

Note on Tax Rebate available on Takaful Contribution (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 employer is authorized to give this tax credit to an employee while deducting tax on salary under section 149(1) of the Ordinance. A certificate issued by the takaful/insurance company for collection of contribution/premium in a tax year would suffice as a documentary evidence for giving this credit as required u/s 149(1) of the Ordinance.

Below is an illustration of rebate allowed on various levels of salary income, based on the tax rates applicable for 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	1.25 %	10,000	160,000	2,000	8,000
1,000,000	2.00 %	20,000	200,000	4,000	16,000
1,200,000	2.50 %	30,000	240,000	6,000	24,000
1,500,000	4.00 %	60,000	300,000	12,000	48,000
1,800,000	5.00 %	90,000	360,000	18,000	72,000
2,000,000	6.00 %	120,000	400,000	24,000	96,000
2,300,000	7.17 %	165,000	460,000	33,000	132,000
2,500,000	7.80 %	195,000	500,000	39,000	156,000
2,700,000	8.52 %	230,000	540,000	46,000	184,000
3,000,000	9.42 %	282,500	600,000	56,500	226,000
3,500,000	10.57 %	370,000	700,000	74,000	296,000
4,000,000	11.75 %	470,000	800,000	94,000	376,000
5,000,000	13.40 %	670,000	1,000,000	134,000	536,000
6,000,000	14.92 %	895,000	1,200,000	179,000	716,000
7,000,000	16.00 %	1,120,000	1,400,000	224,000	896,000
8,000,000	16.81 %	1,345,000	1,600,000	269,000	1,076,000
9,000,000	17.72 %	1,595,000	1,800,000	319,000	1,276,000
10,000,000	18.45 %	1,845,000	2,000,000	369,000	1,476,000
11,000,000	19.05 %	2,095,000	2,000,000	380,909	1,714,091