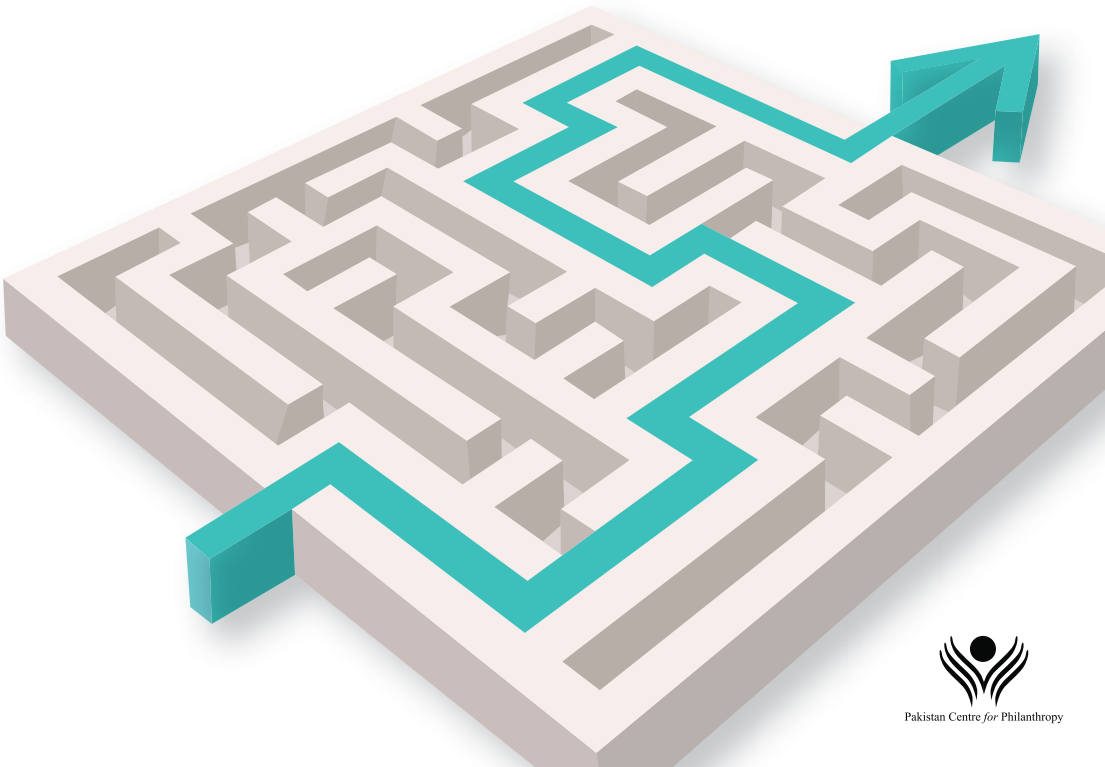


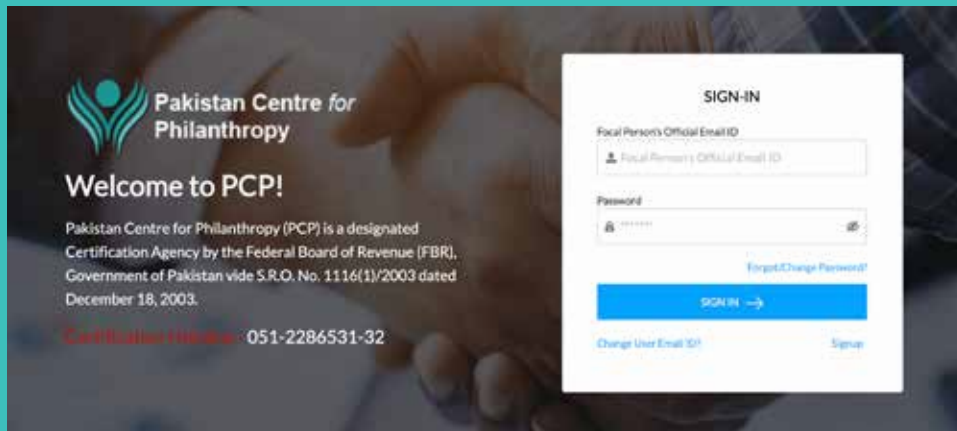
PCP TAX GUIDE

- Understand NPO tax system
- Application for Section 61
- Become tax compliant

YOUR COMPLETE GUIDE TO BECOMING SECTION 61 APPROVED NPO



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CONTENTS

01 | Why PCP Tax Guide Series?

02 | What are the Steps for Availing 100% Tax Credit?

03 | Why Apply?

03 | What is the Procedure?

04 | How to Calculate Tax Credit on Donations?

DISCLAIMER

- ✓ *The objective of PCP Tax Guide Series is not to provide legal advice, but to give interested persons access to informative materials and for understanding of tax regime.*
- ✓ *Recognizing that the NPO Tax laws change and their interpretations may be varied. Hence, Pakistan Centre for Philanthropy (PCP) is not liable for the variances that may accrue due to interpretation of tax laws.*

For Further Assistance
Refer to FAQs | Call: +92 51 2286531-32 | Email: support@pcp.org.pk

Why PCP Tax Guide Series?

