



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

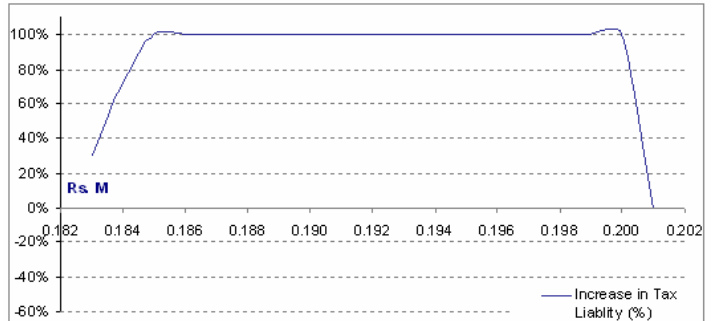
*Under the Income Tax Ordinance, 2001  
& Income Tax Rules, 2002*

*(Applicable w.e.f. July 1, 2008)*

**Relief  
Measures**

**Basic Exemption Limit** increased to Rs.180,000, however, there is hardly any favor for lower tax bracket cases since there is a considerable increase in tax liability for such cases

Basic exemption limit raised to Rs. 240,000 for salaried **Women Taxpayers**;



The concept of treatment for **Marginal limits** is introduced, whereby incremental tax liability due to the marginal excess of income over a slab will be restricted to specified limits;

Maximum limit for **cash salaries** has been raised to Rs.15,000 per month.

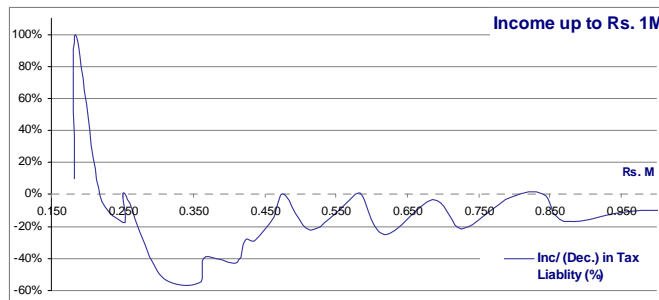
**Revenue  
Measures**

**Tax credit limit for donations reduced** to 10% of taxable income;

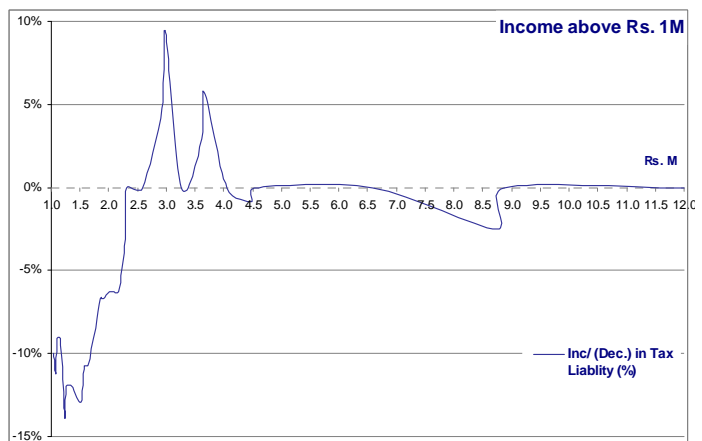
Tax-free limit of employers' contribution to **Provident Fund** restricted to Rs. 100,000;

Contributions payable to an employee from **Approved Superannuation Funds** during his lifetime, other than commutations, to be taxed at current rate of tax instead of the average rate for previous 3 years.

**Analysis of  
Increase/  
Decrease  
in Tax  
Liability**



While a trend of decrease in effective tax incidence may be noted in general, there has been a significant increase in tax burden for lower salary bracket cases.





