

Compliance Checklist - Allowable Deductions

Head of income: Income from Business (Sections 18 to 36 and Third Schedule)

Income Tax Ordinance, 2001 (amended up to 30 June 2026) and Income Tax Rules, 2002 (amended up to 15 September 2026)

Taxpayer name	_____	NTN / CNIC	_____
Tax year	_____	Prepared by / date	_____
		Reviewed by / date	_____

How to fill: For each check point mark Yes (complied), No (not complied - claim at risk) or N/A (not applicable), and note the evidence reference. Any "No" should be resolved or the deduction reduced before filing the return.

No.	Check point	Yes	No	N/A	Evidence / remarks
DAY-TO-DAY BUSINESS EXPENSES					
1. Running expenses of the business (Section 20(1), 67 and 174; Rules 13, 29, 30)					
<i>Keep on file: Invoices, vouchers, ledgers, bank statements, apportionment working</i>					
1.1	Was each expense incurred wholly and exclusively for the business?	☐	☐	☐	
1.2	Does each expense relate to this tax year?	☐	☐	☐	
1.3	Is each expense of revenue nature (benefit not lasting beyond one year)?	☐	☐	☐	
1.4	Is each expense supported by an invoice / voucher (with payee name and address where over Rs 10,000) and recorded in the books?	☐	☐	☐	
1.5	Have common expenses been apportioned between taxable, exempt and final-tax income using the Rule 13 gross-receipts formula?	☐	☐	☐	
1.6	Where accounts are audited, is a CA / CMA certificate of the apportionment basis available?	☐	☐	☐	
1.7	Are books and records kept as required by Rules 29 and 30 and preserved for 6 years?	☐	☐	☐	
2. Own agricultural produce used as raw material (Rule 11)					
<i>Keep on file: Market price evidence, cultivation cost records</i>					
2.1	Is the produce grown by the taxpayer (or received as rent-in-kind) and used as raw material in the business?	☐	☐	☐	
2.2	Has it been valued at market price at the time of use (or cultivation cost plus land revenue where there is no market)?	☐	☐	☐	
2.3	Have the cultivation costs NOT also been claimed separately?	☐	☐	☐	
3. Business animals that died or became useless (Section 20(1A))					
<i>Keep on file: Purchase record, vet / disposal record</i>					
3.1	Were the animals used in the business and not held as stock-in-trade?	☐	☐	☐	

No.	Check point	Yes	No	N/A	Evidence / remarks
3.2	Has the claim been reduced by any amount realised from the carcass or sale?	☐	☐	☐	
4. Amalgamation costs (Section 20(3)) <i>Keep on file: Advisers' invoices, scheme of amalgamation</i>					
4.1	Is the claimant the amalgamated company and do the costs relate to planning / implementing the amalgamation?	☐	☐	☐	
CAPITAL SPENDING - CLAIMED OVER SEVERAL YEARS					
5. Depreciation on business assets (Section 22, Third Schedule Part I; Rules 12, 224) <i>Keep on file: Tax fixed asset register, purchase invoices, WHT challans</i>					
5.1	Is a tax fixed-asset register maintained showing cost, additions, disposals and tax WDV?	☐	☐	☐	
5.2	Have the correct Third Schedule rates been applied on written down value?	☐	☐	☐	
5.3	Has land been excluded from the depreciable cost?	☐	☐	☐	
5.4	Has the cost of passenger vehicles not plying for hire been capped at Rs 7.5 million?	☐	☐	☐	
5.5	Has depreciation been restricted for assets partly used privately?	☐	☐	☐	
5.6	Was withholding tax under section 152 / 153 deducted and deposited on the purchase of additions?	☐	☐	☐	
5.7	Have gains / losses on disposals been computed on tax WDV?	☐	☐	☐	
5.8	Have the Rule 12 asset-wise particulars been prepared for furnishing with the return?	☐	☐	☐	
6. Initial allowance - 25% in the first year (Section 23 and Third Schedule Part II) <i>Keep on file: Import / purchase documents, commissioning report</i>					
6.1	Is the asset plant / machinery not previously used in Pakistan?	☐	☐	☐	
6.2	Was it first put to business use (or commercial production started) in this tax year?	☐	☐	☐	
6.3	Have vehicles not plying for hire, furniture and buildings been excluded?	☐	☐	☐	
6.4	Has the initial allowance been deducted from cost before normal depreciation?	☐	☐	☐	
7. First-year allowance - 90% for alternate energy equipment (Section 23B and Third Schedule Part II) <i>Keep on file: Invoices, installation certificate</i>					
7.1	Is the undertaking owned and managed by a company?	☐	☐	☐	
7.2	Is the plant / equipment installed for generation of alternate energy and put to use after 1 July 2009?	☐	☐	☐	
7.3	Has the normal initial allowance NOT also been claimed on the same asset?	☐	☐	☐	

