Chapter 7

INCOME FROM SALARY

Section | Rule | Topic covered | Section | Rule | Topic covered
--- | --- | --- | --- | --- | ---
12 | 6 | Salary | 13 | 5 | Valuation of conveyance
73 | | Taxability of salary | 13 | 3 | Salaries of servants paid by employer
110 | | Salary paid by private companies | 13 | 4 | Valuation of accommodation
12 | | Profit in lieu of salary | 14 | | Employee share scheme
12 | | Golden handshake | | | Retirement benefits
12 | | Marginal perquisites | 11, 50, 51, 101 & 102 | | Geographical source of salary income and their taxability
13 | | Value of perquisites | | | Exemptions
13 | | Loan provided by employer to employee with no interest | | | MCQ’s with solutions
| | | | | | ICMAP and CA Mod C past papers theoretical questions

For CAF-6 and ICMAP Students

1. **Definition of salary [U/s 12]**
   
   Any *salary received* by an employee in a tax year, other than exempt salary under the Income Tax Ordinance 2001, shall be chargeable to tax in that year under the head salary.

   A person is salaried person where taxable salary *exceeds 50%* of taxable income from all heads of income.

   **Salary means** any amount received by an employee from any employment whether of a revenue or capital nature:

   "*Employer*" means any individual engaged in employment [including an employed director (Rule 6)]. [U/s 2(20)]

   "*Employee*" means any person who engages and remunerates an employee. [U/s 2(21)]

   "*Employment*" includes: [U/s 2(22)]

   (1) A directorship or any other office involved in the management of a company;

   (2) A position entitling the holder to a fixed or ascertainable remuneration; or

   (3) The Holding or acting in any public office.

   **Example:** Hafiz Bilal Rana is an employee of a company. He comes to office only 4 hours in a day. He received Rs.18,000 salary from the company. Explain with reasons that he is considered as an employee of a company or not.

   **Solution:** Although he is a part time employee of a company, however the amount so received shall be treated as salary income for the year.

   **Basic salary:**

   For the purposes of tax, basic salary means any consideration received or receivable as basic salary. However, for the purposes of retirement benefits, basic salary includes dearness allowance.

2. **Salary includes the following [U/s 12(2)(a), (b), (c) and (d)]**

   (a) *Pay / wages* or other remuneration, leave pay / leave encashment, overtime, bonus, commission and fee;

   (b) Work condition supplements;
(c) Allowances i.e. cost of living, subsistence, rent, utilities, education, entertainment or travel allowance excluding any allowance solely expended for office purpose;

(d) Any expenditure incurred by an employee but paid or reimbursed by the employer other than for office purpose.

(e) Profits in lieu of salary, perquisites, gratuity, pension or annuity, or any supplement to a pension or annuity, benefit on account of employee share scheme, tax on salary paid by the employer and

(f) In the case of other assets given for use only, rental value or depreciation charged by the employer is the taxable benefit for the employee e.g. TV is provided by the employer only for the use of employee.

3. **Salary chargeable to tax:**

   **Taxability of salary: [U/s 73]**

   Any income taxed on receipt basis shall not be taxable again on accrual basis and vice versa. Similarly if any expenditure is deductible on due basis then the same shall not be deducted when it is paid and vice versa.

   **Salary paid by Private Companies [U/s 110]**

   The Commissioner Inland Revenue instead of charging tax on salary income, on cash basis may opt the accrual basis in case of an employee of a Private Company. This treatment shall be applied where the employee in order to avoid a higher tax rate, could have entered into agreement with his employer for payment of salary in a subsequent year when his other income may be on lower side.

   Suppose if there is income from other sources in the current year along-with income from salary and both as part of total income may result into higher rate of tax in the current year therefore the employee with the consent of employer may defer his full or part salary to be offered for tax when he will not have any income from other sources that will result into lower rate of tax in the subsequent tax year.

   **Treatment of arrear salary received: [U/s 12(7) and (8)]**

   Employee may avail this option in writing to the Commissioner Inland Revenue to be taxed on accrual basis instead of cash basis. It is allowed when the following conditions are met:

   - The salary is paid to an employee in arrears;
   - After including the arrears salary in the current year’s income the rate of tax is increased.
   - The declaration shall be made by the due date for furnishing of employee’s return of income for the tax year in which amount was received or by such later date as the Commissioner Inland Revenue may allow.

   **Example:**

   In tax year 2015 Mr. Amir was paid salary for 8 months i.e. Rs. 800,000. In tax year 2016 he was paid salary for 16 months (including salary of 4 months of tax year 2015) i.e. Rs.1,600,000. Compute tax payable by him in tax year 2016.

   **Solution:**

   Mr. Amir

   **Computation of taxable income and tax liability:**

   **Option A by including the arrear salary in current year income**

   **TAX YEAR 2015**

   | Income from salary | Rs. 800,000 |
   | Computation of tax liability | 22,500 |

   **TAX YEAR 2016**

   | Income from salary | Rs. 1,600,000 |
   | Computation of tax liability | 107,000 |

   **Option B by offering the arrear salary in the respective year**

   **TAX YEAR 2015**

   | Income from salary | Rs. 1,200,000 |
   | Computation of tax liability | 62,500 |

   **TAX YEAR 2016**

   | Income from salary | Rs. 1,600,000 |
   | Computation of tax liability | 107,000 |

   **Conceptual Approach to Taxes**
**TAX YEAR 2016**

Income from salary  

Rs. 1,200,000

**Computation of tax liability**

Tax on Rs. 1,200,000 \([14,500 + 10\% \times (1,200,000 - 750,000)]\)  

59,500

- Total tax payable as per option A \((107,000 + 22,500)\)  
  129,500

- Total tax payable as per option B \((62,500 + 59,500)\)  
  122,000

**Taxpayer shall pay tax as per option B with less tax payable.**

**Salary treated to have been paid and received: [U/s 12(5) and 69]**

(A) **A person (including an employer) shall be treated as having paid an amount, benefit or perquisite if it is:** [U/s 12(5)]

Paid by the person that may be a present, past or prospective, or an associate of the payer or a third party under an arrangement with the payer.

(B) **A person (including an employee) shall be treated as having received an amount, benefit or perquisite if it is:** [U/s 69]

- Actually received by the person.
- Applied on behalf of the person,
- At the instruction of the person or under any law.
- Made available to the person.

4. **Profit in lieu of or in addition to salary [U/s 12(2)(e)]**

The amount of any profit in lieu of salary or wages including any amount received:

(A) as compensation for the termination of employment paid voluntarily or under an agreement including payments under golden handshake and loss of employment;

(B) payments from any fund other than related to the employees contribution;

(C) pension or annuity, or any supplement to a pension or annuity. [U/s 12(2)(f)] and

(D) any amount chargeable to tax under an employee share schemes u/s 14.[U/s 12(2)(g)]

**The amount of any profit in addition to salary or wages including any amount received**

(A) as consideration at the time of entering into an employment agreement;

(B) as consideration on agreement regarding any conditions of employment or any changes in the employment conditions;

(C) as consideration on a restrictive covenant agreement with any past, present or prospective employment;

4.1 **Tax treatment on account of golden handshake payments or loss of employment on termination of employment: [U/s 12(2)(e)(iii) and 12(6)]**

Where an employee received amounts on account of above then he may opt any one of the following options available to him:

(A) To offer the same as income in the year of receipt; or

(B) The amount to be taxed at the rate in accordance with the following formula:

\[
\frac{\text{Preceding three years total tax on total taxable income under NTR}}{\text{Total taxable income of preceding three tax years under NTR}} \times 100
\]

**Important note U/s 12(8):**

The declaration shall be made by the due date for furnishing of employee’s return of income for the tax year in which amount was received or by such later date as the Commissioner Inland Revenue may allow.

**Example:** Mr. Arif received taxable salary of Rs. 600,000 in tax year 2016. He retired on 1st day of May, 2016 and received an amount of Golden Handshake of Rs. 900,000. If the following further information has been provided you are required to compute the tax payable by him.

Last 3 years tax liability under normal tax regime 145,000

Last 3 years taxable income under normal tax regime 1,200,000
**Solution:** A person who receives Golden handshake has two options available to him. He may opt to include this amount in his taxable income or he may opt to tax this amount as a separate block of income.

