

April, 2009

Introduction

This brochure gives basic information for the benefit and use of persons deriving income from salary to understand their obligations and compute the chargeable income from “salary” under the Income Tax Ordinance, 2001. It is equally informative and useful from the employers’ perspective.

In the brochure some terms that are not familiar to taxpayers used for the first time are in ***italic bold*** and explained appropriately.

Disclaimer

This brochure is to assist the taxpayers and reflects the legal position at the time of printing. In case of any conflict the legal provisions of the law shall always prevail over the contents of this brochure.

Comments and suggestions

This Brochure is also available on our website www.fbr.gov.pk. We welcome your comments and your suggestions for future editions.

You can e-mail us at helpline@fbr.gov.pk
or

You can write to us at the following address:

**Member Facilitation And Tax Payer Education,
Federal Board of Revenue,
Aziz Ghani Plaza , Blue Area,
Islamabad**

Tel: 0519204379

Tel: 0519202503

Tel: 0519204604

Fax:051-9205593

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General concepts of taxation

The Federal levy on income (Income Tax), with effect from July 01, 2002, is governed by the Income Tax Ordinance, 2001 and Income Tax Rules, 2002. It is an annual charge on the **taxable income** for a **tax year**, if it exceeds the **maximum amount that is not chargeable to tax**.

“**Taxable Income**” means **total income** as reduced by deductible allowances on account of:

- Zakat paid under the Zakat and Ushr Ordinance, 1980, other than Zakat paid on a debt, the profit of which is chargeable to tax under the head “Income from Other Sources”. (such Zakat is an admissible deduction against the profit on debt);
- Workers Welfare Fund paid under the Workers Welfare Fund Ordinance, 1971; and
- Worker’s Participation Fund paid under the Companies Profit (Worker’s Participation) Act, 1968.

“**Total Income**” is the aggregate of income under the following heads of income:

- Salary;
- Income from property;
- Income from business;
- Capital gains; and
- Income from other sources [like dividend, royalty, profit on debt, ground rent, rent from sub-lease of land or building, income from lease of any building together with plant or machinery, prize on bonds, winnings from a raffle, lottery or crossword puzzle, or a **loan, advance, deposit or gift** (subject to certain conditions)].

Income under a specific head of income for a tax year is the total of amounts derived under that head, which are chargeable to tax, as reduced by the deductions, if any, admissible under the Income Tax Ordinance, 2001.

Incomes subject to Final Taxation are those, which are subject to collection or deduction of tax at source and such tax collected or deducted

at source is treated as a final tax liability in respect of such income e.g.: -

- Income arising from business of:
 - Import of goods;
 - Supply of goods;
 - Execution of contract;
 - Export of goods;
 - Brokerage and commission;
 - Plying of goods transport vehicles;
 - Income of CNG Stations
 - Income from property
 - Payments to Non-Residents on account of contracts
- Dividend received from a company; and
- Prize and winnings from prize bond, raffle, lottery, crossword puzzle, quiz or sale promotion offers.

The incomes from above sources are excluded from the ambit of total / taxable income subject to normal taxation. **For further details, please refer to our brochure “Tax collected or deducted as final tax”.**

The scope of total income under the Income Tax Ordinance, 2001 is determined with reference to residential status of a taxpayer. In case of **resident individual**, it is both **Pakistan source income** and **foreign source income**, while in case of **non-resident individual** it is restricted to Pakistan source income only.

An individual is “**resident individual**” if:

- he is present in Pakistan for 183 days or more in a tax year; or
- he is **an employee or official of the Federal or a Provincial Government posted abroad in a tax year**.

An individual is “**non-resident**” if he is not a resident individual.

In order to compute the number of days an individual is present in Pakistan in a tax year, the following rules shall apply: -

- *A part of a day that an individual is present in Pakistan (including the day of arrival in, and the day of departure from, Pakistan) counts as a whole day of such presence; However, a day or part of a day where an individual is in Pakistan solely by reason of being in transit between two different places outside Pakistan does not count as a day present in Pakistan.*
- *The following days in which an individual is wholly or partly present in Pakistan count as a whole day of such presence:-*
 - *a public holiday;*
 - *a day of leave, including sick leave;*
 - *a day that the individual’s activity in Pakistan is interrupted because of a strike, lock-out or delay in receipt of supplies; or*
 - *a holiday spent by the individual in Pakistan before, during or after any activity in Pakistan;*

“**Pakistan source income**” is defined in section 101 of the Income Tax Ordinance, 2001, which caters for income under different heads and

situations. Some of the common Pakistan source incomes are as under: -

- Salary received from any **employment** exercised in Pakistan wherever paid;
- Salary paid by, or on behalf of, the Federal Government, a Provincial Government, or a local authority in Pakistan, wherever the employment is exercised;
- Dividend paid by resident company;
- Profit on debt paid by a resident person;
- Property or rental income from the lease of immovable property in Pakistan;
- Pension or annuity paid by a resident person or permanent establishment of a non-resident person;

“Foreign source income” is any income, which is not a Pakistan source income.

If an employee or official of the Federal Government or a Provincial Government is posted abroad, his residential status remains “resident” irrespective of his period of stay in Pakistan. On the other hand, **salary received from Federal or Provincial Government is Pakistan source income, irrespective of the fact where the employment is exercised**. This makes both Pakistan and foreign source income liable to income tax.

“Tax Year” is a period of twelve months ending on 30th day of June i.e. the financial year and is denoted by the calendar year in which the said date falls. For example, tax year for the financial year from July 01, 2007 to June 30, 2008 shall be denoted by calendar year 2008 and the financial year from July 01, 2008 to June 30, 2009 shall be denoted by calendar year 2009.

“Maximum amount that is not chargeable to tax” with effect from July 2008 onwards, maximum amount that is not chargeable to tax in respect of salary income is Rs. 180,000 and in respect of income from sources other than salary is Rs 100,000. In case of women taxpayers maximum limit not chargeable to tax is 240,000.

Loan, advance, deposit or gift received in a tax year from another person otherwise than:

- By a crossed cheque drawn on a bank; or

- Through a banking channel from a person holding a National Tax Number ;

is treated as income chargeable to tax under the head “income from other sources”.

