CHAPTER 4

BASIC CONCEPTS OF INCOME TAX LAW

The foundation for every later chapter: **tax year**, **heads and computation of income**, **who is a person**, **residential status**, **tax rates and regimes** (normal, separate block, final, minimum), women enterprises and the **common rules**. Law: ITO 2001 · tax year 2027.

CHAPTER ROADMAP

1. Scope and tax year — s.4 · s.74
2. Computing taxable income — ss.9 · 10 · 11
3. Person and taxpayer — s.80
4. Residential status — ss.81 – 84
5. Tax liability and rates — First Schedule
6. Tax regimes — NTR · block · FTR · min
7. Common rules — ss.67 – 73

SCOPE **Section 4:** income tax is imposed **for each tax year** on **every person who has taxable income**, at the applicable rates of the First Schedule.

1 TAX YEAR

section 74 · three kinds

NORMAL TAX YEAR

Twelve months ending **30 June**, denoted by the calendar year in which that date falls.

SPECIAL TAX YEAR

A twelve-month period different from the normal one — because the income year differs or the **Commissioner allows it**. Denoted by the year of the **next 30 June**. Board examples: sugar mills **1 Oct – 30 Sep**; rice exporters, banks and insurers **1 Jan – 31 Dec**.

TRANSITIONAL TAX YEAR

The gap between the end of the last year before a change and the start of the changed tax year (normal ↔ special).

Accounting period	Type	Tax year
1 Oct 2026 – 30 Sep 2027	Special	Tax year 2027
1 Jan 2027 – 31 Dec 2027	Special	Tax year 2028
1 Apr 2026 – 31 Mar 2027	Special	Tax year 2027
1 Jul 2026 – 30 Jun 2027	Normal	Tax year 2027

RULE **Find the tax year** by looking for the first **30 June after the period ends**. A change of tax year needs the **Commissioner's permission** (compelling need), can be withdrawn after a **hearing**, and a rejection can go to the **Board** in review (final).

2 COMPUTING TAXABLE INCOME

sections 9, 10, 11

INCOME UNDER EACH HEAD

Amounts chargeable **less deductions** for that head. Excess deductions = loss.

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TOTAL INCOME · s.10

All heads **plus exempt income**.

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LESS ALLOWANCES · s.9

Taxable income = total income **other than exempt**, less deductible allowances (not below zero).

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TAXABLE INCOME

Charged at First Schedule rates.

FIVE HEADS · s.11

Salary · income from property · income from business · capital gains · income from other sources.

"INCOME" · s.2(29)

An **inclusive** definition: amounts chargeable, amounts under **final tax** (e.g. dividend, bonus shares), amounts deemed income, and any **loss of income**.

RESIDENT

Taxed on **Pakistan-source and foreign-source** income.

NON-RESIDENT

Taxed on **Pakistan-source** income only.

3 DEDUCTIBLE ALLOWANCES

sections 60 – 60D · from total income

ZAKAT · s.60

Zakat paid under the Zakat and Ushr Ordinance, 1980. If zakat was cut from **profit on debt**, deduct it against **other-sources income**, not total income. Excess over total income: **no refund, no carry forward or back**.

WWF · s.60A

Workers' Welfare Fund paid. **Nothing** where a **trans-provincial** organisation pays a province.

WPPF · s.60B

Workers' Participation Fund under the 1968 Act. Same **trans-provincial** restriction.

EDUCATION · s.60D

Individuals with taxable income **below Rs. 1,500,000**: lowest of **5% of tuition fee**, **25% of taxable income**, **Rs. 60,000 × children**. No carry forward; ignored for s.149 withholding.

EXAMPLE · DIVIDEND AND ZAKAT

Gross dividend Rs. 100,000: tax 15% = 15,000; zakat 10,000; **net received 75,000**. Reverse: net received 160,000 after zakat 10,000 and tax 15% → taxable dividend (160,000 + 10,000) ÷ 85% = **200,000**; tax **30,000**.

EXAMPLE · TOTAL vs TAXABLE

Income from all heads 1,000,000; exempt income 500,000; WPPF paid 100,000 → **total income 1,500,000**; **taxable income 900,000**.

