GOVERNMENT OF PAKISTAN
(REVENUE DIVISION)
CENTRAL BOARD OF REVENUE
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C. No. 4(5)ITR/06 Islamabad, July 11, 2006

**Circular No. 03 of 2006**
**(Income Tax)**

Subject: **COMPUTATION OF INCOME TAX PAYABLE BY THE SALARIED TAXPAYERS FOR TAX YEAR 2007 AND DEDUCTION OF ADVANCE TAX FROM SALARY FOR THE TAX YEAR COMMENCING 1ST JULY 2006**

Tax in the case of a salaried taxpayer shall be computed in accordance with sections 12,13 and 14 of Income Tax Ordinance 2001, read with rules 2 to 7 of Income Tax Rules 2002. A salaried taxpayer means where salary constitutes more than 50% of the total income. All perquisites, allowances or benefits, [excepting those covered under Part-I of the Second Schedule to the Ordinance], are to be included in the salary and rate of tax prescribed in Part-I of the First Schedule shall be applied for the tax year 2007 on the gross figure. The taxation of salaried taxpayer is explained as under:

2. **REBATE FOR TEACHERS AND RESEARCHERS POSTED IN GOVERNMENT INSTITUTIONS.**

A full time teacher or a researcher, employed in a non-profit education or research institution recognized by Higher Education Commission (HEC), a Board of Education or a University was entitled to a benefit, under Part III of Second Schedule to the Income Tax Ordinance 2001 and his tax liability stood reduced by an amount equal to 75% of tax payable on his income from salary.

This concession has now been extended to full time teachers and researchers employed in government training and research institutions also.

3. **INCREASE IN BASIC THRESHOLD.**

The basic exemption for tax year 2006 is rupees 1,00,000/-. This has been enhanced to Rs. 150,000/- for the tax year 2007. The tax slabs have also been revised through Finance Act, 2006. These slabs shall be applicable for tax year 2007. For withholding purposes, these shall apply to salary paid on or after first day of July, 2006. The revised slabs are as under:-

| S.No | Taxable Income | Rate of tax |
|---|---|---|
| *(1)* | *(2)* | *(3)* |
| 1. | Where the taxable income does not exceed Rs.150,000 | 0% |
| 2. | Where the taxable income exceeds Rs. 150,000 but does not exceed Rs.200,000 | 0.25% |

| | | |
|---|---|---|
| 3. | Where the taxable income exceeds Rs.200,000 but does not exceed Rs.250,000 | 0.50% |
| 4. | Where the taxable income exceeds Rs.250,000 but does not exceed Rs.300,000 | 0.75% |
| 5. | Where the taxable income exceeds Rs.300,000 but does not exceed Rs.350,000 | 1.50% |
| 6. | Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000 | 2.50% |
| 7. | Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000 | 3.50% |
| 8. | Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000 | 4.50% |
| 9. | Where the taxable income exceeds Rs.600,000 but does not exceed Rs.700,000 | 6.00% |
| 10. | Where the taxable income exceeds Rs.700,000 but does not exceed Rs.850,000 | 7.50% |
| 11. | Where the taxable income exceeds Rs.850,000 but does not exceed Rs.950,000 | 9.00% |
| 12. | Where the taxable income exceeds Rs.950,000 but does not exceed Rs.1,050,000 | 10.00% |
| 13. | Where the taxable income exceeds Rs.1050,000 but does not exceed Rs.1,200,000 | 11.00% |
| 14. | Where the taxable income exceeds Rs.1200,000 but does not exceed Rs.1,500,000 | 12.50% |
| 15. | Where the taxable income exceeds Rs.1500,000 but does not exceed Rs.1,700,000 | 14.00% |
| 16. | Where the taxable income exceeds Rs.1700,000 but does not exceed Rs.2000,000 | 15.00% |
| 17. | Where the taxable income exceeds Rs.2000,000 but does not exceed Rs.3,150,000 | 16.00% |
| 18. | Where the taxable income exceeds Rs.3,150,000 but does not exceed Rs.3,700,000 | 17.50% |
| 19. | Where the taxable income exceeds Rs.3,700,000 but does not exceed Rs.4,450,000, | 18.50% |

| | | |
|---|---|---|
| 20. | Where the taxable income exceeds Rs.4,450,000 but does not exceed Rs.8,400,000 | 19.00% |
| 21. | Where the taxable income exceeds Rs.8,400,000 | 20.00% |

4. **Taxation of accommodation provided by the employer**

The value of accommodation provided by the employer to the employee shall be taken as the amount which the employer would have paid to the employee in case the accommodation was not provided to him. In other words, for the purpose of calculation of value of the perquisite of housing, the amount of house rent that would have been paid by the employer (if house was not provided) shall be included in the salary for tax purposes. However, the value taken for this purpose will not be less than 45% of the minimum of the time scale of the basic salary or the basic salary where there is no time scale.