Mr. Arif  
Tax year 2016  
**Computation of taxable income and tax liability:**

<table>
<thead>
<tr>
<th>Option 1 (included the golden handshake in the current year income)</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from salary:</td>
<td></td>
</tr>
<tr>
<td>Salary</td>
<td>600,000</td>
</tr>
<tr>
<td>Golden handshake</td>
<td>900,000</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td><strong>1,500,000</strong></td>
</tr>
<tr>
<td><strong>Computation of tax liability:</strong></td>
<td></td>
</tr>
<tr>
<td>Tax on Rs. 1,500,000 (79,500 + 12.5% \times (1,500,000 – 1,400,000))</td>
<td><strong>92,000</strong></td>
</tr>
</tbody>
</table>

**Option 2 (offered on the basis of last three years average rate)**

<table>
<thead>
<tr>
<th>Income from salary:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>600,000</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td><strong>600,000</strong></td>
</tr>
<tr>
<td><strong>Computation of tax liability:</strong></td>
<td></td>
</tr>
<tr>
<td>Tax on Rs. 600,000 (2,000 + 5% \times (600,000 – 500,000))</td>
<td>7,000</td>
</tr>
<tr>
<td>Tax on golden handshake</td>
<td></td>
</tr>
<tr>
<td>(Rs. 900,000 \times 12.08% as per note attached)</td>
<td>108,720</td>
</tr>
<tr>
<td><strong>Tax liability</strong></td>
<td><strong>115,720</strong></td>
</tr>
</tbody>
</table>

Rate for golden handshake = \(145,000/1,200,000 \times 100 = 12.08\%\)  
Lower tax is payable in option 1, hence same shall be opted by the tax payer.

4.2 **Computation of tax on tax [u/s 12(3) & (4)]**

Any tax liability of employee paid by employer on behalf of employee shall be added in the income of the employee by such amount.

The grossed up amount may be calculated under the following cases.

Where normal rates are feasible:

**Example:** An employee of a company has received total salary of Rs. 800,000. As per appointment letter the employer shall pay Rs. 22,500 as tax free salary to employee. Compute the tax liability for the tax year 2016.

**SOLUTION**

| Taxable salary excluding tax paid by the employer | 800,000 |
| Tax paid by employer | 22,500 |
| **Total taxable income** | **822,500** |

**Computation of taxable income and tax liability**

\(14,500 + 10\% \times (822,500 – 750,000)\)

Less: paid by employer | 22,500 |

Balance tax excess paid | **(750)**

**Important note:** Tax on tax amount depends on the terms and conditions settled between employer and employee.

The salary income will be charged to tax on its gross value after deduction of exempt salary income or allowances and perquisites. However, no expense or other deduction shall be allowed with respect to any expenditure incurred in deriving salary income. Section 12(4) of the ordinance states that:

- No deduction shall be allowed for any expenditure incurred by an employee in deriving amounts chargeable to tax under the head “Salary”.

**Marginal perquisites [Clause 53A of Part I of Second Schedule]**

Some employers provide concessional benefits to their own facilities e.g. a Hospital may allow its employee free medical treatment or concessional medical facility or a school allow its children of its employees to get free or concessional fee and a railway, bus or air transport providing free or concessional transport facility to its employees.

Marginal perquisites are exempt except free or concessional passage provided by transporters including airlines to its employees (including the members of their household and dependants). For this purpose, we have to take the market value of facility provided to employees and add the same in the salary income of employee after deducting any cost borne by the employee.
5. **Value of Perquisites [U/s 13]**
   The value of perquisites to the extent of provided by an employer to his employee shall include the following:
   (1) Motor vehicle used wholly or partly for private purposes
   (2) Salary of housekeeper, driver or other domestic assistant.
   (3) Fair market value of utilities.
   (4) Actual amount waived off or obligation discharged by employer on behalf of the employee.
   (5) Transfer of property or services provided
   (6) Facility of accommodation or housing
   (7) Interest free loan or loan at concessional rate
   (8) In addition to the above the value of any other benefit.

6. **Non applicability of this section [U/s 13(2)]**
   This section shall not apply to any amount of allowances provided by employer and expenditure incurred by employee for the performance of official duties of employment.

7. **Valuation of perquisites, allowances and benefits**

7.1 **Valuation of conveyance Rule-5 and [U/s 13(3)]**
   In case of motor vehicle provided by an employer to his employee partly or wholly for personal use, then the amount chargeable to tax under the head salary income shall be computed according to following rules:
   It is worthwhile to mention here that where the motor vehicle provided by employer has only been used for the business purposes then there will be no treatment of the same in the hands of the employee.
   (A) **Partly for personal and business use**
      5% of the cost of vehicle or the fair market value (excluding mark up) at the commencement of the lease where vehicle is taken on lease by employer.
   (B) **For personal use only**
      10% of the cost of vehicle or the fair market value (excluding mark up) at the commencement of lease where vehicle is taken on lease by employer.

**Example**
Following are the details of income of Hamid Sarfraz for the financial year ended June 30, 2016, who is employed with a company as Senior Manager.

<table>
<thead>
<tr>
<th></th>
<th>Salary income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay</td>
<td>Rs. 60,000 per month</td>
</tr>
<tr>
<td>House rent allowance</td>
<td>Rs. 27,000 per month</td>
</tr>
<tr>
<td>Utilities</td>
<td>Rs. 8,000 per month</td>
</tr>
</tbody>
</table>

He was provided with a company maintained car of 800CC. Compute the taxable income of Hamid Sarfraz for the year if.

1. The cost of the car to the company was Rs. 500,000 and car was provided for personal use only.
2. The cost of the car to the company was Rs. 500,000 and car was provided for business use only.
3. The cost of the car to the company was Rs. 500,000 and car was provided partly for personal and partly for business use.
4. The car is acquired by company on lease of Rs.850,000 and the FMV of the car is Rs.500,000 and car was provided for personal use only.

**Solution**

<table>
<thead>
<tr>
<th></th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary (60,000 x 12)</td>
<td>720,000</td>
<td>720,000</td>
<td>720,000</td>
<td>720,000</td>
</tr>
<tr>
<td>House Rent allowance</td>
<td>324,000</td>
<td>324,000</td>
<td>324,000</td>
<td>324,000</td>
</tr>
<tr>
<td>Utilities (8,000 x 12)</td>
<td>96,000</td>
<td>96,000</td>
<td>96,000</td>
<td>96,000</td>
</tr>
<tr>
<td>Car provided for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Personal use only (500,000 x 10%)</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Business use only</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- Business and personal use (500,000 x 5%)</td>
<td>-</td>
<td>-</td>
<td>25,000</td>
<td>-</td>
</tr>
<tr>
<td>- Personal use only (500,000 x 10%)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td>1,190,000</td>
<td>1,140,000</td>
<td>1,165,000</td>
<td>1,190,000</td>
</tr>
</tbody>
</table>
Notes:
1. Nothing is included in taxable income when conveyance is provided for business use only.
2. In cases of lease, FMV shall be used.

**Conveyance allowance:** Amount received as conveyance allowance (other than car) in cash shall be totally taxable and shall be included in the salary income of the employee.

**Important note:** It is worthwhile to mention here that where the motor vehicle provided by employer has only been used for the business purposes then there will be no treatment of the same in the hands of the employee.

**Example:** Following are the details of income of Hamid for the financial year ended June 30, 2016, who is employed with a company as Senior Manager.

**Salary income**
- Pay: Rs. 60,000 per month
- House rent allowance: Rs. 27,000 per month
- Utilities: Rs. 8,000 per month

He was provided conveyance allowance of Rs. 50,000 for a year. No car is provided by the employer. Compute the taxable income and tax liability of Hamid for the Tax year 2016.

**Solution:**
- Salary: \(60,000 \times 12 = 720,000\)
- House Rent allowance: \(27,000 \times 12 = 324,000\)
- Utilities: \(8,000 \times 12 = 96,000\)
- Conveyance: 50,000
- Taxable Income: \(1,190,000\)

**Tax Liability under normal rates:**
\[14,500 + 10\% \times (1,190,000 – 750,000)] = 58,500

7.2 **Salaries of servants provided by employer Rule 3 [U/s 13(5)]**
Salaries of housekeeper, gardener, driver or other servants of employee paid by the employer in the tax year for services rendered by such persons for the employee shall be included in the salary income of the employee.

7.3 **Utilities provided by employer [U/s 13(6)]**
The amount of utilities such as telephone facility provided by an employer then the fair market value of utilities shall be included in the salary of the employee. Utilities benefit may be provided by employer free or at concessional rate or utility allowance in cash.

7.4 **Actual amount waived off or obligation discharged by employer on behalf of the employee [U/s 13(9) & (10)]**
Actual amount waived off and obligation discharged by employer on behalf of employee shall be included in the salary income of the employee.

7.5 **Property is transferred or services are provided by employer [U/s 13(11)]**
Where in a tax year, property is transferred or services are provided by an employer to an employee, the amount included in the salary income of the employee shall be the fair market value of such benefit at the date of transfer or providing of services:

7.6 **Valuation of Accommodation - Rule-4 [U/s 13(12)]**

1. **Facility of accommodation or Housing**
   Where in the tax year, accommodation or housing is provided by an employer to his employee, the value of such accommodation shall be the amount that would have been paid by the employee if the accommodation was not provided to him.
   
The value of accommodation under this rule shall not be less than from the 45% of minimum of time scale or basic pay where minimum time scale not given.
   
   **Important note:** In short the following meaning may be derived from this rule:

   (a) Firstly compute 45% of minimum of time scale or basic pay (where MTS not given) and 30% in case of Mufasal areas then

   (b) Compute Fair market value of accommodation

First preference to calculation (a) however where calculation in (b) above is more than (a) then the same shall be added in the salary income of the employee.

