

APPELLATE TRIBUNAL INLAND REVENUE
(HEADQUARTERS BENCH), ISLAMABAD

ITA No. 242/IB/2025
(Tax Year 2020)

M/s. Pakistan Housing Authority (Foundation),
(NTN: 9011705)
Ground Floor, Shaheed-e-Millat Secretariat,
Jinnah Avenue, Islamabad. Appellant

Versus

The CIR (Builders and Developers), FBR Zone,
RTO, Islamabad. Respondent

Appellant by	:	Mr. Asif Fareed, Adv.
Respondent by	:	Mr. Muhammad Mobeen Sajid, DR
Date of hearing	:	03.07.2025
Date of order	:	22.07.2025

ORDER

TAUQEER ASLAM (CHAIRMAN):- The instant Appeal has been filed by the appellant/taxpayer assailing the order u/s 122(5A) of the Ordinance dated 30.10.2024 passed by the Additional Commissioner Inland Revenue (Builders & Developers) FBR Zone, RTO, Islamabad, under section 122(5A) of the Income Tax Ordinance, 2001 (hereinafter referred to as "the Ordinance") for the tax year 2020.



2. The taxpayer being an SOE (State Owned Enterprise) initially approached the chairman FBR for constitution of an Alternate Dispute Resolution Committee (ADRC) which was constituted on December 16th 2024. The matter could not be resolved and the ADRC was dissolved vide FBR Letter No. C.No.4(2)S(IR-Litigation)/2024/ADRC(PHAF)-1/46947-R dated 15.04.2025 as under:-

"02. I am further directed to state that the subject-mentioned ADR Committee was constituted on 16.12.2024. The statutory time limit of forty-five days, extendable by another fifteen days, as per section 134A(5) of the Income Tax Ordinance, 2001, expired on 14.02.2025, without making any decision in this case.

03. Therefore, in light of the recommendations made by the office of CCIR, RTO, Islamabad, the subject-mentioned ADR Committee in the case of Pakistan Housing Authority Foundation, for tax year 2020, may be considered as dissolved u/s 134A(11) of the Income Tax Ordinance, 2001.

04. Furthermore, the applicant may pursue the case in ATIR, High Court Or Supreme Court, as the case may be, if not otherwise past and closed transactions, as per second proviso of the section 134(2) read with 134A(11), further read with first provision to the section 131 of the Income Tax Ordinance, 2001."

In compliance to the above order the provision of section 134A(11) and proviso to section 131 of the Income Tax Ordinance, 2001, the appeal is being heard by this Tribunal.

3. Brief facts of the case emerging from the impugned order are that the appellant submitted its Income Tax Return for the Tax Year 2020 electronically declaring total income of Rs.197,324,078/- and claimed it as exempt. However, turnover tax u/s 113 of the Ordinance was charged at Rs.20,242,301/- and Rs.33,513,677/-. Later on taxpayer revised the return twice on 28.01.2024 and 22.02.2021 declaring the same income by claiming a refund of Rs.20,582,672 and Rs.54,096,349/- respectively. During scrutiny of the revised tax returns by the respondent No.1, it was noted that the taxpayer has claimed all of its income as exempt. It was also noted that the taxpayer has received receipts from allottees at Rs.2,902,422,709/-, however, declared the same as receipts booked under the contract liability on the liability side of the balance sheet. It was confronted to the taxpayer that being a company defined under section 80 of the Ordinance it was liable under sub section 2 of section 32 to account for income chargeable to tax under the head "Income from Business" on accrual basis. Therefore, the impugned order states that the taxpayer did not follow the method provided under section 32(2) of the Ordinance, hence, the total receipts of Rs.2,902,422,709/- shall be considered as receipts to derive income in view of section 18 of the Ordinance. The taxpayer replied to the showcause notice and submitted factual and legal explanation. However, explanation was not accepted and the impugned order was passed by increasing the receipts of the taxpayer to Rs.2,902,422,700/- with a total taxable income of Rs.1,737,860,087/- and a tax demand of Rs.503,341,759/-. The taxpayer approached ADRC but the same was dissolved on 15.04.2025 hence, instant appeal has been filed on the basis of grounds enumerated in the memo of appeal.



4. This case came up for hearing on 03.07.2025. The learned AR of the appellant reiterated the contentions already submitted in the grounds of appeal. On the other hand, learned DR opposed the appeal on the ground that he has passed a speaking order and there is no illegality or lacuna in his order. He, therefore, prays for rejection of appeal.

5. We have heard the parties and examined the record with the able assistance of learned AR and DR. The main controversy revolves around the accounting treatment of the receipts from allottees by the appellant for the relevant period. The appellant had declared its income and Expenses on the basis of completion method and applied standards of International Financial Reporting Standards (IFRS) 15, however, the department amended the assessment through impugned order with contention that apportionment formula applied by the taxpayer is deviation from the legal provisions i.e. Section 32(2) of Income Tax Ordinance, 2001 and appellant being a company could not do the same.

