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Income from Property

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Income from Property

- **Income from Property [section 15(1)]**

The rent received or receivable by a person for a tax year, other than rent exempt from tax, will be chargeable to tax in that year under the ‘Income from Property.

- **“rent” means any amount received or receivable by the owner of land or a building as consideration for the use or occupation of, or the right to use or occupy, the land or building, and includes any forfeited deposit paid under a contract for the sale of land or a building but excluding the lease of a building together with plant and machinery.**

- **Income from the lease of immovable property in Pakistan shall be Pakistan source rental income. (Section 101(9))**

Tax Slab Rates (for tax year 2019)

- **Individuals and AOP's are taxed at the same rates (subject to exemption, if income under this head not exceeding Rs. 200,000 in a tax year and a person not deriving income under any other head). Whereas companies are taxed at their corporate rates.**

S.No	Gross amount of Rent	Rate of tax
1.	Where the gross amount of rent does not exceed Rs.200,000.	Nil
2.	Where the gross amount of rent exceeds Rs.200,000 but does not exceed Rs.600,000.	5% of the gross amount exceeding Rs.200,000.
3.	Where the gross amount of rent exceeds Rs.600,000 but does not exceed Rs.1,000,000.	Rs.20,000 + 10% of the gross amount exceeding Rs.600,000.
4.	Where the gross amount of rent exceeds Rs.1,000,000 but does not exceed Rs.2,000,000.	Rs.60,000 + 15 % of the gross amount exceeding Rs.1,000,000.
5.	Where the gross amount of rent exceeds Rs.2,000,000.	Rs.210,000 + 20% of the gross amount exceeding Rs.2,000,000

Income from Property

➤ Deductions allowed from income from property [section 15A]

The following deductions are allowed to a company when computing income from property:

- Amount used for repair of the building equal to 1/5th of the rent chargeable;
- Any premium for insurance of the building;
- Any local tax, charge or rate in respect to the property or rent chargeable;
- Ground rent payable or paid by the company;
- Profit to be paid on money borrowed as a mortgage to improve the property;
- The amount of interest or profit paid on the mortgage or charge of the property respectively;

Income from Property

- **Share in rent and share towards appreciation in the value of property (excluding the return of capital, if any) from the property paid or payable to the House Building Finance Corporation or a scheduled bank under a scheme of investment in property in the year under that scheme;**
- **Any administration and collection charges (wholly and exclusively to earn rent chargeable to tax) paid or payable in the year not exceeding 6% of the rent chargeable to tax computed before any deduction;**
- **Any expenditure incurred as legal expenditure in relation to litigation with respect to the property in court;**
- **Amount of unpaid rent which is irrecoverable. For such deduction to be allowed the company needs to establish that:**
 - **tenancy was bona fide, the defaulting tenant does not reside in any of the properties of the same owner and steps have been taken to compel the tenant to vacate the property;**
 - **The person has either taken all legal recourse to avail unpaid rent or believes such an attempt would be futile: and**
 - **The rent has already been included in income from property and tax has been paid on the income inclusive of the bad rent.**

Income from Property

➤ **Reversal of Deductions allowed from income from property [section 15A]**

- **Any recovery of unpaid rent claimed as a deduction, shall be chargeable to tax in the tax year in which it is recovered.**
- **If the company does not pay the liability within three years of claiming the deduction, the amount of liability unpaid shall be charged to tax immediately after the end of the three year period. However, the unpaid liability charged for tax is paid either fully or partially, then the company can claim the amount paid as deduction for the tax year when it is paid**

Income from Property

- **Non adjustable amounts received in relation to buildings [section 16]**
 - **Amounts received from a tenant not adjustable against rent will be charged under the head income from property in equal proportions over 10 years. (Section 16(1))**
 - **Where the amount received as advance is returned, it shall not be chargeable to tax in the year it is returned and any year subsequently. (Section 16(2))**
 - **Where a new tenant replaces the old one and pays an advance, their amount will be reduced by the advance repaid to the previous tenant on which tax has been paid and it will then be chargeable to tax in equal proportions over the next 10 years, in the same way as the previous advance. (Section 16(3))**

Example - Income from Property

Mr. Saqib had let out the property to Mr. Shakeel for a sum of Rs 150,000 per month in July 2016. Mr. Shakeel has paid a sum of Rs 500,000 as non-adjustable advance. After the expiry of two years, Mr. Shakeel vacated the premises and Mr. Saqib returned the advance to Mr. Shakeel. Thereafter, Mr. Sohaib acquired the possession on the same rental amount. However, the amount of nonadjustable advance was increased to Rs 600,000. Compute the gross income of Mr. Saqib from the said property and related tax liability for the years 2019.

Solution - Income from Property

Income from Property for the year 2019

Particulars		Amount in Rupees
Rent $150,000 \times 12$		1,800,000
Add: Un-adjustable Advance	600,000	
Less: Already recognised income in the last two years ($\text{Rs.}50,000 \times 2 \text{ years}$)	<u>100,000</u>	
Balance Chargeable advance in 10 years	500,000/10	<u>50,000</u>
Total Gross rental Income		<u>1,850,000</u>
<u>Tax Liability under the head income from Property</u>		
Income upto Rs. 1,000,000	60,000	
Exceeding Rs. 1,000,000. ($850,000 \times 15\%$)	<u>127,500</u>	
Total tax liability for tax year 2019		<u>187,500</u>



Thank you