YOUSUF ADIL

Budget 2022-23

Highlights & Comments

50 Years
1972 ~ 2022
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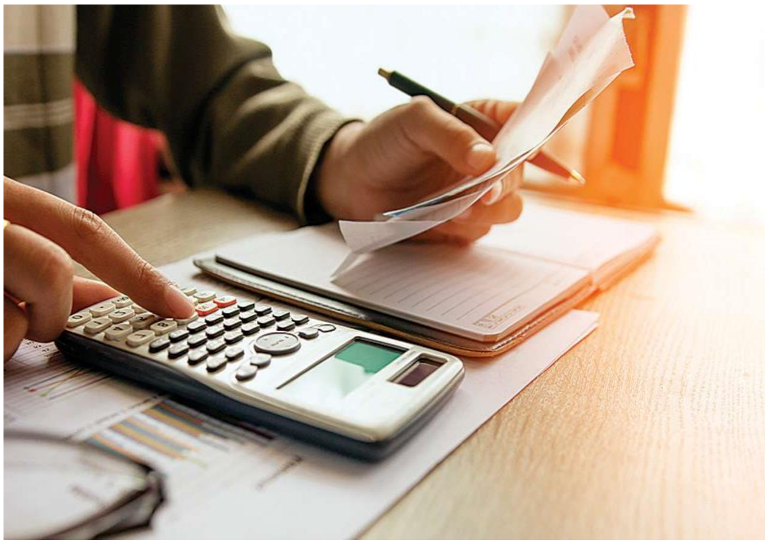
Foreword



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, Customs Duty, Islamabad Capital Territory (Tax on Services) Ordinance, 2001 and Capital Value Tax proposed through the Finance Bill, 2022.

Amendments proposed in the Finance Bill, 2022 will take effect from July 01, 2022, once it is approved by the Parliament.

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Karachi
June 11, 2022

Contents

Budget at a glance

	Budget 2022-23 PKR Bn	Budget 2021-22 PKR Bn
Tax revenue	7,004	6,000
Non-tax revenue	2,000	1,315
Gross revenue receipts	**9,004**	**7,315**
Less: Provincial share in Federal taxes	(4,100)	(3,512)
Net revenue receipts	**4,904**	**3,803**
Expenditure		
Current expenditure	8,694	10,190
Development expenditure	808	434
Total Expenditure	**9,502**	**10,624**
Federal Budget Deficit	**(4,598)**	**(6,821)**
Non-Bank Borrowing	1,996	2,202
Bank Borrowing	1,172	873
Net External receipts	533	3,114
Other proceeds	96	61
Estimated Provincial Surplus	800	570
	4,598	**6,821**

Source: Budget Documents

Economic Review 2021-22

The first budget of the recently established PMLN government for FY22-23 was presented on 10th June, 2022 by the Finance Minister, Miftah Ismail with aggregate total outlay of PKR 9.5 trillion, that envisages a large public sector development program of PKR 808 billion.

FY 2021	vs	FY 2022 E
Real GDP Growth 5.74%		**Real GDP Growth*** 5.97%
Inflation CPI 8.8%		**Inflation CPI** 11.3%
Debt to GDP Ratio 71.5%		**Debt to GDP Ratio*** 66.3%
Policy Rate 7.00%		**Policy Rate** 13.75%

* These metrics reflect the period from July to March 2022

Overview

The Russia-Ukraine conflict has resulted in a costly humanitarian disaster and has hampered global recovery. The conflict's economic consequences will cause a major slowdown in global economy in 2022. Through commodities markets, commerce, and financial systems, the invasion is likely to have global ramifications. Even though the conflict slows economic development, it raises inflation. Crude oil, natural gas, and wheat supply routes have all been interrupted as a result of the invasion. Fuel and food prices have risen quickly, putting pressure on emerging and developing countries. Inflationary pressures will make it more difficult for central banks to strike a balance between limiting price pressures and preserving growth. As central banks tighten policy, interest rates are projected to rise, putting additional pressure on emerging market and developing economies. Furthermore, many nations' fiscal policy options for mitigating the effects of the conflict on their economy are restricted.

Global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023. Beyond 2023, global growth is forecasted to decline to about 3.3% over the medium term.

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 double-digit inflation, the country has many issues in the form of political instability, depleting foreign reserves, devaluation of local currency, low FDIs, savings and investments and widening of twin deficits.

Pakistan recovered from the slump in growth caused by country-wide lockdowns in FY20 by posting real GDP growth of 5.97% in the fiscal year 2022. However, this high growth rate is unsustainable and has resulted in financial and macroeconomic imbalances.

For the period July-May FY22, CPI inflation was 11.3%, compared to 8.8% for the same time previous year. Adjustments in power and gas costs, a considerable increase in food prices, currency rate depreciation, and a quick increase in global fuel and commodity prices are all factors that contribute to inflation. To address inflationary pressures, the SBP increased the policy rate by 675 basis points in the recent year.

Political instability in the latter half of FY22 has led to a huge increase in economic uncertainty. Uncertainty at individual, firm, and government levels is negatively affecting the economy. Political stability can reduce uncertainty by making clear policy statements to build the trust of domestic as well as foreign investors and the business community.

Following the COVID-19 outbreak, a concerted monetary-fiscal policy strategy was successful in recovering real economic activity. The fiscal-monetary stimulus packages, in particular, have a cascade effect on growth through reviving private investment. Furthermore, the supportive monetary policy stance in FY21, which was targeted on the construction industry's revival and the SBP's required home financing objectives, together with the increase in external demand, has laid the foundation for greater growth momentum in FY22.

Exports grew remarkably on account of supportive policies provided by the Government which include:

- regionally competitive energy tariff rates,
- export Facilitation Scheme 2021,
- enhancement in coverage and loan limits under Long Term Financing Facility (LTFF),
- launch of an e-Tijarat portal, and
- tariff rationalized in various sectors in line with objectives of National Tariff Policy 2019-2024.

However, a rise in global commodity prices is putting pressure on imports by driving up import payments dramatically. As a result, the large trade imbalance of USD 32.9 billion between July and April FY22 was somewhat offset by substantial remittances. Thus, the current account deficit for the period under consideration was USD 13.8 billion, compared to a deficit of USD 0.5 billion for the same time previous year. The expanding current account deficit, along with rising inflationary pressures, has posed substantial obstacles for long-term economic development in the context of the geopolitical environment (particularly the Russia-Ukraine war). Furthermore, internal circumstances such as political instability that has recently emerged, is weakening corporate confidence. These factors could lead to stagflation.

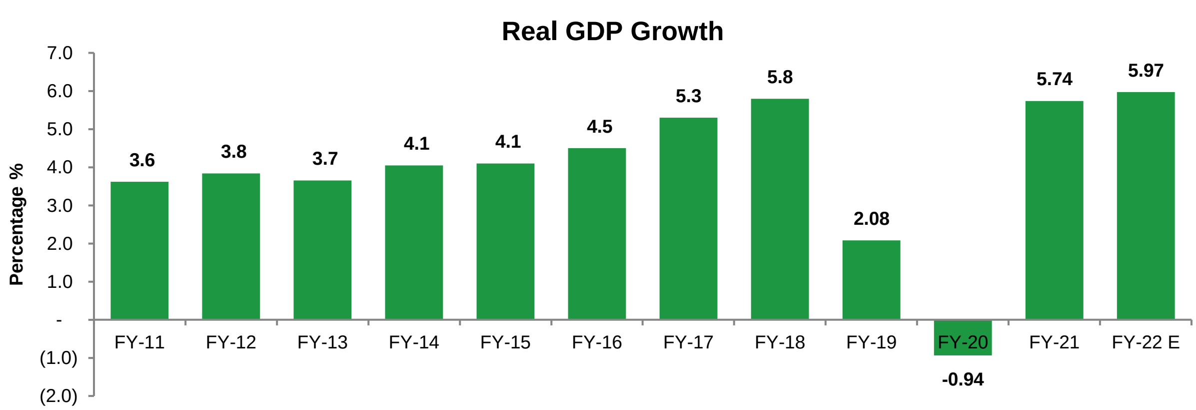
(Sources: PES 21-22, IMF (World Economic Outlook, Apr 2022)

Real GDP

GDP over the years

2019	2020	2021	2022 E
2.08%	-0.94%	5.74%	5.97%

(Data Source: PES, 2021-22)



(Data Source: PES, 2021-22)

The real GDP growth rate stayed at 5.97% in FY22, primarily driven by growth in industrial sector, services and agriculture. However, celebrations have been muted by underlying macroeconomic imbalances and accompanying local and international threats. Pakistan's economy recovered from the pandemic (0.94% decline in FY20) and has maintained a V-shaped economic recovery, which is stronger than the 5.74% reported in FY21.

GDP Growth 2021-22

4.80% **Budget**

5.97% **Actual**

(Data Source: PES, 2021-22)

Pakistan's economy has shown a solid recovery after being hit by pandemic which resulted in lockdown. For FY22, real GDP displayed a growth of 5.97% due to growth of 7.19% in the industrial sector, followed by growth of 6.19% and 4.40% in Services and Agriculture sector. This growth is marginally above the growth of 5.74% recorded during FY21.

Sector Performance

Industrial	Services	Agriculture
7.19%	**6.19%**	**4.40%**
Growth	Growth	Growth
Target was 7.80% growth	**Target was 6.00% growth**	**Target was 3.50% growth**

(Data Source: PES, 2021-22)

The agriculture sector grew by 4.4%, outperforming against the target of 3.50%. The growth in agriculture sector is owed to 6.6% increase in crops and a 3.3 increase in livestock. Crop production is expected to witness significant growth in Maize (19.0%), Cotton (17.9%) and Rice (10.7%), in the next year. Cotton production climbed from 7.1 million to 8.3 million bales, while rice output increased from 8.4 million to 9.3 million tons. The livestock industry, which accounts for about 62% of all agricultural output, increased by 3.3%. On the other hand, within the agriculture sector, forestry and fisheries grew by 6.1% and 0.3%, respectively.

In FY22, the industrial sector grew at a rate of 7.2%, compared to 7.8% in FY21. The industrial sector is largely dependent upon the manufacturing sector, which accounts for 65% of the total industrial sector's performance. Large-Scale Manufacturing (LSM) has a 74% stake of the manufacturing market, whereas the industry as a whole has a 48% share. Quantum Index Numbers (QIM) index increased by 10.4% from July to March in FY22, major contribution to this growth was mainly due to Food (11.7%), Tobacco (16.7%), Textile (3.2%), Wearing Apparel (34.0%), Wood Products (157.5%), Chemicals (7.8%), Iron & Steel Products (16.5%), Automobiles (54.1%), Furniture (301.8%), and other manufacturing (37.8%).

Services sector, which contributes 58% of the GDP, recorded a growth of 6.2%, exceeding the target of 6.0%. This growth was mainly driven by Wholesale & Retail Trade, which contributed around 10%. Other components of service sector witnessing growth include Education (8.7%), Transport and Storage (5.4%), finance and insurance industry (4.9%), accommodation and food services (4.1%) and real estate (3.7%).

Trade & Payments

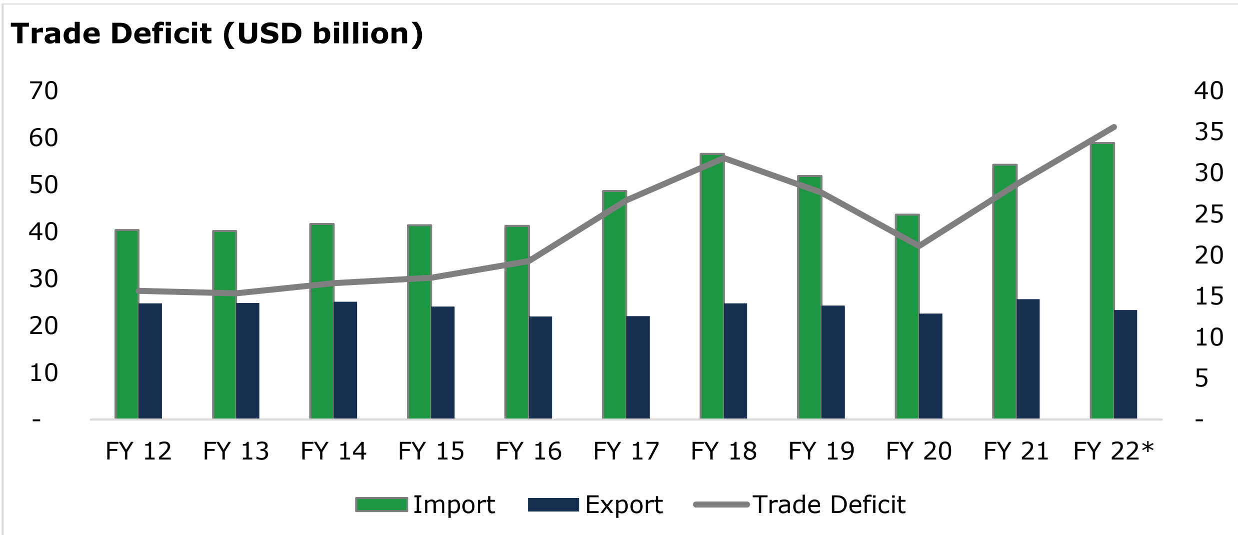
Current Account

	FY 21	FY 22
Current Account First 9 Months of FY	**($275) M**	**($13.2) B**

(Data Source: PES, 2021-22)

Due to inflationary pressures on key import products, Pakistan's current account remained in deficit throughout the first nine months of FY22. According to the State Bank of Pakistan (SBP), the current account balance was in deficit of USD 13.8 billion in July-April FY22, depicting a significant increase from USD 0.5 billion deficit in the same period in previous fiscal year (FY21).

Despite record-high worker remittances and a recovery in exports, Pakistan's current account balance has deteriorated due to increased import costs. The 55.5% increase in the merchandise trade deficit from July to March FY22 was a substantial contribution to the greater current account deficit.



(Data Source: SBP, PES)

*Based on July-Mar period

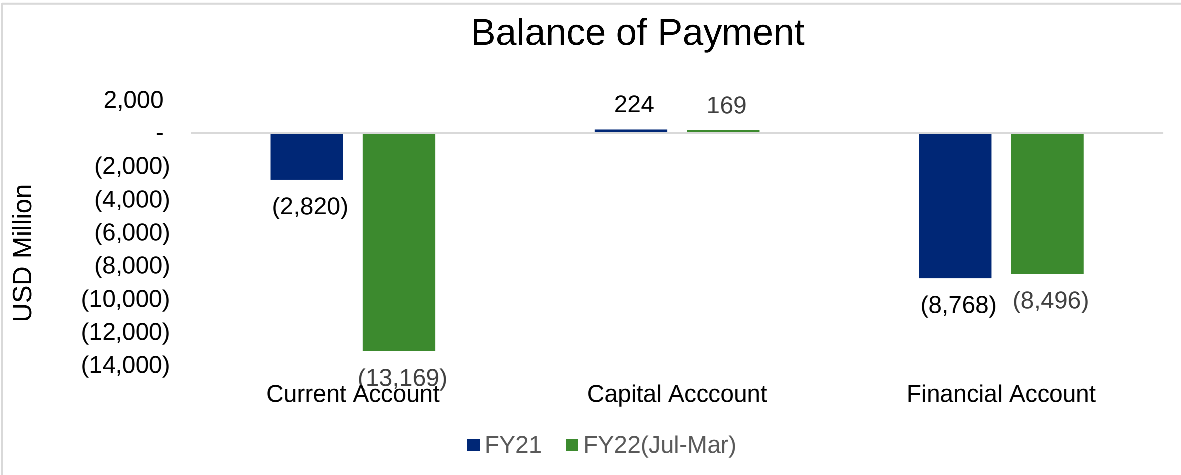
During July-March FY22, exports increased by 25% to USD 23.3 billion, compared to USD 18.7 billion in the same period prior year. Textiles were a significant driver of this expansion. Imports of products increased by 49.1% to USD 58.9 billion, up from USD 39.5 billion the previous year.

Financial Account

Inflows of FDI were USD 1.9 billion in July-March FY22, decreased from USD 2.3 billion in the previous year. FDI outflows were USD 682.4 million in FY22, as compared to USD 1,021 million in the prior year. For the period July-March FY22, China had the biggest proportion of FDI, accounting for 26% of total FDI.

During July-March FY22, foreign portfolio investment saw a net inflow of USD 162 million, as compared to a net outflow of USD 266.2 million during the same period prior year. During this time, Pakistan raised USD 1 billion through tap issue of Eurobond in the first quarter (July 2021); redeemed a USD 1 billion maturing Sukuk in the second quarter (October 2021); and raised another USD 1 billion by issuing a new Sukuk in the third quarter (January 2022).

By the end of March 2022, the country's foreign exchange reserves had risen to USD 17.4 billion. The SBP's reserves were USD 11.4 billion, whereas the reserves held by commercial banks were USD 6.0 billion. Due to the rise in the current account deficit, the Pak Rupee depreciated against the dollar, essentially devaluing by 14.1% in the first nine months of FY22.

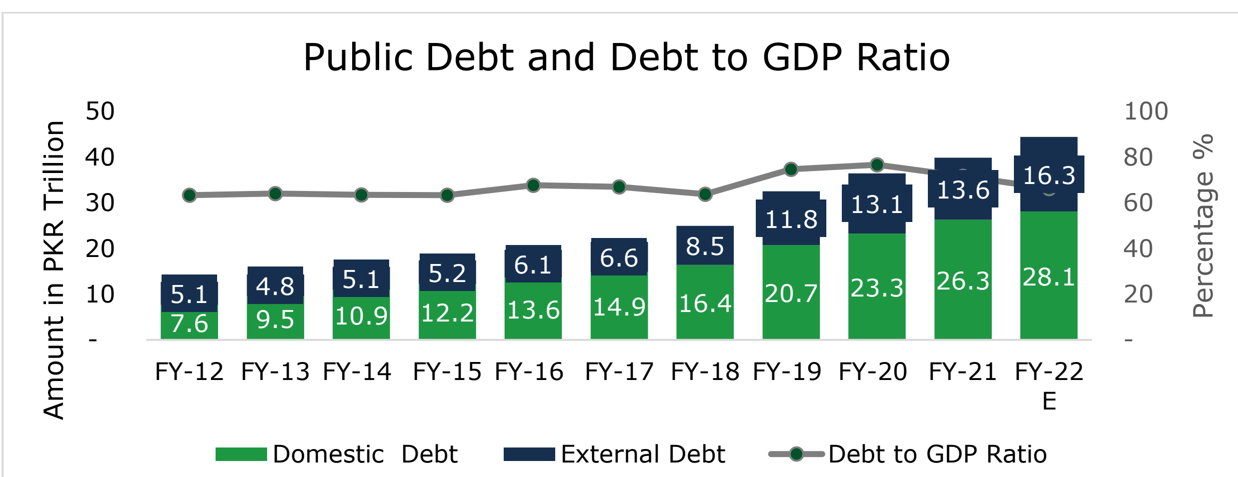


(Data Source: PES, 2021-22)

The external sector's difficulties, as shown by the current account deficit, contributed to a depreciation of the currency, with the PKR falling 14.1% versus the US Dollar from July to March FY22. In addition, numerous other emerging market and advanced economy currencies have been under pressure versus the US Dollar in FY22.

Public Debt

The entire public debt of Pakistan reached at PKR 44,366 billion by the end of March 2022, a tremendous rise of PKR 4,500 billion from June 2021, which is much higher than the surge of PKR 1,607 billion observed during the same period last year. Apart from funding the federal budget deficit, the depreciation of the Pakistani rupee against the US dollar by 26%, escalated the value of external public debt significantly, if translated into Pakistani rupees.



(Data Source: PES, 2021-22)

The primary factors that contributed towards the rise in external public debt, include currency depreciation and federal fiscal deficit amounting PKR 1,744 billion and PKR 1,047 billion, respectively. The Debt-to-GDP ratio of Pakistan stood at 66.3% as at March, 2022.

Domestic Debt

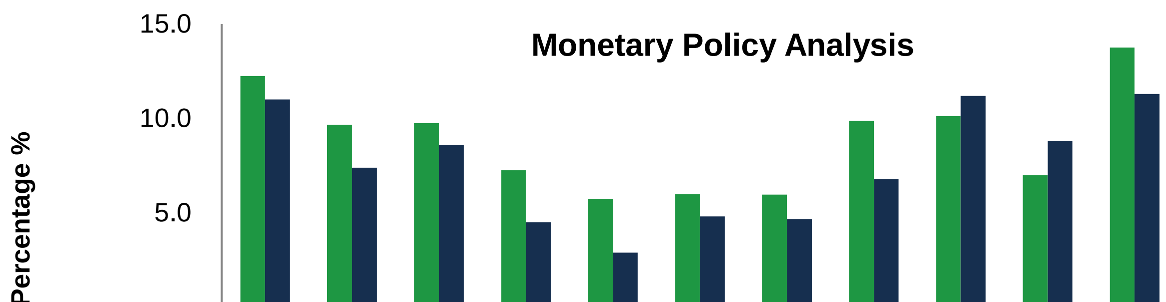
Domestic debt stood at PKR 28,076 billion at the end of March 2022, registering an increase of PKR 1,811 billion during the first nine months of FY22. At the end of March 2022, permanent debt, floating debt and unfunded debt accounted for 67% (PKR 18,714 billion), 19% (PKR 5,241 billion) and 13% (PKR 3,609 billion), of the domestic debt portfolio, respectively.