**Example:** Miss Hira, an employee of HBL as managing director has provided the following details of her expected income and expenses for the year ending June 30, 2016.
Basic Salary Rs. 1,800,000 per year
Dearness allowance 10% of basic salary
Bonus Rs. 50,000
Conveyance allowance Rs. 50,000
Leave fare assistance Rs. 60,000

The company disbursed on July 1, 2015 to her, Rs. 3 million interest free loan to be recovered from the final dues on retirement.

Company has paid Rs. 850,000 as annual rent for the accommodation provided to Managing Director.

She has been provided with a company maintained car for business and personal use. The purchase price of the car is Rs. 12 million. The company also pays salary to official driver @ Rs. 8,000 per month. You are required to compute her taxable income and tax thereon and show all workings and assumptions.

Solution:

Hira (resident)
Computation of the income and tax liability thereon
For the tax year 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Salary</td>
<td>Rs. 1,800,000</td>
</tr>
<tr>
<td>Dearness allowance</td>
<td>180,000</td>
</tr>
<tr>
<td>Bonus</td>
<td>50,000</td>
</tr>
<tr>
<td>Conveyance allowance</td>
<td>50,000</td>
</tr>
<tr>
<td>Leave fare assistance</td>
<td>60,000</td>
</tr>
<tr>
<td>Interest fee loan</td>
<td>300,000</td>
</tr>
<tr>
<td>Accommodation for house:</td>
<td></td>
</tr>
<tr>
<td>Higher of 45% of basic salary or</td>
<td></td>
</tr>
<tr>
<td>fair market value</td>
<td></td>
</tr>
<tr>
<td>45% of basic salary</td>
<td>850,000</td>
</tr>
<tr>
<td>Car</td>
<td>600,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>Rs. 3,890,000</td>
</tr>
</tbody>
</table>

Tax Liability under normal case:

\[
\text{Tax Liability} = 472,000 + 25% \times (3,890,000 - 3,500,000) = 569,500
\]

Note: There will be no treatment of salary of official driver @ Rs. 8,000 per month paid by the Company as it was for the discharge of official performance.

(2) Treatment of House rent allowance:

Any amount provided as house rent allowance (other than accommodation provided by the employer) in cash, the total amount shall be taxable and shall be included in the salary income of the employee.

Example: Following are the details of income of Mr. Afzal for the financial year ended June 30, 2016, who is employed with a company as Senior Manager.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay</td>
<td>Rs. 60,000</td>
</tr>
<tr>
<td>House rent allowance</td>
<td>27,000</td>
</tr>
<tr>
<td>Utilities</td>
<td>Rs. 8,000</td>
</tr>
</tbody>
</table>

He was provided conveyance allowance of Rs. 50,000 for a year. No car is provided by the employer. Compute the taxable income and tax liability of Mr. Afzal for the Tax year 2016.

Solution:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>60,000 x 12</td>
</tr>
<tr>
<td>House Rent allowance</td>
<td>27,000 x 12</td>
</tr>
<tr>
<td>Utilities</td>
<td>8,000 x 12</td>
</tr>
<tr>
<td>Conveyance</td>
<td>50,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>1,190,000</td>
</tr>
</tbody>
</table>

Tax Liability under normal rates:

\[
\text{Tax Liability} = 14,500 + 10\% \times (1,190,000 - 750,000) = 58,500
\]

7.7 Treatment of any other perquisite [U/s [13(13)]]

Where any other perquisite not covered in section 12 is provided by an employer to an employee, the value of such perquisite at fair value (excluding employee cost to acquire such benefit) shall be included in the salary income of the employee.

Conceptual Approach to Taxes
7.8 **Loan from employer to employee on or after 01-07-2002 [u/s 13(7)]**

Where a loan is made, by an employer to an employee either interest free or at concessional rate, the amount to be included in the salary shall be computed according to the table given below:

<table>
<thead>
<tr>
<th>Loan provided at:</th>
<th>Amount to be included in the salary of the employee:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest free loan, or no profit on interest is charged</td>
<td>Interest computed at benchmark rate.</td>
</tr>
<tr>
<td>0%, less than the benchmark rate, equal to benchmark rate.</td>
<td>Interest computed at benchmark rate, less actual amount paid by employee on account of loan.</td>
</tr>
<tr>
<td>Higher than the benchmark rate OR Amount of loan is Rs. 500,000 or less than Rs. 500,000.</td>
<td>Nothing shall be included.</td>
</tr>
</tbody>
</table>

The benchmark rate in tax year 2003 was 5% p.a. (with 1% increase in each following tax year and in 2012 it was 14% p.a. as defined in section 12(14). From tax year 2013 to onwards benchmark rate has been capped at 10%.

**However, with effect from tax year 2011** such benefit shall not be taxable in cases where such benefit is extended by the employer due to the waiver of interest by such employee on his accounts (e.g. provident fund etc) maintained with the employer.

**Example:** Inam is an employee in a group of companies. He derived following income during the income year July 1, 2015 to June 30, 2016.

<table>
<thead>
<tr>
<th>Salary income per month</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Basic salary</td>
<td>Rs. 20,000</td>
</tr>
<tr>
<td>(ii) House rent allowance</td>
<td>Rs. 8,000</td>
</tr>
<tr>
<td>(iii) Utility allowance</td>
<td>Rs. 1,000</td>
</tr>
</tbody>
</table>

He is provided with a 1,000CC car, which is partly used for company’s business (Cost of car is Rs. 1,000,000). He has also obtained loan from the employer. Calculate his taxable income in the following cases:

- **a)** Amount of loan is Rs. 500,000 and interest charged by the employer is 7% p.a.
- **b)** Amount of loan is Rs. 600,000 and interest charged by the employer is 0% p.a.
- **c)** Amount of loan is Rs. 600,000 and interest charged by the employer is 6% p.a.
- **d)** Amount of loan is Rs. 600,000 and interest charged by the employer is 11% p.a.

**Solution:**

<table>
<thead>
<tr>
<th>Computation of taxable income</th>
<th>Case (a)</th>
<th>Case (b)</th>
<th>Case (c)</th>
<th>Case (d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary (20,000 x 12)</td>
<td>240,000</td>
<td>240,000</td>
<td>240,000</td>
<td>240,000</td>
</tr>
<tr>
<td>House rent allowance (8,000 x 12)</td>
<td>96,000</td>
<td>96,000</td>
<td>96,000</td>
<td>96,000</td>
</tr>
<tr>
<td>Utility allowance (1,000 x 12)</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Company car benefit (Rs.1,000,000 x 5%)</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Interest free loan (Note 1)</td>
<td>-</td>
<td>60,000</td>
<td>24,000</td>
<td>-</td>
</tr>
<tr>
<td>Taxable income</td>
<td>398,000</td>
<td>458,000</td>
<td>422,000</td>
<td>398,000</td>
</tr>
</tbody>
</table>

**Note 1: (Interest free loan)**

- **Case a:**
  When the amount of loan is Rs. 500,000 or less, nothing shall be included in taxable income.

- **Case b:**
  Interest calculated at bench mark rate shall be included in taxable income i.e. 600,000 x 10%.

- **Case c:**
  Amount to be included in taxable income is calculated as follows:

  - Interest at bench mark rate (600,000 x 10%) | 60,000 |
  - Amount to be included in taxable income    | 24,000 |

- **Case d:**
  When interest rate is higher than benchmark rate, nothing shall be included in taxable income.
7.9 **Loan for the acquisition of asset or property [U/s 13(8)]**

Where the employee uses a loan obtained from his employer for the acquisition of any asset or property producing income chargeable to tax under any head of income, (it is considered that an amount of interest equal to benchmark rate on this loan is paid). Deduction provided against this loan is provided as follows:

1. Where the loan is interest free or interest is charged at lower than the benchmark rate, the amount equal to benchmark rate shall be allowed as deduction to employee against income from such asset.

2. If the interest charged at rate higher than benchmark rate, total amount of interest charged shall be allowed as deduction against income from such asset.

**Example:**

Mr. Zahid is an employee of ABC Textiles Limited. His taxable salary income for tax year 2016 is Rs. 800,000. On 1st July, 2015 he acquired loan of Rs. 600,000 (at 8% interest rate) from his employer. Compute his taxable income for tax year 2016 in following situations:

a. Loan used for purchase of plot against which he received ground rent of Rs. 400,000 by letting out the same under 99 years lease agreement.

b. Loan used for purchase of house. He received rent of Rs. 400,000 by letting out this house.

c. Assume that the interest rate charged by employer is 20%. Loan used for purchase of plot against which he received ground rent of Rs. 400,000 by letting out the same under 99 year lease agreement.

