

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 (the Ordinance) and Income Tax Rules, 2002, taking into account the amendments vide the Finance Act, 2019 (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 from July 01, 2019 – i.e. for the Tax Year 2020.

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.

FINANCE ACT, 2019 | SIGNIFICANT CHANGES

- a. Increase in tax burden on individuals, including salaried individuals.
- b. Minimum threshold of salary component in total income increased from 50% to 75% for taxation as salaried individual.

EXEMPT ALLOWANCES & BENEFITS

Description	Condition/ Limit				
Medical benefit or reimbursement	Medical facility or hospital charges are fully exempt , if provided in accordance with the terms of employment. Note: Exemption is available only when NTN of the hospital or clinic is disclosed and the employer certifies and attests the bills.				
Medical Allowance without any medical facility	Exempt up to 10% of basic salary.				
Special allowance or benefit Other than entertainment or conveyance allowance	Fully exempt , if granted to meet expenses wholly and necessarily incurred in the performance of duties.				
Employer's contribution to provident fund	Exempt up to lower of Rs.150,000 and 10% of salary, such that the amount does not exceed employee's contributions.				
Gratuity/ superannuation/ Commutation of Pension Received in Pakistan by residents	On retirement/ death				
	<table border="1"> <thead> <tr> <th>Receipts from Approved Funds</th> <th>Treatment</th> </tr> </thead> <tbody> <tr> <td>Approved Schemes</td> <td>Exempt up to Rs.300,000</td> </tr> </tbody> </table>	Receipts from Approved Funds	Treatment	Approved Schemes	Exempt up to Rs.300,000
	Receipts from Approved Funds	Treatment			
Approved Schemes	Exempt up to Rs.300,000				
Other cases					
	Exempt up to lower of 50% of the amount or Rs. 75,000. Residual amount to be taxed at the current rate of tax.				
Pension	Fully exempt, where the person does not continue to work for the same employer or an associate of the employer. Note: 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/ common items in this list include:

Description	Remarks
Utilities allowance Water, gas, electricity	Fully Taxable.
House rent allowance	Fully Taxable.
Accommodation Whether furnished or not	45% of basic salary to be included in taxable salary.
Leave fare assistance	Fully Taxable.
Salary of domestic servant House-keeper, gardener, etc.	Fully Taxable.
Capital receipt on termination of employment	Fully Taxable.
Tax paid by the employer	Fully taxable – salary is to be grossed-up by tax paid by the employer on behalf of the employee.
Interest-free loans to employees or loans at concessional rates	The difference between benchmark rate and the rate charged (if lower) is taxable. The benchmark rate has been fixed at 10% w.e.f. July 1, 2012. 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.
Conveyance allowance	Fully Taxable.
Motor vehicle Owned and maintained by employer	Partly for private use
	Taxable at 5% of cost or 5% FMV in case of lease.
	Wholly for private use
	Taxable at 10% of cost or 10% FMV in case of lease.

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	Value of right/ option
	Not chargeable to tax until: a. the right/ option is disposed; b. shares are acquired.
	Disposal of right/ option
	The difference between 'a.' & 'b.' is chargeable to tax: a. consideration for right/ option; b. cost in respect of said right/ option.
	Acquisition of shares
	The difference between 'a.' & 'b.' is chargeable to tax: a. fair value of shares; b. sum paid against acquisition of shares.
	Shares acquired under transfer restriction
	Amount is taxable at the earlier of: a. acquisition of transfer rights; b. at the time of actual disposal of shares.

ALLOWABLE DEDUCTIONS

Payments exempt from tax by reduction of taxable income:

Description	Criteria	Limit
Donations	To NPOs as per Clause (61) Part-I of 2nd Sched. to the Ordinance	Up to 30% of taxable income.
Zakat	Under the Zakat & Ushr Ordinance	100% (i.e. the full amount of zakat).
Profit on debt	Paid on loan acquired for purchase or construction of house Note1	Lower of: a. 50% of taxable income; and b. Rs. 2 Million
Education expenses	On tuition fees paid to educational institution Note2	Lower of: a. 5% of total tuition fee; b. 25% of taxable income; and c. 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 individuals having annual taxable income up to Rs.1,500,000. The deduction is allowed upon furnishing of NTN or name of educational institution.

TAX CREDITS

Tax Credits are available against Specified Items.

