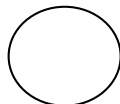


# **Income Subject to Separate Charge, Final Tax, and Fixed Tax Regimes of Income Tax**

## **TAXPAYER'S FACILITATION GUIDE**

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## INTRODUCTION

Tax on income (income tax) is an annual charge under the Income Tax Ordinance, 2001. Generally, the levy of income tax is by consolidation of all chargeable income (global income). However, in many countries, keeping in view the prevailing economic and social conditions, a concept of levy of final tax or fixed tax on certain income or transactions, irrespective of the quantum of income, is also in place. Under the Income Tax Ordinance, 2001 a number of income and transactions in Pakistan are subject to separate charge, final tax and fixed tax.

This brochure explains the provisions of the Income Tax Ordinance, 2001 governing the levy of separate charge, final tax and fixed tax in a simple and concise manner.

Definitions of various words and terminologies used and shown in ***italic bold*** are given at the appropriate place or at end of this brochure.

***This brochure is to assist taxpayers and reflects our position at the time of printing. In case of conflict, the legal provisions of law shall prevail over contents of this brochure.***

### Comments and suggestions

We welcome your comments about this brochure and your suggestions for future editions.

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## Income subject to separate charge

“Income Subject to Separate Charge” are those income, which do not form part of total income or taxable income and are subject to tax on the basis of gross income. Section 5, 6, 7 and 8 of the Income Tax Ordinance, 2001 governs the taxation of such income and these are:

- **Dividend;**
- **Royalty of non-resident;**
- **Fee for technical services of non-resident;** and
- **Shipping income of non-resident.**
- **Air transport income of non-resident.**

Following rules apply to **income subject to separate charge**:

- **Tax** imposed is a **final tax**;
- Such income is not chargeable to **tax** under any head of income in computing the **taxable income** of the **person**;
- **No** deduction is allowed for any expenditure incurred in deriving such income;
- The amount of the such income is **not** reduced by –
  - Any deductible allowance; or
  - The set off of any loss;
- The **final tax** payable is not reduced by any tax credit allowed (foreign tax credit or tax credits on donations, investments etc.);
- The liability of the recipient of such income is discharged to the extent that –
  - In the case of **shipping and air transport income**, the **tax** is paid in accordance with section 143 or section 144 of the Ordinance (explained hereinafter); or
  - In any other case, the **final tax** payable has been deducted at source (please see our brochure “**Collection and deduction of Tax Source**”); and
- If the recipient of such income has no other source of income than:
  - An **statement under section 115** of the Ordinance is required to be furnished by such person in lieu of a return of income as required under section 114 (Please see our brochure “**Obligations to furnish tax declarations**”); and
  - An assessment is treated to have been made under section 120 of the Ordinance (Self Assessment).

## Dividend

Taxation of **dividend** income is governed by Section 5, 8 and 150 of the Income Tax Ordinance, 2001.

**Dividend** received from a **company** by a **person**, other than a **company\***, is subject to **final tax** at a flat rate of 10% (except as stated below) of the gross amount of the **dividend**.

**Dividend** received from:

- A **company** which has purchased a power project privatized by WAPDA; or
- A **company** set up for power generation;

is subject to a reduced rate of **tax** of 7.5% instead of 10% [Clause (17) and (20) of Part-II of 2nd Schedule].

\* **Dividend** received by a **company** is excluded from the ambit of the **income subject to separate charge** and is therefore chargeable to tax as one of the component of ‘income from other sources’.

**Dividend** received is subject to deduction of tax at source by the **person** making the payment of **dividend**, as explained in our brochure “**Collection and Deduction of Tax at Source**”.

As general rule, the tax deducted at source from **dividend** is **non-adjustable tax deducted at source** and the **dividend** subject to deduction of tax at source or the **dividend** which is exempt from deduction of tax at source, is chargeable to tax, if not otherwise exempt, as **income subject to separate charge**.

The only exception to the above general rule is that in case of a **company**, the tax deducted at source from **Dividend** is an **adjustable tax deducted at source** and the **dividend** subject to deduction of tax or **dividend** which is exempt from deduction of tax at source, is chargeable to tax, if not otherwise exempt, as ‘income from other sources’.

**Royalty of non-residents**

Taxation of **royalty** income in the hands of **non-residents** is governed by Section 6, 8 and 152 of the Income Tax Ordinance, 2001.

**Royalty** received by a **non-resident person** is subject to **final tax** at the rate of 15% of gross amount of **royalty** or applicable reduced rate of **tax** as per tax treaty with the country of such **non-resident**.

If the property or right giving rise to the **royalty** is effectively connected with a **permanent establishment** in Pakistan of the **non-resident**, then such **royalty** is excluded from the ambit of the **income subject to separate charge** and is chargeable to tax under the head 'income from business' as **taxable income**.

**Royalty** received by a **non-resident** is subject to deduction of tax at source by the **person** making the payment of **royalty**, as explained in our brochure "**Collection and Deduction of Tax at Source**".

As a general rule, the tax deducted at source from **royalty** paid to **non-resident** is **non-adjustable tax deducted at source** and the **royalty** subject to deduction of tax at source or the **royalty** which is exempt from deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to separate charge**.

The only exception to the above general rule is where the **royalty** is in respect of a property or right effectively connected with a **permanent establishment** in Pakistan of the **non-resident**. In which case the tax deducted at source from such **royalty** in an **adjustable tax deducted at source** and such **royalty** subject to deduction of tax at source or such **royalty** exempt from deduction of tax at source is chargeable to **tax**, if not otherwise exempt, under the head 'income from business' as **taxable income**.

**Fee for technical services of non-residents**

Taxation of **fee for technical services** income in the hands of **non-residents** is governed by Section 6, 8 and 152 of the Income Tax Ordinance, 2001.

**"Fee for technical services"** received by a **non-resident person** is subject to **final tax** at the rate of 15% of the gross amount of **fee for technical services** or applicable reduced rate of **tax** as per tax treaty with the country of such **non-resident**.

If the services giving rise to **fee for technical services** is rendered through a **permanent establishment** in Pakistan of the **non-resident**, then such **fee for technical services** is excluded from the ambit of the **income subject to separate charge** and is chargeable to **tax** under the head 'income from business' as **taxable income**.

**Fee for technical services** received by a **non-resident** is subject to deduction of tax at source by the **person** making the payment of **fee for technical services**, as explained in our brochure "**Collection and Deduction of Tax at Source**".

As a general rule, the tax deducted at source from **fee for technical services** paid to **non-resident** is **non-adjustable tax deducted at source** and the **fee for technical services** subject to deduction of tax at source or the **fee for technical services** which is exempt from deduction of tax at source, is chargeable to tax, if not otherwise exempt, as **income subject to separate charge**.

