

KCO BLOGS 2020

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TAX REGIMES IN INCOME TAX ORDINANCE, 2001

In Pakistan, as in many jurisdictions, a tax can be levied only by, or under, the authority of an Act of Parliament. While taxation of income (other than agricultural income) is governed by the Income Tax Ordinance, 2001 as amended from time to time, the Sales Tax Act, 1990 deals with sales tax at Federal level. Sales tax on services is a provincial subject.

What is a tax regime?

Any legislation, regulation or administrative practice that provides a preferential effective rate of taxation to such income or profit, including through reductions in the tax rate or the tax base. With regard to interest, the term special tax regime includes notional.

Type of tax regime in Income Tax Ordinance, 2001:

1. Normal Tax Regime (NTR)
2. Final tax Regime
3. Minimum tax Regime
4. Separate block of income
5. Exempt income

Normal Tax Regime:

Under which basic rate of taxation on income (revenue minus expenses) applied to large groups of taxpayers to which various deductions and allowances are also allowed.

Tax is applied to taxable income as per 1st Schedule of the Income Tax Ordinance, 2001 which shall be reduced by the amount of tax credits if any available to taxpayer including advance tax paid.

Final Tax Regime:

Under the final tax regime, the concept of income-based taxation has been shifted to transaction-based taxation, whereby income of a certain category of persons (i.e. commercial importers, sale of goods, execution of contracts, etc.) was considered as final tax liability in respect of income of such persons. It is also called presumptive tax regime.

Silent features:

1. No deductions are allowed
2. No loss adjustment is allowed or carry forward.
3. No tax credits are allowed
4. Tax deducted at source by withholding agent is considered as final tax.
5. No refunds are allowed.

Minimum Tax Regime:

Under which a minimum tax is levied to taxpayer in cases where the normal tax is less than the minimum tax rate. Tax deducted or collected at source is treated as minimum tax in respect of such transactions.

Separate Block of Income:

Under which certain transactions are kept separate and charged to tax at specified rates instead of normal tax rates.

Silent features:

1. No deductions are allowed except allowed in specific provision of the Income Tax Ordinance, 2001 i.e *cost of shares and incidental expenses are allowed to be deducted under section 37A which is then charged to tax at a specified rate.*
2. No loss adjustment is allowed or carry forward.
3. No tax credits are allowed
4. Tax deducted at source by withholding agent is considered as final tax.
5. No refunds are allowed.

Exempt income:

Under which income is normally exempt due to exemption provided under Second Schedule and some other Provisions of the ordinance. (Agricultural income exempt under section 41)

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