ATHAR
BUSINESS
CONSULTING

Filing of Income Tax Return and Wealth Statement for salaried individual

MR. SHARIF UDDIN
KHILJI, FCA

Tax Year 2018

AUGUST 30, 2018
6:00 PM TO 9:00 PM
ICAP, AUDITORIUM, G-10/4 ISLAMABAD

Persons liable to file Income Tax Return u/s 114 of ITO 2001

- Every company;
- Every person (other than a company) whose taxable income for the year exceeds the maximum amount that is not chargeable to tax under this Ordinance for the year;
- Any non-profit organization as defined in clause (36) of section 2;
- any welfare institution approved under clause (58) of Part I of the Second Schedule;
- any person not mentioned above who

✓has been charged to tax in respect of any of the two preceding tax years

✓claims a loss carried forward under this Ordinance for a tax year

✓owns immovable property with a land area of two hundred and fifty square yards or more or owns any flat

- ✓owns immoveable property with a land area of five hundred square yards or more located in a rating area
- ✓owns a flat having covered area of two thousand square feet or more located in a rating area
- ✓owns a motor vehicle having engine capacity above 1000 CC
- ✓has obtained National Tax Number
- ✓is the holder of commercial or industrial connection of connection of electricity where the amount of annual bill exceeds Rs.500,000
- ✓is a resident person registered with any chamber of commerce and industry or any trade or business association or any market committee or any professional body including Pakistan Engineering Council, Pakistan Medical and Dental Council, Pakistan Bar Council or any Provincial Bar Council, Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan
- Every individual whose income under the head 'Income from business' exceeds Rs.300,000 but does not exceed Rs.400,000.

Persons liable to file wealth statement u/s 116

- Every resident taxpayer
- being an individual filing a return of income for any tax year

shall furnish a wealth statement and wealth reconciliation statement for that year along with such return.

Contents of wealth statement: All assets and liabilities.

SALARY INCOME (General rules)

- Taxable on receipt basis.
- No loss adjustment against salary
- Pakistan source, if employment is exercised in Pakistan
- Medical allowance: Exempt up to 10% of basic salary (Fully taxable if provided in addition to medical facility).
- Company maintained car:
  - For official use only: No addition
  - For personal and official use: 5% of Cost or FMV (in case of leased vehicle)
  - For personal use only: 10% of Cost or FMV (in case of leased vehicle)
- Rent free accommodation: Fair market rent or 45% of basis salary, whichever is higher.

SALARY INCOME (General rules)

- Conveyance allowance : Fully taxable
- Interest free loan from employer

✓10% if no interest is charged

✓Differential if rate is less than 10%

✓except for loans not exceeding Rs.1000,000

- Mobile reimbursement from employer : Exempt

Reduction in tax liability available to senior citizen & full time teacher and researcher

50% reduction in tax liability due to disability or senior citizenship

Conditions:

- Age more than 60 years on the first day of the tax year
- holds CNIC for disabled person
- NTR income does not exceed Rs.1 million

Reduction of 40% of tax payable on salary income available to full time teacher or researcher:

- employed in non-profit education/research institution/university recognized by HEC/Govt training and research institution

Deductible Allowance (Allowed as deduction against income).

- Zakat paid under Zakat and Ushr Ordinance 1980
- for profit on debt

✓Entitlement: Every individual

✓For any profit or share in rent or share in appreciation for value of house

✓On loan from a Scheduled bank/NBFC/ Local Government, Provincial Government or a statutory body/Listed company.

✓Utilization: Construction of new house or acquisition of a house

✓Shall not exceed 50% of taxable income and Rs.2 million

Deductible Allowance

- For children education expenses

✓Entitlement: every individual whose taxable income < Rs.1.5 million

✓Allowed at lower of 5% of tuition fee paid, 25% of taxable income for the year and 60,000 multiplied by number of school going children.

- For donation to institutes mentioned in clause 61 e.g. donation paid to Al-Shifa Trust, Shaheed Zulfiqar Ali Bhutto Memorial Awards Society, Shaukat Khanum Memorial Trust, Lahore etc.

Income from Property

- Taxable on accrual basis: Rent received or receivable for a tax year
- Chargeable to tax as separate block in case of individual
- No expense allowed under this head in case of individual
- Rent chargeable to tax

➢ Higher of Actual and Fair Market Rent

➢ Forfeited deposit received under a contract for sale of land or building

➢ Non-adjustable advance: add 1/10th in each tax year for 10 tax years

Capital Gain from disposal of Immoveable property

- Taxable as separate block u/s 37(1A) of Income Tax Ordinance 2001.
- Capital Gain = Consideration – Cost
- Applicable tax rates

Holding period	Applicable tax rates
❑ **For immovable property acquired on or after July 1, 2016**	
Where holding period of immovable property is up to one year.	10%
Where holding period of immovable property is more than or equal to one year but less than two years.	7.5%
Where holding period of immovable property is more than or equal to two years but less than three years.	5%
Where holding period of immovable property is more than three years.	0%
❑ **For immovable property acquired before July 1, 2016**	
Where holding period of immovable property is up to three years.	5%
Where holding period of immovable property is more than three years.	0%

Profit on debt

- Withholding rates for profit on debt

Profit on debt	Rate of withholding tax
Less than Rs.5,000,000	10%
Exceeding Rs.5,000,000 but not exceeding Rs.25,000,000	12.5%
Exceeding Rs.25,000,000	15%

- The tax so deducted will be final tax on profit on debt derived by the individual.

Tax Credits (Reduced from tax payable)

- Section 61-64 tax credits are calculated through a common formula

  A / B * C

- A = tax assessed before allowance of any tax credit under Part X of Chapter III i.e. Tax liability less reduction in tax liability under second schedule (senior citizen, teacher) less foreign tax credit.

- B = Taxable income for the tax year

- C = Lower of the Actual amount, % of taxable income or a fixed amount in these sections

Tax Credits

	Charitable donation (61)	Investment in shares/ sukuk/ life premium (62)	Contribution to voluntary pension scheme (63)	Health Insurance (62A)
Actual amount	Actual amount of donation (fair value of in kind donation) paid	Actual amount of investment or share premium paid whichever is applicable	Actual amount of contribution paid in the year	Actual contriubtion paid
% of taxable income	30% (20% for companies)	20%	20% (see note)	5%
Fixed amount	Not applicable	1,500,000	Not applicable	150,000

Person joining at the age of forty one years or above, till June 30, 2019, additional contribution of 2% per annum for each year of age exceeding forty years but maximum 30% of last year's taxable income.

e.g.

1. Person joins scheme in tax year 2013 at the age of 50 years the contribution allowed is 40%. (20% + 10 yrs * 2% but capped at 30% of last year taxable income

Person joins in 2013 at the age of 58 yrs, allowed 50%. (20% + 18yrs * 2 = 56% but capped at 30% of last year taxable income)

TAX CREDITS – Other Conditions

- **Charitable Donations**
- Paid to approved NPOs or Federal or provincial education inst or hospitals
- Must be paid through normal banking channels-inkind fair value
- **Investment in shares or Insurance Premium - Either**
    - Not allowed for companies and non-residents
    - Investment in new listed shares as original allottee or shares acquired from Privatization Commission
    - Shares must not be disposed before expiry of 24 months from the date of acquisition otherwise the credit received will be added back to the income in the year in which the shares are disposed off
    - Life insurance policy not surrendered in 2 years
- Insurance Premium
    - Payment of life insurance premium only
    - Paid to life insurance company registered with SECP

TAX CREDITS – Other Conditions

- **Contribution to Approved Pension Fund**
  - Individuals only
  - Contribution only to approved funds under Voluntary Pension System Rules 2005
  - Eligible persons only as defined under said rules
- **Health Insurance**
- Allowed to individual against income from salary or income from business
  - Paid to insurance company registered under Ins ord 2000
  - Individual must be resident
  - Individual must be filer

Tax Credits (Reduced from tax payable)

- For tax withheld on Salary u/s 149
- For tax withheld on Profit on Debt u/s 151
- For tax withheld on Rent u/s 155
- For tax withheld on cash withdrawals from bank u/s 231A and 231AA
- For advance tax collected on electricity bill u/s 235
- For advance tax collected on telephone bill u/s 236
- For advance tax collected on domestic air tickets u/s 236 B
- For advance tax collected on international air tickets u/s 236 L
- For advance tax collected on educational fee u/s 236 I

Foreign income and assets statement u/s 116A

- Every resident taxpayer being an individual

✓having foreign income of not less than $10,000; or

✓having foreign assets with a value of not less than $100,000

Shall furnish the foreign income and assets statement.