The only exception to the above general rule is where the **fee for technical services** is in respect of a property or right effectively connected with a **permanent establishment** in Pakistan of the **non-resident**, then the tax deducted at source from such **fee for technical services** is an **adjustable tax deducted at source** and such **fee for technical services** subject to deduction of tax at source or such **fee for technical services** exempt from deduction of tax at source is chargeable to tax, if not otherwise exempt, under the head 'income from business' as **taxable income**.

### **Shipping income of non-residents**

Taxation of **shipping** income in the hands of **non-residents** is governed by Section 7, 8 and 143 of the Income Tax Ordinance, 2001.

**Shipping income** received by a **non-resident** is subject to **final tax** at the rate of 8% of the gross amount of the **shipping income**.

#### **Obligations of the Master of a Ship:**

- **File a return** – The **master of a ship** is required to furnish to the Commissioner a return, in the form prescribed by Rule 37, of the **non-resident person's shipping income subject to separate charge**;
- **Due time of furnishing of return** – The return required to be furnished by the **master of a ship** is due before the departure of the ship and in the manner as applicable to the return of income, etc. However, electronic transmission of the return by the **master of a ship** is mandatory.

#### **Processing of return**

On receipt of the return furnished by the **master of a ship**, the Commissioner, after calling for such particulars, accounts or documents as he/she may require, determines the amount of **final tax** due on the **non-resident person's shipping income subject to separate charge** and, as soon as possible, notifies the **master of a ship**, in writing, of the amount of **final tax** payable.

#### **Payment of the final tax**

The **master of a ship** is liable for the amount of **final tax** notified by the Commissioner and the provisions of the Ordinance for payment and recovery of such **tax** apply as if it was **tax** due under an assessment order.

#### **Extension of due time for furnishing the return**

The Commissioner is empowered to allow the **master of a ship** to furnish the return within 30 days of departure of the ship after being satisfied that:

- The **master of a ship** or **non-resident** owner or charterer of the ship is unable to furnish the required return before the departure of the ship; and
- The **non-resident** owner or charterer has made satisfactory arrangements for the

payment of the **final tax** due on its **shipping income subject to separate charge**.

#### **Port clearance**

The Collector of Customs or other authorized officer in this behalf is empowered to withhold port clearance to a ship owned or chartered by a **non-resident person** until:

- The Collector or officer is satisfied that **final tax** due on the **non-resident person's shipping income subject to separate charge** has been paid; or
- Arrangements for the payment of such **tax** have been made to the satisfaction of the Commissioner.

The **non-resident** owner or charterer of a ship is not relived from its liability to pay the **final tax** due on its **shipping income subject to separate charge** that is not paid by the **master of a ship**.

### **Air transport income of non-residents**

Taxation of **air transport** income in the hands of **non-residents** is governed by Section 7, 8 and 144 of the Income Tax Ordinance, 2001.

**Air transport income** received by a **non-resident** is subject to **final tax** at the rate of 3% of the gross amount of the **air transport income**.

### **Obligations of the owner or charterer of an aircraft or an authorized agent thereof**

- **File a return** – A **non-resident** owner or charterer of an aircraft or an agent authorized by such **non-resident person** for this purpose (both hereinafter referred to as 'responsible person') is required to furnish to the Commissioner a return, in the form prescribed by Rule 38, of the **non-resident person's air transport income subject to separate charge**.
- **Due time of furnishing of return** – The return required to be furnished by the 'responsible person' is due within forty-five days from the last day of each quarter of the financial year in respect of that quarter in the manner as applicable to the return of income, etc.. However, electronic transmission of the return of the **non-resident person's air transport income subject to separate charge** is mandatory.

### **Processing of return**

On receipt of the return furnished by the '**responsible person**', the Commissioner, after calling for such particulars, accounts or documents as he/she may require, determines the amount of final tax due on the **non-resident person's air transport income subject to separate charge** and notifies the 'responsible person', in writing, of the amount of **final tax** payable.

### **Payment of the final tax**

The '**responsible person**' is liable to pay the amount of **final tax** notified by the Commissioner within the time specified in the notice and the provisions of the Ordinance for payment and recovery of such tax apply as if it was tax due under an assessment order.

### **Air port clearance**

If the **final tax** due on the **non-resident person's air transport income subject to separate**

**charge** is not paid within 3 months of the service of notice by the Commissioner on the 'responsible person', the Commissioner is empowered to notify to the authority responsible for granting air port clearance of the **final tax** due from such responsible person and thereafter, such authority can withhold air port clearance to any air craft owned or chartered by the 'responsible person', unless the **final tax** due is paid.

## Income subject to final tax

“**Income subject to final tax**” are those, which are subject to collection or deduction of tax at source as explained in our brochure “**Collection and Deduction of Tax at Source**” and the tax so collected or deducted at source is treated as **final tax** on the income arising from such transactions is classified as **income subject to final tax**. The tax collected or deducted on such transactions is commonly known as **non-adjustable tax collected or deducted at source**. The taxation of **income subject to final tax** is governed by Section 169 of the Income Tax Ordinance, 2001.

All transactions subject to collection or deduction of tax at source **do not** fall under **income subject to final tax**. Different set of rules apply for each nature of income, which are discussed in detail in this brochure.

Where the tax collected or deducted at source is **not** treated as **final tax** the income arising from such transactions is chargeable to **tax** under the respective heads of income (Salary, Property, Business, Capital Gains or Other Sources) and forms part of the **taxable income**. The tax collected or deducted on such transactions is commonly known as **adjustable tax collected or deducted at source**.

Following rules apply to the **income subject to final tax**:

- Such income is not chargeable to **tax** under any head of income in computing the **taxable income**;
- No deduction is allowed for any expenditure incurred in deriving the income;
- The amount of the income is not reduced by –
  - Any deductible allowance; or
  - The set off of any loss;
- The tax deducted or collected is not reduced by any **tax credit**;
- There is no refund of the **non-adjustable tax collected or deducted at source** unless such tax is in excess of the amount of **final tax** for which the taxpayer is chargeable; and
- An assessment is treated to have been made and the **person** is not required to furnish a return of income in respect such income.

Transactions, which are subject to collection or deduction of tax at source and fall under the **income subject to final tax**, are discussed below:

## Import of goods

Taxation of income arising from import of goods, subject to final tax, is governed by section 148 and 169 of the Income Tax Ordinance, 2001.

