YOUSUF ADIL

Budget 2021-22

Highlights & Comments

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Tax

Foreword

This publication contains an economic review, highlights of fiscal proposals and explanatory description of the significant changes in the Income Tax, Sales Tax, Federal Excise and Customs Duty laws proposed through Finance Bill, 2021.

Amendments proposed in the Finance Bill, 2021 will take effect from July 01, 2021, unless stated otherwise, once it is approved by the Parliament. Various amendments proposed through Tax Laws (Amendment) Ordinance, 2021 and Tax Laws (Second Amendment) Ordinance, 2021 are made part of the Bill. In respect of various exemptions and concessions withdrawn through these Ordinances, it has now been clarified that existing beneficiaries of exemption and concessions shall continue to enjoy benefits of the repealed provisions till June 30, 2021 or otherwise for the periods prescribed and subject to conditions specified therein.

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Karachi
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Budget at a glance

	Budget 2021-22 PKR'Bn	Budget 2020-21 PKR'Bn
Tax revenue	5,829	4,691
Non-tax revenue	2,080	1,704
Gross revenue receipts	**7,909**	**6,396**
Less: Provincial share in Federal taxes	(3,412)	(2,704)
Net revenue receipts	**4,497**	**3,691**
Expenditure		
Current expenditure	7,523	7,626
Development expenditure	964	863
Total Expenditure	**8,487**	**8,489**
Federal Budget Deficit	**(3,990)**	**(4,798)**
Non Bank Borrowing	1,241	1,517
Bank Borrowing	681	649
Net External receipts	1,246	2,287
Other proceeds	252	103
Estimated Provincial Surplus	570	242
	3,990	**4,798**

Economic Review 2020-21

The third budget of PTI government for FY21-22 was presented on 11th June, 2021 by the Finance Minister, Shaukat Tarin with aggregate total outlay of PKR 8.4 Trillion, which envisages a public sector development program of PKR 900 Billion.

	FY 2020	FY 2021 E
Real GDP Growth	-0.47	3.94%
Inflation CPI	11.2%	8.8%*
Debt to GDP Ratio	87.6%	79.7%*
Policy Rate	7.0%	7.0%

(Data Source: PES, 2020-21)

*Inflation CPI for FY21 from July’20-May’21
*Debt to GDP Ratio for FY21 from July’20-March’21

Overview

The crippling global economy has advanced only a meagre distance following a severe collapse in 2020 because of the COVID-19 outbreak that affected the entire world with acute adverse impacts on women, youth, the poor, the informally employed, and those who work in contact-intensive sectors. Apart from the social impact, the economic consequences have been massive resulting from disrupted supply chains and human travel restrictions that had varied impact on sectors where certain sectors like tourism and hospitality felt the most pressures while other sectors that are less discretionary and or require lesser human contact like Information Technology were less affected or rather beneficiaries of the prevalent environment.

The strength of the recovery, i.e., approx. 6% and 4.4% in 2021 and 2022 respectively is projected to vary significantly across countries, depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis.

Although vaccine approvals and deployments in the second half of 2020 have raised hopes of a turnaround in the pandemic later in 2021 reflected by stronger-than-projected momentum on average across regions based on economic data released by WEO - IMF, renewed waves and new variants of the virus pose concerns for the outlook.

Pakistan, an emerging market economy within the Asia Pacific region has additional indigenous challenges in addition to those faced by the developed world. In the midst of COVID-19 outbreak, the country had many open issues amongst others in the shape of loss-making State-Owned Enterprises (SOEs), weak exports, low Foreign Direct Investments(FDI), savings and investments, inflationary pressures, continued classification in Financial Action Task Force (FATF) grey list, a high fiscal deficit to GDP ratio and requirement to deal with sensitive geopolitical events due its key political positioning that adds complexities in its overall economic affairs.

However surprising for many as the case has been, the provisional GDP growth rate for FY21 is estimated at 3.94%, higher than the targeted growth of 2.1%, for the outgoing fiscal year that signals a V-shaped economic recovery. A 2.77%, 3.57% and 4.43% growth in agriculture, industrial and services sector, respectively contributed the estimated 3.94% GDP growth.

This was possible due to government's timely and appropriate measures in the form of smart lockdown policy along with other special measures including continued accommodative fiscal (effective management of expenditures and increased FBR tax collection) and monetary policies (maintaining policy rate at 7%).

Other targeted measures include;

- Stimulus package of PKR 1,240 billion, a construction package,
- Launch of Temporary Economic Refinance Facility (TERF) to stimulate investment in both new and expansion/Balancing, Modernization and Replacement (BMR) of existing units
- Connecting Overseas Pakistanis with the Banking System of Pakistan through allowance of Roshan Digital Accounts,
- Refinance Facility for Combating COVID-19 (RFCC),
- Mandatory Targets for Housing Finance,
- SBP Rozgar Scheme - A Scheme aiming to prevent layoff by financing wages and salaries of employees for six months (April 2020- Sep 2020) for all kind of businesses except for Government entities, public sector enterprises, autonomous bodies and deposit taking financial institutions,
- An expansion of the social safety net,
- National Agriculture Emergency Programme with a cost of PKR 277 billion
- Other incentives like Rabi Package, minimum support prices, industrial support packages, relief to export-oriented industries, duty exemption under China-Pak Free Trade Agreement-II, electricity and gas subsidy for the export-oriented industries and tax exemptions for electric vehicles manufacturers.

For Pakistan, the strategy seems to be working where government is monitoring the country's situation actively and taking necessary measures to facilitate agriculture and industry sectors to avoid the downside risk and to further accelerate the economic recovery. Coupled with this, macroeconomic stabilization measures and structural reforms supported by international development partners will help the economy to move on a higher and sustainable growth trajectory.

Real GDP

GDP over the years

2018	2019	2020	2021 E
5.8%	2.08%	-0.47%	3.94%

(Data Source: PES, 2020-21)

(Data Source: PES, 2020-21)

The start of the fiscal year 2021 was better in terms of containment of pandemic and healing of economy, however 2nd wave in late October 2020 and 3rd wave in March 2021 made government efforts more challenging for containing the pandemic and preserving the economic activities.

Pakistan's economy has showed the firm recovery and posted growth of 3.94% which is significantly higher than the previous two years i.e. -0.47% and 2.08% in FY20 and FY19 respectively and has also surpassed the target of 2.1% for FY21 which is even higher than the target after more than 15 years.

GDP Growth 2020-21

2.1% Budget

3.9% Actual

(Data Source: PES, 2020-21)

The GDP growth propelled because of government's better pandemic management, fiscal stimulus, notable measures in terms of schemes and vaccination drive that translated into positive performance across all sectors of Agriculture, Industrial and Services enabled through better consumer confidence, Gross Fixed Capital Formation and export growth. The focus of government towards E-commerce and digitalization of the economy has been commendable that shall further assist the GDP growth through achievement of globalization (addition to Amazon seller's list), market efficiency, enhance investment and produce employment opportunities.

The strong growth in GDP in the first 9 months of current fiscal year is largely supported by 9% growth in the large scale manufacturing along with the robust performances in services sector which is the highest ever growth since FY2007.

Sector Performance

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Agricultu	Industry	Services
2.77%	**3.57%**	**4.43%**
Growth	Growth	Growth
Target was 2.8% growth	**Target was 0.1% growth**	**Target was 2.6% growth**

(Data Source: PES, 2020-21)

Agriculture sector which contributes 19.2% of the GDP grew by 2.77% compared to a target of 2.8%. The growth of important crops such as wheat, rice, sugarcane, maize and cotton collectively stood at 4.6%. The production of Wheat, sugarcane, maize and rice showed substantial growth of 8.1%, 22%, 7.38% and 13.6% respectively, compared to last year and exceeded the production targets. However, cotton observed a negative growth of 22.8%.

Other crops having a contribution of 11.69% in agriculture value addition and 2.24% in GDP due to rise in production of fodder, vegetables and fruits. The overall crops sector with a share of 35.81% in agriculture value addition and 6.87% in GDP, witnessed a growth of 2.47%.

Livestock having a share of 60.07% in agriculture and 11.53% in GDP witnessed a growth of 3.06%.

Services sector, which contributes 61.68% of the GDP grew by 4.43%, compared with a target of 2.6%. This growth was mainly driven by Wholesale & Retail Trade and finance and insurance sectors, which contributed around 8.37% and 7.84%, respectively in services value addition. Major decline in this sector is witnessed in Transport, storage and communication that declined by 0.61% mainly due to restrictions on use of transportation as a result of lockdown during the pandemic.

Industrial sector, contributes 19.12% of the GDP that grew by 3.57%, compared with a target of 0.1%. Major contributor to this growth is manufacturing sector that grew by 8.71%. The significant increase in manufacturing sector is mainly due to the remarkable performance of Large-scale Manufacturing (LSM) that witnessed 8.99% growth mainly due to government's decision, adopting the policy of smart lockdown to boost the business sentiments as compared to 5.1% decline during the same period last year. This is the highest period wise growth since FY07 supported by promising performance of Textile, Food, Beverages, Tobacco and Automobile. Prime Minister's construction package has also supported well all other allied industries such as increased cement dispatches and iron and steel production.

Trade & Payments

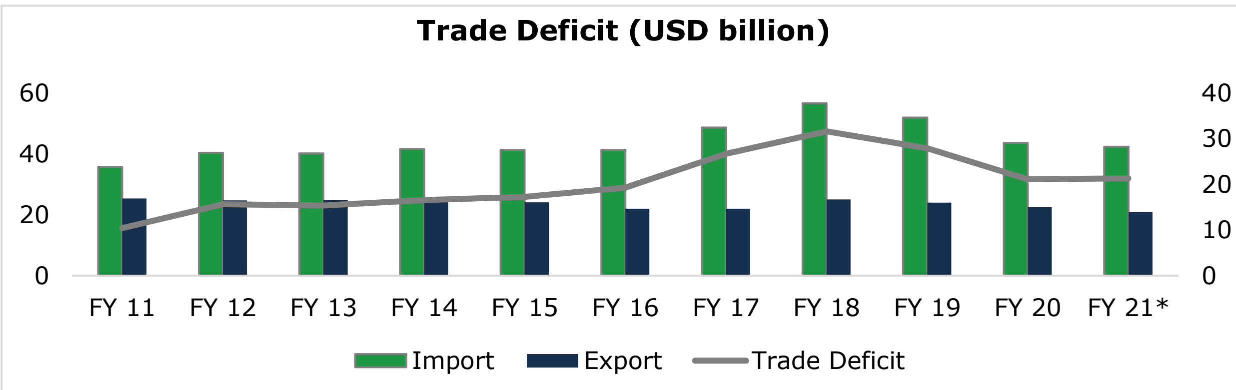
Current Account

	FY 20	FY 21
Current Account First 10 Months of FY	**($4.7) B**	**$773 M**

(Data Source: PES, 2020-21)

Pakistan's current account remained in surplus during the first 10 months of FY21 supported by higher home remittances inflows and growth in exports. As per State Bank of Pakistan (SBP), current account balance was in surplus of USD 773 million during July-April FY21 depicting a significant turnaround from USD 4.7 billion deficit during the same period of the last fiscal year (FY20).

As the economy is rebounding in FY21, Pakistan's rising import bill was offset by unprecedented growth in workers' remittances and recovery in exports. With the contained current account balance, the country's foreign exchange reserves also surged to 40-year high level. The inflow of workers' remittances in Pakistan has depicted consistent rising trend since FY18 to FY21 with a meritorious growth of 29% and has reached USD 24.2 billion during July-April FY21.



(Data Source: SBP)

*Based on July-April month data

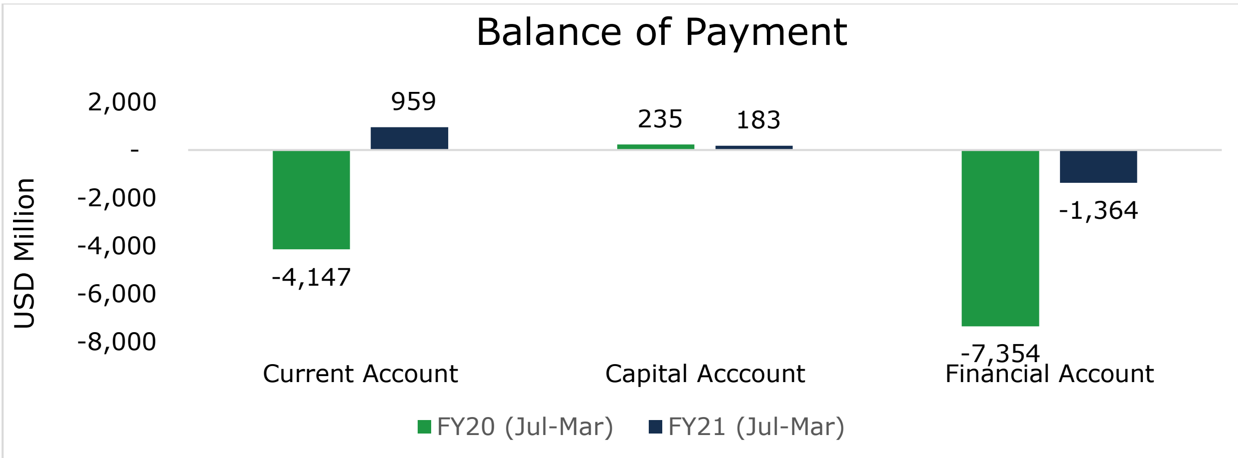
Export of goods grew by 6.5% during July-April FY21 and stood at USD 21 billion as compared to USD 19.7 billion in the same period last year. Import of goods grew by 13.5% to USD 42.3 billion as compared to USD 37.3 billion last year. Consequently, the trade deficit increased by 21.3% to USD 21.3 billion as compared to USD 17.6 billion last year.

Financial Account

On YoY basis, inflows of FDI reached USD 2.3 billion during July-March FY21 compared to USD 2.7 billion last year. The outflows of FDI during July-March FY21 reached USD 872.8 million against USD 548.5 million last year. China has highest share in FDI owing 46.7% of the total FDI.

The foreign portfolio investment during July-March FY21 witnessed a net outflow of USD 268.7 million as against an inflow of USD 227.5 million in the same period last year. Outflows were recorded from both debt (USD 3.5 million) and equity securities (USD 265.2 million).

Foreign Exchange Reserves stood at USD 22.7 billion in the first 10 months of current fiscal year. Out of this, the SBP's reserves were USD 15.6 billion whereas reserves held with the commercial banks were USD 7.1 billion. Pakistan's Rupee strengthened against the dollar, effectively appreciating the Rupee by 9.5% supported by recovery in exports, vigorous growth in worker remittances and strong inflows through Roshan Digital Accounts.

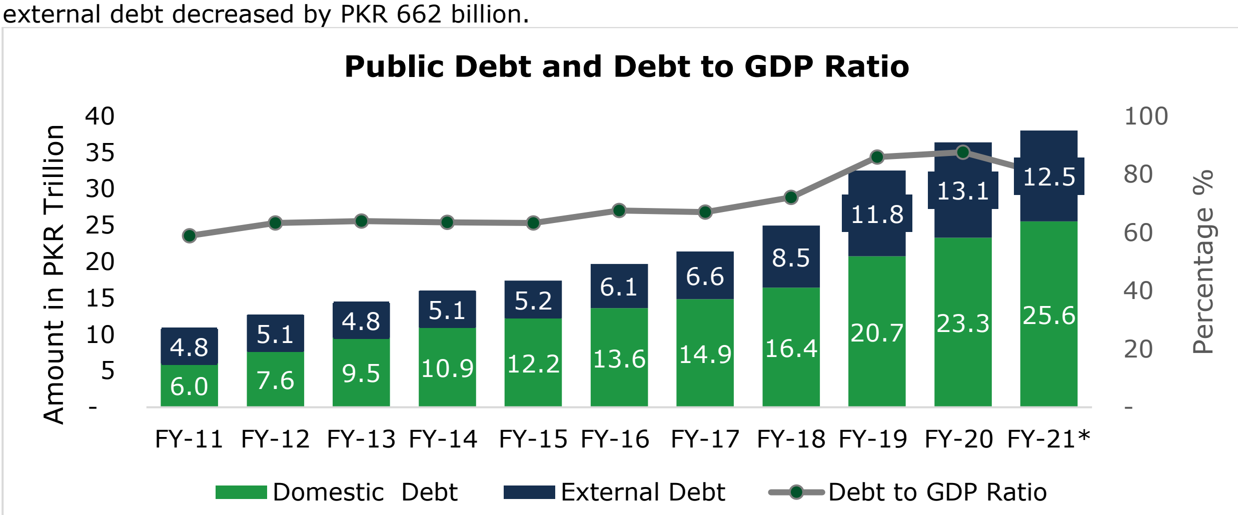


(Data Source: PES, 2020-21)

The better performance of external sector in FY21 is expected to continue in coming years on account of domestic economic rebound as well as global economic recovery especially in Pakistan's trading partners. Further, government's efforts regarding export diversification and exploration of new destinations will help in improving external sector in general and trade balance in particular.

Public Debt

By the end of March 2021, the total public debt of Pakistan reached PKR 38,006 billion, showing an increase of PKR 1,607 billion which was much less when compared with the increase of 2,499 billion witnessed during the same period last year. Entire net increase in total public debt was due to increase in domestic debt, which contributed PKR 2,269 billion to the public debt whereas external debt decreased by PKR 662 billion.



(Data Source: PES, 2020-21)

*Data for FY21 is from July'20-March'21

The current Energy Minister of Pakistan explained the reason behind increase in public debt was not due to borrowing but due to revaluation of external debt stock in terms of rupees after currency devaluation in first two years of their government. Also increase in debt was offset by corresponding increase in the government's liquid cash balances.

The Debt-to-GDP ratio of Pakistan is expected to reduce and will remain below 84% at the end of current fiscal year.

Domestic Debt

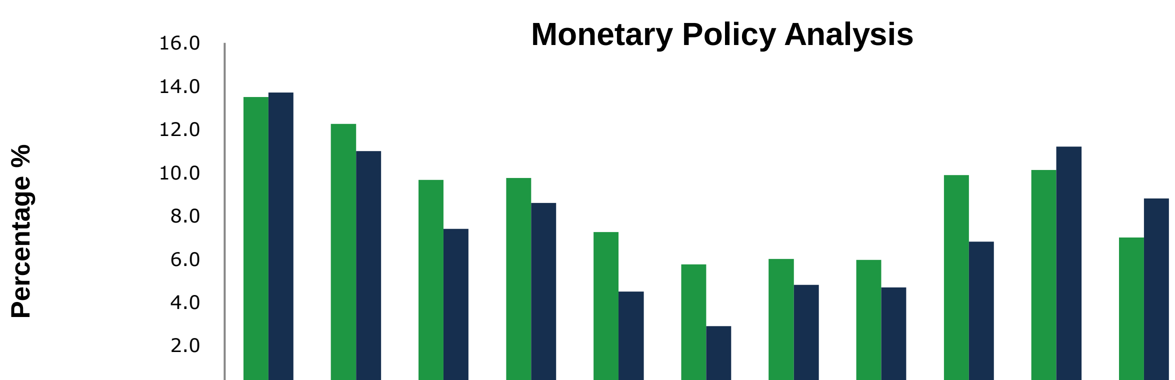
During the first nine months of FY21, domestic debt was recorded at PKR 25,552 billion at the end of March 2021, displaying an increase of PKR 2,270 billion. Permanent debt, floating debt and unfunded debt constituted around 62%, 24% and 14% of domestic debt portfolio recorded at PKR 15,882 billion, PKR 6,000 billion and PKR 3,652 billion respectively at end of March 2021.

External Debt

During the first nine months of FY21, external public debt was recorded at USD 81.6 billion at the end March 2021, displaying an increase of USD 3.6 billion. As per Pakistan Economic Survey 2020-21, Pakistan's external public debt is derived from four key sources, with around 49% coming from multilateral loans, 31% from bilateral loans, 13% from commercial loans and 7% from Eurobonds/Sukuk.

Pakistan's strategy to reduce its debt burden to a sustainable level includes commitment to run primary surpluses, maintain low and stable inflation, promote measures that support higher long-term economic growth and follow an exchange rate regime based on economic fundamentals. With narrower fiscal deficit, public debt is projected to enter a firm downward path while government's efforts to improve maturity structure will enhance public debt sustainability.

Monetary Policy



	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	FY-20	FY-21 E
Average Interest rates	13.5	12.3	9.7	9.8	7.3	5.8	6.0	6.0	9.9	10.1	7.0
Inflation CPI	13.7	11.0	7.4	8.6	4.5	2.9	4.8	4.7	6.8	11.2	8.8

(Data Source: PES, 2020-21)

The State Bank of Pakistan's (SBP) decision to keep its policy rate unchanged at the June 2020 level of 7% throughout this fiscal year has been a key driver of an estimated 4% economic growth.

The data released by the Pakistan Bureau of Statistics shows that the year-on-year inflation in May 2020 was 8.2%, however, by May 2021 the rate spiked up to 10.9%. Whereas, it averaged from July-May 2021 at around 8.8%. The other inflationary indicators like the Sensitive Price Indicator (SPI) was recorded at 13.5% against 14.0% last year. Wholesale Price Index (WPI) was recorded at 8.4% in July-May FY21 compared to 11.1% last year.

The headline inflation measured by the Consumer Price Index (CPI) was recorded at 8.6% during July-April FY21 as against 11.2% during the same period last year. Non-Perishable food items are the main contributory factor in jacking up the food inflation such as poultry group (chicken and eggs), followed by the staple group (wheat, wheat flour and edible oil).

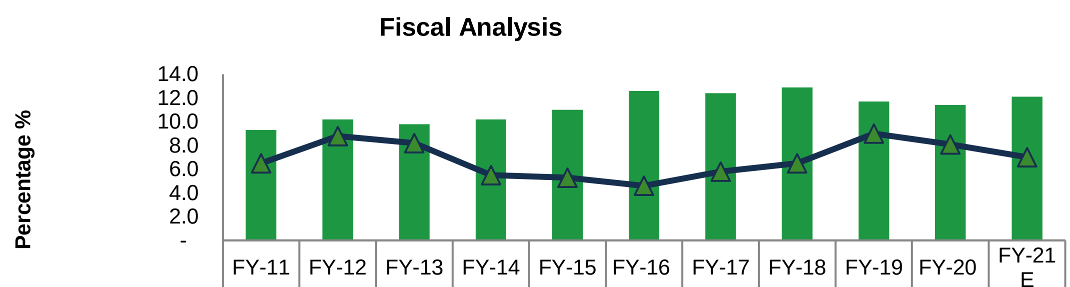
Core inflation for Urban and Rural recorded at 5.8% and 7.6% respectively during July-April FY21 as compared to 7.8% and 8.7% during the same period last year. Whereas the widespread effects of demand and supply side imbalances were being witnessed throughout the world, Pakistan, by the end of FY20, was busy effectively managing the price stability through prudent demand management policies especially on account of controlled prudent government expenditure policy and restricting government to borrow from the central bank.

On the supply side, government established Sahulat/Bachat Bazars and restricted passing on of increase in international crude oil prices to the general public alongside administrative measures including crackdowns, smooth supply of essential domestic goods and Ramazan package.

As a result, the inflation rate stabilized and turned out to be single digit due to which State Bank of Pakistan's (SBP) decided to keep its policy rate unchanged at the June 2020 level of 7% throughout this fiscal year. Due to low interest rates, the private-sector credit offtake shot up about 42% in 10 months and one week of this fiscal year as opposed to the year-ago period. Chances are that the credit offtake will remain strong till the end of the fiscal year on June 30 as private-sector credit retirement does not traditionally take place before the start of the new fiscal year.

Fiscal Policy

Tax Collections and Budget Deficit



	FY-11	FY-12	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	FY-20	FY-21 E
Tax Revenue to GDP Ratio	9.3	10.2	9.8	10.2	11.0	12.6	12.4	12.9	11.7	11.4	12.1
Fiscal Deficit as % of GDP	6.5	8.8	8.2	5.5	5.3	4.6	5.8	6.5	9.0	8.1	7.0

(Data Source: PES, 2020-21)

Pakistan is confronted with major challenges associated with fiscal policies due to additional spending made in order to curb the negative effects of Covid-19. The Government of Pakistan took several measures to strengthen its fiscal policy especially by increased revenue collections. During the period (July–March FY21), the budget deficit was contained at 3.5% of GDP against 4.1% of GDP in the comparable period of FY20. Similarly, the primary balance which is the difference between Government's revenue (what it is earning) and its non-interest expenditure, posted a surplus balance of PKR 451.8 billion which is 0.9% of GDP during (July-March FY21) compared to PKR 193.5 billion in the same period of FY20.

In last 10 months, the FBR tax collection saw a substantial increase. The overall tax collection stood at PKR 3,780.3 billion resulting in an increase of 14.4% in July-April FY21 (PKR 3,303 billion last year). It is evident that the collection of taxes during the review period surpassed the target of PKR 3,637 billion. Even after the 3rd wave of COVID-19, revenue performance reflects the continued growth of economic activity and indicates the efforts of government to enhance the tax collection.

The overall expenditure is reduced throughout the current fiscal year by managing expenditures efficiently. In July-March FY21, total expenditures increased by 4.2% compared to 15.8% growth in the same period of last year. Power, food and agriculture sectors constituted a significant portion of government spending in order to curtail the impact of Covid-19 in the economy through subsidies and grants.

The current aim of fiscal policy is to provide assistance to businesses and protecting different groups of society who are affected by adverse impacts of Covid-19. At the same time, the government is concentrating on sustaining fiscal deficit and primary balance at a manageable level. In the first three quarters of FY21, fiscal performance depicted a satisfactory level. The cash transfer program in response to COVID-19 during FY21 was expanded by the government through Benazir Income Support Program (BISP) under Ehsaas Program.

However, fiscal performance challenges still remains which are largely dependable on the Covid-19 evolution both locally and internationally. Conclusively, effective management of expenditure and revenue collection will help out in coping up with these challenges.

	FY 20	FY 21 E
Fiscal Deficit as % of GDP	**8.1%**	**7.0%**

(Data Source: PES, 2020-21)

Total Revenue

During July-March, FY21, total revenue grew by 6.5% against the growth of 30.9% in the same period of last year, i.e., PKR 4,993 billion during July-March, FY21 from PKR 4,690 billion in the same period of FY20.

Of the Total revenue, tax revenue (federal & provincial) that grew by 11.9% during July-March, FY21 contributes PKR 3,765.0 billion due to growing economic activities and improved tax collection.

In contrast, the non-tax revenue fell sharply during July-March, FY21 after witnessing strong growth in the same period of last year. Non-tax revenue, stood at PKR 1,227.6 billion during July-March, FY21. The fall is attributed to absence of a one-off renewal fee for GSM licenses from telecommunication companies and lower receipts from a surplus profit of SBP and mark-up whereas in contrast receipts from Gas Infrastructure Development Cess (GIDC), Natural Gas Development Surcharge and petroleum Levy have witnessed an increase that off-sets some of the decline.

Total Expenditure

On the expenditure side, total expenditure grew by 4.2% during July-March, FY21 as compared to 15.8% growth observed in the same period of FY20.

The current expenditure was contained at 8.4% during July-March, FY21 against 16.9% growth recorded in the same period of last year. This containment was made possible due to reduced expenditures on defence, pensions and running of civil government while higher mark-up payments, increase in subsidies and grants to others had some off-setting effect.

The total development expenditure (excluding net lending) stood at PKR 668.0 billion during July-March, FY21 as compared to PKR 751.7 billion in the same period of FY20, showing a decline of 11.1% due to reduced focus on PSDP spending.

FBR Tax Collection

An approx. 36% collection was made through direct taxes registering a growth of 11.2% during the first ten months of FY 2021 with the remainder coming from indirect taxes. Within the indirect taxes, Sales tax, Federal Excise and Custom duties contributed 65.86%, 9.24% and 24.90% respectively.

Certain relief measures to create fiscal space included incorporating incentive package given to construction industry in Finance Act 2020, COVID-19 Prevention of Smuggling Bill, 2020, Speedy clearance of tax refunds, Sales Tax, Income Tax and Customs Duty exemption on health equipment, customs duties exemption on import of highly essential items.

Budget overview 2021-22

The Pakistan federal budget for FY21-22 follows times of economic hardship since at least two years in search for stability and recovery in the midst of COVID-19. Pakistan plans to spend its way out of the pandemic-induced slump, with a new budget that seeks to put more money in the hands of people and boost economic activity.

The FY21-22 budget also being referred as "growth oriented" budget by experts hovers around fostering sustained and inclusive growth, horizontal and vertical expansion of social safety net to support the vulnerable segments of the society and successful continuation of IMF program. Moreover, providing impetus to the economic activity through higher public development spending and consequently supporting job creation. Funding for special initiatives led by the Prime Minister like Kamyab Jawan, Sehat Sahulat Card, Naya-Pakistan Housing Scheme, House Financing Mark-up, Collateral free lending to SMEs etc. have also been protected. FBR collection however, will increase through improvement in tax system, broadening tax base and strengthening of administrative controls through technological inventions. Other measures include withdrawing tax exemptions, rationalizing concessionary regime, simplifying tax rules and ensuring tax compliance. Furthermore, ensuring better financial management and fiscal discipline, by striking a balance between relief measures and fiscal deficit to keep the primary balance at a sustainable level.

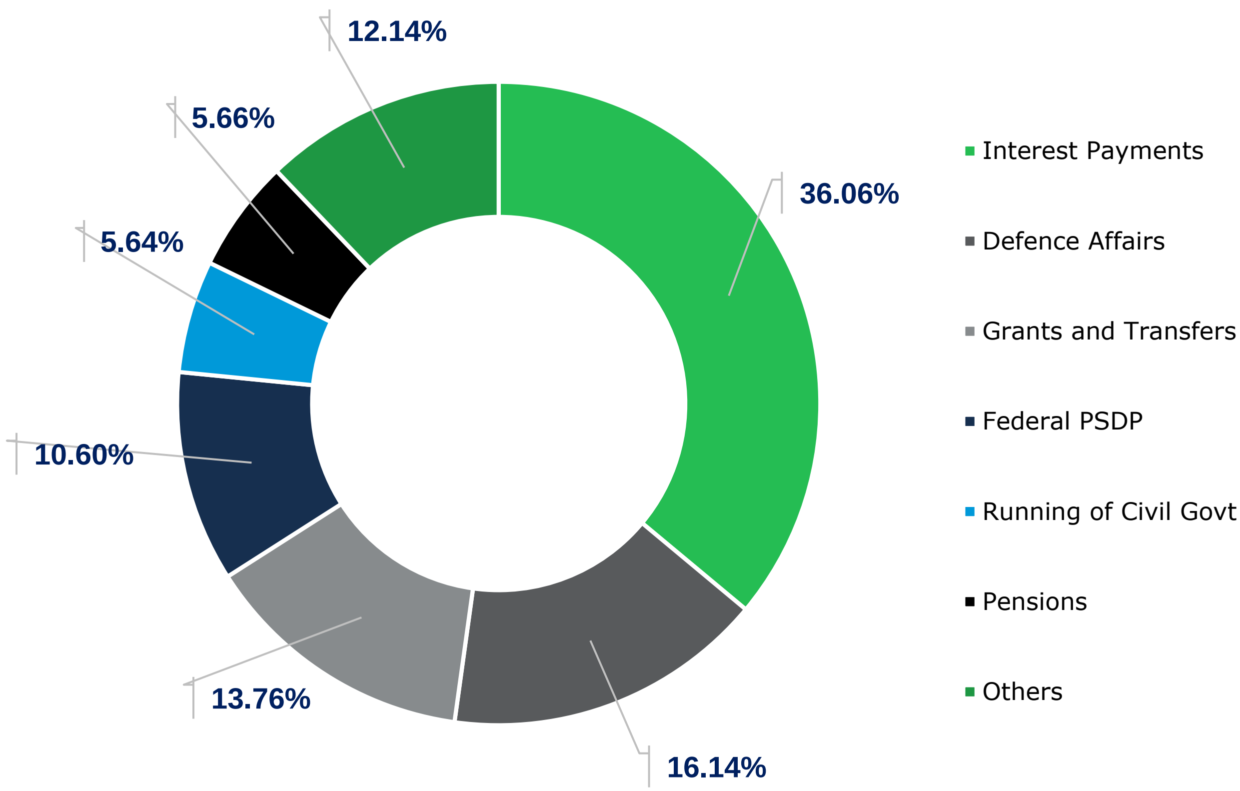
The total outlay of budget 21-22 is PKR 8,487 billion. The government has targeted an economic growth of 4.8% in FY22. A higher relative budget target stems from the achievement of 3.94% provisional growth in FY21 after the economy witnessed a V-shaped recovery.