**Solution:**

<table>
<thead>
<tr>
<th></th>
<th>Case (a)</th>
<th>Case (b)</th>
<th>Case (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income from salary:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable salary (given)</td>
<td>800,000</td>
<td>800,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Add: 2% of loan of Rs.600,000 as income of the employee</td>
<td>12,000</td>
<td>12,000</td>
<td>-</td>
</tr>
<tr>
<td>Income from salary</td>
<td>812,000</td>
<td>812,000</td>
<td>800,000</td>
</tr>
</tbody>
</table>

| **Income from other sources:** | | | |
| Income from open plot as ground rent | 400,000 | - | 400,000 |
| Less: Interest on loan | (60,000) | - | (120,000) |
| Higher of actual interest paid or interest at benchmark rate | 340,000 | - | 280,000 |

| **Income from property:** | | | |
| Rent of house | - | 400,000 | - |
| (Property income is chargeable to tax under normal tax regime (NTR) and deductions are also allowable against income from property hence, in this case, 1/5th repair allowance and interest shall be deducted.) | (80,000) | (60,000) |
| Less 1/5th fixed repair allowance | | | |
| Mark up on loan | - | 260,000 | - |
| Net property income | | | |
| Taxable income | 1,152,000 | 1,072,000 | 1,080,000 |

8. **Employee share schemes [U/s 14]**

"**Employee share scheme**" means any agreement or arrangement under which a company may issue shares in the company to an employee of the company or an employee of an associated company or the trustee of a trust or an employee of an associated company.

**Right or option to acquire shares [U/s 14(1)]:**

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 because no benefit in the form of salary shall be received by the employee unless disposal of right or option.

**Example:** Explain the taxability of the following under the head salary with reference to employee’s share schemes.

(a) Grant of an option
(b) Exercise of an option granted in prior year
**Solution:**

(a) Nothing shall be included in his salary income until disposal off option.

(b) The exercise of an option granted in prior year is chargeable to tax under the employee share scheme as the difference between the FMV of the shares less consideration given by the employee for purchase of shares and the cost of acquisition of right.

**Disposal of right or option to acquire shares [U/s 14(5)]:**

Where an employee disposes off 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 as under:

<table>
<thead>
<tr>
<th>Consideration received for the disposal of the right or option</th>
<th>xxx</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Cost of right or option</td>
<td>xxx</td>
</tr>
</tbody>
</table>

If balance is positive then add the same in salary income however if the answer is negative then the same shall be ignored because deduction of expenses against salary are not allowable.

**Shares issued without limitation or restriction [U/s 14(2)]:**

Where an employee is issued 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 at the date of issue, as reduced by any consideration given by the employee for the shares including amount if any given for the grant of a right or option to acquire the shares.

**Shares issued subject to limitation or restriction [U/s 14(3)]:**

If shares issued to an employee under an employee share scheme are with restriction on the transfer of shares

(a) no amount shall be chargeable to tax to the employee under the head "Salary" until the earlier of the time the employee has a free right to transfer the shares or disposes off 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 off the shares, as reduced by any consideration given by the employee for the shares including amount if any given for the grant of a right or option to acquire the shares.

**Cost of shares [U/s 14(4)]:**

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;
(b) the consideration, if any, given by the employee for the grant of any right or option to acquire the shares; and
(c) the amount chargeable to tax under the head "Salary".

**Example:** Mr. Kamran was issued shares under employee share scheme on July 01, 2015. Information regarding this is given below:

- FMV of shares on date of issue Rs. 50,000
- FMV of shares on June 30, 2016 Rs. 60,000
- FMV of shares on January 01, 2016 Rs. 55,000
- Amount paid by him for shares Rs. 30,000
- Amount paid by him for right Rs. 1,000

He disposed of all the shares on June 30, 2016.

**Required:** Calculate the incomes chargeable to tax under the heads "income from salary" and "capital gain" in the following cases:

(a) Shares were issued without any restriction on transfer
(b) Shares were issued with restriction that shares cannot be transferred before January 01, 2016

**Solution:**

<table>
<thead>
<tr>
<th>Case (a)</th>
<th>Case (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.</td>
<td>Rs.</td>
</tr>
</tbody>
</table>

**Income from salary**

FMV of shares (Note 1) 50,000 55,000
Less: Amount paid for:

<table>
<thead>
<tr>
<th></th>
<th>Case (a)</th>
<th>Case (b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Right</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>31,000</td>
<td>31,000</td>
</tr>
</tbody>
</table>

Amount chargeable to tax under the head "Income from salary" 19,000 24,000
Capital gain

Higher of FMV or actual amount received against shares at disposal time (Note 2)  
Less: cost of shares:
- Amount paid for shares and right (calculated above)  
- Amount taxable under head salary (calculated above)

<table>
<thead>
<tr>
<th></th>
<th>60,000</th>
<th>60,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital gain</td>
<td>10,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

**Note 1:**

**Case (a)** As shares were issued without any restriction on transfer, FMV on issue date shall be taken into account.

**Case (b)** As shares were issued with restriction on transfer, FMV on the date the employee has free right to transfer the shares shall be taken into account.

**Note 2:** In case of employee share scheme FMV at the time of disposal shall be taken into account and the same shall not be compared with actual consideration received.

**Retirement benefits**

Retirement benefits available to taxpayer are as follows:
- Gratuity (treated as pay)
- Super-annuation Fund (treated as Profit in lieu of or in addition to salary)
- Provident fund (treated as Profit in lieu of or in addition to salary)

**Gratuity**

Gratuity is a sum which is paid at the discontinuation of the employment to the employee computed by applying the total number of years of service of the employee with the determined/agreed amount of salary. Gratuity conditional exemptions are as under:

**Clause 13 Part I, 2nd Schedule to the Income Tax Ordinance, 2001:**

Any income representing any payment received by way of gratuity or commutation of pension by an employee on his retirement or, in the event of his death, by his heirs as does not exceed:

(i) in the case of an employee of the Government, a Local Government, a statutory body or corporation established by any law for the time being in force, the amount receivable in accordance with the rules and conditions of the employee’s services;

(ii) any amount receivable from any gratuity fund approved by the Commissioner in accordance with the rules in Part III of the Sixth Schedule;

(iii) in the case of any other employee, the amount not exceeding Rs.200,000 receivable under any scheme applicable to all employees of the employer and approved by the Board for the purposes of this sub-clause; and

(iv) in the case of any employee to whom sub-clause (i), (ii) and (iii) do not apply, 50% of the amount receivable or Rs.75,000, whichever is the less:

Provided that nothing in this sub-clause shall apply -

(a) to any payment which is not received in Pakistan;

(b) to any payment received from a company by a director of such company who is not a regular employee of such company;

(c) to any payment received by an employee who is not a resident individual and to any gratuity received by an employee who has already received any gratuity from the same or any other employer.

CBR vide its Circular No. 17 of 1959 and Circular No. 16 of 1967 provided the option to a taxpayer to be assessed at the rates applicable for the current year or at the average rate of tax of his last three years income.

The following further instructions are also attached with this option:

1. Where average rate for last 3 years worked out at Nil, then no tax would be payable by the said taxpayer.

2. Where the employee was taxable in 3 preceding years but due to his absence from Pakistan, he was not charged to tax, gratuity received by him will be taxed at the average rate of tax at which he would have been liable if he was a resident person in 3 preceding years.

3. Gratuity income will be ignored at the time of computation of taxable income of a deceased person, however the same may be added to the income of his legal heirs as “income from other sources”.

*Conceptual Approach to Taxes*
Example:
ABC Ltd. has paid gratuity amounting to Rs. 1,075,000 to Mr. A in addition to the taxable salary of Rs.2,500,000 in the tax year 2016. The past 3 years assessed tax results of his assessment are as under:

<table>
<thead>
<tr>
<th>Tax year</th>
<th>Taxable income</th>
<th>Tax Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,800,000</td>
<td>177,800</td>
</tr>
<tr>
<td>2014</td>
<td>2,400,000</td>
<td>435,600</td>
</tr>
<tr>
<td>2013</td>
<td>1,400,000</td>
<td>155,628</td>
</tr>
</tbody>
</table>

The ABC Ltd. maintains an unapproved gratuity Fund. Mr. A is interested to know the different options available to him for taxation of gratuity.

Solution:

Option No. 1  Taxation under Normal Manner:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Salary</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Gratuity (Rs.1,075,000 – 75,000) (Lower of Rs.75,000 or 50% of Rs.1,075,000)</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Taxable income</td>
<td>3,500,000</td>
</tr>
</tbody>
</table>

Tax on Rs. 3,500,000 \[359,500 + 22.5% \times (3,500,000 - 3,000,000)] = 472,000

Option No. 2  Taxation under Average rate of last 3 years income

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Taxable income as computed above (without gratuity received)</th>
<th>2,500,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on salary</td>
<td>Tax on Rs. 2,500,000 [137,000 + 17.5% \times (2,500,000 - 1,800,000)] = 259,500</td>
<td></td>
</tr>
<tr>
<td>Tax on (1,075,000 less Rs. 75,000) Rs. 1,000,000 x 769,028 / 5,600,000</td>
<td>N-1 137,326</td>
<td></td>
</tr>
<tr>
<td>Total tax</td>
<td></td>
<td>396,826</td>
</tr>
</tbody>
</table>

N-1 Determination of average rates of tax

<table>
<thead>
<tr>
<th>Tax year</th>
<th>Taxable income</th>
<th>Tax liability (say)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,800,000</td>
<td>177,800</td>
</tr>
<tr>
<td>2014</td>
<td>2,400,000</td>
<td>435,600</td>
</tr>
<tr>
<td>2013</td>
<td>1,400,000</td>
<td>155,628</td>
</tr>
<tr>
<td>Total</td>
<td>5,600,000</td>
<td>769,028</td>
</tr>
</tbody>
</table>

Note: Tax under option 2 is lower than the option 1 hence it is more beneficial to opt for the said arrangements.

