluntary Pension System Rules, 2005, to manage the Approved Pension Fund;]

(41) "permanent establishment" in relation to a person, means a [2][fixed] place of business through which the business of the person is wholly or partly carried on, and includes –

(a) a place of management, branch, office, factory or workshop, [3][premises for soliciting orders, warehouse, permanent sales exhibition or sales outlet,] other than a liaison office except where the office engages in the negotiation of contracts (other than contracts of purchase);

(b) a mine, oil or gas well, quarry or any other place of extraction of natural resources;

[4][(ba) an agricultural, pastoral or forestry property;]

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[1] Inserted by the Finance Act, 2005.
[2] Inserted by the Finance Act, 2006.
[3] Inserted by the Finance Act, 2003.
[4] Inserted by the Finance Act, 2003.

(c) a building site, a construction, assembly or installation project or supervisory activities connected with such site or project [1][but only where such site, project and its connect supervisory activities continue for a period or periods aggregating more than ninety days within any twelve-months period] ;

(d) the furnishing of services, including consultancy services, by any person through employees or other personnel engaged by the person for such purpose [2][ ];

(e) a person acting in Pakistan on behalf of the person (hereinafter referred to as the "agent [3]["),] other than an agent of independent status acting in the ordinary course of business as such, if the agent –

(i) has and habitually exercises an authority to conclude contracts on behalf of the other person;

(ii) has no such authority, but habitually maintains a stock-in-trade or other merchandise from which the agent regularly delivers goods or merchandise on behalf of the other person; or

(f) any substantial equipment installed, or other asset or property capable of activity giving rise to income;

(42) "person" means a person as defined in section 80;

(43) "pre-commencement expenditure" means a pre-commencement expenditure as defined in section 25;

(44) "prescribed" means prescribed by rules made under this Ordinance;

[4][(44A) "principal officer" used with reference to a company or association of persons includes –

(a) a director, a manager, secretary, agent, accountant or any similar officer; and

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[1] Inserted by the Finance Act, 2006.
[2] The words ", but only where activities of that nature continue for the same or a connected project within Pakistan for a period or periods aggregating more than ninety [A][days] within any twelve-month period" omitted by the Finance Act, 2003.
[A] Substituted for the word "months" by the Finance Act, 2002.
[3] Substituted for comma by the Finance Act, 2002
[4] Inserted by the Finance Act, 2003.

(b) any person connected with the management or administration of the company or association of persons upon whom the Commissioner has served a notice of treating him as the principal officer thereof;]

(45) "private company" means a company that is not a public company;

[1][(45A) "Private Equity and Venture Capital Fund" means a fund registered with the Securities and Exchange Commission of Pakistan under the Private Equity and Venture Capital Fund Rules, 2007;]

[2][(45B) "Private Equity and Venture Capital Fund Management Company" means a company licensed by the Securities and Exchange Commission of Pakistan under the Private Equity and Venture Capital Fund Rules, 2007;]

(46) "profit on a debt" [3][whether payable or receivable, means] –

(a) any profit, yield, interest, discount, premium or other amount [4][,] owing under a debt, other than a return of capital; or

(b) any service fee or other charge in respect of a debt, including any fee or charge incurred in respect of a credit facility which has not been utilized;

(47) "public company" means –

(a) a company in which not less than fifty per cent of the shares are held by the Federal Government [5][or Provincial Government];

[6][(ab) a company in which [7][not less than fifty per cent of the] shares are held by a foreign Government, or a foreign company owned by a foreign Government [8][;]]

(b) a company whose shares were traded on a registered stock exchange in Pakistan at any time in the tax year and which remained listed on that exchange [9][ ] at the end of that year; or

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[1] Inserted by the Finance Act, 2007.
[2] Inserted by the Finance Act, 2007.
[3] Substituted for the word "means" by the Finance Act, 2003.
[4] Comma inserted by the Finance Act, 2002.
[5] Inserted by the Finance Act, 2003.
[6] Inserted by the Finance Act, 2003.
[7] Inserted by the Finance Act, 2005.
[8] The full stop substituted by the Finance Act, 2005.
[9] The words "and was on the Central Depository System," omitted by the Finance Act, 2002

[1][(c) a unit trust whose units are widely available to the public and any other trust as defined in the Trusts Act, 1882 (II of 1882);]

[2][(47A) "Real Estate Investment Trust (REIT)" means a scheme which consists of a closed-end collective investment scheme constituted as a unit trust fund and managed by a REIT management company for the purposes of investment in real estate, approved and authorized by the Security and Exchange Commission of Pakistan under the Real Estate Investment Trust Rules, 2006;]

[3][(47B) "Real Estate Investment Trust Management Company" means a company licensed by the Security and Exchange Commission of Pakistan under the Real Estate Investment Trust Rules, 2006.]

(48) "recognised provident fund" means a provident fund recognised by the Commissioner in accordance with Part I of the Sixth Schedule;

[4][(48A) "Regional Commissioner" means a person appointed as a Regional Commissioner of Income Tax under section 208 and includes a Director-General of Income Tax and Sales Tax;]

(49) "rent" means rent as defined in sub-section (2) of section 15 and includes an amount treated as rent under section 16;

[5][(49A) "repealed Ordinance" means Income Tax Ordinance, 1979 (XXXI of 1979);]

(50) "resident company" means a resident company as defined in section 83;

(51) "resident individual means a resident individual as defined in section 82;

(52) "resident person" means a resident person as defined in section 81;

(53) "resident taxpayer" means a taxpayer who is a resident person;

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[1] Substituted by the Finance Act, 2003. The substituted clause (c) read as follows:
"(c) a unit trust whose units are widely available to the public and any other public trust;"
[2] Inserted by the Finance Act, 2006.
[3] Inserted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2002
[5] Inserted by the Finance Act, 2002

(54) [1]["royalty"] means any amount paid or payable, however described or computed, whether periodical or a lump sum, as consideration for -

(a) the use of, or right to use any patent, invention, design or model, secret formula or process, trademark or other like property or right;

(b) the use of, or right to use any copyright of a literary, artistic or scientific work, including films or video tapes for use in connection with television or tapes in connection with radio broadcasting, but shall not include consideration for the sale, distribution or exhibition of cinematograph films;

(c) the receipt of, or right to receive, any visual images or sounds, or both, transmitted by satellite, cable, optic fibre or similar technology in connection with television, radio or internet broadcasting;

(d) the supply of any technical, industrial, commercial or scientific knowledge, experience or skill;

(e) the use of or right to use any industrial, commercial or scientific equipment;

(f) the supply of any assistance that is ancillary and subsidiary to, and is furnished as a means of enabling the application or enjoyment of, any such property or right as mentioned in [2][sub-clauses] (a) through (e); [3][and]

(g) the disposal of any property or right referred to in [4][sub-clauses] (a) through (e);

(55) "salary" means salary as defined in section 12;

(56) "Schedule" means a Schedule to this Ordinance;

(57) "securitization" means securitization as defined in the Asset Backed Securitization Rules, 1999;

(58) "share" in relation to a company, includes a modaraba certificate and the interest of a beneficiary in a trust (including units in a trust);

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[1] Substituted for the word "royalties" by the Finance Act, 2002.
[2] Substituted for the word "clauses" by the Finance Act, 2002.
[3] Added by the Finance Act, 2005.
[4] Substituted for the "clauses" by the Finance Act, 2002

(59) "shareholder" in relation to a company, includes a modaraba certificate holder, [1][a unit holder of a unit trust] and a beneficiary of a trust;

[2][(59A) "Small Company" means a company registered on or after the first day of July, 2005, under the Companies Ordinance, 1984 (XLVII) of 1984, which,-

(i) has paid up capital plus undistributed reserves not exceeding twenty-five million rupees;

[3][(ia) has employees not exceeding two hundred and fifty any time during the year;]

(ii) has annual turnover not exceeding two hundred [4][and fifty] million rupees; and

(iii) is not formed by the splitting up or the reconstitution of business already in existence;]

(60) "Special Purpose Vehicle" means a Special Purpose Vehicle as defined in the Asset Backed Securitization Rules, 1999;

(61) "speculation business" means a speculation business as defined in section 19;

(62) "stock-in-trade" means stock-in-trade as defined in section 35;

(63) "tax" means any tax imposed under Chapter II, and includes any penalty, fee or other charge or any sum or amount leviable or payable under this Ordinance;

(64) "taxable income" means taxable income as defined in section 9;

(65) "taxation officer" means any [5][Additional Commissioner of Income Tax, Deputy Commissioner of Income Tax,] Assistant Commissioner of Income Tax, Income Tax Officer, Special Officer or any other officer however designated appointed by the [6][Board] for the purposes of this Ordinance;

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[1] Inserted for ", a unit holder of a unit trust" by the Finance Act, 2002

[2] Inserted by the Finance Act, 2005.

[3] Inserted by the Finance Act, 2007.

[4] Inserted by the Finance Act, 2007.

[5] Substituted for the words and comma "Deputy Commissioner of Income Tax, Additional Commissioner of Income Tax" by the Finance Act, 2002

[6] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(66) "taxpayer" means any person who derives an amount chargeable to tax under this Ordinance, and includes –

(a) any representative of a person who derives an amount chargeable to tax under this Ordinance;

(b) any person who is required to deduct or collect tax under Part V of Chapter X [1][and Chapter XII;] or

(c) any person required to furnish a return of income or pay tax under this Ordinance;

(67) "tax treaty" means an agreement referred to in section 107;

(68) "tax year" means the tax year as defined in sub-section (1) of section 74 and, in relation to a person, includes a special year or a transitional year that the person is permitted to use under section 74;

(69) "total income" means total income as defined in section 10;

(70) "trust" means a "trust" as defined in section 80;

(71) "underlying ownership" means an underlying ownership as defined in section 98;

(72) "units" means units in a unit trust;

(73) "unit trust" means a unit trust as defined in section 80; and

[2][(74) "Venture Capital Company" and "Venture Capital Fund" shall have the same meanings as are assigned to them under the [3][Non-Banking Finance [4][Companies] (Establishment and Regulation) Rules, 2003];

3. Ordinance to override other laws.- The provisions of this Ordinance shall apply notwithstanding anything to the contrary contained in any other law for the time being in force.

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[1] Inserted by the Finance Act, 2002
[2] Added by Finance Act, 2002
[3] Substituted for the words, brackets, comma and figure "Venture Capital Company and Venture Capital Fund Rules, 2001" by the Finance Act, 2004.
[4] The word "Company" substituted by the Finance Act, 2005.

CHAPTER II
CHARGE OF TAX

4. Tax on taxable income.- (1) Subject to this Ordinance, income tax shall be imposed for each tax year, at the rate or rates specified in Division I or II of Part I of the First Schedule, as the case may be, on every person who has taxable income for the year.

(2) 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 this 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.

(3) 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 under Part X of Chapter III; and then

(c) any tax credit allowed under sections [1][ ] 147 and 168.

(4) Certain classes of income (including the income of certain classes of persons) may be subject to –

(a) separate taxation as provided in sections 5, 6 and 7; or

(b) collection of tax under Division II of Part V of Chapter X or deduction of tax under Division III of Part V of Chapter X as a final tax on the income or the person.

(5) Income referred to in sub-section (4) shall be subject to tax as provided for in section 5, 6 or 7, or Part V of Chapter X, as the case may be, and shall not be included in the computation of taxable income in accordance with section 8 or 169, as the case may be.

[2][(6) Where, by virtue of any provision of this Ordinance, income tax is to be deducted at source or collected or paid in advance, it shall, as the case may be, be so deducted, collected or paid, accordingly [3][.]]

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[1] The figure and comma “140,” omitted by the Finance Act, 2003.
[2] Added by the Finance Act, 2003.
[3] The semicolon substituted by the Finance Act, 2005.

5. Tax on dividends.- (1) Subject to this Ordinance, a tax shall be imposed, at the rate specified in Division III of Part I of the First Schedule, on every person who receives a dividend from a [1][ ] company.

(2) The tax imposed under sub-section (1) on a person who receives a dividend shall be computed by applying the relevant rate of tax to the gross amount of the dividend.

(3) This section shall not apply to a dividend that is exempt from tax under this Ordinance.

6. Tax on certain payments to non-residents.- (1) Subject to this Ordinance, a tax shall be imposed, at the rate specified in Division IV of Part I of the First Schedule, on every non-resident person who receives any Pakistan-source royalty or fee for technical services.

(2) The tax imposed under sub-section (1) on a non-resident person shall be computed by applying the relevant rate of tax to the gross amount of the royalty or fee for technical services.

(3) This section shall not apply to –

(a) any royalty where the property or right giving rise to the royalty is effectively connected with a permanent establishment in Pakistan of the non-resident person;

(b) any fee for technical services where the services giving rise to the fee are rendered through a permanent establishment in Pakistan of the non-resident person; or

(c) any royalty or fee for technical services that is exempt from tax under this Ordinance.

(4) Any Pakistani-source royalty or fee for technical services received by a non-resident person to which this section does not apply by virtue of clause (a) or (b) of sub-section (3) shall be treated as income from business attributable to the permanent establishment in Pakistan of the person.

7. Tax on shipping and air transport income of a non-resident person.- (1) Subject to this Ordinance, a tax shall be imposed, at the rate specified in Division V of Part I of the First Schedule, on every non-resident person carrying on the business of operating ships or aircraft as the owner or charterer thereof in respect of –

[1] The word “resident” omitted by the Finance Act, 2003.

(a) the gross amount received or receivable (whether in or out of Pakistan) for the carriage of passengers, livestock, mail or goods embarked in Pakistan; and

(b) the gross amount received or receivable in Pakistan for the carriage of passengers, livestock, mail or goods embarked outside Pakistan.

(2) The tax imposed under sub-section (1) on a non-resident person shall be computed by applying the relevant rate of tax to the gross amount referred to in sub-section (1).

(3) This section shall not apply to any amounts exempt from tax under this Ordinance.

8. General provisions relating to taxes imposed under sections 5, 6 and 7.- Subject to this Ordinance, the tax imposed under Sections 5, 6 and 7 shall be a final tax on the amount in respect of which the tax is imposed and-

(a) such amount shall not be chargeable to tax under any head of income in computing the taxable income of the person who derives it for any tax year;

(b) no deduction shall be allowable under this Ordinance for any expenditure incurred in deriving the amount;

(c) the amount shall not be reduced by –

(i) any deductible allowance; or

(ii) the set off of any loss;

(d) the tax payable by a person under sections 5, 6 or 7 shall not be reduced by any tax credits allowed under this Ordinance; and

(e) the liability of a person under sections 5, 6 or 7 shall be discharged to the extent that –

(i) in the case of shipping and air transport income, the tax has been paid in accordance with section 143 or 144, as the case may be; or

(ii) in any other case, the tax payable has been deducted at source under Division III of Part V of Chapter X [1][:]

[2][Provided that the provision of this section shall not apply to dividend received by a company.]

CHAPTER III
TAX ON TAXABLE INCOME

PART I
COMPUTATION OF TAXABLE INCOME

9. Taxable income.- The taxable income of a person for a tax year shall be the total income of the person for the year reduced (but not below zero) by the total of any deductible allowances under Part IX of this Chapter of the person for the year.

10. Total Income.- The total income of a person for a tax year shall be the sum of the person's income under each of the heads of income for the year.

11. Heads of income.- (1) For the purposes of the imposition of tax and the computation of total income, all income shall be classified under the following heads, namely:–

(a) Salary;

[3][(b) Income from Property;

(c) Income from Business;

(d) Capital Gains; and

(e) Income from Other Sources.]

(2) Subject to this Ordinance, the income of a person under a head of income for a tax year shall be the total of the amounts derived by the person in that year that are chargeable to tax under the head as reduced by the total deductions, if any, allowed under this Ordinance to the person for the year under that head.

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[1] Full stop substituted by the Finance Act, 2007.
[2] Inserted by the Finance Act, 2007.
[3] Substituted for "(b) income from property;
(c) income from business;
(d) capital gains; and
(e) income from other sources."
by the Finance Act, 2002.

(3) Subject to this Ordinance, where the total deductions allowed under this Ordinance to a person for a tax year under a head of income exceed the total of the amounts derived by the person in that year that are chargeable to tax under that head, the person shall be treated as sustaining a loss for that head for that year of an amount equal to the excess.

(4) A loss for a head of income for a tax year shall be dealt with in accordance with Part VIII of this Chapter.

(5) The income of a resident person under a head of income shall be computed by taking into account amounts that are Pakistan-source income and amounts that are foreign-source income.

(6) The income of a non-resident person under a head of income shall be computed by taking into account only amounts that are Pakistan-source income.

PART II
HEAD OF INCOME: SALARY

12. Salary.- (1) Any salary received by an employee in a tax year, other than salary that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head “Salary”.

(2) Salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including -

(a) any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements (such as for unpleasant or dangerous working conditions);

(b) any perquisite, whether convertible to money or not;

(c) the amount of any allowance provided by an employer to an employee including a cost of living, subsistence, rent, utilities, education, entertainment or travel allowance, but shall not include any allowance solely expended in the performance of the employee’s duties of employment;

(d) the amount of any expenditure incurred by an employee that is paid or reimbursed by the employer, other than expenditure incurred on behalf of the employer in the performance of the employee’s duties of employment;

(e) the amount of any profits in lieu of, or in addition to, salary or wages, including any amount received –

(i) as consideration for a person's agreement to enter into an employment relationship;

(ii) as consideration for an employee's agreement to any conditions of employment or any changes to the employee's conditions of employment;

(iii) on termination of employment, whether paid voluntarily or under an agreement, including any compensation for redundancy or loss of employment and golden handshake payments;

(iv) from a provident or other fund, to the extent to which the amount is not a repayment of contributions made by the employee to the fund in respect of which the employee was not entitled to a deduction; and

(v) as consideration for an employee's agreement to a restrictive covenant in respect of any past, present or prospective employment;

(f) any pension or annuity, or any supplement to a pension or annuity; and

(g) any amount chargeable to tax as "Salary" under section 14.

(3) Where an employer agrees to pay the tax chargeable on an employee's salary, the amount of the employee's income chargeable under the head "Salary" shall be grossed up by the amount of tax payable by the employer.

(4) No deduction shall be allowed for any expenditure incurred by an employee in deriving amounts chargeable to tax under the head "Salary".

(5) For the purposes of this Ordinance, an amount or perquisite shall be treated as received by an employee from any employment regardless of whether the amount or perquisite is paid or provided –

(a) by the employee's employer, an associate of the employer, or by a third party under an arrangement with the employer or an associate of the employer;

(b) by a past employer or a prospective employer; or

(c) to the employee or to an associate of the employee [1][or to a third party under and agreement with the employee or an associate of the employee.]

(6) An employee who has received an amount referred to in sub-clause (iii) of clause (e) of sub-section (2) in a tax year may, by notice in writing to the Commissioner, elect for the amount to be taxed at the rate computed in accordance with the following formula, namely:–

A/B%

where –

A is the total tax paid or payable by the employee on the employee's total taxable income for the three preceding tax years; and

B is the employee's total taxable income for the three preceding tax years.

(7) Where –

(a) any amount chargeable under the head "Salary" is paid to an employee in arrears; and

(b) as a result the employee is chargeable at higher rates of tax than would have been applicable if the amount had been paid to the employee in the tax year in which the services were rendered,

the employee may, by notice in writing to the Commissioner, elect for the amount to be taxed at the rates of tax that would have been applicable if the salary had been paid to the employee in the tax year in which the services were rendered.

(8) An election under sub-section (6) or (7) shall be made by the due date for furnishing the employee's return of income or employer certificate, as the case may be, for the tax year in which the amount was received or by such later date as the Commissioner may allow.

13. Value of perquisites.- (1) For the purposes of computing the income of an employee for a tax year chargeable to tax under the head "Salary", the value of any perquisite provided by an employer to the employee in that year that is included in the employee's salary under section 12 shall be determined in accordance with this section.

[1] Inserted by the Finance Act, 2002

(2) This section shall not apply to any amount referred to in clause (c) or (d) of sub-section (2) of section 12.

[1][(3) Where, in a tax year, a motor vehicle is provided by an employer to an employee wholly or partly for the private use of the employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include an amount computed as may be prescribed.]

[2][ ]

(5) Where, in a tax year, the services of a housekeeper, driver, gardener or other domestic assistant is provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the total salary paid to the domestic assistant [3][such house keeper, driver, gardener or other domestic assistant] in that year for services rendered to the employee, as reduced by any payment made [4][to the employer] for such services.

(6) Where, in a tax year, utilities are provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the fair market value of the utilities provided, as reduced by any payment made by the employee for the utilities.

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[1] The original clause read as under:

"(3) Subject to sub-section (4), where, in a tax year, a motor vehicle is provided by an employer to an employee wholly or partly for the private use of the employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the amount computed in accordance with the following formula, namely:–

(A x B) – C

where,

A is the cost to the employer of acquiring the motor vehicle or, if the vehicle is leased by the employer, the fair market value of the vehicle at the commencement of the lease;

B is –

(a) where the vehicle is wholly for private use, fifteen per cent;

(b) where the vehicle is only partly for private use, seven and a half per cent; and

C is any payment made by the employee for the use of the motor vehicle or for its running costs."

[2] Omitted by the Finance Act, 2002. The omitted sub-section (4) read as follows:

"(4) Where a motor vehicle referred to in sub-section (3) is available to more than one employee for a tax year, the amount chargeable to tax under the head "Salary" for each such employee for that year shall be the amount determined under sub-section (3) divided by the number of employees permitted to use the vehicle."

[3] Substituted for "domestic assistant" by the Finance Act, 2002

[4] Substituted for "by the employee" by the Finance Act, 2002

[1][(7) Where a loan is made, on or after the 1st day of July, 2002, by an employer to an employee and either no profit on loan is payable by the employee or the rate of profit on loan is less than the benchmark rate, the amount chargeable to tax to the employee under the head "Salary" for a tax year shall include an amount equal to-

(a) the profit on loan computed at the benchmark rate, where no profit on loan is payable by the employee, or

(b) the difference between the amount of profit on loan paid by the employee in that tax year and the amount of profit on loan computed at the benchmark rate,

as the case may be.]

(8) For the purposes of this Ordinance not including sub-section (7), where the employee uses a loan referred to in sub-section (7) wholly or partly for the acquisition of [2][any asset or property] producing income chargeable to tax under any head of income, the employee shall be treated as having paid an amount as profit equal to the benchmark rate on the loan or that part of the loan used to acquire the [3][asset or property.]

(9) Where, in a tax year, an obligation of an employee to pay or repay an amount owing by the employee to the employer is waived by the employer, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the amount so waived.

(10) Where, in a tax year, an obligation of an employee to pay or repay an amount [4][owing] by the employee to another person is paid by the employer, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the amount so paid.

(11) Where, in a tax year, property is transferred or services are provided by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the fair market value of the property or services determined at the time the property is transferred or the

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[1] Substituted for "sub-section (7)" by the Finance Act, 2002. The substituted sub-section (7) read as follows:

"(7) Where, in a tax year, a loan is made by an employer to an employee, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the difference between the profit paid by the employee on the loan in the tax year, if any, and the profit which would have been paid by the employee on the loan for the year if the loan had been made at the benchmark rate for that year."

[2] Substituted for the word "property" by the Finance Act, 2002

[3] Substituted for the word "property" by the Finance Act, 2002

[4] Substituted for the word "owed" by the Finance Act, 2002

services are provided, as reduced by any payment made by the employee for the property or services.

[1][(12) Where, in the tax year, accommodation or housing is provided by an employer to an employee, the amount chargeable to tax to the employee under the head “Salary" for that year shall include an amount computed as may be prescribed.]

(13) Where, in a tax year, an employer has provided an employee with a perquisite which is not covered by sub-sections (3) through (12), the amount chargeable to tax to the employee under the head “Salary” for that year shall include the fair market value of the perquisite, [2][except where the rules, if any, provide otherwise,] determined at the time it is provided, as reduced by any payment made by the employee for the perquisite.

[3][(14) In this section,-

(a) “benchmark rate” means --

(i) for the tax year commencing on the first day of July, 2002, a rate of five percent per annum; and

(ii) for the tax years next following the tax year referred to in sub-clause (i), the rate for each successive year taken at one percent above the rate applicable for the immediately preceding tax year, but not exceeding such rate, if any, as the Federal Government may, by notification, specify in respect of any tax year;

(b) “services” includes the provision of any facility; and

(c) “utilities” includes electricity, gas, water and telephone.]

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[1] Substituted by Finance Act, 2002. The substituted sub-section (12) read as follows:

“(12) Where, in a tax year, accommodation or housing is provided by an employer to an employee, the amount chargeable to tax to the employee under the head “Salary” for that year shall include –

(a) where the employer or an associate owns the accommodation or housing, the fair market rent of the accommodation or housing; or

(b) in any other case, the rent paid by the employer for the accommodation or housing, as reduced by any payment made by the employee for the accommodation or housing.”

[2] Inserted by the Finance Act, 2002

[3] Substituted by the Finance Act, 2002. The substituted sub-section (14) read as follows:

“(14) In this section, -

“benchmark rate” means the State Bank of Pakistan discount rate at the commencement of the tax year;

“services” includes the making available of any facility; and

“utilities” includes electricity, gas, water and telephone.”

14. Employee share schemes.- (1) The value of a right or option to acquire shares under an employee share scheme granted to an employee shall not be chargeable to tax.

(2) Subject to sub-section (3), where, in a tax year, an employee is issued with shares under an employee share scheme including as a result of the exercise of an option or right to acquire the shares, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the fair market value of the shares determined at the date of issue, as reduced by any consideration given by the employee for the shares including any amount given as consideration for the grant of a right or option to acquire the shares.

(3) Where shares issued to an employee under an employee share scheme are subject to a restriction on the transfer of the shares -

(a) no amount shall be chargeable to tax to the employee under the head "Salary" until the earlier of –

(i) the time the employee has a free right to transfer the shares; or

(ii) the time the employee disposes of the shares; and

(b) the amount chargeable to tax to the employee shall be the fair market value of the shares at the time the employee has a free right to transfer the shares or disposes of the shares, as the case may be, as reduced by any consideration given by the employee for the shares including any amount given as consideration for the grant of a right or option to acquire the shares.

(4) For purposes of this Ordinance, where sub-section (2) or (3) applies, the cost of the shares to the employee shall be the sum of –

(a) the consideration, if any, given by the employee for the shares;

(b) the consideration, if any, given by the employee for the grant of any right or option to acquire the shares; and

(c) the amount chargeable to tax under the head "Salary" under those sub-sections.

(5) Where, in a tax year, an employee disposes of a right or option to acquire shares under an employee share scheme, the amount chargeable to tax to the employee under the head "Salary" for that year shall include the amount of

any gain made on the disposal computed in accordance with the following formula, namely:–

A-B

where –

A is the consideration received for the disposal of the right or option; and

B is the employee's cost in respect of the right or option.

(6) In this sub-section, "employee share scheme" means any agreement or arrangement under which a company may issue shares in the company to –

(a) an employee of the company or an employee of an associated company; or

(b) the trustee of a trust and under the trust deed the trustee may transfer the shares to an employee of the company or an employee of an associated company.

PART III
HEAD OF INCOME: INCOME FROM PROPERTY

15. Income from property.- (1) The rent received or receivable by a person [1][for] a tax year, other than rent exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head "Income from Property".

(2) Subject to sub-section (3), "rent" means any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, or the right to use or occupy, the land or building, and includes any forfeited deposit paid under a contract for the sale of land or a building.

(3) This section shall not apply to any rent received or receivable by any person in respect of the lease of a building together with plant and machinery and such rent shall be chargeable to tax under the head "Income from Other Sources".

[2][(3A) Where any amount is included in rent received or receivable by any person for the provision of amenities, utilities or any other service connected with the renting of the building, such amount shall be chargeable to tax under the head "Income from Other Sources".]

(4) Subject to sub-section (5), where the rent received or receivable by a person is less than the fair market rent for the property, the person shall be

[1] Substituted for the word "in" by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2003.

treated as having derived the fair market rent for the period the property is let on rent in the tax year.

(5) Sub-section (4) shall not apply where the fair market rent is included in the income of the lessee chargeable to tax under the head "Salary".

[1][(6) Income under this section shall be liable to tax at the rate specified in Division VI of Part I of the First Schedule.]

[2][(7) the provisions of sub-section (1), shall not apply in respect of a taxpayer who-

(i) is an individual or association of persons;

(ii) derives income chargeable to tax under this section not exceeding Rs. 150,000 in a tax year; and

(iii) does not derive taxable income under any other head.]

16. Non-adjustable amounts received in relation to buildings.- (1) Where the owner of a building receives from a tenant an amount which is not adjustable against the rent payable by the tenant, the amount shall be treated as rent chargeable to tax under the head "Income from Property" in the tax year in which it was received and the following nine tax years in equal proportion.

(2) Where an amount (hereinafter referred to as the "earlier amount") referred to in sub-section (1) is refunded by the owner to the tenant on termination of the tenancy before the expiry of ten years, no portion of the amount shall be allocated to the tax year in which it is refunded or to any subsequent tax year except as provided for in sub-section (3).

(3) Where the circumstances specified in sub-section (2) occur and the owner lets out the building or part thereof to another person (hereinafter referred to as the "succeeding tenant") and receives from the succeeding tenant any amount (hereinafter referred to as the "succeeding amount") which is not adjustable against the rent payable by the succeeding tenant, the succeeding amount as reduced by such portion of the earlier amount as was charged to tax shall be treated as rent chargeable to tax under the head "Income from Property" as specified in sub-section (1).

[3][ ]

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[1] Inserted by the Finance Act, 2006.
[2] Inserted by the Finance Act, 2006.
[3] Omitted by the Finance Act, 2006. The omitted section 17 read as follows:

"**17. Deductions in computing income chargeable under the head "Income from Property".-** (1) In computing the income of a person chargeable to tax under the head "Income from Property" for a tax year, a deduction shall be allowed for the following expenditures or allowances, namely:–

(a) In respect of repairs to a building, an allowance equal to one-fifth of the rent chargeable to tax in respect of the building for the year, computed before any deduction allowed under this section;
(b) any premium paid or payable by the person in the year to insure the building against the risk of damage or destruction;
(c) any local rate, tax, charge, or cess in respect of the property or the rent from the property paid or payable by the person to any local authority or government in the year, not being any tax payable under this Ordinance;
(d) any ground rent paid or payable by the person in the year in respect of the property;
(e) any profit paid or payable by the person in the year on any money borrowed including by way of mortgage, to acquire, construct, renovate, extend, or reconstruct the property;
(f) where the property has been acquired, constructed, renovated, extended, or reconstructed by the person with capital contributed by the House Building Finance Corporation or a scheduled bank under a scheme of investment in property on the basis of sharing the rent made by the Corporation or bank, the share in rent [A][and share towards appreciation in the value of property] (excluding the return of capital, if any) from the property paid or payable by the person to the said Corporation or the bank in the year under that scheme;
[B][(fa) where the property is subject to mortgage or other capital charge, the amount of profit or interest paid on such mortgage or charge;]
(g) any expenditure (not exceeding six per cent of the rent chargeable to tax in respect of the property for the year computed before any deduction allowed under this section) paid or payable by the person in the year for the purpose of collecting the rent due in respect of the property;
(h) any expenditure paid or payable by the person in the tax year for legal services acquired to defend the person's title to the property or any suit connected with the property in a Court; and
(i) where there are reasonable grounds for believing that any unpaid rent in respect of the property is irrecoverable, an allowance equal to the unpaid rent where –

(i) the tenancy was bona fide, the defaulting tenant has vacated the property or steps have been taken to compel the tenant to vacate the property, and the defaulting tenant is not in occupation of any other property of the person;
(ii) the person has taken all reasonable steps to institute legal proceedings for the recovery of the unpaid rent or has reasonable grounds to believe that legal proceedings would be useless; and
(iii) the unpaid rent has been included in the income of the person chargeable to tax under the head "Income from Property" for the tax year in which the rent was due and tax has been duly paid on such income.

(2) Where any unpaid rent allowed as a deduction under clause (i) of sub-section (1) is wholly or partly recovered, the amount recovered shall be chargeable to tax in the tax year in which it is recovered.

(3) Where a person has been allowed a deduction for any expenditure incurred in deriving rent chargeable to tax under the head "Income from Property" and the person has not paid the liability or a part of the liability to which the deduction relates within three years of the end of the tax year in which the deduction was allowed, the unpaid amount of the liability shall be chargeable to tax under the head "Income from Property" in the first tax year following the end of the three years.

(4) Where an unpaid liability is chargeable to tax as a result of the application of sub-section (3) and the person subsequently pays the liability or a part of the liability, the person shall be allowed a deduction for the amount paid in the tax year in which the payment is made.

(5) Any expenditure allowed to a person under this section as a deduction shall not be allowed as a deduction in computing the income of the person chargeable to tax under any other head of income.

(6) The provisions of section 21 shall apply in determining the deductions allowed to a person under this section in the same manner as they apply in determining the deductions allowed in computing the income of a person chargeable to tax under the head "Income from Business"."

[A] Inserted by the Finance Act, 2002.
[B] Inserted by the Finance Act, 2003.

PART IV
HEAD OF INCOME: INCOME FROM BUSINESS

Division I
Income from Business

18. Income from business.- (1) The following incomes of a person for a tax year, other than income exempt from tax under this 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; and

(e) any management fee derived by a management company (including a modaraba [1][management company).]

(2) 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".

[2][(3) 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 under the head "Income from Business".]

[3][(4) Any amount received by a banking company or a non-banking finance company, where such amount represents distribution by a mutual fund [4][or a Private Equity and Venture Capital Fund] out of its income from profit on

[1] Inserted by the Finance Act, 2002
[2] Added by the Finance Act, 2003.
[3] Added by the Finance Act, 2003.
[4] Inserted by the Finance Act, 2007.

debt, shall be chargeable to tax under the head “Income from Business” and not under the head “Income from Other Sources”.]

19. Speculation business.- (1) Where a person carries on a speculation business –

(a) that business shall be treated as distinct and separate from any other business carried on [1][by] the person;

(b) this Part shall apply separately to the speculation business and the other business of the person;

(c) section 67 shall apply as if the profits and gains arising from a speculation business were a separate head of income;

(d) any profits and gains arising from the speculation business for a tax year computed in accordance with this Part shall be included in the person’s income chargeable to tax under the head “Income from Business” for that year; and

(e) any loss of the person arising from the speculation business sustained for a tax year computed in accordance with this Part shall be dealt with under section 58.

(2) In this section, “speculation business” means any business in which a contract for the purchase and sale of any commodity (including [2][stocks] and shares) is periodically or ultimately settled otherwise than by the actual delivery or transfer of the commodity, but does not include a business in which –

(a) a contract in respect of raw materials or merchandise is entered into by a person in the course of a manufacturing or mercantile business to guard against loss through future price fluctuations for the purpose of fulfilling the person’s other contracts for the actual delivery of the goods to be manufactured or merchandise to be sold;

(b) a contract in respect of stocks and shares is entered into by a dealer or investor therein to guard against loss in the person’s holding of stocks and shares through price fluctuations; or

(c) a contract is entered into by a member of a forward market or stock exchange in the course of any transaction in the nature of jobbing [3][arbitrage] to guard against any loss which may

[1] Inserted by the Finance Act, 2002
[2] The word “stock” substituted by the Finance Act, 2005.
[3] The word “arbitrate” substituted by the Finance Act, 2005.

arise in the ordinary course of the person's business as such member.

Division II
Deductions: General Principles

20. Deductions in computing income chargeable under the head "Income from Business".- (1) Subject to this Ordinance, in computing the income of a person chargeable to tax under the head "Income from Business" for a tax year, a deduction shall be allowed for any expenditure incurred by the person in the year [1][wholly and exclusively for the purposes of business].

(2) Subject to this Ordinance, where the expenditure referred to in sub-section (1) is incurred in acquiring a depreciable asset or an intangible with a useful life of more than one year or is pre-commencement expenditure, the person must depreciate or amortise the expenditure in accordance with sections 22, 23, 24 and 25.

[2][(3) Subject to this Ordinance, where any expenditure is incurred by an amalgamated company on legal and financial advisory services and other administrative cost relating to planning and implementation of amalgamation, a deduction shall be allowed for such expenditure.]

21. Deductions not allowed.- Except as otherwise provided in this 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 salary, rent, brokerage or commission, profit on debt, payment to non-resident, payment for services or fee paid by the person from which the person is required to deduct tax under Division III of Part V of Chapter X or section 233 of chapter XII, [3][unless] the person has [4][paid or] deducted and paid the tax as required by Division IV of Part V of Chapter X;

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[1] Substituted for the words "to the extent the expenditure is incurred in deriving income from business chargeable to tax" by the Finance Act, 2004.
[2] Added by the Finance Act, 2002
[3] Substituted for the word "until" by the Finance Act, 2003.
[4] Inserted by the Finance Act, 2003.

(d) any entertainment expenditure in excess of such limits [1][or in violation of such conditions] as may be prescribed;

(e) any contribution made by the person to a fund that is not a recognized provident fund [2][approved pension fund], approved superannuation fund, or approved gratuity fund;

(f) 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";

(g) any fine or penalty paid or payable by the person for the violation of any law, rule or regulation;

(h) any personal expenditures incurred by the person;

(i) any amount carried to a reserve fund or capitalised in any way;

(j) any profit on debt, brokerage, commission, salary or other remuneration paid by an association of persons to a member of the association;

[3][ ]

[4][(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

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[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2005.
[3] Omitted by the Finance Act, 2006. The omitted clause (k) read as follows:
"(k) any expenditure paid or payable by an employer on the provision of perquisites and allowances to an employee where the sum of the value of the perquisites computed under section 13 and the amount of the allowances exceeds fifty per cent of the employee's salary for a tax year (excluding the value of the perquisites or amount of the allowances);"
[4] Substituted by the Finance Act, 2006. The substituted clause (l) read as follows:
"(l) any expenditure paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees made other than by a crossed bank cheque or crossed bank draft, except expenditures not exceeding [A][B][ten] thousand rupees or on account of freight charges, travel fare, postage, utilities or payment of taxes, duties, [C][fee], fines or any other statutory obligation;]"
[A] The words "five hundred rupees or on account of postage or utility bills" earlier substituted by the Finance Act, 2002.
[B] The "five" earlier substituted by the Finance Act, 2004.
[C] The word "fees" earlier substituted by the Finance Act, 2003.

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:

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;]

(m) any salary paid or payable exceeding [1][ten] thousand rupees per month other than by a crossed cheque or direct transfer of funds to the employee's bank account; and

(n) except as provided in Division III of this Part, any expenditure paid or payable of a capital nature.

Division III
Deductions: Special Provisions

22. Depreciation.- (1) Subject to this section, a person shall be allowed a deduction for the depreciation of the person's depreciable assets used in the person's business in the tax year.

[1] Substituted for the word "five" by the Finance Act, 2004.

(2) Subject to [1][sub-section] (3) [2][ ], the depreciation deduction for a tax year shall be computed by applying the rate specified in Part I of the Third Schedule against the written down value of the asset at the beginning of the year.

(3) Where a depreciable asset is used in a tax year partly in deriving income from business chargeable to tax and partly for another use, the deduction allowed under this section for that year shall be restricted to the fair proportional part of the amount that would be allowed if the asset were wholly used to [3][derive] income from business chargeable to tax.

[4][ ]

(5) The written down value of a depreciable asset of a person at the beginning of the tax year shall be –

(a) where the asset was acquired in the tax year, the cost of the asset to the person as reduced by any initial allowance in respect of the asset under section 23; or

(b) in any other case, the cost of the asset to the person as reduced by the total depreciation deductions (including any initial allowance under section 23) allowed to the person in respect of the asset in previous tax years.

(6) Where sub-section (3) applies to a depreciable asset for a tax year, the written down value of the asset shall be computed on the basis that the asset has been solely used to derive income from business chargeable to tax.

(7) The total deductions allowed to a person during the period of ownership of a depreciable asset under this section and section 23 shall not exceed the cost of the asset.

(8) Where, in any tax year, a person disposes of a depreciable asset, no depreciation deduction shall be allowed under this section for that year and –

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[1] The word “sub-sections” substituted by the Finance Act, 2005.
[2] The word, brackets and figure “and (4)” omitted by Finance Act, 2004.
[3] Substituted for the word “derived” by the Finance Act, 2003.
[4] Omitted by the Finance Act, 2004. The omitted sub-section (4) reads as follows:

“(4) Where a depreciable asset is not used for the whole of the tax year in deriving income from business chargeable to tax, the deduction allowed under this section shall be computed according to the following formula, namely:–

A x B/C

where –

A is the amount of depreciation computed under sub-section (2) or (3), as the case may be;
B is the number of months in the tax year the asset is used in deriving income from business chargeable to tax; and
C is the number of months in the tax year.”

(a) if the consideration received exceeds the written down value of the asset at the time of disposal, the excess shall be chargeable to tax in that year under the head "Income from Business"; or

(b) if the consideration received is less than the written down value of the asset at the time of disposal, the difference shall be allowed as a deduction in computing the person's income chargeable under the head "Income from Business" for that year.

(9) Where sub-section (3) applies, the written down value of the asset for the purposes of sub-section (8) shall be increased by the amount that is not allowed as a deduction as a result of the application of sub-section (3).

(10) Where clause (a) of sub-section (13) applies, the [1][consideration received on disposal] of the passenger transport vehicle for the purposes of sub-section (8) shall be computed according to the following formula –

A x B/C

where –

A is the [2][amount] received on disposal of the vehicle;

B is the amount referred to in clause (a) of sub-section (13); and

C is the actual cost of acquiring the vehicle.

(11) Subject to sub-sections (13) and (14), the rules in Part III of Chapter IV shall apply in determining the cost and consideration received in respect of a depreciable asset for the purposes of this section.

[3][(12) The depreciation deductions allowed to a leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution in respect of assets owned by the leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution and leased to another person shall be deductible only against the lease rental income derived in respect of such assets.]

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[1] Substituted for the words "written down value" by the Finance Act, 2004.
[2] Substituted for the word "consideration" by the Finance Act, 2004.
[3] Substituted by the Finance Act, 2002. The substituted sub-section (12) read as follows:
"(12) The depreciation deductions allowed to a leasing company in respect of assets owned by the company and leased to another person shall be deductible only against the lease rental income derived in respect of such assets."

(13) For the purposes of this section, -

(a) the cost of a depreciable asset being a passenger transport vehicle not plying for hire shall not exceed [one million] rupees;

[1][Provided that the prescribed limit of one million rupees shall not apply to passenger transport vehicles, not plying for hire, acquired on or after the first day of July, 2005.]

(b) the cost of immovable property or a structural improvement to immovable property shall not include the cost of the land;

[2][(c) any asset owned by a leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution and leased to another person is treated as used in the leasing company or the investment bank or the modaraba or the scheduled bank or the development finance institution's business; and]

(d) where the consideration received on the disposal of immovable property exceeds the cost of the property, the consideration received shall be treated as the cost of the property.

(14) Where a depreciable asset that has been used by a person in Pakistan is exported or transferred out of Pakistan, the person shall be treated as having disposed of the asset at the time of the export or transfer for a consideration received equal to the cost of the asset.

(15) In this section, -

"depreciable asset" means any tangible movable property, immovable property (other than unimproved land), or structural improvement to immovable property, owned by a person that –

(a) has a normal useful life exceeding one year;

(b) is likely to lose value as a result of normal wear and tear, or obsolescence; and

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[1] Inserted by the Finance Act, 2006.

[2] Substituted by the Finance Act, 2002. The substituted clause read as follows:

"(c) an asset owned by a financial institution or leasing company and leased to another person is treated as used in the financial institution or leasing company's business; and".

(c) is used wholly or partly by the person in deriving income from business chargeable to tax,

but 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 this Ordinance for the entire cost of the property or improvement in the tax year in which the property is acquired or improvement made by the person; and

"structural improvement" in relation to immovable property, includes any building, road, driveway, car park, railway line, pipeline, bridge, tunnel, airport runway, canal, dock, wharf, retaining wall, fence, power lines, water or sewerage pipes, drainage, landscaping or dam.

23. Initial allowance.- (1) A person who places an eligible depreciable asset into service in Pakistan for the first time in a tax year shall be allowed a deduction (hereinafter referred to as an "initial allowance") computed in accordance with sub-section (2), provided the asset is [1][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].

(2) The amount of the initial allowance of a person shall be computed by applying the rate specified in Part II of the Third Schedule against the cost of the asset.

(3) The rules in section 76 shall apply in determining the cost of an eligible depreciable asset for the purposes of this section.

[2][(4) A deduction allowed under this section to a leasing company or an investment bank or a modaraba or a scheduled bank or a development finance institution in respect of assets owned by the leasing company or the investment bank or the modaraba or the scheduled bank or the development finance institution and leased to another person shall be deducted only against the leased rental income derived in respect of such assets.]

(5) In this section, "eligible depreciable asset" means a depreciable asset [3][ ] other than –

(a) any road transport vehicle unless the vehicle is plying for hire;

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[1] Substituted for the words "wholly and exclusively used by the person in deriving income from business chargeable to tax" by the Finance Act, 2004.

[2] Substituted by the Finance Act, 2002. The substituted sub-section (4) read as follows:

"(4) A deduction allowed under this section to a leasing company in respect of assets owned by the company and leased to another person shall be deductible only against the lease rental income derived in respect of such assets."

[3] The words and comma "that is plant and machinery," omitted by the Finance Act, 2003.

(b) any furniture, including fittings;

(c) any plant or machinery [1][that has been used previously in Pakistan]; or

(d) any plant or machinery in relation to which a deduction has been allowed under another section of this Ordinance for the entire cost of the asset in the tax year in which the asset is acquired.

24. Intangibles.- (1) A person shall be allowed an amortisation deduction in accordance with this section in a tax year for the cost of the person's intangibles–

(a) that are wholly or partly used by the person in the tax year in deriving income from business chargeable to tax; and

(b) that have a normal useful life exceeding one year.

(2) No deduction shall be allowed under this section where a deduction has been allowed under another section of this Ordinance for the entire cost of the intangible in the tax year in which the intangible is acquired.

(3) Subject to sub-section (7), the amortization deduction of a person for a tax year shall be computed according to the following formula, namely:–

$$\frac{\mathbf{A}}{\mathbf{B}}$$

where –

A is the cost of the intangible; and

B is the normal useful life of the intangible in whole years.

(4) An intangible –

(a) with a normal useful life of more than ten years; or

(b) that does not have an ascertainable useful life,

shall be treated as if it had a normal useful life of ten years.

(5) Where an intangible is used in a tax year partly in deriving income from business chargeable to tax and partly for another use, the deduction

[1] Substituted for the words "that is acquired second hand" by the Finance Act, 2003.

allowed under this section for that year shall be restricted to the fair proportional part of the amount that would be allowed if the intangible were wholly used to derive income from business chargeable to tax.

(6) Where an intangible is not used for the whole of the tax year in deriving income from business chargeable to tax, the deduction allowed under this section shall be computed according to the following formula, namely:–

A x B/C

where –

A is the amount of [1][amortization] computed under sub-section (3) or (5), as the case may be;

B is the number of days in the tax year the intangible is used in deriving income from business chargeable to tax; and

C is the number of days in the tax year.

(7) The total deductions allowed to a person under this section in the current tax year and all previous tax years in respect of an intangible shall not exceed the cost of the intangible.

(8) Where, in any tax year, a person disposes of an intangible, no amortisation deduction shall be allowed under this section for that year and –

(a) if the consideration received by the person exceeds the written down value of the intangible at the time of disposal, the excess shall be income of the person chargeable to tax in that year under the head “Income from Business”; or

(b) if the consideration received is less than the written down value of the intangible at the time of disposal, the difference shall be allowed as a deduction in computing the person’s income chargeable under the head “Income from Business” in that year.

(9) For the purposes of sub-section (8) –

(a) the written down value of an intangible at the time of disposal shall be the cost of the intangible reduced by the total deductions allowed to the person under this section in respect of the intangible or, where the intangible is not wholly used to derive income chargeable to tax, the amount that would be

[1] Substituted for the word “depreciation” by the Finance Act, 2002

allowed under this section if the intangible were wholly so used; and

(b) the consideration received on disposal of an intangible shall be determined in accordance with section 77.

(10) For the purposes of this section, an intangible that is available for use on a day (including a non-working day) is treated as used on that day.

(11) In this section, -

"cost" in relation to an intangible, means any expenditure incurred in acquiring or creating the intangible, including any expenditure incurred in improving or renewing the intangible; and

"intangible" means any patent, invention, design or model, secret formula or process, copyright [1][, trade mark, scientific or technical knowledge, computer software, motion picture film, export quotas, franchise, licence, intellectual property], or other like property or right, contractual rights and any expenditure that provides an advantage or benefit for a period of more than one year (other than expenditure incurred to acquire a depreciable asset or unimproved land).

25. Pre-commencement expenditure.- (1) A person shall be allowed a deduction for any pre-commencement expenditure in accordance with this section.

(2) Pre-commencement expenditure shall be amortized on a straight-line basis at the rate specified in Part III of the Third Schedule.

(3) The total deductions allowed under this section in the current tax year and all previous tax years in respect of an amount of pre-commencement expenditure shall not exceed the amount of the expenditure.

(4) No deduction shall be allowed under this section where a deduction has been allowed under another section of this Ordinance for the entire amount of the pre-commencement expenditure in the tax year in which it is incurred.

(5) In this section, "pre-commencement expenditure" means any expenditure incurred before the commencement of a business wholly and exclusively to derive income chargeable to tax, including the cost of feasibility studies, construction of prototypes, and trial production activities, but shall not

[1] Inserted by the Finance Act, 2003.

include any expenditure which is incurred in acquiring land, or which is depreciated or amortised under section 22 or 24.

26. Scientific research expenditure.- (1) A person shall be allowed a deduction for scientific research expenditure incurred in Pakistan in a tax year wholly and exclusively for the purpose of deriving income from business chargeable to tax.

(2) In this section –

"scientific research" means any [1][activity] [2][undertaken in Pakistan] in the fields of natural or applied science for the development of human knowledge;

"scientific research expenditure" means any expenditure incurred by a person on scientific research [3][undertaken in Pakistan] for the purposes of developing the person's business, including any contribution to a scientific research institution to undertake scientific research for the purposes of the person's business, other than expenditure incurred –

(a) in the acquisition of any depreciable asset or intangible;

(b) in the acquisition of immovable property; or

(c) for the purpose of ascertaining the existence, location, extent or quality of a natural deposit; and

"scientific research institution" means any institution certified by the [4][Board] as conducting scientific research in Pakistan.

27. Employee training and facilities.- A person shall be allowed a deduction for any expenditure (other than capital expenditure) incurred in a tax year in respect of–

(a) any educational institution or hospital in Pakistan established for the benefit of the person's employees and their dependents;

(b) any institute in Pakistan established for the training of industrial workers recognized, aided, or run by the Federal

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[1] Substituted for the word "activities" by the Finance Act, 2002
[2] Inserted by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2003.
[4] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

Government [1][or a Provincial Government] or a local authority; or

(c) the training of any person, being a citizen of Pakistan, in connection with a scheme approved by the [2][Board] for the purposes of this section.

28. Profit on debt, financial costs and lease payments.- (1) Subject to this Ordinance, a deduction shall be allowed for a tax year for –

(a) any profit on debt incurred by a person in the tax year to the extent that the proceeds or benefit of the debt have been used by the person [3][for the purposes of business];

(b) any lease rental incurred by a person in the tax year to a scheduled bank, financial institution, an approved modaraba, an approved leasing company or a Special Purpose Vehicle on behalf of the Originator for an asset used by the person [4][for the purposes of business];

(c) any amount incurred by a person in the tax year to a modaraba or a participation term certificate holder for any funds borrowed and used by the person [5][for the purposes of business];

(d) any amount incurred by a scheduled bank in the tax year to a person maintaining a profit or loss sharing account or a deposit with the bank as a distribution of profits by the bank in respect of the account or deposit;

(e) any amount incurred by the House Building Finance Corporation (hereinafter referred to as "the Corporation") constituted under the House Building Finance Corporation Act, 1952 (XVIII of 1952), in the tax year to the State Bank of Pakistan (hereinafter referred to as "the Bank") as the share of the Bank in the profits derived by the Corporation on its investment in property made under a scheme of partnership in profit and loss, where the investment is provided by the Bank

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[1] Inserted by the Finance Act, 2003.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] Substituted for the words "in deriving income chargeable to tax under the head "Income from Business" by the Finance Act, 2004.

[4] Substituted for the words "in deriving income chargeable to tax under the head "Income from Business" by the Finance Act, 2004.

[5] Substituted for the words "in deriving income chargeable to tax under the head "Income from Business" by the Finance Act, 2004.

under the House Building Finance Corporation (Issue and Redemption of Certificates) Regulations, 1982;

(f) any amount incurred by the National Development Leasing Corporation Limited (hereinafter referred to as "the Corporation") in the tax year to the State Bank of Pakistan (hereinafter referred to as "the Bank") as the share of the Bank in the profits derived by the Corporation on its leasing operations financed out of a credit line provided by the Bank on a profit and loss sharing basis;

(g) any amount incurred by the Small Business Finance Corporation (hereinafter referred to as "the Corporation") in the tax year to the State Bank of Pakistan (hereinafter referred to as the "Bank") as the share of the Bank in the profits derived by the Corporation on investments made in small business out of a credit line provided by the Bank on a profit and loss sharing basis;

(h) any amount incurred by a person in the tax year to a banking company under a scheme of musharika representing the bank's share in the profits of the musharika;

(i) any amount incurred by a person in the tax year to a certificate holder under a musharika scheme approved by the Securities and Exchange Commission and Religious Board formed under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980) representing the certificate holder's share in the profits of the musharika; or

(j) the financial cost of the securitization of receivables incurred by an Originator in the tax year from a Special Purpose Vehicle being the difference between the amount received by the Originator and the amount of receivables securitized from a Special Purpose Vehicle.

(2) Notwithstanding any other provision in this Ordinance, where any assets are transferred by an Originator, as a consequence of securitisation, to a Special Purpose Vehicle, it shall be treated as a financing transaction irrespective of the method of accounting adopted by the Originator.

(3) In this section, -

"approved leasing company" means a leasing company approved by the [1][Board] for the purposes of clause (b) of sub-section (1); and
"approved modaraba" means a modaraba approved by the [2][Board] for the purposes of clause (b) of sub-section (1).

29. 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 under this section for a tax year shall not exceed the amount of the debt written off in the accounts of the person in the tax year.

(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.

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[1]**[29A. Provision regarding consumer loans.-** (1) A banking company [2][or non-banking finance company or the House Building Finance Corporation] shall be allowed a deduction, not exceeding three per cent of the income for the tax year, arising out of consumer loans for creation of a reserve to off-set bad debts arising out of such loans.

(2) Where bad debt can not be wholly set off against reserve, any amount of bad debt, exceeding the reserves shall be carried forward for adjustment against the reserve for the following years.]

[3][*Explanation*.- In this section, "consumer loan" means a loan of money or its equivalent made by a banking company or a non-banking finance company or the House Building Finance Corporation to a debtor (consumer) and the loan is entered primarily for personal, family or household purposes and includes debts created by the use of a lender credit card or similar arrangement as well as insurance premium financing.]

30. Profit on non-performing debts of a banking company or development finance institution.- (1) A banking company or development finance institution [4][or Non-Banking Finance Company (NBFC) or modaraba] shall be allowed a deduction for any profit accruing on a non-performing debt of the banking company or institution [5][or Non-Banking Finance Company (NBFC) or modaraba] where the profit is credited to a suspense account in accordance with the Prudential Regulations for Banks or [6][Non-Banking Finance Company or modaraba] Non-bank Financial Institutions, as the case may be, issued by the State Bank of Pakistan [7][or the Securities and Exchange Commission of Pakistan].

(2) Any profit deducted under sub-section (1) that is subsequently recovered by the banking company or development finance institution [8][or Non-Banking Finance Company (NBFC) or modaraba] shall be included in the income of the company or institution [9][or Non-Banking Finance Company (NBFC) or modaraba] chargeable under the head "Income from Business" for the tax year in which it is recovered.

31. Transfer to participatory reserve.- (1) Subject to this section, a company shall be allowed a deduction for a tax year for any amount transferred

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[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2004.
[3] Added by the Finance Act, 2004.
[4] Inserted by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2003.
[6] Substituted for the words "Non-bank Financial Institutions" by the Finance Act, 2003.
[7] Inserted by the Finance Act, 2003.
[8] Inserted by the Finance Act, 2003.
[9] Inserted by the Finance Act, 2003.

by the company in the year to a participatory reserve created under section 120 of the Companies Ordinance, 1984 (XLVII of 1984) in accordance with an agreement relating to participatory redeemable capital entered into between the company and a banking company as defined in the Banking Tribunals Ordinance, 1984.

(2) The deduction allowed under subsection (1) for a tax year shall be limited to five per cent of the value of the company's participatory redeemable capital.

(3) No deduction shall be allowed under subsection (1) if the amount of the tax exempted accumulation in the participatory reserve exceeds ten per cent of the amount of the participatory redeemable capital.

(4) Where any amount accumulated in the participatory reserve of a company has been allowed as a deduction under this section is applied by the company towards any purpose other than payment of share of profit on the participatory redeemable capital or towards any purpose not allowable for deduction or exemption under this Ordinance the amount so applied shall be included in the income from business of the company in the tax year in which it is so applied.

Division IV
Tax Accounting

32. Method of accounting.- [1][(1) Subject to this Ordinance, a person's income chargeable to tax shall be computed in accordance with the method of accounting regularly employed by such person.]

(2) Subject to sub-section (3), a company shall account for income chargeable to tax under the head "Income from Business" on an accrual basis, while other persons may account for such income on a cash or accrual basis.

(3) The [2][Board] may prescribe that any class of persons shall account for income chargeable to tax under the head "Income from Business" on a cash or accrual basis.

(4) A person may apply, in writing, for a change in the person's method of accounting and the Commissioner may, by [3][order] in writing, approve such an application but only if satisfied that the change is necessary to clearly reflect the person's income chargeable to tax under the head "Income from Business".

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[1] Substituted by the Finance Act, 2003. The substituted sub-section (1) read as follows:
"(1) A person's income chargeable to tax under the head "Income from Business" shall be computed in accordance with the method of accounting regularly employed by the person."

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] Substituted for the word "notice" by the Finance Act, 2003.

(5) If a person's method of accounting has changed, the person shall make adjustments to items of income, deduction, or credit, or to any other items affected by the change so that no item is omitted and no item is taken into account more than once.

33. Cash-basis accounting.- A person accounting for income chargeable to tax under the head "Income from Business" on a cash basis shall derive income when it is received and shall incur expenditure when it is paid.

34. Accrual-basis accounting.- (1) A person accounting for income chargeable to tax under the head "Income from Business" on an accrual basis shall derive income when it is due to the person and shall incur expenditure when it is payable by the person.

(2) Subject to this Ordinance, an amount shall be due to a person when the person becomes entitled to receive it even if the time for discharge of the entitlement is postponed or the amount is payable by instalments.

(3) Subject to this Ordinance, an amount shall be payable by a person when all the events that determine liability have occurred and the amount of the liability can be determined with reasonable accuracy [1][ ].

[2][ ]

(5) Where a person has been allowed a deduction for any expenditure incurred in deriving income chargeable to tax under the head "Income from Business" and the person has not paid the liability or a part of the liability to which the deduction relates within three years of the end of the tax year in which the deduction was allowed, the unpaid amount of the liability shall be chargeable to tax under the head "Income from Business" in the first tax year following the end of the three years.

[3][(5A) Where a person has been allowed a deduction in respect of a trading liability and such person has derived any benefit in respect of such trading

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[1] The comma and words ", but not before economic performance occurs" omitted by the Finance Act, 2004.

[2] Omitted by the Finance Act, 2004. The omitted sub-section (4) read as follows:

"(4) For the purposes of sub-section (3), economic performance shall occur -

(a) in the case of the acquisition of services or assets, at the time the services or assets are provided;

(b) in the case of the use of assets, at the time the assets are used; and

(c) in any other case, at the time payment is made in full satisfaction of the liability."

[3] Inserted by the Finance Act, 2003.

liability, the value of such benefit shall be chargeable to tax under [1][the] head "Income from Business" for the tax year in which such benefit is received.]

(6) Where an unpaid liability is chargeable to tax as a result of the application of sub-section (5) and the person subsequently pays the liability or a part of the liability, the person shall be allowed a deduction for the amount paid in the tax year in which the payment is made.

35. Stock-in-trade.- (1) For the purposes of determining a person's income chargeable to tax under the head "Income from Business" for a tax year, the cost of stock-in-trade disposed of by the person in the year shall be computed in accordance with the following formula, namely:–

(A + B) – C

where –

A is the opening value of the person's stock-in-trade for the year;

B is cost of stock-in-trade acquired by the person in the year; and

C is the closing value of stock-in-trade for the year.

(2) The opening value of stock-in-trade of a person for a tax year shall be -

(a) the closing value of the person's stock-in-trade at the end of the previous year; or

(b) where the person commenced to carry on business in the year, the fair market value of any stock-in-trade acquired by the person prior to the commencement of the business.

(3) The fair market value of stock-in-trade referred to in clause (b) of sub-section (2) shall be determined at the time the stock-in-trade is ventured in the business.

(4) The closing value of a person's stock-in-trade for a tax year shall be the lower of cost or [2][net realisable] value of the person's stock-in-trade on hand at the end of the year.

(5) A person accounting for income chargeable to tax under the head "Income from Business" on a cash basis may compute the person's cost of stock-in-trade on the prime-cost method or absorption-cost method, and a person

[1] Inserted by the Finance Act, 2005.
[2] Substituted for the words "fair market" by the Finance Act, 2002

accounting for such income on an accrual basis shall compute the person's cost of stock-in-trade on the absorption-cost method.

(6) Where particular items of stock-in-trade are not readily identifiable, a person may account for that stock on the first-in-first-out method or the average-cost method but, once chosen, a stock valuation method may be changed only with the written permission of the Commissioner and in accordance with any conditions that the Commissioner may impose.

(7) In this section, -

"absorption-cost method" means the generally accepted accounting principle under which the cost of an item of stock-in-trade is the sum of direct material costs, direct labour costs, and factory overhead costs;

"average-cost method" means the generally accepted accounting principle under which the valuation of stock-in-trade is based on a weighted average cost of units on hand;

"direct labour costs" means labour costs directly related to the manufacture or production of stock-in-trade;

"direct material costs" means the cost of materials that become an integral part of the stock-in-trade manufactured or produced, or which are consumed in the manufacturing or production process;

"factory overhead costs" means the total costs of manufacturing or producing stock-in-trade, other than direct labour and direct material costs;

"first-in-first-out method" means the generally accepted accounting principle under which the valuation of stock-in-trade is based on the assumption that stock is sold in the order of its acquisition;

"prime-cost method" means the generally accepted accounting principle under which the cost of stock-in-trade is the sum of direct material costs, direct labour costs, and variable factory overhead costs;

"stock-in-trade" means anything produced, manufactured, purchased, or otherwise acquired for manufacture, sale or exchange, and any materials or supplies to be consumed in the production or manufacturing process, but does not include stocks or shares; and

"variable factory overhead costs" means those factory overhead costs which vary directly with changes in volume of stock-in-trade manufactured or produced.

36. Long-term contracts.- (1) A person accounting for income chargeable to tax under the head "Income from Business" on an accrual basis shall compute such income arising for a tax year under a long-term contract on the basis of the percentage of completion method.

(2) The percentage of completion of a long-term contract in a tax year shall be determined by comparing the total costs allocated to the contract and incurred before the end of the year with the estimated total contract costs as determined at the commencement of the contract.

(3) In this section, -

"long-term contract" means a contract for manufacture, installation, or construction, or, in relation to each, the performance of related services, which is not completed within the tax year in which work under the contract commenced, other than a contract estimated to be completed within six months of the date on which work under the contract commenced; and

"percentage of completion method" means the generally accepted accounting principle under which revenue and expenses arising under a long-term contract are recognised by reference to the stage of completion of the contract, as modified by sub-section (2).

PART V
HEAD OF INCOME: CAPITAL GAINS

37. Capital gains.- (1) Subject to this Ordinance, a gain arising on the disposal of a capital asset by a person in a tax year, other than a gain that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head "Capital Gains".

(2) Subject to sub-sections (3) and (4), the gain arising on the disposal of a capital asset by a person shall be computed in accordance with the following formula, namely:–

A – B

where –

A is the consideration received by the person on disposal of the asset; and

B is the cost of the asset.

(3) Where a capital asset has been held by a person for more than one year, the amount of any gain arising on disposal of the asset shall be computed in accordance with the following formula, namely:–

A x ¾

where **A** is the amount of the gain determined under sub-section (2).

(4) For the purposes of determining component **B** of the formula in sub-section (2), no amount shall be included in the cost of a capital asset for any expenditure incurred by a person –

(a) that is or may be deducted under another provision of this Chapter; or

(b) that is referred to in section 21.

[1][(4A) Where the capital asset becomes the property of the person -

(a) under a gift, bequest or will;

(b) by succession, inheritance or devolution;

(c) a distribution of assets on dissolution of an association of persons; or

(d) on distribution of assets on liquidation of a company,

the fair market value of the asset, on the date of its transfer or acquisition by the person shall be treated to be the cost of the asset.]

(5) In this section, "capital asset" means property of any kind held by a person, whether or not connected with a business, but does not include –

[2][(a) any stock-in-trade (not being stocks and shares), consumable stores or raw materials held for the purpose of business;]

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

(c) any immovable property; [3][or]

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[1] Inserted by the Finance Act, 2003.
[2] Substituted for "(a) any stock-in-trade;" by the Finance Act, 2002
[3] Inserted by the Finance Act, 2002

(d) any movable property [1][excluding capital assets specified in sub-section (5) of section 38] held for personal use by the person or any member of the person's family dependent on the person [2][.]

[3][ ]

38. Deduction of losses in computing the amount chargeable under the head "Capital Gains".- (1) Subject to this Ordinance, in computing the amount of a person chargeable to tax under the head "Capital Gains" for a tax year, a deduction shall be allowed for any loss on the disposal of a capital asset by the person in the year.

(2) No loss shall be deducted under this section on the disposal of a capital asset where a gain on the disposal of such asset would not be chargeable to tax.

(3) The loss arising on the disposal of a capital asset by a person shall be computed in accordance with the following formula, namely:–

A – B

where –

A is the cost of the asset; and

B is the consideration received by the person on disposal of the asset.

(4) The provisions of sub-section (4) of section 37 shall apply in determining component **A** of the formula in sub-section (3).

(5) No loss shall be recognized under this Ordinance on the disposal of the following capital assets, namely:–

(a) A painting, sculpture, drawing or other work of art;

(b) jewellery;

(c) a rare manuscript, folio or book;

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[1] Substituted for the brackets, commas and words "(including wearing apparel, jewellery, or furniture)" by the Finance Act, 2003.
[2] Substituted for "; or" by the Finance Act, 2002
[3] Omitted by Finance Act, 2001. The omitted clause (e) read as follows:
"(e) any modaraba certificate or any instrument of redeemable capital listed on any stock exchange or shares of a public company."

(d) a postage stamp or first day cover;

(e) a coin or medallion; or

(f) an antique.

PART VI
HEAD OF INCOME: INCOME FROM OTHER SOURCES

39. Income from other sources.- (1) Income of every kind received by a person in a tax year, [1][if it is not included in any other head,] other than income exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head "Income from Other Sources", including the following namely:–

(a) [2][Dividend;]

(b) [3][royalty;]

(c) profit on debt;

(d) ground rent;

(e) rent from the sub-lease of land or a building;

(f) income from the lease of any building together with plant or machinery;

[4][(fa) income from provision of amenities, utilities or any other service connected with renting of building;]

(g) any annuity or pension;

(h) any prize bond, or winnings from a raffle, lottery [5][, prize on winning a quiz, prize offered by companies for promotion of sale] or cross-word puzzle;

(i) any other amount received as consideration for the provision, use or exploitation of property, including from the grant of a right to explore for, or exploit, natural resources;

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[1] Inserted by the Finance Act, 2002
[2] Substituted for the word "Dividends" by the Finance Act, 2002
[3] Substituted for the word "royalties" by the Finance Act, 2002
[4] Inserted by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2003.

(j) the fair market value of any benefit, whether convertible to money or not, received in connection with the provision, use or exploitation of property; and

(k) any amount received by a person as consideration for vacating the possession of a building or part thereof, reduced by any amount paid by the person to acquire possession of such building or part thereof.

[1][(l) any amount received by a person from Approved Income Payment Plan or Approved Annuity Plan under Voluntary Pension System Rules, 2005;]

(2) Where a person receives an amount referred to in clause (k) of sub-section (1), the amount shall be chargeable to tax under the head "Income from Other Sources" in the tax year in which it was received and the following nine tax years in equal proportion.

(3) Subject to sub-section (4), any amount received as a loan, advance, deposit [2][for issuance of shares] or gift by a person in [3][a tax year] from another person (not being a banking company or financial institution) otherwise than by a crossed cheque drawn on a bank or through a banking channel from a person holding a National Tax Number [4][ ] shall be treated as income chargeable to tax under the head "Income from Other Sources" for the tax year in which it was received.

(4) Sub-section (3) shall not apply to an advance payment for the sale of goods or supply of services.

[5][(4A) Where -

(a) any profit on debt derived from investment in National Savings Deposit Certificates including Defence Savings Certificate paid to a person in arrears or the amount received includes profit chargeable to tax in the tax year or years preceding the tax year in which it is received; and

(b) as a result the person is chargeable at higher rate of tax than would have been applicable if the profit had been paid to the person in the tax year to which it relates,

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[1] Added by the Finance Act, 2005.
[2] Inserted by the Finance Act, 2003.
[3] Substituted for the words "an income year" by the Finance Act, 2002
[4] The word "Card" omitted by the Finance Act, 2006.
[5] Inserted by the Finance Act, 2003.

the person may, by notice in writing to the Commissioner, elect for the profit to be taxed at the rate of tax that would have been applicable if the profit had been paid to the person in the tax year to which it relates.]

[1][(4B) An election under sub-section (4A) shall be made by the due date for furnishing the person's return of income for the tax year in which the amount was received or by such later date as the Commissioner may allow by an order in writing.]

(5) This section shall not apply to any income received by a person in a tax year that is chargeable to tax under any other head of income or subject to tax under section 5, 6 or 7.

[2][ ]

40. Deductions in computing income chargeable under the head "Income from Other Sources".- (1) Subject to this Ordinance, in computing the income of a person chargeable to tax under the head "Income from Other Sources" for a tax year, a deduction shall be allowed for any expenditure paid by the person in the year to the extent to which the expenditure is paid in deriving income chargeable to tax under that head, other than expenditure of a capital nature.

(2) A person receiving any profit on debt chargeable to tax under the head "Income from Other Sources" shall be allowed a deduction for any Zakat paid by the person [3][ ] under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), at the time the profit is paid to the person.

(3) A person receiving income referred to in clause [4][ ] (f) of sub-section (1) of section 39 chargeable to tax under the head "Income from Other Sources" shall be allowed –

(a) a deduction for the depreciation of any plant, machinery or building used to derive that income in accordance with section 22; and

(b) an initial allowance for any plant or machinery used to derive that income in accordance with section 23.

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[1] Inserted by the Finance Act, 2003.
[2] Omitted by the Finance Act, 2002. The omitted sub-section (6) read as follows:
"(6) Expenditure is of a capital nature if it has a normal useful life of more than one year."
[3] The words "on the profit" omitted by the Finance Act, 2003.
[4] The brackets, letter and word "(e) or" omitted by the Finance Act, 2003.

(4) No deduction shall be allowed to a person under this section to the extent that the expenditure is deductible in computing the income of the person under another head of income.

(5) The provisions of section 21 shall apply in determining the deductions allowed to a person under this section in the same manner as they apply in determining the deductions allowed in computing the income of the person chargeable to tax under the head "Income from Business".

[1][(6) Expenditure is of a capital nature if it has a normal useful life of more than one year.]

PART VII
EXEMPTIONS AND TAX CONCESSIONS

41. Agricultural income.- (1) Agricultural income derived by a person shall be exempt from tax under this Ordinance.

(2) In this section, “agricultural income” means, -

(a) any rent or revenue derived by a person from land which is situated in Pakistan and is used for agricultural purposes;

(b) any income derived by a person from land situated in Pakistan from –

(i) agriculture;

(ii) the performance by a cultivator or receiver of rent-in-kind of any process ordinarily employed by such person to render the produce raised or received by the person fit to be taken to market; or

(iii) the sale by a cultivator or receiver of rent-in-kind of the produce raised or received by such person, in respect of which no process has been performed other than a process of the nature described in sub-clause (ii); or

(c) any income derived by a person from –

(i) any building owned and occupied by the receiver of the rent or revenue of any land described in clause (a) or (b);

[1] Added by the Finance Act, 2002.

(ii) any building occupied by the cultivator, or the receiver of rent-in-kind, of any land in respect of which, or the produce of which, any operation specified in sub-clauses (ii) or (iii) of clause (b) is carried on,

but only where the building is on, or in the immediate vicinity of the land and is a building which the receiver of the rent or revenue, or the cultivator, or the receiver of the rent-in-kind by reason of the person's connection with the land, requires as a dwelling-house, a store-house, or other out-building.

42. Diplomatic and United Nations exemptions.- (1) The income of an individual entitled to privileges under the Diplomatic and Consular Privileges Act, 1972 (IX of 1972) shall be exempt from tax under this Ordinance to the extent provided for in that Act.

(2) The income of an individual entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948 (XX of 1948), shall be exempt from tax under this Ordinance to the extent provided for in that Act.

(3) Any pension received by a person, being a citizen of Pakistan, by virtue of the person's former employment in the United Nations or its specialised agencies (including the International Court of Justice) provided the person's salary from such employment was exempt under this Ordinance.

43. Foreign government officials.- Any salary received by an employee of a foreign government as remuneration for services rendered to such government shall be exempt from tax under this Ordinance provided -

(a) the employee is a citizen of the foreign country and not a citizen of Pakistan;

(b) the services performed by the employee are of a character similar to those performed by employees of the Federal Government in foreign countries; [1][and]

(c) the foreign government grants a similar exemption to employees of the Federal Government performing similar services in such foreign country[2][.]