External Debt

At the end of March 2022, the external public debt reached to USD 88.8 billion, an increase of USD 2.3 billion during the nine months of FY22. The major portion of the Pakistan's external public debt i.e. 49%, is represented by Multilateral loans, followed by Bilateral loans, Commercial loans and Eurobonds/ Sukuks, which accounts for 30%, 11%, and 10%, respectively.

The government's debt-reduction policies include maintaining primary budget surpluses, maintaining low and stable inflation, promoting policies that encourage long-term sustainable economic growth, and adhering to an exchange rate regime based on economic fundamentals. Moreover, the government is sincerely committed to budgetary discipline via increasing revenue collection and reduction in spending. With a smaller budget deficit, public debt is envisaged to fall steadily, while the government's attempts to alter the maturity structure will improve debt sustainability.

Monetary Policy



	FY-12	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	FY-20	FY-21	FY-22 E
Average Interest Rate	12.3	9.7	9.8	7.3	5.8	6.0	6.0	9.9	10.1	7.0	13.8
Inflation CPI	11.0	7.4	8.6	4.5	2.9	4.8	4.7	6.8	11.2	8.8	11.3

(Data Source: PES, State Bank of Pakistan)

The State Bank of Pakistan (SBP) decided to raise the policy rate by 25 bps to 7.25% in Q1-FY22 after keeping the policy rate unchanged at 7 percent in FY2021 to counter the inflationary pressure and sustainable economic recovery.

In response to the recovery in domestic demand, emerging inflationary pressures, and a widening current account deficit, SBP increased the policy rate cumulatively by 675 bps during the period of Sep’21 till May’22, to 13.75% as per Monetary Policy Statement of State Bank of Pakistan.

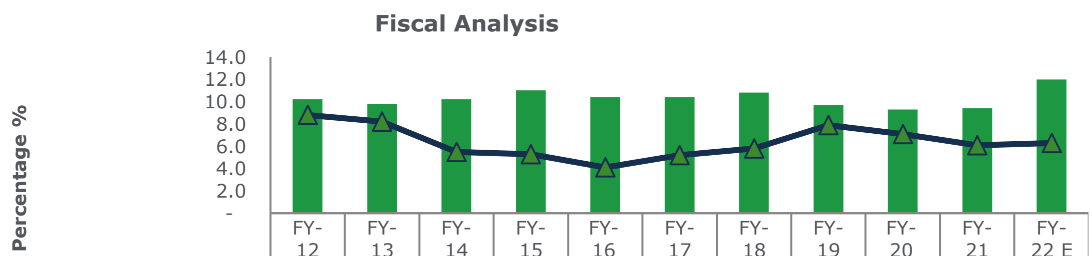
The headline inflation measured by the Consumer Price Index (CPI) was recorded at 11.3% during July-May FY22 as against 8.8% during the same period last year. The ongoing surge in the international commodity prices, adjustment in the prices of electricity & gas and the impact of exchange rate depreciation contributed to pressures on headline inflation. These developments originated from post-COVID supply chain disruptions which were recently exacerbated by renewed Chinese lockdowns whereas, the international commodity prices witnessed upward trend as a consequence of Russia-Ukraine conflict.

The other inflationary indicators namely Sensitive Price Indicator (SPI) during July-April FY22 was recorded at 16.5% against 12.9% in the same period last year. Wholesale Price Index (WPI) was recorded at 22.9% in July-April FY22 compared to 7.4% in the same period last year.

Core inflation for Urban and Rural recorded at 7.6% and 8.3% respectively during July-April FY22 as compared to 5.8% and 7.6% during the same period last year. The spike witnessed in YoY increase in core inflation due to higher domestic demand and impact of exchange rate depreciation.

Fiscal Policy

Tax Collections and Budget Deficit



	FY-12	FY-13	FY-14	FY-15	FY-16	FY-17	FY-18	FY-19	FY-20	FY-21	FY-22 E
Tax Revenue to GDP Ratio	10.2	9.8	10.2	11.0	10.4	10.4	10.8	9.7	9.3	9.4	12.0
Fiscal Deficit as % of GDP	8.8	8.2	5.5	5.3	4.1	5.2	5.8	7.9	7.1	6.1	6.3

(Data Source: PES)

At the moment, global fiscal policy is operating in a highly volatile environment, and Pakistan is no different. Importantly, the COVID-19 uncertainty had not totally dissipated, and the dangers to the global economy were rekindled as a result of the Russia-Ukraine war. The huge increase in international commodity prices, particularly for energy and food, is putting further strain on both the external accounts and the public budget. The conflict's poor economic implications have worsened the country's challenging policy options. Controlling inflation, bolstering the economy's recovery, assisting the underprivileged, and establishing budgetary buffers have become all the more critical. The fiscal accounts have been under tremendous strain this fiscal year in order to strike a balance between these policy options.

Although tax collection grew significantly during the period under review, higher current and development expenditures widened the fiscal deficit by 55.3% in July-March FY22. In terms of GDP, the deficit increased to 3.8% during July-March FY22, up from 3.0% in the previous period. Similarly, the primary balance posted a deficit of PKR 447.2 billion (0.7% of GDP) during July-March FY22 as compared to a surplus of PKR 451.8 billion (0.8% of GDP) last year.

On the revenue side, FBR was able to boost the collection by 28.5% to reach PKR 4,855.8 billion during July-April FY22 against PKR 3,777.7 billion collections in the same period of last year. Total expenditure, on the other hand, increased by 27.0% and reached PKR 8,439.8 billion during July-March FY22, against PKR 6,644.6 billion in the comparable period of last year.

Despite major budgetary issues, the administration is working diligently to restore fiscal sustainability in the medium to long term by lowering the fiscal deficit. However, only good income mobilization and a careful expenditure strategy will allow this to happen. The major aims in this respect are to enhance the tax-to-GDP ratio through different tax policy and administrative reforms, as well as to reduce needless spending through austerity measures.

Furthermore, the focus is on decreasing the losses of public sector firms through improved governance and rationalizing untargeted subsidies. These initiatives would give substantial assistance in controlling expenditure discrepancies and increasing income.

	FY 21	FY 22 E
Fiscal Deficit as % of GDP	**6.1%**	**6.3%**

(Data Source: PES, 2021-22)

Total Revenue

During July – March, FY22, total revenue witnessed a decent growth of 17.7% to reach at PKR 5,874.2 billion against PKR 4,992.6 billion during the corresponding period of last year. The primary reason for this growth is substantial rise of 28.1% in the tax collection, which was partially off-set by deterioration of 14.3% in the non-tax revenues.

Total Expenditure

During the period July 2021 till March 2022, the total expenditure increased phenomenally to PKR 8,439.8 billion, against PKR 6,644.6 billion in the same period last year. This significant surge of 27.05% in the total expenditure is owed to higher development and non-markup current spending. Out of the total expenditures, current and development expenditures are expected to represent 71.1% and 28.9%, respectively.

Development expenditure increased to PKR 1,032.7 billion during July – March, FY22 against PKR 668.0 billion in the same period last year. Non-markup expenditures stood at PKR 5,259.5 billion, during July – March, FY22, reflecting an increase of 32.1%, due to substantial rise in the subsidies and grants.

FBR Tax Collection

During the period July – April, FY22, FBR managed to collect net tax revenues to the tune of PKR 4,855.8 billion (provisional), witnessing a remarkable growth of 28.5%. It is also imperative here to mention that, it's the first time in the history, whereby, the tax collection exceeded the mark of PKR 4 trillion. FBR envisages that tax collection would be PKR 5.8 trillion during FY22 whereas as per budget brief its PKR 6 trillion.

The revival in the domestic economic activity during FY21 coupled with improved policy and administrative measures contributed towards the significant growth in the tax revenue. However, as a result of tax relief measures, revenue collection declined by approx. PKR 73 billion during the month of April 2022.

Pakistan's tax system is dependent primarily on the indirect taxes, which is evident from the fact that 63.5% of total FBR tax collection was contributed by indirect taxes, while direct taxes shared only 36.5%. Over the last few years, FBR has taken several measures in order to increase the total tax collection with primary focus on increasing the tax collection from direct sources.

Budget overview 2022-23

The Pakistan federal budget for FY22-23 follows times of economic and political instability and world-wide inflationary pressures. Record-breaking inflation. The Budget FY23 is an attempt to satisfy IMF on key matters relating to revenue collection, subsidy reductions and attainment of fiscal discipline.

For the next year, the Government has targeted a growth rate of 5.0%, 0.97% lower than the Real GDP Growth rate achieved in July-March FY22. The Government is aiming at a contractionary fiscal policy, in line with SBP's quantitative tightening to lower inflation and keep the current account balance in check. In the budget for FY23, the Government has lowered subsidies than the amount disbursed in FY22. Development expenditure for PSDP has, also, been reduced by about 19%.

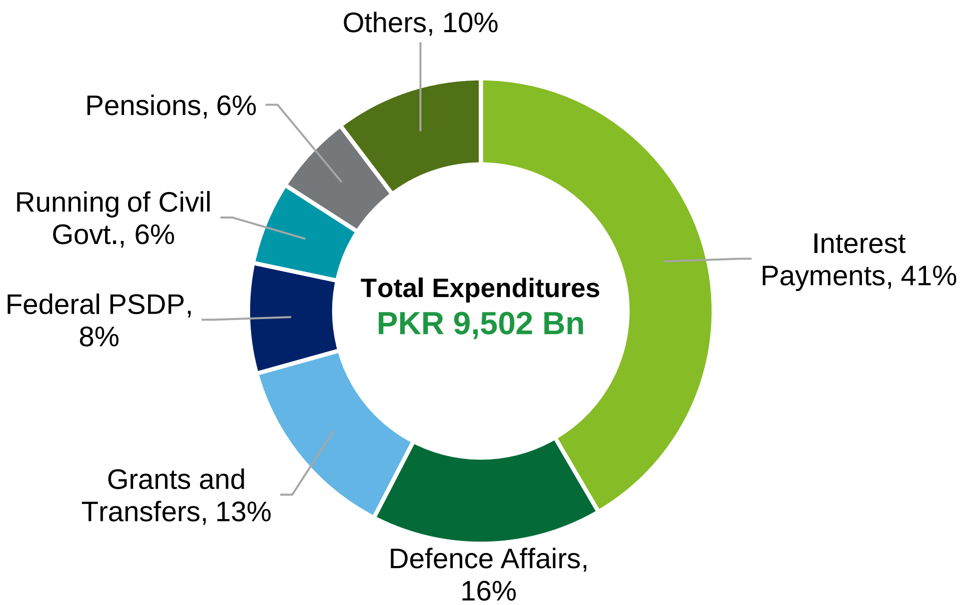
The budget for the next fiscal year will see government spending to encourage the poor to buy local instead of the rich spending on importing,

The total outlay of budget FY22-23 is PKR 9,502 billion. The government has targeted an economic growth of 5.0% in FY23.

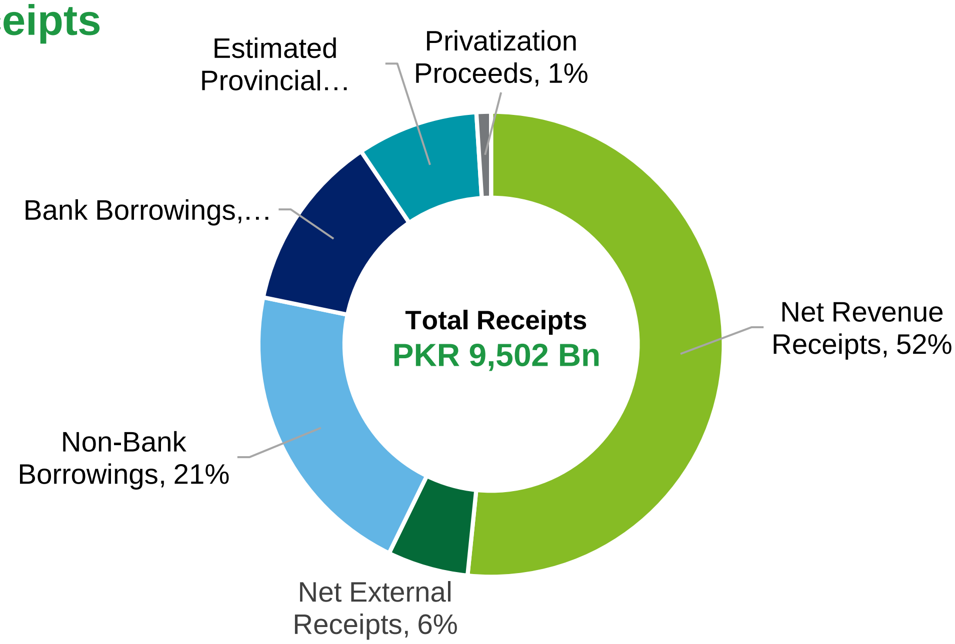
Total Revenue target has been set at PKR 9,004 billion for FY23 (up by 13.9% vs. last year's budget), where FBR Revenues for the year have been estimated at PKR 7,004 billion (up by 20.2% vs. last year's budget). The Non Tax Revenue target has been set at PKR 2,000 billion (down by 3.9% vs. last year's budget), whereas the government has budgeted PKR 750 billion under Petroleum Levy (PDL), up by PKR 140 billion from last year's budget.

Total Development Expenditures target has been set at PKR 1,024 billion for FY23, down by 10% as compared to last year's budget. Total Current Expenditures are estimated at PKR 8,694 billion for FY23 which accounts for 91.5% of total expenditures and represents an increase of 15.6% from last year's budget. Interest expense is estimated at PKR 3,950 billion, while pension bill has been set at PKR 530 billion. Government has earmarked subsidies of PKR 699 billion compared to last year's allocation of PKR 682 billion, which is a slight increase of 2.5%. The Defense Expenditure has been set at PKR 1,523 billion for FY23, 11.2% higher compared to last year's budget.

Expenditures



Receipts



Key highlights of Budget FY23

- Exemption of complete custom duty on more than 30 pharmaceutical ingredients
- Annulment of sales tax on tractors, wheat, maize, sunflower, canola etc.
- Custom duty on agriculture machinery has been abolished
- Salaries of government employees increased by 15% in order to improve their purchasing power
- Benazir Education Stipend Program will be extended to ten million students, for this purpose an amount of PKR 35 billion has been allocated
- Allocation for Benazir Income Support programme has been increased to PKR 364 billion as compared to 250 billion in the last year
- Youth Employment Policy Program will be initiated to provide interest-free loans and employment opportunities for two million youngsters
- Individuals with less than 200 units of electricity units of electricity consumption to be provided with loans to acquire solar panels
- Solar panels will be exempt of sales taxes
- CGT rates on immovable property has been amended, new rate will be 15% for the first year and will decline gradually by 2.5% annually
- In order to complete construction of “Mohmand” & “Diamer Bhasha” extra funds will be provided.
- Not-for-profit hospitals with 50 or more beds to be given free electricity
- Zero load shedding to industrial feeders in order to provide uninterrupted power supply to industries
- CPEC projects will be fast tracked by providing additional funds and focused attention on early start of Special Economic Zones under CPEC.
- PKR 73 billion has been allocated for the power sector for the improvement in transmission, distribution & production of electricity.
- Income from Behbood Savings Certificates, Pension benefit accounts and Shuhuda Family Welfare Account to be taxed at 5% instead of 10%
- Five-year tax holiday for film makers, new cinemas and production houses to boost the local film industry

Highlights of Important Fiscal Proposals

Income Tax

1. Tax at the rate of 2% of income is introduced for poverty alleviation on every person earning income above Rs.300 million for tax year 2022 and onwards. This tax will also apply to Insurance, banking and oil exploration sector covered under separate Schedules to the Ordinance.

2. Tax rates on income of banks from federal securities have been enhanced.

3. Banking / Exchange Companies are required to deduct tax at 10% from fee for money transfer operations, card network services, payment gateway services, interbank financial telecommunication services.

4. Tax rate for fee for offshore digital services is increased from 5% to 10%.

5. Tax on deemed rental income is introduced at 20% of 5% of fair market value (effective tax rate of 1% of fair market value of immoveable property), where fair market value of immoveable property exceeds Rs.25 million, subject to certain exclusions.

6. Amount exceeding 50% of contribution to an approved gratuity fund, approved pension fund or approved superannuation fund will no more be allowed as admissible deduction.

7. No deduction shall be allowed on account of any expenditure by a taxpayer, being a Company, for a transaction, paid or payable under a single account head which, in aggregate, exceeds Rs 1 million made other than by digital means from business bank account of the taxpayer notified to the Commissioner under section 114A of the Ordinance.

8. Any expenditure attributable to sales claimed by a person, who is required to integrate his business with the Board through approved fiscal electronic device and software, but fails to do so, will be disallowed to the extent 10% of expenditure.

9. Cost of passenger transport vehicle for the purpose of depreciation is enhanced to Rs.5 million from Rs.2.5 million.

10. 100% tax depreciation in year of purchase of depreciable asset and no depreciation in year of disposal restored.

11. Initial Allowance can no more be claimed in respect of immovable property or structural improvement to an immovable property.

12. Immoveable properties are categorized under 3 categories i.e. Flats, Open Plot and Constructed property. Tax rates on the amount of capital gain on disposal of immoveable property have been revised from 2.5% to 15%, based on holding period of such properties. No tax is applicable on disposal pf property held for more than 6 years.

13. Tax exemption to the extent of 25% applicable for gain on disposal of capital assets (including shares of private limited company) held for more than a year is withdrawn.

14. Tax rates for listed and other securities covered under section 37A have been revised ranging from 2.5% to 15% based on holding period. No tax is applicable on disposal of security held for more than 6 years.

15. Cost of the asset received by the person through the gift, succession, inheritance or devolution, distribution of assets on dissolution of an association of persons or distribution of assets on liquidation of a company shall be equal to the cost of the asset for the person disposing of the asset at the time of the disposal or transferring such assets.

16. Tax credits available to individuals on account of investments in Initial Public Offering, Life Insurance policy, Mutual funds, health insurance or contributions to an Approved Pension Funds are withdrawn.

17. Basic threshold for the rates of tax is enhanced for salaried individuals from Rs.600,000 to Rs.1,200,000 and for non-salaried and association of persons (AOPs) from Rs.400,000 to Rs.600,000. Persons falling in higher slabs will be subject to higher tax liability.

18. Definition of resident individual is amended to include an individual who is a citizen of Pakistan, but not the tax resident of any other country.

19. Explanation introduced which confirms that the share received in the capacity as a member out of the exempt income of the AOP shall remain tax-exempt in hands of the member.

20. Special provisions for taxation of retailers through electricity bills are introduced. Tax collected to be treated as final tax.

21. Advance tax on sale or transfer of immoveable property is enhanced from 1% to 2% of the gross amount of consideration received.

22. Advance tax on purchase of immoveable property is enhanced from 1% to 2% of the gross amount of consideration received.

23. Withholding tax on payments to resident persons for rental of machinery and equipment is withdrawn.

24. Adjustable advance tax at 1% is introduced for any sum remitted outside Pakistan through a credit/ debit card transaction or a prepaid card transaction with a person outside Pakistan.

25. Tax to be collected on advertisement starring foreign actor has been reduced from Rs.500,000/second to Rs. 100,000/second.

26. Collection of advance tax by educational institutions from a person not appearing in the active taxpayers' list is withdrawn.

27. Applicable date for obtaining Commissioner's approval under section 2(36) to claim 100% tax credit under section 100C is extended from June 30, 2022 to June 30, 2024.

28. Remittances through money service bureaus, exchange companies, or money transfer operators shall be deemed to constitute foreign exchange remitted from outside Pakistan through normal banking channels for the purpose of section 111.

29. Carry forward and adjustment of the excess amount of minimum tax paid under section 113(1) over and above the normal tax liability for 5 years is withdrawn.

30. The Board is empowered to disable mobile phone, electricity and gas connection of non-filers.

31. Time limit for passing best judgement assessment order is extended from 5 to 6 years.

32. Time limit for passing assessment order under section 122(9) within 120

days from issuance of show-cause notice is extended to 180 days.

33. Mechanism for payment of tax collected or deducted through SWAPS Agents introduced.

34. Requirement for issuance of Audit Report after completion of tax audit under section 177 is omitted.

35. Provisions related to Alternate Dispute Resolution have been revamped.

36. Tax collected under section 148 at import stage from persons other than industrial undertakings is to be treated as final tax, except for few prescribed imports including edible oil, packaging material, paper and plastics.

