Income from Salary

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1. **Section 2. Definitions**

   (20) “employee” means any individual engaged in employment;

   (21) “employer” means any person who engages and remunerates an employee;

   (22) “employment includes –

   (a) a directorship or any other office involved in the management of a company;

   (b) a position entitling the holder to a fixed or ascertainable remuneration; or

   (c) the holding or acting in any public office;  

   **(New)**

   (23) “fee for technical services” means any consideration, whether periodical or lump sum, for the rendering of any managerial, technical or consultancy services including the services of technical or other personnel, but does not include –

   (a) consideration for services rendered in relation to a construction, assembly or like project undertaken by the recipient; or

   (b) consideration which would be income of the recipient chargeable under the head “Salary”  

   **(New)**

   (55) “salary” means salary as defined in section 12;  

   **(1979: Sec 16 (1)(a)(b))**

   (3) “approved gratuity fund” means a gratuity fund approved by the Commissioner in accordance with Part III of the Sixth Schedule;

   ¹[(3D)“Approved Employment Pension or Annuity Scheme” means any employment related retirement scheme approved under this Ordinance, which makes periodical payment to a beneficiary *i.e.* pension or annuity such as approved superannuation fund, public sector pension scheme and Employees Old-Age Benefit Scheme;]

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¹ Inserted by the Finance Act, 2006.
2[(13B) “Contribution to an Approved Pension Fund” means contribution as defined in rule 2(j) of the Voluntary Pension System Rules, 2005.]

4[(3E) “Approved Occupational Savings Scheme” means any approved gratuity fund or recognized provident fund;]

(4) “approved superannuation fund” means a superannuation fund, or any part of a superannuation fund, approved by the Commissioner in accordance with Part II of the Sixth Schedule;

5[(19A) “Eligible Person”, for the purpose of Voluntary Pension System Rules, 2005, means an individual Pakistani who has obtained a valid National Tax Number.

Provided that the total tax credit available for the contribution made to approved employment pension or annuity scheme and approved pension fund under Voluntary Pension System Rules, 2005, should not exceed the limit prescribed or specified in section 63.]

2. Section 11. Heads of income

(1979: Sec 15)

(1) For the purposes of the imposition of tax and the computation of total income, all income shall be classified under the following heads, namely:–

(a) Salary;
(b) Income from Property;
(c) Income from Business;
(d) Capital Gains; and
(e) Income from Other Sources.

2 Inserted by the Finance Act, 2005.
3 The comma and words “, but not exceeding five hundred thousand rupees in a tax year” omitted by the Finance Act, 2006.
4 Inserted by the Finance Act, 2006
5 Inserted by the Finance Act, 2005.
6 The words “but does not include an individual who is entitled to benefit under any other approved employment pension or annuity scheme” omitted by the Finance Act, 2006.
7 The semicolon substituted by the Finance Act, 2006.
8 Inserted by the Finance Act, 2006.
3. **Section 12. Salary**

(1979: Sec 16)

(1) Any salary received by an employee in a tax year, other than salary that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head “Salary”.

(2) Salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including -

(a) any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements (such as for unpleasant or dangerous working conditions);

(b) any perquisite, whether convertible to money or not;

(c) the amount of any allowance provided by an employer to an employee including a cost of living, subsistence, rent, utilities, education, entertainment or travel allowance, but shall not include any allowance solely expended in the performance of the employee’s duties of employment;

(d) the amount of any expenditure incurred by an employee that is paid or reimbursed by the employer, other than expenditure incurred on behalf of the employer in the performance of the employee’s duties of employment;

(e) the amount of any profits in lieu of, or in addition to, salary or wages, including any amount received –

(i) as consideration for a person’s agreement to enter into an employment relationship;

(ii) as consideration for an employee’s agreement to any conditions of employment or any changes to the employee’s conditions of employment;

(iii) on termination of employment, whether paid voluntarily or under an agreement, including any compensation for redundancy or loss of employment and golden handshake payments;
(iv) from a provident or other fund, to the extent to which the amount is not a repayment of contributions made by the employee to the fund in respect of which the employee was not entitled to a deduction; and

(v) as consideration for an employee’s agreement to a restrictive covenant in respect of any past, present or prospective employment;

(f) any pension or annuity, or any supplement to a pension or annuity; and

(g) any amount chargeable to tax as “Salary” under section 14.

(3) Where an employer agrees to pay the tax chargeable on an employee’s salary, the amount of the employee’s income chargeable under the head “Salary” shall be grossed up by the amount of tax payable by the employer.

(4) No deduction shall be allowed for any expenditure incurred by an employee in deriving amounts chargeable to tax under the head “Salary”.

(5) For the purposes of this Ordinance, an amount or perquisite shall be treated as received by an employee from any employment regardless of whether the amount or perquisite is paid or provided –

(a) by the employee’s employer, an associate of the employer, or by a third party under an arrangement with the employer or an associate of the employer;

(b) by a past employer or a prospective employer; or

(c) to the employee or to an associate of the employee or to a third party under an agreement with the employee or an associate of the employee.

(6) An employee who has received an amount referred to in sub-clause (iii) of clause (e) of sub-section (2) in a tax year may, by notice in writing to the Commissioner, elect for the amount to be taxed at
the rate computed in accordance with the following formula, namely:–

\[ \frac{A}{B} \% \]

where –

A is the total tax paid or payable by the employee on the employee’s total taxable income for the three preceding tax years; and

B is the employee’s total taxable income for the three preceding tax years.

(7) Where –

(a) any amount chargeable under the head “Salary” is paid to an employee in arrears; and

(b) as a result the employee is chargeable at higher rates of tax than would have been applicable if the amount had been paid to the employee in the tax year in which the services were rendered,

the employee may, by notice in writing to the Commissioner, elect for the amount to be taxed at the rates of tax that would have been applicable if the salary had been paid to the employee in the tax year in which the services were rendered.

(8) An election under sub-section (6) or (7) shall be made by the due date for furnishing the employee’s return of income or employer certificate, as the case may be, for the tax year in which the amount was received or by such later date as the Commissioner may allow.

3.1 Section 14. Employee share schemes

(New)

(1) The value of a right or option to acquire shares under an employee share scheme granted to an employee shall not be chargeable to tax.

(2) Subject to sub-section (3), where, in a tax year, an employee is issued with shares under an employee share scheme including as a result of the exercise of an option or right to acquire the shares, the
amount chargeable to tax to the employee under the head “Salary” for that year shall include the fair market value of the shares determined at the date of issue, as reduced by any consideration given by the employee for the shares including any amount given as consideration for the grant of a right or option to acquire the shares.

(3) Where shares issued to an employee under an employee share scheme are subject to a restriction on the transfer of the shares -

(a) no amount shall be chargeable to tax to the employee under the head “Salary” until the earlier of –

(i) the time the employee has a free right to transfer the shares; or

(ii) the time the employee disposes of the shares; and

(b) the amount chargeable to tax to the employee shall be the fair market value of the shares at the time the employee has a free right to transfer the shares or disposes of the shares, as the case may be, as reduced by any consideration given by the employee for the shares including any amount given as consideration for the grant of a right or option to acquire the shares.

(4) For purposes of this Ordinance, where sub-section (2) or (3) applies, the cost of the shares to the employee shall be the sum of –

(a) the consideration, if any, given by the employee for the shares;

(b) the consideration, if any, given by the employee for the grant of any right or option to acquire the shares; and

(c) the amount chargeable to tax under the head “Salary” under those sub-sections.

(5) Where, in a tax year, an employee disposes of a right or option to acquire shares under an employee share scheme, the amount chargeable to tax to the employee under the head “Salary” for that year shall include the amount of any gain made on the disposal computed in accordance with the following formula, namely:
A-B

where –

A is the consideration received for the disposal of the right or option; and

B is the employee’s cost in respect of the right or option.

(6) In this sub-section, “employee share scheme” means any agreement or arrangement under which a company may issue shares in the company to –

(a) an employee of the company or an employee of an associated company; or

(b) the trustee of a trust and under the trust deed the trustee may transfer the shares to an employee of the company or an employee of an associated company.

4. Section 13. Value of perquisites

(1979: Rule 3 of 1982 Rules)

(1) For the purposes of computing the income of an employee for a tax year chargeable to tax under the head “Salary”, the value of any perquisite provided by an employer to the employee in that year that is included in the employee’s salary under section 12 shall be determined in accordance with this section.

(2) This section shall not apply to any amount referred to in clause (c) or (d) of sub-section (2) of section 12.

(3) Where, in a tax year, a motor vehicle is provided by an employer to an employee wholly or partly for the private use of the employee, the amount chargeable to tax to the employee under the head “Salary” for that year shall include an amount computed as may be prescribed.

(5) Where, in a tax year, the services of a housekeeper, driver, gardener or other domestic assistant is provided by an employer to an employee, the amount chargeable to tax to the employee under the head “Salary” for that year shall include the total salary paid to the domestic assistant such as housekeeper, doctor, gardener or other assistant.
domestic assistant in that year for services rendered to the employee, as reduced by any payment made to the employer for such services.

(6) Where, in a tax year, utilities are provided by an employer to an employee, the amount chargeable to tax to the employee under the head “Salary” for that year shall include the fair market value of the utilities provided, as reduced by any payment made by the employee for the utilities.

(7) Where a loan is made, on or after the 1st day of July, 2002, by an employer to an employee and either no profit on loan is payable by the employee or the rate of profit on loan is less than the benchmark rate, the amount chargeable to tax to the employee under the head “Salary” for a tax year shall include an amount equal to-

(a) the profit on loan computed at the benchmark rate, where no profit on loan is payable by the employee, or

(b) the difference between the amount of profit on loan paid by the employee in that tax year and the amount of profit on loan computed at the benchmark rate,

as the case may be.

(8) For the purposes of this Ordinance not including sub-section (7), where the employee uses a loan referred to in sub-section (7) wholly or partly for the acquisition of any asset or property producing income chargeable to tax under any head of income, the employee shall be treated as having paid an amount as profit equal to the benchmark rate on the loan or that part of the loan used to acquire the asset or property.

(9) Where, in a tax year, an obligation of an employee to pay or repay an amount owing by the employee to the employer is waived by the employer, the amount chargeable to tax to the employee under the head “Salary” for that year shall include the amount so waived.