As a general rule (see exceptions), the tax collected at source at the time of import of goods is **non-adjustable tax deducted at source** and the income arising from import of goods subject to collection of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rates of **final tax** are as under:

Nature of goods imported	Rate of <b>final tax</b>
Pulses	2% of the <b>value</b>
Fibers	1% of the <b>value</b>
Yarns	1% of the <b>value</b>
Fabrics	1% of the <b>value</b>
Gold	1% of the <b>value</b>
Silver	1% of the <b>value</b>
Mobile telephone sets	1% of the <b>value</b>
Urea fertilizer	1% of the <b>value</b>
Goods covered by the Zero Rating Regime of the Sales Tax notified vide SRO 638(I)/2005 dated 27 <sup>th</sup> June, 2005 as amended from time to time	1%
Phosphatic fertilizer imported in pursuance of Economic Coordination Committee of the cabinet's decision No. ECC-155/12/2004 dated the 9th December, 2004	1%
Old and used automotive vehicles of Asian makes meant for transport of persons	As per Customs SRO 577(I)/2005 dated June 06, 2005.
All other goods	5%

“**Value**” means the value of goods as determined under section 25 of the Customs Act, 1969, as if the goods were subject to *ad valorem* duty increased by the Customs-Duty, Sales Tax and Federal Excise Duty, if any, payable in respect of the import of the goods

**Exceptions** to the above general rule is in respect of import of certain specified goods, in which case the tax collected at source from import of such goods is an **adjustable tax collected at source** and the income arising from import of such goods subject to collection of tax at source is chargeable to tax, if not otherwise exempt, under the head ‘income from business’ as **taxable income**.



Following import of good are specified for this purpose:

- Raw material, including edible oil and packing material, imported by an **industrial undertaking** for its own use;
- Plant, machinery, equipment and parts imported by an **industrial undertaking** for its own use;
- Fertilizer imported by manufacturer of fertilizer;
- Motor vehicles in CBU (completely build up unit) condition imported by manufacturer of motor vehicles; and
- Any goods imported by large import houses full filling the following conditions:
  - (i) Has a paid up capital of more than Rs. 250 million;
  - (ii) Has imports exceeding Rs.500 million during the tax year;
  - (iii) Owns total assets exceeding Rs. 350 million at the close of the Tax Year;
  - (iv) Is a single object company;
  - (v) Maintains computerized records of imports and sales of goods;
  - (vi) Maintains a system for issuance of 100% cash receipts on sales;
  - (vii) Presents its accounts for tax audit every year;
  - (viii) Is registered with Sales Tax Department; and
  - (ix) Makes sales of industrial raw material to manufacturer registered for sales tax purposes;

### **Profit on debt**

Taxation of income arising from **profit on debt**, subject to final tax, is governed by section 150 and 169 of the Income Tax Ordinance, 2001.

As a general rule (see exception), the tax deducted at source at the time of payment of **profit on debt** is **non-adjustable tax deducted at source** and the income arising from **profit on debt** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

**Profit on debt** (interest/yield/profit) received by a **resident person** from the following debts (investments, etc.) falls under the ambit of **final tax**:

- An account, deposit or a certificate under the National Savings Scheme of Post Office Savings Account;
- An account or deposit maintained with a **banking company** or **financial institution**;
- any security issued by the Federal Government or a Provincial Government or a **Local Government**; and
- Any bond, certificate, debenture, security or instrument of any kind paid by **Banking Company, Financial Institution, Company** as defined in the Companies Ordinance, 1984, a Body Corporate formed by or under any law in force in Pakistan or a **Finance Society**

The rate of **final tax** is 10% of the amount of **profit on debt**.

**Profit on debt** received by a **non-resident person** is dealt with under "Other payments to non-residents".

**Exception** to the above general rule is in respect of **profit on debt** received by a **company**, in which case the tax deducted at source from **profit on debt** is an **adjustable tax collected at source** and the income arising from **profit on debt** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, under the head 'income from other sources' or 'income from business', as the case may be, as **taxable income**.

### **Execution of contracts by non-residents**

Taxation of income arising from execution of contracts of certain **specified contracts** by **non-resident**, subject to final tax, is governed by section 152 and 169 of the Income Tax Ordinance, 2001.

As a general rule (see exception), where the non-resident opts in for **final tax**, the tax deductible at source at the time of payment against execution of **specified contracts** by **non-resident** is **non-adjustable tax deducted at source** and the income arising from execution of **specified contracts** by **non-resident** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 6% of the gross amount received (including advances).

The option for treating the tax deducted at source as **final tax** has been made in writing within three months from the commencement of the **tax year** and once such option is exercised it can not be revoked for three years.

The **specified contracts** referred to above are:

- A contract or sub-contract under a construction, assembly or installation project in Pakistan, including a contract for the supply of supervisory activities in relation to such project;
- Any other contract for construction or services rendered relating thereto; or
- A contract for advertisement services rendered by T. V. Satellite Channels,

**Exception** to the above general rule is where the **non-resident** does not opt in for **final tax**, in which case the tax deducted at source from payments received against execution of **specified contracts** by **non-resident** is an **adjustable tax deducted at source** and the income arising from execution of **specified contracts** by **non-resident** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, under the head 'income from other business', as **taxable income**.

#### **Insurance or re-insurance premiums received by non-residents**

Taxation of income arising from insurance or re-insurance premiums received by **non-resident**, subject to final tax, is governed by section 152 and 169 of the Income Tax Ordinance, 2001.

As a general rule (see exception), the tax deductible at source at the time of payment of insurance or re-insurance premium to a **non-resident** is **non-adjustable tax deducted at source** and the income arising from insurance or re-insurance premium received by a **non-resident** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 5% of the gross premium or a lower rate as per agreement for avoidance of double taxation.

**Exception:-** to the above general rule is such amount which is taxable to a permanent establishment in Pakistan of a non-resident person in respect of which Commissioner has granted written approval. Such amount will be

taxed as part of income of permanent establishment under respective head (Reference section 152(1BB), (2AA), Finance Act, June, 2012).

#### **Any other amounts (profit on debt) received by a non-resident**

Taxation of income arising from **profit on debt** received by **non-resident**, subject to final tax, is governed by section 152 and 169 of the Income Tax Ordinance, 2001.

The tax deducted at source at the time of payment of **profit on debt**, on debt instruments, Government securities including treasury bills and Pakistan Investment Bonds where the investments are exclusively made through a Special Rupee Convertible Account maintained with a Bank in Pakistan, to a **non-resident** not having a **permanent establishment** in Pakistan, is **non-adjustable tax deducted at source** and the income arising from **profit on debt** received on such debts (investments) by **non-resident** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 10% of the amount of **profit on debt**.

#### **Sale of goods**

Taxation of income arising from sale of goods received by a **resident** (permanent establishment deleted by Finance Act, 2012) subject to final tax, is governed by section 153 and 169 of the Income Tax Ordinance, 2001.

