

HEAD OF INCOME: SALARY

Salary:

What is Taxable Salary?

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”.

What includes Salary?

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;

Explanation – For removal of doubt, it is clarified that the allowance solely expended in the performance of employee’s duty does not include –

- i. allowance which is paid in monthly salary on fixed basis or percentage of salary; or
- ii. allowance which is not wholly, exclusively, necessarily or actually spent on behalf of the employer;”;

- 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

Section 14: Employee share schemes

1. **“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.
2. 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;
3. Where, in a tax year, an employee is issued with shares under an employee share scheme 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;
4. 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.
5. 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; and
 - b. The consideration, if any, given by the employee for the grant of any right or option to acquire the shares;
6. 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: —

$$\mathbf{A - B}$$

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.

PTCL has announced an employee share scheme. Following persons purchased the rights.

Cost of right/share	Rs. 1/share
Ali has acquired right to purchase	800 shares
Shujat has acquired right to purchase	1,000 shares
Waleed has acquired right to purchase	1,500 shares

On the date the shares were to be issued following events took place

- (1) Ali sold all rights to Ramzan for Rs. 5 per right.
- (2) Shujat exercised right by paying Rs. 70/share. FMV of the share acquired by Shujat at the time of exercise of right was Rs. 82/share.
- (3) Waleed did not exercise the right.

Solution:

Ali

Consideration for sale	(5 x 800)	4,000
Less: Cost of right	(1 x 800)	(800)
Gain		<u>3,200</u>

Shujat

Fair market value of shares	(82x1,000)	82,000
Less: Cost of shares	(70 x 1,000)	(70,000)
Less: Cost of right	(1 x 1,000)	(1000)
Gain		<u>11,000</u>

Waleed

Nothing will be added in his income as he has not exercised the rights.

Mr. Waleed paid Rs. 30 to acquire right to purchase 1,000 shares. Shares were issued to him on 23 June, 2010. He exercised the right by paying Rs. 33/share.

On June 23, 2010 the market value was Rs. 40/share. As per the scheme of company, the shares can only be transferred after holding them for 2 years.

The FMV of shares is Rs. 45/share on 23 June, 2012.

Calculate taxable income for TY 2010 and TY 2012?

Calculation of taxable income

TY 2010

Nothing will be added in the income as he has no free right to dispose the shares.

TY 2012

Fair market value of shares	(45 x 1,000)	45,000
Less: Cost of share	(33 x 1,000)	(33,000)
Less: Cost of right		(30)
		<u>11,970</u>

- h) 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;

Rule 5-Income Tax Rules 2002

Following will be added in the income if employer has provided employee a motor vehicle in a tax year:

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 it is taken on lease.
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 it is taken on lease.
For official use	0%

Running and maintenance benefit for car will be separately taxable.

- i) 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 house keeper, driver, gardener or other domestic assistant in that year for services rendered to the employee, as reduced by any payment made to the employer for such services;

Mr. Usman Safdar is working as an officer in a company and he has been provided with following benefits apart from basic salary of Rs. 80,000 per month.

Driver	10,000 per month
Gardener	7,000 per month
House keeper	5,000 per month

The above payment to driver, gardener and house keeper is made by the company directly. Mr. Usman Safdar pays to the company Rs. 3,000 per month in respect of services of house keeper.

Compute the amount of taxable salary for the tax year 2011 assuming that if driver is hired from market an amount of Rs. 12,000 is to be paid to him.

Answer:

Basic Salary:	960,000
Benefits:	
Driver: (10,000 x 12)	120,000
Gardener (7,000 x 12)	84,000
Housekeeper ((5,000-3,000) x 12)	24,000
Taxable income from salary	1,188,000

- j) 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;

Mr. Asfand is working for Mr. Asim. As per the terms of employment the employer pays directly for the utility bills of the accommodation to the service providers of utilities against which employee has to pay a nominal amount of Rs. 2,000 per month to the employer. The actual cost incurred by employer in whole of the tax year for utilities for Asfand’s accommodation is as follows:

Water	100,000
Electricity	200,000
Gas	30,000

Basic salary per month is Rs. 50,000. Calculate taxable income.

