



# TAX UPDATE

*An Update on*  
***Taxability of Salary***

*Under the Income Tax Ordinance, 2001 & Income Tax Rules, 2002  
(Applicable w.e.f. July 1, 2017, as amended vide the Finance Act, 2017)*



## Table of contents

	Page
What this document aims at?	1
Significant changes vide the Finance Act, 2017	1
Exempt allowances & benefits	2
Taxable allowances & benefits	2
Allowable deductions	3
Tax credits	4
Exemption limit	4
Tax rates	4
Reduction in tax liability	4
Annual return & wealth statement	5
Worked examples – tax liability at various taxable income levels	5

## What this document aims at?

The purpose of this document is to briefly summarize the concept of computation of income from salary and computation of tax thereon under the Income Tax Ordinance, 2001 and Income Tax Rules, 2002, taking into account the amendments vide the Finance Act, 2017 (the Act).

The information and elaborations as contained herein are general in nature and based on our interpretation of the applicable statute and significant amendments vide the Act, becoming effective for the Tax Year 2018.

As such nothing contained herein should be taken as legal advice in a given case and Tariq Abdul Ghani Maqbool & Co. does not accept any responsibility for any loss arising from any action taken or not taken based on this document.

July 1, 2017

## Significant changes vide the Finance Act, 2017

### Relief Measures

*Deemed income on concessional loan* to employees not to be computed for loans up to Rs.1,000,000. The ceiling was Rs.500,000 till June 2017. Further, the *benchmark rate* for computing such deemed income remain the same i.e. 10%.

Increased threshold of taxable income to Rs.1,500,000 from existing Rs.1,000,000 for *Deductible allowance for educational expenses* allowed to individual in respect of children tuition fee.

Monetary Limits for *tax credit in respect of investment in health insurance* has been increased to Rs.150,000 from existing Rs.100,000.

Investments in Sukuks offered by the public listed company now also eligible for *tax credit under investment in shares and life insurance premia*, where investment is made in such Sukuk by residents in their capacity original allottees.

## Exempt allowances & benefits

Description	Condition/ Limit
<b>Medical benefit or reimbursement*</b>	Medical facility or hospital charges* are fully exempt, if provided in accordance with the terms of employment. * Exemption is available only when NTN of the hospital or clinic is disclosed and the employer certifies and attests the bills.
<b>Medical Allowance (without medical facility)</b>	Exempt up to 10% of basic salary.
<b>Special allowance or benefit (other than entertainment or conveyance allowance)</b>	If granted to meet expenses wholly and necessarily incurred in the performance of duties is fully exempt.
<b>Employer's contribution to provident fund</b>	Exempt up to lower of Rs.150,000 and 10% of salary, such that the amount does not exceed employee's contributions.
<b>Gratuity/ superannuation/ Commutation of Pension (received in Pakistan by residents)</b>	<b>On retirement/ death</b>
	<b>Receipts from</b>
	<b>Treatment</b>
	<b>Approved Funds</b> Fully Exempt
	<b>Approved Schemes</b> Exempt up to Rs.300,000
	<b>Other cases</b>
	Exempt up to lower of 50% of the amount or Rs. 75,000. Residual amount to be taxed at the current rate of tax.
<b>Pension</b>	Fully exempt, where the person does not continue to work for the same employer or an associate of the employer. In case of pensions from more than one source, the pension representing the highest amount would be exempt.

## Taxable allowances & benefits

Few of the prominent and common items in this list include:

Description	Remarks
<b>Utilities allowance (water, gas, electricity allowance)</b>	Fully Taxable
<b>House rent allowance</b>	Fully Taxable
<b>Accommodation (whether furnished or not)</b>	45% of basic salary to be included in taxable salary.
<b>Leave fare assistance</b>	Fully Taxable
<b>Salary of domestic servant (house-keeper, gardener, etc.)</b>	Fully Taxable
<b>Capital receipt on termination of employment</b>	Fully chargeable to tax
<b>Tax paid by the employer</b>	Salary is to be grossed-up by tax paid by the employer on behalf of the employee.
<b>Interest-free loans to employees or loans at concessional rates</b>	The concession, being the difference between the <b>benchmark rate</b> and the lower rate charged, is taxable. The benchmark rate has been fixed at 10% w.e.f July 1, 2012. However, the concession is not taxable in case: a. the amount of loan is up to Rs.1,000,000; or b. where the employee waives interest on his account with the employer.
<b>Conveyance allowance</b>	Fully taxable
<b>Motor vehicle (owned and maintained by employer)</b>	<b>Partly for private use:</b> Taxable at 5% of cost/ FMV at the time of commencement of lease. <b>Wholly for private use:</b> Taxable at 10% of cost/ FMV at the time of commencement of lease.