Total Revenue target has been set at PKR 7,909 billion for FY22 (up 23.7% vs. last year's budget), where FBR Revenues for the year have been estimated at PKR 5,829 billion (up 24.3% vs. last year's budget). The Non Tax Revenue target has been set at PKR 2,080 billion (22.1% vs. last year's budget), whereas the government has budgeted PKR 610 billion under Petroleum Levy (PDL) – up PKR 450 billion from last year's budget.

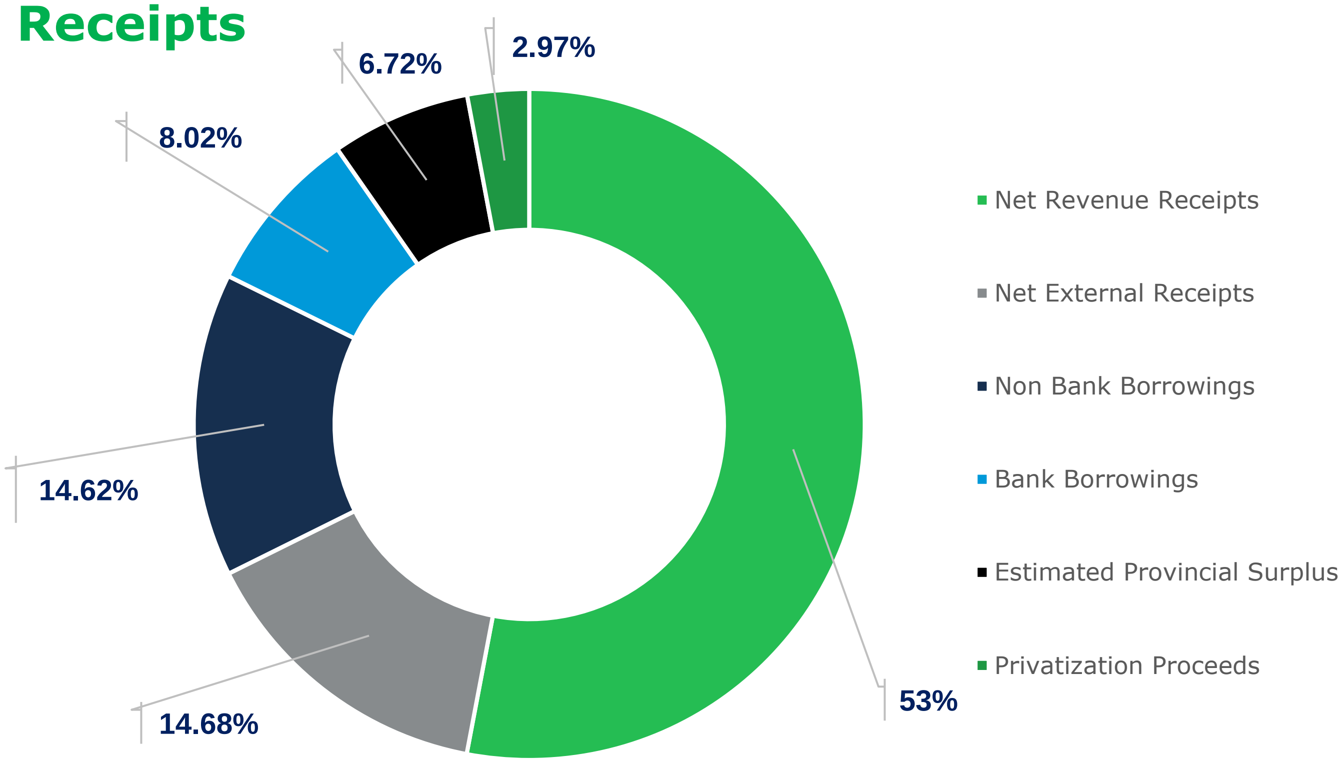
Total Development Expenditures target has been set at PKR 964 billion for FY22, (up 12% vs. last year's budget). Total Current Expenditures are estimated at PKR 7,523 billion for FY22 (largely unchanged compared to last year budget). Interest expense is estimated at PKR 3,060 billion, while pension bill has been set at PKR 480 billion. Government has earmarked subsidies of PKR 682 billion compared to last year's allocation of PKR 209 billion, which is a significant increase of 226%. It includes new allocation of PKR 266 billion for Power Holding Private Limited (PHPL) and Independent Power Producers (IPPs). The Defence Expenditure has been set at PKR 1,289 billion for FY22, 6% higher compared to last year's budget.

The economy has fairly recovered from a dip of last year due to COVID-19 situation. However, the government should accordingly pursue a multipronged strategy with focus on revenue mobilization, rationalization of recurrent expenditures to provide space for development / capital expenditure, support for the driver sectors of the country's economy and increase the foreign exchange earnings for management of current account and easing off pressure on the Rupee (PKR).

Expenditure



Receipts



Key highlights of budget FY22

- Karachi's transformation plan will be implemented with PPP and government support. The plan will be allocated PKR 98 billion from the PSDP
- Allocation of PKR 682bn subsidy for life line power consumers and other matters
- PSDP allocation of Rs2.1 trillion, up by over 30% compared to last year. PSDP allocation includes Dasu, Diamer Bhasha and Mohmand Dams; in addition to other hydro projects
- The budget, as expected has focused on inclusive and sustainable growth, while providing relief to masses through the Ehsaas Program (allocation of Rs260bn), providing cheaper financing and other measures
- To combat corona PKR 100bn set in the budget
- Sehat card facility for 4- 6 million families
- Government of Pakistan will offer a new Uniform Export Facilitation Scheme, and phase out existing scheme in the next two years
- The government will be approving 14 high-impact PPP transactions worth over Rs978 billion from April to October 2021
- Special focus has been laid on social spending, uplifting of small farmers and improving agriculture output. Specifically, government has allocated PKR260bn for Ehsaas programme, PKR 30billion for Naya Pakistan Housing authority and PKR3bn markup subsidy for Naya Pakistan scheme
- Interest free loans will be given to farmers for purchase of farm equipment and tractors. For better food security government has announced a transformational plan for establishing cold storages, commodity warehousing and food processing
- Artificial leather, boiler manufacturing, liquefied packaging industry and dairy industry given tariff relief.

Highlights of Important Fiscal Proposals

Income Tax

1. Taxpayers are now required to declare 'Business bank account' through original or modified registration form to the Commissioner. Non-declaration of such bank account is to be treated as offence punishable on conviction with a fine or imprisonment not exceeding one year or both.

2. The Board's powers to notify any industrial undertaking has been withdrawn.

3. Telecommunication companies operating under the license of Pakistan Telecommunication Authority are now covered under the definition of industrial undertaking.

4. Separate rules for taxation of small and medium enterprises have been introduced through newly inserted 14^{th} Schedule.

5. Section 7B pertaining to taxation of Profit on debt, received by persons other than a company, under final tax regime, shall now apply on profit on debt not exceeding Rs.5 Million as against Rs.36 Million currently provided.

6. Profit on debt is to be taxed at 15% irrespective of the amount of profit on debt .

7. Allowances paid on fixed or as percentage of salary or which are not wholly, exclusively and actually spent on behalf of the employer are not to be considered as allowances solely expended in performance of employment and will therefore be taxable.

8. Taxation in respect of Income from Property is brought under normal tax regime for all types of taxpayers.

9. Any Loss on income from property can now be set off against income chargeable to tax except salary.

10. Revised withholding tax rates in respect of income from property in case of individuals and AOPs are introduced. Revised table contains four slabs (with 25% highest withholding tax rate) as compared to current 8 slabs (with 35% highest withholding tax rate). Threshold of non-taxable rent is increased from Rs. 200,000 to Rs. 300,000.

11. First Year Allowance (FYA) at the rate of 90%, in lieu of initial allowance, is withdrawn.

12. Commissioner is now empowered to compute gain on disposal of assets acquired through gift, if such gifted assets are disposed of within two years of acquisition as an arrangement for tax avoidance.

13. Workers' Welfare Fund and Workers' Profit Participation Fund paid under laws enacted by the provinces after eighteenth Constitutional amendment are now allowable as deductible allowance except payments to the provinces by trans-provincial establishment.

14. Tax credit for persons employing fresh graduates is now withdrawn.

15. Tax credit for investment in point of sale machines by prescribed persons is introduced at lower of amount invested or Rs.150,000.

16. Tax credit for specified industrial undertakings is introduced at of 25% of the eligible investment amount against the tax payable under the provisions of the Ordinance including minimum and final taxes.

17. Section 100C - Tax credit for certain persons, has been revamped to clarify various ambiguities.

18. No new notice is now required to be issued for invoking section 111 if already confronted through notice under section 122(9).

19. Threshold for application of minimum tax under section 113 for individuals and association of persons is enhanced from Rs.10 million to Rs.100 million.

20. Commissioner can now issue notice requiring to file a return of income by a person having foreign income, even after passing of time limit of five years.

21. Commissioner is now empowered to waive condition of filing revised accounts or audited accounts for filing of a revised return.

22. The scope of assessment under section 122(5A) is restricted by withdrawing Commissioner's power to make or causing to make query.

23. Time limit of 120 days prescribed for passing an amendment order after issuance of show-cause notice under section 122.

24. Requirement for updating taxpayers profile introduced vide Finance Act, 2020, is now omitted.

25. Revision application is now to be processed by lower authorities within 120 days of the directions by the Commissioner.

26. The Board is empowered to prescribe mechanism for electronic filing of appeals.

27. The time period for appointment of Alternate Dispute Resolution Committee (ADRC) by the Board is reduced from 60 days to 30 days. ADRC is now required to decide the dispute within 60 days of its appointment extendable by 30 days for reasons to be recorded as compared to current time limit of 120 days. The Board is also empowered to appoint second ADRC.

28. Tax demand raised through an appeal effect order is now payable immediately.

29. Powers of a Commissioner to reject advance tax estimate filed by a taxpayer are withdrawn.

30. All Companies can now obtain certificate for non-withholding of tax under section 153(1)(a), which was being issued to listed companies only under existing law.

31. Export of services is now subject to final tax regime at 1% with an option to be taxed under normal tax regime by filing a yearly option.

32. Commissioners are now required to issue exemption or reduced rate certificates under section 159 within 15 days from filing of application.

33. Annual statements for withholding of taxes for payments other than salary are required to be filed within 30 days of end of relevant tax year. Further, a statement in prescribed form reconciling amounts mentioned in the annual statement with the amounts disclosed in return / Accounts is to be e-filed by due date of filing of return.

34. FBR may process electronic processing of refunds after verification of tax credit, even when the taxpayer has not filed a refund application.

35. Penal provisions under section 182 have been revisited resulting in revision of penalties for various offences.

36. The Board is empowered to prescribe procedure for e-hearings.

37. Provisions related to withholding tax on cash withdrawals, advance tax on transactions in bank and banking transactions otherwise than through cash are withdrawn.

38. Motor Vehicle registration authority is to collect tax at specified rate on sale of motor vehicles sold prior to registration by the persons purchasing the vehicle from local manufacturer.

39. Individuals and Association of Persons having turnover of Rs.100 million or more are to be treated as withholding tax agents for Commission and Brokerage payments.

40. Provisions related to collection of tax on gas bill of CNG stations are withdrawn.

41. Advance tax collection on domestic and international air tickets is withdrawn.

42. Provisions related to reliefs provided to investors through Roshan Digital Accounts are re-introduced in the Finance Bill.

43. The scope of collection of advance tax by manufacturers from distributors, dealers, wholesalers and retailers has been extended to pharmaceutical, poultry and animal feed, edible oil and ghee, battery, tyres, varnishes, chemicals, cosmetics and IT equipment sales to such distributors, dealers, wholesalers and retailers.

44. Advance tax on petroleum products is withdrawn.

45. Advance tax on extraction of minerals is withdrawn.

46. Advance tax on remittance abroad through credit, debit and prepaid cards is withdrawn.

47. Various exemptions and reliefs provided under the Second Schedule withdrawn through Tax Laws (Second Amendment Ordinance), 2021 are reintroduced through the Bill, with the explanation that beneficiaries shall continue to enjoy the benefits of such provisions for the periods prescribed and subject to specified conditions.

48. Super tax at 4% is extended for banking companies beyond tax year 2021.

49. Capital gains on disposal of securities under section 37A are reduced from 15% to 12.5% from tax year 2022.

50. Single tax rate of 5% on Capital gain on immoveable property is introduced irrespective of gain amount.

51. Minimum tax rates under section 113 are revised for various sectors. The highest rate is reduced from 1.50% to 1.25%.

52. Oilfield services, telecommunication services, warehousing services, collateral management services, travel and tour services are brought into 3% minimum tax services under section 153(1)(b).

53. Separate provisions for taxation of royalty received from resident persons and withholding provisions related thereto are omitted.

54. Revised advance tax collection rates are introduced on electricity and telephone bills. The advance tax on telephone bills is proposed to be reduced from 12.5% to 10% in Tax Year 2022, and to be further reduced to 8% from Tax Year 2023 onwards.

55. Exemption available on salary income of Pakistani seafarer is withdrawn.

56. Payments received by the members from Provident Fund, Approved pension Fund will now be taxable at 10% to the extent of amount

representing profit on debt earned on accumulated balance in such Funds.

57. Exemption of tax in respect of capital gains earned by a resident individual on sale of constructed property, subject to fulfillment of specified conditions, is withdrawn.

58. Profits and gains derived from a bagasse / biomass based cogeneration power project with specified condition have been exempted from tax. Dividend payments by such taxpayers from these operations will be taxed at 7.5%.

59. Exemption in respect of benefit provided by employer on account of treatment or hospitalization or both to an employee has been withdrawn. Further, exemption of medical allowance to the extent of 10% of the basic salary subject to specified conditions is also withdrawn.

60. The tax payable by woman enterprises on profit and gains derived from business chargeable to tax under the head "Income from Business" shall be reduced by 25%.

61. Section 148 will not be applicable on import of specified items mainly medical supplies and food items.

62. Export of various items mainly food supplies will not be subject to collection of tax on export proceeds under section 154.

63. Ten years' tax exemption is provided to Special Technology Zone Authority, Zone developers and Zone enterprises.

64. Dividend income and long term capital gains of any venture capital fund from investments in Zone enterprises is exempted.

Sales Tax

1) Introduction of 'Online Market Place' (OMP) in to Tier 1 retailers to capture online businesses platform like Daraz, Foodpanda, Amazon etc. with liability to pay sales tax imposed on persons running the online market place irrespective of ownership of goods.

2) Maximum annual turnover threshold to fall outside the scope of 'Cottage Industry' enhanced from Rs.3 million to Rs.10 million

3) Minimum shop area to fall out of the ambit of 'Tier-1 Retailer' relaxed in terms from 1000 square feet to 2000 square feet for furniture outlets/ showrooms.

4) Retailers accepting payment through debit or credit cards using point of sale brought within purview of Tier-1.

5) Levy of sales tax at the stage of advance payment for a supply is withdrawn.

6) Public listed companies are exonerated from application of input adjustment threshold under Section 8B.

7) The time limitation of 5 years for issuance of Show Cause Notice under Section 11 to be counted from the end of the financial year in which the relevant date falls.

8) NTN and CNIC for AOPs/Companies and individuals respectively to be treated as Common Identifier Number (CIN) in addition to STRN with the spirit of promoting ease of doing business.

9) Cash book now to be maintained as the prescribed record under the Act and electronic version of all the records as described in the Act are also proposed to be maintained by the registered taxpayer.

10) Board empowered to prescribe rules for determination of the transfer price of taxable supplies in respect of any transaction between associates, which is authority of the Commissioner or officer of Inland Revenue as per existing law.

11) Specific law for obtaining extension of time for furnishing sales tax return introduced.

12) Concept of 'Border Sustenance Markets' has been introduced as tax-exempt areas to exempt sales tax on food related and other consumable goods supplied within limits of such markets near Pakistan's border with Iran & Afghanistan.

13) Manufacturers of specified goods to obtain brand license for each brand or Stock Keeping Unit (SKU), sale of goods failing which goods shall be subject to penal actions including outright confiscation and destruction.

14) Officer of Inland Revenue empowered to recover tax with default surcharge and penalty with reference to assistance in collection and recovery of duties in pursuance of a request from a foreign jurisdiction under a tax treaty or intergovernmental agreement etc.

15) Empowerment of Board is legislated to share data or information, received from provincial or foreign governments under agreement for exchange of information, with any other Ministry or Division of Federal Government or Provincial Government subject to specified limitations and conditions.

16) The Board to prescribe procedure for 'Mystery Shopping' in respect of invoices issued by Tier-1 retailers integrated with FBR online system randomly to prevent abuse of provisions for prize scheme to promote tax culture.

17) Refund due in the consequence of order passed under section 66 if not paid within forty five (45) days of the date of order will now be eligible for payment of sum equal to KIBOR per annum of the amount of refund due.

18) Adjustments in respect of inter-parties payables and receivables will now be treated as payments satisfying the provisions of Section 73 subject to approval of the commissioner.

19) Following amendments in law which were previously introduced through Tax Laws (Amendment) Ordinance, 2021 are proposed to be incorporated under respective provisions of the Act.

    a) Exemption of sales tax on import of CKD kits for electric vehicles by manufacturers,

    b) Exemption of sales tax on goods temporarily imported by athletes/ sportsmen for facilitate international athletes,

    c) Exemption of sales tax on auto disable syringes,

    d) Reduced rate of sales tax at the rate of 1% on local supply of electric vehicles,

    e) Exemption from value addition tax on import of electric vehicles, KD kits for small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions

20) Zero-rating withdrawn on Petroleum Crude Oil, parts/ components of zero-rated plant and machinery, import of plant and machinery by petroleum and gas sector and supply, repair and maintenance of ships.

21) Exemptions or reduced rates applicable on certain goods other than relating to basic food items, health and education are to be withdrawn.

22) Sales tax on sugar to be levied on retail price basis by including the sugar under Third Schedule.

23) Reclaimed lead and used lead batteries mostly supplied through an unorganized sector, is to suffer withholding of whole amount of applicable sales tax by manufacturer of lead batteries as withholding agent.

24) Imports of plant, machinery, equipment and raw materials for consumption within Special Technology Zone by the Special Technology Zone Authority, Zone developers and Zone enterprises exempted from sales tax to encourage IT industry in the country.

25) Zero-rating of sales tax on local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021.

26) Reduction of sales tax rate on small cars upto engine capacity of 850cc from 17% to 12.5%.

27) Exemption of small cars upto engine capacity of 850cc from levy of value added sales tax.

28) As per salient features, exemption of sales tax granted to marble and granite manufacturers having annual turnover less than Rs.5 million, is to be withdrawn.

Federal Excise Duty

1. Option to file revised FED return within 60 days without the approval of the Commissioner where the revised FED payable is not less than the originally declared FED or refund claimed is not more than originally claimed.

2. Officer of Inland Revenue empowered to recover tax with default surcharge and penalty with reference to assistance in collection and recovery of duties in pursuance of a request from a foreign jurisdiction under a tax treaty or intergovernmental agreement etc.

3. Manufacturers of specified goods to obtain brand license for each brand or Stock Keeping Unit (SKU), sale of goods failing which goods shall be subject to penal actions including outright confiscation and destruction.

4. Empowerment of Board is legislated to share data or information received from provincial or foreign governments under agreement for exchange of information, with any other Ministry or Division of Federal Government or Provincial Government subject to specified limitations and conditions.

5. Electric vehicles (4 wheelers) exempted from levy of FED till June 30, 2026 which is otherwise applicable at rates ranging from 2.5% to 30% ad val on imported motor vehicles principally designed for the transport of persons.

6. Locally manufactured electric vehicles (4 wheelers) and motor vehicles of cylinder capacity upto 850cc excluded from the levy of FED which previously attracted 2.5% to 7.5% FED according to engine capacity.

7. FED withdrawn on certain items like edible oils and steel products on which levy of sales tax at standard rate has been restored by virtue of omissions from the Sixth Schedule to the ST Act.

8. FED imposed on fruit juices vide Finance Act, 2019, withdrawn to deter increase in prices and provide relief to the sector facing adverse situation.

9. Additional FED on mobile phone calls, SMS message and internet data usage to be levied at varying rates ranging from Re.0.1 to Rs.5 based on call duration, SMS and internet usage.

10. FED on telecommunication services to be reduced from current 17% to 16%,

which is applicable in Islamabad Capital territory.

11. As per silent features exemption of FED is being given to the industrial units located in FATA & PATA to facilitate the people of tribal areas and to encourage investment and economic growth in these areas.

12. Payment on account of Merchant Discount Rate (MDR) service provided by banking companies to be brought out of the purview of FED.

13. Electronically heated tobacco to be subject to FED at the rate of Rs.5,200/- per kg.

14. Food related items and other consumable goods exempted from FED on supply within limits of Border Sustenance Markets.

15. Import and supply of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 exempted from levy of FED.

Islamabad Capital Territory Ordinance

The export of services provided from Islamabad Capital Territory are classified as zero rated services.

Customs Act, 1969

1. Reduction / exemption of CD, ACD and & RD on imports made by textile/steel sectors and imports of intermediary goods and POS machines.

2. Exemption of CD and ACD on import of API, raw material of auto-disable syringes and reduced rating of 5% on import of plant and machinery by Pharma Industry.

3. Reduction in rate of CD on inputs / raw materials imported by manufacturers under food processing industry.

4. Reduction / exemption of CD, ACD on imports made by other sectors including printing and graphic arts, dairy, footwear, Tourism, poultry, plastic packaging, paint, chemical, artificial leather, electronics etc.

5. Exemption of ACD on import of raw materials for cables / optical fiber manufacturers.

6. Concept of 'Boarder Sustenance Markets' introduced for the benefit of people residing in border areas to counter smuggling and providing legal way of trading opportunities.

7. Value of import of unsolicited gifts whether through post or courier enhanced from existing PKR 20,000 to PKR 30,000.

8. The term owner as contained in the Customs Act, 1969 has been defined as a person who is entitled to the possession of the goods, either as owner or agent of the owner.

9. The scope of term smuggling is further widened, which now also includes the term retailing in its scope.

10. Directorate General of National Nuclear Detection Architecture is to be established with an aim to support Pakistan's Nueclear Security Regime.

11. Directorate General of Marine would exclusively deal with customs related matters and movement of goods through sea waters.

12. The Collector of Custom's has been empowered for issuance or cancelation of license to specified warehouses.

13. The Board has now been empowered to constitute a committee or centre to

settle disputes regarding classification of goods.

14. The validity of all exemption notifications issued on or after July 01, 2016 and placed before National Assembly has been extended up to June 30, 2022.

15. The Collector of Customs would also be empowered for determination of customs value along-with Director General.

16. The Director General may on his own or in pursuance of review petition determine or rescind the value of goods.

17. Request regarding mutilation or scrapping of goods can now be made only before the filing of goods declaration.

18. Now no show cause notice proposed to be served where the recoverable amount is less than Rs.20,000 which was previously Rs.100.

19. The Bill proposes to empower the Board to make rules to prevent overstatement or understatement of goods exported or imported with a view to illegally transfer funds into or outside Pakistan.

20. Timeline of 24 hours for delivery of import manifest in case of import via air or land is proposed to be reduced to 3 hours of landing in case of air cargo and at the time of entry of cargo in case of land customs-station.

21. Import manifest can be amended before berthing of the vessel by person incharge.

22. Examination of goods cleared through green channel mechanism would be subject to prior approval from the Collector of custom.

23. Collector of Customs to be empowered to bound shipping line for re-exportation of certain imported goods (banned or restricted), if the same are not cleared within sixty days from the arrival date of such goods.

24. Provisional release under section 83B shall only be applicable on goods which are not subject to confiscation in absolute manner.

25. Relaxation provided to rectify an error in goods declaration even after warehousing of the goods if directed by the Collector of Customs.

26. Customs authorities authorized to increase the period of warehousing of the goods upto six months.

27. Suspension of registration of registered person shall be done after providing proper opportunity of being heard.

28. Assistant Collector empowered to amend error in goods declaration.

29. Penalties in respect of non-compliance of import related documentary requirements has been revised/enhanced.

30. Option to pay penalty to release the conveyance shall not be given to such conveyance that is being seized repeatedly for the third time.

31. Time limitation for issuance of show cause notice in case of goods lying at sea-port, airport or dryport has now been restricted to 30 days, which may be extended upto further 15 days.

32. Substitution of lowest rank of Customs officer eligible for preferring application / reference before High Court against Tribunal order, from Additional Collector/Director to Deputy Collector /Director.

33. Personnel of other law enforcement agencies to be included into the eligible officials for entitlement of cash reward.

34. The period during which the advance ruling shall be binding on Customs Authorities enhanced from 1 year to 3 years.

Income Tax Ordinance, 2001

1. Definitions [Sections 2]

1.1 Business Bank Account [Section 2(10A)]

The Bill proposes to introduce following definition for the term "Business Bank Account":

"business bank account" means a bank account utilized by the taxpayer for business transaction declared to the Commissioner through original or modified registration form prescribed under section 181.

1.2 Concealment of income [Section 2(10A)]

The Bill proposes to define the term "concealment of income" as following:

concealment of income includes:

(a) the suppression of any item of receipt liable to tax in whole or in part, or failure to disclose income chargeable to tax;

(b) claiming any deduction or any expenditure not actually incurred; and

(c) any act referred to in sub-section (1) of section 111.

Explanation.- For the removal of doubt, it is clarified that where any item of receipt declared by the taxpayer is claimed as exempt from tax, or where any deduction in respect of any expenditure is claimed, mere disallowance of such claim shall not constitute concealment of income or the furnishing of inaccurate particulars of income, unless it is proved that the taxpayer deliberately claimed exemption from tax in respect of the aforesaid item of receipt or claimed deduction in respect of such expenditure not actually incurred by him."

The application of the term "concealment of income" has been a contentious issue amongst the tax payers and the tax authorities, thus its definition although an inclusive one would help in providing more clarity and thus may help in reducing the discretionary powers of the Tax Officers. Moreover, the insertion of Explanation would also help in reducing the discretionary power of the Tax Officers who have been confronting the tax payers' genuine claim of exemption and claim of allowability of an expense and applying the harsh provisions of concealment of income under section 111.

1.3 Income [Section 2(29)]

The Bill proposes to remove income subject to withholding tax under section 233A from the definition of the term "income". This amendment is in consequence of the proposed deletion of section 233A of the Ordinance which provides collection of advance tax by a stock exchange from its Members on purchase and sale of shares in lieu of tax on the commission earned by such Members.

1.4 Withdrawal of powers of the Board to notify any industrial undertakings [2(29C)(b)]

Under the current law, the Federal Board of Revenue (the Board) has powers to specify in the official gazette any person as industrial undertaking in addition to the industrial undertaking as defined under clause (29C) of section 2 of the Ordinance.

The Bill proposes to withdraw powers of the Board to notify any other industrial undertaking and resultantly, an undertaking shall only be treated as industrial undertaking which falls under the definition provided under clause (29C) of section 2 of the Ordinance.

1.5 Industrial Undertakings [2(29C)]

The Bill proposes to bring "telecommunication companies operating under the license of Pakistan Telecommunication Authority (PTA)" under the definition of industrial undertakings. This has been a long standing demand of the Telecom Sector and as a consequence of this amendment, the Telecom Sector would now be eligible to a number of relief measures that are available to industrial undertakings under the income tax law.

1.6 Information Technology (IT) services [Section 2(30AD)]

The Bill proposes to define the term "Information Technology (IT) services" under section 2 as under:

"Information Technology (IT) services" include software development, software maintenance, system integration, web design, web development, web hosting and network design.

The same definition was covered in the explanation to the clause (133) of Second Schedule to the Ordinance which is now proposed to be deleted. Now by bringing this definition under section 2, this shall be applicable to the whole Ordinance.

1.7 IT enabled services [Section 2(30AE)]

The Bill proposes to insert following definition for the term "IT enabled services" under section 2 of the Ordinance:

"IT enabled services" include inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, Human Resource (HR) services, telemedicine centers, data entry operations, cloud computing services, data storage services, locally produced television programs and insurance claims processing;"

The same definition was covered under the deleted clause (133) of Second Schedule to the Ordinance. Now by bringing this definition under section 2, this shall be applicable to the whole Ordinance.

The Bill also proposes to bring "cloud computing services" and "data storage services" under the definition of IT enables services. This is a significant change considering introduction of technology base businesses in the country, which will boost the economy in future.

1.8 Small and medium enterprise [Section 2(59A)]

The Bill proposes to define the term "small and medium enterprise" as under:

"small and medium enterprise" means a person who is engaged in manufacturing as defined in clause (iv) of sub- section (7) of section 153 of the Ordinance and his business turnover in a tax year does not exceed two hundred and fifty million rupees:

Provided that if annual business turnover of a small and medium enterprise exceeds two hundred and fifty million rupees, it shall not qualify as small and medium enterprise in the tax year in which annual turnover exceeds that turnover or any subsequent tax year.

1.9 Small Company [Section 2(59AB)]

The Bill proposes to amend definition of "small company" by clarifying that it does not include "small and medium enterprise" as defined in newly inserted clause 59A.

1.10 Empowering the Board to notify "startup" [Section 2(62A)]

Currently Federal Government is empowered to notify any business of a person or class of persons alongwith conditions as a "startup". The Bill proposes to empower the Board to notify any business of a person or class of persons as "startup" but only with the approval of Federal Minister-in-charge.

2. Profit on debt [Section 7B]

Presently the profit on debt upto 36 million is taxed separately under section 7B at slab rates provided under Division IIIA of Part I of the First Schedule and not as part of normal tax regime; however, profit on debt exceeding Rs.36 million during a tax year is taxed under normal tax regime.

The Bill proposes to reduce the limit of profit on debt from Rs.36 million to Rs.5 million thereby profit on debt upto Rs.5 million only is now proposed to be taxed under section 7B at 15%.

Resultantly, profit on debt exceeding Rs.5 million during a tax year will be taxed under normal tax regime and any tax deducted under section 151 will be treated as minimum tax.

3. Allowance solely expended in the performance of employee's duty [Section 12]

The Bill proposes to insert an Explanation under clause (c) of sub-section 1 which clarifies that the allowance solely expended in the performance of employee's duty does not include:

(i) allowance which is paid in monthly salary on fixed basis or percentage of salary; or

(ii) allowance which is not wholly, exclusively, necessarily or actually spent on behalf of the employer.

Insertion of "Explanation" signifies that this clarification shall be applicable from the date when the said clause (c) was introduced in the Ordinance. Moreover, the intention of the legislature appears to tax any allowances provided to employees that are not in the nature of reimbursement of actual expenditure incurred for the purpose of employment supported by documentary evidence.