(10) Where, in a tax year, an obligation of an employee to pay or repay an amount owing by the employee to another person is paid by the employer, the amount chargeable to tax to the employee under the head “Salary” for that year shall include the amount so paid.
(11) Where, in a tax year, property is transferred or services are provided by an employer to an employee, the amount chargeable to tax to the employee under the head “Salary” for that year shall include the fair market value of the property or services determined at the time the property is transferred or the services are provided, as reduced by any payment made by the employee for the property or services.

(12) Where, in the tax year, accommodation or housing is provided by an employer to an employee, the amount chargeable to tax to the employee under the head “Salary” for that year shall include an amount computed as may be prescribed.

(13) Where, in a tax year, an employer has provided an employee with a perquisite which is not covered by sub-sections (3) through (12), the amount chargeable to tax to the employee under the head “Salary” for that year shall include the fair market value of the perquisite, except where the rules, if any, provide otherwise, determined at the time it is provided, as reduced by any payment made by the employee for the perquisite.

(14) In this section,-

(a) “benchmark rate” means --

(i) for the tax year commencing on the first day of July, 2002, a rate of five percent per annum; and

(ii) for the tax years next following the tax year referred to in sub-clause (i), the rate for each successive year taken at one percent above the rate applicable for the immediately preceding tax year, but not exceeding such rate, if any, as the Federal Government may, by notification, specify in respect of any tax year;

(b) “services” includes the provision of any facility; and

(c) “utilities” includes electricity, gas, water and telephone.
5. Income Tax Rules, 2002

3. **Valuation of perquisites, allowances and benefits.**

For the purposes of computing the income chargeable to tax under the head “salary”, the value of all perquisites, allowances and benefits provided by the employer to the employee shall be included in the said income in accordance with the rules 4 to 7.

4. **Valuation of Accommodation.**

The value of accommodation provided by an employer to the employee shall be taken equal to the amount that would have been paid by the employer in case such accommodation was not provided.

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Before substitution Rule 4 read as follows:-

4. For the purpose of determining the value of perquisites, allowances and benefits under rule:

(a) “annual value” of an accommodation means the sum for which the accommodation might reasonably be expected to let from year to year;

(b) “basic salary” means the pay and allowances payable monthly or otherwise, but does not include:

(i) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned;

(ii) employer’s contribution to a recognised provident fund or a fund to which the Provident Funds Act, 1925 (XIX of 1925), applies and the interest credited on the accumulated balance of an employee in such fund;

(iii) allowances which are exempt from the payment of tax under any provision of this Ordinance;

(iv) allowances and perquisites referred to in sub-clauses (b) to (f) of sub-section (2) of section 12, sub-section (3) of section 12, section 14; and

(v) allowances, perquisites, annuities and benefits referred to in rules 5 to 9;

(c) “salary” means remuneration or compensation for services rendered, paid or to be paid at regular intervals and includes overseas, dearness or cost of living allowance by whatever name it may be described, and bonus or commission which is payable to an employee in accordance with the terms of his employment as remuneration or compensation for services including any amount received by an employee from any employment, whether of a revenue or capital nature, including the amounts referred to in sub-section (2) of section 12, but does not include the employer’s contribution to a recognized provident or superannuation fund or gratuity fund or any other sum which does not enter into the computation for pension or retirement benefits;

(d) “employee” includes a director of a company working whole-time for one company

(e) “unfurnished accommodation or housing” includes electric fans, built in cupboards, cooking range and water heater; and

(f) “furnished accommodation or housing” includes basic furniture and furnishing, appliances for cooking, refrigeration and heating and cooling appliances in addition to the items available in respect of “unfurnished accommodation or housing”.

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Provided that the value taken for this purpose shall, in any case, not be less than forty five percent of the minimum of the time scale of the basic salary or the basic salary where there is no time scale.

5. **Valuation of conveyance.-**

The value of conveyance provided by the employer to the employee shall be taken equal to an amount as below: -

(i) Partly for personal and partly for official use 5% of:

(a) the cost to the employer for acquiring the motor vehicle; or,

(b) the fair market value of the motor vehicle at the commencement of the lease, if the motor vehicle is taken on lease by the employer;

(ii) For personal use only 10% of:

(a) the cost to the employer for acquiring the motor vehicle; or,

(b) the fair market value of the motor vehicle at the commencement of the lease, if the motor vehicle is taken on lease by the employer; and

6. For the purpose of this part, “employee” includes a director of a company.

7. These Rules shall be applicable for the salary income received after thirtieth of June 2006].
5A. Rent-free unfurnished accommodation.- Where rent-free accommodation is provided to an employee, there shall be included, in the total income of such employee, an amount calculated as under:-

<table>
<thead>
<tr>
<th>Value of accommodation</th>
<th>Amount to be included in the total income.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Where the annual value of the accommodation does not exceed an amount equal to forty-five per cent of the minimum of the time scale of his basic salary or the basic salary where there is no time scale.</td>
<td>Nil</td>
</tr>
<tr>
<td>(b) Where the annual value of the accommodation exceeds an amount equal to forty-five per cent of the minimum of the time scale of his basic salary or the basic salary where there is no time scale.</td>
<td>The amount exceeding forty-five per cent of the minimum of the time scale of his basic salary or the basic salary where there is no time scale, subject to a maximum of fifteen per cent of salary.</td>
</tr>
</tbody>
</table>

5B. Rent free furnished accommodation.- Where rent free furnished accommodation is provided to the employee, an amount equal to ten percent of his salary over and above the amount determined for inclusion under rule 5A shall be added to his income.

5C. Accommodation hired by the employee with rent payable by the employer.- Where the accommodation is hired by the employee in his own name but the rent is payable by the employer, the amount includable in the salary shall be determined under rule 5A or 5B, as the case may be as reduced by any payment made by the employee for such accommodation.

5D. Accommodation provided at a concessional rate.- Where the accommodation is provided to the employee, other than a person in the civil or military employment of the Government, at a concessional rate, the difference between the rent actually paid by him and the amount determined to be includible in an employee’s salary under rule 5A or 5B shall be added to his income.

5E. House rent allowance receivable in addition to accommodation, etc.- Where any house rent allowance is receivable by the employee in addition to the benefits referred to in rules 5A, 5B, 5C or 5D, the whole amount of the allowance shall be added in his income in addition to the amount computed under any of the said rules.

6. Conveyance allowance receivable in cash with no conveyance facility.- Where neither any conveyance is provided by the employer nor any conveyance owned or maintained by the employee is used by him in the performance of the duties of office held by him and conveyance allowance is receivable by him in cash, the amount of such allowance exceeding Rs. 3600 or the actual expenditure incurred by the employee, which ever is less, shall be included in his income.

6A. Motor vehicle provided exclusively for personal or private use.- Where a motor vehicle is provided by the employer for the use of the employee exclusively for personal or private purposes, there shall be included in the employee’s income an amount equal to-

   (a) the sum actually expended by the employer on running and maintenance of the motor vehicle (including normal depreciation, where the motor vehicle is owned or the amount of rental where the motor vehicle is hired by the employer) if the motor vehicle is used by one employee; and

   (b) the sum arrived at by dividing the amount as computed under sub-rule (a) by the number of persons entitled to use the motor vehicle if the motor vehicle is used by more than one employee.

6B. Additional conveyance allowance.- Where any conveyance allowance is receivable by an employee in addition to the perquisite mentioned in rule 6A, the whole amount of such allowance plus the amount determined under the rule 6A shall be included in his income.

6C. Motor vehicle used partly for personal and partly for business purposes.- Where the motor vehicle is used by the employee partly for his personal and partly for business purposes, there shall be included in his income,-

   (a) where the motor vehicle is owned or hired by the employer and its running (including hire and maintenance) costs are also borne by the employer and the motor vehicle is used exclusively by
one person, 50 per cent of the sum actually expended on the running of the motor vehicle (including maintenance and normal depreciation where the motor vehicle is owned or the amount of rental where it is hired by the employer) or Rs.3600, whichever is the less;

(b) where the motor vehicle is owned or hired by the employer and its running (including hire and maintenance) costs are also borne by the employer and the motor vehicle is used by more than one person, the sum arrived at by dividing the amount representing 50 per cent of the sum actually expended by the employer on the running of the motor vehicle (including maintenance and normal depreciation where the motor vehicle is owned or the amount of rental where it is hired by the employer) by the number of such persons or Rs.2400, whichever is the less;

(c) where the motor vehicle is owned or hired by the employer and its running cost is borne by the employee, the amount, if any, by which the conveyance allowance paid by the employer exceeds Rs.2400 or 7.5 per cent of the basic salary, whichever of these two sums is the higher;

(d) where the motor vehicle is owned by the employee and its running (including hire and maintenance) costs are borne by him the amount by which the conveyance allowance paid by the employer exceed Rs.3600 or 10 per cent of the basic salary, whichever of these two sums is the higher; and

(e) where the motor vehicle is owned by the employee and its running (including hire and maintenance) costs are borne by the employer, the amount, if any, by which the conveyance allowance paid by the employer exceeds Rs.1200 or 2.5 per cent of the basic salary, whichever of these two sums is the higher.

6D. Motor vehicle used exclusively for business purposes.- Where the motor vehicle is used by the employee exclusively for business purposes, there shall be included in his income,-

(a) where the motor vehicle is owned or hired by the employer and its running (including hire and maintenance) costs are also borne by him, the whole amount of the conveyance allowance, if any, receivable by the employee;

(b) where the motor vehicle is owned or hired by the employer and its running (including hire and maintenance) costs are borne by the employee, the amount, if any, by which the conveyance allowance paid by the employer exceeds the actual expenditure incurred by the employee on the running (including maintenance) of the motor vehicle;

(c) where the motor vehicle is owned or hired by the employee and its running (including maintenance) costs are borne by him, the amount, if any, by which the conveyance allowance paid by the employer exceeds Rs.4800 or 10 per cent of the basic salary, whichever of these two sums is the higher;

(d) where the motor vehicle is owned by the employee and its running (including maintenance) costs are borne by the employer, the amount, if any, by which the conveyance allowance paid by the employer exceeds Rs.2400 or 7.5 per cent of the basic salary, whichever of these two sums is the higher.

7. Provision of passage for travel.- (1) Where free or concessional passage for travel abroad or within Pakistan is provided by the employer to an employee (including the members of his household and dependants), there shall be included in the income of the employee-

(i) where the passage is provided in accordance with the terms of employment, an amount equal to the sum by which the cash payment, if any, made by the employer exceeds the actual expenditure on fare incurred by the employee; or

(ii) where the passage is not in accordance with the terms of employment, the whole of the mount paid in cash, if any, or if no cash payment is made, the amount which would have been expended by the employee had the free or concessional passage, as the cash may be, not been provided by the employer:

Provided that where free or concessional passage for travel abroad is availed of by the employee more than once in two years and more than once in three years for the members of his
household and dependants, the whole of the amount paid to him in cash, if any, for such additional passage or if no cash payment is made the amount which would have been expended by him, had the additional passage not been provided by the employer shall be included in his income.

