

**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, 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				
<b>Medical benefit or reimbursement</b>	Medical facility or hospital charges are <b>fully exempt</b> , if provided in accordance with the terms of employment. <i>Note:</i> Exemption is available only when NTN of the hospital or clinic is disclosed and the employer certifies and attests the bills.				
<b>Medical Allowance</b>   without any medical facility	Exempt up to 10% of basic salary.				
<b>Special allowance or benefit</b>   Other than entertainment or conveyance allowance	<b>Fully exempt</b> , if granted to meet expenses wholly and necessarily incurred in the performance of duties.				
<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</b>   Received in Pakistan by residents	<b>On retirement/ death</b>				
	<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				
<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. <i>Note:</i> 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
<b>Utilities allowance</b>   Water, gas, electricity	Fully Taxable.
<b>House rent allowance</b>	Fully Taxable.
<b>Accommodation</b>   Whether furnished or not	45% of basic salary to be included in taxable salary.
<b>Leave fare assistance</b>	Fully Taxable.
<b>Salary of domestic servant</b>   House-keeper, gardener, etc.	Fully Taxable.
<b>Capital receipt on termination of employment</b>	Fully Taxable.
<b>Tax paid by the employer</b>	Fully taxable – 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 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.
<b>Conveyance allowance</b>	Fully Taxable.
<b>Motor vehicle</b>   Owned and maintained by employer	<b>Partly for private use</b>
	Taxable at 5% of cost or 5% FMV in case of lease.
	<b>Wholly for private use</b>
	Taxable at 10% of cost or 10% FMV in case of lease.

Description	Remarks
<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.
<b>Employee share scheme</b>	<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 said 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 only 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
<b>Donations</b>	To NPOs as per Clause (61) Part-I of 2nd Sched. to the I.T. Ordinance	Up to 30% of taxable income.
<b>Zakat</b>	Under the Zakat & Ushr Ordinance	100% (i.e. the full amount of zakat).
<b>Profit on debt</b>	Paid on loan acquired for purchase or construction of house   <b>Note1</b>	Lower of: a. 50% of taxable income; and b. Rs. 2 Million
<b>Education expenses</b>	On tuition fees paid to educational institution   <b>Note2</b>	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.

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

Specified Items	*Applicable Amount	
	Lower of:	
<b>Charitable Donations</b>   <b>Note 1</b>	Amount of donation OR Fair value of donated property	30% of Taxable Income
<b>Investment in Shares &amp; Insurance Premium</b>   <b>Note 2</b>	Cost of shares acquired or Premium paid	20% of Taxable Income Rs.2,000,000
<b>Health Insurance Premium</b>   <b>Note 3</b>	Premium/ contribution paid	5% of Taxable Income Rs. 150,000
<b>Contribution to Approved Pension Fund</b>	Amount Contributed	20% of Taxable Income   <b>Note 4</b>

**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.

**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 upto 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	PLUS 10% on amount exceeding Rs. 1,200,000
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	

**REDUCTION IN TAX LIABILITY**

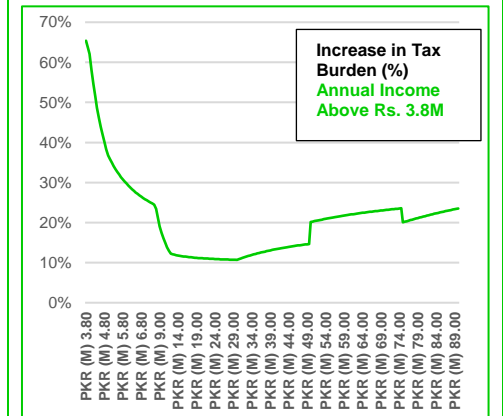
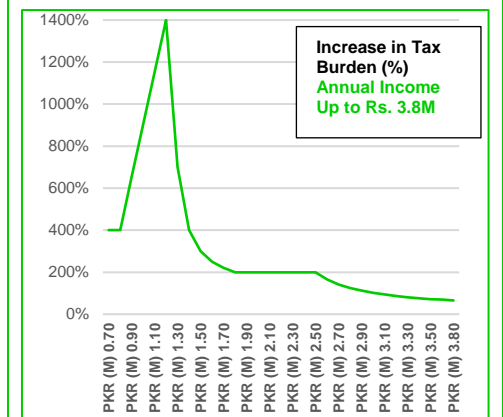
Applicability	Red. Rate	Eligibility criteria
<b>Senior citizens</b>	50%	Age to be 60 yrs or more at beginning of tax year & income is up to Rs.1M
<b>Disabled persons</b>		Holding a CNIC for disabled persons & income is up to Rs.1M
<b>Full time teachers &amp; researchers</b>	25%	Employed in HEC recognized non-profit education or research institutions, 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.

**TAX BURDEN COMPARED**

Tax Year 2020 vs Tax Year 2019



**REACH US AT...**

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