37. Tax collected under section 148 at import stage from an industrial undertaking will be adjustable.

38. Tax under section 148 for commercial importers, importing goods classified in Part II of the Twelfth Schedule is enhanced from 2% to 4%.

39. Tax under section 148 on import of mobile phones both in CBU and CKD condition has been enhanced.

40. Reduced rate of withholding tax at 3% on account of rendering of services under section 153 is extended to REIT management services and services rendered by National Clearing Company of Pakistan Limited.

41. 100% tax credit from export of IT services and Computer software is withdrawn. Banks are required to deduct tax at 0.25% on export proceeds of IT sector. Enhanced withholding tax rates under Tenth Schedule on non-filers will not apply to these exporters.

42. Advance tax on motor vehicles has been enhanced substantially.

43. Persons having foreign income, assets, expenses are required to maintain records beyond 6 year time limit.

44. NADRA is empowered to share data with FBR for broadening of tax net.

45. Companies and AOPs are required to submit record of beneficial owners.

46. New penalties including penalty for not furnishing beneficial owner record are introduced.

47. Tax rate for banking companies is increased from 35% to 45% effective from tax year 2023. This is in addition to 2% tax for alleviation of poverty, which is applicable from tax year 2022 and onwards. Super tax at 4% will apply till tax year 2022.

48. The full amount of accumulated balance received from the pension fund under the Voluntary Pension System Rules, 2005 will be exempt as compared to existing 50% exemption.

49. Exemption on installment from an income invested out of the accumulated balance for a period of ten years of an individual's pension accounts maintained under the Voluntary Pension System Rules 2005 is withdrawn.

50. Any income derived by a Collective Investment Scheme or a REIT Scheme, whereby 90% of accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit or certificate holders or shareholders as the case may be shall be exempt from tax. The Bill now propose to adjust accumulated losses for computation of accounting for exemption purpose.

51. Exemption on income of a person representing a subsidy granted to him by the Federal Government for the purposes of implementation of any

orders of the Federal Government is withdrawn.

52. Exemption on profit and gains derived by a taxpayer from a power project are now restricted to life cycle of the project or 25 years from the date of commencement of commercial production, whichever is earlier.

53. Any income derived by a person from cinema operations in a tehsil or town where there is no cinema will be exempt for five years from the commencement of cinema operations.

54. Distributors, dealers, sub-dealers, wholesalers and retailers of steel sector will be subject to withholding tax at the reduced rate of 0.25% under section 153.

55. Distributors, dealers, sub-dealers, wholesalers and retailers of steel sector shall be liable to minimum tax at reduced rate of 0.25% under section 113.

56. Reduced rate taxation at 2.5% on any amount received as flying allowance by flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces is withdrawn.

57. Reduced rate taxation of total allowances received by pilots of any Pakistani airlines is withdrawn.

58. Tax rate on profit on investment in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account is reduced from 10% to 5%.

59. Reduced rate taxation at 50% on account of Capital Gains on disposal of immovable property on the first sale of immovable property acquired or allotted to ex-servicemen and serving acquired or allotted to ex-servicemen and serving personal of Armed Forces or ex-employees or serving personnel of Federal and Provincial Governments, being original allottee of the immovable property, duly certified by the allotment authority is withdrawn.

60. Reduce rate taxation at 15% on profit on debt derived by a person other than a banking or insurance company from investment in Federal Government securities has been withdrawn; accordingly, such income will now be taxed at normal tax rates.

61. Minimum tax under section 113 will not apply to mobile phone manufacturers engaged in the local manufacturing of mobile phone device.

62. Provision of section 148 of the Ordinance shall not be applicable on the import of thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s Hanes Brands Inc. North Carolina, USA for distribution within population of Lahore Division, Government of the Punjab.

63. Provisions of section 148 will not apply on import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route and Import of cinematographic equipment as notified by the Federal Government.

64. Exemption from scrutiny section 111 for various investments has been withdrawn.

65. Provisions of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding four tax years.

66. Advance tax on registration of private motor vehicles is proposed to be increased by 200% for non-filers.

67. Advance tax on purchase or transfer of immovable property is proposed to be increased by 250% from non-filers.

68. Advance tax under section 148 is reduced from 2% to 1% on import of coal; briquettes, ovoids and similar fuels manufactured from coal.

Sales Tax

1. The requirement of mentioning CNIC number or NTN of unregistered buyer on sales tax invoice of value exceeding Rs.100,000, done away with.

2. The Board empowered to allow Federal or Provincial Governments and public sector organizations to pay sales tax on installment basis with retrospectivity.

3. Immunity from minimum payment of the output tax of a particular period, withdrawn for public listed companies.

4. The levy of further tax at the rate of 3% extended to apply on supplies made to registered persons who are not active taxpayers under the ST Act.

5. Import and supply of all types of seeds exempted from sales tax.

6. Import and supply of tractors exempted from sales tax.

7. Imports by UN diplomats/ diplomatic missions and privileged persons exempted from sales tax.

8. Import and supply of solar panels (PV module) exempted from sales tax with the aim to promote alternative energy sources in the wake of energy crisis.

9. Exemption on certain supply of goods to non-profit charitable hospitals of fifty beds or more as well as on imports by and goods donated to the said hospitals.

10. Imports by investors of Export Processing Zone exempted from sales tax to reduce burden on their cash flows on account of accumulation of sales tax refunds.

11. Import of plant and machinery by power generation projects under implementation agreement with GoP, exempted from sales tax.

12. The scope of the terms 'Goods' and 'Supply' enhanced to include production, transmission and distribution of electricity.

13. Suppliers of articles of jewellery or precious metal are brought within ambit of 'Tier-1 retailer'.

14. Import of articles of jewellery and precious metals subjected to sales tax at 4% will enjoy exemption on their subsequent local supply.

15. Local supply of articles of jewellery and precious metals made chargeable to sales tax at 3% reduced rate without claim of input tax.

16. Fixed sales tax collected by electricity companies from retailers (other than Tier-1 retailers) transposed from existing percentage basis to progressive fixed amount of sales tax based on monthly electricity bill.

17. The service charge of Re.1 per invoice levied on invoices issued through POS integrated with FBR excluded from scope of the definition of 'Sales Tax'.

18. Import of compressor scrap, motor scrap and copper cutting scrap by manufacturers has been subjected to 3% VAT on imports.

Customs Act, 1969

1. Updated version of HS Codes 2022 by World Customs Organization (WCO) adapted into PCT with effect from July 01, 2022.
2. Exemption of Customs Duties (CD) on Pharmaceutical sectors' 26 Active Pharmaceutical Ingredients (API's) and "Graflon" drug.
3. Exemption of CD on import of Irisvision device for low vision individuals.
4. Exemption of CD on import of agricultural machinery pertaining to Farm manufacturing & logistics sector.
5. Exemption of CD on import of various components of LED lights and manufacturing sector.
6. Reduction in CD & Additional Custom Duty (ACD) on foot wear & furniture industries.
7. Downward rationalization of duties & taxes in different tariff lines of raw material imports of packaging, plastic & botany industries.
8. Rationalization of Regulatory Duty (RD) proposed to protect various local industries including optical fibre cables.
9. Additional Collector of Customs is empowered to change the consignee name for purposes of clearance of goods in respect of dishonored consignees.
10. Smuggling of essential commodities as notified by the Board have been subjected to confiscation and financial /criminal penalties.
11. Financial /criminal penalties have been introduced to counter the offence of misuse of data and information in the Pakistan Single Window System.
12. Confiscation of conveyance used in smuggling of goods, has been relaxed.
13. Search & examination of conveyance suspiciously used in smuggling of goods restricted to bordering and coastal areas.
14. Seized essential commodities to be deposited in the nearest customs house or place appointed by Collector of Customs.
15. Adjudicating powers of officers in terms of duties/taxes have been enhanced.
16. Collector of customs empowered to fix the port charges on import & export of services by terminal operators, as well as, fees for storing confiscated goods in declared State warehouse.
17. Provincial government included in protection against legal proceedings, investigation and enquiry for actions taken by them in good faith in pursuance of Customs Act, rules and instructions of Federal Board of Revenue.
18. The scope of the term smuggling widened to cater smuggling of essential goods which are vital for domestic consumption.
19. All territories located alongside international borders including costal lines have been defined as bordering and coastal areas in order to curb the menace of smuggling of essential commodities.
20. To align the Customs Act, 1969 with the Single Window (PSW) Act, 2021, the definitions of the terms of 'Other Government Agencies', Pakistan Single Window, Trade Controls and Un-authorized Access as used in the Customs Act, adapted from the PSW Act.

21. The validity of all exemption notifications issued on or after July 01, 2016 and placed before National Assembly, extended up to June 30, 2023.

22. Power of the Board to deliver goods without payment of duty has been withdrawn in respect of goods supplies against international tenders.

23. To facilitate trade, timeline to finalize the provisional assessment has been reduced from existing nine months to four months in aggregate.

24. Additional Collector of Customs empowered to extend warehousing period up to a period of 1 month.

Federal Excise Duty

1. Excise duty enhanced on cigarettes and related components.

2. Rate of excise duty on Telecommunication services increased from 16% to 19.5 %.

3. Significant increase in excise duty from Rs.10,000 to Rs.50,000 on air travel services to first class passengers on international journey from Pakistan.

Islamabad Capital Territory (Tax on Services) Ordinance, 2001

1. Standard rate of sales tax on services specified in Table-1 of the Schedule has been reduced to 15%.

2. Entry providing reduced rate of sales tax 5% on provision of IT services and IT-enables services, has been omitted.

Capital Value Tax (CVT)

1. The Capital Value Tax levied at 2% on the locally held vehicle with value exceeding Rs. 5 million.

2. CVT at 1% on the foreign assets of resident individual of value exceeding Rs. 100 million.

Mobile Handset Levy

1. Rates of Mobile Handsets Levy enacted through Finance Act, 2018, have been revised.

Income Tax Ordinance, 2001

1. Definitions [Section 2]

The Bill proposes to introduce following definitions:

1.1 Beneficial Owner [Section 2(7A)]

"beneficial owner" means a natural person who –

(a) ultimately owns or controls a Company or association of persons, whether directly or indirectly, through at least ten percent shares or voting rights; or

(b) exercise ultimate effective control, through direct or indirect means, over the company or association of persons including control over the finances or decisions or other affairs of the company or association of persons.

The term 'beneficial owner' is used in various sections of the Ordinance including in some of the definitions under section 2 and section 98 related to change in ownership of an entity and Income Tax Rules, 2002 including the Federal Board of Revenue Anti Money Laundering and Countering Financing of Terrorism Regulations for DNFBPs, 2020. However, the term was not defined either under the Ordinance or Rules. The introduction of definition will help clarifying the term and implementation of the relevant provisions of the Ordinance and rule.

1.2 Distributor [Section 2(18A)]

"distributor" means a person appointed by a manufacturer, importer or any other person for a specified area to purchase goods from him for further supply.

1.3 Fair Market Value [Section 2(22AA)]

"fair market value" means value as provided in section 68.

1.4 Synchronized Withholding Administration and Payment System agent [Section 2(62B)]

"Synchronized Withholding Administration and Payment System agent" or "SWAPS agent" means any person or class of persons notified by Board to collect or deduct withholding taxes through Synchronized Withholding Administration and Payment System.

1.5 Tax Invoice [Section 2(66A)]

"tax invoice" means an invoice as prescribed under the Income Tax Rules, 2002.

2. Tax on high earning persons for poverty alleviation [Section 4C]

The Bill proposes to impose tax for tax year 2022 and onwards for poverty alleviation on every person earning income above Rs.300 million at the rate of 2% of income.

For imposing this tax, income shall be sum of the following:

(i) profit on debt, dividend, capital gains, brokerage and commission;

(ii) taxable income (other than brought forward depreciation and brought forward business losses) under section 9 of the Ordinance, if not included in clause (i);

(iii) imputable income as defined in clause (28A) of section 2 excluding amounts specified in clause (i); and

(iv) income computed, other than brought forward depreciation, brought forward amortization and brought forward business losses under Fourth, Fifth and Seventh Schedules.

The tax payable under this section shall be paid, collected and deposited on the date and in the manner as specified in sub-section (1) of section 137 i.e. at the time of filing of return.

It has been proposed that where the tax is not paid by a person liable to pay it, the Commissioner shall by an order in writing, determine the tax payable, and shall serve upon the person, a notice of demand specifying the tax payable within the time specified under section 137 of the Ordinance.

Where the tax is not paid by a person liable to pay it, the Commissioner shall recover the tax payable under the relevant provisions of the Ordinance for collection of tax.

This section is also applicable on insurance, banking and oil and exploration (other than petroleum sectors).

The Board may, by notification in the official Gazette, make rules for carrying out the purposes of this section.

The levy of this additional tax on the income of a company, association of persons and an individual in the manner stated above will enhance the cost of doing businesses in Pakistan and may also open door for litigations.

3. Tax on certain payments to non-residents [Section 6, 152(1DC), 152(1DD)]

The Bill proposes certain amendments in section 6 as it seeks to add fee for money transfer operations, card network services, payment gateway services, interbank financial telecommunication services besides already covered services subject to tax under section 6.

Relevant amendments have also been proposed in section 152, where it has been provided as under:

Every exchange company licensed by the State Bank of Pakistan shall deduct tax at the time of making payment of service charges or commission or fee, by whatever name called, to the global money transfer operators, international money transfer operators or such other persons engaged in international money transfers or cross-border remittances for facilitating outward remittances at the rate of 10%. Provided that where such person retains service charges or commission or fee, by whatever name called from the amount payable to the exchange company on any account, the exchange company shall be deemed to have paid the service charges or commission or fee, by whatever name called and the exchange company shall collect the tax accordingly.

The Bill further proposes that every banking company while making payment to card network company or payment gateway or any other person, of any transaction fee or licensing fee or service charges or commission or fee by whatever name called or interbank financial telecommunication services shall deduct tax at 10%. Provided that where card network company or payment gateway or any

other person retains money in relation to aforementioned services from the amount payable to the banking company on any account, the banking company shall be deemed to have paid the amount and the banking company shall collect the tax accordingly.
Tax so deductible shall be final tax for persons earning such income.

Previously tax as well as withholding tax rate for offshore digital services was 5% of gross amount of such fee. The Bill now proposes tax rate of 10% for these services in line with the new services proposed to be added through the Bill.

4. Tax on deemed income [Section 7E]

The Bill proposes to impose tax for tax year 2022 and onwards on deemed income of a resident person derived from immoveable property.

Under the proposed section, a resident person shall be treated to have received rent equal to 5% of the fair market value of an immoveable property situated in Pakistan, whether or not such property has actually been rented out for any consideration. Tax under this section will be payable at 20% of 5% of the fair market value i.e. effective tax rate of 1% of fair market value.

This section shall not apply to the following properties:

(a) one self –owned immoveable property;

(b) self-owned business premises from which business is carried out;

(c) self-owned agriculture land where agriculture activity is carried out by person but does not include farmhouse and land annexed thereto;

(d) where the fair market value of the property or properties, in aggregate, excluding properties mentioned in clauses (a) and (b) does not exceed Rs.25 million;

(e) a Provincial Government, a Local Government, a local authority or a development authority;

(f) land development and construction projects of builders and developers registered with Directorate General of Designated Non-Financial Businesses and Professions of Board;

(g) a property which is subject to tax under section 15 of the Ordinance and the tax chargeable is more than tax chargeable under this section. In case, tax chargeable under section 15 is less than the tax chargeable under this section so much of the amount of tax which is in excess of tax chargeable under section 15 shall be paid under this section.

It is further proposed that the Federal Government may include or exclude any person or property for the purpose of this section.

The intention of legislature for introducing these provisions is to curb short selling of real estate property and taxing the non-productive assets, which only benefit certain group of people. Effectively this is an effort to levy tax on the savings / wealth of the resident individuals. The wording of the section suggests that this section will not be applicable for non-residents having immoveable property in Pakistan so effectively expatriate Pakistanis have been excluded from this levy.

Section 68(4) provides that the fair market value of immoveable property is the value notified by FBR of the area or areas as may be notified in the notification; which is much lower than the actual value at which an immoveable property is sold. So effectively this levy would be applicable on the immoveable properties located in prime locations only.

5. Omission of incentives introduced through the Income Tax (Amendment) Ordinance 2022

Through the Income Tax (Amendment) Ordinance, 2022 promulgated on March 1, 2022, following incentives were introduced:

Section	Description
59C	Carry forward of business losses of sick industrial units
65H	Tax credit for foreign investment for industrial promotion
100F	Amnesty for investment for industrial promotion

For detailed commentary on Income Tax (Amendment) Ordinance 2022, please visit our website. The Bill now proposes to delete all these sections promulgated through Amendment Ordinance effective from March 2, 2022.

6. Deductions Not Allowed [Section 21 (ea), 21(l), 21(la) 21(m), 21(r)]

(i) Contribution to Approved Retirement Funds

The Bill proposes to insert a new sub-clause (ea) under section 21 by virtue of which, payments made to an approved gratuity fund, an approved pension fund or an approved superannuation fund in excess of fifty percent of total contribution made towards approved fund shall not be allowed as business expense for computing taxable income.

The proposed amendment would discourage the employers in making contributions towards approved gratuity funds, approved pension funds or to an approved superannuation fund as the same would not be allowed as claimable expense as providing of such benefit would increase their cost of doing business. This may force the employers to decide from cost perspective whether to provide for Gratuity Fund or Provident Fund to its employees as a retirement benefit as under the labour laws it is mandatory for many entities to provide for one retirement benefit to its employees.

(ii) Payment through digital mode

As per existing provision i.e. clause (l) to section 21, any expenditure incurred by a person in deriving Income from Business is not allowable if any transaction, paid or payable under a single account head which, in aggregate, exceeds Rs 250,000, made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer:

The Bill proposes to substitute the term person with "taxpayer not being a company", therefore, excluding Companies from the above clause. The existing provisions of section 21(l) will however continue to apply in the same manner to taxpayers other than Company i.e. in the case of Individuals and Association of Persons (AOP's).

Additionally, the Bill proposes to add a new proviso (la) by virtue of which no deduction shall be allowed on account of any expenditure by a taxpayer, being a Company, for a transaction, paid or payable under a single account head which, in aggregate, exceeds Rs 1,000,000 made other than by digital means from business bank account of the taxpayer notified to the Commissioner under section 114A of the Ordinance.

The above amendments were introduced through the Tax Laws (Third Amendment) Ordinance, 2021, however, requirement for the payment through digital means were applicable where the payment under a single account head exceeds Rs. 250,000 per annum. The application of the said clause was kept in abeyance through the FBR's circulars, thereby allowing companies to make payment through other than digital mean.

The Bill further provides that the amended clause shall be effective from such date as the Board may notify.

(iii) Salary Payments Made Through Digital Mean

As per the existing provisions any salary payment exceeding Rs. 25,000 per month is required to be made through a crossed cheque or direct transfer of funds to the employee's bank account so as to qualify as admissible business expenditure.

The Bill proposes to insert, after the term account the term "**or through digital means"** by virtue of which salary payments through digital means will also qualify as admissible expense. The above amendments were introduced through the Tax Laws (Third Amendment) Ordinance, 2021.

(iv) Disallowance of expense for Taxpayers not integrated with the Board

The Bill proposes to introduce a new clause (r), disallowing any expenditure attributable to sales claimed by a person who is required to integrate his business with the Board through approved fiscal electronic device and software, but fails to do so. The amount disallowed, however, shall not exceed 10% of the allowable deduction.

The proposed amendment, would encourage implementation of the approved fiscal electronic device and software among retailers in their business premises, as failing to do so would increase their cost of doing business. This step would ultimately help in the documentation of the economy and broadening of tax basis, which is need of hour.

7. Depreciation [Section 22 (2) and 22(8)]

Under the existing provisions of law, depreciation on assets brought to use in business on or after July 01, 2020 is restricted to 50% of the depreciation expense of that tax year. The remaining depreciation is then allowed over the useful life of assets and at the prescribed rates specified in Part-I of the Third Schedule.

The Bill now proposes to remove the above proviso, enabling taxpayers to claim full year's tax depreciation as expense in the year of purchase, even when the asset is used for business even for a single day. This would restore the position of law regarding claiming of depreciation expense as was applicable before the Finance Act, 2020.

Further, as per existing provision of law, taxpayer is entitled to claim tax depreciation expense in the year of disposal equal to 50% of tax depreciation computed using applicable rates given in the Third Schedule. The Bills propose to remove the said proviso also, resultantly, no tax depreciation will be allowed in the year of disposal.

This would benefit investors cash flow position in the year of purchase of depreciable asset as the investors would be allowed to claim whole tax depreciation as an expense, thereby reducing tax liability.