No.	Check point	Yes	No	N/A	Evidence / remarks
8. Amortisation of intangibles (software, licences, patents, franchise) (Section 24)					
<i>Keep on file: Licence / purchase agreement, amortisation schedule</i>					
8.1	Does the intangible have a useful life of more than one year and is it used in the business?	☐	☐	☐	
8.2	Has cost been spread over its useful life (15 years where not ascertainable)?	☐	☐	☐	
8.3	Has self-generated goodwill been excluded?	☐	☐	☐	
8.4	Has the deduction been pro-rated for days in use and business share?	☐	☐	☐	
9. Start-up costs before business began - 20% a year (Section 25 and Third Schedule Part III)					
<i>Keep on file: Pre-commencement expense schedule</i>					
9.1	Was the expenditure incurred before commencement of business, wholly to earn taxable income?	☐	☐	☐	
9.2	Has land and depreciable / amortisable cost been excluded?	☐	☐	☐	
9.3	Is it being written off at 20% straight line, not exceeding total cost?	☐	☐	☐	
SPECIAL DEDUCTIONS					
10. Scientific research in Pakistan (Section 26)					
<i>Keep on file: Research contracts, invoices</i>					
10.1	Was the research undertaken in Pakistan for developing the business?	☐	☐	☐	
10.2	Have asset purchases, immovable property and mineral exploration costs been excluded?	☐	☐	☐	
11. Employee schools, hospitals and training (Section 27)					
<i>Keep on file: Bills, approval / recognition letter</i>					
11.1	Is the expenditure of revenue (not capital) nature?	☐	☐	☐	
11.2	Is the institution for employees / dependents, a recognised training institute, or an FBR-approved training scheme?	☐	☐	☐	
12. Mark-up, interest and lease rentals (Section 28)					
<i>Keep on file: Loan / lease agreements, bank certificates</i>					
12.1	Was the borrowed money actually used for the business?	☐	☐	☐	
12.2	Is the lessor a scheduled bank, financial institution, approved modaraba or approved leasing company?	☐	☐	☐	
12.3	For passenger vehicles not plying for hire, has the principal for lease rental been capped at Rs 2.5 million?	☐	☐	☐	
12.4	Has withholding tax been deducted where required on profit on debt paid?	☐	☐	☐	
12.5	Are bank / lessor certificates on file?	☐	☐	☐	

No.	Check point	Yes	No	N/A	Evidence / remarks
13. Bad debts written off (Section 29)					
<i>Keep on file: Write-off approval, recovery correspondence</i>					
13.1	Was the debt earlier included in taxable business income (or lent by a financial institution in its business)?	☐	☐	☐	
13.2	Has it actually been written off in the accounts of this tax year?	☐	☐	☐	
13.3	Is there reasonable evidence that it is irrecoverable (recovery efforts, legal notices)?	☐	☐	☐	
13.4	Has the claim been limited to the amount written off?	☐	☐	☐	
14. Special deductions for banks, NBFCs, HBFC and modarabas (Sections 29A, 30 and 31)					
<i>Keep on file: Prudential computations, auditor reports</i>					
14.1	Is the claimant the type of institution covered by section 29A / 30 / 31?	☐	☐	☐	
14.2	Have the percentage limits (3% / 5%) been respected?	☐	☐	☐	
14.3	Is suspended profit credited to a suspense account as per prudential regulations, and recoveries offered to tax?	☐	☐	☐	
DEDUCTIONS AND CREDITS AFTER WORKING OUT BUSINESS INCOME					
15. Zakat paid (Section 60)					
<i>Keep on file: Bank Zakat deduction certificate / CZ-50 receipt</i>					
15.1	Was the Zakat paid under the Zakat and Ushr Ordinance, 1980 (deducted at source or paid to an authorised Zakat fund)?	☐	☐	☐	
15.2	Was it paid within the same tax year (1 July to 30 June) in which it is claimed?	☐	☐	☐	
15.3	Is a Zakat deduction certificate or official receipt on file?	☐	☐	☐	
15.4	Has the same Zakat NOT already been claimed against profit on debt under section 40(2)?	☐	☐	☐	
16. Workers' Welfare Fund (WWF) paid (Section 60A)					
<i>Keep on file: WWF challans, computation</i>					
16.1	Was the WWF actually paid (not just provided for) during the tax year?	☐	☐	☐	
16.2	Was it paid under the WWF Ordinance, 1971 or the applicable provincial WWF law?	☐	☐	☐	
16.3	If the entity is trans-provincial, has any WWF paid to a province been excluded from the claim?	☐	☐	☐	
16.4	Are challans / payment proofs on file?	☐	☐	☐	
17. Workers' Profit Participation Fund (WPPF) paid (Section 60B)					
<i>Keep on file: WPPF computation, payment proof</i>					
17.1	Was the WPPF actually paid during the tax year?	☐	☐	☐	

