

resident &
non-resident
individuals

**UCO
Taxbook 7**



USMANI & CO.
CHARTERED ACCOUNTANTS
Only women led accountancy practice

About

This document contains basic tax provisions applicable on **RESIDENT & NON-RESIDENT INDIVIDUALS** with changes incorporated through Finance Act 2020 and supplementary amendments made through Tax Laws (Amendment) Ordinance, 2021 and Tax Laws (Second Amendment) Ordinance, 2021.

April 2021

Content

PREFACE

SECTION – A

RESIDENT INDIVIDUAL

A-1 SALARIED	7
A-2 SENIOR CITIZENS NOT IN SERVICE	8
A-3 MARRIED WOMEN	8
A-4 SINGLE WOMEN	9
A-5 ROSHAN DIGITAL ACCOUNTS' HOLDERS	10

SECTION-B

NON-RESIDENT INDIVIDUALS	12
B-1 EARNING SALARY INCOME FROM PAKISTAN	12
B-2 EARNING CONSULTANCY INCOME FROM PAKISTAN	12
B-3 EARNING INVESTMENT INCOME FROM PAKISTAN	13
B-4 EARNING INCOME FROM ROSHAN DIGITAL ACCOUNTS	13
B-5 WITHDRAWAL OF CERTAIN EXEMPTIONS	14

SECTION-C

GENERAL PROVISIONS	16
--------------------	----

SECTION-D

ADMINISTRATIVE PROVISIONS	22
---------------------------	----

SECTION-E	24
-----------	----

ANNEXURES TO UCO TAXBOOK-1	25
----------------------------	----

Preface

For the year 2020-21 the federal budget was presented on 12th June, 2020 and has been formally approved by the National Assembly after the assent of the President of Pakistan on June 30, 2020. Afterwards, supplementary amendments have been introduced vide Tax Laws (Amendment) Ordinance, 2021 [the First Amendment Ordinance] and Tax Laws (Second Amendment) Ordinance, 2021 [the Second Amendment Ordinance] which were assented by the President of Pakistan on February 12, 2021 and March 22, 2021 respectively and have become effective immediately. Hence provisions including in this commentary have been duly enacted and updated till March 22, 2021.

This UCO Tax book series 2020 Second Edition has been issued for the convenience and guidance of different category of tax payers and sharing required information which is of their interest and relevance. These booklets start with a brief applicability of taxation on respective tax payers along with changes brought through Finance Act 2020 and supplementary amendments through the First Amendment Ordinance and the Second Amendment Ordinance. For ease of readers' understanding, UCO tax books 2020 Second Edition have been developed for the following classes of taxpayers:

UCO Taxbook 1

is for Resident and Non-Resident Individuals not doing business

UCO Taxbook 2

Taxbook-2 is for Small Business by single person

UCO Taxbook 3

is for Small Business by two or more persons

UCO Taxbook 4

is for Not for Profit Organizations based in Pakistan

UCO Tax Card is for applicable withholding tax on above classes of taxpayers.

This is UCO Taxbook-1 for Resident and Non-Resident Individuals not doing business and is divided into following categories:

- A** Resident individuals
- B** Non-Resident individuals

UCO TaxBook series 2020 Second Edition

can also be accessed through our website

www.usmanico.com

and Firm's all social media pages.



Karachi- ___April 2021

Section A

a

Resident Individuals



This category is in respect of those individuals who are residing in Pakistan or have stayed in Pakistan for more than the number of days required to become a tax resident person in a tax year. Please refer [Annexure-I](#) for applicable time limit in order to become a resident.

It is important to note that the income of a resident person under a head of income will include both Pakistan-source income and foreign-source income.

A-1 Salaried

Scope: This category is in respect of individuals who are in regular employment as well as individuals who are retired after attaining the age of 60 years and have entered into an employment contract with the same employer or any other organization.

Tax liability: Salaried individuals earning salary income of more than Rs. 600,000 per year are liable to pay income tax. A schedule is given in Income Tax Ordinance 2001, which is reproduced in [Annexure-II](#) and defines various slabs of salaries and rates of taxes applicable for each slab.

Exemption:

(a) 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.

(b) Where a citizen of Pakistan leaves Pakistan during a tax year and remains abroad during that tax year, foreign source salary earned during that tax year shall be exempt.

Mechanism for payment of tax: All regular or contract employees whose salaries fall within the given tax slab are required to have a National Tax Number (NTN) through registration with tax authorities.

For payment of tax by each salaried individual a mechanism is provided in the Ordinance whereby the employer is liable to deduct tax from the salaries each month and deposit in government treasury on behalf of its employees.

Evidence of payment of tax: It is important for individuals earning salaries within the given threshold to ensure that employers are deducting and depositing tax in the government treasury on time. The salary slip is an evidence which the employee should keep for tax purposes. In addition, at the year-end i.e. 30th June, the employer issues a certificate of tax deduction to its employees giving evidence of all taxes deducted & paid during the tax year (from 1st July to 30th of June next year hereby called the tax year).

Reporting obligations to tax authorities:

Employees with NTN are required to file:

1. Annual Income Tax Return; and
2. Wealth Statement

Please refer [Annexure-IV](#) regarding the conditions besides NTN whereby the persons are required to file return of income and exceptions thereto in detail.

Annual Income Tax return requires details of income earned and taxes paid in advance during the year whereas in wealth statement details of wealth in and outside Pakistan are required to be disclosed. At present there is no tax on wealth and it is required for information purposes by FBR. Both these returns are required to be submitted online through FBR portal by 30th September each year. In case of non-compliance certain penalties will be imposed along with consequences of not appearing in Active Taxpayers' List (ATL). Please refer [Annexure-V](#) for ATL definition.

Changes brought by Finance Act 2020

No changes have been made in the existing provisions related to this category of tax payers.

A-2 Senior Citizens Not In Service

Scope: This category is in respect of those individuals who have attained the age of 60 years and are not part of the workforce by any contract of service.

