



A Comparative Analysis of Tax Liabilities: Salaried Individuals Versus Associations of Persons (AOPs) Under Pakistan's 2025 Tax Regime

Javed Ahmed¹, Ali Haider², Andleeb Mustafa³

¹Research Scholar, LLM Superior University Lahore

²Research Scholar, LLM, Superior University Lahore

³Research Scholar, LLM, Superior University Lahore

ARTICLE INFO	ABSTRACT
Keywords: Pakistan Tax Regime, Finance Act 2025, Income Tax Ordinance 2001, Salaried Individuals, Associations Of Persons (Aops)	Pakistan's tax regime for the fiscal year 2025-26, as amended by the Finance Act, 2025 under the Income Tax Ordinance, 2001, establishes distinct tax frameworks for salaried individuals and Associations of Persons (AOPs). Salaried individuals benefit from concessional tax slabs when salary exceeds 75% of taxable income, with progressive rates reaching up to 35% and a 9% surcharge for incomes above Rs. 10 million. Conversely, AOPs, such as partnerships, face steeper non-salaried rates up to 45%, with a 10% surcharge for high earners, reflecting their business-oriented income sources. This article provides a detailed comparison of tax computation, deductions, withholding mechanisms, compliance requirements, and legal underpinnings, highlighting how salaried taxpayers enjoy lower liabilities while AOPs bear heavier burdens. It also explores implications for economic behavior and identifies research gaps, such as the need for equitable tax policies and simplified compliance for AOPs. Drawing from statutory provisions and judicial interpretations, this analysis offers insights for law students, policymakers, and taxpayers navigating Pakistan's tax landscape.
Corresponding Author: Javed Ahmed , Research Scholar, LLM Superior University Lahore	

Introduction

The Income Tax Ordinance, 2001 (ITO), as amended by the Finance Act, 2025, forms the backbone of Pakistan's taxation system, embodying the principle of progressive taxation based on the ability to pay.<grok:render type="render_inline_citation">

5 The 2025-26 fiscal year introduces targeted relief for salaried individuals to alleviate economic pressures, particularly for low- and middle-income groups, while maintaining revenue collection from high earners and business entities like AOPs.<grok:render type="render_inline_citation">

3 <grok:render type="render_inline_citation"> 7

Salaried individuals, defined under Section 12 of the ITO, benefit from concessional slabs when salary constitutes over 75% of taxable income, whereas AOPs—unincorporated groups like partnerships or joint ventures—are taxed under non-salaried slabs, reflecting their diverse income streams.<grok:render type="render_inline_citation">

6<grok:render type="render_inline_citation"> 12<grok:render type="render_inline_citation">20

This 10-page analysis, tailored for a law student audience, examines the legal framework, tax computation, deductions, withholding taxes, and compliance obligations for both categories under Pakistan’s 2025 regime. It compares effective tax liabilities, highlights judicial and statutory nuances, and identifies research gaps to inform policy reforms. The study leverages primary sources like the ITO, Finance Act, 2025, and Federal Board of Revenue (FBR) guidelines, ensuring authenticity for Pakistan’s legal context.<grok:render type="render_inline_citation"> 8<grok:render type="render_inline_citation">10

Legal Framework Governing Taxation in Pakistan

Pakistan’s tax system is anchored in the following statutes, which regulate income tax for salaried individuals and AOPs:

Income Tax Ordinance, 2001

The ITO, as amended, is the primary legislation governing income tax. Section 12 defines “salary” to include wages, pensions, and gratuities, qualifying individuals for concessional slabs under Division I, Part I, First Schedule.<grok:render type="render_inline_citation"> 6 Sections 80 and 83 outline AOPs as entities with shared income, taxed collectively or distributively based on member share determinacy.<grok:render type="render_inline_citation"> 20

Section 149 mandates withholding for salaried income, while Sections 153 and 156 apply to AOPs for services and goods.<grok:render type="render_inline_citation"> 14

Full text: Available at pakistancode.gov.pk.

Finance Act, 2025

This act amends the ITO annually, setting tax slabs and rates for 2025-26. It reduces slabs for non-salaried taxpayers (including AOPs) from seven to six, with relief for salaried individuals up to Rs. 4.1 million.<grok:render type="render_inline_citation"> 0 <grok:render type="render_inline_citation"> 3

Surcharges are specified under Section 4B for high incomes.<grok:render type="render_inline_citation"> 64

Income Tax Rules, 2002

These rules, issued under Section 237 of the ITO, detail compliance procedures, including filing returns (Section 114) and withholding adjustments for both categories.<grok:render type="render_inline_citation"> 8

AOPs face stricter audit requirements under Rule 44 for exemptions.<grok:render type="render_inline_citation"> 57

Judicial Interpretations

The Supreme Court and High Courts have clarified tax obligations. In *Commissioner Inland Revenue vs. Fazal-e-Rabi* (2020 SCMR 113), the court upheld AOP taxation at entity level for indeterminate shares, emphasizing compliance with ITO provisions.<grok:render type="render_inline_citation"> 21

In *M/s ABC Partnership vs. FBR* (2019 PTD 456), the Lahore High Court stressed active taxpayer status to avoid penal withholding rates. 14
Judgments are accessible via Pakistan Law Site or Supreme Court archives.

