

تمام کلاسز کی حل شدہ مشقیں MrPakistani ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Allama Iqbal Open University Solved Assignments Spring 2026

Course Code:	456 Code
Course Name:	Business Taxation (بزنس ٹیکسیشن)
Class:	BA/B.Com
Total Credit Hours	3
Total Assignments	2

گھر بیٹھے حل شدہ مشقیں، گیس پیپرز، کتابیں اور خلاصے حاصل کرنے کے لیے رابطہ کریں واٹس ایپ نمبر: 03036940016

نوٹ: ہم طلبہ کے لیے جامع اور معیاری تعلیمی خدمات فراہم کرتے ہیں۔ ہماری خدمات میں علامہ اقبال اوپن یونیورسٹی کے حل شدہ اسائنمنٹس، گیس پیپرز، سابقہ پرچے، تازہ ملازمتوں کی معلومات، آن لائن سی وی تیار کرنا، ملازمت کے لیے درخواست دینا، یونیورسٹی داخلوں میں رہنمائی اور درخواست جمع کروانا شامل ہیں۔ اس کے علاوہ یونیورسٹی سے متعلق طلبہ کے ہر قسم کے تعلیمی اور رہنمائی کے کام میں مکمل تعاون فراہم کیا جاتا ہے تاکہ طلبہ کو ایک ہی جگہ پر تمام ضروری سہولیات میسر آسکیں۔



واٹس ایپ گروپ جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



واٹس ایپ چینل جوائن کرنے کے لیے سامنے دیے گئے لنک پر کلک کریں۔



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

Assignment 1

Q.1. Define the following terms with reference to the Income Tax Ordinance 2001:

(a) Capital Asset

Definition: "Capital asset" means a capital asset as defined in Section 37 of the Income Tax Ordinance, 2001. Under Section 2(10) read with Section 37(5), a capital asset means property of any kind held by a person, whether or not connected with a business. However, it does **not** include:

- any stock-in-trade, consumable stores, or raw materials held for business purposes;
- any movable property (excluding certain specified assets) held for personal use by the person or any member of the person's household.

In simpler terms, capital assets are long-term assets (like land, buildings, shares, vehicles) that are not meant to be sold as part of regular business operations. Gains arising from their disposal are taxed under the head "Capital Gains" (Section 37), while assets held for sale in the ordinary course of business are taxed under "Income from Business".

(b) Taxable Income

"Taxable income" of a person for a tax year is the **total income** of the person for the year (which includes income under all five heads: salary, property, business, capital gains and other sources) **reduced (but not below zero) by the sum of deductible allowances** under the Ordinance. In other words, it is the income on which tax is actually calculated after allowing for deductions such as Zakat, donations to approved schools, certain life insurance contributions, etc.

(c) Turnover

"Turnover" means the gross amount received or receivable by a person for any goods sold, services provided, or any other activity carried on by the person. It includes all sales revenue, service income, and other receipts related to the business operations. This term is commonly used to determine the eligibility for certain presumptive tax regimes or to calculate withholding tax under various sections.



Association of Persons (AOP)	control and management of its affairs is situated wholly or partly in Pakistan at any time in that year.
Federal/Provincial Government	always resident.

A "non-resident person" is defined as a person who is not resident for that tax year.

(g) Intangible

Under Section 24 of the Income Tax Ordinance, 2001, an "intangible" is defined broadly to include:

- any patent, invention, design or model;
- a secret formula or process;
- a copyright, trademark, or scientific/technical knowledge;
- any franchise, licence, contractual right, or intellectual property;
- any other right or asset that does not have physical substance but provides a benefit for more than one year.

A person is allowed an **amortisation deduction** in respect of the cost of such intangibles if they are used in deriving business income and have a useful life exceeding one year. An intangible without an ascertainable useful life is treated as having a normal useful life of **fifteen years**.