5. **Taxation of motor vehicle provided by the employer**

The addition on account of Motor Vehicle provided by the employer to the employee shall be calculated in the following manner:

(i) **Where motor vehicle is used partly for personal and partly for business purposes**.

In case the motor vehicle provided by the employer is used partly for personal and partly for business purposes, the amount to be included in the salary on this account shall be 5%, of:

(a) cost to the employer for acquiring the motor vehicle;

**or**

(b) the fair market value of the motor vehicle at the commencement of the lease (if the motor vehicle is taken on lease by the employer)

(ii) **Where motor vehicle is provided exclusively for personal or private use**.

In case motor vehicle provided by the employer is used exclusively for personal or private use, addition in income will be made as under:

| | | |
|---|---|---|
| (a) | Where motor vehicle is owned by the employer: | 10% of cost to the employer for acquiring the motor vehicle; |
| | **or** | |
| (b) | where the motor vehicle is taken on lease by the employer | 10% of fair market value of the motor vehicle at the commencement of the lease. |

6. **FLYING ALLOWANCE.**

Any amount received as flying allowance by:

(a) Pilots, flight engineers and navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority; and

(b) Junior Commissioned Officers of other ranks of Pakistan Armed Forces

shall be taxed @ 2.5% as a separate block of income.

7. **ADJUSTMENT OF TAX LIABILITY OF SALARIED TAXPAYERS BY EMPLOYERS BEING WITHHOLDING AGENT.**

In accordance with the guidance embodied in Circular No. 18 of 2004 dated August 9, 2004, every employer, while deducting income tax payable on the income chargeable under the head "Salary" of its employees, is allowed under the provisions of section 149 of the Income Tax Ordinance, 2001 to make such adjustments, as may be necessary, for any excess deduction or deficiency arising out of any previous deduction or failure to make deduction during the Tax Year.

A withholding agent is allowed to make adjustments on production of the documentary evidence by an employee regarding income tax withheld alongwith:

(a) motor vehicle tax in respect of motor vehicle registered in employee's own name;
(b) telephone bill as subscriber of telephone.

8. The following examples will illustrate the computation of tax of salaried taxpayers for the tax year 2007 and tax shall accordingly be deducted under section 149 (1) of the Income Tax Ordinance, 2001 by the employers w.e.f July 1, 2006:

***Example-1***

Minimum Time Scale (Rs.2980-200-8980)

A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 45% of minimum time scale, had the accommodation not been provided.

| | **Total Income** | **Exempt Income** | **Taxable Income** |
|---|---|---|---|
| Basic Salary @ 7180 per month | 86160 | Nil | 86160 |
| House Rent allowance (35760 X 45%) | 16092 | Nil | 16092 |
| Conveyance allowance | 8160 | Nil | 8160 |
| Medical allowance Rs.5100/-. Exempt upto 10% of the basic salary, if free medical treatment or hospitalization or | 5100 | 5100 | 00 |

| | | | |
|---|---|---|---|
| re-imbursement of medical or hospitalization charges is not provided. [clause (139)(b), Part I of Second Schedule] | | | |
| Spl. Addl. Allowance | 5496 | Nil | 5496 |
| Spl. Relief Allowance | 10956 | Nil | 10956 |
| Adhoc Relief | 10956 | Nil | 10956 |
| Dearness allowance | 12924 | Nil | 12924 |
| **Total** | **155844** | **5100** | **150744** |

Tax payable on Rs. 150744 @ 0.25% Rs. 377
Tax deductible per month Rs. 31

***Example-2***

Minimum Time Scale (Rs.2865-185-8410)

A salaried taxpayer is entitled to house rent allowance @ 45% of minimum time scale, as he has not been provided with accommodation by the employer.

