

Pakistan Institute of Public Finance Accountants

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Constituted by: **ICAP, ICMAP, AGP**

Identification, development and imparting knowledge to provide a structure for the training of accounting professionals in the specialist areas



Newsletter

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Amendments and General Comments on Income Tax for the Tax Year 2007

Highlights on Income Tax Amendments

- ✘ Basic exemption in case of individual deriving income from salary has been enhanced from Rs.100,000 to Rs.150,000. Tax percentage decreased from 0.25 to 20 per cent.
- ✘ Age limit of senior citizens has been reduced from 65 years to 60 years.
- ✘ CVT on purchase of shares has been increased from 0.01% to 0.02%.
- ✘ Withholding tax on cash withdrawal from bank in excess of Rs.25,000/- has been raised from 0.1% to 0.2%.
- ✘ Rebate @ 75% will continue to apply for teachers and researchers and the same has been extended to officers posted in Government institutions.
- ✘ On non-disclosure of National Tax Number / Computerized National Identity Card Number (CNIC), withholding tax rate has been enhanced by 2%.
- ✘ Commissioner of Income Tax has been given power to allow extension of time for filing of periodical statement.
- ✘ Brokerage commission is liable for 10% withholding tax deduction.
- ✘ Depreciation @ 30% for the machinery producing IT products allowed.
- ✘ Filing of return by Non-profit Organizations (NPOs) and approved welfare Institutions has been mandatory.
- ✘ Withholding tax on providing and rendering services has been increased from 5% to 6%.
- ✘ Limit of eligible investment for availing tax credit on investment in new shares being acquired in the year in listed company enhanced from Rs.150,000/- to Rs.200,000/-
- ✘ Basic exemption threshold for women deriving income from salary has been raised to Rs.200,000/- while in case of non-salaried women taxpayer the exempt limit is Rs.125,000/-
- ✘ Income from property will be taxed under presumptive tax regime @ of 5% of gross rent received
- ✘ CVT @ 2% on immovable property situated in urban areas.
- ✘ Concept of excess perquisites in case of employer has been done away with.
- ✘ Rate of withholding tax on trading of shares in stock exchange enhanced from 0.005% to 0.01%.

Income Tax Rates (Clause 1A) of First Schedule for Salaried Individuals

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

1. Where the taxable income does not exceed Rs.150,000 0%
2. Where the taxable income exceeds Rs.150,000 but does not exceed Rs.200,000 0.25%
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%

In case of a woman taxpayer deriving income from salary, no tax shall be charged if the taxable income does not exceed Rs.200,000/-.

Clause 139 (b) of Part (I) of Second Schedule for 10% exemption of medical expenses: any medical allowance received by an employee not exceeding ten per cent of the basic salary of the employee is exempt, if free medical treatment or hospitalization or reimbursement of medical or hospitalization charges is not provided for in the terms of employment.

Illustration for computation of Tax Liability effective July, 06

Salary Per Month	Annual Taxable Salary	Amended Tax Percentage	Annual Tax Liability	Monthly Tax Deduction
12,500	150,000	Zero	Nil	Nil
13,000	156,000	0.25%	390	33
20,000	240,000	0.50%	1,200	100
25,000	300,000	0.75%	2,250	188
28,500	342,000	1.50%	5,130	428
30,000	360,000	2.50%	9,000	750
40,000	480,000	3.50%	16,800	1,400
50,000	600,000	4.50%	27,000	2,250
60,000	720,000	7.50%	54,000	4,500
80,000	960,000	10.0%	96,000	8,000
100,000	1,200,000	11.0%	132,000	11,000
150,000	1,800,000	15.0%	270,000	22,500

Reduction in tax Liability for Teachers/Researchers

In clause (2), Part III of the Second Schedule, the following shall be substituted, namely,“(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.” Few examples showing computation of tax liability for such persons are given below.

Salary per Month	Annual Taxable Salary	Amended Tax %	Annual Tax Liability	Less 75% Reduction in Tax Liab.	Net Tax Liab. for the Year	Monthly Tax Deduction
20,000	240,000	0.50%	1,200	900	300	25
25,000	300,000	0.75%	2,250	1,688	562	47
28,500	342,000	1.50%	5,130	3,848	1,282	107
30,000	360,000	2.50%	9,000	6,750	2,250	188
40,000	480,000	3.50%	16,800	12,600	4,200	350

Impact of Tax for Senior Citizens: In clause (1A), for the figure “65”, the figure “60”, shall be substituted. Tax rebate for senior citizens age limit reduced from 65 years to 60 years. Few computations are as under:

Salary per Month	Annual Taxable Salary	Amended Tax %	Annual Tax Liability	Less 50% Reduction in Tax Liab.	Net Tax Liab. for the Year	Monthly Tax Deduction
20,000	240,000	0.50%	1,200	600	600	50
25,000	300,000	0.75%	2,250	1,125	1,125	94
28,500	342,000	1.50%	5,130	2,565	2,565	214
30,000	360,000	2.50%	9,000	4,500	4,500	375
33,000	396,000	2.50%	9,900	4,950	4,950	413

Deletion of section 21 (K) Excess perquisites in respect of computing the income under the head “Income from Business”: Since salary will be taxed at gross basis and there will be no distinction between salary and perquisites or allowances, The Finance Bill 2006 has proposed to delete this section. While computing the income from business, any expenditure paid or payable by an employer on the provision of perquisites and allowances to an employee that exceeds 50% of the employees' salary is treated as an in- admissible expenditure. Hence the provisions of section 21 (K), which provided for taxation of perquisites or allowances in excess of 50% of salary has been proposed to be omitted.