(h) Permanent Establishment

"Permanent establishment" (PE) is defined in relation to a person as a **fixed place of business** through which the business of the person is wholly or partly carried on. It includes:

- a place of management, branch, office, factory, workshop, warehouse, premises for soliciting orders, permanent sales exhibition, or sales outlet;
- a mine, oil or gas well, quarry, or any other place of extraction of natural resources;
- an agricultural, pastoral or forestry property;
- a building site or construction/assembly project continuing for more than ninety days;
- any substantial equipment installed, giving rise to income;
- a person (agent) acting in Pakistan on behalf of another, except an independent agent acting in the ordinary course of business, if such agent has and habitually exercises authority to conclude contracts on behalf of the other person.

This concept is crucial for taxing non-residents who carry on business in Pakistan.



Q.2. Explain the components of business income and their taxation treatment under the Income Tax Ordinance 2001.

Business Income – Definition and Scope

“Business income” is one of the five heads of income under the Ordinance (the others being salary, property, capital gains and other sources). Section 18(1) of the Income Tax Ordinance, 2001 sets out the incomes that are chargeable to tax under the head “Income from Business”.

Components of Business Income

Clause	Component	Explanation
(a)	Profits and gains of any business	All profits and gains derived from carrying on a business at any time in the tax year. This is the core component and includes trading profits, manufacturing profits, service income, etc.
(b)	Income from trade/professional associations	Any income derived by a trade, professional or similar association from the sale of goods or provision of services to its members. The Explanation clarifies that co-operative societies and recreational clubs are also covered.
(c)	Hire/lease of tangible movable property	Income from the hire or lease of machinery, vehicles, equipment and other tangible movable property.
(d)	Benefits/perquisites from business relationships	The fair market value of any benefit or perquisite (whether or not convertible into money) derived by a person in the course of, or by virtue of, a past, present or prospective business relationship. This includes, for example, waiver of profit on debt.
(e)	Management fees	Any management fee derived by a management company (including a modaraba management company).

Taxation Treatment of Business Income

1. Computation of taxable business income

Taxable business income is computed as:

Gross income from business – Allowable deductions = Taxable business income



2. Allowable deductions (Section 20)

Deductions are allowed for expenses incurred wholly and exclusively for the purposes of the business, including:

- rent, repairs, insurance;
- salaries, wages and bonuses;
- utilities, fuel, power;
- advertising and sales promotion;
- interest on business loans (profit on debt);
- depreciation of depreciable assets and amortisation of intangibles (Section 24);
- bad debts actually written off;
- contributions to approved provident funds.

3. Expenses NOT allowed (Section 21 – inadmissible deductions)

Certain expenses cannot be deducted even if they are business-related:

- capital expenditure (e.g., purchase of a building or machinery);
- personal expenses of the proprietor;
- income tax paid (except when specifically allowed);
- fines or penalties for violation of any law;
- expenses relating to exempt income;
- payments made in cash exceeding prescribed limits (currently Rs. 50,000 per transaction, Rs. 10,000 in certain cases).

4. Special provisions

Provision	Treatment
Speculation business (Section 19)	Losses from speculation business can only be set off against speculation income; no deduction for losses from speculation against other business income.
Intangible amortisation (Section 24)	If an intangible has an ascertainable useful life, the cost is amortised equally over that life. If no ascertainable life exists, it is amortised over fifteen years.
Bad debts	Deduction allowed only if the debt was previously included in taxable income and has become irrecoverable; certain conditions apply.

5. Set-off and carry forward of losses

- Losses from a business can be set off against income from any other head in the same tax year.



تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

- Unabsorbed business losses can be carried forward for up to **six tax years**; however, speculation business losses can be carried forward for only three years.
- Losses from a source that is exempt (e.g., agricultural income) cannot be set off against taxable income.

6. Taxation of business income

Once taxable business income is computed, it is aggregated with income from other heads, then the total income is reduced by deductions (e.g., Zakat, donations) to arrive at **taxable income**. The applicable progressive tax rates (for individuals/AOPs) or flat rates (for companies) are then applied.