As a general rule (see exceptions), the tax deducted at source at the time of payment against sale of goods to a **resident** or a **permanent establishment** in Pakistan of **non-resident** is **non-adjustable tax deducted at source** and the income arising from sale of goods subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** on the sale price, inclusive of Sales Tax, if any, is under:

- Sale of rice, cottonseed or edible oils 1.50%
- Sale of rice by Rice Exporters Association of Pakistan to Utility Store Corporation, in accordance with the agreement, signed with Ministry of Food, Agriculture and Livestock on May 5, 2008 1.00%

- Sale of cigarette and pharmaceutical products by the distributors thereof 1.00%
- Sale of goods by **Large Distribution House** 1.00%
- Sale of any other goods 3.50%

**Exceptions** to the above general rule are in respect:

- Sale of any goods by a **public company** listed on a stock exchange;
- Sale of manufactured goods by a **company** being **manufacturer** of such goods, other than ginned cotton; and
- Sale of iron and steel products by the manufacturer thereof.

in which case the tax deducted at source from sale of such goods is an **adjustable tax collected at source** and the income arising from sale of such goods subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, under the head 'income from business' as **taxable income**.

**"Manufacturer"** means, a person who is engaged in production or manufacturing of goods, which includes-

- any process in which an article singly or in combination with other articles, material, components, is either converted into another distinct article or product is so changed, transferred, or reshaped that it becomes capable of being put to use differently or distinctly; or
- a process of assembling, mixing, cutting or preparation of goods in any other manner.

### **Execution of contracts**

Taxation of income arising from execution of contracts by a **resident** (permanent establishment deleted by Finance Act, 2012) subject to final tax, is governed by section 153 and 169 of the Income Tax Ordinance, 2001.

As a general rule (see exception), the tax deducted at source at the time of payment against execution of contracts to a **resident** or a **permanent establishment** in Pakistan of **non-resident** is **non-adjustable tax deducted at source** and the income arising from payments received against execution of contracts subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 6% of the gross amount received (including advances).

**Exception** to the above general rule is, execution of contracts by a **public company** listed on a stock exchange, in which case the tax deducted at source from payments received against execution of contracts is an **adjustable tax collected at source** and the income arising from payments received against execution of contracts subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, under the head 'income from business' as **taxable income**.

### **Services of stitching, dying, printing, embroidery, washing, sizing and weaving**

Taxation of income arising from services of stitching, dying, printing, embroidery, washing, sizing and weaving by a **resident** or a **permanent establishment** in Pakistan of **non-resident**, subject to final tax, is governed by section 153 and 169 of the Income Tax Ordinance, 2001.

The tax deducted at source at the time of payment against services of stitching, dying, printing, embroidery, washing, sizing and weaving to a **resident** or a **permanent establishment** in Pakistan of **non-resident** is **non-adjustable tax deducted at source** and the income arising from payments received against services of stitching, dying, printing, embroidery, washing, sizing and weaving subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 0.50% of the gross amount for providing such services.

### **Media services by non-residents**

Taxation of income arising from media services by **non-resident**, subject to final tax, is governed by section 152 (Finance Act, 2012) replaces section 153A) and 169 of the Income Tax Ordinance, 2001 (see Finance Act, 2012, for sea 152 (IAAA), 153A and 154).

The tax deducted at source at the time of payment against media services to a **non-resident** is **non-adjustable tax deducted at source** and the income arising from payments received against media services by **non-resident** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 10% of the gross amount for providing such services.

### Export realization (goods)

Taxation of income arising from export of goods, subject to final tax, is governed by section 154 and 169 of the Income Tax Ordinance, 2001.

The tax deductible at source at the time of export realization against export of goods is **non-adjustable tax deducted at source** and the income arising from export realizations against export of goods subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 1% of the foreign exchange proceeds of the goods exported.

### Export realization (indenting commission)

Taxation of income arising from indenting commission, subject to final tax, is governed by section 154 and 169 of the Income Tax Ordinance, 2001.

The tax deductible at source at the time of export realization against indenting commission is **non-adjustable tax deducted at source** and the income arising from export realizations against indenting commission subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 5% of the foreign exchange proceeds of the indenting commission.

### Indirect export realization

Taxation of income arising from **indirect export of goods**, subject to final tax, is governed by section 154 and 169 of the Income Tax Ordinance, 2001.

The tax deductible at source at the time of indirect export realization against **indirect export of goods** is **non-adjustable tax deducted at source** and the income arising from indirect export realizations against **indirect export of goods** subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

**Indirect export of goods** means sale of goods:

- To an exporter under an inland back-to-back letter of credit or any other arrangement as prescribed by the Board for this purpose; and
- By an indirect exporter (defined under Sub-Chapter 7 of Chapter XII of the Customs Rules, 2001) to a Direct Exporter and Export House registered under the Duty and Tax

Remission for Export Rules, 2001 provided in sub-Chapter 7 of Chapter XII of the Customs Rules, 2001.

The rate of **final tax** is 1% of the indirect export realization.

### Export of goods by industrial undertaking located in Export Processing Zones

Taxation of income arising from export of goods by **industrial undertaking** located in Export Processing Zones, subject to final tax, is governed by section 154 and 169 of the Income Tax Ordinance, 2001.

The tax deductible at source at the time of export realization against export of goods by **industrial undertaking** located in Export Processing Zones is **non-adjustable tax deducted at source** and the income arising from export realizations against export of goods by **industrial undertaking** located in Export Processing Zones subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 1% of the proceeds of exports.

### Export of goods (others)

Taxation of income arising from export of goods (others – mainly export to Afghanistan), subject to final tax, is governed by section 154 and 169 of the Income Tax Ordinance, 2001.

The tax collected at the time of export of goods is **non-adjustable tax deducted at source** and the income arising from export of goods subject to collection of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 1% of the gross value of goods exported.

### Prizes and winnings

Taxation of income arising from **prizes and winnings**, subject to final tax, is governed by section 156 and 169 of the Income Tax Ordinance, 2001.

The tax deductible at source at the time of payment of **prizes and winnings** is **non-adjustable tax deducted at source** and the income arising from **prizes and winnings** subject

to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

**Prizes and winnings** covered under the **income subject to final tax** are:

- Prize on a prize bond;
- Prize or winnings from a raffle, lottery, quiz or crossword puzzle;
- Prize offered by companies for promotion of sale; and
- Fair market value of the prize or winnings if it is not paid in cash

The rates of **final tax** are as under:

- On prize on a Prize Bond and winnings from Crossword Puzzle 10%
- On all other prizes and winnings 20%

#### **Commission or discount on petroleum products**

Taxation of income arising from commission or discount on petroleum products received by petrol pump operators, subject to final tax, is governed by section 156A and 169 of the Income Tax Ordinance, 2001.

The tax deductible at source at the time of payment of commission or discount to petrol pump operators is **non-adjustable tax deducted at source** and the income arising from commission or discount on petroleum products received by petrol pump operators subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 10% of the commission/discount allowed to petrol pump operators.

#### **Brokerage and commission**

Taxation of income arising from brokerage and commission, subject to final tax, is governed by section 233 and 169 of the Income Tax Ordinance, 2001.

