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# Tax in Budget 2016

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Finance Bill 2016

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Income Tax Changes  
Our Clients' Perspective only!

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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 the proposed amendments in income tax law and its implications on our clients which are limited liability companies (LLC), non-governmental organizations (NGO), association of persons (AOP) and individuals both salaried and non-salaried (IND).

We 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 on their businesses and work.

The information presented in this document has been taken from the Federal Budget and Finance Bill, 2016, as presented in the National Assembly on June 03 2016. It contains proposed amendments, which will become operative once the Finance Bill is formally passed in National Assembly and become Finance Act, 2016. 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 we want to thank our tax team for their contribution to compile this document.

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## Changes in Income Tax Law –

### ASC Clients' Perspective only.

#### 1. Tax on builders.

[Section 7C]

It is proposed through insertion of a new section 7C, that the fixed tax rates on the basis of size and location of the property according to the specified rates are being introduced for Builders of residential, commercial and other buildings for projects initiated and approved after July 01, 2016.

The proposed rates on the sale of commercial and residential buildings are as follows:

Areas	Commercial	Residential		
		Size in Square Feet		
		Upto 750	751 to 1500	Above 1501
Rates per Square feet in Rupees				
<b>A</b>	210	20	40	70
<b>B</b>	210	15	35	55
<b>C</b>	210	10	25	35

#### 2. Tax on Developers.

[Section 7D]

It is proposed through insertion of a new section 7D, that the fixed tax rates on the basis of size and location of the property according to the specified rates are being introduced for Developers of plots for projects initiated and approved after July 01, 2016.

The proposed rates on the sale of commercial and residential plots are as follows:

Areas	Commercial	Residential		
		Size in Square Yards		
		Upto 120	121 to 200	Above 201
Rates per square yard in Rupees				
<b>A</b>	210	20	40	70
<b>B</b>	210	15	35	55
<b>C</b>	210	10	25	35

#### 3. Income from Property

[Section 15 & 155 & First Schedule]

New sub sections to section 15 & 155 are proposed to be added, to specify new same rates of tax chargeable as well as and withholding tax rate for income from property and payments of rent.

And with the proposed changes the income from property shall be treated as separate block of income and all the existing deductible allowances against the income are no more allowed.

SN	Gross of amount rent	Rate of tax
1	Where the gross amount rent does not exceed Rs. 200,000.	Nil
2	Where the gross amount rent is between Rs. 200,000 to Rs. 600,000.	5% of amount exceeding Rs. 200,000.
3	Where the gross amount rent is between Rs. 600,001 to Rs. 1,000,000.	Rs 20,000 plus 10% of amount exceeding Rs. 600,000.
4	Where the gross amount rent is between Rs. 1,000,001 to Rs. 2,000,000.	Rs 60,000 plus 15% of amount exceeding Rs. 1,000,000.
5	Where the gross amount rent is more than Rs. 2,000,001.	Rs 210,000 plus 20% of amount exceeding Rs. 2,000,000.

#### 4. Deductions not allowed.

[Section 21]

It is proposed through substitution of clause (c) of section 21, to extend the inadmissibility of certain expenditure to all expenditure instead of currently specified expenses.

It has further been proposed that recovery / payment of tax under section 161 or 162 shall be treated as payment of tax and the related expense shall be considered admissible.

It has also proposed that disallowance under this clause shall not exceed 20% of purchases of raw materials and finished goods.

## 5. Tax Credit for investment in health insurance.

[Section 62A]

It is proposed through insertion of a new section 62A, to allow a tax credit to a resident person, other than a company, deriving income from salary or business in respect of health insurance premium paid or contribution made to an insurance company.

The tax credit shall be computed by using following formula:

$$(A/B) \times C$$

**A**=Tax Assessed

**B**=Taxable income

**C**= Lesser of premium or 5% of income or Rs. 100,000

## 6. Deductible Allowance for education expenses.

[Section 64AB]

It is proposed through insertion of a new section 62A, to allow a deductible allowance to an individual whose income is not more than Rs. 1,000,000 in respect of tuition fee paid in a tax year.

The deductible allowance shall not exceed the lesser of:

- 5% of tuition fee
- 25% of taxable income
- No of children x Rs. 60,000

The unadjusted allowance cannot be carried forward.

This tax credit is proposed to be allowed to either father or mother on furnishing of NTN and the name of the educational institution.

## 7. Tax credit for newly established industrial undertakings.

[Section 65D]

It is proposed through a substitution to in the provision of section 65D, to relax the condition of 100% equity for the entitlement of tax credit to 70% and the tax credit will be allowed proportionately. It is also proposed to extend the period to set up the industrial undertaking from 30 June 2016 to 30 June 2019.

