pwc

Worldwide Tax Summaries

Pakistan

Individual - Income determination

Choose a topic

Taxable income is calculated under five different types of income, as follows:

- Salary.
- Property.
- Business.
- Capital gains.
- Income from other sources, which includes income from dividends, royalties, profit on debt (interest), ground rent, sub-lease of land or building, lease of building inclusive of plant or machinery, prize money, winnings, etc.

Related allowable expenses can be deducted except in case of ‘income from property’, ‘income from salary’, as well as revenues streams subject to tax under the presumptive tax regime (e.g. dividends, interest, prize money).

Employment income

Employee’s gross salary is Pakistan-source income and taxable in Pakistan if it is earned from employment exercised in Pakistan or if it is paid by or on behalf of the federal government, a provincial government, or a local authority.

Salary is the amount received by an employee from employment, whether of a revenue or capital nature. It includes leave pay, payment in lieu of leave, overtime, bonuses, commissions, fees, gratuities, work condition supplements, monetary and non-monetary perquisites, any allowance except those granted to meet expenses wholly and necessarily incurred in the performance of the employee’s duties of employment, profits in lieu of or in addition to salary, pensions, annuities, and tax reimbursement. In addition, amounts or perquisites paid or provided by an associate of the employer, a third-party under an arrangement with the employer or associate of the employer, a past employer or a prospective employer, or payments to an associate of the employee are also to be considered as salary.

Salaried individuals employed by the oil exploration and production sector are exempt from tax for a period of three years from the date of their arrival in Pakistan.

Diplomats and individuals entitled to United Nations (Privileges and Immunities) Act 1948 are exempt from tax on their salaries.

The extent of taxability and exclusions from income of some perquisites are discussed in the Deductions section.

Equity compensation

Employee share scheme

The fair market value of the shares determined at the date of issue under an employee share scheme, including as a result of the exercise of an option or right to acquire the shares, as reduced by any consideration paid by the employee for the shares, shall be chargeable to tax as salary. However, where shares are issued to the employee subject to restriction on the transfer of such shares, no amount shall be included in salary of the employee until the earlier of the time the employee has a free right to transfer the shares or at the time when the employee disposes of the shares.

The value of the right or option to acquired shares under an employee share scheme is not chargeable to tax.

Stock options

An employee is taxed on the exercise of an option on the fair market value of the shares as reduced by the cost to the employee on acquisition. The gain on sale is taxed in the year of disposal, considering the fair market value at the time of exercise of the option as a cost of the employee.

Foreign-source income of returning expatriates

Foreign-source income of returning expatriates (citizens of Pakistan who were not resident in Pakistan during any of the preceding four tax years) shall be exempt from tax in the tax year of return and the succeeding tax year.

Capital gains

Capital gains on the sale, exchange, or transfer of movable capital assets are taxable. However, gains on the sale of capital assets held for personal use by a person or any member of a person's family who is dependent on the person, assets on which a person is entitled to depreciation or amortisation, stock in trade (not being stocks and shares), consumables, and raw materials held for business purposes are exempt from levy of tax.

Capital gain on the sale of immovable property acquired on or after 1 July 2016, on which depreciation is not allowed, is taxed at the rate of 10% if disposed of within one year, 7.5% if disposed of within two years, and 5% if disposed of within three years. However, if the retention period is more than three years, such gain is not taxable. Capital gain on the sale of immovable property acquired before 1 July 2016 is taxed at 5% if disposed of within three years. No tax is payable if the retention period is more than three years.

Capital gain, other than on statutory depreciable assets, realised within one year of acquisition is fully taxed; after one year, 75% of such gains are taxed and 25% are exempt.

Capital gains on the sale of securities (listed as well as other specified securities) are exempt if the instrument is acquired before 1 July 2013. Capital gains on such instruments for tax years 2018 and 2019 are subject to tax as follows:

Holding period	Tax rates - Filers (%)		Tax rates - Non-filers (%)	
	Securities acquired before 1 July 2016	Securities acquired after 1 July 2016	Securities acquired before 1 July 2016	Securities acquired after 1 July 2016
Less than 12 months	15.0	15.0	18.0	20.0
12 months, but less than 24 months	12.5	15.0	16.0	20.0
24 months or more	7.5	15.0	11.0	20.0

Dividend income

Dividend income is subject to final tax at 15% for filers and 20% for non-filers; dividends received from mutual funds and collective investment schemes are subject to tax at varying tax rates.

Resident individuals are subject to Pakistan tax (at tax rates applicable to dividend income in certain situations) with respect to attributable income earned from a CFC, on a deeming basis, even in cases where the same is not distributed by such company. However, no further tax is payable at the time of actual distribution.

Interest income

Interest income is subject to final tax at the following rates:

Description	Tax rate (%)
Where interest income does not exceed PKR 5 million	10.0
Where interest income exceeds PKR 5 million but does not exceed PKR 25 million	12.5
Where interest income exceeds PKR 25 million	15.0

Last Reviewed - 08 January 2019

Pakistan contacts

Asim Zulfiqar Ali
Tax Partner

Maqsood Ahmad
Tax Partner