The tax deductible at source at the time of payment of brokerage and commission is **non-adjustable tax deducted at source** and the income arising from brokerage and commission subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rates of **final tax** are as under:

- On commission of advertising agents 5%
- On all other brokerage and commission 10%

#### **Goods transport vehicles**

Taxation of income arising from plying and hiring of goods transport vehicles, subject to final tax, is governed by section 234 and 169 of the Income Tax Ordinance, 2001.

The tax collected at source at the time of payment of motor vehicle tax (token tax) is **non-adjustable tax deducted at source** and the income arising from plying and hiring of goods transport vehicles subject to deduction of tax at source is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rates of **final tax** are as under:

- Goods transport vehicles with laden weight of 8120 kilograms or more after a period of ten years from the date of first registration of the vehicle in Pakistan Rs. 1,200 for each such vehicle
- On all other goods transport vehicles Re. 1 per kg of the registered laden weight for each such vehicle

#### **Natural Gas Consumption (CNG Stations)**

Taxation of income arising from sale of compressed natural gas (CNG), subject to final tax, is governed by section 234A and 169 of the Income Tax Ordinance, 2001.

The tax collected at source at the time of payment of natural gas consumption bill by CNG Stations is **non-adjustable tax collected at source** and the income arising from sale of CNG subject to deduction of tax at source on consumption of natural gas is chargeable to tax, if not otherwise exempt, as **income subject to final tax**.

The rate of **final tax** is 4% of the amount of natural gas bill.

## Separate block of income

“**Separate Block of Income**” are those, which are chargeable to tax under the respective head of income (salary, property, business, capital gains and other sources) as global **taxable income** but for the purposes of calculation of **tax** such income are excluded from the **taxable income** and **tax** thereon is calculated and charged at varying rates depending on the nature of each such income.

The **tax** payable on **separate block of income** is commonly called **fixed tax**.

Following natures of income are subject to a **fixed tax** and treated as a separate block of income:

### Retirement or termination benefits of an employee

Salary is chargeable to tax on the basis of actually received in a **tax year**. Accordingly the retirement or termination benefits received in lump sum, being covered under the definition of salary, are also chargeable to **tax** in the **tax year** in which received. As a result the **income tax** payable substantially increases, since the **taxable income** falls in a higher tax slab.

The taxpayer has an option to notify the concerned Commissioner by the due date for furnishing the return that he/she has elected for the retirement or termination benefits to be taxed as a **separate block of income** at the average rate of **income tax** of the three preceding years (**fixed tax**) [Sub-section (6) and (8) of section 12 of the Income Tax Ordinance, 2001].

Following example will illustrate the effects and calculations:

Salary for the year:

Excluding retirement or termination benefits (RTB)	Rs. 1,000,000
Retirement or termination benefits (RTB) received	Rs. 5,000,000

Calculation of **income tax**, if not electing

	Excluding RTB (Rupees)	Including RTB (Rupees)
Chargeable / total / <b>taxable income</b>	1,000,000	6,000,000
<b>Income tax</b> rate	9%	19%
<b>Income tax</b> on above	90,000	1,140,000

Calculation of separate tax at the average rate of **income tax** of preceding three years:

	<b>Taxable Income</b> (Rupees)	<b>Income tax</b> Payable (Rupees)
Preceding Year 1	950,000	85,500
Preceding Year 2	900,000	67,500
Preceding Year 3	850,000	63,750
Total	2,700,000	216,750
Average rate of income tax (Total income tax payable divided by Total taxable income)		.080277
RTB		5,000,000
<b>Fixed tax</b> on RTB (RTB multiply by average rate)		401,389

Calculation of income **tax payable**, if electing:

	(Rupees)
<b>Income tax</b> on chargeable / total / <b>taxable income</b> excluding RTB	90,000
<b>Fixed tax</b> on RTB calculated at the average rate of <b>income tax</b> of preceding three years	401,389
Total income tax liability	491,389

### Arrears of salary of an employee

Salary is chargeable to **tax** on the basis of actually received in a **tax year**. Accordingly the arrears of salary received in lump sum are also chargeable to **tax** in the **tax year** in which received. As a result the **income tax** payable substantially increases, since the **taxable income** falls in a higher tax slab.

The taxpayer has an option to notify the concerned Commissioner by the due date of furnishing the return, that he/she has elected for the arrears of salary to be taxed as a **separate block of income** at the rates of **income tax** that would have been applicable if such arrears were received in the **tax year** in which the services were rendered (**fixed tax**) [Sub-section (7) and (8) of section 12 of the Income Tax Ordinance, 2001].

Following example will illustrate the effects and calculations:

Salary for the year:

Excluding arrears	Rs. 1,000,000
Arrears (of last 2 years) Rs. 200,000 for each year	Rs. 400,000

Calculation of **income tax**, if not electing

	Excluding Arrears (Rupees)	Including Arrears (Rupees)
Chargeable / total / <b>taxable income</b>	1,000,000	1,400,000
<b>Income tax</b> rate	9%	11%
<b>Income tax</b> on above	90,000	154,000

Calculation of **fixed tax** on arrears, at the rates of **income tax** that would have been applicable if such arrears were received in the **tax year** in which the services were rendered:

	Preceding year 1 (Rupees)	Preceding year 2 (Rupees)
<b>Taxable income</b>		
Excluding arrears	700,000	600,000
Including arrears	900,000	800,000
<b>Income tax</b> payable		
Excluding arrears	42,000	27,000
Including arrears	67,500	600,00
Difference in <b>income tax</b> payable	25,500	33,000
Total difference	58,500	

Calculation of **tax** liability, if electing:

	(Rupees)
<b>Income tax</b> on chargeable /total / <b>taxable income</b> excluding arrears	90,000
<b>Fixed tax</b> on arrears calculated at the rates of <b>income tax</b> that would have been applicable if such arrears were received in the <b>tax year</b> in which the services were rendered	58,500
Total <b>income tax</b> liability	148,500

### Flying and submarine allowance of certain employees

- "Flying allowance" of pilots, flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces; and
- "Submarine allowance" of the officers of the Pakistan Navy;

is subject to **fixed tax** as a **separate block of income** at the rate of 2.5% of such allowance.