6. To resolve the controversy between the parties, the relevant legal provisions are provided in the Division IV, and Tax Accounting methods as per section 32 to Section 36 of the Ordinance. Section 32(2) provides the method of accounting to be adopted by a company. Section 32 and section 34 of the ordinance reads as under;



32. Method of accounting.— (1) *Subject to this Ordinance, a person's income chargeable to tax shall be computed in accordance with the method of accounting regularly employed by such person.*

(2) *Subject to sub-section (3), a company shall account for income chargeable to tax under the head "Income from Business" on an accrual basis, while other persons may account for such income on a cash or accrual basis.*

(3) *The Board may prescribe that any class of persons shall account for income chargeable to tax under the head "Income from Business" on a cash or accrual basis.*

(4) *A person may apply, in writing, for a change in the person's method of accounting and the Commissioner may, by 3 [order] in writing, approve such an application but only if satisfied that the change is necessary to clearly reflect the person's income chargeable to tax under the head "Income from Business"*

(5) *If a person's method of accounting has changed, the person shall make adjustments to items of income, deduction, or credit, or to any other items affected by the*

change so that no item is omitted and no item is taken into account more than once.

It is evident from bare reading of sub section 2 of the above quoted section 32 of the Ordinance that a company shall declare its Income on accrual basis under the head Income from Business. The same Division IV also provide definition of cash basis and accrual basis in next sections 33 and 34 relevant portions of which are reproduced for ready reference;

34. Accrual-basis accounting.—(1) *A person accounting for income chargeable to tax under the head "Income from Business" on an accrual basis shall derive income when it is due to the person and shall incur expenditure when it is payable by the person.*

(2) *Subject to this Ordinance, an amount shall be due to a person when the person becomes entitled to receive it even if the time for discharge of the entitlement is postponed or the amount is payable by instalments.*

The above said provisions explain the method of accounting to be applied and the treatment of receipts by any taxpayer. If the contention of both the parties is evaluated in juxtaposition under the above said provisions it is crystal clear that any amount received by the taxpayer being entitled for the same shall be offered for tax without any deduction or apportionment. The AR of the taxpayer was confronted to this legal position and he relied on section 36 of the same Division IV of the Ordinance.



Section 36 of the Ordinance is reproduced as under:-

36. Long-term contracts.— (1) *A person accounting for income chargeable to tax under the head "Income from Business" on an accrual basis shall compute such income arising for a tax year under a long-term contract on the basis of the percentage of completion method.*

(2) *The percentage of completion of a long-term contract in a tax year shall be determined by comparing the total costs allocated to the contract and incurred before the end of the year with the estimated total contract costs as determined at the commencement of the contract.*

(3) *In this section, —*

"long-term contract" means a contract for manufacture, installation, or construction, or, in relation to each, the performance of related services, which is not completed within the tax year in which work under the contract commenced, other than a contract estimated to be completed within six months of the date on which work under the contract commenced; and

"percentage of completion method" means the generally accepted accounting principle under which revenue and expenses arising under a long-term contract are recognised by reference to the stage of completion of the contract, as modified by sub-section (2).

The above quoted section is applicable to long term contracts which include contacts of construction and defined as not completed in the same tax year in which work under the contract commenced or the date of its completion is not within six months of its start. It is not deniable that the taxpayer is providing the constructed flats to its members under long term contracts and the payments of the said flats, its date of completion is spanned over period more than six months and the projects are not completed in the same tax year. Section 36 in Division IV, Tax Accounting of the Ordinance is an exception to the general rule mentioned in Section 32(2) of the Ordinance and the same is applicable to the appellant. The appellant is justified to use the percentage of completion method and do the apportionment of the receipts as well as expenses for the purpose of taxation under the above referred section 36 of the Ordinance. Section 36 also allows the taxpayer to apply "generally accepted accounting principles" therefore the appellant has applied IFRS 15 which recognizes the revenue on the basis of five step model;



- (i). Identification of the Contract with a Customer.
- (ii). Identification of the Performance Obligations.
- (iii). Determination of the Transaction Price.
- (iv). Allocation of the Transaction Price to the Performance Obligations.
- (v). Recognizing Revenue when the Entity Satisfies a Performance Obligation.

The appellant highlighted its accounting treatment in grounds of appeal in the following manner;

"Detailed accounting treatment in accordance with the above said principles is presented in the following points:

As per IFRS 15, revenue should only be recognized when the control of projects is transferred to the customer, which typically occurs when all significant risks and rewards associated with the assets are transferred.

In our case, all receipts from customers are not recognized as revenue at the time of receipt.

The amounts received in advance are recorded as liabilities (contract liabilities) in our financial statements.

Revenue is only recognized when the construction is completed, and the ownership, along with the associated risks and rewards, is transferred to the customer.

In accordance with the matching principle under IFRS 15 and IAS 2. The related COGS and Administrative Expenses are recognized in the same accounting period as the corresponding revenue.

