

Government of Pakistan
Revenue Division
Federal Board of Revenue

C.No. 4(5)ITR/06

Islamabad, July 28, 2010

Circular No. 11 of 2010
(Income Tax)

Subject: - Computation of Income Tax Payable by the Salaried Taxpayers for Tax Year 2010 – Changes Made Through The Finance Act 2010 – Clarifications Regarding.

Computation of tax in the case of salaried persons is governed under the provisions of sections 12, 13 and 14 of Income Tax Ordinance 2001 read with rules 3, 4, 5, 6 and 7 of the Income Tax Rules 2002. In cases where salary income constitutes more than 50% of the total income of a taxpayer the total income of such taxpayers is chargeable to income tax at the rates provided in para (1A) of Part 1 of the First Schedule. All perquisites, allowances or benefits, [except those covered under Part-1 of the Second Schedule to the Ordinance], are to be included in the salary income. The taxation of salaried taxpayers in the light of amendments made in the Income Tax Ordinance, 2001 through Finance Act, 2010, is explained as under:-

1. **Increase in Basic Threshold.**

The basic exemption for salaried person has been enhanced from Rs. 200,000/- to Rs. 300,000/-. These changes have been brought through Finance Act, 2010 and will be applicable for the Tax Year 2011. However for withholding purposes these shall apply to salary paid on or after 1st day of July, 2010. New rate card is reproduced as under:

TABLE

S.No. (1)	Taxable income (2)	Rate of tax (3)
1.	Where the taxable income does not exceed Rs.300,000,	0%
2.	Where the taxable income exceeds Rs.300,000 but does not exceed Rs.350,000,	0.75%

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3.	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000,	1.5%
4.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.450,000,	2.50%
5.	Where the taxable income exceeds Rs.450,000 but does not exceed Rs.550,000,	3.50%
6.	Where the taxable income exceeds Rs.550,000 but does not exceed Rs.650,000,	4.50%
7.	Where the taxable income exceeds Rs.650,000 but does not exceed Rs.750,000,	6.00%
8.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.900,000,	7.50%
9.	Where the taxable income exceeds Rs.900,000 but does not exceed Rs.1,050,000,	9.00%
10.	Where the taxable income exceeds Rs.1,050,000 but does not exceed Rs.1,200,000,	10.00%
11.	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,450,000,	11.00%
12.	Where the taxable income exceeds Rs.1,450,000 but does not exceed Rs.1,700,000,	12.50%
13.	Where the taxable income exceeds Rs.1,700,000 but does not exceed Rs.1,950,000,	14.00%
14.	Where the taxable income exceeds Rs.1,950,000 but does not exceed Rs.2,250,000,	15.00%
15.	Where the taxable income exceeds Rs.2,250,000 but does not exceed Rs.2,850,000,	16.00%
16.	Where the taxable income exceeds Rs.2,850,000 but does not exceed Rs.3,550,000,	17.50%
17.	Where the taxable income exceeds Rs.3,550,000 but does not exceed Rs.4,550,000,	18.50%
18.	Where the taxable income exceeds Rs.4,550,000	20.00%

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Basic Exemption limit of Rs.300,000 is applicable to all salaried taxpayers including salaried female taxpayers.

However, salaried taxpayer are required to file income tax return for tax year 2010 (pertaining to the income period 01.07.2009 to 30.06.2010) as per the tax rate applicable upto 30.06.2009. For facility of reference these rates are reproduced as under:

TABLE

S.No. (1)	Taxable income (2)	Rate of tax (3)
1.	Where the taxable income does not exceed Rs.200,000,	0%
2.	Where the taxable income exceeds Rs.200,000 but does not exceed Rs.250,000,	0.50%
3.	Where the taxable income exceeds Rs.250,000 but does not exceed Rs.350,000,	0.75%
4.	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000,	1.50%
5.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.450,000,	2.50%
6.	Where the taxable income exceeds Rs.450,000 but does not exceed Rs.550,000,	3.50%
7.	Where the taxable income exceeds Rs.550,000 but does not exceed Rs.650,000,	4.50%
8.	Where the taxable income exceeds Rs.650,000 but does not exceed Rs.750,000,	6.00%
9.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.900,000,	7.50%
10.	Where the taxable income exceeds Rs.900,000 but does not exceed Rs.1,050,000,	9.00%
11.	Where the taxable income exceeds Rs. 1,050,000 but does not exceed Rs.1,200,000,	10.00%
12.	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs.1,450,000,	11.00%
13.	Where the taxable income exceeds Rs. 1,450,000 but does not exceed Rs.1,700,000,	12.50%
14.	Where the taxable income exceeds Rs. 1,700,000 but does not exceed Rs.1,950,000,	14.00%
15.	Where the taxable income exceeds Rs. 1,950,000 but does not exceed Rs.2,250,000,	15.00%
16.	Where the taxable income exceeds Rs. 2,250,000 but does not exceed Rs.2,850,000,	16.00%
17.	Where the taxable income exceeds Rs. 2,850,000 but does not exceed Rs.3,550,000,	17.50%
18.	Where the taxable income exceeds Rs. 3,550,000 but does not exceed Rs.4,550,000,	18.50%
19.	Where the taxable income exceeds Rs. 4,550,000 but does not exceed Rs.8,650,000,	19.00%
20.	Where the taxable income exceeds Rs.8,650,000.	20.00%

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The number of slabs has been reduced from twenty to eighteen.

It is clarified that returns for tax year 2010 shall be filed on the rates mentioned in the table above.

Illustration.

An employee, whether male or female, derives gross income from salary (as defined in section 12 of Income Tax Ordinance 2001) at Rs.275,000/- for tax year 2011. No tax shall have to be paid by such employee.

2. **Marginal Rate of Tax**

Marginal relief provisions under the Income Tax Ordinance, 2001 continue to be applied, where the total income of a taxpayer marginally exceeds the maximum limit of a slab in the table, the income tax payable shall be the tax payable on the maximum of that slab plus an amount equal to –

- (a) 20% of the amount by which the total income exceeds the said limit where the total income does not exceed Rs.550,000.
- (b) 30% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.10,50,000.
- (c) 40% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.2,250,000.
- (d) 50% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.4,550,000.
- (e) 60% of the amount by which the total income exceeds in each slab but the total income exceeds Rs.4,550,000.

3. **Calculation of Marginal Tax Relief.**

Income from salary used to be charged to tax at different flat rates ranging from 0% to 20% on progressive income slabs. Salaried persons, whose income slab changed marginally due to increase in the pay and allowances etc faced hardships as with marginal switching over to next slab tax liability increased disproportionately. To address the hardship, the concept of “marginal tax” relief was introduced, inserted in Para 1-A of Part-1 of the First Schedule to the Income Tax Ordinance, 2001.

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By virtue of aforesaid provisions if income of a salaried person marginally exceeds the maximum limit of a slab and tax is charged at a high rate, he would calculate his tax liability by applying the above formula and get marginal relief in tax. The calculation of marginal relief and tax payable under these provisions of law is explained through the following examples:-

Illustration. 1

Income	Slab No.	Rate of tax	Tax	Increase in tax	Percentage of tax on marginal income
450,000	04	2.5%	11250		
465,000	05	3.5%	16275	5025/-	34%

Marginal relief according to formula (i)

Tax payable on the maximum of the slab : Rs. 11250

20% of the marginal increase of Rs.15000 over maximum of the slab : Rs. 3000

Total tax payable : Rs. 14250

Relief (16275 - 14250) = Rs. 2025

Effective rate of tax on income of Rs.465000 would be 3.06% against 3.5%

Illustration. 2

Income	Slab No.	Rate of tax	Tax	Increase in tax	Percentage of tax on marginal income
550,000	06	3.5%	19250		
560,000	07	4.5%	25200	5950/-	60%

Marginal relief according to formula (ii)

Tax payable on the maximum of the slab : Rs. 19250

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30% of the marginal increase of Rs.10000 over maximum of the slab : Rs. 3000