- Particulars of Foreign income and assets statement:

✓Total foreign assets and liabilities as on the last day of the tax year.

✓Foreign assets transferred during the tax year and consideration received in respect thereof

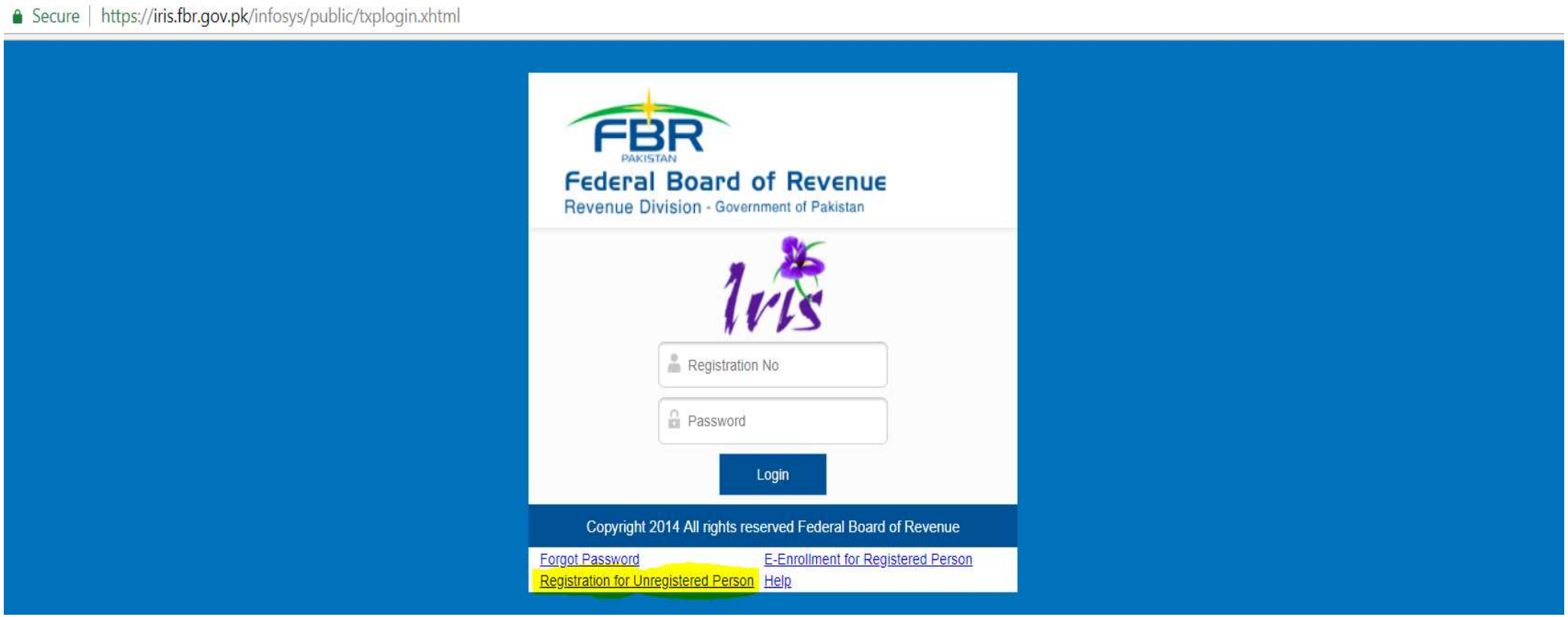
✓Foreign income derived and expenditures incurred during the tax year.

Example: Mr. ABC

- Basic Salary = Rs.100,000 Per month
- Medical allowance = Rs.15,000 per month
- Company maintained car for official and personal use: Cost = Rs.1,000,000
- Rent free accommodation: Rent paid by company = Rs.30,000 per month
- Tax withheld by the employer on salary = Rs.130,000
- Tax withheld on cash withdrawals from bank = Rs.10,000
- Rent received from owned property = Rs.50,000 per month
- Refundable security received from tenant = Rs.100,000
- A plot purchased on August 01, 2016 for a cost of Rs.2,000,000 was sold on May 31, 2018 for Rs.2,500,000.
- Purchases shares on December 01, 2017 through subscribing to IPO of a listed company costing Rs.500,000.
- Profit on debt earned amounts to Rs.200,000. The bank withheld income tax amounting to Rs.20,000 on such income.

Please refer to Handouts Document

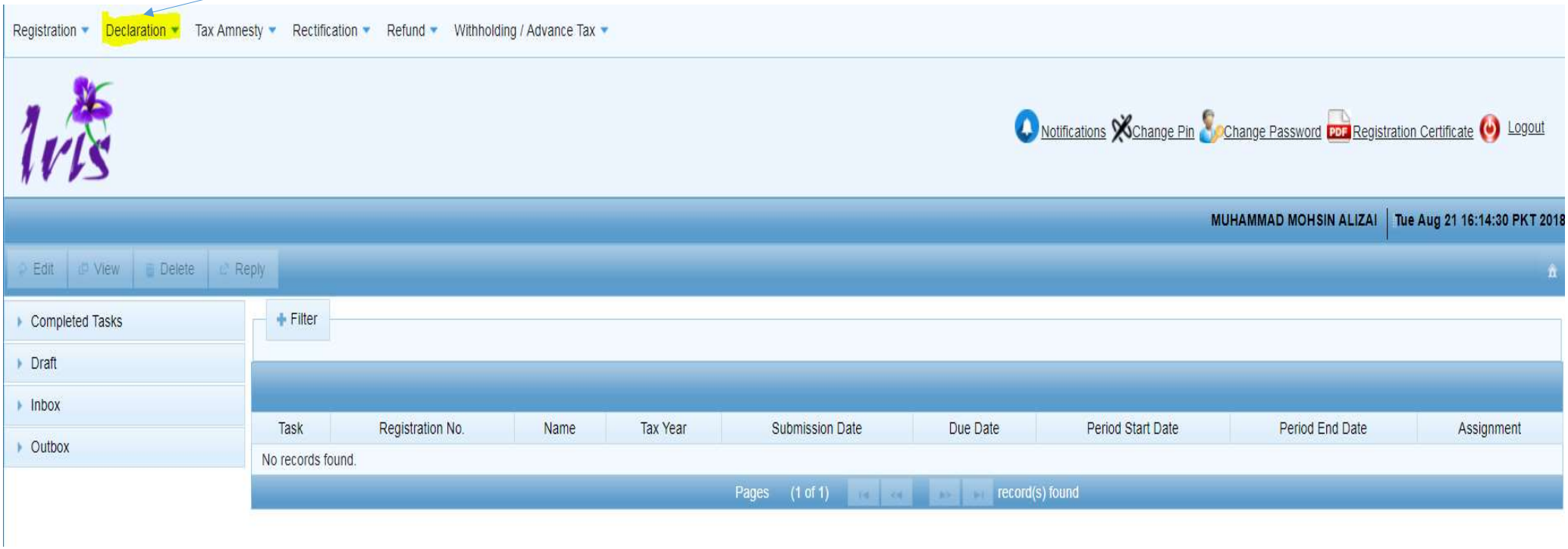
Open “iris.fbr.gov.pk”. If your are not already registered, click on “Registration for Unregistered Person”