[3][ ]

[1] Added by the Finance Act, 2002
[2] Substituted for the comma and word ",and" by the Finance Act, 2002
[3] Omitted by the Finance Act, 2002. The omitted clause (d) read as under:
"(d) the income is subject to tax in that foreign country."

44. Exemptions under international agreements.- (1) Any Pakistan-source income which Pakistan is not permitted to tax under a tax treaty shall be exempt from tax under this Ordinance.

(2) Any salary received by an individual (not being a citizen of Pakistan) shall be exempt from tax under this Ordinance to the extent provided for in an Aid Agreement between the Federal Government and a foreign government or public international organization, where –

(a) the individual is either [1][not a resident] individual or a resident individual solely by reason of the performance of services under the Aid Agreement;

(b) if the Aid Agreement is with a foreign country, the individual is a citizen of that country; and

(c) the salary is paid by the foreign government or public international organisation out of funds or grants released as aid to Pakistan in pursuance of such Agreement.

(3) Any income received by a person (not being a citizen of Pakistan) engaged as a contractor, consultant, or expert on a project in Pakistan shall be exempt from tax under this Ordinance to the extent provided for in a bilateral or multilateral technical assistance agreement between the Federal Government and a foreign government or public international organisation, where –

(a) the project is financed out of grant funds in accordance with the agreement;

(b) the person is either a non-resident person or a resident person solely by reason of the performance of services under the agreement; and

(c) the income is paid out of the funds of the grant in pursuance of the agreement.

45. President's honours.- (1) Any allowance attached to any Honour, Award, or Medal awarded to a person by the President of Pakistan shall be exempt from tax under this Ordinance.

(2) Any monetary award granted to a person by the President of Pakistan shall be exempt from tax under this Ordinance.

[1] Substituted for the words "a non-resident" by the Finance Act, 2003.

46. Profit on debt. - Any profit received by a non-resident person on a security issued by a resident person shall be exempt from tax under this Ordinance where–

(a) the persons are not associates;

(b) the security was widely issued by the resident person outside Pakistan for the purposes of raising a loan outside Pakistan for use in a business carried on by the person in Pakistan;

(c) the profit was paid outside Pakistan; and

(d) the security is approved by the [1][Board] for the purposes of this section.

47. Scholarships.- Any scholarship granted to a person to meet the cost of the person's education shall be exempt from tax under this Ordinance, other than where the scholarship is paid directly or indirectly by an associate.

48. Support payments under an agreement to live apart.- [2][Any income received by a spouse as support payment under an agreement to live apart] shall be exempt from tax under this Ordinance.

49. Federal and Provincial Government, and local authority income.- (1) The income of the Federal Government shall be exempt from tax under this Ordinance.

(2) The income of a Provincial Government or a local authority in Pakistan shall be exempt from tax under this Ordinance, other than income chargeable under the head "Income from Business" derived by a Provincial Government or local authority from a business carried on outside its jurisdictional area.

[3][(3) Subject to sub-section (2), any payment received by the Federal Government, a Provincial Government or a local authority shall not be liable to any collection or deduction of advance tax.]

[4][(4) Exemption under this section shall not be available in the case of corporation, company, a regulatory authority, a development authority, other body or institution established by or under a Fedeal law or a Provincial law or an existing law or a corporation, company, a regulatory authority, a development

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[2] Substituted for the words "Any support payment received by a spouse under an agreement to live apart" by the Finance Act, 2002.
[3] Added by the Finance Act, 2006.
[4] Added by the Finance Act, 2007.

authority or other body or institution set up, owned and controlled, either directly or indirectly, by the Federal Government or a Provincial Government, regardless of the ultimate destination of such income as laid down in Article 165A of the Constitution of the Islamic Republic of Pakistan.]

50. Foreign-source income of short-term resident individuals.- (1) Subject to sub-section (2), the foreign-source income of an individual [1][ ] –

(a) who is a resident individual solely by reason of the individual's employment; and

(b) who is present in Pakistan for a period or periods not exceeding three years,

shall be exempt from tax under this Ordinance.

(2) This section shall not apply to –

(a) any income derived from a business of the person established in Pakistan; or

(b) any foreign-source income brought into or received in Pakistan by the person.

51. Foreign-source income of returning expatriates.- [2][(1)] Any foreign-source income derived by a citizen of Pakistan in a tax year who was not a resident individual in any of the four tax years preceding the tax year in which the individual became a resident shall be exempt from tax under this Ordinance in the tax year in which the individual became a resident individual and in the following tax year.

[3][(2) Where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad during that tax year, any income chargeable under the head "Salary" earned by him outside Pakistan during that year shall be exempt from tax under this Ordinance.]

[1] The brackets and words "(other than a citizen of Pakistan)" omitted by the Finance Act, 2003.
[2] Section **51** numbered as sub-section (1) of section **51** by the Finance Act, 2003.
[3] Added by the Finance Act, 2003.

[1][ ]

53. Exemptions and tax concessions in the Second Schedule.- (1) The income or classes of income, or persons or classes of persons specified in the Second Schedule shall be –

(a) exempt from tax under this Ordinance, subject to any conditions and to the extent specified therein;

(b) subject to tax under this Ordinance at such rates, which are less than the rates specified in the First Schedule, as are specified therein;

(c) allowed a reduction in tax liability under this Ordinance, subject to any conditions and to the extent specified therein; or

(d) exempted from the operation of any provision of this Ordinance, subject to any conditions and to the extent specified therein.

[2][(1A) Where any income which is exempt from tax under any provision of the Second Schedule, such income, as may be specified in the said Schedule and subject to such conditions as may be specified therein, shall be included in the total income, however the tax shall not be payable in respect of such income.]

(2) The Federal Government may, from time to time, by notification in the official Gazette, make such amendment in the Second Schedule by –

(a) adding any clause or condition therein;

(b) omitting any clause or condition therein; or

(c) 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.

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[1] Omitted by the Finance Act, 2002. The omitted section 52 read as follows:

"**52. Non-resident shipping and airline enterprises.-** (1) Subject to sub-section (2), any income of a non-resident person, for the time being approved by the Federal Government for the purpose of this section, from the operation of ships and aircraft in international traffic shall be exempt from tax under this Ordinance, other than income from ships and aircraft operated principally to transport passengers, livestock, mail, or goods exclusively between places in Pakistan.

(2) Sub-section (1) shall not apply to a non-resident person where the person's country of residence does not allow a similar exemption to a resident of Pakistan."

[2] Inserted by the Finance Act, 2003.

(3) The Federal Government shall place before the National Assembly all amendments made by it to the Second Schedule in a financial year.

54. Exemptions and tax provisions in other laws.- No provision in any other law providing for –

(a) an exemption from any tax imposed under this Ordinance;

(b) a reduction in the rate of tax imposed under this Ordinance;

(c) a reduction in tax liability of any person under this Ordinance; or

(d) an exemption from the operation of any provision of this Ordinance,

shall have legal effect unless also provided for in this Ordinance [1][:]

[2][Provided that any exemption from income tax [3][or a reduction in the rate of tax or a reduction in tax liability of any person or an exemption from the operation of any provision of this Ordinance] provided in any other law and in force on the commencement of this Ordinance shall continue to be available unless withdrawn.]

55. Limitation of exemption.- (1) Where any income is exempt from tax under this Ordinance, the exemption shall be, in the absence of a specific provision to the contrary contained in this Ordinance, limited to the original recipient of that income and shall not extend to any person receiving any payment wholly or in part out of that income.

[4][ ]

PART VIII
LOSSES

56. Set off of losses.- (1) Subject to sections 58 and 59, where a person sustains a loss for any tax year under any head of income specified in section 11,

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[1] Substituted for full stop by the Finance Act, 2003.
[2] Added by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2004.
[4] Omitted by the Finance Act, 2003. Omitted sub-section (2) read as follows: -

"(2) Where a person's income from business is exempt from tax under this Ordinance as a result of a tax concession, any loss sustained in the period of the exemption shall not be set off against the person's income chargeable to tax after the exemption expires."

the person shall be entitled to have the amount of the loss set off against the person's income, if any, chargeable to tax under any other head of income for the year.

(2) Except as provided in this Part, where a person sustains a loss under a head of income for a tax year that cannot be set off under sub-section (1), the person shall not be permitted to carry the loss forward to the next tax year.

(3) Where, [1][in a tax year,] a person sustains a loss under the head "Income from Business" and a loss under another head of income, the loss under the head "Income from Business shall be set off last.

[2][**56A. Set off of losses of companies operating hotels.-** Subject to sections 56 and 57, where a company registered in Pakistan or Azad Jammu and Kashmir (AJ&K), operating hotels in Pakistan or AJ&K, sustains a loss in Pakistan or AJ&K for any tax year under the head "income from business" shall be entitled to have the amount of the loss set off against the company's income in Pakistan or AJ&K, as the case may be, from the tax year 2007 onward.]

57. Carry forward of business losses.- (1) Where a person sustains a loss for a tax year under the head "Income from Business" (other than a loss to which section 58 applies) and the loss cannot be wholly set off under section 56, so much of the loss that has not been set off shall be carried forward to the following tax year and set off against the person's income chargeable under the head "Income from Business" for that year.

(2) If a loss sustained by a person for a tax year under the head "Income from Business" is not wholly set off under sub-section (1), then the amount of the loss not set off shall be carried forward to the following tax year and applied as specified in sub-section (1) in that year, and so on, but no loss can be carried forward to more than six tax years immediately succeeding the tax year for which the loss was first computed.

[3][(2A) Where a loss, referred to in sub-section (2), relating to any assessment year commencing on or after 1st day of July, 1995, and ending on the 30th day of June 2001, is sustained by a banking company wholly owned by the Federal Government as on first day of June, 2002, which is approved by the

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[1] Inserted by the Finance Act, 2002
[2] Inserted by the Finance Act, 2007.
[3] Inserted by the Finance Act, 2002.

State Bank of Pakistan for the purpose of this sub-section, the said loss shall be carried forward for a period of ten years.]

(3) Where a person has a loss carried forward under this section for more than one tax year, the loss of the earliest tax year shall be set off first.

(4) Where the loss referred to in sub-section (1) includes deductions allowed under sections 22, 23 and 24 that have not been set off against income, the amount not set off shall be added to the deductions allowed under those sections in the following tax year, and so on until completely set off.

(5) In determining whether a person's deductions under sections 22, 23 and 24 have been set off against income, the deductions allowed under those sections shall be taken into account last.

[1][**57A. Set off of business loss consequent to amalgamation. –** [2][(1) The assessed loss (excluding capital loss) for the tax year, other than brought forward and capital loss, of the amalgamating company or companies shall be set off against business profits and gains of the amalgamated company, and vice versa, in the year of amalgamation and where the loss is not adjusted against the profits and gains for the tax year the unadjusted loss shall be carried forward for adjustment upto a period of six tax years succeeding the year of amalgamation.]

(2) The provisions of sub-section (4) and (5) of section 57 shall, *mutatis mutandis*, apply for the purposes of allowing unabsorbed depreciation of amalgamating company or companies in the assessment of amalgamated company [3][and *vice* versa] [4][:]

[5][Provided that the losses referred to in sub-section (1) and unabsorbed depreciation referred to in sub-section (2) shall be allowed set off subject to the condition that the amalgamated company continues the business of the amalgamating company for a minimum period of five years from the date of amalgamation.]

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[1] Added by the Finance Act, 2002.

[2] Substituted by the Finance Act, 2007. The substituted sub-section (1) read as follows:

"(1) The accumulated loss under the head "Income from Business" (not being a loss to which section 58 applies) of an amalgamating company or companies shall be set off or carried forward against the business profits and gains of the amalgamated company [A][and *vice versa,*] up to a period of six tax years immediately succeeding the tax year in which the loss was first computed in the case of [B][amalgamated company or] amalgamating company or companies."

[A] Earlier inserted by the Finance Act, 2005.

[B] Earlier inserted by the Finance Act, 2005.

[3] Inserted by the Finance Act, 2005.

[4] The full stop substituted by the Finance Act, 2005.

[5] Inserted by the Finance Act, 2005.

(3) Where any of the conditions as laid down by the State Bank of Pakistan or the Securities and Exchange Commission of Pakistan [1][or any court], as the case may be, in the scheme of amalgamation, are not fulfilled, the set off of loss or allowance for depreciation made in any tax year of the amalgamated company [2][or the amalgamating company or companies] shall be deemed to be the income of that amalgamated company [3][or the amalgamating company or companies, as the case may be,] for the year in which such default is discovered by the Commissioner or taxation officer, and all the provisions of this Ordinance shall apply accordingly.]

58. Carry forward of speculation business losses.- (1) Where a person sustains a loss for a tax year in respect of a speculation business carried on by the person (hereinafter referred to as a "speculation loss"), the loss shall be set off only against the income of the person from any other speculation business of the person chargeable to tax for that year.

(2) If a speculation loss sustained by a person for a tax year is not wholly set off under sub-section (1), then the amount of the loss not set off shall be carried forward to the following tax year and applied against the income of any speculation business of the person in that year and applied as specified in sub-section (1) in that year, and so on, but no speculation loss shall be carried forward to more than six tax years immediately succeeding the tax year for which the loss was first computed.

(3) Where a person has a loss carried forward under this section for more than one tax year, the loss of the earliest tax year shall be set off first.

59. Carry forward of capital losses.- (1) Where a person sustains a loss for a tax year under the head "Capital Gains" (hereinafter referred to as a "capital loss"), the loss shall not be set off against the person's income, if any, chargeable under any other head of income for the year, but shall be carried forward to the next tax year and set off against the capital gain, if any, chargeable under the head "Capital Gains" for that year.

(2) If a capital loss sustained by a person for a tax year under the head "Capital Gains" is not wholly set off under sub-section (1), then the amount of the loss not set off shall be carried forward to the following tax year, and so on, but no loss shall be carried forward to more than six tax years immediately succeeding the tax year for which the loss was first computed.

(3) Where a person has a loss carried forward under this section for more than one tax year, the loss of the earliest tax year shall be set off first.

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[1] Inserted by the Finance Act, 2005.
[2] Inserted by the Finance Act, 2005.
[3] Inserted by the Finance Act, 2005.

[1]**[59A. Limitations on set off and carry forward of losses.-** (1) In case of an association of persons to which sub-section (3) of section 92 applies, any loss which cannot be set off against any other income of the association of persons in accordance with section 56, shall be dealt with as provided under sub-section (2) of section 93.

(2) Nothing contained in section 57, section 58 or section 59 shall entitle an association of persons, to which sub-section (3) of section 92 applies to have its loss carried forward and set off thereunder.

(3) In case of association of persons, to which sub-section (3) of section 92 does not apply, any loss of such association shall be set off or carried forward and set off only against the income of the association.

(4) Nothing contained in section 56, 57, 58 or 59 shall entitle -

(a) any member of an association of persons to which sub-section (3) of section 92 does not apply, to set off any loss sustained by such association of persons, as the case may be, or have it carried forward and set off, against his income; or

(b) any person who has succeeded, in such capacity, any other person carrying on any business or profession, otherwise than by inheritance, to carry forward and set off against his income, any loss sustained by such other person.

(5) Where in computing the taxable income for any tax year, full effect cannot be given to a deduction mentioned in section 22, 23, 24 or 25 owing to there being no profits or gains chargeable for that year or such profits or gains being less than the deduction, then, subject to sub-section (12) of section 22, and sub-section (6), the deduction or part of the deduction to which effect has not been given, as the case may be, shall be added to the amount of such deduction for the following year and be treated to be part of that deduction, or if there is no such deduction for that year, be treated to be the deduction for that year and so on for succeeding years.

(6) Where, under sub-section (5), deduction is also to be carried forward, effect shall first be given to the provisions of section 56 and sub-section (2) of section 58.

(7) Notwithstanding anything contained in this Ordinance, no loss which has not been assessed or determined in pursuance of an order made under section 59, 59A, 62, 63 or 65 of the repealed Ordinance or an order made or

[1] Added by the Finance Act, 2003.

treated as made under section 120, 121 or 122 shall be carried forward and set off under section 57, sub-section (2) of section 58 or section 59.]

[1][**59AA. Group taxation.-** (1) Holding companies and subsidiary companies of 100% owned group may opt to be taxed as one fiscal unit. In such cases, besides consolidated group accounts as required under the Companies Ordinance, 1984 (XLVII of 1984), computation of income and tax payable shall be made for tax purposes.

(2) The companies in the group shall give irrevocable option for taxation under this section as one fiscal unit.

(3) The group taxation shall be restricted to companies locally incorporated under the Companies Ordinance, 1984 (XLVII of 1984).

(4) The relief under group taxation would not be available to losses prior to the formation of the group.

(5) The option of group taxation shall be available to those group companies which comply with such corporate governance requirements as may be specified by the Securities and Exchange Commission of Pakistan from time to time and are designated as companies entitled to avail group taxation.

(6) Group taxation may be regulated through rules as may be made by the Board.]

[2][**59B. Group relief.-** (1) Subject to sub-section (2), any company, being a subsidiary of a holding company, may surrender its assessed loss (excluding

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[1] Inserted by the Finance Act, 2007.

[2] Substituted by the Finance Act, 2007. The substituted section 59B read as follows:

"[A][**59B. Group Relief.-** (1) Subject to sub-section (2), any company, being a subsidiary of a public company listed on a registered stock exchange in Pakistan, owning and managing an industrial undertaking [B][or an undertaking engaged in providing services], may surrender its assessed loss for the tax year other than brought forward losses, in favour of its holding company provided such holding company owns or acquires seventy-five per cent or more of the share capital of the subsidiary company.

(2) The loss surrendered by the subsidiary company may be claimed by the holding company for set off against its income under the head "income from Business" in the tax year and the following two tax years subject to the following conditions, namely:-

(a) there is continued ownership of share capital of the subsidiary company to the extent of seventy-five per cent or more for five years; and

(b) the subsidiary company continues the same business during the said period of five years.

(3) The subsidiary company shall not be allowed to surrender its assessed losses for set off against income of the holding company for more than three tax years.

(4) Where the losses surrendered by a subsidiary company are not adjusted against income of the holding company in the said three tax years, the subsidiary company shall carry forward the unadjusted losses in accordance with the provision of section 57.

capital loss) for the tax year (other than brought forward losses and capital losses), in favour of its holding company or its subsidiary or between another subsidiary of the holding company:

Provided that where one of the company in the group is a public company listed on a registered stock exchange in Pakistan, the holding company shall directly hold fifty-five per cent or more of the share capital of the subsidiary company. Where none of the companies in the group is a listed company, the holding company shall hold directly seventy-five per cent or more of the share capital of the subsidiary company.

(2) The loss surrendered by the subsidiary company may be claimed by the holding company or a subsidiary company for set off against its income under the head "Income from Business" in the tax year and the following two tax years subject to the following conditions, namely:—

(a) there is continued ownership for five years, of share capital of the subsidiary company to the extent of fifty-five per cent in the case of a listed company, or seventy-five per cent or more, in the case of other companies;

(b) a company within the group engaged in the business of trading shall not be entitled to avail group relief;

(c) holding company, being a private limited company with seventy-five per cent of ownership of share capital gets itself listed within three years from the year in which loss is claimed;

(d) the group companies are locally incorporated companies under the Companies Ordinance, 1984 (XLVII of 1984);

(e) the loss surrendered and loss claimed under this section shall have approval of the Board of Directors of the respective companies;

(f) the subsidiary company continues the same business during the said period of three years;

(g) all the companies in the group shall comply with such corporate governance requirements as may be specified by

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(5) If there has been any disposal of shares by the holding company during the aforesaid period of five years to bring the ownership of the holding company to less than seventy-five per cent, the holding company shall, in the year of disposal, offer the amount of profit on which taxes have not been paid due to set off of losses surrendered by the subsidiary company."

[A] Earlier added by the Finance Act, 2004.

[B] Earlier inserted by the Finance Act, 2005.

the Securities and Exchange Commission of Pakistan from time to time, and are designated as companies entitled to avail group relief; and

(h) any other condition as may be prescribed.

(3) The subsidiary company shall not be allowed to surrender its assessed losses for set off against income of the holding company for more than three tax years.

(4) Where the losses surrendered by a subsidiary company are not adjusted against income of the holding company in the said three tax years, the subsidiary company shall carry forward the unadjusted losses in accordance with section 57.

(5) If there has been any disposal of shares by the holding company during the aforesaid period of five years to bring the ownership of the holding company to less than fifty-five per cent or seventy-five per cent, as the case may be, the holding company shall, in the year of disposal, offer the amount of profit on which taxes have not been paid due to set off of losses surrendered by the subsidiary company.

(6) Loss claiming company shall, with the approval of the Board of Directors, transfer cash to the loss surrendering company equal to the amount of tax payable on the profits to be set off against the acquired loss at the applicable tax rate. The transfer of cash would not be taken as a taxable event in the case of either of the two companies.

(7) The transfer of shares between companies and the share holders, in one direction, would not be taken as a taxable event provided the transfer is to acquire share capital for formation of the group and approval of the Security and Exchange Commission of Pakistan or State Bank of Pakistan, as the case may be, has been obtained in this effect. Sale and purchase from third party would be taken as taxable event.]

PART IX
DEDUCTIBLE ALLOWANCES

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 (XVIII of 1980).

(2) Sub-section (1) does not apply to any Zakat taken into account under sub-section (2) of section 40.

(3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted under section 9 for the year shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year.

[1]**[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 (XXXVI of 1971)] [2][.]

[3][**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 (XII of 1968).]

PART X
TAX CREDITS

61. Charitable donations.- [4][(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 to -

(a) any board of education or any university in Pakistan established by, or under, a Federal or a Provincial law;

(b) any educational institution, hospital or relief fund established or run in Pakistan by Federal Government or a Provincial Government or a local authority; or

(c) any non-profit organization.]

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely:–

(A/B) x 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

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[1] Added by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2005.
[3] Added by the Finance Act, 2004.
[4] Substituted by the Finance Act, 2003. The substituted sub-section (1) read as follows:
"(1) A person shall be entitled to a tax credit for a tax year in respect of any amount paid, or property given by the person in the tax year as a donation to a non-profit organization."

C is the lesser of –

(a) the total amount of the person's donations referred to in sub-section (1) in the year, including the fair market value of any property given; or

(b) where the person is –

(i) an individual or association of persons, thirty per cent of the taxable income of the person for the year; or

(ii) a company, fifteen per cent of the taxable income of the person for the year.

(3) For the purposes of clause (a) of component **C** of the formula in sub-section (2), the fair market value of any property given shall be determined at the time it is given.

(4) A cash amount paid by a person as a donation shall be taken into account under clause (a) of component **C** [1][of] sub-section (2) only if it was paid by a crossed cheque drawn on a bank.

[2][(5) The [3][Board] may make rules regulating the procedure of the grant of approval under sub-clause (c) of clause (36) of section 2 and any other matter connected with, or incidental to, the operation of this section.]

62. Investment in shares.- (1) A person [4][other than a company] shall be entitled to a tax credit for a tax year 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 where the person [5][other than a company] is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan.

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: –

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[1] Inserted by the Finance Act, 2002.
[2] Added by the Finance Act, 2003.
[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[4] Inserted by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2003.

(A/B) x 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 referred to in sub-section (1) in the year;

(b) ten per cent of the person's [1][taxable] income for the year; or

(c) [2][[3][three] hundred] thousand rupees.

(3) Where –

(a) a person has [4][been allowed] a tax credit under sub-section (1) in a tax year in respect of the purchase of a share; and

(b) the person has made a disposal of the share within twelve 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.

[1] Substituted for the word "total" by the Finance Act, 2003.
[2] The words "one hundred and fifty" substituted by the Finance Act, 2006.
[3] The word "two" substituted by the Finance Act, 2007.
[4] Substituted for the word "claimed" by the Finance Act, 2003.

[1][**63. Contribution to an Approved Pension Fund.** – (1) An eligible person as defined in sub-section (19A) of section 2 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.

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: -

(A/B) x 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 -

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[1] Section 63 substituted by the Finance Act, 2005. The original section 63 read as follows:

"63. Retirement annuity scheme. – (1) Subject to sub-section (3), a resident individual 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 under a contract of annuity scheme approved by, [A][Securities and Exchange Commission of Pakistan] of an insurance company duly registered under the Insurance Ordinance, 2000 (XXXIX of 2000), having its main object the provision to the person of an annuity in old age.

(2) The amount of a resident individual's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: –

(A/B) x 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 contribution or premium referred to in sub-section (1) paid by the individual in the year;

(b) [B][ten] percent of the person's [C][taxable] income for the tax year; or

(c) [[D][two] hundred] thousand rupees.

(3) A person shall not be entitled to a tax credit under sub-section (1) in respect of a contract of annuity which provides –

(a) for the payment during the life of the person of any amount besides an annuity;

(b) for the annuity payable to the person to commence before the person attains the age of sixty years;

(c) that the annuity is capable, in whole or part, of surrender, commutation, or assignment; or

(d) for payment of the annuity outside Pakistan."

[A] Substituted for the letters "SECP,"

[B] Substituted for the word "five" by the Finance Act, 2003.

[C] Substituted for the word "total" by the Finance Act, 2003.

[D] The word "One" substituted by the Finance Act, 2003. Earlier the word "fifty" was substituted by the words "One hundred" by the Finance Act, 2002.

(i) the total contribution or premium referred to in sub-section (1) paid by the person in the year; or

(ii) twenty per cent of the [1][eligible] person's taxable income for the relevant tax year; Provided that [2][an eligible person] joining the pension fund at the age of forty-one years or above, during the first ten years [3][starting from July 1, 2006] shall be allowed additional contribution of 2% per annum for each year of age exceeding forty years. Provided further that the total contribution allowed to such person shall not exceed 50% of the total taxable income of the preceding year; or

(iii) five hundred thousand rupees.]

[4][(3) The transfer by the members of approved employment pension or annuity scheme or approved occupational saving scheme of their existing balance to their individual pension accounts maintained with one or more pension fund managers shall not qualify for tax credit under this section.]

64. Profit on debt.- [5][(1) A person shall be entitled to a tax credit for a tax year in respect of any profit or share in rent and share in appreciation for value of house paid by the person in the year on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the local authority [6][or a statutory body or a public company listed on a registered stock exchange in Pakistan] where the person utilizes the loan for the construction of a new house or the acquisition of a house.]

(2) The amount of a person's tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: –

(A/B) x 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;

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[1] Inserted by the Finance Act, 2006.
[2] The words "a person" substituted by the Finance Act, 2006.
[3] The words, figure and commas "of the notification of the Voluntary Pension System Rules, 2005," substituted by the Finance Act, 2006.
[4] Added by the Finance Act, 2006.
[5] Substituted by the Finance Act, 2003. The substituted sub-section (1) read as follows:
"(1) A person shall be entitled to a tax credit for a tax year in respect of any profit or share in rent and share in appreciation of value of house paid by the person in the year on a loan by a scheduled bank under a house finance scheme approved by the State Bank of Pakistan or advanced by Government, the local authority or House Building Finance Corporation where the person utilizes the loan for the construction of a new house or the acquisition of a house."
[6] Inserted by the Finance Act, 2004.

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

C is the lesser of –

(a) the total profit referred to in sub-section (1) paid by the person in the year;

(b) [1][forty] percent of the person's [2][taxable] income for the year; or

(c) [3][five] hundred thousand rupees.

(3) A person is not entitled to [4][tax credit] under this section for any profit deductible under section 17.

65. Miscellaneous provisions relating to tax credits.- (1) Where the person entitled to a tax credit under [5][this] Part is a member of an association of persons to which sub-section (1) of section 92 applies, the following shall apply –

(a) component **A** of the formula in sub-section (2) of section 61, sub-section (2) of section 62, sub-section (2) of section 63 and sub-section (2) of section 64 shall be the amount of tax that would be assessed to the individual if any amount derived in the year that is exempt from tax under sub-section (1) of section 92 were chargeable to tax; and

(b) component **B** of the formula in sub-section (2) of section 61, sub-section (2) of section 62, sub-section (2) of section 63 and sub-section (2) of section 64 shall be the taxable income of the individual for the year if any amount derived in the year that is exempt from tax under sub-section (1) of section 92 were chargeable to tax.

(2) Any tax credit allowed under this Part shall be applied in accordance with sub-section (3) of section 4.

(3) Subject to sub-section (4), any tax credit or part of a tax credit allowed to a person under this Part for a tax year that is not able to be credited

[1] Substituted for the words "twenty five" by the Finance Act, 2003.
[2] Substituted for the word "total" by the Finance Act, 2003.
[3] Substituted for the word "one" by the Finance Act, 2003. Earlier the word "fifty" was substituted by the words "One hundred" by the Finance Act, 2002.
[4] Substituted for the words "a deductible allowance" by the Finance Act, 2002
[5] Inserted by the Finance Act, 2002

under sub-section (3) of section 4 for the year shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year.

(4) Where the person to whom sub-section (3) applies is a member of an association of persons to which sub-section (1) of section 92 applies, the amount of any excess credit under sub-section (3) for a tax year may be claimed as a tax credit by the association for that year.

(5) Sub-section (4) applies only where the member and the association agree in writing for the sub-section to apply and such agreement in writing must be furnished with the association's return of income for that year.

CHAPTER IV
COMMON RULES

PART I
GENERAL

66. Income of joint owners.- (1) For the purposes of this Ordinance and subject to sub-section (2), where any property is owned by two or more persons and their respective shares are definite and ascertainable –

(a) the persons shall not be assessed as an association of persons in respect of the property; and

(b) the share of each person in the income from the property for a tax year shall be taken into account in the computation of the person's taxable income for that year.

(2) This section shall not apply in computing income chargeable under the head "Income from Business".

67. Apportionment of deductions.- (1) Subject to this Ordinance, where an expenditure relates to –

(a) the derivation of more than one head of income; or

[1][(ab) derivation of income comprising of taxable income and any class of income to which sub-sections (4) and (5) of section 4 apply, or;]

(b) the derivation of income chargeable to tax under a head of income and to some other purpose,

the expenditure shall be apportioned on any reasonable basis taking account of the relative nature and size of the activities to which the amount relates.

(2) The [2][Board] may make rules under section [3][237] for the purposes of apportioning deductions.

68. Fair market value.- (1) For the purposes of this Ordinance, the fair market value of any property [4][or rent], asset, service, benefit or perquisite at a particular time shall be the price which the property [5][or rent], asset, service, benefit or perquisite would ordinarily fetch on sale or supply in the open market at that time.

(2) The fair market value of any property [6][or rent], asset, service, benefit or perquisite shall be determined without regard to any restriction on transfer or to the fact that it is not otherwise convertible to cash.

[7][(3) Where the price referred to in sub-section (1) is not ordinarily ascertainable, such price may be determined by the Commissioner.]

69. Receipt of income.- For the purposes of this Ordinance, a person shall be treated as having received an amount, benefit, or perquisite if it is –

(a) actually received by the person;

(b) applied on behalf of the person, at the instruction of the person or under any law; or

(c) made available to the person.

70. Recouped expenditure.- Where a person has been allowed a deduction for any expenditure or loss incurred in a tax year in the computation of the person's income chargeable to tax under a head of income and, subsequently, the person has received, in cash or in kind, any amount in respect of such

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[1] Inserted by the Finance Act, 2002.
[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[3] Substituted for the figure "232" by the Finance Act, 2002.
[4] Inserted by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2003.
[6] Inserted by the Finance Act, 2003.
[7] Added by the Finance Act, 2003.

expenditure or loss, the amount so received shall be included in the income chargeable under that head for the tax year in which it is received.

71. Currency conversion.- (1) Every amount taken into account under this Ordinance shall be in Rupees.

(2) Where an amount is in a currency other than rupees, the amount shall be converted to the Rupee at the State Bank of Pakistan [1][ ] rate applying between the foreign currency and the Rupee on the date the amount is taken into account for the purposes of this Ordinance.

72. Cessation of source of income.- Where –

(a) any income is derived by a person in a tax year from any business, activity, investment or other source that has ceased either before the commencement of the year or during the year; and

(b) if the income had been derived before the business, activity, investment or other source ceased it would have been chargeable to tax under this Ordinance,

this Ordinance shall apply to the income on the basis that the business, activity, investment or other source had not ceased at the time the income was derived.

73. Rules to prevent double derivation and double deductions.- (1) For the purposes of this Ordinance, where –

(a) any amount is chargeable to tax under this Ordinance on the basis that it is receivable, the amount shall not be chargeable again on the basis that it is received; or

(b) any amount is chargeable to tax under this Ordinance on the basis that it is received, the amount shall not be chargeable again on the basis that it is receivable.

(2) For the purposes of this Ordinance, where –

(a) any expenditure is deductible under this Ordinance on the basis that it is payable, the expenditure shall not be deductible again on the basis that it is paid; or

[1] The word “mid-exchange” omitted by the Finance Act, 2003.

(b) any expenditure is deductible under this Ordinance on the basis that it is paid, the expenditure shall not be deductible again on the basis that it is payable.

PART II
TAX YEAR

[1][**74**. **Tax year.-** (1) for the purpose of this Ordinance and subject to this section, the tax year shall be a period of twelve months ending on the 30th day of June (hereinafter referred to as 'normal tax year') and shall, subject to sub-section (3), be denoted by the calendar year in which the said date falls.

(2) Where a person's income year, under the repealed Ordinance, is different from the normal tax year, or where a person is allowed, by an order under sub-section (3), to use a twelve months' period different from normal tax year, such income year or such period shall be that person's tax year (hereinafter referred to as 'special tax year') and shall, subject to sub-section (3), be denoted by the calendar year relevant to normal tax year in which the closing date of the special tax year falls.

[2][(2A) The [3][Board],-

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[1] Substituted by the Finance Act, 2002. The substituted section 74 read as follows:

"**74. Tax year.-** (1) For the purposes of this Ordinance and subject to this section, the tax year shall be the period of twelve months ending on the 30th day of June (referred to in this section as the financial year).

(2) A person may apply, in writing, to use as the person's tax year a twelve-month period (hereinafter referred to as a "special year") other than the financial year and the Commissioner may, subject to sub-section (4), by notice in writing, approve the application.

(3) A person granted permission under sub-section (2) to use a special year may apply, in writing, to change the person's tax year to the financial year or to another special year and the Commissioner may, subject to sub-section (4), by notice in writing, approve such application.

(4) The Commissioner may approve an application under sub-section (2) or (3) only if the person has shown a compelling need to use a special year or to change the person's tax year and any approval shall be subject to such conditions as the Commissioner may prescribe.

(5) The Commissioner may, by notice in writing to a person, withdraw the permission to use a special year granted under sub-section (2) or (3).

(6) A notice served by the Commissioner under sub-section (2) shall take effect on the date specified in the notice and a notice under sub-section (3) or (5) shall take effect at the end of the special year of the person in which the notice was served.

(7) Where the tax year of a person changes as a result of sub-section (2), (3) or (5), the period between the last full tax year prior to the change and the date on which the changed tax year commences shall be treated as a separate tax year, to be known as the "transitional year".

(8) In this Ordinance, a reference to a particular financial year shall include a special year or a transitional year of a person commencing during the financial year.

(9) A person dissatisfied with a decision of the Commissioner under sub-section (2), (3) or (5) may challenge the decision only under the appeal procedure in Part III of Chapter X."

[2] Added by the Finance Act, 2004.

[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(i) in the case of a class of persons having a special tax year different from a normal tax year may permit, by a notification in the official Gazette, to use a normal tax year; and

(ii) in the case of a class of persons having a normal tax year may permit, by a notification in the official Gazette, to use a special tax year.]

(3) A person may apply, in writing, to the Commissioner to allow him to use a twelve months' period, other than normal tax year, as special tax year and the Commissioner may, subject to sub-section (5), by an order, allow him to use such special tax year.

(4) A person using a special tax year, under sub-section (2), may apply in writing, to the Commissioner to allow him to use normal tax year and the Commissioner may, subject to sub-section (5), by an order, allow him to use normal tax year.

(5) The Commissioner shall grant permission under sub-section (3) or (4) only if the person has shown a compelling need to use special tax year or normal tax year, as the case may be, and the permission shall be subject to such conditions, if any, as the Commissioner may impose.

(6) An order under sub-section (3) or (4) shall be made after providing to the applicant an opportunity of being heard and where his application is rejected the Commissioner shall record in the order the reasons for rejection.

(7) The Commissioner may, after providing to the person concerned an opportunity of being heard, by an order, withdraw the permission granted under sub-section (3) or (4).

(8) An order under sub-section (3) or (4) shall take effect from such date, being the first day of the special tax year or the normal tax year, as the case may be, as may be specified in the order.

(9) Where the tax year of a person changes as a result of an order under sub-section (3) or sub-section (4), the period between the end of the last tax year prior to change and the date on which the changed tax year commences shall be treated as a separate tax year, to be known as the "transitional tax year".

(10) In this Ordinance, a reference to a particular financial year shall, unless the context otherwise requires, include a special tax year or a transitional tax year commencing during the financial year.

(11) A person dissatisfied with an order under sub-section (3), (4) or (7) may file a review application to the [1][Board], and the decision by the [2][Board] on such application shall be final.]

PART III
ASSETS

75. Disposal and acquisition of assets.- (1) A person who holds an asset shall be treated as having made a disposal of the asset at the time the person parts with the ownership of the asset, including when the asset is –

(a) sold, exchanged, transferred or distributed; or

(b) cancelled, redeemed, relinquished, destroyed, lost, expired or surrendered.

(2) The transmission of an asset by succession or under a will shall be treated as a disposal of the asset by the deceased at the time asset is transmitted.

(3) The application of a business asset to personal use shall be treated as a disposal of the asset by the owner of the asset at the time the asset is so applied.

[3][(3A) Where a business asset is discarded or ceases to be used in business, it shall be treated to have been disposed of.]

(4) A disposal shall include the disposal of a part of an asset.

(5) A person shall be treated as having acquired an asset at the time the person begins to own the asset, including at the time the person is granted any right.

(6) The application of a personal asset to business use shall be treated as an acquisition of the asset by the owner at the time the asset is so applied.

(7) In this section, -

"business asset" means an asset held wholly or partly for use in a business, including stock-in-trade and a depreciable asset; and

"personal asset" means an asset held wholly for personal use.

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] Inserted by the Finance Act, 2003.

76. Cost.- (1) Except as otherwise provided in this Ordinance, this section shall establish the cost of an asset for the purposes of this Ordinance.

(2) Subject to sub-section (3), the cost of an asset purchased by a person shall be the sum of the following amounts, namely:–

(a) The total consideration given by the person for the asset, including the fair market value of any consideration in kind determined at the time the asset is acquired;

(b) any incidental expenditure incurred by the person in acquiring and disposing of the asset; and

(c) any expenditure incurred by the person to alter or improve the asset,

but shall not include any expenditure under clauses (b) and (c) that has been fully allowed as a deduction under this Ordinance.

(3) The cost of an asset treated as acquired under sub-section (6) of section 75 shall be the fair market value of the asset determined at the date it is applied to business use.

(4) The cost of an asset produced or constructed by a person shall be the total costs incurred by the person in producing or constructing the asset plus any expenditure referred to [1][in] clauses (b) and (c) of sub-section (2) incurred by the person.

(5) Where an asset has been acquired by a person with a loan denominated in a foreign currency and, before full and final repayment of the loan, there is an increase or decrease in the liability of the person under the loan as expressed in Rupees, the amount by which the liability is increased or reduced shall be added to or deducted from the cost of the asset, as the case may be.

(6) In determining whether the liability of a person has increased or decreased for the purposes of sub-section (5), account shall be taken of the person's position under any hedging agreement relating to the loan.

(7) Where a part of an asset is disposed of by a person, the cost of the asset shall be apportioned between the part of the asset retained and the part disposed of in accordance with their respective fair market values determined at the time the person acquired the asset.

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[1] Inserted by the Finance Act, 2003.

(8) Where the acquisition of an asset by a person is the derivation of an amount chargeable to tax, the cost of the asset shall be the amount so charged plus any amount paid by the person for the asset.

(9) Where the acquisition of an asset by a person is the derivation of an amount exempt from tax, the cost of the asset shall be the exempt amount plus any amount paid by the person for the asset.

(10) The cost of an asset does not include the amount of any grant, subsidy, rebate, commission or any other assistance (other than a loan repayable with or without profit) received or receivable by a person in respect of the acquisition of the asset, except to the extent to which the amount is chargeable to tax under this Ordinance.

77. Consideration received.- (1) The consideration received by a person on disposal of an asset shall be the total amount received by the person for the asset [1][or the fair market value thereof, whichever is the higher], including the fair market value of any consideration received in kind determined at the time of disposal.

(2) Where an asset has been lost or destroyed by a person, the consideration received for the asset shall include any compensation, indemnity or damages received by the person under –

(a) an insurance policy, indemnity or other agreement;

(b) a settlement; or

(c) a judicial decision.

(3) The consideration received for an asset treated as disposed of under sub-section (3) [2][or (3A)] of section 75 shall be the fair market value of the asset determined at the time it is applied to personal use [3][or discarded or ceased to be used in business, as the case may be].

(4) The consideration received by a scheduled bank, financial institution, modaraba, or leasing company approved by the Commissioner (hereinafter referred to as a "leasing company") in respect of an asset leased by the company to another person shall be the residual value received by the leasing company on maturity of the lease agreement subject to the condition that the residual value plus the amount realized during the term of the lease towards the cost of the asset is not less than the original cost of the asset.

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[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2003.

(5) Where two or more assets are disposed of by a person in a single transaction and the consideration received for each asset is not specified, the total consideration received by the person shall be apportioned among the assets disposed of in proportion to their respective fair market values determined at the time of the transaction.

78. Non-arm's length transactions.- Where an asset is disposed of in a non-arm's length transaction –

(a) the person disposing of the asset shall be treated as having received consideration equal to the fair market value of the asset determined at the time the asset is disposed; and

(b) the person acquiring the asset shall be treated as having a cost equal to the amount determined under clause (a).

79. Non-recognition rules.- (1) For the purposes of this Ordinance and subject to sub-section (2), no gain or loss shall be taken to arise on the disposal of an asset -

(a) between spouses under an agreement to live apart;

(b) by reason of the transmission of the asset to an executor or beneficiary on the death of a person;

(c) by reason of a gift of the asset;

(d) by reason of the compulsory acquisition of the asset under any law where the consideration received for the disposal is reinvested by the recipient in an asset of a like kind within one year of the disposal;

(e) by a company to its shareholders on liquidation of the company; or

(f) by an association of persons to its members on dissolution of the association where the assets are distributed to members in accordance with their interests in the capital of the association.

(2) Sub-section (1) shall not apply where the person acquiring the asset is a non-resident person at the time of the acquisition.

(3) Where clause (a), (b), (c), (e) or (f) of sub-section (1) applies, the person acquiring the asset shall be treated as –

(a) acquiring an asset of the same character as the person disposing of the asset; and

(b) acquiring the asset for a cost equal to the cost of the asset for the person disposing of the asset at the time of the disposal.

(4) The person's cost of a replacement asset referred to in clause (d) of sub-section (1) shall be the cost of the asset disposed of plus the amount by which any consideration given by the person for the replacement asset exceeds the consideration received by the person for the asset disposed of.

CHAPTER V
PROVISIONS GOVERNING PERSONS

PART I
CENTRAL CONCEPTS

Division I
Persons

80. Person.- (1) The following shall be treated as persons for the purposes of this Ordinance, namely:–

(a) An individual;

(b) a company or association of persons incorporated, formed, organised or established in Pakistan or elsewhere;

(c) the Federal Government, a foreign government, a political sub-division of a foreign government, or public international organisation.

(2) For the purposes of this Ordinance –

(a) "association of persons" includes a firm, a Hindu undivided family, any artificial juridical person and any body of persons formed under a foreign law, but does not include a company;

(b) "company" means –

(i) a company as defined in the Companies Ordinance, 1984 (XLVII of 1984);

(ii) a body corporate formed by or under any law in force in Pakistan;

(iii) a modaraba;

(iv) a body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies;

(v) a trust, a co-operative society or a finance society [1][or any other society established or constituted by or under any law for the time being in force;]

(vi) a foreign association, whether incorporated or not, which the [2][Board] has, by general or special order, declared to be a company for the purposes of this Ordinance;

(vii) a Provincial Government; [3][ ]

(viii) a local authority in Pakistan; [4][or]

[5][(ix) a Small Company as defined in section 2;]

(c) "firm" means the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all;

(d) "trust" means an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner, or declared and accepted by the owner for the benefit of another, or of another and the owner, and includes a unit trust; and

(e) "unit trust" means any trust under which beneficial interests are divided into units such that the entitlements of the beneficiaries to income or capital are determined by the number of units held.

Division II
Resident and Non-Resident Persons

81. Resident and non-resident persons.- (1) A person shall be a resident person for a tax year if the person is –

[1] Inserted by the Finance Act, 2002
[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[3] The word "or" omitted by the Finance Act, 2005.
[4] Inserted by the Finance Act, 2005.
[5] Added by the Finance Act, 2005.

(a) a resident individual, resident company or resident association of persons for the year; or

(b) the Federal Government.

(2) A person shall be a non-resident person for a tax year if the person is not a resident person for that year.

82. Resident individual.- An individual shall be a resident individual for a tax year if the individual –

(a) is present in Pakistan for a period of, or periods amounting in aggregate to, one hundred and [1][eighty-three] days or more in the tax year; [2][or]

[3][ ]

(c) is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year.

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

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

(b) the control and management of the affairs of the company is situated wholly [4][ ] in Pakistan at any time in the year; or

(c) it is a Provincial Government or local authority in Pakistan.

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

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[1] The words "eighty-two" substituted by the Finance Act, 2006.
[2] Inserted by the Finance Act, 2005.
[3] Omitted by the Finance Act, 2003. The omitted clause (b) read as follows:
"(b) is present in Pakistan for a period of, or periods amounting in aggregate to, ninety days or more in the tax year and who, in the four years preceding the tax year, has been in Pakistan for a period of, or periods amounting in aggregate to, three hundred and sixty-five days or more; or"
[4] The words "or almost wholly" omitted by the Finance Act, 2003.

Division III
Associates

85. Associates.- (1) Subject to sub-section (2), two persons shall be associates where the relationship between the two is such that one may reasonably be expected to act in accordance with the intentions of the other, or both persons may reasonably be expected to act in accordance with the intentions of a third person.

(2) Two persons shall not be associates solely by reason of the fact that one person is an employee of the other or both persons are employees of a third person.

(3) Without limiting the generality of sub-section (1) and subject to sub-section (4), the following shall be treated as associates –

(a) an individual and a relative of the individual;

(b) members of an association of persons;

(c) a member of an association of persons and the association, where the member, either alone or together with an associate or associates under another application of this section, controls fifty per cent or more of the rights to income or capital of the association;

(d) a trust and any person who benefits or may benefit under the trust;

(e) a shareholder in a company and the company, where the shareholder, either alone or together with an associate or associates under another application of this section, controls either directly or through one or more interposed persons –

(i) fifty per cent or more of the voting power in the company;

(ii) fifty per cent or more of the rights to dividends; or

(iii) fifty per cent or more of the rights to capital; and

(f) two companies, where a person, either alone or together with an associate or associates under another application of this section, controls either directly or through one or more interposed persons –

(i) fifty per cent or more of the voting power in both companies;

(ii) fifty per cent or more of the rights to dividends in both companies; or

(iii) fifty per cent or more of the rights to capital in both companies.

(4) Two persons shall not be associates under clause (a) or (b) of sub-section (3) where the Commissioner is satisfied that neither person may reasonably be expected to act in accordance with the intentions of the other.

(5) In this section, "relative" in relation to an individual, means –

(a) an ancestor, a descendant of any of the grandparents, or an adopted child, of the individual, or of a spouse of the individual; or

(b) a spouse of the individual or of any person specified in clause (a).

PART II
INDIVIDUALS

Division I
Taxation of Individuals

86. Principle of taxation of individuals.- Subject to this Ordinance, the taxable income of each individual shall be determined separately.

87. Deceased individuals.- (1) The legal representative of a deceased individual shall be liable for –

(a) any tax that the individual would have become liable for if the individual had not died; and

(b) any tax payable in respect of the income of the deceased's estate.

(2) The liability of a legal representative under this section shall be limited to the extent to which the deceased's estate is capable of meeting the liability.

(3) For the purpose of this Ordinance, –

(a) any proceeding taken under this Ordinance against the deceased before his or her death shall be treated as taken against the legal representative and may be continued against the legal representative from the stage at which the proceeding stood on the date of the deceased's death; and

(b) any proceeding which could have been taken under this Ordinance against the deceased if the deceased had survived may be taken against the legal representative of the deceased.

(4) In this section, "legal representative" means a person who in law represents the estate of a deceased person, and includes any person who intermeddles with the estate of the deceased and where a party sues or is sued in representative character the person on whom the estate devolves on the death of the party so suing or sued.

Division II
Provisions Relating to Averaging

88. An individual as a member of an association of persons.- If, for a tax year, an individual has taxable income and derives an amount or amounts exempt from tax under sub-section (1) of section 92, the amount of tax payable on the taxable income of the individual shall be computed in accordance with the following formula, namely:–

(A/B) x C

where –

A is the amount of tax that would be assessed to the individual for the year if the amount or amounts exempt from tax under sub-section (1) of section 92 were chargeable to tax;

B is the taxable income of the individual for the year if the amount or amounts exempt from tax under sub-section (1) of section 92 were chargeable to tax; and

C is the individual's actual taxable income for the year.

[1]**[88A. Share profits of company to be added to taxable income.-** (1) Notwithstanding the provisions of sub-section (1) of section 92, the share of profits derived by a company from an association of persons shall be added to the taxable income of the company.

[1] Added by the Finance Act, 2003.

(2) The company shall be allowed a tax credit in accordance with the following formula, namely: -

[1][(A/B) x C]

Where –

A is the amount of share of profits received by the company from the association;

B is the taxable income of the association; and

C is the amount of tax assessed on the association.

(3) The tax credit allowed under this section shall be applied in accordance with sub-section (3) of section 4.]

89. Authors.- Where the time taken by an author of a literary or artistic work to complete the work exceeds twenty-four months, the author may elect to treat any lump sum amount received by the author in a tax year on account of royalties in respect of the work as having been received in that tax year and the preceding two tax years in equal proportions.

Division III
Income Splitting

90. Transfers of assets.- (1) For the purposes of this Ordinance and subject to sub-section (2), where there has been a revocable transfer of an asset, any income arising from the asset shall be treated as the income of the transferor and not of the transferee.

(2) Sub-section (1) shall not apply to any income derived by a person by virtue of a transfer that is not revocable during the lifetime of the person and the transferor derives no direct or indirect benefit from such income.

(3) For the purposes of this Ordinance, where there has been a transfer of an asset but the asset remains the property of the transferor, any income arising from the asset shall be treated as the income of the transferor.

(4) For the purposes of this Ordinance and subject to sub-section (5), any income arising from any asset transferred by a person directly or indirectly to–

[1] The brackets, figure and letters “(A/B)XC” substituted by the Finance Act, 2005.

(a) the person's spouse or minor child; or

(b) any other person for the benefit of a person or persons referred to in clause (a),

shall be treated as the income of the transferor.

(5) Sub-section (4) shall not apply to any transfer made –

(a) for adequate consideration; or

(b) in connection with an agreement to live apart.

(6) For the purposes of clause (a) of sub-section (5), a transfer shall not be treated as made for adequate consideration if the transferor has provided, by way of loan or otherwise, to the transferee, directly or indirectly, with the funds for the acquisition of the asset.

(7) Sub-section (5) does not apply where the transferor fails to produce evidence of the transfer of the asset by way of its registration or mutation in the relevant record and the income arising from the asset shall be treated as the income of the transferor for the purposes of this Ordinance.

(8) For the purposes of this section, –

(a) a transfer of an asset shall be treated as revocable if –

(i) there is any provision for the re-transfer, directly or indirectly, of the whole or any part of the asset to the transferor; or

(ii) the transferor has, in any way, the right to resume power, directly or indirectly, over the whole or any part of the asset;

(b) "minor child" shall not include a married daughter; and

(c) "transfer" includes any disposition, settlement, trust, covenant, agreement or arrangement.

91. Income of a minor child.- (1) Any income of a minor child for a tax year chargeable under the head "Income from Business" shall be chargeable to tax as the income of the parent of the child with the highest taxable income for that year.

(2) Sub-section (1) shall not apply to the income of a minor child from a business acquired by the child through an inheritance.

PART III
ASSOCIATIONS OF PERSONS

92. Principles of taxation of associations of persons.- (1) [1][ ] An association of persons shall be liable to tax separately from the members of the association and [2][where the association of persons has paid tax the] amount received by a member of the association in the capacity as member out of the income of the association shall be exempt from tax.

[3][ ]

[4][ ]

[5][ ]

[6][ ]

[7][ ]

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[1] The words, brackets, figure and comma "Subject to sub-section (2)" omitted by the Finance Act, 2007.

[2] Inserted by the Finance Act, 2003.

[3] Omitted by the Finance Act, 2007. The omitted sub-section (2) read as follows:
"[A][(2) Sub-section (1) shall not apply to an association of persons that is a professional firm prohibited from incorporating by any law or the rules of the body regulating the profession.]"
[A] Earlier substituted sub-section (2) by Finance Act, 2003.

[4] Omitted by the Finance Act, 2007. The omitted sub-section (3) read as follows:
"(3) An association of persons to which subsection (2) applies shall not be liable to tax and the income of the association shall be taxed to the members in accordance with section 93".

[5] Omitted by the Finance Act, 2007. The omitted sub-section (4) read as follows:
"(4) An association of persons referred to in sub-section (3) shall furnish a return of total income for each tax year.

[6] Omitted by the Finance Act, 2007. The omitted sub-section (5) read as follows:
"(5) Sections 114, 118 and 119 shall apply to a return of total income required to be furnished under sub-section (4)."

[7] Omitted by the Finance Act, 2007. The omitted section read as follows:
"**93. Taxation of members of an association of persons.-** (1) Where sub-section (3) of section 92 applies, the income of a member of an association of persons chargeable under the head "Income from Business" for a tax year shall include –

(a) in the case of a resident member, the member's share in the total income of the association; or

(b) in the case of a non-resident member, the member's share in so much of the total income of the association as is attributable to Pakistani-source income.

(2) Where an association of persons to which sub-section (3) of section 92 applies sustains a loss that cannot be set off against any other income of the association in accordance with section 56, the amount of the loss shall be apportioned among the members of the association according to their interest in the association and the members shall be entitled to have their share of

PART IV
COMPANIES

94. Principles of taxation of companies.- (1) A company shall be liable to tax separately from its shareholders.

(2) A dividend paid by a resident company shall be taxable in accordance with Section 5.

(3) A dividend paid by a non-resident company to a resident person shall be chargeable to tax under the head "Income from Business" or "Income from Other Sources", as the case may be, unless the dividend is exempt from tax.

95. Disposal of business by individual to wholly-owned company.- (1) Where a resident individual (hereinafter referred to as the "transferor") disposes of all the assets of a business of the transferor to a resident company, no gain or loss shall be taken to arise on the disposal if the following conditions are satisfied, namely:–

(a) The consideration received by the transferor for the disposal is a share or shares in the company (other than redeemable shares);

(b) the transferor must beneficially own all the issued shares in the company immediately after the disposal;

(c) the company must undertake to discharge any liability in respect of the assets disposed of to the company;

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the loss set off and carried forward for set off under Part VIII of Chapter III in computing their taxable income under this Ordinance.

(3) The share of a loss referred to in sub-section (2) of a non-resident member shall be limited to the extent that the loss relates to the derivation of Pakistan-source income.

(4) The total income of an association of persons for the purposes of sub-section (1) and the loss of an association for the purposes of sub-section (2) shall be computed as if the association were a resident person.

(5) Income, expenditures and losses of an association of persons to which this section applies shall retain their character as to geographic source and type of income, expenditure or loss in the hands of the members of the association, and shall be treated as having passed through the association on a pro rata basis, unless the Commissioner permits otherwise by [A][order] in writing to the association.

[A] Earlier the word "notice" substituted by the Finance Act, 2003.

(6) The share of a member in the total income of an association of persons shall be determined according to the member's interest in the association and shall include any profit on debt, brokerage, commission, salary or other remuneration received or due from the association."

(d) any liability in respect of the assets disposed of to the company must not exceed the transferor's cost of the assets at the time of the disposal;

(e) the fair market value of the share or shares received by the transferor for the disposal must be substantially the same as the fair market value of the assets disposed of to the company, less any liability that the company has undertaken to discharge in respect of the assets; and

(f) the company must not be exempt from tax for the tax year in which the disposal takes place.

(2) Where sub-section (1) applies –

(a) each of the assets acquired by the company shall be treated as having the same character as it had in the hands of the transferor;

(b) the company's cost in respect of the acquisition of the assets shall be –

(i) in the case of a depreciable asset or amortised intangible, the written down value of the asset or intangible immediately before the disposal;

(ii) in the case of stock-in-trade valued for tax purposes under sub-section (4) of section 35 [1][ ], that value; or

(iii) in any other case, the transferor's cost at the time of the disposal;

(c) if, immediately before the disposal, the transferor has deductions allowed under sections 22, 23 and 24 in respect of the assets transferred which have not been set off against the transferor's income, the amount not set off shall be added to the deductions allowed under those sections to the company in the tax year in which the transfer is made; and

(d) the transferor's cost in respect of the share or shares received as consideration for the disposal shall be –

(i) in the case of a consideration of one share, the transferor's cost of the assets transferred as determined

[1] The words "at fair market value" omitted by the Finance Act, 2007.

under clause (b), less the amount of any liability that the company has undertaken to discharge in respect of the assets; or

(ii) in the case of a consideration of more than one share, the amount determined under sub-clause (i) divided by the number of shares received.

(3) In determining whether the transferor's deductions under sections 22, 23 or 24 have been set off against income for the purposes of clause (c) of sub-section (2), those deductions shall be taken into account last.

96. Disposal of business by association of persons to wholly-owned company.- (1) Where a resident association of persons disposes of all the assets of a business of the association to a resident company, no gain or loss shall be taken to arise on the disposal if the following conditions are satisfied, namely:–

(a) The consideration received by the association for the disposal is a share or shares in the company (other than redeemable shares);

(b) the association must own all the issued shares in the company immediately after the disposal;

(c) each member of the association must have an interest in the shares in the same proportion to the member's interest in the business assets immediately before the disposal;

(d) the company must undertake to discharge any liability in respect of the assets disposed of to the company;

(e) any liability in respect of the assets disposed of to the company must not exceed the association's cost of the asset at the time of the disposal;

(f) the fair market value of the share or shares received by the association for the disposal must be substantially the same as the fair market value of the assets disposed of to the company, as reduced by any liability that the company has undertaken to discharge in respect of the assets; and

(g) the company must not be exempt from tax for the tax year in which the disposal takes place.

(2) Where sub-section (1) applies –

(a) each of the assets acquired by the company shall be treated as having the same character as it had in the hands of the association;

(b) the company's cost in respect of the acquisition of the assets shall be –

(i) in the case of a depreciable asset or amortised intangible, the written down value of the asset or intangible immediately before the disposal;

(ii) in the case of stock-in-trade valued for tax purposes under sub-section (4) of section 35 [1][ ], that value; or

(iii) in any other case, the association's cost at the time of the disposal;

(c) if, immediately before the disposal, the association is subject to tax in accordance with sub-section (1) of section 92 and the association has deductions allowed under sections 22, 23 and 24 in respect of the assets transferred which have not been set off against the association's income, the amount not set off shall be added to the deductions allowed under those sections to the company in the tax year in which the transfer is made; and

(d) the association's cost in respect of the share or shares received as consideration for the disposal shall be –

(i) in the case of a consideration of one share, the association's cost of the assets transferred as determined under clause (b), as reduced by the amount of any liability that the company has undertaken to discharge in respect of the assets; or

(ii) in the case of a consideration of more than one share, the amount determined under sub-clause (i) divided by the number of shares received.

(3) In determining whether the association's deductions under Sections 22, 23 or 24 have been set off against income for the purposes of clause (c) of sub-section (2), those deductions are taken into account last.

[1] The words "at fair market value" omitted by the Finance Act, 2007.

97. Disposal of asset between wholly-owned companies.- (1) Where a resident company (hereinafter referred to as the "transferor") disposes of an asset to another resident company (hereinafter referred to as the "transferee"), no gain or loss shall be taken to arise on the disposal if the following conditions are satisfied, namely:-

(a) Both companies belong to a wholly-owned group of [1][resident] companies at the time of the disposal;

(b) the transferee must undertake to discharge any liability in respect of the asset acquired;

(c) any liability in respect of the asset must not exceed the transferor's cost of the asset at the time of the disposal; and

(d) the transferee must not be exempt from tax for the tax year in which the disposal takes place.

(2) Where sub-section (1) applies –

(a) the asset acquired by the transferee shall be treated as having the same character as it had in the hands of the transferor;

(b) the transferee's cost in respect of the acquisition of the asset shall be –

(i) in the case of a depreciable asset or amortized intangible, the written down value of the asset or intangible immediately before the disposal;

(ii) in the case of stock-in-trade valued for tax purposes under sub-section (4) of section 35 [2][ ], that value; or

(iii) in any other case, the transferor's cost at the time of the disposal;

(c) if, immediately before the disposal, the transferor has deductions allowed under sections 22, 23 and 24 in respect of the asset transferred which have not been set off against the transferor's income, the amount not set off shall be added to the deductions allowed under those sections to the transferee in the tax year in which the transfer is made; and

[1] Inserted by the Finance Act, 2003.
[2] The words "at fair market value" omitted by the Finance Act, 2007.

(d) the transferor's cost in respect of any consideration in kind received for the asset shall be the transferor's cost of the asset transferred as determined under clause (b), as reduced by the amount of any liability that the transferee has undertaken to discharge in respect of the asset.

(3) In determining whether the transferor's deductions under sections 22, 23 or 24 in respect of the asset transferred have been set off against income for the purposes of clause (c) of sub-section (2), those deductions shall be taken into account last.

(4) The transferor and transferee companies belong to a wholly-owned group if –

(a) one company beneficially holds all the issued shares of the other company; or

(b) a third company beneficially holds all the issued shares in both companies.

[1]**[97A. Disposal of asset under a scheme of arrangement and reconstruction**.—(1) No gain or loss shall be taken to arise on disposal of asset from one company (hereinafter referred to as the "transferor") to another company (hereinafter referred to as the "transferee") by virtue of operation of a Scheme of Arrangement and Reconstruction under sections 282L and 284 to 287 of the Companies Ordinance, 1984 (XLVII of 1984) or section 48 of the Banking Companies Ordinance, 1962 (LVII of 1962), if the following conditions are satisfied, namely:—

(a) the transferee must undertake to discharge any liability in respect of the asset acquired;

(b) any liability in respect of the asset must not exceed the transferor's cost of the asset at the time of the disposal;

(c) the transferee must not be exempt from tax for the tax year in which the disposal takes place; and

(d) scheme is approved by the High Court, State Bank of Pakistan or Securities and Exchange Commission of Pakistan, as the case may be, on or after first day of July, 2007.

(2) No gain or loss shall be taken to arise on issue, cancellation, exchange or receipt of shares as a result of Scheme of Arrangement and

[1] Inserted by the Finance Act, 2007.

Reconstruction under sections 282L and 284 to 287 of the companies Ordinance, 1984 (XLVII of 1984) or section 48 of the Banking Companies Ordinance, 1962 (LVII of 1962) and approved by:—

(a) the High Court;

(b) State Bank of Pakistan; or

(c) Securities and Exchange Commission of Pakistan, as the case may be, on or after first day of July, 2007.

(3) Where sub-section (1) applies—

(a) the asset acquired by the transferee shall be treated as having the same character as it had in the hands of the transferor;

(b) the transferee's cost in respect of acquisition of the asset shall be—

(i) in the case of a depreciable asset or amortised intangible, the written down value of the asset or intangible immediately before the disposal;

(ii) in the case of stock-in-trade valued for tax purposes under sub-section (4) of section 35, that value; or

(iii) in any other case, the transferor's cost at the time of the disposal;

(c) if, immediately before the disposal, the transferor has deductions allowed under sections 22, 23 and 24 in respect of the asset transferred which have not been set off against the transferor's income, the amount not set off shall be added to the deduction allowed under those sections to the transferee in the tax year in which the transfer is made.

(4) In determining whether the transferor's deductions under sections 22, 23 or 24 in respect of the asset transferred have been set off against income for the purposes of clause (c) of sub-section (2), those deductions shall be taken into account last.

(5) Where sub-section (2) applies and the shares issued vested by virtue of the Scheme of Arrangement and Reconstruction under sections 282L and 284 to 287 of the Companies Ordinance, 1984 (XLVII of 1984) or section 48 of the Banking Companies Ordinance, 1962 (LVII of 1962) and approved by the Court or State Bank of Pakistan or Securities and Exchange Commission of

Pakistan as the case may be, are disposed of, the cost of shares shall be the cost prior to the operation of the said scheme.]

PART V
COMMON PROVISIONS APPLICABLE TO ASSOCIATIONS OF PERSONS AND COMPANIES

98. Change in control of an entity.- (1) Where there is a change of fifty per cent or more in the underlying ownership of an entity, any loss incurred for a tax year before the change shall not be allowed as a deduction in a tax year after the change, unless the entity –

(a) continues to conduct the same business after the change as it conducted before the change until the loss has been fully set off; and

(b) does not, until the loss has been fully set off, engage in any new business or investment after the change where the principal purpose of the entity or the beneficial owners of the entity is to utilise the loss so as to reduce the income tax payable on the income arising from the new business or investment.

(2) In this section, –

"entity" means a company or association of persons to which sub-section (1) of section 92 applies;

"ownership interest" means a share in a company or the interest of a member in an association of persons; and

"underlying ownership" in relation to an entity, means an ownership interest in the entity held, directly or indirectly through an interposed entity or entities, by an individual or by a person not ultimately owned by individuals.

[1][PART VA
TAX LIABILITY IN CERTAIN CASES

98A. Change in the constitution of an association of persons.- Where, during the course of a tax year, a change occurs in the constitution of an association of persons, liability of filing the return on behalf of the association of persons for the tax year shall be on the association of persons as constituted at the time of filing of such return but the income of the association of persons shall

[1] Inserted by the Finance Act, 2003.

be apportioned among the members who were entitled to receive it and, where the tax assessed on a member cannot be recovered from him it shall be recovered from the association of persons as constituted at the time of filing the return.

98B. Discontinuance of business or dissolution of an association of persons.- (1) Subject to the provisions of section 117, where any business or profession carried on by an association of persons has been discontinued, or where an association of persons is dissolved, all the provisions of this Ordinance, shall, so far as may be, apply as if no such discontinuance or dissolution had taken place.

(2) Every person, who was, at the time of such discontinuance or dissolution, a member of such association of persons and the legal representative of any such person who is deceased, shall be jointly and severally liable for the amount of tax payable by the association of persons.

98C. Succession to business, otherwise than on death.- (1) Where a person carrying on any business or profession has been succeeded in any tax year by any other person (hereafter in this section referred to as the "predecessor" and "successor" respectively), otherwise than on the death of the predecessor, and the successor continues to carry on that business or profession,-

(a) the predecessor shall be liable to pay tax in respect of the income of the tax year in which the succession took place upto the date of succession and of the tax year or years preceding that year; and

(b) the successor shall be liable to pay tax in respect of the income of such tax year after the date of succession.

(2) Notwithstanding anything contained in sub-section (1), where the predecessor cannot be found, the tax liability in respect of the tax year in which the succession took place upto the date of succession and of the tax year or years preceding that year shall be that of the successor in like manner and to the same extent as it would have been that of the predecessor, and all the provisions of this Ordinance shall, so far as may be, apply accordingly.

(3) Where any tax payable under this section in respect of such business or profession cannot be recovered from the predecessor, it shall be recoverable from the successor, who shall be entitled to recover it from the predecessor.]

CHAPTER VI
SPECIAL INDUSTRIES

PART I
INSURANCE BUSINESS

99. Special provisions relating to insurance business.- The profits and gains of any insurance business shall be computed in accordance with the rules in the Fourth Schedule.

PART II
OIL, NATURAL GAS AND OTHER MINERAL DEPOSITS

100. Special provisions relating to the production of oil and natural gas, and exploration and extraction of other mineral deposits.- (1) Subject to sub-section (2), the profits and gains from –

(a) the exploration and production of petroleum including natural gas and from refineries set up at the Dhodak and Bobi fields;

(b) the pipeline operations of exploration and production companies; or

(c) the manufacture and sale of liquified petroleum gas or compressed natural gas,

and the tax payable thereon shall be computed in accordance with the rules in Part I of the Fifth Schedule.

(2) Sub-section (1) shall not apply to the profits and gains attributable to the production of petroleum including natural gas discovered before the 24th day of September, 1954.

(3) The profits and gains of any business which consists of, or includes, the exploration and extraction of such mineral deposits of a wasting nature (not being petroleum or natural gas) as may be specified in this behalf by the Federal Government carried on by a person in Pakistan shall be computed in accordance with the rules in Part II of the Fifth Schedule.

[1]**[(100A) Special provisions relating to banking business.—**(1) Subject to sub-section (2), the income, profits and gains of any banking company as defined in clause (7) of section 2 and tax payable thereon shall be computed in accordance with the rules in the Seventh Schedule.

[1] Inserted by the Finance Act, 2007.

(2) Sub-section (1) shall apply to the profits and gains of the banking companies relevant to tax year 2009 and onwards.]

CHAPTER VII
INTERNATIONAL

PART I
GEOGRAPHICAL SOURCE OF INCOME

101. Geographical source of income.- (1) Salary shall be Pakistan-source income to the extent to which the salary –

(a) is received from any employment exercised in Pakistan, wherever paid; or

(b) is paid by, or on behalf of, the Federal Government, a Provincial Government, or a local authority in Pakistan, wherever the employment is exercised.

(2) Business income of a resident person shall be Pakistan-source income to the extent to which the income is derived from any business carried on in Pakistan.

(3) Business income of a non-resident person shall be Pakistan-source income to the extent to which it is directly or indirectly attributable to –

(a) a permanent establishment of the non-resident person in Pakistan;

(b) sales in Pakistan of goods merchandise of the same or similar kind as those sold by the person through a permanent establishment in Pakistan; [1][ ]

(c) other business activities carried on in Pakistan of the same or similar kind as those effected by the non-resident through a permanent establishment in Pakistan [2][; or]

[3][(d) any business connection in Pakistan.]

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[1] The word “or” omitted by the Finance Act, 2003.
[2] Substituted for the full stop by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2003.

[1][(4) Where the business of a non-resident person comprises the rendering of independent services (including professional services and the services of entertainers and sports persons), the Pakistan-source business income of the person shall include [in addition to any amounts treated as Pakistan-source income under sub-section (3)] any remuneration derived by the person where the remuneration is paid by a resident person or borne by a permanent establishment in Pakistan of a non-resident person.]

(5) Any gain from the disposal of any asset or property used in deriving any business income referred to in sub-section (2), (3) or (4) shall be Pakistan-source income.

(6) A dividend shall be Pakistan-source income if it is paid by a resident company.

(7) Profit on debt shall be Pakistan-source income if it is –

(a) paid by a resident person, except where the profit is payable in respect of any debt used for the purposes of a business carried on by the resident outside Pakistan through a permanent establishment; or

(b) borne by a permanent establishment in Pakistan of a non-resident person.

(8) A royalty shall be Pakistan-source income if it is –

(a) paid by a resident person, except where the royalty is payable in respect of any right, property, or information used, or services utilised for the purposes of a business carried on by the resident outside Pakistan through a permanent establishment; or

(b) borne by a permanent establishment in Pakistan of a non-resident person.

(9) Rental income shall be Pakistan-source income if it is derived from the lease of immovable property in Pakistan whether improved or not, or from

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[1] Substituted by the Finance Act, 2003. The substituted sub-section (4) read as follows: -

"(4) Where the business of a non-resident person comprises the rendering of independent services (including professional services and the services of entertainers and sports-persons), the Pakistan-source business income of the person shall include (in addition to any amounts treated as Pakistan-source income under sub-section (3)) any remuneration derived by the person where –

(a) the remuneration is paid by a resident person or borne by a permanent establishment in Pakistan of a non-resident; person; and

(b) the aggregate gross amount (before deduction of expenses) of the remuneration is sixty thousand rupees or more."

any other interest in or over immovable property, including a right to explore for, or exploit, natural resources in Pakistan.

(10) Any gain from the alienation of any property or right referred to in sub-section (9) or from the alienation of any share in a company the assets of which consist wholly or principally, directly or indirectly, of property or rights referred to in sub-section (9) shall be Pakistan-source income.

(11) A pension or annuity shall be Pakistan-source income if it is paid by a resident or borne by a permanent establishment in Pakistan of a non-resident person.

(12) A technical fee shall be Pakistan-source income if it is –

(a) paid by a resident person, except where the fee is payable in respect of services utilised in a business carried on by the resident outside Pakistan through a permanent establishment; or

(b) borne by a permanent establishment in Pakistan of a non-resident person.

(13) Any gain arising on the disposal of shares in a resident company shall be Pakistan-source income.

(14) Any amount not mentioned in the preceding sub-sections shall be Pakistan-source income if it is paid by a resident person or borne by a permanent establishment in Pakistan of a non-resident person.

(15) Where an amount may be dealt with under sub-section (3) and under another sub-section (other than sub-section (14)), this section shall apply –

(a) by first determining whether the amount is Pakistan-source income under that other sub-section; and

(b) if the amount is not Pakistan-source income under that sub-section, then determining whether it is Pakistan-source income under sub-section (3).

(16) An amount shall be foreign-source income to the extent to which it is not Pakistan-source income.

PART II
TAXATION OF FOREIGN-SOURCE INCOME OF RESIDENTS

102. Foreign source salary of resident individuals.- (1) Any foreign-source salary received by a resident individual shall be exempt from tax if the individual has paid foreign income tax in respect of the salary.