(2) Where the transport is provided free of cost, or at the concessional rate, by an undertaking engaged in the transport of passengers or the carriage of goods to any employee of the undertaking (including the members of the household and dependants) in any conveyance owned or chartered by the undertakings for the purpose of the transport of the passengers or carriage of goods, nothing shall be added in his income.

8. Minor Perquisites.- The provision by an employer to an employee of tea, coffee and other similar refreshment at the employer’s business premises during the course of work shall not be treated as salary of employee.

9. Valuation of perquisites, allowances, benefits where salary is Rs.600,000 or more.- (1) Where income chargeable under the head “Salary” of an employee including the value of perquisites as determined under rule 4 to 8 is six hundred thousand rupees or more for any tax year, the value of allowances perquisites and benefits shall be determined in accordance with sub rule (2 to 5) of this rule.

(2) Where any allowance or perquisite is receivable in cash, the whole of such amount shall be included in the employee’s salary except house rent allowance receivable by the employee in cash up to 45% of the minimum of the time scale of his basic salary or the basic salary where there is no time scale subject to a maximum of two hundred seventy thousand rupees.

(3) Where any perquisite is receivable otherwise, than in cash, the amount chargeable to the employee under the head “salary” for that year shall include the fair market value of the perquisite, determined at time it is provided, except provision of housing or accommodation, and provision of motor vehicle, as reduced by any amount paid by the employee for the perquisite.

(4) The value of accommodation or housing for the purposes of sub-section (12) of section 13 shall be determined as under:

(a) Where free unfurnished accommodation or housing is provided to the employee, the value for addition to the income shall be made on the following basis as reduced by 45% of the minimum of the time scale of his basic salary or the basic salary where there is no time scale, subject to a maximum of two hundred and seventy thousand rupees.

<table>
<thead>
<tr>
<th>Accommodation or housing-</th>
<th>Value for areas falling within the limits of Metropolitan Corporation, Municipal Corporation, Cantonment Board or the Islamabad Capital Territory.</th>
<th>Value for other areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>With land area upto 250 sq. yards.</td>
<td>Rs.40,000</td>
<td>Rs.27,000</td>
</tr>
<tr>
<td>With land areas exceeding 250 sq. yards but not exceeding 500 sq. yards.</td>
<td>Rs.106,000</td>
<td>Rs.66,000</td>
</tr>
<tr>
<td>With land area exceeding 500 sq. yards but not exceeding 1000 sq. yards.</td>
<td>Rs.1,99,000</td>
<td>Rs.106,000</td>
</tr>
</tbody>
</table>
6. **Section 15. Income from property**

(1979: Sec 19)

(4) Subject to sub-section (5), where the rent received or receivable by a person is less than the fair market rent for the property, the person shall be treated as having derived the fair market rent for the period the property is let on rent in the tax year.

(5) Sub-section (4) shall not apply where the fair market rent is included in the income of the lessee chargeable to tax under the head “Salary”.

| With land area exceeding 1000 sq. yards but not exceeding 2000 sq. yards. | 1. Rs. 370,000 | 2. Rs. 198,000 |
| With land area exceeding 2000 sq. yards. | 3. Rs. 462,000 | 4. Rs. 264,000 |

(b) Where free furnished accommodation is provided to the employee, the value for addition to income shall be the amount determined under clause (a) of this sub-rule as increased by and a further sum equal to 15 per cent of the said amount.

(5) The value of perquisite representing provision of a motor vehicle, for the purposes of sub-section (3) of section 13, shall be determined as under:-

(a) where the motor vehicle is provided by an employer wholly for private use of the employee, 10% of the cost to the employer for acquiring the motor vehicle or the fair market value of the vehicle at the commencement of lease, if the motor vehicle is taken on lease by the employer;

(b) where the motor vehicle is provided by an employer partly for private use of the employee, 5% of the cost to the employer for acquiring the motor vehicle or the fair market value of the vehicle at the commencement of lease, if the motor vehicle is taken on lease by the employer;

(c) where the motor vehicle is used by more than one employee, the amount as determined in clause (a) or (b), as the case may be, divided by number of employees using the motor vehicle;

(d) where an employee makes any payment to the employer in respect of the use of motor vehicle, the value of perquisite as determined under clause (a), (b) or (c) as reduced by the amount paid by him.
7. **Section 60. Zakat**  

(NeW)

(1) A person shall be entitled to a deductible allowance for the amount of any Zakat paid by the person in a tax year under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

(2) Sub-section (1) does not apply to any Zakat taken into account under sub-section (2) of section 40.

(3) Any allowance or part of an allowance under this section for a tax year that is not able to be deducted under section 9 for the year shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year.

8. **Tax Credits**

8.1 **Section 61. Charitable donations**  

(1979: Sec 47 read with 1st Sch. Part I Para A(e))

(1) A person shall be entitled to a tax credit in respect of any sum paid, or any property given by the person in the tax year as a donation to -

(a) any board of education or any university in Pakistan established by, or under, a Federal or a Provincial law;

(b) any educational institution, hospital or relief fund established or run in Pakistan by Federal Government or a Provincial Government or a local authority; or

(c) any non-profit organization.]

(2) The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely:–

\[(A/B) \times C\]

where –
A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person’s taxable income for the tax year; and

C is the lesser of –

(a) the total amount of the person’s donations referred to in sub-section (1) in the year, including the fair market value of any property given; or

(b) where the person is –

   (i) an individual or association of persons, thirty per cent of the taxable income of the person for the year; or

   (ii) a company, fifteen per cent of the taxable income of the person for the year.

(3) For the purposes of clause (a) of component C of the formula in sub-section (2), the fair market value of any property given shall be determined at the time it is given.

(4) A cash amount paid by a person as a donation shall be taken into account under clause (a) of component C of sub-section (2) only if it was paid by a crossed cheque drawn on a bank.

13[(5) The Central Board of Revenue may make rules regulating the procedure of the grant of approval under sub-clause (c) of clause (36) of section 2 and any other matter connected with, or incidental to, the operation of this section.]

8.1.1 Exemptions from Specific Provisions

Second Schedule:  
Part IV

Clause (3) The provisions of clause (b) of 14[component C of the formula contained in] sub-section (2) of section 61 shall not

13 Added by the Finance Act, 2003.
14 Substituted for the words “component C of” by the Finance Act, 2003.
apply in case of donations made to Agha Khan Hospital and Medical College, Karachi:

8.2 Section 62. Investment in shares

(1979: Sec 41A)

(1) A person other than a company shall be entitled to a tax credit for a tax year in respect of the cost of acquiring in the year new shares offered to the public by a public company listed on a stock exchange in Pakistan where the person is the original allottee of the shares or the shares are acquired from the Privatization Commission of Pakistan.

(2) The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: –

\[(A/B) \times C\]

where –

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person’s taxable income for the tax year; and

C is the lesser of –

(a) the total cost of acquiring the shares referred to in sub-section (1) in the year;

(b) ten per cent of the person’s taxable income for the year; or

(c) two hundred thousand rupees.

(3) Where –

(a) a person has been allowed a tax credit under sub-section (1) in a tax year in respect of the purchase of a share; and

\[\text{Inserted by the Finance Act, 2003.}\]

\[\text{Inserted by the Finance Act, 2003.}\]

\[\text{Substituted for the word “total” by the Finance Act, 2003.}\]

\[\text{The words “one hundred and fifty” substituted by the Finance Act, 2006.}\]

\[\text{Substituted for the word “claimed” by the Finance Act, 2003.}\]
(b) the person has made a disposal of the share within twelve months of the date of acquisition,

the amount of tax payable by the person for the tax year in which the shares were disposed of shall be increased by the amount of the credit allowed.

8.3 Section 63. Contribution to an Approved Pension Fund

(1979: Sec 44 to 44AA)

(1) An eligible person as defined in sub-section (19A) of section 2 deriving income chargeable to tax under the head “Salary” or the head “Income from Business” shall be entitled to a tax credit for a tax year in respect of any contribution or premium paid in the year by the person in approved pension fund under the Voluntary Pension System Rules, 2005.

20 Section 63 substituted by the Finance Act, 2005. The original section 63 read as follows:

“63. Retirement annuity scheme. – (1) Subject to sub-section (3), a resident individual deriving income chargeable to tax under the head “Salary” or the head “Income from Business” shall be entitled to a tax credit for a tax year in respect of any contribution or premium paid in the year by the person under a contract of annuity scheme approved by, [Securities and Exchange Commission of Pakistan] of an insurance company duly registered under the Insurance Ordinance, 2000 (XXXIX of 2000), having its main object the provision to the person of an annuity in old age.

(2) The amount of a resident individual’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: –

\[
\frac{A}{B} \times C
\]

where –

A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;

B is the person’s taxable income for the tax year; and

C is the lesser of –

(a) the total contribution or premium referred to in sub-section (1) paid by the individual in the year;

(b) \( \frac{\text{ten}}{100} \) percent of the person’s taxable income for the tax year; or

(c) \( \frac{\text{two hundred}}{200} \) thousand rupees.

(3) A person shall not be entitled to a tax credit under sub-section (1) in respect of a contract of annuity which provides –

(a) for the payment during the life of the person of any amount besides an annuity;

(b) for the annuity payable to the person to commence before the person attains the age of sixty years;

(c) that the annuity is capable, in whole or part, of surrender, commutation, or assignment; or

(d) for payment of the annuity outside Pakistan.”

A Substituted for the letters “SECP.”
B Substituted for the word “five” by the Finance Act, 2003.
C Substituted for the word “total” by the Finance Act, 2003.
D The word “One” substituted by the Finance Act, 2003. Earlier the word “fifty” was substituted by the words “One hundred” by the Finance Act, 2002.
(2) The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely: -

\[
\frac{A}{B} \times C
\]

Where:-

A is the amount of tax assessed to the person for the tax year, before allowance of any tax credit under this Part;

B is the person’s taxable income for the tax year; and

C is the lesser of -

(i) the total contribution or premium referred to in sub-section (1) paid by the person in the year; or

(ii) twenty per cent of the [eligible] person’s taxable income for the relevant tax year; Provided that [an eligible person] joining the pension fund at the age of forty-one years or above, during the first ten years [starting from July 1, 2006] shall be allowed additional contribution of 2% per annum for each year of age exceeding forty years. Provided further that the total contribution allowed to such person shall not exceed 50% of the total taxable income of the preceding year; or

(iii) five hundred thousand rupees.]