Previously the cost of passenger transport vehicle for the purpose of depreciation was restricted upto Rs. 1.5 million. It was later increased to Rs. 2.5 million by virtue of Finance Act 2012, which was almost decade ago.

Since then there have been significant surge in car prices. The Bill now proposes to restrict the cost of passenger transport vehicle for the purpose of depreciation to Rs. 5 million instead of Rs. 2.5 million.

This is a positive change considering the inflation and increase in car prices and would benefit the taxpayers claiming tax depreciation on vehicles.

8. Initial Allowance [Section 23(5)]

As per existing provisions of law, a taxpayer is allowed to claim initial allowance on "Eligible Depreciable Asset" which means a depreciable asset other than vehicles plying for hire, any furniture or fittings, plant or machinery or any plant and machinery.

The Bill Proposes to further narrow down the term "eligible depreciable asset" by inserting "immovable property or structural improvement to the immovable property" in the exclusion list.

This means that any immovable property or structural improvement to an immovable property will not be covered under the definition of "eligible depreciable asset" from now onwards and taxpayer would not be able to claim initial allowance thereon.

9 Capital Gains [Section 37 (1A), (3), (3A) & (4A)]

Through the Finance Act, 2020, open plot as well as constructed property were both categorized as immoveable property and capital gain arising on disposal of open plot as well as constructed property were subject to tax as under:

S.No.	Holding Period	Taxable Capital Gains
1	Where the holding period of an immoveable property does not exceed one year	100% gains
2	Where the holding period of an immoveable property exceeds one year but does not exceed two years	75% of the gains
3	Where the holding period of an immoveable property exceeds two years but does not exceed three years	50% of the gains
4	Where the holding period of an immoveable property exceeds three years but does not exceed four years	25% of the gains
5	Where the holding period of an immoveable property exceeds four years	0%

The existing tax rates on taxable capital gains are as below.

S. No.	Amount of gain	Existing
1.	Where the gain does not exceed Rs.5 million	3.5%
2.	Where the gain exceeds Rs.5 million but does not exceed Rs.10 million	7.5%
3.	Where the gain exceeds Rs.10 million but does not exceed Rs.15 million	10%
4.	Where the gain exceeds Rs.15 million	15%

Now, the Bill proposes to introduce taxability of the capital gain derived from disposal of open plot as well as constructed property and flats, based on the holding period of the immovable properties as under:

S.no		Rate of Tax		
		Open plots	Constru-cted property	Flats
1.	Where the holding period does not exceed one year	15%	15%	15%
2.	Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
3.	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	-
4.	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-

		Rate of Tax		
S.no		**Open plots**	**Constru-cted property**	**Flats**
5.	Where the holding period exceeds four years but does not exceed five years	5%	-	-
6.	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
7.	Where the holding period exceeds six years	-	-	-

10. Withdrawal of Exemption on Capital Gain [Section 37(3)]

As per existing provisions of law, the gain on disposal of capital assets including shares of a Private Limited Company is subject to tax under section 37 of the Ordinance. The taxpayer is entitled to claim exemption to the extent of 25% of the total capital gain derived from such disposal only in case where shares of private limited company or other capital assets are held for more than one year.

The Bill propose to omit sub-section (3), thereby, withdrawing exemption allowed to the extent of 25% of the capital gain on such assets.

11. Disposal of assets received through gift, succession, inheritance or devolution [Section 37(4A)]

Under the existing law, for the purpose of calculation of capital gain, where any capital asset is received through the gift, succession, inheritance or devolution, distribution of assets on dissolution of an association of persons or distribution of assets on liquidation of a company, the fair market value of such asset on the date of receipt of gift is treated as cost of the asset to compute capital gain under section 37 of the Ordinance.

The Bill proposes to omit sub-section (4A), consequent to which it appears that the provision of section 79(3) of the Ordinance would become applicable, thereby, cost of the asset received by the person through above referred modes shall be equal to the cost of the asset for the person disposing of the asset at the time of the disposal or transferring such assets.

12. Exemptions under International Agreements [Section 44(3)]

As per the existing provisions of law, under sub section (3) of section (44) of the Ordinance, 2001 any income received/earned by a person (not being a citizen of Pakistan), engaged in providing services as a contractor, consultant or an expert on a project in Pakistan shall be exempt from tax under the Ordinance subject to conditions and extent provided in bilateral or multilateral agreements for technical assistance between the Federal Government and the foreign government.

The Bill proposes to broaden the scope of agreements by omitting the word "technical assistance" from the above proviso which eventually include all type of agreements that the Federal Government and the Foreign Government enters into while satisfying the conditions that have been laid down under sub-section (3) of the Ordinance.

Further, the Bill proposes insertion of a new clause under subsection (4) by virtue of which Federal Government is empowered to exempt income of any person on case to case basis in respect of official development assisted financed loan and grants in aid, through a notification in the official gazette.

13. Exemption and tax concession in the Second Schedule [Section 53(2)]

The Bill proposes to insert the term "Federal Government" under sub-section (2) of section 53, consequent to which the Federal Government may grant an exemption from any tax, reduction in the rate of tax and an exemption from the operation of any provision of this Ordinance. This amendment was earlier introduced through Tax Laws (Amendment) Ordinance, 2021 dated September 15, 2021.

14. Withdrawal of Deductible Allowance [Section 60C]

Currently under section 60(c), any profit on debt paid by an Individual on a loan utilized for construction of a new house or acquisition of a house to a scheduled bank or a non-financial institution regulated by Securities and Exchange Commission Pakistan is allowed as a deductible allowance. The deductible allowance shall not exceed 50% of the taxable income or Rs.2 million whichever is lower.

The Bill proposes to omit this section thereby withdrawing the deductible allowance available to an individual. This would increase cost of financing of individuals owing to withdrawal of tax deduction, especially salaried individuals would be worst hit as a number of tax credits currently available against their taxable income are proposed to be disallowed coupled with the increase in tax rates.

15. Withdrawal of Tax Credit [Sections 62, 62A and 63]

As per the existing tax laws, an Individual is entitled to tax credits for making investments in Initial Public Offering, Life Insurance policy, Mutual funds, health insurance or by making contributions to an Approved Pension Funds resulting in reducing tax liabilities.

The Bill proposes to omit these tax credits, due to which the individuals will not be able to claim tax credits and hence reduce their tax liabilities.

This proposed amendment coupled with changes in salary tax on higher side will affect working class adversely. Further, this is also likely to affect the investment in mutual funds and insurance sector, as salaried class is one of the major contributors toward investment in the mutual fund, life insurance policy, health insurance policy and pension fund, which may now not be considered as attractive products by salaried individuals.

16. Taxation of IT & Computer Software Exports [Section 65F & 154A]

Through Finance Act 2021, section 65F was introduced in the Ordinance whereby tax credit equal to one hundred percent of the tax payable including minimum, alternate corporate tax, and final taxes was allowed to various persons or incomes subject to the fulfillment of conditions and subject to the limitations provided in the section. The said credit was also available for income from exports of computer software or IT services or IT enabled services as defined in clauses (30AD) and (30AE) of section 2 of the Ordinance till June 30, 2025, subject to remittance of 80% of proceeds to Pakistan through banking channel.

The Bill proposes to omit clause (c) from section 65F, providing for 100% tax credit to the income from exports of computer software or IT services or IT enabled services.

Through Finance Act 2021, 1% tax on exports of services was introduced in the Ordinance, which includes exports of computer software, IT services, or IT-enabled services. As per section 154A, every authorized dealer in foreign exchange, at the time of realization of foreign exchange proceeds on account of the services mentioned in the section shall deduct tax @ 1% from the proceeds. No tax is to be deducted from the proceeds of exports of computer software or IT services or IT enabled services in case of tax credit under section 65F is available.

Since the Bill proposes to omit the tax credit available under section 65F to the exporters of computer software or IT services or IT-enabled services, accordingly corresponding changes have also been proposed in section 154A to omit the withholding tax exemption available to such IT exporters.

Accordingly, the bank would deduct tax at the time of realization of foreign exchange proceeds on account of exports of computer software or IT services or IT enabled services at 0.25%, which shall be a final tax on the income of IT exporters, upon fulfillment of the conditions mentioned in the section.

Such exporters of services can opt for taxation on net income basis, by filing an option at the time of filing of return.

17. Resident Individual [Section 82]

Under existing provisions of law, a resident individual is the one, who is present in Pakistan for a total of 183 days or more in a tax year or either is an employee of the Federal Government or a Provincial Government.

The Bill proposes to expand the scope of the definition of resident individual by amending section 82 to include an individual who is a citizen of Pakistan but not the tax resident of any other country.

This would mean that citizen of Pakistan who stays in Pakistan for less than 183 days and is not a tax resident of any other country would be treated as a resident individual for taxation purposes under the Ordinance.

Implementation of the proposed change in the definition is likely to be a challenge for tax authorities and would also create more burden on the individual to prove his residential status in any other country.

Using the amended definition now the Tax Officers would be at a liberty to issue notices to any individual, declaring himself as a non-resident person, to prove his residential status in any other country, and then confronting such individual with respect to his foreign source income.

Necessary clarification needs to be issued by the Board as to determination of residential status in other countries including any documentation required to avoid any hardships to be faced by the taxpayers having stay in different countries during a particular tax year.

18. Taxation of Association of Persons (AOP) [Section 92]

The Bill propose to insert an explanation in section 92 whereby it is clarified that if the income of AOP is exempt and no tax is payable under the Ordinance due to such exemption, the share received in the capacity as a member out of the income of the AOP shall remain tax-exempt in hands of the member.

19. Special provisions relating to payment of tax through electricity connections [Section 99A]

In order to bring retailers under tax net, the Bill proposes to introduce new regime for retailers to ensure collection of tax through electricity bills.

The Bill proposes to charge and collect tax from retailers other than Tier-I retailers as defined in Sales Tax Act, 1990 (VII of 1990) and specified service providers on commercial electricity connections at following rates:

Gross Amount of Monthly Bill	**Tax**
Where the amount does not exceed Rs. 30,000	Rs. 3,000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	Rs. 5,000
Where the amount exceeds Rs. 50,000 but Does not exceed Rs. 100,000	Rs. 10,000
Specified retailers and service providers through Income Tax General Order	Rs. 50,000

A retailer who has paid sales tax under sub-section (9) of section 3 of Sales Tax Act, 1990 (VII of 1990), shall not be required to pay tax under this section and the sales tax so paid shall constitute discharge of tax liability under this section.

The tax collected or paid under this section shall be final tax on the income of persons covered under this section in respect of business being carried out from the premises where the electricity connection is installed.

For the purposes of this section, Board with the approval of the Minister in-charge may issue an income tax general order to:

(a) provide the scope, time, payment, recovery, penalty, default surcharge, adjustment or refund of tax payable under this section in such manner and with such conditions as may be specified.

(b) provide record keeping, filing of return, statement and assessment in such manner and with such conditions as may be specified;

(c) provide mechanism of collection, deduction and payment of tax in respect of any person; or

(d) include or exempt any person or classes of persons, any income or classes of income from the application of this section, in such manner and with such conditions as may be specified.

While introduction of this final tax regime for retailers may help in bringing the retail sector under tax net by asking them to pay nominal taxes through electricity bills; however, this is against the policy of documentation as the purchase and sales of such retailers will remain undocumented. Apparently once again the government has not been able to convince this very large sector of our economy to document their business. No further tax audits will be conducted from retailers paying taxes under this section.

20. Tax credit for charitable organizations [Section 100C]

Under the existing provisions, in order to claim 100% tax credit under section 100C, prescribed persons are required to obtain approval from Commissioner under section 2(36) of the Ordinance. Such provisions were applicable from July 1, 2022 for persons mentioned in Table-II of clause (66) of Part I of the Second Schedule to this Ordinance.

The Bill proposes to extend the applicability for Commissioner's approval for such persons from July 1, 2022 to July 1, 2024.

21. Recharacterisation of income and deductions [Sections 109]

Under the existing provisions of law, for the purposes of determining liability to tax under this Ordinance, the Commissioner may:

(a) recharacterise a transaction or an element of a transaction that was entered into as part of a tax avoidance scheme;

(b) disregard a transaction that does not have substantial economic effect; or

(c) recharacterise a transaction where the form of the transaction does not reflect the substance.

(d) from tax year 2018 and onwards, disregard an entity or a corporate structure that does not have an economic or commercial substance or was created as part of the tax avoidance scheme.

The Bill proposes to enhance Commissioner's powers from tax year 2018 and onwards to treat a place of business in Pakistan as a permanent establishment of a non-resident, if such fixed place of business that is used or maintained by a person, if the person or an associate of a person carries on business at that place or at another place in Pakistan and:

(i) that place or other place constitutes a permanent establishment of the person or an associate of the person; or

(ii) business carried on by the person or an associate of the person at the same place or at more than one place constitute complementary functions that are part of a cohesive business operation.

Apparently the intent is to extend the power of the Commissioner to recharacterize the business conducted between the associates that are part of cohesive business operations for tax year 2018 and onwards only.

22. Unexplained income or assets [Section 111]

Section 111(4) provides immunity from the Commissioner's inquiry for an amount up to Rs.5 million in a tax year, remitted through normal banking in Pakistan in foreign currency and converted into Pak rupees by a scheduled bank and a certificate from such a bank is produced by the taxpayer.

Through Tax Laws (Third Amendment) Ordinance, 2021 an explanation was inserted in section 111(4) whereby remittances through money service bureaus, exchange companies, or money transfer operators shall be deemed to constitute foreign exchange remitted from outside Pakistan through normal banking channels.

The above explanation was introduced consequent to the decisions of the Appellate forums, wherein, remittances from the above-listed services/channels were accepted under the purview of section 111(4). Furthermore, FBR has issued a detailed circular No. 05 of 2020 on the matter in line with the clarification received from the State Bank of Pakistan on the above-listed services/challans.

Through Finance Act 2021, an explanation under section 111(5) was inserted whereby it was clarified that separate notice under section 111 is not required to be issued if the explanation regarding the nature and source of the amount credited or the 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).

Through the Bill, the above explanation has been substituted whereby it is again clarified that a separate notice under section 111 is not required to be issued if the explanation regarding nature and sources in whole or in part has been confronted to the taxpayer through a notice under section 122(9) of the Ordinance.

Furthermore, the scope of the required explanations in respect of unexplained income, expenditure, assets, etc. from a person has been comprehensively enhanced in line with sub-section (1) of section 111 to include below items:

i. any amount credited in a person's books of account; or
ii. any investment made or ownership of money or valuable article; or
iii. funds from which expenditure was made; or
iv. suppression of any production, sales, or any amount chargeable to tax; or
v. suppression of any item of receipt liable to tax in whole or in part

23. Minimum Tax [Section 113]

The Bill proposes to omit clause (c) of section 113(2), which allows the taxpayers to carry forward and adjust the excess amount of minimum tax paid under section 113(1) over and above the actual tax payable as per the normal tax rates specified in clause 1 of Division I or Division II of Part 1 of the First Schedule, for subsequent five tax years.

This particular clause when introduced was much appreciated as it was targeted to encourage the corporate sector to declare profits and taxable income allowing them to adjust the minimum tax paid in previous years when their business was not doing well.

This is likely to lead to litigations, especially in respect of minimum tax paid till date and where vested right for carrying forward such excess tax has been vested.

24. Enforcement of filing of returns [Section 114B]

The Bill proposes to introduce a new section 114B to compel non-filers for filing their returns of income. The proposed section empowers the Board to issue a general order in respect of persons not appearing in the Active Taxpayers' List (ATL) to file their return of income under section 114 of the Ordinance. The section also entails the repercussions of non-filing of returns subsequent to the issuance of general order that may comprise one or more of the following:

- Disabling of mobile phones and mobile sims;
- discontinuance of electricity connection; or
- discontinuance of gas connection.

The section also gives authority to the Board and the Commissioner having jurisdiction over the case to restore the above-mentioned retributions once satisfied that either the return has been filed or the person was not liable to file return of income under the provisions of the Ordinance.

For including a person's name in the general order, the section also binds the Board to check if the following criteria meets:

a) notice under sub-section (4) of section 114 of the Ordinance has been issued;

b) date of compliance of the notice under sub-section (4) of section 114 has elapsed; and

c) the person has not filed the return.

The same provisions were previously announced through the Tax Laws (Third Amendment) Ordinance, 2021 and have again been proposed through the Bill. These are positive initiatives towards filing of tax returns and documentation of economy.

25. Amendment of assessments [Section 122]

Currently, a time period of 120 days from the issuance of show-cause notice has been specified for passing an order under section 122(5A) or 122(9) of the Ordinance. The time is extendable for a further period of 90 days due to reasons to be recorded in writing by the Commissioner.

Through the Bill, it is proposed to increase the above number of days from 120 to 180 days for passing an order.

26. Alternative Dispute Resolution (ADR) [Section 134A]

The Bill proposes to substitute the existing process of ADR under section 134A of the Ordinance, whereby an aggrieved person may apply for appointment of ADR in connection with any dispute pertaining to:

(i) the liability of tax of Rs 100 million and above against the aggrieved person or admissibility of refund, as the case may be;

(ii) the extent of waiver of default surcharge and penalty; or

(iii) any other specific relief required to resolve the dispute.

Application for appointment of ADR Committee can be made for the resolution of any hardship or dispute mentioned in detail in the application, which is under litigation in any court of law or an Appellate Authority, except where criminal proceedings have been initiated.

Following are the main features of new scheme as compared to the proposed amendment in ADR:

(i) Omission of the requirement whereby the Board, in cases involving a mixed question of fact and law, shall consider all relevant facts and circumstances, and decide whether or not ADRC may be constituted;

(ii) Inclusion of a non-retractable tax payment offer by the applicant along with the proposition accompanying the application;

(iii) Increased the time limit from thirty days to forty-five days to constitute ADRC;

(iv) Entitling the taxpayer to nominate a person from the panel notified by the Board for the formation of ADRC;

(v) For including a reputable business man in the panel notified by the Board, it is now required that the businessman shall be nominated by Chamber of Commerce and Industry;

(vi) The Board may also include the officer of the Inland Revenue Service who has retired in BS 21 or above in the panel;

(vii) Restricts taxpayer through the introduction of a proviso not to appoint a Chartered Accountant or advocate who is or has been an authorized representative of the taxpayer;

(viii) Mandatory requirement for withdrawal of appeal pending before any court or an appellate authority after constitution of ADRC by the aggrieved person, Commissioner or both. Due to the given change decision of the ADRC appears to be binding on both the Commissioner Inland Revenue and the aggrieved person;

(ix) Restriction on ADRC on commencement of proceedings prior to the communication to the Board through an order of withdrawal of appeal by the Court of law or an appellate authority. In case order of withdrawal of appeal is not received within seventy-five days of formation of ADRC, the committee shall be dissolved and no related provisions would apply.;

(x) Dispute is to be decided by majority instead of consensus where inquiry is made, expert opinion is sought or audit is conducted while deciding the matter;

(xi) Time limit to decide the case is extended upto 120 days from the date of appointment excluding the days of communication of withdrawal order. Previously, period of 60 days was given from the date of appointment that were extendable to further 30 days;

(xii) The decision of the ADRC would not be taken as a precedent in any other case or in the same case for a different tax year; industrial undertakings for their personal use.

(xiii) Recovery of tax shall be stayed on withdrawal of appeal to the date of decision of ADRC or dissolution of ADRC, whichever is earlier. Previously the stay was applicable from the constitution of committee;

(xiv) No new committee would be formed in case of failure of ADRC to decide the dispute within 120 days; instead the matter would be treated as pending before such court of law or appellate authority as if the appeal had never been withdrawn; and

(xv) The aggrieved person is now required to communicate the order of dissolution of ADRC within sixty days to the court of law or appellate authority which shall decide the case within sixty days of receiving the order.

The substituted section suggests that the legislature intends to give a real alternate to the taxpayers for resolving their disputes in an amicable manner as the decision of the ADRC is not also binding on the Commissioner.

27. Imports [Section 148 (7)]

a. Taxation of Goods imported by Industrial Undertakings

(i) Under the existing law, tax deducted under section 148 of the Ordinance are treated as minimum tax on account of imported goods classified under Parts I II and III of the Twelfth Schedule other than tax deductions on account imported goods classified under part I and part II by

The Bill proposes to treat the income arising from import of goods classified under Parts I II and III of the Twelfth Schedule under Final Tax Regime, other than the income arising on account of such goods imported by industrial undertakings for their personal use.

(ii) The Bill proposes to remove the reference of the tax rates of 1% and 2% thereby rendering the tax collected at the rate of 5.5% in respect of goods, classified under part III of the Twelfth Schedule, imported by an industrial undertaking for their personal use, to be treated as adjustable.

b. Minimum tax on import of specified goods

The Bill proposes to treat the advance tax paid at import stage on edible oil, packaging material, paper & paper board and plastics as Minimum Tax through insertion of new sub-section (7A) of section 148 of the Ordinance.

