
Tax in Budget 11'12

Finance Bill 2011

Income Tax changes only!

For the use of CLIENTS & STAFF only.





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FOREWORD

Every year federal budget is presented in national assembly for the forthcoming fiscal year. Besides setting expected receipts and payments, budget also includes various fiscal measures to set direction for various fiscal targets which government wants to achieve.

Various amendments are made in fiscal laws including income tax law every year in furtherance of such objectives.

This document "Tax in Budget" aims to cover all proposed amendments in income tax law and its implications on limited liability companies (LLC), non-governmental organizations (NGO), association of persons (AOP) and individuals both salaried and non-salaried (IND).

I hope that the "Tax in Budget" will assist our clients and staff to understand the changes in income tax law i.e. Income Tax Ordinance 2001 & Income Tax Rules 2002 and implications of such changes.

The information presented in this document has been taken from the Federal Budget and Finance Bill, 2011, as presented in the National Assembly on June 3rd 2011. It contains proposed amendments, which will become operative once the Finance Bill is formally passed in National Assembly and become Finance Act, 2011. A separate document will be issued once the Finance Bill is passed in the National Assembly.

Views expressed herein should not be acted upon without obtaining professional advice, as the interpretation may differ in different circumstances.

In the end I want to thank my colleagues Ms Ayesha Ahmad Murtaza ACA, APA, Mr. Nouman Akber, Mr. Shahzad Hanan ACCA, & Mr. Qaiser Abbas for their contribution to compile this document.



Major Changes in Income Tax Law

1. Basic exemption limit for individual enhanced. [Part I of First Schedule]

The basic exemption limit for individuals is proposed to be enhanced from Rs. 300,000 to Rs. 350,000 for the Tax Year 2012.

(See complete proposed Tax Rate Card for Tax Year 2012 both for salaries and non-salaried individuals at the end of this document.)

2. Filing of return with zero tax introduced. [Section 114]

Through an additional proposed amendment it is proposed that individuals whose annual income is between Rs. 300,000 and Rs. 350,000 will be required to file return under section 114 of Income Tax Ordinance 2001.

3. Tax on cash withdrawals reduced. [Part IV of First Schedule]

The rate of tax deductible on Cash Withdrawals from Banks is proposed to be reduced to 0.2% from existing 0.3%, due to heavy criticism on the measure of increasing the rate year by year in the name of documentation of economy.

4. Threshold for filing of wealth statement is enhanced. [Section 116]

The threshold for filing of wealth statement is proposed to be increased from Rs. 500,000 to Rs. 1,000,000.

5. Scope for filing of wealth statement as a result of provisional assessment clarified. [Section 116]

It is proposed to require all members of AOP to file the wealth statements along with return of income as a result of provisional assessment.



6. Responsibilities of withholding tax agents are enhanced. [Section 165]

NTN and CNIC of taxpayers are proposed to be provided expressly along with other particulars of payees, in the withholding tax statements filed by withholding tax agents.

7. Filing of withholding tax statement is required monthly instead of quarterly. [Section 165]

The filing period for withholding tax statement is proposed to be changed again to monthly basis instead of quarterly basis.

8. Filing of annual withholding tax statement is required. [Section 165]

The filing of annual withholding tax statement is proposed to be made mandatory for every employer. In the said statement not only the information about the taxable employees will be furnished but also information of such employees, whose salary though exempt from tax but fall in the range of Rs. 300,000 to Rs. 350,000.

9. Filing dates of withholding tax statement are changed. [Section 165]

Filing dates of withholding tax statement is proposed to be changed to 15th date of the month following the month to which the withholding tax relates rather than the 20th date of the month following the end of the quarter to which the withholding tax relates.

10. Deduction under section 153 will be made inclusive of Sales Tax. [Section 153]

Section 153 is proposed to be changed to include the sales tax in the gross amount for sale of goods, services and contracts for the purposes of withholding tax under section 153.

11. Period for carrying forward of Turnover Tax (TOT) is enhanced. [Section 113]

Period for carrying forward of turnover tax is proposed to be enhanced from 3 years to 5 years.



12. Filing of return will be mandatory for certain commercial & industrial consumers of electricity. [Section 114]

For the purpose of identification of eligible taxpayers, the requirement of mandatory filing of return of income by the commercial and Industrial consumers of electricity having annual billing of more than Rs. 1 million is proposed.

13. Scope of unexplained income or assets is enhanced. [Section 111]

The scope of unexplained income or assets is proposed to be enhanced by bringing few more items i.e. suppression of production, sales, as well as receipts.

14. Appeal against order under section 122C is made impermissible. [Section 127]

Appeal to the Commissioner (Appeals) against the order made under section 122C is proposed to be impermissible.

15. Tax credit for 100% equity based industrial undertaking. [Section 65D]

To provide tax relief to new corporate industrial undertakings established on or after 1st July 2011, with 100% equity financing, a tax credit equal to 100% of tax payable is proposed. The existing companies may also take benefit under this arrangement if investment in BMR is financed through their 100% equity, on or after by 1st July 2011.