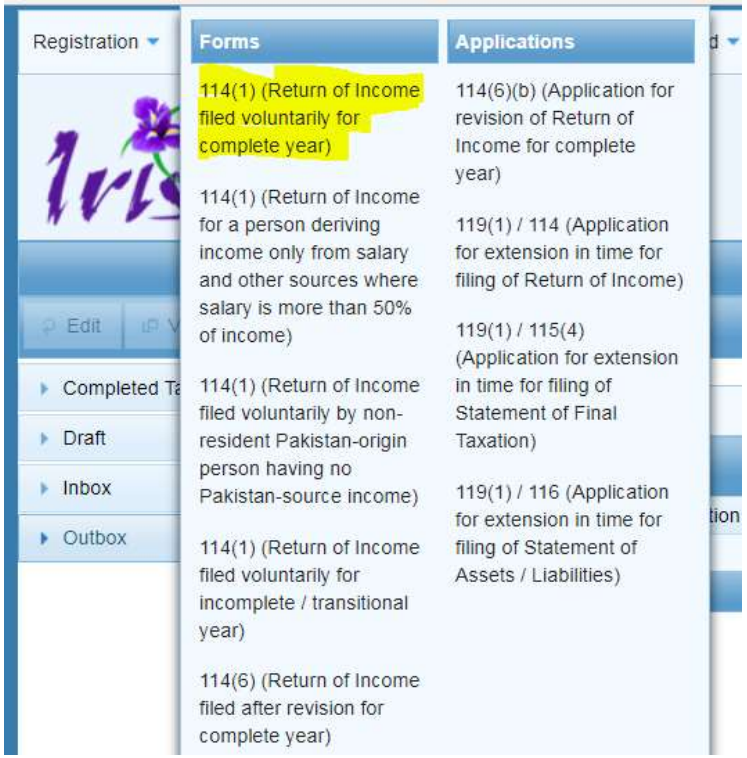
Get yourself registered after entering all details.

Login to “iris.fbr.gov.pk” by entering your registration number and password

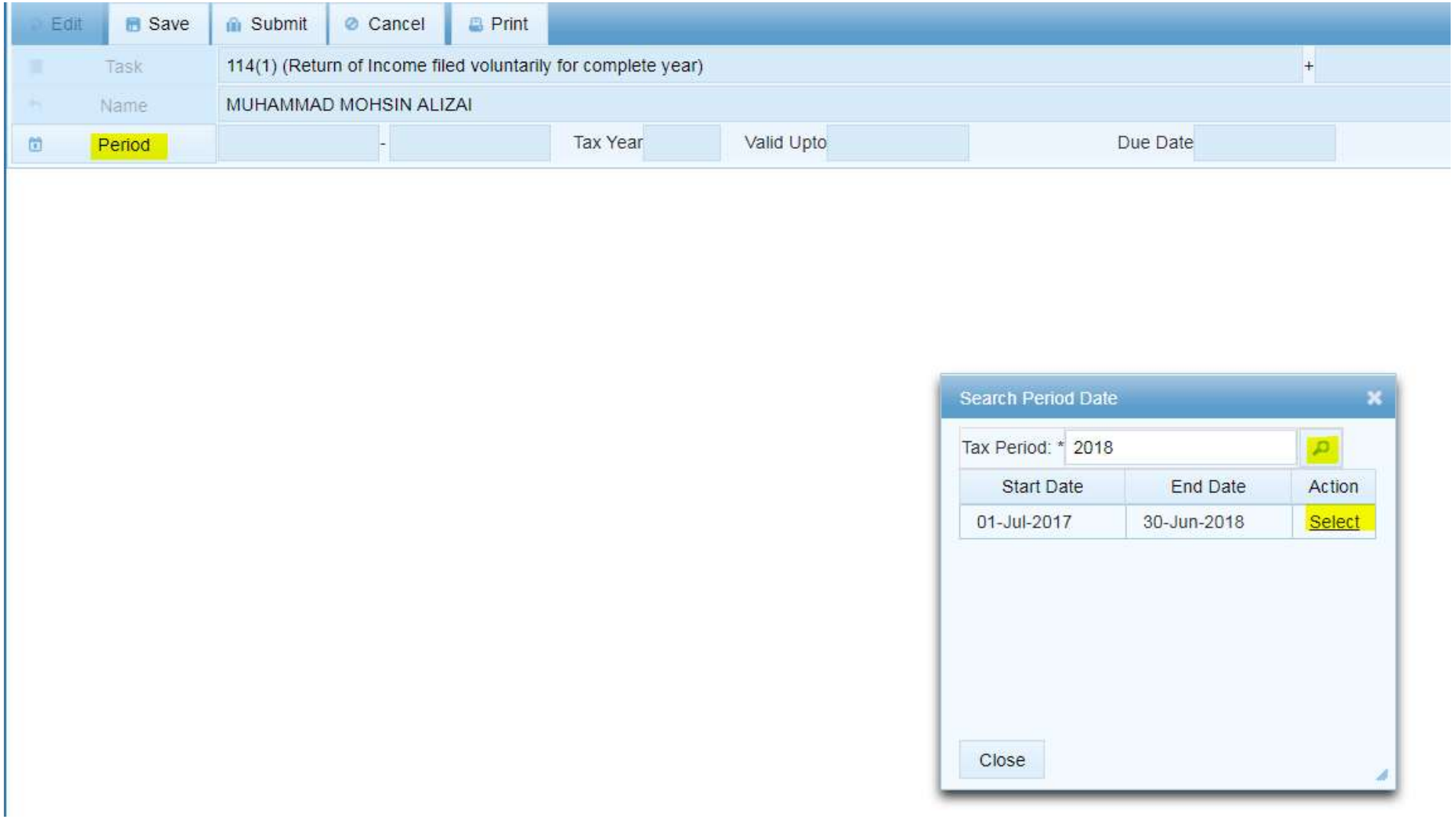
IRIS interface, that appears after login. Click on Declaration.