Pension

Pension received is exempt under clause 8, 9, 12, 13, 16 & 17 Part I Second Schedule to the Ordinance subject to certain exceptions. Gratuity & commutation of pension both enjoys exemption under clause13 of Part I Second Schedule to the Ordinance as discussed it the preceding Para. However, a taxpayer receiving pension has not been allowed any option for taxation at average rate of last three years income. The most important feature of these payments is that the most of pensions are exempt from levy of tax.

The various exemptions in addition to clause 13 are as under:

<table>
<thead>
<tr>
<th>Under clause</th>
<th>Particulars</th>
<th>Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Pension received by citizen of Pakistan.</td>
<td>Citizen of Pakistan from a former employer, other than where the person continues to work for the employer (or an associate of the employer). Provided that where the person receives more than one such pension, the exemption applies only to the higher of the pensions received.</td>
</tr>
<tr>
<td>9</td>
<td>Pension of Govt. &amp; Armed forces employees.</td>
<td>Received in respect of services rendered by a member of the Armed Forces of Pakistan or Federal Government or a Provincial Government; Granted under the relevant rules to the families and dependents of public servants or members of the Armed Forces of Pakistan who die during service.</td>
</tr>
<tr>
<td>12</td>
<td>Commutation of pension from Govt. or under any pension scheme approved by FBR.</td>
<td>Payment in the nature of commutation of commutation of pension received from Government or under any scheme approved by the Board for the purpose of this clause</td>
</tr>
<tr>
<td>13</td>
<td>Gratuity &amp; commutation of pension from</td>
<td>As discuss above in gratuity</td>
</tr>
<tr>
<td></td>
<td>- recognised fund</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- un recognised fund</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- scheme approved by FBR</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- other than above</td>
<td></td>
</tr>
<tr>
<td>16 &amp; 17</td>
<td>Pension &amp; income of dependent of Armed forces &amp; civil forces. (Exemptions u/c 16 and 17 are not directly related to salaried persons)</td>
<td>Families and dependent of the &quot;Shaheeds&quot; belonging to Pakistan Armed Forces &amp; Civil Armed Forces of Pakistan from the (a) Special family pension (b) Dependents pension &amp; (c) Children's allowance</td>
</tr>
</tbody>
</table>

**Annuities**

Annuities or any supplement to annuity are taxable as salary even it is paid voluntarily without any contractual obligation of the present or ex-employer. All the annuities are taxable in the normal manner as clause (20) of Part I of 2nd Schedule has been **omitted from tax year 2016**.

However the tax credit aspect on the annuities is discussed under section 63 of the Ordinance where the same has been allowed on the contributed or premium paid on a contract of annuities. The said tax credit is discussed in detail in the chapter of tax credits.

**Superannuation fund**

The income from the superannuation fund is taxable to the extent of employer’s contribution and the interest credited thereon under the following Clause:

**Clause 25 Part I, 2nd Schedule to the Income Tax Ordinance, 2001:**

Any payment from an approved superannuation fund made on the death of a beneficiary or in lieu of or in commutation of any annuity, or by way of refund of conditions on the death of a beneficiary.

The plain reading of the aforesaid provision of the ordinance clearly shows that taxation of superannuation Fund is totally in the same manner as laid down for the gratuity under clause 13 Part I Second Schedule to the Ordinance.

**Benevolent fund**

Sum paid out of employee Benevolent Fund is taxable in the normal manner, however, clause 24 Part I Second Schedule to the Ordinance deals with the exception to the aforesaid law in the following manner:

Any benevolent grant paid from the Benevolent Fund to the employees or members of their families in accordance with the provisions of the Central Employee Beneficial Fund and Group Insurance Act, 1969.

**Provident fund:**

9. **Introduction:**

From salary of employee, a certain amount is deducted every month on account of provident fund. Employer also contributes the same amount in the provident fund. At the time of retirement of employee, accumulated balance in the provident fund consisting of employee's contribution, employer’s contribution and interest on fund is paid to employee for his benefit.

**Types of Provident Funds:**

There are three types of provident funds

- Provident Fund formed under the Provident Fund Act, 1925.

9.1 **Provident Fund Formed under Provident Fund Act, 1925**

A fund formed under the provisions of the Provident Act, 1925 is also named as Statutory Fund. Such type of fund is generally formed by the Federal Government, Semi Government Institutions and Local Authorities etc.

In this type of fund subscription or deposits of any class or classes of employees are received and held on their individual accounts, and includes any contributions and any interest or increment accruing on such subscriptions, deposits or contributions under the rules of the Fund. (The Provident Funds Act, 1925 Section 2(d))
9.2 Recognized Provident Fund and Unrecognized Provident Fund:

Any provident fund recognized by CIR is called recognized provident fund and if it is not recognized by the CIR, then it is called unrecognized provident fund.

10. Taxation of Provident Fund:

- **Provident Fund Formed under Provident Fund Act, 1925**
  
  Any amount received from Provident fund to which the Provident Funds Act, 1925 applies is fully exempt from tax. [Clause 22 of Part I 2\textsuperscript{nd} Schedule of Income Tax Ordinance, 2001].

- **Recognized Provident Fund under the Income Tax Ordinance, 2001**
  
  In case of recognized provident fund, following shall be included in the income of employee in every tax year [Clause 3 of Part I of sixth Schedule of Income Tax Ordinance, 2001].

  (a) Contributions made by the employer less lower of one-tenth of the salary or Rs.100,000; and

  (b) Interest credited on the balance of provident fund less higher of:

  1. 1/3 of salary (basic salary + dearness allowance); OR
  2. Interest calculated @ 16% p.a. (Reference note attached)

  Although under the aforesaid clause there is no rate of interest has been given however the Federal Government vide its SRO No. 1097(I) 84 dated 27-12-1984 fixed the rate of interest at 16% for the purposes of interest calculation.

  Accumulated balance due and becoming payable to an employee from a recognized provident fund is exempt. [U/c 23 of Part I 2\textsuperscript{nd} Schedule to the Income Tax Ordinance, 2001]

- **Unrecognized Provident Fund under the Income Tax Ordinance, 2001**

  An unrecognised provident fund is the fund which is neither recognised nor statutory. Income of the said provident fund is taxable to the extent defined in section 12(2)(e) which states that:

  from a provident fund 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;

  The following facts are evident from the above:

  (a) The employee contribution (already taxed by including in the employee gross salary income) however interest thereon is totally taxable in the hands of employee.

  (b) No tax shall be charged on amount contributed by the employer and interest thereon because the same are taxable on receipt of accumulated balance due to aforesaid section and non coverage of the same under Clause 23 of Part I 2\textsuperscript{nd} Schedule to the Income tax Ordinance, 2001.

The following table shows the above position of various Provident Funds:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>PF formed under Provident Fund Act, 1925</th>
<th>Recognized Provident Fund</th>
<th>Unrecognized Provident Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee’s contribution</td>
<td>Already included in taxable salary + income of employees</td>
<td>Already included in taxable salary + income of employees</td>
<td>Already included in taxable salary + income of employees</td>
</tr>
<tr>
<td>Employer’s contribution</td>
<td>Exempt under clause 22 of Part I of 2\textsuperscript{nd} Schedule to the Income tax Ordinance, 2001</td>
<td>Employer’s contribution less lower of 1/10\textsuperscript{th} of the salary (Basic pay + dearness allowance) OR Rs. 100,000</td>
<td>Not taxable at the time of contribution</td>
</tr>
<tr>
<td>Interest credited for the year</td>
<td>Exempt under clause 22 of Part I of 2\textsuperscript{nd} Schedule to the Income tax Ordinance, 2001</td>
<td>Interest credited for the year less higher of 1/3\textsuperscript{rd} of the salary (Basic pay + dearness allowance) OR the interest amount computed at 16% p.a.</td>
<td>Not taxable at the time of contribution</td>
</tr>
<tr>
<td>Payment of accumulated balance</td>
<td>Exempt under clause 22 of Part I of 2\textsuperscript{nd} Schedule to the Income tax Ordinance, 2001</td>
<td>Exempt under clause 23 of Part I of 2\textsuperscript{nd} Schedule to the Income tax Ordinance, 2001</td>
<td>Employer’s contribution &amp; interest on accumulated balance (including interest on employee’s contribution) is taxable on receipt.</td>
</tr>
</tbody>
</table>
Important note: There is no treatment of employee's contribution to any provident fund, as tax on the same has already been paid by offering gross salary in his income tax return by the taxpayer.