Tax liability: In normal course senior citizens usually derive their income from pension, return on investments made out of savings, dividends on shares, rental income, share of profit on investment in business etc. (Other than pension all other income can also be earned by individuals who are not in senior citizen category but for ease of understanding it is covered in senior citizen section). All such income is taxable as per different rates of applicable taxes under the Income Tax Ordinance.

However, pension is fully exempt subject to the following two conditions:

- If an individual working for the same employer or any of its associates after retirement then pension income will be taxable; or
- If an individual receives more than one pension then exemption shall be applied to the higher amount.

There are certain tax benefits for investment in special investment schemes by senior citizens i.e. Profit earned on investment in Bahbud certificates etc.

Mechanism for payment of tax: The tax is withheld on profit payments, dividend etc. by the payer. In case of rental income if the tenant is not a withholding agent then at the time of filing of Annual Return of Income, tax liability is calculated on this income and the tax liability determined is required to be paid at the time of filing of Annual Return of Income.

Evidence of payment of tax: Tax on profits and dividends and similar instruments is deducted by the payer who are withholding agents. A tax

deduction certificate at the end of each tax year is provided by these organizations along with transaction wise evidence of such deduction is also provided like dividend warrants etc.

Reporting obligations to tax authorities: The senior citizens are required to file Annual Income Tax Return if they fall in any of the category as mentioned in Annexure-IV for the purposes of filing of Annual Tax Return and Wealth Statement by 30th September each year. In case of non-compliance certain penalties will be imposed along with consequences of not appearing in ATL. Please refer Annexure-V for ATL definition.

In addition to Return of Income and Wealth Statement, every resident taxpayer being an individual having foreign income of not less than USD 10,000 or having foreign assets with a value of not less than USD 100,000 shall furnish a statement, hereinafter referred to as the foreign income and assets statement.

Changes brought by Finance Act 2020

No changes have been made in the existing provisions related to this category of tax payers.

A-3 Married Women

Scope: This category is in respect of married women (housewives) who are never part of the economic workforce.

Tax liability: These women may have wealth received through inheritance or may continue to receive gifts from immediate relatives and will become liable to pay tax on income earned through investments of such gift or property.

Usually these women keep their savings in certain deposit schemes or invest in shares or in business, rental income etc. Any income e.g. interest income, business income or rental income earned through such savings will be taxable as per applicable tax rates. An example could be defense saving certificates in the name of a housewife which is received as gift from father or husband or rental income received

on property in the name of housewife. Any income received on these DSCs will be taxable in the hands of the housewife and will be declared in her tax return.

Practically, it is observed that the house wives are not registered with FBR and the investments or properties in their names are disclosed by any of their immediate family members. Further any tax on income is also paid by their immediate family members and accordingly recorded in immediate family member's tax returns. However, as per law, housewives are required to file their returns if they fall in any of the category mentioned in **Annexure-IV**.

Mechanism for payment of tax: The tax is withheld on profit payments, dividend etc. by the payer. In case of rental income if the tenant is not a withholding agent then at the time of filing of Annual Return of Income, tax liability is calculated on this income and the tax liability determined is required to be paid at the time of filing of Annual Return of Income.

Evidence of payment of tax: Tax on profits and dividends and similar instruments is deducted by the payers who are withholding agents. A tax deduction certificate at the end of each tax year is provided by these organizations along with transaction wise evidence of such deduction is also provided like dividend warrants etc.

Reporting obligations to tax authorities: A house wife is required to have a NTN and to file Annual Income Tax Return in case they are earning income on investments or rental income and if she is not earning any income but falls in any of the category as mentioned in **Annexure-IV**, she will still be required to file Annual Tax Return and Wealth Statement by 30th September each year. In case of non-compliance certain penalties will be imposed along with consequences of not appearing in ATL. Please refer **Annexure-V** for ATL definition.

In addition to Return of Income and Wealth Statement, every house wife being an individual having foreign income of not less than USD 10,000 or having foreign assets with a value of not less than USD 100,000 shall furnish a statement, hereinafter referred to as the foreign income and assets statement.

Changes brought by Finance Act 2020

No changes have been made in the existing provisions related to this category of tax payers.

A-4 Single Women

Scope: This category is in respect of widows, divorcees and unmarried women hereinafter called single women who may or may not be part of the economic workforce. These women may be:

- 1. Working:** means they are part of economic workforce; or
- 2. Non-working:** means they are never part of the economic workforce.

Working single women will have similar tax provisions as given in Section A-1 whereas non-working single women will have similar provisions as given in Section A-3 which may be referred for understanding.

Special provisions: In case of non – working widows if they own immovable property or motor vehicle having engine capacity of 1000 cc, but do not have any source of income they will not be required to file income tax return.

At present this special provision is not applicable on non-working divorcees and unmarried women in similar capacity.

Changes brought by Finance Act 2020

No changes have been made in the existing provisions related to this category of tax payers.

A-5 Roshan Digital Accounts' Holders (Change by First Amendment Ordinance)

Scope: This section is in respect of those certain resident individuals as defined under A-1 to A-4 above having foreign assets declared in the latest income tax return and hence eligible to hold Roshan Digital Accounts (RDAs). Detailed understanding and concept of RDA is covered under UCO TaxBook 1.1. In this section, we will discuss the tax implications on income / investment ONLY from RDA by resident individuals.

Tax liability: Through changes made by the First Amendment Ordinance, the interest income earned from investment made from RDA in Government debt securities (sharia compliant and conventional both) will be subject to tax withholding at the rate of 10% under final tax regime. However, this benefit is ONLY applicable to resident individuals who are citizen of Pakistan and therefore the resident individuals who are not citizen of Pakistan would be taxable for their interest income as per the applicable provisions under the Ordinance.

Rest of the income such as capital gain, dividend etc will be taxable at different tax rates as applicable under the Income Tax Ordinance.