Select “114(1) (Retune of Income filed voluntarily for complete year)”



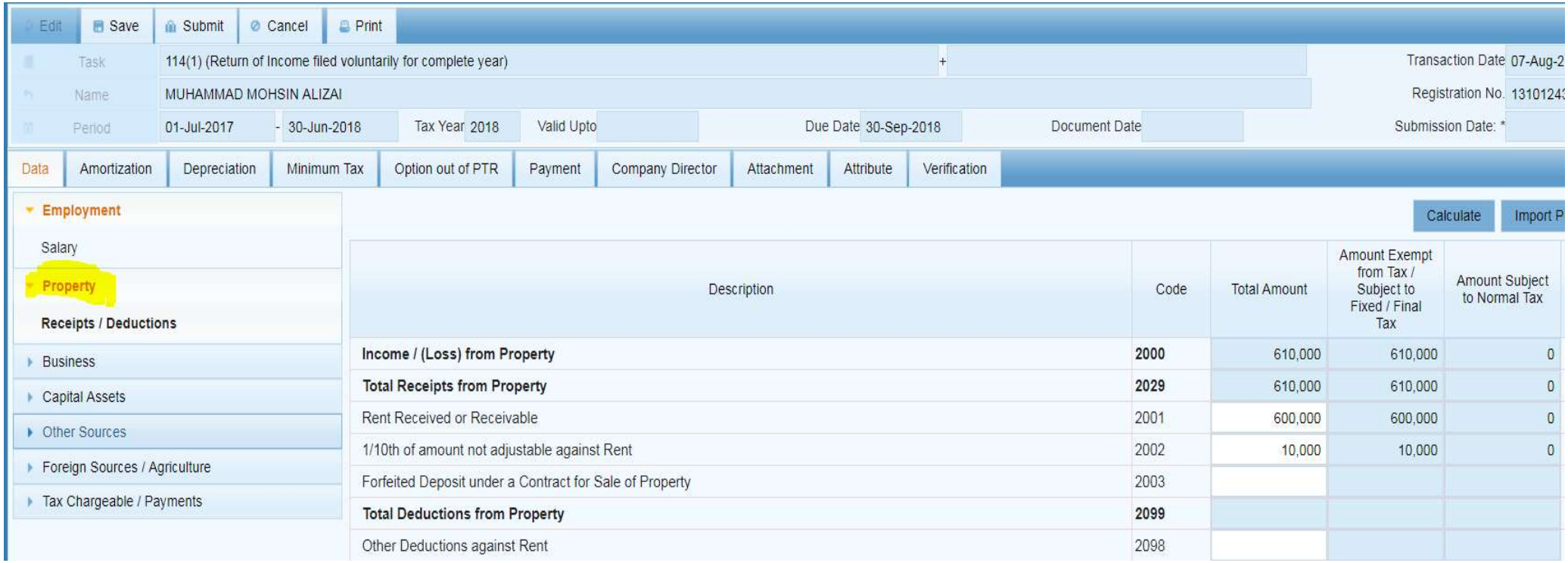
Select tax year after clicking on “Period”



Input details relating to salary income after selecting salary tab. After entering details, click on calculate.

Description	Code	Total Amount	Amount Exempt from Tax / Subject to Fixed / Final Tax	Amount Subject to Normal Tax
Income from Salary	**1000**	1,970,000	120,000	1,850,000
Pay, Wages or Other Remuneration (including Arrears of Salary)	1009	1,200,000		1,200,000
Allowances (including Flying / Submarine Allowance)	1049			
Expenditure Reimbursement	1059			
Value of Perquisites (including Transport Monetization for Civil Servants)	1089	770,000	120,000	650,000
Profits in Lieu of or in Addition to Pay, Wages or Other Remuneration (including Employment Termination Benefits)	1099			

Input details relating to Income from property after selecting property tab



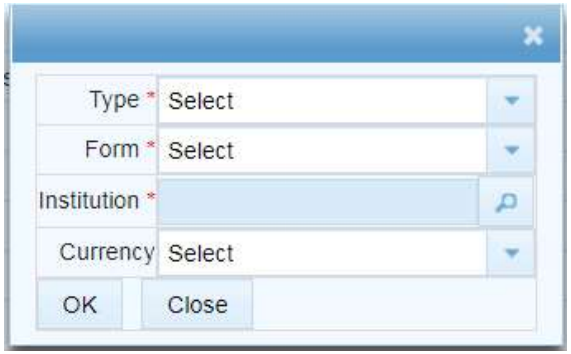
Go to Tax Chargeable / Payments
Select Final/Fixed/Minimum/Average/Relevant/Reduced Tax

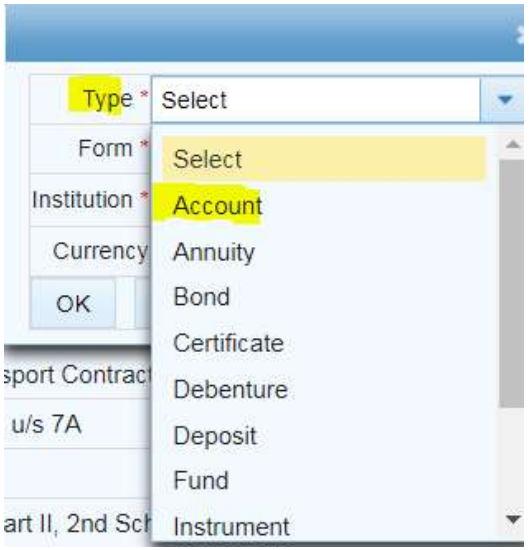
Scroll downwards and input details relating to Capital Gain on Immoveable property in relevant tab. The portal will automatically calculate Capital Gain Tax.

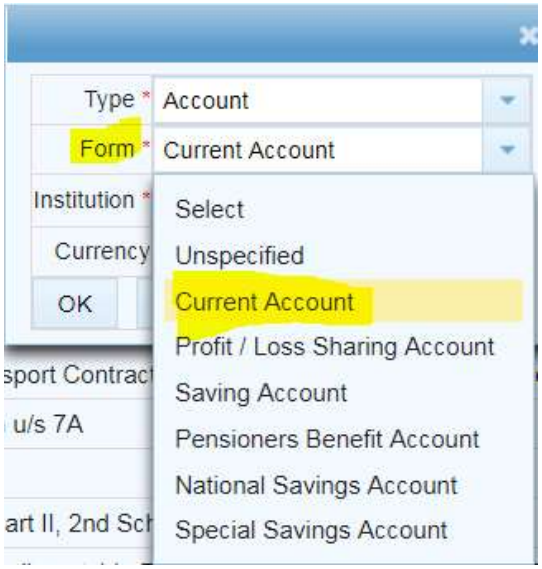
Capital Gains on Immovable Property u/s 37(1A) @0%	64220051			
Capital Gains on Immovable Property u/s 37(1A) @2.5%	64220052			
Capital Gains on Immovable Property u/s 37(1A) @5%	64220053			
Capital Gains on Immovable Property u/s 37(1A) @7.5%	64220054	500,000		37,500
Capital Gains on Immovable Property u/s 37(1A) @10%	64220055			

Click on “+” sign against “Profit on debt u/s 7B”

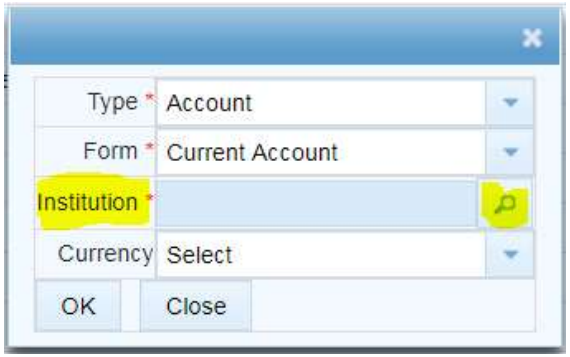
A dialog box will open, select account and its type as below.



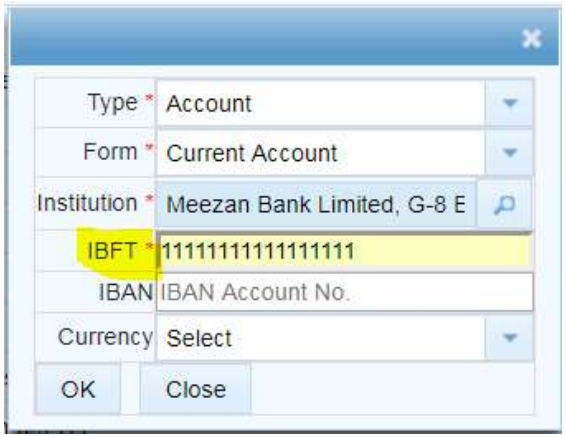




Click on Sign against institute and enter your relevant branch as below.