Example: Aman Ali is an employee of Mano Limited and the amounts provided to her were as follows:

- Basic salary: 250,000
- Dearness allowance: 25,000
- House rent allowance: 80,000
- Conveyance allowance: 50,000
- Employees contribution: 30,000
- Employers contribution: 35,000
- Accumulated balance: 650,000
- Interest credited: 18%

Required: Compute taxable income of Aman Ali according to income tax rules under the following situations.

(a) If all contributions of Provident Fund are in Recognized Provident Fund.
(b) If all contributions of Provident Fund formed under Provident Fund Act, 1925.
(c) If all the contributions of Provident Fund are in Unrecognized Fund.

Solution for case (a):

<table>
<thead>
<tr>
<th>Description</th>
<th>Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic salary</td>
<td>250,000</td>
</tr>
<tr>
<td>Dearness allowance</td>
<td>25,000</td>
</tr>
<tr>
<td>House rent allowance</td>
<td>80,000</td>
</tr>
<tr>
<td>Conveyance allowance</td>
<td>50,000</td>
</tr>
<tr>
<td>Employees contribution (already included in salary)</td>
<td>30,000</td>
</tr>
<tr>
<td>Employers contribution</td>
<td>35,000</td>
</tr>
<tr>
<td>Less: 10% of salary (note attached)</td>
<td>27,500</td>
</tr>
<tr>
<td>Or 100,000 whichever is lower shall be deducted</td>
<td>7,500</td>
</tr>
<tr>
<td>Interest credited</td>
<td>117,000</td>
</tr>
<tr>
<td>Less: interest credited @ 16%</td>
<td>104,000</td>
</tr>
<tr>
<td>Or 1/3rd of salary Rs. 275,000 / 3, hence higher is 16%</td>
<td>13,000</td>
</tr>
<tr>
<td>Amount included in salary income</td>
<td></td>
</tr>
<tr>
<td>Taxable income</td>
<td>425,500</td>
</tr>
</tbody>
</table>

NOTE: Salary for the computation of provident fund is equal to:

Salary = Basic salary 250,000 + dearness allowance 25,000 = 275,000

Solution for case (b) and (c):

The answer in both (b) and (c) shall be same as nothing shall be added where the provident fund is formed under Provident Fund Act, 1925 and in case of (c) the amount to be added in salary income shall be at the time when accumulated balance received related to unrecognized provident fund. Hence taxable income shall be Rs. 405,000 in both (b) and (c) cases that are without provident fund adjustment under the given cases.
<table>
<thead>
<tr>
<th>Geographical source of salary income</th>
<th>Received by</th>
<th>Taxability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Pakistan source salary income</strong> [Section 101]:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| a. Received from any employment exercised in Pakistan, wherever paid, or | Resident / Non-resident individual | • Taxable [Section 11(5) and (6)]
| b. Paid by, or on behalf of, the Federal Government, a Provincial Government, or a Local Government in Pakistan, wherever the employment is exercised | | • In case of non resident the terms of double taxation treaty agreement, if any shall also be relevant for PSI |
| | | [Section 102] Any foreign-source salary received by a resident individual shall be exempt from tax if the individual has paid foreign income tax on such salary or his employer has withheld from the salary and paid to the revenue authority of the foreign country in which the employment was exercised. |
| | | [Section 103] A credit or exemption shall be allowed only if the foreign income tax is paid within 2 years after the end of the tax year in which the foreign income was derived by the resident taxpayer otherwise in the absence of double tax treaty agreement the same shall be taxable in Pakistan. |
| | a. Resident Individual | |
| | b. Non-resident individual | Not taxable [Section 11(6)] |
| **2. Foreign source salary income:** Salary income other than above. | | |
| c. Short term resident [For all foreign source income] | | [Section 50] An individual shall be exempt in respect of his foreign-source income which is not brought / received in Pakistan if he is resident only by reason of his employment and he is present in Pakistan for not exceeding 3 years. |
| d. Returning expatriate [Citizen of Pakistan coming back in Pakistan] [For all foreign source income] | | [Section 51] If an individual citizen of Pakistan (returning expatriate) is resident in the current tax year but was non-resident in the 4 preceding tax years, his foreign-source income shall be exempt in current tax year and in the following tax year. |
| e. Individual leaving Pakistan during the year and remains abroad during that tax year [Citizen of Pakistan leaves Pakistan] | | Exemption for salary income [Section 51] |
## EXEMPTIONS UNDER VARIOUS SECTIONS OF THE INCOME TAX ORDINANCE, 2001

<table>
<thead>
<tr>
<th>SECTION</th>
<th>PARTICULARS OF EXEMPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>42</td>
<td>Diplomatic and United Nations exemptions</td>
</tr>
<tr>
<td>43</td>
<td>Foreign government officials</td>
</tr>
<tr>
<td>44</td>
<td>Exemptions under international agreements</td>
</tr>
<tr>
<td>45</td>
<td>Presidents honours</td>
</tr>
<tr>
<td>47</td>
<td>Scholarships</td>
</tr>
<tr>
<td>50</td>
<td>Foreign source income of short term resident individuals</td>
</tr>
</tbody>
</table>

1. **Diplomatic and United Nations exemptions [42(1) and (2)]**
   
   (1) The income of an individual entitled to privileges under the Diplomatic and Consular Privileges Act, 1972 shall be exempt from tax under this Ordinance to the extent provided for in that Act.
   
   (2) The income of an individual entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948 shall be exempt from tax under this Ordinance to the extent provided for in that Act.

2. **Employee of a foreign government [43]**
   
   Any salary received by an employee of a foreign government as remuneration for services rendered to such government shall be exempt from tax under this Ordinance provided:
   
   (a) the employee is a citizen of the foreign country and not a citizen of Pakistan;
   
   (b) the services performed by the employee are of a character similar to those performed by employees of the Federal Government in foreign countries; and
   
   (c) the foreign government grants a similar exemption to employees of the Federal Government performing similar services in such foreign country.

3. **Exemption under a tax treaty [44(1)]**
   
   Any Pakistan-source income which Pakistan is not permitted to tax under a tax treaty shall be exempt from tax under this Ordinance.

4. **Salary income under an aid agreement [44(2)]**
   
   Any salary received by an individual (not being a citizen of Pakistan) shall be exempt from tax under this Ordinance to the extent provided for in an Aid Agreement between the Federal Government and a foreign government or public international organization, where:
   
   (a) the individual is either not a resident individual or a resident individual solely by reason of the performance of services under the Aid Agreement;
   
   (b) if the Aid Agreement is with a foreign country, the individual is a citizen of that country; and
   
   (c) the salary is paid by the foreign government or public international organization out of funds or grants released as aid to Pakistan in pursuance of such Agreement.

5. **Allowances attached to honours, awards, etc. [45]**
   
   Any allowance attached to any Honour, Award, or Medal awarded to a person by the President of Pakistan shall be exempt from tax under this Ordinance.

6. **Scholarships [47]**
   
   Any scholarship granted to a person to meet the cost of the person's education shall be exempt from tax under this Ordinance, other than where the scholarship is paid directly or indirectly by an associate.

7. **Income of short-term residents [50]**
   
   (1) Subject to sub-section (2), the foreign-source income of an individual -
   
   (a) who is a resident individual solely by reason of the individual's employment; and
   
   (b) who is present in Pakistan for a period or periods not exceeding three years, shall be exempt from tax under this Ordinance.
   
   (2) This section shall not apply to -
   
   (a) any income derived from a business of the person established in Pakistan; or
   
   (b) any foreign-source income brought into or received in Pakistan by the person.
EXEMPTIONS OF TOTAL INCOME UNDER PART I OF SECOND SCHEDULE TO THE INCOME TAX ORDINANCE, 2001

<table>
<thead>
<tr>
<th>CLAUSE</th>
<th>PARTICULARS OF EXEMPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Salary of employees of Institutions of Agha Khan Development Network, (Pakistan)</td>
</tr>
<tr>
<td>4</td>
<td>Salary of employee of Pakistani seafarer working on a foreign vessel</td>
</tr>
<tr>
<td>5</td>
<td>Allowances and perquisites of Govt. employees posted abroad</td>
</tr>
<tr>
<td>8</td>
<td>Pension</td>
</tr>
<tr>
<td>9</td>
<td>Pension of Govt. and Armed forces employees</td>
</tr>
<tr>
<td>12</td>
<td>Commutation of pension</td>
</tr>
<tr>
<td>13</td>
<td>Gratuity</td>
</tr>
<tr>
<td>16</td>
<td>Pension to dependents of Armed Forces Shaheeds</td>
</tr>
<tr>
<td>19</td>
<td>Encashment of leave preparatory to retirement</td>
</tr>
<tr>
<td>20</td>
<td>Exemption omitted from tax year 2016</td>
</tr>
<tr>
<td>22 TO 26</td>
<td>Funds</td>
</tr>
<tr>
<td>39 &amp; 40</td>
<td>Special allowance</td>
</tr>
<tr>
<td>51 TO 56</td>
<td>Different perquisites</td>
</tr>
<tr>
<td>53A</td>
<td>Perquisites by virtue of employment</td>
</tr>
<tr>
<td>139</td>
<td>Medical expenditure by individuals</td>
</tr>
</tbody>
</table>

1. **Exemptions under 2nd Schedule Part I:**
   1.1 **Salary of employees of institutions of Agha Khan Development Network, (Pakistan) – clause 3**
   Any income chargeable under the head "Salary" received by a person who is not a citizen of Pakistan, and engaged as an expert or technical, professional, scientific advisor or consultant or senior management staff by institutions of the Agha Khan Development Network, (Pakistan).