The purpose is to document the transactions of loan, advance, deposit or gift reflected in the books of account, wealth statement or reconciliation of wealth. The following transactions, however, are excluded:

- Loan, advance or deposit received from a banking company or an institution notified under the Companies Ordinance, 1984 by the Federal Government in the official gazette as a ‘financial institution’; or
- Advance payment for the sale of goods or supply of services.

Self-hiring – When an employee gives on rent any building (house/flat/apartment, etc.) owned by him or any of his/her family member(s) to his/her employer and the employer provides the same against the employee’s entitlement for a rent-free accommodation or housing, it results into:

Provision of a perquisite (rent free accommodation or housing) by the employer to the employee chargeable as income from “salary”; and

- Receipt of rent of land or building by the employee or any of his/her family members, as the case may be, chargeable as income from “property” in the hands of the owner.

Wealth Statement: - Wealth statement is a document which shows details of assets and liabilities of a person, his spouse, minor children and other dependents on a specified date.

Every resident taxpayer filing a return of income for any tax year whose last declared or assessed income or the declared income for the year is five hundred thousand rupees or more shall furnish a wealth statement for that year along with such return.

Changes from July 2008

The major changes for the salaried taxpayer's are the withdrawal of exemptions regarding allowances and perquisites, except a few which are mentioned in Annex I, from July 2006 onwards. All the allowances and perquisites other than mentioned in Second Schedule of Income Tax Ordinance are taxable.

Secondly, the basic threshold of exemption is enhanced to Rs 180,000 in case of male salaried taxpayer and Rs 240,000 in case of a woman tax payer.

Flying allowance received by Pilots, Flight engineers, navigators of Pakistan Armed Forces, Pakistan Airlines or Civil Aviation Authority and Junior Commissioned Officers or other ranks of Pakistan Armed Forces and submarine allowance by the officers of Pakistan Navy shall be taxed @ 2.5% as a separate block of Income.

A full time teacher or a researcher, employed in a non - profit education or research institution recognized by Higher Education Commission (HEC), a Board of Education or a University was entitled to a benefit, under part III of Second Schedule to the Income Tax Ordinance 2001 and his tax liability stood reduced by an amount equal to 75% of tax payable on his income from salary.

This concession has now been extended to full time teachers and researchers employed in government training and research institutions also.

A withholding agent is allowed to make adjustments on production of the documentary evidence by an employee regarding income tax withheld along with:

- (a) Motor vehicle tax in respect of motor vehicle registered in employees own name
- (b) Telephone bill as subscriber of telephone.

New tax rates have been evolved taking into consideration the withdrawal of exemption available. The new rates of tax evolved are a further relief in tax for the salaried taxpayers.

The new rates applicable for tax year 2009 onwards (Salary earned from July 01, 2008 onwards) are as under

COMPUTATION OF INCOME TAX PAYABLE BY THE SALARIED TAXPAYERS FOR TAX YEAR 2008-09 (CHANGES MADE THROUGH THE FINANCE ACT 2008)

Where salary income constitutes more than 50% of the total income of a taxpayer the total income shall be charged to tax at the rates as given below. All perquisites, allowances or benefits, [except those covered under Part-1 of the Second Schedule to the Ordinance as mentioned in annexure -1], are to be included in the salary income. The taxation of salaried taxpayers in the light of amendments made through Finance Act, 2008, is explained as under:-

INCREASE IN BASIC THRESHOLD

The basic exemption for salaried person has been enhanced from Rs. 150,000/- to Rs. 180,000/-. For the women taxpayers this limit will be Rs. 240,000/-. The tax slabs have also been revised. These changes have been brought through Finance Act, 2008 and will be applicable for the Tax Year 2009. However for withholding purposes these shall apply to salary paid on or after the 1st day of July, 2008. The revised slabs are as under:-

S. No.	Taxable income	Rate of tax.
(1)	(2)	(3)
1.	Where taxable income does not exceed Rs.180,000	0%
2.	Where the taxable income exceeds Rs.180,000 but does not exceed Rs.250,000	0.50%
3.	Where the taxable income exceeds Rs.250,000 but does not exceed Rs.350,000	0.75%
4.	Where the taxable income exceeds Rs.350,000 but does not exceed Rs.400,000	1.50%
5.	Where the taxable income exceeds Rs.400,000 but does not exceed Rs.450,000	2.50%

6.	Where the taxable income exceeds Rs.450,000 but does not exceed Rs.550,000	3.50%
7.	Where the taxable income exceeds Rs.550,000 but does not exceed Rs.650,000	4.50%
8.	Where the taxable income exceeds Rs.650,000 but does not exceed Rs.750,000,	6.00%
9.	Where the taxable income exceeds Rs.750,000 but does not exceed Rs.900,000,	7.50%
10.	Where the taxable income exceeds Rs.900,000 but does not exceed Rs.10,50,000,	9.00%
11.	Where the taxable income exceeds Rs.10,50,000 but does not exceed Rs.12,00,000,	10.00%
12.	Where the taxable income exceeds Rs.12,00,000 but does not exceed Rs.1450,000,	11.00%
13.	Where the taxable income exceeds Rs.1,450,000 but does not exceed Rs.1,700,000,	12.50%
14.	Where the taxable income exceeds Rs.1,700,000 but does not exceed Rs.1,950,000,	14.00%
15.	Where the taxable income exceeds Rs.1,950,000 but does not exceed Rs.2,250,000,	15.00%

16.	Where the taxable income exceeds Rs.2,250,000 but does not exceed Rs.2,850,000,	16.00%
17.	Where the taxable income exceeds Rs.2,850,000 but does not exceed Rs.3,550,000,	17.50%
18.	Where the taxable income exceeds Rs.3,550,000 but does not exceed Rs.4,550,000,	18.50%
19.	Where the taxable income exceeds Rs.4,550,000 but does not exceed Rs.8,650,000,	19.00%
20.	Where the taxable income exceeds Rs.8,650,000	20.00%

In case of income of a woman taxpayer, no tax shall be charged if the income does not exceed Rs.240,000.

MARGINAL TAX RELIEF FOR THE SALARIED TAXPAYERS.

