CHAPTER 11

LOSSES, ALLOWANCES, CREDITS & EXEMPTION

How a **loss** under one head is set off against others, what is **carried forward** and for how long, the **deductible allowances**, the **tax credits** (donations, pension, low-cost housing, integration, startups) and the **exemptions** in sections 41 – 55. Law: ITO 2001 · tax year 2027.

CHAPTER ROADMAP

1 Set-off of losses — s.56
2 Carry forward of losses — ss.57 – 59A
3 Deductible allowances — ss.60 – 60D
4 Tax credits — ss.61 – 65F
5 Exemptions and concessions — ss.41 – 55

LOSS A person sustains a **loss under a head** when the deductions allowed under that head exceed the amounts chargeable under it. Sections 56 to 59A decide where the loss can be used, now or later.

1 SET-OFF IN THE SAME YEAR

section 56

GENERAL RULE

A loss under any head can be set off against income under **any other head** — **except salary**.

NO SET-OFF AT ALL

Speculation loss against other income · **capital loss** against other heads · any loss against **FTR income** (and no loss arises on FTR income) · a loss from a source whose income would be **exempt** (e.g. agriculture).

BUSINESS LOSS

Not against income from property. If there is a business loss and a loss under another head, the **business loss is set off last**.

CARRY FORWARD

Only **business** (incl. speculation) and **capital** losses can be carried forward. A property or other-sources loss **lapses** if not used in the year.

2 WORKED EXAMPLE

fresh numbers · tax year 2027

Head	Rs.	Treatment
Salary	600,000	No loss can be set off
Income from property	300,000	Business loss cannot be used here
Income from business	400,000	
Loss: income from other sources	(150,000)	set off against business income
Business income after set-off	250,000	
Capital loss (80,000) and speculation loss (50,000)	–	carried forward separately
Dividend 90,000 (FTR)	–	taxed separately; no losses against it
Total income under normal regime	**1,150,000**	600,000 + 300,000 + 250,000

NOTE Speculation and capital losses are **ring-fenced**: they cannot be set off against other heads — but a **business loss may be set off against a speculation profit** of the same year (the reverse is prohibited).

3 CARRY FORWARD

sections 57 – 59A

BUSINESS LOSS · s.57

Carried forward **six tax years**; later set off **only against business income**; earliest year first. **Hotel companies** (from tax year 2021): **eight years**. **PIA** (from January 2017): **ten years**.

SPECULATION LOSS · s.58

Set off **only against speculation income**, in the year and later; **six years**; earliest first.

CAPITAL LOSS · s.59

Set off **only against capital gains**; **six years**; earliest first. Loss on **s.37A securities**: only against s.37A gains, **three years**. A **s.37** loss may be adjusted against a **s.37A** gain, not vice versa.

4 UNABSORBED DEPRECIATION, INITIAL ALLOWANCE AND AMORTISATION

section 57(4)

TAKEN LAST

Depreciation, initial allowance and amortisation are deducted **last** when computing taxable income.

SET-OFF LIMIT

Unabsorbed amount is set off against **50% of the balance business income** — or **100%** if the taxable income for the year is **less than Rs. 10 million**. Carried forward until fully absorbed.

SPLIT OF A LOSS

A business loss is treated as made up of the **depreciation + initial allowance + amortisation** part and the **other-deductions** part; they are carried forward separately.

Fresh example: unabsorbed depreciation Rs. 30m from year 1	Year 2: business income 40m	Year 2: business income 6m
Limit for set-off	50% × 40m = 20m	100% × 6m = 6m (taxable income below Rs. 10m)
Taxable income	20,000,000	Nil
Balance carried forward	10,000,000	24,000,000

5 LIMITATIONS

section 59A and assessment orders

AOP LOSSES

The **AOP** sets off or carries forward its own loss. A **member cannot** use the AOP's loss against his own income.

SUCCESSOR TO A BUSINESS

A person who succeeds to a business **otherwise than by inheritance** cannot use the predecessor's loss.

ASSESSMENT REQUIRED

A business, speculation or capital loss cannot be carried forward unless **determined by an order** made or treated as made under **sections 120, 121 or 122**.

6 DEDUCTIBLE ALLOWANCES

sections 60 – 60D · revision of Chapter 4

Zakat (s.60) · **Workers' Welfare Fund** (s.60A) · **Workers' Participation Fund** (s.60B) · **education expenses** (s.60D: individual with taxable income below Rs. 1,500,000; lowest of 5% of fees, 25% of taxable income, Rs. 60,000 × children). They reduce total income to give taxable income; credits (below) reduce **tax**.

7 TAX CREDITS

average rate × the lower amount

ORDER OF CREDITS

1. Foreign tax credit (Chapter 13) · **2.** donations, investment and similar credits · **3.** quarterly advance tax and tax deducted / collected at source.