((3) The transfer by the members of approved employment pension or annuity scheme or approved occupational saving scheme of their existing balance to their individual pension accounts maintained with one or more pension fund managers shall not qualify for tax credit under this section.)

21 Inserted by the Finance Act, 2006.
22 The words “a person” substituted by the Finance Act, 2006.
23 The words, figure and commas “of the notification of the Voluntary Pension System Rules, 2005,” substituted by the Finance Act, 2006.
24 Added by the Finance Act, 2006.
8.4 Section 64. Profit on debt

(1979: Sec 44AAA)

A person shall be entitled to a tax credit for a tax year in respect of any profit or share in rent and share in appreciation for value of house paid by the person in the year on a loan by a scheduled bank or non-banking finance institution regulated by the Securities and Exchange Commission of Pakistan or advanced by Government or the local authority [or a statutory body or a public company listed on a registered stock exchange in Pakistan] where the person utilizes the loan for the construction of a new house or the acquisition of a house.

The amount of a person’s tax credit allowed under sub-section (1) for a tax year shall be computed according to the following formula, namely:

\[(A/B) \times C\]

where –

- A is the amount of tax assessed to the person for the tax year before allowance of any tax credit under this Part;
- B is the person’s taxable income for the tax year; and
- C is the lesser of –
  - the total profit referred to in sub-section (1) paid by the person in the year;
  - 27\[forty\] percent of the person’s 28\[taxable\] income for the year; or
  - 29\[five\] hundred thousand rupees.

---

25 Substituted by the Finance Act, 2003. The substituted sub-section (1) read as follows:

"(1) A person shall be entitled to a tax credit for a tax year in respect of any profit or share in rent and share in appreciation of value of house paid by the person in the year on a loan by a scheduled bank under a house finance scheme approved by the State Bank of Pakistan or advanced by Government, the local authority or House Building Finance Corporation where the person utilizes the loan for the construction of a new house or the acquisition of a house."


27 Substituted for the words “twenty five” by the Finance Act, 2003.

28 Substituted for the word “total” by the Finance Act, 2003.

29 Substituted for the word “one” by the Finance Act, 2003. Earlier the word “fifty” was substituted by the words “One hundred” by the Finance Act, 2002.
(3) A person is not entitled to tax credit under this section for any profit deductible under section 17.

8.5 Section 65. Miscellaneous provisions relating to tax credits

(New)

(1) Where the person entitled to a tax credit under this Part is a member of an association of persons to which sub-section (1) of section 92 applies, the following shall apply –

(a) component \(A\) of the formula in sub-section (2) of section 61, sub-section (2) of section 62, sub-section (2) of section 63 and sub-section (2) of section 64 shall be the amount of tax that would be assessed to the individual if any amount derived in the year that is exempt from tax under sub-section (1) of section 92 were chargeable to tax; and

(b) component \(B\) of the formula in sub-section (2) of section 61, sub-section (2) of section 62, sub-section (2) of section 63 and sub-section (2) of section 64 shall be the taxable income of the individual for the year if any amount derived in the year that is exempt from tax under sub-section (1) of section 92 were chargeable to tax.

(2) Any tax credit allowed under this Part shall be applied in accordance with sub-section (3) of section 4.

(3) Subject to sub-section (4), any tax credit or part of a tax credit allowed to a person under this Part for a tax year that is not able to be credited under sub-section (3) of section 4 for the year shall not be refunded, carried forward to a subsequent tax year, or carried back to a preceding tax year.

(4) Where the person to whom sub-section (3) applies is a member of an association of persons to which sub-section (1) of section 92 applies, the amount of any excess credit under sub-section (3) for a tax year may be claimed as a tax credit by the association for that year.

(5) Sub-section (4) applies only where the member and the association agree in writing for the sub-section to apply and such agreement in
writing must be furnished with the association’s return of income for that year.

8.6 Section 103. Foreign tax credit.- (New)

(1) Where a resident taxpayer derives foreign source income chargeable to tax under this Ordinance in respect of which the taxpayer has paid foreign income tax, the taxpayer shall be allowed a tax credit of an amount equal to the lesser of –

(a) the foreign income tax paid; or

(b) the Pakistan tax payable in respect of the income.

(2) For the purposes of clause (b) of sub-section (1), the Pakistan tax payable in respect of foreign source income derived by a taxpayer in a tax year shall be computed by applying the average rate of Pakistan income tax applicable to the taxpayer for the year against the taxpayer’s net foreign-source income for the year.

(3) Where, in a tax year, a taxpayer has foreign income under more than one head of income, this section shall apply separately to each head of income.

(4) For the purposes of sub-section (3), income derived by a taxpayer from carrying on a speculation business shall be treated as a separate head of income.

(5) The tax credit allowed under this section shall be applied in accordance with sub-section (3) of section 4.

(6) Any tax credit or part of a tax credit allowed under this section for a tax year that is not credited under sub-section (3) of section 4 shall not be refunded, carried back to the preceding tax year, or carried forward to the following tax year.

(7) A credit shall be allowed under this section only if the foreign income tax is paid within two years after the end of the tax year in which the foreign income to which the tax relates was derived by the resident taxpayer.
In this section, –

“average rate of Pakistan income tax” in relation to a taxpayer for a tax year, means the percentage that the Pakistani income tax (before allowance of the tax credit under this section) is of the taxable income of the taxpayer for the year;

“foreign income tax” includes a foreign withholding tax; and

“net foreign-source income” in relation to a taxpayer for a tax year, means the total foreign-source income of the taxpayer charged to tax in the year, as reduced by any deductions allowed to the taxpayer under this Ordinance for the year that –

(a) relate exclusively to the derivation of the foreign-source income; and

(b) are reasonably related to the derivation of foreign-source income in accordance with sub-section (1) of section 67 and any rules made for the purposes of that section.

9. **Section 101. Geographical source of income**

   **(1979: Sec 12(1))**

   (1) Salary shall be Pakistan-source income to the extent to which the salary –

       (a) is received from any employment exercised in Pakistan, wherever paid; or

       (b) is paid by, or on behalf of, the Federal Government, a Provincial Government, or a local authority in Pakistan, wherever the employment is exercised.

10. **Section 110. Salary paid by private companies**

    **(New)**

    Where, in any tax year, salary is paid by a private company to an employee of the company for services rendered by the employee in an earlier tax year and the salary has not been included in the employee’s salary chargeable to tax in that earlier year, the Commissioner may, if
there are reasonable grounds to believe that payment of the salary was deferred, include the amount in the employee’s income under the head “Salary” in that earlier earlier year.

11. Section 115. Persons not required to furnish a return of income

(1979: Sec 55 & 58)

(1) Where the entire income of a taxpayer in a tax year consists of income chargeable under the head "Salary", the taxpayer may, instead of furnishing a return as required under section 114 furnish

(a) a certificate from the person’s employer in the prescribed form stating such particulars, and accompanied by such statements, and verified in such manner, as may be prescribed, and such certificate shall be, for the purposes of this Ordinance, treated as a return of income furnished under section 114 30[:]

31[Provided that a taxpayer shall not be required to furnish a certificate, if his employer has furnished for the same tax year, Annual Statement of Deduction of Income Tax From Salary as prescribed under the Income Tax Rules, 2002.]

(b) 32[ ] a wealth statement referred to in section 116.

33[

(3) The following persons shall not be required to furnish a return of income for a tax year solely by reason of sub-clauses (iii) through (vii) of clause (b) of sub-section (1) of section 114 –

(a) A widow;

(b) an orphan below the age of twenty-five years;

---

30 The semicolon and word “; and” substituted by the Finance Act, 2005.
31 Inserted by the Finance Act, 2005.
32 The words, brackets, figure and comma “subject to sub-section (2),” omitted by the Finance Act, 2004.
33 Omitted by the Finance Act, 2004. Omitted sub-section (2) read as follows:

"(2) Clause (b) of sub-section (1) shall not apply to a person whose declared income for the tax year, or whose last declared or assessed income, is less than two hundred thousand rupees.”

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(c) a disabled person; or

(d) in the case of ownership of immovable property, a non-resident person.

(4) Any person who is not obliged to furnish a return for a tax year because all the person’s income is subject to final taxation under sections 34, 5, 6, 7, 35(15), 36(113A), 37(113B), 148, 38(clauses (a), (b) and (d) of sub-section (1) of section 151, section 152,) 153, 154, 156, 39(, 156A, sub-section (3) of section 233, clause (a) and (b) of sub-section (1) of section 233A) or sub-section (5) of section 234 shall furnish to the Commissioner a statement showing such particulars relating to the person’s income for the tax year in such form and verified in such manner as may be prescribed.

12. Losses

Section 11. Heads of Income

(1979: Sec 34)

(3) Subject to this Ordinance, where the total deductions allowed under this Ordinance to a person for a tax year under a head of income exceed the total of the amounts derived by the person in that year that are chargeable to tax under that head, the person shall be treated as sustaining a loss for that head for that year of an amount equal to the excess.

(4) A loss for a head of income for a tax year shall be dealt with in accordance with Part VIII of this Chapter.

Section 55. Limitation of Exemption

(1979: Sec 151)

34 The figure and comma “148,” omitted by the Finance Act, 2003.
37 Inserted by the Finance Act, 2005.
38 Inserted by the Finance Act, 2006.
40 Omitted by the Finance Act, 2003. Omitted sub-section (2) read as follows: -

“(2) Where a person’s income from business is exempt from tax under this Ordinance as a result of a tax concession, any loss sustained in the period of the exemption shall not be set off against the person’s income chargeable to tax after the exemption expires.”
13. Section 56. Set off of losses

(1979: Sec 34)

(1) Subject to sections 58 and 59, where a person sustains a loss for any tax year under any head of income specified in section 11, the person shall be entitled to have the amount of the loss set off against the person’s income, if any, chargeable to tax under any other head of income for the year.

(2) Except as provided in this Part, where a person sustains a loss under a head of income for a tax year that cannot be set off under sub-section (1), the person shall not be permitted to carry the loss forward to the next tax year.

(3) Where, in a tax year, a person sustains a loss under the head “Income from Business” and a loss under another head of income, the loss under the head “Income from Business” shall be set off last.