4. Income from property [Section 15]

Before Finance Act, 2006, income from property was taxed under normal tax regime. Since Finance Act, 2006, the legislature has been continuously changing tax regime for income from property.

Through Finance Act, 2006, income from property was taxed as separate block of income at specified tax rates and no expense was allowed. Later, after promulgation of Finance Act, 2013, the legislature brought income property under normal tax regime and allowed deduction of expenses against income from property subject to conditions specified.

Since Finance Act, 2016, income from property in the hands of individual and association of persons (AOPs) was being taxed as separate block of income at the rate specified in Division VIA of Part I of the First Schedule. Further, income from property was not chargeable to tax in case of an individual or AOPs who derive income from property not exceeding two hundred thousand rupees in a tax year and such taxpayers did not derive taxable income under any other head of income.

Through Finance Act, 2019, the legislature allowed option to individuals and AOPs deriving income from property exceeding Rs.4 million to tax it at normal tax rates without allowing deduction for any expenses. By virtue of Finance Act, 2020, an option is available regardless of amount of income from property earned during a tax year.

The Bill proposes to bring income from property under normal tax regime and also proposes to allow deduction of expenses incurred in deriving income from property for individuals and AOPs. Resultantly, the Individuals and AOPs will be allowed to claim deductions for expenses incurred in deriving income from property and such income will be taxed under normal tax regime at normal tax rates.

By virtue of amendment through Finance Act, 2013, a person sustaining a loss in any head of income cannot set off such loss against income under the head salary or income from property. The Bill proposes to allow a person to set off a loss in any head of income against income from property also.

5. Income from Business [Section 18]

The Bill proposes to insert the explanation under section 18(1)(b) of the Ordinance that income derived by co-operative societies from the sale of goods, immoveable property or provision of services to its members is and has always been chargeable to tax under the provisions of this Ordinance.

The income derived by co-operative societies has been a contentious issue amongst the taxpayers and the tax authorities, thus explanation has been proposed to nullify doctrine of mutuality. However, at the same time, there could be conflict between taxpayers and the tax authorities that as to whether income of cooperative societies would be eligible to tax credit under section 100C of the Ordinance or not.

6. Gain on disposal of immoveable property owned by business [Section 22(13)]

Under current law and for the purpose of calculation of gain on disposal of immoveable property owned by the business, where the consideration received on the disposal of immovable property exceeds the cost of the property, the consideration received is treated as the cost of the property. As such, no tax liability arises on account of disposal of property by the businesses.

The Bill proposes to tax the consideration received in excess of cost of the property under the head capital gain and as per provisions of section 37 of the Ordinance.

7. Withdrawal of First Year Allowance (FYA) in lieu of initial allowance [Section 23A]

By virtue of section 23A of the Ordinance, First Year Allowance (FYA) at the rate of 90%, in lieu of initial allowance, was allowed for plant, machinery and equipment falling under the definition of eligible depreciable assets, if installed by the following:

- any industrial undertaking set up in specified rural and under developed area;
- any industrial undertaking engaged in the manufacturing of cellular mobile phones and qualifying for exemption under clause (126N) of Part I of the Second Schedule

The Bill proposes to delete section 23A of the Ordinance and FYA will no longer be allowed in above stated cases. However, the undertakings shall be eligible to claim initial allowance as allowed under section 23 of the Ordinance.

Corresponding changes have been made in section 57 of the Ordinance, in respect of setting off and carrying forward of losses related to FYA.

8. Capital Gain on Disposal of Immoveable Property [Section 37(1A)]

Under current law, capital gain on disposal of immoveable property is taxed as separate block of income at slab rates provided in Division VIII of Part I of the First Schedule.

The Bill proposes to reduce scope of separate block taxation and proposes to tax capital gain under normal tax regime if gain on disposal of immoveable property exceeds Rs.5 million. However, taxable gain will be calculated on similar lines as it is being calculated for immoveable property under provisions of section 37(3A) of the Ordinance.

The Bill further proposes to provide for a single rate of tax of 5% irrespective of the amount of taxable capital gain.

The Bill also proposes to insert an Explanation under sub-section (1A) which clarifies that where a person is habitually engaged in transactions of sale and purchase of immoveable property or such sale and purchase is adventure in the nature of trade and business, the gain on disposal of immoveable property will be chargeable to tax under the head Income from Business.

The Bill seeks to reduce scope of separate block taxation and to treat the gain as income from business in the hands of person who are regularly dealing in sale and purchase of property. However, there could be conflict between taxpayers and tax authorities for ascertaining as to whether gain on disposal of immoveable property should be treated as income from business or capital gain on disposal of immoveable property.

9. Disposal of assets received through gift [Section 37(4A)]

Under existing law, for the purpose of calculation of capital gain, where any capital asset is received through gift, fair market value of such asset on the date of receipt of gift is treated as cost of the asset.

The Bill proposes to insert a proviso under clause (d) of sub-section (4A) which provides that if a capital asset become property of a person through gift and the asset is disposed of within two years of receipt and the Commissioner is satisfied that such gift arrangement is a part of tax avoidance scheme, then the cost of asset disposed shall be treated as cost to donner.

The aforesaid amendment has been proposed to empower Commissioner to determine the cost of assets received through gift which he considers as a part of tax avoidance scheme. This would provide more discretionary powers to the Commissioner and is likely to create unnecessary litigations.

10. Empowering the Board to make amendment in the Second Schedule [Section 53]

Currently, Federal Government is empowered to make amendment in the Second Schedule by adding / omitting any clause and condition therein or making any change in any clause or condition therein.

The Bill proposes to empower the Board to make amendment in the Second Schedule to the Ordinance but only with the approval of Federal Minister-in-charge pursuant to the approval of the Economic Coordination Committee of the Cabinet.

It is to be seen how this proposed amendment is viewed by the professional fraternity as it is the prerogative of the legislature to bring any amendment in the law whereas the subject amendment is empowering the Board with simple approval of ECC.

11. Deductible Allowance for amount paid of any Workers' Welfare Fund (WWF) [Section 60A]

The Bill proposes to allow deductible allowance for the amount paid by a person under any law relating to the Workers' Welfare Fund (WWF) enacted by Provinces after eighteenth Constitutional Amendment Act, 2010.

It has been clarified that deductible allowance shall not be allowed if any amount of WWF is paid to the Provinces by a trans-provincial establishment. The proviso has been inserted to disallow the allowance if amount is not paid to federation by trans-provincial establishment in light of judgment of the courts.

12. Deductible Allowance for amount paid of any Workers' Profit Participation Fund (WPPF) [Section 60B]

The Bill proposes to allow deductible allowance for the amount paid by a person under any law relating to the Workers' Profit Participation Fund (WPPF) enacted by Provinces after eighteenth Constitutional Amendment Act, 2010.

It has been clarified that deductible allowance shall not be allowed if any amount of WPPF is paid to the Provinces by a trans-provincial establishment. The proviso has been inserted to disallow the allowance if amount is not paid to federation by trans-provincial establishment in light of judgment of the courts.

13. Charitable Donation [Section 61]

Under current law, a person is entitled to claim tax credit on donation only. The Bill proposes to enlarge the scope of nature of payments eligible for tax credit by inserting the expression "voluntary contribution or subscription" in section 61(1) of the Ordinance.

Resultantly, a person will be entitled to claim tax credit even on any voluntary contribution or subscription paid to the organizations specified under section 61(1) of the Ordinance.

In addition to the above amendment, the Bill also proposes to add following categories of persons to whom payment of donation, voluntary contribution or subscription will be eligible for tax credit to the payer of such voluntarily contribution or subscription under section 61 of the Ordinance:

- Any person eligible to tax credit under section 100C of the Ordinance.

- Entities, organization and funds mentioned in the Thirteenth Schedule to the Ordinance.

The Bill proposes to delete clause (61) of Part 1 of Second Schedule to the Ordinance and to insert Thirteenth Schedule to the Ordinance. All the entities, organization and funds mentioned in the Thirteenth Schedule were listed in the deleted clause. Under current law, a person is eligible to claim deductible allowance on account of any amount paid as donation to such entities and therefore was able to claim tax relief at highest slab rate instead of average rate of tax liability to taxable income.

14. Withdrawal of tax credit for persons employing fresh graduates [Section 64C]

Through Finance Act, 2019, the legislature inserted section 64C to encourage employment for freshly graduates. By virtue of section 64C of the Ordinance, a person employing freshly qualified graduates from a university or institution recognized by Higher Education Commission was entitled to a tax credit on annual salary paid to the freshly qualified graduates for a tax year in which such graduates are employed.

The Bill proposes to delete section 64C of the Ordinance and resultantly, tax credit for persons employing fresh graduates will be withdrawn.

15. Tax credit for amount invested in purchase of point of sale machine [Section 64D]

The Bill proposes to insert new section “64D. Tax credit for point of sale machine”, by virtue of which, any person who is required to integrate with Board’s computerized system for real time reporting of sale or receipt, will be entitled to tax credit in respect of the amount invested in purchase of point of sale machine.

The amount of tax credit allowed for a tax year in which point of sale machine is installed, integrated and configured with the Board’s computerized system will be lesser of:

(a) amount actually invested in purchase of point of sale machine; or
(b) rupees one hundred and fifty thousand per machine.

Further, for the purposes to claim tax credit for investment in purchase of point of sale machine, the term point of sale machine has been defined as a machine meant for processing and recording the sale transactions for goods or services, either in cash or through credit and debit cards or online payments in an internet enabled environment.

16. Withdrawal of tax credit for enlistment [Section 65C]

This section provides for tax credit against the tax payable for the tax year in which the company is listed and following 3 tax years to encourage enlistment of a Company in any registered stock exchange of Pakistan. Through Finance Act, 2020, this benefit was restricted to a Company, which opts for enlistment on or before June 30, 2022.

The Bill proposes to delete section 65C of the Ordinance and resultantly tax credit to a Company on account of enlistment on Stock Exchange will no longer be available.

This is another policy change by the Government which is not likely to be well received by the Stock Exchange considering already low number of listings over last many years.

17. Omission of tax credit under section [Section 65D]

Under current law, tax credit applicable for investment in the specific industrial undertakings, meeting specified criteria under section 65D, is going to expire by June 30, 2021. The Bill, therefore, proposes for omission of the said section. However, the existing beneficiaries shall continue to enjoy the benefits for the specified period, subject to conditions and limitations provided in the section.

This change is likely to dent the confidence of the investors who wanted to invest in relevant sectors as the subject tax credit was introduced in 2011 with corporate dairy farming added in 2012 for the tax credit on investment. Time period for setting up the industrial undertaking was also being extended from 2016 to 2019 and then to 2021.

18. Tax Credit for coal mining projects, startups and IT exporter [Section 65F]

As per Part I of the Second Schedule to the Ordinance, income of following persons was exempt from tax subject to the limitations mentioned in the relevant clauses:

- **Clause (132B):** Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects.
- **Clause (133):** Income from exports of computer software or IT services or IT enabled services upto the period ending on 30th day of June, 2025.
- **Clause (143):** Profit and gains derived by a start–up as defined in clause (62A) of section 2 for the tax year in which the start-up is certified by the Pakistan Software Export Board and the following two tax years.

The Bill proposes to delete aforesaid clauses of Part I of Second Schedule to the Ordinance and to insert new section "65F - Tax credit for certain persons"; whereby, income of above stated persons or incomes will now no longer be exempt from tax but such persons shall now be allowed to claim tax credit equal to one hundred percent of tax payable including minimum, alternate corporate tax and final taxes.

However, credit on income from exports of computer software or IT services or IT enabled services will only be available if eighty percent of the export proceeds in brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels.

Tax credit equal to one hundred percent to aforesaid income and persons will be available subject to fulfillment of all of the following conditions:

a) return has been filed;

b) withholding tax statements for the relevant tax year have been filed in respect of those provisions of the Ordinance, where the person is a withholding agent; and

c) sales tax returns for the tax periods corresponding to relevant tax year have been filed if the person is required to file Sales Tax Return under any of the Federal or Provincial sales tax laws.

19. Tax Credit for specified industrial undertakings. [Section 65G]

The Bill proposes to insert a new section "65G - Tax credit for specified industrial undertakings", by virtue of which, specified industrial undertakings will be allowed an investment tax credit of 25% of the eligible investment amount against the tax payable under the provisions of the Ordinance including minimum and final taxes.

For the purposes of claiming tax credit, the eligible investment means investment made in purchase and installation of new machinery, buildings, equipment, hardware and software except self-created software and used capital goods.

Following persons / taxpayers will be eligible for claiming the tax credit under this section:

a) Green field industrial undertaking as defined in clause (27A) of section 2 engaged in-

(i) the manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition; or

(ii) ship building:

Provided that the person incorporated between the 30th day of June, 2019 and the 30th day of June, 2024 and the person is not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery, plant, or building from an undertaking established in Pakistan prior to commencement of the new business and is not part of an expansion project; and

b) industrial undertaking set up by the 30th day of June 2023 and engaged in the manufacture of plant, machinery for generation of renewable energy from sources like solar and wind for a period of five years beginning from the date such industrial undertaking is set up.

The tax credit not fully adjusted during the year of investment will be carried forward to the subsequent tax year upto two tax years.

It is pertinent to note section 65G(i) refers to the expression "the eligible taxpayer defined in sub-section (3)"; however sub-section (3) define "eligible person" rather than eligible taxpayer. Appropriate changes are required in the newly inserted section.

20. Non-recognition Rules [Section 79]

Section 79 provides that no gain or loss shall be taken to arise on disposal of an asset:

(a) between spouses under an agreement to live apart;

(b) by reason of the transmission of the asset to an executor or beneficiary on the death of a person;

(c) by reason of a gift of the asset2[to a relative, as defined in sub-section (5) of section 85];

(d) by reason of the compulsory acquisition of the asset under any law where the consideration received for the disposal is reinvested by the recipient in an asset of a like kind within one year of the disposal;

(e) by a company to its shareholders on liquidation of the company; or

(f) by an association of persons to its members on dissolution of the association where the assets are distributed to members in accordance with their interests in the capital of the association.

Sub-section (2) currently provides that the above non-recognition rules shall not apply where the person acquiring the asset is a non-resident person at the time of acquisition, thus gain or loss shall be taken to arise on disposal of assets by such non-resident person as covered from (a) to (f). The proposed amendment seeks to provide that no gain or loss shall be taken to arise in hands of non-resident person in respect of disposal of assets as covered under (d), (e) and (f) only.

21. Empowering the Board to prescribe special procedure for small traders and shopkeepers [Section 99B]

Currently, Federal Government is empowered to prescribe special procedure for scope and payment of tax, filing of return and assessment in respect of small traders and shopkeepers.

The Bill proposes to empower the Board to prescribe special procedure, with approval of the Minister-in-charge, for scope and payment of tax, filing of return and assessment in respect of small traders and shopkeepers.

22. Empowering the Board to prescribe special procedure for certain persons and to notify any other sector [Section 99C]

Currently, Federal Government is empowered to prescribe special procedure for scope and payment of tax, record keeping, filing of return and assessment in respect of small businesses, construction businesses, medical practitioners, hospitals, educational institutions and any other sector specified by the Federal Government.

The Bill proposes to empower the Board to prescribe special procedure, with approval of the Minister-in-charge, for scope and payment of tax, record keeping, filing of return and assessment in respect of small businesses, construction businesses, medical practitioners, hospitals, educational institutions and to notify any other sector.

23. Empowering the Board to specify the profits and gains of any business which consists of, or includes, the exploration and extraction of such mineral deposits of a wasting nature (not being petroleum or natural gas) [Section 100)

Currently, Federal Government is empowered to specify the profits and gains of any business which consists of, or includes, the exploration and extraction of such mineral deposits of a wasting nature (not being petroleum or natural gas) carried on by a person in Pakistan to be computed in accordance with the rules in Part II of the Fifth Schedule.

The Bill proposes to empower the Board to specify, with approval of the Minister-in-charge, the profits and gains of any business which consists of, or includes, the exploration and extraction of such mineral deposits of a wasting nature (not being petroleum or natural gas) carried on by a person in Pakistan to be computed in accordance with the rules in Part II of the Fifth Schedule.

24. Tax Credit for Charitable Organizations. [100C]

The Bill proposes to substitute section 100C - Tax credit for certain persons, with change in nomenclature as - Tax credit for charitable organisations.

The proposed section now specifically categorises the persons and types of income derived by such persons eligible for tax credit under the section as under:

a. Persons

a) persons specified in Table - 2 of clause (66) of Part I of the Second Schedule to this Ordinance;

b) a trust administered under a scheme approved by the Federal Government and established in Pakistan exclusively for the purposes of carrying out such activities as are for the welfare of ex-employees and serving personnel of the Federal Government or a Provincial Government or armed forces including civilian employees of armed forces and their dependents where the said trust is administered by a committee nominated by the Federal Government or a Provincial Government;

c) a trust;

d) a welfare institution registered with Provincial Or Islamabad Capital Territory (ICT) social welfare department;

e) a not for profit company registered with the Securities and Exchange Commission of Pakistan under section 42 of the Companies Act, 2017;

f) a welfare society registered under the provincial or Islamabad Capital Territory (ICT) laws related to registration of co-operative societies;

g) a waqf registered under Mussalman Waqf Validating Act, 1913 (VI of 1913) or any other law for the time being in force or in the instrument relating to the trust or the institution;

h) a university or education institutions being run by non-profit organization existing solely for educational purposes and not for the purposes of profit;

i) a religious or charitable institution for the benefit of public registered under any law for the time being in force; and

j) international non-governmental organization (INGOs) approved by the Federal Government.

b. Incomes

a) income from donations, voluntary contributions and subscriptions;

b) income from house property;

c) income from investments in the securities of the Federal Government;

d) profit on debt from scheduled banks and microfinance banks;

e) grant received from Federal, Provincial, Local or foreign Government;

f) so much of the income chargeable under the head "income from business" as is expended in Pakistan for the purposes of carrying out welfare activities:

Provided that in the case of income under the head "income from business", only so much of such income shall be eligible for tax credit under this section that bears the same proportion as the said amount of business income bears to the aggregate of income from all sources; and

g) any income of the persons mentioned in clauses (a), (b) and (h) as mentioned in 9.1 above.

Further, persons specified in Table - 2 of clause (66) of Part I of the Second Schedule to Ordinance are proposed to be covered under section 100C and will be eligible for tax credit subject to the criteria and conditions [including obtaining approval under section 2(36) from specified date] as per provisions of section 100C of the Ordinance.

It is important to note that no amendment has been made in sub-clause (2) of clause (66) of Part 1 of Second Schedule to the Ordinance, which still provides for exemption to the persons specified in Table 2. Appropriate amendment needs to be made in this sub-clause.

25. Special provisions relating to builders and developers [Section 100 D]

Section 100D was introduced vide Tax Laws (Amendment Ordinance) of 2001 dated April 17, 2020 providing incentive package to Construction sector. The relevant provisions were later enacted through Finance Act, 2020.

Section 100D provided certain conditions for availing incentive including dates for completion of projects by September 30, 2020. Considering the low activity due to COVID-19, such dates were extended till September 30, 2021 through the Income Tax (Amendment) Ordinance of 2021 from January 1, 2021. These provisions are now proposed to be enacted through Finance Act, 2021.

Section 100D also provided amnesty for capital investment if certain conditions including opening and deposit of amount into a bank account is fulfilled till December 31, 2020. This date was also extended till June 30, 2021 through the Income Tax (Amendment) Ordinance of 2021 from January 1, 2021. These provisions are now proposed to be enacted through Finance Act, 2021.

Further, an amnesty from section 111 is provided under section 100D for the first purchaser of a building or a unit of the building purchased from the builder in respect of purchase price of the building or unit of the building subject to the following conditions, namely:

(i) full payment is made through a crossed banking instrument to the builder during a period starting from the date of registration of the project with the Board under this section and ending on the 30th day of September, 2022, in case the purchase is from a new project; and

(ii) full or balance amount of payment is made through a crossed banking instrument to the builder during a period starting from the date of registration of the project with the Board under this section and ending on the 30th day of September, 2022, in case the purchase is from an existing incomplete project; and

The above date was also extended till March 31, 2023 through the Income Tax (Amendment) Ordinance of 2021. These provisions are now proposed to be enacted through Finance Act, 2021.

Moreover, amnesty from section 111 of the Ordinance was available to the purchaser of a plot who intends to construct a building thereon if:

(i) the purchase is made on a before the 31st day of December, 2020;

(ii) the full payment is made on or before the 31st day of December, 2020 through a crossed banking instrument;

(iii) construction on such plot is commenced on or before the 31st day of December, 2020;

(iv) such construction is completed on or before the 30th day of September, 2022;and

(v) the person registers himself with the Board on the online Iris web portal.

These dates as per clause (i) and (ii) were extended from December 31, 2020 to June 30, 2021, whereas the date as per clause (iii) was extended from December 31, 2020 to December 31, 2021 through the Income Tax (Amendment) Ordinance of 2021. These provisions are now proposed to be enacted through Finance Act, 2021.

26. Special provisions relating to small & medium enterprises [Section 100E]

The Bill proposes to introduce new section 100E from tax year 2021 and onwards, whereby tax payable of Small and Medium Enterprise (SME) as defined under the newly inserted clause (59A) of section 2 shall be computed in accordance with the rules made under the proposed Fourteenth Schedule.

27. Avoidance of double tax [Section 107]

The Bill propose to add new word "assistance in the recovery of taxes " section 107(1), empowering the Board to enter into any Agreement with other jurisdictions for assistance in recovery of taxes.

28. Unexplained Income [Section 111]

The Bill proposes to introduce explanation under section 111(5) that separate notice under section 111 is not required to be issued if the explanation regarding and source of amount credited or investment of money, valuable article or the funds from which expenditure was made has been confronted to the taxpayers through a notice under section 122(9).

This amendment is proposed to counter various appellate decisions, whereby it has been held that separate notice under section 111 is to be issued before invoking section 111.

29. Minimum Tax [Section 113]

As per existing provision, minimum tax is applicable to an individual and AOP having turnover Rs. 10 million in a particular tax year. The Bill proposes to enhance the threshold of Rs. 10 million to Rs. 100 million.

Further, the Bill proposes to include the clarification that the term turnover covers receipts from all sources including but not limited to receipt from the sale of immovable property where such amount is taxable under the head of Income from Business.

Moreover, the Bill also proposes to include new explanation wherein it is clarified that taxpayer would be able to carry forward entire amount of minimum tax paid under section 113 of the Ordinance for subsequent five tax years even in such case where minimum tax is paid by the taxpayer due to zero normal tax liability during a particular tax year.

This is a positive development as this would resolve long pending dispute between taxpayers and tax authorities in those cases where taxpayers were not allowed to carry forward minimum tax paid under said section to subsequent tax years if there is a nil normal tax liability in a tax year in which minimum tax paid was paid

30. Return of Income [Section 114]

The Bill proposes to omit clause 114 (1)(ad), whereby welfare institution approved under clause (58) of Part I of the Second Schedule are required to furnish return of income. Clause (58) had already been omitted vide the Finance Act, 2014, consequent to the amendment the clause (ad) had become redundant.

Further, the Bill proposes to introduce a new proviso under sub section (5), whereby the time-limitation of the last five completed tax years provided under said sub-section shall not apply where the Commissioner is satisfied on the basis of reasons to be recorded in writing that a person who failed to furnish his return has foreign income or owns foreign assets. Accordingly, Commissioner can now issue notice to a person to file his return of income even after five years, if he has reasons to believe that such person had foreign income or owned foreign assets during a particular year.

Moreover, the Bill propose to insert a new proviso under clause (a), sub section (6), whereby the Commissioner may waive condition of revised accounts or audited accounts where he thinks that the same are not necessary.

31. Taxpayer’s Profile [Section 114A]

Through Finance Act, 2020 section 114A was introduced wherein every person filing return of income is required to submit taxpayer’s profile, instead of provision of information along with the return of income on annual basis. Due date for updating the tax profile was extended from December 31, 2020 to June 30, 2021.

Non-compliance of the above would attract monetary penalties and will lead to exclusion of the taxpayer’s name from the Active Taxpayers List.

The Bill proposes to withdraw above section. The proposed change would be welcomed by the tax payers as number of them were facing issues in updating their profiles especially the foreign companies not having any presence in Pakistan.

32. Assessment [Section 120]

Before Finance Act, 2020, where a taxpayer furnished a return of income, the Commissioner shall be treated to have made an assessment of taxable income and tax due thereon equal to amounts specified in the return. Further, such return was taken for all purposes to be an assessment order issued by the Commissioner.

Through Finance Act, 2020, the legislature introduced sub-section (2A) and automated adjusted assessment mechanism was enacted. Under this mechanism, the return filed shall be subject to an automatic review and adjustment within six months of filing of return for rectification of any numerical errors or incorrect claims, losses, deductible allowances or tax credit, or wrongful carry forward of losses that are apparent from the return of income. In this regard, a notice shall be issued to the taxpayer before the adjustments are effected in the return, which is required to be responded within 30 days of the date of notice.

Further, where no such adjustments are made within the specified period of six months, the return filed shall be deemed to have been automatically adjusted on the day the return is filed and automatic intimation through IRIS shall be forwarded to the taxpayer.

The current provisions as to deemed assessment order will now apply to adjusted return rather than the original return filed by the taxpayer.

The Bill proposes to restore provisions of the section 120 as if sub-section (2A) is not in operation and no automated adjusted assessment mechanism was enacted until the Board notifies the date from which provisions of sub-section (2A) shall apply.
For the purposes of this section, the following provisos are proposed to be inserted under sub-clause (b) of section (1) of section 120:

"Provided that until the date specified under the fourth proviso to sub-section (2A) is notified, this subsection shall be in force as if sub-section (2A) is not in operation:

Provided further that once the date under the fourth proviso to sub-section (2A) is notified, clauses (a) and (b) shall only apply when the provisions of sub- section (2A), if invoked, are first complied with:

Provided further once compliance is made under the second proviso:

(i) the adjusted amount under sub-section (2A) shall be construed to be the tax payable and due under clause (a);and
(ii) the date of the compliance under sub-section (2A) shall be the date for the purposes of clause (b).

Further, the Bill proposes to empower Board to notify date for the applicability of provisions regarding system based issuance of notice for automated adjustments in the return of income.

So effectively as a consequence of the proposed amendments in section 120, upon return filing, the Commissioner shall be taken to have made an assessment of taxable income for that tax year and tax due thereon. Further the return filed shall be taken for all the purpose of the Ordinance to be as assessment order.

The provisions of sub-section (2A) and automated adjusted assessment mechanism shall only apply once the date of application is notified by the Board.

33. Amendments of assessment [Section 122]

Under the current provisions of law, Commissioner may after making or causing to be made, such enquiries as he deemed necessary amend or further amend an assessment order under section 122(5A). Due to these powers, through proceedings under section 122(5A), tax authorities raise detailed queries which effectively tantamount to detailed scrutiny of the records of a taxpayer as in case of detailed tax audit.

In order to curb misuse of such powers, the Bill proposes to delete wording ‘after making, or causing to be made, such inquiries as he deems necessary’. This is a welcoming change, in line with the decisions of the courts, which will restrict the authorities to extend the scope of amendment proceedings.

The Bill also proposes to limit the finalization of assessment proceedings within 120 days of issuance of show-cause notice under section 122(9), to be extended for further 90 days for any reason to be recorded in writing. This provision will be applicable for show cause notices issued on or after July 1, 2021. The above time limit will not include period when proceedings are adjourned due to any reason including on account of stay, ADRC proceedings, agreed assessment proceedings under section 122D or time taken by the taxpayers through adjournment. The amendment seeks to expedite the disposal of proceedings in an efficient manner.

34. Revision by the Commissioner [Section 122A]

The Bill proposes a time limit of 120 days for giving appeal effects to an order by a lower tax authority, if the order is remanded back by the Commissioner for modification, alteration, implementation of direction or de novo proceedings.

35. Alternative Dispute Resolution [Section 134A]

Through the Bill, it is proposed to make below amendments in section 134A:

- Allow taxpayers against whom criminal proceeding have been initiated to avail Alternative Dispute Resolution mechanism.

- If the issue involves a mixed question of fact and law, the Board after considering all relevant facts and circumstances, shall decide whether or not Alternative Dispute Resolution Committee (ADRC) may be constituted.

- The application for dispute resolution shall be accompanied by an initial proposition for resolution of the dispute, from which proposition, the taxpayer would not be entitled to retract.

- Reduce time limit from 60 days to 30 days to constitute ADRC.

- Reduce time limit from 120 days to 60 days for decision by ADRC, of its appointment.

- Grant stay of recovery of demand till decision or dissolution of ADRC committee whichever is earlier.

- If the committee fails to decide the case within 60 days of its appointment the Board shall dissolve the committee and may re-constitute another committee to the provision of this section shall apply mutatis mutandis

36. Due date for payment of tax [Section 137]

Presently, taxpayer is required to pay the tax demands created through any assessment orders within 30 day of service of notice.

The Bill proposes that any tax demand raised through an appeal effects order shall now be payable immediately without following above limit of 30 days. Clarification is desired in this regard as to what is meant by immediately; whether this refers to the same day order was served and would that be practically possible.

37. Assistance in the recovery and collection of taxes [Section 146C]

The Bill proposes to insert a new clause whereby provisions of sections 138, 138A, 139, 140, 141, 142, 143, 144, 145, 146, 146A, 146B shall apply for assistance in collection and recovery of taxes from a taxpayer in order to pursue any request received from a foreign country under a tax treaty, a multilateral convention, inter-governmental agreement or similar arrangement or mechanism

38. Withdrawal of Commissioner’s Power to reject the advance tax estimates [Section 147(6)]

Under the existing law, the Commissioner has the power to reject the lower estimate of advance tax payable submitted by a taxpayer, if Commissioner is not satisfied with the documentary evidences provided or where an estimate of the advance tax payable is not accompanied by the prescribed details. In such a case, the taxpayer is required to pay advance tax as per the prescribed formula.

The Bill proposes to withdraw the above mentioned power of the Commissioner to reject the advance tax estimate.

39. Dividends [Section 150 and 236S]

Under the current law, withholding tax provisions related to dividend in cash and Dividend in specie are separately covered under sections 150 and 236 S respectively.

The Bill proposes to merge withholding tax provisions related to dividend in cash and dividend in specie under section 150.

40. Return on Investments in Sukuks [150A & Profit on debt 151]

Presently, provision related to return on investments in Sukuks and Profit on debt are covered under sections 150A and 151 respectively.

The Bill proposes to delete section 150A and merge the withholding tax provisions relating to payment of return on investment in Sukuks and Profit of debt under section 151.

41. Final tax regime on capital gains and return on investment in Sukuks for non-residents [Section 152(1DA), (1DB) and (1E)]

The Bill proposes that every banking company maintaining a Foreign Currency Value Account (FCVA) or a Non-Resident Pakistani Rupee Value Account (NRVA), of a non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC), shall now deduct tax from capital gain arising on the disposal of debt instruments and government securities and certificates (including Shariah compliant variant) invested through aforesaid accounts at 10%.

Further, the Bill proposes that every special purpose vehicle or a company at the time of making payment of a return on investment in sukuks to a non-resident sukuk holder shall deduct tax from the gross amount of return on investment at the rates specified in Division IB of Part III of the First Schedule.

Tax deducted under sub-sections (1DA) and (1DB) shall constitute final discharge of tax liability of the recipient.

42. Payment for Goods, Services and Contracts [Section 153 (4) & (5)]

Under the current law, where tax deductible under section 153 (1) is not minimum, the Commissioner is obliged to issue exemption / reduced rate certificate, on payment for supply of goods within 15 days of filing of application, only to a public company listed on registered stock exchange in Pakistan.