Mechanism for payment of tax: The tax is withheld on profit payments, dividend etc. by the payer.

Evidence of payment of tax: Tax on profits, capital gains, purchase and sale of immovable property and dividends is deducted by the payers who are withholding agents. A tax deduction certificate at the end of each tax year is provided by these organizations along with transaction wise evidence of such deduction is also provided like dividend warrants etc.

Reporting obligations to tax authorities: A resident individual earning income from investment made from RDA is required to have a NTN and to file Annual Income Tax Return and if he is not earning any income but falls in any of the category as mentioned in **Annexure-IV**, he will still be required to file Annual Tax Return and Wealth Statement by 30th September each year. In case of non-compliance certain penalties will be imposed along with consequences of not appearing in ATL. Please refer **Annexure-V** for ATL definition.

In addition to Return of Income and Wealth Statement, every resident RDA holder being an individual having foreign income of not less than USD10,000 or having foreign assets with a value of not less than USD 100,000 shall furnish a statement, hereinafter referred to as the foreign income and assets statement.

0

Section (B)

Non-resident Individuals



This category is in respect of those individuals who are earning Pakistan source income but they are residing outside Pakistan or have stayed in Pakistan for lesser than the required number of days during a tax year. Please refer Annexure-I for applicable time limit in order to become a resident.

It is important to note that ONLY Pakistan-source income of a non-resident person will be taxable in Pakistan.

B-1 Earning Salary Income From Pakistan

Scope: This section is in respect of those individuals who are non-residents and are in regular employment with resident employers based in Pakistan. This section also applies to those individuals who are non-residents and have attained 60 years of age as on 1st day of July of the relevant tax year and have entered into an employment contract with any organization based in Pakistan.

Tax liability: All non-resident employees whose salaries from resident employers fall within the given tax slab are required to have NTN through registration with tax authorities.

These individuals are liable to pay income tax on their salary income in case they are earning salary income of more than Rs. 600,000 in a tax year from resident employers based in Pakistan. Tax rates will be applicable as per normal slab rates of taxes as given in **Annexure-II**.

Mechanism for payment of tax:

For payment of tax by non-resident salaried individual, same mechanism as given in case of resident individuals in the Ordinance, will be applicable whereby the resident employer is liable to deduct tax from the salary payments each month and deposit in government treasury on behalf of its employees.

Evidence of payment of tax: It is important for individuals earning salaries within the given threshold to ensure that employers are deducting and depositing tax in the government treasury on time. The salary slip is an evidence which the employee should keep for tax purposes. In addition, after the year-end i.e. 30th June, the employer issues a certificate of tax deduction to its employees giving evidence of all taxes deducted & paid during the tax year (from 1st July to 30th of June next year hereby called the tax year).

Reporting obligations to tax authorities: Non-resident employees with NTN are required to file Annual Income Tax Return whilst there is no requirement to file Wealth Statement.

Please refer Annexure-IV regarding the conditions besides NTN whereby the persons are required to file return of income and exceptions thereto in detail.

Annual Income Tax return requires details of income earned and taxes paid in advance during the year. This return is submitted online through FBR portal by 30th September each year. In case of non-compliance certain penalties will be imposed alongwith consequences of not appearing in ATL. Please refer Annexure-V for ATL definition.

Special provisions: In case they own immovable property and do not have any Pakistan source income they will not be required to file income tax return.

Changes brought by Finance Act 2020

No changes have been made in the existing provisions related to this category of tax payers.

B-2 Earning Consultancy Income from Pakistan

Scope: This section is in respect of those non-resident individuals who provide consultancy services in Pakistan while residing abroad.

Tax liability: Consultancy income earned by non-resident individuals is taxable at the rate of 15% under final taxation.

Mechanism for payment of tax: The tax is withheld on payment of consultancy services by the payer.

Evidence of payment of tax: Tax on consultancy payments is deducted by the payer. A tax deduction certificate at the end of each tax year is provided by the payer which is a valid evidence of tax deduction.

Reporting obligations to tax authorities: All non-residents who are earning Pakistan source income are required to file Annual Income Tax Return whilst there is no requirement to file Wealth Statement. This return is submitted online through FBR portal by 30th September each year. However, through changes by Finance Act 2020, non-resident individual not appearing in ATL, receiving payment of consultancy services, are excluded from the consequences of not appearing in ATL. Please refer Annexure-V for ATL definition.

Please refer **Annexure-IV** regarding the conditions besides NTN whereby the persons are required to file return of income and exceptions thereto in detail.

B-3 Earning Investment Income from Pakistan

Scope: This section is in respect of those non-resident individuals who carry certain income earning investments in Pakistan.

Tax liability: Their income usually comprises of return on investments, dividends on shares, rental income, share of profit on investment in business etc. All such incomes are taxable as per different rates of applicable taxes under the Income Tax Ordinance.

Mechanism for payment of tax: The tax is withheld on profit payments, dividend etc. by the payer. In case of rental income if the tenant is not

a withholding agent then at the time of filing of Annual Return of Income, tax is calculated on this income and tax liability is determined for payment.

Evidence of payment of tax: Tax on profits and dividends and similar instruments is deducted by the payers who are withholding agents. A tax deduction certificate at the end of each tax year is provided by these organizations along with transaction wise evidence of such deduction is also provided like dividend warrants etc.

Reporting obligations to tax authorities: All non-residents who are earning Pakistan source income are required to file Annual Income Tax Return whilst there is no requirement to file Wealth Statement. This return is submitted online through FBR portal by 30th September each year. In case of non-compliance certain penalties will be imposed along with consequences of not appearing in ATL Please refer **Annexure-V** for ATL definition.

Please refer **Annexure-IV** regarding the conditions besides NTN whereby the persons are required to file return of income and exceptions thereto in detail.

Changes brought by Finance Act 2020

No changes have been made in the existing provisions related to this category of tax payers.