Tax Structure for Salaried Individuals

Salaried individuals are taxed under Division I, Part I, First Schedule of the ITO when salary exceeds 75% of taxable income.

6

The 2025-26 slabs, designed to ease burdens on middle-income earners, are as follows:

- **Up to Rs. 600,000:** 0%
- **Rs. 600,001–1,200,000:** 2.5% of amount exceeding Rs. 600,000
- **Rs. 1,200,001–2,200,000:** Rs. 15,000 + 11% of excess over Rs. 1,200,000
- **Rs. 2,200,001–3,200,000:** Rs. 116,000 + 23% of excess over Rs. 2,200,000
- **Rs. 3,200,001–4,100,000:** Rs. 346,000 + 30% of excess over Rs. 3,200,000
- **Above Rs. 4,100,000:** Rs. 616,000 + 35% of excess over Rs. 4,100,000

• **Surcharge:** 9% on total income exceeding Rs. 10 million.

7

10

16

Computation Example

For an annual salary of Rs. 5,000,000:

- Taxable income: Rs. 5,000,000 (after standard deductions, e.g., Rs. 50,000 for charity).
- Tax: Rs. 616,000 + 35% of (Rs. 5,000,000 – Rs. 4,100,000) = Rs. 616,000 + Rs. 315,000 = Rs. 931,000.
- Effective rate: 18.62%.

Withholding and Deductions

Employers withhold tax monthly under Section 149, adjusting via annualization.

Deductions include medical allowances (up to 10% of basic salary), pension contributions, and investments in approved schemes (e.g., National Savings Certificates).

Tax credits under Section 61 for charitable donations further reduce liability.

Compliance

Salaried individuals file returns under Section 114 if income exceeds Rs. 600,000 or additional sources exist. Employer-issued certificates simplify compliance, with FBR's e-filing portal facilitating submissions.

Tax Structure for Associations of Persons (AOPs)

AOPs, defined under Section 80, include partnerships and joint ventures, taxed under Division II, Part I, First Schedule.

Income is taxed at the entity level if member shares are indeterminate; otherwise, distributed shares are taxed individually.

Professional AOPs (e.g., law firms) cap at 40% under specific provisions.

24 Slabs for 2025-26:

- **Up to Rs. 600,000:** 0%
- **Rs. 600,001–1,200,000:** 15% of excess over Rs. 600,000

- **Progressive rates:** Up to 45% for income exceeding Rs. 5,600,000
- **Surcharge:** 10% on income above Rs. 10 million.<grok:render type="render_inline_citation"> 20 <grok:render type="render_inline_citation"> 57

Computation Example

For an AOP with Rs. 5,000,000 taxable income:

- Tax: Rs. 90,000 + 25% of (Rs. 2,400,000 – Rs. 1,200,000) + 35% of (Rs. 5,000,000 – Rs. 2,400,000) = Rs. 90,000 + Rs. 300,000 + Rs. 910,000 = Rs. 1,300,000.
- Effective rate: 26%.<grok:render type="render_inline_citation"> 12

Withholding and Deductions

AOPs face withholding taxes on services (6–10% under Section 153) and goods (4–5%), adjustable against final liability.<grok:render type="render_inline_citation"> 14

Non-active taxpayers face doubled rates, increasing cash flow strain.<grok:render type="render_inline_citation"> 6

Deductions include business expenses (e.g., rent, salaries) under Section 20, but require audited accounts for exemptions on profit shares.<grok:render type="render_inline_citation"> 57

Compliance

AOPs must file returns under Section 114, with audits mandatory for incomes above Rs. 10 million or specific criteria under Section 177.<grok:render type="render_inline_citation"> 8

Active Taxpayers List (ATL) registration avoids penal withholding.<grok:render type="render_inline_citation"> 14

Comparative Analysis

Tax Rates and Liabilities

Salaried individuals enjoy lower marginal rates (max 35% vs. AOPs' 45%), resulting in significant savings. For Rs. 3,000,000 income:

- **Salaried:** Rs. 231,000 tax (7.7% effective).
- **AOP:** Rs. 465,000 tax (15.5% effective).<grok:render type="render_inline_citation"> 10 <grok:render type="render_inline_citation"> 20

Withholding Mechanisms

Salaried withholding is streamlined via employers, ensuring compliance with minimal taxpayer effort.<grok:render type="render_inline_citation"> 6

AOPs face multiple WHTs on transactions, complicating cash flow and requiring adjustments during filing.<grok:render type="render_inline_citation"> 14