Presently income from salary is charged to tax at different flat rates ranging from 0% to 20% on progressive income slabs. The salaried person whose income slab changes marginally due to increase in the pay and allowances etc. faces hardship as with marginal switching over to next slab tax liability increases disproportionately. To address the hardship, the concept of "marginal tax" relief has been introduced through insertion of a Second Proviso to table prescribed under Para (1A) of the First Schedule to the Income Tax Ordinance, 2001 which is produced as under:-

"Provided further that where the total income of a taxpayer marginally exceeds the maximum limit of a slab in the table, the income tax payable shall be the tax payable on the maximum of that slab plus an amount equal to –

- (i) 20% of the amount by which the total income exceeds the said limit where the total income does not exceed 500,000

(ii) 30% of the amount by which the total income exceeds in each slab but total income does not exceed 10,50,000

(iii) 40% of the amount by which the total income exceeds in each slab but total income does not exceed 20,00,000

(iv) 50% of the amount by which the total income exceeds in each slab but total income does not exceed 44,50,000

(v) 60% of the amount by which the total income exceeds in each slab but the total income exceeds 44,50,000”

The calculation of marginal relief and tax payable under these provisions of law is explained through the following examples:-

EXAMPLE NO. 1

Income	Slab No.	Rate of tax	Tax	Increase in tax	Percent age of tax on marginal income
450,000	05	2.5%	11250	5025/-	34%
465,000	06	3.5%	16275		

Marginal relief according to formula (i)
 Tax payable on the maximum of the slab: Rs. 11250
 20% of the marginal increase of Rs.15000 over
 Maximum of the slab: Rs. 3000
 Total tax payable: Rs. 14250
 Relief (16275 - 14250) = Rs. 2025
 Effective rate of tax on income of Rs.465000 would be: 3% against 3.5%

EXAMPLE NO. 2

Income	Slab No.	Rate of tax	Tax	Increase in tax	Percent age of tax on marginal income
550,000	06	3.5%	19250	5950/	60%
560,000	07	4.5%	25200		

Marginal relief according to formula (ii)

Tax payable on the maximum of the slab :
 Rs. 19250
 30% of the marginal increase of Rs.10000 over
 maximum of the slab : Rs. 3000
 Total tax payable : Rs. 22250
 Relief (25200 - 22250) = Rs. 2950
 Effective rate of tax on income
 of Rs. 560,000 would be : 3.97% against 4.5%
 This is an optional scheme and when the relief worked
 out through this provision ceases to exist then it would
 not be applicable and tax shall automatically be
 calculated at a particular rate on a particular level of
 income.

ANNUAL STATEMENT OF DEDUCTION OF INCOME TAX TO BE TREATED AS A RETURN OF INCOME.

The annual statement of deduction of income tax furnished by the employer will be treated as Return of Income of the employee. Therefore, responsibility of the employee has been shifted towards the employer of a salaried person as person deriving income only from salary will not be required to furnish any certificate. The annual withholding statement furnished by the employer shall be treated as a return of income on behalf of the employee.

Furnishing of Wealth Statement

Furnishing of wealth statement has been made obligatory for a person whose salary income is 500,000/- or more and withholding statement has been treated as return of income. Now every salaried person whose income for the tax year or last tax year exceeds the prescribed limit of Rs. 500,000 shall be required to file wealth statement, irrespective of the fact that his employer has filed statement of deduction of tax and he is not obliged to file return of income.

Taxation of accommodation provided by the employer

Under Rule 4 of the Income Tax Rules, 2002 the value of accommodation provided by the employer to the employee has to be taken as the amount which the employer would have paid to the employee in case the accommodation was not provided to him. In other words, for the purpose of calculation of value of the accommodation perquisite, the amount of house rent that would have been paid by the employer (if house was not provided) shall be included in the salary for tax purposes. However, the value taken for this purpose was not less than 45% of the minimum of the time scale of the basic salary or the basic salary where there was no time scale.

Anomaly was faced by salaried persons serving at stations where house rent is admissible at the rate of thirty percent of the minimum of the time scale of basic salary but the value of accommodation provided by the employer was taken for the purpose of taxation at 45% of the minimum of the time scale. This was causing hardship to the salaried persons serving in the MUFASAL areas. Now a change has been brought that where House Rent allowance is admissible at the rate of thirty per cent of the minimum of the time scale, the value of house perquisite taken for the purpose of taxation shall be an amount not less than thirty per cent of minimum of the time scale of basic salary or the basic salary where there is no time scale.

ADJUSTMENT OF TAX LIABILITY OF SALARIED TAX PAYERS BY EMPLOYERS BEING WITHHOLDING AGENT.

The employer is allowed to make adjustments on production of the documentary evidence by the employee regarding income tax withheld under other heads. Presently following tax adjustments and tax credits are available to the salaried persons.

(i) ADJUSTMENT OF TAX DEDUCTED/COLLECTED ON,-

- (a) motor vehicle u/s 234 in respect of motor vehicle registered in employee's own name;
- (b) telephone bill as subscriber of telephone.
- (c) cash withdrawals from banks; and
- (d) registration of new Car/Jeep U/S 231-B

(II) TAX CREDITS ON,-

- (a) donations to approved NPOs (section 61);
- (b) investment in shares (section 62);
- (c) contribution to approved pension funds (section 63); and
- (d) profit on debt paid in respect of housing loans etc. (section 64).

The employers shall, however, be responsible to obtain documentary evidence for correct application of relevant provisions of law.

Income from Salary

Applicable provisions of law for the computation of income from "**Salary**" are sections 12 to 14, 42 to 45, 51 and 53 and 149 of the Income Tax Ordinance, 2001, clauses (2) to (56) and (139) of the Part I of the Second Schedule to the Income Tax Ordinance, 2001 and Rules 4 to 7 of the Income Tax Rules, 2002.

Salary is chargeable to tax on the basis of what is actually received during a tax year. This means that if the employer actually makes payment of salary of eleven months in a tax year, then the employee is liable to tax on the salary for eleven months. Similarly, if in the succeeding tax year the employee is paid salary for thirteen months he/she will be liable to pay tax on the salary for thirteen months.

An exception to the above receipt basis of taxation of salary is for the employees of Private Limited Companies where the Commissioner has reasonable grounds to believe that payment of the salary was deferred for avoidance of tax.

Arrears of salary are also liable to tax in the tax year of actual receipt subject to an option for a special treatment discussed later in this brochure.