Illustrative example:

A small business owner has gross receipts of Rs. 10,000,000 in the tax year. Allowable expenses incurred are Rs. 6,200,000 (including cost of goods sold, salaries, rent, utilities). Hence:

- Gross business income = Rs. 10,000,000
- Less: allowable deductions = Rs. 6,200,000
- **Taxable business income = Rs. 3,800,000**

This Rs. 3.8 million is then added to any other income (e.g., property, capital gains) to arrive at total income.

Q.3. Calculate the tax liability of Mr. Kasim, a salaried person, from the following records.

Step 1: Identify the salary components and compute total annual income

No.	Item	Amount (Rs.)	Annual amount (Rs.)	Taxable / Exempt
1	Basic salary	75,000 per month	900,000	Fully taxable
2	House rent allowance	19,000 per month	228,000	Fully taxable
3	Overtime	20,000 per year	20,000	Fully taxable (part of salary)
4	Medical allowance	4,000 per month	48,000	Fully taxable



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](https://www.facebook.com/MrPakistani)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

5	Conveyance facility (personal + official use)	Cost of vehicle: 20,00,000	Perquisite value = 5% of Rs. 20,00,000 = 100,000	Taxable (FBR rule: 5% of cost for mixed use)
6	Reimbursement of personal medical expenses	19,000 per year	19,000	This is a reimbursement of actual personal medical expenses; generally treated as taxable salary income unless specifically exempt (no exemption shown). Hence taxable .
7	Contribution to life insurance	38,000 per year	—	Not salary income; deductible allowance (if eligible)
8	Zakat paid	5,000 per year	—	Deductible allowance (Section 60)
9	Shares of LY Ltd. purchased in IPO	15,000 (total)	—	Not income; investment
10	Donation to a school	1,000 per year	—	Deductible allowance (Section 61, subject to conditions)

Total Income (salary) = 900,000 + 228,000 + 20,000 + 48,000 + 100,000 + 19,000 = Rs. 1,315,000

Step 2: Identify deductible allowances

Under the Income Tax Ordinance, certain payments are deductible from total income to arrive at taxable income:

- **Life insurance contribution (Section 63):** An individual can claim a deduction for a contribution to a life insurance policy up to 20% of the policy's sum assured or Rs. 2,000,000, whichever is lower. Mr. Kasim's contribution of Rs. 38,000 is fully deductible.
- **Zakat (Section 60):** Zakat paid is fully deductible (Rs. 5,000).
- **Donation to a school (Section 61):** Donation to an approved school is deductible, but limited to 30% of taxable income before this deduction. For simplicity, we assume the full Rs. 1,000 is deductible.

Total deductible allowances = 38,000 + 5,000 + 1,000 = Rs. 44,000

Step 3: Compute taxable income



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Taxable income = Total income – Deductible allowances = 1,315,000 – 44,000 = **Rs. 1,271,000**

Step 4: Apply the tax rates (as supplied for the tax year 2025-2026)

S.No	Taxable Income	Rate of Tax
1	Does not exceed Rs. 600,000	0%
2	Exceeds Rs. 600,000 but ≤ Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Exceeds Rs. 1,200,000 but ≤ Rs. 22,00,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
4	Exceeds Rs. 22,00,000 but ≤ Rs. 32,00,000	Rs. 180,000 + 25% of the amount exceeding Rs. 22,00,000

Mr. Kasim's taxable income (Rs. 1,271,000) falls into **Slab 3**.

Step 5: Calculate tax liability

- Tax on first Rs. 1,200,000:
 - First Rs. 600,000 at 0% = Rs. 0
 - Next Rs. 600,000 at 5% = Rs. 30,000
 - Sub-total for Rs. 1,200,000 = Rs. 30,000
- Tax on amount exceeding Rs. 1,200,000:
 - Excess = 1,271,000 – 1,200,000 = Rs. 71,000
 - Tax at 15% = 71,000 × 15% = Rs. 10,650
- Total tax liability** = 30,000 + 10,650 = **Rs. 40,650**

Step 6: Summary statement

Particulars	Amount (Rs.)
Basic salary (75,000 × 12)	900,000
House rent allowance (19,000 × 12)	228,000
Overtime	20,000
Medical allowance (4,000 × 12)	48,000
Conveyance perquisite (5% of 20,00,000)	100,000
Reimbursement of medical expenses	19,000



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](https://www.facebook.com/MrPakistani)

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Total income (salary)	1,315,000
Less: Life insurance contribution	(38,000)
Less: Zakat	(5,000)
Less: Donation to school	(1,000)
Taxable income	1,271,000
Tax payable (as computed)	40,650

Answer: Mr. Kasim's tax liability for the tax year is Rs. 40,650.

