



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

**Income Tax
(Application)**

**AGP
May Exam-2026**

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Solutions – Income Tax (Application)

- Q.1.** Tax recovery from a tax-default company involves a series of enforcement actions by tax authorities (such as the FBR in Pakistan) to collect outstanding tax liabilities, including penalties and default surcharges. Under the Income Tax Ordinance, 2001, if a company fails to pay taxes, the authorities can attach assets, freeze bank accounts, or in severe cases, hold directors personally liable.

Key Tax Recovery Methods (FBR)

If a company fails to pay taxes after a notice is issued, authorities may use the following methods:

Attachment and Sale of Property: The FBR can attach and sell the company's movable assets (vehicles, machinery) or immovable property.

Bank Account Attachment: Authorities can issue notices to banks to seize funds in the company's accounts (Section 140).

Third-Party Recovery: If another party owes money to the defaulting company, the FBR can compel that party to pay the taxes directly.

Appointment of a Receiver: A receiver may be appointed to manage the company's property for the purpose of recovering tax.

Arrest and Detention: The tax authorities have the power to arrest and detain the defaulter in cases of persistent default.

Legal Safeguards and Requirements

Mandatory Notice: Before taking coercive action like attaching assets, a mandatory notice (Section 138) must be served to the company.

Recovery During Appeal: Generally, tax recovery should not be made while a valid appeal is pending and the taxpayer has paid a percentage of the tax demand.

Director Liability: Tax due from a company cannot be recovered directly from a director or partner without first establishing that the tax is not recoverable from the company itself.

Consequences of Tax Default

Default Surcharge: Additional penalties of 5% of the tax in default, with an additional 25% for a second default, and 50% for subsequent defaults can be imposed.

Active Taxpayer List (ATL) Removal: Late filers or non-filers are removed from the ATL, resulting in higher withholding tax rates.

Business Interruption: Authorities can seal business premises and block electricity or gas connections.



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- Q.2.** The Federal Board of Revenue (FBR) in Pakistan utilizes a risk-based mechanism to select income tax returns for a detailed audit, primarily aimed at identifying high-risk, non-compliant taxpayers while maintaining a high level of voluntary compliance. The selection process is governed by **Section 214C** (selection by Board) and **Section 177** (selection by Commissioner) of the Income Tax Ordinance, 2001.

The mechanism for audit selection consists of the following key components:

1. Risk-Based Audit Management System (Parametric Selection)

FBR uses advanced data analytics and a modern data warehouse to cross-match taxpayer declarations with information from third-party sources (e.g., banks, land registries, motor vehicle authorities).

Risk Parameters: Cases are selected if they attract specific risks, such as:

Mismatch between declared income and lifestyle (e.g., high expenses/assets, luxurious foreign travel).

Large bank transactions inconsistent with declared income.

Significant decline in reported income compared to previous years.

Unusual or high refund claims.

High input tax/output tax ratio.

Non-Disclosure: In accordance with section 214C(1A), specific risk parameters for a given year are not disclosed to prevent manipulation.

2. Computerized Balloting (Random Selection)

Random Ballot: FBR conducts computer ballots on an annual basis to select a percentage of taxpayers for audit, ensuring a random, non-discriminatory approach.

Coverage: Typically, a small percentage (e.g., 2.3% in Audit Policy 2018) of total filers are selected.

3. Exclusions from Audit Ballot

To encourage compliance and reduce burden on compliant taxpayers, FBR generally excludes certain categories from the computerized ballot:

Previous Audits: Taxpayers audited in any of the preceding three tax years.

Salary Individuals: Salaried individuals (unless they have significant business income).

Final Tax Regime (FTR): Cases falling under the final tax regime.

4. Selection by Commissioner (Section 177)

Apart from the Board's centralized ballot, the Commissioner Inland Revenue has the authority to select a case for audit (usually 5% to 10% of their jurisdiction).

Basis: Desk audits, risk profiling, or specific information/complaints.

Process: The Commissioner must communicate the reasons for selecting the case for audit through a formal letter.



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5. Audit Process Flow

Intimation Letter: The taxpayer is informed about the audit, the section under which it was selected (177 or 214C), and the required documentation.

Examination: Tax authorities review books of account, bank statements, and supporting documents.

Discrepancy Reporting: If discrepancies are found, they are shared with the taxpayer for an explanation.

Final Assessment: A final order is passed after giving the taxpayer an opportunity to be heard (Section 11(5) of the Sales Tax Act, or corresponding Income Tax provisions).

Key Regulatory Framework

Section 214C: Selection of cases for audit by the Board.

Section 177: Selection of audit by the Commissioner.

Statute of Limitations: Audit can be conducted within five years from the end of the financial year in which the return was filed.

Q.3.

S. NO.	Name of Work	Amount received during 2024-25	Income Tax rate	Taxable amount deducted
1	Resurfacing of Korangi Road 2 kms	Rs. 2,000,000	7.5%	150,000
2	Supply of 10 ton Alum to Water Filter Plants of KWSB	Rs. 5,000,000	5%	250,000
3.	Supply of Medines to Civil Hospital, Karachi	Rs. 50,000,000	4%	2,000,000
4.	Fixing of hand pumps in villages of Hyderabad District Council	Rs. 40,000,000	7.5%	3,000,000
Total Tax charged				5,525,000

Q.4. An aggrieved taxpayer in Pakistan has several administrative and quasi-judicial forums available to redress grievances against the Federal Board of Revenue (FBR), ranging from internal complaint systems to independent ombudsman services.

