

FATE Wing -FBR

Direct Tax - Frequently Asked Questions

Q. 1 What is the limit not chargeable to tax for Tax Year 2010?

A. Rs. 300,000. 1st Schedule to the Income Tax Ordinance, 2001

Q. 2 Is tax to be withheld at the time of payment of salary by the employer?

A. Yes. As per rates specified in Ist Schedule to the Income Tax Ordinance, 2001

Q. 3 What is the taxability of the amount received as self-hiring?

A. It is taxable as Income from Property. Section 15 of Income Tax ordinance, 2001, Division VI, Part I of Ist Schedule.

Q. 4 Is income from property included in Salary?

A. No, it will be taxed as separate block of income. Section 15 of Income Tax ordinance, 2001

Q. 5 What are the tax rates for income derived from Salary?

A. Tax rates applicable for Tax Year 2010 are as under: 1st Schedule to the Income Tax Ordinance, 2001

S. No.	Taxable income	Rate of tax.
(1)	(2)	(3)
1.	Where 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%
3.	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000	1.50%
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%

Q. 6 Is amount not chargeable to tax i.e. Rs. 300,000 deductible from taxable income?

A. No, the tax payable will be calculated on taxable income as per slab rates without any deduction. 1st Schedule to the Income Tax Ordinance, 2001

Q. 7 Is pension of a Government employee exempt?

A. Yes. Clause-9 Part-I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. 8 Is pension granted to the family of public servant expired during service is exempt?

A. It is taxable w.e.f 01.07.2006. Clause-18 Part I of 2nd Schedule to the Income Tax Ordinance, 2001 Now omitted through Finance Act, 2006.

Q. 9 What is the taxability of leave encashment?

- A.** Only encashment of leave preparatory to retirement, in the case of a Government servant is exempt. Rest are taxable. Clause-19 Part I of
2nd Schedule to the Income
Tax Ordinance, 2001

Q. 10 Is leave encashment paid to an employee of private establishment taxable?

- A.** Yes

Q. 11 Is deputation pay exempt?

- A.** No.

Q. 12 Is special pay exempt?

- A.** No.

Q. 13 Is compensatory allowance of a Pakistani citizen recruited in Pak Mission abroad exempt?

- A.** Yes, if it does not exceed 75% of the gross salary. Clause 35 Part I of
2nd Schedule to the Income
Tax Ordinance, 2001

Q. 14 Is overtime allowance exempt?

- A.** No.

Q. 15 What is exemption limit for utilities?

- A.** Utilities allowance is not exempt.

Q. 16 Is medical allowance exempt?

- A.** It is exempt up to 10% of the basic salary if employee is not entitled for free medical treatment or reimbursement of medical expenses. Clause 139(b) Part I
of 2nd Schedule to the
Income Tax Ordinance, 2001

Q. 17 Is entertainment allowance exempt?

- A.** No.

Q. 18 Is special additional allowance exempt?

- A.** No.

Q. What is exemption limit for house rent allowance?

19

A. HRA is not exempt.

Q. Whether accommodation provided by the employer is exempt?

20

A. No, it is taxable as a perquisite.

Q. What is the method of taxing the accommodation provided by employer?

21

A. The amount of house rent that would have been paid (if house was not provided) shall be taken as value of accommodation provided by employer. Rule-4 of Income Tax Rules, 2002

Q. Is there any minimum limit for addition on account of accommodation provided by the employer?

22

A. The addition for perquisite of housing facility will not be less than 45% of minimum of the time scale or basic salary where there is no time scale. Rule-4 of Income Tax Rules, 2002

Q. What is exemption limit for conveyance allowance?

23

A. Conveyance allowance is not exempt.

Q. Is motor vehicle provided by employer for personal and business use exempt?

24

A. No, it is taxable being a perquisite and requires addition to salary @ 5% of the cost of the vehicle. Rule-5 of Income Tax Rules, 2002

Q. Is a leased motor vehicle provided by employer for personal and business use exempt?

25

A. No, it is taxable being a perquisite and requires addition @ 5% of the fair market value of vehicle at the commencement of the lease. Rule-5 of Income Tax Rules, 2002