Q.4. Describe the concept and taxation treatment of capital gains and income from other sources under the Income Tax Ordinance 2001.

A. Capital Gains (Section 37)

Concept

Capital gains arise from the **disposal** (sale, exchange, transfer, etc.) of a **capital asset**. A "capital asset" means property of any kind held by a person, whether or not connected with a business, but **excludes**:

- stock-in-trade, consumable stores, raw materials held for business;
- movable property (excluding certain specified assets) held for personal use;
- certain agricultural land (subject to conditions).

The gain is computed as:

Capital gain = Consideration received on disposal – Cost of the asset (adjusted for inflation or indexed cost where applicable)

Gains are classified into **short-term** and **long-term** depending on the holding period. For securities (shares, bonds), a holding period of more than one year qualifies as long-term; for immovable property, different periods apply.

Taxation treatment

Type of asset	Tax treatment
---------------	---------------



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔

تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Royalties	Income from the use or right to use any copyright, patent, trademark, design, model, plan, secret formula or process.
Annuities or pensions (from non-employment sources)	Regular payments received other than by way of salary or business income.
Income from lottery, prize bonds, gambling	Winnings from gambling, crossword puzzles, races, prize bonds, lotteries.
Gifts (from non-relatives)	Where the amount received from a non-relative exceeds prescribed thresholds and is not received through banking channels, it is deemed income.
Rent from sub-lease of immovable property	Where the main lease is not a business activity.
Income from letting out of plant, machinery or furniture	If such letting is not part of a business.
Any other income not falling under the other four heads	The "catch-all" clause ensures every receipt is brought into the tax net.

Taxation treatment

Income source	Tax Treatment
Dividend	A final tax is deducted at source (usually 15%-20%) by the company. The recipient does not need to include it in total income; the tax deducted is final.
Profit on debt (interest) from a banking company or financial institution	A final tax is deducted at source (commonly 15%-20%). No further tax is payable by the recipient.
Profit on debt (interest) from a person other than a banking company	Included in total income and taxed at the ordinary progressive rates; the payer is required to deduct withholding tax (usually 10%-15%), but that is adjustable against final tax liability.
Royalty	Withholding tax is deducted at source (often 15% for residents). The amount is included in total income and taxed at ordinary rates; the withholding tax is a credit.
Gift from a non-relative	If received otherwise than by a cross-cheque drawn on a bank or through a banking channel, the entire amount is treated as income chargeable under this head.



[یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔](https://www.facebook.com/MrPakistani)

Winnings from lottery, prize bonds, etc.	A final tax is withheld at source (typically 15%). No further tax is payable.
Rent from sub-lease	Included in total income; the excess of rent received over rent paid to the sub-landlord (plus allowable expenses) is taxable at ordinary rates.

Key provisions:

- Section 39(3) provides that any amount received by a person **otherwise than by a cross-cheque** drawn on a bank or through a banking channel **from a person holding a National Tax Number** shall be treated as income chargeable to tax under this head. This is designed to discourage cash transactions.
- Expenses incurred to earn income from other sources are deductible, e.g., collection charges, commissions, and expenses of earning dividend or interest, subject to the provisions of Sections 20 and 21.

Example: Mr. A receives bank interest of Rs. 50,000, dividend of Rs. 30,000, and a cash gift of Rs. 200,000 from a non-relative (not through a banking channel). His income from other sources would be:

- Bank interest: not includible if final tax is deducted (but disclosure is required);
- Dividend: not includible if final tax is deducted;
- Cash gift: fully includible as Rs. 200,000 (since not received through banking channel) and taxed at his normal progressive rates.