28. Salary [Section 149]

The Bill proposes to make consequential changes under section 149, deleting the reference of sections 62, 63 and 64 from sub-section (1) on account of adjustment by employers while deducting tax from salary payments, as a consequence of proposed deletion of tax credits which were previously available on account of investments in shares, insurance and contribution to Approved Pension Fund.

29. Certificate of collection or deduction of tax [Section 164]

The Bill proposes to introduce editorial change by replacing the word "Challan of Payment" with Computerized Payment Receipt (CPR) as mentioned under sub sections (1) and (2).

The Bill further purpose that in case where tax is paid by a notified SWAPS agent in accordance with section 164A of the Ordinance, copy or number of SWAPS Payment Receipt (SPR) shall replace copy or number of CPR for the purpose of Ordinance.

30. Payment of tax by SWAP agents [Clause (62B) of Section 2 and Section 164A]

The Bill proposes to introduce Synchronized Withholding Administration and Payment System (SWAPS) for payment through digital mode, of tax collected or deducted. Under the new system the Board will notify withholding agents to act as SWAPS agents and make payment of tax collected or deducted through digital mode and issue SWAPS Payment Receipt (SPR) against the tax deposited by them, within the time and manner as notified. The persons from whom tax has been collected or deducted shall be allowed a credit thereof.

Where tax is paid by a notified SWAPS agent in accordance with the proposed section, copy or number of SPR shall replace copy or number of CPR for the purpose of Ordinance. Further, the notified SWAPS agent who fails to integrate itself with the system shall not be allowed tax credits and exemptions provided in the Ordinance.

31. Records [Section 174(3)]

Under the current law, the taxpayers are required to maintain accounts and documents for six years after the end of the tax year to which they relate.

The Bill proposes to exclude record related to transactions covered under section 111(2) i.e. for expenses incurred outside Pakistan, foreign assets and foreign income, which are discovered by the Commissioner Inland Revenue, from the said limitation six year for maintaining relevant accounts and documents.

Consequently, taxpayers are now required to maintain relevant records and documents pertaining to foreign transactions as envisaged under section 111(2) even after expiry of six years.

32. National Database and Registration Authority (NADRA) [Section 175B]

To broaden tax base of the Board, the Bill proposes to introduce a new section 175B which would empower NADRA to share with the Board records and information available with it, either on its own motion or on application made by the Board.

The section also proposes ways for facilitating information sharing between NADRA and the Board such as submission of proposals to the Board with a view of broadening the tax base, identification of assets, income, receipts or expenditures of a taxpayer that has escaped assessment, misdeclared or misclassified by the taxpayer or entering into a memorandum of understanding.

The Board would have all authority to use the information for the purposes of the Ordinance or to forward to an income tax authority having jurisdiction in relation to the subject matter.

Further, under the powers conferred upon NADRA, it may calculate indicative income and tax liability of a taxpayer using the artificial intelligence, mathematical or statistical modeling or any other modern device or calculation method. Such indicative income and tax liability shall be notified by the Board to the personwho shall have the option to pay the determined amount of tax on such terms, conditions, installments, discounts, reprieves pertaining to penalty and default surcharge, and time limits that may be prescribed by the Board. In case the taxpayer fails to pay the communicated tax within the time prescribed, the Board may take action under the provisions of the Ordinance.

In case payment if made by the taxpayer, it would be considered as an amendment of assessment under sections 120(1), 122(1) or 122(4) of the Ordinance, as the case may be.

These measures were earlier announced through the Tax Laws (Third Amendment) Ordinance, 2021 and have again been proposed through the Bill. Enactment of these measures will further bring transparency in records of a taxpayer and concealment of any asset or income would become more challenging for the taxpayer.

33. Audit [Sections 177]

Issuance of audit report by Commissioner Inland Revenue [Section 177(6)]

Under current law, there is procedural requirement for the Commissioner Inland Revenue to issue an audit report, containing audit observations and findings, upon completion of audit of the income tax affairs of the taxpayers prior to issuing the amendment order. The Bill proposes to delete such requirement.

As a result of above amendment, the Commissioner Inland Revenue is now only required to issue show cause notice after completion of audit and before issuance of amended assessment order. The proposed amendment has taken care of a contentious issue as there has been a number of litigations on this matter whereby the tax payer contested the amendment order on the plea that no audit report was issued by the Officer as required under the law.

34. Record of beneficial owners [Section 181E]

The Bill proposes to introduce section 181E, whereby, every company and association of persons shall electronically furnish particulars of its beneficial owners in such form and manner as may be prescribed. Such particulars of beneficial owners are also proposed to be updated as and when there is a change in the particulars of the beneficial owners. The definition of beneficial owner has also been introduced besides prescribing penalties for not furnishing record under section 181E.

35. Offence and penalties [Section 182]

The Bill proposes to substitute the penalties in respect of any offences related to section 114 in entries 1 of “TABLE” given in section 182 and the said entry stand amended as follows:

<table>
<tr><th>S.No</th><th>Offences</th><th>Penalties</th><th>Section of the Ordinance to which offences has reference</th></tr>
<tr><td>1</td><td>Where any person fails to furnish a return of income as required under section 114 within the due date</td><td>Such person shall pay a penalty equal to higher of

(a) 0.1% of the tax payable in respect of that tax year for each day of default; or

(b) Rupees one thousand for each day of default: Provided that minimum penalty shall be

(i) Rupees ten thousand in case of individual having seventy-five percent or more income from salary; or

(ii) Rupees fifty thousand in all other cases:

Provided further that maximum penalty shall not exceed two hundred percent of tax payable by the person in a tax year:

Provided also that the amount of penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law;

Explanation. For the purposes of this entry, it is declared that the expression "tax payable" means tax chargeable on the taxable income on the basis of assessment made or treated to have been made under section 120, 121, 122 or 122D.</td><td>114 and 118</td></tr>
</table>

The following new entries in respect of offenses specified therein are also proposed to be inserted in "TABLE" given in section 182

30	Any company or Association of Persons who contravenes the provision of section 181E.	Such company or Association Persons shall pay penalty of Rs.1,000,000 for each default.	181E
31	Any person who fails to integrate or perform roles and functions as specified, after being duly notified by the Board as SWAPS Agent.	Such person shall pay a penalty of: (i) Rs.50,000 for first default of 07 days (ii) Rs. 100,000 for second default of next 07 days (iii) Rs. 50,000 for each week after the second consecutive week of default: Provided that no penalty shall be imposed for the period for which extension from integration is granted by the Commissioner subject to the condition that, if the SWAPS Agent fails to integrate within such extended time, penalties shall be imposed as if no extension was granted."	164A
32	Any person, who is integrated for monitoring, tracking, reporting or recording of sales, services and similar business transactions with the Board or its computerized system, conducts such transactions in a manner so as to avoid monitoring, tracking, reporting or recording of such transactions, or issues an invoice which does not carry the prescribed invoice number or QR code or bears duplicate invoice number or counterfeit QR code, or defaces the	Such person shall pay a penalty of five hundred thousand rupees or two hundred per cent of the amount of tax involved, whichever is higher.	237A

	prescribed invoice number or QR code, or any person who abets commissioning of such offence.		
33	Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, services and similar business transactions with the Board or its computerized system, fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under law.	Such person shall be liable to pay a penalty up to one million rupees, and if continues to commit the same offence after a period of two months after imposition of penalty as aforesaid, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under sub-section (3) of section 237A, as the case may be.	237A
34	A person required to integrate his business as stipulated under sub-section (3) of section 237A, who fails to get himself registered under the Ordinance, and if registered, fails to integrate in the manner as required under the law and rules made thereunder.	Such person shall be liable to pay- i) Penalty of five hundred thousand rupees for first default; ii) Penalty of one million rupees for second default after fifteen days of order for first default; iii) Penalty of two million rupees for third default after fifteen days of order for second default; iv) Penalty of three million rupees for fourth default after fifteen days of order for third default: Provided that if such person fails to integrate his business within fifteen days of imposition of penalty for fourth default, his business premises shall be sealed till such time he integrates his business in the manner as stipulated under sub-section (3) of section 237A: Provided further that if the person integrates his business with the Board's computerized system before imposition of penalty for second default, penalty for first default shall be waived by the Commissioner.”;	237A

36. Prosecution for non–compliance with certain statutory obligations [Section 191]

The Bill proposes to insert new clauses (h) and (i) to sub section (1) of section 191, whereby scope of conviction with a fine or imprisonment or both has also been extended to a person who, without reasonable excuse, fails to:

- Integrate his business with Board's computerized system
- Generate tax invoice verifiable by the Board's system

37. Uniform [Section 209A]

The Bill proposes to empower the Board to prescribe rules for wearing of uniform by officers and staff of Inland Revenue Services of Pakistan.

FBR introduced S.R.O. 1515 (I)/2021 dated November 26, 2021, wherein rules relating to Uniform were prescribed and it was also mentioned that such rules shall take effect as and when notified by the Board. However, no notification was issued till to date.

38. Disclosure of Information by a Public Servant [Section 216]:

Currently, sub-section 2 of Section 216 provides that notwithstanding the provisions of the Qanun-e- Shahadat, 1984 (P.O. Oder No. 10 of 1984, (no court or other authority is entitled to require any public servant to produce before it any return, accounts or documents contained in or forming a part of the records relating to any proceedings under the Ordinance, or declarations made under the Voluntary Declaration of Domestic Assets Act, 2018, the Foreign Assets (Declaration and Repatriation) Act, 2018 or the Assets Declaration Act, 2019 or any records of the Income Tax Department generally, or any part thereof, or to give evidence before it in respect thereof.

The substituted sub-section (2) proposes to further safeguard the disclosure of information by public servants even in the case of the following regulations:

- The National Accountability Ordinance, 1999 (XVIII of 1999):
- The Federal Investigation Agency Act, 1974 (VIII or 1975): and
- The Right of Access to Information Act, 2017 (XXXIV of 2017).

39. Proceedings against Authority and Persons [Section 216A]:

Section 216A was inserted vide Finance Act, 2019, for the Board to prescribe the rules for initiating the criminal proceedings against any authority and any person subordinate to such authority mentioned in section 207 and officers of Directorates General and their subordinates who willfully and deliberately commits or omits an act which results in personal benefits and undue advantage to the authority or the person or taxpayer or both. Through the Bill, the said section is proposed to be deleted.

40. Electricity Consumption [Section 235]:

The Bill proposes to insert new sub-section under the section 235, with respect to retailers and service providers mentioned under section 99A of the Ordinance, for collection of tax through electricity bills as under:

Gross Amount of Monthly Bill	**Tax**
Where the amount does not exceed Rs. 30,000	Rs. 3000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	Rs. 5000
Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	Rs. 10,000
Specified retailers and service providers through Income Tax General Order	Rs. 50,000

41. Advance Tax on Sale or Transfer of Immoveable Property [Section 236C]:

Under the existing law, person responsible for registering, recording or attesting transfer of any property shall at time of registering, recording or attesting the transfer shall collect from the seller or transferor advance tax at specified rates. Such tax collection was not applicable if property was held for a period exceeding four years. The Bill proposes to extend the holding period from four years to ten Years.

The reference of the period of 10 years appears to be a mistake as the intent of the legislature appears to replace the period of 4 years with 6 years in line with the amendment proposed in the Division VIII of Part I of the First Schedule providing for exemption of capital gain tax in respect of properties held for a period of more than 6 years as against the period of 4 years currently provided.

42. Collection of Advance Tax by Educational Institutions [section 236I]:

Previously, Persons making payment to an education institution, not appearing in the Active Tax Payers list, were subject to collection of advance tax. Through the Bill, the said section is proposed to be deleted.

43. Payment to Residents for Use of Machinery and Equipment [Section 236Q]:

Previously, person making payment to resident person for use or right to use industrial, commercial and scientific equipment was subject to collection of advance tax. Through the Bill, the section 236Q introduced vide Finance Act, 2015 is proposed to be deleted.

44. Advance Tax on Persons Remitting Amounts Abroad Through Credit or Debit or Prepaid Cards [Section 236Y]:

Collection of advance tax on foreign remittances through debit or credit card was first introduced through the Finance Act, 2018, whereby rate of collection of Advance Tax was 1%. Later the same was omitted through Finance Act, 2021. The Bill again proposes to insert the said section whereby advance tax shall be collected at the rate of 1%, by a banking company from every person making payment outside Pakistan through Credit or Debit or Prepaid Cards. Advance tax collected under this section shall be adjustable.

45. Electronic Record [Section 237A]

Under the existing provisions of law, the Board is empowered to prescribe any person to replace its manual record keeping system with electronic resource of the Board and also validates the authenticity of such records according to the Ordinance.

The Bill now proposes that an integrated enterprise as per the provisions of this section, cannot make any sale or render any services without generating fiscal invoice as may be prescribed by the Board.

46. Prize Schemes to promote tax culture [Section 237B]

The Bill proposes to empower the Board to prescribe prize schemes for encouraging general public to make purchases or avail services only from integrated enterprises issuing tax invoices.

The Board may prescribe procedure for mystery shopping in respect of invoices issued by integrated enterprises on random basis and in case of any discrepancy, relevant provisions for penalizing and rectifying the discrepancies will be invoked.

The First Schedule

Rates of Tax

Part I

Division I

Clause I -Rates of Tax for Non- Salaried Individuals and Association of Persons

The Finance Bill proposes to increase basic threshold for the rates of tax for salaried individuals from Rs.600,000 to Rs.1,200,000 and for non-salaried and association of persons (AOPs) from Rs.400,000 to Rs.600,000.

1. Proposed tax slabs for AOP and non-salaried individual are as follows:

S. No.	Income Slabs	Rate of Tax Proposed
1	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000.	5% of the amount exceeding Rs. 600,000.
3	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	Rs. 10,000 plus 12.5% of the amount exceeding Rs. 800,000
4	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 60,000 plus 17.5% of the amount exceeding Rs. 1,200,000
5	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 270,000 plus 22.5% of the amount exceeding Rs. 2,400,000
6	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 405,000 plus 27.5% of the amount exceeding Rs. 3,000,000
7	Where taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 680,000 plus 32.5% of the amount exceeding Rs. 4,000,000
8	Where taxable income exceeds Rs. 6,000,000	Rs. 1,330,000 plus 35% of the amount exceeding Rs. 6,000,000

2. Below is the comparison of tax liability between different amounts of taxable income taxed currently and as per the proposed amendments for non-salaried persons and AOPs:

S. No.	**Annual Taxable Income (Rs)**	**Annual Tax Liability (Rs)**		
		Existing	**Proposed**	**Increase / (Decrease)**
1	400,000	-	-	-
2	600,000	10,000	-	(10,000)
3	1,200,000	70,000	60,000	(10,000)
4	2,400,000	250,000	270,000	20,000
5	3,000,000	370,000	405,000	35,000
6	4,000,000	620,000	680,000	60,000
7	6,000,000	1,220,000	1,330,000	110,000

Clause II - Rates of Tax for Salaried Individuals

3. Proposed tax slabs for salaried individuals are as follows:

S. No.	**Income Slabs**	**Rate of Tax Proposed**
1	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000.	Rs. 100
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	7% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 84,000 plus 12.5% of the amount exceeding Rs. 2,400,000
5	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 234,000 plus 17.5% of the amount exceeding Rs. 3,600,000
6	Where taxable income exceeds Rs. 6,000,000 but does not exceed Rs. 12,000,000	Rs. 654,000 plus 22.5% of the amount exceeding Rs. 6,000,000
7	Where taxable income exceeds Rs. 12,000,000	Rs. 2,004,000 plus 32.5% of the amount exceeding Rs. 12,000,000

4. Below is the comparison of between different amounts of salaries taxed at current tax rates and potential tax liability as per the proposed rates:

S. No.	Annual Taxable Income (Rs)	Annual Tax Liability (Rs)		
		Existing	Proposed	Increase / (Decrease)
1	600,000	-	-	-
2	1,200,000	30,000	100	(29,900)
3	1,800,000	90,000	42,000	(48,000)
4	2,500,000	195,000	96,500	(98,500)
5	3,500,000	370,000	221,500	(148,500)
6	5,000,000	670,000	479,000	(191,000)
7	8,000,000	1,345,000	1,104,000	(241,000)
8	12,000,000	2,345,000	2,004,000	(341,000)
9	30,000,000	7,295,000	7,854,000	559,000
10	50,000,000	13,295,000	14,354,000	1,059,000
11	75,000,000	21,420,000	22,479,000	1,059,000

Number of slabs for salaried persons are proposed to be reduced from twelve to seven. Slabs for annual salary exceeding Rs. 12,000,000 have been proposed to be deleted. Below is the comparison for salaried persons' slabs:

S. No	Existing		Proposed	
	Income Slabs	Rate of Tax	Income Slabs	Rate of Tax
1	Where taxable income does not exceed Rs. 600,000	0%	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	100
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,800,000	Rs. 30,000 plus 10% of the amount exceeding Rs. 1,200,000	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	7% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 1,800,000 but does not exceed Rs. 2,500,000	Rs. 90,000 plus 15% of the amount exceeding Rs. 1,800,000	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,600,000	Rs. 84,000 + 12.5% of the amount exceeding Rs. 2,400,000
5	Where taxable income exceeds Rs.2,500,000 but does not exceed Rs. 3,500,000	Rs. 195,000 plus 17.5% of the amount exceeding Rs. 2,500,000	Where taxable income exceeds Rs. 3,600,000 but does not exceed Rs. 6,000,000	Rs. 234,000 + 17.5% of the amount exceeding Rs. 3,600,000

S. No	Existing		Proposed	
	Income Slabs	**Rate of Tax**	**Income Slabs**	**Rate of Tax**
6	Where taxable income exceeds Rs. 3,500,000 but does not exceed Rs. 5,000,000	Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000	Where taxable income exceeds Rs. 6,000,000 but does not exceed Rs. 12,000,000	Rs. 654,000 + 22.5% of the amount exceeding Rs. 6,000,000
7	Where taxable income exceeds Rs. 5,000,000 but does not exceeds Rs. 8,000,000	Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000	Where taxable income exceeds Rs. 12,000,000	Rs. 2,004,000 + 32.5% of the amount exceeding Rs. 12,000,000.”
8	Where taxable income exceeds Rs. 8,000,000 but does not exceeds Rs. 12,000,000	Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000		
9	Where taxable income exceeds Rs. 12,000,000 but does not exceeds Rs. 30,000,000	Rs. 2,345,000 plus 27.5% of the amount exceeding Rs. 12,000,000		
10	Where taxable income exceeds Rs. 30,000,000 but does not exceeds Rs. 50,000,000	Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000		
11	Where taxable income exceeds Rs. 50,000,000 but does not exceeds Rs. 75,000,000	Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000		
12	Where taxable income exceeds Rs. 75,000,000	Rs. 21,420,000 plus 35% of the amount exceeding Rs. 75,000,000]		

Proposed tax rates will affect the salaried individuals falling in each of current the tax slabs as per the following table:

S. No.	Monthly Salary Income	Monthly Tax Liability (Rs)		
		Existing	Proposed	Increase / (Decrease)
1	50,000	-	-	-
2	100,000	2,500	8	(2,492)
3	150,000	7,500	3,500	(4,000)
4	208,333	16,250	8,042	(8,208)
5	291,667	30,833	18,458	(12,375)
6	416,667	55,833	39,917	(15,916)
7	666,667	112,083	92,000	(20,083)
8	1,000,000	195,417	167,000	(28,417)
9	2,500,000	607,917	654,500	46,583
10	4,166,667	1,107,917	1,196,167	88,250
11	6,250,000	1,785,000	1,873,250	88,250

[Division II]

The Bill proposes to increase the rate of tax for banking companies from 35% to 45%. Rate of tax for small companies and other companies, which is currently 20% and 29% respectively, is proposed to remain unchanged. The proposed increase in tax rate for banking companies is aimed at taxing the windfall gains derived by banking companies, due to high prevailing interest rates. We understand that this proposed significant increase may have an adverse impact on the investment in banking sector, while at the same time providing the Government much needed tax revenue.

Rate of Super Tax
[Division IIA]

Super tax under section 4B of the Income Tax Ordinance, 2001 was previously inserted by the Finance Act, 2015 for rehabilitation of temporarily displaced persons. Under this section, the banking companies were required to pay super tax at the rate of 4% of their income. Currently, there is no time limit on the applicability of super tax. Through this Bill, it is proposed to be applicable upto tax year 2022 only. The proposed change apparently proposes to compensate the banking companies for the proposed increase in their tax rate to 42%.

Section 4B is likely to be redundant for tax year 2023 onwards, after the above-mentioned proposed substitution in Division IIA takes effect. Accordingly, the legislature may consider omitting section 4B.

