

Note on Tax Rebate available on Takaful Contribution (Other than salaried)

A person deriving income chargeable to tax under the head "salary" or "income from business" can reduce his tax liability by claiming a tax credit on Takaful Contribution/Life insurance premium paid in a tax year.

This credit is allowed under section 62(1) of the Income Tax Ordinance, 2001 (the Ordinance), in respect of any Takaful Contribution/Life Insurance premium paid on a policy to a life insurance company registered by the Securities & Exchange Commission of Pakistan under the Insurance Ordinance, 2000 (XXXIX of 2000).

Formula for calculation of rebate:

The rebate calculation as given in section 62(2) of the Ordinance is based on the following formula, namely:

$$(A/B) \times C$$

Where-

- A** is the amount of tax assessed to the person for the tax year before allowance of any tax credit;
B is the person's taxable income for the tax year; and
C is the lessor of -
- The total contribution or premium paid by the person;
 - Twenty percent of the person's taxable income for the tax year; or
 - Two million rupees.

An individual deriving business income can claim this tax credit while filing his annual tax return. A certificate issued by the takaful/insurance company for collection of contribution/premium in a tax year would suffice as a documentary evidence for claiming this credit as required under the Ordinance.

Below is an illustration of rebate allowed on various levels of business income, based on the tax rates applicable to *other than salaried* individuals for the Tax Year 2020 (01-Jul-19 to 30-Jun-20).

Rupees					
Annual Taxable Income (B)	Average Tax rate	Annual Tax Liability (A)	Takaful Contribution allowed (C)	Rebate allowed = (A/B) x C	Net tax payable
800,000	3.75 %	30,000	160,000	6,000	24,000
1,000,000	5.00 %	50,000	200,000	10,000	40,000
1,200,000	5.83 %	70,000	240,000	14,000	56,000
1,500,000	7.67 %	115,000	300,000	23,000	92,000
1,800,000	8.89 %	160,000	360,000	32,000	128,000
2,000,000	9.50 %	190,000	400,000	38,000	152,000
2,300,000	10.22 %	235,000	460,000	47,000	188,000
2,500,000	10.80 %	270,000	500,000	54,000	216,000
2,700,000	11.48 %	310,000	540,000	62,000	248,000
3,000,000	12.33 %	370,000	600,000	74,000	296,000
3,500,000	14.14 %	495,000	700,000	99,000	396,000
4,000,000	15.50 %	620,000	800,000	124,000	496,000
5,000,000	18.40 %	920,000	1,000,000	184,000	736,000
6,000,000	20.33 %	1,220,000	1,200,000	244,000	976,000
7,000,000	22.43 %	1,570,000	1,400,000	314,000	1,256,000
8,000,000	24.00 %	1,920,000	1,600,000	384,000	1,536,000
9,000,000	25.22 %	2,270,000	1,800,000	454,000	1,816,000
10,000,000	26.20 %	2,620,000	2,000,000	524,000	2,096,000
11,000,000	27.00 %	2,970,000	2,000,000	540,000	2,430,000