14. Section 104. Foreign losses

(New)

(1) Deductible expenditures incurred by a person in deriving foreign-source income chargeable to tax under a head of income shall be deductible only against that income.

(2) If the total deductible expenditures referred to in sub-section (1) exceed the total foreign source income for a tax year chargeable to tax under a head of income (hereinafter referred to as a “foreign loss”), the foreign loss shall be carried forward to the following tax year and set off against the foreign source income chargeable to tax under that head in that year, and so on, but no foreign loss shall be carried forward to more than six tax years immediately succeeding the tax year for which the loss was computed.

(3) Where a taxpayer has a foreign loss carried forward for more than one tax year, the loss for the earliest year shall be set off first.

(4) Section 67 shall apply for the purposes of this section on the basis that –

(a) income from carrying on a speculation business is a separate head of income; and
(b) foreign source income chargeable under a head of income (including the head specified in clause (a)) shall be a separate head of income.

15. **Deduction of Tax at Source**

*Section 149. Salary*  
*(1979: Sec 50(1))*

(1) 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 rates specified in Division I of Part I of the First Schedule on the estimated income of the employee chargeable under the head “Salary” for the tax year in which the payment is made after making such adjustment, as may be necessary, for any excess deduction or deficiency arising out of any previous deduction or failure to make a deduction during the year.

(2) The average rate of tax of an employee for a tax year for the purposes of sub-section (1) shall be computed in accordance with the following formula, namely:–

\[
\frac{A}{B}
\]

where –

A is the tax that would be payable if the amount referred to in component B of the formula were the employee’s taxable income for that year; and

B is the employee’s estimated income under the head “Salary” for that year.
16. Rates Of Tax

THE FIRST SCHEDULE

PART I

(See Chapter II)

Division I

Rates of Tax for Individuals and Association of Persons

1. Subject to 41[clause] (1A) 43[ ], the rates of tax imposed on the taxable income of every individual 44[except a salaried taxpayer] or association of persons to which sub-section (1) of section 92 applies shall be as set out in the following table, namely:–

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Taxable income</th>
<th>Rate of tax.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Where taxable income does not exceed Rs.100,000</td>
<td>0%</td>
</tr>
<tr>
<td>2.</td>
<td>Where taxable income exceeds Rs.100,000 but does not exceed Rs.110,000</td>
<td>0.50%</td>
</tr>
<tr>
<td>3.</td>
<td>Where taxable income exceeds Rs.110,000 but does not exceed Rs.125,000</td>
<td>1.00%</td>
</tr>
<tr>
<td>4.</td>
<td>Where taxable income exceeds Rs.125,000 but does not exceed Rs.150,000</td>
<td>2.00%</td>
</tr>
<tr>
<td>5.</td>
<td>Where taxable income exceeds Rs.150,000 but does not exceed Rs.175,000</td>
<td>3.00%</td>
</tr>
<tr>
<td>6.</td>
<td>Where taxable income exceeds Rs.175,000 but does not exceed Rs.200,000</td>
<td>4.00%</td>
</tr>
</tbody>
</table>

41 The word, brackets and figure “clause (2)” substituted by the Finance Act, 2005.
42 The word “clauses” substituted by the Finance Act, 2006.
43 The word, brackets and figure “and (2)” omitted by the Finance Act, 2006.
44 Inserted by the Finance Act, 2005.
45 Substituted by the Finance Act, 2006. The substituted “Table” read as follows:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Taxable income</th>
<th>Rate of tax.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Where taxable income does not exceed Rs.100,000</td>
<td>0%</td>
</tr>
<tr>
<td>2.</td>
<td>Where taxable income exceeds Rs. 100,000 but does not exceed Rs. 150,000</td>
<td>7.5% of the amount exceeding Rs. 100,000</td>
</tr>
<tr>
<td>3.</td>
<td>Where taxable income exceeds Rs. 150,000 but does not exceed Rs. 300,000</td>
<td>3,750 plus 12.5% of the amount exceeding Rs. 150,000</td>
</tr>
<tr>
<td>4.</td>
<td>Where taxable income exceeds Rs. 300,000 but does not exceed Rs. 400,000</td>
<td>22,500 plus 20% of the amount exceeding Rs. 300,000</td>
</tr>
<tr>
<td>5.</td>
<td>Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 700,000</td>
<td>42,500 plus 25% of the amount exceeding Rs. 400,000</td>
</tr>
<tr>
<td>6.</td>
<td>Where taxable income exceeds Rs. 700,000.</td>
<td>117,500 plus 35% of the amount exceeding Rs. 700,000</td>
</tr>
</tbody>
</table>

41 The word, brackets and figure “clause (2)” substituted by the Finance Act, 2005.
42 The word “clauses” substituted by the Finance Act, 2006.
43 The word, brackets and figure “and (2)” omitted by the Finance Act, 2006.
44 Inserted by the Finance Act, 2005.
45 Substituted by the Finance Act, 2006. The substituted “Table” read as follows:
7. Where the taxable income exceeds Rs.200,000 but does not exceed Rs.300,000
   5.00%
8. Where the taxable income exceeds Rs.300,000 but does not exceed Rs.400,000
   7.50%
9. Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000
   10.00%
10. Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000
   12.50%
11. Where the taxable income exceeds Rs.600,000 but does not exceed Rs.800,000
   15.00%
12. Where the taxable income exceeds Rs.800,000 but does not exceed Rs.10,00,000
   17.50%
13. Where the taxable income exceeds Rs.10,00,000 but does not exceed Rs.13,00,000
   21.00%
14. Where the taxable income exceeds Rs.13,00,000
   25.00%

46[Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.125,000/-.

47][(1A) 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:

48|TABLE

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Taxable income</th>
<th>Rate of tax.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Where taxable income does not exceed Rs.150,000</td>
<td>0%</td>
</tr>
<tr>
<td>2.</td>
<td>Where the taxable income exceeds Rs.150,000 but does not exceed Rs.200,000</td>
<td>0.25%</td>
</tr>
</tbody>
</table>

46 Inserted by the Finance Act, 2006.
47 Inserted by the Finance Act, 2005.
48 Substituted by the Finance Act, 2006. The substituted “Table” is as follows:

| TABLE
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Taxable income</th>
<th>Rate of tax.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Where taxable income does not exceed Rs. 100,000</td>
<td>Nil</td>
</tr>
<tr>
<td>2.</td>
<td>Where taxable income exceeds Rs. 100,000 but does not exceed Rs. 200,000</td>
<td>3.5% of the amount exceeding Rs. 100,000</td>
</tr>
<tr>
<td>3.</td>
<td>Where taxable income exceeds Rs. 200,000 but does not exceed Rs. 400,000</td>
<td>Rs. 3,500 plus 12% of the amount exceeding Rs. 200,000</td>
</tr>
<tr>
<td>4.</td>
<td>Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 700,000</td>
<td>Rs. 27,500 plus 25% of the amount exceeding Rs. 400,000</td>
</tr>
<tr>
<td>5.</td>
<td>Where taxable income exceeds Rs. 700,000</td>
<td>Rs. 102,500 plus 30% of the amount exceeding Rs. 700,000,</td>
</tr>
</tbody>
</table>

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3. Where the taxable income exceeds Rs.200,000 but does not exceed Rs.250,000 0.50%
4. Where the taxable income exceeds Rs.250,000 but does not exceed Rs.300,000 0.75%
5. Where the taxable income exceeds Rs.300,000 but does not exceed Rs.350,000 1.50%
6. Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000 2.50%
7. Where the taxable income exceeds Rs.400,000 but does not exceed Rs.500,000 3.50%
8. Where the taxable income exceeds Rs.500,000 but does not exceed Rs.600,000 4.50%
9. Where the taxable income exceeds Rs.600,000 but does not exceed Rs.700,000 6.00%
10. Where the taxable income exceeds Rs.700,000 but does not exceed Rs.850,000 7.50%
11. Where the taxable income exceeds Rs.850,000 but does not exceed Rs.950,000 9.00%
12. Where the taxable income exceeds Rs.950,000 but does not exceed Rs.1,050,000 10.00%
13. Where the taxable income exceeds Rs.1,050,000 but does not exceed Rs.1,200,000 11.00%
14. Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs.1,500,000 12.50%
15. Where the taxable income exceeds Rs.1,500,000 but does not exceed Rs.1,700,000 14.00%
16. Where the taxable income exceeds Rs.1,700,000 but does not exceed Rs.2,000,000 15.00%
17. Where the taxable income exceeds Rs.2,000,000 but does not exceed Rs.3,150,000 16.00%
18. Where the taxable income exceeds Rs.3,150,000 but does not exceed Rs.3,700,000 17.50%
19. Where the taxable income exceeds Rs.3,700,000 but does not exceed Rs.4,450,000 18.50%
20. Where the taxable income exceeds Rs.4,450,000 but does not exceed Rs.8,400,000 19.00%
21. Where the taxable income exceeds Rs.8,400,000. 20.00%

[Provided that where income of a woman taxpayer is covered by this clause, no tax shall be charged if the taxable income does not exceed Rs.200,000/-.]
50[ ]

17. Section 55. Limitation of exemption

(1979: Sec 151)

(1) Where any income is exempt from tax under this Ordinance, the exemption shall be, in the absence of a specific provision to the contrary contained in this Ordinance, limited to the original recipient of that income and shall not extend to any person receiving any payment wholly or in part out of that income.

51[ ]

18. Reduction In Tax Liability

THE SECOND SCHEDULE

PART III

Income, or classes of income, or person or classes of person, enumerated below, shall be allowed reduction in tax liability to the extent and subject to such conditions as are specified hereunder:-

52[ ]

50 Omitted by the Finance Act, 2006. The omitted clause (2) read as follows:
“2. Where, for a tax year, an individual or association of persons to which subsection (1) of section 92 applies derives income from agriculture to which section 41 applies and the gross amount of such income for the year exceeds Rs. 80,000, the rates of tax imposed on the taxable income of the individual or association of persons for the year shall be as set out in the following table, namely:-

“TABLE

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Taxable income</th>
<th>Rate of tax.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(2)</td>
<td>(3)</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Where taxable income does not exceed Rs.150,000</td>
<td>7.5%</td>
</tr>
<tr>
<td>2.</td>
<td>Where taxable income exceeds Rs.150,000 but does not exceed Rs.300,000</td>
<td>Rs.11,250 plus 12.5% of the amount exceeding Rs.150,000.</td>
</tr>
<tr>
<td>3.</td>
<td>Where taxable income exceeds Rs.300,000 but does not exceed Rs.400,000</td>
<td>Rs.30,000 plus 20% of the amount exceeding Rs.150,000.</td>
</tr>
<tr>
<td>4.</td>
<td>Where taxable income exceeds Rs.400,000 but does not exceed Rs.700,000</td>
<td>Rs.50,000 plus 25% of the amount exceeding Rs.400,000</td>
</tr>
<tr>
<td>5.</td>
<td>Where taxable income exceeds Rs.700,000</td>
<td>Rs.125,000 plus 35% of the amount exceeding Rs.700,000</td>
</tr>
</tbody>
</table>

51 Omitted by the Finance Act, 2003. Omitted sub-section (2) read as follows: -
“(2) Where a person’s income from business is exempt from tax under this Ordinance as a result of a tax concession, any loss sustained in the period of the exemption shall not be set off against the person’s income chargeable to tax after the exemption expires.”