Q. Whether motor vehicle provided by employer, exclusively for personal use, exempt?

26

A. No, it requires addition to salary @ 10% of the cost of the vehicle. Rule-5(ii) of Income Tax Rules, 2002

Q. Is leased motor vehicle provided by employer exclusively for personal use exempt?

27

A. No, it requires addition to salary @ 10% of the cost of the vehicle. Rule-5(ii) of Income Tax Rules, 2002

Q. Whether allowances are part of salary and what is their taxability?

28

A. Allowances received in cash are part of salary and are to be included in salary for taxation purpose. Section 12 of Income Tax Ordinance, 2001

Q. Whether teachers are entitled for rebate?

29

A. Yes, full time teachers and researchers are entitled for reduction @ 75% of the tax payable. Clause I(2) Part III of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Are headmasters/principals entitled for reduction available to teachers?

30

A. Yes.

Q. Is bonus income exempt?

31

A. No.

Q. Are full time teachers/researchers employed in Government training/research institutions entitled for 75% reduction?

32

A. Yes. Clause I(2) Part III of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is flying allowance paid to pilots, flight engineer and navigators of Pakistan Armed Forces, Pak Airlines exempt?

33

A. No.

Q. Is flying allowance included in total income?

34

A. No. Flying allowance will be taxed @ 2.5% as a separate block of income. Clause (I)(a) Part III of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is flying allowance of JCOs of Armed Forces exempt?

35

A. No, it will be taxed @ 2.5% as a separate block of income. Clause (I)(b) Part III of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is gratuity received on retirement, under the scheme approved by CIT exempt?

36

A. Yes. Clause (13)(ii) Part I of 2nd Schedule to the Income Tax

Ordinance, 2001

Q. Is commutation of pension paid to an employee of Federal/Provincial Government/Local Authority/Statutory Corporation taxable?
37

A. Payment on account of commutation of pension received from Government or Clause (12) Part I of 2nd Schedule to the Income Tax Ordinance, 2001 under any pension scheme approved by the FBR is not taxable.

Q. What is exemption limit for commutation of pension or gratuity paid under the FBR's approved scheme for the purpose of clause 13(iii)?
38

A. Rs. 200,000. Clause-(13)(iii) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is children's allowance paid to a Shaheed's family exempt?
39

A. Yes. Clause-(16) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is accommodation provided to President of Pakistan taxable?
40

A. No. Clause-(51) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is accommodation provided to the Provincial Governor taxable?
41

A. No. Clause-(51) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is accommodation provided to the Chiefs of Staff, Pakistan Armed Forces taxable?
42

No. Clause (51) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is accommodation provided to a judge of the Supreme Court Pakistan or High Court exempt?
43

A. Yes. Clause-(55) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Whether medical/hospital reimbursement charges exempt?

44

A. Yes, subject to payment under the terms of employment and the bills containing NTN of the hospital, certified and attested by the Employer. Clause-(139)(a) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is free conveyance provided to the Federal Ministers taxable?

45

A. No. Clause-(53)(c) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is free conveyance provided to the Chiefs of Staff, Pakistan Armed Forces taxable?

46

A. No. Clause-(52) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is free conveyance provided to the Corp Commanders of Pak Army taxable?

47

A. No. Clause-(52) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is conveyance allowance, paid in addition to vehicle provided by employer exclusively for business purpose taxable?

A. Yes

Q. Is free conveyance provided to a Federal Minister taxable?

49

A. No. Clause-(53)(c) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is free conveyance provided to a judge of the Supreme Court of Pakistan or High Court exempt?

50

A. Yes. Clause-(56) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is entertainment allowance paid to Chiefs of Staff, Pakistan Armed Forces taxable?

51

A. No. Clause-(52) Part I of 2nd

Schedule to the Income Tax Ordinance, 2001

Q. Is entertainment allowance paid to the Provincial Governor taxable?

52

A. No.

Clause-(52) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is entertainment allowance paid to Federal Minister taxable?

53

A. No.

Clause-(53) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is accumulated balance of Provident Fund exempt?

54

A. Yes, If payable from a recognized fund.

Clause-(23) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Is provident fund exempt?