One of the major stakeholders in national development is civil society. Thousands of Not for Profit Organizations (NPOs) are working with communities throughout the country. They are contributing enormously towards poverty alleviation and other sectors i.e. health, education etc. It is therefore, in the interest of the national development agenda that NPOs are developed, strengthened and made financially viable. Generally an NPO is entitled to certain benefits and concessions across the board whether or not it is approved by the tax authorities for tax benefits.

NPOs approved by the tax authorities at various levels have an entitlement to some additional benefits i.e. tax credits/exemptions on different utility bills, property income, custom duties etc. In Pakistan, the tax benefits are provided in the Income Tax Ordinance (ITO), 2001 and Income Tax Rules (ITR), 2002. These provide an elaborate system whereby the NPOs get tax benefits with reference to their defined activities. From the attainment of NPO status against the defined activities of an NPO, the taxation system of Pakistan has provided detailed process for tax benefits.

The Pakistan Centre for Philanthropy (PCP) is an authorized agency evaluating NPOs and recommending them for tax benefits to the Federal Board of Revenue (FBR). PCP is in constant interaction with NPOs seeking an approved NPO status, philanthropists who contribute to NPOs seeking tax benefits/credits and government functionaries i.e. FBR, Economic Affairs Division (EAD) etc. who form an important link in the chain. PCP is often asked to answer all kind of questions related with requirements/process of tax benefits for NPOs, tax liabilities of NPOs and has therefore aimed to facilitate this application process for all NPOs.

In order to help its stakeholders and in an effort towards fulfilling its mandate of supporting the civil society, PCP has undertaken an exercise to compile the PCP tax guide series, for information on tax benefits pertinent to NPOs. Each edition of the series will deal with a separate tax-related issue for NPOs. **This edition of the series will focus on the application for section 61 i.e. tax credit for charitable donations.**

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January 2024
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What are the Steps for Availing Tax Credit on Donations?

The objective of this tax guide series for tax benefits is to present an overall picture of the tax benefits related provisions provided in Pakistan's income tax law. An NPO approaches RTO/LTO offices for availing tax benefits relating to exemptions (as listed below). These include: getting the status of an approved NPO; tax credits on income of an NPO; donor's getting benefits for the donations paid to an approved NPO and receiving exemption or a lower rate certificate related with advance payment of tax.

1. Approved NPO status under section 2(36) of the (ITO) 2001(1st step for availing tax benefits).
2. Tax credit equal to one hundred percent on income under Section 100 C of the ITO 2001
- 3. Entitlement of tax credit to persons for charitable donations under section 61 of the ITO 2001**
4. Exemptions related with withholding transactions of NPOs in section 159 of the ITO 2001.

PCP guide series (III) will now take you step by step for availing tax benefits for the 3rd step as listed above. After status of an approved NPO under Section 2(36), its case can be further processed for Section 100 C. In case of a "Donee" Section 61 will now provide details of the entitlement of tax credit to persons for charitable donations under section 61 of the ITO 2001. The final and last of the guide will provide a guiding framework for the next procedure i.e. Section 159.

Why Apply?

Section 61 of the ITO, 2001 specifies the extent and scope of tax benefit related with Donors. An organization that has been approved by the commissioner under Section 2(36) of Income Tax gets a “donee status”, meaning that any donation (in cash or kind) are tax deductible subject to the conditions specified in section 61 of the ITO 2001.

Specifically speaking, the “donee status” conferred by section 61 does not benefit the NPO directly. In fact, it grants a fiscal benefit to the donor of an NPO. It acts as an incentive to an NPO having a “donee status” rather than an NPO without it. On the part of the government, ‘recognition factor’ also contributes to the “public benefit” character of the NPO concerned.

A donor gets tax credit at the time of filing a tax return. The benefit is available to individuals as well as corporate donors. The communities living outside Pakistan, however, are not eligible for such tax credit if they donate to an NPO approved in Pakistan. The rationale is that they do not file their tax returns in Pakistan. The tax credits can be availed if an NPO is registered and approved in their own country. This has motivated many organizations to register their sister organizations in countries where the Pakistani Diaspora donate considerable amounts.

What is the Procedure?

Section 61 of the ITO 2001 provides the details of the entitlement of tax credit for a person who pays any sum or donate. It states:

Section 61 (1) A person shall be entitled to a tax credit in respect of any sum paid, or any property given by the person in the tax year as a donation, voluntary contribution or subscription to -

- a) Any board of education or university in Pakistan established by, or under, a Federal or a Provincial law;
- b) educational institution, hospital or relief fund established or run in Pakistan by Federal Government or a Provincial Government or a [Local Government]; or
- c) any non-profit organization or any person eligible for tax credit under section 100C of this Ordinance;
- d) entities, organizations, and funds mentioned in the Thirteen schedule of this Ordinance

Different types of Donees: Section 61

- ✓ Board of education
- ✓ University in Pakistan established by, or under, a Federal or a Provincial law
- ✓ Educational institution
- ✓ Hospital
- ✓ Relief fund established or run in Pakistan by Federal Government or a Provincial Government or a Local Government
- ✓ Any non-profit organization
- ✓ any person eligible for tax credit under section 100C of this Ordinance;
- ✓ entities, organizations, and funds mentioned in the Thirteen schedule of this Ordinance

How to Calculate Tax Credit on Donations?

