Overview of Finance Act 2012

WITH SPECIAL REFERENCE TO SALARIED INDIVIDULALS

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This Memorandum summarizes the area wise significant changes approved in the Finance Act 2012 relating to Income Tax with special reference to salaried individuals. For considering the precise impact of a particular change, reference should be made to the specific wordings in the relevant statute.

All changes in the Finance Act 2012 are effective July 1, 2012 i.e. Tax Year 2013. The Finance Act 2012 have been approved by the National Assembly and endorsed by the President of Pakistan. They should, therefore, not generally be acted upon without obtaining appropriate advice.

The Memorandum has been prepared exclusively for the use of our clients and staff, based on information available with us till the time of giving it for circulation.

The memorandum can also be accessed on our website www.hrsglobal.com

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TAX RATES FOR SALARIED INDIVIDUALS

[Clause (1A) of Division I of Part I of the First Schedule]

The Act substituted the tax applicable to income under the head 'salary'. The tax rates, effective tax year 2013, are as under:

S. No.	Taxable Income	Rate
	Amount in PKR	
1.	Where taxable income does not exceeds 400,000	0%
2.	Where the taxable income exceeds 400,000 but does not exceeds 750 ,000	5% of the amount exceeding 400,000
3.	Where the taxable income exceeds 750,000 but does not exceeds 1,500 ,000	17500 + 10% of amount exceeding Rs.750,000
4.	Where the taxable income exceeds 1,500 ,000 but does not exceeds 2,000,000	95,000 + 15% of amount exceeding Rs.1,500,000
5.	Where the taxable income exceeds 2,000,000 but does not exceeds 2,500 ,000	175,000 + 17.5% of amount exceeding Rs. 2,000,000
6.	Where the taxable income exceeds 2,500,000	420,000 + 20% of amount exceeding 2,500,000.

The significant changes, apart from variation in rates, are:

- The basic exemption is proposed to be increased from Rs 350,000 per annum to Rs 400,000 per annum;
- There would only be six slabs as against seventeen slabs currently provided for. It is pertinent to mention here that the Finance Bill 2012 proposed 05 slabs which subsequently changed to 06 upon recommendations from Federal Board of Revenue.
- The tax liability would be determined on progressive basis as against on the basis of flat rate under the currently applicable provisions. However, the concept of progression is not fully implemented as in 03 of the 06 blocks the calculation of tax amount differ specially in the 6th slab where the supposedly carried forward amount has a substantial variation.
- The highest rate of 20 per cent would apply on income exceeding Rs 2,500,000 per annum, whereas, this rate currently applies to income exceeding Rs 4,550,000 per annum.

Being shifted to progressive slab rates, although the provisions of 'marginal relief' would continue to apply on individuals deriving income from salary, however, the same should not have any significant impact.

The change in effective incidence of tax liability under the amended law, when compared with existing provisions (without marginal relief), have been demonstrated below:

No.	Taxable Income	Existing Tax Liability	Proposed Tax Liability	Benefit	Benefit in % Term
			Amount in PKR		
1	400,000	6,000	-	6,000	100%
2	600,000	27,000	10,000	17,000	63%
3	800,000	60,000	22,500	37,500	63%
4	1,000,000	90,000	42,500	47,500	53%
5	1,200,000	120,000	62,500	57,500	48%
6	1,400,000	154,000	82,500	71,500	46%
7	1,600,000	200,000	110,000	90,000	45%
8	1,800,000	252,000	140,000	112,000	44%
9	2,000,000	300,000	170,000	130,000	43%
10	2,200,000	330,000	210,000	120,000	36%
11	2,400,000	384,000	245,000	139,000	36%
12	2,600,000	416,000	440,000	(24,000)	-6%
13	2,800,000	448,000	480,000	(32,000)	-7%
14	3,000,000	525,000	520,000	5,000	1%
15	3,200,000	560,000	560,000	-	0%
16	3,400,000	595,000	600,000	(5,000)	-1%
17	3,600,000	666,000	640,000	26,000	4%
18	3,800,000	703,000	680,000	23,000	3%
19	4,000,000	740,000	720,000	20,000	3%
20	4,200,000	777,000	760,000	17,000	2%
21	4,400,000	814,000	800,000	14,000	2%
22	4,600,000	920,000	840,000	80,000	9%

23	5,000,000	1,000,000	920,000	80,000	8%
24	5,500,000	1,100,000	1,020,000	80,000	7%
25	6,000,000	1,200,000	1,120,000	80,000	7%
26	7,500,000	1,500,000	1,420,000	80,000	5%

The above table clearly depicts anomalies to the individuals having taxable income ranging between PKR 2.5 million to PKR 3.4 million. In our opinion the matter will be reviewed by FBR and we might receive a rectification later on. However, until such intimation the individual taxation will take place based on the above rates mentioned herein.

LOAN GIVEN BY EMPLOYER

[Section 13(7) and 13(14)]

The variance between the interests, if any, payable by an employee on a loan from employer and interest computable on such loan at "benchmark rate" is considered as "perquisite" taxable in the hands of the said employee. The applicable "benchmark rate" is subject to maximum limit of the related rate notified by the Federal Government. However, the aforesaid difference is not subject to tax in the hands of the employee where such employee has waived interest on his account with his employer.

It is approved that loans up to Rs.500,000 obtained by an employee from his employer will not be considered for the purposes of aforesaid "perquisite".

Furthermore, the maximum limit of "benchmark rate" has been restricted to 10 percent for the Tax year 2013 from as against 14 percent in Tax year 2012.

TAX CREDIT FOR INVESTMENT IN SHARES AND INSURANCE

[Section 62]

Until the Tax Year 2012 a taxpayer, other than a company deriving income under the head 'salary' or 'income from business, is entitled to a tax credit either on:

- Investment in new shares offered to public by a public company listed on a stock exchange in Pakistan or shares acquired from Privatization Commission of Pakistan. **Investment in Mutual Funds is also covered in this section as the definition of "shares" under the Income Tax Ordinance 2001 includes "units" or**

- Any life insurance premium paid to an insurance company registered with the Securities and Exchange Commission of Pakistan under the Insurance Ordinance, 2000.

- The tax credit can now be claimed on the lower of:

  - Total cost of either acquiring such shares or insurance premium paid; or

  - 20 per cent of taxpayer's taxable income as against 15 per cent in Tax Year 2012; or

  - Rs 1,000,000 as against existing Rs 500,000.

Tax credit availed on above stated shares (not on Insurance Premium) will be added back to Taxable Income, if such shares are disposed off within 24 months of acquisition thereof as against 36 months presently.

CASH WITHDRAWAL FROM A BANK

[Section 231A]

The amendment enhances the aggregate cash withdrawals limit to Rs.50,000 from existing Rs 25,000 in a day from a bank account. The rate of withholding tax will remain at 0.2 per cent of cash withdrawn.