(2) A resident individual shall be treated as having paid foreign income tax in respect of foreign-source salary if tax has been withheld from the salary by the individual's employer and paid to the revenue authority of the foreign country in which the employment was exercised.

103. Foreign tax credit.- (1) Where a resident taxpayer derives foreign source income chargeable to tax under this Ordinance in respect of which the taxpayer has paid foreign income tax, the taxpayer shall be allowed a tax credit of an amount equal to the lesser of –

(a) the foreign income tax paid; or

(b) the Pakistan tax payable in respect of the income.

(2) For the purposes of clause (b) of sub-section (1), the Pakistan tax payable in respect of foreign source income derived by a taxpayer in a tax year shall be computed by applying the average rate of Pakistan income tax applicable to the taxpayer for the year against the taxpayer's net foreign-source income for the year.

(3) Where, in a tax year, a taxpayer has foreign income under more than one head of income, this section shall apply separately to each head of income.

(4) For the purposes of sub-section (3), income derived by a taxpayer from carrying on a speculation business shall be treated as a separate head of income.

(5) The tax credit allowed under this section shall be applied in accordance with sub-section (3) of section 4.

(6) Any tax credit or part of a tax credit allowed under this section for a tax year that is not credited under sub-section (3) of section 4 shall not be refunded, carried back to the preceding tax year, or carried forward to the following tax year.

(7) A credit shall be allowed under this section only if the foreign income tax is paid within two years after the end of the tax year in which the foreign income to which the tax relates was derived by the resident taxpayer.

(8) In this section, –

"average rate of Pakistan income tax" in relation to a taxpayer for a tax year, means the percentage that the Pakistani income tax (before allowance of the tax credit under this section) is of the taxable income of the taxpayer for the year;

"foreign income tax" includes a foreign withholding tax; and

"net foreign-source income" in relation to a taxpayer for a tax year, means the total foreign-source income of the taxpayer charged to tax in the year, as reduced by any deductions allowed to the taxpayer under this Ordinance for the year that –

(a) relate exclusively to the derivation of the foreign-source income; and

(b) are reasonably related to the derivation of foreign-source income in accordance with sub-section (1) of section 67 and any rules made for the purposes of that section.

104. Foreign losses.- (1) Deductible expenditures incurred by a person in deriving foreign-source income chargeable to tax under a head of income shall be deductible only against that income.

(2) If the total deductible expenditures referred to in sub-section (1) exceed the total foreign source income for a tax year chargeable to tax under a head of income (hereinafter referred to as a "foreign loss"), the foreign loss shall be carried forward to the following tax year and set off against the foreign source income chargeable to tax under that head in that year, and so on, but no foreign loss shall be carried forward to more than six tax years immediately succeeding the tax year for which the loss was computed.

(3) Where a taxpayer has a foreign loss carried forward for more than one tax year, the loss for the earliest year shall be set off first.

(4) Section 67 shall apply for the purposes of this section on the basis that –

(a) income from carrying on a speculation business is a separate head of income; and

(b) foreign source income chargeable under a head of income (including the head specified in clause (a)) shall be a separate head of income.

PART III
TAXATION OF NON-RESIDENTS

105. Taxation of a permanent establishment in Pakistan of a non-resident person.- (1) The following principles shall apply in determining the income of a permanent establishment in Pakistan of a non-resident person chargeable to tax under the head "Income from Business", namely:-

(a) The profit of the permanent establishment shall be computed on the basis that it is a distinct and separate person engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the non-resident person of which it is a permanent establishment;

(b) subject to this Ordinance, there shall be allowed as deductions any expenses incurred for the purposes of the business activities of the permanent establishment including executive and administrative expenses so incurred, whether in Pakistan or elsewhere;

(c) no deduction shall be allowed for amounts paid or payable by the permanent establishment to its head office or to another permanent establishment of the non-resident person (other than towards reimbursement of actual expenses incurred by the non-resident person to third parties) by way of:

(i) royalties, fees or other similar payments for the use of any tangible or intangible asset by the permanent establishment;

(ii) compensation for any services including management services performed for the permanent establishment; or

(iii) profit on debt on moneys lent to the permanent establishment, except in connection with a banking business; and

(d) no account shall be taken in the determination of the income of a permanent establishment of amounts charged by the permanent establishment to the head office or to another permanent establishment of the non-resident person (other than towards reimbursement of actual expenses incurred by the permanent establishment to third parties) by way of:

(i) royalties, fees or other similar payments for the use of any tangible or intangible asset;

(ii) compensation for any services including management services performed by the permanent establishment; or

(iii) profit on debt on moneys lent by the permanent establishment, except in connection with a banking business.

(2) No deduction shall be allowed in computing the income of a permanent establishment in Pakistan of a non-resident person chargeable to tax under the head "Income from Business" for a tax year for head office expenditure in excess of the amount as bears to the turnover of the permanent establishment in Pakistan the same proportion as the non-resident's total head office expenditure bears to its worldwide turnover.

(3) In this section, "head office expenditure" means any executive or general administration expenditure incurred by the non-resident person outside Pakistan for the purposes of the business of the Pakistan permanent establishment of the person, including –

(a) any rent, local rates and taxes excluding any foreign income tax, current repairs, or insurance against risks of damage or destruction outside Pakistan;

(b) any salary paid to an employee employed by the head office outside Pakistan;

(c) any travelling expenditures of such employee; and

(d) any other expenditures which may be prescribed.

(4) No deduction shall be allowed in computing the income of a permanent establishment in Pakistan of a non-resident person chargeable under the head "Income from Business" for –

(a) any profit paid or payable by the non-resident person on debt to finance the operations of the permanent establishment; or

(b) any insurance premium paid or payable by the non-resident person in respect of such debt.

106. Thin capitalisation.- (1) Where a foreign-controlled resident company (other than a financial institution [1][or a banking company)] has a foreign debt-to-foreign equity ratio in excess of three to one at any time during a tax year, a

[1] Inserted by the Finance Act, 2002

deduction shall be disallowed for the profit on debt paid by the company in that year on that part of the debt which exceeds the three to one ratio.

(2) In this section, -

"foreign-controlled resident company" means a resident company in which fifty per cent or more of the underlying ownership of the company is held by a non-resident person (hereinafter referred to as the "foreign controller") either alone or together with an associate or associates;

"foreign debt" in relation to a foreign-controlled resident company, means the greatest amount, at any time in a tax year, of the sum of the following amounts, namely:-

(a) The balance outstanding at that time on any debt obligation owed by the foreign-controlled resident company to a foreign controller or non-resident associate of the foreign controller on which profit on debt is payable which profit on debt is deductible to the foreign-controlled resident company and is not taxed under this Ordinance or is taxable at a rate lower than the [1][corporate rate] of tax applicable on assessment to the foreign controller or associate; and

(b) the balance outstanding at that time on any debt obligation owed by the foreign-controlled resident company to a person other than the foreign controller or an associate of the foreign controller where that person has a balance outstanding of a similar amount on a debt obligation owed by the person to the foreign controller or a non-resident associate of the foreign controller; and

"foreign equity" in relation to a foreign-controlled resident company and for a tax year, means the sum of the following amounts, namely:-

(a) The paid-up value of all shares in the company owned by the foreign controller or a non-resident associate of the foreign controller at the beginning of the tax year;

(b) so much of the amount standing to the credit of the share premium account of the company at the beginning of the tax year as the foreign controller or a non-resident

[1] Substituted for the words "corporate tax" by the Finance Act, 2002

associate would be entitled to if the company were wound up at that time; and

(c) so much of the accumulated profits and asset revaluation reserves of the company at the beginning of the tax year as the foreign controller or a non-resident associate of the foreign controller would be entitled to if the company were wound up at that time;

reduced by the sum of the following amounts, namely:-

(i) the balance outstanding at the beginning of the tax year on any debt obligation owed to the foreign-controlled resident company by the foreign controller or a non-resident associate of the foreign controller; and

(ii) where the foreign-controlled resident company has accumulated losses at the beginning of the tax year, the amount by which the return of capital to the foreign controller or non-resident associate of the foreign controller would be reduced by virtue of the losses if the company were wound up at that time.

PART IV
AGREEMENTS FOR THE AVOIDANCE OF DOUBLE TAXATION AND PREVENTION OF FISCAL EVASION

107. Agreements for the avoidance of double taxation and prevention of fiscal evasion.- (1) The Federal Government may enter into an agreement with the government of a foreign country for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income imposed under this Ordinance and under the corresponding laws in force in that country, and may, by notification in the official Gazette make such provisions as may be necessary for implementing the agreement.

(2) Where any agreement is made in accordance with sub-section (1), the agreement and the provisions made by notification for implementing the agreement shall, notwithstanding anything contained in any law for the time being in force, have effect in so far as they provide for –

(a) relief from the tax payable under this Ordinance;

(b) the determination of the Pakistan-source income of non-resident persons;

(c) where all the operations of a business are not carried on within Pakistan, the determination of the income attributable to operations carried on within and outside Pakistan, or the income chargeable to tax in Pakistan in the hands of non-resident persons, including their agents, branches, and permanent establishments in Pakistan;

(d) the determination of the income to be attributed to any resident person having a special relationship with a non-resident person; and

(e) the exchange of information for the prevention of fiscal evasion or avoidance of taxes on income chargeable under this Ordinance and under the corresponding laws in force in that other country.

(3) Notwithstanding anything in sub-sections (1) or (2), any agreement referred to in sub-section (1) may include provisions for the relief from tax for any period before the commencement of this Ordinance or before the making of the agreement.

CHAPTER VIII
ANTI-AVOIDANCE

108. Transactions between associates.- (1) The Commissioner may, in respect of any transaction between persons who are associates, distribute, apportion or allocate income, deductions or tax credits between the persons as is necessary to reflect the income that the persons would have realised in an arm's length transaction.

(2) In making any adjustment under sub-section (1), the Commissioner may determine the source of income and the nature of any payment or loss as revenue, capital or otherwise.

109. Recharacterisation of income and deductions.- (1) For the purposes of determining liability to tax under this Ordinance, the Commissioner may –

(a) recharacterise a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme;

(b) disregard a transaction that does not have substantial economic effect; or

(c) recharacterise a transaction where the form of the transaction does not reflect the substance.

(2) In this section, "tax avoidance scheme" means any transaction where one of the main purposes of a person in entering into the transaction is the avoidance or reduction of any person's liability to tax under this Ordinance.

110. Salary paid by private companies.- Where, in any tax year, salary is paid by a private company to an employee of the company for services rendered by the employee in an earlier tax year and the salary has not been included in the employee's salary chargeable to tax in that earlier year, the Commissioner may, if there are reasonable grounds to believe that payment of the salary was deferred, include the amount in the employee's income under the head "Salary" in that earlier year.

111. Unexplained income or assets.- (1) Where –

(a) any amount is credited in a person's books of account;

(b) a person has made any investment or is the owner of any money or valuable article; or

(c) a person has incurred any expenditure,

and the person offers no explanation about the nature and source of the amount credited or the investment, money, valuable article, or funds from which the expenditure was made or the explanation offered by the person is not, in the Commissioner's opinion, satisfactory, the amount credited, value of the investment, money, value of the article, or amount of expenditure shall be included in the person's income chargeable to tax under head "Income from [1][Other Sources"] to the extent it is not adequately explained.

(2) The amount referred to in sub-section (1) shall be included in the person's income chargeable to tax in the tax year [2][immediately preceding the financial year] in which it was discovered by the Commissioner.

[3][(3) Where the declared cost of any investment or valuable article or the declared amount of expenditure of a person is less than reasonable cost of the investment or the valuable article, or the reasonable amount of the expenditure, the Commissioner may, having regard to all the circumstances, include the

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[1] Substituted for the word "Business" by the Finance Act, 2002

[2] Inserted by the Finance Act, 2004.

[3] Substituted by the Finance Act, 2003. The substituted sub-section (3) read as follows:

"(3) Where the declared value of any investment, valuable article or expenditure of a person is less than the cost of the investment or valuable article, or the amount of the expenditure, the Commissioner may, having regard to all the circumstances, include the difference in the person's income chargeable to tax under the head "Income from [A][Other Sources"] in the tax year in which the difference is discovered."

[A] Substituted for the word "Business" by the Finance Act, 2002.

difference in the person's income chargeable to tax under the head "Income from Other Sources" in the tax year immediately preceding the financial year in which the difference is discovered.]

[1][(4) Sub-section (1) does not apply,-

(a) to any amount of foreign exchange remitted from outside Pakistan through normal banking channels that is encashed into rupees by a scheduled bank and a certificate from such bank is produced to that effect; and

(b) to any amount referred to in sub-section (1), relating to a period beyond preceding five tax years or assessment years.]

(5) The [2][Board] may make rules under section [3][237] for the purposes of this section.

112. Liability in respect of certain security transactions.- (1) Where the owner of any security disposes of the security and thereafter re-acquires the security and the result of the transaction is that any income payable in respect of the security is receivable by any person other than the owner, the income shall be treated, for all purposes of the Ordinance, as the income of the owner and not of the other person.

(2) In this section, "security" includes [4][bonds, certificates, debentures,] stocks and shares.

CHAPTER IX
MINIMUM TAX

113. Minimum tax on the income of certain persons.- (1) This section shall apply to a resident company where, for any reason whatsoever, including the sustaining of a loss, the setting off of a loss of an earlier year, exemption from tax, the application of credits or rebates, or the claiming of allowances or deductions (including depreciation and amortisation deductions) allowed under this Ordinance or any other law for the time being in force, no tax is payable or paid by the person for a tax year or the tax payable or paid by the person for a

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[1] Substituted by the Finance Act, 2004. The substituted sub-section (4) read as follows:
"(4) Sub-section (1) does not apply to any amount of foreign exchange remitted [A][ ] from outside Pakistan through normal banking channels that is encashed into rupees by a scheduled bank and a certificate from such bank is produced to that effect."

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[A]The words "by a person" omitted by Finance Act, 2003

[3] Substituted for figure "232" by the Finance Act, 2002

[4] Inserted by the Finance Act, 2003.

tax year is less than one-half per cent of the amount representing the person's turnover from all sources for that year.

(2) Where this section applies –

(a) the aggregate of the person's turnover for the tax year shall be treated as the income of the person for the year chargeable to tax; [1][ ]

(b) the person shall pay as income tax for the tax year (instead of the actual tax payable under this Ordinance), an amount equal to one-half per cent of the person's turnover for the year [2][; and]

[3][(c) where tax paid under sub-section (1) exceeds the actual tax payable under Part I, Division II of the First Schedule, the excess amount of tax paid shall be carried forward for adjustment against tax liability under Part I, Division II of the First Schedule of the subsequent tax year:

Provided that the amount under this clause shall be carried forward and adjusted against tax liability for five tax years immediately succeeding the tax year for which the amount was paid.]

(3) In this section, "turnover" means –

(a) the gross receipts, exclusive of [4][sales tax and [5][Federal] excise duty or] any trade discounts shown on invoices or bills, derived from the sale of goods;

(b) the gross fees for the rendering of services [6][or giving benefits], including commissions;

(c) the gross receipts from the execution of contracts; and

(d) the company's share of the amounts stated above of any association of persons of which the company is a member.

[7][**113A. Tax on Income of certain persons.-** (1) Subject to this Ordinance, where a retailer being an individual or an association of persons has turnover

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[1] The word "and" omitted by the Finance Act, 2004.
[2] Substituted for a full stop by the Finance Act, 2004.
[3] Added by the Finance Act, 2004.
[4] Inserted by the Finance Act, 2002
[5] Substituted for the word "Central" by the Finance Act, 2005
[6] Inserted by the Finance Act, 2002
[7] Added by the Finance Act, 2004.

upto rupees five million for any tax year, such person may opt for payment of tax as a final tax at the rates specified in Division IA of Part I of the First Schedule.

(2) For the purposes of this section,-

(a) "retailer" means a person selling goods to general public for the purpose of consumption;

(b) "turnover" shall have the same meaning as assigned to it in sub-section (3) of section 113.

(3) The tax paid under this section shall be a final tax on the income arising from the turnover as specified in sub-section [1][(1)]. [2][The retailer shall not be entitled to claim any adjustment of withholding tax collected or deducted under any head during the year.]]

[3][**113B. Taxation of income of certain retailers.**- Subject to this Ordinance, a retailer being an individual or association of persons,-

(a) whose turnover exceeds five million rupees; and

(b) who is subject to special procedure for payment of sales tax under chapter III of the Sales Tax Special Procedure Rules, 2006,

shall pay final tax at the [4][following rates] which shall form part of single stage sales tax [5][ ] as envisaged in the aforesaid rules [6][;]]

[7][S.No.	Amount of turnover	Rate of tax
1.	Where turnover exceeds Rs.5,000,000 but does not exceed Rs. 10,000,000	Rs.25,000 plus 0.5% of the turnover exceeding Rs.5 ,000,000
2.	Where turnover exceeds Rs.10,000,000	Rs. 50,000 plus 0.75% of the turnover exceeding Rs.1 0,000,000.

[1] The brackets and figure "(2) substituted by the Finance Act, 2007.

[2] Inserted by the Finance Act, 2007.

[3] Substituted by the Finance Act, 2006. The substituted section 113B read as follows:

"[A][**113B. Tax on income of certain retailers**.- Subject to this Ordinance, where a retailer of textile fabrics and articles of apparel including ready-made garments or fashion wear, articles of leather including foot-wear, carpets, surgical goods and sports goods, being an individual or an AOP, has turnover exceeding five million rupees for any tax year, such person shall pay final tax at the rate of 1% of turnover. This tax shall form part of the single stage sales tax at the rate 3% of the declared turnover.]"

[A] Earlier added by the Finance Act, 2005.

[4] The words "rate of one per cent of turnover for a tax year" substituted by the Finance Act, 2007.

[5] The words "at the rate of three percent of the declared turnover" omitted by the Finance Act, 2007.

[6] Full stop substituted by the Finance Act, 2007.

[7] Inserted by the Finance Act, 2007.

(c) The retailer shall not be entitled to claim any adjustment of withholding tax collected or deducted under any head during the year.]

CHAPTER X
PROCEDURE

PART I
RETURNS

114. Return of income.- (1) Subject to this Ordinance, the following persons are required to furnish a return of income for a tax year, namely:–

[1][(a) every company;]

[2][(ab) every person (other than a company) whose taxable income for the year exceeds the maximum amount that is not chargeable to tax under this Ordinance for the year;]

[3][(ac) any non-profit organization as defined in clause (36) of section 2; and]

[4][(ad) any welfare institution approved under clause (58) of Part I of the Second Schedule;]

[5][(b) any person not covered by clause [6][(a), (ab), (ac) or (ad)] who,-

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[1] Substituted by the Finance Act, 2003. The substituted clause (a) read as follows:
"(a) Every company and any other person whose taxable income for the year exceeds the maximum amount that is not chargeable to tax under this Ordinance for the year; and"

[2] Inserted by the Finance Act, 2003.

[3] Inserted by the Finance Act, 2006.

[4] Inserted by the Finance Act, 2006.

[5] Substituted by the Finance Act, 2005. The original clause (b) read as follows:
(b) any person not covered by clause (a) [A][or (ab)] who –
(i) has been charged to tax in respect of any of the four preceding tax years;
(ii) claims a loss carried forward under this Ordinance for a tax year;
(iii) owns immovable property, with a land area of two hundred and fifty square yards or more, located in areas falling in the limits of a Metropolitan/Municipal Corporation, a Cantonment Board, or the Islamabad Capital Territory or owns any flat;
(iv) owns a motor vehicle (other than a motor cycle) in Pakistan;
(v) subscribes for a telephone including a mobile phone in Pakistan;
(vi) has undertaken foreign travel in the tax year other than travel by a non-resident person or any travel for the purposes of the Haj, Umrah, or Ziarat; or
(vii) is member of a club where the monthly subscription exceeds five hundred rupees or the admission fee exceeds twenty-five thousand rupees.

[A] Inserted by Finance Act, 2003.

[6] The letters and word "(a) or (ab)" substituted by the Finance Act, 2006.

(i) has been charged to tax in respect of any of the two preceding tax years;

(ii) claims a loss carried forward under this Ordinance for a tax year;

(iii) owns immovable property with a land area of two hundred and fifty square yards or more or owns any flat located in areas falling within the municipal limits existing immediately before the commencement of Local Government laws in the provinces; or areas in a Cantonment; or the Islamabad Capital Territory.]

[1][(2) A return of income -

(a) shall be in the prescribed form and shall be accompanied by such annexures, statements or documents as may be prescribed;

(b) shall fully state all the relevant particulars or information as specified in the form of return, including a declaration of the records kept by the taxpayer; [2][and]

(c) shall be signed by the person, being an individual, or the person's representative where section 172 applies.]

[3][(2A) A return of income filed electronically on the web or any magnetic media or any other computer readable media as may be specified by the Board shall also be deemed to be a return for the purpose of sub-section (1); and the Board may, by notification in the official Gazette, make rules for determining eligibility of the data of such returns and e-intermediaries who will digitise the data of such returns and transmit the same electronically to the Income Tax

[1] Substituted by the Finance Act, 2003. The substituted sub-section (2) read as follows:

"(2) A return of income –

(a) shall be in the prescribed form;

(b) shall state the information required by the form, including a declaration of the records kept by the taxpayer;

(c) in the case of a person carrying on a business, shall include an income statement, balance sheet, and any other document as may be prescribed for the tax year; and

(d) shall be signed by the person or the person's representative."

[2] Inserted by the Finance Act, 2005.

[3] Inserted by the Finance Act, 2005.

Department under their digital signatures [1][and other matters relating to electronic filing of returns, statements or documents, etc.]]

(3) The Commissioner may, by notice in writing, require a person, or a person's representative, as the case may be, to furnish a return of income by the date specified in the notice for a period of less than twelve months, where -

(a) the person has died;

(b) the person has become bankrupt or gone into liquidation;

(c) the person is about to leave Pakistan permanently;

[2][ ]

(e) the Commissioner otherwise considers it appropriate to require such a return to be furnished.

(4) Subject to sub-section (5), the Commissioner may, by notice in writing, require any person who, in the Commissioner's opinion, is required to file a return of income under this section for a tax year [3][or assessment year] but who has failed to do so to furnish a return of income for that year within thirty days from the date of service of such notice or such longer period as may be specified in such notice or as the Commissioner may allow.

(5) A notice under sub-section (4) may be issued [4][in respect of one or more] [5][of the] last five completed tax years [6][or assessment years].

(6) Any person who, having furnished a return, discovers any omission or wrong statement therein, may furnish a revised return within five years of the date that the original return was furnished.

(7) Every return purporting to be made or signed by, or on behalf of a person shall be treated as having been duly made by the person or with the person's authority until the person proves the contrary.

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[1] Inserted by the Finance Act, 2007.

[2] Omitted by Finance Act, 2003. Earlier this was omitted by S.R.O. 633(I)/2002 dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003. The omitted clause (d) read as follows:
"(d) the person is otherwise about to cease carrying on business in Pakistan; or "

[3] Inserted by the Finance Act, 2003.

[4] The words "only in respect of the" substituted by Finance Act, 2003. Earlier these were substituted by S.R.O. 633(I)/2002 dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[5] Inserted by the Finance Act, 2005.

[6] Inserted by the Finance Act, 2004.

115. Persons not required to furnish a return of income.- (1) Where the entire income of a taxpayer in a tax year consists of income chargeable under the head "Salary", the taxpayer may, instead of furnishing a return as required under section 114 furnish –

(a) a certificate from the person's employer in the prescribed form stating such particulars, and accompanied by such statements, and verified in such manner, as may be prescribed, and such certificate shall be, for the purposes of this Ordinance, treated as a return of income furnished under section 114 [1][:]

[2][Provided that a taxpayer shall not be required to furnish a certificate, if his employer has furnished for the same tax year, Annual Statement of Deduction of Income Tax From Salary as prescribed under the Income Tax Rules, 2002.]

(b) [3][ ] a wealth statement referred to [4][in] section 116.

[5][ ]

(3) The following persons shall not be required to furnish a return of income for a tax year solely by reason of sub-clauses (iii) through (vii) of clause (b) of sub-section (1) of section 114 –

(a) A widow;

(b) an orphan below the age of twenty-five years;

(c) a disabled person; or

(d) in the case of ownership of immovable property, a non-resident person.

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[1] The semicolon and word "; and" substituted by the Finance Act, 2005.
[2] Inserted by the Finance Act, 2005.
[3] The words, brackets, figure and comma "subject to sub-section (2)," omitted by the Finance Act, 2004.
[4] Inserted by the Finance Act, 2002
[5] Omitted by the Finance Act, 2004. Omitted sub-section (2) read as follows:
"(2) Clause (b) of sub-section (1) shall not apply to a person whose declared income for the tax year, or whose last declared or assessed income, is less than two hundred thousand rupees."

(4) Any person who is not obliged to furnish a return for a tax year because all the person's income is subject to final taxation under sections [1][ ] [2][5, 6, 7, [3][15,] [4][113A,] [5][113B,] 148, [6][clauses (a), (b) and (d) of sub-section (1) of section 151, section 152,] 153, 154, 156 [7][, 156A, sub-section (3) of section 233, clause (a) and (b) of sub-section (1) of section 233A] or sub-section (5) of section 234] shall furnish to the Commissioner a statement showing such particulars relating to the person's income for the tax year in such form and verified in such manner as may be prescribed.

[8][(5) Subject to sub-section (6), the Commissioner may, by notice in writing, require any person who, in his opinion, is required to file a prescribed statement under this section for a tax year but who has failed to do so, to furnish a prescribed statement for that year within thirty days from the date of service of such notice or such longer period as may be specified in such notice or as he may, by order in writing, allow.]

[9][(6) A notice under sub-section (5) may be issued in respect of one or more of the last five completed tax years.]

116. Wealth statement.- (1) [10][The] Commissioner may, by notice in writing, require any person to furnish, on the date specified in the notice, a statement (hereinafter referred to as the "wealth statement") in the prescribed form and verified in the prescribed manner giving particulars of –

(a) the person's total assets and liabilities as on the date or dates specified in such notice;

(b) the total assets and liabilities of the person's spouse, minor children, and other dependents as on the date or dates specified in such notice;

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[1] The figure and comma "148," omitted by the Finance Act, 2003.
[2] Substituted for the figures, letters, brackets and commas "151(a)(b), 153, 154, 156, 157 or 234(5)" by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2004.
[5] Inserted by the Finance Act, 2005.
[6] Inserted by the Finance Act, 2006.
[7] Inserted by the Finance Act, 2004.
[8] Inserted by the Finance Act, 2007.
[9] Inserted by the Finance Act, 2007.
[10] The words, brackets, figure, comma and word "Subject to sub-section (2)". The" substituted by the Finance Act, 2007.

(c) any assets transferred by the person to any other person during the period or periods specified in such notice and the consideration for the transfer; and

(d) the total expenditures incurred by the person, and the person's spouse, minor children, and other dependents during the period or periods specified in the notice and the details of such expenditures.

(2) Every resident taxpayer filing a return of income for any tax year [1][whose last declared or assessed income [2][or the declared income for the year], is five hundred thousand rupees or more] shall furnish a wealth statement for that year along with such return.

[3][(3) Where a person, who has furnished a wealth statement, discovers any omission or wrong statement therein, he may, without prejudice to any liability incurred by him under any provision of this Ordinance, furnish a revised wealth statement at any time before an assessment, for the tax year to which it relates, is made under sub-section (1) or sub-section (4) of section 122.]

117. Notice of discontinued business.- (1) Any person discontinuing a business shall give the Commissioner a notice in writing to that effect within fifteen days of the discontinuance.

(2) The person discontinuing a business shall, under the provisions of this Ordinance or on being required by the Commissioner by notice, in writing, furnish a return of income for the period commencing on the first day of the tax year in which the discontinuance occurred and ending on the date of discontinuance and this period shall be treated as a separate tax year for the purposes of this Ordinance.

(3) Where no notice has been given under sub-section (1) but the Commissioner has reasonable grounds to believe that a business has discontinued or is likely to discontinue, the Commissioner may serve a notice on the person who has discontinued the business or is likely to discontinue the business to furnish to the Commissioner within the time specified in the notice a return of income for the period specified in the notice.

(4) A return furnished under this section shall be treated for all purposes of this Ordinance as a return of income, including the application of Section 120.

118. Method of furnishing returns and other documents.- (1) A return of income under section 114, an employer's certificate under section 115, a

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[1] Inserted by the Finance Act, 2004.
[2] Inserted by the Finance Act, 2007.
[3] Added by the Finance Act, 2003.

statement required under sub-section (4) of section 115 or a wealth statement under section 116 shall be furnished in the prescribed manner.

(2) A return of income [1][under section 114 or a statement under sub-section (4) of section 115] of a company shall be furnished –

(a) in the case of a company with a tax year ending any time between the first day of January and the thirtieth day of June, on or before the thirty-first day of December next following the end of the tax year to which the return relates; or

(b) in any other case, on or before the thirtieth day of September next following the end of the tax year to which the return relates.

(3) A return of income for any person (other than a company), an employer certificate of an individual or a statement required under sub-section (4) of section 115 shall be furnished on or before the thirtieth day of September next following the end of the tax year to which the return, certificate or statement relates.

(4) A wealth statement shall be furnished by the due date specified in the notice requiring the person to furnish such statement or, where the person is required to furnish the wealth statement for a tax year under sub-section (2) of section 116, by the due date for furnishing the return of income for that year.

(5) A return required to be furnished by a notice issued under section 117 shall be furnished by the due date specified in the notice.

(6) Where a taxpayer is not borne on the National Tax Number Register and fails to file an application in the prescribed form and manner with the taxpayer's return of income or employer's certificate, such return or certificate shall not be treated as a return or certificate furnished under this section.

119. Extension of time for furnishing returns and other documents.- (1) A person required to furnish –

(a) a return of income under section 114 or 117;

(b) an employer's certificate under section 115;

(c) a statement required under sub-section (4) of section 115; or

(d) a wealth statement under section 116,

[1] Inserted by the Finance Act, 2003.

may apply, in writing, to the Commissioner for an extension of time to furnish the return, certificate, or statement, as the case may be.

(2) An application under sub-section (1) shall be made by the due date for furnishing the return of income, employer's certificate, or [1][ ] statement to which the application relates.

(3) Where an application has been made under sub-section (1) and the Commissioner is satisfied that the applicant is unable to furnish the return of income, employer's certificate, or [2][ ] statement to which the application relates by the due date because of –

(a) absence from Pakistan;

(b) sickness or other misadventure; or

(c) any other reasonable cause,

the Commissioner may, by [3][order], in writing, grant the applicant an extension of time for furnishing the return, certificate, or statement, as the case may be.

(4) An extension of time under sub-section (3) should not exceed fifteen days from the due date for furnishing the return of income, employer's certificate, or [4][ ] statement, as the case may be, unless there are exceptional circumstances justifying a longer extension of time.

[5][ ]

(6) An extension of time granted under sub-section (3) shall not [6][, for the purpose of charge of additional tax under sub-section (1) of section 205,] change the due date for payment of income tax under section 137.

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[1] The word "wealth" omitted by the Finance Act, 2002
[2] The word "wealth" omitted by the Finance Act, 2002
[3] Substituted for the word "notice" by the Finance Act, 2002
[4] The word "wealth" omitted by the Finance Ordinance, 2002
[5] Omitted by the Finance Act, 2002. The omitted sub-section read as under:
"(5) An applicant dissatisfied with a decision under sub-section (3) may challenge the decision only under the Part III of this Chapter."
[6] Inserted by the Finance Act, 2002

PART II
ASSESSMENTS

[1]**[120. Assessments.-** (1) Where a taxpayer has furnished a complete return of income (other than a revised return under sub-section (6) of section 114) for a tax year ending on or after the 1st day of July, 2002,-

(a) the Commissioner shall be taken to have made an assessment of taxable income for that tax year, and the tax due thereon, equal to those respective amounts specified in the return; and

(b) the return shall be taken for all purposes of this Ordinance to be an assessment order issued to the taxpayer by the Commissioner on the day the return was furnished.

[2][(1A) Notwithstanding the provisions of sub-section (1), the Commissioner may select a person for an audit of his income tax affairs under section 177 and all the provisions of that section shall apply accordingly.]

(2) A return of income shall be taken to be complete if it is in accordance with the provisions of sub-section (2) of section 114.

(3) Where the return of income furnished is not complete, the Commissioner shall issue a notice to the taxpayer informing him of the deficiencies (other than incorrect amount of tax payable on taxable income, as specified in the return, or short payment of tax payable) and directing him to provide such information, particulars, statement or documents by such date specified in the notice.

(4) Where a taxpayer fails to fully comply, by the due date, with the requirements of the notice under sub-section (3), the return furnished shall be treated as an invalid return as if it had not been furnished.

(5) Where, in response to a notice under sub-section (3), the taxpayer has, by the due date, fully complied with the requirements of the notice, the

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[1] Substituted by the Finance Act, 2003. The substituted section 120 read as follows:
"**120. Assessments.-** Where a taxpayer has furnished a return of income (other than a revised return under sub-section (6) of section 114) for a tax year [A][ending on or after the 1st day of July, 2002, –]

(a) the Commissioner shall be taken to have made an assessment of the taxable income of the taxpayer for the year and the tax due thereon, equal to those respective amounts specified in the return; and

(b) the taxpayer's return shall be taken for all purposes of this Ordinance to be an assessment order issued to the taxpayer by the Commissioner on the day the return was furnished."

[A] Inserted by Finance Act, 2002.

[2] Inserted by the Finance Act, 2005.

return furnished shall be treated to be complete on the day it was furnished and the provisions of sub-section (1) shall apply accordingly.

(6) No notice under sub-section (3) shall be issued after the end of the financial year in which return was furnished, and the provisions of sub-section (1) shall apply accordingly.]

[1]**[121. Best judgement assessment.-** (1) Where a person fails to -

(a) furnish a return of income as required by a notice under sub-section (3) or sub-section (4) of section 114; or

(b) furnish a return as required under section 143 or section 144; or

(c) furnish the statement as required under section 116; or

(d) produce before the Commissioner, or any person employed by a firm of chartered accountants under section 177, accounts, documents and records required to be maintained under section 174, or any other relevant document or evidence that may be required by him for the purpose of making assessment of income and determination of tax due thereon,

the Commissioner may, based on any available information or material and to the best of his judgement, make an assessment of the taxable income of the person and the tax due thereon.

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[1] Substituted by the Finance Act, 2003. The substituted section 121 read as follows:

"**121.Assessment of persons who have not furnished a return.-** (1) Where a person required [A][by the Commissioner through a notice] to furnish a return of income for a tax year fails to do so by the due date, the Commissioner may, based on any available information and to the best of the Commissioner's judgement, make an assessment of the taxable income of the person and the tax due thereon for the year.

(2) As soon as possible after making an assessment under this section, the Commissioner shall issue, in writing, an assessment order to the taxpayer stating –

(a) the taxable income of the taxpayer for the year;
(b) the amount of tax due;
(c) the amount of tax paid, if any; and
(d) the time, place, and manner of appealing the assessment order.

(3) An assessment order shall only be issued within five years after the end of the tax year**,** or the income year, to which it relates [C][ ]."

[A] Substituted for words "under this Ordinance [B][, or the repealed Ordinance]" by S.R.O. 633(I)/2002 dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[B] Inserted by the Finance Act, 2002.

[C] The words, brackets and figures "and shall be an alternative to the application of sub-section (4) of section 114" omitted by S.R.O. 633(I)/2002 dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

(2) As soon as possible after making an assessment under this section, the Commissioner shall issue the assessment order to the taxpayer stating-

(a) the taxable income;

(b) the amount of tax due;

(c) the amount of tax paid, if any; and

(d) the time, place and manner of appealing the assessment order.

(3) An assessment order under this section shall only be issued within five years after the end of the tax year or the income year to which it relates.]

122. Amendment of assessments.- (1) Subject to this section, the Commissioner may amend an assessment order treated as issued under section 120 or issued under section 121**,** [1][or issued under section 59, 59A, 62, 63 or 65 of the repealed Ordinance,] by making such alterations or additions as the Commissioner considers necessary [2][ ].

(2) An assessment order shall only be amended under subsection (1) within five years after the Commissioner has issued or is treated as having issued the assessment order on the taxpayer.

(3) Where a taxpayer furnishes a revised return under sub-section (6) of section 114 -

(a) the Commissioner shall be treated as having made an amended assessment of the taxable income and tax payable thereon as set out in the revised return; and

(b) the taxpayer's revised return shall be taken for all purposes of this Ordinance to be an amended assessment order issued to the taxpayer by the Commissioner on the day on which the revised return was furnished.

(4) Where an assessment order (hereinafter referred to as the "original assessment") has been amended under sub-section (1) or (3), the Commissioner may further amend,[3][as many times as may be necessary,] the original assessment within the later of –

[1] Inserted by the Finance Act, 2002
[2] The words "to ensure that the taxpayer is liable for correct amount of tax for the tax year to which the assessment order relates" omitted by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2002

(a) five years after the Commissioner has issued or is treated as having issued the original assessment order to the taxpayer; or

(b) one year after the Commissioner has issued or is treated as having issued the amended assessment order to the taxpayer.

[1][(4A) In respect of an assessment made under the repealed Ordinance, nothing contained in sub-section (2) or, as the case may be, sub-section (4) shall be so construed as to have extended or curtailed the time limit specified in section 65 of the aforesaid Ordinance in respect of an assessment order passed under that section and the time-limit specified in that section shall apply accordingly.]

[2][(5) An assessment order in respect of tax year, or an assessment year, shall only be amended under sub-section (1) and an amended assessment for that year shall only be further amended under sub-section (4) where, on the basis of definite information acquired from an audit or otherwise, the Commissioner is satisfied that –

(i) any income chargeable to tax has escaped assessment; or

(ii) total income has been under-assessed, or assessed at too low a rate, or has been the subject of excessive relief or refund; or

(iii) any amount under a head of income has been mis-classified.]

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[1] Inserted by the Finance Act, 2003. Earlier sub-section (4A) was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003. The said sub-section (4A) read as follows:

"(4A) An amended assessment shall only be made within six years of the date of original assessment."

[2] Substituted by the Finance Act, 2003. The substituted sub-section (5) read as follows:

"(5) An assessment order shall only be amended under sub-section (1) and an amended assessment shall only be amended under subsection (4) where the Commissioner –

(a) is of the view that this Ordinance [A][or the repealed Ordinance] has been incorrectly applied in making the assessment (including the misclassification of an amount under a head of income [B][, incorrect payment of tax with the return of income, an incorrect claim for tax relief or rebate,] an incorrect claim for exemption of any amount or an incorrect claim for a refund); or

(b) has definite information acquired from an audit or otherwise that the [C][income has been concealed or inaccurate particulars of income have been furnished or the assessment is otherwise incorrect].

[A] Inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[B] Substituted for the words "to claim tax relief" by the Finance Act, 2002.

[C] Substituted for the words "assessment is incorrect" by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[1][(5A) Subject to sub-section (9), the Commissioner may amend, or further amend, an assessment order, if he considers that the assessment order is erroneous in so far it is prejudicial to the interest of revenue.]

[2][(5B) Any amended assessment order under sub-section (5A) may be passed within the time-limit specified in sub-section (2) or sub-section (4), as the case may be.]

(6) As soon as possible after making an amended assessment under [3][sub-section (1), sub-section (4) or sub-section (5A)], the Commissioner shall issue an amended assessment order to the taxpayer stating –

(a) the amended taxable income of the taxpayer;

(b) the amended amount of tax due;

(c) the amount of tax paid, if any; and

(d) the time, place, and manner of appealing the amended assessment.

(7) An amended assessment order shall be treated in all respects as an assessment order for the purposes of this Ordinance, other than for the purposes of sub-section (1).

(8) For the purposes of this section, "definite information" includes information on sales or purchases of any goods made by the taxpayer, [4][receipts of the taxpayer from services rendered or any other receipts that may be chargeable to tax under this Ordinance,] and on the acquisition, possession or disposal of any money, asset, valuable article or investment made or expenditure incurred by the taxpayer.

[5][(9) No assessment shall be amended, or further amended, under this section unless the taxpayer has been provided with an opportunity of being heard.]

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[1] Inserted by the Finance Act, 2003. Earlier sub-section (5A) was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003. The said sub-section (5A) read as follows:

"(5A) Where a person does not produce accounts and records, or details of expenditure, assets and liabilities or any other information required for the purposes of audit under section177, or does not file wealth statement under section 116, the Commissioner may, based on any available information and to the best of Commissioner's judgement; make an amended assessment."

[2] Inserted by the Finance Act, 2003.

[3] Substituted for the words, brackets and figures "sub-section (1) or (4)" by the Finance Act, 2003.

[4] Inserted by the Finance Act, 2002

[5] Added by the Finance Act, 2002

[1][**122A.Revision by the Commissioner.-** (1) The Commissioner may [2][[3][, *suo moto,*]] call for the record of any proceeding under this Ordinance or under the repealed Ordinance in which an order has been passed by any taxation officer other than the Commissioner (Appeals).

(2) Subject to sub-section (3), where, after making such inquiry as is necessary, Commissioner considers that the order requires revision, the Commissioner may make such revision to the order as the Commissioner deems fit.

(3) An order under sub-section (2) shall not be prejudicial to the person to whom the order relates.

(4) The Commissioner shall not revise any order under sub-section (2) if-

(a) an appeal against the order lies to the Commissioner (Appeals) or to the Appellate Tribunal, the time within which such appeal may be made has not expired; or

(b) the order is pending in appeal before the Commissioner (Appeals) or has been made the subject of an appeal to the Appellate Tribunal.]

[4][**122B. Revision by the Regional Commissioner.-** (1) The Regional Commissioner may, either of his own motion or on an application made by the taxpayer for revision, call for the record of any proceedings relating to issuance of an exemption or lower rate certificate with regard to collection or deduction of tax at source under this Ordinance, in which an order has been passed by any authority subordinate to him.

(2) Where, after making such inquiry as is necessary, Regional Commissioner considers that the order requires revision, the Regional Commissioner may, after providing reasonable opportunity of being heard to the taxpayer, make such order as he may deem fit in the circumstances of the case.]

123. Provisional assessment in certain cases.- (1) Where a concealed asset of any person is impounded by any department or agency of the Federal Government or a Provincial Government, the Commissioner may, at any time before issuing any assessment order under section 121 or any amended assessment order under section 122, issue to the person a provisional assessment order or provisional amended assessment order, as the case may

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[1] Added by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2004.
[3] The word "*suo moto*" substituted by the Finance Act, 2005.
[4] Added by the Finance Act, 2006.

be, for the last completed tax year of the person taking into account the concealed asset.

(2) The Commissioner shall finalise a provisional assessment order or a provisional amended assessment order as soon as practicable [1][ ].

(3) In this section, "concealed asset" means any property or asset which, in the opinion of the Commissioner, was acquired from any income subject to tax under this Ordinance.

124. Assessment giving effect to an order.- (1) Except where sub-section (2) applies, where, in consequence of, or to give effect to, any finding or direction in any order made under Part III of this Chapter by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court an assessment order or amended assessment order is to be issued to any person, the Commissioner shall issue the order within two years from the end of the financial year in which the order of the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court, as the case may be, was served on the Commissioner.

(2) Where, by an order made under Part III of this Chapter by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court, an assessment order is set aside [2][wholly or partly,] and the Commissioner is directed to make a new assessment order, the Commissioner shall make the new order within [3][one year from the end of the financial year in which] the Commissioner is served with the order [4][:]

[5][Provided that limitation under this sub-section shall not apply, if an appeal or reference has been preferred, against the order setting aside the assessment, passed by a Commissioner (Appeals), Appellate Tribunal or a High Court.]

(3) Where an assessment order has been set aside or modified, the proceedings may commence from the stage next preceding the stage at which such setting aside or modification took place and nothing contained in this Ordinance shall render necessary the re-issue of any notice which had already been issued or the re-furnishing or re-filing of any return, statement, or other particulars which had already been furnished or filed.

(4) Where direct relief is provided in an order under section 129 or 132, the Commissioner shall issue appeal effect orders within two months of the date the Commissioner is served with the order.

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[1] The words "after making it" omitted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2003.
[3] Substituted for the words "six months from the date" by the Finance Act, 2002.
[4] The full stop substituted by the Finance Act, 2005.
[5] Inserted by the Finance Act, 2005.

(5) Where, by any order referred to in sub-section (1), any income is excluded –

(a) from the computation of the taxable income of a taxpayer for any year and held to be included in the computation of the taxable income of the taxpayer for another year; or

(b) from the computation of the taxable income of one taxpayer and held to be included in the computation of the taxable income of another taxpayer,

the assessment or amended assessment relating to that other tax year or other taxpayer, as the case may be, shall be treated as an assessment or amended assessment to be made in consequence of, or to give effect to, a finding or direction contained in such order.

(6) Nothing in this Part shall prevent the issuing of an assessment order or an amended assessment order to give effect to an order made under Part III of this Chapter by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court.

[1][(7) The provisions of this section shall in like manner apply to any order issued by any High Court or the Supreme Court in exercise of original or appellate jurisdiction.]

[2][**124A. Powers of tax authorities to modify orders, etc.** (1) Where a question of law has been decided by a High Court or the Appellate Tribunal in the case of a taxpayer, on or after first day of July 2002, the Commissioner may, notwithstanding that he has preferred an appeal against the decision of the High Court or made an application for reference against the order of the Appellate Tribunal, as the case may be, follow the said decision in the case of the said taxpayer in so far as it applies to said question of law arising in any assessment pending before the Commissioner until the decision of the High Court or of the Appellate Tribunal is reversed or modified.

(2) In case the decision of High Court or the Appellate Tribunal, referred to in sub-section (1), is reversed or modified, the Commissioner may, notwithstanding the expiry of period of limitation prescribed for making any assessment or order, within a period of one year from the date of receipt of decision, modify the assessment or order in which the said decision was applied so that it conforms to the final decision.]

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[1] Added by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2002.

125. Assessment in relation to disputed property.- Where the ownership of any property the income from which is chargeable to tax under this Ordinance is in dispute in any Civil Court in Pakistan, an assessment order or amended assessment order in respect of such income may be issued at any time within one year after the end of the financial year in which the decision of the Court is made.

126. Evidence of assessment.- (1) The production of an assessment order or a certified copy of an assessment order shall be conclusive evidence of the due making of the assessment and, except in proceedings under Part III of this Chapter relating to the assessment, that the amount and all particulars of the assessment are correct.

(2) Any [1][order] of assessment or other document purporting to be made, issued, or executed under this Ordinance may not be –

(a) quashed or deemed to be void or voidable for want of form; or

(b) affected by reason of any mistake, defect, or omission therein,

if it is, in substance and effect, in conformity with this Ordinance and the person assessed, or intended to be assessed or affected by the document, is designated in it according to common understanding.

PART III
APPEALS

127. Appeal to the Commissioner (Appeals).- [2][(1) Any person dissatisfied with any order passed by a Commissioner or a taxation officer under section 121, 122, 143, 144, [3][162,] 170, 182, 183, 184, 185, 186, 187, 188, or 189, or an order under sub-section (1) of section 161 holding a person to be personally liable to pay an amount of tax, or an order under clause (f) of sub-section (3) of section 172 [4][declaring] a person to be the representative of a non-resident person, or an order under section 221 refusing to rectify the mistake, either in full or in part, as claimed by the taxpayer or an order having the effect of enhancing the assessment or reducing a refund or otherwise increasing the liability of the person, may prefer an appeal to the Commissioner (Appeals) against the order.]

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[1] Substituted for the word "notice" by the Finance Act, 2003.
[2] Substituted by the Finance Act, 2002. The substituted sub-section (1) read as follows:
"(1) Any person dissatisfied with any proceeding under this Ordinance in which an order has been issued by a Commissioner of Income Tax (other than the Commissioner (Appeals)) or a taxation officer may prefer an appeal to the Commissioner (Appeals) against the order."
[3] Inserted by the Finance Act, 2004.
[4] Substituted for the word "treating" by the Finance Act, 2003

[1][(2) No appeal under sub-section (1), shall be made by a taxpayer against an order of assessment unless the taxpayer has paid the amount of tax due under sub-section (1) of section 137.]

(3) An appeal under sub-section (1) shall–

(a) be in the prescribed form;

(b) be verified in the prescribed manner;

(c) state precisely the grounds upon which the appeal is made;

(d) be accompanied by the prescribed fee specified in sub-section (4); and

(e) be lodged with the Commissioner (Appeals) within the time set out in sub-section (5).

(4) The prescribed fee [2][shall be] –

(a) in the case of an appeal against an assessment, the lesser of one thousand rupees or ten per cent of the tax assessed; or

(b) in any other case –

(i) where the appellant is a company, one thousand rupees; or

(ii) where the appellant is not a company, two hundred rupees.

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[1] Substituted by the Finance Act, 2004. The substituted sub-section (2) read as follows:

"[A][(2) No appeal under sub-section (1) shall be made by a taxpayer against an order of assessment unless the taxpayer has paid, -

(a) the amount of tax due under sub-section (1) of section 137, and

(b) an amount equal to-

(i) fifteen percent of the amount of tax assessed as is in excess of the tax due under sub-section (1) of section 137, or

(ii) twenty percent of the amount of tax assessed for the immediately preceding tax year, and where a person has not been assessed to tax for that tax year, thirty percent of the amount of tax mentioned in clause (a),

whichever is less.]

[A] Earlier sub-section (2) was substituted by the Finance Act, 2002. The substituted sub-section (2) read as follows:

"(2) No appeal may be made by a taxpayer against an assessment unless the amount of tax due under the assessment that is not in dispute and fifteen per cent of the disputed tax has been paid by the taxpayer."

[2] Substituted for the word "is" by the Finance Act, 2002

[1][(5) An appeal shall be preferred to the Commissioner (Appeals) within thirty days of the following--

(a) where the appeal relates to any assessment or penalty, the date of service of the notice of demand relating to the said assessment or penalty, as the case may be; and

(b) in any other case, the date on which the order to be appealed against is served.]

(6) The Commissioner (Appeals) may, upon application in writing by the appellant, admit an appeal after the expiration of the period specified in sub-section (5) if the Commissioner (Appeals) is satisfied that the appellant was prevented by sufficient cause from lodging the appeal within that period.

128. Procedure in appeal.- (1) The Commissioner (Appeals) shall give notice of the day fixed for the hearing of the appeal to the appellant and to the Commissioner against whose order the appeal has been made.

(2) The Commissioner (Appeals) may adjourn the hearing of the appeal from time to time.

(3) The Commissioner (Appeals) may, before the hearing of an appeal, allow an appellant to file any new ground of appeal not specified in the grounds of appeal already filed by the appellant where the Commissioner (Appeals) is satisfied that the omission of the ground from the form of the appeal was not wilful or unreasonable.

(4) The Commissioner (Appeals) may, before disposing of an appeal, call for such particulars as the Commissioner (Appeals) may require respecting the matters arising in the appeal or cause further enquiry to be made by the Commissioner.

(5) The Commissioner (Appeals) shall not admit any documentary material or evidence which was not produced before the Commissioner unless the Commissioner (Appeals) is satisfied that the appellant was prevented by sufficient cause from producing such material or evidence before the Commissioner.

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[1] Substituted by the Finance Act, 2002. The substituted sub-section (5) read as follows: "

"(5) An appeal shall be lodged with the Commissioner (Appeals) –

(a) where the appeal relates to an assessment order, within thirty days of the date of service of the demand relating to the assessment; or

(b) in any other case, within thirty days of the date of service of the notice of the decision or determination appealed against."

129. Decision in appeal.- (1) In disposing of an appeal lodged under section 127, the Commissioner (Appeals) may –

[1][(a) make an order to confirm, modify or annul the assessment order after examining such evidence as required by him respecting the matters arising in appeal or causing such further enquires to be made as he deems fit; or]

(b) in any other case, make such order as the Commissioner (Appeals) thinks fit.

(2) The Commissioner (Appeals) shall not increase the amount of any assessment order or decrease the amount of any refund unless the appellant has been given a reasonable opportunity of showing cause against such increase or decrease, as the case may be.

(3) Where, as the result of an appeal, any change is made in the assessment of an association of persons or a new assessment of an association of persons is ordered to be made, the Commissioner (Appeals) may authorise the Commissioner to amend accordingly any assessment order made on a member of the association and the time limit in sub-section (2) of section 122 shall not apply to the making such amended assessment.

(4) As soon as practicable after deciding an appeal, the Commissioner (Appeals) shall serve [2][ ] his order on the appellant and the Commissioner.

(5) Where the Commissioner (Appeals) has not made an order on an appeal before the expiration of three months from the end of the month in which the appeal was lodged, the relief sought by the appellant in the appeal shall be treated as having been given and all the provisions of this Ordinance shall have effect accordingly.

(6) For the purposes of sub-section (5), any period during which the hearing of an appeal is adjourned on the request of the appellant shall be excluded in the computation of the period of three months referred to in that sub-section.

(7) The provisions of sub-section (5) shall not apply unless a notice by the appellant stating that no order under sub-section (1) has been made is

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[1] Substituted by the Finance Act, 2005. The original clause (a) read as follows:

(a) in the case of an appeal against an assessment order –

(i) make an order to set aside the assessment order and direct the Commissioner to make a new assessment order in accordance with any directions or recommendations of the Commissioner (Appeals); or

(ii) make an order to confirm, modify or annul the assessment order; or

[2] The words "notice of" omitted by the Finance Act, 2002

personally served by the appellant on the Commissioner (Appeals) not less than thirty days before the expiration of the period of three months.

130. Appointment of the Appellate Tribunal. – (1) There shall be established an Appellate Tribunal to exercise the functions conferred on the Tribunal by this Ordinance.

(2) The Appellate Tribunal shall consist of a chairperson and such other judicial and accountant members as are appointed by the Federal Government having regard to the needs of the Tribunal.

(3) A person may be appointed as a judicial member of the Appellate Tribunal if the person –

(a) has exercised the powers of a District Judge and is qualified to be a Judge of a High Court; or

(b) is or has been an advocate of a High Court and is qualified to be a Judge of the High Court.

[1][(4) A person may be appointed as an accountant member of the Appellate Tribunal if the person is an officer of the Income Tax Group equivalent in rank to that of a Regional Commissioner and the Commissioner of Income Tax or Commissioner of Income Tax (Appeals) having at least five years experience as Commissioner shall also be eligible for appointment.]

(5) The Federal Government shall appoint a member of the Appellate Tribunal as Chairperson of the Tribunal and, except in special circumstances, the person appointed should be a judicial member.

(6) The powers and functions of the Appellate Tribunal shall be exercised and discharged by Benches constituted from members of the Tribunal by the Chairperson of the Tribunal.

(7) Subject to sub-section (8), a Bench shall consist of not less than two members of the Appellate Tribunal and shall be constituted so as to contain an equal number of judicial and accountant members, or so that the number of members of one class does not exceed the number of members of the other class by more than one.

(8) The Federal Government may direct that all or any of the powers of the Appellate Tribunal shall be exercised by –

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[1] Substituted by the Finance Act, 2007. The substituted sub-section (4) read as follows:
"(4) A person may be appointed as an accountant member of the Appellate Tribunal if the person is an officer of the Income Tax Group equivalent in rank to that of a Regional Commissioner [A][ ]."
[A] Earlier the words "of Income Tax" omitted by the Finance Act, 2002.

(a) any one member; or

(b) more members than one, jointly or severally.

(9) Subject to sub-section (10), if the members of a Bench differ in opinion on any point, the point shall be decided according to the opinion of the majority.

(10) If the members of a [1][Bench] are equally divided on a point, they shall state the point on which they differ and the case shall be referred by the Chairperson for hearing on that point by one or more other members of the Appellate Tribunal, and the point shall be decided according to the opinion of the majority of the members of the Tribunal who have heard the case including those who first heard it.

(11) If there are an equal number of members of the Appellate Tribunal, the Federal Government may appoint an additional member for the purpose of deciding the case on which there is a difference of opinion.

(12) Subject to this Ordinance, the Appellate Tribunal shall have the power to regulate its own procedure, and the procedure of Benches of the Tribunal in all matters arising out of the discharge of its functions including the places at which the Benches shall hold their sittings.

131. Appeal to the Appellate Tribunal.- (1) Where the [2][taxpayer] or Commissioner objects to an order passed by the Commissioner (Appeals), the [3][taxpayer] or Commissioner may appeal to the Appellate Tribunal against such order.

(2) An appeal under sub-section (1) shall be–

(a) in the prescribed form;

(b) verified in the prescribed manner;

(c) accompanied [4][, except in case of an appeal preferred by the Commissioner,] by the prescribed fee specified in sub-section (3); and

[1] Substituted for the word “majority” by the Finance Act, 2002.
[2] Substituted for the word “appellant” by the Finance Act, 2002.
[3] Substituted for the word “appellant” by the Finance Act, 2002.
[4] Substituted for the word “appellant” by the Finance Act, 2002.

[1][(d) preferred to the Appellate Tribunal within sixty days of the date of service of order of the Commissioner (Appeals) on the taxpayer or the Commissioner, as the case may be.]

(3) The prescribed fee shall be–

(a) in the case of an appeal in relation to an assessment order, the lesser of two thousand five hundred rupees or ten percent of the tax assessed; or

(b) in any other case –

(i) where the appellant is a company, two thousand rupees; or

(ii) where the appellant is not a company, five hundred rupees.

(4) The Appellate Tribunal may, upon application in writing, admit an appeal after the expiration of the period specified in clause (d) of sub-section (2) if it is satisfied that the person appealing was prevented by sufficient cause from filing the appeal within that period.

[2][(5) Notwithstanding that an appeal has been filed under this section, tax shall, unless recovery thereof has been stayed by the Appellate Tribunal, be payable in accordance with the assessment made in the case:

Provided that where recovery of tax has been stayed by the Appellate Tribunal by an order, such order shall cease to have effect on the expiration of a period of three months following the date on which it is made, unless the appeal is decided, or such order be withdrawn by the Appellate Tribunal earlier:

Provided further that the Appellate Tribunal shall not make an order which has the effect of staying the recovery of tax beyond the period of six months in aggregate.]

132. Disposal of appeals by the Appellate Tribunal.- (1) The Appellate Tribunal may, before disposing of an appeal, call for such particulars as it may require in respect of the matters arising on the appeal or cause further enquiry to be made by the Commissioner.

[3][(2) The Appellate Tribunal shall afford an opportunity of being heard to the parties to the appeal and, in case of default by any of the party on the date of hearing, the Tribunal may, if it deems fit, dismiss the appeal in default, or may proceed *ex parte* to decide the appeal on the basis of the available record.]

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[1] Substituted for the word "appellant" by the Finance Act, 2002.
[2] Added by the Finance Act, 2003.
[3] Substituted by the Finance Act, 2002. The substituted sub-section (2) read as follows:
"(2) The Appellate Tribunal shall give both parties to the appeal an opportunity of being heard either in person or through an authorised representative."

[1][(2A) The Appellate Tribunal shall decide the appeal within six months of its filing;]

(3) Where the appeal relates to an assessment order, the Appellate Tribunal may, [2][without prejudice to the powers specified in sub-section (2),] make an order to –

(a) affirm, modify or annul the assessment order; or

[3][ ]

[4][(c) remand the case to the Commissioner or the Commissioner (Appeals) for making such enquiry or taking such action as the Tribunal may direct.]

(4) The Appellate Tribunal shall not increase the amount of any assessment [5][or penalty] or decrease the amount of any refund unless the taxpayer has been given a reasonable opportunity of showing cause against such increase or decrease, as the case may be.

(5) Where, as the result of an appeal, any change is made in the assessment of an association of persons or a new assessment of an association of persons is ordered to be made, the Appellate Tribunal may authorise the Commissioner to amend accordingly any assessment order made on a member of the association and the time limit in sub-section (2) of section 122 shall not apply to the making of such amended assessment.

(6) Where the appeal relates to a decision other than in respect of an assessment, the Appellate Tribunal may make an order to affirm, vary or annul the decision, and issue such consequential directions as the case may require.

[6][(7) The Appellate Tribunal shall communicate its order to the taxpayer and the Commissioner.]

[7][ ]

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[1] Inserted by the Finance Act, 2005.
[2] Inserted by the Finance Act, 2002.
[3] Omitted by the Finance Act, 2007. The omitted clause (b) read as follows:
"(b) set aside the assessment order and direct the Commissioner to make a new assessment order in accordance with the directions or recommendations of the Tribunal [A][; or]"
[A] Earlier full stop substituted by the Finance Act, 2002.
[4] Added by the Finance Act, 2002.
[5] Inserted by the Finance Act, 2003.
[6] Substituted by the Finance Act, 2002. The substituted sub-section (7) read as follows:
"(7) The Appellate Tribunal shall serve a notice of its order on the appellant and the Commissioner."
[7] Omitted by Finance Act, 2002. The omitted sub-section (8) read as follows:
"(8) Where the Appellate Tribunal has not made an order in respect of an appeal before the expiration of six months from the end of the month in which the appeal was filed, the relief sought by the appellant in the

[1][ ]

(10) Save as provided in section 133, the decision of the Appellate Tribunal on an appeal shall be final.

[2][133. Reference to High Court.- (1) Within ninety days of the communication of the order of the Appellate Tribunal under sub-section (7) of section 132, the

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appeal shall be treated as having been given and all the provisions of this Ordinance shall have effect accordingly."

[1] Omitted by the Finance Act, 2002. The omitted sub-section (9) read as follows:

"(9) For the purposes of sub-section (8), any period during which the hearing of an appeal is adjourned on the request of the appellant shall be excluded in the computation of the period of six months referred to in that sub-section.

[2] Substituted by the Finance Act, 2005. The original section 133 read as follows:

133. Reference to High Court.- (1) Where the Appellate Tribunal has made an order on an appeal under section132, the [A][taxpayer] or Commissioner may, by application in such form and accompanied by such documents as may be prescribed, require the Appellate Tribunal to refer any question of law arising out of such order to the High Court.

(2) An application under sub-section (1) shall be made within ninety days of the date on which the [B][taxpayer] or Commissioner, as the case may be, was served with [C][ ] the Appellate Tribunal's order.

(3) Where, on an application under sub-section (1), the Appellate Tribunal is satisfied that a question of law arises out of its order, it shall, within ninety days of receipt of the application, draw up a statement of the case and refer it to the High Court.

(4) Where, on an application under sub-section (1), the Appellate Tribunal refuses to state the case on the ground that no question of law arises, the [D][taxpayer] or the Commissioner, as the case may be, may apply to the High Court and the High Court may, if it is not satisfied with the correctness of the decision of the Appellate Tribunal, frame a question of law for its consideration.

(5) An application under sub-section (4) shall be made within one-hundred and twenty days from the date on which the [E][taxpayer] or Commissioner, as the case may be, was served with [F][order] of the refusal.

(6) Sub-sections (10) through (14) shall apply to a question of law framed by the High Court in the same manner as they apply to a reference made under sub-section (1).

(7) If, on an application under sub-section (1), the Appellate Tribunal rejects the application on the ground that it is time-barred, the [G][taxpayer] or Commissioner may apply to the High Court and, if the High Court is not satisfied with the correctness of the Appellate Tribunal's decision, the Court may require the Appellate Tribunal to treat the application as made within the time allowed under sub-section [H][(2)].

(8) An application under sub-section (7) shall be made within [I][ninety days] from the date on which the [J][taxpayer] or Commissioner, as the case may be, was served with [K][order] of the rejection.

(9) If the High Court is not satisfied that the statement in a case referred under sub-section (3) is sufficient to enable it to determine the question raised thereby, the Court may refer the case back to the Appellate Tribunal to make such modification therein as the Court may direct.

(10) A reference to the High Court under this section shall be heard by a Bench of not less than two Judges of the High Court and, in respect of the reference, the provisions of section 98 of the Code of Civil Procedure, 1908 (V of 1908) shall apply, so far as may be, notwithstanding anything contained in any other law for the time being in force.

(11) The High Court upon hearing a reference under this section shall decide the questions of law raised by the reference and deliver judgment thereon containing the grounds on which such decision is founded.

(12) A copy of the judgment of the High Court shall be sent under the seal of the Court and the signature of the Registrar to the Appellate Tribunal which shall pass such orders as are necessary to dispose of the case conformably to such judgment.

(13) The costs of a reference to the High Court under this section shall be at the discretion of the Court.

(14) Where a reference relates to an assessment, the tax due under the assessment shall be payable in accordance with the assessment, unless recovery of the tax has been stayed by the High Court.

(15) Section 5 of the Limitation Act, 1908 (IX of 1908) shall apply to an application under sub-section (1).

(16) An application under sub-section (1) by a person other than the Commissioner shall be accompanied by a fee of one hundred rupees."

[A] Substituted for the word "appellant" by the Finance Act, 2002.

[B] Substituted for the word "appellant" by the Finance Act, 2002.

[C] The words "notice of" omitted by the Finance Act, 2003.

[D] Substituted for the word "appellant" by the Finance Act, 2002.

[E] Substituted for the word "appellant" by the Finance Act, 2002.

aggrieved person or the Commissioner may prefer an application, in the prescribed form along with a statement of the case, to the High Court, stating any question of law arising out of such order.

(2) The statement to the High Court referred to in sub-section (1), shall set out the facts, the determination of the Appellate Tribunal and the question of law which arises out of its order.

(3) Where, on an application made under sub-section (1), the High Court is satisfied that a question of law arises out of the order referred to in sub-section (1), it may proceed to hear the case.

(4) A reference to the High Court under this section shall be heard by a Bench of not less than two judges of the High Court and, in respect of the reference, the provisions of section 98 of the Code of Civil Procedure, 1908 (Act V of 1908), shall apply, so far as may be, notwithstanding anything contained in any other law for the time being in force.

(5) The High Court upon hearing a reference under this section shall decide the question of law raised by the reference and pass judgment thereon specifying the grounds on which such judgment is based and the Tribunal's order shall stand modified accordingly. The Court shall send a copy of the judgment under the seal of the Court to the Appellate Tribunal.

(6) Notwithstanding that a reference has been made to the High Court, the tax shall be payable in accordance with the order of the Appellate Tribunal:

Provided that, if the amount of tax is reduced as a result of the judgment in the reference by the High Court and the amount of tax found refundable, the High Court may, on application by the Commissioner within thirty days of the receipt of the judgment of the High Court that he wants to prefer petition for leave to appeal to the Supreme Court, make an order authorizing the Commissioner to postpone the refund until the disposal of the appeal by the Supreme Court.

(7) Where recovery of tax has been stayed by the High Court by an order, such order shall cease to have effect on the expiration of a period of six months following the day on which it was made unless the appeal is decided or such order is withdrawn by the High Court earlier.

[F] Substituted for the word "notice" by the Finance Act, 2003.
[G] Substituted for the word "appellant" by the Finance Act, 2002.
[H] Substituted for the brackets and figures "(1)" by the Finance Act, 2003.
[I] Substituted for the words "three months" by the Finance Act, 2002.
[J] Substituted for the word "appellant" by the Finance Act, 2002.
[k] Substituted for the word "notice" by the Finance Act, 2003.

(8) Section 5 of the Limitation Act, 1908 (IX of 1908), shall apply to an application made to the High Court under sub-section (1).

(9) An application under sub-section (1) by a person other than the Commissioner shall be accompanied by a fee of one hundred rupees.]

[1][ ]

[2][**134A. [3][Alternative] Dispute Resolution.-** [4][(1) Notwithstanding any other provision of this Ordinance, or the rules made thereunder an aggrieved person, in connection with any matter pending before an Appellate Authority, may apply to Board for the appointment of a committee for the resolution of any hardship or dispute mentioned in detail in the application.]

(2) The [5][Board] after examination of the application of an aggrieved person, shall appoint a committee consisting of an officer of Income Tax and two persons from a [6][panel comprising] of Chartered or Cost Accountants, Advocates, Income Tax Practitioners or reputable taxpayers for the resolution of the hardship or dispute.

(3) The committee constituted under sub-section (2) shall examine the issue and may, if it deems necessary, conduct inquiry, seek expert opinion, direct any officer of Income Tax or any other person to conduct an audit and make recommendations in respect of the resolution of dispute as it may deem fit.

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[1] Omitted by the Finance Act, 2005. The omitted section 134 read as follows:

"**134. Appeal to Supreme Court.-** (1) An appeal shall lie to the Supreme Court from any judgment of the High Court delivered on a reference made or question of law framed under section 133 in any case which the High Court certifies to be a fit one for appeal to the Supreme Court.

(2) The provisions of the Code of Civil Procedure, 1908 (V of 1908), relating to appeals to the Supreme Court shall apply, so far as may be, in the case of an appeal under this section in like manner as they apply in the case of an appeal from decrees of a High Court.

(3) Where the judgment of the High Court is varied or [A][reversed] in appeal under this section, effect shall be given to the order of the Supreme Court in the manner provided in sub-section [B][(12)] of section 133 in the case of a judgment of the High Court.

(4) The provisions of sub-sections (11), (12) and (13) of section 133 shall apply in the case of an appeal to the Supreme Court made under this section as they apply to an appeal to the High Court under section 133."

[A] Substituted for the word "reserved" by the Finance Act, 2003.

[B] Substituted for the brackets and figures "(10)" by the Finance Act, 2003.

[2] Added by the Finance Act, 2004.

[3] The word "Alternate" substituted by the Finance Act, 2006.

[4] Substituted by the Finance Act, 2006. The substituted sub-section (1) read as follows:

"(1) Notwithstanding any other provision of this Ordinance, or the rules made thereunder, any aggrieved person in connection with any matter of income tax pertaining to liability of income tax, admissibility of refund, waiver or fixation of penalty or fine, relaxation of any time period or procedural and technical condition may apply to the Central Board of Revenue for the appointment of a committee for the resolution of any hardship or dispute mentioned in detail in the application."

[5] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[6] The words "notified panel" substituted by the Finance Act, 2005.

(4) The [1][Board] may, on the recommendation of the committee, pass such order, as it may deem appropriate.

(5) The aggrieved person may make the payment of income tax and other taxes as determined by the [2][Board] in its order under sub-section (4) and all decisions, orders and judgements made or passed shall stand modified to that extent and all proceedings under this Ordinance or the rules made thereunder by any authority shall abate:

Provided that [3][ ] an [4][order passed by] the Board in the light of recommendations of the committee shall be submitted before that authority, tribunal or the court [5][where the matter is *subjudice*] for consideration and orders as deemed appropriate [6][:]

[7][Provided further that if the taxpayer is not satisfied with the said order, he may continue to pursue his remedy before the relevant authority, tribunal or court as if no such order had been made by the Board.]

[8][ ]

(7) The Board may, by notification in the official Gazette, make rules for carrying out the purposes of this section.]

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] The commas and words ", in case the matter is already sub-judice before any authority or tribunal or the court," omitted by the Finance Act, 2006.

[4] The words "agreement made between the aggrieved person and" substituted by the Finance Act, 2005.

[5] Inserted by the Finance Act, 2006.

[6] The full stop substituted by the Finance Act, 2005.

[7] Inserted by the Finance Act, 2005.

[8] Omitted by the Finance Act, 2005. The omitted sub-section (6) read as follows:

"(6) In case the aggrieved person is not satisfied with the orders of the Central Board of Revenue, he may file an appeal or reference with the appropriate authority, tribunal or court under the relevant provisions of this Ordinance within a period of sixty days of the order passed by the Board under this section has been communicated to the aggrieved person."

[1][ ]

136. Burden of proof.- In any appeal [2][by a taxpayer] under this Part, the burden shall be on the taxpayer to prove, on the balance of probabilities –

(a) in the case of an assessment order, the extent to which the order does not correctly reflect the taxpayer's tax liability for the tax year; or

(b) in the case of any other decision, that the decision is erroneous.

PART IV
COLLECTION AND RECOVERY OF TAX

137. Due date for payment of tax.- (1) The tax payable by a taxpayer on the taxable income of the taxpayer [3][including the tax payable under section 113] [4][or

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[1] Omitted by the Finance Act, 2002. The omitted section 135 read as follows:

"**135. Revision by the Commissioner.-** (1) The Commissioner may either of the Commissioner's own motion or on application in writing by a person for revision, call for the record of any proceeding under this Ordinance in which an order has been passed by any taxation officer other than the Commissioner (Appeals).

(2) Subject to sub-section (3), where, after making such inquiry as is necessary, Commissioner considers that the order requires revision, the Commissioner may make such revision to the order as the Commissioner thinks fit.

(3) An order under sub-section (2) shall not be prejudicial to the person to whom the order relates.

(4) The Commissioner shall not revise any order under sub-section (2) if –

(a) where an appeal against the order lies to the Commissioner (Appeals) or to the Appellate Tribunal, the time within which such appeal may be made has not expired, or the person has not waived their right of appeal;

(b) the order is pending on appeal before the Commissioner (Appeals) or has been made the subject of an appeal to the Appellate Tribunal; or

(c) in the case of an application made by a person, the application has not been made within ninety days of the date on which such order was served on the person, unless the Commissioner is satisfied that the person was prevented by sufficient cause from making the application within the time allowed.

(5) No application for revision of an assessment order may be made under sub-section (1) unless the amount of tax due under the assessment that is not in dispute has been paid by the taxpayer.

(6) An application under sub-section (1) shall be accompanied by –

(a) in relation to an assessment order, a fee of the lesser of two thousand five hundred rupees or ten percent of the tax assessed; or

(b) in any other case –

(i) where the applicant is a company, a fee of two thousand rupees; or

(ii) where the applicant is not a company, a fee of five hundred rupees.

(7) An order by the Commissioner declining to interfere shall not be treated as an order prejudicial to the applicant."

[2] Inserted by the Finance Act, 2003.

[3] Inserted by the Finance Act, 2003. Earlier this was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[4] Inserted by the Finance Act, 2004.

section 113A] for a tax year shall be due on the due date for furnishing the taxpayer's return of income for that year.

[1][(2) Where any tax is payable under an assessment order or an amended assessment order or any other order issued by the Commissioner under this Ordinance, a notice shall be served upon the taxpayer in the prescribed form specifying the amount payable and thereupon the sum so specified shall be paid within thirty days from the date of service of the notice;]

(3) Nothing in sub-section (2) [2][or (4)] shall affect the operation of sub-section (1).