Employee, employer and employment are essential components of income from salary, which are defined as under: -

Employee means an individual engaged in **employment**.

Employer means any person who engages and remunerates an individual engaged in **employment**.

Employment includes –

- a directorship or any other office involved in the management of a company;
- a position entitling the holder to a fixed or ascertainable remuneration; or
- the holding or acting in any public office.

Salary means amount received by an employee from any employment, whether of a capital or revenue nature. Salary comprises the following:

- **Pay, wages** or other remuneration like leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements (such as for unpleasant or dangerous working conditions);
- **Perquisite**, whether convertible to money or not e.g.-

- motor vehicle wholly or partly for private use of the employee;
- services of a housekeeper, driver, gardener or other domestic assistant(s);
- utilities, including electricity, gas, water and telephone;
- loan carrying profit (interest) less than the benchmark rate;
- an obligation of an employee to pay or repay an amount owing by the employee to the employer is waived by the employer;
- an obligation of an employee to pay or repay an amount owing by the employee to another person is paid by the employer;
- transfer of any property or provision of any services by the employer to an employee; and
- accommodation or housing provided by an employer to an employee;

An amount or perquisite is treated as received by an employee from any employment regardless of whether the amount or perquisite is paid or provided –

- *by the employer, an associate of the employer, or by a third party under an arrangement with the employer or an associate of employer;*
- *by the past or prospective employer; or*
- *to the employee or to his associate or to a third party under an agreement with the employee or his associate.*
- *Tea, coffee or other similar refreshments provided by the employer to the employee at business premises during the course of work is not treated as a perquisite.*
- **Allowances** like cost of living, subsistence, rent, utilities, education, entertainment or travel, **but does not include** any allowance solely expended in the performance of the employee's duties of employment, e.g. washing allowance and kit allowance for employees required to wear a specified uniform in the performance of their duties of employment;

- **Expenditure incurred that is paid or reimbursed by the employer**, other than expenditure incurred on behalf of the employer in the performance of the employee's duties of employment;
- **Profits in lieu of, or in addition to**, salary or wages, including any amount received–
 - as consideration for a person's agreement to enter into an employment relationship;
 - as consideration for an agreement to any conditions of employment or any changes to the conditions of employment;
 - on termination whether paid voluntarily or under an agreement, including any compensation for redundancy or loss of employment and golden handshake payments;
 - from a provident 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; and
 - as consideration for an agreement to a restrictive covenant in respect of any past, present or prospective employment;
- any **pension or annuity**, or any supplement to a pension or annuity;
- fair market value of the shares issued or disposal of an option or right to acquire the shares under an **employee share scheme**.

Where the employer agrees to pay the tax chargeable on the employee's salary (**tax free salary**), the amount of income chargeable under the head "Salary" is grossed up by the amount of tax payable by employer.

Rewards, incentives and all such similar receipt whether in cash, kind or otherwise are covered in pay, wages and other remuneration and chargeable as income from "salary".

Thus any amount in cash, kind or otherwise received by exercising an employment falls under the ambit of salary and liable to tax unless otherwise exempted.

No **Deduction** for any expenditure incurred in deriving income under the head “Salary” is allowed for computing the total income.

Any **amount received on termination of employment**, whether paid voluntarily or under an agreement, including any compensation for redundancy or loss of employment and golden handshake payments is at the employee’s option, to be exercised by the **due date** for furnishing the return of income or employers certificate, taxed at the average rate of tax for the three preceding years (*i.e., total tax paid or payable on the total taxable income of the three preceding tax years divided by total taxable income for the three preceding tax years and multiplied by one hundred*).

“**Salary**” received in arrears in a tax year, at the employee’s option, to be exercised by the **due date** for furnishing the return of income or employer’s certificate, is taxed at the rates of tax that would have been applicable if the salary had been paid in the tax year in which the services are rendered. This option is exercisable only if the inclusion of such arrears in the tax year of actual receipt results into taxation at a higher rate of tax.

Exemptions – Salary, perquisites and allowances of certain persons or class of persons are exempt from tax subject to certain conditions, restrictions and to the extent provided in the Income Tax Ordinance, 2001 and Income Tax Rules, 2002. A comprehensive list of such exemptions arranged in alphabetical order for quick and easy reference is given in Annex-I.

Exempt perquisites or allowances and salary have been re-arranged by nature of employment in Annex II and Annex III respectively for easy reference.

All perquisites and allowances, other than those mentioned in Annex I, are chargeable to tax.

Value of perquisites and benefits provided by an employer are chargeable to tax except those, which are specifically exempted. As a general rule, the amount chargeable to tax is the fair market value determined at the time the perquisite or benefit is provided as reduced by any payment made to the employer for such perquisite or benefit by the employee. However,

the valuation of the perquisites and benefits for which specific provisions are made in the Income Tax Ordinance, 2001 and Income Tax Rules 2002, is determined otherwise. A list of such perquisites and benefits and their respective method of valuations arranged in alphabetical order for easy reference is given as Annex-IV

Annual Statement of Deduction of Income Tax on Salary, return of Total Income.

Previously an employee was obliged to submit the Employer’s Certificate in lieu of return of income where the entire income of the taxpayer consisted of salary. On the basis of amendment in Section 115 through Finance Act, 2008, in case where entire income of a taxpayer in a Tax year consists of income chargeable under the head salary, Annual statement of Deduction of Income Tax from Salary, filed by the employer of such taxpayer, in prescribed form shall, for the purposes of this Ordinance is to be treated as a return of income furnished by the taxpayer under section 114.

In case there are other sources of income in addition to salary, the employee is required to file Return of Total Income/Statement of Final taxation (IT-2) prescribed as annexure – XIII in the Second Schedule to the Income Tax Rules, 2002 in view of SRO Notification No. 891(1)/2008 dated 26-08-2008.

In the following circumstances the employee will file a return of income:

- Income from disposal of shares subject to restriction of transfer or a right or option to acquire shares under the employee share scheme;
- Elected for separate taxation of payments on termination of employment etc. or arrears of salary;
- A claim for :
 - any deductible allowance (like Zakat, expenditure on personal medical services etc.)
 - Reduction in tax liability being 60 years of age or more;
- Tax credit for donation to charitable institutions etc.;

- For claiming credit of tax collected or deducted at source (other than from salary) on residential or mobile phone and motor vehicle token tax);or
- Refund of tax deducted in excess by the employer

Exemptions

Salary, perquisites and allowances of certain persons or class of persons are exempt from tax under the Income Tax Ordinance, 2001 and Income Tax Rules, 2002, subject to the conditions and the extent specified below. These exemptions have been arranged in alphabetical order for a quick and easy reference.