   1.2 **Income of a Pakistani Seafarer – clause 4**
   Any income chargeable under head "Salary" received by a Pakistani seafarer working on a foreign vessel or on Pakistan flag vessels for 183 days or more during a tax year provided that such income is remitted to Pakistan, not later than two months of the relevant income year, through normal banking channels.

   1.3 **Allowances or perquisites to citizen of Pakistan by Government – clause 5**
   Any allowance or perquisite paid or allowed as such outside Pakistan by the Government to a citizen of Pakistan for rendering service outside Pakistan.

   1.4 **Pension Received by a citizen of Pakistani – clause 8 & Pension of Govt. and Armed forces employees – clause 9**
   Already covered above in retirement benefits portion.

   1.5 **Computation of pension – clause 12 & Gratuity or computation of pension on retirement of employee – clause 13**
   Already covered above in retirement benefits portion.

   1.6 **Pension to dependents of Armed Forces Shaheeds – clause 16 & Pension / income of dependents of Civil Armed Forces Shaheeds – clause 17**
   Already covered above in retirement benefits portion.

   1.7 **Leave encashment – clause 19**
   Any sum representing encashment of leave preparatory to retirement of a member of the Armed Forces of Pakistan or an employee of the Federal Government or a Provincial Government.

   1.8 **Annuity – clause 20**
   Exemption omitted from tax year 2016.

   1.9 **Amount received from voluntary pension system – clause 23A**
   The accumulated balance up to 50% received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 at the time of eligible person's -
   (a) retirement; or (b) disability rendering him unable to work; or (c) death by his nominated survivors.

   1.10 **Funds – clause 22 to 26**
   Already covered in above retirement benefits portion.
1.11 **Special allowance – clause 39 and 40**

Any special allowance or benefit or other perquisite to employee under salary income specially granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit other than entertainment or conveyance allowance.

1.12 **Perquisites exemptions to President, Chief of Staff, Provincial Governors and Ministers etc.**

[Clause (51 to 53)]

(1) The perquisite represented by the right of the President of Pakistan, the Provincial Governors and the Chiefs of Staff, Pakistan Armed Forces to occupy free of rent as a place of residence any premises provided by the Government. (51)

(2) The perquisite represented by free conveyance provided and the sumptuary (entertainment) allowance granted by Government to Provincial Governors, the Chiefs of Staff, Pakistan Armed Forces and the Corps Commanders. (52)

(3) The following perquisites and allowances provided or granted by Government to the Ministers of the Federal Government, namely > (53)

(a) rent-free accommodation exceeds 10% of the basic salary of the Ministers concerned;

(b) house-rent allowance paid by Government in lieu of rent-free accommodation in so far as it exceeds Rs. 550 per month:

(c) free conveyance; and

(d) sumptuary allowance.

1.13 **Residency and perquisites exemptions to Honourable Judges [Clause (55 and 56)]**

Under clause (55) The perquisites represented by the right of a judge of the Supreme Court of Pakistan or of a judge of High Court to occupy free of rent as a place of residence any premises provided by Federal or Provincial Government, as the case may be, or in case a judge chooses to resident in a house not provided by Government, so much of income which represents the sum paid to him as house rent allowance.

- **Under clause (56)** The following perquisites, benefits and allowances received by a Judge of Supreme Court of Pakistan and Judge of High Court, shall be exempt from tax.

(a) Perquisites and benefits derived from use of official car maintained at Government expenses-

(b) Superior judicial allowance payable to a Judge of Supreme Court of Pakistan and Judge of a High Court.

(c) Transfer allowance payable to a Judge of High Court.

**The following perquisites of the Judge of Supreme Court of Pakistan or High Court shall also be exempt from tax during service, and on or after retirement.**

(a) The services of a driver and an orderly.

(b) 1000 (one thousand) free local telephone calls per month.

(c) 1000 units of electricity as well as (25 hm3 of gas) per month and free supply of water; and

(d) 200 liters of petrol per month.

(e) If during service, a judge dies, exemption from tax in respect of benefits and perquisites provided to widow as mentioned in sub-clause (2) shall also be available.

1.14 **Perquisites by virtue of employment - clause 53A**

The following perquisites received by an employee by virtue of his employment, namely:-

(i) free or subsidized food provided by hotels & restaurants to its employees during duty hours;

(ii) free or subsidized education provided by an educational institution to the children of its employees;

(iii) free or subsidized medical treatment provided by a hospital or a clinic to its employees; and

(iv) any other perquisite or benefit for which the employer does not have to bear any marginal cost, as notified by the Board.

1.15 **Medical treatment or reimbursement received and Medical allowance – clause 139**

Full amount is exempt for benefit given as free medical treatment or hospitalization or both by an employer to his employee or reimbursement received by the employee of the medical charges or hospital charges or both, where such provision or reimbursement is in accordance with the terms of employment:

Provided that NTN of the hospital or clinic is given and the employer also certifies and attests the medical or hospital bills; or

Any medical allowance received by an employee, (if free medical treatment or hospitalization or reimbursement of medical or hospitalization charges is not provided) then 10% of the basic salary of the employee is exempt.
MULTIPLE CHOICE QUESTIONS

Q.1 The income received by an employee from --------- employer is treated as salary income
   (a) Present
   (b) Past
   (c) Future or
   (d) All of the above

Q.2 Benchmark rate of interest on loan provided by the employee to his employer in tax year 2015 is: _________
   (a) 1%
   (b) 5%
   (c) 8%
   (d) 10% or
   (e) none of the above

Q.3 The value of any right or option to acquire shares is __________.
   (a) Chargeable to tax
   (b) Chargeable at a concessional rate
   (c) Not chargeable to tax or
   (d) None of the above

Q.4 An amount required as compensation on termination of employment is a __________.
   (a) Perquisite
   (b) Profit in addition to salary
   (c) Work conditions supplements or
   (d) None of the above

Q.5 Salary income is chargeable to tax on ________
   (a) Accrual basis
   (b) Actual receipt basis or
   (c) Both (a) and (b)

Q.6 Salary income is chargeable to tax at the rates specified in the ________ schedule to the ITO, 2001.
   (a) First
   (b) Second
   (c) Third or
   (d) Fourth

Q.7 In case an employee receive shares from a company under the employee share scheme the cost of shares would be ________
   (a) Face value
   (b) Price paid by employee
   (c) Fair market value or
   (d) None of the above

Q.8 In case of rent free accommodation the amount to be included in the salary income of the employee is ________
   (a) FM value of rent
   (b) 45% of basic salary
   (c) Lower of FMR or 45% of basic salary or
   (d) Higher of FMR or 45% of basic salary

Q.9 In case of conveyance provided by the employer to his employee for business use, amount to be included in salary is ________
   (a) 10% of FMV of car
   (b) 5% of cost of car
(c) Higher of cost or FMR or
(d) None of the above

Q.10 Where an employee has a salary income with bonus, the bonus received shall be __________ salary income:
(a) Included in
(b) Excluded from
(c) Ignored for

Q.11 In case of rent free accommodation, amount to be included in the salary income of the employee is __________.
(a) 10% of basic salary
(b) 20% of basic salary
(c) 25% of basic salary
(d) 45% of basic salary

Q.12 The amount expended by the employer on leave fare assistance is included in the salary income of the employee __________.
(a) Whole
(b) Half
(c) Proportionate
(d) None of these

Q.13 An employee is entitled to deduct ________ incurred in deriving salary income.
(a) travelling expenses
(b) personal expenses
(c) entertainment expenses
(d) None of above

Q.14 House rent allowance provided by employer to his employees is _______.
(a) taxable
(b) not taxable
(c) exempt up to 45% of basic salary
(d) none of the above

Q.15 Tax free salary paid to an employee will be included in the ________ of the employee.
(a) business income
(b) tax payable
(c) salary
(d) income from other sources

Q.16 An amount of perquisite is treated as received by an employee if it is paid _______.
(a) to him
(b) applied on his behalf
(c) to any person on his behalf
(d) all of above

Q.17 Entertainment allowance for official performance received by the employee is _______.
(a) exempt
(b) taxable
(c) 50% exempt
(d) 80% taxable

Q.18 The option available to an employee in respect of salary ________ shall be exercised in writing.
(a) received in arrears
(b) for the current year
(c) to be received in next year
Q.19 The utilities provided by the employer to his employee are chargeable to tax under the head ________ of employee.
(a) Income from salary
(b) Other sources
(c) Income from business
(d) Income from utilities