(4) Upon written application by a taxpayer, the Commissioner may, where good cause is shown, grant the taxpayer an extension of time for payment of tax due [3][under sub-section (2)] or allow the taxpayer to pay [4][such tax] in installments of equal or varying amounts as the Commissioner may determine having regard to the circumstances of the case.

(5) Where a taxpayer is permitted to pay tax by installments and the taxpayer defaults in payment of any installments, the whole balance of the tax outstanding shall become immediately payable.

(6) The grant of an extension of time to pay tax due or the grant of permission to pay tax due by installments shall not preclude the liability for additional tax arising under section 205 from the due date of the tax under sub-section [5][(2)].

[6][ ]

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[1] Substituted by the Finance Act, 2003. The substituted sub-section (2) read as follows:

"(2) Where an assessment order or amended assessment order is issued by the Commissioner, the tax payable under the order shall be payable within fifteen days from the date of the assessment order is issued. "

[2] Inserted by the Finance Act, 2003. Earlier this was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[3] Inserted by the Finance Act, 2003.

[4] Substituted for the words "any tax due" by the Finance Act, 2003.

[5] Substituted for the brackets and figure "(1)" by the Finance Act, 2003.

[6] Omitted by the Finance Act, 2002. The omitted sub-section read as under:

"(7) A taxpayer dissatisfied with a decision under sub-section (4) may challenge the decision only under Part III of this Chapter."

[1][**138. Recovery of tax out of property and through arrest of taxpayer.-** (1) For the purpose of recovering any tax due by a taxpayer, the Commissioner may serve upon the taxpayer a notice in the prescribed form requiring him to pay the said amount within such time as may be specified in the notice.

(2) If the amount referred to in the notice issued under sub-section (1) is not paid within the time specified therein or within the further time, if any, allowed by the Commissioner, the Commissioner may proceed to recover from the taxpayer the said amount by one or more of the following modes, namely:-

(a) attachment and sale of any movable or immovable property of the taxpayer;

(b) appointment of a receiver for the management of the movable or immovable property of the taxpayer; and

(c) arrest of the taxpayer and his detention in prison for a period not exceeding six months.

(3) For the purposes of recovery of tax under sub-section (2), the Commissioner shall have the same powers as a Civil Court has under the Code of Civil Procedure, 1908 (Act V of 1908), for the purposes of the recovery of any amount due under a decree.

(4) The [2][Board] may make rules regulating the procedure for the recovery of tax under this section and any other matter connected with, or incidental to, the operation of this section.]

[3][**138A. Recovery of tax by District Officer (Revenue).-** (1) The Commissioner may forward to the District Officer (Revenue) of the district in which the taxpayer resides or carries on business or in which any property belonging to the taxpayer is situated, a certificate specifying the amount of any tax due from the taxpayer, and, on receipt of such certificate, the District Officer (Revenue) shall proceed to recover from the taxpayer the amount so specified as, it were an arrear of land revenue.

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[1] Substituted by Finance Act, 2002. The substituted section 138 read as follows:
"**138. Tax as a debt due to the Federal Government.-** (1) Any tax due under this Ordinance by a taxpayer shall be a debt due to the Federal Government and shall be payable in the manner and at the place prescribed.
(2) Any tax that has not been paid by the due date may be sued for and recovered in any court of competent jurisdiction by the Commissioner acting in the Commissioner's official name.
(3) In any suit under sub-section (2), the production of a certificate signed by the Commissioner stating the name and address of the taxpayer and the amount of tax due shall be conclusive evidence of the amount of tax due by such taxpayer."

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] Inserted by the Finance Act, 2002.

(2) Without prejudice to any other power of the District Officer (Revenue) in this behalf, he shall have the same powers as a Civil Court has under the Code of Civil Procedure, 1908 (Act V of 1908), for the purpose of the recovery of the amount due under a decree.]

139. Collection of tax in the case of private companies and associations of persons.- (1) Notwithstanding anything in the Companies Ordinance, 1984 (XLVII of 1984), where any tax payable by a private company (including a private company that has been wound up or gone into liquidation) in respect of any tax year cannot be recovered from the company, every person who was, at any time in that tax year –

(a) a director of the company, other than an employed director; or

(b) a shareholder in the company owning not less than ten per cent of the paid-up capital of the company,

shall be jointly and severally liable for payment of the tax due by the company.

(2) Any director who pays tax under sub-section (1) shall be entitled to recover the tax paid from the company or a share of the tax from any other director.

(3) A shareholder who pays tax under sub-section (1) shall be entitled to recover the tax paid from the company or from any other shareholder to whom clause (b) of sub-section (1) applies in proportion to the shares owned by that other shareholder.

(4) Notwithstanding anything in any law, where any tax payable by a member of an association of persons in respect of the member's share of the income of the association in respect of any tax year cannot be recovered from the member, the association shall be liable for the tax due by the member.

(5) The provisions of this Ordinance shall apply to any amount due under this section as if it were tax due under an assessment order.

140. Recovery of tax from persons holding money on behalf of a taxpayer.- (1) For the purpose of recovering any tax due by a taxpayer, the Commissioner may, by notice, in writing, require any person –

(a) owing or who may owe money to the taxpayer; or

(b) holding or who may hold money for, or on account of the taxpayer;

(c) holding or who may hold money on account of some other person for payment to the taxpayer; or

(d) having authority of some other person to pay money to the taxpayer,

to pay to the Commissioner so much of the money as set out in the notice by the date set out in the notice.

(2) Subject to sub-section (3), the amount set out in a notice under sub-section (1) –

(a) where the amount of the money is equal to or less than the amount of tax due by the taxpayer, shall not exceed the amount of the money; or

(b) in any other case, shall be so much of the money as is sufficient to pay the amount of tax due by the taxpayer.

(3) Where a person is liable to make a series of payments (such as salary) to a taxpayer, a notice under sub-section (1) may specify an amount to be paid out of each payment until the amount of tax due by the taxpayer has been paid.

(4) The date for payment specified in a notice under sub-section (1) shall not be a date before the money becomes payable to the taxpayer or held on the taxpayer's behalf.

(5) The provisions of sections 160, 161, 162 and 163, so far as may be, shall apply to an amount due under this section as if the amount were required to be deducted from a payment under Division III of Part V of this Chapter.

(6) Any person who has paid any amount in compliance with a notice under sub-section (1) shall be treated as having paid such amount under the authority of the taxpayer and the receipt of the Commissioner constitutes a good and sufficient discharge of the liability of such person to the taxpayer to the extent of the amount referred to in such receipt.

[1][ ]

[1] Omitted by the Finance Act, 2003. The omitted sub-section (7) read as follows:

"(7) Where an amount has been paid under sub-section (1), the taxpayer shall be allowed a tax credit for the amount (unless the amount paid represents a final tax on the taxpayer's income) in computing the tax due by the taxpayer on the taxpayer's taxable income for the tax year in which the amount was paid."

[1][ ]

[2][ ]

(10) In this section, "person" includes any Court, Tribunal or any other authority.

141. Liquidators.- (1) Every person (hereinafter referred to as a “liquidator”) who is –

(a) a liquidator of a company;

(b) a receiver appointed by a Court or appointed out of Court;

(c) a trustee for a bankrupt; or

(d) a mortgagee in possession,

shall, within fourteen days of being appointed or taking possession of an asset in Pakistan, whichever occurs first, give written notice thereof to the Commissioner.

(2) The Commissioner shall, within three months of being notified under sub-section (1), notify the liquidator in writing of the amount which appears to the Commissioner to be sufficient to provide for any tax which is or will become payable by the person whose assets are in the possession of the liquidator.

(3) A liquidator shall not, without leave of the Commissioner, part with any asset held as liquidator until the liquidator has been notified under sub-section (2).

(4) A liquidator -

(a) shall set aside, out of the proceeds of sale of any asset by the liquidator, the amount notified by the Commissioner under sub-section (2), or such lesser amount as is subsequently agreed to by the Commissioner;

(b) shall be liable to the extent of the amount set aside for the tax of the person who owned the asset; and

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[1] Omitted by the Finance Act, 2003. The omitted sub-section (8) read as follows:

“(8) The tax credit allowed under this section shall be applied in accordance with sub-section (3) of section 4.”

[2] Omitted by the Finance Act, 2003. The omitted sub-section (9) read as follows:

“(9) A tax credit or part of a tax credit allowed under this section for a tax year that is not able to be credited under sub-section (3) of section 4 for the year must be refunded to the taxpayer in accordance with section 170.”

(c) may pay any debt that has priority over the tax referred to in this section notwithstanding any provision of this section.

(5) A liquidator shall be personally liable to the extent of any amount required to be set aside under sub-section (4) for the tax referred to in sub-section (2) if, and to the extent that, the liquidator fails to comply with the requirements of this section.

(6) Where the proceeds of sale of any asset are less than the amount notified by the Commissioner under sub-section (2), the application of sub-sections (4) and (5) shall be limited to the proceeds of sale.

(7) This section shall have effect notwithstanding anything contained in any other law for the time being in force.

(8) The provisions of this Ordinance shall apply to any amount due under this section as if it were tax due under an assessment order.

142. Recovery of tax due by non-resident member of an association of persons.- (1) The tax due by a non-resident member of an association of persons in respect of the member's share of the profits of the association shall be assessable in the name of the association or of any resident member of the association and may be recovered out of the assets of the association or from the resident member personally.

(2) A person making a payment under this section shall be treated as acting under the authority of the non-resident member and is hereby indemnified in respect of the payment against all proceedings, civil or criminal, and all processes, judicial or extra-judicial, notwithstanding any provisions to the contrary in any written law, contract or agreement.

(3) The provisions of this Ordinance shall apply to any amount due under this section as if it were tax due under an assessment order.

143. Non-resident ship owner or charterer.- (1) Before the departure of a ship owned or chartered by a non-resident person from any port in Pakistan, the master of the ship shall furnish to the Commissioner a return showing the gross amount specified in sub-section (1) of section 7 in respect of the ship.

(2) Where the master of a ship has furnished a return under sub-section (1), the Commissioner shall [1][, after calling for such particulars, accounts or documents as he may require,] determine the amount of tax due under section 7 in respect of the ship and, as soon as possible, notify the master, in writing, of the amount payable.

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[1] Inserted by the Finance Act, 2002.

(3) The master of a ship shall be liable for the tax notified under sub-section (2) and the provisions of this Ordinance shall apply to such tax as if it were tax due under an assessment order.

(4) Where the Commissioner is satisfied that the master of a ship or non-resident owner or charterer of the ship is unable to furnish the return required under sub-section (1) before the departure of the ship from a port in Pakistan, the Commissioner may allow the return to be furnished within thirty days of departure of the ship provided the non-resident owner or charterer has made satisfactory arrangements for the payment of the tax due under section 7 in respect of the ship.

(5) The Collector of Customs or other authorised officer shall not grant a port clearance for a ship owned or chartered by a non-resident person until the Collector or officer is satisfied that any tax due under section 7 in respect of the ship has been paid or that arrangements for its payment have been made to the satisfaction of the Commissioner.

(6) This section shall not relieve the non-resident owner or charterer of the ship from liability to pay any tax due under this section that is not paid by the master of the ship.

144. Non-resident aircraft owner or charterer.- (1) A non-resident owner or charterer of an aircraft [1][ ] liable for tax under section 7, or an agent authorised by the non-resident person for this purpose, shall furnish to the Commissioner, within forty-five days from the last day of each quarter of the financial year, a return, in respect of the quarter, showing the gross amount specified in sub-section (1) of section 7 of the non-resident person for the quarter.

(2) Where a return has been furnished under sub-section (1), the Commissioner shall [2][, after calling for such particulars, accounts or documents as he may require,] determine the amount of tax due under section 7 by the non-resident person for the quarter and notify the non-resident person, in writing, of the amount payable.

(3) The non-resident person shall be liable to pay the tax notified under sub-section (2) within the time specified in the notice and the provisions of this Ordinance shall apply to such tax as if it were tax due under an assessment order.

(4) Where the tax referred to in sub-section (3) is not paid within three months of service of the notice, the Commissioner may issue to the authority by whom clearance may be granted to the aircraft operated by the non-resident

[1] The words “shall be” omitted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2002

person a certificate specifying the name of the non-resident person and the amount of tax due.

(5) The authority to whom a certificate is issued under sub-section (4) shall refuse clearance from any airport in Pakistan to any aircraft owned or chartered by the non-resident until the tax due has been paid.

[1][**145. Assessment of persons about to leave Pakistan.-** (1) Where any person is likely to leave Pakistan during the currency of tax year or shortly after its expiry with no intention of returning to Pakistan, he shall give to the Commissioner a notice to that effect not less than fifteen days before the probable date of his departure (hereinafter in this section referred to as the 'said date').

(2) The notice under sub-section (1) shall be accompanied by a return or returns of taxable income in respect of the period commencing from the end of the latest tax year for which an assessment has been or, where no such assessment has been made, a return has been made, as the case may be, and ending on the said date, or where no such assessment or return has been made, the tax year or tax years comprising the period ending on the said date; and the period commencing from the end of the latest tax year to the said date shall, for the purposes of this section, be deemed to be a tax year (distinct and separate from any other tax year) in which the said date falls.

(3) Notwithstanding anything contained in sub-sections (1) and (2), the Commissioner may serve a notice on any person who, in his opinion, is likely to leave Pakistan during the current tax year or shortly after its expiry and has no intention of returning to Pakistan, to furnish within such time as may be specified in such notice, a return or returns of taxable income for the tax year or tax years for which the taxpayer is required to furnish such return or returns under sub-section (2).

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[1] Substituted by the Finance Act, 2003. The substituted section 145 read as follows:

"**145. Collection of tax from persons leaving Pakistan permanently.-** (1) Where the Commissioner has reasonable grounds to believe that a person may leave Pakistan permanently without paying tax due under this Ordinance, the Commissioner may issue a certificate containing particulars of the tax due to the Commissioner of Immigration and request the Commissioner of Immigration to prevent that person from leaving Pakistan until that person -

(a) makes payment of tax in full; or

(b) makes an arrangement satisfactory to the Commissioner for payment of the tax due.

(2) A copy of a certificate issued under sub-section (1) shall be served on the person named in the certificate if it is practicable to do so.

(3) Payment of the tax specified in the certificate to a customs or immigration officer or the production of a certificate signed by the Commissioner stating that the tax has been paid or satisfactory arrangements for payment have been made shall be sufficient authority for allowing the person to leave Pakistan."

(4) The taxable income shall be charged to tax at the rates applicable to the relevant tax year and all the provisions of this Ordinance shall, so far as may be, apply accordingly.]

146. Recovery of tax from persons assessed in Azad Jammu and Kashmir.- (1) Where any person assessed to tax for any tax year under the law relating to income tax in the Azad Jammu and Kashmir has failed to pay the tax and the income tax authorities of the Azad Jammu and Kashmir cannot recover the tax because –

(a) the person's residence is in Pakistan; or

(b) the person has no movable or immovable property in the Azad Jammu and Kashmir,

the Deputy Commissioner in the Azad Jammu and Kashmir may forward a certificate of recovery to the Commissioner and, on receipt of such certificate, the Commissioner shall recover the tax referred to in the certificate in accordance with this Part.

(2) A certificate of recovery under sub-section (1) shall be in the prescribed form specifying –

(a) the place of residence of the person in Pakistan;

(b) the description and location of movable or immovable property of the person in Pakistan; and

(c) the amount of tax payable by the person.

[1][**146A. Initiation, validity, etc., of recovery proceedings.-** (1) Any proceedings for the recovery of tax under this Part may be initiated at any time.

(2) The Commissioner may, at any time, amend the certificate issued under section 138A, or recall such certificate and issue fresh certificate, as he thinks fit.

(3) It shall not be open to a taxpayer to question before the District Officer (Revenue) the validity or correctness of any certificate issued under section 138A, or any such certificate as amended, or any fresh certificate issued, under sub-section (2).

(4) The several modes of recovery provided in this Part shall be deemed to be neither mutually exclusive nor affect in any way any other law for the time

[1] Inserted by the Finance Act, 2002.

being in force relating to the recovery of debts due to the Government and the Commissioner may have recourse to any such mode of recovery notwithstanding that the tax due is being recovered from a taxpayer by any other mode.]

PART V
ADVANCE TAX AND DEDUCTION OF TAX AT SOURCE

Division I
Advance Tax Paid by the Taxpayer

147. Advance tax paid by the taxpayer. (1) Subject to sub-section (2), every taxpayer [1][whose income was charged to tax for the latest tax year under this Ordinance or latest assessment year under the repealed Ordinance] other than –

(a) income chargeable to tax under the head "Capital Gains";

(b) income chargeable to tax under sections 5, 6 and 7;

[2][ba) income chargeable to tax under section 15;]

(c) income subject to deduction of tax at source under section 149; or

[3][(ca) income chargeable to tax under section 233 and clauses (a) and (b) of sub-section (1) of section 233A;]

(d) income from which tax has been collected under Division II or deducted under Division III and for which no tax credit is allowed as a result of sub-section (3) of section 168,

shall be liable to pay advance tax for the year in accordance with this section.

(2) This section does not apply to an individual [4][or association of persons] where the individual's [5][or [6][association of persons]] latest assessed taxable income excluding income referred to in clauses (a), (b), [7][(ba),] (c) and (d) of sub-section (1) is less than [8][two hundred thousand] rupees.

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[1] Substituted for the words "who derives or expects to derive income chargeable to tax under this Ordinance in a tax year" by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2004.
[5] Inserted by the Finance Act, 2004.
[6] The words "associations of persons" substituted by the Finance Act, 2005.
[7] Inserted by the Finance Act, 2002.
[8] Substituted for the words "one hundred and fifty thousand" by the Finance Act, 2003.

[1][ ]

[2][(4) where the taxpayer is a company, 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 or latest assessment year under the repealed Ordinance; and

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 or 155.]

[3][(4A) Any taxpayer who is required to make payment of advance tax in accordance with sub-section (4), shall estimate the tax payable by him for the relevant tax year, at any time before the last instalment is due. In case the tax payable is likely to be more than the amount he is required to pay under sub-section (4), the taxpayer shall furnish to the Commissioner an estimate of the amount of tax payable by him and thereafter pay such amount after making adjustment for the amount (if any) already paid in terms of sub-section (4).]

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[1] Omitted by the Finance Act, 2004. The omitted sub-section (3) read as follows:

"(3) Advance tax shall be payable by a taxpayer in respect of the following periods, namely:–

(a) 1st of July to 30th September (referred to as the "September quarter");
(b) 1st October to 31st December (referred to as the "December quarter");
(c) 1st January to 31st March (referred to as the "March quarter"); and
(d) 1st April to 30th June (referred to as the "June quarter")."

[2] Substituted by the Finance Act, 2004. The substituted sub-section (4) read as follows:

"(4) [A][Where the taxpayer is a company or an association of persons, the amount] of advance tax due for a quarter shall be computed according to the following formula, namely:–

(A x B/C) - D

where –

A is the taxpayer's turnover for the quarter;
B is the tax assessed to the taxpayer for the latest tax year [B][or the latest assessment year under the repealed Income Tax Ordinance, 1979];
C is the taxpayer's turnover for the latest tax year [C][or the latest assessment year under the repealed Income Tax Ordinance, 1979]; and
D is the tax paid in the quarter for which a tax credit is allowed under section 168, other than tax deducted under section [D][155]."

[A] Earlier the words "The amount" were substituted by the Finance Act, 2003.

[B] Earlier inserted by the Finance Act, 2003. Before insertion by the Finance Act, 2003 this was inserted by S.R.O. 380(I)/2003, dated 03.05.2003 which stood rescinded by S.R.O. 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[C] Earlier inserted by the Finance Act, 2003. Before insertion by the Finance Act, 2003 this was inserted by S.R.O. 380(I)/2003, dated 03.05.2003 which stood rescinded by S.R.O. 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[D] Earlier the figure "149" was substituted by the Finance Act, 2003.

[3] Inserted by the Finance Act, 2006.

[1][(4AA) Tax liability under section 113 shall also be taken into account while working out payment of advance tax liability under this section.]

[2][([3][4B]) Where the taxpayer is an individual [4][or an association of persons] having latest assessed income of two hundred thousand rupees or more as determined under sub-section (2), 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 or latest assessment year under the repealed Ordinance; and

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 or 155.]

(5) Advance tax is payable by a taxpayer to the Commissioner –

(a) in respect of the September quarter, on or [5][before] the [6][15th day of September];

(b) in respect of the December quarter, on or before the [7][15th day of December];

(c) in respect of the March quarter, on or before the [8][15th day of March]; and

(d) in respect of the June quarter, on or before the [9][15th day of June].

[10][(6) If any taxpayer who is required to make payment of advance tax under sub-section (1) estimates at any time before the last installment is due, that the tax payable by him for the relevant tax year is likely to be less than the

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[1] Inserted by the Finance Act, 2007.
[2] Inserted by Finance Act, 2003.
[3] Sub-section (4A) re-numbered by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2005.
[5] The word "by" substituted by the Finance Act, 2005.
[6] Substituted for the figure and words "7th day of October" by the Finance Act, 2004.
[7] Substituted for the figure and words "7th day of January" by the Finance Act, 2004.
[8] Substituted for the figure and words "7th day of April" by the Finance Act, 2004.
[9] Substituted for the figure and words "21st day of June" by the Finance Act, 2004.
[10] Substituted by the Finance Act, 2004. The substituted sub-section (6) read as follows:
"(6) The turnover of a taxpayer for the period from 16th to 30th June of the June quarter shall be taken to be equal to the turnover for the period from 1st to 15th June of that quarter."

amount he is required to pay under sub-section (1), the taxpayer may furnish to the Commissioner an estimate of the amount of the tax payable by him, and thereafter pay such estimated amount, as reduced by the amount, if any, already paid under sub-section (1), in equal installments on such dates as have not expired.]

[1][(6A) Notwithstanding anything contained in this section, where the taxpayer is a company, advance tax shall be payable by it in the absence of last assessed income also. The taxpayer shall estimate the amount of advance tax payable on the basis of estimated quarterly accounting profit of the company and thereafter pay such amount after—

(a) taking into account tax payable under section 113 as provided in sub-section (4AA);

(b) making adjustment for the amount (if any) already paid.]

(7) The provisions of this Ordinance shall apply to any advance tax due under this section as if the amount due were tax due under an assessment order.

(8) A taxpayer who has paid advance tax under this section for a tax year shall be allowed a tax credit for that tax in computing the tax due by the taxpayer on the taxable income of the taxpayer for that year.

(9) A tax credit allowed for advance tax paid under this section shall be applied in accordance with sub-section (3) of section 4.

(10) A tax credit or part of a tax credit allowed under this section for a tax year that is not able to be credited under sub-section (3) of section 4 for the year shall be refunded to the taxpayer in accordance with section 170.

[2][ ]

Division II
Advance Tax Paid to a Collection Agent

148. Imports.- (1) The Collector of Customs shall collect advance tax from every importer of goods on the value of the goods at the rate specified in Part II of the First Schedule.

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[1] Inserted by the Finance Act, 2007.

[2] Omitted by the Finance Act, 2004. The omitted sub-section (11) read as follows:

"(11) In this section, "turnover" shall not include amounts referred to in clauses (a), (b), [A][, (ba)] (c) and (d) of sub-section (1)."

[A] Earlier the comma, brackets and letters inserted by the Finance Act, 2003. Before insertion by the Finance Act, 2003 this was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stood rescinded by S.R.O. 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[1][(2) Nothing contained in sub-section (1) shall apply to any goods or class of goods or persons or class of persons importing such goods or class of goods as may be specified by the Board.]

[2][ ]

[3][ ]

[4][(4A) Where, in the case of a person whose income is not subject to final taxation, the Commissioner is satisfied that such person is not likely to pay any tax (other than tax under section 113), the Commissioner shall, upon application in writing made by such person, issue certificate allowing payment of tax collectable under this section at a reduced rate of 0.5%].

(5) Advance tax shall be collected in the same manner and at the same time as the customs-duty payable in respect of the import or, if the goods are

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1 Substituted by the Finance Act, 2007. The substituted sub-section (2) read as follows:
"(2) This section shall not apply to –
(a) the re-importation of re-usable containers for re-export qualifying for customs-duty and sales tax exemption on temporary import under the Customs Notification No. S.R.O. 344(1)/95, dated the 25th day of April, 1995; or
(b) the importation of the following petroleum products –
"Motor Spirit (MS), Furnace Oil (FO), JP-1 and MTBE"."

2 Omitted by the Finance Act, 2007. The omitted sub-section (3) read as follows:
"(3) Where a manufacturer imports raw materials (other than edible oils) exclusively for the manufacturer's own use, the Commissioner may certify a reduction (of up to [A][seventy five] per cent) of the rate of advance tax applicable under this section if the aggregate of tax paid or collected in a tax year equals the amount of tax paid by the manufacturer in the immediately preceding year."
[A] Earlier the words "one hundred" substituted by the Finance Act, 2006.

3 Omitted by the Finance Act, 2007. The omitted sub-section (4) read as follows:
"[A][(4) Notwithstanding the provisions of sub-section (3), a person being a manufacturer who is liable to pay advance tax under section 147, imports raw materials (other than edible oils) exclusively for his, or as the case may be, its own use, the Commissioner shall upon application in writing by such person, issue an exemption certificate effective from the date on which the certificate is issued to the 30th day of June next falling:
Provided that where the person to whom an exemption certificate has been issued fails to pay any instalment due, the Commissioner may cancel the certificate.]"
[A] Earlier substituted sub-section (4) by the Finance Act, 2003.

4 Substituted by the Finance Act, 2007. The substituted sub-section (4A) read as follows:
"[A][(4A) Where, in the case of a person being a manufacturer importing raw materials (other than edible oils) exclusively for his or, as the case may be, its own use, the Commissioner is satisfied that the income of the person during the tax year is exempt from tax or such person is not likely to pay any tax (other than tax under section 113) on account of depreciation [B][ ] or brought forward loss, the Commissioner shall, upon application in writing made by such person, issue the person certificate of exemption from the tax collectable under section 148] [C][.]"
[A] Earlier inserted by the Finance Act, 2003.
[B] Earlier the word "allowance" omitted by the Finance Act, 2004.
[C] Earlier full stop inserted by the Finance Act, 2005.

exempt from customs-duty, at the time customs-duty would be payable if the goods were dutiable.

(6) The provisions of the Customs Act, 1969 (IV of 1969), in so far as relevant, shall apply to the collection of tax under this section.

[1][(7) The tax collected under this section shall be a final tax on the income of the importer arising from the imports subject to sub-section (1) and this sub-section shall not apply in the case of import-

(a) raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use;

(b) fertilizer by manufacturer of fertilizer; and

(c) [2][motor vehicles] in CBU condition by manufacturer of [3][motor vehicles].]

[4][(d) large import houses, who,-

(i) have paid-up capital of exceeding Rs.100 million;

(ii) have imports exceeding Rs.500 million during the tax year;

(iii) own total assets exceeding Rs.100 million at the close of the tax year;

(iv) is single object company;

(v) maintain computerized records of imports and sale of goods;

(vi) maintain a system for issuance of 100% cash receipts on sales;

(vii) present accounts for tax audit every year;

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[1] Substituted by the Finance Act, 2006. The substituted sub-section (7) read as follows:

"(7) Except in the case of an industrial undertaking importing goods as raw materials [A][, plant, machinery and equipment] for its own use, the tax collected under this section shall be a final tax on the income of the importer arising from the imports subject to sub-section (1)."

[A] Inserted by the Finance Act, 2004.

[2] The word "cars" substituted by the Finance Act, 2007.

[3] The word "cars" substituted by the Finance Act, 2007.

[4] Inserted by the Finance Act, 2007.

(viii) is registered with Sales Tax Department; and

(ix) make sales of industrial raw material of manufacturer registered for sales tax purposes.]

[1][(8) The tax collected from a person under this section on the import of edible oil for a tax year shall be final tax.]

(9) In this section –

"Collector of Customs" means the person appointed as Collector of Customs under section 3 of the Customs Act, 1969 (IV of 1969), and includes a Deputy Collector of Customs, an Additional Collector of Customs, or an officer of customs appointed as such under the aforesaid section; [2][ ]

[3]["value of goods" means the value of the goods as determined under the Customs Act, 1969 (IV of 1969), as if the goods were subject to *ad valorem* duty increased by the customs-duty, federal excise duty and sales tax, if any, payable in respect of the import of the goods.]

[4][*Explanation*.- For the purpose of this section the expression "edible oils" includes crude oil, imported as raw material for manufacture of ghee or cooking oil.]

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[1] Substituted by the Finance Act, 2004. The substituted sub-section (8) read as follows:

"(8) The tax collected from a person under this section on the import of edible oils for a tax year shall be treated as the minimum amount of tax payable by the person under this Ordinance and where the person's final tax liability exceeds the amount collected under this section the tax collected shall be credited against that final liability."

[2] The word "and" omitted by the Finance Act, 2004.

[3] Substituted by the Finance Act, 2007. The amendment is applicable retrospectively. The substituted expression "value of goods" read as follows:

"value of goods" means the value of the goods as determined under section 25 of the Customs Act, 1969 (IV of 1969), as if the goods were subject to *ad valorem* duty increased by the customs-duty and sales tax, if any, payable in respect of the import of the goods [A][; and]"

[A] Earlier full stop substituted by the Finance Act, 2004.

[4] Inserted by the Finance Act, 2006.

[1][ ]

Division III
Deduction of Tax at Source

149. Salary.- (1) Every employer paying salary to an employee shall, at the time of payment, deduct tax from the amount paid at the employee's average rate of tax computed at the rates specified in Division I of Part I of the First Schedule on the estimated income of the employee chargeable under the head "Salary" for the tax year in which the payment is made after making [2][adjustment of tax withheld from employee under other heads and tax credit admissible under section 61, 62, 63 and 64 during the tax year after obtaining documentary evidence], as may be necessary, for [3][:]

[4][(i) tax withheld from the employee under this Ordinance during the tax year;

(ii) any excess deduction or deficiency arising out of any previous deduction; or

(iii) failure to make deduction during the year;]

(2) The average rate of tax of an employee for a tax year for the purposes of sub-section (1) shall be computed in accordance with the following formula, namely:–

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[1] Omitted by the Finance Act, 2005. The definition of "industrial undertaking" read as follows:

"[A]["Industrial undertaking" means an undertaking which is set up or commenced in Pakistan on or after the 14th day of August, 1947, and which employs (i) ten or more persons in Pakistan and involves the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal agency; or (ii) twenty or more persons in Pakistan and does not involve the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal agency and which is –

(i) engaged in –

(a) the manufacture of goods or materials or the subjection of goods or materials to any process, which substantially changes their original condition;

(b) ship-building;

(c) generation, transformation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power; or

(d) the working of any mine, oil-well or any other source of mineral deposits not being an undertaking to which the Fifth Schedule applies; or

(ii) any other industrial undertaking which may be approved by the Central Board of Revenue for the purposes of this clause.]

[A] Added by the Finance Act, 2004.

[2] The words "such adjustment" substituted by the Finance Act, 2007.

[3] Inserted by the Finance Act, 2007.

[4] The words "any excess deduction or deficiency arising out of any previous deduction or failure to make a deduction during the year." substituted by the Finance Act, 2007.

A/B

where –

A is the tax that would be payable if the amount referred to in component **B** of the formula were the employee's taxable income for that year; and

B is the employee's estimated income under the head "Salary" for that year.

150. Dividends.- Every resident company paying a dividend shall deduct tax from the gross amount of the dividend paid [1][ ] at the rate specified in Division III of Part I of the First Schedule.

151. Profit on debt.- (1) Where –

[2][(a) a person pays yield on an account, deposit or a certificate under the National Savings Scheme or Post Office Savings Account;]

(b) a banking company [3][or] financial institution pays any profit on a debt, being an account or deposit maintained with the company or institution; [4][ ]

[5][(c) the Federal Government, a Provincial Government or a local authority pays to any person [6][ ] profit on any security [7][other than that referred to in clause (a)] issued by such Government or authority; or]

[8][(d) a banking company, a financial institution, a company referred to in [9][sub-clauses (i) and (ii) of clause (b)] of sub-section (2) of section 80, or a finance society pays any profit on any bond,

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[1] The words "or collect tax from the shareholder in the case of bonus shares," omitted by the Finance Act, 2002.

[2] Substituted by the Finance Act, 2003. The substituted clause (a) read as follows:

"(a) a person pays yield on a National Savings Deposit Certificate, including a Defence Savings Certificate, under the National Savings Scheme;"

[3] Substituted for the word "and" by the Finance Act, 2003.

[4] The word "or" omitted by the Finance Act, 2002.

[5] Substituted by the Finance Act, 2002. The substituted clause (c) read as follows:

"(c) the Federal Government, a Provincial Government, a local authority, banking company, financial institution, company referred to in clauses (a) and (b) of the definition of "company" in sub-section (2) of section 80, or finance society pays any profit on any bond, certificate, debenture, security or instrument of any kind (other than a loan agreement between a borrower and a banking company or a development finance institution) to any person other than a financial institution, "

[6] The commas and words ", other than a financial institution," omitted by the Finance Act, 2003.

[7] Inserted by the Finance Act, 2003.

[8] Added by the Finance Act, 2002.

[9] The words, letters and brackets "clauses (a) and (b)" substituted by the Finance Act, 2003.

certificate, debenture, security or instrument of any kind (other than a loan agreement between a borrower and a banking company or a development finance institution) to any person other than financial institution.]

the payer of the profit shall deduct tax at the rate specified in Division I of Part III of the First Schedule from the gross amount of the yield or profit paid as reduced by the amount of Zakat, if any, paid by the recipient under the Zakat and Ushr Ordinance, 1980 (XVII of 1980), at the time the profit is paid to the recipient.

(2) This section shall not apply to any profit on debt that is subject to sub-section (2) of section 152.

[1][(3) Tax deducted under this section shall be a final tax on the profit on debt arising to a taxpayer other than a company from transactions referred to in clauses (a), (b) and (d) of sub-section (1).]

152. Payments to non-residents.- (1) Every person paying an amount of [2][royalty] or fees for technical services to a non-resident person that is chargeable to tax under section 6 shall deduct tax from the gross amount paid at the rate specified in Division IV of Part I of the First Schedule.

[3][(1A) Every person making a payment in full or part (including a payment by way of advance) to a non-resident person on the execution of –

(a) a contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project; or

(b) any other contract for construction or services rendered relating thereto; or

(c) a contract for advertisement services rendered by T.V. Satellite Channels,

shall deduct tax from the gross amount payable under the contract at the rate specified in Division II of Part III of the First Schedule.]

[4][(1B) The tax deducted under sub-section (1A) shall be a final tax on the income of a non-resident person arising from a contract.]

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[1] Added by the Finance Act, 2006.
[2] Substituted for the word "royalties" by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2006.

(2) Subject to sub-section (3), every person paying an amount to a non-resident person (other than an amount to which sub-section (1) [1][or sub-section (1A)] applies) shall deduct tax from the gross amount paid at the rate specified in Division II of Part III of the First Schedule.

(3) Sub-section (2) does not apply to an amount –

(a) that is subject to deduction of tax under section 149, 150, 153, 155 [2][,] 156 [3][or 233];

(b) with the written approval of the Commissioner, that is taxable to a permanent establishment in Pakistan of the non-resident person;

(c) that is payable by a person who is liable to pay tax on the amount as representative of the non-resident person under sub-section (3) of section 172; or

(d) where the non-resident person is not chargeable to tax in respect of the amount.

(4) Where a person claims to be a representative of a non-resident person for the purposes of clause (c) of sub-section (3), the person shall file a declaration to that effect with the Commissioner prior to making any payment to the non-resident person.

(5) Where a person intends to make a payment to a non-resident person without deduction of tax under this section, the person shall, before making the payment, furnish to the Commissioner a notice in writing setting out –

(a) the name and address of the non-resident person; and

(b) the nature and amount of the payment.

[4][(5A) The Commissioner on receipt of notice shall [5][, within thirty days,] pass an order accepting the contention or making the order under sub-section (6).]

(6) Where a person has notified the Commissioner of a payment under sub-section (5) and the Commissioner has reasonable grounds to believe that the non-resident person is chargeable to tax under this Ordinance in respect of

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[1] Inserted by the Finance Act, 2007.
[2] The word “or” substituted by the Finance Act, 2006.
[3] Inserted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2004.

the payment, the Commissioner may, by [1][order] in writing, direct the person making the payment to deduct tax from the payment in accordance with sub-section (2).

(7) Sub-section (5) shall not apply to a payment on account of –

(a) an import of goods where title to the goods passes outside Pakistan, except an [2][ ] import that is part of an overall arrangement for the supply of goods, their installation, and any commission and guarantees in respect of the supply where –

(i) the supply is made by the head office outside Pakistan of a person to a permanent establishment of the person in Pakistan;

(ii) the supply is made by a permanent establishment of the person outside Pakistan to a permanent establishment of the person in Pakistan;

(iii) the supply is made between associates; or

(iv) the supply is made by a resident person or a Pakistan permanent establishment of a non-resident person; or

(b) educational and medical expenses remitted in accordance with the regulations of the State Bank of Pakistan.

153. Payments for goods and services.- (1) Every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person -

(a) for the sale of goods;

(b) for the rendering of [3][or providing of] [4][ ] services;

(c) on the execution of a contract, other than a contract for the [5][sale] of goods or the rendering of [6][or providing of] [7][ ] services,

[1] Substituted for the word “notice” by the Finance Act, 2004.
[2] The word “the” omitted by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2005.
[4] The word “professional” omitted by the Finance Act, 2002.
[5] Substituted for the word “supply” by the Finance Act, 2003.
[6] Inserted by the Finance Act, 2005.
[7] The word “professional” omitted by the Finance Act, 2003.

shall, at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division III of Part III of the First Schedule.

[1][(1A) Every exporter or an export house making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person for the rendering of or providing of services of stitching, dying, printing, embroidery, washing, sizing and weaving, shall at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division IV of Part III of the First Schedule.]

(2) The gross amount payable for a sale of goods shall include the sales tax, if any, payable in respect of the sale.

[2][ ]

(4) The Commissioner may, on application made by the recipient of a payment referred to in sub-section (1) [3][ ] and after making such enquiry as the Commissioner thinks fit, allow, by order in writing, any person to make the payment without deduction of tax.

(5) Sub-section (1) shall not apply to –

(a) a sale of goods where –

(i) the sale is made by the importer of the goods;

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[1] Inserted by the Finance Act, 2006.

[2] Omitted by the Finance Act, 2006. The omitted sub-section (3) read as follows:

"(3) Every prescribed person making a payment in full or part (including a payment by way of advance) to a non-resident person on the execution of –

[A][ ]

[B][ ]

(c) a contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project; or

(d) any other contract for construction or services rendered, other than a contract to which section 152 applies, [C][or]

[D][(e) a contract for advertisement services rendered by T.V. Satellite Channels,]

shall deduct tax from the gross amount payable under the contract at the rate specified in Division III of Part III of the First Schedule."

[A] Omitted by Finance Act, 2005. The omitted clause (a) read as follows:

"(a) a turnkey contract;"

[B] Omitted by the Finance Act, 2005. The omitted clause (b) read as follows:

"(b) a contract or sub-contract for the design, construction or supply of plant and equipment under a power project;"

[C] Inserted by the Finance Act, 2004.

[D] Added by the Finance Act, 2004.

[3] The word, brackets and figure "or (3)" omitted by the Finance Act, 2007.

(ii) the importer has paid tax under section 148 in respect of the goods; and

(iii) the goods are sold in the same condition they were in when imported;

(b) a refund of any security deposit;

[1][(ba) a payment made by the Federal Government, a Provincial Government or a local authority to a contractor for construction materials supplied to the contractor by the said Government or the authority;]

[2][(bb) a cotton ginner who deposits in the Government Treasury, an amount equal to the amount of tax deductible on the payment being made to him, and evidence to this effect is provided to the "prescribed person";]

(c) the purchase of an asset under a lease and buy back agreement by a modaraba, leasing company, banking company or financial institution; or

(d) any payment for securitization of receivables by a Special Purpose Vehicle to the Originator [3][;or]

[4][(e) a payment made by a Small Company as defined in section 2.]

[5][(6) The tax deducted under this section shall be a final tax on the income of a resident person arising from transactions referred to in sub-section (1) or (1A):

Provided that sub-section (6) shall not apply to companies in respect of transactions referred to in clause (b) of sub-section (1) [6][:]]

[7][Provided further that this sub-section shall not apply to payments received on account of—

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[1] Inserted by the Finance Act, 2003.

[2] Inserted by the Finance Act, 2007.

[3] The full stop substituted by the Finance Act, 2005.

[4] Inserted by the Finance Act, 2005.

[5] Substituted by the Finance Act, 2006. The substituted sub-section (6) read as follows:

"(6) The tax deducted under this section shall be a final tax on the income of a resident person arising from transactions referred to in clause (a) or (c) of sub-section (1)."

[6] Full stop substituted by the Finance Act, 2007.

[7] Inserted by the Finance Act, 2007.

(i) advertisement services, by owners of newspapers and magazines;

(ii) sale of goods and execution of contracts by a public company listed on a registered stock exchange in Pakistan.]

[1][(6A) The provisions of sub-section (6) in so far as they relate to payments on account of supply of goods from which tax is deductible under this section shall not apply in respect of any person being a manufacturer of such goods. The provision of this sub-section shall be deemed always to have been so enacted and shall have had effect accordingly.]

[2][(6B) The provisions of sub-section (6) in so far as they relate to payments on account of sale of goods from which tax is deductible under this section shall apply on account of an individual and AOP. This sub-section shall be applicable from tax year 2007.]

[3][ ]

(8) Where any tax is deducted by a person making a payment to a Special Purpose Vehicle, on behalf of the Originator, the tax is credited to the Originator.

[4][ ]

(9) In this section, –

"prescribed person" means –

(a) the Federal Government;

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[1] Inserted by the Finance Act, 2005.

[2] Inserted by the Finance Act, 2007.

[3] Omitted by the Finance Act, 2006. The omitted sub-section (7) read as follows:

"(7) The tax deducted under this section shall be a final tax on the income of a non-resident person arising from a contract [A][specified in sub-section (3).]"

[A] The words and comma "under a construction, assembly or a like project in Pakistan" substituted by the Finance Act, 2002.

[4] Omitted by the Finance Act, 2007. The omitted sub-section (8A) read as follows:

"[A][(8A) Every person from whom tax is being collected under this section shall disclose his National Tax Number to the withholding agent. In case of there being no National Tax Number (NTN), Computerized National Identity Card Number (CNIC) shall be provided. Where a person fails to disclose his NTN or CNIC number, as the case may be, at the time of collection or deduction of tax, the rate of withholding tax shall be two per cent over and above the rates specified in Division III of Part III of the First Schedule;]"

[A] Earlier inserted by the Finance Act, 2006.

(b) a company [1][other than a small company, as defined in clause (59A) of section 2];

(c) an association of persons [2][constituted by, or under,] law;

(d) a foreign contractor or consultant; [3][ ]

(e) a consortium or joint venture; [4][or]

[5][(f) an exporter or an export house for the purpose of sub-section (1A).]

"[6][ ] services" includes the services of accountants, architects, dentists, doctors, engineers, interior decorators and lawyers, otherwise than as an employee [7] [.]

"sale of goods" includes a sale of goods for cash or on credit, whether under written contract or not [8][.]

154. Exports.- (1) Every authorised dealer in foreign exchange shall, at the time of realisation of foreign exchange proceeds on account of the export of goods by an exporter, deduct tax from the proceeds at the rate specified in Division IV of Part III of the First Schedule.

(2) Every authorised dealer in foreign exchange shall, at the time of realisation of foreign exchange proceeds on account of the commission due to an indenting commission agent, deduct tax from the proceeds at the rate specified in Division IV of Part III of the First Schedule.

(3) Every banking company shall, at the time of realisation of the proceeds on account of a sale of goods to an exporter under an inland back-to-back letter of credit or any other arrangement as prescribed by the [9][Board], deduct tax from the amount of the proceeds at the rate specified in Division IV of Part III of the First Schedule.

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[1] Inserted by the Finance Act, 2005.
[2] Substituted for the words "registered under" by the Finance Act, 2002.
[3] The word "or" omitted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2006.
[5] Inserted by the Finance Act, 2006.
[6] The word "professional" omitted by the Finance Act, 2003.
[7] Substituted for semi colon and word "; and" by the Finance Act, 2002.
[8] Substituted for semi colon and word "; and" by the Finance Act, 2002.
[9] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[1][(3A) The Export Processing Zone Authority established under the Export Processing Zone Authority Ordinance, 1980 (VI of 1980), shall at the time of export of goods by an industrial undertaking located in the areas declared by the Federal Government to be a Zone within the meaning of the aforesaid Ordinance, collect tax at the rate specified in Division IV of Part III of the First Schedule.]

[2][(3B) Every direct exporter and an export house registered under the Duty and Tax Remission for Exports Rules, 2001 provided in Sub-Chapter 7 of Chapter XII of the Customs Rules, 2001 shall, at the time of making payment for a firm contract to an indirect exporter defined under the said rules, deduct tax at the rates specified in Division IV of Part III of the First Schedule.]

(4) The tax deducted under [3][this section] shall be a final tax on the income arising from the [4][transactions referred to in this section].

155. Income from property.- (1) [5][Every] prescribed person making a payment in full or part (including a payment by way of advance) to any person on account of rent of immovable property (including rent of furniture and fixtures, and amounts for services relating to such property) shall deduct tax from the gross amount of rent paid at the rate specified in Division V of Part III of the First Schedule.

[6][*Explanation.*- "gross amount of rent" includes the amount referred to in sub-section (1) or (3) of section 16, if any.]

[7][(2) The tax deducted under sub-section (1) shall be a final tax on the income from property [8][subject to section 15].]

[9][(3) In this section, "prescribed person" means –

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[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2003.
[3] The word, figures, brackets and commas "sub-section (1) [A][, (3), (3A) or (3B)]" substituted by the Finance Act, 2006.
[A] The word, bracket and figure earlier substituted by the Finance Act, 2003.
[4] The words" export [A][or sale to an exporter]" substituted by the Finance Act, 2007.
[A] Earlier inserted by the Finance Act, 2002.
[5] The words, brackets, figure and comma "Subject to sub-section (2), every" substituted by the Finance Act, 2006.
[6] Inserted by the Finance Act, 2006.
[7] Substituted by the Finance Act, 2006. The substituted sub-section (2) read as follows;
" (2) Sub-section (1) shall apply only where the annual rent exceeds [A][three] hundred thousand rupees."
[A] The word "two" earlier substituted by the Finance Act, 2004.
[8] Inserted by the Finance Act, 2007.
[9] Substituted by the Finance Act, 2006. The substituted sub-section (3) read as follows:
"(3) In this section, "prescribed person" means the Federal Government, a Provincial Government, local authority, a company, a non-profit organisation or a diplomatic mission of a foreign state."

(i) the Federal Government;

(ii) a Provincial Government;

(iii) local authority;

(iv) a company;

(v) a non-profit organization;

(vi) a diplomatic mission of a foreign state; or

(vii) any other person notified by the [1][Board] for the purpose of this section.]

156. Prizes and winnings.- (1) Every person paying [2][prize on] a prize bond, or winnings from a raffle, lottery, [3][prize on winning a quiz, prize offered by companies for promotion of sale,] or cross-word puzzle shall deduct tax from the gross amount paid at the rate specified in Division VI of Part III of the First Schedule.

(2) Where a prize, referred to in sub-section (1), is not in cash, the person while giving the prize shall collect tax on the fair market value of the prize.

[4][(3) The tax deducted under sub-section (1) or collected under section (2) shall be final tax on the income from prizes or winnings referred to in the said sub-sections.]

[5][**156A. Petroleum Products.-** (1) Every person selling petroleum products to a petrol pump operator shall deduct tax from the amount of commission or discount allowed to the operator at the rate specified in Division VIA of Part III of the First schedule.

(2) The tax deducted under sub-section (1) shall be a final tax on the income arising from the sale of petroleum products to which sub-section (1) applies.]

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[2] Inserted by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2003.
[4] Substituted by the Finance Act, 2002. The substituted sub-section (3) read as follows:
"(3) The tax deducted under sub-section (1) shall be a final tax on the prize bond or winnings."
[5] Added by the Finance Act, 2004.

[1][**156B. Withdrawal of balance under Pension Fund**.- (1) A pension fund manager making payment from individual pension accounts, maintained under any approved Pension Fund, shall deduct tax at the rate specified in sub-section (6) of section 12 from any amount –

(a) withdrawn before the retirement age [2][:]

[3][Provided that the tax shall not be deducted in case of the eligible person suffering from any disability as mentioned in sub-rule (2) of rule 17 of the Voluntary Pension System Rules, 2005 which renders him unable to continue with any employment at the age which he may so elect to be treated as the retirement age or the age as on the date of such disability if not so elected by him.]

[4][Provided further that the tax shall not be deducted on the share of the nominated survivor of the deceased eligible person and would be treated as if the eligible person had reached the age of retirement.]

(b) withdrawn, if in excess of 25% of his accumulated balance at or after the retirement age:

[5][Provided that the tax shall not be deducted in case, the balance in the eligible persons' individual pension account is invested in an approved income payment plan of a pension fund manager or paid to a life insurance company for the purchase of an approved annuity plan or is transferred to another individual pension account of the eligible person or the survivors' pension account in case of death of the eligible person maintained with any other pension fund manager as specified in the Voluntary Pension System Rules, 2005.]

[6][ ]

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[1] Inserted by the Finance Act, 2005.
[2] The semicolon substituted by the Finance Act, 2006.
[3] Inserted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2006.
[5] Substituted by the by the Finance Act, 2006. The substituted proviso read as follows:
"Provided that the tax shall not be deducted in case, the balance in the persons' individual pension account is invested in an approved income payment plan of a pension fund manager or paid to a life insurance company for the purchase of an approved annuity plan or is transferred to another individual pension account of the taxpayer maintained with any other Pension Fund Manager under Change of Pension Fund Manager option specified in the Voluntary Pension System Rules, 2005."
[6] Omitted by the Finance Act, 2002. The omitted section 157 read as follows:
"**157. Petroleum products.-** (1) Every person selling petroleum products to a petrol pump operator shall deduct tax from the amount of commission or discount allowed to the operator at the rate specified in Division VII of Part III of the First Schedule.
(2) The tax deducted under sub-section (1) shall be a final tax on the income arising from the sale of petroleum products to which sub-section (1) applies."

[1][**158. Time of deduction of tax.-** A person required to deduct tax from an amount paid by the person shall deduct tax -

(a) in the case of deduction under section 151, at the time the amount is [2][paid or] credited to the account of recipient [3][, whichever is earlier]; and

(b) in other cases, at the time the amount is actually paid.]

Division IV
General Provisions Relating to the Advance Payment of Tax or the Deduction of Tax at Source

159. Exemption or lower rate certificate.- (1) Where the Commissioner is satisfied that an amount [4][ ] to which Division II or III of this Part [5][or Chapter XII] applies is –

(a) exempt from tax under this Ordinance; or

(b) subject to tax at a rate lower than that specified in the First Schedule,

the Commissioner shall, upon application in writing by the person, issue the person with an exemption or lower rate certificate.

[6][(1A) The Commissioner shall, upon application from a person whose income is not likely to be chargeable to tax under [7][ ] this Ordinance, issue exemption certificate for the profit on debt referred to in clause (c) of sub-section (1) of section 151.]

(2) A person required to collect advance tax under Division II of this Part or deduct tax from a payment under Division III of this Part [8][or deduct or collect tax under Chapter XII] shall collect or deduct the full amount of tax specified in

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[1] Substituted by the Finance Act, 2002. The substituted section 158 read as follows:
"**158. Time of deduction of tax.-** A person required to deduct tax from an amount paid by the person shall deduct the tax at the earlier of –
(a) the time the amount is credited to the account of the recipient; or
(b) the time of amount is actually paid."
[2] Inserted by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2003.
[4] The words "paid to a person" omitted by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2002.
[6] Inserted by the Finance Act, 2003.
[7] The word "the" omitted by the Finance Act, 2004.
[8] Inserted by the Finance Act, 2003.

Division II or III [1][or Chapter XII], as the case may be, unless there is in force a certificate issued under sub-section (1) relating to the collection or deduction of such tax, in which case the person shall comply with the certificate.

[2][(3) The Board may, from time to time, by notification in the official Gazette, amend the rates of withholding tax prescribed under the Ordinance.]

[3][(4) 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 and shall not be applicable in respect of income on which tax withheld is treated as discharge of final tax liability.]

[4][(5) The Board shall place all notifications issued under sub-section (3) in a financial year before both Houses of Majlis-e-Shoora (Parliament).]

160. Payment of tax collected or deducted.- Any tax that has been collected or purported to be collected under Division II of this Part or deducted or purported to be deducted under Division III of this Part [5][or deducted or collected, or purported to be deducted or collected under Chapter XII] shall be paid to the Commissioner by the person making the collection or deduction within the time and in the manner as may be prescribed.

161. Failure to pay tax collected or deducted.- (1) Where a person –

(a) fails to collect tax as required under Division II of this Part [6][or Chapter XII] or deduct tax from a payment as required under Division III of this Part [7][or Chapter XII] [8][or as required under section 50 of the repealed Ordinance]; or

(b) having collected tax under Division II of this Part [9][or Chapter XII] or deducted tax under Division III of this Part [10][or Chapter XII] fails to pay the tax to the Commissioner as required under

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[1] Inserted by the Finance Act, 2003.
[2] Added by the Finance Act, 2007.
[3] Added by the Finance Act, 2007.
[4] Added by the Finance Act, 2007.
[5] Inserted by the Finance Act, 2002.
[6] Inserted by the Finance Act, 2003.
[7] Inserted by the Finance Act, 2002.
[8] Inserted by the Finance Act, 2003. Earlier this was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.
[9] Inserted by the Finance Act, 2003.
[10] Inserted by the Finance Act, 2002.

section 160, [1][or having collected tax under section 50 of the repealed Ordinance pay to the credit of the Federal Government as required under sub-section (8) of section 50 of the repealed Ordinance,]

the person shall be personally liable to pay the amount of tax to the Commissioner [2][who may [3][pass an order to that effect and] proceed to recover the same.]

[4][(1A) No recovery under sub-section (1) shall be made unless the person referred to in sub-section (1) has been provided with an opportunity of being heard.

(1B) Where at the time of recovery of tax under sub-section (1) it is established that the tax that was to be deducted from the payment made to a person or collected from a person has meanwhile been paid by that person, no recovery shall be made from the person who had failed to collect or deduct the tax but the said person shall be liable to pay additional tax at the rate of eighteen percent per annum from the date he failed to collect or deduct the tax to the date the tax was paid.]

(2) A person personally liable for an amount of tax under sub-section (1) as a result of failing to collect or deduct the tax shall be entitled to recover the tax from the person from whom the tax should have been collected or deducted.

162. Recovery of tax from the person from whom tax was not collected or deducted.- (1) Where a person fails to collect tax as required under Division II of this Part [5][or Chapter XII] or deduct tax from a payment as required under Division III of this Part [6][or Chapter XII,] the Commissioner may [7][pass an order to that effect and] recover the amount not collected or deducted from the person from whom the tax should have been collected or to whom the payment was made.

(2) The recovery of tax under sub-section (1) does not absolve the person who failed to deduct tax as required under Division III of this Part [8][or Chapter XII] from any other legal action in relation to the failure, or from a charge of additional tax or the disallowance of a deduction for the expense to which the failure relates, as provided for under this Ordinance.

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[1] Inserted by the Finance Act, 2003. Earlier this was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.
[2] Inserted by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2003.
[4] New sub-sections “(1A) & (1B)” inserted by the Finance Act, 2002.
[5] Inserted by the Finance Act, 2003.
[6] Inserted by the Finance Act, 2002.
[7] Inserted by the Finance Act, 2003.
[8] Inserted by the Finance Act, 2002.

163. Recovery of amounts payable under this Division.- The provisions of this Ordinance shall apply to any amount required to be paid to the Commissioner under this Division as if it were tax due under an assessment order.

164. Certificate of collection or deduction of tax.- (1) Every person collecting tax under Division II of this Part or deducting tax from a payment under Division III of this Part [1][or [2][deducting or collecting tax under] Chapter XII] shall, at the time of collection or deduction of the tax, furnish to the person from whom the tax has been collected or to whom the payment from which tax has been deducted has been made, a certificate setting out the amount of tax collected or deducted and such other particulars as may [3][ ] be prescribed.

(2) A person required to furnish a return of taxable income for a tax year shall attach to the return any certificate provided to the person under this section in respect of tax collected or deducted in that year [4][and such certificate shall be treated as sufficient evidence of the collection or deduction for the purposes of section 168.]

165. Statements.- (1) Every person collecting tax under Division II of this Part [5][or Chapter XII] or deducting tax from a payment under Division III of this Part [6][or Chapter XII] shall, within two months after the end of the financial year or within such further time as the Commissioner may allow by [7][order] in writing, furnish to the Commissioner a statement in the prescribed form setting out–

(a) the name and address of each person from whom tax has been collected under Division II of this Part [8][or Chapter XII] or to whom payments have been made from which tax has been deducted under Division III of this Part [9][or Chapter XII] in the year;

(b) the total amount of payments made to a person from which tax has been deducted under Division III of this Part [10][or Chapter XII] in the year;

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[1] Inserted by the Finance Act, 2002.
[2] Inserted by the Finance Act, 2003.
[3] The words “pass an order to that effect and” omitted by the Finance Act, 2004. Earlier these words were inserted by the Finance Act, 2003.
[4] Added by the Finance Act, 2002.
[5] Inserted by the Finance Act, 2003.
[6] Inserted by the Finance Act, 2002.
[7] Substituted for the word “notice” by the Finance Act, 2003.
[8] Inserted by the Finance Act, 2003.
[9] Inserted by the Finance Act, 2002.
[10] Inserted by the Finance Act, 2002.

(c) the total amount of tax collected from a person under Division II of this Part [1][or Chapter XII] or deducted from payments made to a person under Division III of this Part [2][or Chapter XII] in the year; and

(d) such other particulars as may be prescribed.

(2) In addition to the annual statement required to be furnished under sub-section (1), a person collecting tax under Division II of this Part [3][or Chapter XII] or deducting tax under Division III of this Part [4][or Chapter XII] may be required to furnish statements on a [5][monthly,] quarterly or six monthly basis as may be prescribed.

[6][(3) [7][Board] may prescribe a statement requiring any person to furnish information periodically in respect of any transactions in the prescribed form and verified in the prescribed manner:]

[8][(4) A person required to furnish a statement under sub-section (2), may apply in writing, to the Commissioner for an extension of time to furnish the statement after the due date and the Commissioner if satisfied that a reasonable cause exists for non-furnishing of the statement by the due date may, by an order in writing, grant the applicant an extension of time to furnish the statement.]

[9][(5) The Board may make rules relating to electronic furnishing of statements under this section including,-

(a) mandatory electronic filing of statements; and

(b) determination of eligibility of the data of such statements and e-intermediaries, etc.]

166. Priority of tax collected or deducted.- (1) Tax collected by a person under Division II [10][of this Part or Chapter XII] or deducted from a payment under Division III of this Part [11][or Chapter XII] shall be –

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[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2003.
[4] Inserted by the Finance Act, 2002.
[5] Inserted by the Finance Act, 2006.
[6] Inserted by the Finance Act, 2006.
[7] The words “Central Board of Revenue” substituted by the Finance Act, 2007.
[8] Inserted by the Finance Act, 2006.
[9] Inserted by the Finance Act, 2006.
[10] Inserted by the Finance Act, 2003.
[11] Inserted by the Finance Act, 2002.

(a) held by the person in trust for the [1][Federal] Government; and

(b) not subject to attachment in respect of any debt or liability of the person.

(2) In the event of the liquidation or bankruptcy of a person who has collected [2][ ] or deducted tax from a payment under Division III of this Part [3][or Chapter XII], the amount collected or deducted shall not form part of the estate of the person in liquidation or bankruptcy and the Commissioner shall have a first claim for that amount before any distribution of property is made.

(3) Every amount that a person is required to deduct from a payment under Division III of this Part [4][or Chapter XII] shall be –

(a) a first charge on the payment; and

(b) deducted prior to any other amount that the person may be required to deduct from the payment by virtue of an order of any Court or under any other law.

167. Indemnity.- A person who has deducted tax from a payment under [5][Division III of this Part] [6][or Chapter XII] and remitted the deducted amount to the Commissioner shall be treated as having paid the deducted amount to the recipient of the payment for the purposes of any claim by the recipient for payment of the deducted tax.

168. Credit for tax collected or deducted.- (1) For the purposes of this Ordinance –

(a) the amount of any tax deducted from a payment under Division III of this Part [7][or Chapter XII] shall be treated as income derived by the person to whom the payment was made; and

(b) the amount of any tax collected under Division II of this Part [8][or Chapter XII] or deducted under Division III of this Part [9][or Chapter XII] shall be treated as tax paid by the person from whom the tax was collected or deducted.

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[1] Inserted by the Finance Act, 2003.
[2] The words "tax under Division II of this Part" omitted by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2002.
[4] Inserted by the Finance Act, 2003.
[5] Substituted for the words, figure and comma "[A][Division II,] Division III" by the Finance Act, 2003.
[A] Inserted by the Finance Act, 2002.
[6] Inserted by the Finance Act, 2002.
[7] Inserted by the Finance Act, 2002.
[8] Inserted by the Finance Act, 2003.
[9] Inserted by the Finance Act, 2002.

(2) Subject to sub-sections (3) and (4), where an amount of tax has been collected from a person under Division II of this Part [1][or Chapter XII] or deducted from a payment made to a person under Division III of this Part [2][or Chapter XII], the person shall be allowed a tax credit for that tax in computing the tax due by the person on the taxable income of the person for the tax year in which the tax was collected or deducted.

(3) No tax credit shall be allowed for any tax collected or deducted that is a final tax under sub-section (7) of section 148, [3][clauses (a), (b) and (d) of sub-section (1) of section 151, sub-section (1B) of section 152,] [4][sub-section (6)] of section 153, sub-section (4) of section 154, [5][section 155] sub-section (3) of section 156, [6][sub-section (2) of section 156A, section 233, clauses (a) and (b) of sub-section (1) of section 233A] or [7][sub-section (5) of section 234 [8][or section 234A].]

(4) A tax credit allowed under this section shall be applied in accordance with sub-section (3) of section 4.

(5) A tax credit or part of a tax credit allowed under this section for a tax year that is not able to be credited under sub-section (3) of section 4 for the year shall be refunded to the taxpayer in accordance with section 170.

169. Tax collected or deducted as a final tax.- (1) This section shall apply where –

(a) the collection of advance tax is a final tax under sub-section (7) of section 148 [9][or sub-section (5) of section 234 [10][or section 234A]] on the income to which it relates; or

(b) the deduction of tax is a final tax under [11][clauses (a), (b) and (d) of sub-section (1) of section 151, sub-section (1B) of section 152,] [12][sub-section (6)] of section 153, sub-section (4)

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[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2002.
[3] Inserted by the Finance Act, 2006.
[4] The words, brackets and figures “sub-sections (6) or (7)” substituted by the Finance Act, 2006.
[5] Inserted by the Finance Act, 2006.
[6] Inserted by the Finance Act, 2006.
[7] Substituted for the words, brackets and figures “sub-section (2) of section 157” by the Finance Act, 2002
[8] Inserted by the Finance Act, 2007.
[9] Inserted by the Finance Act, 2003.
[10] Inserted by the Finance Act, 2007.
[11] Inserted by the Finance Act, 2006.
[12] The word, brackets and figures ”sub-section (6) or (7)” substituted by the Finance Act, 2006.

of section 154, [1][section 155,] sub-section (3) of section 156, [2][ ] [3][sub-section (2) of section 156A or sub-section [4][(1) and] (3) of section 233 or clause (a) and clause (b) of sub-section (1) of section 233A] on the income from which it has been deducted.

(2) Where this section applies -

(a) the income shall not be chargeable to tax under any head of income in computing the taxable income of the person;

(b) no deduction shall be allowable under this Ordinance for any expenditure incurred in deriving the income;

(c) the amount of the income shall not be reduced by –

(i) any deductible allowance under Part IX of Chapter III; or

(ii) the set off of any loss;

(d) the tax deducted shall not be reduced by any tax credit allowed under this Ordinance; and

(e) there shall be no refund of the tax collected or deducted [5][unless the tax so collected or deducted is in excess of the amount for which the taxpayer is chargeable under this Ordinance.]

(3) Where all the income derived by a person in a tax year is subject to final taxation under the provisions referred to in sub-section (1) or under sections 5, [6][(other than dividend received by a company)] 6 and 7, [7][an assessment shall be treated to have been made under section 120 and] the person shall not be required to furnish a return of income under section 114 for the year.

[1] Inserted by the Finance Act, 2006.
[2] The words, figures and brackets “or sub-section (2) of section 157” omitted by the Finance Act, 2002
[3] Inserted by the Finance Act, 2004.
[4] Inserted by the Finance Act, 2005.
[5] Added by the Finance Act, 2002.
[6] Inserted by the Finance Act, 2007.
[7] Inserted by the Finance Act, 2002.

[1][ ]

PART VI
REFUNDS

170. Refunds.- (1) A taxpayer who has paid tax in excess of the amount which the taxpayer is properly chargeable under this Ordinance may apply to the Commissioner for a refund of the excess.

[2][(1A) Where any advance or loan, to which sub-clause (e) of clause (19) of section 2 applies, is repaid by a taxpayer, he shall be entitled to a refund of the tax, if any, paid by him as a result of such advance or loan having been treated as dividend under the aforesaid provision.]

(2) An application for a refund under sub-section (1) shall be –

(a) made in the prescribed form;

(b) verified in the prescribed manner; and

(c) made within two years of the later of -

(i) the date on which the Commissioner has issued the assessment order to the taxpayer for the tax year to which the refund application relates; or

(ii) the date on which the tax was paid.

(3) Where the Commissioner is satisfied that tax has been overpaid, the Commissioner shall -

(a) apply the excess in reduction of any other tax due from the taxpayer under this Ordinance;

(b) apply the balance of the excess, if any, in reduction of any outstanding liability of the taxpayer to pay other taxes; and

(c) refund the remainder, if any, to the taxpayer.

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[1] Omitted by the Finance Act, 2004. The omitted sub-section (4) read as follows:

[A]["(4) Where a taxpayer, while explaining the nature and source of any amount, investment, money, valuable article, expenditure, referred to in section 111, takes into account any source of income which is subject to tax in accordance with the provisions of sections 148, 153, 154, 156 or sub-section (5) of section 234, he shall not be entitled to take credit of any sum as is in excess of an amount which if taxed at a rate or rates, other than the rate applicable to the income chargeable to tax under aforesaid sections 148, 153, 154, 156 or sub-section (5) of section 234 would have resulted in tax liability equal to the tax payable in respect of income under any of the aforesaid sections."]

[A] Earlier sub-section (4) was added by the Finance Act, 2002.

[2] Inserted by the Finance Act, 2003.

(4) The Commissioner shall, within forty five days of receipt of a refund application under sub-section (1), serve on the person applying for the refund an order in writing of the decision [1][after providing the taxpayer an opportunity of being heard].

[2][(5) A person aggrieved by-

(a) an order passed under sub-section (4); or

(b) the failure of the Commissioner to pass an order under sub-section (4) within the time specified in that sub-section,

may prefer an appeal under Part III of this Chapter.]

171. Additional payment for delayed refunds. – (1) Where a refund due to a taxpayer is not paid within three months of the date on which it becomes due, the Commissioner shall pay to the taxpayer a further amount by way of compensation at the rate of [3][six] per cent per annum of the amount of the refund computed for the period commencing at the end of the three month period and ending on the date on which it was paid.

(2) For the purposes of this section, a refund shall be treated as having become due –

(a) in the case of a refund required to be made in consequence of an order on an appeal to the Commissioner (Appeals), an appeal to the Appellate Tribunal, a reference to the High Court or an appeal to the Supreme Court, on the date of receipt of such order by the Commissioner; [4][or]

(b) in the case of a refund required to be made as a consequence of a revision order under section [5][122A], on the date the order is made by the Commissioner; or

(c) in any other case, on the date the refund order is made.

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[1] Inserted by the Finance Act, 2003..
[2] Substituted by the Finance Act, 2003. The substituted sub-section (5) read as follows:
"(5) A person dissatisfied with a decision referred to in sub-section (4) may challenge the decision only under Part III of this Chapter."
[3] Substituted for the word "fifteen" by the Finance Act, 2004.
[4] Inserted by the Finance Act, 2003.
[5] Substituted for the figure "135" by the Finance Act, 2003.

PART VII
REPRESENTATIVES

172. Representatives.- (1) For the purposes of this Ordinance and subject to sub-sections (2) and (3), "representative" in respect of a person for a tax year, means –

(a) where the person is an individual under a legal disability, the guardian or manager who receives or is entitled to receive income on behalf, or for the benefit of the individual;

(b) where the person is a company (other than a trust, a Provincial Government, or local authority in Pakistan), the principal officer of the company;

(c) where the person is a trust declared by a duly executed instrument in writing whether testamentary or otherwise (including any Wakf deed which is valid under the Mussalman Wakf Validation Act, 1913 (VI of 1913)), any trustee of the trust;

(d) where the person is a Provincial Government, or local authority in Pakistan, any individual responsible for accounting for the receipt and payment of moneys or funds on behalf of the Provincial Government or local authority;

(e) where the person is an association of persons, the principal officer of the association or, in the case of a firm, any partner in the firm;

(f) where the person is the Federal Government, any individual responsible for accounting for the receipt and payment of moneys or funds on behalf of the Federal Government; or

(g) where the person is a public international organisation, or a foreign government or political sub-division of a foreign government, any individual responsible for accounting for the receipt and payment of moneys or funds in Pakistan on behalf of the organisation, government, or political sub-division of the government.

(2) Where the Court of Wards, the Administrator General, the Official Trustee, or any receiver or manager appointed by, or under, any order of a Court receives or is entitled to receive income on behalf, or for the benefit of any person, such Court of Wards, Administrator General, Official Trustee, receiver, or

manager shall be the representative of the person for a tax year for the purposes of this Ordinance.

(3) Subject to sub-sections (4) and (5), where a person is a non-resident person, the representative of the person for the purposes of this Ordinance for a tax year shall be any person in Pakistan –

(a) who is employed by, or on behalf of, the non-resident person;

(b) who has any business connection with the non-resident person;

(c) from or through whom the non-resident person is in receipt of any income, whether directly or indirectly;

(d) who holds, or controls the receipt or disposal of any money belonging to the non-resident person;

(e) who is the trustee of the non-resident person; or

(f) who is declared by the Commissioner by [1][an order] in writing to be the representative of the non-resident person.

(4) A bona fide independent broker in Pakistan who, in respect of any transactions, does not deal directly with, or on behalf of, a non-resident principal but deals with, or through a non-resident broker, shall not be treated as a representative of the non-resident principal in respect of such transactions, if –

(a) the transactions are carried on in the ordinary course of business through the first-mentioned broker; and

(b) the non-resident broker is carrying on such transactions in the ordinary course of its business and not as a principal.

(5) No person shall be declared [2][ ] as the representative of a non-resident person unless the person has been given an opportunity by the Commissioner of being heard.

173. Liability and obligations of representatives.- (1) Every representative of a person shall be responsible for performing any duties or obligations imposed by or under this Ordinance on the person, including the payment of tax.

(2) Subject to sub-section (4), any tax that, by virtue of sub-section (1), is payable by a representative of a taxpayer shall be recoverable from the

[1] Substituted for the word “notice” by the Finance Act, 2003.
[2] The words “or treated” omitted by the Finance Act, 2003.

representative only to the extent of any assets of the taxpayer that are in the possession or under the control of the representative.

(3) Every representative of a taxpayer who pays any tax owing by the taxpayer shall be entitled to recover the amount so paid from the taxpayer or to retain the amount so paid out of any moneys of the taxpayer that are in the representative's possession or under the representative's control.

[1][(3A) Any representative, or any person who apprehends that he may be assessed as a representative, may retain out of any money payable by him to the person on whose behalf he is liable to pay tax (hereinafter in this section referred to as the "principal"), a sum equal to his estimated liability under this Ordinance, and in the event of disagreement between the principal and such a representative or a person as to the amount to be so retained, such representative or person may obtain from the Commissioner a certificate stating the amount to be so retained pending final determination of the tax liability, and the certificate so obtained shall be his authority for retaining that amount.]

(4) Every representative shall be personally liable for the payment of any tax due by the representative in a representative capacity if, while the amount remains unpaid, the representative -

(a) alienates, charges or disposes of any moneys received or accrued in respect of which the tax is payable; or

(b) disposes of or parts with any moneys or funds belonging to the taxpayer that is in the possession of the representative or which comes to the representative after the tax is payable, if such tax could legally have been paid from or out of such moneys or funds.

(5) Nothing in this section shall relieve any person from performing any duties imposed by or under this Ordinance on the person which the representative of the person has failed to perform.

PART VIII
RECORDS, INFORMATION COLLECTION AND AUDIT

174. Records.- (1) Unless otherwise authorised by the Commissioner, every taxpayer shall maintain in Pakistan such accounts, documents and records as may be prescribed.

(2) The Commissioner may disallow [2][or reduce] a taxpayer's claim for a deduction if the taxpayer is unable, without reasonable [3][cause], to provide a

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[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2003.
[3] Substituted for the word "excuse" by the Finance Act, 2003.

receipt, or other record or evidence of the transaction or circumstances giving rise to the claim for the deduction.

(3) The accounts and documents required to be maintained under this section shall be maintained for five years after the end of the tax year to which they relate.

[1][(4) For the purpose of this section, the expression "deduction" means any amount debited to trading account, manufacturing account, receipts and expenses account or profit and loss account.]