239
Clause 53[(1)] Any amount received as flying allowance by-

(a) pilots, flight engineers and navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority; and

(b) Junior Commissioned Officers or other ranks of Pakistan Armed Forces, shall be taxed @ 2.5% as a separate block of income.]

Clause (1) (1A) Where the taxable income, in a tax year, of a taxpayer aged 54[60] years or more on the first day of that tax year does not exceed 55[400,000] rupees, his tax liability on such income shall be reduced by 50%.

(1979: First Schedule-Part I- Clause (A)-First Proviso (b) (iv))

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52 Omitted by the Finance Act, 2005.
53 Inserted by the Finance Act, 2006. Earlier sub-clause (1) was omitted by Finance Act, 2005 which read as follows:

"(1) The Income Tax liability on income of salaried taxpayers, where any income chargeable under the head "salary" exceeds 50% of [taxable] income as determined under clause 1 & 2 of Division-I of Part-I of the First Schedule, shall be reduced at the following rates:--

<table>
<thead>
<tr>
<th>S No.</th>
<th>Income Slab</th>
<th>Reduction in Tax liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Where income exceeds Rs.60,000 but does not exceed Rs.80,000</td>
<td>70%</td>
</tr>
<tr>
<td>2.</td>
<td>Where income exceeds Rs.80,000 but does not exceed Rs.100,000</td>
<td>60%</td>
</tr>
<tr>
<td>3.</td>
<td>Where income exceeds Rs.100,000 but does not exceed Rs.150,000</td>
<td>50%</td>
</tr>
<tr>
<td>4.</td>
<td>Where income exceeds Rs.150,000 but does not exceed Rs.200,000</td>
<td>40%</td>
</tr>
<tr>
<td>5.</td>
<td>Where income exceeds Rs.200,000 but does not exceed Rs.300,000</td>
<td>30%</td>
</tr>
<tr>
<td>6.</td>
<td>Where income exceeds Rs.300,000 but does not exceed Rs.500,000</td>
<td>20%</td>
</tr>
<tr>
<td>7.</td>
<td>Where income exceeds Rs.500,000 but does not exceed Rs.1,000,000</td>
<td>10%</td>
</tr>
<tr>
<td>8.</td>
<td>Where income exceeds Rs.1,000,000</td>
<td>5%</td>
</tr>
</tbody>
</table>

A Substituted for the word “total” by the Finance Act, 2003.
54 The figure "65" substituted by the Finance Act, 2006.
55 The words "[three] hundred thousand" substituted by the Finance Act, 2005.
A Substituted for the word “two” by the Finance Act, 2004.
**Clause (1)\(^6\)\(^5\)(2)** The tax payable by a full time teacher or a researcher, employed in a non profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including government training and research institution, shall be reduced by an amount equal to 75% of tax payable on his income from salary.]

\[(1979: \text{Clause 1B}(2))\]

19. **Exemptions**

19.1 **Section 42. Diplomatic and United Nations exemptions**

1. The income of an individual entitled to privileges under the Diplomatic and Consular Privileges Act, 1972 (IX of 1972) shall be exempt from tax under this Ordinance to the extent provided for in that Act.

\[(\text{New})\]

2. The income of an individual entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948 (XX of 1948), shall be exempt from tax under this Ordinance to the extent provided for in that Act.

\[(\text{New})\]

3. Any pension received by a person, being a citizen of Pakistan, by virtue of the person’s former employment in the United Nations or its specialised agencies (including the International Court of Justice) provided the person’s salary from such employment was exempt under this Ordinance.

\[(1979: \text{Second Schd. - Clause 16})\]

---

\(^5\) Substituted by the Finance Act, 2006. The substituted clause (2) read as follows:

“\(2\) In addition to the reduction specified in sub-clause (1), the tax payable by a full time teacher or a researcher, employed in a non profit education or research institution including government training and research institution duly recognized by a Board of Education or a University or the [Higher Education Commission], shall be further reduced by an amount equal to \(^6\)\(^5\)% of the tax payable after the aforesaid reduction.”

\(^6\) The words “University Grants Commission” earlier substituted by the Finance Act, 2005.

\(^5\) The figure “50” earlier substituted by the Finance Act, 2005.
19.2  **Section 43. Foreign government officials**  

(New)

Any salary received by an employee of a foreign government as remuneration for services rendered to such government shall be exempt from tax under this Ordinance provided -

(a)  the employee is a citizen of the foreign country and not a citizen of Pakistan;

(b)  the services performed by the employee are of a character similar to those performed by employees of the Federal Government in foreign countries; and

(c)  the foreign government grants a similar exemption to employees of the Federal Government performing similar services in such foreign country.

19.3  **Section 44. Exemptions under international agreements**  

(New)

(2)  Any salary received by an individual (not being a citizen of Pakistan) shall be exempt from tax under this Ordinance to the extent provided for in an Aid Agreement between the Federal Government and a foreign government or public international organization, where –

(a)  the individual is either[^57] [not a resident] individual or a resident individual solely by reason of the performance of services under the Aid Agreement;

(b)  if the Aid Agreement is with a foreign country, the individual is a citizen of that country; and

(c)  the salary is paid by the foreign government or public international organisation out of funds or grants released as aid to Pakistan in pursuance of such Agreement.

[^57]: Substituted for the words “a non-resident” by the Finance Act, 2003.
19.4 **Section 50. Foreign-source income of short-term resident individuals**

(1) Subject to sub-section (2), the foreign-source income of an individual

(a) who is a resident individual solely by reason of the individual’s employment; and

(b) who is present in Pakistan for a period or periods not exceeding three years,

shall be exempt from tax under this Ordinance.

(2) This section shall not apply to –

(a) any income derived from a business of the person established in Pakistan; or

(b) any foreign-source income brought into or received in Pakistan by the person.

19.5 **Section 51. Foreign-source income of returning expatriates**

(1) Any foreign-source income derived by a citizen of Pakistan in a tax year who was not a resident individual in any of the four tax years preceding the tax year in which the individual became a resident shall be exempt from tax under this Ordinance in the tax year in which the individual became a resident individual and in the following tax year.

(2) Where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad during that tax year, any income chargeable under the head “Salary” earned by him outside Pakistan during that year shall be exempt from tax under this Ordinance.

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58 The brackets and words "(other than a citizen of Pakistan)" omitted by the Finance Act, 2003.
59 Section 51 numbered as sub-section (1) of section 51 by the Finance Act, 2003.
60 Added by the Finance Act, 2003.
19.6 Section 102. Foreign source salary of resident individuals
(1979: Sec 164 read with rules 209 & 210 of IT Rules, 1982)

(1) Any foreign-source salary received by a resident individual shall be exempt from tax if the individual has paid foreign income tax in respect of the salary.

(2) A resident individual shall be treated as having paid foreign income tax in respect of foreign-source salary if tax has been withheld from the salary by the individual’s employer and paid to the revenue authority of the foreign country in which the employment was exercised.

19.7 The Second Schedule. Exemptions and Tax Concessions

THE SECOND SCHEDULE
EXEMPTIONS AND TAX CONCESSIONS
[See section 53]

PART I
EXEMPTIONS FROM TOTAL INCOME

Incomes, or classes of income, or persons or classes of persons, enumerated below, shall be exempt from tax, subject to the conditions and to the extent specified hereunder:

Clause (2) Any income chargeable under the head "Salary" received by, or due to, any person, not being a citizen of Pakistan or a resident individual, as remuneration for services rendered by him as a health professional under the contract of service concluded with Shaukat Khanum Memorial Hospital and Research Center, Lahore, and approved by the Federal Government for the purposes of this clause.

(1979: Clause 7 D)

61 Omitted by the Finance Act, 2003. The omitted clause (1) read as follows:

“(1) Any income chargeable under the head “Salary” received by any person being an employee of the International Irrigation Management Institute (IIMI) in Pakistan, who is neither a citizen of Pakistan nor a resident individual in any of the four years immediately preceding the year in which he arrived in Pakistan.”
Clause (3) Any income chargeable under the head "Salary" received by a person who, not being a citizen of Pakistan, is engaged as an expert or technical, professional, scientific advisor or consultant or senior management staff by institutions of the Agha Khan Development Network, (Pakistan) listed in Schedule I of the Accord and Protocol dated, November 13, 1994 executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network.

(1979: Clause 7 E)

Clause (4) Any income chargeable under head “Salary” received by –

(a) a Pakistani seafarer working on Pakistan flag vessels for one hundred and eighty three days or more during a tax year; or

(b) a Pakistani seafarer working on foreign flag vessels provided that such income is remitted to Pakistan, not later than two months of relevant income year, through normal banking channels.

(1979: Clause 7 F)

Clause (5) Any allowance or perquisite paid or allowed as such outside Pakistan by the Government to a citizen of Pakistan for rendering service outside Pakistan.

(1979: Clause 9)

Clause (6) Any income chargeable under the head “Salary” received by a person, not being a citizen of Pakistan, by virtue of his employment with the British Council.

(1979: Clause 13)

Clause (8) Any pension received by a citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer).

Provided that where the person receives more than one such pension, the exemption applies only to the higher of the pensions received.

(1979: Clause 17)
Clause 62[(9)] Any pension –

(i) received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government;

(ii) granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service.]

(1979: Clause 17 A)

Clause (12) Any payment in the nature of commutation of pension received from Government or under any pension scheme approved by the Central Board of Revenue for the purpose of this clause.

