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**APPELLATE TRIBUNAL INLAND REVENUE,
LAHORE BENCH, LAHORE.**

ITA No.76/LB/2026
(Tax Year 2021)

M/s. Husnain Textile Mills (Pvt.) Limited., Lahore.
Registration No.2302059

... Appellant

SCAN

Versus

The CIR, LTO, Lahore.

... Respondent

Appellant by : Mr. M. Zafar Iqbal, Advocate.
Respondent by : Ms. Maheen Ali, DR

Date of hearing : 26.03.2026
Date of order : 20.04.2026

ORDER

MIAN TAUQEER ASLAM, CHAIRMAN:- The titled income tax appeal has been preferred by the taxpayer against the appellate order dated 11.12.2025 passed by the learned Commissioner Inland Revenue (Appeals-1), Lahore ("**CIRA**").

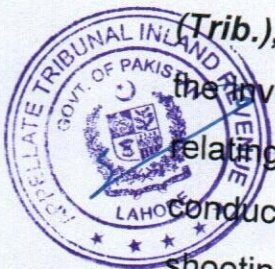
2. Brief facts of the case are that the appellant is a private limited company engaged in the business of textile and related products. The return of income, for the tax year 2021 was e-filed on 30.12.2021 declaring income at Rs.241,087,239 which was a deemed assessment order in terms of section 120 of the Ordinance. The Additional Commissioner Inland Revenue, Zone-III, LTO, Lahore ("**Assessing Officer**") examined the said deemed assessment and found the same as erroneous and prejudicial to the interest of revenue therefore, a show cause notice under section 122(9) read with section 122(5A) of the Ordinance was issued vide barcode No.100000171004023 dated 17.11.2023, subsequent reminders thereof were also issued for detail/documents. In response, the taxpayer filed reply along with relevant details/documents which could not satisfy the respondent, who concluded its findings vide order under section 122(5A) dated 12.09.2024. Being aggrieved, the appellant-taxpayer filed 1st appeal before the learned CIRA who provided partial relief to the taxpayer.

3. Being aggrieved with the order of the learned CIRA, the appellant has filed this appeal before this forum on the grounds as set forth in the memo of appeal.



4. The case was fixed for hearing. The learned AR is contended that the ADCIR has invoked section 122(5A) of the Ordinance without establishing from the available record that the deemed assessment was erroneous as well as prejudicial to the interest of the revenue, the two basics requisites for invoking section 122(5A) of the Ordinance which are missing in this case. He continued that the impugned proceedings were nothing but fishy inquiries to seek information from the taxpayer. The learned AR argued that there was insufficient evidence on record to conclusively establish that the assessment was erroneous or prejudicial to the interest of the revenue. He further submitted that the erroneousness and prejudice to the revenue should be definitive and visible from the order sought to be amended and twin conditions should come from admitted facts and not from disputed facts gathered through roving and fishing inquiries. Reference was made to judgements cited as **2023 SCMR 2084, 2022 PTD 97 (Trib.), 2019 PTD 2162 (Trib.), 1992 PTD 932 (SC), 2014 PTD 1101 (Trib.), 2014 PTD 2085 (Trib.), 2013 PTD 1557 (Trib.), 2013 PTD 900 (Trib.)**. Thus, in this case, the invoking and exercise of jurisdiction of section 122 by asking for details relating to various liabilities such as WPPF, Gratuity etc, tantamount to conducting, fishing and roving inquiry and which is in the nature of audit, shooting into the dark and usurping jurisdiction of audit u/s 177 which is absolutely without jurisdiction and unlawful. Reference was made to judgements cited as **ITA No.2352/LB/2024, 2019 PTD 2162 (Trib.), 2014 PTD 2085 (Trib.), 2013 PTD 900 (Trib.), 2013 PTD 1557 (Trib.)**.

5. On merits of the case, the learned AR vehemently contended that the Assessing Officer has illegally and unlawfully disallowed the admissible deductions claimed under the head of Workers' Profit Participation Fund (WPPF) amounting to Rs.56,068,982. He submitted that such disallowance is misconceived and contrary to law, as the Appellant has consistently adopted the accrual basis of accounting in compliance with Section 32(2) of the Ordinance. He further submitted that, in terms of Section 34(3), a liability is required to be recognized when all events determining such liability have occurred and the amount thereof can be determined with reasonable accuracy. It was contended that the WPPF liability was duly computed and recognized in financial statements in accordance with the provisions of the Companies Profits (Workers' Participation) Act, 1968 after



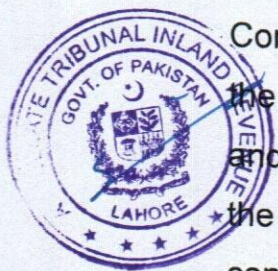
fulfilling all statutory requirements. Accordingly, the disallowance made by the Assessing Officer is illegal, unlawful, and unsustainable in the eyes of law. The AR vehemently asserted that the additions made under the head "Deferred Liabilities" on account of gratuity payable amounting to Rs.8,467,241 under Section 34(3) read with Section 21(e) of the Ordinance are illegal and harsh. The learned AR submitted that the Assessing Officer has erroneously disregarded the fact that the said amount represents genuine liability payable to employees on account of gratuity. He submitted that the appellant made payment to its employees out of the said liability during the relevant period which was also ironically ignored by the assessing officer. The learned AR further submitted that the Assessing Officer has unlawfully and erroneously made an addition of Rs.2,588,312 out of the total claim of Rs.29,023,825 in the return of income on account of "Other Admissible Deductions". It was explained that the said deductions relate to lease rentals of plant and machinery, duly claimed and paid, which include an amount of Rs.2,588,312 on account of interest. He emphasized that the impugned addition is liable to be deleted as the same is not supported by any provision of law.