[Clause (1) of Part III of 2<sup>nd</sup> Schedule to the Income Tax Ordinance, 2001]

### Property income

"**Rent**" received or receivable for a **tax year**, other than **rent** exempt from tax, is subject to a **fixed tax** as a **separate block of income**. [Section 15 of the Income Tax Ordinance, 2001]

The rates of **fixed tax** on **rent** are as under:-

In case of an individual or association of persons	
Gross amount of <b>rent</b>	Rate of <b>fixed tax</b>
Does not exceed Rs.150,000	Nil.
Exceeds Rs.150,000 but does not exceed Rs.400,000	5 per cent of the gross amount of <b>rent</b> exceeding Rs.150,000
Exceeds Rs.400,000 but does not exceed Rs.1,000,000	Rs.12,500 plus 7.5 per cent of the gross amount of <b>rent</b> exceeding Rs.400,000
Exceeds Rs.1,000,000	Rs.57,500 plus 10 per cent of the gross amount of <b>rent</b> exceeding Rs.1,000,000

In case of a company	
Gross amount of <b>rent</b>	Rate of <b>fixed tax</b>
Does not exceed Rs.400,000	5 percent of the gross amount of <b>rent</b>
Exceeds Rs.400,000 but does not exceed Rs.1,000,000	Rs.20,000 plus 7.5 per cent of the gross amount of <b>rent</b> exceeding Rs.400,000
Exceeds Rs.1,000,000	Rs.65,500 plus 10 per cent of the gross amount of <b>rent</b> exceeding Rs.1,000,000

### Business income of certain retailers

A **retailer** being an individual or an **association of persons** having **turnover** not exceeding Rs. 5,000,000 for a **tax year**, can opt for payment of **fixed tax** at the rate of 1% of the **turnover** as a **separate block of income** [Section 113A of the Income Tax Ordinance, 2001].

Similarly, a **retailer** being an individual or an **association of persons** having **turnover** exceeding Rs. 5,000,000 for a **tax year** and who is subject to special procedure for payment of sales tax under chapter II of the Sales Tax Special Procedure Rules, 2007 can opt for payment of **fixed tax** at the following rates of the **turnover** as a **separate block of income** –

- Where the **turnover** exceeds Rs.5,000,000 but does not exceed Rs.10,000,000 Rs.25,000 plus 0.5% of the **turnover** exceeding Rs.5,000,000
- Where the **turnover** exceeds Rs.10,000,000 Rs.50,000 plus 0.75% of the **turnover** exceeding Rs.10,000,000

[Section 113B of the Income Tax Ordinance, 2001]

A **retailer** opting for fixed tax is not entitled to claim any adjustment of **adjustable tax collected or deducted at source** under any head during the year.

“**Retailer**” means a **person** selling goods to general public for the purpose of consumption;

“**Turnover**” for this purposes means, the gross receipts, exclusive of Sales Tax and Federal Excise duty or any trade discounts shown on invoices, or bills, derived from sale of goods (excluding any amount relating to **income subject to final tax**).

#### **Business income from services rendered outside Pakistan of certain person**

Business income from services rendered out-side Pakistan, the receipts of which are brought into Pakistan in foreign exchange through normal banking channel is subject **fixed tax** at the rate of 1% of the gross receipts.

[Clause (3) of Part II of 2<sup>nd</sup> Schedule to the Income Tax Ordinance, 2001]

#### **Business income from construction contracts executed out-side Pakistan**

Business income from execution of construction contracts out-side Pakistan, the income of which is brought into Pakistan in foreign exchange through normal banking channel is subject **fixed tax** at the rate of 1% of the gross receipts.

[Clause (3A) of Part II of 2<sup>nd</sup> Schedule to the Income Tax Ordinance, 2001]

#### **Business income of certain manufacturers of cooking oil or vegetable ghee or both**

Business income of manufacturers of cooking oil or vegetable ghee or both attributable to purchases of locally produced edible oil is subject

**fixed tax** at the rate of 2% of purchase price of locally produced edible oil.

[Clause (13C) of Part II of 2<sup>nd</sup> Schedule to the Income Tax Ordinance, 2001]

#### **Business income of resident from shipping business**

Business income of a **resident** from business of shipping is subject **fixed tax** as under:

- Amount equivalent** to One US \$ per gross registered tonnage per annum in respect of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized craft purchased or bare-boat chartered and flying Pakistan flag; and
- Amount equivalent** to fifteen US cents per ton of gross registered tonnage per chartered voyage but not exceeding one US \$ per ton of gross registered tonnage per annum in respect of ships, vessels and all floating crafts including tugs, dredgers, survey vessels and other specialized craft not registered in Pakistan and hired under any charter other than bare-boat charter.

“**Equivalent amount**” for the this purpose means the rupee equivalent of a US dollar according to the exchange rate prevalent on the first day of December in the case of a **company** and the first day of September in other cases in the relevant **tax year**.

[Clause (21) of Part II of 2<sup>nd</sup> Schedule to the Income Tax Ordinance, 2001]

#### **Capital gains from sale of securities**

Capital gains as reduced by capital losses, if any, arising from the disposal of the **securities** held for a period of less than a year [calculated from the date of acquisition (whether on or before or after 30th June 2010) to the date of disposal (on or after July 01, 2010)] is subject to **fixed tax** as under:

Tax Year	Holding Period	
	Tax Rate if holding is less than six months	Tax Rate if holding is six months or more than six months but less one year
2011	10%	7.5%
2012	10%	8%
2013	10%	8%
2014	10%	8%



2015	17.5%	9.5%
2016		10%

required to submit in addition the annual Return of Income in the prescribed format.

In case of a **banking company** and an insurance company the gain arising on disposal of **securities** is chargeable to tax as separately provided in the Seventh (7<sup>th</sup>) and Fourth (4<sup>th</sup>) Schedule to the Income Tax Ordinance, 2001.

“**Securities**” for the this purpose means share of a public company, voucher of Pakistan Telecommunication Corporation, Modaraba Certificate, an instrument of redeemable capital and derivative products.

[Section 37A of the Income Tax Ordinance, 2001]

**Capital gains from the sale of shares or assets by a private limited company to Private Equity and Venture Capital Fund**

Capital gains derived from sale of shares or assets by a private limited company to Private Equity and Venture Capital Fund is subject **fixed tax** at the rate of 10% of such gains.

[Clause (5B) of Part II of 2<sup>nd</sup> Schedule to the Income Tax Ordinance, 2001]

**Obligations of the persons deriving income subject to separate charge, final tax and fixed tax**

A **person** deriving income exclusively from the sources covered under **separate charge, final tax** or **fixed tax** is required to submit:

- An annual statement in the prescribed format (commonly known as statement under section 115) along with;
- Certificates of the tax collected or deducted at source in the prescribed format obtained from the respective withholding agents;
- Copies of relevant tax deposit receipts (challans); and
- Where the **final tax** is of Rs. 35,000 or more in a tax year a Wealth Statement and a Reconciliation Statement thereof.

A person deriving both taxable income (global income) and income from the sources covered under **separate charge, final tax** or **fixed tax** is

## Definitions

“Air transport income” – See **Shipping and air transport income**.

“Association of persons” includes a firm, a Hindu undivided family, any artificial juridical person and any body of persons formed under a foreign law, but does not include a **company**.