As we have not recognized the entire receipts as revenue, we have correspondingly not charged the entire COGS and administrative expenses.

Instead, we have made apportionment of these costs, based on the stage of completion of construction projects and the revenue recognized up to the reporting date. This approach ensures a fair and accurate matching of income and expenses, maintaining compliance with the fundamental accounting principles of accrual accounting and fair presentation under IFRS."

8. In further support of the appellant's accounting treatment, it is imperative to underscore that Section 36 of the Income Tax Ordinance, 2001, expressly incorporates the principle of revenue recognition through the "percentage of completion" method for long-term contracts. The law itself recognizes that income, in such cases, should not be computed merely on the basis of receipt or accrual alone, but in alignment with the actual progress of performance obligations. The term "generally accepted accounting principles" (GAAP), as incorporated in Section 36(3), necessitates adherence to internationally recognized financial reporting frameworks, of which IFRS 15 is the authoritative standard on revenue recognition.

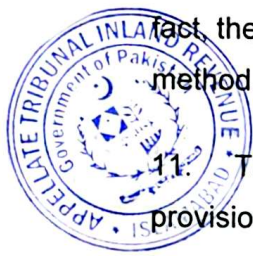
9. IFRS 15 provides a systematic five-step framework to ensure that revenue is recognized only when performance obligations are satisfied and control is transferred to the customer. Its objective is not merely technical compliance but to present the true and fair financial position of an entity, ensuring faithful representation of both income and liability. In the appellant's case, recognition of revenue upon satisfaction of the performance obligations — i.e., completion of the project and transfer of possession — is



consistent with both the principles laid down in IFRS 15 and the legislative intent of Section 36.

10. Furthermore, this approach is not a deviation but a legal mandate under Section 36, which is an exception to Section 32(2), and this section specifically caters for which operates industries like construction, where income realization spans multiple accounting periods or tax years. Disregarding such treatment would result in premature taxation of unrealized income and also violate the matching principle which is a cornerstone of accrual accounting.

In view of the above, the appellant's application of IFRS 15 and Section 36 is not only legally tenable and it also reflects accurate, fair, and consistent revenue recognition. Any alternate treatment to tax receipts merely upon collection, without consideration of project completion and liability discharge, would result in distortion of taxable income and violate both statutory and accounting principles. The above discussion is sufficient to establish that the accounting treatment under section 36 of the Ordinance and IFRS 15 by the taxpayer is justified and correct. It cannot be denied the benefit what the law permits. If the law permits a method of recording income and the taxpayer opts to avail that method consistently, then it cannot be compelled to follow another method of liking of the assessing officer which in this case is the accrual method u/s 32 of the Ordinance. In fact, the provision of section 36 also applies to cases that follow the accrual method.

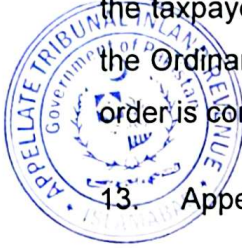


11. The learned respondent should have looked into the relevant provisions of Division IV, Tax Accounting of the Ordinance. Proceedings before the learned respondent are quasi-judicial and the assessing officer is expected in all circumstances to know the law. It is the duty of the officer to apply the correct law. The impugned Order depicts that the learned assessing officer was unaware of the exception to the general rule in shape of section 36 of the Ordinance and treated the taxpayer under the general rule as envisaged in section 32(2) of the Ordinance. It is also noteworthy to mention here that the Impugned order although adds the receipts of the entire tax year however failed to include the expenses in amended assessment which depicts the self contradiction in the impugned order. The

impugned order is based on incorrect application of law (The denial of this method by the learned respondent is not only contrary to the law but undermines the taxpayer's right to present income fairly in accordance with established international standards and specific statutory allowances under Section 36 of the Ordinance). Further, the assessing officer treated the already completed assessment as erroneous on the incorrect reasons or basis to call for proceedings u/s 122(5A) of the Ordinance. With these reasons, the assessment order is annulled and demand created by the same is deleted.

12. The second issue involved in the lis was claim of exemption on entire income by the taxpayer. The taxpayer failed to produce any legal or documentary justification to claim such exemption. Any income derived by the taxpayer is not exempt and shall be offered for tax in accordance with the Ordinance, hence, the order to the extent of para-5 of the assessment order is confirmed.

13. Appeal is disposed of as indicated above.



Sd/-
(IMRAN LATIF MINHAS)
MEMBER

Sd/-
(TAUQEER ASLAM)
CHAIRMAN

TRUE COPY

Appeal No	ITA No. 242/IB/2025
Date of Order:	22.07.2025
TRUE COPY OF ORDER FORWARDED TO	
1. APPELLANT:	M/s. Pakistan Housing Authority (Foundation), Islamabad.
2. RESPONDENT:	Z. Roshni
01-8-25	
ASSISTANT REGISTRAR APPELLATE TRIBUNAL INLAND REVENUE ISLAMABAD	