| | **Total Income** | **Exempt Income** | **Taxable Income** |
|---|---|---|---|
| Basic Salary @ 4345 per month | 52140 | Nil | 52140 |
| House Rent allowance (34380 X 45%) | 15471 | Nil | 15471 |
| Conveyance allowance | 5520 | Nil | 5520 |
| Medical allowance Rs.5100. Exempt upto 10% of the basic salary, if free medical treatment or hospitalization or re-imbursement of medical or hospitalization charges is not provided. [clause (139)(b), Part I of Second Schedule] | 5100 | 5100 | 00 |
| Computer allowance | 9000 | Nil | 9000 |
| Spl. Addl. allowance | 4980 | Nil | 4980 |
| Spl. Relief Allowance | 6492 | Nil | 6492 |
| Adhoc Relief | 6492 | Nil | 6492 |
| Dearness allowance | 7821 | Nil | 7821 |
| **Total** | **113016** | **5100** | **107916** |

This salaried taxpayer also ownes a house which is on rent @ Rs.10,000/- per month (Total property income comes to Rs.10,000 X 12 = 120,000/-). Since the salary income as well as property income is below the basic threshold i.e. Rs.150,000/-, therefore, no tax will be paid by the taxpayer for the tax year 2007 [section 15(7) of the Income Tax Ordinance, 2001].

***Example-3***

Minimum Time Scale (Rs.2865-185-8410)

A salaried taxpayer is entitled to house rent allowance @ 45% of minimum time scale, as he has not been provided with accommodation by the employer..

| | **Total Income** | **Exempt Income** | **Taxable Income** |
|---|---|---|---|
| Basic Salary @ 4345 per month | 52140 | Nil | 52140 |
| House Rent allowance (34380 X 45%) | 15471 | Nil | 15471 |
| Conveyance allowance | 5520 | Nil | 5520 |
| Medical allowance Rs. 5100. Exempt upto 10% of the basic salary, if free medical treatment or hospitalization or re-imbursement of medical or hospitalization charges is not provided. [clause (139)(b), Part I of Second Schedule] | 5100 | 5100 | 00 |
| Computer allowance | 9000 | Nil | 9000 |
| Spl. Addl. Allowance | 4980 | Nil | 4980 |
| Spl. Relief Allowance | 6492 | Nil | 6492 |
| Adhoc Relief | 6492 | Nil | 6492 |
| Dearness allowance | 7821 | Nil | 7821 |
| **Total** | **113016** | **5100** | **107916** |

This salaried taxpayer also ownes a house which is on rent @ Rs.15,000/- per month (Total property income comes to Rs.15,000 X 12 = 180,000/-). Therefore, tax payable on the salary and property income for the tax year 2007, will be computed as below:

(A) Salary income Rs.107916/- being below the basic threshold i.e. Rs.150,000/-, therefore, no tax on such income will be payable.

(B) Property income = Rs.180,000
Tax @ 5% = Rs. 9000

**Total tax payable is Rs. 9000**

***Example-4***

Minimum Time Scale (Rs.14260-705-28360)

A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 45% of minimum time scale, had the accommodation not been provided.

| | **Total Income** | **Exempt Income** | **Taxable Income** |
|---|---|---|---|
| Basic Salary @ 19195 per month | 230340 | Nil | 230340 |
| Accommodation provided by employer. | 77004 | Nil | 77004 |
| Conveyance allowance | 14880 | Nil | 14880 |
| Spl. Addl. Allowance | 18600 | Nil | 18600 |
| Qualification Pay | 6000 | Nil | 6000 |
| Spl. Relief allowance @ 15% | 30069 | Nil | 30069 |
| Ad-hoc relief allowance @ 15% | 30069 | Nil | 30069 |
| **Total** | **406962** | **Nil** | **406962** |

Tax payable on Rs. 406962 @ 3.5% Rs. 14244
Tax deductible per month Rs. 1187

***Example-5***

Basic Salary Rs. 19195/-

A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 60% of basic salary had the accommodation not been provided and there is no minimum time scale. Besides, the employer provided the vehicle exclusively for personal use. The cost of motor vehicle to the employer is Rs. 500000/-

| | **Total Income** | **Exempt Income** | **Taxable Income** |
|---|---|---|---|
| Basic Salary @ 19195 per month | 230340 | Nil | 230340 |
| Accommodation provided by employer. | 138204 | Nil | 138204 |
| Motor Vehicle @ 10% of the cost [Rs.500,000] | 50000 | Nil | 50000 |
| **Total** | **418544** | **Nil** | **418544** |

Tax payable on Rs. 418544 @ 3.5% Rs.14649/-
Tax deductible per month Rs. 1220

***Example-6***

Basic Salary Rs. 19195/-

A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 60% of basic salary had the accommodation not been provided. There is no minimum time scale. The employer also provided the vehicle exclusively for personal use. The fair market value of motor vehicle is taken at Rs. 500,000/-, assuming that motor vehicle is taken on lease by the employer.