B-4 Earning income from Roshan Digital Accounts (Change by First Amendment Ordinance)

Scope: This section is in respect of those non-resident individuals holding Pakistan Origin Card (POC), National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) and hence eligible to hold Roshan Digital Accounts (RDAs). Detailed understanding and concept of RDA is covered under UCO TaxBook 1.1. In this section, we will discuss the tax implications on income / investment ONLY from RDA by non-resident individuals and exemptions available to them.

Tax liability: Through changes made by the First Amendment Ordinance, the income / investment from RDAs of non-resident individuals will be taxable as follows:

Income / investment	Taxation
Interest income from Government securities (both sharia compliant and conventional)	Tax withholding of 10% of interest income by banking company under final tax regime
Capital gain on disposal of Government securities (both sharia compliant and conventional)	Tax withholding of 10% of capital gain by banking company under final tax regime
Purchase of immovable property	Tax withholding of 1% of fair market value by registering authority under final tax regime. No tax withholding where immovable property is purchased under a scheme introduced by Federal or Provincial Government for expatriates Pakistanis.
Sale of immovable property	Tax withholding of 1% of gross disposal proceeds by registering authority under final tax regime instead of taxation of capital gain on disposal of immovable property. No tax withholding where holding period exceeds four years.
Dividend income from listed securities and mutual funds	Tax withholding at following rates under final tax regime: (a) 7.5% (in case of dividend received from IPP where dividend is a pass through item) (b) 25% (in case where dividend is received from tax exempt company or where no tax is payable due to tax loss / credits) (c) 15% (in case of mutual funds and cases other than (a) and (b) above).
Capital gain from disposal of listed securities and mutual funds	Tax withholding at following rates under final tax regime: (a) 15% (in case of listed securities) (b) 12.5% (in case of stock fund, if dividend receipt is less than capital gain) (c) 10% (in case mutual fund and stock fund other than (b) above)
Interest income from term deposits or any allied products of banks	Tax exemption including withholding tax and no requirement to obtain exemption certificate.

Mechanism for payment of tax: The tax is withheld on profit payments, dividend etc. by the payer.

Evidence of payment of tax: Tax on profits, capital gains, purchase and sale of immovable property and dividends is deducted by the payers who are withholding agents. A tax deduction certificate at the end of each tax year is provided by these organizations along with transaction wise evidence of such deduction is also provided like dividend warrants etc.

Reporting obligations to tax authorities:

Through changes made by the First Amendment Ordinance, non-resident individuals holding RDAs having no Pakistan source income other than that specified above, are not required to obtain NTN or file tax return in Pakistan. Moreover, there will not be any consequences of not appearing in ATL (i.e. 100% higher withholding tax rates and other consequential implications will not apply).

However, non-resident individuals having NTN or not and earning Pakistan source income other than that specified above are required to file tax return in Pakistan. In case of non-filing of tax return in such situation, the consequences of not appearing in ATL will apply (i.e. 100% higher withholding tax rates and other consequential implications).

Other Exemptions / Incentives:

Through changes made by the First Amendment Ordinance, non-resident individuals holding RDAs will have following other exemptions / incentives:

- (a) may avail the benefits of Double Tax Treaties following the normal procedures;
- (b) Exemption from following withholding tax provisions:
 - . Cash withdrawal from bank under section 231A
 - . Online banking transactions under section 231AA
 - . All banking transactions other than cash under section 236P

B-5 Withdrawal of certain Exemptions

Through changes made by the Second Amendment Ordinance, following exemptions that were available to non-resident individuals have been withdrawn:

- (a) No exemption on profit on debt to non-resident in respect of private loan utilized in a project approved by Federal Government, foreign exchange loan against export letter of credit which is exclusively utilized for export of Pakistani manufactured or processed goods and foreign loan utilized for industrial investment in Pakistan.
- (b) No exemption on income derived by non-resident from investment in OGDCL exchangeable bonds issued by Federal Government.
- (c) Exemption on any income from money borrowed under loan agreement or in respect of foreign currency instrument approved by Federal Government to any non-resident person approved by Federal Government has been restricted to profit of debt and capital gain only.

Section **C**

C

General Provisions

For the purposes of imposition of tax and computation of total income, the Income Tax Ordinance classifies all income under the following heads:

- Salary
- Income from Property
- Income from Business
- Capital Gains
- Income from other Sources

Salary income is covered earlier in this UCO Taxbook-1 and income from business is covered in UCO Taxbook-2 as such the following section will briefly discuss certain relevant provisions related to resident and non-resident individuals under the below mentioned remaining heads of income:

- Income from Property
- Capital gains
- Income from Other Source

Moreover, this section will also discuss briefly certain tax credits, rebates and exemptions allowed to resident and non-resident individuals along with the changes made by the Second Amendment Ordinance.

Income from Property Rental Income

The following rates of taxes are applicable on the given slabs of rental income earned in a tax year:

Taxable Amount	Tax Rate
Up to Rs.200,000	0%
Rs.200,001 to Rs.600,000	5% of the amount exceeding Rs.200,000
Rs.600,001 to Rs.1,000,000	Rs.20,000 + 10% of amount exceeding Rs.600,000
Rs.1,000,001 to Rs.2,000,000	Rs.60,000 + 15% of amount exceeding Rs.1,000,000
Rs.2,000,001 to 4,000,000	Rs.210,000 + 20% of amount exceeding Rs.2,000,000
Rs.4,000,001 to Rs.6,000,000	Rs.610,000 + 25% of amount exceeding Rs.4,000,000
Rs.6,000,001 to Rs.8,000,000	Rs.1,110,000 + 30% of amount exceeding Rs.6,000,000
Exceeds Rs.8,000,000	Rs.1,170,000 + 35% of amount exceeding Rs.8,000,000

Rental income up to Rs.200,000 earned in a tax year is exempt from tax.

