Tax on Salary

2013

"This tax guide is for the use of CLIENTS and STAFF only and covers the taxability aspects of the salary as per Pakistani income tax laws applicable to Tax Year 2013"

Income Tax Law & Calculation

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INTRODUCTION

This tax guide gives information for arriving at the taxable salary income of a salaried person and computation of tax liability thereof under the Income Tax Ordinance, 2001. It is equally informative and useful from the employers' perspective not only to determine the amount of tax to be withheld every month from the salary paid to the employees but also to understand the tax obligations as a Withholding Tax Agent (WTA).

It contains the provisions relating to the tax of a resident salaried person only.

WHAT IS SALARY?

Salary means amount received by an employee from any employment, whether of a capital or revenue nature. It includes pay and perquisites.

Pay means wages or other remuneration like leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees and gratuity.

Perquisite means benefit whether convertible to money or not given to employee over and above pay and wages, e.g. - utilities allowance, conveyance allowance, provision of vehicle and accommodation etc.

WHO IS A SALARIED PERSON?

An individual is treated as a salaried person if more than 50% of his total income comprises of salary income or he/she derives income entirely from salary. Every salaried person is obliged to pay tax on salary, if salary exceeds prescribed limits.

TAXABILITY OF SALARY

While computing the taxable salary income of a person, all perquisites, allowances or benefits, except exempt items are to be included in the salary and such gross figure shall be treated as the taxable salary income of a taxpayer.

Following allowances are presently exempt from tax, subject to certain conditions:

Medical Allowance

Exempt upto 10% of basic salary, if free medical treatment or hospitalization or re-imbursement of medical or hospitalization charges is not provided.

(See Clause (139)(b) of Part I of Second Schedule of ITO 2001)

Special Allowance

Exempt if granted to meet expenses for the performance of official duties.

(See Clause (39) of Part I of Second Schedule of ITO 2001)

RATES OF TAXATION

The tax on salary income is calculated at the rates prescribed in Income Tax Ordinance, 2001. Through Finance Act 2012 rates for the TY 2013 are amended.

The rates for **Tax Year 2013** are as follows:

S.No	Taxable Income	Rate of Tax
1	Where the taxable income does not exceed Rs. 400,000.	**0%**
2	Where the taxable income exceeds Rs. 400,000 but does not exceed Rs. 750,000.	**5% of the amount exceeding Rs. 400,000.**
3	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs. 1,500,000.	**17,500 + 10% of the amount exceeding Rs. 750,000.**
4	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs. 2,000,000.	***95,000 + 15% of the amount exceeding Rs. 1,500,000.**
5	Where the taxable income exceeds Rs. 2,000,000 but does not exceed Rs. 2,500,000.	***175,000 + 17.5% of the amount exceeding Rs. 2,000,000.**
6	Where the taxable income exceeds Rs. 2,500,000.	***420,000 + 20% of the amount exceeding Rs. 2,500,000.**

MARGINAL RELIEF

Through Finance Act 2008 the provision for marginal relief in the tax rates was introduced to remove anomaly in the tax rates. The marginal relief is continued to be available on amount in excess of maximum limit of the preceding slab relative to slab in which the taxable income fall. The marginal amount will be taxed at the following rates:

S.No	If taxable income of the tax payer is	Percentage of incremental income taxable at next applicable tax rate
1	Up to Rs.550,000	20%
2	550,001 to 1,050,000	30%
3	1,050,001 to 2,250,000	40%
4	2,250,001 to 4,550,000	50%
5	4,550,001 and above	60%

Special Notes:

1. ***For withholding tax purposes these rates shall apply to salary paid on or after first day of July 2012.***

2. ***When the relief worked out through marginal relief provision ceases to exist then it would not be applicable and tax shall be computed normally without marginal relief. As a result one has to work out the salary tax calculation with and without marginal relief and lower of both workings will be the final tax on salary. Following examples will further explain the concept.***

Example-I:
If a taxable salary income, of a person is Rs. 412,000, the tax on the salary income will be lower of (a) and (b):

(a) Tax with Marginal Relief

		Rs.
Tax on first 400,000	400,000 x0%	**0**
Tax on marginal amount of 12,000	12,000 x 20%	**2,400**
		2,400

(b) Tax without Marginal Relief

		Rs.
Tax on first 400,000	400,000 x0%	**0**
Tax on amount exceeding 400,000	12,000 x 5%	**600**
		600

Therefore, tax on **Rs. 412,000** is **Rs. 600**, being the lower of **(a)** and **(b)**.