Nature of Perquisite / Allowance	Reference Section/Clause of Part-1 of the 2nd schedule of ITO,2001	Exemption		
		To whom available	Applicable Conditions	To What Extent
Accommodation or housing	Clauses 51 & 55	- The President of Pakistan - A Provincial Governor - Chief of Staff of Pakistan Armed Forces - Judge of the Supreme Court of Pakistan - Judge of a High Court		100%
	Clause 53	- Minister of the Federal Government		Value exceeding 10% of the basic salary
Annuity	Clauses 20	- All employees	- Received from an annuity issued under / by the: <ul style="list-style-type: none"> • Pakistan Postal Annuity Certificate Scheme on or after 27th July, 1977; and / or 	Rs. 10,000 per annum
Benevolent fund grant	Clause 24	- All employees	- In accordance with the provisions of the Central Employees Benevolent Fund and Group Insurance Act, 1969	100%
Children's allowance	Clause 16,17	- Families and dependents of "Shaheeds" belonging to: <ul style="list-style-type: none"> • The Pakistan Armed Forces; • The Civil Armed Forces of Pakistan 	- Under the provisions of Joint Services Instruction No.5/66	100%
Commutation of pension (On retirement or death)	Clause 13(i)	- Former employees or heirs of the former employees of: <ul style="list-style-type: none"> • The Federal Government; • A Provincial Government; • A local Government; • A statutory body or corporation 	- In accordance with the conditions of the service	100%
	Clause 13(iii)	- In case of any other employee covered under a scheme applicable to all employee of the employer and approved by the Federal Board of Revenue for the purposes of this sub clause.		Amount not exceeding Rs. 200,000
	Clause 13(iv)	- In case of any employee to whom sub clauses (i) , (ii) and (iii) of clause (13) do not apply.	- Received in Pakistan; - By a resident individual; and - First time either from the same or any other employer in Pakistan;	50% of the amount receivable or Rs. 75,000, whichever is less

Commutation of pension	Clause 12	- All former employees	- Received from the Federal or a Provincial Government; or - Under a Pension Scheme approved by the Federal Board of Revenue for this purpose	100%
Compensatory allowance	Clause 35	- Pakistani citizen locally recruited in Pakistan Mission abroad	- Compensatory allowance does not exceed 75% of the gross salary	100%
Driver services	Clause 56(2)(a)	- Judge of the Supreme Court of Pakistan; - Judge of a High Court - Retired Judge of the Supreme Court of Pakistan - Retired Judge of a High Court - Widow of a Judge of the Supreme Court of Pakistan - Widow of a judge of a High Court		100%
Education of children (Free or subsidized)	Clause 53A(iii)	- Employees of educational institutions	By virtue of employment in educational institution.	100%
Food (Free or subsidized)	Clause 53A(ii)	- Employees of hotels and restaurants	- During duty hours	100%
Gratuity (On retirement or death)	Clause 13(i)	- Former employees or heirs of the former employees of: <ul style="list-style-type: none"> • Federal Government; • Provincial Government; • Local Government; or • Statutory body or corporation 	- In accordance with the conditions of the service	100%
	Clause 13(ii)	- Former employees or heirs of the former employees	- From a gratuity fund approved by the Commissioner in accordance with the rules in Part III of the Sixth Schedule to the Income Tax Ordinance, 2001	100%
	Clause 13(iii)	- Former employees or heirs of the former employees	- Under a scheme applicable to all employees of the employer and approved by the Federal Board of Revenue for this purpose	Amount not exceeding Rs. 200,000
	Clause 13(iv)	- All other former employees or heirs of the former employees excluding a director of a company who was not a regular employee of such company and his / her heirs	- Received in Pakistan; - By a resident individual; and - First time either from the same or any other employer in Pakistan - The employ has not received gratuity from same or other employer.	50% of the amount receivable or Rs. 75,000, whichever is less

Leave encashment preparatory to retirement	Clause 19	- Member of Armed Forces of Pakistan; or - Employees of the: • Federal Government; or • Provincial Government		100%
Medical allowance	Clause 139(b)	- All employees not entitled to free medical treatment or hospitalization or re-imburement of medical or hospitalization charges under the terms of employment		10% of the basic salary
Medical treatment (Free or subsidized)	Clause 53A(iv)	- Employees of hospital or clinic		100%
Medical treatment or hospitalization or both or reimbursement of medical or hospitalization or both	Clause 139(a)	- All employees who are entitled to free medical treatment or hospitalization or re-imburement of medical or hospitalization charges under the terms of employment	- National Tax Number of the hospital or clinic is given; and - The employer certifies and attests the medical or hospital bills	100%
Motor vehicle	Clause 52, 53(c) & 56(l)(a)	- Provincial Governor; - Chief of Staff of Pakistan Armed Forces; - Corps Commander; - Minister of Federal Government - Judge of the Supreme Court of Pakistan - Judge of a High Court		100%
Orderly, services of	Clause 56(2)(a)	- Judge of the Supreme Court of Pakistan; - Judge of a High Court - Retired Judge of the Supreme Court of Pakistan - Retired Judge of a High Court - Widow of a Judge of the Supreme Court of Pakistan - Widow of a judge of a High Court		100%
Passage Free of cost or at a concessional rate	Clause 53A(l)	- All employees of transporters including airlines		100% (Including the members of their household and dependents)