“Banking company” means a banking company as defined in the Banking Companies Ordinance, 1962 (LVII of 1962) and includes any body corporate which transacts the business of banking in Pakistan.

“Company” means –

- (a) a company as defined in the Companies Ordinance, 1984 (XLVII of 1984);
- (b) a body corporate formed by or under any law in force in Pakistan;
- (c) a modaraba;
- (d) a body incorporated by or under the law of a country outside Pakistan relating to incorporation of companies;
- (e) a **trust**, a **co-operative society** or a finance society or any other society established or constituted by or under any law for the time being in force;
- (f) a foreign association, whether incorporated or not, which the Board has, by general or special order, declared to be a company for the purposes of this Ordinance;
- (g) a Provincial Government;
- (h) a Local Government in Pakistan; or

“Co-operative society” means a co-operative society registered under the Co-operative Societies Act, 1925 (VII of 1925) or under any other law for the time being in force in Pakistan for the registration of co-operative societies.

“Dividend” includes –

- (a) any distribution by a **company** of accumulated profits to its **shareholders**, whether capitalized or not, if such distribution entails the release by the **company** to its **shareholders** of all or any part of the assets including money of the **company**;
- (b) any distribution by a **company**, to its **shareholders** of debentures, debenture-stock or deposit certificate in any form, whether with or without profit, to the extent to which the **company** possesses accumulated profits whether capitalized or not;
- (c) any distribution made to the **shareholders** of a **company** on its liquidation, to the

extent to which the distribution is attributable to the accumulated profits of the **company** immediately before its liquidation, whether capitalized or not;

- (d) any distribution by a **company** to its **shareholders** on the reduction of its capital, to the extent to which the **company** possesses accumulated profits, whether such accumulated profits have been capitalized or not; or
  - (e) any payment, by a private **company** as defined in the Companies Ordinance, 1984 or **trust**, of any sum (whether as representing a part of the assets of the **company** or **trust**, or otherwise) by way of advance or loan to a **shareholder** or any payment by any such **company** or **trust** on behalf, or for the individual benefit, of any such **shareholder**, to the extent to which the **company** or **trust**, in either case, possesses accumulated profits;
  - (f) remittance of after tax profit of a branch of a foreign **company** operating in Pakistan.
- but does not include –
- (i) a distribution made in accordance with sub-clause (c) or (d) in respect of any **share** for full cash consideration, or redemption of debentures or debenture stock, where the holder of the **share** or debenture is not entitled in the event of liquidation to participate in the surplus assets;
  - (ii) any advance or loan made to a **shareholder** by a **company** in the ordinary course of its business, where the lending of money is a substantial part of the business of the **company**;
  - (iii) any dividend paid by a **company** which is set off by the **company** against the whole or any part of any sum previously paid by it and treated as a dividend within the meaning of sub-clause (c) to the extent to which it is so set off; or
  - (iv) remittance of after tax profit by branch of Petroleum Exploration and production (E&P) foreign **company**, operating in Pakistan.

“Fee for technical services” means, any consideration, whether periodical or lump sum, for the rendering of any managerial, technical or consultancy services including the services of technical or other personnel, but does not include —

- (a) consideration for services rendered in relation to a construction, assembly or like project undertaken by the recipient; or
- (b) consideration which would be income of the recipient chargeable under the head “Salary”.

**"Finance society"** includes a **co-operative society** which accepts money on deposit or otherwise for the purposes of advancing loans or making investments in the ordinary course of business.

**"Financial institution"** means an institution as defined under the Companies Ordinance, 1984, i.e. - Financial institution includes:

- a. a company or an institution whether established under any special enactment and operating within or outside Pakistan which transacts the business of banking or any associated or ancillary business through its branches;
- b. a modaraba, leasing company, investment bank, venture capital company, financing company, housing finance company, a non-banking finance company; and
- c. such other institution or companies authorized by law to undertake any similar business, as the Federal Government may, by notification in the official Gazette, specify for the purpose.

**"Industrial undertaking"** means –

- a. an undertaking which is set up in Pakistan and which employs,
  - (i) ten or more persons in Pakistan and involves the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy; or
  - (ii) twenty or more persons in Pakistan and does not involve the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal energy; and
 which is engaged in,-
  - (i) the manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition;
  - (ii) ship-building;
  - (iii) generation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power; or
  - (iv) the working of any mine, oil-well or any other source of mineral deposits; and
- b. any other industrial undertaking which the Central Board of Revenue may by notification in the official Gazette, specify;

**"Large Distribution Houses"** means, a **company** who –

- (i) Has a paid up capital of more than Rs. 250 million;

- (ii) Has imports exceeding Rs.500 million during the tax year;
- (iii) Owns total assets exceeding Rs. 350 million at the close of the Tax Year;
- (iv) Is a single object company;
- (v) Maintains computerized records of imports and sales of goods;
- (vi) Maintains a system for issuance of 100% cash receipts on sales;
- (vii) Presents its accounts for tax audit every year;
- (viii) Is registered with Sales Tax Department; and
- (ix) Makes sales of industrial raw material to manufacturer registered for sales tax purposes;

**"Local Government"** has the same meaning as defined in the Punjab Local Government Ordinance, 2001 (XIII of 2001), the Sindh Local Government Ordinance, 2001 (XXVII of 2001), the NWFP Local Government Ordinance, 2001 (XIV of 2001) and the Balochistan Local Government Ordinance, 2001 (XVIII of 2001).

**"Master of a ship"** means the master of a ship owned or chartered by a **non-resident person** and touching any port in Pakistan

**"Non-Resident"** means an association of person, a company and an individual who are not **resident** for that year.

**"Permanent establishment"** means a fixed place of business through which the business is wholly or partly carried on, and includes –

- (a) a place of management, branch, office, factory or workshop, premises for soliciting orders, warehouse, permanent sales exhibition or sales outlet, other than a liaison office except where the office engages in the negotiation of contracts (other than contracts of purchase);
- (b) a mine, oil or gas well, quarry or any other place of extraction of natural resources;
- (c) an agricultural, pastoral or forestry property;
- (d) a building site, a construction, assembly or installation project or supervisory activities connected with such site or project but only where such site, project and its connected supervisory activities continue for a period or periods aggregating more than 96 days within any 12 months period;
- (e) the furnishing of services, including consultancy services, by any person through employees or other personnel engaged by the person for such purpose;
- (f) a person acting in Pakistan on behalf of the person (hereinafter referred to as the

“agent”), other than an agent of independent status acting in the ordinary course of business as such, if the agent –

- (i) has and habitually exercises an authority to conclude contracts on behalf of the other person;
- (ii) has no such authority, but habitually maintains a stock-in-trade or other merchandise from which the agent regularly delivers goods or merchandise on behalf of the other person; or
- (g) any substantial equipment installed, or other asset or property capable of activity giving rise to income.