Tax on high earning persons for poverty alleviation
[Division IIB]

A tax on high earning persons for poverty alleviation is proposed by introducing section 4C in the Ordinance, on persons having income of Rs. 300 million or above, at the rate of 2% of their income. The proposed tax is payable for tax year 2022 and onwards, which includes persons having special tax regimes such as banking companies, insurance companies, oil exploration companies, etc. By proposing this tax, the Bill proposes to derive tax from high earning persons, to alleviate the hardship faced by approximately 39% of total population living below the poverty line in Pakistan.

Rate of tax on certain payments to non-residents [Division IV]

Section 6 of the Ordinance prescribes the taxation of payments made to non-resident persons against Pakistan-source Royalty, fee for offshore digital services and fee for technical services. The Bill proposes additions in the list of services covered under section 6 of the Ordinance. The proposed additions, along with existing services and their respective rates of tax are as follows:

S. No	Payment against:	Existing rate	Proposed rate
1	Pakistan-source Royalty	15%	15%
2	Fee for offshore digital services	5%	10%
3	Fee for technical services	15%	15%
	Additions:		
4	Fee for money transfer operations	-	10%
5	Card network services	-	10%
6	Payment gateway services	-	10%
7	Interbank financial telecommunication services	-	10%

Capital Gain on Disposal of Securities [Division VII]

The Bill proposes to replace the existing table with the following table for the rates of capital gain tax on disposal of securities:

<table>
<tr><th rowspan="2">S. No.</th><th colspan="2">Existing</th><th colspan="2">Proposed</th></tr>
<tr><th>Period</th><th>Rate for Tax Year 2022 and onwards</th><th>Period</th><th>Rate for Tax Year 2023 and onwards</th></tr>
<tr><td>1</td><td>Where holding period of a security is less than twelve months</td><td rowspan="3">12.5%</td><td>Where the holding period does not exceed one year</td><td>15%</td></tr>
<tr><td>2</td><td>Where holding period of a security is twelve months or more but less than twenty-four months</td><td>Where the holding period exceeds one year but does not exceed two years</td><td>12.5%</td></tr>
<tr><td>3</td><td>Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2013.</td><td>Where the holding period exceeds two years but does not exceed three years</td><td>10%</td></tr>
</table>

S. No.	Existing		Proposed	
	Period	**Rate for Tax Year 2022 and onwards**	**Period**	**Rate for Tax Year 2023 and onwards**
4	Where the security was acquired before 1st July, 2013	0%	Where the holding period exceeds three years but does not exceed four years	7.5%
5	-	-	Where the holding period exceeds four years but does not exceed five years	5%
6	-	-	Where the holding period exceeds five years but does not exceed six years	2.5%
7	-	-	Where the holding period exceeds six years	0%
8	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%

Tax on Capital Gains on disposal of Immovable Property [Division VIII]

The Bill proposes to replace the existing table with the following table for the rates of capital gain tax on disposal of immovable property. Further, the word "immovable property" is elaborated in the proposed replacement and divided into three categories namely; Open plots, constructed property and Flats. Separate rates for each category are proposed in the table.

S. No.	Existing		Proposed			
	Amount of Gain	**Rate of tax**	**Holding Period**	**Rate of Tax**		
				Open Plots	**Constructed Property**	**Flats**
1	Where the gain does not exceed Rs. 5 million	3.5%	Where the holding period does not exceed one year	15%	15%	15%
2	Where the gain exceeds Rs. 5 million but does	7.5%	Where the holding period exceeds one year but does	12.5%	10%	7.5%

S. No.	Existing		Proposed			
	Amount of Gain	Rate of tax	Holding Period	Rate of Tax		
				Open Plots	Constructed Property	Flats
	not exceed Rs. 10 million		not exceed two years			
3	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	10%	Where the holding period exceeds two years but does not exceed three years	10%	7.5%	0%
4	Where the gain exceeds Rs. 15 million	15%	Where the holding period exceeds three years but does not exceed four years	7.5%	5%	-
5	-	-	Where the holding period exceeds four years but does not exceed five years	5%	0%	-
6	-	-	Where the holding period exceeds five years but does not exceed six years	2.5%	-	-
7	-	-	Where the holding period exceeds six years	0%	-	-

Tax on deemed rental income
[Division VIIIC]

The Bill proposes insertion of section 7E “Tax on deemed rental income” in the Ordinance from tax year 2022 and onwards. The rate of tax is proposed at 20% of the income prescribed in the proposed section 7E, i.e. 5% of fair market value of such property.

Part II

Rates of Advance Tax

The Bill proposes to increase the rate of tax to be collected by the Collector of Customs under section 148 of the Ordinance from the "commercial importer" by 2%. Currently, the rate of tax is collected at 2% of the import value. The current rate and proposed amendment is given in the table below:

S. No.	Existing		Proposed	
	Persons	**Rate**	**Persons**	**Rate**
2	Persons importing goods classified in Part II of the Twelfth Schedule	2% of the import value as increased by customs-duty, sales tax and federal excise duty	Persons importing goods classified in Part II of the Twelfth Schedule	2% of the import value as increased by customs-duty, sales tax and federal excise duty and 4% of the import value as increased by customs duty, sales tax and federal excise duty in case of commercial importer

The Bill proposes substitution of the rates of tax on value of import of mobile phones as under:

S. No.	Existing			Proposed		
	C & F Value of mobile phone (in US Dollar)	**Tax (in Rs.)**		**C & F Value of mobile phone (in US Dollar)**	**Tax (in Rs.)**	
		In CBU condition	**IN CKD/SKD condition**		**In CBU condition**	**IN CKD/SKD condition**
		PCT Heading 8517.1219	**under PCT Heading 8517.1211**		**PCT Heading 8517.1219**	**under PCT Heading 8517.1211**
5	Exceeding 350 and up to 500	3,000	5,000	Exceeding 350 and up to 500	5,000	3,000
6	Exceeding 500	5,200	11,500	Exceeding 500	11,500	5,200

Part III

Payments for Goods or Services
[Division III]

Section 153 relates to withholding tax on specified services at the rate of 3%. The Bill proposes two further services to be added in sub-paragraph (i) of clause (2) in Division III of Part III, which are as follows:

(i) REIT management services.
(ii) Services rendered by National Clearing Company of Pakistan Limited.

Export of services
[Division IVA]

Section 154A explains the taxation framework for export of services, which relates to computer software, IT services or IT enabled services rendered outside Pakistan, construction contracts executed outside Pakistan and any other services notified by the Board. The rate of tax on export of such services was previously 1%. However, the Finance Bill has proposed rate of tax for proceeds from export of Computer Software or IT services and IT Enabled services of 0.25% whereas for others it remains the same 1%.

<table>
<tr><th colspan="4">154A – Export of Services</th></tr>
<tr><th>S.No.</th><th>Types of Receipts</th><th>Existing Rate of Tax</th><th>Proposed Rate of Tax</th></tr>
<tr><td>1</td><td>Export proceeds of Computer Software or IT services or IT enabled services by persons registered with Pakistan software Board.</td><td rowspan="2">1%of Proceeds</td><td>0.25% of Proceeds</td></tr>
<tr><td>2</td><td>Any other case</td><td>1% of Proceeds</td></tr>
</table>

Previously, IT exports were subject to 100% tax credit under section 65F subject to fulfillment of certain conditions. The said credit is proposed to be withdrawn and replaced with 0.25% tax collection from export proceeds.

Part IV

Tax on Motor Vehicles
[Division III]

Section 234 prescribes the advance tax to be collected from motor vehicles in addition to motor vehicle tax.

The Bill proposes changes in rates of tax for passenger transport vehicles plying for hire as follows:

Per Seat Per Annum				
		Existing (Rs.)	**Proposed (Rs.)**	
S.No.	**Description**	**Air / Non Air Conditioned**	**Non Air Conditioned**	**Air Conditioned**
1.	4 or more persons but less than 10 persons	50	500	1,000
2.	10 or more persons but less than 20 persons	100	1,500	2,000
3.	20 persons or more	300	2,500	4,000

The proposed increase seeks to enhance the tax revenue, however, this will ultimately increase the transportation costs for consumers/passengers.

Special provision relating to traders
[Division IV of Part IV of First Schedule]

In order to bring retailers under the tax net, the Bill proposes to introduce new regime for retailers to ensure collection of tax through electricity bills.

The Bill proposes to charge and collect tax from retailers other than Tier-I retailers as defined in Sales Tax Act, 1990 (VII of 1990) and specified service providers on commercial electricity connections at following rates:

Gross Amount of Monthly Bill	Tax Rs.
Where the amount does not exceed Rs. 30,000	3,000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	5,000
Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	10,000
Specified retailers and service providers through Income Tax General Order	50,000

Advance tax on private motor vehicles
[Division VII]

Section 231B provides framework for collection of advance tax at the time of registration, transfer and sales of private motor vehicles. The Bill proposes to increase the withholding tax rate, as follows:

S.No.	Engine Capacity	Existing Tax "Rs"	Proposed Tax "Rs"
1.	Upto 850 cc	7,500	10,000
2.	851cc to 1000cc	15,000	20,000
3.	1001cc o 1300cc	25,000	25,000
4.	1301cc to 1600cc	50,000	50,000
5.	1601ccto 1800cc	75,000	150,000
6.	1801cc to 2000cc	100,000	200,000

7.	2001cc to 2500cc	150,000	300,000
8.	2501cc to 3000cc	200,000	400,000
9.	Above 3000cc	250,000	500,000

The proposed change in withholding tax rates seeks to improve tax revenue; however, the overall burden on the consumers will increase.

The Bill also proposes to provide tax rates where engine capacity is not applicable, as follows:

(i) 3% of import value as increased by customs duty, sales tax and federal excise duty in case of imported vehicles or invoice value in case of locally manufactured vehicles.

(ii) Rs. 20,000 in case of transfer of registration.

Advance tax on sale or transfer of Immoveable property [Division X]

The Bill proposes to increase the advance tax on sale or transfer of immoveable property from 1% to 2% of the gross amount of consideration received.

Advance tax on TV plays and advertisements [Division XA]

Section 236CA, inserted by Finance (Supplementary) Act, 2022 dated January 15, 2022, prescribes the tax to be collected by any licensing authority certifying any foreign TV drama serial or a play dubbed in Urdu or any other language, for screening and viewing on any landing rights channel. Tax so collected is to be treated as minimum tax of that person who obtained a certification from the licensing authority.

The Bill proposes to reduce the tax collected on advertisement starring foreign actor from Rs.500,000/second to Rs. 100,000/second.

Collection of advance tax by educational institutions [Division XVI]

Section 236I requires educational institutions to collect advance tax from a person not appearing in the active taxpayers' list. The Bill proposes to omit section 236I. The corresponding Division in Part IV of the First Schedule is also proposed to be omitted.

Advance tax on purchase of Immoveable property [Division XVIII]

The Bill proposes to increase the advance tax on purchase of immoveable property from 1% to 2% of the gross amount of consideration received.

Payments to residents for use of machinery and equipment [Division XXIII]

Section 236Q relates to the withholding of tax while making payments to residents for use or rent of machinery and equipment. The tax so deducted under this section is minimum tax. The Bill proposes to omit this section. The corresponding Division in Part IV of the First Schedule is also proposed to be omitted.

Advance tax on persons remitting amounts abroad through credit or debit or prepaid cards
[Division XXVII]

The Bill proposes to re-introduce section 236Y, which was earlier omitted through Finance Act, 2021. The said section will require 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.

In view of the above, the Bill proposes to insert 1% rate of advance tax in the Division XXVII of Part IV of the First Schedule to the Ordinance. It is also pertinent to note that the advance tax to be collected under this section shall be adjustable.

The proposed insertion may discourage cross border trade through banking channels, by imposing tax on credit/debit/prepaid card transactions.

The Second Schedule

Part I

Withdrawal of accumulated balance from Voluntary Pension System
[Clause (23A)]

The Bill proposes to substitute Clause (23A) with significant amendments by providing total exemption to a person receiving the accumulated balance from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005.

Currently, exemption is available up to 50% of the accumulated balance received by a person at the time of:

- retirement; or
- disability rendering him unable to work; or
- death by his nominated survivor.

The proposed amendment seeks to do away with the above conditions, thereby granting blanket exemption to the full amount of accumulated balance received from the pension fund. The proposed amendment will give a boost to the pension funds as it would encourage the investment by employed and self-employed individuals to the funds established under the Voluntary Pension System Rules, 2005.

Withdrawal of exemption
[Clause 23B]

The Bill proposes to omit Clause 23B, which provides exemption on the amount received as installment from an income invested out of the accumulated balance for a period of ten years of an individual’s pension accounts maintained under the Voluntary Pension System Rules 2005.

With the omission of the proposed clause, the whole amount received as an installment shall be made part of the income of the person while computing the annual taxable income.

Re-numbering and Omission [Clause 66]

The Bill proposes to re-number the serial No. (xlx) to (xlxv) as (l) to (lv) in the sub clause (1) of column 1 of the Table 1 respectively. The proposed change is merely introduced to correct the wrongly numbered sequence. Further, the following new additions are proposed to be included in the aforesaid Table:

Sr. No.	Name
(lvi)	Pakistan Mortgage Refinance Company Limited.;
(lvii)	The Pakistan Global Sukuk Programme Company Limited."
(lviii)	Karandaaz Pakistan from tax year 2015 onwards
(lix)	Pakistan Sweet Homes Angles and Fairies Place.
(lx)	Public Private Partnership Authority for tax year 2022 and subsequent four tax years
(lxi)	Dawat-e-Islami Trust
(lxii)	Hamdard Laboratories (Waqf) Pakistan

The Bill also proposes to exclude the following institutions from purview of Clause (66) sub-clause (2) of Table 2.

Sr. No.	Name
(xiv)	Pakistan Sweet Homes Angels and Fairies Place.
(xviii)	Pakistan Mortgage Refinance Company Limited.
(xxvii)	Dawat-e-Islami Trust.

Collective investment scheme Clause (99)

As per existing provision of law, any income derived by a Collective Investment Scheme or a REIT Scheme, whereby 90% of accounting income of that year, as reduced by capital gains whether realized or unrealized, is distributed amongst the unit or certificate holders or shareholders as the case may be shall be exempt from tax.

The Bill proposes to insert expression accumulated losses after the words capital gains. Consequent to proposed amendment, accumulated losses shall also be considered for computing accounting income of that year.

Subsidy by Federal Government (Clause 102A)

As per existing provision of law, income of a person representing a subsidy granted to him by the Federal Government for the purposes of implementation of any orders of the Federal Government in this behalf is exempt from tax.

The Bill proposes to withdraw above exemptions. As such, grants received from Federal Government is no more exempt from tax. It is pertinent to mention that there are decisions of the courts whereby it is held that the grants received for a specific purpose is not chargeable to tax.

Substitution of clause (103D)

The Bill proposes to substitute the reference to Special Technology Zones Authority Ordinance, 2020, wherever appearing, with reference to Special Technology Zones Authority Act, 2021. Accordingly, the existing clause 103D is proposed to be substituted with updated clause 103D, in order to give effect to the aforementioned change.

Substitution of clause 126EA

The Bill proposes to substitute the reference to Special Technology Zones Authority Ordinance, 2020, wherever appearing, with reference to Special Technology Zones Authority Act, 2021. Accordingly, the existing clause 126EA is proposed to be substituted with updated clause 126EA, in order to give effect to the aforementioned change.

Profits and gains derived by a taxpayer from an electric power generation Project [Clause 132]

The Bill proposes to add new explanation after sixth proviso in clause (132) as follows:

Through the aforesaid proposed explanation, the Bill seeks to clarify that the withdrawal of exemption inserted through sixth proviso in Finance Act, 2021 shall have prospective effect. However, exemptions granted on or before introduction of said proviso shall remain intact for the life cycle of the project or 25 years from the date of commencement of commercial production, whichever is earlier.

Insertion of Exemption Clauses [Clause 150, 151]

The Bill proposes to insert new clauses after clause (149) and provide exemption to various sectors and individuals as under:

Clause reference	Description of exemption
(150)	Income derived by Siyahkalem Engineering Construction Industry and Trade Company Limited from contract dated 23rd day of May 2017 with Earthquake Reconstruction and Rehabilitation Authority, financed by the Saudi Fund for Development with effect from tax year 2017.
(151)	Any income derived by a person from cinema operations in a tehsil or town where there is no cinema, for five years from the commencement of cinema operations: Provided that this exemptions shall only be available to those persons who start cinema construction on or before 31 day of December, 2023.

Part II

Clause (24C)

As per existing law, 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, electronics excluding mobile phones, sugar, cement, and edible oil as recipient of payment is 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 Ordinance. This reduced rate is only available to 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.

The Bill proposes to add new entry, whereby, distributors, dealers, sub-dealers, wholesalers and retailers of steel shall also be liable to tax withholding at the reduced rate of 0.25% under section 153(1)(a) of the Ordinance.

Clause (24D)

As per existing law, 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 is 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 Ordinance. The subject reduced rate is only available to 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.

The Bill proposes to add new entry, whereby, distributors, dealers, sub-dealers, wholesalers and retailers of steel shall also be liable to minimum tax at the reduce rate of 0.25% under section 113 of the Ordinance.

Part III

Clause (1)

As per existing provision of law, any amount received as flying allowance by flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces; and submarine allowance by the officers of the Pakistan Navy, is to be taxed @ 2.5% as a separate block of income. Provided that the reduction under this clause shall be available to so much of the flying allowance or the submarine allowance as does not exceed an amount equal to the basic salary.

The Bill proposes to omit above clause, the flying allowance to the above stated persons would no more be eligible for reduced tax rate.

Clause (1AA)

As per existing provision of law, total allowances received by pilots of any Pakistani airlines shall be taxed at a rate of 7.5%, provided that the reduction under this clause shall be available to so much of the allowances as exceeds an amount equal to the basic pay.

The Bill proposes to omit above clause, thereby taxability at reduced rate would not be available.

Clause (6)

As per existing provision of law, profit on investment in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account is subject to tax as per slab provided under Division-I, Part-I of the First Schedule: however, tax on such profit on debt shall not exceed 10% of such profit.

The Bill proposes to reduce the tax rate from 10% to 5%.

Clause (9A)

As per existing provision of law, the amount of tax payable on income chargeable under the head, "Capital Gains" on disposal of immovable property shall be reduced by fifty percent on the first sale of immovable property acquired or allotted to ex-servicemen and serving acquired or allotted to ex-servicemen and serving personal of Armed Forces or ex-employees or serving personnel of Federal and Provincial Governments, being original allottee of the immovable property, duly certified by the allotment authority.

The Bill proposes to omit such exemption, consequent to which capital gain will be subject to tax as per tax rate applicable for capital gains under section 37 of the Ordinance.

Clause (20)

As per existing provision of law, the tax payable by a person other than a banking or insurance company in respect of profit on debt from investment in Federal Government securities shall be fifteen percent of the gross amount of the profit on debt. Provided that tax so payable shall be final tax on the income representing profit on debt from investment in Federal Government securities.

The Bill proposes to omit above clause, consequent to which tax on profit on debt derived from Federal Government securities shall be subject to tax at normal rate.

Part IV

Clause (11A)

The Bill proposes to insert new entry, consequent to which provision of section 113, minimum tax on the income of certain persons, will not apply to mobile phone manufacturers engaged on the local manufacturing of mobile phone device.

Clause (12BA)

The Bill proposes to insert new clause, whereby provision of section 148 of the Ordinance shall not be applicable on the import of thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s Hanes Brands Inc. North Carolina, USA for distribution within population of Lahore Division, Government of the Punjab.

Exemption of advance tax on import of agricultural drones and cinematographic equipment
[Clause 12O and 12P]

Two new clauses are proposed to be inserted, namely "12O" and "12P", after clause 12N which will provide exemption from applicability of section 148. Section 148 deals with collection of advance tax on import of goods.

Accordingly, import of the following items is proposed to be exempted from collection of advance tax at import stage:

- Import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route;

- Import of cinematographic equipment as notified by the Federal Government.

The above proposed exemptions are expected to boost use of technology in agriculture, which shall increase the production of crops. Similarly, it shall also provide tax relief to cinema industry and boost film production.

Substitution of clause (60DA)

The Bill proposes to substitute the reference to "Special Technology Zones Authority Ordinance, 2020", wherever appearing, with "Special Technology Zones Authority Act, 2021".

Omission of clause (86)

The Bill proposes to omit clause (86) of Part IV of the Second Schedule to the Ordinance which provides for the exemption from applicability of section 111 of the Ordinance on certain investments. Omission of this clause will enhance the scope of section 111 of the Ordinance.