175. Power to enter and search premises. (1) In order to enforce any provision of this Ordinance (including for the purpose of making an audit of a taxpayer or a survey of persons liable to tax), the Commissioner or any officer authorised in writing by the Commissioner for the purposes of this section –

(a) shall, at all times and without prior notice, have full and free access to any premises, place, accounts, documents or computer;

(b) may stamp, or make an extract or copy of any accounts, documents or computer-stored information to which access is obtained under clause (a);

(c) may impound any accounts or documents and retain them for so long as may be necessary for examination or for the purposes of prosecution;

(d) may, where a hard copy or computer disk of information stored on a computer is not made available, impound and retain the computer for as long as is necessary to copy the information required; and

(e) may make an inventory of any articles found in any premises or place to which access is obtained under clause (a).

[2][(2) The Commissioner may authorize any valuer or expert to enter any premises and perform any task assigned to him by the Commissioner.]

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[1] Added by the Finance Act, 2003.

[2] Substituted by the Finance Act, 2003. The substituted sub-section (2) read as follows:

"(2) The Commissioner may authorise any valuer to enter any premises or place to inspect such accounts and documents as may be necessary to enable the valuer to make a valuation of an asset for the purposes of this Ordinance."

(3) The occupier of any premises or place to which access is sought under sub-section (1) shall provide all reasonable facilities and assistance for the effective exercise of the right of access.

(4) Any accounts, documents or computer impounded and retained under sub-section (1) shall be signed for by the Commissioner or an authorised officer.

(5) A person whose accounts, documents or computer have been impounded and retained under sub-section (1) may examine them and make extracts or copies from them during regular office hours under such supervision as the Commissioner may determine.

(6) Where any accounts, documents or computer impounded and retained under sub-section (1) are lost or destroyed while in the possession of the Commissioner, the Commissioner shall make reasonable compensation to the owner of the accounts, documents or computer for the loss or destruction.

(7) This section shall have effect notwithstanding any rule of law relating to privilege or the public interest in relation to access to premises or places, or the production of accounts, documents or computer-stored information.

(8) In this section, "occupier" in relation to any premises or place, means the owner, manager or any other responsible person on the premises or place.

176. Notice to obtain information or evidence.- (1) The Commissioner may, by notice in writing, require any person, whether or not liable for tax under this Ordinance –

(a) to furnish to the Commissioner or an authorised officer, any information relevant to any tax [1][leviable] under this Ordinance as specified in the notice; or

(b) to attend at the time and place designated in the notice for the purpose of being examined on oath by the Commissioner or an authorised officer concerning the tax affairs of that person or any other person and, for that purpose, the Commissioner or authorised officer may require the person examined to produce any accounts, documents, or computer-stored information in the control of the person.

(2) The Commissioner may impound any accounts or documents produced under sub-section (1) and retain them for so long as may be necessary for examination or for the purposes of prosecution.

[1] The word "imposed" substituted by the Finance Act, 2005.

(3) [1][The person from whom information is required, may at his option, furnish the same electronically in any computer readable media.] Where a hard copy or computer disk of information stored on a computer is not made available as required under sub-section (1), the Commissioner may require production of the computer on which the information is stored, and impound and retain the computer for as long as is necessary to copy the information required.

(4) For the purposes of this section, the Commissioner shall have the same powers as are vested in a Court under the Code of Civil Procedure, 1908 (Act V of 1908), in respect of the following matters, namely:–

(a) enforcing the attendance of any person and examining the person on oath or affirmation;

(b) compelling the production of any accounts, records, computer-stored information, or computer;

(c) receiving evidence on affidavit; or

(d) issuing commissions for the examination of witnesses.

(5) This section shall have effect notwithstanding any rule of law relating to privilege or the public interest in relation to the production of accounts, documents, or computer-stored information or the giving of information.

[1] Inserted by the Finance Act, 2005.

[1][**177. Audit.-** (1) The [2][Board], may lay down criteria for selection of any person for an audit of person's income tax affairs, by the Commissioner.

(2) The Commissioner shall select a person for audit in accordance with the criteria laid down by the [3][Board] under sub-section (1).

(3) The [4][Board] shall keep the criteria confidential.

(4) In addition to the selection referred to in sub-section (2), the Commissioner may also select a person for an audit of the person's income tax affairs having regard to -

(a) the person's history of compliance or non-compliance with this Ordinance;

(b) the amount of tax payable by the person;

(c) the class of business conducted by the person; and

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[1] Substituted by the Finance Act, 2004. The substituted section 177 read as follows:

"177. Audit.- (1) The Commissioner may select any person for an audit of the person's income tax affairs having regard to –

(a) the person's history of compliance or non-compliance with this Ordinance;
(b) the amount of tax payable by the person;
(c) the class of business conducted by the person; and
(d) any other matter that the Commissioner considers relevant.

[A][(1A) After selection of a person for audit under sub-section (1), the Commissioner shall conduct an audit of the income tax affairs (including examination of accounts and records, enquiry into expenditure, assets and liabilities) of that person.]

[B][(1B) After completion of the audit under sub-section (1A) or sub-section (3), the Commissioner may, if considered necessary, after obtaining taxpayer's explanation on all the issues raised in the audit, amend the assessment under sub-section (1) or sub-section (4) of section 122, as the case may be.]

(2) The fact that a person has been audited in a year shall not preclude the person from being audited again in the next and following years where there are reasonable grounds for such audits, particularly having regard to the factors in sub-section (1).

(3) The Central Board of Revenue may appoint a firm of Chartered Accountants as defined under the Chartered Accountants Ordinance, 1961 (X of 1961), to conduct an audit of the income tax affairs of any person and the scope of such audit shall be as determined by the Central Board of Revenue on a case by case basis.

(4) Any person employed by a firm referred to in sub-section (3) may be authorised by the Commissioner, in writing, to exercise the powers in sections 175 and 176 for the purposes of [C][conducting] an audit under that subsection."

[A] Earlier sub-section (1A) was inserted by the Finance Act, 2002.
[B] Earlier sub-section (1B) was inserted by the Finance Act, 2003.
[C] Earlier substituted for the words "the conduct" by the Finance Act, 2002.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[4] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(d) any other matter which in the opinion of Commissioner is material for determination of correct income.

(5) [1][After] selection of a person for audit under sub-section (2) or (4), the Commissioner shall conduct an audit of the income tax affairs (including examination of accounts and records, enquiry into expenditure, assets and liabilities) of that [2][person].

(6) After completion of the audit under sub-section (5) or sub-section (8), the Commissioner may, if considered necessary, after obtaining taxpayer's explanation on all the issues raised in the audit, amend the assessment under sub-section (1) or sub-section (4) of section 122, as the case may be.

(7) The fact that a person has been audited in a year shall not preclude the person from being audited again in the next and following years where there are reasonable grounds for such audits, particularly having regard to the factors in sub-section (4).

(8) The [3][Board] may appoint a firm of Chartered Accountants as defined under the Chartered Accountants Ordinance, 1961 (X of 1961), to conduct an audit of the income tax affairs of any person and the scope of such audit shall be as determined by the [4][Board] on a case to case basis.

(9) Any person employed by a firm referred to in sub-section (8) may be authorized by the Commissioner, in writing, to exercise the powers in sections 175 and 176 for the purposes of conducting an audit under that sub-section.]

178. Assistance to Commissioner.- Every Officer of Customs, [5][Federal] Excise, [6][Sales Tax,] Provincial Excise and Taxation, District Coordination Officer, District Officers including District Officer – Revenue, the Police and the Civil Armed Forces is empowered and required to assist the Commissioner in the discharge of the Commissioner's functions under this Ordinance.

179. Accounts, documents, records and computer-stored information not in Urdu or English language.- Where any account, document, record or computer-stored information referred to in section 174, 175 or 176 is not in the Urdu or English language, the Commissioner may, by notice in writing, require the person keeping the account, document, record or computer-stored information to provide, at the person's expense, a translation into the Urdu or English language by a translator approved by the Commissioner for this purpose.

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[1] The word "after" substituted by the Finance Act, 2005.
[2] The word "persons" substituted by the Finance Act, 2005.
[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[4] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[5] The word "Central" substituted by the Finance Act, 2005.
[6] Inserted by the Finance Act, 2002.

180. Power to collect information regarding exempt income.- The [1][Board] may, by notification in the official Gazette, authorise any department or agency of the Government to collect and compile any data in respect of incomes from industrial and commercial undertakings exempt from tax under this Ordinance.

PART IX
NATIONAL TAX NUMBER [2][CERTIFICATE]

181. National Tax Number [3][Certificate].- (1) Every taxpayer shall apply in the prescribed form and in the prescribed manner for a National Tax Number [4][Certificate].

(2) An application under sub-section (1) shall be accompanied by the prescribed fee.

(3) The Commissioner having jurisdiction over an applicant under sub-section (1) may after examination of all relevant documents and evidence, and after satisfying himself of the genuineness of the application, may direct issuance of the National Tax Number [5][Certificate] for a period prescribed by Commissioner [6][:]

[7][Provided that the Board may in the case of individuals allow use of National Identity Card, issued by the National Database and Registration Authority, in place of National Tax Number.]

PART X
PENALTY

182. Penalty for failure to furnish a return or statement.- (1) Any person who, without reasonable excuse, fails to furnish, within the time allowed under this Ordinance, [8][return of income [9][or a statement as required under sub-section (4) of section 115 or wealth statement] for any tax year] as required under this Ordinance shall be liable for a penalty equal to one-tenth of one per cent of the tax payable for each day of default subject to a minimum penalty of five hundred

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[2] Substituted for the word "**CARD"** by the Finance Act, 2003.
[3] The word "Card" substituted by the Finance Act, 2005.
[4] Substituted for the word "Card**"** by the Finance Act, 2003.
[5] Substituted for the word "Card**"** by the Finance Act, 2003.
[6] Full stop substituted by the Finance Act, 2007.
[7] Inserted by the Finance Act, 2007.
[8] Substituted for the words "any return of income" by the Finance Act, 2002.
[9] Inserted by the Finance Act, 2003.

rupees and a maximum penalty of twenty-five per cent of the tax payable in respect of [1][that tax year.]

(2) Any person who, without reasonable excuse, fails to furnish, within the time allowed under this Ordinance, any statement required under section 165 shall be liable for a penalty of two thousand rupees.

(3) Where a person liable to a penalty under sub-section (2) continues to fail to furnish the statement, the person shall be liable for an additional penalty of two hundred rupees for each day of default after the imposition of the penalty under sub-section (2).

183. Penalty for non-payment of tax.- (1) A taxpayer who fails to pay any tax (other than penalty [2][imposed under this section]) due under this Ordinance by the due date shall be liable for a penalty equal to –

(a) in the case of the first default, five per cent of the amount of tax in default;

(b) in the case of a second default, an additional penalty of twenty per cent of the amount of tax in default;

(c) in the case of a third default, an additional penalty of twenty-five per cent of the amount of tax in default; and

(d) in the case of a fourth and subsequent default, an additional penalty of up to fifty per cent of the amount of tax in default as determined by the Commissioner, but the total penalty in respect of the amount of tax in default shall not exceed one hundred per cent of such amount of tax.

(2) Where, in consequence of any order under this Ordinance, the amount of tax in respect of which any penalty imposed under sub-section (1) is reduced, the amount of the penalty shall be reduced accordingly.

184. Penalty for concealment of income.- (1) Where, in the course of any proceedings under this Ordinance, the Commissioner, Commissioner (Appeals), or the Appellate Tribunal is satisfied that any person has [3][either in the said proceedings or in any earlier proceedings relating to an assessment in respect of the same tax year] concealed income or furnished inaccurate particulars of such income, the Commissioner, Commissioner (Appeals), or the Appellate Tribunal, as the case may be, may, by an order in writing, impose upon the person a

[1] Substituted for the words “the return” by the Finance Act, 2002
[2] Inserted by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2003.

penalty equal to the amount of tax which the person sought to evade by concealment of income or the furnishing of inaccurate particulars of such income.

(2) For the purposes of sub-section (1), concealment of income or the furnishing of inaccurate particulars of income shall include –

(a) the suppression of any income or amount chargeable to tax;

(b) the claiming of any deduction for any expenditure not actually incurred; or

(c) any act referred to in sub-section (1) of section 111.

(3) Where any income or amount declared by a taxpayer is claimed by the taxpayer to be exempt from tax or any expenditure declared by a taxpayer is claimed by the taxpayer to be deductible, the mere disallowance of such claim shall not constitute concealment of income or the furnishing of inaccurate particulars of income, unless it is proved that the taxpayer made the claim knowing it to be wrong.

(4) Where a Commissioner (Appeals) or the Appellate Tribunal makes an order under sub-section (1), the [1][Commissioner (Appeals) or the Appellate Tribunal,] as the case may be, shall immediately serve a copy of the order on the Commissioner and thereupon all the provisions of this Ordinance relating to the recovery of penalty shall apply as if the order were made by the Commissioner.

185. Penalty for failure to maintain records.- A person who, without reasonable excuse, fails to maintain records as required under this Ordinance shall be liable for a penalty equal to –

(a) in the case of the first failure, two thousand rupees;

(b) in the case of a second failure, five thousand rupees; and

(c) in the case of a third and subsequent failure, ten thousand rupees.

186. Penalty for non-compliance with notice.- (1) A person who, without reasonable excuse, fails to comply with any notice served on the person under section 116 or 176 shall be liable for a penalty equal to –

(a) in the case of the first failure, two thousand rupees;

(b) in the case of a second failure, five thousand rupees; or

[1] Substituted for the words “Commissioner or Tribunal” by the Finance Act, 2002.

(c) in the case of a third and subsequent failure, ten thousand rupees.

(2) Where a person liable for a penalty under sub-section (1) has an assessed tax liability for the tax year in which the failure occurred of less than twenty thousand rupees, the amount of the penalty imposed under sub-section (1) shall be reduced by seventy-five percent.

187. Penalty for making false or misleading statements.- (1) Where a person –

(a) makes a statement to [1][an income tax authority] that is false or misleading in a material particular or omits from a statement made to [2][an income tax authority] any matter or thing without which the statement is false or misleading in a material particular; and

(b) the tax liability (including the liability for advance tax under section 147) of the person computed on the basis of the statement is less than it would have been if the statement had not been false or misleading (the difference hereinafter referred to as the "tax shortfall"),

the person shall be liable for a penalty equal to –

(i) where the statement or omission was made knowingly or recklessly, two hundred per cent of the tax shortfall; or

(ii) in any other case (other than where sub-section (2) applies), twenty-five per cent of the tax shortfall.

(2) In the case of an assessment order under section 120, no penalty shall be imposed under sub-section (1) to the extent to which the tax shortfall arose as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayer's position.

(3) A reference in this section to a statement made to [3][an income tax authority] is a reference to a statement made in writing or orally to that [4][authority] acting in the performance of the [1][authority's] duties under this Ordinance, and shall include a statement made -

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[1] Substituted for the words "a taxation officer" by the Finance Act, 2002.
[2] Substituted for the words "a taxation officer" by the Finance Act, 2002.
[3] Substituted for the words "a taxation officer" by the Finance Act, 2002.
[4] Substituted for the words "officer" by the Finance Act, 2002

(a) in an application, certificate, declaration, notification, return, objection or other document made, prepared, given, filed or furnished under this Ordinance;

(b) in information required to be furnished under this Ordinance;

(c) in a document furnished to [2][an income tax authority] otherwise than pursuant to this Ordinance;

(d) in answer to a question asked of a person by [3][an income tax authority;] or

(e) to another person with the knowledge or reasonable expectation that the statement would be conveyed to [4][an income tax authority.]

188. Penalty for failure to give notice.- (1) Where a person fails to give notice of the discontinuance of the person's business as required under section [5][117], the Commissioner may impose a penalty on the person not exceeding the amount of tax payable by the person for the tax year in which the business was discontinued.

(2) Where a person fails to give notice of the person's appointment as liquidator as required under section 141, the Commissioner may impose a penalty on the person not exceeding ten thousand rupees.

189. Penalty for obstruction.- Where any person obstructs the Commissioner or a taxation officer in discharge of the Commissioner or officer's functions under this Ordinance, the Commissioner may impose a penalty on the person not exceeding ten thousand rupees.

190. Imposition of penalty.- (1) No penalty may be imposed under this Part on any person unless the person is given a reasonable opportunity of being heard.

(2) Subject to sub-section (3), the imposition of a penalty under this Part shall be without prejudice to any other liability incurred by the person under this Ordinance.

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[1] Substituted for the words "officer's" by the Finance Act, 2002.
[2] Substituted for the words "a taxation officer" by the Finance Act, 2002.
[3] Substituted for the words "a taxation officer" by the Finance Act, 2002.
[4] Substituted for the words "a taxation officer" by the Finance Act, 2002.
[5] Substituted for the figure "124" by the Finance Act, 2003.

(3) The imposition of a penalty in relation to an act or omission shall be an alternative to prosecution under Part XI of this Chapter.

(4) If a penalty has been paid under this Part and the Commissioner institutes a prosecution proceeding under Part XI of this Chapter in respect of the same act or omission, the Commissioner shall refund the amount of penalty paid, and the penalty shall not be payable unless the prosecution is withdrawn.

[1][(5) A penalty under sections 182, 183, 185, 186 and 187 shall be imposed by the Commissioner.]

(6) The provisions of Parts III and IV of this Chapter shall apply to an assessment of penalty as if it were an assessment of tax.

PART XI
OFFENCES AND PROSECUTIONS

191. Prosecution for non-compliance with certain statutory obligations.- (1) Any person who, without reasonable excuse, fails to –

[2][(a) comply with a notice under sub-section (3) of section 114 or sub-section (1) of section 116;]

(b) pay advance tax as required under section 147;

(c) comply with the obligation under Part V of this Chapter to collect or deduct tax and pay the tax to the Commissioner;

(d) comply with a notice served under section 140 or 176;

(e) comply with the requirements of [3][sub-section (3) or sub-section (4) of] section 141; or

(f) provide reasonable facilities and assistance as required under sub-section (3) of section 175,

shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year, or both.

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[1] Substituted by the Finance Act, 2003. The substituted sub-section (5) read as follows:
"(5) The Commissioner shall make an assessment of any penalty imposed under this Part in accordance with the provisions of Part II of this Chapter as if the penalty were tax."

[2] Substituted by the Finance Act, 2003. The substituted clause (a) read as follows:
"(a) furnish a return of income as required under section 114 or a wealth statement as required under section 116;"

[3] Inserted by the Finance Act, 2003.

(2) If a person convicted of an offence under clause (a) of sub-section (1) fails, without reasonable excuse, to furnish the return of income or wealth statement to which the offence relates within the period specified by the Court, the person shall commit a further offence punishable on conviction with a fine or imprisonment for a term not exceeding two years, or both.

192. Prosecution for false statement in verification.- Any person who makes a statement in any verification in any return or other document furnished under this Ordinance which is false and which the person knows or believes to be false, or does not believe to be true, the person shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding three years, or both.

193. Prosecution for failure to maintain records. A person who fails to maintain records as required under this Ordinance shall commit an offence punishable on conviction with –

(a) where the failure was deliberate, a fine or imprisonment for a term not exceeding two years, or both; or

(b) in any other case, a fine.

194. Prosecution for improper use of National Tax Number [1][Certificate].- A person who knowingly or recklessly uses a false National Tax Number [2][Certificate] including the National Tax Number [3][Certificate] of another person on a return or other document prescribed or used for the purposes of this Ordinance shall commit an offence punishable with a fine or imprisonment for a term not exceeding two years, or both.

195. Prosecution for making false or misleading statements.- (1) A person who –

(a) makes a statement to [4][an income tax authority] that is false or misleading in a material particular; or

(b) omits from a statement made to [5][an income tax authority] any matter or thing without which the statement is misleading in a material particular,

[1] The word “Card” substituted by the Finance Act, 2005.
[2] The word “Card” substituted by the Finance Act, 2005.
[3] The word “Card” substituted by the Finance Act, 2005.
[4] Substituted for the words “a taxation officer “ by the Finance Act, 2002.
[5] Substituted for the words “a taxation officer “ by the Finance Act, 2002.

shall commit an offence punishable on conviction –

(i) where the statement or omission was made knowingly or recklessly, with a fine or imprisonment for a term not exceeding two years, or both; or

(ii) in any other case, with a fine.

(2) A person shall not commit an offence under sub-section (1) if the person did not know and could not reasonably be expected to have known that the statement to which the prosecution relates was false or misleading.

(3) Sub-section (3) of section 187 shall apply in determining whether a person has made a statement to [1][an income tax authority].

196. Prosecution for obstructing [2][an income tax authority.-] A person who obstructs [3][an income tax authority] in discharge of functions under this Ordinance shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding one year, or both.

197. Prosecution for disposal of property to prevent attachment.- Where the owner of any property, or a person acting on the owner's behalf or claiming under the owner, sells, mortgages, charges, leases or otherwise deals with the property after the receipt of a notice from the Commissioner with a view to preventing the Commissioner from attaching it, shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding three years, or both.

198. Prosecution for unauthorised disclosure of information by a public servant.- A person who discloses any particulars in contravention of section 216 shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding six months, or both.

199. Prosecution for abetment.- Where a person [4][knowingly and wilfully] aids, abets, assists, incites or induces another person to commit an offence under this Ordinance, the first-mentioned person shall commit an offence punishable on conviction with a fine or imprisonment for a term not exceeding three years, or both.

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[1] Substituted for the words "a taxation officer" by the Finance Act, 2003.
[2] Substituted for the words "a taxation officer " by the Finance Act, 2002.
[3] Substituted for the words "a taxation officer " by the Finance Act, 2002.
[4] Inserted by the Finance Act, 2003.

200. Offences by companies and associations of persons.- (1) Where an offence under this Part is committed by a company, every person who, at the time the offence was committed, was –

(a) the principal officer, a director, general manager, company secretary or other similar officer of the company; or

(b) acting or purporting to act in that capacity,

shall be, notwithstanding anything contained in any other law, guilty of the offence and all the provisions of this Ordinance shall apply accordingly.

(2) Where an offence under this Part is committed by an association of persons, every person who, at the time the offence was committed, was a member of the association shall be, notwithstanding anything contained in any other law, guilty of the offence and all the provisions of this Ordinance shall apply accordingly.

(3) Sub-sections (1) and (2) shall not apply to a person where –

(a) the offence was committed without the person's consent or knowledge; and

(b) the person has exercised all diligence to prevent the commission of the offence as ought to have been exercised having regard to the nature of the person's functions and all the circumstances.

201. Institution of prosecution proceedings without prejudice to other action.- Notwithstanding anything contained in any law for the time being in force, a prosecution for an offence against this Ordinance may be instituted without prejudice to any other liability incurred by any person under this Ordinance.

202. Power to compound offences.- Where any person has committed any offence under this Part, the Commissioner may either before or after the institution of proceedings, compound such offence and order that such person pay the amount for which the offence may be compounded.

203. Trial by Special Judge.- (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1898 (Act V of 1898) or in any other law, an offence punishable under this Part (other than an offence referred to in section 198) shall be tried exclusively by a Special Judge appointed by the Federal Government under the Pakistan Criminal Law (Amendment) Act, 1958 (XL of 1958), as if such offence were an offence specified in the Schedule to that Act.

(2) A Special Judge shall take cognisance of, and have jurisdiction to try, an offence triable under sub-section (1) only upon a complaint in writing made by the Commissioner.

204. Power to tender immunity from prosecution.- (1) The Federal Government may, for the purpose of obtaining the evidence of any person appearing to have been directly or indirectly concerned in, or privy to the concealment of income or to the evasion of tax, tender to such person immunity from prosecution for any offence under this Ordinance or under the Pakistan Penal Code (Act XLV of 1860), or under any other Federal Law on condition of the person making full and true disclosure of the whole circumstances relating to the concealment of income or evasion of tax.

(2) A tender of immunity made to, and accepted by, the person concerned shall render the person immune from prosecution for any offence in respect of which the tender was made and to the extent specified in the immunity.

(3) If it appears to the Federal Government that any person to whom immunity has been tendered under this section has not complied with the conditions on which the tender was made or is concealing anything or giving false evidence, the Federal Government may withdraw the immunity, and any such person may be tried for the offence in respect of which the tender of immunity was made or for any other offence of which the person appears to have been guilty in connection with the same matter.

PART XII
ADDITIONAL TAX

205. Additional tax.- (1) A person who fails to pay –

[1][(a) any tax, excluding the advance tax under section 147 and additional tax under this section;]

(b) any penalty; or

(c) any amount referred to in section 140 or 141,

on or before the due date for payment shall be liable for additional tax at a rate equal to [2][twelve] per cent per annum on the tax, penalty or other amount unpaid computed for the period commencing on the date on which the tax, penalty or other amount was due and ending on the date on which it was paid.

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[1] Substituted by the Finance Act, 2003. The substituted clause (a) read as follows:
"(a) any tax, including any advance payment of tax under section 147;"

[2] Substituted for the word "eighteen" by the Finance Act, 2004.

[1][(1A) a person who fails to pay advance tax under section 147 shall be liable for additional tax at a rate equal to [2][twelve] per cent per annum on the amount of tax unpaid computed for the period commencing on the date on which it was due and ending on the date on which it was paid or date on which the return of income for the relevant tax year was due, whichever is earlier.]

[3][(1B) Where, in respect of any tax year, any taxpayer fails to pay tax under sub-section [4][(4A), or] (6) of section 147 or the tax so paid is less than [5][ninety] per cent of the tax chargeable for the relevant tax year, he shall be liable to pay additional tax at the rate of twelve per cent per annum on the amount of tax so chargeable or the amount by which the tax paid by him falls short of the [6][ninety] per cent, as the case may be; and such additional tax 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.]

(2) Any additional tax paid by a person under sub-section (1) shall be refunded to the extent that the tax, penalty or other amount to which it relates is held not to be payable.

(3) A person who fails to [7][collect tax, as required under Division II of Part V of this Chapter or Chapter XII or deduct tax as required under Division III of Part V of this Chapter or Chapter XII or fails to] pay an amount of tax collected or deducted as required under section 160 on or before the due date for payment shall be liable for additional tax at a rate equal to [8][twelve] per cent per annum on the amount unpaid computed for the period commencing on the date the amount was required to be collected or deducted and ending on the date on which it was paid to the Commissioner.

[9][ ]

(5) The Commissioner shall make an assessment of any additional tax imposed under this Part in accordance with the provisions of Part II of this Chapter as if the additional tax were tax.

(6) The provisions of Parts III and IV apply to an assessment of additional tax as if it were an assessment of tax.

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[1] Inserted by the Finance Act, 2003.
[2] Substituted for the word “eighteen” by the Finance Act, 2004.
[3] Inserted by the Finance Act, 2004.
[4] Inserted by the Finance Act, 2006.
[5] The word “eighty” substituted by the Finance Act, 2006.
[6] The word “eighty” substituted by the Finance Act, 2006.
[7] Inserted by the Finance Act, 2003.
[8] Substituted for the word “eighteen” by the Finance Act, 2004.
[9] Omitted by the Finance Act, 2003. The omitted sub-section (4) read as follows:
”(4) Additional tax imposed under sub-section (3) shall be borne personally by the person obliged to collect or deduct the tax, and no part shall be recoverable from the taxpayer.”

[1]**[205A.Reduction in additional tax, consequential to reduction in tax or penalty.-** Where, in consequence of any order made under this Ordinance, the amount of tax or penalty in respect of which additional tax is chargeable under section 205 is reduced, the additional tax, if any, levied under the aforesaid section shall be reduced accordingly.]

PART XIII
CIRCULARS

206. Circulars.- (1) To achieve consistency in the administration of this Ordinance and to provide guidance to taxpayers and officers of the [2][Board], the [3][Board] may issue Circulars setting out the Board's interpretation of this Ordinance.

[4][(2) A circular issued by the [5][Board] shall be binding on all Income Tax Authorities and other persons employed in the execution of the Ordinance, under the control of the said Board other than Commissioners of Income Tax (Appeals).]

(3) A Circular shall not [6][be] binding on a taxpayer.

[7]**[206A. Advance ruling.-** (1) The [8][Board] may, on application in writing by a non-resident taxpayer, issue to the taxpayer an advance ruling setting out the Commissioner's position regarding the application of this Ordinance to a transaction proposed or entered into by the taxpayer.

(2) Where the taxpayer has made a full and true disclosure of the nature of all aspects of the transaction relevant to the ruling and the transaction has proceeded in all material respects as described in the taxpayer's application for the ruling, the ruling is [9][binding] on the Commissioner with respect to the application to the transaction of the law as it stood at the time the ruling was issued.

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[1] Added by the Finance Act, 2003.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[4] Substituted by the Finance Act, 2006. The substituted sub-section (2) read as follows:

"(2) A Circular shall be binding on the Central Board of Revenue, other than the Commissioner (Appeals)."

[5] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[6] Inserted by the Finance Act, 2002.

[7] Added by the Finance Act, 2003.

[8] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[9] The word "blinding" substituted by the Finance Act, 2005.

(3) Where there is any inconsistency between a circular and an advance ruling, priority shall be given to the terms of the advance ruling.]

CHAPTER XI
ADMINISTRATION

PART I
GENERAL

[1][**207. Income tax authorities.- (1)** There shall be the following income tax authorities for the purposes of this Ordinance, namely:-

(a) [2][Board];

(b) Regional Commissioners of Income Tax;

(c) Commissioners of Income Tax;

(d) Commissioners of Income Tax (Appeals); and

(e) taxation officers.

(2) The [3][Board] shall exercise the general administration of this Ordinance.

(3) The Regional Commissioners of Income Tax and the Commissioners of Income Tax (Appeals) shall be subordinate to the [4][Board] and the Commissioners of Income Tax shall be subordinate to the Regional Commissioners.

(4) Subject to sub-section (5), the taxation officers shall be subordinate to the Commissioners of Income Tax.

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[1] Substituted by the Finance Act, 2002. The substituted section 207 read as follows:
"**207. Income tax authorities.-** (1) There shall be the following income tax authorities for the purposes of this Ordinance, namely:-
(a) the Central Board of Revenue;
(b) Regional Commissioners of Income Tax; and
(c) Commissioners of Income Tax.
(2) The Commissioners of Income Tax shall be subordinate to the Regional Commissioners of Income Tax within whose jurisdiction they perform their functions."

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[4] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(5) A taxation officer invested with the powers and functions of the Commissioner, under sub-section (2) of section 209, shall be subordinate to the Regional Commissioner of Income Tax.]

[1][**208. Appointment of income tax authorities.-** (1) The Central Board of Revenue may appoint as many Regional Commissioners of Income Tax, Commissioners of Income Tax, Commissioners of Income Tax (Appeals), taxation officers and such other executive or ministerial officers and staff as may be necessary.

(2) Subject to such orders or directions as may be issued by the [2][Board], any income tax authority may appoint any income tax authority subordinate to it and such other executive or ministerial officers and staff as may be necessary.

(3) All appointments, other than of valuers, chartered accountants or experts, made under this Ordinance, shall be subject to rules and orders of the Federal Government regulating the terms and conditions of persons in public services and posts.]

[3][**209. Jurisdiction of income tax authorities.-** [4][(1) Subject to this Ordinance, the Regional Commissioners, the Commissioners and the Commissioners (Appeals) shall perform all or such functions and exercise all or such powers under this Ordinance as may be assigned to them in respect of such persons or classes of persons or such areas as the [5][Board] may direct.]

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[1] Substituted by the Finance Act, 2002. The substituted section 208 read as follows:
"208. Central Board of Revenue.- The Central Board of Revenue shall exercise the general administration of this Ordinance."

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] Substituted by the Finance Act, 2002. The substituted section 209 read as follows:
"209. Appointment of Regional Commissioners of Income Tax and Commissioners of Income Tax.- (1) The Central Board of Revenue may appoint as many Regional Commissioners of Income Tax and Commissioners of Income Tax as may be necessary.

(2) Subject to such orders or directions as may be issued by the Central Board of Revenue, any Regional Commissioner of Income Tax may appoint any subordinate income tax authority subordinate and such other executive or ministerial officers and staff as may be necessary.

(3) Subject to such orders or directions as may be issued by the Central Board of Revenue, any Commissioner of Income Tax may appoint such executive or ministerial officers and staff as may be necessary.

(4) All appointments under this Ordinance shall be subject to the rules and orders of the Federal Government regulating the terms and conditions of service of persons in public services and posts."

[4] Substituted by the Finance Act, 2003. The substituted sub-section (1) read as follows:
"(1) Subject to this Ordinance, the Regional Commissioners, the Commissioners and the Commissioners (Appeals) shall perform all or such functions and exercise all or such powers, under this Ordinance, in respect of such persons or classes of persons or such areas, as may be assigned to them by orders or directions issued by the Central Board of Revenue."

[5] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(2) The [1][Board] or the Regional Commissioner may, by an order, confer upon or assign to any taxation officer all or any of the powers and functions conferred upon or assigned to the Commissioner, under this Ordinance, in respect of any person or persons or classes of persons or areas [2][as may be specified in the order].

(3) An order under sub-section (2) by the Regional Commissioner shall be made only with the approval of the [3][Board].

(4) The taxation officer referred to in sub-section (2) shall, for the purposes of this Ordinance, be treated to be the Commissioner.

(5) Within the area assigned to him, the Commissioner shall have jurisdiction,-

(a) in respect of any person carrying on business, if the person's place of business is within such area, or where the business is carried on in more than one place, the person's principal place of business is within such area; or

(b) in respect of any other person, if the person resides in such area.

(6) Where a question arises as to whether a Commissioner has jurisdiction over a person, the question shall be decided by the Regional Commissioner or Regional Commissioners concerned and, if they are not in agreement, by the [4][Board].

(7) No person shall call into question the jurisdiction of a Commissioner after that person has furnished a return of income to the Commissioner or, where the person has not furnished a return of income, after the time allowed by any notice served on the person for furnishing such return has expired.

(8) Notwithstanding anything contained in this section, every commissioner shall have all the powers conferred by, or under, this Ordinance on him in respect of any income arising within the area assigned to him.

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[2] Inserted by the Finance Act, 2003.
[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.
[4] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[1][(8A) The power to confer jurisdiction under this section shall include the power to transfer jurisdiction from one income tax authority to another.]

(9) Where, in respect of any proceedings under this Ordinance, an income tax authority is succeeded by another, the succeeding authority may continue the proceedings from the stage it was left by that authority's predecessor.]

[2][**210. Delegation.-** (1) The Commissioner [3][subject to sub-section (1A),] may, by an order in writing, delegate to any taxation officer all or any of the powers or functions conferred upon or assigned to the Commissioner under this Ordinance, other than the power of delegation.

[4][(1A) The Commissioner shall not delegate the powers of amendment of assessment contained in sub-section (5A) of section 122 to a Taxation Officer below the rank of Additional Commissioner of Income Tax.]

(2) An order under sub-section (1) may be in respect of all or any of the persons, classes of persons or areas falling in the jurisdiction of the Commissioner.

(3) The Commissioner shall have the power to cancel, modify, alter or amend an order under sub-section (1).

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[1] Inserted by the Finance Act, 2003.

[2] Substituted by the Finance Act, 2002. The substituted section 210 read as follows:

"**210. Jurisdiction of Regional Commissioners of Income Tax and Commissioners of Income Tax.-** (1) Subject to this Ordinance, the Regional Commissioners of Income Tax and the Commissioners of Income Tax shall perform such functions in respect of such persons or classes of person, or such areas, as may be assigned to them by directions issued by the Central Board of Revenue.

(2) Where any directions issued under sub-section (1) have assigned to two or more income tax authorities the same function in respect of the same persons or class of persons, or the same areas, they shall perform their functions in accordance with such orders as the Central Board of Revenue, or any other authority to whom they are subordinate, may make for the allocation of functions and the distribution of the work performed.

(3) Within a Commissioner's assigned area, the Commissioner shall have jurisdiction, -

(a) in respect of any person carrying on business, if the person's place of business is within such area, or where the business is carried on in more than one place, the person's principal place of business is within such area; or

(b) in respect of any other person, if the person resides within such area.

(4) Where a question arises as to whether a Commissioner has jurisdiction over any person, the question shall be decided by the Regional Commissioner or Regional Commissioners concerned and, if they are not in agreement, by the Central Board of Revenue.

(5) No person shall call into question the jurisdiction of a Commissioner after the person has furnished a return of income to the Commissioner or, where the person has not furnished a return, after the time allowed by any notice served on the person for furnishing such return has expired.

(6) Notwithstanding anything contained in this section, every Commissioner shall have all the powers conferred by, or under this Ordinance on a Commissioner in respect of any income arising within the Commissioner's assigned area.

(7) Where any application may be made by a person under this Ordinance, the application shall be made to the Commissioner with jurisdiction over the person or to the taxation officer with delegated power in respect of the application."

[3] Inserted by the Finance Act, 2004.

[4] Added by the Finance Act, 2004.

[1][**211. Power or function exercised.-** (1) Where, by virtue of an order under section 210, a taxation officer exercises a power or performs a function of the Commissioner, such power or function shall be treated as having been exercised or performed by the Commissioner.

(2) The exercise of a power, or the performance of a function, of the Commissioner by a taxation officer shall not prevent the exercise of the power, or the performance of the function, by the Commissioner.]

[2][**212. Authority of approval.-** The [3][Board] may, by a general or special order, authorise the Regional Commissioner or the Commissioner to grant approval in any case where such approval is required from the [4][Board] under any provision of this Ordinance.]

[5][**213. Guidance to income tax authorities.-** In the course of any proceedings under this Ordinance, the Commissioner or any taxation officer may be assisted, guided or instructed by any income tax authority to whom he is subordinate or any other person authorised in this behalf by the [6][Board].]

[7][**214. Income tax authorities to follow orders of the [8][Board].-** (1) Subject to sub-section (2), all income tax authorities and other persons employed in the execution of this Ordinance shall observe and follow the orders, instructions and directions issued by the [9][Board].

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[1] Substituted by the Finance Act, 2002. The substituted section 211 read as follows:
"**211. Delegation.-** The Commissioner may delegate to any taxation officer any duty, power, or function conferred or imposed on the Commissioner under this Ordinance, other than the power of delegation under this section."

[2] Substituted by the Finance Act, 2002. The substituted section 212 read as follows:
"**212. Authority of approval.-** The Central Board of Revenue may, by general or special order, in writing, authorise the Regional Commissioner or the Commissioner to grant approval in any case where such approval is required from the Central Board of Revenue under any provision of this Ordinance."

[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[4] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[5] Substituted by the Finance Act, 2002. The substituted section 213 read as follows:
"**213. Exercise of jurisdiction by successor.-** Where, in respect of any proceedings under this Ordinance, an income tax authority is succeeded by another, the succeeding authority may continue the proceedings from the stage at which it was left by that authority's predecessor."

[6] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[7] Substituted by the Finance Act, 2002. The substituted section 214 read as follows:
"**214. Guidance to Commissioner or taxation officer.-** In the course of any proceedings under this Ordinance, the Commissioner or any taxation officer with delegated power under section 211 may be assisted, guided or instructed by any income tax authority to whom he is subordinate or any other person authorised in this behalf by the Central Board of Revenue."

[8] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[9] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(2) No orders, instructions or directions shall be given by the [1][Board] that will interfere with the discretion of the Commissioner (Appeals) in the exercise of his appellate function.]

[2][**215. Furnishing of returns, documents etc.-** (1) Where, by virtue of an order under section 210, the Commissioner has delegated to any taxation officer the function and power to receive, or to call for and receive, any returns of income, certificates, documents, accounts and statements from any person or persons or class of persons (hereinafter called 'filer'), the filer shall furnish such returns, certificates, documents, accounts and statements to that taxation officer and, when furnished, shall be treated as having been furnished to the Commissioner.

(2) where a person is allowed, under any provision of this Ordinance, to make an application to the Commissioner and the Commissioner has delegated to any taxation officer the function or power to receive the application, such application, when made, shall be treated as having been made to the Commissioner.]

216. Disclosure of information by a public servant.- (1) All particulars contained in –

(a) any statement made, return furnished, or accounts or documents produced under the provisions of this Ordinance;

(b) any evidence given, or affidavit or deposition made, in the course of any proceedings under this Ordinance, other than proceedings under Part XI of Chapter X; or

(c) any record of any assessment proceedings or any proceeding relating to the recovery of a demand,

shall be confidential and no public servant save as provided in this Ordinance may disclose any such particulars.

(2) Notwithstanding anything contained in the Qanun-e-[3][Shahadat], 1984 (P.O. Order No. 10 of 1984), or any other law for the time being in force, no court or other authority shall be, save as provided in this Ordinance, entitled to

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[2] Substituted by the Finance Act, 2002. The substituted section 215 read as follows:

"**215. Taxation officers to follow orders of Central Board of Revenue.-** (1) Subject to sub-section (2), all taxation officers and other persons employed in the execution of this Ordinance shall observe and follow the orders, instructions and directions of the Central Board of Revenue.

(2) No orders, instructions or directions shall be given by the Central Board of Revenue that will interfere with the discretion of the Commissioner (Appeals) in the exercise the appellate function of the Commissioner (Appeals)."

[3] The word "Shadat" substituted by the Finance Act, 2005.

require any public servant to produce before it any return, accounts, or documents contained in, or forming a part of the records relating to any proceedings under this Ordinance, or any records of the Income Tax Department generally, or any part thereof, or to give evidence before it in respect thereof.

(3) Nothing contained in sub-section (1) shall preclude the disclosure of any such particulars –

(a) to any person acting in the execution of this Ordinance, where it is necessary to disclose the same to him for the purposes of this Ordinance;

(b) to any person authorised by the Commissioner in this behalf, where it is necessary to disclose the same to such person for the purposes of processing of data and preparation of computer printouts relating to returns of income or calculation of tax;

(c) where the disclosure is occasioned by the lawful employment under this Ordinance of any process for the service of any notice or the recovery of any demand;

(d) to the Auditor-General of Pakistan for the purpose of enabling the Auditor-General to discharge his functions under the Constitution;

(e) to any officer appointed by the Auditor-General of Pakistan or the Commissioner to audit income tax receipts or refunds;

(f) to any officer of the Federal Government or a Provincial Government authorised by such Government in this behalf as may be necessary for the purpose of enabling that Government to levy or realise any tax imposed by it;

(g) to any authority exercising powers under [1][the [2][Federal Excise Act, 2005],] the Sales Tax Act, 1990, the Wealth Tax Act, 1963 (XV of 1963), or the Customs Act, 1969 (IV of 1969), as may be necessary for the purpose of enabling its duty to exercise such powers;

[1] Substituted for the words, commas, figures and brackets " the Central Excises and Salt Act, 1944 (I of 1944), the Estate Duty Act, 1950 (X of 1950)" by the Finance Act, 2002.
[2] The words, comma, figure and brackets "Central Excises Act, 2944 (I of 1944)" substituted by the Finance Act, 2005.

(h) occasioned by the lawful exercise by a public servant of powers under the Stamp Act, 1899 (II of 1899) to impound an insufficiently stamped document;

(i) to the State Bank of Pakistan to enable it to compile financial statistics of international investment and balance of payment;

(j) as may be required by any order made under sub-section (2) of section 19 of the Foreign Exchange Regulation Act, 1947 (VII of 1947), or for the purposes of any prosecution for an offence under section 23 of that Act;

(k) to the Securities and Exchange Commission or the Monopolies Control Authority for the purposes of the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Monopolies and Restrictive Trade Practices (Control and Prevention) Ordinance, 1970 (VI of 1970), the Companies Ordinance, 1984 (XLVII of 1984) or the Securities and Exchange Commission of Pakistan Act, 1997, as the case may be;

(l) relevant to any inquiry into a charge of misconduct in connection with income tax proceedings against a legal practitioner or an accountant;

(m) to a Civil Court in any suit or proceeding to which the Federal Government or any income tax authority is a party which relates to any matter arising out of any proceedings under this Ordinance;

(n) for the purposes of a prosecution for any offence under the Pakistan Penal Code, 1860 (XLVI of 1860), in respect of any such statement, returns, accounts, documents, evidence, affidavit or deposition, or for the purposes of a prosecution for any offence under this Ordinance;

(o) relevant to any inquiry into the conduct of an official of the Income Tax Department to any person or officer appointed to hold such inquiry, or to a Public Service Commission, established under the Federal Public Service Commission Ordinance, 1977 (XLV of 1977), when exercising its functions in relation to any matter arising out of such inquiry;

(p) as may be required by any officer or department of the Federal Government or of a Provincial Government for the purpose of investigation into the conduct and affairs of any public servant,

or to a Court in connection with any prosecution of the public servant arising out of any such investigation;

(q) to an authorised officer of the government of any country outside Pakistan with which the Government has entered into an agreement under section 107 for the avoidance of double taxation and the prevention of fiscal evasion as may be required to be disclosed in pursuance of that agreement; or

(r) to the Federal Tax Ombudsman appointed under the Establishment of the Office of Federal Tax Ombudsman Ordinance, 2000 (XXXV of 2000).

(4) Nothing in this section shall apply to the production by a public servant before a Court of any document, declaration, or affidavit filed or the giving of evidence by a public servant in respect thereof.

(5) Nothing contained in sub-section (1) shall prevent the Commissioner from publishing, with the prior approval of the Federal Government, any such particulars as are referred to in that sub-section.

(6) Nothing contained in sub-section (1) shall prevent the Federal Government from publishing particulars and the amount of tax paid by a holder of a public office as defined in the [1][National Accountability Bureau Ordinance, 1999 (XVIII of 1999).]

(7) Any person to whom any information is communicated under this section, and any person or employee under the first-mentioned person's control, shall be, in respect of that information, subject to the same rights, privileges, obligations, and liabilities as if the person were a public servant and all the provisions of this Ordinance, so far as may be, shall apply accordingly.

(8) No prosecution may be instituted under this section except with the previous sanction of the [2][Board].

217. Forms and notices; authentication of documents.- (1) Forms, notices, returns, statements, tables and other documents required under this Ordinance may be in such form as determined by the [3][Board] for the efficient administration of this Ordinance and publication of such documents in the official Gazette shall not be required.

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[1] Substituted for the words, figures brackets and comma "Ehtesab Act, 1997 (IX of 1997)" by the Finance Act, 2002.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(2) The Commissioner shall make the documents referred to in sub-section (1) available to the public in the manner prescribed.

(3) A notice or other document issued, served or given by the Commissioner under this Ordinance shall be sufficiently authenticated if the name or title of the Commissioner, or authorised taxation officer, is printed, stamped or written on the notice or document.

218. Service of notices and other documents.- (1) Subject to this Ordinance, any notice, order or requisition required to be served on a resident individual (other than in a representative capacity) for the purposes of this Ordinance shall be treated as properly served on the individual if –

(a) personally served on the individual or, in the case of an individual under a legal disability or a non-resident individual, the representative of the individual;

(b) sent by registered post or courier service to the place specified in clause (b) [1][of sub-section (2)] or to the individual's usual or last known address in Pakistan; or

(c) served on the individual in the manner prescribed for service of a summons under the Code of Civil Procedure, 1908 (V of 1908).

(2) Subject to this Ordinance, any notice, order or requisition required to be served on any person (other than a resident individual to whom sub-section (1) applies) for the purposes of this Ordinance shall be treated as properly served on the person if –

(a) personally served on the representative of the person;

(b) sent by registered post or courier service to the person's registered office or address for service of notices under this Ordinance in Pakistan, or where the person does not have such office or address, the notice is sent by registered post to any office or place of business of the person in Pakistan; or

(c) served on the person in the manner prescribed for service of a summons under the Code of Civil Procedure, 1908 (V of 1908).

(3) Where an association of persons is dissolved, any notice, order or requisition required to be served under this Ordinance on the association may be

[1] Inserted by the Finance Act, 2003.

served on any person who was [1][the principal officer or] a member of the association immediately before such dissolution.

(4) Where section 117 applies, any notice, order or requisition required to be served under this Ordinance on the person discontinuing the business may be served on the person personally or on any individual who was the person's representative at the time of discontinuance.

(5) The validity of any notice issued under this Ordinance or the validity of any service of a notice under this Ordinance shall not be called into question after the return to which the notice relates has been furnished or the notice has been otherwise complied with.

219. Tax or refund to be computed to the nearest Rupee.- In the determination of any amount of tax or refund payable under this Ordinance, fractions of a rupee less than fifty paisa shall be disregarded and fractions of a rupee equal to or exceeding fifty paisa shall be treated as one rupee.

220. Receipts for amounts paid.- The Commissioner shall give a receipt for any tax or other amount paid or recovered under this Ordinance.

221. Rectification of mistakes.- (1) The Commissioner, the Commissioner (Appeals) or the Appellate Tribunal may, by an order in writing, amend any order passed by [2][him] to rectify any mistake apparent from the record on [3][his or its] own motion or any mistake brought to [4][his or its] notice by a taxpayer or, in the case of the Commissioner (Appeals) or the Appellate Tribunal, the Commissioner.

[5][(1A) The Commissioner may, by an order in writing, amend any order passed under the repealed Ordinance by the Deputy Commissioner, or an Income Tax Panel, as defined in section 2 of the repealed Ordinance to rectify any mistake apparent from the record on his own motion or any mistake brought to his notice by a taxpayer and the provisions of sub-section (2), sub-section (3) and sub-section (4) shall apply in like manner as these apply to an order under sub-section (1).]

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[1] Inserted by the Finance Act, 2002.
[2] Substituted for the word "them" by the Finance Act, 2003.
[3] Substituted for the word "their" by the Finance Act, 2003.
[4] Substituted for the word "their" by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2003. Earlier sub-section (1A) was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003. The said sub-section (1A) read as follows:

"(1A) The Commissioner may, by an order in writing, amend any order passed under the repealed Ordinance by the Deputy Commissioner, or an Income Tax Panel, as defined in section 2 of the repealed Ordinance."

(2) No order under sub-section (1) which has the effect of increasing an assessment, reducing a refund or otherwise applying adversely to the taxpayer shall be made unless the taxpayer has been given a reasonable opportunity of being heard.

(3) Where a mistake apparent on the record is brought to the notice of the Commissioner [1][or] Commissioner (Appeals) [2][ ], as the case may be, and no order has been made under sub-section (1) before the expiration of the financial year next following the date on which the mistake was brought to their notice, the mistake shall be treated as rectified and all the provisions of this Ordinance shall have effect accordingly.

(4) No order under sub-section (1) may be made after five years from the date of the order sought to be rectified.

222. Appointment of expert.- The Commissioner may appoint any expert as the Commissioner considers necessary for the purposes of this Ordinance, including for the purposes of audit or valuation.

223. Appearance by authorised representative.- (1) Any taxpayer who is entitled or required to attend before the Commissioner, the Commissioner (Appeals) or the Appellate Tribunal in connection with any proceeding under this Ordinance may, except when required under section 176 to attend personally, attend by an authorised representative.

(2) For the purposes of this section and subject to sub-section (3), an authorised representative of a taxpayer shall be a person who is a representative of the person under section 172 and any of the following persons, namely:–

(a) A relative of the taxpayer;

(b) a current full-time employee of the taxpayer;

(c) any officer of a scheduled bank with which the taxpayer maintains a current account or has other regular dealings;

(d) any legal practitioner entitled to practice in any Civil Court in Pakistan;

(e) any accountant; or

(f) any income tax practitioner.

(3) For the purposes of this section -–

[1] Substituted for the comma by the Finance Act, 2003.
[2] The words “or the Appellate Tribunal” omitted by the Finance Act, 2003.

(a) no person who has been dismissed or removed from service in the Income Tax Department shall be entitled to represent a taxpayer under sub-section (1);

(b) no person having resigned from service after having been employed in the Income Tax Department for not less than two years shall be entitled to represent a taxpayer under sub-section (1) for a period of two years from the date of resignation;

(c) no person having retired from service in the Income Tax Department shall be entitled to represent a taxpayer under sub-section (1) for a period of one year from the date of retirement in any case in which the person had made or approved, as the case may be, any order of assessment, refund or appeal within one year before the date of retirement; or

(d) no person who has become insolvent shall be entitled to represent a taxpayer under sub-section (1) for so long as the insolvency continues;

(e) no person who has been convicted of an offence in relation to any income tax proceedings under this Ordinance shall be entitled to represent a taxpayer under sub-section (1) for such period as the Commissioner may, by order in writing, determine.

(4) Where any legal practitioner or accountant is found guilty of misconduct in a professional capacity by any authority entitled to take disciplinary action against the legal practitioner or accountant, an order passed by that authority shall have effect in relation to any right to represent a taxpayer under sub-section (1) as it has in relation to the person's right to practice as a legal practitioner or accountant.

(5) Where any person (other than a person to whom sub-section (4) applies) is found guilty of misconduct in relation to any income tax proceeding, the Commissioner may, by an order in writing, direct that the person cease to represent a taxpayer under sub-section (1) before the Commissioner, Commissioner (Appeals) or Appellate Tribunal.

(6) The Commissioner shall not make an order under clause (e) of sub-section (3) or sub-section (5) in respect of any person, unless the Commissioner has given the person a reasonable opportunity to be heard.

(7) Any person against whom an order under clause (e) of sub-section (3) or sub-section (5) has been made may, within thirty days of service of notice of the order, appeal to the [1][Board] to have the order cancelled.

(8) The [2][Board] may admit an appeal after the expiration of the period specified in sub-section (7) if satisfied that the appellant was prevented by sufficient cause from lodging the appeal within the period.

(9) No order made under clause (e) of sub-section (3) or sub-section (5) shall take effect until thirty days after notice of the order is served on the person or, where an appeal has been lodged under sub-section (7), until the disposal of the appeal.

(10) The [3][Board] may make rules under section [4][237] for the registration of income tax practitioners and related matters, including establishing a code of conduct for such practitioners.

(11) In this section –

"accountant" means –

(a) a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961);

(b) a cost and management accountant within the meaning of the Cost and Management Accountants Act, 1966 (XIV of 1966); or

(c) a member of any association of accountants recognised for the purposes of this section by the [5][Board]; and

"income tax practitioner" means a person who is registered as such by the [6][Board], being a person who possesses such qualifications as may be prescribed for the purposes of this section or who has retired after putting in satisfactory service in the Income Tax Department for a period of not less than ten years in a post or posts not below that of Income Tax Officer.

224. Proceedings under the Ordinance to be judicial proceedings.- Any proceedings under this Ordinance before the Commissioner, Commissioner

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[1] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[2] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[3] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[4] Substituted for the figure "232" by the Finance Act, 2002.

[5] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

[6] The words "Central Board of Revenue" substituted by the Finance Act, 2007.

(Appeals) or Appellate Tribunal shall be treated as judicial proceedings within the meaning of sections 193 and 228 of the Pakistan Penal Code, 1860 (Act XLV of 1860), and for the purposes of section 196 of the Pakistan Penal Code, 1860 (Act XLV of 1860).

225. Proceedings against companies under liquidation.- Notwithstanding anything contained in section 316 of the Companies Ordinance, 1984 (XLVII of 1984), leave of the Court shall not be required for continuing with or commencing any proceeding under this Ordinance against a company in respect of which a winding up order has been made or Provisional Liquidator appointed.

226. Computation of limitation period.- In computing the period of limitation, there shall be excluded –

(a) in the case of an appeal or an application under this Ordinance, the day on which the order complained of was served and, if the taxpayer was not furnished with a copy of the order when the notice of the order was served on the taxpayer, the time requisite for obtaining a copy of such order; and

(b) in the case of an assessment or other proceeding under this Ordinance, the period, if any, for which such proceedings were stayed by [1][any Court, [2][Appellate] Tribunal or any other authority.]

227. Bar of suits in Civil Courts.- No suit or other legal proceeding shall be brought in any Civil Court against any order made under this Ordinance, and no prosecution, suit or other proceedings shall be made against any person for anything which is in good faith done or intended to be done under this Ordinance or any rules or orders made thereunder.

PART II
DIRECTORATE-GENERAL OF [3][INTERNAL AUDIT]

[4][228. The Directorate General of [5][ ] Internal Audit.- (1) The Directorate General of [6][ ] Internal Audit shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors and Assistant Directors and

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[1] Substituted for the words, brackets and comma "the Commissioner (Appeals), the Tribunal or any Court" by the Finance Act, 2002.

[2] Inserted by the Finance Act, 2003.

[3] The word "INSPECTION" substituted by the Finance Act, 2007.

[4] Substituted by the Finance Act, 2005. The substituted section 228 read as follows:
"228. Appointment of Directorate-General of Inspection.- (1) The Federal Government shall appoint a Directorate-General of Inspection to exercise the powers and discharge the functions conferred on it under this Part.

(2) The Directorate-General shall consist of a Director-General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors, Extra-Assistant Directors and Inspectors, as the Director-General may consider necessary to be appointed from among the officers of the Income Tax Group."

[5] The words "Inspection and" omitted by the Finance Act, 2007.

[6] The words "Inspection and" omitted by the Finance Act, 2007.

such other officers as the Board, may by notification in the official Gazette, appoint.

(2) The Board may, by notification in the official Gazette, specify the functions, jurisdiction and powers of the Directorate General of [1][ ] Internal Audit.]

[2][ ]

[3][ ]

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[1] The words "Inspection and" omitted by the Finance Act, 2007.

[2] Omitted by the Finance Act, 2005. The omitted section 229 read as follows:

"229. Inspection authorities.- (1) There shall be the following classes of inspection authorities for the purposes of this Ordinance, namely:-

(a) The Director-General of Inspection; and

(b) Directors of Inspection.

(2) The Directors of Inspection shall be subordinate to the Director-General of Inspection."

[3] Omitted by the Finance Act, 2005. The omitted section 230 read as follows:

"230. Jurisdiction of Inspection Authorities.- (1) Subject to the provisions of this Chapter, the Directors of Inspection shall perform their functions in respect of such persons or classes of persons or such areas as may be assigned to them by the Director-General.

(2) The Director-General or a Director of Inspection may assign any function in respect of any area, or office or offices located within an area, case, class of cases, person or classes of persons to any inspection officer working under his control.

(3) In this section, "inspection officer" means an Additional Director of Inspection, a Deputy Director of Inspection, an Assistant Director and an Extra-Assistant Director."

[1][ ]

CHAPTER XII
TRANSITIONAL ADVANCE TAX PROVISIONS

[2]**[231A. Cash withdrawal from a bank.-** [3][(1) Every banking company shall deduct tax at the rate specified in Division VI of Part IV of the First Schedule, if the payment for cash withdrawal, or the sum total of the payments for cash withdrawal in a day, exceeds twenty-five thousand rupees.]

(2) Advance tax under this section shall not be collected in the case of withdrawals made by,-

(a) the Federal Government or a Provincial Government;

(b) a foreign diplomat or a diplomatic mission in Pakistan; or

(c) a person who produces a certificate from the Commissioner that his income during the tax year is exempt.]

[4]**[231 B. Purchase of motor cars.**—(1) Every manufacturer or authorized dealer of motor cars shall at the time of sale of a motor car, collect advance tax at the rate specified in Division VIII of Part IV, of the First Schedule.]

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[1] Omitted by the Finance Act, 2005. The omitted section 231 read as follows:

"231. Functions and Powers of Directorate.- (1) The functions of the Directorate-General of Inspection shall be, namely:-

(a) To carry out inspections of income tax cases and offices;
(b) to investigate or cause investigation to be carried out in respect of –
  (i) cases involving leakage of revenue or evasion of taxes; and
  (ii) Regional Commissioners of Income Tax, Commissioners of Income Tax, taxation officers and any other staff of income tax offices allegedly involved in corruption and malpractice, and recommend to the competent authority appropriate disciplinary action;
(c) to carry out audit of cases or offices involving income tax revenues;
(d) to recommend to the Central Board of Revenue in matters of tax policy, tax administration and tax operations;
(e) to furnish an annual report about the workings of Income Tax Offices to the Central Board of Revenue by the thirty-first day of December, following the end of the financial year to which it relates; and
(f) to carry out any other work or function that may be assigned to it by the Federal Government.

(2) In discharge of its functions under sub-section (1), the Directorate-General shall have the powers specified in section 176."

[2] Inserted by the Finance Act, 2005.

[3] Substituted by the Finance Act, 2006. The substituted sub-section (2) read as follows:

"(1) Every banking company shall, at the time of making a payment for cash withdrawal rupees, deduct tax from the payment at the rate specified in Division VI of Part IV of the First Schedule."

[4] Inserted by the Finance Act, 2007.

(2) Advance tax under this section shall not be collected in the case of purchase made by—

(i) the Federal Government or a Provincial Government; or

(ii) a foreign diplomat or diplomatic mission in Pakistan.]

[1][ ]

[2][233. Brokerage and commission.- (1) Where any payment on account of brokerage or commission is made by the Federal Government, a Provincial Government, a local authority, a company or an association of persons

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[1] Omitted by the Finance Act, 2002. The omitted section 232 read as follows:

"**232.Transfer of funds.-** (1) Advance tax at the rate specified in Part-IV of the First Schedule shall be collected by a person—

(a) clearing an outstation cheque of an amount excluding twenty-five thousand rupees;

(b) issuing a demand draft, pay order, special deposit receipts, cash deposit receipt or rupee traveller's cheque; and

(c) effecting a telegraphic or electronic transfer of funds, from the drawer of such cheque, draft, pay order, receipt or person ordering transfer of funds.

(2) Advance tax under sub-section (1) shall not be collected in the case of payments made by—

(a) Federal Government, Provincial Governments, statutory bodies and universities;

(b) a non-profit organization within the meaning of clause (37) of section 2;

(c) an industrial undertaking or institution exempt from tax under the Second Schedule;

(d) a public company whose shares are traded on a registered stock exchange in Pakistan;

(e) a foreign diplomat or a foreign diplomatic mission in Pakistan;

(f) a branch or office of a company to another branch or office of such company;

(g) a person who holds National Tax Number and furnishes a statement to that bank in the prescribed form and manner."

[2] Substituted by the Finance Act, 2005. The substituted section 233 read as follows:

"233. Brokerage and Commission.- (1) Where any payment on account of brokerage or commission is made by the Federal Government, a Provincial Government, a local authority, a company or an association of persons [A][constituted by, or under, any law] (hereinafter called the "principal") to any person [B][other than travel agents and insurance agents] (hereinafter called the "agent"), the principal shall deduct advance tax at the rate specified in Part IV of the First Schedule from such payment.

(2) If the agent retains commission or brokerage from any amount remitted by him to the principal, he shall be deemed to have been paid the commission or brokerage by the principal and the principal shall collect advance tax from the agent.

[C][(3) Where any payment on account of brokerage or commission is made by the principal to a travel agent or an insurance agent, the principal shall deduct advance tax at the rate specified in Part IV of the First Schedule from such payment.]

[D][(4) Where any tax is collected from a person under sub-section (1) or sub-section (3), the tax so collected shall be the final tax on the income of such persons.]"

[A] Inserted by the Finance Act, 2003.

[B] Inserted by the Finance Act, 2004.

[C] Added by the Finance Act, 2004.

[D] Added by the Finance Act, 2004.

constituted by, or under any law (hereinafter called the "principal") to a [1][ ] person (hereinafter called the "agent"), the principal shall deduct advance tax at the rate specified in Part IV of the First Schedule from such payment.

(2) If the agent retains Commission or brokerage from any amount remitted by him to the principal, he shall be deemed to have been paid the commission or brokerage by the principal and the principal shall collect advance tax from the agent.

(3) Where any tax is collected from a person under sub-section (1), the tax so collected shall be the final tax on the income of such persons.]

[2][**233A. Collection of tax by a stock exchange registered in Pakistan.-** (1) A stock exchange registered in Pakistan shall collect advance tax,-

(a) at the rates specified in Division IIA of Part IV of First Schedule from its Members on purchase of shares in lieu of [3][tax on] the commission earned by such Members;

(b) at the rates specified in Division IIA of Part IV of First [4][Schedule] from its Members on sale of shares in lieu of [5][tax on] the commission earned by such Members;

(c) from its [6][Members] in respect of trading of shares by the Members at the rates specified in Division IIA of Part IV of First Schedule; and

(d) from its [7][Members] in respect of financing of carryover trades (Badla) in share business at the rate specified in Division IIA of Part IV of First schedule.

(2) The tax collected under clause (a) and clause (b) of sub-section (1) shall be a final tax.]

234. Transport business.- (1) Any person [8][at the time of] collecting motor vehicle tax shall also collect advance tax at the rates specified in Part IV of the First Schedule.

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[1] The word "resident" omitted by the Finance Act, 2006.
[2] Inserted by the Finance Act, 2004.
[3] Inserted by the Finance Act, 2007.
[4] The word "schedule" substituted by the Finance Act, 2005.
[5] Inserted by the Finance Act, 2007.
[6] The word "members" substituted by the Finance Act, 2005.
[7] The word "Member" substituted by the Finance Act, 2005.
[8] Inserted by the Finance Act, 2002.

(2) If the motor vehicle tax is collected in instalments, the advance tax may also be collected in instalments in like manner.

[1][(2A) In respect of motor cars used for more than ten years in Pakistan, no advance tax shall be collected after a period of ten years.]

(3) In respect of a passenger transport vehicle with registered seating capacity of ten or more persons, advance tax shall not be collected after a period of ten years from the first day of July of the year of make of the vehicle.

(4) In respect of a goods transport vehicle with registered laden weight of [2][ ] less than 8120 kilograms, advance tax shall not be collected after a period of ten years from the date of first registration of vehicle in Pakistan.

(5) Where tax is collected from any person being the owner of goods transport vehicle, the tax so collected shall be the final tax on the income of such person [3][from plying, or hiring out, of such vehicle].

[4]**[234A CNG Stations.** —(1) There shall be collected advance tax at the rate specified in Division VIB of Part III of the First Schedule on the amount of gas bill of a Compressed Natural Gas station.

(2) The person preparing gas consumption bill shall charge advance tax under sub-section (1) in the manner gas consumption charges are charged.

(3) The tax collected under this section shall be a final tax on the income of a CNG station arising from the consumption of the gas referred to in sub-section (1).

(4) The taxpayers shall not be entitled to claim any adjustment of withholding tax collected or deducted under any other head, during the tax year.]

235. Electricity consumption.- (1) There shall be collected advance tax at the rates specified in Part-IV of the First Schedule on the amount of electricity bill of a commercial or industrial consumer.

(2) The person preparing electricity consumption bill shall charge advance tax under sub-section (1) in the manner electricity consumption charges are charged.

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[1] Inserted by the Finance Act, 2002.
[2] The words “2030 kilogram or more but” omitted by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2002.
[4] Inserted by the Finance Act, 2007.

(3) Advance tax under this section shall not be collected from a person who produces a certificate from the Commissioner that his income during tax year is exempt from tax.

[1][(4) The tax collected under this section shall be minimum tax on the income of a person (other than a company). There shall be no refund of the tax collected under this section, unless the tax so collected is in excess of the amount for which the taxpayer is chargeable under this Ordinance in the case of a company.]

236. Telephone users.- (1) Advance tax at the rates specified in Part IV of the First Schedule shall be collected on the amount of –

(a) telephone bill of a subscriber; and

(b) prepaid cards for [2][ ] telephones.

(2) The person preparing the telephone bill shall charge advance tax under sub-section (1) in the manner telephone charges are charged.

(3) The person issuing or selling prepaid cards for [3][ ] telephones shall [4][collect] advance tax under sub-section (1) from the purchasers at the time of issuance or sale of cards.

(4) Advance tax under this section shall not be collected from Government, a foreign diplomat, a diplomatic mission in Pakistan, or a person who produces a certificate from the Commissioner that his income during the tax year is exempt from tax.

CHAPTER XIII
MISCELLANEOUS

237. Power to make rules.- (1) The [5][Board] may, by notification in the official Gazette, make rules for carrying out [6][ ] the purposes of this Ordinance.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely:–

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1 Inserted by the Finance Act, 2007.
2 The word “mobile“ omitted by the Finance Act, 2002.
3 The word “mobile” omitted by the Finance Act, 2002.
4 Substituted for the word “called” by the Finance Act, 2003.
5 The words “Central Board of Revenue” substituted by the Finance Act, 2007.
6 The word “of” omitted by the Finance Act, 2005.

(a) the manner in, and procedure by, which the income, profits and gains chargeable to tax and the tax payable thereon under this Ordinance shall be determined in the case of –

(i) income derived partly from agriculture and partly from other business; or

(ii) non-resident persons;

[1][(ab) ascertainment or determination of any income or class of income to be included in the total income of a taxpayer and any deduction from such income;]

(b) fees and other charges to be paid in respect of any matter referred to in this Ordinance;

(c) anything which is to be or may be prescribed under this Ordinance;

(d) the procedure for furnishing returns and other documents as required under this Ordinance, including on computer media or through electronic medium or for issuance of orders or notices, or levy of additional tax or penalty through electronic medium;

[2][(da) the procedure for approval of a non-profit organization;]

(e) contain provisions of a saving or transitional nature consequent upon the making of this Ordinance; and

(f) penalties for the contravention of the rules made under this Ordinance.

(3) The power to make rules conferred by this section shall be, except on the first occasion of the exercise thereof, subject to the condition of previous publication.

(4) Where rules made under this section –

(a) adversely affect a person;

(b) are of a transitional nature; and

(c) are made within twelve months after commencement of this Ordinance,

[1] Inserted by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2003.

these may provide that they shall take effect from the date on which this Ordinance comes into force or a later date.

238. Repeal.- The Income Tax Ordinance, 1979 (XXXI of 1979), shall stand repealed on the date this Ordinance comes into force in pursuance of sub-section (3) of section 1.

239. Savings.- [1][(1) Subject to sub-section (2), in making any assessment in respect of any income year ending on or before the 30th day of June, 2002, the provisions of the repealed Ordinance in so far as these relate to computation of total income and tax payable thereon shall apply as if this Ordinance had not come into force.]

[2][(2) The assessment, referred to in sub-section (1), shall be made by an income tax authority which is competent under this Ordinance to make an assessment in respect of a tax year ending on any date after the 30th day of June, 2002, and in accordance with the procedure specified in section 59 or 59A [3][or 61] or 62 or 63, as the case may be, of the repealed Ordinance.]

[4][(3) The provisions of [5][sub-sections] (1) and (2) shall apply, in like manner, to the imposition or charge of any penalty, additional tax or any other amount, under the repealed Ordinance, as these apply to the assessment, so however that procedure for such imposition or charge shall be in accordance with the corresponding provisions of this Ordinance.]

(4) Any proceeding under the repealed Ordinance pending on the commencement of this Ordinance before any income tax authority, the Appellate Tribunal or any Court by way of appeal, reference, revision or prosecution shall be continued and disposed of as if this Ordinance has not come into force.

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[1] Substituted by the Finance Act, 2002. The substituted sub-section (1) read as follows:
"(1) The repealed Ordinance shall continue to apply to the assessment year ending on the 30th day of June 2003. "

[2] Substituted by the Finance Act, 2002. The substituted sub-section (2) read as follows:
"(2) In making any assessment in respect of any income year ending on or before the 30th day of June 2002, the provisions of the repealed Ordinance relating to the computation of total income and the tax payable thereon shall apply as if this Ordinance has not come into force."

[3] Inserted by the Finance Act, 2003. Earlier this was inserted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

[4] Substituted by the Finance Act, 2002. The substituted sub-section (3) read as follows:
"(3) Where any return of income has been furnished by a person for any assessment year ending on or before the 30th day of June 2003, proceedings for the assessment of the person for that year shall be taken and continued as if this Ordinance has not come into force. "

[5] The word "sub-section" substituted by the Finance Act, 2005.

(5) Where the period prescribed for any application, appeal, reference or revision under the repealed Ordinance had expired on or before the commencement of this Ordinance, nothing in this Ordinance shall be construed as enabling such application, appeal, reference or revision to be made under this Ordinance by reason only of the fact that a longer period is specified or provision for an extension of time in suitable cases by the appropriate authority.

(6) Any proceeding for [1][ ] prosecution in respect of an assessment for an income year ending on or before the 30th day of June 2002 shall be taken and continued as if this Ordinance has not come into force.

(7) Any income tax, super tax, surcharge, penalty, additional tax, or other amount payable under the repealed Ordinance may be recovered under this Ordinance, but without prejudice to any action already taken for the recovery of the amount under the repealed Ordinance.

(8) Any election or declaration made or option exercised by any person under any provision of the repealed Ordinance and in force immediately before the commencement of this Ordinance shall be treated as an election or declaration made, or option exercised under the corresponding provisions, if any, of this Ordinance.

(9) Anything done or action taken under the repealed Ordinance in so far as it is not inconsistent with the [2][provisions] of this Ordinance shall, without prejudice to anything already done or any action already taken, be treated as having been done or taken under this Ordinance.

(10) Any agreement entered into, appointment made, approval given, recognition granted, direction, instruction, notification, notice, order or rule issued or made under any provision of the repealed Ordinance and in force or valid at the commencement of this Ordinance shall, so far as it is not inconsistent with the corresponding provision of this Ordinance or any agreement, appointment entered into, approval given, recognition granted, direction, instruction, notification, notice, order or rule issued or made under this Ordinance, be treated as entered into, made, given, granted or issued, as the case may be, under that corresponding provision and shall unless revoked, cancelled or repealed by, or under, this Ordinance, continue in force accordingly.

(11) Any appointment, act of authority or other thing made or done by any authority or person and subsisting or in force at the commencement of this Ordinance which would have been made or done under any substantially corresponding provision of this Ordinance by any authority or person other than the one specified in the repealed Ordinance, or in any manner other than as specified in the repealed Ordinance shall continue in force and have effect as if it

[1] The words “the imposition of penalty or” omitted by the Finance Act, 2002.
[2] The word “provision” substituted by the Finance Act, 2005.

has been made or done under the corresponding provision of this Ordinance by the authority or person, or in the manner specified in the corresponding provision as if such provision had been in force when it was made or done.

[1][(12) Any notification issued under section 50 of the repealed Ordinance and in force on the commencement of this Ordinance shall continue to remain in force, unless [2][amended, modified], cancelled or repealed by, or under, this Ordinance.]

[3][(13) The authority which issued any notification, notice, direction or instruction, or made any rule, agreement or appointment, or granted any approval or recognition, referred to in sub-sections (10) and (12), shall have the power to [4][amended, modified], cancel or repeal any such notification, notice, direction, instruction, rule, agreement, appointment, approval or recognition.]