Finally enter your bank account number and press “OK”



Input details relating to profit on debt (Amount of profit on debt and tax withheld thereon). The portal will automatically apply slab rate and calculate Tax on profit on debt.

Profit on debt u/s 7B	64310056	200,000	20,000	20,000
Profit on debt u/s 7B - 1111111111111111	64310056	200,000	20,000	0

Select “Adjustable Tax” and input tax withheld by employer.

Salary of Federal Government Employees u/s 149	64020001		
Salary of Provincial Government Employees u/s 149	64020002		
Salary of Corporate Sector Employees u/s 149	64020003		
Salary of Other Employees u/s 149	64020004		130,000

Select “Tax Credits” portion and input eligible amount. The portal will automatically calculate tax credit.

Description	Code	Eligible Amount	Ineligible Amount	Tax Credit
Tax Credits	**9329**			29,150
Tax Credit for Charitable Donations u/s 61	9311			
Tax Credit for Investment in Shares, Sukkuks and Life Insurance Premium u/s 62	9312	370,000		29,150

Select “Adjustable Tax” and click on “+” sign against “Cash Withdrawal from Bank u/s 231A”

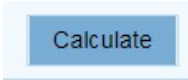
Cash Withdrawal from Bank u/s 231A	64100101					+
Certain Banking Transactions u/s 231AA	64100201					+

A dialog box will appear, input details relating to bank account and click “OK”.

Afterwards enter the amount of tax withheld on cash withdrawals.

Cash Withdrawal from Bank u/s 231A	64100101		
Cash Withdrawal from Bank u/s 231A - 1111111111111111	64100101	0	10,000

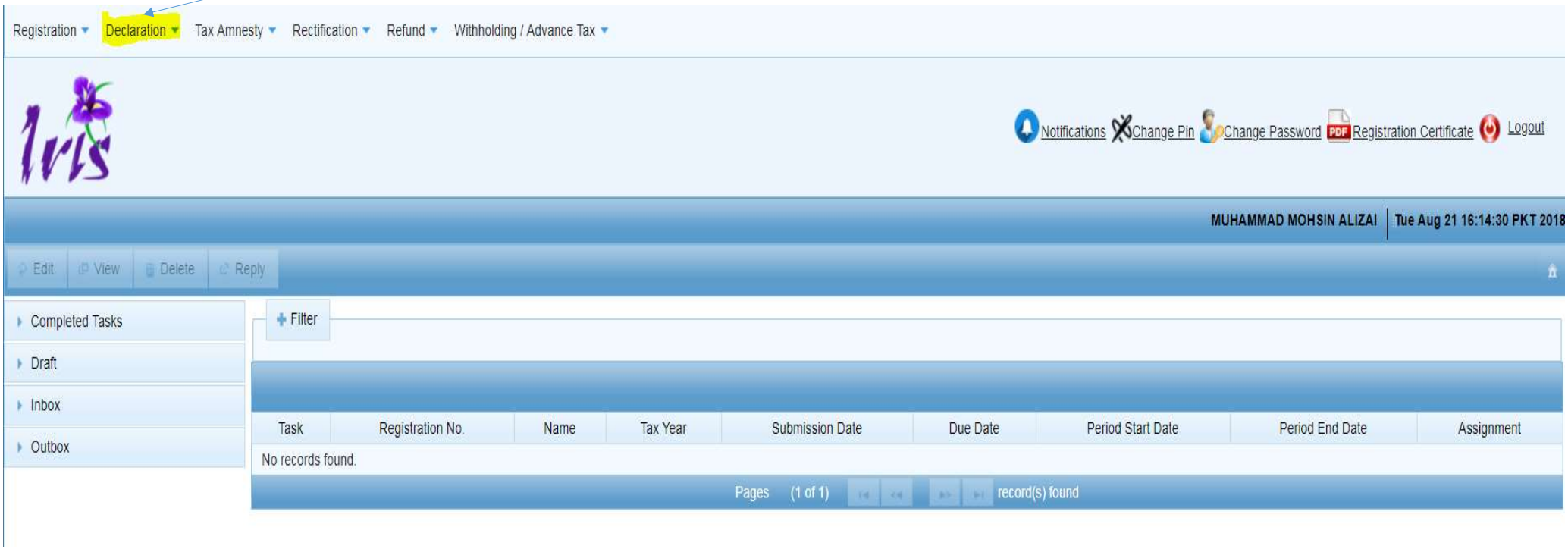
Go to Computation tab and click on calculate.



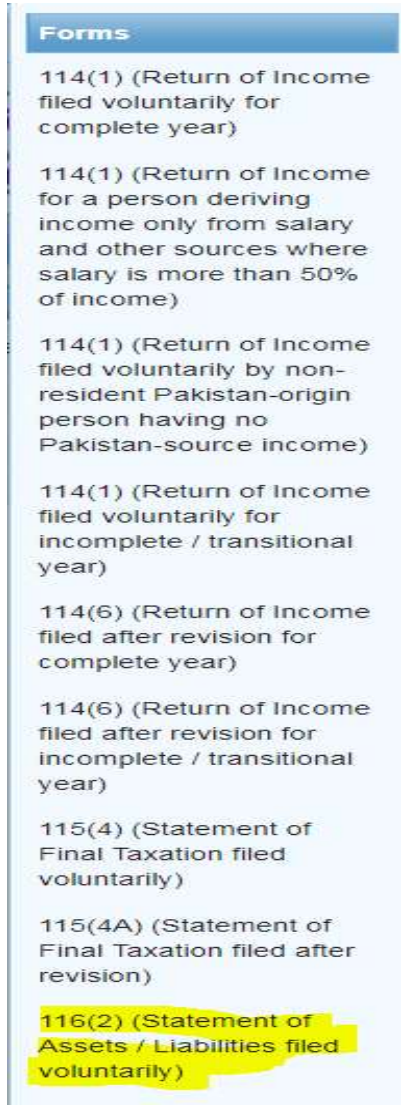
The portal will calculate the amount of tax payable.

Total Income	**9000**			1,850,000
Deductible Allowances	**9009**			
Taxable Income	**9100**			1,850,000
Tax Chargeable	**9200**			195,100
Normal Income Tax	**920000**			145,750
Final / Fixed / Minimum / Average / Relevant / Reduced Income Tax	**920100**			78,500
WWF	**920900**			
Tax Reductions	**9309**			
Tax Credits	**9329**			29,150
Turnover / Tax Chargeable u/s 113 @0.2%	923152			
Turnover / Tax Chargeable u/s 113 @0.25%	923163			
Turnover / Tax Chargeable u/s 113 @0.5%	923155			
Turnover / Tax Chargeable u/s 113 @1.25%	923160			
Income / Super Tax Chargeable	**923181**			
Difference of Minimum Tax Chargeable u/s 236C (2)(Proviso)	**923189**			
Difference of Minimum Tax Chargeable u/s 148(8) / 153(3)(b)	**923192**			
Difference of Minimum Tax Chargeable on Electricity Bill u/s 235	**923193**			
Difference of Minimum Tax Chargeable u/s 113	**923194**			
Adjustment of Minimum Tax Paid u/s 113 in earlier Year(s)	**923198**			
Refund Adjustment of Other Year(s) against Demand of this Year	**92101**			
Withholding Income Tax	**9201**		160,000	
Advance Income Tax	**9202**			
Advance Income Tax u/s 147(A)	**92022**			
Admitted Income Tax	**9203**			35,100