Section 21 (I)- Expenditure exceeding fifty thousand: Clause (1) of section 21 is proposed to be substituted providing that any expenditure for a transaction, paid or payable under a single account head which, in aggregate, exceeds fifty thousand rupees, made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer:

Provided that online transfer of payment from the business account of the payer to the business account of payee as well as payments through credit card shall be treated as transactions through the banking channel, subject to the condition that such transactions are verifiable from the bank statements of the respective payer and the payee: Provided further that this clause shall not apply in the case of

- (a) expenditures not exceeding ten thousand rupees;
- (b) expenditures on account of
 - (i) utility bills;
 - (ii) freight charges;
 - (iii) travel fare;



- (iv) postage; and
- (v) payment of taxes, duties, fee, fines or any other statutory obligation;

Advance and Additional Tax u/s 147 and 205: Any taxpayer, who is required to make payment of advance tax in accordance with sub-section (4) of section 147, shall estimate the tax payable by him for the relevant tax year, at any time before the last installment is due. In case the tax payable is likely to be more than the amount he is required to pay under sub-section (4) of section 147, the taxpayer shall furnish to the Commissioner **an estimate of the amount of the tax payable by him** and thereafter pay such amount after making adjustment for the amount (if any) already paid in terms of sub-section (4). A corresponding amendment is made in section 205, whereby the tax paid is less than 90% of the tax chargeable for the relevant tax year and he shall be obliged to pay an additional tax @ 12% per annum.

Disclosure of NTN Number or CNIC Number Section 153(8A): After sub-section (8), the following new sub-section shall be inserted, namely :-(8A) Every person from whom tax is being collected under this section shall disclose his National Tax Number to the withholding agent. Where a person fails to disclose his NTN number or CNIC number, as the case may be, at the time of collection or deduction of tax, the rate of withholding tax shall be **two per cent over and above the rates specified** in Division III of Part III of the First Schedule.

Extension of time for filing periodical statement: A person required to furnish a statement under section 119 sub-section (2), may apply in writing, to the Commissioner for an extension of time to furnish the statement after the due date and the Commissioner if satisfied that a reasonable cause exists for non-furnishing of the statement by the due date may, by an order in writing, grant the applicant an extension of time to furnish the statement.

Cash Withdrawal exceeding Rs.25,000 from a bank u/s 231 A: Every banking company shall deduct tax at the rate of 0.2% as specified in Division VI of Part IV of the First Schedule, if the payment for cash withdrawal, or the sum total of the payments for cash withdrawal in a day, **exceeds twenty-five thousand rupees.** The very purpose for increase of withholding tax rate from 0.1% to 0.2% apart from strengthening the concept of threshold of Rs.25,000 by making this limit applicable to all transaction, in aggregate, spanned over a single day is meant to beat the concept of multiple withdrawals. This is adjustable tax.

DIVISION VI of Part I of the First Schedule: Income from Property: The rate of tax to be paid under section 15 shall be 5% of the gross amount of rent received. An amendment has now been proposed as reported in media which, mentions that the said provision shall not apply in respect of taxpayer, who (i) is an individual or association of persons; (ii) derives income chargeable to tax under this Section not exceeding Rs. 150,000/- in tax year; and (iii) does not derive taxable income under any other head. Earlier, the government in the budget introduced fixed tax of 5% on income from property with non-threshold.

DIVISION-I of Part III of the First Schedule- Profit on Debt: The uniform rate of tax to be deducted under section 151(1) clause (a), (b), (c) & (d) shall be 10% of the yield or profit paid. Clause A includes deposit or a certificate under the National Savings Scheme or Post Office Savings Account.

Division II of Part III of First Schedule for Payments to non-residents: The rate of tax to be deducted from a payment referred to in sub-section (1A) of section 152 shall be 6% of the gross amount payable. In respect of section 152 (2) tax @ 30% of the gross amount shall be applied on payment to Non-resident.

Tax on Services - Section 153(1) clause (b): The tax on rendering or providing services has been increased from 5% to 6%.

Investment in Shares: Section 62 (2) C: A person other than a company shall be entitled to a tax credit for a tax year in respect of

the cost of acquiring new shares offered to the public by public company listed on a stock exchange in Pakistan where the person is the original allottee of the shares or the shares acquired from the privatization commission of Pakistan to the extent of Rs.150,000/-. Now the limit of investment has been increased to Rs.200,000/- as per Finance Bill 2006.

Part 1- Division-II of First Schedule: Brokerage and Commission: Previously withholding tax rate were 5% in the case of indenting commission agents, advertising agents and yarn dealers and 10% in the case of others. Now the blanket rate @ 10% will be applied in all cases including local indenting commission u/s 233 (1).