[5][(14) Any yield from National Saving Schemes of Directorate of National Savings where investment was made on or before 30th June, 2001 and any income derived from Mahana Amdani Account where monthly instalment does not [6][exceed] one thousand rupees shall continue to remain exempt and any person paying such yield or income shall not deduct tax under section 151 therefrom and the recipient of such yield or income shall not be required to produce an exemption certificate under section 159 in support of the said exemption.]

(15) Section 107AA of the repealed Ordinance shall continue to apply until the 30th day of June, 2002.

(16) The Income Tax Rules made under the repealed Ordinance, on the valuation of perquisites shall continue to apply [7][in respect of any income year ending on or before] the 30th day of June 2002.

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[1] Substituted by the Finance Act, 2002. The substituted sub-section (12) read as follows:
"(12) Clause 77C of Part I of the First Schedule of the repealed Ordinance shall continue to apply to the yield on National Savings Deposit Certificates issued before 1st July, 2001 and a person paying yield on such a Certificate shall not deduct tax under section 151 from the payment."

[2] The word "revoked" substituted by the Finance Act, 2005.

[3] Substituted by the Finance Ordinance, 2002. The substituted sub-section (13) read as follows:
" (13) There is no requirement for the holder of Certificate to which sub-section (14) applies to acquire an exemption certificate under section 159 to give effect to the exemption."

[4] The word "revoke" substituted by the Finance Act, 2005.

[5] Substituted by the Finance Act, 2003. The substituted sub-section (14) read as follows:
[A][(14) Clause (77C) of Part I of the First Schedule of the repealed Ordinance shall continue to apply to the yield on National Savings Deposit Certificates issued before 1st July, 2001, and a person paying yield on such a Certificate shall not deduct tax under section 151 from the payment, and the holder of such Certificate shall not be required to acquire an exemption certificate under section 159 to give effect to the said exemption.]
[A] Earlier this clause was inserted by Finance Act, 2002.

[6] The word "exceeds" substituted by the Finance Act, 2005.

[7] Substituted for the word "until" by the Finance Act, 2002.

(17) Item 8(5)(h) of the Third Schedule to the repealed Ordinance shall continue to apply to assets covered by the item.

[1][ ]

[2]**[239A. Transition to Federal Board of Revenue.**—Any reference to the Central Board of Revenue, wherever occurring, in this Ordinance and the rules made thereunder and Notifications, Orders, or any other instrument issued thereunder shall be construed as a reference to the Federal Board of Revenue on the commencement of the Federal Board of Revenue Act, 2007.]

240. Removal of difficulties.- (1) Subject to sub-section (2), if any difficulty arises in giving effect to any of the provisions of this Ordinance, the Federal Government may, by notification in the official Gazette, make such order, [3][not] inconsistent with the provisions of this Ordinance, as may appear to it to be necessary for the purpose of removing the difficulty.

(2) No such power shall be exercised under sub-section (1) after the 30th day of June 2004.

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[1] Omitted by the Finance Act, 2003. Earlier this was omitted by S.R.O. 633(I)/2002, dated 14.09.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003. The omitted sub-section (18) read as under:-

"(18) In this section, 'Income Tax authority' means an Income Tax authority as specified in section 3 of the repealed Ordinance."

Earlier this was substituted by Finance Act, 2002. The substituted sub-section (18) read as follows:

"(18) In this section, -

"assessment year" means assessment year as defined in the repealed Ordinance;

"income tax authority" means income tax authority as defined in section 3 of the repealed Ordinance;

"income year" means income year as defined in the repealed Ordinance; and

"repealed Ordinance" means the Income Tax Ordinance, 1979 (XXXI of 1979)."

[2] Inserted by the Finance Act, 2007.

[3] Substituted for the word "no" by the Finance Act, 2002.

THE FIRST SCHEDULE

PART I
RATES OF TAX
(See Chapter II)

Division I
Rates of Tax for Individuals and Association of Persons

1. Subject to [1][[2][clause] (1A) [3][ ]], the rates of tax imposed on the taxable income of every individual [4][except a salaried taxpayer] or association of persons to which sub-section (1) of section 92 applies shall be as set out in the following table, namely:–

[5][TABLE

S. No.	Taxable income	Rate of tax.
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs.100,000	0%
2.	Where the taxable income exceeds Rs.100,000 but does not exceed Rs.110,000	0.50%
3.	Where the taxable income exceeds Rs.110,000 but does not exceed Rs.125,000	1.00%
4.	Where the taxable income exceeds Rs.125,000 but does not exceed Rs.150,000	2.00%

[1] The word, brackets and figure "clause (2)" substituted by the Finance Act, 2005.
[2] The word "clauses" substituted by the Finance Act, 2006.
[3] The word, brackets and figure "and (2)" omitted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2005.
[5] Substituted by the Finance Act, 2006. The substituted "Table" read as follows:

"[A][**TABLE**

S. No.	Taxable income.	Rate of tax.
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs. 100,000.	0%
2.	Where taxable income exceeds Rs. 100,000 but does not exceed Rs. 150,000	7.5% of the amount exceeding Rs. 100,000
3.	Where taxable income exceeds Rs. 150,000 but does not exceed Rs. 300,000.	3,750 plus 12.5% of the amount exceeding Rs. 150,000
4.	Where taxable income exceeds Rs. 300,000 but does not exceed Rs. 400,000.	22,500 plus 20% of the amount exceeding Rs. 300,000.
5.	Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 700,000.	42,500 plus 25% of the amount exceeding Rs. 400,000.
6.	Where taxable income exceeds Rs. 700,000.	117,500 plus 35% of the amount exceeding Rs. 700,000.]"

[A] The "Table" earlier substituted by the Finance Act, 2004.

5.	Where the taxable income exceeds Rs.150,000 but does not exceed Rs.175,000	3.00%
6.	Where the taxable income exceeds Rs.175,000 but does not exceed Rs.200,000	4.00%
7.	Where the taxable income exceeds Rs.200,000 but does not exceed Rs.300,000	5.00%
8.	Where the taxable income exceeds Rs.300,000 but does not exceed Rs.400,000	7.50%
9.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	10.00%
10.	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000	12.50%
11.	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000	15.00%
12.	Where the taxable income exceeds Rs.800,000 but does not exceed Rs.10,00,000	17.50%
13.	Where the taxable income exceeds Rs.10,00,000 but does not exceed Rs.13,00,000	21.00%
14.	Where the taxable income exceeds Rs.13,00,000	25.00%]

[1][Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.125,000/-.]

[2][(1A) Where the income of an individual chargeable under the head “salary” exceeds fifty percent of his taxable income, the rates of tax to be applied shall be as set out in the following table namely: -

[1] Inserted by the Finance Act, 2006.
[2] Inserted by the Finance Act, 2005.

[1][TABLE

S. No. (1)	Taxable income (2)	Rate of tax. (3)
1.	Where taxable income does not exceed Rs.150,000	0%
2.	Where the taxable income exceeds Rs.150,000 but does not exceed Rs.200,000	0.25%
3.	Where the taxable income exceeds Rs.200,000 but does not exceed Rs.250,000	0.50%
4.	Where the taxable income exceeds Rs.250,000 but does not exceed Rs.300,000	0.75%
5.	Where the taxable income exceeds Rs.300,000 but does not exceed Rs.350,000	1.50%
6.	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000	2.50%
7.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000	3.50%
8.	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000,	4.50%
9.	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.700,000,	6.00%

[1] Substituted by the Finance Act, 2006. The substituted "Table" is as follows:

"TABLE

S. No. (1)	Taxable income (2)	Rate of tax. (3)
1.	Where taxable income does not exceed Rs. 100,000	Nil
2.	Where taxable income exceeds Rs. 100,000 but does not exceed Rs. 200,000	3.5% of the amount exceeding Rs. 100,000
3.	Where taxable income exceeds Rs. 200,000 but does not exceed Rs. 400,000	Rs. 3,500 plus 12% of the amount exceeding Rs. 200,000
4.	Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 700,000	Rs. 27,500 plus 25% of the amount exceeding Rs. 400,000
5.	Where taxable income exceeds Rs. 700,000	Rs. 102,500 plus 30% of the amount exceeding Rs.700,000."

10.	Where the taxable income exceeds Rs.700,000 but does not exceed Rs.850,000,	7.50%
11.	Where the taxable income exceeds Rs.850,000 but does not exceed Rs.950,000,	9.00%
12.	Where the taxable income exceeds Rs.950,000 but does not exceed Rs.1,050,000,	10.00%
13.	Where the taxable income exceeds Rs.1,050,000 but does not exceed Rs.1,200,000,	11.00%
14.	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,500,000,	12.50%
15.	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.1,700,000,	14.00%
16.	Where the taxable income exceeds Rs.1,700,000 but does not exceed Rs.2,000,000,	15.00%
17.	Where the taxable income exceeds Rs.2,000,000 but does not exceed Rs.3,150,000,	16.00%
18.	Where the taxable income exceeds Rs.3,150,000 but does not exceed Rs.3,700,000,	17.50%
19.	Where the taxable income exceeds Rs.3,700,000 but does not exceed Rs.4,450,000,	18.50%
20.	Where the taxable income exceeds Rs.4,450,000 but does not exceed Rs.8,400,000,	19.00%
21.	Where the taxable income exceeds Rs.8,400,000.	20.00%]

[1][Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.200,000/-.]

[2][ ]

[3][Division IA
Rate of Tax on certain persons

The rate of tax to be paid under sub-section (1) of section 113A shall be [4][0.50%] of the turnover.]

[5][ ]

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[1] Inserted by the Finance Act, 2006.

[2] Omitted by the Finance Act, 2006. The omitted clause (2) read as follows:

"2. Where, for a tax year, an individual or association of persons to which subsection (1) of section 92 applies derives income from agriculture to which section 41 applies and the gross amount of such income for the year exceeds Rs. 80,000, the rates of tax imposed on the taxable income of the individual or association of persons for the year shall be as set out in the following table, namely:–

"TABLE

S. No. (1)	Taxable income (2)	Rate of tax. (3)
1.	Where taxable income does not exceed Rs.150,000	7.5%
2.	Where taxable income exceeds Rs.150,000 but does not exceed Rs.300,000	Rs.11,250 plus 12.5% of the amount exceeding Rs.150,000.
3.	Where taxable income exceeds Rs.300,000 but does not exceed Rs.400,000	Rs.30,000 plus 20% of the amount exceeding Rs.150,000.
4.	Where taxable income exceeds Rs.400,000 but does not exceed Rs.700,000	Rs.50,000 plus 25% of the amount exceeding Rs.400,000
5.	Where taxable income exceeds Rs.700,000	Rs.125,000 plus 35% of the amount exceeding Rs.700,000**"**

[3] Inserted by the Finance Act, 2004.

[4] The figure "0.75%" substituted by the Finance Act, 2007.

[5] Omitted by the Finance Act 2002. The omitted clause read as follows:

"3. The rates of tax applicable to a legal representative of a deceased individual liable for tax under clause (b) of sub-section (1) of section 87 shall be –

(a) in the tax year in which the deceased died and the following tax year, the rates applicable under clause 1; or

(b) in any subsequent year, 35%."

[1][Division II
Rates of Tax for Companies

[2][(i) The rate of tax imposed on the taxable income of a company for the tax year 2007 and onward shall be 35%.]

[3][(ii) Where the taxpayer is a society or a cooperative society, the tax shall be payable at the rates applicable to [4][a] company or an individual, whichever is beneficial to the taxpayer.]

[5][(iii) where the taxpayer is a small company as defined in section 2, tax shall be payable at the rate of 20%.]

Division III
Rate of Dividend Tax

The rate of tax imposed under section 5 on [6][dividend] received from a [7][ ] company shall be [8][10%.]

---

[1] Substituted by the Finance Act, 2002. The substituted Division II read as follows:

"Division II

Rates of Tax for Companies

The rates of tax imposed on the taxable income of a company shall be as set out in the following table, namely:–

TABLE

Banking company (1)	Public company, other than a banking company. (2)	Private company, other than a banking company. (3)
50%	35%	45%"

[2] Substituted by the Finance Act, 2007. The substituted clause (i) read as follows:

"(i) The rates of tax imposed on the taxable income of a company shall be set out in the following table, namely:-

TABLE

Tax Year (1)	Banking Company (2)	Public company other than a banking company (3)	Private company other than a banking company (4)
2003	47%	35%	43%
2004	44%	35%	41%
2005	41%	35%	39%
2006	38%	35%	37%
2007	35%	35%	35%"

[3] Added by the Finance Act, 2003.

[4] The words "the public" substituted by the Finance Act, 2007.

[5] Added by the Finance Act, 2005.

[6] Substituted for the word "dividends" by the Finance Act, 2002.

[7] The word "resident" omitted by the Finance Act, 2003.

[8] Inserted by the Finance Act, 2007.

[1][ ]

[2][ ]

Division IV
Rate of Tax on Certain Payments to Non-residents

The rate of tax imposed under section 6 on payments to non-residents shall be 15% of the gross amount of the royalty or fee for technical services.

Division V
Rate of Tax on Shipping or Air Transport Income of a Non-resident Person

The rate of tax imposed under section 7 shall be –

(a) in the case of shipping income, 8% of the gross amount received or receivable; or

(b) in the case of air transport income, 3% of the gross amount received or receivable.

[3][**Division VI**
Income from Property

(a) the rate of tax to be paid under section 15 shall be 5% of the gross amount of rent chargeable to tax under that section.]

PART II
RATES OF ADVANCE TAX
(See Division II of Part V of Chapter X)

The rate of advance tax to be collected by the Collector of Customs under section 148 shall be [4][5]% of the value of the goods.

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[1] Omitted by the Finance Act, 2007. The omitted clause (a) read as follows:
"(a) in the case of [A][dividend] received by a public company or an insurance company [B][or any other resident company], 5% of the gross amount of the dividend; or"
[A] Earlier the words "dividends" substituted by the Finance Act, 2002.
[B] Earlier inserted by the Finance Act, 2006.

[2] Omitted by the Finance Act, 2007. The omitted clause (b) read as follows:
"(b) in any other case, 10% of the gross amount of the dividend."

[3] Inserted by the Finance Act, 2006.

[4] The figure "6" substituted by the Finance Act, 2007.

PART III
DEDUCTION OF TAX AT SOURCE
(See Division III of Part V of Chapter X)

[1][DIVISION-I
PROFIT ON DEBT

The rate of tax to be deducted under section 151 shall be 10% of the yield or profit paid.]

[2][Division II
Payments to non-residents

(1) The rate of tax to be deducted from a payment referred to in sub-section (1A) of section 152 shall be 6% of the gross amount payable.

(2) The rate of tax to be deducted under sub-section (2) of section 152 shall be 30% of the gross amount paid.]

Division III
Payments for Goods or Services

(1) The rate of tax to be deducted from a payment referred to in clause (a) of sub-section (1) of section 153 shall be –

(a) in the case of the sale of rice, [3][ ], cotton seed or edible oils, [4][1.5]% of the gross amount payable; or

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[1] Substituted by the Finance Act, 2006. The substituted "Division-I" read as follows:

"Division I
Profit on debt

The rate of tax to be deducted under section 151 shall be –

(a) in the case of any profit on debt referred to in clause (a) or (b) [A][or (d)] of subsection (1) of section 151,10% of the yield or profit paid; or

(b) in the case of any profit on debt referred to in clause (c) of sub-section (1) of section 151, [B][20%] of the yield or profit paid."

[A] Inserted by the Finance Act, 2002.

[B] The figure "30%" earlier substituted by the Finance Act, 2002.

[2] Substituted by the Finance Act, 2006. The substituted "Division-II" read as follows:

"Division II
Payments to non-residents

The rate of tax to be deducted under sub-section (2) of section 152 shall be 30% of the gross amount paid."

[3] The word "cotton" omitted by the Finance Act, 2005.

[4] Substituted for the figure "1" by the Finance Act, 2003. Earlier this was substituted by S.R.O. 586(I)/2002 dated 28.08.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.

(b) in the case of the sale of any other goods, 3.5% of the gross amount payable.

[1][(2) The rate of tax to be deducted from a payment referred to in clause (b) of sub-section (1) of section 153 shall be—

(i) in the case of transport services, two per cent of the gross amount payable; or

(ii) in any other case, six percent of the gross amount payable.]

[2][(3) The rate of tax to be deducted from a payment referred to in clause (c) of sub-section (1) of section 153 shall be 6% of the gross amount payable.]

[3][ ]

Division IV
Exports

[4][(1) The rate of tax to be deducted under sub-section (1), (3), (3A) or (3B) of section 154 shall be 1% of the proceeds of the export.]

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[1] Substituted by the Finance Act, 2007. The substituted clause (2) read as follows:
"[A][(2) the rate of tax to be deducted from a payment referred to in clause (b) of sub-section (1) of section 153 shall be 6% of the gross amount payable.]"
[A] Earlier substituted clause (2) by the Finance Act, 2006.

[2] Substituted by the Finance Act, 2005. The substituted clause (3) read as follows:
"(3) The rate of tax to be deducted from a payment referred to in clause (c) of sub-section (1) of section 153 shall be –
(a) in the case of a contract with a value exceeding thirty million rupees, 6% of the gross amount payable; or
(b) in any other case, 5% of the gross amount payable."

[3] Omitted by the Finance Act, 2006. The omitted clause (4) read as follows:
"[A][(4) The rate of tax to be deducted from a payment referred to in sub-section (3) of section 153 shall be 6% of the gross amount payable.]"
[A] Earlier clause (4) was substituted by the Finance Act, 2005.

[4] Substituted by the Finance Act, 2007. The substituted clause (1) read as follows:
"(1) The rate of tax to be deducted under sub-section [A][(1A) of section 153 and sub-section (1), (3), (3A) or (3B)] of section 154 shall be as set out in the following table, namely:–

TABLE

S. No. (1)	Nature of goods exported. (2)	Rate of deduction of tax (3)
1.	Exports listed in Part I of the Seventh Schedule	0.75% of the proceeds of the export
2.	Exports listed in Part II of the Seventh Schedule	1.0% of the proceeds of the export
3.	Exports listed in Part III of the Seventh Schedule	1.25% of the proceeds of the export

(2) The rate of tax to be deducted under sub-section (2) of section 154 shall be [1][5]% [2][ ].

[3][(3) The rate of tax to be deducted under sub-section (1A) of section 153 shall be 0.5%.]

Division V
Income from Property

The rate of tax to be deducted under section 155 shall be [4][5]% of the gross rent paid.

[5][**Division VI**
Prizes and Winnings

(1) The rate of tax to be deducted under section 156 on a prize on prize bond shall be 10% of the gross amount paid.

(2) The rate of tax to be deducted under section 156 on winnings from a raffle, lottery, prize on winning a quiz, prize offered by companies for promotion of sale, or cross-word puzzle shall be 20% of the gross amount paid.]

[6][**Division VIA**
Petroleum Products

Rate of collection of tax under section 156A shall be 10% of the amount of payment.]

[B][4	Exports listed in Part IV of the Seventh Schedule		1.50% of the proceeds of export]"

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[1] Substituted for the figure "10" by the Finance Act, 2003.
[2] The words "of the proceeds of the export" omitted by the Finance Act, 2003.
[3] Added by the Finance Act, 2007.
[4] Substituted for the figure "7.5" by the Finance Act, 2003.
[5] Substituted by the Finance Act, 2004. The substituted Division VI read as follows:

"Division VI
Prizes and Winnings

The rate of tax to be deducted under section 156 shall be 10% of the gross amount paid."

[6] Added by the Finance Act, 2004.

[1][**Division VIB**
CNG STATIONS

The rate of tax to be collected under section 234A in the case of a Compressed Natural Gas station shall be four per cent of the gas consumption charges.]

[2][ ]

PART IV
(See Chapter XII)
DEDUCTION OR COLLECTION OF ADVANCE TAX

[3][ ]

[4][**DIVISION–II**
BROKERAGE AND COMMISSION

The rate of collection under sub-section (1) of section 233 shall be 10% of the amount of the payment]

[5][**Division IIA**
Rates for Collection of Tax by a Stock Exchange Registered in Pakistan

(i)	in case of purchase of shares as per clause (a) of sub-section (1) of section 233A.	[1][0.01%] of purchase value

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[1] Added by the Finance Act, 2007.

[2] Omitted by the Finance Act, 2002. The omitted Division VII read as follows:

"Division VII
Petroleum Products

The Rate of tax to be deducted under section 157 shall be 10% of the commission or discount."

[3] Omitted by the Finance Act, 2002. The omitted Division I read as follows:

"Division I
Transfer of Funds

Rate of tax for the purpose of collection of tax under section 232 is 0.30 percent of the amount."

[4] Substituted by the Finance Act, 2006. The substituted "Division-II" read as follows:

"[A][**DIVISION-II**
BROKERAGE AND COMMISSION

The rate of collection under sub-section (1) of section 233 shall be,-

(a)	in the case of indenting commission agents, advertising agents and yarn dealers.	5% of the amount of the payment.
(b)	in the case of others.	10%.]"

[A] The "Division-II" earlier was substituted by the Finance Act, 2005.

[5] Inserted by the Finance Act, 2004.

(ii)	in case of sale of shares as per clause (b) of sub-section (1) of section 233A.	[2][0.01%] of sale value
(iii)	in case of trading of shares as mentioned in clause (c) of sub-section (1) of section 233A.	[3][0.01%] of traded value
(iv)	in case of financing of carry over trades (Badla) as per clause (d) of sub-section (1) of section 233A.	10% of the carry over charge]

Division III
Transport Business

Rates of collection of tax under section 234,-

(1) In the case of goods transport vehicles with registered laden weight of—

(a)	Less than 2030 kilograms.	Rs. 1,200
(b)	2030 kilograms or more but less than 8120 kilograms.	Rs. 7,200
(c)	8120 kilograms or more but less than 15000 kilograms.	Rs.12,000
(d)	15000 kilograms [4][or more] [but less than 30,000 kilograms.	Rs.18,000
(e)	30,000 kilograms [5][or] more but less than 45,000 kilograms.	Rs.24,000
(f)	45,000 kilograms or more but less than 60,000 kilograms.	Rs.30,000
(g)	60,000 kilograms or more.	Rs.36,000

[6][(1A) In the case of goods transport vehicles with laden weight of 8120 kilograms or more, advance tax after a period of ten years form the date of first registration of vehicle in Pakistan shall be collected at the rate of twelve hundred rupees per annum;]

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[1] The figure “0.005” substituted by the Finance Act, 2006.
[2] The figure “0.005” substituted by the Finance Act, 2006.
[3] The figure “0.005” substituted by the Finance Act, 2006
[4] Inserted by the Finance Act, 2002.
[5] Substituted for the word “ore” by the Finance Act, 2002.
[6] Inserted by the Finance Act, 2003.

(2) In the case of passenger transport vehicles plying for hire with registered seating capacity of—

(a)	Four or more persons but less than ten persons.	Rs. 25 [1][per seat per annum].
(b)	Ten or more persons but less than twenty persons.	Rs. 60 [2][per seat per annum].
(c)	Twenty persons ore more.	Rs.100[3][per seat per annum].

(3) Other private motor cars with engine capacity of—

(a)	1000cc to 1199 cc.	Rs. 500
(b)	1200cc to 1299cc.	Rs. 750
(c)	1300cc to 1599cc.	Rs.1,500
[4][(ca)	1600 cc to 1999cc]	Rs.2,000
(d)	2000cc and above.	Rs.3,000

Division IV
Electricity Consumption

Rate of collection of tax under section 235 [5][where the amount of electricity bill,]-

[6][(a)	does not exceed Rs. 400.			Rs. 60
(b)	exceeds Rs. 400	but does not exceed Rs.	600	Rs. 80
(c)	exceeds Rs. 600	but does not exceed Rs.	800	Rs. 100
(d)	exceeds Rs. 800	but does not exceed Rs.	1000	Rs. 160
(e)	exceeds Rs. 1000	but does not exceed Rs.	1500	Rs. 300
(f)	exceeds Rs. 1500	but does not exceed Rs.	3000	Rs. 350
(g)	exceeds Rs. 3000	but does not exceed Rs.	4500	Rs. 450

[1] Inserted by Finance Act, 2003. Earlier this was inserted by S.R.O. 586(I)/2002 dated 28.08.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.
[2] Inserted by Finance Act, 2003. Earlier this was inserted by S.R.O. 586(I)/2002 dated 28.08.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.
[3] Inserted by Finance Act, 2003. Earlier this was inserted by S.R.O. 586(I)/2002 dated 28.08.2002 which stands rescinded by SRO 608(I)/2003, dated 24.06.2003 with effect from 01.07.2003.
[4] Inserted by the Finance Act, 2002.
[5] Inserted by the Finance Act, 2002.
[6] Substituted by the Finance Act, 2003. The substituted clauses read as follows:

(a)	does not exceed Rs. 400.	Rs. 60
(b)	exceeds Rs. 400 but does not exceed Rs. 600	Rs. 80
(c)	exceeds Rs. 600 but does not exceed Rs. 800	Rs. 100
(d)	exceeds Rs. 800 but does not exceed Rs. 1000	Rs. 160
(e)	exceeds Rs. 1000 but does not exceed Rs. 1500	Rs. 300
(f)	exceeds Rs. 1500 but does not exceed Rs. 3000	Rs. 450
(g)	exceeds Rs. 3000 but does not exceed Rs. 4,500	Rs, 600
(h)	exceeds Rs. 4500 but does not exceed Rs. 6000	Rs. 750
(i)	exceeds Rs. 6000	Rs. 1000

(h)	exceeds Rs. 4500 but does not exceed Rs. 6000	Rs. 500
(i)	exceeds Rs. 6000 but does not exceed Rs. 10000	Rs. 650
(j)	Exceeds Rs. 10000 but does not exceed Rs. 15000	Rs. 1000
(k)	Exceeds Rs. 15000 but does not exceed Rs. 20000	Rs. 1500
(l)	Exceeds Rs. 20000.	Rs. 2000]

Division V
Telephone users

Rates of collection of tax under section 236,--

(a) In the case of telephone subscriber [1][(other than mobile phone subscriber)] where the monthly bill—

(a)	exceeds Rs. 1000 but does not exceed Rs. 2000.	Rs. 50
(b)	exceeds Rs. 2000 but does not exceed Rs. 3000.	Rs. 100
(c)	exceeds Rs. 3000 but does not exceed Rs. 5000.	Rs. 200
(d)	exceeds Rs. 5000.	Rs. 300

[2][(b) in the case of subscriber of mobile telephone and pre-paid — 10% of the amount of bill or sales price of pre-paid telephone card]

[1] Inserted by the Finance Act, 2002.
[2] Substituted by the Finance Act, 2002. The substituted clause (b) read as follows:
"(b) In the case of mobile telephone subscribers if the monthly bill or the issue or sale price of prepaid telephone card.-

(a)	Does not exceed Rs. 2000.	Rs. 125
(b)	Exceeds Rs. 2000 but does not exceed Rs. 2000.	Rs. 250
(c)	Exceeds Rs. 5000.	Rs. 400"

[1][**DIVISION-VI**
CASH WITHDRAWAL FROM A BANK

The Rate of tax to be deducted under section 231A shall be [2][0.2]% of the cash amount withdrawn.]

[3][**Division VII**
PURCHASE OF MOTOR CARS

The rate of tax to be collected under section 231 B shall be five per cent of the gross amount payable for the purchase of motor vehicle.]

[1] Added by the Finance Act, 2005.
[2] The figure "0.1" substituted by the Finance Act, 2006.
[3] Added by the Finance Act, 2007.

THE SECOND SCHEDULE
EXEMPTIONS AND TAX CONCESSIONS

[See section 53]

PART I
EXEMPTIONS FROM TOTAL INCOME

Incomes, or classes of income, or persons or classes of persons, enumerated below, shall be exempt from tax, subject to the conditions and to the extent specified hereunder:

[1][ ]

(2) Any income chargeable under the head "Salary" received by, or due to, any person, not being a citizen of Pakistan or a resident individual, as remuneration for services rendered by him as a health professional under the contract of service concluded with Shaukat Khanum Memorial Hospital and Research Center, Lahore, and approved by the Federal Government for the purposes of this clause.

(3) Any income chargeable under the head "Salary" received by a person who, not being a citizen of Pakistan, is engaged as an expert or technical, professional, scientific advisor or consultant or senior management staff by institutions of the Agha Khan Development Network, (Pakistan) listed in Schedule I of the Accord and Protocol dated, November 13, 1994 executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network.

[2][**(4)** Any income chargeable under the head “Salary” received by-

(a) a Pakistani seafarer, working on Pakistan flag vessels for one hundred and eighty three days or more during a tax year; or

(b) a Pakistani seafarer working on a foreign vessel provided that such income is remitted to Pakistan, not later than two months of the relevant income year, through normal banking channels.]

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[1] Omitted by the Finance Act, 2003. The omitted clause (1) read as follows:
“**(1)** Any income chargeable under the head "Salary" received by any person being an employee of the International Irrigation Management Institute (IIMI) in Pakistan, who is neither a citizen of Pakistan nor a resident individual in any of the four years immediately preceding the year in which he arrived in Pakistan.”

[2] Substituted by SRO 1119(I)/2006, dated 01.11.2006. The substituted clause (4) read as follows:
“**(4)** Any income chargeable under head “Salary” received by a Pakistani seafarer working on a foreign vessel [A][or on Pakistan flag vessels for 183 days or more during a tax year] provided that such income is remitted to Pakistan, not later than two months of the relevant income year, through normal banking channels.”

[A] Earlier inserted by the Finance Act, 2006.

(5) Any allowance or perquisite paid or allowed as such outside Pakistan by the Government to a citizen of Pakistan for rendering service outside Pakistan.

(6) Any income chargeable under the head "Salary" received by a person, not being a citizen of Pakistan, by virtue of his employment with the British Council.

[1][ ]

(8) Any pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer).

Provided that where the person receives more than one such pension, the exemption applies only to the higher of the pensions received.

[2][**(9)** Any pension –

(i) received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government;

(ii) granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service.]

[3][ ]

[4][ ]

(12) Any payment in the nature of commutation of pension received from Government or under any pension scheme approved by the Central Board of Revenue for the purpose of this clause.

(13) Any income representing any payment received by way of gratuity or commutation of pension by an employee on his retirement or, in the event of his death, by his heirs as does not exceed –

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[1] Omitted by the Finance Act, 2002. The omitted clause (7) read as follows:
"**(7)** Any income chargeable under the head "Salary" paid by Government to Khasadars, levies and Badraggas employed in the tribal territory on the North West Frontier and of all persons employed in the tribal levy services in Baluchistan."

[2] Substituted by the Finance Act, 2006. The substituted clause (9) read as follows:
"**(9)** Any pension received in respect of any service rendered by a member of the Armed Forces of Pakistan or as an employee of the Federal Government or a Provincial Government."

[3] Omitted by the Finance Act, 2006. The omitted clause (10) read as follows:
"**(10)** Any pension granted to any public servant to whom clause (14) does not apply in respect of injuries received in the performance of his duties."

[4] Omitted by the Finance Act, 2006. The omitted clause (11) read as follows:
"**(11)** Any pension granted to any public servant to whom clause (15) does not apply who has been invalidated from service on account of any bodily disability."

(i) in the case of an employee of the Government, a local authority, a statutory body or corporation established by any law for the time being in force, the amount receivable in accordance with the rules and conditions of the employee's services;

(ii) any amount receivable from any gratuity fund approved by the Commissioner in accordance with the rules in Part III of the Sixth Schedule;

(iii) in the case of any other employee, the amount not exceeding two hundred thousand rupees receivable under any scheme applicable to all employees of the employer and approved by the Central Board of Revenue for the purposes of this sub-clause; and

(iv) in the case of any employee to whom sub-clause (i), (ii) and (iii) do not apply, fifty per cent of the amount receivable or seventy-five thousand rupees, whichever is the less:

Provided that nothing in this sub-clause shall apply –

(a) to any payment which is not received in Pakistan;

(b) to any payment received from a company by a director of such company who is not a regular employee of such company;

(c) to any payment received by an employee who is not a resident individual; and to any gratuity received by an employee who has already received any gratuity from the same or any other employer.

[1][ ]

[2][ ]

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[1] Omitted by the Finance Act, 2006. The omitted clause (14) read as follows:
"**(14)** Any pension granted to the personnel of Armed Forces of Pakistan (including personnel of the Territorial Force and the National Service of Pakistan) in respect of injuries received in the performance of their duties as such."

[2] Omitted by the Finance Act, 2006. The omitted clause (15) read as follows:
"**(15)** Any pension granted to the personnel of the Armed Forces of Pakistan (including personnel of the Territorial Force and the National Service of Pakistan) invalidated from service with such Forces on account of bodily disability attributable to, or aggravated by, such service."

(16) Any income derived by the families and dependents of the "Shaheeds" belonging to Pakistan Armed Forces from the special family pension, dependents pension or children's allowance granted under the provisions of the Joint Services Instruction No. 5/66.

(17) Any income derived by the families and dependents of the "Shaheeds" belonging to the Civil Armed Forces of Pakistan to whom the provisions of the Joint Services Instruction No. 5/66 would have applied had they belonged to the Pakistan Armed Forces from any like payment made to them.

[1][ ]

(19) Any sum representing encashment of leave preparatory to retirement of a member of the Armed Forces of Pakistan or an employee of the Federal Government or a Provincial Government.

(20) Any income received by a person from an annuity issued under the Pakistan Postal Annuity Certificate Scheme on or after the 27th July, 1977, not exceeding ten thousand rupees per annum.

(21) Any income received by a person from an annuity or annuities issued [2][upto 30th June, 2005] by the State Life Insurance Corporation of Pakistan or a life insurance company registered under section 3 of the Insurance Ordinance, 2000 (XXXIX of 2000):

Provided that this clause shall not apply to so much of the income received by a person from an annuity or annuities which, together with the income from any annuity or annuities referred to in clause (20), exceeds ten thousand rupees per annum.

(22) Any payment from a provident fund to which the Provident Funds Act, 1925(XIX of 1925) applies.

(23) The accumulated balance due and becoming payable to an employee participating in a recognized provident fund.

[3][**(23A)** the accumulated balance upto 25% received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person's-

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[1] Omitted by the Finance Act, 2006. The omitted clause (18) read as follows:
"**(18)** Any pensions granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service."
[2] Inserted by Finance Act, 2005.
[3] Inserted by the Finance Act, 2006.

(a) retirement; or

(b) disability rendering him unable to work; or

(c) death by his nominated survivors.]

(24) Any benevolent grant paid from the Benevolent Fund to the employees or members of their families in accordance with the provisions of the Central Employee Benevolent Fund and Group Insurance Act, 1969.

(25) Any payment from an approved superannuation fund made on the death of a beneficiary or in lieu of or in commutation of any annuity, or by way of refund of contribution on the death of a beneficiary –

(i) in the case of an employee of the Government or a local authority or a statutory body or corporation established by any law for the time being in force, the amount receivable in accordance with the rules and conditions of his service;

(ii) any amount receivable from any gratuity fund approved by the Commissioner in accordance with the rules contained in Part III of the Sixth Schedule;

(iii) in the case of any other employee, the amount not exceeding two hundred thousand rupees receivable under any scheme applicable to all employees of the employer and approved by the Central Board of Revenue for the purposes of this sub-clause; and

(iv) in the case of any employee to whom sub-clauses (i), (ii) and (iii) do not apply, fifty per cent of the amount receivable or seventy-five thousand rupees, whichever is the less:

Provided that nothing in this sub-clause shall apply-

(a) to any payment which is not received in Pakistan ;

(b) to any payment received from a company by a director of such company who is not regular employee of such company;

(c) to any payment received by an employee who is not a resident of Pakistan; and

(d) to any gratuity received by an employee who has already received any gratuity from the same or any other employer.

(26) Any income of a person representing the sums received by him as a worker from out of the Workers Participation Fund established under the Companies Profits (Workers Participation) Act, 1968 (XII of 1968).

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[1] Omitted by the Finance Act, 2002. The omitted clause (27) read as follows:
" **(27)** Any income of an officer representing the sum received by him as Entertainment Allowance admissible to him under the Ministry of Finance and Provincial Coordination (Finance Division) Office Memorandum No. F.2(2)-Imp-1/77, dated the 29th April, 1977."

[2] Omitted by the Finance Act, 2002. The omitted clause (28) read as follows:
"**(28)** Any income of an officer representing the sum received by him as Entertainment Allowance admissible to him under the Ministry of Finance (Finance Division) Office Memorandum No. F.1 (1)-Imp/83, dated the 18th August, 1983."

[3] Omitted by the Finance Act, 2002. The omitted clause (29) read as follows:
"**(29)** Any income of an officer of the Pakistan Armed Forces representing the sum received as Entertainment Allowance admissible to him under the Ministry of Defence Office Memorandum No. 716(D)/(B)/77, dated the 29th April, 1977."

[4] Omitted by the Finance Act, 2002. The omitted clause (30) read as follows:
"**(30)** Any income of an officer representing the sum received by him as Entertainment Allowance admissible to him under the Cabinet Secretariat (Establishment Division) Office Memorandum No. 18/2/78-CV, dated the 13th July, 1978."

[5] Omitted by the Finance Act, 2002. The omitted clause (31) read as follows:
"**(31)** Any income of an officer representing the sum received by him as Senior Post Allowance admissible to him under the Ministry of Finance, Planning and Development (Finance Division) Office Memorandum No. F.1(36) Gaz-IMP-I/73, dated the 18th August, 1973."

[6] Omitted by the Finance Act, 2002. The omitted clause (32) read as follows:
"**(32)** Any income of an officer representing the sum received by him as Senior Post Allowance admissible to him under the Ministry of Finance and Provincial Coordination (Finance Division) Office Memorandum No. F.1(1) Imp-I/77, dated the 28th April, 1977."

[7] Omitted by the Finance At, 2003. The omitted clause (33) read as follows:
"**(33)** Any income of any officer representing the sum received by him as Orderly Allowance admissible to him under the Finance Division O.M. No. F.1(3)-IMP-II/85, dated the 24th October, 1985."

[8] Omitted by the Finance At, 2003. The omitted clause (34) read as follows:
"**(34)** Any income of an employee of a recognized University in Pakistan representing the sums received by him as [A][ ] Orderly Allowance admissible under the terms and conditions of his service."

[A] Earlier the words and comma "Senior Post Allowance, Entertainment Allowance or" omitted by the Finance Act, 2002.

(35) Any income representing compensatory allowance payable to a citizen of Pakistan locally recruited in Pakistan Mission abroad as does not exceed 75 per cent of his gross salary.

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(39) Any special allowance or benefit (not being entertainment or conveyance allowance) or other perquisite within the meaning of section 12 specially granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit.

(40) Any income of a newspaper employee representing Local Travelling Allowance paid in accordance with the decision of the Third Wage Board for Newspaper Employees constituted under the Newspaper Employees (Conditions of Service) Act, 1973, published in Part II of the Gazette of Pakistan, Extraordinary, dated the 28th June, 1980.

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[1] Omitted by the Finance At, 2003. The omitted clause (36) read as follows:
"**(36)** Any income of an officer representing the sum received by him as Personal Staff Subsidy admissible to him under the Cabinet Secretariat (Establishment Division) Office Memorandum No. 18/2/78-CV, dated the 13th July, 1978."

[2] Omitted by the Finance Act, 2002. The omitted clause (37) read as follows:
"**(37)** Any income representing cost of living allowance admissible to the Government employees at the rate of 7%."

[3] Omitted by the Finance Act, 2006. The omitted clause (38) read as follows:
"**(38)** Any sum paid, for purpose of meeting the charges for gas, water and electricity, or the value of gas, water and electricity provided free of charge to an employee up to ten per cent of the minimum of time scale, and where there is no time scale, up to ten per cent of the basic salary."

[4] Omitted by the Finance Act, 2003. The omitted clause (41) read as follows:
"**(41)** Such portion of the income of a member of Pakistan Armed Forces as is compulsorily payable by him under any orders issued by Government to mess, entertainment or band fund."

[5] Omitted by the Finance Act, 2006. The omitted clause (42) read as follows:
"**(42)** Any amount received as flying allowance by pilots, flight engineers and navigators employed by any Pakistani airline or by Civil Aviation Authority."

[6] Omitted by the Finance Act, 2006. The omitted clause (43) read as follows:
"**(43)** Any amount notified as flying allowance payable to pilots, flight engineers and navigators of the Pakistan Air Force."

[7] Omitted by the Finance Act, 2006. The omitted clause (44) read as follows:

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(51) The perquisite represented by the right of the President of Pakistan, the Provincial Governors and the Chiefs of Staff, Pakistan Armed Forces to occupy free of rent as a place of residence any premises provided by the Government.

(52) The perquisite represented by free conveyance provided and the sumptuary (entertainment) allowance granted by Government to Provincial Governors, the Chiefs of Staff, Pakistan Armed Forces and the Corps Commanders.

(53) The following perquisites and allowances provided or granted by Government to the Ministers of the Federal Government, namely :-

(a) rent-free accommodation in so far as the value thereof exceeds ten per cent of the basic salary of the Ministers concerned;

(b) house-rent allowance paid by Government in lieu of rent-free

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"**(44)** Any amount notified as flying allowance payable to pilots, flight engineers and navigators of the Pakistan Army and the Pakistan Navy."

[1] Omitted by the Finance Act, 2006. The omitted clause (45) read as follows:
"**(45)** Any amount received as flying allowance by junior commissioned officers or other ranks of Pakistan Armed Forces."

[2] Omitted by the Finance Act, 2006. The omitted clause (46) read as follows:
"**(46)** Any amount notified as submarine allowance payable to officers of the Pakistan Navy."

[3] Omitted by the Finance Act, 2006. The omitted clause (47) read as follows:
"**(47)** The value of rations issued in kind, or cash allowance paid in lieu thereof, to members of Pakistan Armed Forces or of Territorial Forces."

[4] Omitted by the Finance Act, 2006. The omitted clause (48) read as follows:
"**(48)** The value of rent-free quarters occupied by, or cash allowance paid in lieu thereof, to members of the Pakistan Armed Forces, including Territorial Force."

[5] Omitted by the Finance Act, 2006. The omitted clause (49) read as follows:
"**(49)** The conservancy allowance granted in lieu of free conservancy to personnel below commissioned rank of Pakistan Armed Forces and Territorial Force."

[6] Omitted by the Finance Act, 2003. The omitted clause (50) read as follows:
"**(50)** Deferred pay admissible to Armed Forces personnel under the new Pay Code."

accommodation in so far as it exceeds five hundred and fifty rupees per month;

(c) free conveyance; and

(d) sumptuary allowance.

[1][**(53A)** The following perquisites received by an employee by virtue of his employment, namely:-

(i) free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependents);

(ii) free or subsidized food provided by hotels and restaurants to its employees during duty hours;

(iii) free or subsidized education provided by an educational institution to the children of its employees;

(iv) free or subsidized medical treatment provided by a hospital or a clinic to its employees; and

(v) any other perquisite or benefit for which the employer does not have to bear any marginal cost, as notified by the Central Board of Revenue.]

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(55) The perquisites represented by the right of a judge of the Supreme Court of Pakistan or of a judge of High Court to occupy free of rent as a place of residence any premises provided by Federal or Provincial Government, as the case may be, or in case a judge chooses to reside in a house not provided by Government, so much of income which represents the sum paid to him as house rent allowance.

(56) The following perquisites, benefits and allowances received by a Judge of Supreme Court of Pakistan and Judge of High Court, shall be exempt from tax.

(1) (a) Perquisites and benefits derived [3][from] use of official car maintained at Government expenses.

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[1] Inserted by the Finance Act, 2005.
[2] Omitted by the Finance Act, 2002. The omitted clause (54) read as follows:
"**(54)** Any sum paid, for purpose of meeting the charges for gas, water and electricity, or the value of gas, water and electricity provided free of charge to the Federal and Provincial Ministers."
[3] The word "form" substituted by the Finance Act, 2005.

(b) Superior judicial allowance payable to a Judge of supreme Court of Pakistan and Judge of a High Court.

(c) Transfer allowance payable to a Judge of High Court.

(2) The following perquisites of the Judge of Supreme Court of Pakistan and Judge of High Court shall also be exempt from tax during service, and on or after retirement.

(a) The services of a driver and an orderly.

(b) 1000 (one thousand) free local telephone calls per month.

(c) 1000 units of electricity as well as (25 hm3 of gas) per month and free supply of water; and

(d) 200 litres of petrol per month.

(3) If during service, a judge dies, exemption from tax in respect of benefits and perquisites provided to widow as mentioned in sub-clause (2) shall also be available to the widow.

(57) (1) Any income from voluntary contributions, house property and investments in securities of the Federal Government derived by the following, namely:-

(i) National Investment (Unit) Trust of Pakistan established by the National Investment Trust Limited, if not less than ninety per cent of its Units at the end of that year are held by the public and not less than ninety per cent of its income of the year is distributed among the Unit-holders;

(ii) any Mutual Fund approved by the [1][Securities and Exchange Commission of Pakistan] and set up by the Investment Corporation of Pakistan, if not less than ninety per cent of its Certificates at the end of that year are held by the public and not less than ninety per cent of its income of that year is distributed among the Certificate-holders; and

(iii) Sheikh Sultan Trust, Karachi.

[1] Substituted for the words “Controller of Capital Issues” by the Finance Act, 2002.

(2) Any income derived by any Mutual Fund, investment company, or a collective investment scheme [1][or a real estate investment trust] [2][or Private Equity and Venture Capital Fund] approved by the Securities and Exchange Commission or the National Investment (Unit) Trust of Pakistan established by the National Investment Trust Limited from any instrument of redeemable capital as defined in the Companies Ordinance, 1984 (XLVII of 1984), if not less than ninety per cent of its income of that year is distributed amongst the Unit-holders.

(3) Any income of the following funds and institutions, 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 Central Board of Revenue 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;

[3][(viii) a Pension Fund approved by the Securities and Exchange Commission of Pakistan under the Voluntary Pension System Rules, 2005;]

[4][(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 [5][;]]

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[1] Inserted by the Finance Act, 2006.
[2] Inserted by the Finance Act, 2007.
[3] Added by the Finance Act, 2005.
[4] Added by the Finance Act, 2005.
[5] Full stop substituted by the Finance Act, 2006.

[1][(x) the accumulated balance upto 25% received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person's:

(a) retirement; or

(b) disability rendering him unable to work; or

(c) death by his nominated survivors.]

Explanation.-For the purpose of this clause, "Service Fund" means a fund which is established under the authority, or with the approval of the Federal Government for the purpose of -

(a) securing deferred annuities to the subscribers of payment to them in the event of their leaving the service in which they are employed; or

(b) making provision for their wives or children after their death; or

(c) making payment to their estate or their nominees upon their death [2][; and]

[3][xi. International Irrigation Management Institute.]

(58) (1) Any income of a trust or welfare institution [4][or non-profit organization] specified in sub-clauses (2) and (3) from donations, voluntary contributions, subscriptions, house property, investments in the securities of the Federal Government and so much of the income chargeable under the head "Income from business " as is expended in Pakistan for the purposes of carrying out welfare activities:

Provided that in the case of income under the head "Income from business", the exemption in respect of income under the said head shall not exceed an amount which bears to the income under the said head the same proportion as the said amount bears to the aggregate of the incomes from the aforesaid sources of income.

(2) A trust administered under a scheme approved by the Federal Government

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[1] Added by the Finance Act, 2006.

[2] Full stop substituted by S.R.O. 1038(I)/2006, dated 09.10.2006.

[3] Inserted by S.R.O. 1038(I)/2006, dated 09.10.2006.

[4] Inserted by the Finance Act, 2002.

in this behalf and established in Pakistan exclusively for the purposes of carrying out such activities as are for the benefit and welfare of-

(i) ex-servicemen and serving personnel, including civilian employees of the Armed Forces, and their dependents; or

(ii) ex-employees and serving personnel of the Federal Government or a Provincial Government and their dependents, where the said trust is administered by a committee nominated by the Federal Government or, as the case may be, a Provincial Government.

(3) A trust or welfare institution [1][or non-profit organization] approved by [2][Regional Commissioner of Income Tax] for the purposes of this sub-clause.

(59) Any income which is derived from investments in securities of the Federal Government**,** [3][profit on debt from [4][scheduled banks], grant received from Federal Government or Provincial Government or District Governments, foreign grants] and house property held under trust or other legal obligations wholly, or in part only, for religious or charitable purposes and is actually applied or finally set apart for application thereto:

Provided that nothing in this clause shall apply to so much of the income as is not expended within Pakistan:

Provided further that if any sum out of the amount so set apart is expended outside Pakistan, it shall be included in the total income of the tax year in which it is so expended or of the year in which it was set apart, whichever is the greater, and the provisions of section 122 shall not apply to any assessment made or to be made in pursuance of this proviso.

Explanation.- Notwithstanding anything contained in the Mussalman Wakf Validating Act, 1913 (VI of 1913), or any other law for the time being in force or in the instrument relating to the trust or the institution, if any amount is set apart, expended or disbursed for the maintenance and support wholly or partially of the family, children or descendents of the author of the trust or the donor or, the maker of the institution or for his own maintenance and support during his life time or payment to himself or his family, children, relations or descendents or for the payment of his or their debts out of the income from house property dedicated, or if any expenditure is made other than for charitable purposes, in each case such expenditure, provision, setting apart, payment or disbursement shall not be

[1] Inserted by the Finance Act, 2002.
[2] The words “the Central Board of Revenue” substituted by the Finance Act, 2006.
[3] Inserted by the Finance Act, 2002.
[4] Substituted for the words “financial institution” by the Finance Act, 2003.

deemed, for the purposes of this clause, to be for religious or charitable purposes.

(60) Any income of a religious or charitable institution derived from voluntary contributions applicable solely to religious or charitable purposes of the institution:

Provided that nothing contained in clause (61) or this clause shall apply to the income of a private religious trust which does not ensure for the benefit of the public.

(61) [1][Any] amount paid as donation to the following institution, foundations, societies, boards, trusts and funds, namely:_

(i) any Sports Board or institution recognised by the Federal Government for the purposes of promoting, controlling or regulating any sport or game;

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(iii) Fund for Promotion of Science and Technology in Pakistan;

(iv) Fund for Retarded and Handicapped Children;

(v) National Trust Fund for the Disabled;

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(vii) Fund for Development of Mazaar of Hazarat Burri Imam;

(viii) Rabita-e-Islami's Project for printing copies of the Holy Quran;

(ix) Fatimid Foundation, Karachi;

(x) Al-Shifa Trust;

(xi) Bank of Commerce and Credit International Foundation for Advancement of Science and Technology;

(xii) Society for the Promotion of Engineering Sciences and Technology in Pakistan;

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[1] The words, figure and comma “Subject to the provisions of section 61, any” substituted by the Finance Act, 2005.

[2] Omitted by the Finance Act, 2005. The omitted sub-clause (ii) read as follows:
“(ii) President's Fund for Afghan Refugees;”

[3] Omitted by the Finance Act, 2005. The omitted sub-clause (vi) read as follows:
“(vi) Bangladesh Flood Relief Fund, 1988;”

[1][(xiii) Pakistan Red Crescent Society.]

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(xxiii) Citizens-Police Liaison Committee, Central Reporting Cell, Sindh Governor House, Karachi;

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[1] Inserted by SRO 1125(1)/2005, dated 10.11.2005.
[2] Omitted by the Finance Act, 2005. The omitted sub-clause (xiii) read as follows:
"(xiii) President's Fund for Assistance to Palestine;"
[3] Omitted by the Finance Act, 2005. The omitted sub-clause (xiv) read as follows:
"(xiv) President's Famine Relief Fund for Africa;"
(
[4] Omitted by the Finance Act, 2005. The omitted sub-clause (xv) read as follows:
"(xv) Bangladesh Cyclone Relief Fund, 1985;"
[5] Omitted by the Finance Act, 2005. The omitted sub-clause (xvi) read as follows:
"(xvi) Prime Minister's Fund for the Welfare of Widows and Orphans;"
[6] Omitted by the Finance Act, 2005. The omitted sub-clause (xvii) read as follows:
"(xvii) Prime Minister's Disaster Relief Fund, 1987;"
[7] Omitted by the Finance Act, 2005. The omitted sub-clause (xviii) read as follows:
"(xviii) Chief Minister Punjab's Flood Relief Fund, 1988;"
[8] Omitted by the Finance Act, 2005. The omitted sub-clause (xix) read as follows:
"(xix) Prime Minister's Fund for Welfare and Relief for Kashmiris;"
[9] Omitted by the Finance Act, 2005. The omitted sub-clause (xx) read as follows:
"(xx) Prime Minister's Bangladesh Cyclone Relief Fund, 1991;"
[10] Omitted by the Finance Act, 2006. The omitted clause (xxi) read as follows:
"(xxi) Sindh Governor's Relief Fund, 1990, for the Relief and Rehabilitation of Victims of Violence in Sindh;"
[11] Omitted by the Finance Act, 2006. The omitted clause (xxii) read as follows:
"(xxii) Balochistan Governor's Relief Fund for the relief and rehabilitation of drought affected people of Balochistan;."

(xxiv) ICIC Foundation;

(xxv) BCCI Foundation;

(xxvi) National Management Foundation;

(xxvii) Endowment Fund of the institutions of the Agha Khan Development Network (Pakistan listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network;

(xxviii) Shaheed Zulfiqar Ali Bhutto Memorial Awards Society;

(xxix) Iqbal Memorial Fund;

(xxx) Cancer Research Foundation of Pakistan, Lahore;

(xxxi) Shaukat Khanum Memorial Trust, Lahore;

(xxxii) Christian Memorial Hospital, Sialkot;

(xxxiii) National Museums, National Libraries and Monuments or institutions declared to be National Heritage by the Federal Government;

(xxxiv) Mumtaz Bakhtawar Memorial Trust Hospital, Lahore;

(xxxv) Kashmir Fund for Rehabilitation of Kashmir Refugees and Freedom Fighters;

(xxxvi) Institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network;

(xxxvii) Azad Kashmir President's Mujahid Fund, 1972 ; National Institute of Cardiovascular Diseases, (Pakistan) Karachi; Businessmen Hospital Trust, Lahore; Premier Trust Hospital, Mardan ; Faisal Shaheed Memorial Hospital Trust, Gujranwala; Khair-un-Nisa Hospital Foundation, Lahore; Sind and Balochistan Advocates' Benevolent Fund; Rashid Minhas Memorial Hospital Fund;

(xxxviii) Any relief [1][or] welfare fund established by the Federal Government;

(xxxix) Mohatta Palace Gallery Trust; [2][ ]

[3][(xl)] Bagh-e-Quaid-e-Azam project, Karachi [4][; and]

[5][(xli) Any amount donated for Tameer-e-Karachi Fund [6][:]]

[7][Provided that the amount so donated shall not exceed-

(a) in the case of an individual or association of persons, thirty percent of the taxable income of the person for the year; and

(b) in the case of a company, fifteen percent of the taxable income of the person for the year.]

(62) Such portion of the total income of a taxpayer as is paid by him during the income year as donation to the Liaquat National Hospital Association, Karachi:

Provided that the amount so donated shall be included in computing the total income of the taxpayer:

Provided further that the amount by which the taxable by a taxpayer is reduced on account of the exemption under this clause shall be equal to the sum which bears the same proportion to the sum exempted from tax under this clause as the tax payable on the total income of the taxpayer bears to the said total income.

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[1] The word “are” substituted by the Finance Act, 2005.
[2] The word “and” omitted by S.R.O. 701(I)/2004, dated 16.08.2004.
[3] The Roman letters “(xxxxx)” substituted by S.R.O. 701(I)/2004, dated 16.08.2004.
[4] The full stop substituted by S.R.O. 701(I)/2004, dated 16.08.2004.
[5] Added by S.R.O. 701(I)/2004, dated 16.08.2004.
[6] The full stop substituted by the Finance Act, 2005.
[7] Added by the Finance Act, 2005.
[8] Omitted by the Finance Act, 2006. The omitted clause (61) read as follows:
“[A][**(63)** Any amount paid as donation to the President’s Relief Fund for Tsunami Victims.]”
[A] Earlier clause (63) was inserted by S.R.O. 302(I)/2005, dated 07.04.2005.
[9] Omitted by the Finance Act, 2002. The omitted clause (63) read as follows:
“**(63)** Any amount paid as donation to the Prime Minister's Fund for National Debt Retirement: Provided that the exemption under this clause shall not apply in respect of any assessment year commencing on, or after, the first day of July,2002. “

[1][**(63A)** Any amount paid as donation to the President's Relief Fund for Earthquake Victims 2005.]

[2][**(63B)** Any amount donated or paid, as sponsorship in connection with the holding of 2nd session of the World Islamic Economic Forum, 2006.]

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(65) Any income derived from donations made by non-official or private sector sources in Pakistan to the Waqf for Research on Islamic History, Art and Culture, Istanbul set up by the Research Centre for Islamic History, Art and Culture (IRCICA).

[4][(66) Any income derived by-

i. Abdul Sattar Edhi Foundation, Karachi;

ii. Al-Shifa Trust, Rawalpindi.

iii. Bilquis Edhi Foundation, Karachi.

iv. Fatimid Foundation, Karachi.

v. Hamdard Laboratories (Waqf) Pakistan.

vi. International Islamic Trade Finance Corporation".

vii. Islamic Corporation for Development of Private Sector;

viii. National Memorial Bab-e-Pakistan Trust for the assessment year commencing on or after the 1st day of July, 1994.

ix. Pakistan Agricultural Research Council, Islamabad.

x. Pakistan Engineering Council;

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[1] Inserted by S.R.O. 1033(I)/2005, dated 10.10.2005.

[2] Inserted by S.R.O. 1088(I)/2006, dated 31.10.2006.

[3] Omitted by the Finance Act, 2002. The omitted clause (64) read as follows:
"**(64)** Any amount paid as donation to the National Self Reliance Fund:
Provided that the exemption under this clause shall not apply in respect of any assessment year commencing on, or after, the first day of July,2002."

[4] Substituted by the Finance Act, 2006. The substituted clause (66) read as follows:
"**(66)** Any income of the Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network."

xi. The corporatized entities of Pakistan Water and Power Development Authority from the date of their creation upto the date of completion of the process of corporatization i.e. till the tariff is notified.

xii. The Institution of Engineers, Pakistan, Lahore.

xiii. The Institutions of the Agha Khan Development Network (Pakistan) as contained in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and the Agha Khan Development Network.

xiv. The Liaquat National Hospital Association, Karachi.

xv. The Pakistan Council of Scientific and Industrial Research.

xvi. The Pakistan Water and Power Development Authority established under the Pakistan Water and Power Development Authority Act, 1958 (W. P. Act XXXI of 1958).]

[1][xvii. WAPDA First Sukuk Company Limited.]

[2][xviii. Micro Finance Banks for a period of five years starting from first day of July 2007:

Provided such banks shall not issue dividends to their share holders and their profit and gain (if any) shall be utilized for Micro Finance Operations only.]

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[1] Inserted by S.R.O. 864(I)/2006, dated 22.08.2006.

[2] Added by the Finance Act, 2007.

[3] Omitted by the Finance Act, 2006. The omitted clause (67) read as follows:
"**(67)** Any income of the Liaquat National Hospital Association, Karachi."

[4] Omitted by the Finance Act, 2006. The omitted clause (68) read as follows:
"**(68)** Any income derived by-
(i) Abdul Sattar Edhi Foundation, Karachi; and
(ii) Bilquis Edhi Foundation, Karachi."

[5] Omitted by the Finance Act, 2006. The omitted clause (69) read as follows:
"**(69)** Any income derived by Al-Shifa Trust, Rawalpindi."

[6] Omitted by the Finance Act, 2006. The omitted clause (70) read as follows:
"**(70)** Any income derived by Fatimid Foundation, Karachi."

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[3][**(72)** Any profit on debt payable to a non-resident person,-

(i) in respect of such private loan to be utilized on such project in Pakistan as may be approved by the Federal Government for the purposes of this clause, having regard to the rate of profit and the terms of repayment of the loan and the nature of project on which it is to be utilized;

(ii) on a loan in foreign exchange against export letter of credit which is used exclusively for export of goods manufactured or processed for exports in Pakistan;

(iii) being a foreign individual, company, firm or association of persons in respect of a foreign loan as is utilized for industrial investment in Pakistan provided that the agreement for such loan is concluded on or after the First day of February 1991, and is duly registered with the State Bank of Pakistan.]

[4][ ]

(74) Any profit on debt derived by Hub Power Company Limited on or after the first day of July, 1991, on its bank deposits or accounts with[5][financial institutions] directly connected with financial transactions relating to the project operations.

[6][**(74A)** Any profit on debt, payable to National Bank of Pakistan, on foreign currency loan of US $ 100 million, given to Pakistan State Oil Company Limited

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[1] Omitted by the Finance Act, 2006. The omitted clause (71) read as follows:
"**(71)** Any income of Hamadard Laboratories (Waqf) Pakistan."

[2] Omitted by the Finance Act, 2006. The omitted clause (71A) read as follows:
"[2]**(**71A**)** Any income of National Memorial Bab-e-Pakistan Trust for the assessment year commencing on or after the 1st day of July, 1994.]"

[3] Substituted by the Finance Act, 2006. The substituted clause (72) read as follows:
"**(72)** Any profit on debt payable to a non-resident person in respect of such private loan to be utilised on such project in Pakistan as may be approved by the Federal Government for the purposes of this clause, having regard to the rate of profit and the terms of re-payment of the loan and the nature of project on which it is to be utilised."

[4] Omitted by the Finance Act, 2006. The omitted clause (73) read as follows:
"**(73)** Any profit on debt payable to a non-resident person on a loan in foreign exchange against export letter of credit which is used exclusively for export of goods manufactured or processed for exports in Pakistan."

[5] The words "scheduled banks" substituted by the Finance Act, 2005. This substitution shall be deemed to have been made w.e.f. July 01, 2003. Earlier the words "financial institutions" were substituted by the Finance Act, 2003.

[6] Inserted by S.R.O. 754(I)/2007, dated 27.07.2007.

(PSO) under agreement executed at Bahrain on the 29th May, 2001, approved by the Federal Government vide Finance Division's letter No.F.3(3)EF(B-III)/2001, dated the May 29, 2001.]

(75) Any income of an agency of a foreign Government, a foreign national (company, firm or association of persons), or any other non-resident person approved by the Federal Government for the purposes of this clause, from profit on moneys borrowed under a loan agreement or in respect of foreign currency instrument approved by the Federal Government.

[1][ ]

(77) Any profit derived by a non-resident person (whether a citizen of Pakistan or otherwise) in respect of the Islamic mode of financing, including istisna, morabaha, musharika [2][.]

(78) Any profit on debt derived from foreign currency accounts held with authorised banks in Pakistan, [3][or certificate of investment issued by investment banks] in accordance with Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan, by citizens of Pakistan and foreign nationals residing abroad, foreign association of persons, companies registered and operating abroad and foreign nationals residing in Pakistan.

(79) Any profit on debt derived from a rupee account held with a scheduled bank in Pakistan by a citizen of Pakistan residing abroad, where the deposits in the said account are made exclusively from foreign exchange remitted into the said account.

(80) Any income derived from a private foreign currency account held with an authorised bank in Pakistan, [4][or certificate of investment issued by investment banks] in accordance with the Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan, by a resident individual who is a citizen of Pakistan:

Provided that the exemption under this clause shall not be available in respect of any incremental deposits made in the said accounts on or after the 16th day of December, 1999, or in respect of any accounts opened under the said scheme on or after the said date.

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[1] Omitted by the Finance Act, 2006. The omitted clause (76) read as follows:
"**(76)** Any profit on debt payable to a non-resident person being a foreign individual, company, firm or association of persons in respect of a foreign loan as is utilised for industrial investment in Pakistan provided that the agreement for such loan is concluded on or after the First day of February 1991, and is duly registered with the State Bank of Pakistan."

[2] Substituted for the colon by the Finance Act, 2003.

[3] Inserted by the Finance Act, 2004.

[4] Inserted by the Finance Act, 2004.

[1][ ]

[2][(**81A**) Notwithstanding omission of clause (81), the existing holders of Foreign Currency Bearer Certificate shall continue to have the benefit of exemption till such certificates are encashed.]

(82) Any profit on Special US Dollar Bonds issued under the Special US Dollar Bonds Rules, 1998:

Provided that the exemption under this clause shall not apply to profits on the said bonds purchased by a resident person out of any incremental deposits made in the foreign currency accounts on or after the 16th day of December, 1999, or out of new accounts opened on or after the said date.

(83) Any profit on debt derived from Pak rupees account or certificates of deposit which have been created by conversion of a foreign currency account or deposit held on the 28th day of May, 1998, with a bank authorised under the Foreign Currency Accounts Scheme of State Bank of Pakistan:

Provided that nothing contained in this clause shall apply to such Pak rupee account or certificates which are created out of foreign currency deposits which are not exempt under clause (78) [3][and (80).]

[4][ ]

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[1] Omitted by the Finance Act, 2004. The omitted clause (81) read as follows:
"(81) The income of a person, other than a bank or a financial institution, by way of interest on Foreign Currency Bearer Certificates issued under the Three-Years Foreign Currency Bearer Certificate Rules, 1997."

[2] Inserted by the Finance Act, 2004.

[3] Inserted by the Finance Act, 2002 and shall be deemed to have been so inserted from 5th August, 1998.

[4] Omitted by the Finance Act, 2004. The omitted clause (84) read as follows:
"(84) Any profit on debt received from a Pakistani bank by a foreign bank, approved by the Federal Government for the purposes of this clause, for such period as may be determined by the Federal Government:
Provided that-
(i) the profit is earned on deposits comprising of remittances from abroad held in a rupee account opened with a Pakistani bank with the prior approval of the State Bank of Pakistan;
(ii) the Pakistani bank maintaining the said rupee account holds 20 per cent or more of the equity capital of the said foreign bank and the management of the latter vests in the Pakistani bank; and
(iii) the rate of profit chargeable on the said deposits does not exceed the rate of interest chargeable on the deposits in the foreign currency accounts allowed to be opened with banks in Pakistan by the State Bank of Pakistan."

[5] Omitted by the Finance Act, 2002. The omitted clause (85) read as follows:
"**(85)** Any income derived by any person, not being a bank, a banking company, financial institution, a development financing institution or a company engaged in the business of insurance,

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[4][**(88A**) Notwithstanding omission of clause (88), the existing holders of Federal Government Securities and redeemable capital shall continue to have benefit of exemption till the maturity of the securities and redeemable capital.]

[5][ ]

(90) Any profit on debt payable by an industrial undertaking in Pakistan -

(i) on moneys borrowed by it under a loan agreement entered into with any such financial institution in a foreign country as may be approved in this behalf by the Federal Government by a general or special order; and

(ii) on moneys borrowed or debts incurred by it in a foreign country in respect of the purchase outside Pakistan of

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by way of return on bearer bonds issued by the Pakistan Water and Power Development Authority, established under the Pakistan Water and Power Development Authority Act, 1958 (West Pakistan Act. No.(XXXI of 1958):

Provided that nothing contained in this clause shall apply in respect of return on bonds issued on or after the first day of July, 1991."

[1] Omitted by the Finance Act, 2002. The omitted clause (86) read as follows:

"**(86)** Any income derived by any person, being an individual, by way of return on bearer or registered bonds (Second issue, 1989), issued by the Pakistan Water and Power Development Authority, established under the Pakistan Water and Power Authority Act, 1958 (West Pakistan Act, No. XXXI of 1958):

Provided that nothing contained in this clause shall apply in respect of return on bonds issued on or after the first day of July, 1991."

[2] Omitted by the Finance Act, 2003. The omitted clause (87) read as follows:

"**(87)** Any income derived by a non-resident person from foreign investment in 7th issue of Pak rupee denominated WAPDA Energy Bonds issued under the WAPDA Energy Bonds (7th Issue) Regulations, 1997."

[3] Omitted by the Finance Act, 2004. The omitted clause (88) read as follows:

"(88) Any income derived by a non-resident person(excluding local branches, subsidiaries or offices of foreign banks, companies, associations of persons or any other person operating in Pakistan) from Federal Government securities and redeemable capital, as [A][defined] in the Companies Ordinance, 1984, (XLVII of 1984) listed on a registered stock exchange, where the investments are made exclusively from foreign exchange remitted into Pakistan through a Special Convertible Rupee Account maintained with a bank in Pakistan."

[A] Earlier the word "define" substituted by the Finance Act, 2003.

[4] Inserted by the Finance Act, 2004.

[5] Omitted by the Finance Act, 2002. The omitted clause (89) read as follows:

"**(89)** Any income derived by an individual or association of persons from rated and listed Term Finance Certificates being the instruments of redeemable capital under the Companies Ordinance 1984, issued on or after the 14th day of September 1997:

Provided that the exemption under this clause shall not apply in respect of any assessment year commencing on, or after, the first day of July, 2002."

capital plant and machinery in any case where the loan or debt is approved by the Federal Government, having regard to its terms generally and in particular to the terms of its payment, from so much of the tax payable in respect thereof as exceeds the tax or taxes on income paid on such interest in the foreign country from which the loan emanated or in which the debt was incurred (hereinafter referred to as the `said country'):

Provided that, where the amount of such tax or taxes paid in the said country exceeds the amount of the tax payable in Pakistan, no refund of the amount paid in excess shall be allowed:

Provided further that, where the said country exempts such interest or allows credit against its own tax for the tax which would have been payable in Pakistan if the said interest were liable to tax in Pakistan, no tax shall be payable in Pakistan in respect of such interest.

(91) Any income of a text-book board of a Province established under any law for the time being in force, accruing or arising from the date of its establishment.

(92) Any income of any university or other educational institution established solely for educational purposes and not for purposes of profit.

(93) Profits and gains derived by a taxpayer from the running of any computer training institution or computer training scheme, recognized by a Board of Education or a University or the University Grant Commission, as the case may be, set up between the first day of July, 1997, and the thirtieth day of June, 2005, both days inclusive, for a period of five years beginning with the month in which such institution is set up:

Provided that a computer training institution or computer training scheme approved by the Central Board of Revenue before the first day of July, 2000 shall continue to avail exemption under this clause till the expiry of the specified period.

[1][(**93A**) Profits and gains derived by a taxpayer from the running of any vocational institute or technical institute or poly-technical institute, recognized by a Board of Technical Education or a university or any other authority appointed in this behalf by the Federal Government or a Provincial Government, as the case may be, set up between the first day of July, 2004, and the thirtieth day of June, 2008, both days inclusive, for a period of five years beginning from the tax year in which such institution is recognized.]

[2][ ]

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[1] Inserted by the Finance Act, 2004.
[2] Omitted by the Finance Act, 2002. The omitted clause (94) read as follows:
"**(94)** Any amount paid by way of Federal Educational Fee or expended on setting up and

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[3][ ]

(98) Any income derived by any Board or other organization established [4][ ] in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognised by Government.

[5][**(99)** Any income derived by a mutual fund or an investment company registered under the [6][Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003], or a unit trust scheme constituted by an assets management company registered under the Assets Management Companies Rules, 1995 [7][, or a Real Estate Investment Trust approved and authorized under Real Estate Investment Trust Rules, 2006, established and managed by a REIT Management Company licensed under the Real Estate Investment Trust Rules, 2006], if not less than ninety percent of its accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit or certificate holders or shareholders as the case may be:]

> *Explanation*. For the purpose of this clause the expressing "accounting income" means income calculated under the Generally accepted Accounting Principles and verified by the auditors.".

[8][**(99A)** Profits and gains accruing to a person on sale of immovable property to a real estate investment trust upto thirtieth day of June, 2010.]

(100) Any income, not being income from trading activity, of a modaraba registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980), for any assessment year commencing

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managing or running of a middle, high or technical school in accordance with the conditions laid down in the Federal Education Fee Scheme."

[1] Omitted by the Finance Act, 2006. The omitted clause (95) read as follows:
"**(95)** Any income derived by the Pakistan Council of Scientific and Industrial Research."

[2] Omitted by the Finance Act, 2006. The omitted clause (96) read as follows:
"**(96)** Any income derived by the Institution of Engineers, Pakistan, Lahore."

[3] Omitted by the Finance Act, 2006. The omitted clause (97) read as follows:
"**(97)** Income of Pakistan Agricultural Research Council, Islamabad."

[4] The words "by Government" omitted by the Finance Act, 2003.

[5] Substituted by S.R.O. 728(I)/2002, dated 23.10.2002.

[6] The words, comma and figures "Investment Companies and Investment Advisers Rules, 1971" substituted by the Finance Act, 2005.

[7] Inserted by the Finance Act, 2006.

[8] Inserted by the Finance Act, 2007.

on or after the first day of July, 1999 [1][:]

Provided that not less than ninety per cent of its total profits in the year as reduced by the amount transferred to a mandatory reserve, as required under the provisions of the said Ordinance or the rules made [2][thereunder, as are distributed amongst the shareholders]:

Provided further that with effect from the first day of July, 1999 for the purpose of determining the distribution of ninety per cent profits, the profits distributed through bonus certificates or shares to the certificate holders shall not be taken into account.

(101) Profits and gains derived between the first day of July, 2000 and the thirtieth day of June, [3][2014] both days inclusive, by a venture capital company and venture capital fund registered under Venture Capital Companies and Funds Management Rules, 2000 [4][and a Private Equity and Venture Capital Fund].

(102) Any dividend received by the Investment Corporation of Pakistan from any other company which has paid or will pay tax in respect of the profits out of which such dividends are paid.

[5][**(102A)** Income of a person as represents a subsidy granted to him by the Federal Government for the purposes of implementation of any orders of the Federal Government in this behalf.]

(103) Any distribution received by a taxpayer from the National Investment (Unit) Trust or [6][a collective Investment Scheme authorized or registered under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003] [7][or a Private Equity and Venture Capital Fund] out of the capital gains of the said Trust or Fund on which tax has already been paid.

[8][**(103A)** Any income derived from inter-corporate dividend within the group companies entitled to group taxation under section 59AA.]

(104) Any income derived by the Libyan Arab Foreign Investment Company being dividend of the Pak-Libya Holding Company.