Answer:

Basic salary (50,000 x 12)		600,000
Cost incurred by employer(100,000 + 200,000 + 30,000)	330,000	
Less: Paid by employee to employer (2,000 x12)	(24,000)	<u>306,000</u>
Taxable income		906,000

- k) Where a loan is made by an employer to an employee of any amount exceeding one million rupees 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—
- the profit on loan computed at the benchmark rate (10%), where no profit on loan is payable by the employee, or
 - 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

Provided that this amount shall not be taxable where the employee is maintaining any account with employer on which profit is paid and he forfeits his right to receive that profit from the employer.

Mr. Aafaq is an employee of ABC company. Mr. Aafaq has availed a loan of Rs. 2,000,000 in tax year 2020. What amount shall be added into his income from salary on following alternate assumptions:

- (a). No profit on loan is payable to company by Mr. Aafaq
- (b). Profit is payable to company at 6% per annum
- (c). Profit is payable to company at 18% per annum

Answer:

(a) Amount to be added in salary income on account of profit on loan. (Rs. 2,000,000 x 10%)	200,000
(b) Amount to be added in salary income on account of profit on loan. [Rs. 2,000,000 x (10%-6%)]	80,000
(c) Nothing will be added in his income.	

- l) 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;

Mr. Anjum was entitled to the following during the tax year 2010 from his employer

Basic Salary for the tax year:	520,000
Education Allowance;	100,000

Mr. Anjum obtained loan from his employer in tax year 2005 amounting to Rs. 400,000 but was unable to pay till now. His employer has decided to waive the loan.

Required:

Compute the taxable income from salary of Mr. Anjum.

Answer

Basic Salary for the tax year:	520,000
Education Allowance:	100,000
Loan waived by the employer:	400,000
Taxable income from salary	1,020,000

- m) 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.

Suppose in above example, Mr. Park also obtained loan from a Bank in tax year 2005 amounting to Rs. 380,000 but was unable to pay till present tax year. As a benefit, his employer has decided to pay the loan as well. Compute the taxable income from salary of Mr. Park for the tax year.

Answer

Salary for the tax year:	520,000
Education Allowance:	100,000
Loan waived by the employer:	400,000
Loan paid to the bank by the employer on Mr. Anjum's behalf	380,000
Taxable income from salary	<u>1,400,000</u>

- n) 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.

Employer of Mr. Ahsan agrees to provide pick and drop service from school to his home for his children. The monthly expenditure for the employer in this regard amounts to Rs. 15,000.

Rs. 180,000 (15,000 x 12 months) shall be added in the salary income of the Mr. Ahsan.

- o) 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.

[Rule 4 of Income Tax Rules, 2002]

The value of accommodation provided by an employer to the employee shall be higher of:

- 45% of the basic salary or
- Amount that would have been paid by employer had no accommodation been provided

Basic salary of an employee is Rs. 100,000/ month. Employer has provided employee with 2 options:

1. Either I will provide you house in factory premises or
2. I'll give you house rent allowance of 50,000/month.

Employee has opted for home. Calculate taxable income?

Solution:

Basic salary		1,200,000
Accommodation provided: (Higher of)		
-45% of basic salary (1,200,000 x 45%)	540,000	
or - amount that would have been paid (50,000 x 12 = 600,000)		600,000
600,000		
Taxable income		<u>1,800,000</u>

Mr. Bilal is working as an executive in a beverages company. He has provided you with the following details in order to calculate his taxable income.

Basic salary per annum	240,000
Dearness allowance per annum	48,000
House rent allowance per annum	72,000

During the year he was sent by the company to Nepal for the purpose of some training. Travelling and lodging cost of Rs. 300,000 was reimbursed by the company. In addition to this he was also entitled for a daily cash allowance of Rs. 200 during stay of 30 days.

During the year he also bought some magazines due to his interest in cricket. The company reimbursed Rs. 3,000 against this on production of actual bills. During the year the company has also paid his home insurance expense amounting to Rs. 10,000. You are required to calculate his taxable income.