### Taxable allowances & benefits (Contd.)

Description	Remarks
Waiver of loan by the employer	Fully taxable
Discharge of debt by employer	Fully taxable
Transfer of assets or property	To be included in income of the employee at fair market value less value of consideration paid.
Employee share scheme	<p><b>Value of right/ option</b> under an Employee Share Scheme is not chargeable to tax until:</p> <p>(a) the right/ option is disposed; or</p> <p>(b) shares are acquired.</p> <p><b>Amount taxable against disposal of right/ option</b> is the difference between:</p> <p>(a) consideration for right/ option; and</p> <p>(b) cost in respect of said right/ option.</p> <p><b>Amount taxable at acquisition of shares</b> is difference between:</p> <p>(a) fair value of shares; and</p> <p>(b) sum paid against acquisition of shares.</p> <p>If shares acquired are under restriction as to transfer, the amount is taxable only at the earlier of:</p> <p>(a) acquisition of transfer rights; or</p> <p>(b) at the time of actual disposal of shares.</p>

**Allowable deductions** The following payments are exempt from tax by way of reduction of taxable income:

Description	Eligibility Criteria	Limit
Donations	Paid to institutions, foundations, societies, boards, trusts and funds as per Clause (61) Part-I of 2nd Schedule to the Income Tax Ordinance	Up to 30% of taxable income
Zakat	Paid or deducted under the Zakat and Ushr Ordinance	100% (i.e. the full amount of zakat)
Profit on debt	Paid on loan acquired for purchase or construction of house – <b>Note1</b>	Lower of 50% of taxable income or Rs. 2 Million
Education expenses	On tuition fees paid to educational institution - <b>Note2</b>	Lower of 5% of total tuition fee 25% of taxable income or Rs. 60,000 x no. of children

**Note1:** Profit on debt means profit/ share in rent and appreciation in value of house paid to banks, financial institutions, government, local authority, statutory body or listed company. This implies that loan from employer is also covered if it is a listed company or statutory body.

**Note2:** The deduction of allowance is restricted to individual having taxable income up to Rs. 1,500,000. The deduction is allowed upon furnishing of NTN or name of educational institution.

### Tax credits

Certain tax credits are also available against specified items as per the following formulae:

$$\text{Applicable Amount} * \times \frac{\text{Tax before allowing tax credit(s)}}{\text{Taxable income for the tax year}}$$

Specified Items for Tax Credit					
* Applicable Amount (lower of)	Charitable donations - <b>Note1</b>	Investment in shares & Insurance premium - <b>Note2</b>	Investment in health Insurance - <b>Note3</b>	Contribution to approved pension fund	Profit on debt on loans for purchase or construction of house - <b>Note5</b>
	Amount of donation or fair value of property donated	Cost of acquisition or premium/ contribution	Cost of premium or contribution	Actual annual contribution made	Amount paid
		20% of taxable income	5% of taxable income		50% of taxable income
	30% of taxable income	Rs. 1,500,000/-	Rs. 150,000/-	20% of taxable income - <b>Note4</b>	Rs. 750,000/-

**Note1:** Includes donations not covered under 2<sup>nd</sup> Schedule if made to:

- local education boards/ universities established under Federal/ Provincial law;
- educational institution/ hospital/ relief fund established/ run in Pakistan by Federal/ Provincial Govt. or local authority; or
- approved non-profit organizations.

**Note2:** In case of **investments**, the entitlement is restricted to original allottees of listed shares and acquisition of shares from the Privatization Commission of Pakistan and issuance of sukuks by public listed companies and being held for a period of 24 months. In case of **insurance premium**, the benefit is restricted to life insurance premium paid to insurance companies registered with SECP.

**Note3:** The benefit is restricted to resident person being filer and health insurance premium paid to insurance companies registered with SECP.

**Note4:** Additional contribution allowed to persons joining a fund up to June 30, 2016, if the age at joining is 41yrs or above. The said additional contribution is allowed at 2% for each year exceeding the age of 40 years such that the applicable amount does not exceed 50% of last year's taxable income. The further 2% additional contribution is allowed upto June 30, 2019 provided that contribution amount does not exceed 30% of last year's taxable income.

**Note4:** Profit on debt means profit/ share in rent and appreciation in value of house paid to banks, financial institutions, government, local authority, statutory body or listed company. This implies that loan from employer is also covered if it is a listed company or statutory body.

### Exemption limit

Income up to **Rs. 400,000** is exempt from tax.