Q.5. What is an income tax return? Who is required to file the income tax return? What are the requirements of a valid return of income? Also, write down the penalty for non-filing of the income tax return.

A. What is an Income Tax Return?

An **income tax return** is a prescribed form (usually electronic) filed by a taxpayer with the Federal Board of Revenue (FBR) for a given tax year. In the return, the taxpayer declares:

- total income under all five heads;
- deductions and allowances claimed;
- taxable income;



C. Requirements of a valid return of income

For a return to be considered **valid** under the Ordinance, it must satisfy the following conditions:

- Prescribed form:** The return must be filed in the form prescribed by the FBR (currently the **Income Tax Return Form** for the relevant tax year, filed electronically through the **IRIS** portal).
- Full disclosure:** The return must contain full particulars of:
 - Total income under each head;
 - Deductions and allowances claimed;
 - Taxable income;
 - Tax deducted at source (certificates attached or referenced);
 - Advance tax paid;
 - Any refund claimed.
- Correct tax year:** The return must be for the correct tax year (e.g., 1 July 2024 to 30 June 2025 denoted as Tax Year 2025).
- Verification:** The return must be signed (or electronically verified) by the taxpayer or an authorised representative. For electronic filing, this is done through IRIS login and confirmation.
- Filing within due date:** A return is valid only if filed by the due date prescribed under Section 116 (30 September for individuals and AOPs; 31 December for companies) unless an extension has been granted.
- Payment of admitted tax:** The taxpayer must pay the full amount of tax payable as per the return (after adjusting for tax already deducted/collected/paid in advance) on or before the date of filing the return.
- No false declaration:** The information furnished must be true and correct to the best of the taxpayer's knowledge. A return containing wilful falsehood is liable to be treated as an invalid return or may lead to penal action under Section 182.

If any of these requirements are not met, the return may be treated as **invalid** under Section 114(5), and the Commissioner may treat the taxpayer as having **not filed** a return.

D. Penalty for non-filing of income tax return (Section 182)

Failure to file a return by the due date, where filing is mandatory, attracts the following **penalties**:

Scenario	Penalty
General penalty for non-filing	A penalty of Rs. 25,000 for each tax year for which the return is not filed, or such amount as the Commissioner may impose, subject to the limits in Section 182.



تمام کلاسز کی حل شدہ مشقیں [MrPakistani](http://MrPakistani.com) ویب سائٹ سے فری ڈاؤن لوڈ کریں۔

Late filing but before the end of the tax year	A penalty of Rs. 1,000 per day from the due date until the date of filing, up to a maximum of Rs. 25,000 .
Non-filing for companies	A penalty of Rs. 5,000 for each day of default, up to a maximum of Rs. 500,000 .
Where tax is payable	Additional penalty of 0.1% of the tax payable for each day of default, up to 50% of the tax payable .
Special penalty for non-filing despite notice under Section 114(9)	If a person fails to file a return after the Commissioner has issued a notice requiring it, a penalty of Rs. 10,000 per month (or part thereof) of default, up to Rs. 200,000 , may be imposed.

Consequences beyond penalties:

- Loss of **Active Taxpayer List (ATL)** status – the taxpayer becomes a “non-filer”.
- Withholding tax rates are doubled (e.g., banking transactions, property purchases, vehicle registrations).
- Inability to purchase motor vehicles above 800cc, or to obtain certain utility connections.
- Bank accounts may be **frozen** by the FBR.
- The taxpayer may be prosecuted in a court of law under Section 191 (punishment for wilful failure to file a return) and may face imprisonment for up to two years.

Example: A salaried person whose taxable income exceeds Rs. 600,000 fails to file his return by 30 September. He files on 30 December (three months late). The penalty would be calculated as: Rs. 1,000 × 90 days = Rs. 90,000 – but the maximum penalty is Rs. 25,000, so he would pay **Rs. 25,000**. In addition, his bank withholding tax rate would double until he files and is reinstated as an ATL holder.



یونیورسٹی کی تمام معلومات حاصل کرنے کے لیے ہمارا واٹس ایپ گروپ جوائن کریں۔