6. The learned DR, on the other hand, has supported the orders of the authorities below for the reasons recorded therein and has prayed for maintenance of the same.

7. We have heard the rival arguments of both the parties and have perused the record available on file. The primary contention relates to the disallowance of Workers' Profit Participation Fund (WPPF) amounting to Rs.56,068,982/-. The learned AR has argued that the impugned disallowance is illegal, unlawful and contrary to the facts of the case, rendering it *void ab initio*. We have perused the record and find that the learned ADCIR disallowed admissible deductions claimed under this head amounting to Rs.56,068,982 claimed by the appellant under section 60B of the Ordinance. However, the ADCIR has ignored the fact that the appellant adopted the accrual basis of accounting to comply with section 32(2), and section 34(3) of the Ordinance which mandates the recognition of liability when all events determining that liability have occurred and the amount can be determined with reasonable accuracy. It has been contended that the WPPF liability was computed in accordance with the provisions of the

Companies Profits (Workers' Participation) Act, 1968 and the said amount was duly declared and disclosed as payable in the audited accounts of the appellant as on 30.06.2022. It is legal obligation of the taxpayer to distribute the fund amongst workers within due time as per the provisions of the Companies Profits (Workers' Participation) Act, 1968 and the taxpayer has paid the same within due course of time. In this respect, relevant documents were submitted during proceedings but unfortunately the same were ignored when passing the impugned order. The issue of admissibility of WWF as a deduction on accrual basis under section 60A of the Ordinance 2001 has already been clarified by the FBR vide its Circular No.1 of 2004 dated 03.01.2004. It is settled principle of law that WWF/WPPF are admissible deductions on accrual basis in respect of the taxpayers who are maintaining their accounts on accrual (mercantile) system of accounting. Moreover, the taxpayer distributed the funds among its workers relevant to the tax year under consideration in accordance with the provisions of the Companies Profits (Workers' Participation) Act, 1968. We have examined the payments proofs and noticed the declaration of the taxpayer is in order and well founded. Since the appellant computed WPPF in accordance with the provisions of the Companies Profits (Workers' Participation) Act, 1968, considering all relevant requirements and recognized liability and related admissible expense in accordance with section 32(2) and section 34(3) of the Ordinance, therefore, we conclude that the disallowance on this issue is illegal and against the facts of the case, hence deleted.

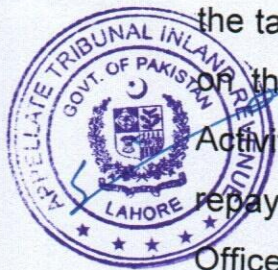


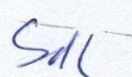
8. The AR of the appellant also vehemently argued with regard to the addition made under the head "Deferred Liabilities" amounting to Rs.8,467,241 on account of gratuity payable to employees under Section 34(3) read with Section 21(e) of the Ordinance. We have observed that the Assessing Officer treated the same as inadmissible expense without properly appreciating the nature of the liability and the payment made by the appellant. The record indicates that the said amount represents legitimate payables to its employees on account of gratuity and payments of Rs.4,874,726 were made during the relevant period against said liabilities (Reference to Note No.14.2 of the Audited Accounts). Upon careful examination of the financial statements and relevant records, we are satisfied that the payments to the extent of Rs.4,874,726 have been made

by the appellant to its employees which is an admissible deduction. It is a settled principle of law that gratuity expenses shall be allowed on payment basis in accordance with the provisions of Income Tax Ordinance 2001 and judgments of superior courts. Accordingly, the appellant is hereby allowed deduction to the extent of gratuity paid to its employees.

9. The other argument raised by the learned AR was about the addition of Rs.2,588,312 made under the head "Other Admissible Deductions" out of the total claim of Rs.29,023,825 on account of lease rental claimed as deduction in the income tax return in view of section 28(1)(b) of the Ordinance. We have observed that the appellant has appropriately added back accounting depreciation and markup accrued on leased assets as "inadmissible deductions" while simultaneously claiming lease rentals comprising both principal and markup components of leased assets as "admissible deductions" in accordance with section 28(1)(b) of the Ordinance. We have also observed that the Assessing Officer disallowed the taxpayer's claim of markup amounting to Rs.2,588,312, placing reliance on the cash flow statement under the head "Cash Flow from Financing Activities," wherein an amount of Rs.26,435,513 was reflected as repayment of principal amount of lease liabilities. However, the Assessing Officer has ignored the corresponding markup of Rs.2,588,306 duly disclosed under the head "Cash Generated from Operating Activities" (Note No. 32 of the financial statements). In our considered view, the Assessing Officer has failed to properly examine the financial statements in conjunction with the income tax return in the light of section 28(1)(b) of the Ordinance. Lease rental paid by the appellant during the year is an admissible deduction as per section 28(1)(b) of the Ordinance. The impugned addition has been made without due appreciation of the relevant record and applicable legal provisions and is, therefore, not sustainable in the eyes of law. Accordingly, the addition made under this head is hereby deleted.

10. In light of the foregoing discussion, the appeal filed by the Appellant is disposed of in the manner discussed hereinabove.




(TARIQ IFTIKHAR AHMED)
MEMBER


(MIAN TAUQEEER ASLAM)
CHAIRMAN