4 PERSON AND TAXPAYER

sections 80 and 2(66)

PERSON · s.80

An **individual**; a **company or AOP** formed in Pakistan or elsewhere; the **Federal Government**, a foreign government, its political subdivision or a public international organisation.

AOP

Includes a **firm, HUF, artificial juridical person, LLP** and bodies formed under a foreign law — **not a company**. A contractual joint venture may be an AOP.

COMPANY

Companies Act, 2017 company; small company; body corporate; **modaraba**; foreign company; Provincial or **Local Government**; co-operative or finance society; **non-profit organisation**; trust.

TAXPAYER · s.2(66)

Anyone who derives chargeable income, is a **representative**, must **deduct or collect** tax, or must **file a return** or pay tax.

5 PUBLIC COMPANY · S.2(47)

four tests · else private

1 · GOVERNMENT-OWNED

At least **50%** of shares held by the Federal or a Provincial Government.

2 · FOREIGN GOVERNMENT

At least **50%** held by a foreign government or a foreign company **owned by** a foreign government.

3 · LISTED

Shares traded on PSX at any time in the year **and still listed at year-end**.

4 · TRUST

A unit trust widely available to the public, or any trust under the Trusts Act, 1882.

NPO **Non-profit organisation:** set up for religious, educational, charitable, welfare or development purposes (or amateur sport — not a club with a joining fee above Rs. 1 million), **registered**, **approved by the Commissioner**, and none of its assets available for private benefit.

TRAP A **company delisted** before year-end is **not** public. A company only **59% held by a foreign company** (not wholly government-owned) is **not** public. 50% government holding **is** public.

6 RESIDENTIAL STATUS

sections 81 – 84 · decided for each tax year

RESIDENT INDIVIDUAL · s.82
Present in Pakistan **183 days or more** in the year; **or** a Federal / Provincial Government employee **posted abroad**; **or** a citizen who is not present in any other country for more than 182 days, or not a resident taxpayer of another country.

RESIDENT COMPANY · s.83
Incorporated in Pakistan; **or** control and management **wholly in Pakistan** at any time in the year; **or** a Provincial / Local Government.

RESIDENT AOP · s.84
Control and management **wholly or partly** in Pakistan at any time in the year.

FEDERAL GOVERNMENT
Always a **resident** person.

Source of income	Resident	Non-resident
Pakistan source	Chargeable	Chargeable
Foreign source	Chargeable	Not chargeable

RULE 14 · COUNTING DAYS
Part of a day counts as a **whole day**, including arrival and departure days. Public holidays, leave, strikes and holidays in Pakistan count. A day spent **only in transit** between two places outside Pakistan does **not** count.

EXAMPLE
Citizen arrives 1 Feb 2027 and leaves 23 Aug 2027. Tax year 2027 days: 28 + 31 + 30 + 31 + 30 = **150** → non-resident, **unless** he was in no other country for more than 182 days or is not a resident taxpayer elsewhere.

7 TAX RATES · FIRST SCHEDULE

tax year 2027

Salaried individual — salary is **more than 75%** of taxable income:

Taxable income (Rs.)	Tax
Up to 600,000	Nil
600,001 – 1,200,000	1% of the excess over 600,000
1,200,001 – 2,200,000	6,000 + 11% of the excess over 1,200,000
2,200,001 – 3,200,000	116,000 + 20% of the excess over 2,200,000

Taxable income (Rs.)	Tax
3,200,001 – 4,100,000	316,000 + 25% of the excess over 3,200,000
4,100,001 – 5,600,000	541,000 + 29% of the excess over 4,100,000
5,600,001 – 7,000,000	976,000 + 32% of the excess over 5,600,000
Above 7,000,000	1,424,000 + 35% of the excess over 7,000,000

Non-salaried individual and AOP:

Taxable income (Rs.)	Tax
Up to 600,000	Nil
600,001 – 1,200,000	15% of the excess over 600,000
1,200,001 – 1,600,000	90,000 + 20% of the excess over 1,200,000

Taxable income (Rs.)	Tax
1,600,001 – 3,200,000	170,000 + 30% of the excess over 1,600,000
3,200,001 – 5,600,000	650,000 + 40% of the excess over 3,200,000
Above 5,600,000	1,610,000 + 45% of the excess over 5,600,000

PROFESSIONAL FIRM
An AOP that cannot be incorporated by law: the top rate of **45% becomes 40%**.