55

A. Payment received from a fund established under Provident Fund Act, 1925 or a recognized fund is exempt.

Clause-(22) Part I of 2nd Schedule to the Income Tax Ordinance, 2001

Q. Whether employers are authorized to adjust tax withheld under other heads?

56

A. Yes, employers have been empowered to adjust tax withheld under other heads.

Section 149 of Income Tax Ordinance, 2001

Q. Whether employers are authorized to allow tax credit available to an employer?

57

A. Yes, employers have been empowered to allow tax credit available to an employer under the law.

Section 149 of Income Tax Ordinance, 2001

Q. In case of provincial govt. employees working in small cities, what amount will be added on account of house rent allowance?

58

A. Amount actually received as house rent allowance is taxable. However, for employees posted in Mufasal areas to whom the house rent allowance is admissible at 30% of the minimum time scale of their basic salary the value of house perquisite taken for the purpose of taxation shall be an amount not less

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than 30% of minimum of time scale of basic salary or the basic salary where there is no time scale.

Q. Whether a salaried person having no other source of income is required to file return of income?
59

A. In case of a taxpayer deriving income from salary only, the prescribed annual Section 115 of Income Tax statement filed by the employer will be considered as sufficient discharge of Ordinance, 2001 liability and shall be treated as a return of income furnished under section 114.

Q. Which return form should be filed if an employee has income from other source?
60

A. Return of Total Income/Statement of Final Taxation. (IT-2)

Q. Which return form should be filed if an employee has more than one employer?
61

A. Return of Total Income/Statement of Final Taxation. (IT-2)

Q. Whether employer is empowered to adjust withholding tax collected and to allow tax credit available to employee while making deduction of tax from salary paid to employees?
62

A. Employer is empowered to; Section 149 of Income Tax Ordinance, 2001
(i) adjust tax withheld under the following heads:

1. Motor Vehicle u/s 234 in respect of motor vehicles registered in the employee's name.
2. Telephone bills as a subscriber of telephone u/s 236.
3. Cash withdrawals from banks u/s 231A.
4. Registration of new motor car/jeep u/s 231B.

(ii) allow tax credits available to an employee on:-

1. donations to approved NPOs (section 61)
2. investment in shares (section 62)
3. contribution to approved pension funds (section 63); and
4. profit on debt (section 64)

Q. Who are required to file wealth statement?
63

A. Every person whose salary income is Rs: 500,000/- or more and withholding Section 116 of Income Tax statement has been treated as return of income, whether or not the employer Ordinance, 2001 ha furnished the statement of deduction of tax.

Q.64 What is the concept of "Marginal Relief on Salary"?

A. Presently income from salary is charged to tax at different flat rates ranging from 0% to 20% on progressive income slabs. The salaried person whose income slab changes marginally due to increase in the pay and

allowances etc. face hardship as with marginal switching over to next slab tax liability increases disproportionately. To address the hardship, the concept of "marginal tax" relief has been introduced through the following provision, inserted in Para 1-A of Part-1 of the First Schedule to the Income Tax Ordinance, 2001. "Provided further that 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 –

1. (i) 20% of the amount by which the total income exceeds the said limit where the total income does not exceed 500,000
2. (ii) 30% of the amount by which the total income exceeds in each slab but total income does not exceed 10,50,000
3. (iii) 40% of the amount by which the total income exceeds in each slab but total income does not exceed 20,00,000
4. (iv) 50% of the amount by which the total income exceeds in each slab but total income does not exceed 44,50,000
5. (v) 60% of the amount by which the total income exceeds in each slab but the total income exceeds 44,50,000"

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:-

EXAMPLE NO. 1

Income	Slab No.	Rate of tax	Tax	Increase in tax	Percentage of tax on marginal income
450,000	05	2.5%	11250	5025/-	34%
465,000	06	3.5%	16275		

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% against 3.5%

EXAMPLE NO. 2

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

560,000	07	4.5%	25200		
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Marginal relief according to formula (ii)
Tax payable on the maximum of the slab : Rs. 19250
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%

Q 65 Is flying allowance included in total income?

A No. Flying allowance will be taxed @ 2.5% as a separate block of income.

Clause (I)(a) Part III of 2nd
Schedule to the Income Tax
Ordinance, 2001