## An Update on Taxability of Salary

Under the Income Tax Ordinance, 2001  
& Income Tax Rules, 2002

(Applicable w.e.f. July 1, 2008)

### Exemption Limit for Salaried Cases

Women Taxpayers	Rs. 240,000
Others	Rs. 180,000

### Tax Rates for Salaried Cases

Taxable Income (Rupees)		Rate of Tax (%)	Marginal Limit (Rupees)
From	To		
180,001	250,000	0.50%	184,615
250,001	350,000	0.75%	253,247
350,001	400,000	1.50%	364,189
400,001	450,000	2.50%	422,857
450,001	550,000	3.50%	477,273
550,001	650,000	4.50%	585,484
650,001	750,000	6.00%	719,643
750,001	900,000	7.50%	840,000
900,001	1,050,000	9.00%	1,022,727
1,050,001	1,200,000	10.00%	1,102,500
1,200,001	1,450,000	11.00%	1,263,158
1,450,001	1,700,000	12.50%	1,574,286
1,700,001	1,950,000	14.00%	1,859,375
1,950,001	2,250,000	15.00%	2,080,000
2,250,001	2,850,000	16.00%	2,316,176
2,850,001	3,550,000	17.50%	2,981,538
3,550,001	4,450,000	18.50%	3,662,698
4,450,001	8,650,000	19.00%	4,521,774
Above 8,650,000		20.00%	8,866,250

**NOTE1:** The above *rates are to be applied directly to the taxable (Gross) salary* without deducting the basic exemption amount.

**NOTE2:** *Marginal Limit* (or the Marginal Amount) represents such amount of Taxable Income in respective slabs up to which relief is available as per following criteria:

### Treatment of Marginal Limits (Where Income Marginally Exceeds Max Limit in a Slab)

Taxable Income (Rupees)	Tax Liability	
	On the Maximum Amount of the Previous Slab	On the Marginal Amount
Up to 0.50 M		20%
Up to 1.05 M	As per	30%
Up to 2.00 M	Respective	40%
Up to 4.45 M	Slab Rates	50%
Above 4.45 M		60%

### 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.400,000/-
Full time teachers & researchers	75%	Employed in a recognized non profit education or research institution, including government training & research institutions and officers posted in government training institutions

### 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 also 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.100,000 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>	<table border="1"> <thead> <tr> <th colspan="2">On retirement/ death</th> </tr> <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.200,000</td> </tr> <tr> <th colspan="2">Other cases</th> </tr> <tr> <td colspan="2">Exempt up to lower of 50% of the amount or Rs. 75,000. Residual amount to be taxed at the current rate of tax.</td> </tr> </tbody> </table>	On retirement/ death		Receipts from	Treatment	Approved Funds	Fully Exempt	Approved Schemes	Exempt up to Rs.200,000	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.	
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### Pension

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.



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### Taxable Allowances & Benefits

All allowances and benefits other than the above are fully taxable. Few of the prominent and common items in this list include:

Description	Remarks
<b>Utilities</b> (water, gas, electricity allowance)	Fully Taxable
<b>House rent allowance</b>	Fully Taxable
<b>Leave Fare Assistance</b>	Fully Taxable
<b>Accommodation</b> (whether furnished or not)	45% of basic salary to be included in taxable salary
<b>Salary of domestic servant</b> (house-keeper, gardener, etc.)	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 the amount of tax paid by the employer on behalf of the employee.
<b>Employee share scheme</b>	<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) the consideration of 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 right/ option and the shares.</p> <p>If shares acquired are under restriction as to transfer, the amount is includable only at the earlier of:</p> <p>(a) acquisition of free right to transfer; or</p> <p>(b) time of actual disposal of shares.</p>
<b>Interest-free loans to employees or loans at concessional rates</b>	Taxable at the difference between the <b>benchmark rate</b> and the rate charged. The rate was fixed at 5% for the tax year 2003 with 1% annual increment until notification by the Federal Government. Thus the <b>rate for tax year 2009 is 11%</b> .
<b>Waiver of loan by the employer</b>	Fully taxable
<b>Discharge of debt by employer</b>	Fully taxable
<b>Transfer of assets or property</b>	To be included in income of the employee at fair market value less value of consideration paid.