FORMULA

Credit = **(A ÷ B) × C**: A = tax assessed before credits; B = taxable income; C = the **lower of** the amount paid and the cap. Final and minimum taxes are determined after deducting credits (s.65D).

EXCESS CREDIT

Not refunded, not carried forward or back. A member's unused credit may be claimed by the **AOP in the same year** with a copy of the written agreement.

Credit	Who and what	Cap (C)	Fresh example
Donations s.61	Crossed-cheque donations of money or **FMV of property** to boards of education, universities, Government institutions / relief funds, non-profit organisations, **13th Schedule** entities	Individual / AOP **30%** of taxable income; company **20%**. To an **associate**: 15% / 10%	Taxable income 4m; tax 970,000; donation 1.5m → C = 1.2m → credit 970,000 ÷ 4m × 1.2m = **291,000**
Pension fund s.63	**Eligible person** (individual Pakistani with NTN / CNIC / NICOP) with salary or business income; contribution to an approved pension fund under the VPS Rules. Transfers of existing balances do not qualify.	**20%** of taxable income	Taxable income 3m (salaried); tax 276,000; paid 700,000 → C = 600,000 → credit **55,200**
Low-cost housing s.63A	Individual's profit / share in rent or appreciation on a loan from a bank, Government or listed public company for a house up to **2,500 sq ft** or flat up to **2,000 sq ft**. Next house: no credit for **15 years**.	**30%** of taxable income	Taxable income 2.5m; tax 176,000; profit paid 900,000 → C = 750,000 → credit **52,800**
Integration s.64D	Persons required to integrate with the FBR system: expenditure on the **electronic resource** (hardware, software, installation).	**10%** of the amount invested	Rs. 20m invested → credit **Rs. 2m**; in addition to initial allowance and depreciation; not for O&M costs

s.65F **Section 65F:** a **100% credit** of tax payable — including minimum and final taxes — for **Sindh coal-to-power** supply and for a **startup certified by PSEB** in the certification year and the next two years, if the **return**, **withholding statements** and **sales tax returns** have been filed. (These were once exempt under the Second Schedule.)

8 EXEMPTIONS AND TAX CONCESSIONS

sections 41 – 55

AGRICULTURAL INCOME · s.41

Income **derived from land in Pakistan used for agriculture** (rent or revenue): sale of produce, processes to make it **fit for market**, and a **dwelling / store** near the land used by the cultivator. **Exempt.**

DIPLOMATS · UN · s.42

Income of persons entitled to privileges under the Diplomatic and Consular Privileges Act, 1972 / UN Act, 1948; a Pakistani citizen's **UN pension** if the salary was exempt.

FOREIGN GOVERNMENT OFFICIALS · s.43

Salary of a **foreign citizen** employed by a foreign government, for services like those of federal employees abroad, and **reciprocity** exists.

TREATIES AND AID · s.44

Pakistan-source income Pakistan may not tax under a **treaty**; salary and contractor / consultant income under **aid agreements**, to the extent provided.

HONOURS · s.45

Allowance attached to an honour, award or medal, and monetary awards from the **President**.

NON-RESIDENT SECURITIES · s.46

Profit to a **non-resident** on a Board-approved security widely issued abroad, **not to an associate**, paid outside Pakistan.

SCHOLARSHIPS · s.47

Exempt **unless paid by an associate**.

SUPPORT PAYMENTS · s.48

Amounts received by a spouse under an **agreement to live apart**.

OTHER LAWS · s.54 · LIMITATION · s.55

An exemption in another law has **no effect unless the Ordinance also provides it**. An exemption is limited to the **original recipient** and does not pass on to payees.

SECOND SCHEDULE · s.53 · s.53A

Part I exemptions; Part II reduced rates; Part III reduced tax; Part IV exemption from provisions. Government may cut **minimum-tax withholding** rates by **1%** on economic viability.

RULE 11

Rule 11: a cultivator who uses his own produce as raw material deducts only its **market value** — the market price if ordinarily sold raw or after market-fit processing; otherwise cultivation expenses plus land revenue or rent — and **nothing more**. Example: sugar sales 50m − other costs 30m − market value of own cane 12m = **business income 8m**.

9 EXAM FOCUS · MCQ TRAPS

what examiners test

1 Salary is protected

No loss can be set off against salary.

2 Business loss

Not against **property**; set off **last**; carried forward **six years** (hotels 8, PIA 10), business income only.

3 Ring-fenced losses

Speculation and capital losses: same-type income only; **s.37A** loss three years; **s.37** loss may absorb **s.37A** gain.

4 Unabsorbed depreciation

50% of balance business income; **100%** if taxable income is below **Rs. 10m**.

5 Assessment needed

No carry forward without an order under **s.120 / 121 / 122**.

6 AOP and successors

Members cannot use AOP losses; a **non-heir successor** cannot use the predecessor's.