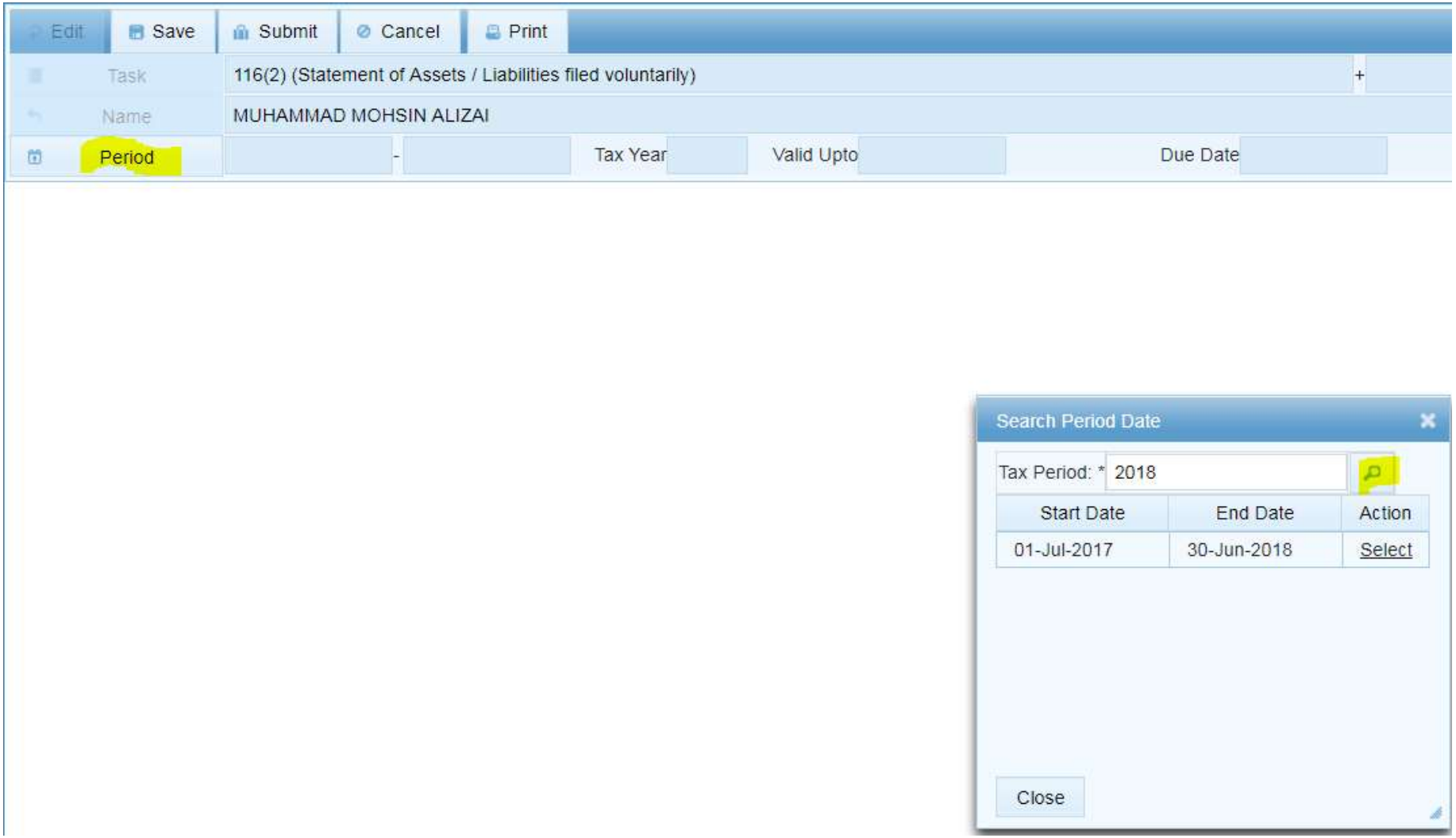
For filing wealth statement, click on Declaration.



Select “116(2) (Statement of Assets/Liabilities filed voluntarily)” for filing Wealth Statement from drop down menu.



Select tax year after clicking on “Period”



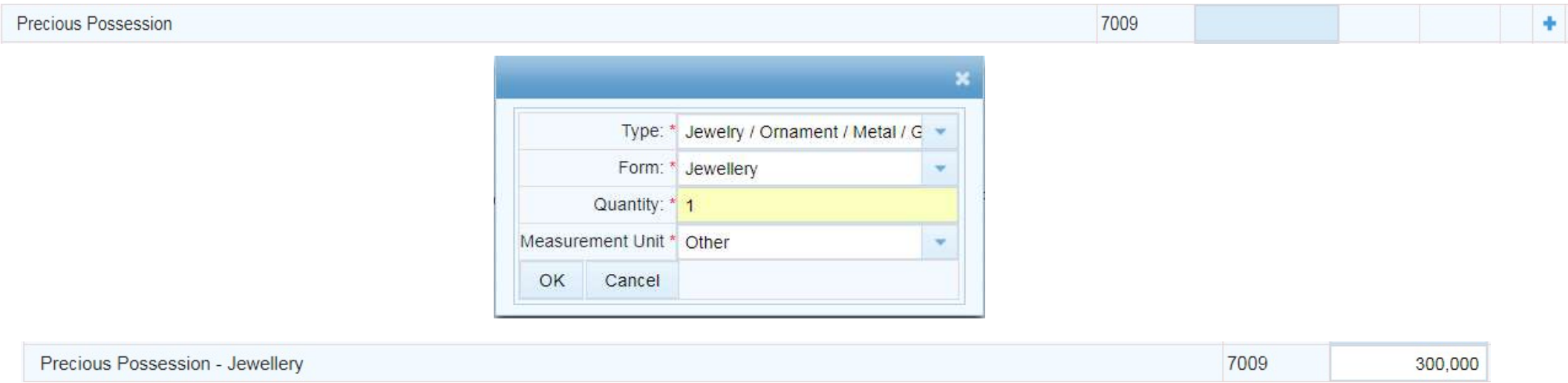
Enter details relating to personal expenses after clicking on Personal Expenses tab.

Description	Code	Amount
Personal Expenses	**7089**	3,670,850
Rent	7051	
Rates / Taxes / Charge / Cess	7052	
Vehicle Running / Maintenence	7055	500,000
Travelling	7056	
Electricity	7058	600,000
Water	7059	
Gas	7060	400,000
Telephone	7061	200,000
Asset Insurance / Security	7066	
Medical	7070	
Educational	7071	
Club	7072	
Functions / Gatherings	7073	
Donation, Zakat, Annuity, Profit on Debt, Life Insurance Premium, etc.	7076	
Other Personal / Household Expenses	7087	1,970,850

