

Tax on
Salary

2021

"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 2021 based on the Finance Act, 2020"

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 75% 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-imburement of medical or hospitalization charges is not provided in the terms of employment.

(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. Drastic change is made again in the existing tax rates through Finance Act 2020 resultantly the tax liability for Tax Year 2021 will be higher than Tax Year 2019.

The rates for **Tax Year 2021** are as follows:

S.No	TAXABLE INCOME	RATE OF TAX
1	Where the taxable income does not exceed Rs. 600,000.	0%
2	Where the taxable income exceeds Rs.600,000 but does not exceed Rs.1,200,000.	5% of the amount exceeding Rs. 600,000.
3	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,800,000.	Rs.30,000 + 10% of the amount exceeding Rs. 1,200,000.
4	Where the taxable income exceeds Rs. 1,800,000 but does not exceed Rs.2,500,000.	Rs.90,000 + 15% of the amount exceeding Rs. 1,800,000.
5	Where the taxable income exceeds Rs. 2,500,000 but does not exceed Rs.3,500,000.	Rs.195,000 + 17.5% of the amount exceeding Rs. 2,500,000.
6	Where the taxable income exceeds Rs. 3,500,000 but does not exceed Rs.5,000,000.	Rs.370,000 + 20% of the amount exceeding Rs. 3,500,000.
7	Where the taxable income exceeds Rs. 5,000,000 but does not exceed Rs.8,000,000.	Rs.670,000 + 22.5% of the amount exceeding Rs. 5,000,000.
8	Where the taxable income exceeds Rs. 8,000,000 but does not exceed Rs.12,000,000.	Rs.1,345,000 + 25% of the amount exceeding Rs. 8,000,000.
9	Where the taxable income exceeds Rs. 12,000,000 but does not exceed Rs.30,000,000.	Rs.2,345,000 + 27.5% of the amount exceeding Rs. 12,000,000.
10	Where the taxable income exceeds Rs. 30,000,000 but does not exceed Rs.50,000,000.	Rs.7,295,000 + 30% of the amount exceeding Rs. 30,000,000.
11	Where the taxable income exceeds Rs. 50,000,000 but does not exceed Rs.75,000,000.	Rs.13,295,000 + 32.5% of the amount exceeding Rs. 50,000,000.
12	Where the taxable income exceeds Rs. 75,000,000	Rs.21,420,000 + 35% of the amount exceeding Rs. 75,000,000.

TAX REDUCERS

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

Teacher or Researcher

A reduction of 25% 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 research institution.

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

The above reduction of 25% is not available to teachers of medical profession who derived income from private medical practice or who received shares of consideration received from patients.

Note;

Senior Citizen Relief as well as Relief for Disabled Taxpayer will no more be available with effect from July 01, 2019.

FILING OF TAX RETURN

When salary income exceeds the taxable limit i.e. Rs 600,000 in a tax year, the salaried person shall file return of income electronically in the prescribed form and it shall be accompanied by the proof of deduction or payment of tax.

WHO IS A FILER?

Filer is a person whose name appears in the active taxpayers list **ATL** of the FBR. And non-filer is a person whose name is not appearing in the active taxpayer list **ATL** due to non-filing or late filing of income tax return or non-furnishing or non-updating a taxpayer's profile.

REGISTRATION NUMBER / NATIONAL TAX NUMBER

Every person who derives taxable income is required to get registered with FBR by following the prescribed procedure. A taxpayer can obtain registration number / NTN by submitting an application in the prescribed form and other required documents electronically.

WEALTH STATEMENT

A salaried taxpayer who is required to file return of income shall also file wealth statement along with reconciliation of wealth statement. Wealth statement is a statement of assets and liabilities of a taxpayer at the end of the tax year. It includes disclosure of all immovable properties as well as movable properties including plots, houses, flats, vehicles, investments and shares, jewelry, bank balances, cash in hand and loan payables. It also include the detail of personal expenses and source of income to justify the assets acquired.

This mandatory filing of Wealth statement has been made effective from the Tax Year 2014 onward.

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;
- the detail of such total expenditures incurred by taxpayer and his or her spouse, minor children, and other dependents during the year; and
- the reconciliation statement of wealth.

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);
- On cash withdrawal from bank (if the bank account is in the name of employee);
- On other banking transactions u/s 236P (if the bank account is in the name of employee);
- On purchase of domestic & International air tickets (if the ticket is in the name of employee);
- On sales & purchase of property (if the sale or purchase deed is in the name of employee);
- On payment of educational fee (if the challan is in the name of employee);
- On payment of educational fee remitted abroad (if the challan is in the name of employee);
- On payment of insurance premium (if the challan is in the name of employee); and
- On payment of function & gathering (if the challan is in the name of employee);

Allow tax credits available to an employee on:

- (a) deductible allowance for profit on debt (house loan etc.) (section 60C of ITO 2001);
- (b) deductible allowance for education expenses (section 60D of ITO 2001);
- (c) donations to approved NPOs (section 61 of ITO 2001);
- (d) investment in shares & insurance (section 62 of ITO 2001);
- (e) investment in health insurance (section 62A of ITO 2001);
- (f) contribution to approved pension funds (section 63 of ITO 2001); and

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 quarterly statement on prescribed form regarding the deduction of tax from salaries of employees within the twenty days of the end of the relevant quarter. The quarterly statement is required to be filed even if there is no withholding tax deduction during the relevant period.

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 within forty-five days after the end of the financial year.

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