

ABOUT THIS WRITE-UP

The purpose of this write-up 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, 2022 (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, 2022 – i.e., for the Tax Year 2023.

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, 2022 | SIGNIFICANT CHANGES

- a. Tax burden for income below Rs. 2.9M has been reduced, whereas the burden increases above this income point.
- b. Profit on debt paid on loans acquired for purchase or construction of house no more deductible from taxable income;
- c. Tax credits on investment in shares and sukus issued by listed companies and investment in mutual funds no more available;
- d. Tax credits on life and health insurance premium abolished.

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	2.5% on amount exceeding Rs.600,000	
1,200,001	2,400,000	15,000	12.5% on amount exceeding Rs.1,200,000
2,400,001	3,600,000	165,000	20% on amount exceeding Rs.2,400,000
3,600,001	6,000,000	405,000	25% on amount exceeding Rs.3,600,000
6,000,001	12,000,000	1,005,000	32.5% on amount exceeding Rs.6,000,000
Above 12,000,000		2,955,000	35% on amount exceeding Rs.12,000,000

EXEMPT ALLOWANCES & BENEFITS

Description	Condition/ Limit					
Medical benefit or reimbursement	Medical facility or hospital charges are <b>fully exempt</b> , if provided in accordance with the terms of employment. <b>Note</b>   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	<b>Fully exempt</b> , 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	<b>On retirement/ death</b>					
	<table border="1"> <thead> <tr> <th>Receipts from</th> <th>Treatment</th> </tr> </thead> <tbody> <tr> <td>Approved Funds</td> <td>Fully Exempt</td> </tr> <tr> <td>Approved Schemes</td> <td>Exempt up to Rs.300,000</td> </tr> </tbody> </table>	Receipts from	Treatment	Approved Funds	Fully Exempt	Approved Schemes
Receipts from	Treatment					
Approved Funds	Fully Exempt					
Approved Schemes	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.					
Pension	Fully exempt, where the person does not continue to work for the same employer or an associate of the employer. <b>Note</b>   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	<p><b>Partly for private use</b> Taxable at 5% of cost or 5% FMV in case of lease.</p> <p><b>Wholly for private use</b> Taxable at 10% of cost or 10% FMV in case of lease.</p>
Waiver of loan by the employer	Fully Taxable.

Description	Remarks
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	<b>Value of right/ option</b> Not chargeable to tax until: a. the right/ option is disposed; b. shares are acquired.
	<b>Disposal of right/ option</b> The difference between 'a.' & 'b.' is chargeable to tax: a. consideration for right/ option; b. cost in respect of right/ option.
	<b>Acquisition of shares</b> The difference between 'a.' & 'b.' is chargeable to tax: a. fair value of shares; b. sum paid against acquisition of shares.
	<b>Shares acquired under transfer restriction</b> 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
Zakat	Under the Zakat & Ushr Ordinance	100% (i.e. the full amount of zakat).
Education expenses	On tuition fees paid to educational institution   <b>Note</b>	Lower of: a. 5% of total tuition fee; b. 25% of taxable income; c. Rs. 60,000 x No. of children

**Note** | 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

$$\text{Applicable Amount}^* \times \frac{\text{Tax before allowing any Tax Credit(s)}}{\text{Taxable Income for the Tax Year}}$$

Specified Items	*Applicable Amount	
	Lower of:	
Charitable Donations   <b>Note</b>	Amount of donation OR Fair value of donated property	30% of Taxable Income
Contribution to Approved Pension Fund	Amount Contributed	20% of Taxable Income

**Note** | Donations to (i) Federal or provincial education board or university in Pakistan, (ii) Federal, provincial or local govt. educational institution, hospital or relief fund, (iii) NPOs and (iv) entities, organizations and funds as per 13<sup>th</sup> Schedule of the Ordinance.

ADJUSTMENT FOR ADVANCE TAX(ES)

Employers to give benefit for any advance tax(es) paid by/ collected from employees on heads other than salary.

**Examples** taxes paid/ collected on bank/ credit card transactions | vehicle purchase/ transfer/ annual renewals, domestic electricity bill | property purchase/ sale/ transfer | telephone/ mobile/ internet.

REDUCTION IN TAX LIABILITY

Applicability	Red. Rate	Eligibility criteria
Full time teachers & researchers	25%	Employed in non-profit education/ research institution recognized by HEC, a Board of Education or a University recognized by HEC, including government research institutions. <b>Exclusion</b>   Teachers of Medical Profession who are also engaged in private practice or receive share of consideration from patients.

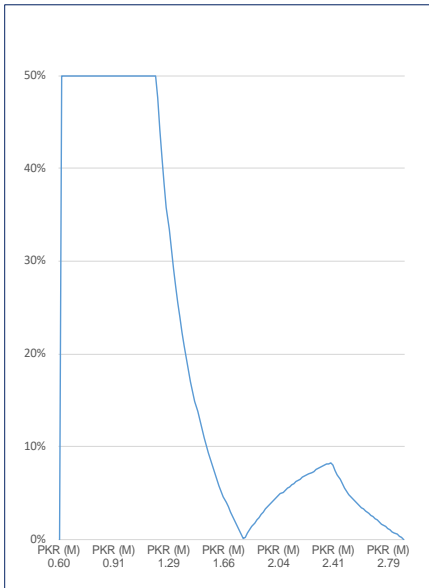
FILING OF RETURN

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

REACH US AT...

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Annual Income below Rs. 2.9M  
Tax Relief (%) vs Tax Year 2022



Annual Income Above Rs. 2.9M  
Incremental Tax Burden (%) vs Tax Year 2022