Solution

Basic salary	240,000
Dearness allowance	48,000
House rent allowance	72,000
Reimbursement for magazines	3,000
Insurance expense of home	10,000
Taxable Income	373,000

What if employer agrees to bear tax of its employees?

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.

Mr. A provided following:	
Basic Salary	340,000/m
House Rent allowance	130,000/m
Tax on salary is to be borne by employer.	

Answer:	<u>Income from Salary</u>	
Basic Salary	(340,000 x 12)	4,080,000
House Rent allowance	(130,000 x 12)	1,560,000
		5,640,000
Add: Tax Benefit (W)		997,150
Salary Income		6,637,150
Tax liability (Table 2)	(670,000 + 22.5% of 1,637,150)	1,038,359

Working:

Step 1	Salary Income		5,640,000
	Tax on above (Table 2)	(670,000 + 22.5% of 640,000)	814,000
Step 2	Salary Income	(5,640,000 + 814,000)	6,454,000
	Tax on above (Table 2)	(670,000 + 22.5% of 1,454,000)	997,150

Are any deductions allowed under this Head?

Every individual shall be entitled to a deductible allowance for the amount of any profit paid by the individual in a tax year on a loan by a scheduled bank or non-banking finance institution in Pakistan where the individual utilizes the loan for the construction of a new house or the acquisition of a house.

The amount of deductible allowance allowed for a tax year shall not exceed fifty percent of taxable income or two million rupees, whichever is lower. Any allowance or part of an allowance under this section for a tax year that is not able to be deducted for the year shall not be carried forward to a subsequent tax year.

What are the tax rates for Salary?

(2) Where the income of an individual chargeable under the head "salary" exceeds seventy-five per cent of his taxable income, the rates of tax to be applied shall be as set out in the following table, namely:—

TABLE

S. No.	Taxable income	Rate of tax
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs. 600,000	0%
2.	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,800,000	Rs. 30,000 plus 10% of the amount exceeding Rs. 1,200,000
4.	Where taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000	Rs. 90,000 plus 15% of the amount exceeding Rs. 1,800,000
5.	Where taxable income exceeds Rs. 2,500,000 but does not exceed Rs. 3,500,000	Rs. 195,000 plus 17.5% of the amount exceeding Rs. 2,500,000
6.	Where taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000	Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000
7.	Where taxable income exceeds Rs. 5,000,000 but does not exceed Rs. 8,000,000	Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000
8.	Where taxable income exceeds Rs. 8,000,000 but does not exceed Rs. 12,000,000	Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000
9.	Where taxable income exceeds Rs. 12,000,000 but does not exceed Rs. 30,000,000	Rs. 2,345,000 plus 27.5% of the amount exceeding Rs. 12,000,000
10.	Where taxable income exceeds Rs. 30,000,000 but does not exceed Rs. 50,000,000	Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000
11.	Where taxable income exceeds Rs. 50,000,000 but does not exceed Rs. 75,000,000	Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000

S#	Taxable Income	Rate of Tax
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs. 600,000	Rs. 0
2.	Where taxable income exceeds Rs.600,000 but does not exceed Rs.1,200,000	2.5% of the amount exceeding Rs. 600,000
3.	Where taxable income exceeds Rs.1,200,000 but does not exceed Rs.2,400,000	Rs. 15,000 + 12.5% of the amount exceeding Rs.1,200,000
4.	Where taxable income exceeds Rs.2,400,000 but does not exceed Rs.3,600,000	Rs. 165,000 + 20% of the amount exceeding Rs.2,400,000
5.	Where taxable income exceeds Rs.3,600,000 but does not exceed Rs.6,000,000	Rs. 405,000 + 25% of the amount exceeding Rs.3,600,000
6.	Where taxable income exceeds Rs.6,000,000 but does not exceed Rs.12,000,000	Rs. 1,005,000 + 32.5% of the amount exceeding Rs.6,000,000
7.	Where taxable income exceeds Rs.12,000,000	Rs. 2,955,000 + 35% of the amount exceeding Rs. 12,000,000