Through the proposed amendment, the Commissioner is now obliged to issue such certificate to all the companies.

Under the existing law, payments made to traders of yarn by taxpayers specified in zero-rated regime of sales tax are exempt from withholding tax under section 153(1). Through the Bill, the above exemption from withholding tax is proposed to be withdrawn.

43. Payment of Royalty to Resident Person [Section 153 B]

Under the existing law, payment on account of royalty to a resident person is subject to withholding tax @ 15%.

Through the bill, the above withholding tax is proposed to be abolished.

44. Export of Services [Section 154A]

The Bill proposes to introduce a new framework for taxation for the following streams of income:

- Computer software, IT services or IT enabled services.
- Services or technical services rendered outside Pakistan or exported from Pakistan.
- Royalty, commission or fees derived by a resident company from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise.
- Construction contracts executed outside Pakistan.
- Other services rendered outside Pakistan as notified by the Board from time to time

Every authorized dealer in foreign exchange, at the time of realization of foreign exchange proceeds on account of aforementioned services shall deduct tax from the proceeds at the rate of 1%. No tax is to be deducted for exports of computer software or IT services or IT enabled services in case tax credit under section 65F is available. It is pertinent to note that though proceeds realized from technical services rendered outside Pakistan has earlier been subjected to reduced rates of tax but *export of services* has never been subject to reduced rate of tax or any special tax regime.

Previously, except for IT services, the above mentioned services were subject to 1% tax. Through the Finance Act, 2016, tax rate for these services and contracts executed outside Pakistan were subject to tax at 50% of tax rates applicable under Division III of Part III of the Second Schedule i.e. rates applicable for similar activities in Pakistan.

The tax deductible under this section shall be a final tax on the income arising from the above referred transactions, upon fulfilment of the following conditions:

(a) return has been filed;
(b) withholding tax statements for the relevant tax year have been filed;
(c) sales tax returns under Federal or Provincial laws have been filed, if required under the law;
(d) no credit for foreign taxes paid shall be allowed.

The tax deductible shall not be final for a person who does not fulfill the above specified conditions or who opts not to be subject to final taxation.

Provided that the option shall be exercised every year at the time of filing of return under section 114.

Introduction of a special regime for the specified services would help in generating foreign exchange and at the same time would encourage free lancers especially in IT sector to extend their reach globally.
Where a taxpayer, while explaining the nature and source of any amount, investment, money, valuable article, expenditure, referred to in section 111, takes into account any source of income which is subject to final tax in accordance with the provisions of this section, he shall not be entitled to take credit of a sum that can be reasonably attributed to the business activity or activities specified above.

The Board in consultation with State Bank of Pakistan shall prescribe mode, manner and procedure of payment of tax under this section.

The Board shall have the power to include or exclude certain services for applicability of provisions of this section.

45. Income from Property [Section 155]

The Bill proposes to change the heading of the section as "Rent of immoveable property''. The proposed change is in line with the gist of the section since it deals with the deduction of tax on payment for rent of immoveable property.

Currently, rent from the sub-lease of land or a building is taxable under the head Income from other sources. Through the Bill, an explanation has been added to clarify that withholding tax under section 155 shall also apply when a payment is made on account of rent of immoveable property irrespective of head of income. By virtue of this amendment, rental income of sub-lessee of the property, taxable under the head "income from other sources" would also be liable to tax withholding under section 155.

46. Exemption or lower rate certificate [Section 159(1) (c)]

The Bill proposes to empower the Commissioner to issue exemption certificate where income of a taxpayer is subject to 100% tax credit under the Ordinance.

Previously, only section 100C was mentioned for issuance of exemption certificate. Through the Bill, the scope of issuing tax exemption certificate has been enhanced as various taxpayers have been brought within the scope of 100% tax credit through section 65F.

Furthermore, a mechanism for automated issuance of exemption certificates is introduced for corporate entities, if application is not disposed of by the Commissioner within fifteen days of filing of application by the company. However, the proposed amendments also empower the Commissioner to modify or revoke the certificate issued automatically by IRIS on the basis of reasons to be recorded in writing and after providing an opportunity of being heard.

Aforesaid amendment seems to ease the procedure for obtaining aforementioned certificates and to reduce inordinate delays in processing exemption orders.

47. Statements [Section 165 (7) & (8)]

In addition to existing compliance requirement of filing annual statement for payment of salary, a new sub-section (7) is proposed to be inserted, whereby every prescribed person collecting / deducting taxes, on payments other than salary, is required to e-file an annual statement within thirty (30) days of the end of the tax year.

Similarly, another new sub-section (8) is proposed to be inserted to streamline mechanism of monitoring of withholding taxes by requiring taxpayers to file a reconciliation statement in prescribed format by the due date of return of income.

The above insertions seem as a proactive approach of FBR of obtaining, in advance, the reconciliation statement prescribed under Rule 44(4) of the Income Tax Rules, 2002. Currently, such a reconciliation is requested by the tax officers during monitoring of withholding tax proceedings.

48. Electronic processing and electronic issuance of Refunds by the Board [Section 170A]

The Bill proposes to insert new section 170A whereby a mechanism for electronic processing and issuance of refund by the Board has been introduced. Commencing from tax year 2021, the Board may process and issue refund to the taxpayer, who has filed the return of income, without requiring refund application by the taxpayer to the extent of tax credit verified by the Board’s computerized system, as may be prescribed. The refund amount sanctioned under this section shall be electronically transferred in the taxpayer’s notified bank account.

The above amendment is proposed to be applicable prospectively i.e. from tax year 2021.

The above amendment seems to ease the procedure of obtaining refunds without submission of refund applications and documentary evidence. It is expected that some rules are likely to be notified by the Board in near future for the purpose of application of this section.

49. Offences and penalties [Section 182]

The Tax Laws (Second Amendment) Ordinance, 2001 revised various penalties under section 182. The Bill now proposes to make same amendments in the penalties as under:

S.No.	Existing Offences	Existing Penalties	Existing Applicable Sections	Proposed Amendments
1.	Where any person fails to furnish a return of income as required under section 114 within the due date	A minimum penalty of Rs. 5,000, where taxable income for the year is upto Rs. 800,000. Furthermore, penalty amount shall also be reduced by 75%, 50% or 25% if return is filed within one, two or three months respectively after the due date or extended due date for filing of return.	114 and 118	The changes made through Tax Laws (Second Amendment) Ordinance, 2021 have been proposed to be adapted through the Finance bill.
1A	Where any person fails to furnish a statement as required under section 165, or 165A, or 165B within the due date.	Minimum penalty of Rs 10,000 has now been prescribed for instances where no tax was required to be deducted or collected during the relevant period.	165, 165A and 165B	The changes made through Tax Laws (Second Amendment) Ordinance, 2021 have been proposed to be adapted through the Finance bill.
4A	Any person who is required to furnish or update a taxpayer's profile but fails to furnish or update within the due date.	Such a person shall pay a penalty of Rs.2,500 for each day of default from the due date subject to a minimum penalty of Rs. 10,000	114A	Through the bill, this section is proposed to be deleted.
4B	Any person who contravenes the provisions of section 181AA	Such a person shall pay a penalty at the rate of Rs. 10,000 for each connection provided to an unregistered person.	181AA	The proposed amendment seeks to enhance the amount of penalty from Rs.10,000 to Rs.100,000
6	Any person who repeats erroneous calculation in the return for more than one year whereby amount of tax less than the actual tax payable under this Ordinance is paid.	Such person shall pay a penalty of thirty thousand rupees or three *per cent* of the amount of the tax involved, whichever is higher.	137	The proposed amendments seek to make editorial changes, the revised provision will be read as follow: "Any person who repeats erroneous calculation in the return for more than

S.No.	Existing Offences	Existing Penalties	Existing Applicable Sections	Proposed Amendments
		Provided that no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayer's position.		one year whereby amount of tax paid is less than the actual tax payable under this Ordinance."
10	Any person who— a) makes a false or misleading statement to an Inland Revenue Authority either in writing or orally or electronically including a statement in an application, certificate, declaration, notification, return, objection or other document including books of accounts made, prepared, given, filed or furnished (b) furnishes or files a false or mis-leading information or document or statement to an Income Tax Authority either in writing or orally or electronically; c) omits from a statement made or information furnished to an Income Tax Authority any matter or thing without which the statement or the information is false or misleading in a material particular.	Such person shall pay a penalty of twenty five thousand rupees or 50% of the amount of tax shortfall whichever is higher: Furthermore, the penalty clause has also been made applicable to section 118 "Method of furnishing returns and other documents". Provided that in case of an assessment order deemed under section 120, no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayers' position.	114, 116, 118, 174, 176 and 177	The proposed amendment seeks to adopt changes made vide Tax Laws (Second Amendment) Ordinance, 2021. However, in result of deletion of section 114A, penalty is not applicable for offense related to the omitted section.
11	Any person who denies or obstructs the access of the Commissioner or any	Such person shall pay a penalty of fifty thousand rupees or fifty *per cent* of	175 and 177	The changes made through Tax Laws (Second Amendment) Ordinance, 2021

S.No.	Existing Offences	Existing Penalties	Existing Applicable Sections	Proposed Amendments
	officer authorized by the Commissioner to the premises, place, accounts, documents, computers or stocks	the amount of tax involved, whichever, is higher		have been proposed to be adapted through the Finance bill.
16	Any person who fails to display his NTN or Business license at the place of business as required under this Ordinance or the rules made thereunder.	Such person shall pay a penalty of five thousand rupees.	181C & 181D	The changes made through Tax Laws (Second Amendment) Ordinance, 2021 have been proposed to be adapted through the Finance bill.

Following additional offences and penalties therefor have been proposed to be inserted through the Bill:

S.No	Offence	Penalty	Section
29	Where any person fails to declare business bank account(s), in his registration application or fails to amend his registration profile to declare existing business bank account(s).	Such person shall pay a penalty of Rs. 10,000 for each day of default since the date of submission of application for registration or date of opening of undeclared business bank account whichever is later. Provided that if penalty worked out as aforesaid is less than Rs.100,000 for each undeclared bank account, such person shall pay a penalty of Rs.100,000 for each undeclared business bank account. Provided further that this provision shall be applicable from the first day of October 2021 during which period the taxpayer may update their registration forms.	181

An explanation in section 182(2) has been proposed to be inserted whereby it is clarified that establishing mens rea is not necessary for imposition of penalty.

The above clarification seems to be in contradiction with various judgement of the apex Courts whereby establishment of mens rea has been considered necessary for imposition of penalty.

50. Return not filed within due date [Section 182(A)]

Under the existing law, a person who fails to furnish or update a taxpayer profile within due date specified in sub section 3 of section 114A shall not be included in the active taxpayer list for the latest tax year.

The Bill proposes to delete section 114A, therefore, penalties related to non-compliance of the said section is also proposed to be abolished.

51. Prosecutions for non-compliance with certain statutory obligations [Section 191]

The Bill proposes to insert a new clause (g) to sub section 1 of section 191, whereby scope of conviction with a fine or imprisonment or both has also been extended to such a person who, without reasonable excuse, fails to declare business bank accounts in the registration form or return of income or wealth statement.

52. Power to compound offenses & Trial by Special Judges [Section 202 & 203]

The Bill proposes to introduce detailed mechanism for trial by Special Judge and compounding of any offences under such regime by introducing section 203A, 203B, 203D and 203E. Accordingly, existing provisions are proposed to be deleted.

53. Power to arrest and prosecute [Section 203A]

The Bill proposes to insert new section, empowering the authorities to arrest and prosecute a person involved in concealment of income or any offence warranting prosecution under the Ordinance. Such arrest shall be carried out under relevant provisions of the Code of Criminal Procedure, 1898. The power to cause arrest may be exercised by the Assistant Commissioner of Inland Revenue or any other officer of equal rank, authorised by the Board in this behalf.

However, in order to create incentive for voluntary compliance, the Bill also seeks to grant the Chief Commissioner power to compound the offence in case the taxpayer pays the tax due along with penalty and default surcharge. Such power may be exercised by the Chief Commissioner after prior approval from the Board.

In case of a company, every director or officer of the company, who is believed to be personally responsible for such concealment of income or offence, may be arrested. However, such arrest shall not absolve the company from the liabilities of payment of tax, default surcharge and penalty imposed under the Ordinance.

The proposed insertion seeks to considerably increase the power of the tax enforcement machinery. While on the one hand the proposed amendment is aimed at discouraging tax evasion by introducing criminal proceedings; however, on the other hand, it may also create a more hostile tax environment for businesses, causing further disincentive towards broadening of the tax base. The measure may also adversely affect efforts to bring in foreign direct investment and documentation of the economy.

54. Procedure to be followed on arrest of a person [Section 203B]

The Bill proposes to introduce new section 203B, which shall devise the following procedure to be followed when making an arrest under newly inserted section 203A:

- The authorised officer of Inland Revenue shall instantly state the fact of the arrest of the person to the Special Judge. The Special Judge shall give direction to the officer to produce the person at such time, place and date as the Special Judge considers expedient.

- The person arrested under this

Ordinance, within 24 hour of his arrest, shall be presented before the Special Judge or to nearest Judicial Magistrate in the absence of Special Judge. The Judicial Magistrate shall facilitate earliest production of such person before Special Judge, at a date and time to be fixed by him.

- The Special Judge, after giving the prosecution an opportunity of being heard, may grant or refuse bail to the person with or without sureties. The Special Judge may also cancel such bail at a subsequent stage, after giving the person an opportunity of being heard. However, under special circumstances to be made part of record, the Special Judge may cancel bail without granting such opportunity.

- The Special Judge or Judicial Magistrate shall have power to grant custody of the person to the officer of Inland Revenue, for a maximum period of 14 days, for completion of inquiry or investigation. Such custody shall be granted on a written request made by the officer of Inland Revenue before the Special Judge or Judicial Magistrate, as the case may be.

- The officer of Inland Revenue shall immediately inquire into charge against the arrested person, and if he completes his inquiry within 24 hours of such arrest, he may seek further detention of such person in his custody from the Special Judge or Judicial Magistrate, as the case may be. For the purpose of conducting inquiry, the officer of Inland Revenue shall have the powers of an officer in charge of a police station under the Code of Criminal Procedure, 1898.

- Where an officer of Inland Revenue concludes that there is no sufficient evidence or reasonable ground for suspicion, he may release the person with or without sureties, and instruct the person to appear before the Special Judge. The officer of Inland Revenue shall make a report and submit it to Special Judge and his immediate superior. The Special Judge may agree with the report and discharge the person. Alternatively, the Special Judge may proceed with trial of the person if he is convinced that there is sufficient ground for proceedings against such person.

- The officer of Inland Revenue shall maintain "Register of Arrest and Detentions" in prescribed manner to maintain following record:

    - Name of the person;
    - Time and date of arrest;
    - Details of the information received;
    - The details of things, goods or documents, recovered from his custody;

        - Name of witnesses and the explanation, if any; and
        - Manner in which inquiry has been conducted from day to day.

Such register or authenticated copies may be produced before the Special Judge as and when required.

- The Officer of Inland Revenue after completing his inquiry shall file complaint before Special Judge, in a manner in which officer in-charge of a police station submits a report before a court.

- Magistrate of the first class is authorised to record any statement or confession of the person being prosecuted under the

Ordinance in accordance with relevant provisions of the Code of Criminal Procedure, 1898.

- The Board after the approval from Federal Minister-in-charge, may appoint any of its officers to perform the duties of Officer of Inland Revenue under this section. The Board will issue notification in Official Gazette in this respect.

55. Special Judge [Section 203C]

A new section is proposed to be inserted, which shall empower the Federal Government to appoint Special Judges and notify the territorial limits of each Special Judge, where he shall exercise jurisdiction under this Ordinance. The eligibility criteria for appointment as a Special Judge is to be a serving or prior Session Judge.

56. Cognizance of offences by Special Judges (Section 203D)

The Bill proposes to introduce new section 203D, which shall grant power to a Special Judge to take cognizance of any offence punishable under this Ordinance under either of the following three circumstances:

(a) a written report submitted to the Special Judge by an officer of Inland Revenue, or by any other officer especially authorized in this behalf by the Federal Government.

(b) a complaint filed by any person before the Special Judge containing information of facts pertaining to such offence.

(c) knowledge acquired by the Special Judge during any proceeding before him under this Ordinance or under any other law for the time being in force.

In case a written report under clause (a) above is submitted, the Special Judge shall proceed with the trial of the accused person. However, in case of complaint filed under clause (b) or knowledge obtained by the Special Judge under clause (c), the Special Judge may hold a preliminary inquiry for ascertaining the correctness of the complaint. Further, the Special Judge may also direct a Magistrate, an officer of Inland Revenue, or a police officer to hold such inquiry on his behalf and submit a report to him.

The Special Judge may dismiss the complaint, if no sufficient grounds are obtained as a result of such inquiry.

57. Special Judge, etc. to have exclusive jurisdiction [Section 203E]

The Bill proposes to insert new section 203E, which shall provide exclusive jurisdiction to the Special Judge. As such, only a Special Judge having jurisdiction, shall try an offence punishable under the Ordinance. No other court may exercise any power or perform any function under the Ordinance, except in the manner and to the extent provided for in the Ordinance. Similarly, no other court shall have power to entertain, hear or decide any application, petition or appeal under the Code of Criminal Procedure, 1898, against any order or direction made under the Ordinance. However, the High Court may exercise such power.

58. Provisions of Code of Criminal Procedure, 1898, to apply [Section 203F]

The Bill proposes to insert a new section, which provides that the court of Special Judge shall follow the provisions of Code of Criminal Procedures 1898 during the proceedings and such court shall be deemed to be a Sessions court for the purposes of the said Code.

59. Transfer of cases [Section 203G]

The Bill proposes to insert a new section, which empowers the High Court or Federal Government, as applicable, to transfer the case at any stage of trial from the court of one Special Judge to another Special Judge for disposal, in order to promote the ends of justice or tend to the general convenience of the parties or witnesses. Such transfer shall not bind the transferee Special Judge to recall and rehear any witness whose evidence has been recorded in the case before the transfer.

60. Place of Sittings [Section 203H]

The Bill proposes to insert a new section, which seeks to empower the Special Judge to hold sittings at his headquarters or any other place, keeping in view the general convenience of the parties or the witnesses.

61. Power to tender Immunity from prosecution [Section 204]

Section 204 of the Ordinance empowers the Federal Government to grant immunity to person making full and true disclosure regarding concealment of income or evasion of tax, subject to certain conditions. The Bill proposes to transfer this power from the Federal Government to the Board, with the approval of the Minister–in-charge.

62. Fee and service charges [Section 222A]

A new sub-section (2) of section 222A is proposed to be inserted, which empowers the Board to make rules regarding expenditure of the fee and service charges collected under this section.

63. E-hearing (Section 227-E)

In order to keep abreast with the latest digital technologies, as well as to counter the limitations posed due to COVID-19, the Bill proposes to insert a new section, which shall provide enabling mechanism of admissibility of E-hearing. For this purpose, the Board may implement an E-hearing module for conducting hearing and electronically receiving information. Furthermore, the recording of E-hearing shall be admissible as evidence before any forum or court of law.

The proposed insertion is a much needed and much awaited amendment, which shall facilitate taxpayers as well as the Board in conducting proceedings. Such measures shall be instrumental in modernizing the tax machinery of the country, as well as expediting the tax collection mechanism.

64. Directorate General of Compliance Risk Management (DGCRM) (Section 230I)

The Bill proposes to establish Directorate General of Compliance Risk Management. The DGCRM shall consist of a Director General, Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may appoint. The Bill also seeks to empower the Board to specify the function and powers of DGCRM.

65. Cash withdrawal from a bank (Section 231A)

The Bill proposes to omit section 231A, which requires banking companies to collect advance tax from cash withdrawal in a day exceeding Rs. 50,000. This omission is aimed at reducing the undue burden of withholding taxes on banking consumers.

66. Advance tax on transactions in Bank (Section 231AA)

The Bill proposes to omit section 231AA, which requires a banking company, non-banking financial institution, Exchange Company or any authorized dealer of foreign exchange to collect advance tax on various transactions including sale against cash of any instrument, receipt of cash on cancellation of any instrument, or transfer of any sum against cash. This omission is aimed at reducing undue burden of withholding taxes on banking consumers. Further, the omission of advance tax on aforementioned banking transactions shall incentivize use of banking sector by taxpayers, thereby creating a positive impact towards documentation of economy.

67. Advance tax on private motor vehicle [(Section 231B (2A)]

A new sub section 2A was introduced vide Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021. In order to discourage "On Money" practice of selling vehicles, every motor vehicle registering authority of Excise and Taxation Department had been made responsible to collect advance tax from buyers of locally manufactured motor vehicles, who subsequently sell vehicle within 90 days of delivery of such vehicle, whether prior to or after registration of vehicle. However, such tax collection was applicable till June 30, 2021.

The Bill proposes to substitute this sub-section with a slightly amended sub-section 2A, whereby the condition of 90 days is proposed to be removed. On the other hand, a new condition is proposed to be introduced, whereby the advance tax shall be collected if the locally manufactured motor vehicle has been sold prior to registration by the person who originally purchased it from the local manufacturer. Further, the newly inserted sub section is proposed to be effective without any limitation of time period as earlier provided.

68. Brokerage and commission [Section 233]

Currently, under section 233 of the Ordinance, Federal Government, a Provincial Government, a Local Government, a Company or an association of persons constituted by, or under any law is required to collect advance tax on payment of commission or brokerage.

The Bill proposes to add individual having turnover of Rs.100 million or more as a withholding agent.

69. Collection of tax by a Stock Exchange registered in Pakistan [Section 233A]

The Bill proposes to omit section 233A, which requires a stock exchange registered in Pakistan to collect advance tax from its members on purchase and sale of shares. Earlier, the application of this section had ceased with effect from March 01, 2019, vide Finance Supplementary (Second Amendment) Act, 2019 dated March 09, 2019. As such, this section had already become redundant. Accordingly, the Bill seeks to omit this section.

70. Collection of tax by NCCPL [Section 233AA]

The Bill proposes to omit section 233AA, which required National Clearing Company of Pakistan Limited (NCCPL) to collect advance tax from the members of Stock Exchange registered in Pakistan, in respect of margin financing in share business or securities lending. Earlier, this section had been inserted vide the Finance Act 2012 dated June 26, 2012.

The omission is aimed at incentivizing margin financing, margin trading and securities lending in share business.

71. CNG Stations [Section 234A]

The Bill proposes to omit section 234A, which required the person preparing gas consumption bill to collect advance tax from CNG stations.

The omission is aimed at minimizing the tax burden on CNG stations.

72. Advance tax on electricity consumption [Section 235(1) and 235(3)]

This section imposes advance tax on the amount of electricity bill from commercial or industrial consumers. The Bill now proposes to broaden its scope by including those domestic consumers, whose names are not appearing in the Active Taxpayers' List. Previously, vide Finance Act 2020, advance tax under this section was not applicable on a person who produced the exemption certificate from the Commissioner or who had discharged his advance income tax liability for the tax year. The Bill now proposes to extend this exemption to persons whose income is subject to final tax regime or minimum tax regime.

73. Domestic electricity consumption [Section 235A]

The Bill proposes to omit section 235A, which required the person preparing electricity consumption bill to charge and collect advance tax from consumers, since collection of tax from domestic customers is now covered under section 235.

74. Advance tax on purchase of air ticket [Section 236B]

The Bill seeks to omit section 236B, which required airlines issuing domestic air tickets to charge advance tax under the said section. The proposed changed aims to minimize air tickets costs to promote air travel in order to stabilize the badly hit travel and tourism sector as a result of COVID-19 pandemic.

75. Advance tax on purchase or sale of immovable property [Section 236C]

Various amendments were made in section 236C vide the Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021. These amendments mainly introduced final tax regime for non-resident Pakistanis who sold immovable property through FCVA or

NRVA maintained with authorized banks in Pakistan.

The Bill proposes to insert the same amendments through the Finance Act, 2021. Further, the Bill proposes to add public and private real estate projects registered/governed under any law, joint ventures, private commercial concerns to be held responsible for registering, recording or attesting transfer and to collect advance tax on disposal of property made within the same tax year.

76. Advance tax on sales to distributors, dealers and wholesalers [Section 236G]

The Bill proposes to add pharmaceuticals, poultry and animal feed, edible oil and ghee, battery, tires, varnishes, chemicals, cosmetics, IT equipment to the list of products on which advance tax is collected by manufacturer or commercial importer from sales to distributors, dealers and wholesalers.

The said addition seeks to broaden the tax net however, this will increase prices of household consumables and medical supplies.

77. Advance tax on sales to retailer [Section 236H]

Similar to the above proposed amendment, the Bill proposes to add pharmaceuticals, poultry and animal feed, edible oil and ghee, battery, tires, varnishes, chemicals, cosmetics, IT equipment to the list of products on which advance tax is collected by manufacturer, distributor, dealer, wholesaler or commercial importer at the time of sale to retailers.

The said addition seeks to broaden the tax net however, this will increase prices of household consumables and medical supplies for end consumers.

78. Tax on sale of certain petroleum products [Section 236HA]

The Bill proposes to omit section 236HA, which requires every person selling petroleum products to a pump operator or distributor to collect advance tax.

The omission seeks to encourage minimizing burden of tax on pump operators and distributors of petroleum products.

79. Advance tax on purchase or transfer of immovable property [Section 236K]

Various amendments had been made to section 236K vide the Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021. These amendments mainly introduced final tax regime for non-resident Pakistanis who acquired immovable property through FCVA or NRVA maintained with authorized banks in Pakistan.

The Bill proposes to insert the same amendments through the Finance Act, 2021. Further, the Bill proposes to add public and private real estate projects registered/governed under any law, joint ventures, private commercial concerns to be held responsible for registering, recording or attesting transfer and to collect advance tax.

80. Advance tax on purchase of international air ticket [Section 236L]

The Bill proposes to omit section 236L, which required every airline, issuing ticket for journey originating from Pakistan to collect tax from passengers on the gross amount of international air tickets issued to passenger.

The omission seeks to encourage relief to international travelers and the airline industry which are badly hit due to the COVID-19 pandemic.

81. Advance tax on banking transactions otherwise than through cash [Section 236P]

The Bill proposes to omit section 236P, which requires every banking company to collect advance tax on various transactions other than cash from persons whose names are not appearing on Active Taxpayers List.

The omission seeks to encourage documentation of transaction through banking channels.

82. Dividend in specie [Section 236S]

The Bill proposes to omit section 236S which requires every person who made a payment of dividend in specie to collect tax from the gross amount of the dividend in specie. The relevant amendments have been proposed in section 150 to cover collection of tax from specie dividend.

83. Advance tax on extraction of minerals [Section 236V]

The Bill proposes to omit section 236V which requires every provincial authority to collect advance tax on the value of minerals extracted, produced, dispatched and carried away from the licensed or leased area of the mines.

The omission aims at reducing the burden of tax on mining activities.

84. Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards [Section 236Y]

The Bill proposes to omit section 236Y which requires every banking company to collect advance tax, at the time of transfer of any sum remitted outside Pakistan, on behalf of any person who has completed a credit/ debit card transaction or a prepaid card transaction with a person outside Pakistan.

The said omission aims at increasing cross border trade through banking channels.

85. Benefits of repealed provisions [Section 242]

Various amendments proposed through Tax Laws (Amendment) Ordinance, 2021 and Tax Laws (Second Amendment) Ordinance, 2021 are made part of the Bill. In respect of various exemptions and concessions withdrawn through these Ordinances, it has now been clarified through proposed section 242 that existing beneficiaries of exemption and concessions shall continue to enjoy benefits of the repealed provisions till June 30, 2021 or otherwise for the periods prescribed and subject to conditions specified therein.

Below is the list of provisions introduced, amended, omitted or deleted through these Amendment Ordinances.

Provision Reference	**Description**
Section 2(29C)(b)	Industrial Undertaking
Section 23A	First Year Allowance
Section 57(4)	Carry forward of Business Losses
Section 61	Charitable Donations
Section 64C	Tax credit for person employing fresh graduates
Section 65F	Tax credit for certain persons
Section 65G	Tax credit for specified industrial undertakings
Section 100C	Tax credit for charitable organizations
Section 152	Payments to non-residents
Section 182	Offences and penalties
Section 236C	Advance tax on sale of immoveable property
Section 236K	Advance tax on purchase or transfer of immoveable property
First Schedule Part I (Rate of taxes)	Division IIA
First Schedule Part II (Rate of Advance Taxes)	Clause (c) – Rate of Advance tax under section 148
First Schedule Part III (Deductions of tax at source)	Division II, Division III.
First Schedule Part IV (Deduction or Collection of Advance Tax)	Division VII, Division XIV.
Second Schedule Part I, (Exemption from Total Income)	Clauses (39), (40), (53A), (61), (64A),(64B), (64C), (65), (66), (72A), (74), (75), (78), (79), (90), (90A),(91), (98), (100), (101), (103), (103C), (104),(105),(105A),(110B), (110C), (114), (126B), (126BA), (126G), (126I), (126O) (131), Clause 132 (c).
Second Schedule Part II (Rates of Advance tax)	Clause (2), (3), (3b), (5a), (5AB), (5B), (18), (24C), (24D).
Second Schedule Part III (Deduction of Tax at source)	Clauses (2), (7), (8), (9), (9B), (16,) (17).
Second Schedule Part IV (Deduction of collection of advance tax)	Clause (2), (11A), (16) (17) ,(56) (79), (111A), (111AB), (112), (112A), (114a) (117), (118), (119).
Third Schedule Part 1	Depreciation - S. No IV in the table.
Third Schedule Part II	Clause (2) – First Year Allowance
Fifth Schedule Part II (Rules for computation of profit and gains from exploration and extraction of mineral products	Rule 4
Seventh Schedule	Rule (7C)
Thirteenth Schedule	Charitable Donations

The First Schedule

Rates of Tax

Part I

Rates of Super Tax
[Division IIA of Part I of First Schedule]

The newly inserted clause had been inserted in Part I of the First Schedule to the Ordinance, vide the Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021, whereby levy of Super Tax on a banking company has been extended beyond tax year 2021. The Bill propose to incorporate this change through the Finance Act, 2021.

Rate for Profit on Debt
[Division IIIA of Part I of First Schedule]

The Bill proposes to enact flat 15% advance tax on profit on debt, which is taxable under section 7B of the Ordinance, by deleting earlier provided specified rates.

Income from Property
[Division VIA of Part I of First Schedule]

The bill proposes to omit Division VIA which provides slab rates of tax on Income from Property for individuals and AOPs.

Capital gains on disposal of securities
[Division VII of Part I of First Schedule]

The bill proposes to insert additional column (8), wherein rates of tax on capital gains on disposal of securities for tax year 2022 and onwards are provided. The tax rate on capital gain on disposal of securities covered under section 37A are proposed to be reduced from 15% to 12.5%.

Tax on capital gains on disposal of immovable property
[Division VIII of Part I of First Schedule]

The bill proposes to enact tax at a flat rate of 5% on capital gains on disposal of immovable property.

Division IX- Minimum Tax under section 113

The Bill seeks to substitute the rates for minimum tax under section 113. The substituted Table proposes to make the following significant changes to the existing minimum tax rates:

Relief in minimum tax

- General rate of minimum tax for all persons is proposed to be reduced from 1.5% to 1.25%.

- Rate of minimum tax on oil refineries is proposed to be reduced from 0.75% to 0.5%.

- Rate of minimum tax on turnover from supplies through e-commerce / online marketplace is proposed to be reduced from 0.75% to 0.25%.

- Rate of minimum tax on Tier-1 retailers of fast moving consumer goods, who are integrated with Board or its computerized system for real time reporting of sales and receipts, is proposed to be reduced from 1.5% to 0.25%.