(1979: Clause 26)

Clause (13) Any income representing any payment received by way of gratuity or commutation of pension by an employee on his retirement or, in the event of his death, by his heirs as does not exceed –

(i) in the case of an employee of the Government, a local authority, a statutory body or corporation established by any law for the time being in force, the amount receivable in accordance with the rules and conditions of the employee’s services;

(ii) any amount receivable from any gratuity fund approved by the Commissioner in accordance with the rules in Part III of the Sixth Schedule;

(iii) in the case of any other employee, the amount not exceeding two hundred thousand rupees receivable under any scheme.

62 Substituted by the Finance Act, 2006. The substituted clause (9) read as follows:

'(9) Any pension received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government.'

63 Omitted by the Finance Act, 2006. The omitted clause (10) read as follows:

'"(10) Any pension granted to any public servant to whom clause (14) does not apply in respect of injuries received in the performance of his duties."'

64 Omitted by the Finance Act, 2006. The omitted clause (11) read as follows:

'"(11) Any pension granted to any public servant to whom clause (15) does not apply who has been invalidated from service on account of any bodily disability."'
applicable to all employees of the employer and approved by the Central Board of Revenue for the purposes of this sub-clause; and

(iv) in the case of any employee to whom sub-clause (i), (ii) and (iii) do not apply, fifty per cent of the amount receivable or seventy-five thousand rupees, whichever is the less:

Provided that nothing in this sub-clause shall apply –

(a) to any payment which is not received in Pakistan;

(b) to any payment received from a company by a director of such company who is not a regular employee of such company;

(c) to any payment received by an employee who is not a resident individual; and to any gratuity received by an employee who has already received any gratuity from the same or any other employer.

(1979: Clause 27)

Clause (16) Any income derived by the families and dependents of the "Shaheeds" belonging to Pakistan Armed Forces from the special family pension, dependents pension or children's allowance granted under the provisions of the Joint Services Instruction No. 5/66.

(1979: Clause 50)

Clause (17) Any income derived by the families and dependents of the "Shaheeds" belonging to the Civil Armed Forces of Pakistan to whom the provisions of the Joint Services Instruction No. 5/66

65 Omitted by the Finance Act, 2006. The omitted clause (14) read as follows:

"(14) Any pension granted to the personnel of Armed Forces of Pakistan (including personnel of the Territorial Force and the National Service of Pakistan) in respect of injuries received in the performance of their duties as such." 

66 Omitted by the Finance Act, 2006. The omitted clause (15) read as follows:

"(15) Any pension granted to the personnel of the Armed Forces of Pakistan (including personnel of the Territorial Force and the National Service of Pakistan) invalidated from service with such Forces on account of bodily disability attributable to, or aggravated by, such service."
would have applied had they belonged to the Pakistan Armed Forces from any like payment made to them.  

(1979: Clause 51)

Clause (19) Any sum representing encashment of leave preparatory to retirement of a member of the Armed Forces of Pakistan or an employee of the Federal Government or a Provincial Government.

(1979: Clause 17.AA)

Clause (22) Any payment from a provident fund to which the Provident Funds Act, 1925(XIX of 1925) applies.

(1979: Clause 23)

Clause (23) The accumulated balance due and becoming payable to an employee participating in a recognized provident fund.

Clause (23A) the accumulated balance upto 25% received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person’s-

(a) retirement; or

(b) disability rendering him unable to work; or

(c) death by his nominated survivors.]

(1979: Clause 24)

Clause (24) Any benevolent grant paid from the Benevolent Fund to the employees or members of their families in accordance with the provisions of the Central Employee Benevolent Fund and Group Insurance Act, 1969.

(1979: Clause 23 A)

Clause (25) Any payment from an approved superannuation fund made on the death of a beneficiary or in lieu of or in commutation of any

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67 Omitted by the Finance Act, 2006. The omitted clause (18) read as follows: 
“(18) Any pensions granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service.”

68 Inserted by the Finance Act, 2006.
annuity, or by way of refund of contribution on the death of a beneficiary –

(i) in the case of an employee of the Government or a local authority or a statutory body or corporation established by any law for the time being in force, the amount receivable in accordance with the rules and conditions of his service;

(ii) any amount receivable from any gratuity fund approved by the Commissioner in accordance with the rules contained in Part III of the Sixth Schedule;

(iii) in the case of any other employee, the amount not exceeding two hundred thousand rupees receivable under any scheme applicable to all employees of the employer and approved by the Central Board of Revenue for the purposes of this sub-clause; and

(iv) in the case of any employee to whom sub-clauses (i), (ii) and (iii) do not apply, fifty per cent of the amount receivable or seventy-five thousand rupees, whichever is the less:

Provided that nothing in this sub-clause shall apply-

(a) to any payment which is not received in Pakistan;

(b) to any payment received from a company by a director of such company who is not regular employee of such company;

(c) to any payment received by an employee who is not a resident of Pakistan; and

(d) to any gratuity received by an employee who has already received any gratuity from the same or any other employer.

(1979: Clause 25 & 27)

Clause (26) Any income of a person representing the sums received by him as a worker from out of the Workers Participation Fund established under the Companies Profits (Workers
Clause (35) Any income representing compensatory allowance payable to a citizen of Pakistan locally recruited in Pakistan Mission abroad as does not exceed 75 per cent of his gross salary.

(1979: Clause 37)

Clause (39) Any special allowance or benefit (not being entertainment or conveyance allowance) or other perquisite within the meaning of section 12 specially granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit.

(1979: Clause 39)

Clause (40) Any income of a newspaper employee representing Local Travelling Allowance paid in accordance with the decision of the Third Wage Board for Newspaper Employees constituted under the Newspaper Employees (Conditions of Service) Act, 1973, published in Part II of the Gazette of Pakistan, Extraordinary, dated the 28th June, 1980.

(1979: Clause 39A)

69 Omitted by the Finance Act, 2003. The omitted clause (33) read as follows:

"(33) Any income of any officer representing the sum received by him as Orderly Allowance admissible to him under the Finance Division O.M. No. F.1(3)-IMP-II/85, dated the 24th October, 1985."

70 Omitted by the Finance Act, 2003. The omitted clause (34) read as follows:

"(34) Any income of an employee of a recognized University in Pakistan representing the sums received by him as senior post allowance, entertainment allowance or" ordered by the Finance Act, 2002.

71 Earlier the words and comma “Senior Post Allowance, Entertainment Allowance or” omitted by the Finance Act, 2002.

72 Omitted by the Finance Act, 2006. The omitted clause (38) read as follows:

"(38) Any sum paid, for purpose of meeting the charges for gas, water and electricity, or the value of gas, water and electricity provided free of charge to an employee up to ten per cent of the minimum of time scale, and where there is no time scale, up to ten per cent of the basic salary."
Clause (51) The perquisite represented by the right of the President of Pakistan, the Provincial Governors and the Chiefs of Staff, Pakistan Armed Forces to occupy free of rent as a place of residence any premises provided by the Government. 

(1979: Clause 52)

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73 Omitted by the Finance Act, 2003. The omitted clause (41) read as follows:

“(41) Such portion of the income of a member of Pakistan Armed Forces as is compulsorily payable by him under any orders issued by Government to mess, entertainment or band fund.”

74 Omitted by the Finance Act, 2006. The omitted clause (42) read as follows:

“(42) Any amount received as flying allowance by pilots, flight engineers and navigators employed by any Pakistani airline or by Civil Aviation Authority.”

75 Omitted by the Finance Act, 2006. The omitted clause (43) read as follows:

“(43) Any amount notified as flying allowance payable to pilots, flight engineers and navigators of the Pakistan Air Force.”

76 Omitted by the Finance Act, 2006. The omitted clause (44) read as follows:

“(44) Any amount notified as flying allowance payable to pilots, flight engineers and navigators of the Pakistan Army and the Pakistan Navy.”

77 Omitted by the Finance Act, 2006. The omitted clause (45) read as follows:

“(45) Any amount received as flying allowance by junior commissioned officers or other ranks of Pakistan Armed Forces.”

78 Omitted by the Finance Act, 2006. The omitted clause (46) read as follows:

“(46) Any amount notified as submarine allowance payable to officers of the Pakistan Navy.”

79 Omitted by the Finance Act, 2006. The omitted clause (47) read as follows:

“(47) The value of rations issued in kind, or cash allowance paid in lieu thereof, to members of Pakistan Armed Forces or of Territorial Forces.”

80 Omitted by the Finance Act, 2006. The omitted clause (48) read as follows:

“(48) The value of rent-free quarters occupied by, or cash allowance paid in lieu thereof, to members of the Pakistan Armed Forces, including Territorial Force.”

81 Omitted by the Finance Act, 2006. The omitted clause (49) read as follows:

“(49) The conservancy allowance granted in lieu of free conservancy to personnel below commissioned rank of Pakistan Armed Forces and Territorial Force.”

82 Omitted by the Finance Act, 2003. The omitted clause (50) read as follows:

“(50) Deferred pay admissible to Armed Forces personnel under the new Pay Code.”
Clause (52)  The perquisite represented by free conveyance provided and the sumptuary (entertainment) allowance granted by Government to Provincial Governors, the Chiefs of Staff, Pakistan Armed Forces and the Corps Commanders.

(1979: Clause 53)

Clause (53)  The following perquisites and allowances provided or granted by Government to the Ministers of the Federal Government, namely :-

(a) rent-free accommodation in so far as the value thereof exceeds ten per cent of the basic salary of the Ministers concerned;

(b) house-rent allowance paid by Government in lieu of rent-free accommodation in so far as it exceeds five hundred and fifty rupees per month;

(c) free conveyance; and

(d) sumptuary allowance.

(53A) The following perquisites received by an employee by virtue of his employment, namely:-

(i) free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependents);

(ii) free or subsidized food provided by hotels and restaurants to its employees during duty hours;

(iii) free or subsidized education provided by an educational institution to the children of its employees;

(iv) free or subsidized medical treatment provided by a hospital or a clinic to its employees; and

(v) any other perquisite or benefit for which the

\[83\] Inserted by the Finance Act, 2005.
employer does not have to bear any marginal cost, as notified by the Central Board of Revenue.]

(1979: Clause 54)

**Clause (55)**

The perquisites represented by the right of a judge of the Supreme Court of Pakistan or of a judge of High Court to occupy free of rent as a place of residence any premises provided by Federal or Provincial Government, as the case may be, or in case a judge chooses to reside in a house not provided by Government, so much of income which represents the sum paid to him as house rent allowance.

(1979: Clause 55)

**Clause (56)**

1. The following perquisites, benefits and allowances received by a Judge of Supreme Court of Pakistan and Judge of High Court, shall be exempt from tax.

   a. Perquisites and benefits derived from use of official car maintained at Government expenses.

   b. Superior judicial allowance payable to a Judge of supreme Court of Pakistan and Judge of a High Court.

   c. Transfer allowance payable to a Judge of High Court.

