

Government of Pakistan
Central Board of Revenue
(Revenue Division)

No.F.4(29)ITP/2002-S-155

Islamabad, September 29, 2007

Circular No. 3 of 2007
(Income Tax)

Subject: **CLARIFICATION REGARDING DEDUCTION OF INCOME TAX ON RENTAL INCOME/HIRING CLAIMS.**

Certain queries have been received by the Board regarding chargeability of tax in respect of rental income under section 15 and deduction of tax under section 155 of the Income Tax Ordinance, 2001. The same have been considered and are clarified as under:-

Issues Raised	Board's Clarification
i. Whether amount upto Rs.150,000/ per annum is exempt.	In the case of an individual or AOP, no tax is chargeable on rental receipts upto Rs.150,000/- provided the taxpayer does not derive taxable income under any other head of income. The term " taxable income " has been defined in section 9 of the Income Tax Ordinance, 2001.
ii. What treatment is to be given to self hiring cases.	Tax is to be deducted @ 5% as the taxpayer is receiving payment as owner of the property.
iii. Whether property income of Rs.150,000/ and Rs.150,000/- on account of pay and allowances (Total Rs.300,000/-) is exempt from tax deduction.	Salary income of Rs.150,000/- is taxable, however, it is chargeable to tax at 0% rate as per Division I of Part I of the First Schedule to the Income Tax Ordinance, 2001. Since the taxpayer is deriving taxable income from salary, therefore, in the instant case rental income of Rs.150,000/- is chargeable to tax @ 5%.

<p>iv. If the owner gives undertaking/ affidavit that he has no other source of income and rental income is his only source of income, should such certificate be accepted and no tax on income less then Rs.150,000/ be deducted.</p>	<p>Under section 155 of the Income Tax Ordinance, 2001, a prescribed person is required to deduct tax @ 5% at the time of making payment on account of rent of immoveable property. For deduction of tax no threshold has been given under the law and the payer is responsible to deduct tax from the rent paid of any amount. Further, as explained vide paragraph 24 of CBR's Circular No.1 of 2007 an amendment has been made in section 155(2) by virtue of which tax deducted in the case of an individual or AOP having no other taxable income is refundable on filing of the return of income. In such a case the taxpayer may file application for refund under section 170 of the Income Tax Ordinance, 2001.</p>
<p>v. Property income exceeding Rs.150,000/ plus business income Rs.125,000/- tax deducted is adjustable or final tax.</p>	<p>Income from property is chargeable to tax @ 5% as a separate block of income and tax paid/ withheld is the final tax.</p>
<p>vi. Property income is exceeding Rs.150,000/-, but there is no other source of income.</p>	<p>Income from property is assessable @ 5% of the gross amount of the rent as a separate block of income. No deduction against such income is allowed and on gross property income tax of 5% will be deductible if payment is made by the prescribed person.</p>
<p>vii. Property income not exceeding Rs.150,000/ plus business income Rs.125,000/-.</p>	<p>Income from property is chargeable to tax @ 5% of the gross amount of the rent as a separate block of income, whereas business income is</p>

	chargeable to tax @ 1% for current tax year.
viii. Income from property rent not exceeding Rs.150,000/- and there is no other source of income.	No tax is payable on such income by the taxpayer for that tax year. Tax deducted on such income can be refunded as explained at S. No. iv above.
ix. What will happen to tax deducted u/s 155 by a prescribed person on income less than Rs.150,000. Whether it will be considered as final liability of the assessee.	Yes – If the person has taxable income (not exempt) from any other source. In case property income being the only source of income, such person can claim refund in respect of tax deducted on rental income.
x. Whether tax will be charged at 5% on entire income from property or on income exceeding Rs.150,000/-.	Tax @ 5% is payable on gross amount of rent without any deduction/exemption that means the entire income is chargeable to tax.
xi. 5% of the rent ceiling has been deducted by the department. The department has issued salary certificate that includes 45% of house rent allowance against the taxable income.	Withholding tax @ 5% is liable in respect of property income in the case of self hiring and otherwise. Taxability on account of accommodation is on notional basis, according to Rule-4 of the Income Tax Rules, 2002. Valuation of fair market value of accommodation provided by the employer may invariably be higher than 45% of the minimum of time scale. However, this measure has been adopted to simplify the valuation of accommodation.

2. It is further clarified that explanation given at the end of the example No.2 in CBR's Circular No.3 of 2006 dated July 11, 2006, regarding taxability of property income may be treated as withdrawn.

(Saeedullah Khan)
Secretary (IT Policy)
Ph: 9205561