- Rate of minimum tax on persons engaged in sale and purchase of used vehicles is proposed to be reduced from 1. 5% to 0.25%.

Additional burden of minimum tax

- Currently, all Pakistani Airlines are liable to pay minimum tax at the rate of 0.75%. The Bill seeks to retain this rate for Pakistan International Airlines Corporation, whereas all other Pakistani Airlines are proposed to pay minimum tax at 1.25%.

- Rate of minimum tax on dealers or distributors of fertilizers is proposed to be increased from 0.75% to 1.25%.

- Rate of minimum tax on flour mills is proposed to be increased from 0.25% to 1.25%.

- Rate of minimum tax on motorcycle dealers registered under the Sales Tax Act, 1990 is proposed to be increased from 0.3% to 0. 5%.

The proposed Minimum Tax rates are as follows:

S.No.	Person(s)	Minimum Tax as percentage of the person's turnover for the year
1	(a) Oil marketing companies, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.) (b) Pakistan International Airlines Corporation; and (c) Poultry industry including poultry breeding, broiler production, egg production And poultry feed production	0.75%
2	(a) Oil refineries (b) Motorcycle dealers registered under the Sales Tax Act,1990	0.50%

3	(a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act,1990; (c) Rice mills and dealers; (d) Tier-1 retailers of fast moving consumer goods who are integrated with Board or its computerized system for real time reporting of sales and receipts; (e) Person's turnover from supplies through e-commerce including from running an online marketplace as defined in clause (38B) of section 2. (f) Persons engaged in the sale and purchase of used vehicles	0.25%
4	In all other cases	1.25%

Advance tax on import of CKD Kits and batteries for electric vehicle [Part II of First Schedule]

The newly inserted clause had been inserted in Part II of the First Schedule to the Ordinance, vide the Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021. The Bill proposes to incorporate this change through the Finance Act, 2021. The propose change is to encourage environment friendly electric vehicle industry, the legislature has reduced advance tax rate to 1% under section 148 required to be collected at import stage for import of following items:

- CKD Kits of electric vehicles for small cars.
- SUVs with 50kwh battery or below.
- LCVs with 150 kwh battery or below.

Part III,

Division I - Advance tax on dividend

The Bill proposes to omit section 236S, which prescribes withholding tax on payment of dividend-in-specie. Withholding tax on dividend in cash and dividend in specie are proposed to be covered in section 150. A corresponding change has been proposed in Division I of Part III of the First Schedule, to remove reference of section 236S therefrom.

Division IA - Profit on Debt

Currently, the Ordinance provides concessionary withholding tax rate of 10% on profit on debt, where a taxpayer furnishes a certificate that the yield or profit during the relevant tax year is less than or equal to Rs. 500,000.

The Bill proposes to revoke this concession, thereby applying a withholding tax rate of 15% on all persons earning such profit which falls under section 151 of the Ordinance.

Division - IB Return on Investment in Sukuks

Section 150A, which deals with withholding tax on return on investment in Sukuks, is proposed to be omitted, and similar provisions are proposed to be included in section 151 of the Ordinance. Accordingly, the Bill seeks to make necessary editorial changes in Division IB of Part III of the First Schedule to the Ordinance, to reflect the proposed amendment.

[Division - II] Payment to Non-Resident -

Reference to newly inserted sub section 1DA of section 152 had been inserted in Division II of Part III of the First Schedule to the Ordinance, vide the Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021. The Bill seeks to incorporate this change through the Finance Act, 2021

Payment for Goods or Services
[Division III of Part III of First Schedule]

- The Bill proposes to omit reduce rate of withholding on supplies of fast moving consumer goods made by distributer. The newly proposed clause 24C of Part II of Second Schedule extends the reduced rate 0.25% to the distributor of fast moving consumer goods. To avail this benefit, name of the distributor should be in the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

- The Bill proposes a technical correction by substituting the clause (133) of Part I of the Second Schedule with newly inserted section 65F.

- The Bill proposes to enhance the scope of reduced withholding tax by including oilfield services, telecommunication services, warehousing services, collateral management services, travel and tour services in the list of specified services attracting withholding tax at the rate of 3% in case of resident person providing such activities.

- The Bill also proposes to restrict the scope of reduced WHT rate of 3% by disallowing the reduced rate to service provider who has agitated taxation of gross receipts before a court of law.

Royalty paid to resident persons
[Division III of Part III of First Schedule]

The Bill proposes to omit section 153B, therefore, corresponding division containing the relevant withholding tax rate is also proposed to be omitted.

Export of Services
[Division IVA of Part III of First Schedule]

The Bill proposes to insert new section 154A whereby tax will be deducted @1% on export of services, and such tax deductible under this section shall fall in Final Tax Regime.

Income from property
[Division V of Part III of First Schedule]

The Bill proposes to substitute previous table with new reduced slab rates for income from property and also proposes to enhance exemption of income from property from Rs. 200,000 to Rs. 300,000. Below is the newly proposed table:

Sr No.	Gross amount of rent	Rate of tax
1	Where the gross amount of rent does not exceed Rs. 300,000	Nil
2	Where the gross amount of rent exceeds Rs. 300,000 but does not exceed Rs. 600,000	5 per cent of the gross amount exceeding Rs. 300, 000
3	Where the gross amount of rent exceeds Rs. 600,000 but does not exceed Rs. 2,000,000	Rs. 15,000 plus 10 per cent of the gross amount exceeding Rs. 600, 000
4	Where the gross amount of rent exceed Rs. 2,000,000	Rs. 155,000 plus 25 per cent of the gross amount exceeding

CNG Station
[Division VIB of Part III of First Schedule]

Section 234A is proposed to be omitted, therefore, corresponding division containing the relevant withholding tax rate is also proposed to be omitted.

Part-IV

Rate for collection of tax by a stock exchange registered in Pakistan
[Division IIA of Part IV of First Schedule]

Section 233A is proposed to be omitted, therefore, corresponding division containing the relevant withholding tax rate is also proposed to be omitted.

Rates for collection of tax NCCPL
[Division IIB of Part IV of First Schedule]

Section 233A is proposed to be omitted, therefore, corresponding division containing the relevant withholding tax rate is also proposed to be omitted.

Electricity Consumption
[Division IV of Part IV of First Schedule]

The Bill proposes to substitute previous table with new reduced slab rates for advance tax on electricity consumption for commercial or industrial consumer. The Bill also proposes to enhance lower limit of taxable consumption from 400 units to 500 units. Previously, the slab rates were based on fixed tax amount per unit for each slab, whereas new proposed slab rates are based on the gross amount of bill. Below are the newly proposed rates:

S.No	Gross amount of Bill	Tax
1	upto Rs. 500	Rs. 0
2	exceeds Rs. 500 but does not exceed Rs. 20,000	10% of the amount
3	exceeds Rs.20,000	Rs. 1950 plus 12% of the amount exceeding Rs. 20,000 for commercial consumers Rs. 1950plus 5% of the amount exceeding Rs. 20,000 for industrial Consumers

The Bill further proposes to reduce the tax exemption limit from PKR 75,000 to PKR 25,000 for domestic electricity consumption. Below is the proposed rate of tax to be collected on domestic electricity consumption:

- zero percent the amount if monthly bill is less than Rs.25,000;and
- 7.5% if the amount of monthly bill is Rs. 25,000 or more.

Telephone User
[Division V of Part IV of First Schedule]

The Bill propose to reduce WHT on the subscriber of internet, mobile telephone and prepaid internet or telephone card from 12.5% to 10% for the Tax Year 2022 and to further reduce it to 8% in subsequent Tax Years.

Cash withdrawal from a bank
[Division VI of Part IV of First Schedule]

The Bill proposes to omit section 231, therefore, corresponding division containing the relevant withholding tax rate is also proposed to be omitted.

Advance tax on transaction in bank
[Division VIA of Part IV of First Schedule]

The Bill proposes to omit section 231AA, therefore, corresponding division containing the relevant withholding tax rate is also proposed to be omitted.

Advance tax on purchase, registration and transfer of motor vehicles
[Division VII of Part IV of First Schedule]

The newly inserted clause had been inserted in Division VII of Part IV of the First Schedule to the Ordinance, vide the Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021. The Bill propose to incorporate this change through the Finance Act, 2021.

[Division IX] Advance tax on purchase of air tickets

The Bill proposes to omit section 236B to the Ordinance, which deals with collection of advance tax on purchase of air tickets. Therefore, Division IX of Part IV of the First Schedule to the Ordinance, wherein rate of advance tax to be deducted under section 236B to the Ordinance is provided, has become redundant. Accordingly, the Bill propose to omit this Division.

[Division XIV] Advance tax on sale to distributors, dealers or wholesalers

Under the existing law, every manufacturer or commercial importer is required to collect advance tax at the rate of 0.7% on sale to distributors, dealers or wholesalers of fertilizers. A new proviso had been inserted vide Tax Laws (Amendment) Ordinance, 2021 dated February 12, 2021, which reduced the rate of advance tax to 0.25%, subject to the condition that such distributors, dealers or wholesalers of fertilizers are either already registered or they get themselves registered under the Sales Tax Act, 1990 within 60 days of the promulgation of the Tax Laws (Amendment) Ordinance, 2021.

The Bill proposes to insert new proviso, whereby, following amended proviso is proposed to be incorporated:

- Reduced rate of 0.25% shall be applicable in case distributors, dealers or wholesalers of fertilizer are appearing on both the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

[Division XV] Advance tax on sale to retailers

Currently, under section 236H, every manufacturer, distributor, dealer, wholesaler or commercial importer of electronics, sugar, cement, iron and steel products, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector, at the time of sale to retailers, and every distributor or dealer to another wholesaler in respect of the said sectors, is liable to collect advance tax at the rate of 1% in case of Electronic sale and 0.5% in case of other sale.

The Bill now proposes to enact flat 0.5% advance tax on all transactions covered under section 236H of the Ordinance. As such, 1% rate applicable on electronic sales shall be omitted.

Divisions XVA, XIX, XX, XXI, XXVI, XXVII

The Bill proposes to omit certain sections pertaining to collection of advance tax. Accordingly, the Bill seeks to omit corresponding Divisions of Part IV of the First Schedule, which are as follows:

Omitted section	Section description	Omitted Division
236HA	Advance tax on sale of certain petroleum products	XVA
235A	Advance tax on domestic electricity consumption	XIX
236L	Advance tax on purchase of international air tickets	XX
236P	Advance tax on banking transaction otherwise than through cash	XXI
236V	Advance tax on extraction of mineral	XXVI
236Y	Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards	XXVII

Second Schedule

A. AMENDMENTS IN PART I OF THE SECOND SCHEDULE

Income of Modaraba - Clause (100)

The Bill proposes to omit Clause (100) of Part I of the Second Schedule to the Ordinance which provides exemption in respect of income not being income from manufacturing or trading activity of a Modaraba registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980. Accordingly, such income of Modarabas would now be subject to tax.

Intercorporate Dividend Income Clause (103C)

The Bill proposes to omit Clause (103C) of Part I of the Second Schedule to the Ordinance which provides exemption on dividend income derived by a company if the recipient of the dividend, for the tax year is eligible for group relief under section 59B of the Ordinance. As a consequence of this deletion intercorporate dividend income of such entities would now be subject to tax.

This is a major policy deviation, as the said exemption, which was in line with international best practices, was provided after detailed deliberations in order to promote corporate group structures in the country. Such reliefs are provided to corporate sector across the globe as an incentive. The change in policy without taking into confidence the stakeholders would discourage the investors and shatter their confidence on policy makers, as this would result in increased tax cost of already existing groups who fulfill the required criteria. This would also likely to result in tax litigations on account of vested rights.

Income of a Special Purpose Vehicle (Clause 136)

The Bill proposes to omit Clause (136) of Part I of the Second Schedule to the Ordinance which provides exemption on income of a special purpose vehicle as defined in the Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984 (XLVII of 1984). As such, income derived by Special Purpose Vehicles would now be subject to tax at the normal rate.

This omission needs to be reconsidered as this provides an alternate tax efficient financing option to the industry which is in line with the global practices.

B. WITHDRAWAL OF EXEMPTION FROM TOTAL INCOME AND SHIFT TOWARDS TAX CREDIT REGIME

The Bill proposes to withdraw exemption from income provided under various clauses of Part I of the Second Schedule to certain sectors with a shift towards tax credit regime, thus ensuring no change in tax implications. In this regard, a new section 65F of the Ordinance is proposed to be introduced whereby such sectors would be able to claim tax credits on their total income subject to the conditions as stipulated under the said section are fulfilled. Clauses withdrawn are listed in the table below:

Clause Omitted	Description of exemption
(126O)	Profits and gains derived by a green field industrial undertaking.
(132B)	Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects.
(133)	Income from exports of computer software or IT services or IT enabled services.
(143)	Profit and gains derived by a startup as defined under section 2(64a) of the Ordinance.
(126I)	Profits and gains derived by a person from an industrial undertaking and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind.

C. EXEMPTION FROM TOTAL INCOME

The Bill proposes to withdraw exemption from income provided under various clauses of Part I of the Second Schedule to various Individuals, entities, and sectors as under:

Clause Omitted	Description of exemption
(4)	Income chargeable under the head "Salary" received by- • Pakistani seafarer, working on Pakistan flag vessels for one hundred and eighty three days or more during a tax year; or • Pakistani seafarer working on a foreign vessel provided that such income is remitted to Pakistan, not later than two months of the relevant 3[tax year], through normal banking channels.
(39)	Any special allowance or benefit (not being entertainment or conveyance allowance) or other perquisite within the meaning of section 12 specially granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit.
(40)	Any income of a newspaper employee representing Local Travelling Allowance paid in accordance with the decision of the Third Wage Board for Newspaper Employees constituted under the Newspaper Employees (Conditions of Service) Act, 1973, published in Part II of the Gazette of Pakistan, Extraordinary, dated the 28th June, 1980.

Clause Omitted	Description of exemption
(53A)	The following perquisites received by an employee by virtue of his employment, namely:- (ii) free or subsidized food provided by hotels and restaurants to its employees during duty hours; (iii) free or subsidized education provided by an educational institution to the children of its employees; (iv) free or subsidized medical treatment provided by a hospital or a clinic to its employees; and (v) any other perquisite or benefit for which the employer does not have to bear any marginal cost, as notified by the Board.
(57)(1)(iii)	Income derived by Sheikh Sultan Trust, Karachi through voluntary contributions, house property and investments in securities of the Federal Government.
(72A)	Income derived by Sukuk holder from Sukuk issued by the "Second Pakistan International Sukuk Company Limited" and "The Third Pakistan International Sukuk Company Limited including any gain on disposal of such Sukuk.
(74)	Profit on debt derived by Hub Power Company Limited on or after July 1, 1991 on its bank deposits or accounts with financial institutions directly connected with financial transactions relating to the project operations.
(80)	Income derived by a resident individual who is a citizen of Pakistan from a private foreign currency account held with an authorised bank in Pakistan, or certificate of investment issued by investment banks in accordance with the Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan.
(90)	Exemption in respect of Profit on debt payable by an industrial undertaking in Pakistan on: • moneys borrowed under a loan agreement entered into with financial institution in a foreign country approved by the Federal Government through a general or special order; and • moneys borrowed or debts incurred by it in a foreign country in respect of the purchase outside Pakistan of capital plant and machinery in any case where such loan or debt is approved by the Federal Government, having regard to its terms generally and in particular to the terms of its payment, from so much of the tax payable in respect thereof as exceeds the tax or taxes on income paid on such interest in the foreign country.
(90A)	Profit on debt derived by any person on bonds issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage market, for a period of five years with effect from the 1st day of July, 2018.
(91)	Income of a text book board of a Province established under any law for the time being in force.

Clause Omitted	Description of exemption
(98)	Income derived by any Board (other than Pakistan Cricket Board) or other organization established by Government in Pakistan for the purposes of controlling, regulating, or encouraging major games and sports recognized by Government.
(101)	Profits and gains derived by a Venture Capital Company and Venture Capital Fund registered under Venture Capital Companies and Funds Management Rules, 2000 and a Private Equity and Venture Capital Fund, such exemption was available from the period July 01, 2001 to June 30, 2024.
(103)	Any distribution received by a taxpayer from a collective investment scheme registered by the Securities and Exchange Commission of Pakistan under the Non-Banking Finance Companies and Notified Entities Regulations, 2007, including National Investment (Unit) Trust or REIT Scheme or a Private Equity and Venture Capital Fund out of the capital gains of the said Schemes or Trust or Fund.
(104)	Income derived by the Libyan Arab Foreign Investment Company being dividend income received from Pak-Libya Holding Company.
(105)	Income derived by the Government of Kingdom of Saudi Arabia being dividend income received from Saudi-Pak Industrial and Agricultural Investment Company Limited.
(105A)	Income derived by Kuwait Foreign Trading Contracting and Investment Company or Kuwait Investment Authority being dividend income received from Pak-Kuwait Investment Company in Pakistan.
(110B)	Gain derived from transfer of a membership right held by a member of an existing stock exchange, for acquisition of shares and trading or clearing rights acquired by such member in new corporatized stock exchange in the course of corporatization of an existing stock exchange.
(110C)	Any gain derived from transfer of a bond issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage market. Such exemption was available for the period July 01, 2018 to June 30, 2023.
(114)	Capital gains derived by a person from an industrial undertaking set up in an area declared by the Federal Government to be a "Zone" within the meaning of the Export Processing Zones Authority Ordinance, 1980 (IV of 1980)
(114AA)	Any income chargeable under the head “capital gains” derived by a resident individual from the sale of constructed residential property.
(117)	Any income derived by a person from plying of any vehicle registered in the territories of Azad Jammu and Kashmir, excluding income arising from the operation of such vehicle in Pakistan to a person who is resident in Pakistan and non-resident in those territories.
(126BA)	Profits and gains derived by a refinery set up between the 1st day of July, 2018 and the 30th day of June, 2023 with minimum 100,000 barrels per day production capacity for a period of twenty years beginning in the month in which the refinery is set up or commercial production is commenced, whichever is later.

<table>
<tr><th>Clause Omitted</th><th>Description of exemption</th></tr>
<tr><td>(126G)</td><td>Profit and gains derived for a period of five years from the date of start of commercial production from specified projects that have been declared 'Pioneer Industry' by Economic Coordination Committee of the Cabinet of the following companies:
1. M/s. Astro Plastics (Pvt.) Ltd. from their Biaxially Oriented Polyethylene, Terephthalate (BOPET) Project; and
2. M/s. Novatex Ltd. from their Biaxially Oriented Polyethylene Terephtalate (BOPET) Project</td></tr>
<tr><td>(131)</td><td>Income of the following persons on the conditions that foreign exchange was brought into Pakistan:
• Of company having its registered office in Pakistan, as is derived by it by way of royalty, commission or fees from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise by the company or in the consideration of technical services rendered outside Pakistan to such enterprise by the company under an agreement in this behalf, or
• Of any other taxpayer as is derived in any assessment year by way of fees for technical services rendered outside Pakistan to a foreign enterprise under an agreement entered into in this behalf.</td></tr>
<tr><td>(132A)</td><td>Profit and gains derived by Bosicor Oil Pakistan Limited for a period of seven and half years beginning from the day on which the refinery is set up or commercial production is commenced whichever is later.</td></tr>
<tr><td>(135A)</td><td>Income derived by a non-resident from investment in OGDCL exchangeable bonds issued by the Federal Government.</td></tr>
<tr><td>(139)</td><td>The benefit represented by free provision to the employee of medical treatment or hospitalization or both by an employer or the reimbursement received by the employee of the medical charges or hospital charges or both paid by him, where such provision or reimbursement is in accordance with the terms of employment:

Provided that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies;
any medical allowance received by an employee not exceeding ten per cent of the basic salary of the employee if free medical treatment or hospitalization or reimbursement of medical or hospitalization charges is not provided for in the terms of employment; or</td></tr>
<tr><td>(141)</td><td>Profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of five years beginning from the date when commercial operations are commenced.</td></tr>
</table>

Clause Omitted	Description of exemption
(146)	Income which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018) of any individual domiciled or company and association of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June, 2018 to the 30th day of June, 2023 (both days inclusive).

D. EXEMPTION ALREADY EXPIRED / EXPIRING ON JUNE 30, 2021

Under Part I of the Second Schedule, there were few exemptions from total income which had either already been expired or are expiring on June 30, 2021. The Bill proposes to omit claused covering such exemptions as under:

Clause Omitted	Description of exemption
(72)	Profit on debt derived by a non-resident person on the following: ➢ In respect of private loans to be utilized on projects approved by the Federal Government; ➢ On a loan in foreign exchange against export letter of credit which is used exclusively for the export of goods manufactured or processed for exports in Pakistan; and ➢ Being a foreign individual, company or firm or association of person in respect of a foreign loan as is utilized for industrial investment in Pakistan
(126C)	Profits and gains derived by a taxpayer from an industrial undertaking set up in Larkano Industrial Estate between July 1, 2008 and June 30, 2013 for a period of ten years.
(126H)	Profits and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan Province, Malakand Division, Gilgit-Baltistan and FATA between July 1, 2014 to June 30, 2017 engaged in processing of locally grown fruits, for a period of five years.
(126J)	Profits and gains derived from an industrial undertaking set up between July 1, 2015 and June 30, 2016 engaged in operating warehousing or cold chain facilities for storage of agriculture produce for a period of three years.
(126K)	Profits and gains derived by a taxpayer for a period of fours, from an industrial undertaking set up between July 1, 2015 and June 30, 2017 for establishing and operating a halal meat production and obtained a halal certification in this regard, such exemption.
(126L)	Profits and gains derived from an industrial undertaking set up in the Provinces of Khyber Pukhtunkhwa and Baluchistan between July 1, 2015 and June 30, 2018 for a period of five years.

Clause Omitted	Description of exemption
(126N)	Profits and gains derived from an industrial undertaking which were setup and commercial production has commenced between July 01, 2015 and June 30, 2017 and duly certified by the Pakistan Telecommunication Authority for manufacturing of cellular mobile phones for a period of five year.

E. AMENDMENT IN EXISTING EXEMPTION CLAUSES

The Bills proposes to enhance and restrict scope of certain existing exemptions provided under Part I of the Second Schedule as under:

Clause reference	Existing	Proposed amendment
(22)	Any payment from a provident fund to which the Provident Funds, 1925 (XIX of 1925) applies.	Any payment from a provident fund to which the Provident Funds, 1925 (XIX of 1925) applies. Provided that exemption under this clause shall not be available to the payments representing profit on debt earned on provident fund contributions exceeding rupees five hundred thousand. The profit on debt exceeding rupees five hundred thousand shall be chargeable to tax @ 10% as separate block of income and the person making payment shall deduct tax at the said rate.”
(23)	The accumulated balance due and becoming payable to an employee participating in recognized provident fund.	The accumulated balance due and becoming payable to an employee participating in recognized provident fund. Provided that exemption under this clause shall not be available to the payments representing profit on debt earned on provident fund contributions exceeding rupees five hundred thousand. The profit on debt exceeding rupees five hundred thousand shall be chargeable to tax @ 10% as separate block of income and the person making payment shall deduct tax at the said rate.

Clause reference	Existing	Proposed amendment
(23C)	Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005.	Any withdrawal of accumulated balance from approved pension fund that represent the transfer of balance of approved provident fund to the said approved pension fund under the Voluntary Pension System Rules, 2005. Provided that exemption under this clause shall not be available to the payments representing profit on debt earned on accumulated balance in an approved pension fund. This profit on debt shall be chargeable to tax @ 10% as separate block of income.
(75)	Income derived on account of profit on debt by an agency of a foreign Government, a foreign national (company, firm or association of persons), or any other non-resident person approved by the Federal Government from money borrowed under a loan agreement or foreign currency instrument approved by the Federal Government.	The scope of this clause is now been enhanced and capital gains derived from such loan shall also be exempt.
(78)	Any profit on debt derived from foreign currency accounts held with authorised banks in Pakistan, or certificate of investment issued by investment banks in accordance with Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan, by citizens of Pakistan and foreign nationals residing abroad, foreign association of persons, companies registered and operating abroad and foreign nationals residing in Pakistan.	The Bill proposes to extend the scope of the exemption to include profit on debt derived by non-resident individuals, non-resident association of persons and non-resident companies from the said bank accounts and investments. It has also been clarified that tax withholding under section 152 on payment of such profit on debt will be applicable at 0%.
(79)	Any profit on debt derived from a rupee account held with a scheduled bank in Pakistan by a citizen of Pakistan residing abroad, where the deposits in the said account are made exclusively from foreign exchange remitted into the said account, is exempt from tax.	The Bill proposes to extend the scope of exemption applicable for non-resident individuals holding a POC or NICOP or CNIC. It has also been clarified that tax withholding under section 152 on payment of such profit on debt will be applicable at 0%.

Clause reference	Existing	Proposed amendment
(132)	Profits and gains derived by a taxpayer from power generation project set up in Pakistan on or after July 1, 1988 are exempt from tax subject to the conditions stipulated under clause 132.	Exemption from profit and gains shall be restricted to the existing power project and also to those persons who are entering into agreement or to whom letter of intent is issued by the Federal or Provincial Government, for setting up an electric power generation project in Pakistan upto June 30, 2021.
(126B)	Profit and gains derived by Khalifa Coastal Refinery for a period of twenty years beginning in the month in which the refinery is setup or commercial production is commenced, whichever is the later.	Under the substituted clause, profit and gains derived by a refinery shall be exempt in respect of the following projects: (a) from new deep conversion refinery of at least 100,000 barrels per day for which approval is given by the Federal Government before the 31st day of December, 2021; or (b) for the purpose of upgradation, modernization or expansion project of deep conversion refinery of at least 100,000 barrels per day of any existing refinery which makes undertaking to the Federal Government in writing before the 31st day of December, 2021 in this regard: Provided that this exemption shall be available for a period of ten years beginning from the date of commencement of commercial production in the case of new refinery and from the date of completion of up gradation, modernization or expansion project of existing refinery.";

E. INSERTION OF EXEMPTION CLAUSES

The Bill proposes to insert new clauses under Part I of the Second Schedule and provide exemption to various sectors and Individual as under:

Clause reference	Description of exemption
(103)	Dividend income and long term capital gains of any venture capital fund from investments in zone enterprises as defined in clause (p) of section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years commencing from issuance of license by the Authority to the zone enterprise.”;
(126EA)	Profits and gains derived by – (a) Zone developer as defined in section 2 of the Special Technology Zones Authority Ordinance, 2020 from development and operations of the zones for a period of ten years starting from the date of signing of the development Agreement; (b) Profits and gains of Zone Enterprises as defined in section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years from the date of issuance of license by the Special Technology Zone Authority; and (c) Special Technology Zones Authority established under the Special Technology Zones Ordinance 2020
(132AA)	Profits and gains derived from sale of electricity by National Power Parks Management Company Limited commencing from the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan
(132C)	Profits and gains derived by a taxpayer from a bagasse/biomass based cogeneration power project having one or more boilers of not less than 60 bar (kg/CM3) pressure each, commissioned after the first day of January 2013.

Clause (66), Part I of the Second Schedule

The Bill proposes to insert following entities under sub-clause (1), table 1, of clause (66), Part I of the Second Schedule:

S.No	Name
1	Islamic Naya Pakistan Certificates Company Limited (INPCCL).
2	Abdul Sattar Edhi Foundation.
3	Patient's Aid Foundation.
4	Indus Hospital and Health Network.
5	Securities and Exchange Commission of Pakistan.
6	Dawat-e-Hadiya, Karachi.
7	Privatisation Commission of Pakistan.
8	The Citizens Foundation.
9	Sundus Foundation.
10	Ali Zaib Foundation.
11	Fauji Foundation.
12	Make a Wish Foundation.
13	Audit Oversight Board.
14	Supreme Court Water Conservation Account.
15	Political Parties registered with Election Commission of Pakistan.

F. REDUCTION IN TAX RATES

I. Part II of the Second Schedule provides reduced tax rates in respect of various taxpayers and specified transactions. Following clauses of Part II have been omitted or amended:

Clause reference	Description / Existing status	Comments on amendment
(3)	Income derived by a taxpayer from services rendered outside Pakistan and construction contracts executed outside Pakistan is subject to tax at the reduced rate i.e. 50% of the tax payable as applicable in case of similar services which are rendered and construction contracts executed in Pakistan. However, such reduce rate is subject to the conditions that foreign exchange is brought into Pakistan.	The Bill proposes to omit this clause. A new section 154A is proposed to be introduced, whereby such income will be taxed at 1%.
(3B)	Income of Pakistan Cricket Board ("PCB") derived from sources outside Pakistan including media rights, gate money, sponsorship fee, in- stadium rights, out-stadium rights, payments made by International Cricket Council, Asian Cricket Council or any other Cricket Board is subject to taxed at 4% of the gross receipts from such sources.	The Bill proposes to omit this clause as such income would now be chargeable to tax at the normal rates as provided under the First Schedule to the Ordinance.

Clause reference	Description / Existing status	Comments on amendment
(5A)	The rate of tax to be deducted under sub-section (2) of section 152, in respect of payments from profit on debt payable to a non-resident person having no permanent establishment in Pakistan, shall be 10% of the gross amount paid.	The Bill proposes to exclude clauses (78) and (79) of Part I of the Second Schedule in respect of investment by specified persons through specified accounts, which is subject to tax at 0%.
(5B)	Capital gains derived by a person from the sale of shares or assets by a Private limited company to Private Equity and Venture Capital Fund are subject to tax at 10% of such gains.	The Bill proposes to omit this clause as such capital gain would now be subject to tax at the prescribed rates as provided under the First Schedule to the Ordinance.
(18)	Income of Modaraba is subject to tax at 25% excluding such income which falls under Division III, Part I of the First Schedule or section 153 or section 154 applies.	The Bill proposes to omit this clause as such the said income of Modaraba would now be subject be tax at the corporate tax rates as provided under the First Schedule to the Ordinance.
(18A)	Company setting up an industrial undertaking between the first day of July, 2014 to the thirtieth day of June, 2017, is subject to reduced tax rate of 20% for a period of five years beginning from the month in which the industrial undertaking is set up or commercial production is commenced whichever is later. Such relief was available in cases where 50% of the cost of the project including working capital is through owner equity foreign direct investment.	The Bill proposes to omit this clause.