Q.20 Gross salary consists of ________.
(a) basic salary
(b) perquisites
(c) profit in lieu of or addition to salary
(d) all of the above

Q.21 When the employer charges a _____ interest rate than the benchmark rate, then nothing shall be included in the salary income of the employee.
(a) higher
(b) lower
(c) equal
(d) both ‘a’ or ‘c’

Q.22 Under “employee share scheme” shares can only be issued to the ______ of the company.
(a) employees
(b) directors
(c) shareholders
(d) chief executive

Q.23 The right or option given to an employee ________.
(a) is always free of cost
(b) is chargeable to tax as business income
(c) is chargeable to tax as property income
(d) none of above

Q.24 An employee may be a person who is engaged in __________.
(a) employment
(b) business
(c) trading
(d) all of above

Q.25 If the insurance premium of the employee paid by the employer then it should be included in the _____ income of the employee.
(a) business income
(b) salary income
(c) property income
(d) insurance income

Q.26 In case of the self-hiring of the property, it has ____ effect(s) under the law on the income of the recipient.
(a) one
(b) two
(c) three
(d) no

Q.27 In case of golden handshake, employee has option to offer the amount of golden handshake as ________.
(a) SBI under NTR
Q.28 The Commissioner Inland Revenue is empowered to charge tax on the salary income of the employee of a private limited Company on _______ basis where he has reason to believe that the salary income has not been deliberately been deferred.

(a) cash  
(b) accrual  
(c) tax  
(d) accounting

Q.29 A salaried person income is taxable @ 0%, if his / her annual income is equal or less than _______.

(a) 1,000,000  
(b) 350,000  
(c) 400,000  
(d) 500,000

Q.30 Commission paid to a part time employee director is chargeable to tax under the head ______ of such director.

(a) salary income  
(b) commission income  
(c) property income  
(d) all of above

Q.31 Any amount payable by employee to employer that has been waived of by the employer is _______ in the hands of the employee.

(a) not taxable  
(b) taxable  
(c) exempt  
(d) all of above

<table>
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<tr>
<th></th>
<th>(d)</th>
<th>2</th>
<th>(e)</th>
<th>3</th>
<th>(c)</th>
<th>4</th>
<th>(d)</th>
<th>5</th>
<th>(b)</th>
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</tbody>
</table>
ICMAP PAST PAPERS THEORECTICAL QUESTIONS

Q. No. 3(c) September 2013 An employer having established approved superannuation funds is required to contribute annually to the funds on a reasonable basis. However, there is a certain limitations which have been specified under rule 110 of the Income Tax Rules, 2002 on the initial and annual contribution to the aforesaid funds.

Required:
Identify those limits and the procedures for payment of contribution by the employer beyond the specified limits.

Q. No. 3(c) February 2013 Mr. Rafiq wants to calculate his tax liability of income from salary. Being his tax advisor, explain perquisites and allowances regarding 'valuation of accommodation' as per rule 4 of the Income Tax Rules, 2002.

Q.2 (b) April 2012 Section 13 of the Income Tax Ordinance, 2001 deals with the valuation of perquisites provided by an employer for the purposes of computing the income of an employee for a tax year chargeable to tax under the head salary. How the following perquisites shall be treated?

(i) Services of a housekeeper, driver, gardener, or other domestic assistant.
(ii) Utilities provided by employer.
(iii) Obligation of an employee to repay an amount owing by employee to another person is paid by the employer.
(iv) Loan made to the employee by the employer with no profit payable or the profit payable is less than benchmark rate.

Q. NO. 2(b)(i) SUMMER 2011 To whom a company may issue shares of the company under “employee share scheme”?

Q. NO. 3(c)(i) WINTER 2010 State the Rule 4 of the Income tax Rules, 2002 for valuation of accommodation provided by an employer to the employee for the purpose of computing the income chargeable to tax under the head salary.

Q. NO. 2(b) WINTER 2010 What are the various amounts received by an employee as profit in lieu of or in addition to salary and wages, which would be considered as part of salary?

Q. NO. 2(a) WINTER 2007 An employer may provide medical facility to its employees in any of the following manners:

(i) Free medical treatment or hospitalization.
(ii) Re-imbursement of medical expenses incurred by an employee, and
(iii) Payment of medical allowance instead of providing medical facility

Discuss the legal provisions under the ITO, 2001 under each of the above stated situations.

NOW SOLVE NUMERICAL Q. NO. 2(b) IN PAST PAPER OF WINTER 2007
CA MOD C PAST PAPERS THEORETICAL QUESTIONS

Q.NO.3 Spring 2015 Munir resigned from his employment with Ali Industries Limited (AIL) with effect from 31 December 2014. He received following amounts in final settlement:

- Rs. 150,000 as Leave Encashment.
- Rs. 4,000,000 under a Golden Handshake Scheme.

Munir had received a salary of Rs. 350,000 per month for a period of six months up to December 2014. His taxable income and tax liability during the preceding five tax years were as under:

<table>
<thead>
<tr>
<th>Tax year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total tax paid (Rs)</td>
<td>300,000</td>
<td>392,000</td>
<td>472,500</td>
<td>542,500</td>
<td>650,000</td>
</tr>
<tr>
<td>Total taxable income (Rs)</td>
<td>2,000,000</td>
<td>2,450,000</td>
<td>2,700,000</td>
<td>3,100,000</td>
<td>3,650,000</td>
</tr>
</tbody>
</table>

Required: As a tax consultant, advise Munir about the amount of income tax payable by him for the tax year 2015, under the Income Tax Ordinance, 2001.

Q.NO. 3(a) Autumn 2014 Zaman is working as the Chief Executive Officer in Yasir Limited (YL). Following are the details of sale and purchase relating to his capital assets during the tax year 2014.

(a) Under an employee share scheme, 25,000 shares of YL were allotted to Zaman, on 1 December 2011 for Rs. 25 each. According to the scheme, he was not allowed to sell/transfer the shares before completion of two years from the date of transfer. The face value of each share is Rs. 10 per share. Fair market value of the shares was as follows:

- Rs. 40 per share on 1 December 2011
- Rs. 48 per share on 30 June 2012
- Rs. 55 per share on 30 November 2013
- Rs. 61 per share on 30 June 2014

Required: Compute the amount to be included in the taxable income of Zaman for the tax year 2014.

Q.NO. 3(b) Spring 2008 A company intends to launch an Employee Share Scheme for its employees and for the purpose of educating its employees in this regard, the management wants to prepare a summary containing the taxability of the following:

(i) Option granted to an employee.
(ii) Disposal of the option to acquire shares under the employee share scheme.
(iii) Shares issued to an employee under the option that are subject to restriction on transfer.

Explain the timing and valuation aspects in respect of the above, with reference to the ITO, 2001.

Q.NO. 1(a) Spring 2007 (a) Briefly explain the taxability or exemption of the following allowances or perquisites:

(i) Free passage provided by a transporter to its employees;
(ii) Leased motor vehicle provided to an employee, exclusively for his personal use. Running and maintenance cost and driver’s salary is also borne by the employer.
(iii) Medical allowance paid at 10 percent of basic salary.

Q. NO. 7(a) Spring 2006 Mr. Ahmed is a senior executive of a company and has opted for an ‘Employee Share Scheme’, announced by the company. As per the scheme, the shares are compulsorily retained in a Trust and time of free right to transfer has not arrived. However, the shares have been issued and he enjoys all rights of ownership. During the retention period, he has received dividends and bonus shares.

Comment on the chargeability of income tax on dividends and bonus shares received by him.

Q.NO.8 Autumn 2005 A nationalized bank after privatization has announced a Golden Hand Shake Scheme for its employees under which lump sum payments are proposed to be made to employees who opt for the scheme.

Discuss the chargeability of above amounts in the hands of employees.

Q.9 April 1995 Indicate which of the following income is exempt whether fully or partly:

i. Casual receipts of non-recurring nature;
ii. Not chargeable to income from business, profession,
iii. Capital gains and salary
iv. Salary income of a foreign diplomat
v. Balance payable to an employee from Provident Fund
vi. Special Allowance to meet certain expenses in the performance of official duties
vii. Sum paid to an employee for meeting gas, water and electricity charges
viii. Salary income of a working woman
x. Compensation on termination of employee's services

**Autumn 1994 Q.9** Answer the following statements considering the keys given therein:

Amount received from an approved Gratuity Fund is exempt to the extent of:

- a) Rs. 200,000
- b) Rs. 75,000
- c) Whole amount.

**NOW SOLVE FOLLOWING NUMERICAL QUESTIONS OF MODULE C / AFC PAST PAPER RELATED TO THIS TOPIC**

Q. NO. 1 AUTUMN 2013
Q. NO. 1 AUTUMN 2007
Q. NO. 2(B) AUTUMN 2006
Q. NO. 2 AUTUMN 2005
Q. NO. 2 SPRING 2004
Q. NO. 2 AUTUMN 2003
Q. NO. 7 SPRING 2003
Q. NO. 7(B) AUTUMN 2002
Q. NO. 7 AUTUMN 2001