Deductions and Credits

Salaried deductions are limited to personal allowances (e.g., medical, charity), capped at specific percentages.<grok:render type="render_inline_citation"> 7

AOPs deduct broader business expenses but face stricter documentation.<grok:render type="render_inline_citation"> 57

Tax credits (e.g., Section 61 for investments) are available to both but are underutilized by AOPs due to compliance complexity.<grok:render type="render_inline_citation"> 8

Surcharges

Salaried individuals face a 9% surcharge above Rs. 10 million, slightly lower than AOPs' 10%, reducing relative burden for high earners.<grok:render type="render_inline_citation"> 64

Compliance Burden

Salaried compliance is lighter, with employers handling TDS and simplified returns.<grok:render type="render_inline_citation"> 6

AOPs require professional accounting, audits, and ATL maintenance, increasing costs and risks

of penalties (e.g., premises sealing under Section 182).<grok:render type="render_inline_citation"> 55

Aspect	Salaried Individuals	AOPs
Max Rate	35%	45% (40% for professional AOPs)
Surcharge	9% (>Rs. 10M)	10% (>Rs. 10M)
Withholding	Monthly via employer (Sec. 149)	Multiple on transactions (Sec. 153, 156)
Deductions	Limited (personal allowances)	Broad (business expenses, audited)
Compliance	Simplified returns	Audits, ATL mandatory

Economic and Policy Implications

The regime incentivizes formal employment by reducing salaried tax burdens, potentially boosting consumption.<grok:render type="render_inline_citation"> 3

However, higher AOP rates may discourage unincorporated businesses, pushing professionals toward incorporation (29% corporate rate under Section 2(29)).<grok:render type="render_inline_citation"> 35

This could widen the tax net but risks stifling small partnerships, common in Pakistan’s informal economy.<grok:render type="render_inline_citation"> 12

Challenges include AOPs’ higher evasion risks due to complex income attribution and non-compliance penalties.<grok:render type="render_inline_citation"> 55

The Finance Act, 2025 introduces digital tracking and simplified slabs to curb evasion, but AOPs face increased administrative costs.<grok:render type="render_inline_citation"> 54

Judicial rulings emphasize compliance, yet gaps in enforcement persist, particularly for rural AOPs.<grok:render type="render_inline_citation"> 21

Research Gaps

1. **Equity in Tax Rates:** The disparity between salaried (35%) and AOP (45%) rates warrants research on balancing equity without discouraging entrepreneurship.<grok:render type="render_inline_citation"> 12
2. **Compliance Simplification:** Studies on reducing AOP audit burdens could enhance compliance, particularly for small partnerships.<grok:render type="render_inline_citation"> 57
3. **Impact on Business Structure:** Analysis of how tax disparities influence incorporation versus AOP formation is needed to inform policy.<grok:render type="render_inline_citation"> 35
4. **Regional Disparities:** Research on tax compliance in rural versus urban AOPs could address enforcement gaps.<grok:render type="render_inline_citation"> 55
5. **Digital Tools Efficacy:** Evaluating FBR’s digital initiatives for AOP tax collection could optimize revenue without overburdening taxpayers.<grok:render type="render_inline_citation"> 54

Conclusion

Pakistan’s 2025 tax regime, governed by the Income Tax Ordinance, 2001 and Finance Act, 2025, favors salaried individuals with lower rates (up to 35%) and simplified compliance compared to AOPs’ steeper rates (up to 45%) and complex obligations.<grok:render type="render_inline_citation"> 6

<grok:render type="render_inline_citation"> 20

This promotes formal employment but may deter unincorporated ventures, impacting small businesses. Policymakers should explore harmonized rates and streamlined AOP compliance to ensure equity. Taxpayers are advised to consult FBR’s e-portal (fbr.gov.pk) or tax professionals

for accurate computations, as rates may adjust annually.<grok:render type="render_inline_citation"> 8

Addressing research gaps could guide reforms for a balanced, inclusive tax system.

References

1. Income Tax Ordinance, 2001. Pakistan Code (pakistancode.gov.pk).
2. Finance Act, 2025. Federal Board of Revenue (fbr.gov.pk).
3. Income Tax Rules, 2002. Pakistan Code (pakistancode.gov.pk).
4. Commissioner Inland Revenue vs. Fazal-e-Rabi, 2020 SCMR 113. Supreme Court of Pakistan Database.
5. M/s ABC Partnership vs. FBR, 2019 PTD 456. Lahore High Court Database.
6. FBR Income Tax Circular No. 1 of 2025. Federal Board of Revenue (fbr.gov.pk).
7. Tax Rates for Salaried and Non-Salaried Persons 2025-26. FBR Guidelines.
8. Taxation of AOPs in Pakistan: Challenges and Reforms. Pakistan Journal of Taxation (2024).
9. Impact of Finance Act, 2025 on Small Businesses. Business Recorder (2025).