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[1] Substituted the semi-colon by the Finance Act, 2003.
[2] Substituted for the word "thereafter" by the Finance Act, 2003.
[3] The figure "2007" substituted by the Finance Act, 2006.
[4] Inserted by the Finance Act, 2007.
[5] Inserted by the Finance Act, 2006.
[6] The words, commas and figures "a Mutual Fund established by the Investment Corporation of Pakistan [A][or an investment company registered under the Investment Companies and Investment Advisor Rules, 1971 or a unit trust scheme constituted by an assets management company registered under the Assets Management Companies Rules, 1995]" substituted by the Finance Act, 2005.
[A] Inserted by the Finance Act, 2002.
[7] Inserted by the Finance Act, 2007.
[8] Inserted by the Finance Act, 2007.

(105) Any income derived by the Government of Kingdom of Saudi Arabia being dividend of the Saudi-Pak Industrial and Agricultural Investment Company Limited.

[1][**(105A)** Any income derived by Kuwait Foreign Trading Contracting and Investment Company or Kuwait Investment Authority being dividend of the Pak-Kuwait Investment Company in Pakistan from the year of incorporation of Pak-Kuwait Investment Company.]

[2][ ]

[3][ ]

(107) Any income derived by any subsidiary of the Islamic Development Bank wholly owned by it and set up in Pakistan and engaged in owning and leasing of tankers.

[4][ ]

[5][ ]

(110) Any income chargeable under the head "capital gains", being income from the sale of modaraba certificates or any instrument of redeemable capital as defined in the Companies Ordinance, 1984 (XLVII of 1984), listed on any stock exchange in Pakistan or shares of a public company ([6][as defined in sub-section (47) of section 2]) and the Pakistan Telecommunications Corporation vouchers issued by the Government of Pakistan, derived by a taxpayer [7][upto tax year ending on the thirtieth day of June, [8][2008]].

[9][**(110A)** Any gain on transfer of a capital asset of the existing stock exchanges

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[1] Inserted by S.R.O. 749(I)/2004, dated 30.08.2004.

[2] Omitted by the Finance Act, 2006. The omitted clause (106) read as follows:
"**(106)** Any income derived by the Pakistan Water and Power Development Authority, established under the Pakistan Water and Power Development Authority Act, 1958 (West Pakistan Act. No. XXXI of 1958)."

[3] Omitted by the Finance Act, 2006. The omitted clause (106A) read as follows:
"[3][**(106A)** Any income derived by the corporatized entities of Pakistan Water and Power Development Authority from the date of their creation upto the date of completion of the process of corporatization i.e. till the tariff is notified.]"

[4] Omitted by the Finance Act, 2003. The omitted clause (108) read as follows:
"**(108)** Any income derived by the International Irrigating Management Institute (IIMI), Pakistan."

[5] Omitted by the Finance Act, 2003. The omitted clause (109) read as follows:
"**(109)** Any amount collected by the Civil Aviation Authority up to the thirty-first December, 1998, on account of security charges."

[6] The words "as defined in the First Schedule" substituted by the Finance Act, 2005.

[7] Substituted for the words, comma and figure "in respect of any [A][tax year 2005]" by the Finance Act, 2004.
[A] Earlier the words, comma and figures "assessment year ending on or before the 30th day of June, 2005" were substituted by the Finance Act, 2003.

[8] The figure "2007" substituted by the Finance Act, 2007.

[9] Inserted by the Finance Act, 2007.

to new corporatized stock exchange, in the course of corporatization of an existing stock exchange.]

[1][**(110B)** Any gain on transfer of a capital asset, being a membership right held by a member of an existing stock exchange, for acquisition of shares and trading or clearing rights acquired by such member in new corporatized stock exchange in the course of corporatization of an existing stock exchange.]

(111) Any income chargeable under the head "capital gains", being income from the sale of shares of a public company derived by any foreign institutional investor as is approved by the Federal Government for the purpose of this clause.

[2][ ]

(113) Any income chargeable under the head "capital gains", being income from the sale of shares of a public company set up in any Special Industrial Zone referred to in clause [3][(126)]of this Schedule, derived by a person for a period of five years from the date of commencement of its commercial production:

Provided that the exemption under this clause shall not be available to a person from the sale of shares of such companies which are not eligible for exemption from tax under clause [4][(126)].

(114) Any income chargeable under the head "capital gains" derived by a person from an industrial undertaking set up in an area declared by the Federal Government to be a "Zone" within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980).

[5][**(114A)** Any income chargeable under the head "capital gains", derived by a person from sale of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft upto tax year ending on the thirtieth day of June, 2011.]

[6][ ]

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1 Inserted by the Finance Act, 2007.

2 Omitted by the Finance Act, 2002. The omitted clause (112) read as follows:
"**(112)** Any income chargeable under the head "capital gains" derived by a person from the sale of shares of industrial units of public sector corporations by the Privatisation Commission."

3 Substituted for the bracket and figure "(120)" by the Finance Act, 2003.

4 Substituted for the bracket and figure "(120)" by the Finance Act, 2003.

5 Inserted by the Finance Act, 2006.

6 Omitted by the Finance Act, 2003. The omitted clause (115) read as follows:
"**(115**) Any share of income received by a taxpayer out of capital gains on which tax has been paid by the firm of which he is a partner**:**
[A][Provided that exemption under this clause shall not apply in respect of any tax year commencing on or after the 1st day of July, 2002.]"

A Inserted by Finance Act, 2002.

[1][ ]

(117) Any income derived by a person from plying of any vehicle registered in the territories of Azad Jammu and Kashmir, excluding income arising from the operation of such vehicle in Pakistan to a person who is resident in Pakistan and non-resident in those territories.

[2][ ]

[3][ ]

[4][ ]

(2) The exemption under this clause shall apply to an undertaking which is-

(a) set up between the first day of July, 1994, and the thirtieth day of June,2000, both days inclusive;

(b) owned and managed by a company formed exclusively for operating the said industrial undertaking engaged in fruit processing and registered under the Companies Ordinance, 1984 (XLVII of 1984), and having its registered office in Pakistan; and

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[1] Omitted by the Finance Act, 2002, The omitted clause (116) read as follows:
"**(116)** Any income derived by a taxpayer from the business of fish catching or fish processing, where the fish catching business or fish processing unit is established by the taxpayer for the first time between first day of July, 1993, and 30th day of June, 1997, for a period of five years from the date of such establishment, subject to the condition that the said date shall be determined by the Commissioner on an application made by the taxpayer."

[2] Omitted by the Finance Act, 2002. The omitted clause (118) read as follows:
"(**118)**. Profits and gains derived by a taxpayer from a pioneer industrial undertaking which is set up by 30th day of June, 1997 for a period of five years from the date of commencement of commercial production. The exemption under this clause shall apply to a pioneer industrial undertaking which-

(a) is owned and managed by a company formed and registered under the Companies Act, 1913, (VII of 1913), having its registered office in Pakistan;
(b) is an undertaking the income, profits and gains of which are not liable to be computed in accordance with the rules contained in the Fifth Schedule;
(c) fulfils the following conditions, namely :-
  (i) that the undertaking is based on highly sophisticated technology;
  (ii) that the technology employed has fast obsolescence;
  (iii) that investment in the undertaking involves high risk; and
  (iv) that the goods produced, or to be produced, are such that neither these goods, nor identical or close substitutes thereof, are being produced in Pakistan; and
(d) is approved, on an application made by the taxpayer in such form and manner and accompanied by such statements, certificates, documents and undertakings, and in accordance with such procedure, as may be prescribed, by the Central Board of Revenue."

[3] Omitted by the Finance Act, 2002. The omitted clause (119) read as follows:
"**(119).** Profits and gains derived by a taxpayer, being a resident company, from an industrial undertaking engaged in the manufacture of electronic equipment or components thereof which is set up in the North West Frontier Province or in the Islamabad Capital Territory by 30th day of June, 1997, and is approved by the Central Board of Revenue for purposes of this clause, for a period of five years from the date of commencement of commercial production."

[4] Omitted by the Finance Act, 2006. The omitted clause (120) read as follows:
"**(120)** (1) Profits and gains derived by a taxpayer from an industrial undertaking for a period of five years from the date of commencement of commercial production."

(c) is not formed by splitting up or the reconstruction or reconstitution of business already in existence or by transfer to a new business of any machinery or plant in Pakistan at any time before the commencement of the new business.

[1][ ]

[2][ ]

[3][ ]

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[1] Omitted by the Finance Act, 2003. The omitted clause (121) read as follows:

[A]**[(121)** Profits and gains derived by an assessee from an Industrial undertaking set up in an area declared by the Federal Government to be a "Zone" within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980) for the assessment years 1998-99, 1999-2000 and 2000-2001. However, exemption under this clause shall be restricted to the remaining period of exemption to which a company was entitled before the relevant amendments made by the Finance Act, 1996 (IX of 1996).]

[A] Inserted by S.R.O. 596(I)/2002, dated 05.09.2002.

Earlier the original clause (121) was omitted by the Finance Act, 2002. The omitted clause (121) read as follows:

"**(121)** (1) Profits and gains derived by a taxpayer from an industrial undertaking for a period of five years from the date of commencement of commercial production.

(2) The exemption under this clause shall apply to an Industrial undertaking which is-

(a) set up between the first day of July, 1994, and the thirtieth day of June, 2000, both days inclusive;

(b) owned and managed by a company formed exclusively for operating the said industrial undertaking engaged in the manufacture of soft and stuffed toys; and

(c) not formed by splitting up, reconstruction or reconstitution of business already in existence or by transfer to a new business of any machinery or plant in Pakistan at any time before the commencement of the new business."

[2] Omitted by the Finance Act, 2002. The omitted clause (122) read as follows:

" **(122)** (1) Profits and gains derived by a taxpayer from an industrial undertaking for a period of five years from the date of commencement of commercial production.

(2) The exemption under this clause shall apply to an industrial undertaking which is -

(a) engaged in the manufacture of solar thermal, photovoltaic equipment for production of solar energy and solar appliances;

(b) set up between the first day of July, 1997 and the thirtieth day of June, 2000; and

(c) is not formed by splitting up or the reconstruction or reconstitution of business already in existence or by transfer to a new business of any machinery or plant in Pakistan at any time before the commencement of the new business."

[3] Omitted by the Finance Act, 2002. The omitted clause (123) read as follows:

" (123) Profits and gains derived by a taxpayer from an industrial undertaking set up in an area declared by the Federal Government to be a "Zone" within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980), for a period of five years from the date of commencement of production, and for such further period as may be allowed by the Federal Government:

Provided that nothing contained in this clause shall apply to an industrial undertaking set up after the 30th June, 1997."

[1][ ]

[2][ ]

(126) (1) Profits and gains derived by a taxpayer from an industrial undertaking set up between the first day of July, 1995, and the [3][31st day of December, 2002], both days inclusive, for a period of ten years beginning with the month in which the undertaking is set up or commercial production is commenced, whichever is the later:

Provided that the exemption under this clause shall not be available after the 31st January, 1996, except to such taxpayers, otherwise qualifying under this clause, who have established letters of credit for the import of plant and machinery for such industrial undertaking by the 31st January, 1996**:**

[4][Provided further that the extension in deadline from the 30th June, 1999, to the 31st December, 2002, shall not apply to those projects whose cases are *sub judice* and that the Federal Government shall decide such cases in accordance with the verdict of the apex Court.]

(2) The exemption under this clause shall apply to an industrial undertaking which fulfils the following conditions, namely :-

(a) that it is set up in such area as may be notified by the Federal Government to be a Special Industrial Zone ;

(b) that it is 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

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[1] Omitted by the Finance Act, 2002. The omitted clause (124) read as follows::

" **(124)** Profits and gains derived by a taxpayer up to the thirtieth day of June, 1997, from an industrial undertaking set up in the Karachi Export Processing Zone, declared by the Federal Government as a `Zone' within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980)."

[2] Omitted by the Finance Act, 2002. The omitted clause (125) read as follows::

"**(125)** (1) Profits and gains derived by a company for a period of five years from an industrial undertaking set up in such area and within such period and on such conditions as the Federal Government may, by notification in the Official Gazette, specify:

Provided that the exemption under this sub-clause shall not be available after the 31st January, 1996, except to such companies otherwise qualifying under this clause, which have established letters of credit for the import of plant and machinery for such industrial undertaking by the 31st January, 1996.

(2) Income chargeable under the head "Capital gains" derived by a taxpayer from the sale of shares representing foreign equity in such company and on such conditions as the Federal Government may, by notification in the official Gazette, specify:

Provided that the exemption under this sub-clause shall not be available to a taxpayer from the sale of shares representing foreign equity in such companies which do not qualify for exemption under sub-clause (1)."

[3] Substituted for the words, comma and figure "thirtieth day of June, 1999" by the Finance Act, 2002.

[4] Inserted by the Finance Act, 2002.

business which was being carried on in Pakistan at any time before the commencement of the new business ;

(c) that it is owned and managed by a company formed exclusively for operating such industrial undertaking and registered under the Companies Ordinance, 1984 (XLVII of 1984), having its registered office in Pakistan ; and

(d) that it is not engaged in the manufacture of arms and ammunition, security printing, currency and mint, high explosives, radioactive substances, alcohol (except industrial alcohol), cotton ginning, spinning (except as part of integrated textile [1][unit]), sugar manufacturing (white), flour milling, steel re-rolling and furnace, Tobacco industry, ghee or vegetable oil industry, plastic bags (including Polyropylene, and Polyethylene), beverages (excluding fruit juices), polyester industry, automobile assembly and cement industry.

[2][**(126A)** income derived by –

(a) Gwadar Free Zone Company Limited;

(b) PSA Gwadar International Terminal Limited; and

(c) Gwadar Marine Services Limited,

from Gwadar Port operations for a period of twenty years beginning from the year in which the company is set up or commercial operation is commenced, which ever is the later.]

[3][ ]

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[1] The word "unite" substituted by the Finance Act, 2005.

[2] Inserted by S.R.O. 755(I)/2007, dated 27.07.2007.

[3] Omitted by the Finance Act, 2002. The omitted clause (127) read as follows:

" **(127)** (1) Profit and gains derived by a taxpayer from an industrial undertaking set up between the first day of July, 1995, and the thirtieth day of June,1997, both days inclusive, for a period of eight years beginning with the month in which commercial production is commenced.

(2) The exemption under this clause shall apply to an industrial undertaking which fulfils the following conditions, namely :-

(i) It is set up in a rural area i.e., outside the limits of any municipal corporation, municipal committee, cantonment board or Islamabad Capital Territory and in no case within the following areas namely :-

(a) up to ten kilometres from the municipal or cantonment limits of Karachi or Lahore; and

(b) up to ten kilometres form the existing limits of municipal corporations or cantonments boards;

Explanation: The distance between an industrial undertaking and the outer boundary of a municipal or cantonment limit shall be measured in a straight line on horizontal plane as provided in section 11 of the General Clauses Act, (X of 1897), and the said distance, wherever required, will be defined and determined by the concerned officer of the District

[1][ ]

[2][ ]

[3][ ]

(131) Any income-

(a) of company registered under the Companies Ordinance 1984 (XLVII of 1984), and having its registered office in Pakistan, as is derived by it by way of royalty, commission or fees from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information

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Administration.

(ii) It is 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.

(iii) It is owned and managed by a company formed for operating such industrial undertaking and registered under the Companies Ordinance, 1984 (XLVII of 1984), having its registered office in Pakistan.

(iv) It is an undertaking engaged in any of the following agro-based industries:-

(a) cultivation, production, processing and preservation of flowers and ornamental plants;
(b) cattle, sheep and goat forming for the production and processing of meat. It will cover rearing, sale and slaughtering of animals and processing and packing of meat and meat products;
(c) dairy farming for the production of milk;
(d) processing, packing, preservation and canning of milk and milk products with or without addition of other things;
(e) processing, packing, preservation and canning of meat and meat products;
(f) processing, packing, preservation and canning of fruits and vegetable;
(g) inland farming and preservation, packing and canning of fish and seafood with or without addition of other things;
(h) cultivation, production and multiplication of high yielding seeds of cereals, pulses, vegetables, fruits, oilseeds, and cash crops like sugarcane, cotton coca, coffee, tea, herbs and spices;
(i) cultivation, production and extraction of edible oils;
(j) poultry farming and processing, packing, preservation and canning of poultry meat with or without addition of other things; and
(k) manufacture of cattle and poultry feeds."

[1] Omitted by the Finance Act, 2002. The omitted clause (128) read as follows:

" **(128)** Any income accruing or arising outside Pakistan to an industrial undertaking set up in an area declared by the Federal Government to be a `Zone' within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980), provided the said income accrues or arises from such activities of the said undertaking as are approved by the Federal Government:

Provided that nothing contained in this clause shall apply to an industrial undertaking set up after the 30th June, 1997."

[2] Omitted by the Finance Act, 2003. The omitted clause (129) read as follows:

"**(129)** Any income of Saudi-Pak Industrial and Agricultural Investment Company Limited in Pakistan for a period of twenty years commencing with the thirty-first day of December, 1982."

[3] Omitted by the Finance Act, 2002. The omitted clause (130) read as follows:

"**(130)** Any income of Pakistan-Kuwait Investment Company in Pakistan for a period of twenty years from the date of its incorporation."

concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise by the company or in the consideration of technical services rendered outside Pakistan to such enterprise by the company under an agreement in this behalf, or

(b) of any other taxpayer as is derived by him, in the income year relevant to assessment year beginning with the first day of July, 1982 and any assessment year thereafter, by way of fees for technical services rendered outside Pakistan to a foreign enterprise under an agreement entered into in this behalf :-

Provided that-

(i) such income is received in Pakistan by or on behalf of the said company or other taxpayer, as the case may be, in accordance with the law for the time being in force for regulating payments and dealings in foreign exchange ; and

(ii) where any income as aforesaid is not brought into Pakistan in the year in which it is earned and tax is paid thereon, an amount equal to the tax so paid shall be deducted from the tax payable for the year in which it is brought into Pakistan and, where no tax is payable for that year or the tax payable is less than the amount to be deducted, the whole or such part of the said amount as is not deducted shall be carried forward and deducted from the tax payable for the year next following and so on.

(132) 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 authority or which is not controlled by the Federal Government or a Provincial Government or a local authority:

Provided that the condition laid down in sub-clause (a) shall not apply to the Hub Power Company Limited [1][:]

[2][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] [4][but shall apply to Dual Fuel (Oil/Gas) power projects set up on or after the first September, 2005] [5][:]]

[6][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.]

[7][**(132A)** Payments made on or after the first day of July, 1991, for the supply of plant, equipment and machinery to Hub Power Company Limited by a non-resident being a foreign individual, company, firm or association of persons.]

[8][(133) Income from exports of computer software or IT services or IT enabled services upto the period ending on 30th day of June, 2016.

Explanation.- For the purpose of this clause –

(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

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[1] Substituted for full stop by S.R.O. 940(I)/2002, dated 19.12.2002.

[2] Substituted by S.R.O. 44(I)/2003, dated 11.01.2003. The substituted proviso inserted by S.R.O. 940(I)/2002, dated 19.12.2002. read as under: -

"Provided further that with effect from the 22nd October, 2002, exemption under this clause shall not be available to any oil fired power plant."

[3] The words, figures and comma "on or after 22nd October, 2002" substituted by the Finance Act, 2006.

[4] Inserted by S.R.O. 1009(I)/2005 dated 26.09.2005.

[5] Full stop substituted by the Finance Act, 2007.

[6] Inserted by the Finance Act, 2007.

[7] Inserted by the Finance Act, 2002.

[8] Substituted by the Finance Act, 2003. The substituted clause (133) read as follows:

"**(133)** Income from export of computer software and its related services developed in Pakistan:

Provided that the exemption under this clause shall not be available after the 30th day of June, 2016."

design, accounting services, HR services, telemedicine centers, data entry operations [1][, locally produced television programs] and insurance claims processing.]

[2][**(133A)** Any income derived by an individual from transfer of his membership rights or shares of a stock exchange in Pakistan [3][along with a room in the Stock Exchange] to a company at any time between the first day of July, 2005, and the thirtieth day of June, [4][2008].]

[5][ ]

(135) Any amount received on encashment of Special US Dollar Bond issued under the Special US Dollar Bonds Rules, 1998.

(136) Any income of a special purpose vehicle as defined in the Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984 (XLVII of 1984):

Provided that, if there is any income which accrues or arises in the accounts of the special purpose vehicle, after completion of the process of the securitization, it shall be returned to the Originator as defined by the said rules within the income year next following the year in which the income has been determined and such income shall be taxable in the hands of the Originator.

[6][ ]

(138) Any income referred to in Section 3.4 (a) of the Facilitation Agreement between the President of the Islamic Republic of Pakistan and the taxpayer purchasing the Kot Addu Power Station from Pakistan Water and Power Development Authority for a period of ten years from 28th June, 1996; provided, however, that the exemption under this clause shall only be available subject to the business of the said taxpayer being restricted to owing and operating the Kot Addu power station.

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[1] Inserted by the Finance Act, 2006.
[2] Inserted by the Finance Act, 2005.
[3] Inserted by the Finance Act, 2006.
[4] The figure "[A][2007]" substituted by the Finance Act, 2007.
[A] Earlier the figure "2006" substituted by the Finance Act, 2006.
[5] Omitted by the Finance Act, 2003. The omitted clause (134) read as follows:
"**(134)** Any amount received on encashment of any certificate issued in pursuance of the US Dollar Bearer Certificate Rules, 1991:
Provided that exemption under this clause shall not be available in respect of certificates purchased on or after the 15 June, 1995."
[6] Omitted by the Finance Act, 2006. The omitted clause (137) read as follows:
"[A][**(137)** Income of Fugro Geodetic Limited from execution of contract with the Government of Pakistan for survey for the establishment of the Continental Shelf of Pakistan.]"
[A] Earlier clause (137) was inserted by the Finance Act, 2005.

[1]**[(139)** (a) The benefit represented by free provision to the employee of medical treatment or hospitalization or both by an employer or the reimbursement received by the employee of the medical charges or hospital charges or both paid by him, where such provision or reimbursement is in accordance with the terms of employment:

Provided that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies;

(b) any medical allowance received by an employee not exceeding ten per cent of the basic salary of the employee if free medical treatment or hospitalization or reimbursement of medical or hospitalization charges is not provided for in the terms of employment; or

[2][ ]

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[1] Substituted by the Finance Act, 2003. The substituted clause (139) read as follows:

[A]["**(139)** (a) Any benefit, reimbursement received by an employee on account of medical charges or hospital charges, or both, incurred by an employee, as provided for under the terms of the employee's employment agreement; or where such benefit for reimbursement, medical charges or hospital charges, or both are not provided for under the terms of employment's agreement, medical allowance upto maximum of 10% of the basic pay for the year:

Provided that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies; or]

(b) Any amount paid by a taxpayer, being an individual and resident in Pakistan, by way of personal expenditure on medical service, to the extent of 10% of taxable income returned in return of income or Rs 30,000 whichever is lower.

Provided that the receipts in respect of such expenditure being name, National Tax Number and complete address of the medical practitioners are furnished along with his return of income."

[A] Earlier this was substituted by the Finance Act, 2002. The substituted sub-clause (a) read as follows:

"(a) Any benefit, allowance or reimbursement received by an employee on account of medical expenses or hospital charges, or both, incurred by the employee, as provided for under the terms of the employee's employment agreement, to a maximum of 105 of the employee's basic pay for the tax year, provided, however, that where reimbursement exceeds 10% of the basic pay, the unabsorbed allowance shall be carried forward only to the next year to be allowed along with expense for the year.

Provided that the amount so carried forward and amount for the year may not exceed 10% of basic salary.

Provided further that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies; or"

[2] Omitted by the Finance Act, 2006. The omitted sub-clause (c) read as follows:

"(c) any amount paid during a year by a taxpayer, being a resident individual, by way of personal expenditure on medical service to the extent of ten percent of taxable income declared in his return of income for the said tax year or thirty thousand rupees – whichever is the less:

Provided that the receipts of such expenditure bearing name, National Tax Number and complete address of the medical practitioners are furnished alongwith his return of

PART II
REDUCTION IN TAX RATES

Incomes or classes of income, or persons or classes of persons, enumerated below, shall be liable to tax at such rates which are less than the rates specified in the First Schedule, as are specified hereunder:

[1][ ]

(2) Any income of persons whose profits or gains from business are computed under the Fifth Schedule to this Ordinance as is derived from letting out to other similar persons any pipeline for the purpose of carriage of petroleum shall be charged to tax at the same rate as is applicable to such persons in accordance with the provisions of the said Schedule.

(3) The tax in respect of income from [2][ ] services rendered [3][ ] outside Pakistan shall be charged at the rate of one per cent of the gross receipts, provided that such receipts are brought into Pakistan in foreign exchange through normal banking channel.

[4][**(3A)** The tax in respect of income from construction contracts out side Pakistan shall be charged at the rate of one per cent of the gross receipts provided that such income is brought into Pakistan in foreign exchange through normal banking channel.]

[5][ ]

(5) The tax chargeable in respect of commission received by an export

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income."

[1] Omitted by the Finance Act, 2005. The omitted clause (1) read as follows:

"(1) The rates of income tax [A][ ], as specified in the First Schedule and as applicable to the profits and gains derived by a resident company from an undertaking setup between the First day of July, 1981 and the Thirtieth day of June, 1998, both days inclusive, and engaged in the exploration and extraction of such mineral deposits, other than petroleum, as [B][is] specified by the Federal Government by a notification in the Official Gazette, shall be reduced by 50% for a period of five years immediately next following the period of five years from the date of commercial production."

[A] The words "and super tax" omitted by the Finance Act, 2003.

[B] Substituted for the words "may be" by the Finance Act, 2003.

[2] The words "engineering contracting" omitted by the Finance Act, 2005.

[3] The words "or construction contracts" omitted by the Finance Act, 2007.

[4] Inserted by the Finance Act, 2007.

[5] Omitted by the Finance Act, 2003. The omitted clause (4) read as follows:

"**(4)** In the case of an industrial undertaking set up in an area declared by the Federal Government to be a "Zone" within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980), the income, profits and gains of such undertaking accruing or arising after the expiry of the period of exemption under clause (132) of Part I shall be charged to tax for a period of five years thereafter at the rate equal to twenty-five per cent of the rates specified in the First Schedule:

Provided that nothing contained in this clause shall apply in respect of undertakings whose period of exemption under clause (124) of Part I will expire after the 30th June, 1997."

indenting agent or an export buying house shall be at the rate equal to the rate of tax applicable to the exporter on export of goods to which such commission relates.

[1][**(5A)** The rate of withholding tax in respect of payments for profit on debt payable to a non-resident person, having no permanent establishment in Pakistan, shall be the rate as provided in Avoidance of Double Taxation Treaty of the respective country of the non-resident.]

[2][**(5B)** The tax in respect of capital gains derived by a person from the sale of shares or assets by a private limited company to Private Equity and Venture Capital Fund shall be charged at the rate of ten per cent of such gains.]

(6) In the case of resident person the profit on Special US Dollar Bonds purchased out of any incremental deposits made in the existing foreign currency accounts on or after the 16th day of December, 1999, or out of new accounts opened on or after the said date, shall be liable to deduction of income tax under clause (c) of sub-section (1) of section 151 at the rate of 10 per cent of the amount of the said profit.

[3][ ]

[4][ ]

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[1] Inserted by the Finance Act, 2007.

[2] Inserted by the Finance Act, 2007.

[3] Omitted by the Finance Act, 2005. The omitted clause (7) read as follows:

"(7) In case of any resident individual, the tax from profit or interest of any National [A][Savings] Schemes of Directorate of National Savings or Post Office [B][Savings] Account in which investment is made on, or after, the first day of July, 2001, shall be deducted at the rate of ten percent of such profit or interest:

Provided that no tax shall be deducted from income or profits paid on-

(a) Defence Savings Certificates, Special Savings Certificates Savings Accounts or Post Office Savings Account, made on, or after, the first day of July, 2001, where such deposit does not exceed [C][one hundred and fifty] thousand rupees; and

(b) Investment in Monthly income Saving Accounts Scheme of Directorate of National Savings on, or after, the first day of July, 2001, where monthly installment in an account does not exceed one thousand rupees."

[A] Substituted for the word "Saving" by the Finance Act, 2003.

[B] Substituted for the word "Saving" by the Finance Act, 2003.

[C] Substituted for the word "three hundred" by the Finance Act, 2003.

[4] Omitted by the Finance Act, 2005. The omitted clause (8) read as follows:

"(8) In the case of Daewoo Corporation, Seoul, Korea (hereinafter referred to as the Contractor), payments received in full or in part (including a payment by way of an advance) in pursuance of the contract agreements made with the National Highway Authority on the thirtieth day of December, 1991, for design and construction of Lahore-Islamabad Motorway shall be deemed to be the income of the Contractor and charged to tax at the rate of three per cent of such payments which shall constitute final discharge of his tax liability under this Ordinance and the Contractor shall not be required to file the return of income under section 114."

[1][**(9)** Tax under section 148 shall be collected at rate of the 1% on import of all fibres, yarns and fabrics (excluding pure cotton or its yarn or its fabrics), and goods covered by the Zero Rating Regime of the Sales Tax notified by Central Board of Revenue.]

[2][**(9A)** Tax under section 231B shall be collected at the rate of two and a half percent at the time of sale of motor car and the withholding tax agents (manufacturer or authorized dealer), irrespective of the date of booking or advance payment made by the purchaser, shall collect advance tax where sale invoice is issued and delivery of motor car is made after 31st August, 2007.]

(10) In the case of M/s Fauji Foundation and Army Welfare Trust, so much of the income chargeable under the head "Income from business " as is not exempt under clause (58) of Part I, shall be charged to tax at the rate of 20% of such income.

[3][ ]

[4][ ]

[5][**(13)** Tax under section 148 shall be collected at the rate of 1% on imports of capital goods and raw material imported exclusively for its own use by a manufacturer registered with Sales Tax Department.]

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[1] Substituted by the Finance Act, 2005. The substituted clause (9) read as follows:
"(9) Tax shall be collected at 3/4th of the rate applicable under section 148 on the goods imported under the Afghan Transit Trade Agreement, 1965, and subject to Notification S.R.O. 368(I)/95, dated the 2nd May, 1995."

[2] Inserted by S.R.O. 661(I)/2007, dated 02.07.2007.

[3] Omitted by the Finance Act, 2006. The omitted clause (11) read as follows:
"**(11)** In the case of a non-resident O&M Contractor payments, received in full or in part including a payment by way of an advance, for the operation and maintenance of a private sector power project and transmission line projects approved by the Federal Government shall be deemed to be the income of the said O&M Contractor and charged to tax at the rate of five per cent of such payments for a period of three years beginning with the date of commencement of company's operations which shall constitute the final discharge of tax liability by the O&M Contractor under this Ordinance in respect of the said project."

[4] Omitted by the Finance Act, 2006. The omitted clause (12) read as follows:
"**(12)** In the case of consortium of M/s. STFA Construction Company of Turkey and M/s. JDN of Belgium (hereinafter referred to as the contractor) all payments received in pursuance of the contract agreement No. CEN-126/93, made with the Ormara Naval Harbour Project Board, on the fourteenth day of June, 1993, for the construction of a Naval Harbour at Ormara (including off-shore and land development works), chargeable to tax in any assessment year, shall be deemed to be the income of the contractor and charged to tax at the rate of three per cent which shall constitute final discharge of contractor's tax liability under this Ordinance."

[5] Substituted by the Finance Act, 2007. The substituted clause (13) read as follows:
"[A][**(13)** Tax under section 148 shall be collected in the case of edible oils at the rate of 3% and in the case of condemned ships imported for the purpose of breaking at the rate of 1% of the import value as increased by customs-duty and sales tax, if any, levied thereon.]"

[A] Earlier substituted clause (13) by the Finance Act, 2005.

[1][**(13A)** In respect of phosphatic fertilizers imported and specified in Notification No. S.R.O. 609(I)/2004, dated 16th July, 2004 the tax under section 148 of the Income Tax Ordinance, 2001 shall be collected at the rate of 1% of its import value as increased by [2][customs-duty, sales tax and federal excise duty], if any, levied thereon.]

[3][**(13B)** In respect of goods falling under HS Code 801.1100, 801.3200, 802.1200, 802.9010, 902.4010, 902.4090, [4][2101.1110, 2101.1120, 0902.2000,] 904.1110, 907.0000, 908.1000, 3702.3100, 3705.2000, 3707.9000, 4011.2090, [5][ ] 6301.1000, 8204.0000, 8301.1000, 8511.1000, 8525.4000, 8529.9010 [6][,] 9004.1000 [7][0904.1120 (White Pepper), 0904.1190 (Long Pepper), 0906.1000 (Cassia), 0813.4010 (Tamarind), 0908.3020 (Small Cardamom), 0908.3010 (Big Cardamom), 0909.1000 (Star Aniseeds), 0802.5000 (Pistachio), 1211.9000 (Medical Herbs), 1301.1010 (Seed Lac), 1903.0010 (Sago Seeds), 1301.9090 (Gum Gopal), 3706.9000 [Other (cinematographic film)], 9613.1000 (Pocket lighters, gas fuelled, non-refillable) and 9613.2000 (Pocket lighters, gas fuelled, refillable) and such other goods as notified by Central Board of Revenue] of the First Schedule to the Customs Act, 1969 (IV of 1969), imported, the tax under section 148 shall be collected at the rate of 2% of its import value as increased by [8][customs-duty, sales tax and federal excise duty] , if any, levied thereon.]

[9][**(13C)** In respect of manufacturers of cooking oil or vegetable ghee or both, the rate of income tax on purchase of locally produced edible oil shall be 1% of the purchase price.]

[10][ ]

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[1] Substituted by S.R.O. 619(I)/2004, dated 17.07.2004. The substituted clause (13A) read as follows:
[A][**(13A)** In respect of di-ammonium phosphate (DAP) fertilizer imported, the tax under section 148 shall be collected at the rate of 1% of its import value as increased by customs-duty and sales tax, if any, levied thereon.]
[A] Inserted the Finance Act, 2004. Earlier this clause was inserted vide S.R.O. 441(I)/2004, dated 12.06.2004.

[2] The words "customs-duty and sales tax" substituted by the Finance Act, 2007.

[3] Inserted by the Finance Act, 2004.

[4] Inserted by S.R.O. 1004(I)/2004 dated 20.12.2004.

[5] The numbers and commas "50.04, 50.05, 50.06," omitted by the Finance Act, 2005.

[6] The word "and" substituted by the Finance Act, 2005.

[7] Inserted by the Finance Act, 2005.

[8] The words "customs-duty and sales tax" substituted by the Finance Act, 2007.

[9] Substituted by S.R.O. 36(I)/2005 dated 07.01.2005. The substituted clause read as follows:
[A][(13C) In respect of edible oil purchased locally by manufacturers of cooking oil or vegetable ghee or both, the rate of income tax shall be 1% of the purchase price.]
[A] Inserted by the Finance Act, 2004.

[10] Omitted by the Finance Act, 2005. Earlier clause (13D) was inserted by S.R.O. 769(I)/2004, dated 06.09.2004. The omitted clause (13D) read as follows:
"(13D) In respect of import of polyester yarn/fibre all types, the tax under section 148 shall be collected at the rate of two percent of the value of such items as increased by customs-duty and sales tax, if any, levied thereon."

[1]**[(13E)** In respect of potassic fertilizers imported in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9th December, 2004, the tax under section 148 of the Income Tax Ordinance, 2001 shall be collected at the rate of one percent of its import value as increased by customs-duty and sales tax, if any, levied thereon.]

[2][ ]

[3][**(13G)** Tax under section 148 on the following item shall be collected @ 1% of their import value as increased by [4][customs-duty, sales tax and federal excise duty], if any levied thereon:

i. Capital goods;

ii. Cement;

iii. Coal;

iv. Gold;

v. Mobile telephone sets;

vi. Silver;

vii. Sugar;

viii. Wheat;

ix. Raw wood;

x. Trucks in CBU condition having Gross Vehicle Weight exceeding 5 tons classified under PCT headings 8704.3290 and 8704.9090;

xi. Dump trucks classified under PCT heading 8704;

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[1] Added by S.R.O. 37(I)/2005 dated 07.01.2005.

[2] Omitted by S.R.O. 1037(I)/2005, dated 14.10.2005. The omitted clause (13F) read as follows:
"[2]**[(13F)** In respect of import of blankets (acrylic) [2][ ], the tax under section 148 of the Income Tax Ordinance, 2001 shall be collected at the rate of two percent of the value of such items as increased by customs-duty and sales tax, if any, levied thereon.]"

[3] Substituted by the Finance Act, 2006. The substituted clause (13G) read as follows:
"[A][**(13G)** In respect of re-meltable and re-rollable scrap, the tax under section 148 shall be collected at the rate of one per cent of the value of such goods as increased by customs-duty and sales tax, if any, levied thereon.]"
[A] Inserted earlier vide S.R.O.718(I)/2005, dated 16.07.2005.

[4] The words "customs-duty and sales tax" substituted by the Finance Act, 2007.

[1][xii. Fully dedicated CNG buses (CBU) classified under PCT heading 8702.1090 and 8702.9090 and agricultural tractors classified under PCT heading 8701.9020;]

xiii. medical, surgical, dental or veterinary machinery/ equipment, fixtures, fittings, furniture and diagnostic kits not manufactured locally covered by SRO 575(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xiv. equipments relating to call centers not manufactured locally covered by SRO 575(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xv. Disinfectants used in poultry business covered by SRO 567(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xvi. pre-fabricated structures for poultry farms covered by SRO 567(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xvii. live stock and raw materials and intermediaries goods as used in the manufacture of packing material for the packing of dairy products covered by SRO 567(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xviii. ripening chambers, hot water treatment plant, vapor hot treatment plant, modern cold storage, packing machinery, power generating sets of 10 – 25 KVA and battery operated fork lift trucks used in horticulture and floriculture business covered by SRO 575(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xix. processing and packing machinery/equipment required for fish farming covered by SRO 575(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xx. medicines for cancer, drugs used for kidney dialysis and kidney transplant, all type of vaccines for Hepatitis, Interferon and other medicines for Hepatitis, all vaccines/anti-sera, cardiac medicines, injection anti-D Immunoglobulin, blood bags CPDA.1, all medicines for HIV/AIDS and all medicines for Thalassemia covered by SRO 567(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

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[1] Substituted by SRO 1118(I)/2006, dated 06.11.2006. The substituted clause "xii" read as follows:
"xii. Buses classified under PCT heading 8702.1090;"

xxi. Broadcasting equipments covered by SRO 575(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xxii. News print covered by SRO 567(I)/2006 dated 05.06.2006 under the Customs Act, 1969;

xxiii. Computer hardware, parts and accessories of items classified under PCT heading 8471;

[1][xxiv. Condemned ships for the purpose of breaking.]

"*Explanation*.- Capital goods mean any plant, machinery, equipment, spares and accessories, classified in Chapters 84, 85 or any other Chapter of the Pakistan Customs Tariff, required for,-

(i) the manufacture or production of any goods, and includes refractory bricks and materials required for setting up a furnace, catalysts, machine tools, packaging machinery and equipment, refrigeration equipment, power generating sets and equipment, instruments for testing, research and development, quality control, pollution control and the like;

(ii) use in mining, agriculture, fisheries, animal husbandry, floriculture, horticulture, live stock, dairy and poultry industry;

(iii) service sector as defined in Customs Act, 1969;

This clause shall supersede clause (iv) of SRO.593(I)/91dated 30th June, 1991.]

[2][**(13H)** Tax under section 148 on the following items shall be collected @ 2% of their import value as increased by customs duty [3][, Federal Excise Duty] and sales tax, if any levied thereon:

(i) raw material for steel industry including remeltable; and re-rollable scrap;

(ii) raw material for manufacturer of poultry feed; [4][ ]

(iii) stationery [5][;]]

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1 Added by the Finance Act, 2007.

2 Inserted by the Finance Act, 2006.

3 Inserted by the Finance Act, 2007.

4 The word "and" omitted by the Finance Act, 2007.

5 Full stop substituted by the Finance Act, 2007.

[1][(iv) edible oils including crude oil imported as raw material for manufacture of ghee or cooking oil;]

[2][(v) Energy saver lamps [PCT heading 8539.10];]

[3][(vi) Bitumen [PCT heading 2714];]

[4][(vii) Fixed Wireless Terminal [PCT heading 8525.2040];]

[5][(viii) Pesticides and wedicides.]

(14) Tax shall be deducted under section 154 at the rate of 0.75% from foreign exchange proceeds on account of exports of –

(i) rice marketed under a brand name up to [6][fifty] kilograms packs;

(ii) canned and bottled fish including sea-food and other food items; and

(iii) precious and semi-precious stones whether uncut, cut, or polished.

(15) Tax shall be deducted under section 154 at the rate of 0.75% from foreign exchange proceeds on account of exports of fish and fisheries products packed in retail packs of five hundred grams to two kilograms.

(16) In the case of a non-resident company, rate of deduction of tax under section 150 on dividends received from a company engaged exclusively in mining operations, other than petroleum, shall be 7.5 per cent of the gross amount of dividend.

(17) The rates of tax as specified in Division III of Part-I of First Schedule shall be reduced to 7.5% in case of dividends declared or distributed by purchaser of a power project privatised by WAPDA.

[7][**(18)** In the case of a modaraba the rate of income tax shall be 25% of total

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1 Added by the Finance Act, 2007.

2 Added by the Finance Act, 2007.

3 Added by the Finance Act, 2007.

4 Added by the Finance Act, 2007.

5 Added by the Finance Act, 2007.

6 Substituted for the word “five” by S.R.O. 1053(I)/2003 dated 17.11.2003.

7 Added by the Finance Act, 2002.

income excluding such part of total income to which Division III of Part I of the First Schedule or section153 or section 154 applies.]

[1][**(19)** In respect of tax year commencing on or after the first day of July, 2002, the rate of income tax in respect of income of amalgamated company for its different businesses shall be the same as applicable to such businesses in the relevant tax year for the tax year in which amalgamation takes place and two tax years next following.]

[2][**(20)** The rates of tax as specified in clause (b) of Division-III of Part-I of First Schedule shall be reduced to 7.5% in case of dividend declared or distributed on shares of a company set up for power generation.]

[3][**(21)** In the case of any resident person engaged in the business of shipping, a presumptive income tax shall be charged in the following manner, namely:-

(a) ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bare-boat chartered and flying Pakistan flag shall pay tonnage tax of an amount equivalent to one US $ per gross registered tonnage per annum; and

(b) ships, vessels and all floating crafts including tugs, dredgers, survey vessels and other specialized craft not registered in Pakistan and hired under any charter other than bare-boat charter shall pay tonnage tax of an amount equivalent to fifteen US cents per tonne of gross registered tonnage per chartered voyage provided that such tax shall not exceed one US $ per tonne of gross registered tonnage per annum:

Provided that the reduction under this clause shall not be available after the 30th June, 2020.

Explanation.**-** For the purpose of this clause the expression "equivalent amount" means the rupee equivalent of a US dollar according to the exchange rate prevalent on the first day of December in the case of a company and the first day of September in other cases in the relevant assessment year."]

[4][ ]

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[1] Added by the Finance Act, 2002.
[2] Added by the Finance Act, 2002.
[3] Added by the Finance Act, 2002.
[4] Omitted by the Finance Act, 2007. The omitted clause (22) read as follows;
"[A][**(22)** In respect of companies getting enlisted on any stock exchange in Pakistan during the period first July, 2005 to thirtieth June, 2006, the rate of income tax shall be reduced by 1%.]"

[1][**(23)** In respect of Urea fertilizer imported, the tax under section 148 shall be collected at the rate of 1% of its import value as increased by [2][customs-duty, sales tax and federal excise duty], if any levied thereon.]

[3][**(24)** In respect of pulses imported, the tax under section 148 shall be collected at the rate of two per cent of the value of such pulses as increased by [4][customs-duty, sales tax and federal excise duty], if any, levied thereon.]

[5][ ]

[6][**(26)** the rate of tax as specified in Division II of Part IV, of the First Schedule, in the case of advertising agents, shall be 5% of the amount of the payment.]

[7][ ]

PART III
REDUCTION IN TAX LIABILITY

Income, or classes of income, or person or classes of person, enumerated below, shall be allowed reduction in tax liability to the extent and subject to such conditions as are specified hereunder:-

(1) [8][ ]

[9][**(1)** Any amount received as flying allowance by-

[A] Earlier added by the Finance Act, 2005.

[1] Added by the Finance Act, 2005.

[2] The words "customs-duty and sales tax" substituted by the Finance Act, 2007.

[3] Added by S.R.O. 741(I)/2005, dated 22.07.2005.

[4] The words "customs-duty and sales tax" substituted by the Finance Act, 2007.

[5] Omitted by the Finance Act, 2007. The omitted clause (25) read as follows:

"[A][**(25)** Services of [B][sizing, weaving] stitching, dying, printing, embroidery and washing rendered or provided to an exporter or an export house shall be treated as export and chargeable to tax at the rate equal to the rate of tax applicable to the exporter on export of goods to which such services relate as specified in Division IV of Part III of the First Schedule.]"

[A] Earlier added by S.R.O. 946(I)/2005 dated 12.09.2005.

[B] Earlier inserted by the Finance Act, 2006.

[6] Added by the Finance Act, 2006.

[7] Omitted by the Finance Act, 2007. The omitted clause (27) read as follows:

"[A][**(27)** The rate of withholding tax, as specified in Division III of Part III of the First Schedule, in respect of payment on account of transportation of goods through goods transport vehicles shall be two per cent of the gross amount of the payment with effect from July 1, 2006.]"

[A] Earlier inserted by S.R.O. 794(I)/2006, dated 05.08.2006.

[8] Omitted by the Finance Act, 2005.

[9] Inserted by the Finance Act, 2006. Earlier sub-clause (1) was omitted by Finance Act, 2005 which read as follows:

(a) pilots, flight engineers and navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority; and

(b) Junior Commissioned Officers or other ranks of Pakistan Armed Forces, shall be taxed @ 2.5% as a separate block of income.]

[1][(1A) Where the taxable income, in a tax year, of a taxpayer aged [2][60] years or more on the first day of that tax year does not exceed [3][400,000] rupees, his tax liability on such income shall be reduced by 50%.

[4][(2) The tax payable by a full time teacher or a researcher, employed in a non profit education or research institution duly recognized by Higher Education

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"(1) The Income Tax liability on income of salaried taxpayers, where any income chargeable under the head "salary" exceeds 50% of [A][taxable] income as determined under clause 1 & 2 of Division-I of Part-I of the First Schedule, shall be reduced at the following rates:-

S No.	Income Slab	Reduction in Tax liability
1.	Where income exceeds Rs.60,000 but does not exceed Rs.80,000	70%
2.	Where Income exceeds Rs 80,000 but does not exceed Rs.100,000	60%
3.	Where income exceeds Rs.100,000 but does but exceed Rs.150,000	50%
4.	Where income exceeds Rs. 150,000 but does but exceed Rs.200,000	40%
5.	Where income exceeds Rs.200,000 but does not exceed rs,300,000	30%
6.	Where income exceeds Rs.300,000 but does not exceed Rs.500,000	20%
7.	Where income exceeds Rs.500,000 but does not exceed Rs.1,000,000	10%
8.	Where income exceeds Rs.1,000,000	5%"

[A] Substituted for the word "total" by the Finance Act, 2003.
[1] Inserted by the Finance Act, 2002.
[2] The figure "65" substituted by the Finance Act, 2006.
[3] The words "[A][three] hundred thousand" substituted by the Finance Act, 2005.
[A] Substituted for the word "two" by the Finance Act, 2004.
[4] Substituted by the Finance Act, 2006. The substituted clause (2) read as follows:
"(2) In addition to the reduction specified in sub-clause (1), the tax payable by a full time teacher or a researcher, employed in a non profit education or research institution including government training and research institution duly recognized by a Board of Education or a University or the [A][Higher Education Commission], shall be further reduced by an amount equal to [B][75]% of the tax payable after the aforesaid reduction."

Commission, a Board of Education or a University recognized by the Higher Education Commission, including government training and research institution, shall be reduced by an amount equal to 75% of tax payable on his income from salary.]

(2) The amount of tax payable, in a year in which the rupee is revalued or devalued, by a taxpayer whose profits or gains are computed in accordance with the rules contained in the Fifth Schedule to this Ordinance and who had entered with the Government into an agreement which provides for such reduction, shall be reduced to the amount that would be payable in the absence of the revaluation or devaluation of the rupee.

(3) Where any company engaged in the business of distribution of cigarette manufactured in Pakistan is required to pay minimum tax on the amount representing its turnover under section 113, the amount of tax payable under the said section shall be reduced by [1][eighty] per cent.

[2][**(4)** In respect of old and used automotive vehicles specified in Notification No. S.R.O. 932(I)/2004, dated the 20th November, 2004, the tax under section 148 of the Income Tax Ordinance, 2001, shall not exceed the amount specified in column (3) of the Table below, namely: -

TABLE

S.No.	Vehicles meant for transport of persons	Income tax in Pak Rupees
(1)	(2)	(3)
1.	Upto 800CC	Rs.29,852
2.	From 801CC to 1000CC	Rs.34,497
3.	From 1001CC to 1300CC	Rs.67,282
4.	From 1301CC to 1600CC	Rs.105,061
5.	From 1601CC to 1800CC	Rs.120,256]

PART IV
EXEMPTION FROM SPECIFIC PROVISIONS

Income, or classes of income, or persons or classes of persons, enumerated below, shall be exempt from the operation of such provisions of this Ordinance, subject to such conditions and to the extent, as are specified hereunder: -

[A] The words “University Grants Commission” earlier substituted by the Finance Act, 2005.
[B] The figure “50” earlier substituted by the Finance Act, 2005.
[1] Substituted for the word “eight” by the Finance Act, 2002.
[2] Inserted by S.R.O. 981(I)/2004, dated 10.12.2004.

[1][ ]

(2) In the case of losses referred to in section 57 in respect of an industrial undertaking set up in an area declared by the Federal Government to be a "Zone" within the meaning of Export Processing Zones Authority Ordinance, 1980 (IV of 1980), the period of six [2][tax years] specified in the said section shall not apply.

(3) The provisions of clause (b) of [3][component C of the formula contained in] sub-section (2) of section 61 shall not apply in case of donations made to Agha Khan Hospital and Medical College, Karachi:

[4][**(3A)** The provisions of sub-sections (5) and (5A) of section 34 and section 70 shall not apply to any benefit derived by way of waiver of profit on debt or the debt itself under the State Bank of Pakistan, Banking Policy Department's Circular No.29 of 2002, dated the 15th October, 2002, to the extent not set off against the losses under Part VIII of Chapter III.]

[5][ ]

[6][**(5)** The provisions of section 111 regarding un-explained income or assets shall not apply in respect of,-

(i) any amount of foreign exchange deposited in a private Foreign Currency account held with an authorized bank in Pakistan in accordance with the Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan:

Provided that the exemption clause shall not be available in respect of any incremental deposits made on or after the 16th day of December, 1999 in such

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[1] Omitted by the Finance Act, 2003. The omitted clause (1) read as follows:
"**(1)** The provisions of clause (k) of section 21 shall not apply to any expenditure incurred by a banking company or a financial institution owned and controlled by the Federal Government on the provisions of perquisites, allowances or other benefits to any employee in pursuance of any law."

[2] Substituted for the words "assessment years" by the Finance Act, 2003.

[3] Substituted for the words "component C of" by the Finance Act, 2003.

[4] Inserted by the Finance Act, 2004.

[5] Omitted by the Finance Act, 2003. The omitted clause (4) read as follows:
"**(4)** The provisions of section 111 shall not apply in respect of any amount invested in the acquisition of Foreign Exchange Bearer Certificates issued under the Foreign Exchange Bearer Certificates Rule, 1985."

[6] Substituted by the Finance Act, 2005. The substituted clause (5) read as follows:
"(5) The provisions of section 111 shall not apply in respect of any amount of foreign exchange deposited in a private Foreign Currency account held with an authorized bank in Pakistan in accordance with the Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan:

Provided that the exemption under this clause shall not be available in respect of any incremental deposits made on or after the 16th day of December, 1999 in such accounts held by a resident person or in respect of [6][any amount] deposited in accounts opened on or after the said date by such person."

accounts held by a resident person or in respect of any amount deposited in accounts opened on or after the said date by such person.

(ii) any amount invested in the acquisition of Three Years Foreign Currency Bearer Certificates issued under the Foreign Currency Bearer Certificates Rules, 1997.

(iii) rupees withdrawn or assets created out of such withdrawal in rupees from private foreign currency accounts, or encashment of Foreign Exchange Bearer Certificates, US Dollar Bearer Certificates and Foreign Currency Bearer Certificates.]

[1][ ]

[2][ ]

[3][ ]

[4][ ]

[5][**(10)** The provisions of section 111, Part-X and Part-XI of Chapter X shall not

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[1] Omitted by the Finance Act, 2003. The omitted clause (6) read as follows:
"**(6)** The provisions of section 111 shall not apply in respect of any amount invested in the acquisition of US Dollar Bearer Certificate issued under the US Dollar Bearer Certificates Rules, 1991."

[2] Omitted by the Finance Act, 2005. The omitted clause (7) read as follows:
"**(7)** The provisions of section 111 shall not apply in respect of any amount invested in the acquisition of Three-Years Foreign Currency Bearer Certificates issued under the Foreign Currency Bearer certificates Rules, 1997."

[3] Omitted by the Finance Act, 2005. The omitted clause (7) read as follows:
"**(8)** The [A][provisions] of section 111 shall not apply in respect of rupees withdrawn or assets created out of such withdrawal in rupees from private foreign currency accounts, or encashment of Foreign Exchange Bearer Certificates, US Dollar Bearer Certificates and Foreign Currency Bearer Certificates."
[A] Substituted for the word "provision" by the Finance Act, 2003.

[4] Omitted by the Finance Act, 2003. The omitted clause (9) read as follows:
"**(9)** The provisions of section 111 shall not apply in respect of any amount invested by a sponsor or an original allottee in the purchase of shares of a company owning and managing an industrial undertaking specified in rule 5A of the Third Schedule of the Income Tax Ordinance, 1979."

[5] Substituted by the Finance Act, 2002. The substituted clause (10) read as follows:
"**(10)** The provisions of section 111 shall not apply in respect of any amount invested by a Foreign Currency Account holder in the purchase of Special US Dollar Bonds, issued under the Special US Dollar Bond Rules, 1998:
Provided that the exemption under this clause shall not be available in respect of the amounts invested in the Bonds purchased out of Incremental deposits made in the existing foreign currency accounts on or after the 16th day of December, 1999 or out of the foreign currency accounts opened on or after the said date."

apply in respect of any amount invested in the purchase of Special US Dollar Bonds issued under the Special U.S. Dollar Bond Rules, 1998:

Provided that the exemption under this clause shall not be available in respect of the amount invested in the said Bonds purchased out of incremental deposits made in the existing foreign currency accounts on or after 16th day of December, 1999, or out of foreign currency accounts opened on or after the said date, or on payment of the amount referred to in sub-rule (3) of rule 5 of Special U.S. Dollar Bond Rules, 1998 after the said date.]

[1][**(11)** The provisions of section 113, regarding minimum tax, shall not apply to,-

(i) National Investment (Unit) Trust or a collective investment scheme authorized or registered under the Non-banking Finance Companies (Establishment and Regulation) Rule, 2003 [2][or a real estate investment trust approved and authorized under the Real Estate Investment Trust Rules, 2006], or any other company in respect of turnover representing transactions in shares, or securities listed on a registered stock exchange;

(ii) petroleum dealers, in so far as they relate to turnover on account of sale of petroleum and petroleum products, notwithstanding their status as a company, a registered firm or an individual, engaged in retail sale of petroleum and petroleum products through petrol pumps for the purposes of assessment of their income and determination of tax thereon:

Provided that this exemption shall not apply to the sale of petroleum and petroleum products through petrol pumps which are directly operated or managed by companies engaged in distribution of petroleum and petroleum products.

Explanation.- For the removal of doubt it is declared that the companies engaged in distribution of petroleum and petroleum products other than through petrol pumps shall not be entitled to the benefits of this exemption;

(iii) Hub Power Company Limited so far as they relate to its

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[1] Substituted by the Finance Act, 2005. The substituted clause (11) read as follows:
"**(11)** The provisions of section 113 shall not apply to National Investment (Unit) Trust or a Mutual Fund established by the Investment Corporation of Pakistan or an investment company registered under the Investment Companies and Investment Advisors Rules, 1971 or any other company in respect of turnover representing transactions in shares, or securities listed on a registered stock exchange."

[2] Inserted by the Finance Act, 2006.

receipts on account of sale of electricity;

(iv) Kot Addu Power Company Limited (KAPCO) for the period it continues to be entitled to exemption under clause (138) of Part-I of this Schedule;

(v) companies, qualifying for exemption under clause (132) of Part-I of this Schedule, in respect of receipts from sale of electricity;

(vi) Provincial Governments and local authorities, qualifying for exemption under section 49 and other Government or semi-Government bodies which are otherwise exempt from income tax:

Provided that nothing shall be construed to authorize any refund of tax already paid or the collection of any outstanding demand created under the said section;

(vii) Pakistan Red Crescent Society;

(viii) special purpose, non-profit companies engaged in scrutinizing the receivables of Provincial Governments or the companies;

(ix) non-profit organizations approved under clause (36) of section 2 or clause (58) or included in clause (61) of Part-I of this Schedule;

(x) a taxpayer who qualifies for exemption under clause (133) of Part-I of this Schedule, in respect of income from export of computer software or IT services or IT enabled services;

(xi) a resident person engaged in the business of shipping who qualifies for application of reduced rate of tax on tonnage basis as final tax under clause (21) of Part II of the Second Schedule;

(xii) a venture capital company [1][,] venture capital fund [2][and Private Equity and Venture Capital Fund] which is exempt under clause (101) of Part-I of this Schedule;

(xiii) a Modaraba registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980);

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[1] The word “and” substituted by the Finance Act, 2007.

[2] Inserted by the Finance Act, 2007.

(xiv) Corporate and Industrial Restructuring Corporation (CIRC);

(xv) a Small Company as defined in section 2; [1][ ]

(xvi) The corporatized entities of Pakistan Water and Power Development Authority, so far as they relate to their receipts on account of sales of electricity, from the date of their creation upto the date of completion of the process of corporatization *i.e.* till the tariff is notified [2][; and]

[3][(xvii) a *morabaha* bank or a financial institution approved by the State Bank of Pakistan or the Securities and Exchange Commission of Pakistan (SECP), as the case may be, for the purpose of Islamic Banking and Finance in respect of turnover under a morabaha arrangement [4][; and]]

[5][(xviii) WAPDA First Sukuk Company Limited.

[6][ ]

[7][ ]

[1][ ]

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[1] The word "and" omitted by the Finance Act, 2006.

[2] The colon and the word "and" substituted by S.R.O. 884(I)/2006, dated 28.08.2006.

[3] Added by the Finance Act, 2006.

[4] Full stop substituted by S.R.O. 884(I)/2006, dated 28.08.2006.

[5] Inserted by S.R.O. 884(I)/2006, dated 28.08.2006.

[6] Omitted by the Finance Act, 2005. The omitted clause (12) read as follows:

"**(12)** The provisions of section 113, in so far as they relate to turnover on account of sale of petroleum and petroleum products shall not apply to petroleum dealers, notwithstanding [A][their] status as a company, a registered firm or an individual, engaged in retail sale of petroleum and petroleum products through petrol pumps for the purposes of assessment of their income and determination of tax thereon:

Provided that this exemption shall not apply to the sale of petroleum and petroleum products through petrol pumps which are directly operated or managed by companies [B][ ] engaged in distribution of petroleum and petroleum products.

Explanation. For the removal of doubt it is declared that the companies engaged in distribution of petroleum and petroleum products other than through petrol pumps shall not be entitled to the benefits of this exemption."

[A] Substituted for the word "there" by the Finance Act, 2003.

[B] The words "and registered firms" omitted by the Finance Act, 2003.

[7] Omitted by the Finance Act, 2005. The omitted clause (13) read as follows:

"**(13)** The provisions of section 113 shall not apply to Hub Power Company Limited so far as they relate to its receipts on account of sale of electricity."

[2][ ]

[3][ ]

(16) The provisions of sections 113, 148, 151, 153, 155 [4][and 156] shall not apply to the institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network:

Provided that such institutions shall continue to collect and deduct tax under section [5][149, 151, 152, 153, 155, 156 or 233] from others persons, wherever required thereunder:

Provided further that in respect of application of section [6][113], this clause shall take effect from the first day of July, 1991.

[7][ ]

[8][ ]

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[1] Omitted by the Finance Act, 2005. The omitted clause (13A) read as follows:
"[A][**(13A)** The provisions of section 113 shall not apply to Kot Addu Power Company Limited (KAPCO) for the period it continues to be entitled to exemption under clause (138) of Part-I of this Schedule.]"
[A] Inserted by S.R.O. 724(I)/2002, dated 17.10.2002.

[2] Omitted by the Finance Act, 2006. The omitted clause (14) read as follows:
"**(14)** A company registered and authorized by the Federal Government to import gold and silver shall be liable to pay tax on import of gold at the rate of two rupees per eleven grams six hundred and sixty-four milligrams and five rupees per kilogram in the case of silver in accordance with the provisions of section 148 and such payment of tax shall be deemed to be full and final liability of tax in respect of income accruing from such import including liability of tax under section 113."

[3] Omitted by the Finance Act, 2005. The omitted clause (15) read as follows:
"**(15)** The provisions of section 113 shall not apply to companies, qualifying for exemption under clause (132) of Part-I of this Schedule, in respect of receipts from sale of electricity."

[4] Substituted for the comma, figures and words " ,156 and 157" by the Finance Act, 2003.

[5] Substituted for the figure "113" by the Finance Act, 2003.

[6] Substituted for the figures, commas and word "[A][149, 151, 152, 153, 155, 156 or 233" by the Finance Act, 2004.
[A] Earlier the figure "113" was substituted by the Finance Act, 2003.

[7] Omitted by the Finance Act, 2005. The omitted clause (17) read as follows:
"**(17)** The provisions of section 113, shall not apply to [A][Provincial Governments and] local authorities, qualifying for exemption under section 49 and other [B][ ] [C][Government or semi-Government bodies which are otherwise exempt from income tax]:
Provided that nothing contained in this clause shall be construe to authorize any refund of tax already paid or the collection of any outstanding demand created under the said section."
[A] Inserted by the Finance Act, 2003.
[B] The word "than" omitted by the Finance Act, 2004.
[C] Substituted for the words and commas "corporate, Government or semi-Government bodies, not otherwise liable to income tax" by the Finance Act, 2003.

[8] Omitted by the Finance Act, 2005. The omitted clause (18) read as follows:
"**(18)** The provisions of section 113 shall not apply to Pakistan Red Crescent Society."

(19) The provisions of sections 113 and 151 shall not apply to non residents, (excluding local branches or subsidiaries or offices of foreign banks, companies, associations of persons or any other person operating in Pakistan), in respect of

[2][ ]

(33) The provisions of sections 151 and 233 shall not apply to any person making payment to National Investment (Unit) Trust or a mutual fund established by the Investment Corporation of Pakistan or an investment company registered under the Investment Companies and Investment Advisers Rules 1971 or a unit trust scheme constituted by an Asset Management Company registered under the Asset Management Companies Rules, 1995 [3][or a real investment trust, approved and authorized under the Real Estate Investment Trust Rules, 2006, established and managed by a REIT management company licensed under the Real Estate Investment Trust Rules, 2006] [4][or a Private Equity and Venture Capital Fund].

[5][ ]

[6][ ]

(36) The provisions of clause (c) of sub-section (1) of section 151 shall not apply in respect of any amount paid as interest or profit on Special US Dollar Bonds issued under the Special US Dollar Bonds Rules, 1998.

[7][**(36A)** The provisions of clause (a) of sub-section (1) of section 151 shall not apply in respect of any amount paid as yield or profit on investment in Bahbood Savings Certificate or Pensioner's Benefit Account.]

[8][ ]

(38) The provisions of section 151, [9][153 and 233] shall not apply to special

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[1] Omitted by the Finance Act, 2005. The omitted clause (31B) read as follows:
"[A][**(31B)** The provisions of section 148 shall not apply in respect of agricultural tractors imported in CBU condition.]"
[A] Inserted by the Finance Act, 2004.

[2] Omitted by the Finance Act, 2003. The omitted clause (32) read as follows:
"**(32)** The provisions of sections 149 and 152 relating to fee for technical services shall not apply to M/s Siddiq Sons Tin Plate Limited in respect of salaries of expatriate employees, royalty or technological and know-how fee for technical assistance for projects located in Special Industrial Zone, Windher, Balochistan, who have established L/Cs prior to the 31st January, 1996."

[3] Inserted by the Finance Act, 2006.

[4] Inserted by the Finance Act, 2007.

[5] Omitted by the Finance Act, 2005. The omitted clause (34) read as follows:
"**(34)** The provision of section 151 shall not apply in respect of profit or interest paid on a Term Finance Certificate held by a company which has been issued on, or after, the first day of July, 1999."

[6] Omitted by the Finance Act, 2005. The omitted clause (35) read as follows:
"**(35)** The provisions of section 151 shall not apply to any payment made by way profit or interest to any person on Term Finance Certificates being the instruments of redeemable capital under the Companies Ordinance, 1984 (XLVII of 1984), issued by Prime Minister's Housing Development Company (Pvt) Limited (PHDCL)."

[7] Inserted by the Finance Act, 2004.

[8] Omitted by the Finance Act, 2005. The omitted clause (37) read as follows:
"**(37)** The provisions of section 151 shall not apply to Pak rupee accounts or certificates referred to in clause (83) of Part I of this Schedule."

[9] Inserted by the Finance Act, 2002.

purpose vehicle for the purpose of securitization.

[1][**(38A)** The provisions of sections 150, 151 and 233 shall not apply to a Venture Capital Company;]

[2][**(38B)** The provisions of section 150 shall not apply to the Islamic Development Bank.]

[3][ ]

[4][ ]

(41) The provisions of [5][sub-section [6][(1B) of section 152]] shall not apply in respect of a non-resident person unless he opts for the presumptive tax regime:

Provided that a declaration of option is furnished in writing within three months of the commencement of the [7][tax] year and such declaration shall be irrevocable and shall remain in force for three years.

[8][**(41A)** Notwithstanding anything contained in the Finance Act, 2005 (VII of 2005), with respect to the omission of clause (40) of Part IV of the Second Schedule to this Ordinance, nothing in sub-section (6A) of Section 153 of this Ordinance shall apply to any person being a manufacturer, where declaration of option for the presumptive tax regime has been furnished and transactions pertaining to such option have been undertaken and completed on or before the

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[1] Inserted by the Finance Act, 2004.
[2] Inserted by the Finance Act, 2004.
[3] Omitted by the Finance Act, 2003. The omitted clause (39) read as follows:
"**(39)** The provisions of section 151 shall not apply to a person who produces a certificate from the Commissioner of Income Tax concerned to the effect that his income during the income year is exempt from tax."
[4] Omitted by the Finance Act, 2005 and, notwithstanding any judgement, order or decision of any Court, Tribunal or Authority including Income Tax Authority, shall be deemed always to have been so omitted and shall have effect accordingly. The omitted clause (40) read as follows:
"**(40)** The provisions of [A][sub-section (6) of section 153] in so far as they relate to payments on account of supply of goods [B][from] which tax is deductible under the said section shall not apply in respect of any person being a manufacturer of such goods, unless he opts for the presumptive tax regime:
Provided that a declaration of option is furnished in writing within three months of the commencement of the [C][tax] year and such declaration shall be irrevocable and shall remain in force for three years:
Provided further nothing contained in this clause shall apply to any manufacturer of goods for which special rates of deduction of tax are specified under the [D][repealed] Ordinance."
[A] Substituted for the word and figure "section 153" by the Finance Act, 2002.
[B] Inserted by the Finance Act, 2003.
[C] Substituted for the word "income" by the Finance Act, 2003.
[D] Substituted for the word "replaced" by the Finance Act, 2003.
[5] Substituted for the word and figure "section 153" by the Finance Act, 2002.
[6] The brackets, words and figures "(7) of section 153" substituted by the Finance Act, 2006.
[7] Substituted for the word "income" by the Finance Act, 2003.
[8] Inserted by S.R.O. 1130(I)/2005, dated 14.11.2005.

30th June, 2005:

Provided that all declaration of options already furnished shall cease to have effect after the 30th June, 2005.]

[1][**(41B)** The provisions of sub-section (2) of section 152 shall not apply in respect of payments to foreign news agencies, syndicate services and non-resident contributors, who have no permanent establishment in Pakistan.]

(42) The provisions of [2][sub-section (6) of section 153] shall not apply in respect of payments received by a resident person for providing services by way of operation of container or chemical or oil terminal at a sea-port in Pakistan or of an infrastructure project covered by the Government's Investment Policy, 1997.

[3][**(42A)** The provisions of sub-section (6) of section 153 shall not apply in respect of payments received by a person for supply of relief goods for earthquake victims against funds from the President Relief Fund for Earthquake Victims, 2005, or any other such source of the Government or the purchases made by approved voluntary Non-Profit Organizations or welfare bodies for the aforesaid purpose.]

[4][ ]

[5][**(43A)** The provisions of sub-section (1) of section 153 shall not apply to payments received by a person [6][including Permanent Establishment of Non-resident Petroleum Exploration and Production (E&P) Companies] on account of supply of petroleum product imported by the same person under the Government of Pakistan's deregulation policy of POL products;]

[7][**(43B)** The provisions of clause (a) sub-section (1) of section 153 shall not apply to payments received on sale of air tickets by travelling agents, who have paid withholding tax on their commission income.]

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1 Inserted by the Finance Act, 2007.

2 Substituted for the word and figure "section 153" by the Finance Act, 2002

3 Inserted by S.R.O. 1205(I)/2005, dated 06.12.2005.

4 Omitted by the Finance Act, 2004. The omitted clause (43) read as follows:

"(43) The provisions of [A][sub-section (1) of section 153] shall not apply to payments received by Pak-Arab Refinery Limited on account of supply of [B][its] products."

[A] Earlier this was substituted for the word and figure "section 153" by the Finance Act, 2002.

[B] Earlier this was substituted for the word "it" by the Finance Act, 2003.

5 Substituted by the Finance Act, 2003. The substituted clause (43A) read as follows:

[A]["**(43A)** The provisions of section 153, shall not apply to payments received by M/s Total PARCO Pakistan Limited for the supply of petroleum products.]"

[A] Earlier this was inserted by the Finance Act, 2002.

6 Inserted by the Finance Act, 2007.

7 Inserted by the Finance Act, 2007.

[1][ ]

[2][ ]

[3][ ]

[4][ ]

[5][ ]

(45) The provisions of [6][sub-section [7][(1)] of section 153] shall not apply to any manufacturer-cum-exporter as [8][the prescribed person]:

Provided that-

(a) the manufacturer-cum-exporter shall deduct tax from payments made in respect of goods sold in Pakistan;

(b) if tax has not been deducted from payments on account of supply of goods in respect of goods sold in Pakistan, the tax shall be paid by the manufacture-cum-exporter, if the sales in Pakistan are in excess of five per cent of export sales; and

(c) nothing contained in this clause shall apply to payments made on account of purchase of the goods in respect of

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[1] Omitted by the Finance Act, 2003. Earlier clause (43B) was inserted by S.R.O. 830(I)/2002, dated 22.11.2002. The omitted clause (43B) read as follows:
"**(43B)** The provisions of section 153 shall not apply to the payments received by Al Rahim Trading Co. (Pvt) Limited, Karachi for the supply of petroleum products."

[2] Omitted by the Finance Act, 2003. Earlier clause (43C) was inserted by S.R.O. 961(I)/2002, dated 23.12.2002. The omitted clause (43C) read as follows:
"**(43C)** The provisions of section 153 shall not apply to the payments received by Hascombe Storage (PVT) Limited, Karachi, for the supply of petroleum products."

[3] Omitted by the Finance Act, 2003. Earlier clause (43D) was inserted by S.R.O. 253(I)/2003, dated 07.03.2003. The omitted clause (43D) read as follows:
"**(43D)** The provisions of section 153 shall not apply to the payments received by M/s. Overseas Trading Corporation, Karachi, for the supply of petroleum products."

[4] Omitted by the Finance Act, 2003. Earlier clause (43E) was inserted by S.R.O. 408(I)/2003, dated 08.05.2003. The omitted clause (43E) read as follows:
"**(43E)** The provisions of section 153 shall not apply to the payments received by M/s. ICI Pakistan Limited, for the supply of petroleum products."

[5] Omitted by the Finance Act, 2005. The omitted clause (44) read as follows:
"**(44)** The provisions of section [A][148] shall not apply to an indirect exporter as defined in the Duty and Tax Remission for Export Rules, 2001 issued under Notification No. S.R.O. 185(I)/2001, dated the 21st March 2001."
[A] Substituted for the figure "153" by the Finance Act, 2002.

[6] Substituted for the word and figure "section 153" by the Finance Act, 2002.

[7] Substituted for the brackets and figure "(6)" by the Finance Act, 2003.

[8] Substituted for the words "a payer" by the Finance Act, 2003.

which special rates of tax deduction have been specified [1][under the provisions of the repealed Ordinance].

[2][**(46)** The provisions of sub-section (1) of section 153 shall not apply to any payment received by an oil distribution company or an oil refinery for supply of its petroleum products.]

[3][ ]

[4][ ]

[5][ ]

(47) The provisions of [6][sections 151 and 155] shall not apply to a person who produces a certificate from the Commissioner of Income Tax concerned to the effect that his income during the income year is exempt from tax.

[7][**(47A)** The provisions of section 153 shall not apply in respect of payments received by a resident person for supply of such goods as were imported by the same person and on which tax has been paid under section 148.]

[8][**(47B)** The provisions of sections 150, 151 and 233 shall not apply to any person making payment to National Investment (Unit) Trust or a mutual fund established by the Investment Corporation of Pakistan or [9][a collective investment scheme authorized or registered under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 or a modaraba] [10][or Approved Pension Fund or an Approved Income Payment Plan constituted by a Pension Fund Manager registered under Voluntary Pension Systems Rules,

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[1] Substituted for the words "in exercise" by the Finance Act, 2003.