16. Tax on profit on debt received by a non-resident will be final. [Part II of 2nd Sch.]

The withholding tax on profit on debt on investment made by non-resident deductible @ 10% is proposed to be a final tax.

17. Tax on profit on debt arising from investment in Government securities will be final. [Section 151]

The withholding tax on profit on debt deductible @ 10% arising from investment in Government securities by individual is also proposed to be a final tax.



18. Tax credit on investment in shares and for premium paid to insurance company is rationalized. [Section 62]

In order to harmonize the existing tax credits available to individuals for investment in shares and for life insurance premium paid to Insurance Company, the maximum cumulative limit for both the investments is fixed @ 15% of the taxable income, with maximum upper limit for investment upto five hundred thousand.

19. Tax credit for enlistment on stock exchange is enhanced [Section 65C]

The existing tax credit for companies' enlistment on stock exchange equal to 5% is proposed to be enhanced to 15%.

20. CVT on modarba certificates & other capital instruments withdrawn. [Part II of 2nd Sch.]

Following imposition of capital gain tax on Modarba certificates and instruments of redeemable capital traded at stock exchange through Finance Act 2010, the 0.01% CVT on such instruments is proposed to be withdrawn.

21. Tax Rate on dividend of bank is enhanced. [Rule 6 of 7th Sch.]

In order to discourage the practice of arbitrage by banks for receiving 'dividends' from its Asset Management Companies, the rate of tax on such return is proposed to be enhanced from 10% to 20%.



PROPOSED TAX RATE CARD FOR SALARIED PERSONS

Where the income of an individual chargeable under the head "salary" exceeds fifty percent of his taxable income, the rates of tax to be applied shall be as set out in the following table namely: -

SN	TAXABLE INCOME	RATE OF TAX
1	Where the taxable income does not exceed Rs.350,000.	0%
2	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000.	1.5%
3	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.450,000.	2.5%
4	Where the taxable income exceeds Rs. 450,000 but does not exceed Rs.550,000.	3.5%
5	Where the taxable income exceeds Rs. 550,000 but does not exceed Rs.650,000.	4.5%
6	Where the taxable income exceeds Rs. 650,000 but does not exceed Rs.750,000.	6.0%
7	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs.900,000.	7.5%
8	Where the taxable income exceeds Rs. 900,000 but does not exceed Rs.1,050,000.	9.0%
9	Where the taxable income exceeds Rs. 1,050,000 but does not exceed Rs.1,200,000.	10.0%
10	Where the taxable income exceeds Rs. 1,200,000 but does not exceed Rs.1,450,000.	11.0%
11	Where the taxable income exceeds Rs. 1,450,000 but does not exceed Rs.1,700,000.	12.5%
12	Where the taxable income exceeds Rs. 1,700,000 but does not exceed Rs.1,950,000.	14.0%
13	Where the taxable income exceeds Rs. 1,950,000 but does not exceed Rs.2,250,000.	15.0%
14	Where the taxable income exceeds Rs. 2,250,000 but does not exceed Rs.2,850,000.	16.0%
15	Where the taxable income exceeds Rs. 2,850,000 but does not exceed Rs.3,550,000.	17.5%
16	Where the taxable income exceeds Rs. 3,550,000 but does not exceed Rs.4,550,000.	18.5%
17	Where the taxable income exceeds Rs. 4,550,000.	20.0%

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:

- (i) 20% of the amount by which the total income exceeds the said limit where the total income does not exceed Rs.550,000.
- (ii) 30% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.1,050,000.
- (iii) 40% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.2,250,000.
- (iv) 50% of the amount by which the total income exceeds in each slab but total income does not exceed Rs.4,550,000.
- (v) 60% of the amount by which the total income exceeds in each slab but the total income exceeds Rs.4,550,000.

When the relief worked out through this provision ceases to exist then it would not be applicable and tax shall be computed normally without marginal relief.

**PROPOSED TAX RATE CARD FOR NON-SALARIED PERSONS**

Non-Salaried Individual has to pay taxes on their income, the rates of tax to be applied shall be as set out in the following table namely: -

SN	TAXABLE INCOME	RATE OF TAX
1	Where the taxable income does not exceed Rs. 350,000.	0%
2	Where the taxable income exceeds Rs. 350,000 but does not exceed Rs.500,000.	7.5%
3	Where the taxable income exceeds Rs. 500,000 but does not exceed Rs.750,000.	10.0%
4	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs.1,000,000.	15.0%
5	Where the taxable income exceeds Rs. 1,000,000 but does not exceed Rs.1,500,000.	20.0%
6	Where the taxable income exceeds Rs. 1,500,000.	25.0%

TAX RATE CARD FOR ASSOCIATION OF PERSONS

Association of Persons has to pay tax on its taxable income at the rate of **25%**.

TAX RATE CARD FOR SMALL COMPANIES

The Small Companies has to pay tax on its taxable income at the rate of **25%**.

TAX RATE CARD FOR COMPANIES

The Companies has to pay tax on its taxable income at the rate of **35%**.

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