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APPELLATE TRIBUNAL INLAND REVENUE,
HEADQUARTER, ISLAMABAD

ITA No.1597/LB/2023
(Tax Year 2021)

CIR, LTU, Lahore.

... Appellant

Versus

M/s. Zahidjee Textile Mills Ltd., Lahore.
[NTN.0804274].

...Respondent

Appellant by : Miss. Maheen Ali, DR.
Respondent by : Mr. M. Shahid Rafique, Adv.
Date of hearing : 26.03.2026
Date of order : 02.04.2026

SLI-2023

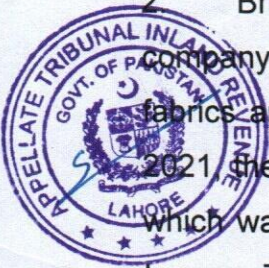
ORDER

MIAN TAUQEER ASLAM (CHAIRMAN):- The titled appeal filed by the department is directed against the appellate order dated 30.01.2023, passed by the CIR(A), Lahore.

2 Brief facts of the case are that the taxpayer is a public listed limited company engaged in the business of manufacturing and sale of yarn, grey fabrics and export of value-added textile products and made-ups. For tax year 2021, the taxpayer filed its revised return declaring income of Rs.540,681,949/-, which was deemed to be an amended assessment under section 122(3) of the Income Tax Ordinance, 2001. The deemed assessment was later considered erroneous insofar as it was prejudicial to the interest of revenue. Consequently, proceedings under section 122(5A) of the Ordinance were initiated by the assessing officer. Thereafter, an order dated 10.10.2022 under section 122(5A) was passed making additions of Rs.302,932,865/- and creating a tax demand of Rs.96,183,590/-. The additions mainly pertained to apportionment of expenses under section 67 and difference in purchases under section 111(1)(c) amounting to Rs.61,540,764/-.

3. Being aggrieved, the taxpayer filed appeal before the CIR(A), Lahore, who vide order dated 30.01.2023 allowed the appeal. Being aggrieved, the department has preferred the instant appeal before the Tribunal on the grounds set-forth in the memo of appeal.

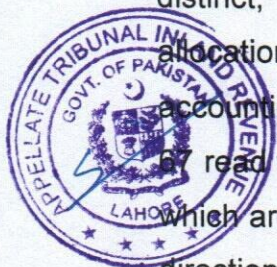
4. The DR vehemently argued that the order of the CIR(A) dated 30.01.2023 is contrary to the provisions of law and facts on record. It was contended that the CIR(A) wrongly allowed apportionment of cost of sales and administrative expenses on actual basis despite the applicability of section 67, which mandates allocation on a reasonable basis, i.e., sales ratio. The DR submitted that the CIR had already correctly prorated both identifiable and non-identifiable expenses in accordance with section 67 and Rule 13, and the directions of the CIR(A) have



distorted the allocation mechanism. It was further argued that the CIR(A) erred in annulling the addition of Rs.61,540,764/- under section 111(1)(c), as the taxpayer failed to fully reconcile the difference in purchases between Sales Tax Returns and Income Tax Return. The AR of taxpayer, on the other hand, strongly rebutted the arguments of DR stating that at appellate stage factual explanation with reconciliations was submitted, on the basis, the CIR(A) allowed relief to the taxpayer.

5. We have heard the rival contentions and perused the record. Regarding the first issue of apportionment of expenses under section 67, we note that the taxpayer maintains separate books of accounts for different segments, including spinning, weaving, and SEZ operations. The record reflects that raw materials used in the spinning unit (ginned cotton) and weaving unit (cloth/made-ups) are distinct, identifiable, and not interchangeable. In such circumstances, the allocation of identifiable expenses on actual basis is in consonance with sound accounting principles and does not violate section 67. The provisions of section 67 read with Rule 13 of the Income Tax Rules, 2002 apply primarily to expenses which are not directly attributable to a particular source of income. Therefore, the direction of the CIR(A) to allocate identifiable cost of sales on actual basis is upheld. As regards non-identifiable expenses forming part of COS, the CIR(A) has rightly directed apportionment on sales ratio basis, which is strictly in line with section 67. Similarly, with respect to administrative expenses, the record shows that expenses relating to SEZ operations are separately identifiable and maintained as per statutory requirements under Clause 126E, Part I, Second Schedule of the Ordinance. Therefore, allowing such expenses on actual basis is justified, while the remaining administrative and other indirect expenses have correctly been directed to be prorated. We find no infirmity in the order of the CIR(A) on this issue.

5. Coming to the second issue regarding addition under section 111(1)(c) amounting to Rs.61,540,764/- on account of difference in purchases, we observe that the addition was made by the OIR based on a reconciliation between purchases declared in Sales Tax Returns (Rs.14,241,675,435/-) and Income Tax Return. The taxpayer, however, furnished a detailed reconciliation explaining that certain expenses including courier charges (Rs.524,370/-), utilities (Rs.1,016,392,421/-), and service charges (Rs.59,926,179/-) were incorrectly treated, leading to duplication. The reconciliation demonstrated that total purchases after adjustments amounted to Rs.11,943,158,543/- as per taxpayer, whereas the OIR computed Rs.11,881,617,779/-, resulting in the alleged difference of Rs.61,540,764/-. On perusal, it is evident that the OIR had



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inadvertently deducted certain expenses twice instead of properly adjusting them, thereby creating an artificial difference. The CIR(A) has examined the reconciliation in detail and concluded that the purchases declared by the taxpayer were correct and fully reconciled. We concur with the findings of the CIR(A) that the addition was based on misinterpretation of facts and therefore not sustainable under the law. Accordingly, the deletion of addition under section 117A(c) is upheld. In view of the above discussion, the order of CIR(A) is upheld and the appeal filed by the department is dismissed.



Sd/-

(TARIQ IFTIKHAR AHMED)
MEMBER

Sd/-

(MIAN TAUQEER ASLAM)
CHAIRMAN

Appeal No.	ITA-1597/LB/2023
Date of Order.	2-4-26
TRUE COPY OF ORDER FORWARDED TO	
1. APPELLANT	CIR LTU LOR
2. RESPONDENT	X X T
30/04/26	
ASSISTANT REGISTRAR Appellate Tribunal Inland Revenue Lahore	