Rates for Collection of Tax by a Stock Exchange Registered in Pakistan: Part IV- Division II-A of First Schedule: For purchase, sales and trading of shares under clause (i), (ii) and (iii) respectively tax rate of 0.01% will be used instead of 0.005%. However in case of financing of carry over trades (Badla) as per section 233A (1) clause (d), tax rate of 10% will continue to be applied.

Exemption of Real Estate Investment Trust (REIT): Two new definitions have been inserted in the Income Tax Ordinance, which are:

1. "Real Estate Investment Trust (REIT)" means a scheme which consists of a closed-end collective investment scheme constituted as a unit trust fund and managed by a REIT management company for the purposes of investment in real estate, approved and authorized by the Securities and Exchange Commission of Pakistan under the Real Estate Investment Trust Rules, 2006. (Section 2 (47A))
2. "Real Estate Investment Trust Management Company" means a company licensed by the Securities and Exchange Commission of Pakistan under the Real Estate Investment Trust Rules, 2006. (Section 2 (47 B))

Results of amendments in clause (11) and clause (33) of Part- IV of the Second Schedule is that Real Estate Investment Trust formed under Real Investment Trust Rules, 2006 is granted exemption from tax.

Rates of Tax for Companies-Division II of Part I of First Schedule: The following tax rates for the tax year 2007 will be applicable on the taxable income of a company as set out in the Ordinance.

- o Banking Company 35%
- o Public Company other than a Banking Company 35%
- o Private Company other than a Banking Company 35%
- o In case of Small Company as defined in Section 2 sub-section (59A), tax shall be payable at the rate of 20%.

This Special Newsletter on certain important amendments related to Income Tax made through the Finance Bill 2006 has been prepared as a general guide for the benefits of PIPFA's students and members. Wherever we felt, we have provided brief comments for purpose of simplification. This selected material on Income Tax has been compiled with the idea to help our students of Final Stage in one aspect of their subject of Advanced Taxation.

No responsibility is taken for any error or omission. As stated above the material contained in PIPFA's Newsletter is not intended to be an advice on any particular income tax matter. No reader or the student should act on the basis of any matter contained in the Newsletter without considering appropriate professional advice or clarification from the concerned teacher teaching subject of 'Advanced Taxation'.

These Income Tax amendments and computations will not be applied in PIPFA's Summer 2006 Examination.

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ICMAP News

ICMAP Post Budget Seminar held in Karachi on June 19, 2006

Sindh Irrigation and Power Minister Sardar Nadir Akmal Khan Leghari speaking at the post-budget seminar had said that the defense allocation of Rs250 billion and development outlay of Rs453 billion in the budget 2006-07 reflect prudent priorities and positive thinking of the government.

Speaking at the seminar of Karachi Branch Council under the aegis of the Institute of Cost and Management Accountants of Pakistan (ICMAP), the minister said the seeds of macro-economic consolidation had started blossoming and required a lot more care and a pragmatic approach to reap the desired results.

Mr Leghari said the fiscal year 2005-06 was the year of economic expansion and accelerated growth, which was a consequence of the continued macro-economic stability and consistent policy framework, with a planned shift in focus of the policymakers to achieve higher growth. The minister summarized the key features of the budget 2006-07 that has been received with mixed reactions ranging from political bias, including cynicism, to a more proactive and comprehensive analysis. "Now defence expenditure is Rs.250 billion whereas the development budget is Rs415 billion. This is the result of positive thinking, framing fiscal laws, with economic rationale and adoption of international best

practices. However, we should not be complacent. We have yet to bridge a wide gap," he concluded.

Mr. Sher Afgan Malik, President of the Institute of Cost and Management Accountants of Pakistan, termed the increase in minimum wage, review of salaries of government employees and rationalizing the tax incidence of salaried persons positive steps in right direction. He informed that despite job creation through SME and micro finance activity and growth in economy, unemployment level has remained unchanged and it needs to be addressed through a martial plan.

Mr. Mohammad Arif Nara, Honorary Secretary of the ICMAP said that the CBR was very receptive regarding relief to the people and claimed wherever there was any demand or requirement for relief it was given. He maintained there was a long demand of brining down tax rates, which had been entertained. He said the tax net was being extended, as this would reduce the burden from the taxpayers. In a move to tax the rich people, 15 percent excise duty on international air travel has been proposed bringing it at par with the domestic air travel where 15 percent excise duty is applicable. The levy would rationalize the excise tariff, besides bringing a positive effect on the public exchequer. The levy would not be applicable on the Hajj fare/ticketing.

PIPFA Affairs

Summer Exam- 2006:

The PIPFA Summer Exams-2006, of Corporate and Public Sectors, scheduled on **3rd July, 2006**, will now be held on **31st July, 2006**. Revised Exam Schedule of Corporate Sector can be download from our website.

Exam Schedule of Public Sector will be issued shortly. Students are advised to visit our Website for more updates.

Membership Dues:

Members are kindly informed that in future Newsletter will not be despatched to those members whose membership dues are not paid by the end of **July 2006**.

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