[2] Substituted by the Finance Act, 2004. The substituted clause (46) read as follows:
"(46) The provisions of [A][sub-section (1) of section 153], shall not apply in respect of payments received on account of supply of petroleum products by Attock Petroleum Limited."
[A] Earlier the word and figure "section 153" substituted by the Finance Act, 2002.

[3].Omitted by the Finance Act, 2004. Earlier clause (46A) was inserted by S.R.O. 855(I)/2003 dated 29.08.2003. The omitted clause (46A) read as follows:
"(46A) The provisions of sub-section (1) of section 153, shall not apply to the payments received by M/s. TOTAL PARCO Pakistan Limited (TPPL) for the supply of petroleum products."

[4] Omitted by the Finance Act, 2004. Earlier clause (46B) was inserted by S.R.O. 856(I)/2003 dated 27.08.2003. The omitted clause (46B) read as follows:
"(46B) The provisions of sub-section (1) of section 153, shall not apply to the payments received by M/s. Enar Petrotech Services (Pvt) Limited for the supply of its petroleum products."

[5] Omitted by the Finance Act, 2004. Earlier clause (46C) was inserted by S.R.O. 857(I)/2003 dated 27.08.2003. The omitted clause (46C) read as follows:
"(46C) The provisions of sub-section (1) of section 153, shall not apply to the payments received by M/s. Bosicor Pakistan Limited for the supply of its products."

[6] Substituted for the word and figure "section 153" by the Finance Act, 2002.

[7] Added by the Finance Act, 2002.

[8] Added by the Finance Act, 2002.

[9] Substituted for the words, figures and comma "an investment Company registered under the Investment Companies and Investment Advisors Rules, 1971 or a Unit Trust Scheme constituted by an Asset Management Companies Rule, 1995, or a modaraba management company" by the Finance Act, 2003.

[10] Added by the Finance Act, 2005.

2005] [1][or a Real Estate Investment Trust approved and authorized under the Real Estate Investment Trust Rules, 2006, established and managed by a REIT Management Company licensed under the Real Estate Investment Trust Rules, 2006] [2][or a Private Equity and Venture Capital Fund]].

[3][**(47C)** The provisions of sub-section (1) of section 154 shall not apply to an exporter in respect of cooking oil or vegetable ghee exported to Afghanistan, from whom advance tax has been collected under section 148 on import of edible oil.]

[4][**(47D)** The provisions of sub-section (6A) of section 153 shall not apply to cotton ginners.]

[5][ ]

[6][ ]

[7][ ]

[8][ ]

(52) The provisions of clause (vi) of Notification No. SRO 593(I)/91, dated the 30th June, 1991, shall not apply to any importer being an industrial undertaking engaged in the manufacture of vanaspati ghee or oil.

[9][ ]

[1][ ]

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[1] Inserted by the Finance Act, 2006.

[2] Inserted by the Finance Act, 2007.

[3] Inserted by the Finance Act, 2004.

[4] Inserted by S.R.O. 989(I)/2005, dated 19.09.2005.

[5] Omitted by the Finance Act, 2003. The omitted clause (48) read as follows:
"**(48)** The provisions of section 236 shall not apply to a person who produces a certificate from the Commissioner of Income Tax concerned to the effect that his income during the income year is exempt from tax."

[6] Omitted by the Finance Act, 2003. The omitted clause (49) read as follows:
"**(49)** The provisions of section 236 shall not apply where the subscriber is a non-taxable non-profit organization."

[7] Omitted by the Finance Act, 2003. The omitted clause (50) read as follows:
"**(50)** The provisions of section 234 shall not apply to a person who produces a certificate from Commissioner of Income Tax concerned to the effect that his income during the income year is exempt from tax."

[8] Omitted by the Finance Act, 2003. The omitted clause (51) read as follows:
"**(51)** The provisions of section 235 shall not apply to a person who produces a certificate from the Commissioner of Income Tax concerned to the effect that his income during the income year is exempt from tax."

[9] Omitted by the Finance Act, 2005. The omitted clause (53) read as follows:
"[A][(53) The provision of [B][sections 148 and 153] shall not apply to the wheat imported by Trading Corporation of Pakistan in pursuance of Economic Coordination Committee of the Cabinet decision No.ECC-67/5/2005 dated the 2nd July, 2004.]"

[A] Added by SRO 833(I)/2004, dated 29.09.2004.

[B] The word and figure "section 148" substituted by SRO 918(I)/2004, dated 11.11.2004.

[2][ ]

[3][**(56)** The provisions of section 148, regarding withholding tax on imports, shall not apply in respect of;-

(i) goods or classes of goods imported by contractors and sub-contractors engaged in the execution of power project under the agreement between the Islamic Republic of Pakistan and Hub Power Company Limited;

(ii) such specially equipped motor vehicle or support equipment imported by a disabled person, as is allowed by the Federal Government;

(iii) such goods imported into Pakistan as are exempt from customs duties and sales tax under Headings 9913, 9914 and 9915 of Sub-Chapter III of Chapter 99 of First Schedule the Customs Act, 1969 (IV of 1969);

(iv) goods imported by direct and indirect exporters covered under -

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[1] Omitted by the Finance Act, 2005. The omitted clause (54) read as follows:
"[A][(54) The provisions of section 148 shall not apply to sugar imported in pursuance of Economic Coordination Committee of the Cabinet's decision No.ECC16/2/2005 dated 08.02.2005.]"
[A] Added by SRO 174(I)/2005, dated 17.02.2005.

[2] Omitted by the Finance Act, 2005. Earlier this was inserted by S.R.O. 423(I)/2005, dated 13.05.2005. The omitted clause (55) read as follows:
"(55) The provision of section 148 shall not apply to the import of the following items, namely:-
(a) onions;
(b) potatoes;
(c) tomatoes;
(d) garlic;
(e) halal meat of -
(1) (i) goat; and
(ii) sheep; and
(2) beef; and
(f) live animals (bovine animals i.e. buffalos, cows, sheep, goats and camels only)."

[3] Added by the Finance Act, 2005.

(a) Sub-Chapter 4 of Chapter XII of S.R.O. 450(I)/2001 dated 18.06.2001;

(b) Sub-Chapter 6 of Chapter XII of S.R.O. 450(I)/2001 dated 18.06.2001; and

(c) Sub-Chapter 7 of Chapter XII of S.R.O. 450(I)/2001 dated 18.06.2001;

(v) goods specified under Heading 9929, Sub-Chapter VIII of Chapter 99 of the First Schedule to the Customs Act, 1969 (IV of 1969);

[1][(vi) Liquefied Petroleum Gas (LPG)]

[2][(vii) Liquefied Natural Gas (LNG)]

(viii) agricultural tractors imported in CBU condition;

(ix) an indirect exporter as defined in the Duty and Tax Remission for Export Rules, 2001 issued under Notification No. S.R.O. 85(I)/2001, dated the 21st March 2001;

[3][(x) Radio Navigational Aid Apparatus imported for an airport or on after First January, 2006.]

[4][ ]

(xii) import of the following items, namely:-

(a) onions;

(b) potatoes;

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[1] Substituted by the Finance Act, 2006. The substituted sub-clause (vi) read as follows:
"(vi) such mobile telephone sets as are exempt from custom duty and are charged to sales tax in the manner prescribed in the Notification No. S.R.O. 390(I)/2001, dated the 18th June, 2001;"

[2] Substituted by the Finance Act, 2006. The substituted sub-clause (vii) read as follows:
"(vii) plant, machinery and equipment and parts thereof imported as are subject to 5% rate of customs-duty under Chapter 84 of the First Schedule to the Customs Act, 1969 (IV of 1969), or are exempt from customs-duty or subject to a lower rate of customs-duty under relevant Customs notifications;"

[3] Substituted by the Finance Act, 2006. The substituted sub-clause (x) read as follows:
"(x) import of wheat [A][and wheat flour];"
[A] Inserted vide S.R.O.772(I)/2005 dated 03.08.2005.

[4] Omitted by the Finance Act, 2006. The omitted sub-clause (xi) read as follows:
"(xi) sugar imported in pursuance of Economic Coordination Committee of the Cabinet's decision No. ECC 16/2/2005 dated 08.02.2005; and"

(c) tomatoes;

(d) garlic;

(e) halal meat of-

(1) (i) goat; and

(ii) sheep; and

(2) beef; and

(f) live animals (bovine animals i.e. buffalos, cows, sheep, goats and camels only).] [1][and]

[2][ ]

[3][(xiv) goods donated for the relief of earthquake victims as are exempt from customs duties and sales tax [4][; and]]

[5][(xv) tents, tarpaulin and blankets.]

[6][ ]

[7][(xvii) import of ships and floating crafts including tugs, dredgers, survey vessels and other specialized crafts, registered in Pakistan.]

[8][(xviii) goods specified in column (2) of the Table below, falling under the PCT heading number mentioned in column (3) of the said Table, namely: -

TABLE

S.No.	Description of goods.	PCT heading number.
(1)	(2)	(3)

[1] Added by S.R.O. 1010(I)/2005, dated26.09.2005.
[2] Omitted by the Finance Act, 2006. The omitted sub-clause (xiii) read as follows:
"[A][(xiii) cement imported in pursuance of Economic Coordination Committee of the Cabinet's decision N o.ECC-124/8/2005, dated the 1st September, 2005.]"
[A] Earlier sub-clause (xiii) was inserted vide S.R.O.1010(I)/2005, dated 26.09.2005.
[3] Added by S.R.O. 1034(I)/2005, dated 10.10.2005.
[4] The full stop substituted by the semi colon and the word "and" by S.R.O. 1037(I)/2005, dated 14.10.2005.
[5] Added by S.R.O. 1037(I)/2005, dated 14.10.2005.
[6] Omitted by the Finance Act, 2006. The omitted sub-clause (xvi) read as follows:
"(xvi) Dump trucks and transit mixers of highway."
[7] Inserted by SRO 93(I)/2006, dated 07.02.2006.
[8] Added by SRO 272(I)/2006, dated 21.03.2006.

1.	Camera.	9007.1100
2.	Studio lights.	9405.4010
3.	Screen.	9010.6000
4.	Camera all kind lenses.	9002.1100
5.	Stand filers.	9002.2000
6.	Lenses video assist.	9002.1900
7.	Lights/studio lights.	9405.4010
8.	Laboratory for processing.	9010.5000
9.	Steam back.	9405.4010
10.	Mixing studio facility.	9010.5000
11.	Re-mixing and accessories.	9010.5000
12.	Jummy gib.	9010.5000
13.	Negative.	9010.5000
14.	Postive.	9010.5000
15.	Sound.	9010.5000
16.	Magnetic sound/negative.	9010.5000
17.	Lighting equipment imported By M/s Rafi Peer Theatre Workshop.	9405.4010]

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[1][(xix) one time import of 32 buses by Daewoo Express Bus Service Ltd.]

[2][(xx) goods temporarily imported into Pakistan for subsequent exportation and which are exempt from customs duty and sales tax under Notification No. S.R.O. 1065(I)/2005, dated the 20th October, 2005.]

[3][xxi] capital goods imported by a manufacturer whose sales are 100% exports and produces a certificate from the Commissioner of Income Tax to the effect that the imported capital goods shall be

(a) installed in his own industrial undertaking; and

(b) exclusively used for production of goods to be exported.]

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[1] Added by SRO 363(I)/2006, dated 15.04.2006.

[2] Inserted by S.R.O. 863(I)/2006, dated 22.08.2006.

[3] Inserted by SRO 1268(I)/2006, dated 21.12.2006.

[1][(xxii) Capital goods and raw material imported by manufacturer exporter registered with Sales Tax Department as a manufacturer.]

[2][(xxiii) Petroleum (E&P) companies covered under SRO. 678(I)2004 dated 07.08.2004 except motor vehicles imported by such companies.]

[3][(xxiv) Companies importing high speed diesel oil, light diesel oil, high octane blending component or motor spirit, furnace oil, JP-1, MTBE, kerosene oil, crude oil for refining and chemical use in refining thereof in respect of such goods; [4][ ]]

[5][(xxv) The re-importation of re-usable containers for re-export qualifying for customs-duty and sales tax exemption on temporary import under the Customs Notification No. S.R.O.344(I)/95 dated the 25th day of April, 1995 [6][; and]]

[7][(xxvi) goods donated for relief of flood victims of year 2007 as exempt from customs-duty and sales tax.]

[8][**(57)** The provisions of sections [9][113,] 148 and 153 shall not apply to companies operating Trading Houses which-

(i) have paid up capital of exceeding Rs.250 million;

(ii) own fixed assets exceeding Rs.300 million at the close of the Tax Year;

(iii) maintain computerized records of imports and sales of goods;

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1 Added by the Finance Act, 2007.
2 Added by the Finance Act, 2007.
3 Added by the Finance Act, 2007.
4 The word "and" omitted by S.R.O. 759(I)/2007, dated 31.07.2007.
5 Added by the Finance Act, 2007.
6 Full stop substituted by S.R.O. 759(I)/2007, dated 31.07.2007.
7 Added by S.R.O. 759(I)/2007, dated 31.07.2007.
8 Added by the Finance Act, 2005.
9 Inserted by the Finance Act, 2006.

(iv) maintain a system for issuance of 100% cash receipts on sales;

(v) present accounts for tax audit every year; and

(vi) is registered with Sales Tax Department:

Provided that the exemption under this clause shall not be available if any of the aforementioned conditions are not fulfilled for a tax year [1][:]]

[2][Provided further that the exemption from application of section 113 shall be available for the first ten years, starting from the tax year in which the business operations concerned.]

[3][**(57A)** The provisions of sections 153 and 169 shall not apply to large import houses:

Provided that the exemption under this clause shall not be available if any of the conditions provided in section 148 are not fulfilled for a tax year.]

[4][**(58)** The provisions of section 205 shall not apply to telecom companies for default of not collecting withholding tax under section 236 (1)(b) on sale of prepaid cards during tax year 2004, if the amount not collected is deposited within three months:

Provided that nothing contained in this clause shall apply to the amounts collected under section 236(1)(b), but not deposited in the Treasury.]

[5][**(59)** The provisions of section 151, regarding withholding tax on profit on debt, shall not apply-

(i) in respect of profit or interest paid on a Term Finance Certificate held by a company which has been issued on, or after, the first day of July, 1999;

(ii) to any payment made by way profit or interest to any person on Term Finance Certificates being the instruments of redeemable capital under the Companies Ordinance, 1984 (XLVII of 1984), issued by Prime

[1] Full stop substituted by the Finance Act, 2006.
[2] Inserted by the Finance Act, 2006.
[3] Inserted by the Finance Act, 2007.
[4] Added by the Finance Act, 2005.
[5] Added by the Finance Act, 2005.

Minister's Housing Development Company (Pvt) Limited (PHDCL);

(iii) to Pak rupee accounts or certificates referred to in clause (83) of Part-I of this Schedule; and

(iv) in the case of any resident individual, no tax shall be deducted from income or profits paid on,-

(a) Defence Savings Certificates, Special Savings Certificates, Savings Accounts or Post Office Savings Accounts, or Term Finance Certificates (TFCs), where such deposit does not exceed one hundred and fifty thousand rupees; and

(b) Investment in monthly income Savings Accounts Scheme of Directorate of National Savings, where monthly installment in an account does not exceed one thousand rupees.]

[1][**(60)** The provisions of sections 148 and 153 shall not apply to fully as well partly designed/assembled cypher devices, for use within the country as are verified by [2][Cabinet Division (NTISB)] with reference to design, quality and quantity.]

[3][**(61)** The provisions of section 231A shall not apply in respect of any cash withdrawal, from a bank, made by an earthquake victim against compensation received from GOP including payments through Earthquake Reconstruction and Rehabilitation Authority (ERRA) account.]

[4][**(62)** The following provisions of Section 97 shall not apply in case of transfer of assets on amalgamation of companies or their businesses or acquisition of shares, requiring that transferor:

(a) be resident company; and

(b) belong to a wholly-owned group of resident companies.

Provided that:

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[1] Inserted by S.R.O. 85(I)/2006, dated 03.02.2006.
[2] The letters "NTISB" substituted by the Finance Act, 2006.
[3] Added by S.R.O. 273(I)/2006, dated 21.03.2006.
[4] Inserted by S.R.O. 885(I)/2006, dated 29.08.2006.

(i) the transferee resident company shall own or acquire atleast 75% of the share capital of the transferor company or the business in Pakistan of the transferor company;

(ii) the amalgamated company is a company incorporated in Pakistan;

(iii) the assets of the amalgamating company or companies immediately before the amalgamation become the assets of the amalgamated company by virtue of the amalgamation, otherwise than by purchase of such assets by the amalgamated company or as a result of distribution of such assets to the amalgamated company after the winding up of the amalgamating company or companies;

(iv) the liabilities of the amalgamating company or companies immediately before the amalgamation become the liabilities of the amalgamated company by virtue of the amalgamation; and

(v) the scheme of amalgamation is sanctioned by the State Bank of Pakistan, any court or authority as may be required under the law.]

THE THIRD SCHEDULE

[1][PART-I

DEPRECIATION

(*See Section 22***)**

Depreciation rates specified for the purposes of section 22 shall be,-

[1] Substituted by the Finance Act, 2005. The substituted Part I read as follows:

PART I

DEPRECIATION

(See Section 22)

Depreciation rates specified for the purposes of section 22 shall be –

Class of asset.	Description.	Rate percent of the written down value.
	BUILDINGS	
I	Building (not otherwise specified).	5 (General rate)
II	Factory, workshop, cinema, hotel, hospital.	10
III	Residential quarters for labour.	10
	FURNITURE	
IV	Furniture (including fittings).	10
	MACHINERY AND PLANT	
V	Machinery and plant (not otherwise specified).	10 (General rate)
VI	Computer hardware, including printer, monitor and allied items.	30
VII	Technical or professional books.	20
VIII	Ships.	
(i)	New.	5
(ii)	Second hand.	
	Age at time of purchase:	
	(a) Not more than ten years	10
	(b) Ten or more years.	20
IX	Motor vehicles (all types)	20
X	Aircraft, aero-engines and aerial photographic apparatus.	30
XI	Below ground installations in mineral oil concerns the income of which is liable to be computed in accordance with the rules in Part I of the Fifth Schedule.	100%
XII	Below ground installations, including but not limited to the cost of drilling, casing, cementing, logging and testing of wells, in offshore mineral oil concerns the income of which is liable to be computed in accordance with the rules in Part I of the Fifth Schedule.	100
XIII	Offshore platforms and production installation in mineral oil concerns the income of which is liable to be computed in accordance with the rules in Part I of the Fifth Schedule.	20

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 [1][,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. (a) Below ground installations (b) Offshore platform and production installations.	 100% 20%]

PART II
INITIAL ALLOWANCE
(See Section 23)

The rate of initial allowance under section 23 shall be [2] [50%].

PART III
PRE-COMMENCEMENT EXPENDITURE
(See Section 25)

The rate of amortisation of pre-commencement expenditure under section 25 shall be 20%.

[1] Inserted by the Finance Act, 2006.
[2] Substituted for the figure "40%" by the Finance Act, 2002.

THE FOURTH SCHEDULE
(See Section 99)

RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS OF INSURANCE BUSINESS

Profits on Life Insurance to be Computed Separately

1. The profits and gains of a taxpayer carrying on life insurance business chargeable under the head "Income from Business" shall be computed separately from the taxpayer's income from other business. [1][Income from other business shall be profit or loss before tax as per profit and loss account prepared under the Insurance Ordinance, 2000 (XXXIX of 2000), excluding any surplus appropriation made during the year.]

Computation of Profits and Gains of Life Insurance Business

[2][2. The profits and gains of a life insurance business shall be the current year's surplus appropriated to profit and loss account prepared under the Insurance Ordinance, 2000 (XXXIX of 2000), as per advice of the Appointed Actuary, net of adjustments under sections 22(8), 23(8) and 23(11) of the Insurance Ordinance, 2000 (XXXIX of 2000) so as to exclude from it any expenditure other than expenditure which is, under the provisions of Part IV of Chapter III, allowed as a deduction in computing profits and gains of a business to the extent of the proportion of surplus not distributed to policy holders.]

Computing the Surplus under Rule 2

3. (1) The following [3][provisions] shall apply in computing the surplus for the purposes of rule 2, namely:–

(a) the amounts paid to, or reserved for, or expended on behalf of policy-holders shall be allowed as a deduction;

(b) any amount either written off or reserved in the accounts, or through the actuarial valuation balance sheet to meet depreciation, or loss on the realization of investments shall be allowed as a deduction, and any sums taken credit for in the

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[1] Added by the Finance Act, 2004.

[2] Substituted by the Finance Act, 2004. The substituted rule (2) read as follows:

"2. The profits and gains of a life insurance business shall be the annual average of the surplus arrived at by adjusting the surplus or deficit disclosed by actuarial valuation made for the last inter-valuation period ending before the tax year for which the assessment is to be made so as to exclude from it any surplus or deficit included therein which was made in any earlier inter-valuation period and any expenditure other than expenditure which is, under the provisions of Part IV of Chapter III, allowed as a deduction in computing the profits and gains of a business."

[3] Substituted for the word "rules" by the Finance Act, 2003.

accounts or actuarial valuation balance sheet on account of appreciation, or gains on the realisation of investments [1][shall be included in the surplus]; and

(c) profit on debt [2][accrued] in the inter-valuation period in respect of any securities of the Federal Government which have been issued or declared to be income tax-free shall not be excluded, but shall be exempt from tax [3][ ].

(2) For the purposes of clause (a) of sub-rule (1) –

(a) in the first computation of the surplus, no account shall be taken of amounts referred to in the [4][said clause] to the extent to which they are paid out, or in respect of any surplus brought forward from a previous inter-valuation period; and

(b) if any amount reserved for policy-holders ceases to be so reserved, and is not paid to, or expended on behalf of policy-holders, the sums previously allowed as a deduction under this Ordinance [5][or the repealed Ordinance] shall be treated as part of the [6][respective statutory fund] for the tax year in which the amount ceased to be so reserved.

(3) For the purposes of clause (b) of sub-rule (1), if it appears to the Commissioner, after consultation with the Securities and Exchange Commission of Pakistan, that the rate of profit on debt or other factors employed in determining the liability in respect of outstanding policies is inconsistent with the valuation of investments so as artificially to reduce the surplus, the Commissioner may make such adjustment to the allowance for depreciation, or in respect of appreciation, of such investment as the Commissioner thinks reasonable.

[7][ ]

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[1] Inserted by the Finance Act, 2003.
[2] Substituted for the word “received” by the Finance Act, 2004.
[3] The words and figures “in accordance with Part VII of Chapter III” omitted by the Finance Act, 2003.
[4] Substituted for the word ”sub-clause” by the Finance Act, 2003.
[5] Inserted by the Finance Act, 2003.
[6] Substituted for the word “surplus” by the Finance Act, 2004.
[7] Omitted by the Finance Act, 2004. The omitted rule (4) read as follows:

“Adjustment of Tax Paid by Deduction at Source

4. Where, for any tax year, an assessment of the profits and gains of life insurance business is made in accordance with the annual average of a surplus disclosed by a valuation for an inter-valuation period exceeding twelve months, then, in computing the tax due for that year, no credit shall be allowed for the tax paid in the tax year, but credit shall be given for the annual average of the tax paid by deduction [7][or otherwise on profit on debt received on any security of the Federal Government, a Provincial Government, a local authority or a company] during the period.”

General Insurance

5. The profits and gains of any business of insurance (other than life insurance) shall be taken to be the balance of the profits disclosed by the annual accounts required under the Insurance Ordinance, 2000 (XXXIX of 2000), to be furnished to the Securities and Exchange [1][Commission] of Pakistan subject to the following adjustments –

(a) any expenditure or allowance, or any reserve or provision for any expenditure, or the amount of any tax deducted at source from dividends or profit on debt received which is not deductible in computing the income chargeable under the head "Income from Business" shall be excluded;

(b) any amount either written off or taken to reserve to meet depreciation or loss on the realization of investments shall be allowed as a deduction, and any sums taken credit for in the accounts on account of appreciation, or gains on the realization of [2][investments] shall be treated as part of the profits and gains, provided the Commissioner considers the amount to be reasonable; and

(c) no deduction shall be allowed for any expenditure, allowance, reserve, or provision in excess of the limits laid down in the Insurance Ordinance, 2000 (XXXIX of 2000), unless the excess is allowed by the [3][Securities] and Exchange Commission and is incurred in deriving income chargeable to tax.

Mutual Insurance Association

6. These rules shall also apply to the assessment of the profits and gains of any business of insurance carried on by a mutual insurance association and such profits and gains shall be chargeable to tax under the head "Income from Business".

[4][(6A) **Exemption of Capital Gains from the sale of shares**.- In computing income under this Schedule, there shall not be included "capital gains", being income from the sale of modaraba certificates or any instrument of redeemable capital as defined in the Companies Ordinance, 1984 (XLVII of 1984), listed on any stock exchange in Pakistan or shares of a public company (as defined in sub-section (47) of section 2) and the Pakistan Telecommunications Corporation

[1] Substituted for the word "Commissioner" by the Finance Act, 2002.
[2] Substituted for the word "investment" by the Finance Act, 2003.
[3] Substituted for the word "Security" by the Finance Act, 2003.
[4] Inserted by the Finance Act, 2005.

vouchers issued by the Government of Pakistan, derived up to tax year ending on the thirtieth day of June, [1][2008].]

Definitions

7. In this Schedule, –

"investments" includes all forms of shares, debentures, bonds, deposits and other securities, derivative instruments, and includes immovable property whether or not occupied by the insurer;

"life insurance business" means life insurance business as defined in section 4 of the Insurance Ordinance, 2000 (XXXIX of 2000);[2][and]

"Securities and Exchange Commission of Pakistan" means the Securities and Exchange Commission established under the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997) [3][.]

[4] [ ]

[1] The figure "2007" substituted by the Finance Act, 2007.
[2] Inserted by the Finance Act, 2002
[3] Substituted for the semi-colon and word ";and" by the Finance Act, 2002.
[4] Omitted by the Finance Act, 2002. The omitted fourth paragraph of the Fourth Schedule read as under:
"Securities and Exchange Commissioner of Pakistan" means the Securities and Exchange Commissioner of Pakistan established under the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997)."

THE FIFTH SCHEDULE
(See Section 100)

PART I

RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS FROM THE EXPLORATION AND PRODUCTION OF PETROLEUM

Exploration and Production of Petroleum a Separate Business

1. Where any person carries on, or is treated as carrying on, under an agreement with the Federal Government, any business which consists of, or includes, the exploration or production of petroleum in Pakistan or setting up refineries at Dhodak and Bobi fields, income of exploration and production companies from pipeline operations, and manufacture and sale of liquified petroleum gas or compressed natural gas, such business or part thereof, as the case may be, shall be, for the purposes of this Ordinance, treated as a separate business undertaking (hereinafter referred to as "such undertaking") and the profits and gains of such undertaking shall be computed separately from the income, profits, or gains from any other business, if any, carried on by the person.

Computation of Profits

2 (1) Subject to the provisions of this Part, the profits and gains of such undertaking [1][shall be] computed in the manner applicable to income, profits and gains chargeable under the head "Income from Business".

(2) Where such person incurs any expenditure on searching for or discovering and testing a petroleum deposit or winning access thereto but the search, exploration, enquiry upon which the expenditure is incurred is given up before the commencement of commercial production, the expenditure allocable to a surrendered area or to the drilling of a dry-hole shall be treated as lost at the time of the surrender of the area or the completion of the dry-hole, as the case may be.

(3) Where the agreement provides that any portion of the expenditure is treated as lost under sub-rule (2) (hereinafter referred to as the "said loss") and is allowed against any income of such undertaking, it shall be allowed in either of the following ways as may be provided for in the agreement, namely:–

(a) The said loss in any year shall be set off against the income of that year chargeable under the head "Income from Business" or any income (other than income from dividends) chargeable

[1] Substituted for the word "are" by the Finance Act, 2003.

under any other head and where the loss cannot be wholly set off in this manner the portion not so set off shall be carried forward to the following year and set off in the same manner and so on, but no loss shall be carried forward for more than six years; or

(b) the said loss in any year shall be set off against the income of such undertaking of the tax year in which commercial production has commenced and where the loss cannot be wholly set off against the income of such undertaking of that year, the portion not set off against the income, if any, of such undertaking of that year, and if it cannot be wholly so set off the amount of loss not so set off shall be carried forward to the following year, and so on, but no loss shall be carried forward for more than ten years.

(4) After the commencement of commercial production, all expenditure incurred prior thereto and not [1][treated as] lost under sub-rule (2) and not represented by physical assets in use at the time the commercial production shall be allowed as a deduction, so, however, that the portion of such deduction to be so allowed in any year shall be such amount not exceeding ten per cent of the aggregate amount deductible in respect of [2][onshore] areas, and not exceeding twenty five per cent for offshore areas, as may be selected by the taxpayer.

(5) Any expenditure, including a royalty paid to the Federal Government by an onshore petroleum exploration and production undertaking on, or after, the first day of July 2001 (not being in the nature of capital expenditure or personal expenses of the taxpayer) laid out or expended after the commencement of commercial production wholly and exclusively for the purpose of the business of production and exploration of petroleum carried on by such undertaking shall be allowed as a deduction, provided that –

(a) no deduction shall be allowed in respect of such expenditure incurred in the acquisition of depreciable assets to which section 22 applies or in the acquisition of an intangible to which section 24 applies;

(b) [3][deductions under sections 22, 23 and 24 shall be admissible] in respect of assets referred to in clause (a);

(c) a depreciation deduction shall also be allowed under section 22 in respect of such expenditure incurred on the acquisition of

[1] Substituted for the words “deemed to be” by the Finance Act, 2003.
[2] Substituted for the words “inshore” by the Finance Act, 2003.
[3] Substituted for the words, comma and figures “sections 22, 23 and 24 apply” by the Finance Act, 2003.

the physical assets acquired before the commencement of commercial production and were being used by such undertaking on and after that date, as if such assets had been acquired at the time of the commencement of commercial production at their original cost, as reduced by the amount of depreciation deduction, if any, previously allowed to be deducted under this Ordinance.

(6) If, in any year, the deductions allowed Part IV of Chapter III and sub-rules (3) and (4) exceed the gross receipts from the sale of petroleum produced in Pakistan, such excess shall be set off against other income (not being dividends) and carried forward in the manner and subject to the limitations in section 57, so however that no portion of such excess shall be carried forward for more than six years.

(7) The limitation of six years specified in [1][sub-rule] (6) shall not apply to depreciation allowed to a person carrying on the business of offshore petroleum exploration and production, in respect of any machinery, plant or other equipment used in such exploration or production.

(8) For the purposes of section 22, where any asset used by a person in the exploration and production of petroleum is exported or transferred out of Pakistan, the person shall be treated as having made a disposal of the asset for a consideration received equal to the cost of the asset as reduced by any depreciation deductions allowed under this Ordinance (other than an initial allowance under section 23).

Depletion Allowance

3. In determining the income of such undertaking for any year ending after the date on which commercial production has commenced, an allowance for depletion shall be made equal to fifteen per cent of the gross receipts representing the well-head value of the production, but not exceeding fifty per cent of the profits or gains of such undertaking before the deduction of such allowance.

Limitation on Payment to Federal Government and Taxes

4. (1) The aggregate of the taxes on income and other payments excluding a royalty as specified in the Pakistan Petroleum (Production) Rules, 1949 or the Pakistan Petroleum (Exploration and Production) Rules, 1986 and paid by an onshore petroleum [2][exploration] and production undertaking on, or after, the first day of July 2001 to the Government in respect of the profits or gains derived from such undertaking for a tax year shall not exceed the limits provided for in the

[1] Substituted for the word “sub-section” by the Finance Act, 2003.
[2] Inserted by the Finance Act, 2003.

agreement, provided the [1][said aggregate shall not be] less than fifty per cent of the profits or gains derived by an onshore petroleum exploration and production undertaking and forty per cent of the profits or gains derived by an offshore petroleum exploration and production undertaking, before deduction of the payment to the Federal Government.

(2) In respect of any tax year commencing on, or after, the first day of July, 2002, the aggregate referred to in sub-clause (1) shall not be less than forty per cent of the profit or gains derived by an onshore petroleum exploration and production undertaking before the deduction of payment excluding royalty paid by an onshore [2][petroleum exploration and production undertaking] to the Federal Government.

(3) If, in respect of any tax year, the aggregate of the taxes on income and payments to the Federal Government is greater or less than the amount provided for in the agreement, an [3][additional amount of tax] shall be payable by the taxpayer, or an abatement of tax shall be allowed to the taxpayer, as the case may be, so as to make the aggregate of the taxes on income and payments to the Federal Government equal to the amount provided for in the agreement.

(4) If, in respect of any year, the payments to the Federal Government exceed the amount provided for in the agreement, so much of the excess as consists of any tax or levy referred to in sub-clause (b) of clause (3) of rule 6 shall be carried forward and treated, for the purposes of this rule, as payments to the Federal Government for the succeeding year, provided that the whole of the payments to the Federal Government exceeding the amount provided for in such agreement may be carried forward if so provided for in any agreement with a taxpayer made before the first day of 1970.

Provision Relating to Rules

5. The Central Board of Revenue may make rules for the purposes of any matter connected with, or incidental to the operation of this Part.

Definitions

6. In this Part, –

(1) “agreement” means an agreement entered into between the Federal Government and a taxpayer for the exploration and production of petroleum in Pakistan;

[1] Substituted for the words “aggregate is not” by the Finance Act, 2003.
[2] Substituted for the word “company” by the Finance Act, 2003.
[3] Substituted for the words “additional tax” by the Finance Act, 2003.

(2) “commercial production” means production as determined by the Federal Government;

(3) “payments to the Federal Government” means amounts payable to the Federal Government or to any Federal Governmental authority in Pakistan –

(a) in respect of royalties as specified in the Pakistan Petroleum (Production) Rules, 1949, or the Pakistan Petroleum (Exploration and Production) Rules, 1986; and

(b) in respect of any tax or levy imposed in Pakistan peculiarly applicable to oil production or to extractive industries or any of them and not generally imposed upon all industrial and commercial activities;

(4) “petroleum” means crude oil, natural gas, and case-head petroleum spirits as defined in the Pakistan Petroleum (Production) Rules, 1949, or the Pakistan Petroleum (Exploration and Production) Rules, 1986, but does not include refined petroleum products;

(5) “surrender” means the termination of rights with respect to an area including the expiration of rights according to the terms of an agreement;

(6) “surrendered area” means an area with respect to which the rights of the person have terminated by surrender or by assignment or by termination of the business;

(7) “Taxes on income” and “tax” includes income tax, but does not include payments to the Federal Government; and

(8) “well-head value” shall have the meaning assigned to it in the agreement between the Federal Government and the taxpayer, and in the absence of any such definition in the agreement, the meaning assigned to it in the Pakistan Petroleum (Production) Rules, 1949, or the Pakistan Petroleum (Exploration and Production) Rules, 1986.

PART II

RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS FROM THE EXPLORATION AND EXTRACTION OF MINERAL DEPOSITS (OTHER THAN PETROLEUM)

Exploration and Extraction of Mineral Deposits a Separate Business

1. Where any person carries on, or is treated as carrying on, any business which consists of or includes the exploration or extraction of mineral deposits of a wasting nature (other than petroleum) in Pakistan, such business or part thereof, as the case may be, shall be, for the purposes of this Ordinance [1][or the repealed Ordinance], treated as a separate undertaking (hereinafter referred to as "such undertaking") and the profits and gains of such undertaking shall be computed separately from the income, profits and gains from any other business, if any, carried on by the person.

Computation of Profits

2. (1) Subject to the provisions of this Part, the profits and gains of such undertaking shall be computed in the manner applicable to income, profits and gains chargeable under the head "Income from Business".

(2) All expenditure on prospecting and exploration incurred by such undertaking up to the date of commercial production shall be, to the extent to which it cannot be set off against any other income of such undertaking, treated as a loss.

(3) The loss referred to in sub-rule (2) shall be carried forward and set off against the income of such undertaking after the commencement of commercial production, so, however, that if it cannot be wholly set off against the income of such undertaking of the tax year in which the commercial production had commenced, the portion not so set off shall be carried forward to the following year and so on, but no such loss shall be carried forward for more than ten years beginning with the year in which commercial production commenced.

(4) After the commencement of commercial production, depreciation in respect of machinery and plant for extracting the ore shall be allowed as a deduction from the profits and gains of the tax year in which they are used for the first time in an amount equal to the original cost of such asset and the provisions of section 22 shall apply accordingly.

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[1] Inserted by the Finance Act, 2003.

Depletion Allowance

3. (1) In determining the profits and gains of such undertaking for any year an additional allowance (hereinafter referred to as the "depletion allowance") shall be made equal to twenty per cent of the taxable income of such undertaking (before the deduction of such allowance).

(2) No deduction under sub-rule (1) shall be made unless an amount equal to the depletion allowance is set apart and left as a reserve to be utilised for the development and expansion of such undertaking.

(3) Where a depletion allowance is made in any tax year and subsequently it is utilised for any purpose contrary to the provisions of sub-rule (2), the amount originally allowed under this Ordinance shall be treated as having been wrongly allowed and the Commissioner may, notwithstanding anything contained in the Ordinance, recompute the taxable income of the taxpayer for the relevant tax years and the provisions of section 122 shall apply, so far as may be, thereto, the period of five years specified in the section being reckoned from the end of the tax year [1][ ] in which the amount was so utilised.

Tax Exemption of Profits from Refining or Concentrating Mineral Deposits

4. (1) Where such undertaking is also engaged in the business of refining or concentrating in Pakistan the mineral deposits extracted by it in Pakistan, so much of the profits and gains (hereinafter referred to as the "said amount") derived from such business as does not exceed ten per cent of the capital employed in such business (such capital being computed in accordance with such rules as may be made by the [2][Central Board of Revenue] for the purposes of this rule) shall be exempt from tax.

(2) Where the profits and gains of such business computed for any tax year cover a period which is less or more than one year, the amount of profits and gains exempt under sub-rule (1) shall be the amount which bears the same proportion to the said amount of profits as the said period bears to a period of one year.

(3) The profits and gains of the business to which this rule applies shall be computed in accordance with Part IV of Chapter III.

(4) Nothing contained in this rule shall apply to an undertaking formed by the splitting up or reconstruction or reconstitution of business already in existence or by the transfer to a new business of any building, machinery, or plant used in a business which was carried on before the 1st day of July, 1975.

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[1] The words "relevant to the tax year" omitted by the Finance Act, 2003.
[2] Substituted for the word "Commissioner" by the Finance Act, 2003.

(5) The provisions of this rule shall apply to the tax year [1][ ] in which commercial production is commenced or the loss or allowance, if any, under sub-rules (3) or (4) of rule 2, as the case may be, has been set off or deducted in full, whichever is the latter, and for the next following four years.

Provisions Relating to Rules

5. The [2][Central Board of Revenue] may make rules providing for any matter connected with, or incidental to, the operations of this Part.

Definitions

6. In this Part, –

(1) "commercial production" means production as determined by the Commissioner; and

(2) "petroleum" has the same meaning as in clause (4) of rule 6 of Part I.

[1] The words "next following the tax year" omitted by the Finance Act, 2003.
[2] Substituted for the word "Commissioner" by the Finance Act, 2003.

THE SIXTH SCHEDULE

PART I
RECOGNISED PROVIDENT FUNDS

[See sections 2([1][48]) and 21(e)]

1. Recognition of provident funds. - (1) The Commissioner may accord recognition to any provident fund which, in his opinion, complies with the requirements of rule 2, and may at any time, withdraw such recognition if, in his opinion, the circumstances of the fund cease to warrant the continuance of the recognition.

(2) An order according recognition shall take effect on such date as the Commissioner may fix in accordance with such rules as the Central Board of Revenue may make in this behalf, such date not being later than the last day of the financial year in which the order is made.

(3) An order according recognition to a provident fund shall not, unless the Commissioner otherwise directs, be affected by the fact that the fund is subsequently amalgamated with another provident fund on the occurrence of an amalgamation of the undertakings in connection with which the two funds are maintained or that it subsequently absorbs the whole or a part of another provident fund belonging to an undertaking which is wholly or in part transferred to, or merged in, the undertaking of the employer maintaining the first-mentioned fund.

(4) An order withdrawing recognition shall take effect from such date as the Commissioner may fix.

(5) The Commissioner shall neither refuse nor withdraw recognition of any provident fund, unless he has given to the trustees of the fund a reasonable opportunity of being heard.

2. Conditions for approval.- (1) In order that a provident fund may receive and retain recognition it shall satisfy the conditions hereinafter specified and any other conditions which the Central Board of Revenue may, by rules, prescribe -

(a) all employees shall be employed in Pakistan , or shall be employed by an employer whose principal place of business is in Pakistan:

Provided that the Commissioner may, if he thinks fit, and subject to such conditions, if any, as he thinks proper to attach to the recognition, accord recognition to a fund maintained by an employer whose principal place of

[1] The figure “49” substituted by the Finance Act, 2005.

business is not in Pakistan, provided the proportion of employees employed outside Pakistan does not exceed ten *per cent*;

(b) the contributions of an employee in any year shall be a definite proportion of his salary for that year, and shall be deducted by the employer from the employee's salary in that proportion, at each periodical payment of such salary in that year, and credited to the employee's individual account in the fund:

Provided that an employee, who retains his employment while serving in armed forces of Pakistan or when taken into, or employed in, the national service under any law for the time being in force, may, whether he receives from the employer any salary or not contribute to the fund during his service in the armed forces of Pakistan or while so taken into, or employed in, the national service a sum not exceeding the amount he would have contributed had he continued to serve the [1][employer];

(c) the contributions of an employer to the individual account of an employee in any year shall not exceed the amount of the contributions of the employee in that year, and shall be credited to the employee's individual account at intervals not exceeding one year:

Provided that, subject to any rules which the Central Board of Revenue may make in this behalf, the Commissioner may, in respect of any particular fund, relax the provisions of this clause -

(i) so as to permit the payment of larger contributions by an employer to the individual accounts of employees whose salaries do not, in each case, exceed five hundred rupees per month;

(ii) so as to permit the crediting by employers to the individual accounts of employees of periodical bonuses or other contributions [2][ ] of a contingent nature, where the calculation and payment of such bonuses or other contributions is provided for on definite principles by the regulations of the fund;

(d) the employer shall not be entitled to recover any sum whatsoever from the fund, save in cases where the employee is dismissed for misconduct or voluntarily leaves his employment otherwise than on account of ill-health or other

[1] Substituted for the word “employers” by the Finance Act, 2003.
[2] The words “is provided for on definite principles by the regulations” omitted by the Finance Act, 2003.

unavoidable cause before the expiration of the term of service specified in this behalf in the regulations of the fund:

Provided that in such cases the recoveries made by the employer shall be limited to the contributions made by him to the individual account of the employee, and to interest credited in respect of such contributions in accordance with the regulations of the fund and accumulations thereof;

(e) the fund shall be vested in two or more trustees or in the Official Trustees under a trust which shall not be recoverable save with the consent of all the beneficiaries;

(f) the fund shall consist of contributions as above specified, received by the trustees, or accumulations thereof, and of interest credited in respect of such contributions and accumulations, and of securities purchased therewith and of any capital gains arising from the transfer of capital assets of the fund, and of no other sums;

(g) the accumulated balance due to an employee shall be payable on the day he ceases to be an employee of the employer maintaining the [1][fund]:

Provided that notwithstanding anything contained in clause (f) or (g):-

(i) at the request made in writing by the employee who ceases to be an employee of the employer maintaining the fund, the trustees of the fund may consent to retain the whole or any part of the accumulated balance due to the employee to be drawn by him at any time on demand;

(ii) where the accumulated balance due to an employee who has ceased to be an employee is retained in the fund in accordance with the preceding clause, the fund may consist also of interest in respect of such accumulated balance;

(iii) the fund may also consist of any amount transferred from the individual account of an employee in any recognised provident fund maintained by his former employer and the interest in respect thereof;

[1] Substituted for the word “funds” by the Finance Act, 2003.

(h) save as provided in clause (g) or in accordance with such conditions and restrictions as the Central Board of Revenue may, by rules, specify, no portion of the balance to the credit of an employee shall be payable to him:

Provided that in order to enable an employee to pay the amount of tax assessed on his total income as determined under sub-rule (4) of rule 7, he shall be entitled to withdraw from the balance to his credit in the recognised provident fund a sum not exceeding the difference between such amount and the amount to which he would have been assessed if the transferred balance referred to in sub-rule (2) of rule 7 had not been included in his total income.

3. Employer's annual contributions, when deemed to be income received by employee. - That portion of the annual accretion in any year to the balance at the credit of an employee participating in a recognised provident fund as consists of -

(a) contributions made by the employer in excess of [1][one-tenth of] the salary of the employee; and

(b) interest credited on the balance to the credit of the employee in so far as it exceeds one-third of the salary of the employee or is allowed at a rate exceeding such rate as may be fixed by the Federal Government in this behalf by notification in the official Gazette, shall be [2][treated] to have been received by the employee in that year and shall be included in his total income for that year and shall be liable to income tax.

4. Exclusion from total income of accumulated balance. - (1) Subject to such rules as may be made by the Central Board of Revenue in this behalf, the accumulated balance due and becoming payable to an employee participating in a recognised provident fund shall be excluded from the computation of his total income.

(2) The provisions of sub-rule (1) shall also apply where, on the cessation of his employment, the employee obtains employment with any other employer and the accumulated balance due and becoming payable to him is transferred to his individual account in any recognised provident fund maintained by such other employer.

5. Tax on accumulated balance.- Where the accumulated balance due to an employee participating in a recognised provident fund is included in his total income, the Commissioner shall calculate the total of the various sums of tax which would have been payable by the employee in respect of his total income

[1] Substituted for the words “one-twelfth of” by the Finance Act, 2002.
[2] Substituted for the word “deemed” by the Finance Act, 2002.

for each of the years concerned if the fund had not been a recognised provident fund and the amount by which such total exceeds the total of all sums paid by, or on behalf of such employee by way of tax for such years shall be payable by the employee in addition to any other tax for which he may be liable for the income year in which the accumulated balance due to him becomes payable.

6. Deduction at source of tax payable on accumulated balance. - The trustees of a recognised provident fund, or any person authorised by the regulations of the fund to make payment of accumulated balance due to employees shall, in cases where rule 5 applies, at the time an accumulated balance due to an employee is paid, deduct therefrom the amount payable under that rule and the provisions of Part V of Chapter X shall, so far as may be, apply as if the accumulated balance were income chargeable under the head "Salary".

7. Treatment of balance in newly recognised provident fund. - (1) Where recognition is accorded to a provident fund with existing balance, an account shall be made of the fund up to the day immediately preceding the day on which the recognition takes effect showing the balance to the credit of each employee on such day and containing such further particulars as the Central Board of Revenue may prescribe.

(2) The account referred to in sub-rule (1) shall also show in respect of the balance to the credit of an employee the amount thereof which is to be transferred to that employee's account in the recognised provident fund, and such amount (hereinafter called his `transferred balance') shall be shown as the balance to his credit in the recognised provident fund on the date on which the recognition of the fund takes effect, and the provisions of sub-rule (4) and the proviso to clause (h) of rule 2 shall apply thereto.

(3) Any portion of the balance to the credit of an employee in the existing fund which is not transferred to the recognised fund shall be excluded from the accounts of the recognised fund and shall be liable to income tax in accordance with the provisions of this Ordinance, other than this Part.

(4) Subject to such rules as the Central Board of Revenue may make in this behalf, the Commissioner shall make a calculation of the aggregate of all sums comprised in a transferred balance which would have been liable to income-tax if this Part had been in force from the date of the institution of the fund, without regard to any tax which may have been paid on any sum, and such aggregate, if any, shall be deemed to be income received by the employee in the income year in which the recognition of the fund takes effect and shall be included in the employee's total income for that year, and, for the purposes of assessment, the remainder of the transferred balance shall be disregarded, but no other exemption or relief, by way of refund or otherwise, shall be granted in respect of any sum comprised in such transferred balance:

Provided that, in cases of serious accounting difficulty, the Commissioner may, subject to the said rules, make a summary calculation of such aggregate.

(5) Nothing in this rule shall affect the rights of the persons administering an unrecognised provident fund or dealing with it, or with the balance to the credit of any individual employees, before recognition is accorded, in any manner which may be lawful.

8. Accounts of recognised provident funds. - (1) The accounts of a recognised provident fund shall be maintained by the trustees of the fund and shall be in such form and for such periods, and shall contain such particulars, as may be prescribed.

(2) The accounts shall be open to inspection at all reasonable times by income tax authorities, and the trustees shall furnish to the Commissioner such abstracts thereof as may be prescribed.

9. Treatment of fund transferred by employer to trustee. - (1) Where an employer, who maintains a provident fund (whether recognised or not) for the benefit of his employees and has not transferred the fund or any portion of it, transfers such fund or portion to trustees in trust for the employees participating in the fund, the amount so transferred shall be deemed to be of the nature of capital expenditure.

(2) When an employee participating in such fund is paid the accumulated balance due to him therefrom, any portion of such balance as represents his share in the amount so transferred to the trustees (without addition of interest, and exclusive of the employee's contributions and interest thereon) shall, if the employer has made effective arrangement to secure that tax shall be deducted at source from the amount of such share when paid to the employee, be deemed to be an expenditure by the employer, within the meaning of section [1][20], incurred in the [2][tax] year in which the accumulated balance due to the employee is paid.

10. Particulars to be furnished in respect of recognised provident funds. - The trustees of a recognised provident fund and any employer who contributes to a recognised provident fund shall, when required by notice from the Commissioner, within such period (not being less than twenty one days from the date [3][of service] of the notice), as may be specified in the notice, furnish such return, statement, particulars or information, as the Commissioner may require.

11. Provisions of this Part to prevail against regulations of the fund. - Where there is a repugnance between any regulations of a recognised provident

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[1] Substituted for the figure "23" by the Finance Act, 2003.
[2] Substituted for the word "income" by the Finance Act, 2003.
[3] Inserted by the Finance Act, 2003.

fund and any provision of this Part or of the rules made thereunder, the regulation shall, to the extent of the repugnance, be of no effect, and the Commissioner may, at any time, require that such repugnance shall be removed from the regulations of the fund.

12. Appeals. - (1) An employer objecting to an order of Commissioner refusing to recognise, or an order withdrawing recognition from a provident fund may appeal, within sixty days of the [1][service] of such order, to the Central Board of Revenue.

(2) The Central Board of Revenue may admit an appeal after the expiration of the period specified in sub-rule (1), if it is satisfied that the appellant was prevented by sufficient cause from presenting it within that period.

(3) The appeal shall be in such form and shall be verified in such manner and shall be accompanied by such fee as may be prescribed.

13. Provisions relating to rules. - In addition to any power conferred by this Part, the Central Board of Revenue may make rules:-

(a) prescribing the form of application for recognition and the statement and other particulars and documents to be submitted therewith;

(b) limiting the contributions to a recognised provident fund by employees of a company, who are shareholders in the company;

(c) providing for the assessment by way of penalty of any consideration received by an employee for an assignment of, or creation of a charge upon, his beneficial interest in a recognised provident fund;

(d) determining the extent to, and the manner in, which exemption from payment of tax may be granted in respect of contributions and interest credited to the individual accounts of employees in a provident fund from which recognition has been withdrawn;

(e) regulating the investment of the moneys of a recognised provident fund; and

(f) generally, to carry out the purposes of this Part and to secure such further control over the recognition of provident funds and

[1] Substituted for the word “making” by the Finance Act, 2003.

the administration of recognised provident funds as it may deem requisite.

14. Definitions. - In this Part, unless the context otherwise requires ,

(a) "accumulated balance due to an employee" means the balance to his credit, or such portion thereof as may be claimable by him under the regulations of the fund, on the day he ceases to be an employee of the employer maintaining the [1][fund];

(b) "annual accretion" in relation to the balance to the credit of an employee, means the increase to such balance in any year, arising from contributions and interest;

(c) "balance to the credit of an employee" means the total amount to the credit of his individual account in a provident fund at any time;

(d) "contribution" means any sum credited by or on behalf of, any employee out of his salary or by an employer out of his own money, to the individual account of an employee, but does not include any sum credited as interest;

(e) "employee" means an employee participating in a provident fund, but does not include a personal or domestic servant;

(f) "employer" means any person who maintains a provident fund for the benefit of his or its employees, being an individual, a company or an association of persons engaged in any business the profits and gains whereof are chargeable to income tax under the head "Income from Business";

(g) "regulations of fund" means the special body of regulations governing the constitution and administration of a particular provident fund; and

(h) "salary" includes dearness allowance, if the terms of employment so provide, but excludes all other allowances and perquisites.

15. Application of this Part. – This Part shall not apply to any provident fund to which the Provident Funds Act, 1925 (XIX of 1925) applies.

[1] Substituted for the word “funds” by the Finance Act, 2003.

PART II

[See sections 2(5) and 21(e), and the Second Schedule]

APPROVED SUPERANNUATION FUNDS

1. Approval of superannuation funds. - (1) The Commissioner may accord approval to any superannuation fund or any part of a superannuation fund which, in his opinion, complies with the requirements of rule 2, and may, at any time withdraw such approval if, in his opinion, the circumstances of the fund or the part, as the case may be, cease to warrant the continuance of the approval.

(2) An order according approval or withdrawing approval shall take effect from such date as the Commissioner may fix.

(3) The Commissioner shall neither refuse nor withdraw approval to any superannuation fund or any part of a superannuation fund unless he has given the trustees of that fund a reasonable opportunity of being heard.

2. Conditions for approval. - In order that a superannuation fund may receive and retain approval, it shall satisfy the conditions hereinafter specified and any other conditions which the Central Board of Revenue may, by rules prescribe -

(a) the fund shall be a fund established under an irrevocable trust, in connection with a trade or undertaking carried on in Pakistan, and not less than ninety *per cent* of the employees shall be employed in Pakistan;

(b) the fund shall have for its sole purpose the provision of annuities for employees in the trade or undertaking on their retirement at or after a specified age or on their becoming incapacitated prior to such retirement, or for widows, children or dependants of persons who are or have been such employees on the death of these persons;

(c) the employer in the trade or undertaking shall be a contributor to the fund; and

(d) all annuities, pensions and other benefits granted from the fund shall be payable only in Pakistan.

3. Application for approval. - (1) An application for approval of a superannuation fund, or part of a superannuation fund, shall be made in writing by the trustees of the fund to the Commissioner by whom the employer is assessable, and shall be accompanied by a copy of the instrument under which the fund is established and by two copies of the regulations and, where the fund has been in existence during any year or years prior to the financial year in which

the application for approval is made, also two copies of the accounts of the funds relating to such prior year or years (not being more than three years immediately preceding the year in which the said application is made) for which such accounts have been made up, but the Commissioner may require such further information to be supplied as he thinks proper.

(2) If any alternation in the regulations, constitutions, objects or conditions of the fund is made at any time after the date of the application for approval, the trustees of the fund shall forthwith communicate such alteration to the Commissioner mentioned in sub-rule (1), and, in default of such communication, any approval given shall, unless the Commissioner otherwise directs, be deemed to have been withdrawn from the date on which the alteration took effect.

4. Contributions by employer, when deemed to be his income.- Where any contributions by an employer (including the interest thereon, if any), are repaid to the employer, the amount so repaid shall be deemed for the purpose of tax to be the income of the employer of the income year in which it is so repaid.

5. Deduction of tax on contributions paid to an employee. - Where any contributions made by an employer (including interest on contributions, if any), are repaid to an employee during his life-time in circumstances other than those referred to in clause (25) of Part I of the Second Schedule, tax on the amount so repaid shall be deducted by the trustees at the average rate of tax at which the employee was liable to tax during the preceding three years or during such period, if less than three years, as he was a member of the fund, and shall be paid by the trustees to the credit of the Federal Government within such time and in such manner as may be prescribed.

6. Deduction from pay of and contributions on behalf of employees to be included in a statement under section 165. Where an employer deducts from the emoluments paid to an employee or pays on his behalf any contributions of that employee to an approved superannuation fund, he shall include all such deductions or payments in a statement which he is required to furnish under section 165.

7. Liability of trustees on cessation of approval. - If a fund, or a part of a fund, for any reason ceases to be an approved superannuation fund, the trustees of the fund shall nevertheless remain liable to tax on any sum paid on account of returned contributions (including interest on contributions, if any), in so far as the sum so paid is in respect of contributions made before the fund or part of the fund, as the case may be, ceased to be an approved superannuation fund under the provisions of this Part.

8. Particulars to be furnished in respect of superannuation fund. - The trustees of an approved superannuation fund and any employer who contributes

to an approved superannuation fund shall, when required by notice from the Commissioner, within such period (not being less than twenty-one days from the date [1][of service] of the notice), as may be specified in the notice, furnish such return, statement, particulars or information, as the Commissioner may require.

9. Provisions of the Part to prevail against regulations of the fund. - Where there is a repugnance between any regulation of an approved superannuation fund and any provision of this Part or of the rules made thereunder the regulation shall, to the extent of the repugnance, be of no effect ; and the Commissioner may, at any time, require that such repugnance shall be removed from the regulations of the fund.

10. Appeals. - (1) An employer objecting to an order of the Commissioner refusing to accord approval to a superannuation fund or an order withdrawing such approval may appeal, within sixty days of the [2][service] of such order, to the Central Board of Revenue.

(2) The Central Board of Revenue may admit an appeal after the expiration of the period specified in sub-rule (1), if it is satisfied that the appellant was prevented by sufficient cause from presenting it within that period.

(3) The appeal shall be in such form and shall be verified in such manner and shall be accompanied by such fee as may be prescribed.

11. Provisions relating to rules. - (1) In addition to any power conferred by this Part, the Central Board of Revenue may make rules -

(a) prescribing the statements and other information to be submitted along with an application for approval;

(b) prescribing the returns, statements, particulars, or information which the Commissioner may require from the trustees of an approved superannuation fund or from the employer;

(c) limiting the ordinary annual contribution and any other contributions to an approved superannuation fund by an employer;

(d) regulating the investment or deposit of the moneys of any approved superannuation fund;

(e) providing for the assessment by way of penalty of any consideration received by an employee for an assignment of,

[1] Inserted by the Finance Act, 2003.
[2] Substituted for the word “making” by the Finance Act, 2003.

or creation of a charge upon, his beneficial interest in an approved superannuation fund;

(f) providing for the withdrawal of approval in the case of a fund which ceases to satisfy the requirements of this Part or of the rules made thereunder; and

(g) generally, to carry out the purposes of this Part and to secure such further control over the approval of superannuation funds and the administration of approved superannuation funds as it may deem requisite.

12. Definitions. -In this Part, unless the context otherwise requires "contributions", "employee', "employer", "regulations of a fund" and "salary" have, in relation to superannuation funds, the meanings assigned to those expressions in rule 14 of Part I in relation to provident funds.

PART III

[See sections 2(4) and 21(e), and the Second Schedule]

APPROVED GRATUITY FUNDS

1. Approval of Gratuity Funds. - (1) The Commissioner may accord approval to any gratuity fund which, in his opinion, complies with the requirements of rule 2 and may, at any time, withdraw such approval if, in his opinion, the circumstances of the fund cease to warrant the continuance of the approval.

(2) An order according approval or withdrawing approval shall take effect from such date as the Commissioner may fix.

(3) The Commissioner shall neither refuse nor withdraw approval to any gratuity fund unless he has given the trustees of that fund a reasonable opportunity of being heard.

2. Conditions for approval. - In order that a gratuity fund may receive and retain approval, it shall satisfy the conditions hereinafter specified and any other conditions which the Central Board of Revenue may, by rules, prescribe –

(a) the fund shall be a fund established under an irrevocable trust in connection with trade or undertaking carried on in Pakistan, and not less than ninety *per cent* of the employees shall be employed in Pakistan;

(b) the fund shall have for its sole purpose the provision of a gratuity to employees in the trade or undertaking on their

retirement at or after a specified age or on their [1][becoming incapacitated prior to] such retirement, or on termination of their employment after a minimum period of service specified in the regulations of the fund or to the widows, children or dependents of such employees on their death;

(c) the employer in the trade or undertaking shall be a contributor to the fund; and

(d) all benefits granted by the fund shall be payable only in Pakistan.

3. Application for approval. - (1) An application for approval of a gratuity fund shall be made in writing by the trustees of the fund to the Commissioner by whom the employer is assessable and shall be accompanied by copy of the instrument under which the fund is established and by two copies of the rules and, where the fund has been in existence during any year or years prior to the financial year in which the application for approval is made, also two copies of the accounts of the fund relating to such prior year or years (not being more than three years immediately preceding year in which the said application is made) for which such accounts have been made up, but the Commissioner may require such further information to be supplied as he thinks proper.

(2) If any alteration in the rules, constitution, objects or conditions of the fund is made at any time after the date of the application for approval, the trustees of the fund shall forthwith communicate such [2][alteration] to the Commissioner mentioned in sub-rule (1), and in default of such communication, any approval given shall, unless the Commissioner otherwise orders, be deemed to have been withdrawn from the date on which the alteration took effect.

4. Gratuity deemed to be salary. - Where any gratuity is paid to an employee during his life-time, the gratuity shall be treated as salary paid to the employee for the purposes of this Ordinance.

5. Liability of trustees on cessation of approval. - If a gratuity fund for any reason ceases to be an approved gratuity fund, the trustees of the fund shall nevertheless remain liable to tax on any gratuity paid to any employee.

6. Contributions by employer, when deemed to be his income.- Where any contributions by an employer (including the interest thereon, if any,) are repaid to the employer, the amount so repaid shall be deemed for the purposes of tax to be the income of the employer of the income year in which they are so repaid.

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[1] Substituted for the words “employment after” by the Finance Act, 2003.
[2] Substituted for the word “alterations” by the Finance Act, 2003.

7. Particulars to be furnished in respect of gratuity funds. - The trustees of an approved gratuity fund and any employer who contributes to an approved gratuity fund shall, when required by notice from the Commissioner, furnish, within such period not being less than twenty-one days from the date [1][of service] of the notice as may be specified in the notice, such return, statement, particulars or information, as the Commissioner may require.

8. Provisions of the Part to prevail against regulations of the fund. - Where there is a repugnance between any rule of an approved gratuity fund and any provision of this Part or of the rules made thereunder the said rule shall, to the extent of repugnance, be of no effect and the Commissioner may, at any time, require that such repugnance shall be removed from the rules of the fund.

9. Appeals. - (1) An employer objecting to an order of the Commissioner refusing to accord approval to a gratuity fund or an order withdrawing such approval may appeal, within sixty days of the [2][receipt] of such order, to the Central Board of Revenue.

(2) The Central Board of Revenue may admit an appeal after the expiration of the period specified in sub-rule (1), if it is satisfied that the appellant was prevented by sufficient cause from presenting it within that period.

(3) The appeal shall be in such form and shall be verified in such manner and shall be accompanied by such fee as may be prescribed.

10. Provisions relating to rules. - (1) In addition to any power conferred in this Part, the Central Board of Revenue may make rules –

(a) prescribing the statements and other information to be submitted along with an application for approval;

(b) limiting the ordinary annual and other contributions of an employer to the fund;

(c) regulating the investment or deposit of the moneys of an approved gratuity fund;

(d) providing for the assessment by way of penalty of any consideration received by an employee for an assignment of, or the creation of a charge upon, his beneficial interest in an approved gratuity fund;

[1] Inserted by the Finance Act, 2003.
[2] Substituted for the word “making” by the Finance Act, 2003.

(e) providing for withdrawal of the approval in the case of a fund which ceases to satisfy the requirements of this Part or the rules made thereunder; and

(f) generally, to carry out the purposes of this Part and to secure such further control over the approval of gratuity funds and the administration of gratuity funds as it may deem requisite.

11. Definitions.- In this Part, unless the context otherwise requires, "contribution", "employee", "employer", "regulations of a fund" and "salary" have in relation to gratuity funds, the meaning assigned to those expressions in rule 14 of Part I in relation to provident funds.

[1][THE SEVENTH SCHEDULE]

(See section 100A)

RULES FOR THE COMPUTATION OF THE PROFITS AND GAINS OF A BANKING COMPANY AND TAX PAYABLE THEREON

1. Income, profits and gains of a banking company shall be taken to be the balance of the income, from all sources before tax, disclosed in the annual accounts required to be furnished to the State Bank of Pakistan subject to the following provisions, namely:—

(a) Deduction shall be allowed in respect of depreciation, initial allowance and amortization under sections 22, 23 and 24 provided that accounting depreciation, initial allowance or amortization deduction shall be added to the income. No allowance or deduction under this rule shall be admissible on assets given on finance lease.

(b) Section 21, sub-section (8) of section 22 and Part III of Chapter IV shall, *mutatis mutandis,* for computation of a banking company apply.

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[1] Substituted by the Finance Act, 2007. The substituted "The Seventh Schedule" read as follows:

"**THE SEVENTH SCHEDULE**
EXPORTED GOODS
[See Division IV of Part III of First Schedule]

PART I
[Specified goods manufactured in Pakistan]

S. No. (1)	Description (2)	Description (3)
1.	[A][ ]	
2.	Engineering goods, including electrical goods	
3.	[B][ ]	
4.	Jewellery, pharmaceuticals, [C][ ], durries, horticultural products	
5.	Ceramic [D][tiles] and wares	
6.	Cutlery	
7.	Engineering goods manufactured in Pakistan as specified in the Engineering Goods (Control) Order, 1983	
8.	Wooden furniture and wooden doors and windows	
9.	Goods specified under Chapters, Heading and Sub-Heading Nos. of the Pakistan Custom Tariff	
[E][ ]		
10.	Vegetables, fresh fruit and cut flowers	
[F][11.	Processed poultry meat]	

(c) Provisions for classified advances and off balance sheet items shall be allowed as claimed in the accounts, provided a certificate from the external auditors is furnished by the banking company to the effect that such provisions were in line with the requirements of the Prudential Regulations.

(d) The amount claimed as expense, on account of "irrecoverable debt" classified under the Prudential Regulations issued by the State Bank of Pakistan as "substandard", shall not be allowed.

(e) Where any addition made under paragraph (d) is reclassified by the taxpayer as 'doubtful' or 'loss', under the Prudential Regulations issued by the State Bank of Pakistan, a deduction shall be allowed in computing the income for that tax year.

(f) Where any addition made under paragraph (d) is reclassified by the taxpayer in a subsequent year as 'recoverable', a deduction shall be allowed in computing the income for that tax year.

(g) Adjustment made in the annual accounts, on account of application of international accounting standards 39 and 40 shall be excluded in arriving at taxable income.

(h) An adjustment shall be made for exclusions from income on account of paragraph (g) for determining the cost of related item in the financial statement in the year of disposal of such item or asset or the discharge of the liability, as the case may be.

[A] Earlier the words "Leather and textile made ups" omitted by the Finance Act, 2005.
[B] Earlier the words , figures, brackets and comma "Goods specified under heading No.90.18of the Fifth Schedule to the Customs Act, 1969 (IV of 1969) omitted by the Finance Act, 2005.
[C] Earlier the words "Sports goods, toilet linen including terry towels" omitted by the Finance Act, 2005.
[D] Earlier substituted the word "tiples" by the Finance Act, 2003.
[E] Earlier omitted by the Finance Act, 2005.
[F] Earlier added by the Finance Act, 2002.

2. (i) Where a deduction is allowed for any expenditure (other than on account of charge for irrecoverable debt) in the manner referred to in rule 1 and the liability or a part of the liability to which the deduction relates is not paid within three years of the end of the tax year in which the deduction was allowed, the unpaid amount of the liability shall be chargeable to tax under the head "Income from Business" in the first tax year following the end of three years.

(ii) Where an unpaid liability is chargeable to tax as a result of the application of sub-rule (i) and such liability or a part thereof is subsequently paid, a deduction shall be allowed for the amount paid in the tax year in which the payment is made.

PART II

[Goods manufactured in Pakistan]

S. No.	Description		Description
(1)	(2)		(3)
1.	Export of goods manufactured in Pakistan subject to other provisions of [A][this] Schedule		
[B][1A	(1) Leather and textile made ups		
	(2) Goods specified under heading No.90.18 of the First Schedule to the Customs Act, 1969 (IV of 1969).		
	(3) Sports goods, toilet linen including terry towels.		
	(4) Goods specified under Chapters, Heading and Sub-Heading Nos. of The Pakistan Customs Tariff.		
	(i)	42.05	Other articles of leather
	(ii)	57.01	Hand-knitted carpets and rugs
	(iii)	61.01	Men and boys overcoats, jackets knitted or crocheted
	(iv)	61.02	Women and girls overcoats, jackets knitted or crocheted
	(v)	61.03	Men and boys suits, jackets, trousers, shirts knitted or crocheted
	(vi)	61.05	Men and boys shirts knitted or crocheted
	(vii)	61.06	Women and girls blouses, shirts knitted or crocheted
	(viii)	61.09	T-shirts knitted or crocheted
	(ix)	61.12	Tracksuits, swimwear knitted or crocheted
	(x)	63.01, 2000, 3000, 4000	Blankets, wool, cotton and MMF.
	(xi)	63.02	Bed linen, table linen and kitchen linen]
2.	(i) Refined/treated salt		
	(ii) Ground barytes		
	(iii) Granite blocks and slabs		
	(iv) Heat insulating bricks		
	(v) Magnesite refractory		
3.	Sale in Pakistan of goods manufactured in Pakistan against an international tender, where the contract under which such sale is made is approved by the Commissioner		

(iii) Loss on sale of shares of listed companies, disposed of within one year of the date of acquisition, shall be adjustable against business income of the tax year. Where such loss is not fully set off against business income during the tax year, it shall be carried forward to the following tax year and set off against capital gain only. No loss shall be carried forward for more than six years immediately succeeding the tax year for which the loss was first computed.

3. *Treatment for shariah compliant banking.—*

(1) Any special treatment for 'Shariah Compliant Banking' approved by the State Bank of Pakistan shall not be provided for any reduction or addition to income and tax liability for the said 'Shariah Compliant Banking' as computed in the manner laid down in this schedule.

[A] Earlier inserted by the Finance Act, 2003.
[B] Earlier inserted by the Finance Act, 2005.

PART III

[Goods not covered by Part I [A][, II or IV] II]

S. No.	Description
1.	All other goods not covered under Part I [B][,] Part II [C][and Part IV] of this Schedule
2.	The following goods or class of goods produced or manufactured in Pakistan, namely: - [D][ ] (ii) rice (iii) rice bran (iv) wheat bran (v) lamb skin [E][ ]
[F][2A.	Following types of goods not covered by other provisions of this Schedule, namely:- (i) leather and articles thereof (ii) textile and textile articles (iii) carpets (iv) surgical goods
3.	Such other goods as may be notified by the Central Board of Revenue

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[A] Earlier the word "or" substituted by the Finance Act, 2005.
[B] Earlier the word "and" substituted by the Finance Act, 2005.
[C] Earlier inserted by the Finance Act, 2005.
[D] Earlier the figure and word "(i) raw cotton" omitted by the Finance Act, 2005.
[E] Earlier the bracket, figures and words "(vi) cotton yarn" omitted by the Finance Act, 2005.
[F] Inserted by the Finance Act, 2005.

[A][PART IV

[goods not covered by Part I, II and III]

S.No.	Description
(i)	raw cotton
(ii)	Cotton yarn
(iii)	such other goods as may be notified by the Central Board of Revenue]"

[A] Earlier added by the Finance Act, 2005.

(2) A statement, certified by the auditors of the bank, shall be attached to the return of income to disclose the comparative position of transaction as per Islamic mode of financing and as per normal accounting principles. Adjustment to the income of the company on this account shall be made according to the accounting income for purpose of this schedule.

4. *Head office expenditure.—*

(1) In case of foreign banks head office expenditure shall be allowed as deduction as per the following formula, namely:—

Head office expenditure = (A/B) XC

Where—

A. is the gross receipts of permanent establishment in Pakistan;

B. is the world gross receipts; and

C. is the total Head Office expenditure.

(2) The head office expenditure shall have the meaning as given in sub-sections (3) and (4) of section 105.

(3) The head office expenditure shall only be allowed if it is charged in the books of accounts of the permanent establishment and a certificate from external auditors is provided to the effect that the claim of such expenditure:

(i) has been made in accordance with the provision of this rule; and

(ii) is reasonable in relation to operation of the permanent establishment in Pakistan.

5. *Advance tax.—*

(1) The banking company shall be required to pay advance tax for the year under section 147 in twelve equal installments payable by 15th of every month. Other provisions of section 147 shall apply as such.

(2) Provisions of withholding tax under this Ordinance shall not apply to a banking company as a recipient of the amount on which tax is deductible.

6. *Tax on income computed*—Income computed under this Schedule shall be chargeable to tax under the head "Income from Business" and tax payable thereon shall be computed at the rate applicable in Division II of Part I of the First Schedule. The income under the head "Dividend" and "Capital Gains" on sale of shares of listed companies" shall be taxed at the rate of ten per cent:—

Provided that where the shares of listed companies are disposed of within one year of the date of acquisition, the gain shall be taxed at the rate provided in Division II of Part I of the First Schedule.

7. The provisions of section 113 shall apply to banking companies as they apply to any other resident company.

8. *Exemptions*—(1) Exemptions and tax concessions under the Second Schedule to this Ordinance shall not apply to income of a banking company computed under this Schedule.

(2) The provisions relating to group relief as contained in section 59B shall be available to the banking companies provided the holding and subsidiary companies are banking companies. The accounts of the group companies shall be audited by the chartered accountants firm on the panel of auditors of the State Bank of Pakistan. The surrender and claim of loss would be subject to the approval of the State Bank of Pakistan.

(3) The holding and subsidiary companies of 100% owned group of banking companies may opt to be taxed as one fiscal unit as per the provisions of section 59AA relating to group taxation subject to the approval of the State Bank of Pakistan.

9. *Provision of Ordinance to apply*— The provisions of the Ordinance not specifically dealt with in the aforesaid rules shall apply, *mutatis mutandis,* to the banking company.

10. The Federal Government may, from time to time, by notification in the official Gazette, amend the schedule so as to add any entry therein or modify or omit any entry therein.]

GENERAL,
PERVEZ MUSHARRAF,
President