SURCHARGE · 10%
On the income tax of **non-salaried individuals and AOPs** with taxable income above **Rs. 10 million** (not salaried).

SALARIED SURCHARGE
The 9% surcharge on salaried individuals above Rs. 10m is **no longer applicable** from tax year 2027.

ORDER OF CREDITS
Foreign tax credit first, then donations (s.61), pension (63), low-cost housing (63A), integration (64D), s.65F.

8 TAX REGIMES

four ways income is taxed

	Normal tax regime	Separate block	Final tax regime
Basis	**Net income** at First Schedule rates	Special rates on specific income	**Gross income**; tax deducted is final
Expenses	Allowed	Related expenses **allowed**	**Not** allowed
Allowances · credits	Allowed	**Not** allowed · **no credits**	**No credits**
Losses	Per Chapter 11	Within the block: carried forward against similar gains	Not considered; cannot offset other income
Examples	Salary, business, property	Gains on **securities** and **immovable property**	**Dividend**, prizes and winnings, prize bond
Refund	Normal	Final tax discharged	Only if tax withheld **exceeds** the final tax

MINIMUM TAX

Minimum tax regime: tax already deducted is compared with normal-regime liability — pay the **higher**; if withholding is higher it becomes **final**. Examples: s.113 turnover tax, ss.148(7), 153, 154, 235 (the last four are outside the CAF-2 syllabus).

9 MINIMUM TAX ON TURNOVER

section 113 · 1.25%

WHO

A **resident company**; an **individual or AOP** with turnover of **Rs. 100 million or more**.

WHAT

Pay **1.25% of turnover** (instead of actual tax) where tax is lower — loss, brought-forward loss, exemption, credits, or depreciation and other deductions.

CARRY FORWARD

Excess of minimum tax over normal tax is adjusted against the next **two** tax years. If minimum tax was paid because **no tax was payable**, all of it carries forward two years.

TURNOVER

Gross sales or receipts **excluding sales tax and FED and trade discounts**; gross fees; contract receipts; the company's share of an AOP's turnover; **excluding final-tax income**.

EXAMPLE

Example: AOP turnover Rs. 116,000,000; taxable income Rs. 1,570,000. Minimum tax 1.25% × 116m = **1,450,000**. Normal tax 90,000 + 20% × 370,000 = **164,000**. Pay **1,450,000**; carry forward **1,286,000** for two years.

10 DIVIDEND

sections 2(19), 5, 8

DEFINITION

Distribution of **accumulated profits**; debentures; liquidation and capital-reduction distributions (to the extent of profits); **loan or payment by a private company to a shareholder** (to the extent of profits); **after-tax profit remitted by a foreign branch**.

NOT DIVIDEND

Distribution for **full cash** consideration on liquidation / capital reduction; **loan in the ordinary course of a money-lending** business; dividend set off against earlier deemed dividend; remittance by a branch of an **E&P** foreign company.

RATES

7.5% IPP pass-through; **15%** individuals, AOPs, REITs, others; **25%** where the company pays **no tax** (exemption, losses, credits). Withholding is **final**.

MUTUAL FUNDS

Individual / AOP: fixed income 25%; from equity **15%**; from debt **25%**. Companies: **29%** / 15% / **29%**.

11 PRIZES, ROYALTY AND WOMEN ENTERPRISES

final tax and credits

PRIZES · s.156

Final tax on prize bond, raffle, lottery, quiz, crossword, **promotion prizes** and the **FMV of non-cash prizes**. Prize bond and crossword: **15% active / 30% non-active**. All others: **20% / 40%**.

ROYALTY · s.2(54)

Consideration for use of a patent, design, trademark, **copyright**, satellite or broadcast images; **technical, industrial, commercial or scientific knowledge**; use of equipment; ancillary assistance; and **disposal** of such rights.

WOMEN ENTERPRISE

A startup from **1 July 2021** owned by a woman, an all-women AOP or a fully women-owned company that meets s.65F (PSEB certified, timely returns, sales tax and withholding filings): **100% credit** for the certification year and the next 2 years; otherwise a **25% reduction** of business tax (not for split-up or reconstituted businesses).

