

## FAQs

### 1. What are the benefits of tax exemptions are non-profit organizations?

Applicability of tax benefits available to an NPO squarely depends on the type of NPO itself i.e. its constitution and type of approval it has obtained under the tax system of the country. A synopsis of specific tax benefits available to NPOs approved by Commissioner / CBR would be of assistance.

#### I. Exemptions on Incomes

The exemptions available to various incomes with reference to the types of NPOs and the limitations if any are being are enumerated in the table below: -

<b>Nature of Income</b>	<b>Exemption Available – Type of NPO</b>	<b>Applicable Restrictions &amp; Conditions</b>
<b>Voluntary Contributions/ Donations &amp; Subscriptions</b>	Informal Approved by the Commissioner	To the extent received solely for the religious and charitable purposes of such organization.
	Approved by the CBR	None
<b>Grants from Federal, Provincial or District Governments</b>	Trusts/Social Welfare Agencies /NPOs Approved by the Commissioner	To the extent actually applied or set apart for application to the religious or charitable purposes of such organization in Pakistan.
	Approved by the CBR	
<b>Foreign grants</b>	NPOs Approved by the Commissioner	To the extent actually applied or set apart for application to the religious or charitable purposes of such organization in Pakistan.
	Approved by the CBR	
<b>Income from property</b>	Trusts	To the extent actually applied or set apart for application to the religious or charitable purposes of such organization in Pakistan.
	Approved by the CBR	None

<b>Income from business</b>	Approved by the CBR	<p>To the extent expended in Pakistan for the purposes of carrying out welfare activities of such organization; and in proportion to the ratio of income from business to the aggregate incomes from all sources.</p> <p><b>Example</b></p> <ol style="list-style-type: none"> <li>1. Income from voluntary contributions Rs. 50,000</li> <li>2. Income from property Rs. 15,000</li> <li>3. Income from business Rs. 35,000</li> <li>4. Total income from all sources Rs. 100,000</li> <li>5. Amount expended in Pakistan for Carrying out welfare activities Rs. 20,000</li> <li>6. Exempt income from business [3 divided by 4 &amp; multiplied by 5] Rs. 7,000</li> </ol>
<b>Profit on investments in the securities of the Federal Government</b>	Trusts	To the extent actually applied or set apart for application to the religious or charitable purposes of such organization in Pakistan
	Approved by the CBR	None
<b>Profit on debt from scheduled banks</b>	Trusts	To the extent actually applied or set apart for application to the religious or charitable purposes of such organization in Pakistan
	Approved by the CBR	

## II. Exemption from levy of Turnover Tax

NPOs approved by the Commissioner enjoy exemption from levy of minimum tax of 0.50% of their turnover, which otherwise is a compulsory levy imposed through an overriding provision of law.

## III. Exemption from Withholding Tax as Recipient

NPOs approved by the Central Board of Revenue can apply to the Commissioner concerned for issuance of exemption certificate as a recipient so that no tax is withheld

(rebate) against its tax liability. The pre-requisites to avail this tax concession are that the donations: -

- i. both in cash or kind, are given to NPOs approved by the Commissioner;
- ii. are given (other than those in kind) through crossed cheque drawn on a bank; &
- iii. are given (those in kind) through irrevocable transfer deed / documentary evidence and to the permanent exclusivity of the owner (s), his/her legal heirs and relatives.

The amount and/r value of donations eligible for tax credit (rebate) is subject to the following limits:-

### **Individual/AOP Donors**

#### **Situation I**

The donor is an individual/ AOP. In Tax Year 2004 he donated to an NPO a sum of Rs.40, 000/- or property fair market value of which is Rs.40, 000/-. The donor's taxable income for the T/Y 2004 is Rs.100, 000/-. What would be the allowable amount of tax credit /rebate to him?

#### **Situation II**

The donor is an individual / AOP. In Tax Year 2004 he has donated property to a NPO fair market value of which is Rs.20,000/- or cash amounting to Rs.20,000/-. Donors taxable income for the Tax year 2004 is Rs.100, 000/-. What would be the allowable amount of tax credit /rebate to him?

	<b>Situation I</b>	<b>Situation II</b>
1. Amount of charitable donations	Rs. 40,000	Rs. 20,000
2. 30% of taxable income	Rs. 30,000	Rs. 30,000
3. Eligible amount (lower of 1 & 2)	Rs. 30,000	Rs. 20,000

### **Corporate Donors**

#### **Situation I**

The donor is a company. In Tax Year 2004 it donated to an NPO a sum of Rs. 40, 000/- or a property fair market value of which is Rs.40,000/-. Donors taxable income for the T/Y 2004 is Rs.100, 000/-. What would be the allowable amount of tax credit /rebate?

#### **Situation II**

The donor is a company. In Tax Year 2004 it has donated property to an NPO the fair market value of which is Rs.10, 000/- or cash Rs.10, 000/-. Donors taxable income for the T/Y 2004 is Rs.100, 000/-. What would be the allowable amount of tax credit /rebate?

**Question # 2: What types of NPOs qualify for tax exemptions under the law?**

NPOs that are registered under of the following laws qualify for tax exempt status approvals: -

- i. The Societies Registration Act, 1860
- ii. The Trusts Act, 1882
- iii. The Cooperative Societies Registration Act, 1925
- iv. The Voluntary Social Welfare Agencies Registration and Control Ordinance, 1961
- v. The Companies Ordinance, 1984
- vi. Any other law

**Question # 3: How many types of tax exempt status approvals are given under the tax laws?**

Under the law there are two types of tax exempt status approvals: -

Type A: Approval granted by the Commissioner of Income Tax u/s 2 (36) of the Income Tax Ordinance, 2002.

Type B: Approval granted by the Central Board of Revenue under Clause 58 (3) of Part I of 2<sup>nd</sup> Schedule to the Income Tax Ordinance, 2002.