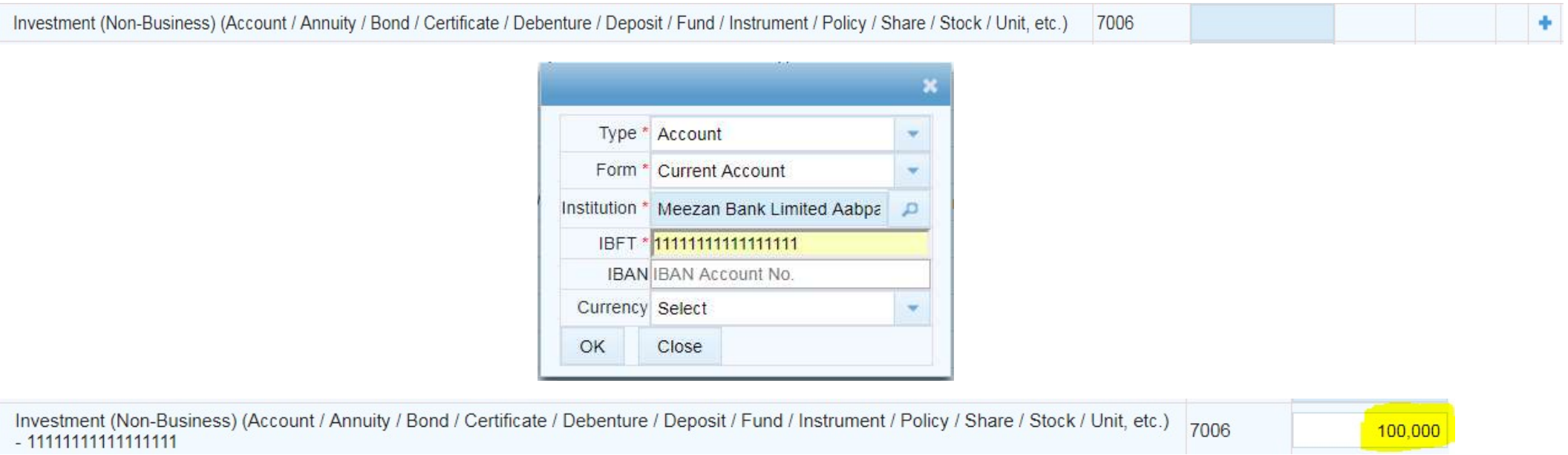
Click on Personal Assets/Liabilities tab and start entering details relating to personal assets and their respective “Historical Costs”.

Description	Code	Amount
Commercial, Industrial, Residential Property (Non-Business)	7002	
Business Capital	7003	
Agricultural Property	7001	
Debt (Non-Business) (Advance / Debt / Deposit / Prepayment / Receivable / Security)	7007	
Motor Vehicle (Non-Business)	7008	
Equipment (Non-Business)	7004	
Animal (Non-Business)	7005	
Investment (Non-Business) (Account / Annuity / Bond / Certificate / Debenture / Deposit / Fund / Instrument / Policy / Share / Stock / Unit, etc.)	7006	
Cash (Non-Business)	7012	
Any Other Asset	7013	
Precious Possession	7009	
Household Effect	7010	
Personal Item	7011	
Cash (Non-Business)	7012	
Credit (Non-Business) (Advance / Borrowing / Credit / Deposit / Loan / Mortgage / Overdraft / Payable)	7021	
Total Liabilities	**7029**	
Total Assets inside Pakistan	7015	0
Assets held outside Pakistan	7016	
Total Assets	**7019**	0
Credit (Non-Business) (Advance / Borrowing / Credit / Deposit / Loan / Mortgage / Overdraft / Payable)	7021	
Total Liabilities	**7029**	

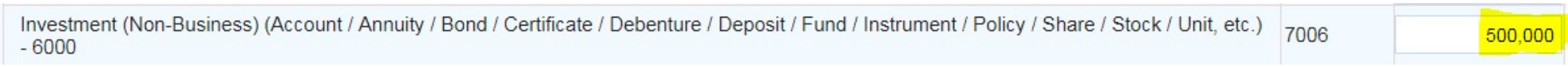
In order to enter jewelry, click on “+” against Precious Possessions. Enter/select details in the dialog box and press ‘OK’. Finally enter the value at which the jewelry was purchased (Historical Cost).



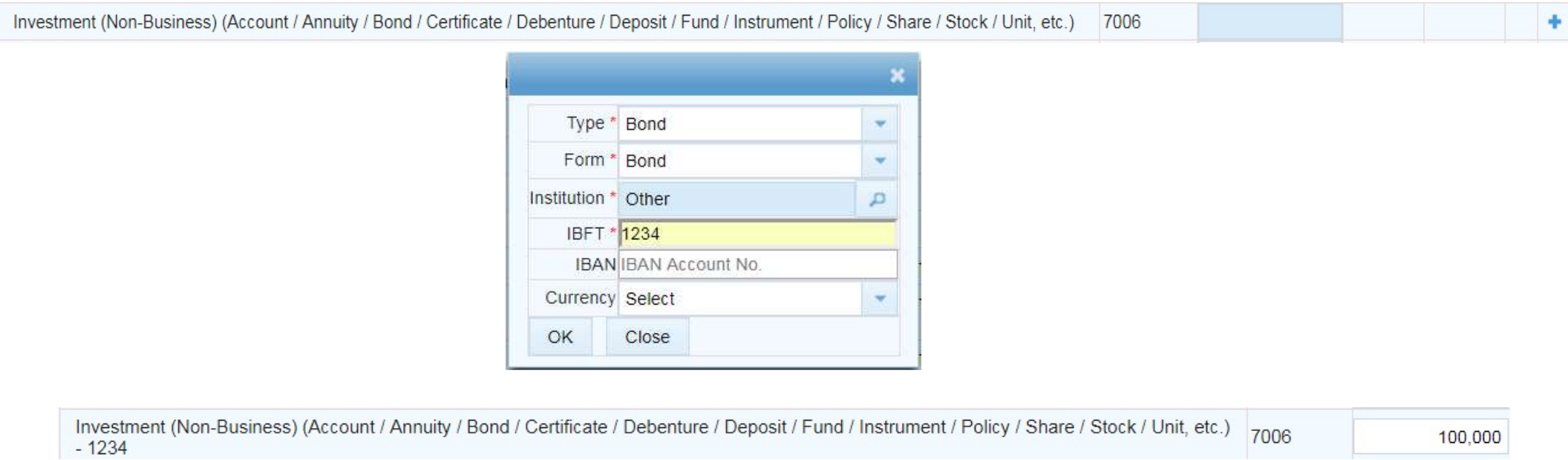
In order to enter bank balance, click on “+” as shown below. Enter/select details in the dialog box and press ‘OK’. Finally enter the amount of cash at bank as at June 30, 2018.



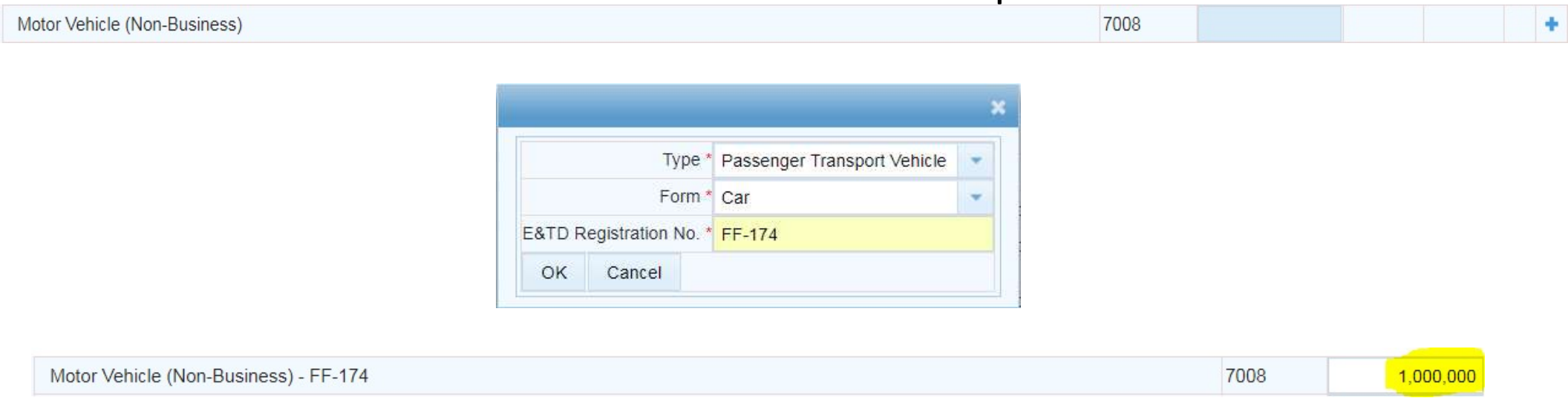
In order to enter details relating to shares, click on “+” as shown below. Enter/select details in the dialog box and press ‘OK’. Finally enter the amount at which shares were purchased.