Through changes brought by Finance Act 2020, tax on rent income can be calculated and paid under the following two options:

1. Determine tax liability on the basis of gross income and do not claim any deduction; or
2. Determine tax liability on net income basis after considering the allowable deductions and pay the tax whichever is lower. Tax will be computed as per the slab rates mentioned in [Annexure-III](#).

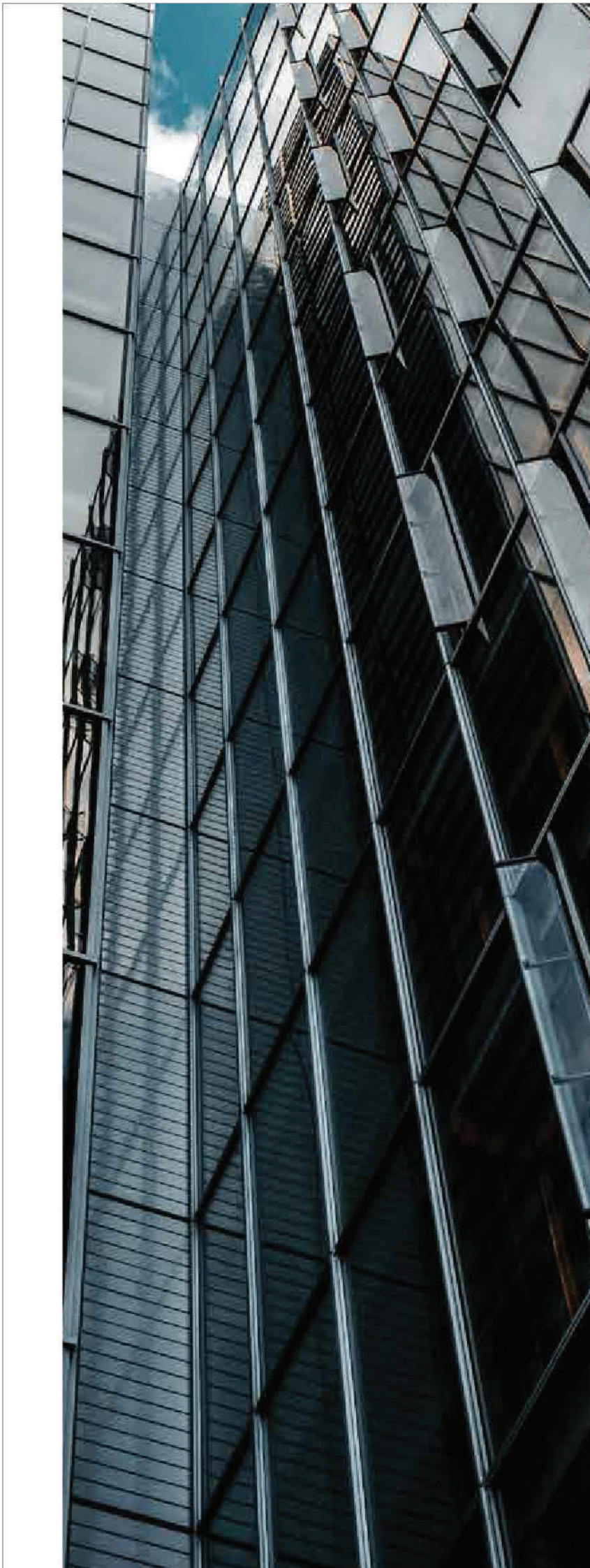
Previously there was a limit of Rs.4 million for availing this benefit however through changes made by Finance Act 2020 this limit has been removed and anyone can avail this benefit.

Further, while calculating tax liability under Option 2, direct expenditure relating to property income are allowed with certain exceptions for administration and collection charges which can be claimed up to 4% of gross rentals. Previously, this threshold was 6%.

Capital Gain From Property

Through changes brought by Finance Act 2020, capital gain derived by a resident individual is now given exemption from tax subject to following conditions:

- At the time of sale, the residential property was being used for the personal accommodation by the resident individual, his spouse or dependents;
- Any of the utility bills of such residential property is issued in the name of such resident individual;
- Land area of residential property does not exceed 500 sq.yrds in case of a house and 4000 sq.ft in case of a flat; and
- Exemption has not been previously availed by resident individual, his spouse or dependents.



Moreover, through changes by Finance Act 2020 rate of tax for capital gain on disposal of immovable property has been reduced by 50% as compared to rates previously applicable on capital gain. Following revised tax rates are now applicable:

Amount of Capital Gain	Tax Rate
Upto Rs. 5,000,000	2.5%
Rs. 5,000,001 to Rs.10,000,000	5%
Rs. 10,000,001 to Rs. 15,000,000	7.5%
Exceeds Rs. 15,000,000	10%

Previously different holding periods were defined for open plots and constructed property for availing exemption for capital gain, however, through changes by Finance Act 2020, now the holding period for computing exemption of capital gain on immovable property is same for plot and constructed property as per following exemption limits.

Holding Period	Exemption
Does not exceed 1 year	-
Greater than 1 year but less than 2 years	25%
Greater than 2 years but less than 3 years	50%
Greater than 3 years but less than 4 years	75%
Greater than 4 years	100%

Capital Gain

From investment in listed securities

Capital gain on disposal of shares of a public company including a listed company is taxed as a separate block of income as per following rates:

Holding Period	Tax Rate
Shares acquired before 1.7.2013	-
Shares acquired between 1.7.2013 and 30.6.2016	-
-Holding period less than 12 months	15%
-Holding period 12 months or more but less than 24 months	12.5%
-Holding period 24 months or more	7.5%
Shares acquired on or after 1.7.2016	15%

Capital Gain

Other than Immovable Property and Listed Securities

The capital gain earned by individuals other than capital gain on immovable property and listed securities which are taxed as separate block of income, will be taxed as per normal tax slabs. Please refer [Annexure-III](#) for applicable slab rates.