No.	Check point	Yes	No	N/A	Evidence / remarks
17.2	Was it paid under the 1968 Act or the applicable provincial WPPF law?	☐	☐	☐	
17.3	If the entity is trans-provincial, has any WPPF paid to a province been excluded from the claim?	☐	☐	☐	
17.4	Are payment proofs and the WPPF computation on file?	☐	☐	☐	
18. Donations to approved institutions (tax credit) (Section 61; Rules 211-220, 228(4))					
<i>Keep on file: Donation receipt, bank proof, NPO approval</i>					
18.1	Is the donee an eligible institution under section 61 (government-run, approved NPO or Thirteenth Schedule)?	☐	☐	☐	
18.2	Was the donation paid through a crossed cheque / banking channel (not cash)?	☐	☐	☐	
18.3	Has the claim been limited to 30% (individual / AOP) or 20% (company) of taxable income?	☐	☐	☐	
18.4	If the donee is an associate, has the lower limit of 15% / 10% been applied?	☐	☐	☐	
18.5	Is the donee's receipt and approval / NPO status evidence on file?	☐	☐	☐	
18.6	For donations in kind, has the value been worked out as per Rule 228(4)?	☐	☐	☐	
18.7	Has the credit been worked out at the average rate of tax (tax / taxable income x eligible donation)?	☐	☐	☐	
19. Contribution to approved Voluntary Pension Fund (tax credit) (Section 63)					
<i>Keep on file: Pension fund manager certificate</i>					
19.1	Is the claimant an eligible person with income under Salary or Income from Business?	☐	☐	☐	
19.2	Was the contribution made during the tax year to a fund approved under the VPS Rules, 2005?	☐	☐	☐	
19.3	Has the eligible amount been limited to 20% of taxable income?	☐	☐	☐	
19.4	Has any transfer of an existing employer scheme balance been excluded?	☐	☐	☐	
19.5	Is the pension fund manager's contribution certificate on file?	☐	☐	☐	
20. Cost of integrating with FBR systems (tax credit) (Section 64D; Rules 33A-33G)					
<i>Keep on file: Invoices, FBR integration confirmation</i>					
20.1	Is the person legally required to integrate with FBR's system (Income Tax, Sales Tax or FED law)?	☐	☐	☐	
20.2	Was the expenditure only on equipment, hardware or software used exclusively for integration?	☐	☐	☐	
20.3	Was the system installed, integrated and configured with FBR in this tax year?	☐	☐	☐	
20.4	Has the credit been limited to 10% of the amount invested, excluding running / maintenance costs?	☐	☐	☐	
20.5	Are purchase invoices and FBR integration confirmation on file?	☐	☐	☐	