Pension	Section 42(3)	- Former employees of the United Nations or its specialized agencies (including the International Court of Justice)	- The recipient is a citizen of Pakistan; and - His / her salary from such employment was also exempt under the Income Tax Ordinance, 2001	100%
	Clause 9	- Former members / employees of: <ul style="list-style-type: none"> • The Armed Forces of Pakistan; • The Federal Government; • A Provincial Government • Families and dependents of public servants or member of the Armed Forces of Pakistan who die during service. 		100%
	Clause 8	- All other former employees	- The recipient is a citizen of Pakistan; and - Does not continue to work for the same employer	100% In case more than one such pensions, the exemption applies to higher of the pensions received
Pension (Families and dependents)	Clause 16	- Families and dependents of "Shaheeds" belonging to: <ul style="list-style-type: none"> • Pakistan Armed Forces; and • Civil Armed Forces of Pakistan. 	- Under the provisions of Joint Services Instruction No.5/66	100%
Petrol	Clause 56(2)(d)	- Judge of the Supreme Court of Pakistan; - Judge of a High Court; - Retired Judge of the Supreme Court of Pakistan; - Retired Judge of a High Court; - Widow of a Judge of the Supreme Court; - Widow of a Judge of a High Court		200 liters per month
Provident fund Accumulated balance	Clause 22	- All employees	- Received from a provident fund to which the Provident Fund Act, 1925 applies	100%
	Clause 23	- All employees	- Received from a recognized provident fund	100%
Pension for being invalidated from service or pension for injuries.	Clause 23 A	- All employees	- Received from the Voluntary Pension system offered by pension fund manager under the Voluntary Pension system Rules 2005.	25%
Rent allowance (House)	Clause 53(b)	- Minister of the Federal Government	- In lieu of rent free accommodation	Amount exceeding Rs. 550 per month
	Clause 55	- Judge of the Supreme Court of Pakistan; - Judge of a High Court	- Where the judge chooses to reside in a house not provided by the Government	100%
Salary	Section 42(1) & 42(2)	- An employee entitled to privileges under the Diplomatic and Consular Privileges Act, 1972 - An employee entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948		To the extent provided in the said Act

Salary	Section 44(2)	- An employee who is paid by the foreign government or public international organization out of funds or the grants released as aid to Pakistan in pursuance of an Aid Agreement between the Federal Government and a foreign Government or public international organization	- Not a citizen of Pakistan; - If the Aid agreement is with a foreign country, the individual is the citizen of that country; - Not a resident of Pakistan or a resident solely by reason of the performance of services under the Aid Agreement	To the extent provided for in such Aid Agreement
	Section 44(3)	- An expert or consultant, engaged on a project in Pakistan financed out of funds or the grants in accordance with the bilateral or multilateral technical assistance agreement between the Federal Government and a foreign government or public international organization and paid out of the said funds or grants	- Not a citizen of Pakistan; - Not a resident of Pakistan or a resident solely by reason of the performance of services under such agreement	To the extent provided for in such Agreement
Salary	Section 43	- An employee of a foreign government as remuneration for services rendered to such government	- Citizen of a foreign country; - Services performed are of a character similar to those performed by the employees of the Federal Government in foreign countries; and - The foreign government grants a similar exemption to employees of the Federal Government performing similar services in such foreign country	100%
	Section 44(i)	- An employee whose Pakistan source salary is not permitted to be taxed under a tax treaty		100%
	Clause 3	- An expert or technical, professional, scientific advisor or consultant or senior management staff engaged by the institutions of the Agha Khan Development Network, (Pakistan) listed in Schedule I of the Accord and Protocol dated 13.11.1994 executed between the Government of Islamic Republic of Pakistan and Agha Khan Development Network	- Not a citizen of Pakistan;	100%
	Clause 4	- Pakistani seafarer working on a foreign vessel or on Pakistan flag vessel for 183 days or more.	- Such income is remitted to Pakistan, not later than two months of the relevant tax year, through normal banking channels	100%
Salary Foreign source	Section 51(1)	- Overseas citizens of Pakistan (Incoming expatriates)	- Not a resident of Pakistan in any of the four tax years preceding the tax year in which the individual became a resident	100% In the tax year in which such individual became resident and the following tax year
	Section 51(2)	- Overseas citizens of Pakistan (Outgoing expatriates)	- Remained abroad in the tax year after leaving Pakistan	100% in the tax year in which such individual left Pakistan
	Section 102(1)	- All other employees	- Resident of Pakistan; and - Foreign income tax thereon is paid	100%
Scholarship	Section 47	- All employees (To meet cost of education)	- Not received directly or indirectly from an associate	100%

Special allowance	Clause 39	- All employees	- Specifically to meet expenses wholly and necessarily incurred in performance of the duties of an office or employment of profit excluding entertainment or conveyance allowance	100%
	Clause 5	- Employees rendering services outside Pakistan	- Paid outside Pakistan; - By Government of Pakistan; and - To a citizen of Pakistan	100%
Special perquisites	Clause 39	- All employees	- Specifically to meet requirements wholly and necessarily in the performance of duties of an office or employment of profit excluding entertainment or conveyance	100%
	Clause 5	- Employees of Federal Government rendering services outside Pakistan	- Provided outside Pakistan; and - To a citizen of Pakistan	100%
Sumptuary (Entertainment) allowance	Clause 52 & 53(d)	- A Provincial Governor; - Chief of Staff of Armed Forces of Pakistan; - Corps Commander; - Minister of the Federal Government		100%
Superannuation fund, approved (On retirement or death)	Clause 25	- Former employees or heirs of the former employees of: <ul style="list-style-type: none"> • The Federal Government; • A Provincial Government; • A local authority; • A statutory body or corporation 	- In accordance with the conditions of the service	100%
	Clause 25	- Former employees or heirs of the former employees covered under a scheme applicable to all employees of the employer and approved by the Federal Board of Revenue for this purpose		Amount not exceeding Rs. 200,000
	Clause 25	- All other former employees or heirs of the former employees excluding a director of a company who is not a regular employee of such company	- Received in Pakistan; - By a resident individual; and - First time either from the same or any other employer in Pakistan	50% of the amount receivable or Rs. 75,000, whichever is less
Superior judicial allowance	Clause 56(1)(b)	- Judge of the Supreme Court of Pakistan; or - Judge of a High Court		100%
Transfer allowance	Clause 56(1)(c)	- Judge of a High Court		100%