| | **Total Income** | **Exempt Income** | **Taxable Income** |
|---|---|---|---|
| Basic Salary @ 19195 per month | 230340 | Nil | 230340 |
| Accommodation provided by employer. | 138204 | Nil | 138204 |
| Flying allowance, assuming that the person works for a Pakistani Airline | 2500000 | Nil | To be separately taxed |
| Medical Allowance Rs. 60000/-. Exempt upto 10% of the basic salary, if free medical treatment or hospitalization or re-imbursement of medical or hospitalization charges is not provided. [clause (139)(b), Part I of Second Schedule] | 60000 | 23034 | 36966 |
| Free passage 4 air tickets provided by an airline to its employee @ Rs.80000 per ticket. | 320000 | 320000 | -- |
| Motor Vehicle @ 10% of the fair market value [Rs.500,000] | 50000 | Nil | 50000 |
| Concessional loan of Rs. 2.0 (M) obtained @ 4% per annum [benchmark rate 9% for the tax year 2007. Difference 9-4 = 5%] | 100000 | Nil | 100000 |
| **Total** | **3398544** | **343034** | **555510** |

Tax payable on Rs. 55,55,10 @ 4.50% Rs.24998/-
Tax on flying allowance of Rs. 25,00,000 @ 2.5 % Rs. 62500/-

**Total tax payable** **Rs. 87498/-**
**Tax deductible per month** **Rs. 7292/-**

***Example-7***

Basic Salary Rs. 19195/-

A salaried taxpayer is provided with accommodation by the employer. The employee was entitled to house rent allowance @ 70% of basic salary had the accommodation not been provided and there is no minimum time scale. The

employer provided vehicle to employee partly for personal and partly for business use. The cost of motor vehicle to the employer is Rs. 1,000,000/-

| | **Total Income** | **Exempt Income** | **Taxable Income** |
|---|---|---|---|
| Basic Salary @ 19195 per month | 230340 | Nil | 230340 |
| Accommodation provided by employer. | 161238 | Nil | 161238 |
| Medical Allowance Rs.96000/- provided by the employer. Exempt upto 10% of the basic salary, if free medical treatment or hospitalization or re-imbursement of medical or hospitalization charges is not provided. [clause (139)(b), Part I of Second Schedule] | 96000 | 23034 | 72966 |
| Motor Vehicle @ 5% of the cost [Rs.10,00,000] | 50000 | Nil | 50000 |
| Concessional loan of Rs.2.0 (M) obtained @ 4% per annum [benchmark rate 9% for the tax year 2007. Difference 9-4 = 5%] | 100000 | Nil | 100000 |
| **Total** | **637578** | **23034** | **614544** |

Tax payable on Rs. 614544 @ 6% Rs. 36873/-
Tax deductible per month Rs. 3073

(Assumed) the taxpayer has:-

(a) contributed to an **Approved Pension Fund** (section 63) = Rs.150000

(b) made **investment in shares** (section 62) = Rs.40000

**Tax credit** will be computed as under:

(a) **contribution to an approved Pension Fund**

Formula (A/B) x C

Where.–

**A** is the amount of tax assessed to the person for the tax year, before allowance of any tax credit under Part X; Rs. 36873

**B** is the person's taxable income for the tax year; and Rs.614544

**C** is the lesser of –

(i) the total contribution or premium paid by the person in the year; or Rs.150000

(ii) 20% of the person's taxable income for the relevant tax year; or Rs.122909

(iii) Rs.500,000/- Rs.500000

**<u>Tax Credit</u>**

(36873/614544) x 122909 = Rs.7375

(b) **investment in shares** **Rs.40,000**

**Formula (A/B) x C**

where –

**A** is the amount of tax assessed to the person for the tax year before allowance of any tax credit under Part X; Rs.36873

**B** is the person's taxable income for the tax year; and Rs.614544

**C** is the lesser of –

(a) the total cost of acquiring the shares in the year; Rs.40000

(b) 10% of the person's taxable income for the year; or Rs.61454

(c) Rs. 200,000/-. Rs.200000

**Tax Credit**

(36873/614544) x 40000 = Rs.2400

| | | |
|---|---|---|
| **Total Tax** : | Rs.36873 | |
| Tax credit u/s 63 : | Rs.(7375) | |
| Tax credit u/s 62 : | Rs.(2400) | |
| **Tax Payable for tax year 2007** | | **Rs.27098** |

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