### Tax rates

Taxable Income (Rs.)		Rate of Tax	
From	To		
Up to 400,000		0%	
400,001	500,000	2,000	2% of the amount exceeding Rs. 400,000
500,001	750,000	14,500	5% of the amount exceeding Rs. 500,000
750,001	1,400,000	79,500	10% of the amount exceeding Rs. 750,000
1,400,001	1,500,000	92,000	12.5% of the amount exceeding Rs. 1,400,000
1,500,001	1,800,000	137,000	15% of the amount exceeding Rs. 1,500,000
1,800,001	2,500,000	259,500	17.5% of the amount exceeding Rs. 1,800,000
2,500,001	3,000,000	359,500	20% of the amount exceeding Rs. 2,500,000
3,000,001	3,500,000	472,000	22.5% of the amount exceeding Rs. 2,500,000
3,500,001	4,000,000	597,000	25% of the amount exceeding Rs. 3,500,000
4,000,001	7,000,000	1,422,000	27.5% of the amount exceeding Rs. 4,000,000
Above 7,000,000			30% of the amount exceeding Rs. 7,000,000

### Reduction in tax liability

Applicability	Rate of Reduction	Eligibility criteria
Senior citizens	50%	Age to be 60 yrs or more on the first day of tax year and income does not exceed Rs.1,000,000/-
Disabled person		Holding a CNIC for disabled persons and income does not exceed Rs.1,000,000/-
Full time teachers & researchers	40%	Employed in a recognized non profit education or research institution (including government training & research institutions)

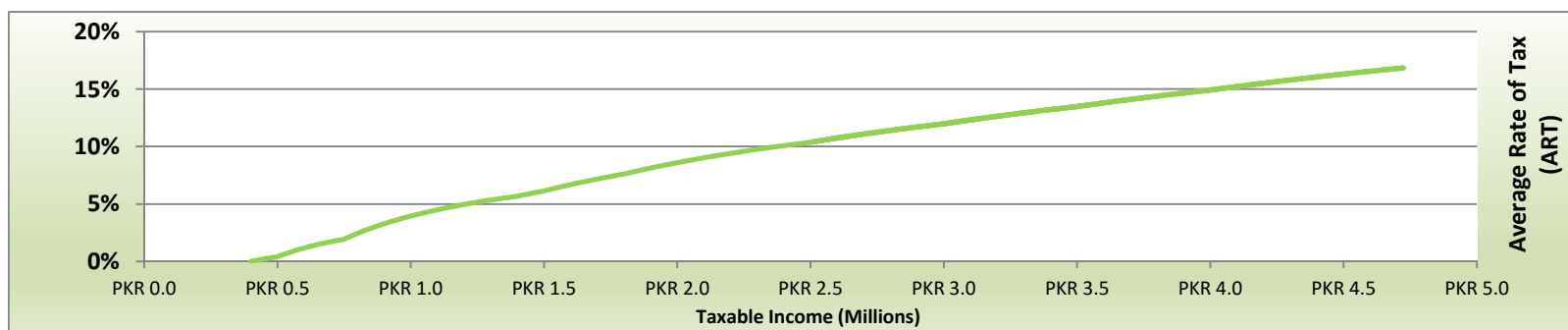
### Annual return & wealth statement

Case	Filing Requirement	Timeline for Filing
Where salary income is <b>less than Rs.400,000</b> and there is <b>no other source of income</b>	No need for any tax filing, since the Annual Statement filed by the employer constitutes the tax return	N/A
Where salary income is <b>less than Rs.500,000</b> and the taxpayer also has income/ loss from any other source	The taxpayer needs to file annual tax return and a wealth statement	30 <sup>th</sup> day of September falling next to the tax year
Where salary income exceeds <b>Rs. 400,000</b> (irrespective of the fact whether or not there are some other income sources)	The taxpayer needs to <b>*electronically file</b> the annual tax return along with a wealth statement	31 <sup>st</sup> day of August falling next to the tax year

**\*Note:** The condition of filing of return in case of salary income **Rs. 500,000 or more** is not applicable vide SRO 791(I)/2015 dated August 10, 2015 from tax year 2015 and onwards.

### Worked examples – tax liability at various taxable income levels

Taxable Income	Tax Payable	
	Amount	ART
<b>Rupees</b>	<b>Rupees</b>	
400,000	0	0.00%
500,000	2,000	0.40%
600,000	7,000	1.17%
750,000	14,500	1.93%
755,000	15,000	1.99%
1,100,000	49,500	4.50%
1,300,000	69,500	5.35%
1,500,000	92,000	6.13%
1,600,000	107,000	6.69%
1,800,000	137,000	7.61%
2,000,000	172,000	8.60%
2,010,000	173,750	8.64%
2,250,000	215,750	9.59%
2,500,000	259,500	10.38%
2,525,000	264,500	10.48%
2,575,000	274,500	10.66%
3,400,000	449,500	13.22%
3,500,000	472,000	13.49%
4,000,000	597,000	14.93%
4,550,000	748,250	16.45%



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