## 8. Tax credit for industrial undertakings established before the first day of July, 2011.

[Section 65E]

It is proposed through a substitution to in the provision of section 65E to relax the condition of 100% equity for the entitlement of tax credit to 70% and the tax credit will be allowed proportionately. It is also proposed to extend the period to set up the industrial undertaking from 30 June 2016 to 30 June 2019.

## 9. Minimum tax on the income of certain persons.

[Section 113]

It is proposed through changes in section 113, to considerably lowering the threshold from Rs. 50 millions to Rs. 10 million for the payment of minimum tax by Individuals and AoPs based on turnover figures of Tax Year 2017.

Further, the minimum tax exemption under section 113 for companies showing gross loss proposed to be withdrawn.

## 10. Return of Income.

[Section 114]

It is proposed through substitution in the subsection 6 of section 114, to allow revision of return without approval of the Commissioner where the taxable income is more than or the loss is less than the loss declared in the original return or the commissioner has not made an order of approval within sixty days of the application for revision.

## 11. Refunds.

[Section 170]

It is proposed through a substitution in clause (c) to subsection 2 of section 170, to increase the period for filing of refund application from 2 years to 3 years.

## 12. Cash withdrawal from a bank / Advance tax on banking transactions otherwise than through cash.—

[Section 231A & 236P]

It is proposed through insertion of an explanation to sub section (1) of Section 231A, that the Rs. 50,000 threshold shall be aggregate withdrawals from all the bank accounts in a single day.

**TAX RATE CARD FOR SALARIED PERSONS TAX****YEAR 2017**

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: -

S N	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.500,000.	2% of the amount Exceeding Rs. 400,000.
3	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000.	Rs.2,000 + 5% of the amount exceeding Rs. 500,000.
4	Where the taxable income exceeds Rs. 750,000 but does not exceed Rs.1,400,000.	Rs.14,500 + 10% of the amount exceeding Rs. 750,000.
5	Where the taxable income exceeds Rs. 1,400,000 but does not exceed Rs.1,500,000.	Rs.79,500 + 12.5% of the amount exceeding Rs. 1,400,000.
6	Where the taxable income exceeds Rs. 1,500,000 but does not exceed Rs.1,800,000.	Rs.92,000 + 15% of the amount exceeding Rs. 1,500,000.
7	Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs.2,500,000.	Rs.137,000 + 17.5% of the amount exceeding Rs. 1,800,000.
8	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs.3,000,000.	Rs.259,500 + 20% of the amount exceeding Rs. 2,500,000.
9	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs.3,500,000.	Rs.359,500 + 22.5% of the amount exceeding Rs. 3,000,000.
10	Where the taxable income exceeds Rs. 3,500,000 but does not exceed Rs.4,000,000.	Rs.472,000 + 25% of the amount exceeding Rs. 3,500,000.
11	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs.7,000,000.	Rs.597,000 + 27.5% of the amount exceeding Rs. 4,000,000.
12	Where the taxable income exceeds Rs. 7,000,000	Rs.1,422,000 + 30% of the amount exceeding Rs. 7,000,000.

**TAX RATE CARD FOR NON-SALARIED / BUSINESS INDIVIDUALS & ASSOCIATION OF PERSONS (AOPS) TAX YEAR 2017**

Non-Salaried / Business Individual & Association of Persons (AOPs) have to pay taxes on their income, the rates of tax are follows: -

S N	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.500,000.	7% of the amount exceeding Rs.400,000.
3	Where the taxable income exceeds Rs.500,000 but does not exceed Rs.750,000.	Rs.7,000 + 10% of the amount exceeding Rs.500,000.
4	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.1,500,000.	Rs.32,000 + 15% of the amount exceeding Rs.750,000.
5	Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.2,500,000.	Rs.144,500 + 20% of the amount exceeding Rs.1,500,000.
6	Where the taxable income exceeds Rs.2,500,000 but does not exceed Rs.4,000,000.	Rs.344,500 + 25% of the amount exceeding Rs.2,500,000.
7	Where the taxable income exceeds Rs.4,000,000 but does not exceed Rs.6,000,000.	Rs.719,500 + 30% of the amount exceeding Rs.4,000,000.
8	Where the taxable income exceeds Rs.6,000,000	Rs.1,319,500 + 35% of the amount exceeding Rs.6,000,000.

**TAX RATE CARD FOR SMALL COMPANIES TAX YEAR 2017**

The Small Companies has to pay tax at the rate of 25%.

**TAX RATE CARD FOR OTHER COMPANIES TAX YEAR 2017**

The Companies other than banking companies has to pay tax on its taxable income at the rate of 31%, whereas the banking companies have to pay 35%.

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