Income from other Sources

Dividend Income

At present dividend income earned by resident and non-resident individuals is based on their status in ATL. Please refer [Annexure-V](#) for ATL definition.

Tax on dividend income for resident individuals on shares of listed company is as follows:

- 15% in case their name is appearing in ATL; and
- 30% in case their name is not appearing in ATL.

Tax deducted on dividend income shall be final tax.

Tax on dividend income for non-resident individuals on shares of listed company is 15% irrespective of inclusion of their name in ATL. This change is brought through Finance Act 2020 whereby **non-resident individuals** not appearing in ATL and are receiving payment of dividend have been excluded from the consequences of increased tax rates. Please refer [Annexure-V](#) for ATL definition.

In addition to withholding tax, zakat is also deducted at the rate of 2.5% from the dividend income. However, in case zakat declaration certificate is given by the shareholder to the company zakat is not deducted from the payment of dividend.

Income from other Sources

Interest Income

In case of individuals if the annual interest income from investment in government securities, PLS Accounts with Banks etc. exceeds Rs. 36 million it will be made part of their total income and taxed at normal rates as mentioned in [Annexure-III](#).

Annual interest income of less than Rs. 36 million will be taxed at following rates under final taxation:

Amount of Profit on debt	Tax Rate
Up to Rs. 5,000,000	15%
Rs. 5,000,001 to Rs.25,000,000	17.5%
Rs. 25,000,001 to Rs. 36,000,000	20%



Presently, reduced rate of withholding of 10% is applicable where annual interest does not exceed Rs. 500,000. However, through changes by Finance Act 2020, such reduced rate of withholding of tax will only be applicable when the recipient of interest furnish a certificate to the payer for availing benefit of such reduced withholding tax rate.

Through changes by Finance Act 2020, reduced rate of 10% is applicable on profit on debt paid to **non-resident individual** earned from a debt instrument issued by Federal Government under the Public Debt Act, 1944, and purchased by the non-resident individual exclusively through bank account maintained abroad, a Non-resident Rupee Account Repatriable (NRAR) or a foreign currency account maintained with banking company in Pakistan. Further, Finance Act 2020 also exempt from filing of return of income by such **non-resident individual** who is required to file return of income in Pakistan solely because of earning such profit on debt.

Income from other Sources Income from Gifts

Gifts of any nature received from any person are not taxable, except for the gifts in cash received through non-banking channel by a person not holding NTN. However, non-monetary gifts received by persons other than relatives are treated as income from other sources and tax accordingly. Fair market value of properties shall be taken as income. Relatives in this case includes grandparents, parent, spouse, real brother, real sister, son or daughter.

Changes brought by Finance Act 2020

No changes have been made in the existing provisions.

Income from other Sources Foreign Remittances

Individuals usually remit amounts in their Pak Rupee bank accounts maintained in Pakistan from foreign currency bank accounts maintained abroad in foreign exchange and encashed in

Rupees by a scheduled bank in Pakistan. These transactions are referred to as foreign remittances. Tax provisions relating to inward remittances i.e. the amount remitted in Pakistan from outside Pakistan and outward remittances i.e. the amount remitted from Pakistan to outside Pakistan.

Inward remittances

In respect of inward remittances, FBR has allowed various exemptions which are listed below:

- No question about source of Foreign remittances up to Rs. 5 million in a tax year.
- Exemption of tax on profit on debt derived from Rupee account in Pakistan wherein only foreign remittances are deposited by non-resident citizen of Pakistan.
- Through changes brought by Finance Act 2020, further exemptions on tax deductions are allowed to resident and non-resident individuals to the extent of foreign remittances credited in their bank accounts, in respect of:
 - cash withdrawal
 - electronic mode of transfer of payments or through banking instruments
 - banking transactions executed by persons not appearing in ATL

Outward remittances

Advance tax at the rate of 1% of gross amount remitted abroad is collected on any sum remitted through credit card, debit card or pre-paid card transaction.

Through changes brought by Finance Act 2020, FBR has granted exemption on collection of advance tax by bank, financial institution, foreign exchange company or any person responsible for remitting foreign currency abroad in respect of educational expenses. Previously, such amount was taxed at the rate of 5%.

Income from other Sources

Unexplained Income / Assets

Previously all the unexplained /concealed income or expenditure for which unsatisfactory explanation was provided to the Commissioner, has been treated as Income from other sources. However, through changes by Finance Act 2020, now the taxability of such income shall be in the following manner

Description	Head of Income
Unexplained assets (Investment, money, amount credited in the Accounts)	Income from other sources
Concealed income	Income from Business

Tax credits, Rebates and Exemptions Charitable Donations

An individual is allowed a tax credit in respect of donations given to approved educational institutions / hospitals or Non-Profit Organization (NPO). Maximum limit of donation is 30% of taxable income in case of availing tax credit. However, through changes by Finance Act 2020, this limit has been further reduced to 15%, if donation is made to an associate of the donor. Moreover, following further changes have been introduced by the Second Amendment Ordinance:

- besides donations, voluntary contributions or subscription are also allowed to calculate tax credit; and
- donations, voluntary contributions or subscription given to persons eligible for tax credit under section 100C are also eligible for tax credit.

Further, donation given to institutions/foundations /societies/Boards appearing in clause (61) of Second Schedule of the Ordinance is allowed as straight deduction from total income. Following changes by Finance Act 2020:

- Some new institutions have been added in clause (61).
- A limit of 15% of taxable income is introduced in case of donation by an associate to the institutions appearing in clause (61).
- Straight deduction from total income will only be allowed if donation is paid by crossed cheque drawn on a bank.

Through changes made by the Second Amendment

Ordinance, this concept of straight deduction from total income has been withdrawn and clause (61) is omitted.

A new i.e. Thirteenth Schedule has been introduced listing the organizations to which donations, voluntary contributions or subscription will be allowed as tax credit.