12 COMMON RULES

sections 67 – 73, 117

APPORTIONMENT · s.67, Rule 13

Expenses for one class go to that class. **Common expenses** = expense × gross receipts of the class ÷ gross receipts of all classes; basis certified by a CA / CMA.

FAIR MARKET VALUE · s.68

The price in the **open market**, ignoring restrictions on transfer. Immovable property: Board-notified value, else the **stamp duty value**. WDV or cost is irrelevant.

RECEIPT · s.69

Actually received, **applied on behalf** of the person (at his instruction or by law), or **made available**. A mere payable entry is not receipt.

RECOUPED EXPENDITURE · s.70

Amount received later for an earlier-deducted expense is income in the **year of receipt** (e.g. a bank waiving mark-up).

CURRENCY · s.71

Convert at the **SBP rate on the date** the amount is taken into account.

CESSATION · s.72 · s.117

Income from a ceased source stays chargeable. Notify the Commissioner of discontinued business in **15 days** and file a return up to that date.

NO DOUBLE DERIVATION · s.73

Receivable-basis income is not taxed again when received, and vice versa; an expense deducted as payable is not deducted again when paid.

13 EXAM FOCUS · MCQ TRAPS

what examiners test

1 Tax year
Look for the **next 30 June** after the period ends.

2 Total vs taxable
Total income **includes exempt** income; taxable income does not and is **after allowances**.

3 Zakat on profit on debt
Deduct it against **other-sources** income, not from total income.

4 Public company
Must be **listed at year-end**; 50% government holding counts; delisting loses status.

5 Residency
183 days; Government employee posted abroad is **always resident**; a company incorporated here is **resident** wherever managed.

6 Salaried rates
Only if salary is **more than 75%** of taxable income; surcharge **10%** applies to non-salaried / AOP above Rs. 10m.

7 Minimum tax
1.25% of turnover vs normal tax; excess carried forward **two years**.

8 FTR vs separate block
FTR: **no expenses, losses or credits**. Separate block: expenses and losses allowed within the block, still no credits.

CLASSIFY IT · WHICH REGIME?

1	Salary income	NORMAL
2	Business income	NORMAL
3	Gain on disposal of securities	SEPARATE BLOCK
4	Gain on disposal of immovable property	SEPARATE BLOCK
5	Dividend from a listed company	FINAL TAX
6	Prize on a prize bond	FINAL TAX
7	Winnings from a lottery	FINAL TAX
8	Turnover tax under s.113	MINIMUM TAX

CLASSIFY IT · RESIDENT OR NOT?

1	Federal Government employee posted abroad	RESIDENT
2	Individual present 183 days in the tax year	RESIDENT
3	Company incorporated in Pakistan, managed abroad	RESIDENT
4	Foreign company managed wholly from Pakistan	RESIDENT
5	AOP controlled partly from Pakistan	RESIDENT
6	Individual present 150 days, resident taxpayer elsewhere	NON-RESIDENT
7	Individual only in transit through Pakistan	NON-RESIDENT
8	Foreign-source income of a non-resident	NOT CHARGEABLE

LISTS TO KNOW

Heads	Tax year	Regimes	Surcharge	s.113
Salary · Property · Business · Capital gains · Other sources	Normal · Special · Transitional	Normal · Separate block · Final · Minimum	10% · non-salaried above Rs. 10m	1.25% of turnover · 2 years

REVISION MAP

1 · YEAR AND INCOME
Normal year 1 Jul – 30 Jun · special (Board / Commissioner) · transitional · five heads · total income → taxable income → deductible allowances

2 · PERSONS AND STATUS
Individual · company · AOP · public vs private company · NPO · resident: 183 days, Government employee abroad, incorporated or managed in Pakistan · AOP managed wholly or partly

CHAPTER 4
BASIC CONCEPTS

3 · RATES
Salaried slabs if salary above 75% · non-salaried / AOP slabs · professional firm 40% · surcharge 10% above Rs. 10m · credits in a fixed order

4 · REGIMES AND RULES
Normal · separate block · final · minimum (1.25%) · dividend 15 / 7.5 / 25% · prizes 15–30% / 20–40% · common rules ss.67 – 73

Tax year
Next 30 June decides it.

Residence
183 days and special cases.

Rates
Slabs, surcharge, credits.

Regimes
Four ways of taxing income.