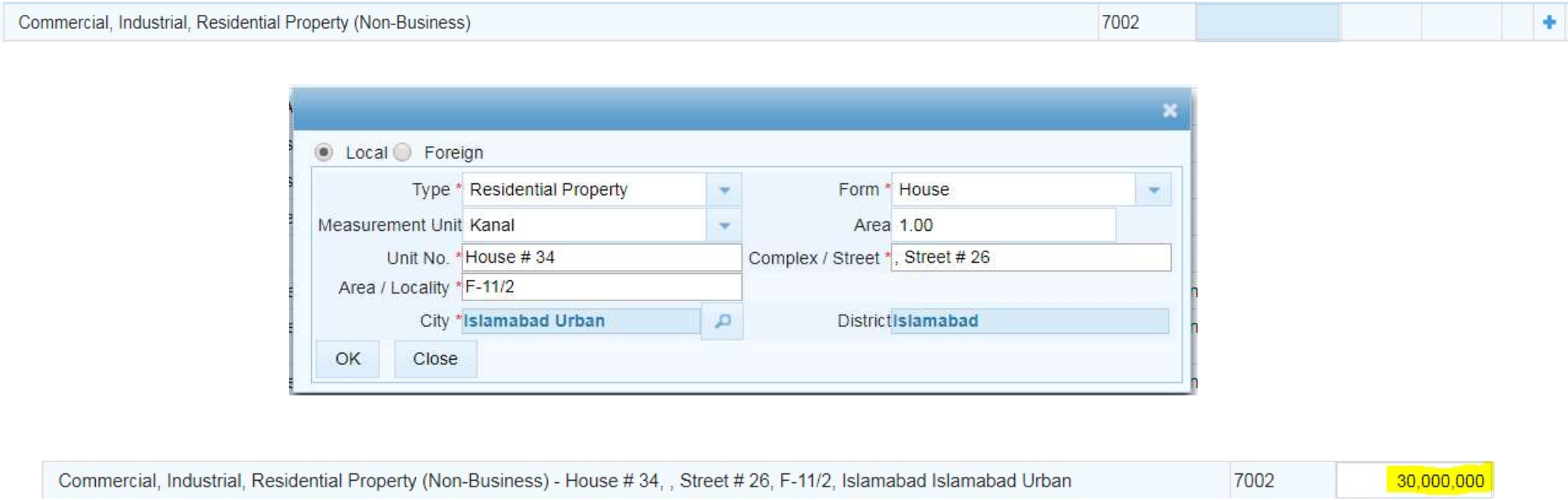
In order to enter details relating to Prize Bonds, click on “+” as shown below. Enter/select details in the dialog box and press ‘OK’. Finally enter the amount at which the Bonds were Purchased.



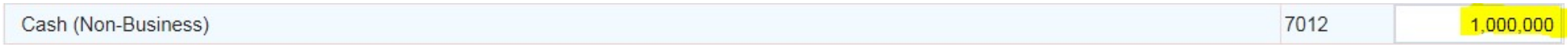
In order to enter details relating to Motor Vehicle, click on “+” as shown below. Enter/select details in the dialog box and press ‘OK’. Finally enter the amount at which the vehicle was purchased.



In order to enter details relating to House, click on “+” as shown below. Enter/select details in the dialog box and press ‘OK’. Finally enter the amount at which the house were purchased/Constructed.



Enter the amount of cash in hand as below. All details relating to assets are complete now. Click on “Calculate” as shown in next slide. Wealth Statement is complete now.



Calculate

Description	Code	Amount	Action
Commercial, Industrial, Residential Property (Non-Business)	7002	30,000,000	
Commercial, Industrial, Residential Property (Non-Business) - House # 34, , Street # 26, F-11/2, Islamabad Islamabad Urban	7002	30,000,000	
Business Capital	7003		
Agricultural Property	7001		
Debt (Non-Business) (Advance / Debt / Deposit / Prepayment / Receivable / Security)	7007		
Motor Vehicle (Non-Business)	7008	1,000,000	
Motor Vehicle (Non-Business) - FF-174	7008	1,000,000	
Equipment (Non-Business)	7004		
Animal (Non-Business)	7005		
Investment (Non-Business) (Account / Annuity / Bond / Certificate / Debenture / Deposit / Fund / Instrument / Policy / Share / Stock / Unit, etc.)	7006	700,000	
Investment (Non-Business) (Account / Annuity / Bond / Certificate / Debenture / Deposit / Fund / Instrument / Policy / Share / Stock / Unit, etc.) - 1111111111111111	7006	100,000	
Investment (Non-Business) (Account / Annuity / Bond / Certificate / Debenture / Deposit / Fund / Instrument / Policy / Share / Stock / Unit, etc.) - 6000	7006	500,000	
Investment (Non-Business) (Account / Annuity / Bond / Certificate / Debenture / Deposit / Fund / Instrument / Policy / Share / Stock / Unit, etc.) - 1234	7006	100,000	
Cash (Non-Business)	7012	1,000,000	
Any Other Asset	7013		
Precious Possession	7009	300,000	
Precious Possession - Jewellery	7009	300,000	
Household Effect	7010		
Personal Item	7011		
Cash (Non-Business)	7012	1,000,000	
Credit (Non-Business) (Advance / Borrowing / Credit / Deposit / Loan / Mortgage / Overdraft / Payable)	7021		
Total Liabilities	**7029**		
Total Assets inside Pakistan	7015	33,000,000	
Assets held outside Pakistan	7016		
Total Assets	**7019**	33,000,000	
Credit (Non-Business) (Advance / Borrowing / Credit / Deposit / Loan / Mortgage / Overdraft / Payable)	7021		
Total Liabilities	**7029**		

Finally click on “Reconciliation of Net Assets” Tab as below. Enter amounts of net assets previous year, income and expenses as shown in next slide and click on calculate.

Calculate

Description	Code	Amount
Net Assets Current Year	**703001**	33,000,000
Net Assets Previous Year	**703002**	33,700,000
Increase / Decrease in Assets	**703003**	-700,000
Inflows	**7049**	2,680,000
Income Declared as per Return for the year subject to Normal Tax	7031	1,380,000
Income Declared as per Return for the year Exempt from Tax	7032	
Income Attributable to Receipts, etc. Declared as per Return for the year subject to Final / Fixed Tax	7033	1,300,000
Adjustments in Income Declared as per Return for the year	7034	
Foreign Remittance	7035	
Inheritance	7036	
Gift	7037	
Gain on Disposal of Assets, excluding Capital Gain on Immovable Property	7038	
Others	7048	
Outflows	**7099**	3,380,000
Personal Expenses	7089	3,190,850
Gift	7091	
Loss on Disposal of Assets	7092	
Others	7098	189,150
Unreconciled Amount	**703000**	0
Assets Transferred / Sold / Gifted / Donated during the year	703004	

Thanks for paying attention