Applicable Amount*	Tax before allowing any Tax Credit(s)	
	Taxable Income for the Tax Year	
Specified Items	*Applicable Amount	
	Lower of:	
Charitable Donations Note 1	Amount of donation OR Fair value of donated property	30% of Taxable Income
Investment in Shares & Insurance Premium Note 2	Cost of shares acquired or Premium paid	20% of Taxable Income Rs.2,000,000
Health Insurance Premium Note 3	Premium/ contribution paid	5% of Taxable Income Rs. 150,000
Contribution to Approved Pension Fund	Amount Contributed	20% of Taxable Income Note 4

Note1 | Donations to (i) Federal or provincial education board or university in Pakistan, (ii) Federal, provincial or local govt. educational institution, hospital or relief fund, and (iii) NPOs other than those covered u/c (61) of 2nd Schedule Part I of the Ordinance.

Note2 | For **Investments**, the entitlement is restricted to original allottees of listed shares, share acquisition from Privatization Commission and issuance of sukuk by public listed companies with min holding period of 24 months. For **Insurance Premium**, the benefit is restricted to life insurance premium of taxpayer.

Note3 | The benefit is restricted to resident person being filer (i.e. borne on Active Taxpayers List) and health insurance premium is 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 up to June 30, 2019 provided that contribution amount does not exceed 30% of last year's taxable income.

TAX RATES | Where at least 75% of Total Income is Salary

Exemption limit Income up to Rs. 600,000			
Taxable Income		Rate of Tax	
From	To		
Up to 600,000		0%	
600,000	1,200,000	5% on amount exceeding Rs. 600,000	
1,200,001	1,800,000	30,000	P.L.U.S
1,800,001	2,500,000	90,000	
2,500,001	3,500,000	195,000	
3,500,001	5,000,000	370,000	
5,000,001	8,000,000	670,000	
8,000,001	12,000,000	1,345,000	
12,000,001	30,000,000	2,345,000	
30,000,001	50,000,000	7,295,000	
50,000,001	75,000,000	13,295,000	
Above 75,000,000		21,420,000	
		10% on amount exceeding Rs. 1,200,000	
		15% on amount exceeding Rs. 1,800,000	
		17.5% on amount exceeding Rs. 2,500,000	
		20% on amount exceeding Rs. 3,500,000	
		22.5% on amount exceeding Rs. 5,000,000	
		25% on amount exceeding Rs. 8,000,000	
		27.5% on amount exceeding Rs. 12,000,000	
		30% on amount exceeding Rs. 30,000,000	
		32.5% on amount exceeding Rs. 50,000,000	
		35% on amount exceeding Rs. 75,000,000	

REDUCTION IN TAX LIABILITY

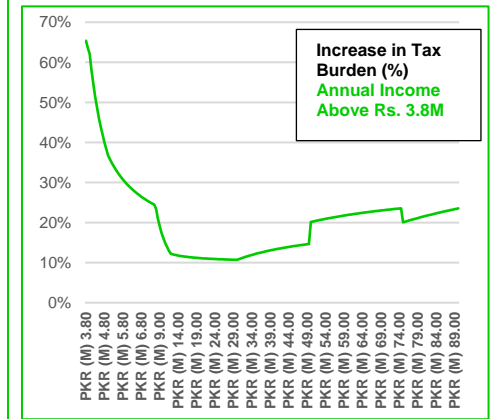
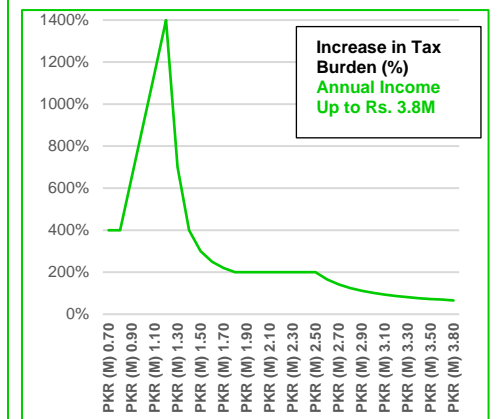
Applicability	Red. Rate	Eligibility criteria
Senior citizens	50%	Age to be 60 yrs or more at beginning of tax year & income is up to Rs.1M
Disabled persons		Holding a CNIC for disabled persons & income is up to Rs.1M
Full time teachers & researchers	25%	Employed in HEC recognized non-profit education or research institutions, including government research institutions. Exclusion Teachers of Medical Profession who are also engaged in private practice or receive share of consideration from patients.

FILING OF RETURN

Income tax return along with wealth statement and wealth reconciliation to be filed by 30th day of September each year.

TAX BURDEN COMPARED

Tax Year 2020 vs Tax Year 2019



REACH US AT...

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