No.	Check point	Yes	No	N/A	Evidence / remarks
WATCH-OUTS: EXPENSES NOT ALLOWED (SECTION 21)					
21. Payments where withholding tax was not deducted (Section 21(c)) <i>Keep on file: WHT challans (CPRs), withholding statements</i>					
21.1	Has withholding tax been deducted on every payment requiring it (salaries, rent, services, contracts, goods, commission, profit on debt, non-residents)?	☐	☐	☐	
21.2	Has all deducted tax been deposited in the government treasury on time?	☐	☐	☐	
21.3	Have withholding statements been filed and reconciled with the ledger?	☐	☐	☐	
22. Large payments not made through the bank (Section 21(l), (la), (m) and (s)) <i>Keep on file: Bank statements, payroll bank advice</i>					
22.1	Were payments under each account head exceeding Rs 250,000 in aggregate made through the business bank account by banking channel?	☐	☐	☐	
22.2	Were all salaries above Rs 32,000 per month paid through bank / digital means?	☐	☐	☐	
22.3	Were receipts above Rs 200,000 per invoice received through banking channel or digital means?	☐	☐	☐	
22.4	(Companies) Is the business bank account declared under section 114A and used for digital payments?	☐	☐	☐	
23. Purchases from persons without NTN, commission to non-filers (Section 21(q) and (ca)) <i>Keep on file: Supplier master with NTNs, ATL checks</i>					
23.1	Is the NTN of every supplier recorded, and the 10% disallowance worked out on non-NTN purchases?	☐	☐	☐	
23.2	Have recipients of commission on Third Schedule goods been verified on the Active Taxpayers List?	☐	☐	☐	
24. Entertainment, utilities, promotion limits and FBR integration (Section 21(d), (o), (p) and (r); Rules 10, 33A-33G) <i>Keep on file: Entertainment log with guest details, FBR POS integration proof</i>					
24.1	Does all entertainment expense fall within the five Rule 10 categories and relate to persons directly connected with the business?	☐	☐	☐	
24.2	Has entertainment of a personal or social nature been excluded?	☐	☐	☐	
24.3	Have any utility-bill limits notified by FBR after 15 September 2026 been checked?	☐	☐	☐	
24.4	(Pharma manufacturers) Is promotion / advertisement expense within 10% of turnover?	☐	☐	☐	
24.5	If required under Rule 33A, is every outlet / POS integrated with FBR's system?	☐	☐	☐	
25. Employee fund contributions (Section 21(e), (ea) and (f); Sixth Schedule; Rules 103-120) <i>Keep on file: Fund recognition / approval letters, trust deeds</i>					
25.1	Are the funds recognised / approved by the Commissioner?	☐	☐	☐	

No.	Check point	Yes	No	N/A	Evidence / remarks
25.2	Has the claim for gratuity, pension and superannuation fund contributions been limited to 50%?	☐	☐	☐	
25.3	Are superannuation contributions within 20% of each employee's salary, and gratuity contributions within one month's salary per employee (Rules 110 and 117)?	☐	☐	☐	
25.4	Do any past-service or deficit (special) contributions have the Commissioner's prior approval?	☐	☐	☐	
25.5	Are arrangements in place for deduction of tax under section 149 on payments from the fund?	☐	☐	☐	
26. Other expenses never allowed (Section 21(a), (b), (g), (h), (i), (j) and (n)) <i>Keep on file: Tax computation, add-back schedule</i>					
26.1	Have income tax and tax deducted at source been excluded from expenses?	☐	☐	☐	
26.2	Have all fines and penalties been added back?	☐	☐	☐	
26.3	Have personal / household expenses been excluded?	☐	☐	☐	
26.4	Have reserves and capital expenditure been excluded (other than via depreciation / amortisation)?	☐	☐	☐	
26.5	(AOP) Have salary, commission and profit paid to members been added back?	☐	☐	☐	
27. Unpaid liabilities after 3 years (Section 34(5), (5A) and (6)) <i>Keep on file: Creditors ageing</i>					
27.1	Has an ageing of payables been reviewed and amounts unpaid beyond three years added back?	☐	☐	☐	
27.2	Have write-backs / waivers of trading liabilities been offered to tax?	☐	☐	☐	

Conclusion: all "No" answers resolved or the related deduction reduced? ☐ Yes ☐ No

Prepared by: _____ **Date:** _____ **Reviewed by:** _____ **Date:** _____

Disclaimer: This checklist is a helper tool only and does not constitute legal or tax advice. Verify each point against the Income Tax Ordinance, 2001, the Income Tax Rules, 2002 and FBR circulars, and consult your tax advisor before acting.