**“Person”**

- (a) An individual;
- (b) a company or association of persons incorporated, formed, organized or established in Pakistan or elsewhere;
- (c) the Federal Government, a foreign government, a political subdivision of a foreign government, or public international organization.

**“Profit on a debt”** whether payable or receivable, means –

- (a) any profit, yield, interest, discount, premium or other amount, owing under a debt, other than a return of capital; or
- (b) any service fee or other charge in respect of a debt, including any fee or charge incurred in respect of a credit facility which has not been utilized.

**“Public company”** means –

- (a) a company in which not less than 50% of the shares are held by the Federal Government or Provincial Government;
- (b) a company in which not less than 50% of the shares are held by a foreign government, or a foreign company owned by a foreign government;
- (c) a company whose shares were traded on a registered stock exchange in Pakistan at any time in the tax year and which remained listed on that exchange at the end of that year; or
- (d) a unit trust whose units are widely available to the public and any other trust as defined in the Trust Act, 1882.

**“Rent”** means any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, or the right to use or occupy, the land or building, and includes:

- (a) any forfeited deposit paid under a contract for the sale of land or a building; and

- (b) any amount received by the owner of a building from a tenant which is not adjustable against the rent payable by the tenant (Goodwill, Pugree, Deposit, etc.).

**Resident**

- (a) An **association of persons** is resident for a tax year if the control and management of its affairs is situated wholly or partly in Pakistan at any time in the year.
- (b) A **company** is resident for a tax year if –
  - (i) it is incorporated or formed by or under any law in force in Pakistan;
  - (ii) the control and management of the affairs of the company is situated wholly in Pakistan at any time in the year; or
  - (iii) it is a Provincial Government or local Government in Pakistan.
- (c) An individual is resident for a tax year if he/she:
  - (i) is present in Pakistan for a period of, or periods amounting in aggregate to, 183 days or more in the tax year;
  - (ii) is an employee or official of the Federal Government or a Provincial Government posted abroad in the tax year.

**“Royalty”** means any amount paid or payable, however described or computed, whether periodical or a lump sum, as consideration for —

- (a) the use of, or right to use any patent, invention, design or model, secret formula or process, trademark or other like property or right;
- (b) the use of, or right to use any copyright of a literary, artistic or scientific work, including films or video tapes for use in connection with television or tapes in connection with radio broadcasting, but shall not include consideration for the sale, distribution or exhibition of cinematograph films;
- (c) the receipt of, or right to receive, any visual images or sounds, or both, transmitted by satellite, cable, optic fibre or similar technology in connection with television, radio or internet broadcasting;
- (d) the supply of any technical, industrial, commercial or scientific knowledge, experience or skill;
- (e) the use of or right to use any industrial, commercial or scientific equipment;
- (f) the supply of any assistance that is ancillary and subsidiary to, and is furnished as a means of enabling the application or enjoyment of, any such property or right as mentioned in sub clauses (a) through (e); and
- (g) the disposal of any property or right referred to in sub clauses (a) through (e);

**“Shipping and air transport income”** means carrying on the **business** of operating ships or aircraft as the owner or charterer thereof in respect of –

- The gross amount received or receivable (whether in or out of Pakistan) for the carriage of passengers, livestock, mail or goods embarked in Pakistan; and
- The gross amount received or receivable in Pakistan for the carriage of passengers, livestock, mail or goods embarked outside Pakistan.

**Tax Year**

- A period of twelve months ending on 30<sup>th</sup> day of June i.e. the financial year and is denoted by the calendar year in which the said date falls. For example, tax year 2011 corresponds to the financial year from July 01, 2010 to June 30, 2011 and the financial year from July 01, 2011 to June 30, 2012 corresponds to tax year 2012; and
- Includes a special year or a transitional year that the person is permitted to use under section 74 of the Income Tax Ordinance, 2001.

**“Taxable Income”** means **total income** reduced by deductible allowances on account of:

- Expenditure on personal medical services (applies to individuals only);
- Zakat paid under the Zakat and Ushr Ordinance, 1980 (Zakat paid on a debt, the profit of which is chargeable to tax under the head “Income from Other Sources” is not deductible from total income. Such Zakat is an admissible deduction against profit on debt);
- Workers Welfare Fund paid under the Workers Welfare Fund Ordinance, 1971 (applies to certain specified industrial establishments); and
- Worker's Participation Fund paid under the Companies Profit (Worker's Participation) Act, 1968 (applies to companies only).

**“Total Income”** is the aggregate of income under the following heads of income:

- Salary;
- Income from property;
- Income from business;
- Capital gains; and
- Income from other sources [including those not covered under any of the above heads of income].

Income under a specific head of income for a tax year is the total of the amounts derived under

that head, which are chargeable to tax, as reduced by the deductions, if any, admissible under the Income Tax Ordinance, 2001.

**“Trust”** means an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner, or declared and accepted by the owner for the benefit of another, or of another and the owner, and includes a unit trust.

## Facilitation and Taxpayer Education Material available on our website [www.fbr.gov.pk](http://www.fbr.gov.pk)

### **Income Tax:**

- Income Tax Ordinance, 2001;
- Income Tax Rules, 2002;
- Income Tax Notifications (SRO's issued by the Federal Government);
- Income Tax Circulars (Clarifications issued by the Federal Board of Revenue);
- Income Tax Forms (Registration form, return forms, withholding tax statements, tax deposit form);
- Computer Software (Withholding tax statements);
- Avoidance of Double Tax Treaties with other countries;
- Publications and brochures

### **Sales Tax**

- Sales Tax Act, 1990;
- Sales Tax Rules, 2006;
- Sales Tax Special Procedure Rules, 2007;
- Sales Tax Special Procedure (Withholding) Rules, 2007
- Sales Tax Notifications (SRO's issued by the Federal Government);
- Sales Tax General Orders;
- Sales Tax Circulars/Rulings (Clarifications issued by the Federal Board of Revenue);
- Sales Tax Forms (Registration form, return forms, tax deposit form);
- Computer Software (Refund claim);
- Publications and brochures

### **Federal Excise Duty**

- Federal Excise Act, 2005;
- Federal Excise Rules, 2005;
- Federal Excise Notifications (SRO's issued by the Federal Government);
- Federal Excise General Orders;
- Federal Excise Circulars/Rulings (Clarifications issued by the Federal Board of Revenue);
- Federal Excise Forms (Return forms);
- Publications and brochures

### **On line information services:**

- Registration (Income Tax, Sales Tax and Federal Excise Duty);
- Registration Application Status (Income Tax and Sales Tax);
- Registered Taxpayers Verification (Income Tax and Sales Tax);
- Active taxpayers list;

## **F A T E**

“Facilitation and Tax Education “  
Is the Key to Voluntary Compliance  
And  
Voluntary Compliance Is the Key to  
“**Better Revenues**”