7 Credits

Average rate × lower amount; donation caps 30% / 20% (15% / 10% associates); pension 20%; housing 30%; integration 10%; excess **lapses**.

8 Exemptions

No exemption in other laws unless also in the Ordinance; exemption stays with the **original recipient**.

CLASSIFY IT · CAN IT BE SET OFF?

1	Business loss against salary	NO
2	Business loss against income from property	NO
3	Other-sources loss against business income	YES
4	Capital loss against business income	NO
5	Business loss against speculation profit	YES
6	Speculation loss against trading profit	NO
7	Loss on agricultural land against taxable income	NO
8	Section 37 loss against a section 37A gain	YES

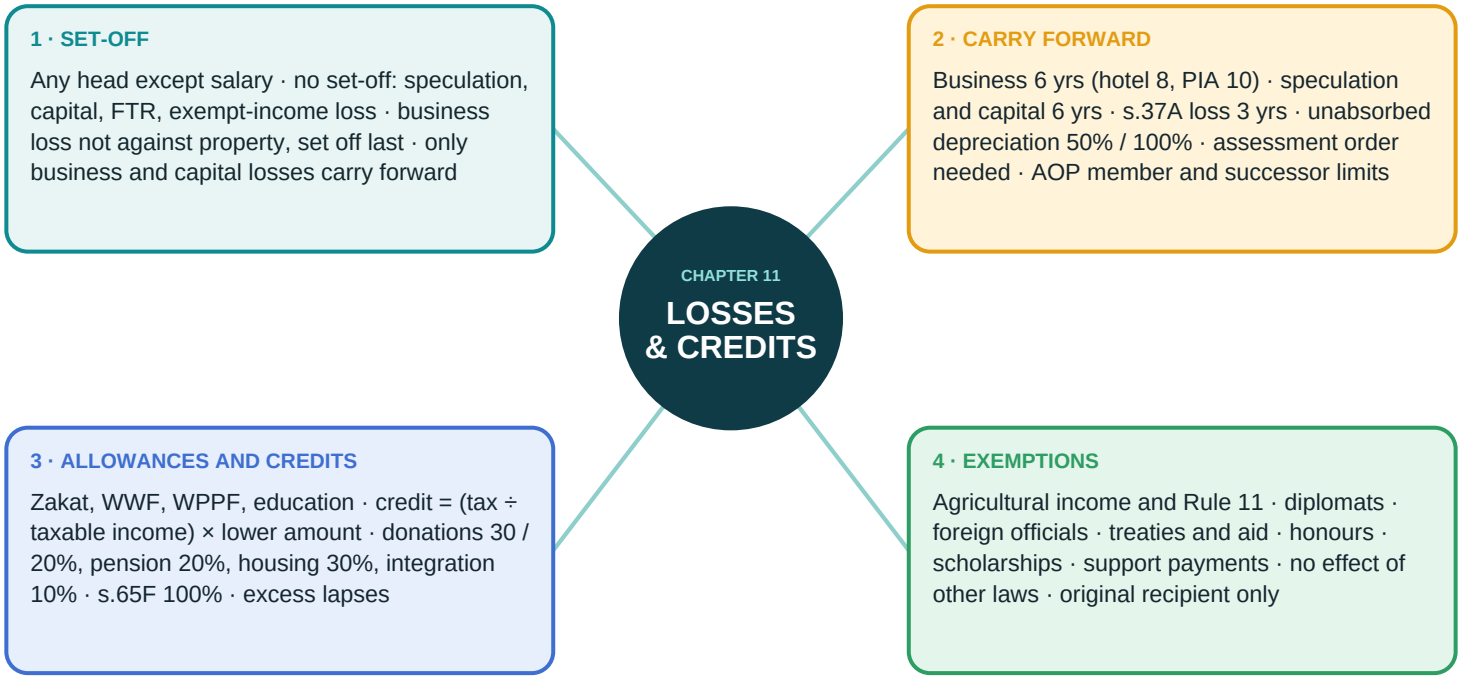
CLASSIFY IT · CAP OR EXEMPTION?

1	Donation credit cap – individual or AOP	30%
2	Donation credit cap – company	20%
3	Donation to an associate – individual	15%
4	Pension fund credit cap	20%
5	Low-cost housing credit cap	30%
6	Integration credit	10%
7	Scholarship paid by an associate	TAXABLE
8	Income from agricultural land	EXEMPT

LIMITS TO KNOW

Business loss	Speculation / capital	Unabsorbed depreciation	Donation cap	Integration
6 yrs · hotel 8 · PIA 10	6 yrs · s.37A 3 yrs	50% · 100% if below Rs. 10m	30% · company 20%	10%

REVISION MAP



Losses
Salary is protected.

Carry forward
Six years, type by type.

Credits
Average rate × lower amount.

Exemptions
Only if the Ordinance says so.