2. The following perquisites of the Judge of Supreme Court of Pakistan and Judge of High Court shall also be exempt from tax during service, and on or after retirement.

   a. The services of a driver and an orderly.

   b. 1000 (one thousand) free local telephone calls per month.

   c. 1000 units of electricity as well as (25 hm3 of gas) per month and free supply of water; and

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84 The word “form” substituted by the Finance Act, 2005.
(d) 200 litres of petrol per month.

(3) If during service, a judge dies, exemption from tax in respect of benefits and perquisites provided to widow as mentioned in sub-clause (2) shall also be available to the widow.

(1979: Clause 55-A)

Clause (61) 85[Any] amount paid as donation to the following institution, foundations, societies, boards, trusts and funds, namely:

(i) any Sports Board or institution recognised by the Federal Government for the purposes of promoting, controlling or regulating any sport or game;

(ii) Fund for Promotion of Science and Technology in Pakistan;

(iii) Fund for Retarded and Handicapped Children;

(iv) National Trust Fund for the Disabled;

(v) Fatimid Foundation, Karachi;

(x) Al-Shifa Trust;

(xi) Bank of Commerce and Credit International

85 The words, figure and comma "Subject to the provisions of section 61, any" substituted by the Finance Act, 2005.

86 Omitted by the Finance Act, 2005. The omitted sub-clause (ii) read as follows:

"(ii) President's Fund for Afghan Refugees;"

87 Omitted by the Finance Act, 2005. The omitted sub-clause (vi) read as follows:

"(vi) Bangladesh Flood Relief Fund, 1988;"
Income from Salary Exemptions

Foundation for Advancement of Science and Technology;

(xii) Society for the Promotion of Engineering Sciences and Technology in Pakistan;

88 Omitted by the Finance Act, 2005. The omitted sub-clause (xiii) read as follows:
“(xiii) President's Fund for Assistance to Palestine;”

89 Omitted by the Finance Act, 2005. The omitted sub-clause (xiv) read as follows:
“(xiv) President's Famine Relief Fund for Africa;”

90 Omitted by the Finance Act, 2005. The omitted sub-clause (xv) read as follows:
“(xv) Bangladesh Cyclone Relief Fund, 1985;”

91 Omitted by the Finance Act, 2005. The omitted sub-clause (xvi) read as follows:
“(xvi) Prime Minister's Fund for the Welfare of Widows and Orphans;”

92 Omitted by the Finance Act, 2005. The omitted sub-clause (xvii) read as follows:
“(xvii) Prime Minister's Disaster Relief Fund, 1987;”

93 Omitted by the Finance Act, 2005. The omitted sub-clause (xviii) read as follows:
“(xviii) Chief Minister Punjab's Flood Relief Fund, 1988;”

94 Omitted by the Finance Act, 2005. The omitted sub-clause (xix) read as follows:
“(xix) Prime Minister's Fund for Welfare and Relief for Kashmiris;”

95 Omitted by the Finance Act, 2005. The omitted sub-clause (xx) read as follows:
“(xx) Prime Minister's Bangladesh Cyclone Relief Fund, 1991;”

96 Omitted by the Finance Act, 2006. The omitted clause (xxi) read as follows:
“(xxi) Sindh Governor's Relief Fund, 1990, for the Relief and Rehabilitation of Victims of Violence in Sindh;”

97 Omitted by the Finance Act, 2006. The omitted clause (xxii) read as follows:
“(xxii) Balochistan Governor’s Relief Fund for the relief and rehabilitation of drought affected people of Balochistan;”

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Cell, Sindh Governor House, Karachi;

(xxiv) ICIC Foundation;

(xxv) BCCI Foundation;

(xxvi) National Management Foundation;

(xxvii) Endowment Fund of the institutions of the Agha Khan Development Network (Pakistan listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network;

(xxviii) Shaheed Zulfiqar Ali Bhutto Memorial Awards Society;

(xxix) Iqbal Memorial Fund;

(XXX) Cancer Research Foundation of Pakistan, Lahore;

(XXXI) Shaukat Khanum Memorial Trust, Lahore;

(XXXII) Christian Memorial Hospital, Sialkot;

(XXXIII) National Museums, National Libraries and Monuments or institutions declared to be National Heritage by the Federal Government;

(XXXIV) Mumtaz Bakhtawar Memorial Trust Hospital, Lahore;

(XXXV) Kashmir Fund for Rehabilitation of Kashmir Refugees and Freedom Fighters;

(XXXVI) Institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network;

(XXXVII) Azad Kashmir President's Mujahid Fund, 1972; National Institute of Cardiovascular Diseases,
(Pakistan) Karachi; Businessmen Hospital Trust, Lahore; Premier Trust Hospital, Mardan; Faisal Shaheed Memorial Hospital Trust, Gujranwala; Khair-un-Nisa Hospital Foundation, Lahore; Sind and Balochistan Advocates' Benevolent Fund; Rashid Minhas Memorial Hospital Fund;

(xxxviii) Any relief \(^98\)[or] welfare fund established by the Federal Government;

(xxxix) Mohatta Palace Gallery Trust; \(^99\) [ ]

\(^{100}\)[(xl)] Bagh-e-Quaid-e-Azam project, Karachi \(^101\)[; and]

\(^{102}\)[(xli) Any amount donated for Tameer-e-Karachi Fund \(^{103}\)[;] ]

\(^{104}\)[Provided that the amount so donated shall not exceed-

(a) in the case of an individual or association of persons, thirty percent of the taxable income of the person for the year; and

(b) in the case of a company, fifteen percent of the taxable income of the person for the year.]

(1979: Clause 91)

**Clause (62)** Such portion of the total income of a taxpayer as is paid by him during the income year as donation to the Liaquat National Hospital Association, Karachi:

Provided that the amount so donated shall be included in computing the total income of the taxpayer:

Provided further that the amount by which the taxable by a

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\(^{98}\) The word “are” substituted by the Finance Act, 2005.


\(^{100}\) The Roman letters “(xxxx)” substituted by S.R.O. 701(I)/2004, dated 16.08.2004.


\(^{103}\) The full stop substituted by the Finance Act, 2005.

\(^{104}\) Added by the Finance Act, 2005.
taxpayer is reduced on account of the exemption under this clause shall be equal to the sum which bears the same proportion to the sum exempted from tax under this clause as the tax payable on the total income of the taxpayer bears to the said total income.

(1979: Clause 147B)

Clause 105[(139)]

(a) The benefit represented by free provision to the employee of medical treatment or hospitalization or both by an employer or the reimbursement received by the employee of the medical charges or hospital charges or both paid by him, where such provision or reimbursement is in accordance with the terms of employment:

Provided that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies;

(b) any medical allowance received by an employee not exceeding ten per cent of the basic salary of the employee if free medical treatment or hospitalization or

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105 Substituted by the Finance Act, 2003. The substituted clause (139) read as follows:

1(139) (a) Any benefit, reimbursement received by an employee on account of medical charges or hospital charges, or both, incurred by an employee, as provided for under the terms of the employee’s employment agreement; or where such benefit for reimbursement, medical charges or hospital charges, or both are not provided for under the terms of employment’s agreement, medical allowance up to maximum of 10% of the basic pay for the year:

Provided that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies; or

(b) Any amount paid by a taxpayer, being an individual and resident in Pakistan, by way of personal expenditure on medical service, to the extent of 10% of taxable income returned in return of income or Rs 30,000 whichever is lower.

Provided that the receipts in respect of such expenditure being name, National Tax Number and complete address of the medical practitioners are furnished along with his return of income.

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4 Earlier this was substituted by the Finance Act, 2002. The substituted sub-clause (a) read as follows:

“(a) Any benefit, allowance or reimbursement received by an employee on account of medical expenses or hospital charges, or both, incurred by the employee, as provided for under the terms of the employee’s employment agreement, to a maximum of 10% of the employee’s basic pay for the tax year, provided, however, that where reimbursement exceeds 10% of the basic pay, the unabsorbed allowance shall be carried forward only to the next year to be allowed along with expense for the year.

Provided that the amount so carried forward and amount for the year may not exceed 10% of basic salary.

Provided further that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies; or”
reimbursement of medical or hospitalization charges is not provided for in the terms of employment; or

(1979: Clause 129A)

20. Recognised Provident Funds

THE SIXTH SCHEDULE

PART I

[See sections 2(49) and 21(e)]

3. Employer's annual contributions, when deemed to be income received by employee. -

That portion of the annual accretion in any year to the balance at the credit of an employee participating in a recognised provident fund as consists of -

(a) contributions made by the employer in excess of 106[one-tenth of] the salary of the employee; and

(b) interest credited on the balance to the credit of the employee in so far as it exceeds one-third of the salary of the employee or is allowed at a rate exceeding such rate as may be fixed by the Federal Government in this behalf by notification in the official Gazette, shall be 107[treated] to have been received by the employee in that year and shall be included in his total income for that year and shall be liable to income tax.

4. Exclusion from total income of accumulated balance. -

(1) Subject to such rules as may be made by the Central Board of Revenue in this behalf, the accumulated balance due and becoming payable to an employee participating in a recognised provident fund shall be excluded from the computation of his total income.

(2) The provisions of sub-rule (1) shall also apply where, on the cessation of his employment, the employee obtains employment with any other employer and the accumulated balance due and becoming payable to him is transferred to

106 Substituted for the words "one-twelfth of" by the Finance Act, 2002.
107 Substituted for the word "deemed" by the Finance Act, 2002.
his individual account in any recognised provident fund maintained by such other employer.

5. **Tax on accumulated balance.**

Where the accumulated balance due to an employee participating in a recognised provident fund is included in his total income, the Commissioner shall calculate the total of the various sums of tax which would have been payable by the employee in respect of his total income for each of the years concerned if the fund had not been a recognised provident fund and the amount by which such total exceeds the total of all sums paid by, or on behalf of such employee by way of tax for such years shall be payable by the employee in addition to any other tax for which he may be liable for the income year in which the accumulated balance due to him becomes payable.

21. **Approved Gratuity Funds**

THE SIXTH SCHEDULE

PART III

[See sections 2(4) and 21(e), and the Second Schedule]

4. **Gratuity deemed to be salary.**

Where any gratuity is paid to an employee during his life-time, the gratuity shall be treated as salary paid to the employee for the purposes of this Ordinance.