Example-II:
If a taxable salary income, of a person is Rs. 560,000, the tax on the salary income will be lower of (a) and (b):

(a) Tax with Marginal Relief

		Rs.
Tax on first 400,000	400,000 x0%	**0**
Tax on marginal amount of 160,000	160,000 x 30%	**48,000**
		48,000

(b) Tax without Marginal Relief

		Rs.
Tax on first 400,000	400,000 x0%	**0**
Tax on amount exceeding 400,000	160,000 x 5%	**8,000**
		8,000

Therefore, tax on **Rs. 560,000** is **Rs. 8,000**, being the lower of **(a)** and **(b)**.

Example-III:
If a taxable salary income, of a person is Rs. 2,600,000, the tax on the salary income will be lower of (a) and (b):

(a) Tax with Marginal Relief

		Rs.
Tax on first 2,500,000	262,500	**262,500**
Tax on marginal amount of 100,000	100,000 x 50%	**50,000**
		312,500

(b) Tax without Marginal Relief

		Rs.
Tax on first 2.500,000	420,000	**420,000**
Tax on amount exceeding 2,500,000	100,000 x 20%	**20,000**
		440,000

Therefore, tax on **Rs. 2,600,000** is **Rs. 312,500**, being the lower of **(a)** and **(b)**.

*Special Note

**The tax calculation in the current year has been made simpler as compared to last year, however, revision in these slabs through further amendment in finance act 2012 has resulted in an anomalous tax.*

The tax on Rs. 2,500,000 is Rs. 262,500 whereas tax on Rs. 2,500,001 would have come to Rs. 420,000, if marginal relief was not available.* ***And Re. 1 addition in salary income would have increased the tax liability by Rs. 157,500.*

**Nothing has been issued by FBR in this regard so far to rectify this anomaly which was not included in the original finance bill 2012 but brought in through further amendment in finance bill 2012 and approved in Finance Act 2012. Same problem is occurring in preceding slabs too.*

Moreover, the realignment of Marginal Relief Slabs has not been made to match the new revised salary tax slabs. For example the second band of salary slab is 400,000 to 750,000 whereas the second band of marginal slab is 550,001 to 1,050,000. This anomaly also needs to be rectified by the FBR.

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Salary Tax Calculation can be done through our tax calculator by clicking the following link:

ASC SALARY TAX CALCULATOR TY 2013

TAX REDUCERS

The tax calculated above can be reduced to a prescribed limit if the salaried person is a senior citizen or a full time researcher or teacher. The gross tax calculated as per applicable rates of tax is subject to reduction for ***senior taxpayers*** and ***full time teacher or researcher.***

Senior Taxpayers

If the age of the taxpayer on the first day of a tax year is 60 years or more and taxable income does not exceed Rs.1,000,000 the gross tax qualifies for a reduction of 50%.

(See Clause (1A) of Part III of Second Schedule of ITO 2001)

Teacher or Researcher

A reduction of 75% of tax on income from salary is available to a full time teacher or researcher, employed in a

- non-profit education or research institution duly recognized by HEC;
- a board of education or a university recognized by HEC, including government training and research institution.

(See Clause (2) of Part III of Second Schedule of ITO 2001)

FILING OF TAX RETURN / EMPLOYER'S CERTIFICATE

When income exceeds the taxable limit in a tax year and is exclusively derived from "salary" being less than Rs. 500,000, one may file an Employer's Certificate in lieu of a return of income by the due date. (i.e. August 31 next following the tax year) if the employer has not furnished the Annual Statement of Deduction of Income Tax from Salary. The salaried taxpayer is not required to even furnish Employer's Certificate if his/her taxable salary income is less than Rs. 500,000 and his/her employer has filed an Annual Statement of Deduction of Income Tax from Salary as prescribed under the Income Tax Rules.