### Taxable Allowances & Benefits

Description	Remarks																						
<b>Conveyance allowance</b> (all types and cases)	Fully taxable																						
<b>Motor vehicle</b> (maintained by employer)	<p><b>Partly for private use</b> Taxable at 5% of cost/ FMV at the time of commencement of lease.</p> <p><b>Wholly for private use</b> Taxable at 10% of cost/ FMV at the time of commencement of lease.</p>																						
Salary cases are principally covered under the final tax scheme; however, certain <b>EXEMPTIONS/ DEDUCTIONS</b> are available:																							
<b>Donations</b> to institutions, foundations, societies, boards, trusts and funds as per Clause (61) Part-I of 2nd Schedule to the Ordinance are deductible from taxable income up to a limit of 30% of taxable income.																							
<b>Zakat paid</b> in a tax year under the Zakat and Ushr Ordinance, 1980 is deductible from taxable income.																							
Certain <b>TAX CREDITS</b> are also available against specified items as per the following formulae:																							
$\text{Applicable Amount} * \times \frac{\text{Tax before allowance of tax credit(s)}}{\text{Taxable income for the tax year}}$																							
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<b>Note1:</b> Includes donations not covered under 2 <sup>nd</sup> Schedule if made to (i) local education boards/ universities established under Federal/ Provincial law, (ii) educational institution/ hospital/ relief fund established/ run in Pakistan by Federal/ Provincial Govt. or local authority, or (iii) approved non-profit organizations.																							
<b>Note2:</b> Entitlement is restricted to original allotments and acquisition of shares from the Privatization Commission of Pakistan.																							
<b>Note3:</b> Additional contribution allowed to persons joining a fund up to Jan 26, 2015 (first 10yrs from the date of related notification) if the age at joining is 41yrs or above @ 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.																							
<b>Note4:</b> 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.																							



# TAX UPDATE

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 & Income Tax Rules, 2002  
 (Applicable w.e.f. July 1, 2008)

## Worked Examples - Computation of Tax for the Tax Year 2009

Case	Gross Salary (Including taxable allowances & perquisites) Amount (Rs.)	Tax Liability							
		Without Considering Marginal Limit (A)		Considering Marginal Limit				Total (B)	Lower of (A) and (B)
		Rate	Amount (Rs.)	Maximum Tax on Previous Slab	Tax on Marginal Amount	Rate	Amount (Rs.)		
1	182,500	0.50%	913	0.00%	-	20%	500	500	500
2	184,615	0.50%	923	0.00%	-	20%	923	923	923
3	217,500	0.50%	1,088	0.00%	-	20%	7,500	7,500	1,088
4	251,500	0.75%	1,886	0.50%	1,250	20%	300	1,550	1,550
5	253,247	0.75%	1,899	0.50%	1,250	20%	649	1,899	1,899
6	301,500	0.75%	2,261	0.50%	1,250	20%	10,300	11,550	2,261
7	411,500	2.50%	10,288	1.50%	6,000	20%	2,300	8,300	8,300
8	422,857	2.50%	10,571	1.50%	6,000	20%	4,571	10,571	10,571
9	436,500	2.50%	10,913	1.50%	6,000	20%	7,300	13,300	10,913
10	567,500	4.50%	25,538	3.50%	19,250	30%	5,250	24,500	24,500
11	585,484	4.50%	26,347	3.50%	19,250	30%	10,645	29,895	26,347
12	617,500	4.50%	27,788	3.50%	19,250	30%	20,250	39,500	27,788
13	961,500	9.00%	86,535	7.50%	67,500	30%	18,450	85,950	85,950
14	1,022,727	9.00%	92,045	7.50%	67,500	30%	36,818	104,318	92,045
15	1,036,500	9.00%	93,285	7.50%	67,500	30%	40,950	108,450	93,285
16	1,512,000	12.50%	189,000	11.00%	159,500	40%	24,800	184,300	184,300
17	1,574,286	12.50%	196,786	11.00%	159,500	40%	49,714	209,214	196,786
18	1,637,000	12.50%	204,625	11.00%	159,500	40%	74,800	234,300	204,625
19	2,283,000	16.00%	365,280	15.00%	337,500	50%	16,500	354,000	354,000
20	2,316,176	16.00%	370,588	15.00%	337,500	50%	33,088	370,588	370,588
21	2,583,000	16.00%	413,280	15.00%	337,500	50%	166,500	504,000	413,280
22	8,758,000	20.00%	1,751,600	19.00%	1,643,500	60%	64,800	1,708,300	1,708,300
23	8,866,250	20.00%	1,773,250	19.00%	1,643,500	60%	129,750	1,773,250	1,773,250
24	12,000,000	20.00%	2,400,000	19.00%	1,643,500	60%	2,010,000	3,653,500	2,400,000



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