Travel allowance (Local)	Clause 40	- All employees of a newspaper	- In accordance with the decision of Third Wage Board for Newspaper Employees	100%
Utilities Electricity	Clause (56)(2)(c)	- Judge of the Supreme Court of Pakistan; - Judge of a High Court - Retired Judge of the Supreme Court of Pakistan - Retired Judge of a High Court - Widow of a Judge of the Supreme Court of Pakistan - Widow of a judge of a High Court		1000 units per month.
Utilities Gas	Clause (56)(2)(c)	- Judge of the Supreme Court of Pakistan; - Judge of a High Court - Retired Judge of the Supreme Court of Pakistan - Retired Judge of a High Court - Widow of a Judge of the Supreme Court of Pakistan - Widow of a judge of a High Court		25 hm ³ per month
Utilities Telephone	Clause 56(2)(b)	- Judge of the Supreme Court of Pakistan; - Judge of a High Court - Retired Judge of the Supreme Court of Pakistan - Retired Judge of a High Court - Widow of a Judge of the Supreme Court of Pakistan - Widow of a judge of a High Court		1000 local calls per month
Utilities Water	Clause (56)(2)(c)	- Judge of the Supreme Court of Pakistan; - Judge of a High Court - Retired Judge of the Supreme Court of Pakistan - Retired Judge of a High Court - Widow of a Judge of the Supreme Court of Pakistan - Widow of a judge of a High Court		100%
Workers participation fund	Clause 26	- All employees	- Out of Workers Participation Fund established under the Companies Profit (Workers Participation) Act, 1968	100%

Exemptions

Perquisites or allowances of certain persons or class of persons are exempt from tax under the Income Tax Ordinance, 2001 and Income Tax Rules, 2002, subject to the conditions and the extent specified in Annex I. These exemptions have been re-arranged below with reference to class of persons (nature of employment) for easy reference.

Nature of Employment	Exemptions available (Conditions apply – See Annex I)		
	Perquisites	Allowances	Others
Chief of Staff of Armed Forces of Pakistan	- Accommodation or housing - Motor vehicle	- Sumptuary (Entertainment)	
Corps Commander of Armed Forces of Pakistan	- Motor vehicle	- Sumptuary (Entertainment)	
Employee of educational institution	- Children Education (free or subsidized)		
Employee of the Federal Government	- Accommodation or housing - Special - for rendering services out-side Pakistan	- Special - for rendering services out-side Pakistan	- Commutation of pension - Gratuity - Leave encashment preparatory to retirement - Pension - Superannuation fund
Employee of hospital or clinic	- Medical treatment (free or subsidized)		
Employee of hotels and restaurants	- Food (Free or subsidized)		
Employee of a local authority			- Commutation of pension - Gratuity - Superannuation fund
Employee of a newspaper		- Travel (Local)	
Employee of transporters including airlines	- Passage / Transport, free of cost or at a concessional rate		
Employee of a Provincial Government			- Commutation of pension - Gratuity - Leave encashment preparatory to retirement - Pension - Superannuation fund
Employee of a statutory body or corporation			- Commutation of pension - Gratuity - Superannuation fund
Employee of the United Nations or its Specialized Agencies			- Pension
Families and dependents of Member of the Armed Forces of Pakistan			- Pension (Family)
Families and dependents of Public Servants			- Pension (Family)
Families and dependents of "Shaheeds" of the Armed Forces of Pakistan		- Children	- Pension (Family)
Families and dependents of "Shaheeds" of the Civil Armed Forces of Pakistan		- Children	- Pension (Family)
Heir of the employee of the Federal Government			- Commutation of pension - Gratuity - Superannuation fund
Heir of the employee of a local authority			- Commutation of pension - Gratuity - Superannuation fund -

Heir of the employee of a Provincial Government			<ul style="list-style-type: none"> - Commutation of pension - Gratuity - Superannuation fund
Heir of the employee of a statutory body or corporation			<ul style="list-style-type: none"> - Commutation of pension - Gratuity - Superannuation fund
Heir of any other employee			<ul style="list-style-type: none"> - Gratuity - Superannuation fund
Judge of High Court	<ul style="list-style-type: none"> - Accommodation or housing - Motor vehicle - Petrol - Driver, services of - Orderly, services of - Utilities (Telephone, Electricity, Gas & Water) 	<ul style="list-style-type: none"> - Rent (House) - Superior judicial . 	
Judge of the Supreme Court of Pakistan	<ul style="list-style-type: none"> - Accommodation or housing - Motor vehicle - Petrol - Driver, services of - Orderly, services of - Utilities (Telephone, Electricity, Gas & Water) 	<ul style="list-style-type: none"> - Rent (House) - Superior judicial - Transfer 	
Member of the Armed Forces Pakistan			<ul style="list-style-type: none"> - Leave encashment preparatory to retirement - Pension
Minister of the Federal Government	<ul style="list-style-type: none"> - Accommodation or housing - Motor vehicle 	<ul style="list-style-type: none"> - Rent (House) - Sumptuary (Entertainment) 	
Pakistani citizen locally recruited in Pakistan Mission abroad		<ul style="list-style-type: none"> - Compensatory 	
President of Pakistan	<ul style="list-style-type: none"> - Accommodation or housing 		
Provincial Governor	<ul style="list-style-type: none"> - Accommodation or housing - Motor vehicle 	<ul style="list-style-type: none"> - Sumptuary (Entertainment) 	
Retired Judge of High Court	<ul style="list-style-type: none"> - Petrol - Driver, services of - Orderly, services of - Utilities (Telephone, Electricity, Gas & Water) 		
Retired Judge of the Supreme Court of Pakistan	<ul style="list-style-type: none"> - Petrol - Driver, services of - Orderly, services of - Utilities (Telephone, Electricity, Gas & Water) 		
Widow of a Judge of High Court	<ul style="list-style-type: none"> - Petrol - Driver, services of - Orderly, services of - Utilities (Telephone, Electricity, Gas & Water) 		
Widow of a Judge of the Supreme Court	<ul style="list-style-type: none"> - Petrol - Driver, services of - Orderly, services of - Utilities (Telephone, Electricity, Gas & Water) 		
General (All other)	<ul style="list-style-type: none"> - Medical treatment / hospitalization or reimbursement - Special - to meet requirements wholly and necessarily in the performance of duties of an office or employment of profit. 	<ul style="list-style-type: none"> - Medical - Special - to meet expenses wholly and necessarily incurred in performance of the duties of an office or employment of profit excluding entertainment or conveyance allowance 	<ul style="list-style-type: none"> - Annuity - Benevolent fund grant - Commutation of pension - Gratuity - Pension - Provident fund - Scholarship (to meet cost of education) - Superannuation fund - Workers participation fund

Exemptions

Salary of certain persons or class of persons are exempt from tax under the Income Tax Ordinance, 2001 and Income Tax Rules, 2002, subject to the conditions and the extent specified in Annex I. These exemptions have been re-arranged below with reference to class of persons (nature of employment) for easy reference.