Total tax payable : Rs. 22250
 Relief (25200 - 22250) = Rs. 2950
 Effective rate of tax on income of Rs. 560,000 would be : 3.97% against 4.5%

Illustration. 3

Income	Slab No.	Rate of tax	Tax	Increase in tax	Percentage of tax on marginal income
17,00,000	13	12.5%	212500		
17,40,000	14	14%	243600	31100/-	78%

Marginal relief according to formula (iii)

Tax payable on the maximum of the slab : Rs. 212500
 40% of the marginal increase of Rs.40000 over maximum of the slab : Rs. 16000

Total tax payable : Rs. 228500
 Relief (243600 - 228500) = Rs. 15100
 Effective rate of tax on income of Rs.17,40,000 would be : 13.13% against 14%

Illustration. 4

Income	Slab No.	Rate of tax	Tax	Increase in tax	Percentage of tax on marginal income
22,50,000	15	15%	337500		
22,80,000	16	16%	364800	27300	91%

Marginal relief according to formula (iv)

Tax payable on the maximum of the slab : Rs. 337500

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50% of the marginal increase of Rs.30000 over maximum of the slab	:	Rs.	<u>15000</u>
Total tax payable	:	Rs.	352500
Relief (364800 - 352500)	=	Rs.	12300
Effective rate of tax on income of Rs. 22,80,000 would be	:		15.46% against 16%

4. **Annual Withholding Statement of Deduction of Income Tax from Salary.**

Annual withholding statement of deduction of income tax from salary shall be deemed to be return of income for salaried individual having annual salary income less than Rs.500,000. Annual withholding statement of deduction of income tax from salary is to be filed on or before 31st day of August next following the end of tax year to which the statement relates.

As provided by Finance Act 2009, in cases where salary income, for the tax year is five hundred thousand rupees or more, the taxpayer shall file return of income electronically in the prescribed form and it shall be accompanied by the proof of deduction or payment of tax and wealth statement as required under section 116.

5. **Expiry of Internally Displaced Persons Tax (IDPT)**

Internally Displaced Persons Tax (IDPT), treated as income tax calculated at 5%, on the tax payable on the taxable income of one million rupees or more, leviable for tax year 2009 shall not apply to salaried persons for any subsequent tax year. Also the tax payable on bonus as Internally Displaced Persons Tax (IDPT) @ 30% for the tax year 2010 (from 01.07.2009 to 30.06.2010) shall not apply to salaried persons for any subsequent tax year.

6. **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 on the income chargeable under the head "Salary" of its employees, is allowed 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 under the provisions of section 149 of the Income Tax Ordinance, 2001.

Subsequently amendment was made in Section 149 of the Income Tax Ordinance, 2001 through Finance Act, 2007 allowing the employer to make adjustments on

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production of the documentary evidence by the employee regarding income tax withheld under other heads. Presently following tax adjustments and tax credits are available to the salaried persons.

7. **Adjustment of Tax Deducted/Collected on,-**

- (I) (a) motor vehicle u/s 234 in respect of motor vehicle registered in employee's own name;
- (b) telephone/mobile phone bill as subscriber of telephone under section 236;
- (c) cash withdrawals from banks under section 231A;
- (d) registration of new Car/Jeep U/S 231-B;
- (e) tax deducted under section 231AA; and
- (f) advance tax deducted under section 236B.


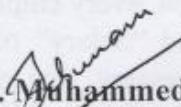
(II) **Tax Credits on,-**

- (a) donations to approved NPOs (section 61);
- (b) investment in shares (section 62);
- (c) contribution to approved pension funds (section 63); and
- (d) profit on debt paid in respect of housing loans etc. (section 64).

Where more than one tax credit is allowable in a tax year, credits shall be applied in accordance with section 4(3) of Income Tax Ordinance, 2001 in the following order:

- (a) any foreign tax credit allowed under section 103; then
- (b) any tax credit allowed under Part X of Chapter III; and then
- (c) any tax credit allowed under sections 147 and 168.

The employers shall, however, be responsible to obtain and maintain the record of documentary evidence in respect of claimed adjustments/credits and for correct application of relevant provisions of law.



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