However, if a person exclusively deriving income from salary and the salary income for the tax year is Rs. 500,000 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.

The deduction of tax at source by an employer from the salary is a final discharge of employee's obligation in case if the employee's salary is less than Rs. 500,000 , his/her employer has deducted proper tax due from him/her and filed an annual statement of deduction of tax from salary. In other cases such a deduction of tax should not be the final discharge of employee's obligation and such an employee is liable to file the employer's certificate on prescribed form or e-file his/her return of income on due date as the case may be.

WEALTH STATEMENT

A salaried taxpayer is obliged to file a Wealth Statement and wealth reconciliation statement if his or her last declared or assessed taxable income or declared income for the year is Rs. 1,000,000 or more. Wealth statement should be filed along with wealth reconciliation statement in all cases whether the annual statement has been filed or not by his / her employer.

Wealth statement is a statement of:

- total assets and liabilities of the taxpayer as on a closing date of financial year *(i.e. June 30 each year);*
- total assets and liabilities of the taxpayer's spouse, minor children, and other dependents on the same date;
- any assets transferred by the taxpayer to any other person during the year; and
- the detail of such total expenditures incurred by taxpayer and his or her spouse, minor children, and other dependents during the year.

EMPLOYER'S RESPONSIBILITIES AS WITH HOLDING TAX AGENT

Every employer paying salary to an employee shall, at the time of payment, deduct tax from the amount paid at the employee's average rate of tax computed at the prescribed rates on the estimated salary income of the employee for the tax year in which the payment is made. While making deduction of tax from an employee, the employer shall make an adjustment for the following on production of documentary evidence:

Tax withheld from employee under other heads like:

- On payment of landline telephone bills (if connection is in the name of employee);
- On payment of mobile bills (if connection is in the name of employee);
- On payment of vehicle registration/renewal token (if vehicle is registered in the name of employee); and
- On cash withdrawal from bank (if the bank account is in the name of employee).

Allow tax credits available to an employee on:

(a) donations to approved NPOs (section 61 of ITO 2001);
(b) investment in shares & insurance (section 62 of ITO 2001);
(c) contribution to approved pension funds (section 63 of ITO 2001); and
(d) profit on debt (section 64 of ITO 2001).

The tax so deducted shall be deposited in the government treasury within seven days from the end of each week ending on every Sunday.

The salaried person shall submit declaration to the employer regarding his/her sources of income and tax credits claimed on prescribed form IT-3. This shall be kept by the employer in his record for a period of five years.

Every employer is required to file / e-file a monthly* statement on prescribed form regarding the deduction of tax from salaries of employees within the fifteen** days of the end of the relevant month. The monthly statement is required to be filed even if there is no withholding tax deduction during the relevant month.

Every employer is also required to fill the details of all taxable employees having annual salary income of Rs 350,000 or more and employees having annual salary between Rs. 300,000 and Rs. 350,000 though their tax will be zero but their salary detail will be furnished in the statement.

Every employer is also required to file / e-file an Annual Statement of Deduction of Tax from Salary on prescribed form within two months of the end of the financial year.

Employer responsible for deducting tax from salary shall issue a certificate to the employee, in the prescribed form with in forty-five days after the end of the financial year.

*Monthly statement is required w.e.f July 2011, up to year June 2011 quarterly statement was required to be filed.
**Filing within fifteen days is required w.e.f July 2011, up to year June 2011 the filing was required within twenty days.

NATIONAL TAX NUMBER

National tax number NTN should be mentioned on all returns, employer's certificate, wealth statement etc. A taxpayer can obtain NTN by submitting an application in the prescribed form along with a photo copy of Computerized National Identity Card (CNIC) and other required documents either manually or electronically.

For more information
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