Tax credits, Rebates and Exemptions

Tax Rebate on Payment to Teachers and Researchers

Tax credit equal to 25% of tax payable on salary income is allowed for full time teachers and professors and researchers. However, the tax credit shall not be available to teachers of medical profession who derive income from their private medical practices or who receive share consideration from hospital patient.

Through changes made by the Second Amendment Ordinance, the above tax rebate has been withdrawn.

Tax credits, Rebates and Exemptions Withdrawal of certain Exemptions

Through changes made by the Second Amendment Ordinance, following exemptions that were available to resident and non-resident individuals have been withdrawn:

- No exemption on income from Sukuk issued by “The Second Pakistan International Sukuk Company Limited” and “The Third Pakistan International Sukuk Company Limited”.
- No exemption on profit on debt derived on bonds issued by Pakistan Mortgage Refinance Company to refinance residential housing market.
- No exemption on distribution of collective investment schemes, mutual funds, National Investment (Unit) Trust, REIT scheme or Private Equity and Venture Capital Fund.
- No exemption on capital gain derived by transfer of bonds issued by Pakistan Mortgage Refinance Company to refinance residential housing market.
- No exemption on capital gain derived from an industrial undertaking set up in Export Processing Zone.
- No exemption to foreign national from any income from money borrowed under loan agreement or in respect of foreign currency instrument approved by Federal Government.
- No reduction in tax rates on import of hybrid cars.

od

Section **D**

Administrative Provisions relevant to Individuals

There are certain changes brought by Finance Act 2020 in administrative provisions which are of relevance to individual taxpayers, are as follows:

Taxpayer's Profile

Individuals applying for registration with FBR or deriving income subject to final taxation, are required to furnish a profile stating certain details therein i.e bank accounts, utility connections or other information as may be prescribed. This profile is required to be furnished

- on or before 31 December 2020, in case a person is registered with FBR before 30 September 2020;
- within 90 days of registration, in case a person is registered with FBR after 30 September 2020.

In case of failure to furnish or update profile, the person's name will be excluded from ATL.

Moreover, he shall pay a penalty of Rs. 2,500 for each day of default subject to minimum penalty of Rs.10,000. However, an individual shall be included in ATL upon filing of profile and on payment of surcharge of Rs. 1,000.

Revision in wealth statement

Revision of wealth statement shall require the prior approval of the Commissioner. Further, wealth statement cannot be revised after expiry of 5 years from the due date of filing of return of income for that tax year.

Assessment

Returns filed by the tax payer shall be deemed to be assessed by the Commissioner after it has been processed through automated system within 6 months of filing of return for adjustments for arriving at correct amount of taxable income, total income and tax payable. However, no adjustments shall be made without system generated notice. Such notice is required to be responded within 30 days of issuance of notice and in case of failure to respond, the adjustments proposed in the notice will be made in the return.

Amendment of assessment on audit

The Commissioner is empowered to amend an assessment on any matter identified in the audit whether or not the same represents definite information.

Agreed assessment

In case a show-cause notice issued by the Commissioner, taxpayer has been given right to file offer of settlement to Assessment Oversight Committee (Committee), at the same time reply to the notice as well.

Committee will dispose of the matter through consensus and communicate its decision to the taxpayer. If taxpayer accepts the decision of the Committee, he will be required to deposit the amount of tax payable along with default surcharge and penalty as per the decision of Committee, and in this case taxpayer has no right to appeal on the agreed assessment

Appeal before Commissioner Appeals

Prescribed fee for filing appeal before Commissioner Appeals by the individual has been increased from Rs. 1,000 to Rs. 2,500 in case of assessment and from Rs. 200 to Rs. 1,000 in other cases.

Commissioner Appeal is required to specify the amount of tax upheld in the order passed.

Appeal before Appellate Tribunal Inland Revenue (ATIR)

Prescribed fee for filing appeal before ATIR by the individual has been increased from Rs. 2,000 to Rs. 2,500.

Audit proceedings through video link

If a tax payer does not furnish return or documents, or he furnishes incomplete record or books of accounts or is unable to provide sufficient explanation regarding defects in records, documents and books of accounts, the Commissioner may initiate audit proceeding through video link.

Omission of requirement of withholding tax / collection of advance taxes

- No collection of advance tax by educational institutions where taxpayer appears on ATL.
- No withholding of tax from any balance withdrawn from pension fund.
- No collection of advance tax on payments

functions and gatherings.

- No collection of advance tax for remittance of educational expense.
- No collection of advance tax in respect of general insurance premium and life insurance premium paid.



Section **E**

e

Annexure

I-Residential Status – Resident Individual

(1) A person shall be a resident person for a tax year if the person is —

- a resident individual, resident company or resident association of persons for the year; or
- the Federal Government.

(2) A person shall be a non-resident person for a tax year if the person is not a resident person for that year.

An individual would be resident individual if any one of the followings criteria is fulfilled

- Physical stay in Pakistan for 183 days or more in a tax year;
- Physical stay in Pakistan for 120 days or more in a tax year and 365 or more days in the preceding four tax years;
- A government employee posted abroad is resident irrespective of his physical stay in Pakistan.