In view of the proposed omission, following investments shall now be subject to scrutiny under section 111 of the Ordinance, which are currently exempted from applicability of section 111:

i. investment made by an individual in a green field industrial undertaking directly or as an original allottee in the purchase of shares of a company establishing an industrial undertaking or capital contribution in an association of persons establishing an industrial undertaking;
ii. investment made by an association of persons in an industrial undertaking;
iii. investment made by a company in an industrial undertaking;
iv. investment made in construction industry in corporate sector;
v. investment made in low cost housing construction in the corporate sector;
vi. investment made in livestock development projects in the corporate sector;
vii. investment made in new captive power plants; and
viii. investment made in mining and quarrying in Thar coal, Balochistan and Khyber Pakhtunkhawa.

Exemption from tax for Investment in Sukuks
[Clause 95]

Under the existing clause, the provisions of sections 147, 151, 152, 236A and 236K do not apply to the Second Pakistan International Sukuk Company Limited and the Third Pakistan International Sukuk Company Limited, as payer.

This Bill proposes to add the name of "The Pakistan Global Sukuk Programme Company Limited" in the list of companies given exemption.

Exemption from tax for Investment in Sukuks
[Clause 96]

Under the existing clause, the provisions of sections 151, 143, 155 and 236C do not apply to the Second Pakistan International Sukuk Company Limited and the Third Pakistan International Sukuk Company Limited, as a recipient.

This Bill proposes to substitute the clause whereby the name of "The Pakistan Global Sukuk Programme Company Limited" is added in the list of companies given exemption through aforementioned clause.

Further, changes proposed in exemptions available to above named entities is tabulated as under:

S. No.	Unchanged Exemptions	Proposed removal of exemptions	Proposed new exemptions
1	Section 151- Profit on Debt	Section 147- Collection of Advance tax paid by the taxpayer	Section 236C- Advance tax on sale or transfer of immovable property
2	Section 155- Rent of immovable property	Section 236K- Advance tax on purchase or transfer of immoveable property	Section 153- Payment for goods, services and contracts

Exemption on transfer of immovable property
[Clause 97A]

The Bill proposes to exempt the applicability of Sections 37, 236C and 236K on National Highway Authority in respect of transfer of immovable property to the Pakistan Global Sukuk Programme Company Limited and in respect of transfer of immoveable property to National Highway Authority from the Second Pakistan International Sukuk Company Limited or the Pakistan Global Sukuk Programme Company Limited.

Accordingly, the aforementioned transactions shall not attract capital gain tax under section 37 and advance tax on transfer of property under section 236C and 236K respectively.

Exemption from applicability of section 177 and 214C
[Clause (105A)]

The Bill proposes to insert Clause (105A), which states that provisions of section 177 and 214C shall not apply to a person whose income tax affairs have been audited in any of the preceding four tax years.

Further it is clarified that the Commissioner may select a person under section 177 for audit with the approval of the Board.

Exemption on withholding tax at source
[Clause 120]

The Bill proposes to insert clause (120) which provides for the following exemptions to the persons mentioned in Table 1 of clause (66) of Part I of the second schedule, which include:

1- advance tax paid to collection agent covered under section 148

2- tax deducted at source covered under following sections namely;

i. Section 149- Salary
ii. Section 150- Dividends
iii. Section 151- Profit on Debt
iv. Section 152- Payment to non-residents
v. Section 152A- Payment for foreign produced commercials
vi. Section 153- Payment for goods, services and contracts
vii. Section 154- Exports
viii. Section 154A- Exports of services
ix. Section 155- Rent of immovable property
x. Section 156- Prizes and winnings
xi. Section 156A- Petroleum products
xii. Section 158- Time of deduction of tax

Further it is clarified that such persons shall continue to perform functions as withholding and collecting agent under the aforesaid provisions.

The Fourth Schedule

Rule (6DA)

A new rule is proposed to be introduced, whereby tax at the rate of 2% would be payable for tax year 2022 and onwards, as imposed under section 4C of the Ordinance, by insurance companies, where income is equal to or exceeds Rs. 300 million during a tax year.

The Fifth Schedule

Rule (4AB)

A new rule is proposed to be introduced, whereby tax at the rate of 2% would be payable for tax year 2022 and onwards, as imposed under section 4C of the Ordinance, by exploration and production company (petroleum and other than petroleum), where income is equal to or exceeds Rs. 300 million during a tax year.

The Seventh Schedule

Rules for the computation of the profits and gains of a Banking Company and tax payable thereon;

Section 100A deals with income, profits and gains of a banking company. The rules for computation of the tax payable thereon are specified in Seventh schedule to the Ordinance.

[Substitution of Rule 6A]

The Bill proposes to increase rates of tax in sub rule 6A of rule 6C, which covers enhanced rate of tax on taxable income from Federal Government securities. The proposed increased rates are summarized as follows;

Description	Existing rate	Proposed rate
If gross advance to deposit ratio as on last day of tax year is up to 40%	40%	55%
If gross advance to deposit ratio as on last day of tax year exceeds 40% but does not exceed 50%	37.5%	49%
If gross advance to deposit ratio as on last day of Tax year exceeds 50%	35%	45%*

*The bill has also proposed increase in general tax rate of Banking Companies from 35% to 45%.

The Bill further proposes to insert explanation in sub rule 6A, which shall clarify that the above mentioned rates are applicable in respect of total income attributable to total investment in Federal Government securities.

Tax on high earning persons for poverty alleviation [Rule 7CA]

The Bill, in order to alleviate poverty, has proposed to insert a new section 4C, through which a new tax on high earnings is proposed to be introduced. In order to give effect to this, Rule 7CA is proposed to be inserted to ensure applicability of this tax on banking companies from tax year 2022 onwards.

The Tenth Schedule

Rules for persons not appearing in active tax payers list

[Rule 1; Rate of collection or deduction of tax]

The Bill proposes to increase rates of collection of advance tax, for persons not appearing in active tax payers list by adding two new provisos in Rule 1. Due to the proposed amendments, collection of advance tax shall be increased as follows;

i. Advance tax on registration of private motor vehicles is proposed to be increased by 200% for non-filers.
ii. Advance tax on purchase or transfer of immovable property is proposed to be increased by 250% from non-filers.

[Rule 10]

The Bill proposes to exclude the tax collected or deducted under section 154A, export of services, from applicability of the Tenth Schedule.

The Bill also proposes to remove the following exclusions in respect of applicability of the Tenth Schedule,

i. Section 156B: Withdrawal of balance under pension fund (Note 1)
ii. Section 236I: Collection of advance tax by educational institution (Note 1)
iii. Section 236Q: Payments to residents for use of machinery and equipment (Note 1)

Note 1: Section 156B was omitted vide Finance Act 2020 dated June 30, 2020 while section 236I and 236Q are proposed to be omitted vide this Bill.

The Twelfth Schedule

Imports

The Bill has proposed to reduce the rate of advance tax from 2% to 1% on import of coal; briquettes, ovoids and similar fuels manufactured from coal, from part II to part I of Twelfth Schedule to the Ordinance.

Further in effort to discourage imports and promote local industry relating to certain items, the Bill seeks to propose following insertions in Part II of the Twelfth Schedule to the Ordinance which are summarized as follows;

PCT Codes	Description
8504.3100	SMD inductors for LED bulbs and lights
8504.4090	Constant current power supply of LED lights and bulbs
8532.2200	Electrical capacitors aluminum electrolytic for LED bulbs and lights
8539.9020	Base cap for all kinds of LED bulbs
8539.9090	Bare or stuffed metal clad printed circuit boards (MCPCB) for all kinds of LED bulbs
8539.9090	Housing/ shell, shell cover and base cap for all kinds of LED bulbs
9001.9000	Lenses for LED bulbs and lights
9405.1090	Housing/ shell, shell cover and base cap for all kinds of LED lights
9405.9900	Bare or stuffed metal clad printed circuit boards (MCPCB) for all kinds of LED lights

Note: For part II of the Twelfth Schedule to the Ordinance, the rate of advance tax is 2%.

The Thirteenth Schedule

Thirteenth Schedule entitles a person to claim tax credit in the manner prescribed under section 61 of the Ordinance by making donation to non-profit organization and funds listed under the Schedule.

The Bill proposes to broaden the scope of Thirteenth Schedule by incorporating all entities mentioned in Table-I of clause (66) of part I of the Second Schedule to the Ordinance.

Sales Tax Act, 1990

1. Definitions

i. Goods [Clause (12) Section 2]

The Bill proposes to enhance the scope of the term 'goods' as defined under the above said clause by classifying production, transmission and distribution of electricity to be included within the scope of the said term.

ii. Sales Tax [Clause (29A) Section 2]

The existing scope of the term 'Sales Tax' as defined under the Act also includes therein, any fee imposed or charged under the Act. The Bill proposes to exclude such fee and service charges as are collected under section 76 of the Act, from purview of sales tax.

It may be noted that vide SRO 1279(I)/2021 dated September 30, 2021 issued under section 76 of the ST Act, the FBR has levied service charges at the rate of Re.1 per invoice issued through points of sale (POS) integrated with FBR. Consequent to this amendment, such charges would not be considered as sales tax which will have effect to provide immunity to the retailers from actions of sales tax recovery proceedings in case of any default in payment of the said fee and service charges by such retailers.

iii. Supply [Clause (33) Section 2]

The Bill proposes to synchronize 'production, transmission and distribution of electricity' as also supply. The proposed amendment is in line with the amendment proposed for definition of goods.

iv. Tier-1 retailer [Clause (43A) Section 2]

The Bill proposes to enhance the existing list of qualification criteria of Tier-1 retailers provided under the ST Act by bringing therein supplier of articles of jewellery, precious metal or metal clad with precious metal. As a consequence thereof, the proposed amendment would inter-alia obligate jewellers to ensure registration under the ST Act and for compliance of its obligations because they will be controlled through integration of their outlets with FBR.

2. Scope of Tax [Section 3(1A)]

Currently, further tax at the rate of 3% is leviable on supplies made to unregistered persons subject to certain exclusions as provided under SRO 648(I)/2013. The Bill proposes to extend the applicability of such further tax on supplies made to a registered person who is not an active taxpayer under the ST Act.

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

Currently, fixed sales tax is collected by electricity supply companies from retailers (other than Tier-1 retailers) at the rate of 5% on their monthly electricity bills of up to Rs.20,000 and 7.5% in case of electricity bills exceeding Rs.20,000. The Bill proposes to re-fix the amount of sales tax as under:

Amount of Monthly Electricity Bill	**Amount of Sales Tax**
Upto Rs.30,000	Rs.3,000
Rs.30,001 to Rs.50,000	Rs.5,000
More than Rs.50,000	Rs.10,000

The Bill also proposes to empower the Board through issuance of general order to prescribe persons or class of persons to pay Rs.50,000 per month through their monthly electricity bill.

4. Time and manner of payment [Section 6(4)]

The Bill proposes to empower the Federal Government to allow payment of sales tax on installments basis, by the Federal or Provincial Governments or any public sector organization, on import or supply of any goods or class of goods. The proposed amendment also empowers the Federal Government to issue notification with retrospective effect which may also apply on past due payments.

The said amendment proposes to provide relief to public sector organizations owing to their ailing liquidity situation. However, the said amendment may be viewed as discriminatory by the registered persons in private sector and there may be an ask to make such powers to be generally applicable in all cases.

5. Tax credit not allowed [Section 8(1)(m), 23(1)(b)]

According to provisions of current law, input tax on goods or services attributable to supplies made to unregistered persons (with the exception of sales made by retailers to ordinary consumers of the prescribed amount of Rs.100,000 per invoice), is disallowed on pro-rata basis where sales invoices do not bear CNIC number or NTN of the customer (which was introduced vide Finance Act, 2019 as a measure for documentation of economy). The Bill proposes to abolish the said provisions of the Act.

As a consequence, it would not be mandatory for a registered person to mention CNIC/NTN of the unregistered buyer on sales tax invoice, hence, there would be no disallowance of input tax under section 8 for not mentioning CNIC/NTN of unregistered buyers.

Above amendment appears to be made to facilitate the businesses, but at the same time it will also hinder and derail efforts of the government to bring about documentation in the economy, conversely the proposed amendment will again increase the volume of undocumented business transactions.

6. Adjustable input tax [Section 8B]

Through Finance Act, 2021, the public listed companies were allowed to adjust 100% of their input tax against their output tax. Hence, such entities were exempt from requirement of minimum payment of 10% of their output tax of a particular period. The Bill proposes to restore the said requirement of minimum payment of 10% sales tax in case of public listed companies.

7. Uniform [Proposed Section 77]

The Bill proposes to empower the Board to prescribe rules for wearing of uniform by officers and staff of Inland Revenue Services.

8. Regularization of Amendments brought through Tax Laws (Third Amendment) Ordinance, 2021

The Bill proposes to regularize the following provisions inserted through Tax Laws (Third Amendment) Ordinance, 2021:

a. Scope of tax [Section 3(7)]

Proposed insertion of a proviso requiring operator of online market place to withhold sales tax on taxable supplies of third party traded on its market place.

b. Scope of tax [Section 3(11)*]

Proposed empowerment of the Board to require any person or class of persons to integrate their invoice issuing machines with the Board's Computerized System for real time reporting of sales.

c. Discontinuance of gas and electricity connections [Proposed Section 14AB*]

Proposed empowerment of the Board to direct gas and electricity distribution companies, through Sales Tax General Order, for discontinuing the gas and electricity connections of the following persons:

i. Any person, including tier-1 retailers, who fail to register for sales tax purpose or

ii. Notified tier-1 retailers registered but not integrated with the Board's Computerized System

** Originally were inserted as section 3(10) and 14A as per Tax Laws (Third Amendment) Ordinance, 2021 which have now become repealed.*

Third Schedule (Retail Price Goods)

Levy of sales tax on Supply of Detergents at Retail Price

At present, only the detergents classified under the tariff heading "3402.2000" are subject to sales tax at the retail price under serial no.07 of the Third Schedule to the ST Act. The Bill proposes to substitute the said tariff heading with the phrase "respective heading" consequent to which all type of detergents would now be subject to sales tax at retail price.

Sixth Schedule (Exempt Goods)

Table I – Imports or Supplies

a) Omission of items currently exempt from sales tax

Under serial no.13 of the Schedule, edible vegetables (except ware potato and onions) classified under different tariff headings imported from Afghanistan are currently exempted from levy of sales tax. The Bill proposes to curtail the said exemption by exclusion therefrom of items classified under tariff heading "0709.5910 - Asparagus" and "0709.5990 - Other".

b) Scope of existing exemptions enhanced

The Bill proposes to enhance the scope of existing exemptions as explained below:

Sr. No.	Existing Description	Existing Tariff Heading	Proposed Description	Proposed Tariff Heading
32	Newsprint and educational text books but excluding brochures, leaflets and directories	4801.0000, 4901.9100, 4901.9990 and 4903.0000]	Newsprint and books but excluding brochures, leaflets and directories	Respective headings

S. No.	Description	Existing (Relevant) Tariff Headings	Proposed Tariff Headings
45	Dextrose and saline infusion giving sets along with empty non-toxic bags for infusion solution, Dextrose and saline infusion giving sets, Artificial parts of the body, Intra-Ocular lenses and Glucose testing equipment.	018.3910, 9018.3920, 9021.3100, 9021.3900 and 9027.8000	018.3910, 9018.3920, 9021.3100, 9021.3900 and Respective headings
120	Diagnostic kits or equipment.*	3822.0000	Respective headings
133	Pesticides and their active ingredients registered by the Department of Plant Protection under the Agricultural Pesticides Ordinance, 1971(II of 1971), stabilizers, emulsifiers and solvents,*	2930.9090 2931.0010 2931.0090 2932.2920 2933.3930 2941.9050 3402.1110 3402.1190	Respective headings

S. No.	Description	Existing (Relevant) Tariff Headings	Proposed Tariff Headings
		3402.1290 3402.1300 3402.1990	
	** Complete description not being reproduced for the sake of brevity*		

Further, the Bill also proposes to allow exemption on art card by insertion under the serial no. 137 of Table-I.

c) New insertion allowing exemption of sales tax

The Bill proposed to exempt sales tax on import or supply of the following items by inserting the respective new entries and restoring exemption of previously withdrawn entries under Table-I of the Sixth Schedule to the Act:

Sr. No.	Description	Headings
163.	Goods imported by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder; and agreements by the Federal Government: Provided that such goods are charged to zero-rate of customs duty under the Customs Act, 1969 (IV of 1969), and the conditions laid therein. Provided further that exemption under this serial shall be available with effect from the 15th day of January, 2022.	99.01, 99.02, 99.03 and 99.06
164.	Photovoltaic cells whether or not assembled in modules or made up into panels.	8541.4200 and 8541.4300
165.	Goods imported by or donated to hospitals run by the non-profit making institutions subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969, (IV of 1969).	99.13 and 99.14
166.	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more.	Respective headings
167.	Goods temporarily imported into Pakistan, meant for subsequent exportation charged to zero-rate of customs duty subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969 (IV of 1969).	99.19, 99.20 and 99.21
168.	Tractor	8701.9220 and 8701.9320

Sr. No.	Description	Headings
169.	Seeds for sowing	Respective heading
170.	Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing you Zone, subject to the conditions that such machinery, equipment, materials and goods are imported by investors of Export Processing Zones, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (IV of 1969) and rules made thereunder shall mutatis mutandis, apply.	Respective heading

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	Headings
11.	Supply of ware potato and onions	0701.9000 and 0703.1000

b) Substitution enhancing scope of exemption

The Bill proposes to enhance scope of exemption currently available under serial no.32 as under:

i. Substitution of tariff heading

Sr. No.	Description	Existing Tariff Heading	Proposed Tariff Heading
32.	Yogurt, excluding that sold in retail packing under a brand name	0403.1000	Respective heading

ii. Substitution of description of goods and tariff headings

Sr. No.	Existing Description	Existing Tariff Headings	Proposed Description	Proposed Tariff Headings
45	Edible vegetables including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled or canned.	0701.1000, 0702.0000, 0703.2000, 0703.9000, 0704.1000, 0704.2000, 0704.9000, 0705.1100, 0705.1900,	Edible vegetables including roots and tubers whether fresh, frozen or otherwise reserved (e.g. in cold storage) but excluding those bottled or canned.	Respective headings

Sr. No.	Existing Description	Existing Tariff Headings	Proposed Description	Proposed Tariff Headings
		0705.2100, 0705.2900, 0706.1000, 0706.9000, 0707.0000, 0708.1000, 0708.2000, 0708.9000, 0709.1000, 0709.2000, 0709.3000, 0709.4000, 0709.5100, 0709.5910, 0709.5990, 0709.6000, 0709.7000, 0709.9000, 0710.1000, 0710.2100, 0710.2200, 0710.2900, 0710.3000, 0710.4000, 0710.8000, 0710.9000, 0712.2000, 0712.3100, 0712.3200, 0712.3300, 0712.3900 and 0712.9000		

c) New insertion granting exemption of sales tax

The Bill proposes to insert the following new entries thereby granting exemption of sales tax on local supplies of these items:

Sr. No.	Description	Heading
52.	Supply of articles of jewelry, or parts thereof, of precious metals or of metal clad with precious metal on which tax has been paid at the import stage @ 4%.	71.13
53.	Prepared food or food stuff supplied by restaurant and caterers	Respective heading

Table III – Conditional exemptions

a) New insertion granting exemption of sales tax

The Bill proposes to insert the following new entries thereby granting exemption of sales tax on local supplies of these items.

Sr. No.	Description	Heading	Condition
22.	1. Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through hydel, oil, gas, coal, nuclear and renewable energy sources including under construction projects entered into an implementation agreement with the Government of Pakistan prior to 15th day of January, 2022. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.	Respective Headings	(i) This concession shall also be available to primary contractors of the project upon fulfilment of the following conditions, namely:- (a) the contractor shall submit a copy of the contract or agreement under which he intends to import the goods for the project; (b) the Chief Executive or head of the contracting company shall certify in the prescribed manner and format as per Annex-A that the imported goods are the projects bona fide requirement; and (c) the goods shall not be sold or otherwise disposed of without prior approval of the FBR on payment of sales tax leviable at the time of import; (ii) temporarily imported goods shall be cleared against a security in the form of a post-dated cheque for the differential amount between the statutory rate of sales tax and the amount payable along with an undertaking to pay the sales tax at the statutory rates in case such goods are not re-exported on conclusion of the project.