Clause reference	Description / Existing status	Comments on amendment
(18B)	Tax liability is reduced by 2% in case of a company whose shares are traded on stock exchange if; (i) It fulfills prescribed shari'ah compliant criteria approved by State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Board; (ii) Derives income from manufacturing activities only; (iii) has declared taxable income for the last three consecutive tax years: and (iv) has issued dividend for the last five consecutive tax years.	The Bill proposes to omit this clause, as such relief of reduced tax liability by 2% would not be available, hence, the income would be subject to tax at the normal corporate tax rate.
(24A)	The rate of tax, under clause (a) of sub-section (1) of section 153, from distributors of cigarette and pharmaceutical products and for large distribution houses who fulfill all the conditions for a large import house as laid down under clause (d) of sub-section (7) of section 148, for large import houses, shall be 1% of the gross amount of payments.	The Bill proposes to exclude large distribution houses who fulfill all the conditions for a large import house as laid down under clause (d) of sub-section (7) of section 148, for large import houses from this clause.
(24AA)	Rate of tax under section 152 in the case of M/S CR-NORINCO JV (Chinese Contractor) as recipient, on payments arising out of commercial contract agreement signed with the Government of Punjab for installation of electrical and mechanical (E&M) equipment for construction of the Lahore Orange Line Metro Train Project is 6% of the gross amount of payment.	The Bill proposes to omit this clause as such concessional rate is no more available.
(24C)	The rate of tax under clause (a) of sub-section (1) of section 153 in case of dealers and sub-dealers of sugar, cement and edible oil, as recipient of the payment, shall be 0.25% of the gross amount of payments	The Bill proposes to substitute this clause with following: The rate of tax under clause (a) of sub-section (1) of section 153 in the case of distributors, dealers, sub-dealers, wholesalers and retailers of fast moving consumer goods, fertilizer,

Clause reference	Description / Existing status	Comments on amendment
		electronics excluding mobile phones, sugar, cement, and edible oil as recipient of payment shall be 0.25% of gross amount of payments subject to the condition that beneficiaries of reduced rate are appearing on the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001): Provided that the benefit under this clause shall only be available to those Tier-1 retailers as defined under Sales Tax Act, 1990 who are integrated and configured with Board or its computerized system for real time reporting of sales or receipts.";
(24D)	The rate of minimum tax under sub-section (1) of section 113 in case of dealers and sub-dealers of sugar, cement and edible oil shall be 0.25% subject to the condition that the names of such dealers and sub-dealers are appearing on the active taxpayers' lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001).	The rate of minimum tax under sub-section (1) of section 113 in the case of distributors, dealers, sub-dealers, wholesalers and retailers of fast moving consumer goods, fertilizer, locally manufactured mobile phones, sugar, electronics excluding imported mobile phones, cement and edible oil shall be 0.25% subject to the condition that beneficiaries of reduced rate are appearing on the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001: Provided that the benefit under this clause shall be available to only those Tier-1 retailers as defined under Sales Tax Act, 1990 who are integrated and configured with Board or its

Clause reference	Description / Existing status	Comments on amendment
		computerized system for real time reporting of sales or receipts.”
(28A)	Rate of advance tax collection under 148 of the Ordinance on import of Hybrid Cars is subject to reduced rate as following. **Engine Capacity** — **Rate of reduction** Upto 1200 cc — 100% 1201 to 1800 cc — 50% 1801 to 2500 cc — 25%	The Bill propose to omit this clause.
(28B)	Advance tax collection on cash withdrawal was made at the reduce rate of 0.15% under section 231A by an exchange company, duly licensed and authorized by the State Bank of Pakistan, exclusively dedicated for its authorized business related transactions, subject to the condition that a certificate issued by the concerned Commissioner Inland Revenue for a financial year mentioning details and particulars of its Bank Account being used entirely for business transactions is provided.	This clause has been omitted, due to proposed omission of section 231A.
(28E)	The rate of minimum tax under section 113 shall be 0.5% till Tax Year 2020, in case of a trader of yarn being an individual.	The Bill proposes to extend the applicability of tax rate of 0.5% under section 113 for indefinite period.

II. The Bill proposes to insert new clauses under Part II of the Second Schedule which provides reduced tax rates in respect of various taxpayers and specified transactions. Following clauses of Part II have been inserted:

Clause	Description of exemption
(5AB)	The rate of tax to be deducted under section 151 shall be ten percent from the profit on debt from a debt instrument, whether conventional or Shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 (XVIII of 1944) or its wholly owned special purpose company, purchased by a resident citizen of Pakistan who has already declared foreign assets to the Board through a Foreign Currency Value Account (FCVA) maintained with authorized banks in Pakistan under the foreign exchange regulation issued by the State Bank of Pakistan. Provided that the tax so deducted shall be the final tax.

Clause	Description of exemption
(9AA)	In respect of import of white sugar from the 25th day of August, 2020 to the 15th day of November, 2020 both days inclusive, tax under section 148 shall be collected at the rate of 0.25% as per quantity, quality, mode and manner prescribed by Ministry of Commerce during the said period.
(9AB)	Tax under section 148 on commercial import of the white sugar shall be collected at the rate of 0.25% from the 26th day of January 2021 till the 30th day of June, 2021.
(9AC)	Subject to quota allotment by Commerce Division, tax under section 148 shall be collected at the rate of 0.25% on import of raw sugar imported by sugar mills from the 26th day of January, 2021 to the 30th day of June, 2021 both days inclusive provided that such imports shall not exceed fifty thousand metric tons per sugar mill and three hundred thousand metric tons in aggregate by the sugar industry.”;
(18C)	The rate of tax as specified in Division-III of Part-I of First Schedule shall be reduced to 7.5% in case of dividends declared by a company as are “attributable” to profits and gains derived from a bagasse and biomass based co- generation power project qualifying for exemption under clause (132C) of Part-I of this Schedule: Provided that the amount of “attributable” dividends shall be computed in accordance with the following formula, namely:- AXB/C Where- A is the total amount of dividend for the year; B is the accounting profit for the year attributable to the bagasse and biomass based cogeneration power project qualifying for exemption under clause (132C) of Part-I of this Schedule; and C is the total accounting profit before tax for the year. Explanation.– For the removal of doubt, it is clarified that accounting profit attributable to the bagasse/biomass based cogeneration power project would be determined by the external auditor of the company and the external auditor shall issue a certificate to this effect.”;
(56)	After sub-clause (iii), the following new sub-clause shall be inserted, namely:- (iiia) Goods temporarily imported into Pakistan by international athletes which would be subsequently taken back by them within one hundred and twenty days of temporary import” (ii) after sub-clause (xii), the following new sub-clauses shall be added, namely:– (xiii) Goods produced or manufactured and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation,

Clause	Description of exemption
	provided conditions of section 22 of the Customs Act, 1969 (IV of 1969) are complied with; (xiv) Plant and machinery imported for setting up of a bagasse/biomass based cogeneration power project qualifying for exemption under clause (132C) of Part-I of this Schedule. (xv) Persons authorized under Export Facilitation Scheme 2021 notified by the Board with such scope, conditions, limitation, restrictions and specification of goods. (xvi) motor vehicles upto 850cc in CBU condition; (xvii) Printed books excluding brochures, leaflets and similar printed matter, whether or not in single sheets.(PCT code 49.01); and (xviii) Newspapers, journals and periodicals, whether or not illustrated or containing advertising material (PCT code 49.02) "
(60DA)	The provisions of section 148 shall not apply to the import of the capital equipment as defined in section 2 of the Special Technology Zones Ordinance 2020 (XIII of 2020) by – (a) zone developers as defined in section 2 of the Special Technology Zones Ordinance 2020 for consumption in the special technology zones for the period of 10 years commencing from the date of signing the development agreement; (b) zone enterprises as defined in section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years from the date of issuance of license by the Special Technology Zone Authority; and (c) Special Technology Zones Authority established under the Special Technology Zones Ordinance 2020."
(79A)	The provisions of clause (b) of sub-section (1) of section 153 shall not apply to payments received by National Telecommunication Corporation against provision of telecommunication services including ancillary services specified in sub-section (3) of section 41 of the Pakistan Telecommunication (Re-organization) Act, 1996 (XVII of 1996).";
(91)	in clause (91), in paragraph (iv), after sub-paragraph (xvi), the following new sub-paragraphs shall be added, namely:– "(xvii) Corn harvester/corn picker and silage maker with their respective PCT heading";
(111AB)	The provisions of section 100BA and rule 1 of the Tenth Schedule shall not apply to non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or Non-resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan."

Clause	Description of exemption
(118)	The provisions of withholding taxes contained in the Income Tax Ordinance, 2001 (XLIX of 2001) shall not apply to Islamic Naya Pakistan Certificates Company Limited (INPCCL) as a recipient.
(119)	The provisions of section 153(1)(a) shall with effect from the first day of July, 2020 not apply to distributors, dealers, wholesalers and retailers of locally manufactured mobile phone devices as withholding agent”

G. Reduction in Tax Liability

Part III of the Second Schedule provides for reduction in tax liability of various taxpayers. Following clauses of Part III have been omitted or amended:

Clause reference	Description	Comments on amendment
(2)	Tax liability of a teacher or a researcher, employed in a non-profit education or research institution duly recognized by Higher Education Commission, a Board of Education or a University recognized by the Higher Education Commission, including Government research institution is subject to a reduction to the extent of 25% of gross tax liability in respect of income from salary.	The Bills proposes to omit this clause hence no relief would be available and total salary income of such persons shall be taxed at the normal rate.
(7)	Tax liability of a foreign filmmaker from making films in Pakistan is reduced by 50% on income derived from filmmaking in Pakistan.	The Bills proposes to omit this clause, therefore no concession would be available and income derived by such person shall now be subject to tax at the normal tax rates.
(8)	Tax liability of resident companies deriving income from filmmaking shall be reduced by 70% on income from filmmaking.	The Bills proposes to omit, therefore, no concession would be available and total income derived by such resident companies shall be subject to tax at the normal rates.
(9)	Tax liability in respect of profits and gains derived by a person from low cost housing projects where maximum sale price of a single housing unit is Rs. 2.5 Million, is reduced to the extent of 50% subject to certain conditions as laid down under Clause (9), Part III.	The Bill proposes that now only those persons would be able to take benefit of this clause who have commenced their low cost housing projects on or before June 30, 2024.

Clause reference	Description	Comments on amendment
	Under the said clause, no time period was specified during which a person is required to commence such low-cost housing project.	
(9B)	A person was able to avail relief of reduction in tax liability to the extent of 90% in case of low-cost housing developed or approved by NAPHDA or under the Ehsaas Programm. No time period was specified under which a person is required to commence its project. Under the said clause, no time period was specified during which person is required to commence such low-cost housing project.	The Bill specifies time period i.e. on or before June 30, 2024 during which a person involved in low-cost housing project is required to commence its project in order to claim relief on tax liability.

II. The Bill proposes to insert new clauses under Part III of the Second Schedule which provides for reduction in tax liability of various taxpayers. Following clauses of Part III have been inserted:

Clause reference	Description
(17)	The tax payable by cotton ginners on their income and profits shall not be more than sum of 1% of their turnover from cotton lint, cotton seed, cotton seed oil and cotton seed cake: Provided that the tax so payable shall be final tax in respect of their cotton ginning and oil milling activities only.
(18)	The rate of withholding tax on value of offshore supply contract of an Independent Power Producer located wholly or partly in territories of AJ and K shall be 1% provided: (i) PPIB has issued Letter of Support for the project; (ii) its EPC Contract has been executed and submitted to NEPRA for EPC stage tariff determination prior to the enactment of Finance Act, 2018; (iii) offshore supply contract arrangement of offshore supply contractor having permanent establishment in Pakistan falls under the purview of cohesive business operation as contemplated under Income Tax Ordinance, 2001; and (iv) such 1% tax shall be full and final liability of the offshore contractor.

Clause reference	Description
(19)	The tax payable by woman enterprises on profit and gains derived from business chargeable to tax under the head “Income from Business” shall be reduced by 25%. Explanation.- For the purpose of this clause a woman enterprise means a startup established on or after first day of July 2021 as sole proprietorship concern owned by a woman or an AOP all of whose members are women or a company whose 100% shareholding is held or owned by women: Provided that benefit of this clause shall not be available to a business that is formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.”

Part IV

Clause (11A)

The Bill proposes to withdraw exemption of minimum tax payable under section 113 of the Ordinance of the following persons:

- Non-profit organizations approved under clause (36) of section 2 or clause (58) or included in clause (61) of Part-I of this Schedule;
- Taxpayer who qualifies for exemption under clause (133) of Part-I of this Schedule in respect of income from export of computer software or IT services or IT enabled services
- Modaraba qualifying for exemption under clause (100) of Part-I of this Schedule.]
- Corporatized entities of Pakistan Water and Power Development Authority, so far as they relate to their receipts on account of sales of electricity, from the date of their creation upto the date of completion of the process of corporatization i.e. till the tariff is notified;
- Companies, qualifying for exemption under clause (132B) of Part-I of this Schedule, in respect of receipts from a coal mining project in Sindh, supplying coal exclusively to power generation projects.
- Pakistan International Sukuk Company Limited.”
- Taxpayers qualifying for exemption under clauses (126K) of Part-I of this Schedule in respect of income from operating halal meat production, during the period mentioned in clause (126K).

Further, the Bill also propose to provide exclusion from minimum tax payable under section 113 of the Ordinance to the following persons:

- Islamic Naya Pakistan Certificates Company Limited (INPCCL);
- Receipts from sale of electricity produced from a bagasse and biomass based co-generation power project qualifying for exemption under clause (132C) of Part-I of this Schedule;

- New entity taking over National Power Parks Management Company Limited in the eve of privatization;
- Persons qualifying for exemption under clause (126E) of Part I of this Schedule for tax year 2021 and onwards
- Persons qualifying for exemption under clause (126EA) of Part I of this Schedule;
- Persons mentioned in Table I of clause (66) of Part I of Second Schedule.

Clause (12B)

Under the existing clause, the provisions of section 148 shall not apply to the import of goods specified under the said clause for a period commencing from March 20, 2020 and ending on September 30, 2020. The Bill proposes to extend the said exemption for the period from September 30, 2020 to June 30, 2021.

Clause (12N), Part IV, Second Schedule

The Bill proposes to insert new clause 12N, providing for specific exemption from application of the provisions of sections 148 and 154 on the imports and exports of the specified foods and general items which takes place within the jurisdiction of Border sustenance markets.

The provision of section 148 and 154 of the Ordinance shall not apply on the imports of the specified food items.

The exemption under this clause shall be available on the import of goods subject to the following conditions, namely:

(i) Such goods shall be supplied only within the limits of Border Sustenance Markets established in cooperation with Iran and Afghanistan;

(ii) If the goods, on which exemption under this table has been availed, are brought outside the limits of such markets, income tax shall be charged on the import value as per provisions of section 148 of this Ordinance;

(iii) Such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of income tax involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction;

(iv) The said exemption shall only be available to a person upon furnishing proof of having a functional business premises located within limits of the Border Sustenance Markets; and

(v) Breach of any of the conditions specified herein shall attract relevant legal provisions of the Ordinance, besides recovery of the amount of income tax along with default surcharge and penalties involved.

Clause (47B)

Under the existing law, the provision of the sections 150, 151, 233 and Part I, Division VII of the First Schedule shall not apply to the Modaraba" and "or a Private Equity and Venture Capital Fund. The Bill proposes to withdraw such exemption.

I. INSERTION OF EXEMPTION CLAUSES

The Bill proposes to insert new clauses under Part IV of the Second Schedule and provide exemption from specific provisions to various sectors and Individuals as under:

Clause	Description of exemption
(4A)	No provisions of law shall apply for recouping of tax credit already allowed to National Power Parks Management Company Limited for investment in plant and machinery in the eve of privatization merely for the reasons of change in its ownership pattern or debt to equity ratio.";
(12F)	The provision of section 148 shall not apply on import of 1.5 million tons of wheat having PCT Heading 1001.1900 and 1001.9900 in pursuance of Cabinet Decision in case No.399/23/2020 dated the 16th June, 2020
(12G)	The provisions of section 148 shall, in pursuance of the Cabinet Decision in case No. 541/30/2020 dated the 4th August, 2020, not apply on import by the Trading Corporation of Pakistan of 300,000 metric tons of white sugar having PCT heading 1701.9910,1701.9920, specification B.
(12H)	(a) The provisions of section 148 shall not apply on import of following goods for a period of three months starting from the 23rd of June, 2020, namely:-

S.No.	Description	PCT Code
(1)	(2)	(3)
1.	Oxygen gas	2804.4000
2.	Cylinders (for oxygen gas)	7311.0090
3.	Cryogenic tanks (for oxygen gas)	7311.0030

; and

(b) the concessions given in this clause shall also apply in respect of the letters of credit opened or goods declaration forms filed on or after the 23rd June, 2020;

(12I)	The provisions of section 148 shall not apply on import of 83 X Micron sprayers for Anti-Locust Operation (Respective heading) by National Disaster Management Authority (NDMA).
(12J)	The provisions of section 148 shall, in pursuance of the Cabinet Decision in case No. 34/02/2021, dated the 12th January, 2021, not apply on import of three hundred

Clause	Description of exemption
	thousand metric tons of wheat through tendering process by the Trading Corporation of Pakistan;
(12K)	(a) The provisions of section 148 shall not apply on import of following goods by the manufacturers of oxygen for a period of three months starting from the 25th day of December, 2020, namely:-

S.No.	Description	PCT Code
(1)	(2)	(3)
1.	Cryogenic Tanks (for oxygen Gas)	7311.0030

(b) the concessions given in this clause shall also apply in respect of the letters of credit opened or goods declaration forms filed on or after the 25th day of December, 2020;

(12L) The provisions of section 148 and 153 shall not apply on import and subsequent supply of five hundred thousand metric tons of white sugar imported by the Trading Corporation of Pakistan;

(12M) The provisions of section 148 shall not apply on import of following goods for a period of one hundred and eighty days starting from the 14th day of May, 2021, namely:-

S.No.	Description	PCT Code
(1)	(2)	(3)
1.	Oxygen	2804.4000
2.	Other (Oxygen Cylinders)	7311.0090
3.	For Cryogenic (Tanks/Vessels)	7311.0030
	Oxygen Concentrators/Generators/Manufacturing Plants of all specifications and capacities.	Respective headings";

(43G) The provisions of section 153 shall not apply to commodity futures contracts listed on a Futures Exchange licensed under the Futures Market Act, 2016 (XIV of 2016)."

(45B) The provisions of section 153 shall not apply on the purchase of used motor vehicles from general public."

After sub-clause (iii), the following new sub-clause shall be inserted, namely:-

(56) (iiia) Goods temporarily imported into Pakistan by international athletes which would be subsequently taken back by them within one hundred and twenty days of temporary import"

(ii) after sub-clause (xii), the following new sub-clauses shall be added, namely:–

Clause	Description of exemption
	(xiii) Goods produced or manufactured and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation, provided conditions of section 22 of the Customs Act, 1969 (IV of 1969) are complied with; (xiv) Plant and machinery imported for setting up of a bagasse/biomass based cogeneration power project qualifying for exemption under clause (132C) of Part-I of this Schedule. (xv) Persons authorized under Export Facilitation Scheme 2021 notified by the Board with such scope, conditions, limitation, restrictions and specification of goods. (xvi) motor vehicles upto 850cc in CBU condition; (xvii) Printed books excluding brochures, leaflets and similar printed matter, whether or not in single sheets.(PCT code 49.01); and (xviii) Newspapers, journals and periodicals, whether or not illustrated or containing advertising material (PCT code 49.02) "
(60DA)	The provisions of section 148 shall not apply to the import of the capital equipment as defined in section 2 of the Special Technology Zones Ordinance 2020 (XIII of 2020) by – (d) zone developers as defined in section 2 of the Special Technology Zones Ordinance 2020 for consumption in the special technology zones for the period of 10 years commencing from the date of signing the development agreement; (e) zone enterprises as defined in section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years from the date of issuance of license by the Special Technology Zone Authority; and (f) Special Technology Zones Authority established under the Special Technology Zones Ordinance 2020."
(79A)	The provisions of clause (b) of sub-section (1) of section 153 shall not apply to payments received by National Telecommunication Corporation against provision of telecommunication services including ancillary services specified in sub-section (3) of section 41 of the Pakistan Telecommunication (Re-organization) Act, 1996 (XVII of 1996).";
(91)	Under clause (91), in paragraph (iv), after sub-paragraph (xvi), the following new sub-paragraphs shall be added, namely:– "(xvii) Corn harvester/corn picker and silage maker with their respective PCT heading";

Clause	Description of exemption
(111AB)	The provisions of section 100BA and rule 1 of the Tenth Schedule shall not apply to non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or Non-resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan."
(118)	The provisions of withholding taxes contained in the Income Tax Ordinance, 2001 (XLIX of 2001) shall not apply to Islamic Naya Pakistan Certificates Company Limited (INPCCL) as a recipient.
(119)	The provisions of section 153(1)(a) shall with effect from the first day of July, 2020 not apply to distributors, dealers, wholesalers and retailers of locally manufactured mobile phone devices as withholding agent”

II. AMENDMENT IN EXISTING EXEMPTION CLAUSES

The Bill proposes to enhance and restrict scope of certain existing exemptions provided under Part IV as under:

Clause reference	Existing	Proposed amendment
(43D)	The provisions of clause (a) of sub-section (1) of section 153 shall not apply in case of an oil tanker contractor with effect from 1st July 2008, provided that such contractor pays tax at the rate of 2.5%, on the payments for rendering or providing of carriage services w.e.f. tax year 2012.	The Bill proposes that contractor specified under the said clause would be required to pay tax at the rate of 3.5% instead of 2.5% on the payments for rendering or providing of carriage services, in order qualify for exclusion from withholding under section 153(1)(a) of the Ordinance. Further, the Bill propose to omit word w.e.f. Tax Year 2012.
(43E)	The provisions of clause (a) of sub section (1) of section 153 shall not apply in case of goods transport contractors, provided that such contractors pay tax at the rate of 3% on payments for rendering or providing of carriage services.	The Bill proposes that contractor specified under the said clause would be required to pay tax at the rate of 3.5% instead of 3% on payments for rendering or providing of carriage services.
(45)	The provisions of sub-section (1) of section 153 shall not apply to any manufacturer-cum-exporter as the prescribed person: Provided that—	The Bill proposes to omit sub-clause (c) reproduce below: Nothing contained in this clause shall apply to payments made on account of purchase of the goods in respect of

Clause reference	Existing	Proposed amendment
	(a) the manufacturer-cum-exporter shall deduct tax from payments made in respect of goods sold in Pakistan; (b) if tax has not been deducted from payments on account of supply of goods in respect of goods sold in Pakistan, the tax shall be paid by the manufacture-cum-exporter, if the sales in Pakistan are in excess of five per cent of export sales; and (c) nothing contained in this clause shall apply to payments made on account of purchase of the goods in respect of which special rates of tax deduction have been specified under the provisions of the repealed Ordinance.	which special rates of tax deduction have been specified under the provisions of the repealed Ordinance.
(46AA)	The provisions of section 153 shall not apply to the following persons as recipients of payment, namely:— (i) a Provincial Government; (ii) a local authority; (iii) persons who are residents of Azad Kashmir and execute contracts in Azad Kashmir only and produce a certificate to this effect from the concerned income tax authority; (iv) persons receiving payments from a company or an association of persons having turnover of fifty million rupees or more or from an individual having turnover of fifty million rupees or more exclusively for the supply of agriculture produce including fresh milk, fish by any person engaged in fish farming, live chicken, birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market;	The Bill proposes to substitute sub-clause (iv) with following: (iv) subject to fulfillment of procedure laid down in clause (12) of Part IV of Second Schedule, persons receiving payments exclusively for the supply of agriculture produce including following: (I) fresh milk; (II) fish by any person engaged in fish farming; (III) live chicken, birds and eggs by any person engaged in poultry farming; (IV) live animals by any person engaged in cattle farming; (V) unpackaged meat; and (VI) raw hides: Provided that this clause shall not apply to the payments for agriculture produce which has been subjected to any process other than that which is ordinarily performed to render such produce to be fit to be taken to the market”

Clause reference	Existing	Proposed amendment
	(v) companies receiving payments for the supply of electricity and gas; (vi) companies receiving payments for the supply of crude oil; (vii) hotels and restaurants receiving payments in cash for providing accommodation or food or both, as the case may be; (viii) shipping companies and air carriers receiving payments for the supply of passenger tickets and for the cargo charges of goods transported; (ix) individuals who are not registered under section 181 of the Ordinance, receiving payments for the supply of sand, bricks, grit, gravel, crushed stone, soft mud or clay; and (x) artisans, plumbers, electricians, surface finishers, carpenters, painters or daily wagers, receiving payments in respect of services provided or rendered to the construction sector including construction of buildings, roads, bridges and other such structures or the development of land, subject to the following conditions, namely:— (a) services under this clause are provided or rendered by an individual who is not registered under section 181; (b) the name, Computerized National Identity Card Number and address of such individual is recorded by the recipient of such service; and (c) payment for such services is made directly to such individual.”;]	
(108)	The provisions of sections 113, 151, 231A, 231AA and 236P shall not apply to the Supreme Court of Pakistan – Diamer Bhasha & Mohmand Dams – Fund.	The Bills proposes to omit section 231A, 23AA and 236P from said clause, due to proposed omission of section 231A, 231AA and 236P.

Clause reference	Existing	Proposed amendment
114A	The provisions of clause (ae) of sub-section (1) of section 114 and section 181 shall not apply to a non-resident individual solely by reason of profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan	The provisions of clause (ae) of sub-section (1) of section 114 and section 181 shall not apply to a non- resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or a Non-resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan: Provided that this clause shall not apply if the person referred in this clause has Pakistan-source taxable income other than the following; namely:— (a) profit on debt on FCVA or Non-resident Pakistani Rupee Value Account (NRVA); (b) profit on debt earned on Government of Pakistan (GOP) securities either conventional or Shariah Compliant where investment has been made from proceeds of FCVA or NRVA; (c) capital gain on disposal of immovable property acquired from proceeds of FCVA or NRVA; (d) capital gain on disposal of securities traded on Pakistan Stock Exchange and units of mutual funds that are acquired from proceeds of FCVA or NRVA; or (e) dividend income from securities traded on Pakistan Stock Exchange and mutual funds that are acquired from proceeds of FCVA or NRVA.";

III. WITHDRAWAL OF EXEMPTION CLAUSES

The Bill proposes to withdraw exemption from specific provision as provided under various clauses of Part IV to various Individuals, entities, and sectors as under:

Clause reference	Description	Comments
(57A)	The provisions of sections 153 and 169 shall not apply to large import houses. Provided that the exemption under this clause shall not be available if any of the conditions provided in section 148 are not fulfilled for a tax year.	Subsequent to proposed amendment, payment received from customer by large import would now be subject to tax withholding.
(61)	The provisions of section 231A shall not apply in respect of any cash withdrawal, from a bank, made by an earthquake victim against compensation received from GOP including payments through Earthquake Reconstruction and Rehabilitation Authority (ERRA) account.	This clause has been omitted, due to proposed omission of section 231A.
(95)	The provision 231A and 231AA shall not apply to “The second Pakistan international Sukuk Company Limited” and the Third Pakistan International Sukuk Company Limited, as a payer	This clause has been omitted, due to proposed omission of section 231AA.
(101)	The provisions of section 231A shall not apply in respect of cash withdrawal made from a “Branchless Banking (BB) Agent Account” utilized to render branchless banking services to customers.	This clause has been omitted, due to proposed omission of section 231A.
(101A)	The provisions of section 231A shall not apply to a Pak Rupee account if the deposits in the account are made solely from foreign remittances credited directly into such account.	This clause has been omitted, due to proposed omission of section 231A.
(101AA)	The provisions of sections 231A, 231AA and 236P shall not apply to a Pak Rupee Account in a tax year to the extent of foreign remittances credited into such account during that tax year.	This clause has been omitted, due to proposed omission of sections 231A and 231AA.
(109)	The provisions of section 236P shall not apply at the time of transfer of any sum to the Supreme Court of Pakistan - Diamer Bhasha & Mohmand Dams- Fund.”.	This clause has been omitted, due to proposed omission of section 236P.
(116)	The provision of 231A, 231AA and 236P shall not apply to The Prime Minister’s COVID-19 Pandemic Relief Fund-2020.	This clause has been omitted, due to proposed omission of sections 231A, 231AA and 236P.
117	The provisions of section 236P shall not apply at the time of transfer of any sum to The Prime Minister’s COVID-19 Pandemic Relief Fund- 2020.	This clause has been omitted, due to proposed omission of section 236P.

Third Schedule – Depreciation for Oil and Gas Sector

Under existing law, E&P entities are allowed to claim 100% depreciation in respect of ‘below ground installations’

The Bill proposes to omit entry relating to “below ground installation”, consequent to which E&P would now claim initial allowance and depreciation in the same manner as applicable in case of other fixed assets.

Fifth Schedule

Amendments specific to Oil and Gas Exploration Companies

The Bill proposes following amendments with respect to the taxation of Oil and Gas Exploration and Production companies [E&P].

Clause (2), Part-II of the Second Schedule to the Ordinance

Clause (2) of Part II of the Second Schedule to the Ordinance provides that income of E&P from letting out of pipeline to other E&P for carriage of petroleum is taxable at the rate prescribed under Part I of the Fifth Schedule. The Bill proposes to omit the said clause. We understand that such omission will not have any impact on taxation of E&P Companies as no change has been made in section 100 or Rule I, Part I of the Fifth Schedule which prescribes taxation of E&P companies.

Clause (2), Part-III of the Second Schedule to the Ordinance

An E&P entity is allowed a reduction in tax liability to the extent of tax liability resulting due to devaluation or revaluation of rupee in any particular tax year, subject to the condition that such reduction is permissible as per relevant terms of the agreement entered into with the Government.

The Bill proposes to omit Clause (2), subsequent to which increase in tax liability due to devaluation or revaluation shall not be subject to any reduction. However, it needs to be evaluated whether any provision of the agreement with the Government allows any relief against tax liability under given circumstances.

Exploration and Extraction of Mineral Deposits

As per Rule (4) of Part II of the Fifth Schedule to the Ordinance, profits and gains as are derived from the refining and concentrating of mineral deposits by an undertaking, which is also involved in extraction and exploration of such deposits, is exempt from tax to the extent of profits not exceeding 10% of the capital employed in such business. The Bill proposes to omit the said exemption.

The Seventh Schedule

Banking Company

The Bill proposes to extend the levy of super tax beyond 2021 for banking companies.

The Tenth Schedule

The Bill proposes to delete following exclusions in respect of applicability of higher withholding taxes, provided under rule 10 of the Tenth Schedule to the Ordinance for:

i. 155: Rent of immovable property (Note 1)
ii. 231A: Cash withdrawal from bank (Note 2)
iii. 231AA: Advance tax on transaction in bank (Note 2)
iv. 233AA: Collection of tax by a stock exchange registered in Pakistan (Note 2)
v. 236B: Advance tax on purchase of air ticket (Note 2)
vi. 236L: Advance tax on purchase of international air ticket (Note 2)
vii. 236P: Advance tax on banking transactions (Note 2)

Note 1: Due to proposed amendment, deduction of tax will be increased by 100% in respect of recipient of property income, if such person's name is not appearing in the Active Taxpayers List issued by the Board.

Note 2: Due to deletion of relevant advance withholding tax sections, these sections are also proposed to be deleted from the exclusions of the Tenth Schedule.

The Thirteen Schedule

The Bill proposes to delete clauses (61), (64A), (64B), (64C) and (65) of Part I of the Second Schedule to the Ordinance and has introduced the "Thirteen Schedule" under the Ordinance, which provides list of those non-profit organizations and funds which are covered in the aforesaid clauses. A person on making donation to non-profit organizations and funds listed under the "Third Schedule" would be entitled to claim tax credit in the manner prescribed under section 61 of the Ordinance.

S.No	Name
1.	Any Sports Board or institution recognized by the Federal Government for the purposes of promoting, controlling or regulating any sport or game
2.	The Citizens Foundation
3.	Fund for Promotion of Science and Technology in Pakistan.
4.	Fund for Retarded and Handicapped Children
5.	National Trust Fund for the Disabled
6.	Fund for Development of Mazaar of Hazarat Burri imam
7.	Rabita-e-Islami's Project for printing copies of the Holy Quran.
8.	Fatimid Foundation, Karachi.