1. Federal Tax Ombudsman (FTO)

The Federal Tax Ombudsman (FTO) is the primary, independent forum for speedy, cost-free redressal of complaints regarding "maladministration" by FBR tax employees.

What it Handles: Illegal actions, negligence, delays in refunds, unnecessary harassment, and non-compliance by FBR staff.

How to File: Complaints can be filed in person, through courier, via email, or online on the FTO website using "Form A".



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Timeline: Complaints are decided within 60 days.

Coverage: Covers income tax, sales tax, customs, and federal excise.

2. FBR Internal Redressal Mechanisms

FBR Helpline & CRM System: The FBR uses a Customer Relationship Management (CRM) system that provides three-tier support for taxpayer complaints, promising resolution within 24 hours for simple issues and 3 days for complex ones.

Phone: 051-111-772-772

Email: helpline@fbr.gov.pk

Integrity Management Cell (IMC): Specifically for filing complaints against the corrupt practices of FBR officers.

Online Complaint Management System (ECRM): A dedicated portal on the FBR website for filing complaints related to income tax, sales tax, or customs. [

3. Alternative Dispute Resolution (ADR)

An Alternative Dispute Resolution Committee can be appointed to resolve disputes before they reach the appellate tribunals or courts. This is useful for issues revolving around tax liability assessment or legal interpretation.

4. Appellate Tribunal Inland Revenue (ATIR)

The Appellate Tribunal Inland Revenue (ATIR) is a quasi-judicial institution that hears appeals against orders passed by tax authorities in cases where a legal mistake has occurred in revenue matters.

5. Pakistan Citizen Portal (PCP)

Taxpayers can use the **Pakistan Citizen Portal (PCP)** app to lodge complaints against FBR officials. These complaints are monitored at the highest government levels.

6. Judicial Remedies

High Court: If an aggrieved taxpayer is not satisfied with the decision of the ATIR, they can appeal to the High Court on substantial questions of law.

Supreme Court: Final appeals can be filed in the Supreme Court of Pakistan.

7. Other Specialized Forums

Overseas Pakistanis Grievances Redressal Cell: A specialized cell within the FTO setup to address tax issues faced by overseas Pakistanis.

Wafaqi Mohtasib: The Federal Ombudsman can be approached for complaints regarding other federal departments (not specifically tax-related maladministration).

- Q.5.** A provisional tax assessment is a temporary, estimated tax calculation used to pay taxes in advance throughout the year, preventing a large lump sum payment later. A best judgment assessment is a penalty assessment made by tax authorities when a taxpayer fails to file returns, cooperate, or maintain proper records.



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Purpose: It allows taxpayers to pay tax on non-salary income (e.g., rental, investments, business) or high salaries in installments.

How it Works: The tax office estimates your tax based on previous years or declared info, issuing a temporary assessment before the final one.

Adjustment: If the estimate is too high or low, you can request an adjustment from the tax authorities.

Types:

Automatic: Sent by the tax office after filing, requiring payment or offering a refund.

Requested: Requested by the taxpayer to spread payments or receive a refund early.

What is a Best Judgment Assessment?

Definition: This is a "best judgment" assessment done by tax authorities when a taxpayer does not file their return, fails to comply with a notice, or keeps faulty accounts.

When it Occurs: It is an estimation made by an officer based on available information, usually as a result of non-compliance (best judgment of the officer).

Key Differences at a Glance

Feature	Provisional Assessment	Best Judgment Assessment
Nature	Proactive, estimated, and temporary.	Punitive, based on estimated evasion/non-compliance.
Purpose	Spreads payment load, avoids high interest.	Ensures tax collection when records are missing/invalid.
Initiation	Taxpayer request or tax office estimate.	Tax authority's assessment due to non-compliance.
Accuracy	Intended to be updated to final accuracy.	A formal estimation to compel compliance.

Summary of Key Considerations

Provisional: Ensures compliance, reduces debt burden, and can be adjusted.

Best Judgment: An extreme measure, highlighting a failure to file or maintain proper records.

Payment Timing: Provisional tax is typically paid in installments (e.g., August and February), while a "best judgment" assessment occurs after a default.

- Q.6.** A tax credit is a rupee for repess reduction of the total income tax liability, directly decreasing the amount of tax owed to the government. Unlike deductions that reduce taxable income, credits are more valuable as they reduce tax payable directly. They are given to encourage specific behaviors—such as investing in green energy, education, or childcare—and to provide relief to specific taxpayer groups.
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Key Reasons Tax Credits are Given:

Behavioral Incentives: Governments provide credits to encourage investments in



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renewable energy (e.g., solar panels), purchasing electric vehicles, or investing in new businesses.

Social Policy & Relief: Credits help offset the high costs of raising children, higher education expenses, and adoption.

Economic Support: Low- to moderate-income workers may receive credits (e.g., Earned Income Tax Credit) to boost their income.

Specific Group Support: Incentives exist for seniors (pensioner certificates) or specific professions like teachers/researchers.

Q.6. Types of Tax Credits:

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Nonrefundable Credit: Reduces tax liability to zero, but any excess credit is lost.

Refundable Credit: If the credit exceeds the tax owed, the taxpayer receives the remaining balance as a refund.

Common Examples of Tax Credits:

Child and Dependent Care Credit: For expenses paid to care for dependents while working.

Education Credits: For tuition and related education fees.

Donation Tax Credits: For donations made to approved non-profit organizations or charities.

Home Loan Credits: On interest paid for loans used to construct or buy a home.
Tax credits are generally more beneficial than deductions because they reduce the final tax bill by the full rupee value of the credit.