Eighth Schedule (Goods subject to Specified rates)

Table – I

a) Omission of entries

The Bill proposes to withdraw reduced rating of sales tax by omitting the following enties given under Table-I of Eighth Schedule:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Proposed Rate of Sales Tax
25.	Agricultural tractors	8701.9220 and 8701.9320	5%	Proposed to be exempt through insertion of entry No.168to Table-I of Sixth Schedule
47.	Locally produced coal	27.01	Rs. 425 per metric tonne or 17% ad valorem, whichever is higher	17%
75.	Import of electric vehicle in CBU conditions	8703.8090	12.5%	17%

b) Scope of reduced sales tax rate enhanced

The 'Step Lights' classified only under tariff heading "9405.4090" are currently taxable at reduced sales tax rate of 5% under serial no.53 of the Eighth Schedule to the ST Act subject to certain conditions. The Bill proposes to substitute the said tariff heading with phrase "respective heading" such that all items classified as 'Step Lights' would now be subject to sales tax at reduced rate under said heading.

c) Revision in reduced sales tax rate

The Bill proposes to revise sales tax on the Potassium Chlorate as under:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Existing Rate	Proposed Rate
56.	Potassium Chlorate (KCLO3)	Respective headings	17% along with rupees 90 per kilogram	17% along with rupees 60 per kilogram

d) New insertions

The Bill proposes to insert the following new entries in the Table-I of the Eighth Schedule granting reduced rate of sales tax on items enumerated hereunder:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition
78.	Supply of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal. *Note: local supply shall be exempt in case of imported items on which 4% sales tax has already been paid (please refer proposed insertion of entry No 52 of Table II to the Sixth Schedule)*	71.13	3%	No input tax shall be adjusted
79.	Import of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal.	71.13	4%	No input tax shall be adjusted
80.	Local supply of reclaimed lead	Respective heading	1%	Subject to the conditions that: (i) Supplies are made to registered manufacturers of lead and lead batteries; and (ii) No refund of input tax shall be admissible.

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, 1969:

i. Bordering and Coastal Areas [Section 2(bbc)]

“bordering and coastal areas” means all districts located along international borders including coastal areas of Pakistan, notified as such by Provincial Governments.

ii. Essential Commodities [Section 2(kkd)]

“essential commodities” means those items availability of which is considered vital for domestic use or consumption, as notified by the Board, from time to time, in consultation with the ministries concerned.

b. Definitions adapted from Pakistan Single Window Act, 2021 (PSW Act)

iii. Other Government Agencies [Section 2(oa)]

The Bill proposes to adapt definition of the term ‘Other Government Agencies’ as defined under the PSW Act whereby ‘Other Government Agencies’ include any regulatory authorities including their subordinate entities as listed in the schedule of the PSW Act.

iv. Pakistan Single Window [Section 2(pb)]

The Bill proposes to adapt definition of the term ‘Pakistan Single Window’ as defined under the PSW Act whereby Pakistan Single Window is an information and communication technology based facility that allows one window solution to importers and exporters to lodge standardized information and documents with single entry point.

v. Trade Controls [Section 2(sa)]

The Bill proposes to adapt definition of the term ‘Trade Control’ as defined under the PSW Act which means measures applied by the Officer(s) of Pakistan Customs Service or other government agencies to manage risk and ensure compliance with laws.

vi. Un-authorized Access [Section 2(sb)]

The Bill proposes to adapt definition of the term ‘Un-authorized Access’ as defined under the PSW Act which means excess to an information system or data which is available for access by general public.

c. Proposed amendments in existing definitions

i. Documents [Section 2(kka)]

At present, the definition of documents refers to goods declaration, application for claim of refund, duty drawback or repayment of duty, import or export general manifest, passenger manifest, master bill of lading, bill of lading, airway bill, certificate of origin 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.

In order to synchronize the Custom Act 1969 with the Single Window (PSW) Act, 2021 the Bill proposes to broaden the afore-said list by including "standardized information and documents lodged with a single entry point through PSW" into the existing list of documents as mentioned in afore-mentioned clause.

ii. Risk Management System [Section 2(qb)]

At present, the definition of Risk Management System (RMS) refers to systematic application of Customs Controls and Management Procedures on pre-arrival, Customs clearance processes and post clearance of goods and passengers, for identifying, analyzing, evaluating, monitoring, reviewing and treating the risk associated with them.

The Bill proposes to further enhance the scope of the afore-said term by inserting the word "Trade Controls" in the scope of RMS.

iii. Smuggle [Section 2(s)]

At present, the definition of smuggle refers to bring into or take out of Pakistan goods including gold, silver bullion, platinum, palladium, radium, precious stones, antiques, currency, narcotics and narcotic and psychotropic substances; or any other goods notified by the Federal Government in the official Gazette, which, in each case, exceed five hundred thousand rupees in value.

The Bill proposes to enhance the scope of the term 'smuggle' by including "Essential Commodities" defined, as such commodities availability of which is vital for domestic consumption.

2. General Power to Exempt from Custom Duties [Section 19(5)]

The Bill proposes to extend the validity of all exemption notifications, issued on or after July 1, 2016 and placed before National Assembly, till June 30, 2023, if not rescinded earlier by the Federal Government or National Assembly.

3. Power to Deliver Certain Goods Without Payment of Duty and to Repay Duty on Certain Goods [Section 21(c)]

Currently, the Board has powers to authorize the repayment in whole or in part of the duties as levied under section 18 or 18A of the Customs Act paid on the importation of any goods which have been used for various purposes including for supplies against international tenders.

The Bill proposes to withdraw such powers of the Board to the extent of goods supplied against international tenders.

4. Provisional Determination of Liability [Section 81(2)]

At present, an officer not below the rank of Assistant Collector of Customs may provisionally determine duties, taxes and other charges in respect of goods which he thinks requires further inquiry. However, such assessment has to be converted in final assessment within six months of the provisional determination which can be extended for further ninety days.

In order to facilitate trade as well as to avoid delay in realization of Government revenue, the Bill proposes to shrink afore-said time period for assessment completion from six months to ninety days, and the extension period from ninety days to thirty days respectively.

5. Warehousing period of the goods [Section 98(1)(a)]

The existing clause (a) of sub-section (1) of Section 98 of the Customs Act provides that the Collector of Customs may, allow extension in time, up to six months for warehousing of goods subject to certain limitations and conditions.

The Bill proposes to also empower the Additional Collector of Customs to provide such extension up to a period of one month.

6. Change of name of consignee for clearance of goods in export [Section 138(1)]

As per section 138(1), the Additional Collector of customs is empowered to allow export, without payment of any duties, of goods brought into a customs-station by reason of inadvertence, misdirection or un-traceability of the consignee, or where consignee has dishonored his commitments subject to certain conditions prescribed therein.

The Bill now proposes to also empower the Additional Collector of Customs to change the consignee name for purposes of clearance of such goods under section 79 of the Customs Act, 1969.

7. Punishment for offences [Section 156]

i. Goods smuggled into or out of Pakistan are subject to confiscation and financial /criminal penalties. The Bill proposes to include in to the scope of such goods, certain commodities as notified by the Board, from time to time.

ii. With an objective to ensure protection of data integrity and compliance, the Bill proposes to introduce certain penalties after entry No. 105 of section 156(1) of the

Customs Act, 1969 for on offence of misuse of data and information in the Pakistan Single Window System or; in any of its ancillary system, its sharing or; tampering in any manner that may prejudicial to the interests of Pakistan Customs, as follows:

Offence	**Penalties**
(i) Un-authorized access to personal details of user.	Imprisonment upto 6 months or; fine upto Rs. 100,000 or; both
(ii) Un-authorized copy or; transmission of data	Imprisonment upto 6 months or; fine upto Rs. 100,000 or; both
(iii) Un-authorized interference or; damage of data, or; even any attempt thereof	Imprisonment upto 3 years or; fine upto Rs. 500,000 or; both
(iv) Misuse of data or; information for making fraudulent/illegal claims	Imprisonment upto 4 years or; fine upto Rs. 1,000,000 or; both
(v) Use, supply or retain of any device, system or; software with intent to commit prescribed offences in Pakistan Single Window System or; in any of its ancillary system	Imprisonment upto 6 months or; fine upto Rs. 100,000 or; both
(vi) Obtain, sell, process, use, transmit another persons' Unique Identification Number or; even making any attempt thereof	Imprisonment upto 4 years or; fine upto Rs. 1,000,000 or; both
(vii) Tamper, alter, re-programme of any Pakistan Single Window System or; its connected system or; in any of its ancillary system or; even making any attempt thereof	Imprisonment upto 4 years or; fine upto Rs. 1,000,000 or; both with confiscation of any devices or system
(viii) Write, offer, make available, distribute or transmit a malicious code with intent to cause harm Pakistan Single Window resulting in corruption, destruction, alteration, theft or loss of data or; even making any attempt thereof or assistance therein	Imprisonment upto 4 years or; fine upto Rs. 1,000,000 or; both with confiscation of any devices or system

8. Extent of confiscation [Section 157(2)]

Section 157(2) of the Customs Act, 1969 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.

Through Finance Act, 2021, a proviso was inserted whereby if any of the conveyance used in carrying smuggled goods, is confiscated for the third time, the same will not be released.

The Bill proposes to remove the said proviso obstructing the release of conveyance.

9. Power to stop and search conveyances [Section 164]

As per Section 164(1), where an appropriate customs officer has reasons to believe that any conveyance is being used in the smuggling of any goods or in the carriage of any smuggled goods within territory of Pakistan he may stop such conveyance, and -

(a) rummage and search any part of the conveyance;

(b) examine and search any goods thereon; and

(c) break open the lock of any door, fixture or package for making search.

Through insertion of proviso, the Bill proposes to limit the use of such powers to be exercised only within bordering and coastal areas in case of suspected smuggling of essential commodities as notified by the Board.

10. Procedure in case of seizure of essential commodities [Section 170A]

The Bill proposes to introduce procedure in respect of seizure of essential commodities, through introduction of section 170A of the Customs Act, 1969 whereby such seized goods will be deposited in the nearest customs house or; place appointed by Collector of Customs.

11. Power of adjudication [Section 179]

The Bill proposes to enhance the adjudicating powers of officers in terms of duties/taxes, as follows;

- For Additional Collector from Rs.3,000,000 to Rs.5,000,000
- For Deputy Collector from Rs.1,000,000 to Rs.2,000,000

13. Reference to High Court [Section 196]

At present, section 196(1) of the Customs Act, 1969 authorizes certain persons to file reference with High Court against order of Appellate Tribunal, which inter alia include Director of Intelligence and Investigation, or; Director of Valuation.

The Bill proposes to generalize the list of authorized persons by replacing the reference of above mentioned Directors of Customs with the phrase ‘an officer of customs’.

14. Wharfage or storage fees [Section 203]

At present, Collector of customs has powers only to fix the expiry period of goods left in customs area, wharf or other landing place.

The Bill, through substitution of section 203 of the Customs Act, 1969 proposes to enhance the powers of Collector of Customs whereby he will now be empowered to fix the port charges on import & export of services by terminal operators, as well as, fees for storing confiscated goods in declared State warehouse, having jurisdiction.

15. Protection of action of Provincial government [Section 217]

At present, Federal Government, public servant, governmental agency and officials thereof are protected under section 217 of the Customs Act, 1969 against legal proceedings, investigation and enquiry for actions taken by them in good faith in pursuance of Customs Act, rules and instructions of Federal Board of Revenue.

The Bill proposes to include Provincial Government in to the scope of above protection under section 217 of the Customs Act.

Exemption, Reduction and Rationalization of Duties

1. As per salient features of the federal budget published by FBR, various exemptions, reduction and rationalization in **Customs Duties** have been proposed on imports of various items in the Finance Bill which are summarized as under:

A) <u>Exemptions:</u>

- **Farm Mechanization and Logistics**
  including agricultural machinery pertaining to irrigation, drainage, harvesting / post-harvest handling & processing, plant protection equipment as well as machinery, equipment and other capital goods for miscellaneous agro based set ups

- **Coating Industry**
  on Aluminum paste and powder & glycerol crude and glycerol

- **LED lights and bulbs manufacturers**
  Aluminum Electrolytic capacitor, SMT Electrical Transformer, aluminum alloy sheet, Tantalum capacitors (DIP/SMD) and Other inductors, small transformer, coil (DIP/SMD)

- **Local manufacturers of brush ware**
  on import of Poly-butylene terephthalate

- **Manufacturers of Optical Fiber**
  on import of Stamping foils

- **Export oriented industry**
  on import of Guts, bladders and stomachs of animals

- **Water Purifying industry**
  on import of membrane for filtering / purifying water

- **First aid bandages manufacturing industry**
  customs duties on 03 different raw materials

- **Aluminum conductor composite core manufacturers**
  on import of raw materials

- **Paper sizing industry and chlorinated paraffin wax industry**
  on import of raw materials

- **Pharmaceutical industry**

  on import of 26 Active Pharmaceutical Ingredients and drug "Grafalon"

- **Import of eye care device – IRISVISION**

B) <u>Reduction:</u>

- **Direct and reactive dyes** (on 10 tariff lines)

- **Manufacturers of filters other than automotive**
  on their raw materials i.e, Adhesive, Epoxide resins, Filter media/ paper, Non-woven fabric media and Steel plates / sheets of prime quality

- **Footwear Industry**
  on different categories of other woven fabrics and artificial flowers / foliage of other materials

- **Furniture Industry**
  on import of Plywood, veneered panels & similar laminated wood, poly (methyl methacrylate), cyanoacrylate

- **Manufacturers of Dibutyl Orthophthalates**
  on import of organic composite solvents and thinners

- **Food Industry (Snack manufacturers)**
  on import of flavouring powders

C) <u>Rationalization:</u>

- **Packaging Industry**
  downward rationalization of duties in various tariff lines pertaining to aluminum, polymers of ethylene, BOPP etc.

- **Furniture Industry**
  downward rationalization of duties in different tariff lines related to Medium & High Density Fiberboard

- **Plastic Industry**

tariff structure on import of Synthetic filament yarn, monofilament, staple fibers of polypropylene has been downward rationalized to resolve the cascading issues

- **Botany (Plant) Industry**
  downward rationalization of duties in tariff structure on import of IV Leaves extract powders on its raw materials i.e, other plants and parts of plants

2. The Bill has also proposed rationalization in **Regulatory Duty (RD)** for protection of various local industries, as under:

   - 10% levy of RD on motor spirit oil import
   - Continued levy of 10% RD on Disodium Carbobate
   - 10% Reduction in RD on import of case hardening steel
   - Withdrawal of 15% RD on import of yellow chrome
   - 10% levy of RD on import of paper board, cellulose wadding & webs of cellulose fibres
   - Withdrawal of RD exemption on import of high carbon wire rod
   - 10% rise in RD on import of optical fibre cables

Federal Excise Act, 2005

1. Definition - Duty [Section 2(9)]

The existing scope of the term 'Duty' as defined under the FE Act includes therein, any sum payable under the provisions of the FE Act. The Bill proposes to exclude such fee and service charges as are collected under section 49 of the Act, from purview of 'Duty'.

2. Uniform [Proposed Section 50]

The Bill proposes to insert a new Section 50 whereby the Board may, by notification in the official Gazette, prescribe rules for wearing of uniform by officers and staff of Inland Revenue Services.

FIRST SCHEDULE

The Bill proposes to change rate of duty for excisable goods and services in following manner:

S. No.	Description	Rate of Duty	
		Existing	**Proposed**
Table-I Excisable Goods			
8(a)	E-liquids by whatsoever name called, for electric cigarette kits.	Rs.10 per ml.	Rs.10,000 per kg
9	Locally produced cigarettes if their on-pack printed retail price exceeds five thousand nine hundred and sixty rupees per thousand cigarettes.	Rs.5,200 per 1,000 cigarettes	Rs.5,600 per 1,000 cigarettes
10	Locally produced cigarettes if their on-pack printed retail price does not exceed five thousand nine hundred and sixty rupees per thousand cigarettes.	Rs.1,650 per 1,000 cigarettes	Rs.1,850 per 1,000 cigarettes
56	Filter rod for cigarettes	Re.1 per filter rod	Rs.1,500 per kg
Table-II Excisable Services			
3(b)(ii)	Services provided or rendered in respect of travel by air of passengers embarking on international journey from Pakistan, on Club, Business and First class ticket	Rs.10,000	Rs.50,000
6	Telecommunication services, excluding such services in the area of a Province where such Province has imposed Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be.	16%	19.5%

Islamabad Capital Territory (Tax on Services)Ordinance, 2001

A. Services Taxable at Standard Rate - Table 1

i. Description substituted

The Bill proposes to substitute the existing description of services specified in serial no.1 of the Table-1 with new description as under. By virtue of this amendment, services of 'farmhouses' and 'restaurants' are now taken in the list of taxable services providers under this heading with the proposed rate of 15%:

S.No.	Existing description	Proposed description
1.	Services provided or rendered by hotels, motels, guest houses, marriage halls and lawns (by whatever name called) including "*pandal*" and "*shamiana*" services, clubs including race clubs, and caterers.	**Services provided or rendered by hotels, motels, guest houses, farmhouses, restaurants, marriage halls, lawns, clubs and caterers.** Services provided or rendered by hotels motels, guest houses and farmhouses. Services provided or rendered by restaurants. Services provided or rendered by marriage halls and lawns. Services provided or rendered by clubs. Services provided or rendered by caterers, suppliers of food and drinks

ii. Reduction in Standards rate

The Bill proposes to reduce the standard rate of sales tax to 15% for services specified in Table-1 as under:

Description	Existing Rate	Proposed Rate
Call centres (S.No. 42)	17%	15%
All other services (except for fixed rate services of property developers and freight forwarding agents)	16%	15%

A. Services Taxable at Reduced Rate - Table 2

Presently, IT services and IT-enabled services have been specified in S.no.11 of Table-2 to the ICT Ordinance which are taxable at the reduced rate of 5%. The Bill proposes to omit this entry from the Table-2.

The Capital Value Tax, 2022

1. Scope of CVT

The Bill proposes to levy Capital Value Tax (CVT) on the various assets at the rates mentioned in the First Schedule and reproduced in the below table:

Description	Proposed Rate
Motor vehicles held in Pakistan having value of more than Rs.5 million	2% of the value
Foreign Assets of a resident individual, having value more than Rs.100 million	1% of the value
Such assets or class of assets as specified by the Federal Government.	At such rates and in such manner as may be specified

2. Manner and mode of collection

a. Motor Vehicle (MV):

Category	Value	CVT to be collected by
Imported vehicle	Value assessed by the Customs	Collector of Customs
Vehicle is manufactured or assembled in Pakistan	Sales value	Manufacturer or Assembler
Vehicle is sale by auction	Auction price	Person making sale
In any other case	Total consideration paid	Seller

Subsequently, MV registering authority of Excise and Taxation Department at the time of collecting motor vehicle tax shall also collect this tax. However, CVT shall not be collected from the person in the financial year in which tax has been paid or collected from the said person at the time of import, purchase from local manufacturer or auction.

For the purpose of CVT, the value of MV as determined in the manner above, shall be reduced by 10% each year and shall become zero:

- After 10 years of acquisition or;

- Where the value after reduction is less than or equal to Rs.5 million

b. Foreign Assets of a resident individual:

The person holding such assets shall be liable to pay CVT at the time of filing income tax return for the year, and the tax shall be levied on the higher of -

- total consideration paid to acquire, alter or improve the asset; or
- the fair market value of the asset;

For the purpose of CVT, resident individual shall have the same meaning as defined in the Income Tax Ordinance, 2001.

Provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules 2002 in so far as relevant, shall apply to the collection and recovery of tax, besides powers of assessments, modification of assessment as well as for right and procedure of appeal.

FBR is empowered to issue notification prescribing the manner and procedure relating to the collection and recovery of CVT, for other relevant matters and for allowing exemption to any asset or class of assets subject to conditions given.

Mobile Handset Levy

The Bill proposes to amend the levy on mobile handsets which will be based on the value in US Dollar denomination instead of existing Rupee denomination as enacted by Finance Act 2018; the proposed amendment is as follows:

<table>
<tr><th colspan="2">Existing</th><th colspan="2">Proposed</th></tr>
<tr><th>Category of smart phone</th><th>Rate of levy per set in Rs.</th><th>Category of Mobile phones</th><th>Rate of levy per set in Rs.</th></tr>
<tr><td>For sets having import value (including duties and taxes) Up to Rs 10,000</td><td>Nil</td><td>Having C&F value up to USD 30</td><td>Rs. 100</td></tr>
<tr><td rowspan="2">For sets having import value (including duties and taxes) between Rs 10,000 and Rs 40,000</td><td rowspan="2">Rs. 1,000</td><td>Having C&F value having range of above USD 30 to USD 100</td><td>Rs. 200</td></tr>
<tr><td>Having C&F value having range of USD 101 to USD 200</td><td>Rs. 600</td></tr>
<tr><td rowspan="2">For sets having import value (including duties and taxes) between Rs 40,000 and Rs 80,000</td><td rowspan="2">Rs. 3,000</td><td>Having C&F value having range of USD 201 to USD 350</td><td>Rs. 1,800</td></tr>
<tr><td>Having C&F value having range of 351 to USD 500</td><td>Rs. 4,000</td></tr>
<tr><td rowspan="2">For sets having import value (including duties and taxes) exceeding Rs 80,000</td><td rowspan="2">Rs. 5,000</td><td>Having C&F value having range of USD 501 to USD 700</td><td>Rs. 8,000</td></tr>
<tr><td>Having C&F value Above USD 700</td><td>Rs. 16,000</td></tr>
</table>

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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.