S.No	Name
9.	Al-Shifa Trust
10.	Society for the Promotion of Engineering Sciences and Technology in Pakistan.
11.	Citizens-Police Liaison Committee, Central Repoi1ing Cell, Sindh Governor House, Karachi.
12.	ICIC Foundation.
13.	National Management Foundation..
14.	Endowment Fund of the institutions of the Agha Khan Development Network (Pakistan Listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network.
15.	Shaheed Zulfiqar Ali Bhutto Memorial Awards Society
16.	Iqbal Memorial Fund
17.	Cancer Research Foundation of Pakistan, Lahore.
18.	Shaukat khanum Memorial Trust, Lahore.
19.	Christian Memorial Hospital, Sialkot.
20.	National Museums, National Libraries and monuments or institutions declared to be National Heritage by the Federal Government
21.	Mumtaz Bakhtawar Memorial Trust Hospital, Lahore.
22.	Kashmir Fund for Rehabilitation of Kashmir Refugees and Freedom Fighters.
23.	Institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network
24.	Azad Kashmir President’s Mujahid Fund, 1972.
25.	National Institute of Cardiovascular Diseases, (Pakistan) Karachi
26.	Businessmen Hospital Trust. Lahore.
27.	Premier Trust Hospital, Mardan
28.	Faisal Shaheed Memorial. Hospital Trust, Gujranwala.
29.	Khair-un-Nisa Hospital Foundation, Lahore.
30.	Sind and Balochistan Advocates' Benevolent Fund
31.	Rashid Minhas Memorial Hospital Fund
32.	Any relief or welfare fund established by the Federal Government.
33.	Mohatta Palace Gallery Trust
34.	Bagh-e-Quaid-e-Azam project, Karachi
35.	Any amount donated for Tameer-e-Karachi Fund
36.	Pakistan Red Crescent Society.
37.	Bank of Commerce and Credit International Foundation for Advancement of Science and Technology
38.	Federal Board of Revenue Foundation
39.	The Indus Hospital, Karachi.

S.No	Name
40.	Pakistan Sweet homes Angels and Fairies Place
41.	Al-Shifa Trust Eye Hospital
42.	Aziz Tabba Foundation
43.	Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT.
44.	Sharif Trust.
45.	The kidney Centre Post Graduate Institute
46.	Pakistan Disabled Foundation
47.	Sardar Trust Eye Hospital. Lahore
48.	Supreme Court of Pakistan - Diamer Bhasha & Mohmand Dams – Fund
49.	Layton Rahmatullah Benevolent Trust (LRBT)
50.	Akhuwat
51.	The Prime Minister's COVID-19 Pandemic Relief Fund-2020.
52.	Ghulam Ishaq khan Institute of Engineering Sciences and Technology (GIKI).
53.	Lahore University of Management Sciences
54.	Dawat-e-Hadiya, Karachi
55.	Baitussalam Welfare Trust
56.	Patients’ Aid Foundation
57.	Alkhidmat Foundation.
58.	Alamgir Welfare Trust International.
59.	Prime Minister’s Special Fund for victims of terrorism
60.	Chief Minister's(Punjab) Relief Fund for Internally Displaced Persons (IDPs) of KPK
61.	Prime Minister's Flood Relief Fund 2010 and Provincial Chief Minister's Relief Funds for victims of flood 2010
62.	Waqf for Research on Islamic History, Art and Culture, Istanbul

The Fourteenth Schedule

The Bill proposes to introduce the concept of Small and Medium Enterprises (SMEs), which shall be subject to tax at specified rates. The Bill further seeks to insert Fourteenth Schedule to the Ordinance, aimed at setting out the rules for computation of profit and gains for SMEs. The salient features of the Fourteenth Schedule are as follows:

SMEs shall be required to register on either of the following two portals:

- with the Board on its Iris web portal; or
- Small and Medium Enterprises Development Authority on its SME Registration Portal (SMERP).

The Bill proposes to offer the SMEs an option to either opt for taxation under Normal Tax Regime (NTR), or Final Tax Regime (FTR). Taxation under each regime shall be as follows:

The bill proposes to tax SMEs under the normal/final tax regime as follows:

Sr. No.	Category	Turnover	Tax rate (NTR)	Tax rate (FTR)
1	Category-1	Where annual business turnover does not exceed Rupees 100 million	7.5% of taxable income	0.25% of gross turnover
2	Category-2	Where annual turnover exceeds Rupees 100 Million but does not exceed Rupees 250 million	15% of taxable income	0.5% of gross turnover

SMEs may, at the time of filing of income tax return, exercise option to be taxed under FTR and such exercise shall be irrevocable for three tax years.

Applicable audit provisions to SMEs

Provisions of section 177 of the Ordinance, which deals with the selection of audit by the Commissioner and section 214C of the Ordinance, which covers the selection for audit by the Board through risk based parametric computer ballot, shall not be applicable in case SMEs opt for final tax regime.

The Board may select those SMEs who opt for normal tax regime, for audit under section 214C of the ordinance through risk based parametric computer ballot, in case their tax to turnover ratio is below the tax rates prescribed for final tax regime. However, the cases selected for audit under section 214C shall not exceed 5% of the total population of SMEs, whose tax to turnover ratio is below tax rates given for final tax regime.

Sales Tax Act, 1990

1. Definitions

a. New Insertions

Definitions of the following terms have been proposed to be inserted in section 2 of the Sales Tax Act, 1990 (the ST Act)

i. Commissioner (Appeals) [Proposed Clause (4A) Section 2]

Currently, the term 'Commissioner (Appeals)' as used in the ST Act has nowhere been defined under the said Act. The Bill seeks to insert definition of Commissioner (Appeals) as Commissioner of Inland Revenue (Appeals) appointed under Section 30 of the Act in the similar way as already defined under the Income Tax Ordinance, 2001.

ii. Online Market Place [Proposed Clause (18A) Section 2]

The Bill proposes to introduce an inclusive definition of online market place. Said term is defined as an electronic interface such as a market place, e-commerce platform, portal or similar means which facilitate sale of goods, including third party sale, in any of the manner, namely

(a) by controlling the terms and conditions of the sale;
(b) authorizing the charge to the customers in respect of the payment for the supply; or
(c) ordering or delivering the goods.

It appears that the concept of online market place has been introduced to capture the sales made through online platforms like Daraz, foodpanda, etc.

b. Proposed amendments in existing definitions

i. Cottage Industry [Clause (5AB) Section 2]

Presently, one of the conditions for manufacturing concerns to qualify as cottage industry is that their annual turnover should not exceed Rs.3 million. The Bill proposes to enhance the said threshold from Rs.3 million to Rs.10 million. The proposed amendment will provide major relief to small-scale industries by exempting them from sales tax registration and compliance requirements.

ii. Tier-1 Retailer [Clause (43A) Section 2]

Currently, any retailer whose shop measures 1000 square feet or more falls within category of Tier-1 retailer. The Bill seeks to relax this condition for furniture outlets/showrooms by enhancing threshold of shop area from current 1000 to 2000 square feet. Further, the Bill proposes to insert new sub-clauses (f) & (g) under captioned definition to bring the following within the ambit of Tier-1 retailer:

a. a retailer operating an online market place supplying goods through e-commerce platform, whether or not the goods are owned by him;

b. a retailer who has acquired point of sale for accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by State Bank of Pakistan.

By virtue of change enumerated as (b) above, any retailer accepting payments through credit/debit cards from customers would also fall within the category of Tier-1 retailer irrespective of size of his business, area of shop and other criteria specified for Tier 1 retailer. The small retailers show reluctance from dealing in sales transactions through banking channels.

iii. Time of Supply [Clause (44) Section 2]

According to existing definition of time of supply the event of taxation of supply is triggered at earlier of:

(a) delivery of goods/ making available goods to the recipient of supply, or
(b) receipt of payment by supplier of goods.

The above concept of applicability of sales tax on advance payment against supply of goods through issuance of Advance Payment Receipt (APR) was introduced vide Finance Act, 2013 with the support of issuance of corresponding STGO.

The Bill proposes to omit from definition the event of receipt of payment by supplier [condition (b) above], resultantly sales tax now will be payable only at the time of delivery of goods or making available goods to the recipient of supply in the same manner as it was prior to above referred insertion through Finance Act 2013.

2. Scope of Tax [Section 3(3)(c)]

The liability to pay tax in case of supply of goods is of the person making the supply and of the person importing the goods in case of import of goods. As a result of expanding the scope of sales tax to the sales made by the online market place, the Bill proposes to impose the liability to pay sales tax on the person running the online market place whether or not the goods are owned by him.

3. Scope of Tax [Section 3(9A)]

Presently, the first proviso to Section 3(9A) introduced through Finance Act, 2019 entitles the customers of Tier-1 retailer to receive a cash back of upto 5% of the sales tax involved. The Bill seeks to withdraw such incentive given to customers of Tier-1 retailers by omitting the said proviso.

4. Adjustable Input Tax [Section 8B]

The adjustment of input tax is currently restricted to 90% of the output tax for a tax period under provisions of captioned section in case of all registered persons with certain exceptions like electrical energy sector, oil marketing companies, fertilizer manufacturers etc. The Bill proposes to also exclude public limited companies listed on Pakistan Stock Exchange from the application of aforementioned restricted claim of input. Resultantly, these companies will now be able to adjust whole amount of input tax against output tax, hence, no requirement of minimum payment of 10% will apply for such companies.

This appears to be in line with the benefits provided under the income tax law to encourage public listing of entities in corporate sector. Indeed this proposition will be welcomed by the industry, however, there may still be a resentment from public unlisted companies, private companies and non-corporate businesses because the proposed amendment only benefits listed companies which is relatively a small bunch as compared to overall industry.

5. Assessment of Tax and recovery of tax not levied or short-levied or erroneously refunded [Section 11(5)]

Current provisions of the ST Act provide limitation period of five years (05) for issuance of show cause notice by officer of Inland Revenue which is counted from the relevant date (i.e. the due date of payment of tax along with the monthly return) as defined under the section 11(7) of the Act. The Bill now proposes to amend section 11(5) in a manner that would require issuance of such show cause within 5 years of the end of the financial year in which the relevant date falls. It appears that proposed amendment will result in more time available for officer to initiate proceedings under Section 11 for recovery of tax.

6. Common Identifier Number [Proposed Section 21B]

The Bill seeks to insert new section whereby effective from tax period July 2021 onwards, National Tax Number (NTN) in case of association of persons or company and Computerized National Identity Card (CNIC) in case of an individual person registered or liable to be registered under the Act shall be common identifier number in addition to the Sales Tax Registration Number (STRN). It seems that proposition has been made to universally recognize/ trace the businesses through NTN/CNIC for sales tax purposes with the intent to introduce the concept of 'Single Identification Number' for each taxpayer.

7. Records [Section 22]

As per current provisions of above section a registered person making taxable supplies is required to maintain and keep at his business premises or registered office certain records of goods purchased, imported and supplied as prescribed under clause (a) through (ea) of sub-section (1) such as invoices, credit notes, bank statements, inventory records etc.

The Bill now, besides prescribing additional requirement for maintenance of 'cash book' as part of record under clause (e), also seeks to insert new clause (eb) requiring maintenance of electronic version of all records as mentioned in said clauses (a) to (ea) of section 22(1).

Although, almost every business now retains records in electronic form, however, the proposed amendment providing legal requirement of maintaining electronic records seems to be in consonance with the digital transformation of tax affairs underway in the country and the proposition could also facilitate the performance of e-audit of records in case of all registered persons.

8. Transactions between associates [Section 25AA]

Currently, the Commissioner or officer of Inland Revenue is empowered to determine the transfer price of taxable supplies in respect of any transaction between the persons who are associates in order to reflect the fair market value of supplies in an arm's length transaction.

The Bill seeks to insert sub-section (2) under the above section whereby the Board has been empowered to prescribe rules for carrying out the purpose of instant section. The proposed amendment would likely to bring a consistent practice for applying the law and control abuse of section by the officers as upon notification of rules of transfer pricing, the concerned officer will be bound to determine transfer price according to such rules in the similar manner as already in place under Income Tax Ordinance, 2001 and rules made thereunder.

9. Extension of time for furnishing returns [Proposed Section 26AB]

Unlike the provisions of Income Tax Ordinance, 2001, presently, there is no express and standalone provision under the ST Act that specifically addresses the procedure for allowing extension in filing of sales tax return by the registered persons. Resultantly, the registered persons seeking extension in time for furnishing the returns usually have been filing application for condonation of time limit under section 74 of the ST Act read with notification issued thereunder dealing with extending any time limit or period within which an act is required to be done under the provisions of the ST Act.

The Bill proposes to address this issue by separately inserting the above section which provides the following procedure for obtaining extension in time to furnish return:

a. a registered person seeking extension in time to furnish sales tax return is required to apply to the Commissioner in writing by the due date for furnishing the return,

b. the Commissioner may grant the applicant extension in time for furnishing the return by order in writing if the Commissioner is satisfied that the applicant is unable to furnish the return by due date because of the following:

    - absence from Pakistan;
    - sickness or other misadventure; or
    - any other reasonable cause.

c. Upon rejection of application by the Commissioner for extension or further extension the registered person may apply to the Chief Commissioner for the same.

d. the extension or further extension each shall not exceed fifteen (15) days unless there are exceptional circumstances justifying a longer extension of time.

It is worth noting that as per the proposed section, extension or further extension of time granted as aforesaid shall not change the due date for payment of sales tax for the purpose of charge of default surcharge which is currently 12% per annum.

10. Provisions relating to goods supplied from tax-exempt areas [Section 40D]

The conveyances carrying goods supplied from the tax exempt areas are required to be accompanied by documents in respect of the goods carried as prescribed under the rules in accordance with the provisions of above section. The Bills seeks to enlarge the meaning of expression 'tax-exempt areas' already provided under the section by making 'Border Sustenance Markets' part thereof.

The proposed amendment seems to exempt recently established border markets in Balochistan, near Pakistan's border with Iran & Afghanistan which are supposed to enhance bilateral trade and provide economic opportunities and sustenance to the people residing in border areas.

11. Licensing of brand name [Proposed Section 40E]

The Bill proposes to insert a new Section 40E whereby manufacturers of specified goods are required to obtain brand license in the prescribed manner for each brand or Stock Keeping Unit (SKU). Any such specified brand and SKU found to be sold without the license shall be deemed counterfeit goods and liable to outright confiscation and destruction in the prescribed manner in addition to any other penal action which may be taken under the ST Act.

12. Recovery of arrears of tax [Section 48]

The above section provides for the manner of recovery of tax by the officer of Inland Revenue where any amount of tax is due from any person.

The Bill proposes to insert new sub-section (3) under the above section broadening the scope of said provision which enables the officer of Inland Revenue to recover tax with default surcharge and penalty in like manner with reference to assistance in collection and recovery of duties in pursuance of a request from a foreign jurisdiction under a tax treaty, a multilateral convention, and inter-governmental agreement or similar agreement or mechanism. The proposed amendment is in line with similar amendments proposed in income tax and federal excise laws.

13. Agreement for the exchange of information or assistance in recovery of taxes [Section 56A]

The existing provisions of above Section empower the Federal Government to enter into bilateral or multilateral agreements with provincial government or governments of foreign countries for the exchange of information.

The Bill also proposes to insert non-obstante sub-section (1A) which would authorize the Board to share data or information (including real time data videos, images) received by the Board, with any other Ministry or Division of Federal Government or Provincial Government subject to limitations and conditions as may be specified by the Board.

14. Prize schemes to promote tax culture [Section 56C]

The Bill proposes to insert sub-section (2) under the above section thereby empowering the Board to prescribe procedure for 'Mystery Shopping' in respect of invoices issued by Tier-1 retailers integrated with FBR online system randomly. Upon notification of the rules, the FBR could be able to identify potential discrepancies in the retail businesses and abuse of above section for prize schemes.

In common parlance, 'Mystery Shopping' is a method used by marketing research companies and organizations that wish to measure quality of sales and service, job performance, regulatory compliance, or to gather specific information about a market or competitors, including products and services.

15. Delayed refund [Section 67]

Upon payment of refund beyond prescribed forty five (45) days of filing of refund (i.e. delayed payment of refund), the above section provides for payment of a sum equal to KIBOR per annum of the amount of refund due in addition to the amount of refund due to the claimant which is currently applicable only in case of refunds falling under section 10.

The Bill proposes to insert new proviso whereby now refund due in the consequence of order passed under section 66 if not paid within forty five (45) days of the date of order, will also be eligible for payment of sum equal to KIBOR per annum of the amount of refund due. The proposed amendment seems to be realistic in favor of taxpayer as delay in payment of refunds even after order, without any compensation, was detrimental for taxpayers.

16. Certain transactions not admissible [Section 73]

Subsection (1) of section 73 provides for payment of transactions exceeding value of Rs.50,000 through banking channel. Online transfers and payments through credit card are also regarded as payment through banking channel.

The Bill seeks to insert new proviso to the aforesaid sub-section whereby adjustments made by registered person in respect of amounts payable and receivable to and from the same party, will be treated as payments satisfying the above provisions subject to the following conditions:

- applicable sales tax has been charged and paid by both parties; and
- the registered person has sought prior approval of the Commissioner before making such adjustments.

The proposed amendment seeks to address the practical scenario where usually balances are settled by the parties on a net basis or through offsetting balances of each other in which case no payments may result in essence which was previously considered as non-compliance of mandatory condition of section 73(1) by the tax authorities.

Third Schedule (Retail Price goods)

Levy of sales tax on Supply of Sugar at Retail Price

The Bill proposes to insert new serial no.50 under the above Schedule whereby sugar (except where it is supplied as an industrial raw material to pharmaceutical, beverage and confectionery industries) is proposed to be subject to sales tax at retail price.

Fifth Schedule (Zero rated goods)

a) Omission of items with zero-rating of sales tax

The Bill proposes to withdraw zero rating of sales tax currently available in respect of the following items:

Sr. No.	Description
1.	(i) Supply, repair or maintenance of any ship which is neither; (a) a ship of gross tonnage of less than 15 LDT; nor (b) a ship designed or adapted for use for recreation or pleasure. (ii) Supply, repair or maintenance of any aircraft which is neither; (a) an aircraft of weight-less than 8000 kilograms; nor (b) an aircraft designed or adapted for use for recreation or pleasure. (iii) Supply of spare parts and equipment for ships and aircraft falling under (i) and (ii) above. (iv) Supply of equipment and machinery for pilot age, salvage or towage services. (v) Supply of equipment and machinery for air navigation services. (vi) Supply of equipment and machinery for other services provided for the handling of ships or aircraft in a port or Customs Airport.
6.	Supplies of such locally manufactured plant and machinery to petroleum and gas sector Exploration and Production companies, their contractors and sub-contractors as may be specified by the Federal Government, by notification in the official Gazette, subject to such conditions and restrictions as may be specified in such notification.
10.	Petroleum Crude Oil (PCT heading 2709.0000).

11. Raw materials, components, sub-components and parts, if imported or purchased locally for use in the manufacturing of such plants and machinery as is chargeable to sales tax at the rate of zero percent, subject to the condition that the importer or purchaser of such goods holds a valid sales tax registration showing his registration category as "manufacturer"; and in case of import , all the conditions, restrictions, limitations and procedures as are imposed by notification under section 19 of the Customs Act,1969 (IV of 1969), shall apply.

b) New insertion allowing zero-rate of sales tax under Export Facilitation Scheme, 2021

The Bill seeks to insert new serial no.15 under Fifth Schedule granting zero-rating of sales tax on Local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions.

Sixth Schedule (Exempt Goods)

Table I – Imports or Supplies

a) Omission of items currently exempt from sales tax

The Bill proposes to streamline exemptions under the Sixth Schedule whereby exemption of sales tax on the following items is proposed to be withdrawn on imports or supplies of these items:

Sr. No.	Description
11.	Eggs including eggs for hatching
19.	Cereals and products of milling industry excluding the products of milling industry, other than wheat and meslin flour, as sold in retail packing bearing brand name or a trademark
22.	Sugar beet
24.	Edible oils and vegetable ghee, including cooking oil, on which Federal Excise Duty is charged, levied and collected by a registered manufacturer or importer as if it were a tax payable under section 3 of the Act. Explanation.– Exemption of this entry shall not be available on local supplies made by importers, distributors, wholesalers or retailers.
26.	Fruit juices, whether fresh, frozen or otherwise preserved but excluding those bottled, canned or packaged.
27.	Ice and waters excluding those for sale under brand names or trademarks.
29.	Table salt including iodized salt excluding salt sold in retail packing bearing brand names and trademarks.
29C.	Glass bangles
73A.	Milk and cream, concentrated or containing added sugar or other sweetening matter, excluding that sold in retail packing under a brand name

Sr. No.	Description
74.	Flavored milk, excluding that sold in retail packing under a brand name.
75.	Yogurt, excluding that sold in retail packing under a brand name.
76.	Whey, excluding that sold in retail packing under a brand name.
77.	Butter, excluding that sold in retail packing under a brand name.
78.	Desi ghee, excluding that sold in retail packing under a brand name.
79.	Cheese, excluding that sold in retail packing under a brand name.
80.	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name.
82.	Frozen prepared or preserved sausages and similar products of poultry meat or meat offal, excluding those sold in retail packing under a brand name or a trademark.
83.	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry, meat and fish, excluding those sold in retail packing under a brand name or a trademark.
84.	Preparations suitable for infants, put up for retail sale.
85.	Fat filled milk excluding that sold in retail packing under a brand name or a trademark.
91.	Energy saver lamps
93.	Bicycles
101.	Raw and pickled hides and skins, wet blue hides and skins, finished leather, and accessories, components and trimmings, if imported by a registered leather goods manufacturer, for the manufacture of goods wholly for export, provided that conditions, procedures and restrictions laid down in rules 264 to 278 of the Customs Rules, 2001 are duly fulfilled and complied with.
103.	Import and supply thereof, up to the year 2030, of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistan entity and flying the Pakistan flag, except ships or crafts acquired for demolition purposes or are designed or adapted for use for recreation or pleasure purposes, subject to the condition that such ships or crafts are used only for the purpose for which they were procured and in case such ships or crafts are used only for the purpose for which they were procured, and in case such ships or crafts are used for demolition purposes within a period of five years of their acquisition, sales tax applicable to such ships purchased for demolition purposes shall be chargeable.
106.	Import of Halal edible offal of bovine animals.
108.	Components or sub-components of energy saver lamps, namely:- (a) Electronic Circuit (b) Plastic Caps (upper and lower) (c) Base Caps B22 and E27 (d) Tungsten Filaments (e) Lead-in-wire (f) Fluorescent powder (Tri Band Phospher)

Sr. No.	Description
	(g) Adhesive Additive (h) Al-oxide Suspension (i) Capping Cement (j) Stamp Pad Ink (k) Gutter for Suspension
115.	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Division upto the 30th June, 2019 subject to the same conditions and procedure as are applicable for import of such plant, machinery and equipment under the Customs Act, 1969 (IV of 1969).
123.	Aircraft, whether imported or acquired on wet or dry lease. Provided that in case of import or acquisition on wet or dry lease by Pakistan International Airlines Corporation, this exemption shall be available with effect from 19th March, 2015.
124.	Maintenance kits for use in trainer aircrafts of PCT headings 8802.2000 and 8802.3000
125.	Spare parts for use in aircrafts, trainer aircrafts or simulators
128.	Aviation simulators imported by airline company recognized by Aviation Division.
153.	Steel billets, ingots, ship plates, bars and other long re-rolled profiles, on such imports and supplies by the manufacturer on which federal excise duty is payable in sales tax mode.

b) New insertion allowing exemption of sales tax

The Bill seeks to exempt sales tax on import and supply of the following items by inserting the respective new entries under Table-I of the Sixth Schedule to the Act:

Sr. No.	Description
157.	Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30th June, 2026: (i) Small cars/SUVs with 50 Kwh battery or below; (ii) and Light commercial vehicles (LCVs) with 150 kwh battery or below
158.	Goods temporarily imported into Pakistan by International Athletes which shall be subsequently taken by them within 120 days of temporary import.
159.	Import of auto disable Syringes till 30th June, 2021 (i) with needles (ii) without needles
160.	Import of following raw materials for the manufacturers of auto disable syringes till 30th June, 2021 (i) Tubular metal needles

Sr. No.	Description
	(ii) Rubber Gaskets
161.	Import of plant, machinery, equipment and raw materials for consumption of these items within Special Technology Zone by the Special Technology Zone Authority, zone developers and zone enterprises.
162.	Import of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions.

Table II – Local supplies only

a) Withdrawal of exemption

The Bill proposes to withdraw exemption of sales tax on local supplies of the following items:

Sr. No.	Description
17.	Raw and pickled hides and skins, wet blue hides and skins
19.	Bricks (up to 30th June, 2018)
24.	LED or SMD lights and bulbs meant for conservation of energy
25.	Cottonseed oil

b) New insertion granting exemption of sales tax

The Bill seeks to insert following new entries thereby granting exemption of sales tax on local supplies of these items.

Sr. No.	Description
26.	Supply of locally produced silos till 30.06.2026.

c) Exemption of sales tax restricted to local supplies only

Upon exclusion of the following items from Table-I of the Sixth Schedule to the Act providing exemption of sales tax on import or supplies, the Bill now seeks to bring these items under Table-II of the Sixth Schedule to the Act thereby restricting exemption of sales tax only on local supplies of these items:

Sr. No.	Description
27.	Eggs including eggs for hatching
28.	Cereals and products of milling industry excluding the products of milling industry, other than wheat and meslin flour, as sold in retail packing bearing brand name or a trademark

Sr. No.	Description
29.	Sugar beet
30.	Fruit juices, whether fresh, frozen or otherwise preserved but excluding those bottled, canned or packaged.
31.	Milk and cream, concentrated or containing added sugar or other sweetening matter, excluding that sold in retail packing under a brand name.
32.	Flavored milk, excluding that sold in retail packing under a brand name.
33.	Yogurt, excluding that sold in retail packing under a brand name.
34.	Whey, excluding that sold in retail packing under a brand name.
35.	Butter, excluding that sold in retail packing under a brand name.
36.	Desi ghee, excluding that sold in retail packing under a brand name.
37.	Cheese, excluding that sold in retail packing under a brand name
38.	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name.
39.	Sausages and similar products of poultry meat or meat offal excluding sold in retail packing under a brand name or trademark
40.	Products of meat or meat offal excluding sold in retail packing under a brand name or trademark.
41.	Preparations suitable for infants, put up for retail sale
42.	Fat filled milk excluding that sold in retail packing under a brand name or a trademark

Table IV – Conditional exemption on goods supplied with limits of Border Sustenance Markets

New Table IV is proposed to be inserted under Sixth Schedule to the Act for providing conditional exemption to local supplies made within the limit of the Border Sustenance Markets established in cooperation with Iran and Afghanistan. A list of 114 items mostly covering vegetable goods and fruits has been enumerated under the Table on which sales tax is proposed to be exempted subject to the following conditions:

(i) Such goods shall be supplied only within the limits of Border Sustenance Markets established in cooperation with Iran and Afghanistan;

(ii) If the goods, on which exemption under this Table has been availed, are brought outside the limits of such markets, sales tax shall be charged on the value assessed on the goods declaration import or the fair market value, whichever is higher;

(iii) Such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of sales tax involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction;

(iv) The said exemption shall only be available to a person upon furnishing proof of having a functional business premises located within limits of the Border Sustenance Markets; and

(v) Breach of any of the conditions specified herein shall attract relevant legal provisions of this Act, besides recovery of the amount of sales tax alongwith default surcharge and penalties involved.

Eighth Schedule (Goods subject to Specified rates)

Table – I

a) Omission of entries

The Bill seeks to majorly withdraw reduced rating of sales tax by omitting following items given under Table-I of Eighth Schedule which were subject to certain conditions, hence, proposing to levy of sales tax at the standard rate of 17%:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
1.	Soyabean meal	2304.0000	10%
5.	Raw cotton and ginned cotton	Respective headings	10%
6.	Plant and machinery not manufactured locally and having no compatible local substitutes	Respective headings	10%
7	Flavoured milk	0402.9900	10%
8	Yogurt	0403.1000	10%
9	Cheese	0406.1010	10%
10	Butter	0405.1000	10%
11	Cream	04.01 and 04.02	10%
14	Milk and cream, concentrated or containing added sugar or other sweetening matter	0402.1000 and 0402.2000	10%
15	Ingredients of poultry feed, cattle feed, except soya bean meal of PCT heading 2304.0000 and oil-cake of cotton-seed falling under PCT heading 2306.1000	1[2301.1000], 2305.0000, 2306.2000, 2306.3000, 2306.4100, 2306.5000, 2309.9010, 2309.9020, 2309.9090, 2936.2100, 2936.2200, 2936.2300, 2936.2400, 2936.2500, 2936.2600, 2936.2700, 2936.2800, and 2308.9000 (Guar Meal), 2303.1000 (Corn Gluton Feed/Meal), 2303.1000 (Residues of starch manufacture and similar residues), 3507.9000 (Enzymes-other),	10%

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
		2302.1000 (Maize Bran), 2302.2000 (Rice Bran), 2302.3000 (Wheat Bran), 2302.4000 (Other Cereals), 2302.5000 (Bran of Leguminous Plants), 2306.7000 (Oil- cake and other solid residues of Maize (corn) germ), 2306.4900 (Sesame Cake), 2306.9000 (Sesame Meal/other Meal), 2842.1000 (Double or complex silicates, including aluminosilicates whether or not chemically defined), 2301.2090 (Fish Meal), 0505.9000 (Poultry by product Meal), and the following items only of Feed Grade: 2827.6000 (Potassium Lodide), 2833.2990 (Manganese Sulphate),	

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
		2833.2940 (Zinc Sulphate), 2817.4000 (Zinc Oxide), 2833.2500 (Copper Sulphate), 2833.2910 (Ferrous Sulphate), 2915.5000 (Propionic acid, its salts and esters), 2930.4000 (DL Methionine), 2930.4000 (Methionine Hydroxy Analogue (liquid)), 2922.4100 (Lysine Monohydro Chloride /sulphate), 2923.2000 (Lecithins), 2923.9010 (Betafin), 2922.4290 (Arganine), 2934.9910 (Furazolidon), 2922.5000 (Threonine), 2835.2600 (Mono Calcium Phosphate), 2835.2500 (Di Calcium Phosphate), and 2835.2600 (Mono Di Calcium Phosphate)	
19	Waste paper	47.07	5%
20	Plant, machinery, and equipment used in production of bio-diesel	Respective headings	5%

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
22	Soya bean seed	1201.1000	10%
29	(i) Harvesting, threshing and storage equipment:		5%
	(ii) Wheat thresher (iii) Maize or groundnut thresher or sheller (iv) Groundnut digger (v) Potato digger or harvester (vi) Sunflower thresher (vii) Post hole digger (viii) Straw balers (ix) Fodder rake (x) Wheat or rice reaper (xi) Chaff or fodder cutter (xii) Cotton picker (xiii) Onion or garlic harvester (xiv) Sugar harvester (xv) Tractor trolley or forage wagon (xvi) Reaping machine (xvii) Combined harvesters (xviii) Pruner/shears	8433.5200 8433.5200 8433.5900 8433.5300 8433.5200 8433.5900 8433.4000 8433.5900 8433.5900 8433.5900 8433.5900 8433.5200 8433.5200 8716.8090 8433.5900 8433.5100 8433.5900	
45	Following machinery for poultry sector : (i) Machinery for preparing feeding stuff, (ii) Incubators, brooders and other poultry equipment (iii) Insulated sandwich panels	8436.1000 8436.2100 and 8436.2900 Respective heading	7%

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
	(iv) Poultry sheds (v) Evaporative air cooling system (vi) Evaporative cooling pad	9406.1020 and 9406.9020 8479.6000 8479.9010	
50	LNG/RLNG	2711.1100	12%
51	LNG/RLNG	2711.1100 and 2710.2100	12%
60	Fat filled milk	1901.9090	10%
61	Silver, in unworked condition	7106.1000, 7106.9110 and 7106.9190	1%
62	Gold, in unworked condition	7108.1100, 7108.1210 and 7108.1290	1%
63	Articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal	71.13	1.5% of value of gold, plus 0.5% of value of diamond, used therein, plus 3% of making charges
65	Ginned cotton	Respective headings	10%
67	LNG imported for servicing CNG sector and local supplies thereof	2711.1100, 2711.2100	5%

b) Revision of sales tax rates

The Finance Bill has proposed to revise sales tax rates in respect of the following item at the serial no. 56 which is mentioned hereunder:

S. No.	Description	Sales Tax Rate		Conditions	
		Existing	Proposed	Existing	Proposed
56	Potassium Chlorate (KCLO3)	17% along with rupees 80/KG	17% along with rupees **90**/KG	Import and supply thereof. Provided that rate of rupees 70 per kilogram shall not apply on imports made by and supplies made to	Import and supply thereof. Provided that rate of rupees **90** per kilogram shall not apply on imports made by and supplies made to organizations under the control of Ministry of

S. No.	Description	Sales Tax Rate		Conditions	
		Existing	Proposed	Existing	Proposed
				organizations under the control of Ministry of Defense Production.	Defense Production.

c) New insertions

To address the concern of rising prices of locally manufactured small cars for low earning class of society, the Bill proposes to include the following new entries in the Table-I of the Eighth Schedule whereby reduced of sales tax has been provided on this small cars:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition
71	Following locally manufactured or assembled vehicles (4 wheelers) till 30th June, 2026; Small cars/SUVs with 50 Kwh battery or below; and Light commercial vehicles (LCVs) with 150 kwh battery or low	Respective headings	1%	If supplied locally
72.	Motorcars	87.03	12.5%	Locally manufactured or assembled motorcars or cylinder capacity upto 850cc
73.	Import and local supply of Hybrid Electric Vehicles: Upto 1800 cc From 1801 cc to 2500 cc	 87.03 87.03	 8.5% 12.75%	

Ninth Schedule

Withdrawal of fixed tax on SIM cards in the wake of litigation

In order to address the litigation issue, the Bill proposes to do away with the fixed tax on SIM cards with effect from July 01, 2020 onwards. The Bill also seeks to provide explanation that the proposed amendment shall not prejudicially affect Board's stance or position in pending cases on the issue of chargeability of sales tax on SIM cards before any court of law.