Employee entitled to privileges under the Diplomatic and Consular Privileges Act, 1972
Employee entitled to privileges under the United Nations (Privileges and Immunities) Act, 1948
Employee paid out of funds or grants released as aid to Pakistan in pursuance of an Aid Agreement between the Federal Government and a foreign Government or public international organization
An expert or consultant, engaged on a project in Pakistan financed out of funds or grants in accordance with the bilateral or multilateral technical assistance agreement between the Federal Government and a foreign government or public international organization
An employee of a foreign government as remuneration for services rendered to such government
An expert or technical, professional, scientific advisor or consultant or senior management staff (not a citizen of Pakistan) engaged by the institutions of the Agha Khan Development Network, (Pakistan) listed in Schedule I of the Accord and Protocol dated 13.11.1994 executed between the Government of Islamic Republic of Pakistan and Agha Khan Development Network
Pakistani seafarer working on a foreign vessel, or on Pakistan flag vessel.

Valuation of perquisites and benefits

As a general rule the amount chargeable to tax is the fair market value determined at the time the perquisite or benefit is provided as reduced by any payment made to the employer for such perquisite or benefit by the employee.

However, the valuation of certain perquisites and benefits for which specific provisions are made in the Income Tax Ordinance, 2001 and Income Tax Rules 2002 is determined otherwise. A list of such perquisites and benefits and their respective methods of valuation arranged in alphabetical order for quick and easy reference is given as under:

Nature of Perquisite or benefit	Reference	Basis of valuation or value chargeable to tax
Any other perquisite or benefit not mentioned herein	Section 13(13)	The fair market value of the perquisite or benefit determined at the time it is provided as reduced by any payment made by the employee for such perquisite or benefit
Accommodation	Rule 4	Value of accommodation shall be taken equal to the amount that would have been paid in case accommodation was not provided.
Motor Vehicle provided by the employer partly for private and partly for official use.	Rule 5	5% of the; - Cost of acquiring the motor vehicle by the employer or in case of lease the fair market value of the motor vehicle at the commencement of the lease.
Motor Vehicle provided by the employer for personal use.		10% of the; - Cost of acquiring the motor vehicle by the employer or in case of lease the fair market value of the motor vehicle at the commencement of the lease.
Loan given by the employer after 1 st July 2002 at a rate of profit less than the benchmark rate.	Section (13)(7)(b)	Difference between the amount of profit on loan paid by the employee and the amount of profit on loan computed at the benchmark rate.
Loan given by the employer after 1 st July 2002 at no profit	Section (13)(7)(a)	Profit on loan at the benchmark rate.
Right or option to acquire shares under an employee share scheme	Section 14(5)	The difference between the consideration received for the disposal of the right or option and the employee's cost in respect of the right or option.
Services of housekeeper, driver, gardener, or other domestic assistant(s)	Section (13)(5)	Salary paid by the employer for such services as reduced by any payment made by the employee.
Shares issued under an employee share scheme	Section 14(2)	The difference between the fair market value of the shares on the date of issue and any consideration given by the employee for the shares, including any consideration given for the grant of a right or option to acquire the shares.
Shares issued under an employee share scheme, but subject to restriction transfer	Section 14(3)	The difference between the fair market value of the shares and any consideration given by the employee for the shares including any amount given as consideration for the grant of a right or option to acquire the shares and until earlier of: - - the time the employee has a free right to transfer the shares; or - the time the employee disposes the shares
Utilities	Section (13)(6)	Fair market value of the utilities provided, as reduced by any payment made by the employee for the utilities

Terminologies and words used

Terminologies and words used in the list of exemptions and the valuation of perquisites and benefits are explained in alphabetical order as under:-

Words or Terminologies	Explanation/Definition
Annual Value.	The sum for which any accommodation or housing might reasonably be expected to let from year to year.
Approved Gratuity Fund.	A Gratuity Fund approved by the Commissioner in accordance with the provisions of Part III of the Sixth Schedule to the Income Tax Ordinance, 2001.
Approved Superannuation Fund.	A Superannuation Fund or any part of a superannuation fund approved by the Commissioner in accordance with the provisions of Part II of the Sixth Schedule to the Income Tax Ordinance, 2001.
Basic salary.	Any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave, overtime payment, bonus, commission, fees, gratuity or work condition supplements payable monthly or otherwise and fair market value of the shares issued or disposal of an option or right to acquire the shares under an employee share scheme but excluding:- (i) dearness allowance or dearness pay unless it enters into the computation of superannuation or retirement benefits of the employee concerned; (ii) employer's contribution to a recognized provident fund or a fund to which the Provident Funds Act, 1925 (XIX of 1925), applies and the interest credited on the accumulated balance of an employee in such fund; (iii) allowances which are exempt from the payment of tax under any provision of this Ordinance;
Benchmark rate.	This has been fixed at 5% for the tax year 2003 and in the following tax years it shall be increased by 1% for each successive year, i.e. 6% for tax year 2004, 7% for the tax year 2005 and so on, but not exceeding the rate notified by the Federal Government for any year. At present the Federal Government has notified no such rate.
Employee Share Scheme.	An agreement or arrangement under which a company issues shares to its employee; or an employee of an associated company; or the trustee of a trust who under the trust deed transfer the shares to its employee or an employee of an associated company.
Furnished accommodation or housing.	Includes electric fans, built-in cupboards, cooking range, water heater, basic furniture and furnishing, appliances for cooking, refrigeration and heating and cooling appliances.
Recognized Provident Fund.	A Provident Fund recognized by the Commission in accordance with the provisions of Part I of the Sixth Schedule to the Income Tax Ordinance, 2001.
Salary	Does not include the employer's contribution to a recognized provident or superannuation fund or gratuity fund or any other sum, which does not enter into the computation for pension or retirement benefits.
Time Scale.	Pay which rises by periodical increments from a minimum to a maximum.
Unfurnished accommodation or housing.	Includes electric fans, built in cupboards, cooking range and water heater.