Annexure

II- Tax Rates for Salaried Individual

S.No.	Taxable Amount	Tax Rate
1	Up to Rs. 600,000	0%
2	Rs.600,001 to Rs. 1,200,000	5% of the amount exceeding Rs 600,000
3	Rs. 1,200,001 to Rs. 1,800,000	Rs. 30,000 + 10% of amount exceeding Rs 1,200,000
4	Rs.1,800,001 to Rs.2,500,000	Rs. 90,000 + 15% of amount exceeding Rs 1,800,000
5	Rs. 2,500,001 to Rs. 3,500,000	Rs. 195,000 + 17.5% of amount exceeding Rs 2,500,000
6	Rs.3,500,001 to Rs.5,000,000	Rs. 370,000 + 20% of amount exceeding Rs 3,500,000
7	Rs.5,000,001 to Rs.8,000,000	Rs. 670,000 + 22.5% of amount exceeding Rs 5,000,000
8	Rs.8,000,001 to Rs.12,000,000	Rs. 1,345,000 + 25% of amount exceeding Rs 8,000,000
9	Rs.12,000,001 to Rs.30,000,000	Rs. 2,345,000 + 27.5% of amount exceeding Rs 12,000,000
10	Rs.30,00,001 to Rs.50,000,000	Rs. 7,295,000 + 30% of amount exceeding Rs 30,000,000
11	Rs.50,000,001 to Rs.75,000,000	Rs. 13,295,000 + 32.5% of amount exceeding Rs 50,000,000
12	Exceeds Rs. 75,000,000	Rs. 21,420,000 + 35% of amount exceeding Rs 75,000,000

Annexure

III-Tax Rates for Other than Salaried Individual

Applicable slab rates for other than salaried individuals for tax-year 2020-21 earning following incomes:

- Income from property, if individual opts to tax under normal tax regime. Please refer Section-C Income from Property-Rental income
- Capital gain of other than immovable property and listed securities. Please refer Section-C Capital Gain-Other than Immovable property and Listed securities
- Profit on debt (annual) greater than Rs. 36 million. Please refer Section-C Income from Other Source-Interest Income

S.No.	Taxable Amount	Tax Rate
1	Up to Rs. 400,000	0%
2	Rs.400,001 to Rs. 600,000	5% of the amount exceeding Rs 400,000
3	Rs. 600,001 to Rs. 1,200,000	Rs. 10,000 + 10% of amount exceeding Rs 600,000
4	Rs.1,200,001 to Rs.2,400,000	Rs. 70,000 + 15% of amount exceeding Rs 1,200,000
5	Rs. 2,400,001 to Rs. 3,000,000	Rs. 250,000 + 20% of amount exceeding Rs 2,400,000
6	Rs.3,000,001 to Rs.4,000,000	Rs. 370,000 + 25% of amount exceeding Rs 3,000,000
7	Rs.4,000,001 to Rs.6,000,000	Rs. 620,000 + 30% of amount exceeding Rs 4,000,000
8	Exceeds Rs. 6,000,000	Rs. 1,220,000 + 35% of amount exceeding Rs 6,000,000

Annexure

IV-Requirement of Filing of Annual Tax Return

Resident Individuals

Resident Individuals (salaried, senior citizens-not in service, married women, single women and RDA holder) are required to file annual income tax return alongwith wealth statement if any of the following conditions are fulfilled:

- (a) Income for the tax year exceeds Rs. 600,000 (applicable to salaried individual only)
- (b) Has been charged to tax in any of the two preceding tax years
- (c) Owns immovable property of land area above 500 sq yards in areas falling within municipal limits or in cantonment or Islamabad Capital Territory
- (d) Owns flat more than 2000 sqft
- (e) Owns motor vehicle of 1000cc
- (f) Has obtained NTN
- (g) Holds commercial electricity connection where the annual bill exceeds Rs. 500,000
- (h) Member of any Chamber or a professional body
- (i) Resident having foreign income of USD 10,000 or more or foreign assets valuing USD 100,000 or more

Exceptions

Following persons are not required to file annual income tax return solely due to ownership of immovable property or motor vehicle as mentioned in c to e above:

- 1- An orphan below the age of 25 years
- 2- A widow
- 3- A disabled person

Non-Resident Individuals

Non-Resident Individuals (Earning salary, consultancy income, investment income from Pakistan or investment from RDAs) are required to file only annual income tax return if any of the following conditions are fulfilled:

- (a) Income for the tax year exceeds Rs. 600,000 (applicable to salaried individuals only)
- (b) Has been charged to tax in any of the two preceding tax years
- (c) Owns motor vehicle of 1000cc
- (d) Has obtained NTN
- (e) Holds commercial electricity connection where the annual bill exceeds Rs. 500,000

Exceptions

- 1- No need to file wealth statement
- 2- Non-resident owner of immovable property in Pakistan is not required to file return of income.
- 3- Through changes by Finance Act 2020, a non-resident individual is also exempt from filing return of income if he is required to file return of income solely because of profit on debt paid to non-resident individual earned from a debt instrument issued by Federal Government under the Public Debt Act, 1944, and purchased by the non-resident individual exclusively through bank account maintained abroad, a Non-resident Rupee Account Repatriable (NRAR) or a foreign currency account maintained with banking company in Pakistan.
- 4- Through changes by the First Amendment Ordinance, a non-resident individual is exempt from obtaining NTN and filing of tax return if he is RDA holder and earns the specified income from RDA only.

Annexure

V-Active Taxpayers' List (ATL) Definition

If a person fails to file return of income by the due date or within the time extended by the Commissioner or FBR, such person shall not be included in the ATL. In this way anyone who is not in ATL will need to face following consequences:

- 100% additional payment of withholding tax
- Through the information gathered from the withholding agents, will be subject to provisional Assessment on the basis of imputed income.

However such person shall be included in ATL on filing return after due date and on payment of default surcharge of Rs. 1,000.

Disclaimer:

This document contains general information only and does not render any advice or service to any particular case. We strongly believe to provide accurate information in timely manner, however there can be no guarantee as to accuracy of information when it is used and for any particular case or situation. It is strongly recommended to seek appropriate professional advice before making any decision or taking any action on the basis of this document. Usmani & Co. shall not be responsible for any loss whatsoever sustained by any person relying on this document.

© 2021 Usmani & Co., a partnership firm registered in Pakistan. All rights reserved.

Contact us



Usmanico.com



Info@usmanico.com



+92-213-2277012-15



/company/25070432



/channel/UC9a02RiLoV87QFIL-9flaJQ



/uco_chartered_accountant



/uco_pki



/usmanico



USMANI & CO.
CHARTERED ACCOUNTANTS
Only women led accountancy practice