Section 61 (2) The amount of a person’s tax credit allowed under sub section (1) for a tax year shall be computed according to 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 under this Part;
- B. is the **person’s taxable income** for the **tax year**; and
- C. is the lesser of -
 - a. The **total amount of the person’s donations** referred to in subsection (1) in the year, including the **fair market value of any property given**; or
 - b. Where the person is -
 - i. an **individual** or **association of persons, thirty percent** of the **taxable income** of the person for the year; or
 - ii. a **company, twenty percent** of the **taxable income** of the person for the year.

(3) For the purposes of clause (a) of component C of the formula in subsection (2), the **fair market value** of any property given shall be determined at the time it is given.

(4) A cash amount paid by a person as a donation shall be taken into account under clause (a) of component C of sub-section (2) only if it was **paid by a crossed cheque** drawn on a bank.

(5) The Board may make rules regulating the **procedure of the grant of approval** under sub-clause (c) of clause (36) of section 2 and any other matter connected with, or incidental to, the operation of this section.

(6) Donors of NPOs approved by the Commissioner are entitled to tax credit against their income tax liability for any donation given to NPOs whether in cash or in kind. An organization that has been so approved gets a 'donee status', meaning that any donations to it are tax deductible subject to the conditions specified in Section 61 (as mentioned above).

Pre-requisites for availing tax credit on donations

- ✓ Charitable donations, both in cash or kind¹ are given to NPOs which have been approved by the Commissioner of Income Tax
- ✓ Charitable donations (other than in kind) are given through crossed cheque drawn on a bank
- ✓ The amount and / or value of charitable donations eligible for tax credit (rebate) is subject to the provided limits

Example 1 (individual / Association of persons)

An individual donated Rs.20,000 to an approved CSO during Tax Year 2006. The individual's taxable income for the tax year amounted to Rs. 2,000,000 and his tax liability amounted to Rs. 572,500. Tax credit with reference to the donation will be calculated as under:

(A/B) * C

$$572,500/2,000,000 * 20,000 = 5,725$$

Accordingly, the individual's net tax liability for Tax year 2006 will be Rs. 566,775 (Rs. 572,500 less Rs. 5,725)

Example 2 (Company)

A company donated Rs. 1,000,000 to an approved CSO during Tax year 2006. Its taxable income for the tax year amounted to Rs. 50,000,000 and its tax liability for the tax year was Rs. 17,500,000.

The amount of tax credit will be calculated as under:

(A/B) * C

$$17,500,000/ 50,000,000 * 1,000,000 = 350,000$$

Figure for component C in the formula is 1,000,000 i.e lesser of total amount of donations (1,000,000) or 20% of the company's taxable income(50,000,000).

Accordingly, the company's tax liability for the tax year will be Rs. 17,150,000 (Rs. 17,500,000 less Rs. 350,000)

Notes

Notes

انکم ٹیکس آرڈیننس 2001 (Income Tax Ordinance 2001) کا سیکشن 61 رقم دینے یا عطیہ کرنے والے شخص کے لیے ٹیکس کریڈٹ (Tax Credit) کے حقدار ہونے کی تفصیلات فراہم کرتا ہے۔ یہ بیان کرتا ہے:

سیکشن 61(1)

ٹیکس سال میں کسی شخص کی طرف سے دی جانے والی کوئی رقم یا جائیداد بطور عطیہ، رضا کارانہ شرکت یا سبسکرپشن ٹیکس کریڈٹ کی حقدار ہوگی۔

- ✓ کوئی بھی ایجوکیشن بورڈ، یا
- ✓ پاکستان میں کسی وفاقی یا صوبائی قانون کے ذریعے یا اس کے تحت قائم کی گئی یونیورسٹی
- ✓ تعلیمی ادارہ
- ✓ ہسپتال یا
- ✓ پاکستان میں وفاقی حکومت یا صوبائی حکومت یا (مقامی حکومت) کے ذریعے قائم یا چلائے جانے والا ریلیف فنڈ
- ✓ کوئی غیر منافع بخش ادارہ
- ✓ اس آرڈیننس کے سیکشن 100C کے تحت ٹیکس کریڈٹ کا اہل کوئی بھی شخص
- ✓ اس آرڈیننس کے شیڈول نمبر تیرہ میں مذکور ادارے، تنظیمیں اور فنڈز

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طریقہ کار کیا ہے؟

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- سیکشن 61 کی درخواست
- ٹیکس قوانین کی تعمیل

سیکشن 61 کی درخواست کے طریقہ کار کے لیے مکمل گائیڈ