Eleventh Schedule (Withholding of Sales Tax)

Manufacturer of lead batteries prescribed as withholding agent

The Bill proposes to prescribe registered persons manufacturing lead batteries as a withholding agent for deduction of whole of sales tax applicable on invoices of person supplying reclaimed lead or used batteries.

Twelfth Schedule (Value Addition Tax)

Exemption of VAT on specified electric vehicle CKD kits for small cars etc.

The Bill proposes to exempt collection of upfront Value Addition Tax (VAT) on import of the following items:

xi. Electric vehicles (4 wheelers) CKD kits for small cars/SUVs, with 50 kwh battery or below and LCVs with 150 kwh battery of below till 30th June, 2026;

xii. Electric vehicles (4 wheelers) small cars/SUVs, with 50 kwh battery or below and LCVs with 150 kwh battery of below in CBU condition till 30th June, 2026;

xiii. Electric vehicles (2-3 wheelers and heavy commercial vehicles) in CBU condition till 30th June 2025; and

xiv. Motor cars of cylinder capacity up to 850cc.

Customs Act, 1969

1. Definitions

a. New Insertions

The Bill proposes to introduce the definitions of the following terms in the section 2 of the Customs Act:

i. Electronic Assessment [Section 2(kkc)]

Presently, no definition of the term 'Electronic Assessment' as used in section 32(5) of the Customs Act is available under the said Act. The Bill seeks to add definition of 'Electronic Assessment' which means assessment of a goods declaration in customs computerized system by customs officer or by computerized system according to selectivity criteria.

ii. Vessel Intimation Report (VIR)[Section 2(ld)]

The Bill seeks to add a new clause to provide definition of 'Vessel Intimation Report' which means an intimation by the carrier or his agent regarding impending arrival of vessel at a customs seaport to the customs authorities in the prescribed form where the customs computerized system is operational.

iii. Owner [Section 2(oo)]

The Bill seeks to add definition of the term 'Owner' as used in the Customs Act. By virtue of this proposition, the 'Owner' will include any person who is entitled to the possession of the goods, either as owner or agent of the owner.

b. Proposed amendments in existing definitions

i. Documents [Section 2(kka)]

At present, the definition of documents refers to a goods declaration, application for claim of refund, duty drawback or repayment of duty, import or export general manifest, passenger manifest, bill of lading, airway bill, commercial invoice and packing list or similar other forms or documents used for customs clearance or making a declaration to Customs, whether or not signed or initialed or otherwise authenticated.

The Bill proposes to enhance list of documents by including "Master bill of lading and certificate of origin" into the existing list of documents as mentioned in afore-mentioned clause.

2. Smuggle [Section 2(s)]

At present, the definition of smuggle refers to bring into or take out of Pakistan, in breach of any prohibition or restriction for the time being in force ,or in any way being concerned in carrying, transporting, removing, depositing, harboring, concealing, or en route pilferage of transit goods, or evading payment of custom-duties or taxes livable thereon.

The Bill proposes to further enhance the scope of the term 'smuggle' by including "retailing" of such goods in the scope of smuggle.

3. Directorate General of National Nuclear Detection Architecture [Section 3CCB]

As part of Pakistan's Nuclear Security Regime and published sources in this respect by Ministry of Foreign Affairs, Pakistan has established an effective NNDA to regulate authorized imports and exports as well as to prevent illicit trafficking of nuclear and other radioactive materials.

The Bill proposes to insert a new section whereby a Directorate General of National Nuclear Detection Architecture is to be established with an aim to support Pakistan's Nueclear Security Regime.

4. Directorate General of Marine [Section 3CCC]

The Bill also seeks to establish the Directorate General of Marine to exclusively deal with customs related matters and movement of goods through sea waters.

5. Power to appoint or License Public, Common & Private Warehouses [Section 12, 12A & 13]

At present, the Collector of Customs on receiving of an application may issue license to Public and Private Warehouses in terms of section 12 & 13 of the Customs Act.
The Bill proposes to substitute the aforesaid sections the additional impacts of which would be as under:

- The power of Collector of Customs for issuance of license or for cancellation or suspension of license would apply only to the extent of jurisdiction of such Collector.

- In case the Customs computerized system is operational, the application shall be filed through system in the prescribed manner.

The Bill also seeks to introduce a new section of 12A whereby a license to "Common Warehouse" shall also be issued by the Custom authorities in the similar manner as in case of public and private warehouses with similar provisions regarding cancellation/suspension.

6. Board empowered to constitute committee for settlement of classification disputes [Section 18E]

At present section 18E empowers the Board to make such changes in the Pakistan Customs Tariff specified in the First Schedule to the Customs Act, which required only for the purpose of statistical suffix of the Pakistan Custom Tariff PCT code.

The Bill now proposes to insert a proviso to above section to empower the Board to constitute a committee or center for settlement of disputes regarding classification of goods as well as to prescribe rules or procedure for this purpose.

It is notable that the concept of resolution of classification dispute by classification centre already exists in Rule 439 of the Customs Rules, 2001, however, no provision exists that empowers the Board to form such centre. It appears that through aforesaid amendment, the Bill seeks to remove this apparent lacuna in the existing provisions of Customs Law.

7. General Power to Exempt from Customs Duties [Section 19(5)]

As per current provisions of sub section (5) of section 19, all exemption notification issued on or after July 01, 2016 and placed before National Assembly shall stand in force till June 30, 2021 unless rescinded earlier by the Federal Government or the National Assembly.

The Bill now seeks to extend the time limit of the validity of afore-said notifications up to June 30, 2022.

8. Fall Back Method [Section 25(9)]

At present, section 25(9) requires that if the customs value of the imported goods cannot be determined under sub-sections (1),(5),(6),(7) and (8), it shall, subject to the rules, be determined on the basis of a value derived from among the methods of valuation set out in sub-sections (1),(5),(6),(7) and (8) of said section, that, when applied in a flexible manner to the extent necessary to arrive at a customs value.

The Bill has proposed to further clarify the afore-said valuation method by inserting the words "using reasonable means" to the above expression. According to the document 'Notes on clauses' published by FBR, such insertion has been made in order to align the said provision with article 7 of WTO Valuation Agreement.

9. Power to Determine Customs Value [Section 25A (1)(2A)(4)]

At present, section 25A, empowers the Director of Customs valuation to determine customs value of goods as per prescribed method either on his own motion or on a reference, made to him by any person or an officer of Customs.

The Bill proposes to amend afore-said section whereby Collector of Customs would also be empowered for determination of customs value. The Bill also seeks to insert proviso in the afore-said section whereby the Director of customs valuation to be empowered to incorporates values from internationally acclaimed publications and other prescribed documents for the purpose of valuation of the goods.

It has also been proposed [through insertion of subsection (2A)] that in case of any conflict arises between value determined by Collector of Customs and Director General Valuation, the value determined by Director General of Valuation shall be applicable for customs valuation purposes.

10. Power to take over the imported goods [Section 25C)

At present, section 25C authorizes the collector of customs to either entertain application of any other person to take over the goods at substantially higher value than the declared custom value by the importer of the goods or to give an option to such importer for paying the same highest offer. However, such authority may be exercised by the Collector subject to obtaining prior approval from the Board for this purpose.

The Bill now proposes to empower the respective Chief Collector to exercise such powers that are currently vested with the Board.

11. Revision of the Value determined [Section 25D]

At present, a review may be filed before the Director General of Valuation, for revision of value determined by Director of Valuation within thirty days from the date of determination of customs value.

The Bill proposes to substitute the aforesaid section whereby the Director General may on his own motion or in pursuance of review petition made to him within 30 days of value determination by any person or an officer of customs, rescind or determine afresh the value of goods. Provided that such proceedings shall be completed within sixty days of filing of the review petition or initiation of proceedings as the case may be.

12. Allowing Mutilation or Scrapping of Goods [Section 27A]

At present, mutilation or Scrapping of Goods shall be made on request of the owner of the goods imported.

The Bill proposes a procedural change whereby the afore-said request shall be made before the filing of goods declaration.

13. Date of Determination of Rate of Import Duty [Section 30]

Presently the relevant date for determination of applicable rate of duty as per the first proviso of section 30 in case where a goods declaration has been manifested in advance of arrival of vessel, is the date on which the manifest of conveyance is submitted at the port of first entry.

The Bill seeks to substitute the afore-said proviso by virtue of which the relevant date in above case would be:

- Where the rate of changes after submission of goods declaration and before the berthing or cross-over event of the vessel or the vehicle respectively, as the case may be, the relevant date in which case, for the purposes of this section, shall be the date on which the vessel has berthed or the vehicle has crossed-over the border, as the case may be;
- In other cases, the date on which a goods declaration is manifested under section 79 or 104 of the Customs Act.

14. Untrue Statement, error, etc. [Section 32(3A)]

At present first proviso of sub section (3A) of section 32 provides that the custom authorities shall issue a show cause for recovery of any taxes / duties payable except in cases where the recoverable amount is less than One Hundred Rupees.

The Bill has proposes to enhance the above limit from One Hundred Rupees to Twenty Thousand Rupees in order avoid unnecessary litigations involving immaterial revenue loss.

15. Mis-declaration of value for illegal transfer of funds into or out of Pakistan [Section 32C]

As per section 32C(1), a person suspected to be involved in overstatement and understatement of goods exported and imported respectively and vice versa with a view to illegally transfer funds into or outside Pakistan, shall be served with a Show Cause Notice. The second proviso of said subsection requires Additional Collector for submission of report to the Chief Collector with assistance of an expert of relevant field and an officer of SBP.

This Bill proposes to substitute this requirement with empowering the Board to make rules for carrying out the purposes of this section.

16. Delivery of Import Manifest in respect of conveyance other than a vessel [Section 44]

At present, the person-in-charge of conveyance other than a vessel is required to file import manifest within 24 hours after arrival of cargo at land customs-station or customs-airport.

The Bill has proposed to substitute section 44 by virtue of which the above timeline of 24 hours has been proposed to be reduced as under:

i. for landing of air cargo at customs-airport, within three hours of landing, and;
ii. for land customs-station, at the time of entry of cargo into the country.

17. Permission to Make Amendment in Import Manifest [Section 45 (2)]

Currently sub-section (2) of section 45, provides that the person-in-charge of a conveyance may amend the import manifest after filing of such manifest to correct an obvious error or omission, with the prior approval of the appropriate officer of the customs authorities which, as per subsection (3) of section 45, is the only manner in which a manifest can be amended.

The Bill has now proposed to insert a proviso in the said sub-section (2) whereby the person incharge may amend such manifest before berthing of the vessel in the manner prescribed under the rules notified by the Board in this respect. The Bill has consequently proposed omission of sub-section (3) of section 45.

18. Declaration and Assessment for home consumption or warehousing [Section 79 (1)(aa)]

By virtue of clause (a) of subsection (1) of section 79 of the Customs Act, the owner of goods imported for home consumption, warehousing or transshipment is liable to file true declaration of goods by giving complete and correct particulars, commercial invoice, bill of lading etc. within 10 days of the arrival of goods.

The Bill proposes insertion of a new clause (aa), whereby importer of such goods, will be responsible to upload all the documents which are mandatory for assessment of goods, along with the goods declaration in order to reduce the clearance time of such imports.

19. Checking of Goods declaration [Section 80]

Subsection (4) of section 80 of the Customs Act requires examination of goods based on the customs selectivity criteria in case of Customs Computerized System. The Bill seeks to add proviso in sub-section (4) of section 80, whereby in case of clearance of GD through green channel, the custom officers would be authorized to examine such goods, after prior approval of Collector of Customs even for cases processed through Customs Computerized System.

20. Procedure for Removal of Goods from Port Area [Section 82]

Currently, Section 82 provides that if any goods are not cleared, warehoused, transshipped, exported, or removed from the port area within specified time period, such goods shall be auctioned, in case the owner of goods could not be ascertained.

The Bill proposes to insert a new proviso after clause (c) of section 82, to empower Collector of Customs to direct shipping lines to re-export such goods, banned or restricted by the Federal Government, if the same are not cleared or auctioned within sixty days from the arrival date of such goods.

21. Provisional Release of Imported Goods. [Section 83B]

Section 83B provides that where any offence is identified in respect of such goods that are not subject to be confiscated, the Collector of customs may allow provisional release of such goods on request of owner of the goods after payment of potential duty, taxes and any penalty or fine which may be imposed on such goods.

The Bill has proposed to insert the impression "outright" before the word confiscation to clarify that the provisional release under aforesaid section shall only apply on such goods which are not subject to confiscation in absolute manner.

22. Receipt of Goods at Warehouse – GD Rectification after warehousing now permitted with approval of collector. [Section 88(5)]

Presently, as per sub-section (5) of section 88 of the Customs Act, if the quantity or value of any goods are stated incorrectly in the goods declaration due to in advertence or bona-fide error, such error may only be rectified at any time before the warehousing of relevant goods is completed.

The Bill now seeks to substitute the said sub-section (5) whereby, the Collector of Customs may, after recording the reasons to be recorded in writing, give directions for correction of such errors in goods declaration even after the warehousing of the goods.

23. Warehousing period of the goods. [Section 98]

The existing clause (a) of sub-section (1) of Section 98 of the Customs Act provides that the Collector of Customs may, on sufficient reason and subject to payment of 1% advance surcharge per month, extend the prescribed warehousing period of the goods:

- In case of notified perishable goods, up to one month.
- In case of non-perishable goods, up to three months.

The Bill seeks to extend the afore-mentioned power of Collector of Custom for allowing such extension in time up to six months for both perishable and non-perishable goods.

24. Clearance for exportation [Section 131(2)]

As per second proviso of section 131(2), the Collector of customs may examine the goods intended for exportation belonging to a particular exporter for reasons to be recorded in writing, only in case where Customs Computerized System has not been introduced.

The Bill now proposes to omit the above restriction on examination of goods consequent to which irrespective of whether Customs Computerized System has been introduced or not, the Collector would have powers to examine goods belonging to a particular exporter.

25. Cancellation/Suspension of registration of registered user. [Section 155F]

At present, section 155F empowers Collector of Customs to (in exceptional circumstances) suspend the registration of a registered user of the Customs Computerized System after recording reasons in writing, upon receipt of complaint or information about non-compliance by such user, of any provisions of the Customs Act .

The Bill has proposed to amend afore-said section whereby such suspension shall be done after giving notice and affording reasonable opportunity of being heard to the user.

26. Correction of clerical errors [Section 155R]

Currently, section 155R provides that the Collector of Customs may, for reasons to be recorded in writing, direct for correction of the incorrect data that has been electronically communicated to Customs. As per said section, no other person shall alter any data in Computerized System.

The Bill proposes for insertion of a proviso whereby such power has been delegated to Assistant Collector who on request from importer or exporter may issue correction or corrigendum certificate to rectify any typographical or clerical error in the goods declaration except in case where section 29 of the Customs Act is applicable.

27. Punishment for offences. [Section 156]

i. The Bill seeks to revise/enhance the existing penalties regarding non-compliance of provisions relating to mandatory requirement of documents to be presented for import clearance in the following manner:

Sr. No.	Offence	Penalties	
		Existing	**Proposed**
1.	(ii) If any person contravenes the requirement of placement of invoice and packing list inside the	Such person shall be liable to a penalty not exceeding fifty thousand rupees.	Such person shall be liable to a penalty as under: - 1st time 100,000/- 2nd time 500,000/-

Sr. No.	Offence	Penalties	
		Existing	**Proposed**
	import container or consignment.		3rd time 1,000,000/- 4th time Outright confiscation of goods and blockage of WeBOC user ID for one year.
	(iii) If any person fails to attach or electronically upload mandatory documents required under section 79 or 131 of the Customs Act, 1969.	N/A (New insertion)	Such person shall be liable to a penalty as under:- 1st time 50,000/- 2nd time 100,000/- 3rd time 150,000/- 4th time 200, 000/- 5th time 250,000/- and onwards

ii. Presently, non-filing of goods declaration within 10 days is an offence liable to penalty of Rs.5,000 per for initial 5 days, Rs.10,000 per day after 5 days subject to a maximum penalty of Rs.100,000. The Bill now proposes to delete the said penalty.

iii. The Bill proposes to enhance the scope of penalty provision as per serial no. 89 (smuggled goods) and 90 (non-duty paid/ unlawfully removed from warehouse etc.) of section 156 of the Customs Act by including the activity of 'retailing' within the scope offences subject to prescribed penalty.

27. Extent of confiscation [Section 157(2)]

Section 157(2) requires every conveyance of whatever kind used in the removal of any goods liable to confiscation under the Customs Act shall also be liable to confiscation.

Provided that the collector may order to release such conveyance subject to provision of requisite Bank guarantee from the owner regarding the production of such conveyance as and when required during the proceedings.

The Bill proposes to insert a new proviso to section 157 whereby if such conveyance is seized repeatedly for the third time, no option to pay fine in lieu of the confiscation shall be given.

28. Power of adjudication [Section 179]

Currently, subsection (3) of section 179 requires a customs officer to decide cases involving confiscation of goods or recovery of duty and other taxes not levied, short levied or erroneously refunded, within a period of 90 days of the issuance of show cause notice or within such extended period of time not exceeding 60 days and in cases where provisions of smuggling are invoked, within 30 days of the issuance of show cause notice.

Through insertion of proviso, the Bill seeks to specify time limit of 30 days within which show cause notice may be issued in cases where goods are lying at sea-port, airport or dryport, which may be extended up to a further period of 15 days by the Collector of Customs.

29. Reference to High Court [Section 196]

Presently, any aggrieved person or Collector or Director of Intelligence and Investigation or Director of Valuation or any officer of customs not below the rank of Additional Collector or Additional Director may prefer an application before the High Court in prescribed form along with statement of any question of law arising out of Order passed by the Appellate Tribunal under section 194B(3) of the Customs Act.

The Bill seeks to substitute the lowest rank of Customs officer eligible for preferring application / reference for any question of law arising before High Court arising out of Tribunal order from Additional Collector/Director to Deputy Collector /Director.

30. Reward to Customs Officers and Officials [Section 202B (1)]

Presently, the officers entitled to cash rewards for their conduct in the cases of confiscation of goods, evasion of customs duty and other taxes, are of Customs Service of Pakistan as defined under the Occupational Groups and Services (Probation Training and Seniority) Rules, 1990.

The Bill proposes to substitute the above provision whereby the list of eligible officials has been enhanced to also include officers of and officials of other Law Enforcement Agencies' who assist Customs Officers and officials in such proceedings.

31. Advance Ruling [Section 212B (5)]

At present, Section 212B(5) provides that the Ruling issued on request of applicant under sub-section (1) of section 212B shall be binding on the Customs for a period of one year unless there is a change in law or facts or circumstances on the basis of which the advance ruling was pronounced.

Through Finance Bill, the above time period of one year has been proposed to be extended to three years.

Schedules

1. Reduced rating of CD/ACD/RD to Textile, Steel Sectors and POS Machines

The Bill proposes reduction / exemption of Customs Duty (CD), Additional Customs Duty (ACD) and & Regulatory (RD) on import of:

i. goods falling under various PCT codes (589 as per Salient Features) to encourage imports investments in the textile industry.

ii. flat rolled products of HRC and stainless steel.

iii. raw materials and intermediary goods and point of sale machines falling (under 328 tariff lines (as per salient features) as a consequence of tariff rationalization.

2. Exemption/concessionary rates to Pharma Sector

The Bill proposes exemption from CD & ACD on more than 350 Active Pharmaceuticals Ingredients (API) (as per Salient Features provided) to pharmaceutical sector to ensure stability of pharmaceuticals products prices in the market.

The Bill also provides for concessionary rate of 5% provided on import of Plant, machinery and equipment by importers in such Sector.

Exemption of CD & ACD has also been proposed on import of raw material of auto-disable syringes and Reduction in tariff on finished auto-disable syringes.

3. Reduction of inputs on Food processing

The Bill also proposes reduction in rate of CD on inputs / raw materials imported by manufacturers under food processing industry.

4. Incentives proposed to Other Sectors

Following is the list of various other industries with proposed Customs Duty benefits/incentives proposed through the Finance Bill:

Sr. No.	Description of Industry/Sector	Proposed Benefit
1	Uncoated paper and paperboard for printing and graphic arts industry.	Reduction of CD & ACD
2	Vaccines for veterinary medicines and feed additives to incentivize the dairy sector.	Reduction / exemption of CD & ACD
3	Goods falling under more than 100 PCT codes relating to Tourism industry.	Reduction / exemption of CD & ACD
4	Raw material/inputs of footwear industry.	Reduction of duties
5	Inputs for poultry industry.	Reduction / exemption of CD & ACD

Sr. No.	Description of Industry/Sector	Proposed Benefit
6	Raw material for manufacturer of aseptic plastic packaging.	Reduction / exemption of CD & ACD
7	Import of raw materials for cables / optical fiber manufacturers.	Exemption of ACD
8	CD & ACD on raw materials for Paint Industry.	Reduction / Exemption of CD & ACD
9	Raw materials for Chemical and Artificial Leather Industry.	Reduction / Exemption of CD & ACD
10	Inputs for Electronics Manufacturing Industry.	Reduction / Exemption of CD & ACD
11	Raw materials / inputs of furniture, coating, boiler manufacturing industry, bobbins and cops manufacturing industry etc.	Reduction / Exemption of CD & ACD

5. Joint Border Sustenance Markets

The Bill proposes to introduce the concept of Boarder Sustenance Markets (through Part VIII of Fifth Schedule to the Customs Act) for the benefit of people residing in border areas to counter smuggling and providing legal way of trading opportunities.

5. Threshold for Value of Unsolicited Gifts increased

The Bill proposes to enhance the value of import unsolicited gifts whether through post or courier from existing PKR 20,000 to PKR 30,000.

Federal Excise Act, 2005

1. Filing of return and payment of duty etc. [Section 4]

Currently, approval is required to be obtained from the Commissioner for filing of revised Federal excise Duty (FED) return. The Bill proposes to insert a proviso under above section which allows registered person to file the revised return within 60 days of the filing of original return. The said revision may be made without obtaining approval of the Commissioner subject to the condition that the duty payable as per revised return is more than the originally declared duty or where the refund claimed is less than the originally declared refund.

The proposition apparently aligns procedure of revision of FED return with the procedure of revision of sales tax return under Sales Tax Act, 1990 and Income Tax Ordinance, 2001.

2. Recovery of unpaid duty or of erroneously refunded duty or arrears of duty, etc. [Section 14]

The above section empowers the officer of Inland Revenue to determine amount of duty payable by a person and to recover the same from person with default surcharge and penalty after issuing a show cause notice.

The Bill proposes to insert new sub-section (4) under the above section broadening the scope of said provision which enables the officer of Inland Revenue to recover duty with default surcharge and penalty in like manner with reference to assistance in collection and recovery of duties in pursuance of a request from a foreign jurisdiction under a tax treaty, a multilateral convention, and inter-governmental agreement or similar agreement or mechanism.

It is notable that unlike direct taxes, at present Pakistan does not have any tax treaty/multilateral treaty etc. with respect to indirect taxes and such proposition indicates the intentions of the Federal Government to enter into such agreements for indirect taxes with foreign governments in the near future.

3. Licensing of brand name. [Proposed Section 45AA]

The Bill proposes to insert a new Section 45AA whereby manufacturers of specified goods are required to obtain brand license in the prescribed manner for each brand or Stock Keeping Unit (SKU). Any such specified brand and SKU found to be sold without the license shall be deemed counterfeit goods and liable to outright confiscation and destruction in the prescribed manner in addition to any other penal action which may be taken under the FE Act. Similar provision has also been inserted under Sales Tax Act, 1990.

4. Agreements for the exchange of information or assistance in recovery of duties. [Section 47A]

The existing provisions of above Section empower the Federal Government to enter into bilateral or multilateral agreements with provincial government or governments of foreign countries for the exchange of information.
The Bill now seeks to insert sub-section (3) under the above Section which could also enable the Federal Government to enter into a bilateral or multilateral convention, and

inter-governmental agreement or similar agreement or mechanism for assistance in the recovery of duties.

The Bill also proposes to insert non-obstante sub-section (1A) which would authorize the Board to share data or information (including real time data videos, images) received by the Board, with any other Ministry or Division of Federal Government or Provincial Government subject to limitations and conditions as may be specified by the Board.

FIRST SCHEDULE

TABLE I – Dutiable Goods

a) **Omissions / Exemptions**

i. Omission of items proposed to be subjected to sales tax

The Bill proposes to withdraw levy of FED on the following items on which levy of sales tax at standard rate has been proposed to be restored by virtue of omission of such items from the Sixth Schedule to the Sales Tax Act, 1990:

Sr. No.	Description of Goods	Heading / Sub-Heading Number	Existing Rate of Duty
1.	Edible oils excluding deoxidized soybean oil falling under heading 15.18	15.07, 15.08, 15.09, 15.10, 15.11, 15.12, 15.13, 15.14, 15.15, 15.16 1517, and 15.18,	17% ad val.
2.	Vegetable ghee and cooking oil (a) in retail packing (b) not in retail packing	Respective heading	17% of retail price.
57.	Fruit juices, syrups and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters	Respective heading	5% of retail price.
58.	Steel Billets, ingots, ship plates, bars and other long re-rolled products	Respective heading	17% ad val.

ii. Exemption from FED Electric Vehicles Imported

The Bill proposes to exclude electric vehicles (4 wheelers) from the purview of imported motor vehicles principally designed for the transport of persons which are otherwise subject to FED at the rates ranging from 2.5% to 30% ad val. under serial No.55 of Table

– I First Schedule to the Act. The immunity for the said electric vehicles is proposed to be provided till June 30, 2026.

iii. Exemption from FED Electric Vehicles Locally Manufactured

The Bill also seeks to exclude locally manufactured electric vehicles (4 wheelers) and motor vehicles of cylinder capacity upto 850cc from levy of FED which were otherwise subject to FED at varying rates from 2.5% to 7.5% under serial No.55 B of Table – I First Schedule to the Act. The immunity for the said vehicles is proposed to be provided till June 30, 2026.

b) New insertion

The Bill proposes to levy FED on the following new item, namely:

Sr. No.	Description of Goods	Heading / Sub-Heading Number	Proposed Rate of Duty
8c.	Tobacco mixture in an electrically heated tobacco product by whatever name called, intended for consumption by using a tobacco heating system without combustion	2403.9990	Rs.5,200/- per kg.

TABLE II – Dutiable Services

a) The Bill proposes to reduce the rate of FED on telecommunication services from existing 17% to proposed 16% under serial no.6 of the Table – II to the First Schedule.

b) In addition to the above FED, the Bill proposes to levy further FED on certain telecommunication services by inserting the new serial no. 6A in the following manner:

Sr. No.	Description of Services	Heading / Sub-Heading Number	Rate of Duty proposed
6A.	Following telecommunication services:		
	(a) Mobile phone call, if call duration exceeds three minutes;	Respective sub-heading of 98.12	One rupee per call in addition to the rates of duty specified under Serial No.6

(b) Internet services;	9812.6000	Five rupees per GB in addition to the rates of duty specified under Serial No.6
(c) Sms services	9812.1710	Ten paisa per sms in addition to the rates of duty specified under serial no.6

c) The Bill proposes to exclude Merchant Discount Rate (MDR) for accepting digital payment from the services of banking companies by virtue of amendment proposed in description of dutiable service under serial No.55 of Table – II of the First Schedule to the Act which are otherwise subject to levy of FED at the rate 16% of the charges.

SECOND SCHEDULE

a) In line with the omission of respective entries from the First Schedule, the Bill also proposes to delete the following items from Second Schedule which were subject to collection of duty under sales tax mode:

Sr. No.	Description of Goods	Heading/ sub-heading Number
1.	Edible oil excluding epoxidized soyabean oil falling under heading 15.18	15.07, 15.08, 15.09, 15010, 15.11, 15.12, 15.13, 15.14 15.15, 15.16, 15.17 & 15.18
2.	Vegetable ghee and cooking oil	Respective heading
4.	Steel Billets, ingots, ship plates, bars and other long re-rolled products	Respective heading

THIRD SCHEDULE

a) The Bill proposes to provide conditional exemption on the following items from levy of FED by inserting new entries in the following manner:

Sr. No.	Description of Goods	Heading/ sub-heading Number
24.	The following goods, when supplied within the limits of the Border Sustenance Markets, established in cooperation with Iran and Afghanistan: (i) Animal Fats and Oil and their fractions (ii) Vegetable Fats and their fractions	1516.1000

Sr. No.	Description of Goods	Heading/ sub-heading Number
	(iii) Vegetable Oils and their fractions	1516.2010 1516.2020
	Provided that, such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of duty involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction: Provided further that, the said exemption shall only be available to a person upon furnishing proof of having a functional business premises located within limits of the Border Sustenance Markets.	
25.	Import and supply of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions.	Respective heading

Islamabad Capital Territory (Tax on Services)Ordinance, 2001

1. Scope of Tax [Section 3]

The above section provides for charge of tax at the rates prescribed under Schedule on the value of taxable services rendered or provided in Islamabad Capital Territory.

The Bill proposes to insert a new subsection (1A) whereby export of services has been classified as zero rated services.. Earlier export of IT services and IT-enables services was exempt from sales tax under a notification issued by the Federal Government.

By virtue of this insertion, the exporters of services in ICT including exporters of IT and IT enabled services would be entitled to claim refund of attributable input taxes. Such refund was previously not claimable in case of service providers of IT and IT enabled services due to exemption of exports of such services.

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Yousuf Adil, Chartered Accountants provides Audit & Assurance, Consulting, Risk Advisory, Financial Advisory and Tax & Legal services, through nearly 550 professionals in four cities across Pakistan. For more information, please visit our website at www.yousufadil.com.