

Comments on Federal Finance Act, 2021 and Provincial Finance Bills, 2021



Foreword



This memorandum contains comments in respect of amendments made in the Federal Finance Bill, 2021 through the Federal Finance Act, 2021. The memorandum also contains explanatory description of significant fiscal changes proposed through provincial Finance Bills in Punjab Sales Tax on Services Act, 2012, Balochistan Sales Tax on Services Act, 2015 and Khyber Pakhtunkhwa Finance Act, 2013 alongwith comments in respect of notifications issued by Sindh Revenue Board.

The amendments enacted through the Federal Finance Act and proposed through the provincial Finance Bills, once approved by the provincial assemblies, will take effect from July 1, 2021 unless stated otherwise.

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Income Tax Ordinance, 2001

1. **Concealment of income** **[Section 2(10A)]**

The Bill proposed to introduce definition for the term "concealment of income". Through the Act, the definition has been further amended to include 'claiming of any income or receipt as exempt, which is otherwise taxable' as concealment of income. So the updated definition is as under:

- (a) the suppression of any item of receipt liable to tax in whole or in part, or failure to disclose income chargeable to tax;
- (b) claiming any deduction or any expenditure not actually incurred;
- (c) any act referred to in sub-section (1) of section 111; and
- (d) claiming of any income or receipt as exempt which is otherwise taxable.

It is further clarified in the Act that no act covered under the definition would constitute concealment of income, unless it is proved that the taxpayer has knowingly and willfully committed such act.

2. **Gain on disposal of immovable property owned by business** **[Section 22(13)]**

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

The Bill proposed to tax the consideration received in excess of cost of the property under the head capital gain and as per provisions of section 37 of the Ordinance. The said amendment has not been enacted through the Act. As such, no tax liability will arise on account of disposal of immovable property by the businesses.

3. **Capital Gain on Disposal of Immovable Property** **[Section 37(1A)]**

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

The Bill proposed following changes:

- a) To tax capital gain under normal tax regime where gain on disposal of immovable property exceeds Rs.5 million. However, taxable gain is to be calculated on similar lines as it is being calculated for immovable property under provisions of section 37(3A) of the Ordinance.
- b) Provide for a single rate of tax of 5% irrespective of the amount of taxable capital gain.
- c) An Explanation was inserted under sub-section (1A) clarifying that where a person is habitually engaged in transactions of sale and purchase of immovable property or such sale and purchase is adventure in the nature of trade and business, the gain on disposal of immovable property will be chargeable to tax under the head Income from Business.

Above amendments have not been approved by the Parliament and as such any gain on disposal of property will continue to be taxed as separate block of taxation. Further, proposed single rate taxation at 5% irrespective of gain amount will not apply.

Through the Act, the tax rates on disposal of immovable property have now been increased as under:

S.No.	Amount of Gain	Rate of Tax prior to Finance Act, 2021	Revised Rate of Tax
(1)	(2)	(3)	(4)
1.	Where the gain does not exceed Rs. 5 million	2.5%	3.5%
2.	Where the gain does not exceed Rs. 5 million	5%	7.5%
3.	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	7.5%	10%
4.	Where the gain exceeds Rs. 15 million	10%	15%

4. Units of Exchange Traded Funds [Sections 37A & 62]

An Exchange Traded Fund (ETF) is a pooled investment vehicle with shares, which can be traded throughout the day on a stock exchange, at a price determined by the market. Similar to a traditional mutual fund, an ETF provides investors a proportionate share in a pool of underlying securities. Two ETFs, namely NIT Pakistan Gateway ETF and UBL Pakistan Enterprise ETF, were launched on March 24, 2020 by the National Investment Trust Limited and

UBL Fund Managers Limited, respectively.

Through the Act, units of ETF are now included in the definition of securities, which are taxable under section 37A. Further, any resident person other than a company investing in such units will now be entitled to a tax credit in the year units are acquired by the person, subject to prescribed limits under section 62.

5. Resident Individual [Section 82]

Prior to Finance Act, 2019, an individual was considered as a resident individual for a tax year if the individual is present in Pakistan for a period of or periods amounting tin aggregate to 183 days or more in the tax year.

Through Finance Act, 2019 definition of resident individual was amended to include an individual who is present in Pakistan for a period of, or periods amounting in aggregate to 120 days or more in the tax year and in the four years preceding the tax year has been in Pakistan for a period of, or periods amounting in aggregate to 365 days or more. Similar criteria are also applicable in other jurisdictions to ensure their taxing rights.

As a result of introduction of the above criteria through Finance Act, 2019, those individuals who frequently visit Pakistan, but were able to avoid tax residential status were categorized as tax resident in Pakistan and therefore were subjected to tax in Pakistan for their world over income.

Through the Act, above criteria has been omitted which is likely to provide relief to a large number of expatriate Pakistanis who frequently visits Pakistan mostly for leisure and to remain connected with their families in Pakistan.

6. Return of income [Section 114]

The Board is now empowered to notify any person or class of person required to file return of income with the approval of the Minister in charge.

7. Business Bank Account [Section 114A]

Through the Bill the definition of 'Business Bank Account' alongwith penalties for not declaring such account were proposed without specifically covering the requirement to declare such account under any provision of law. Through the Act, a new section is now introduced requiring the taxpayer to declare such bank account with Commissioner through original or modified registration form under section 181.

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

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

The Bill proposed that any tax demand raised through an appeal effect order shall be payable immediately without following the limit of 30 days.

Immediate recovery of tax demand without giving an opportunity to seek relief from any higher forum is against the principles of natural justice as guaranteed by the Constitution. Thus, on the strong opposition by the tax professionals and the businesses and to alleviate the hardship that the taxpayers would have had to face due to such amendment, the said proposal has not been enacted.

As such, taxpayer would still have 30 days' time to pay any tax demand raised through an appeal effect order.

9. Offences and penalties [Section 182]

Through the Bill definition of Business Bank Account alongwith penalties for not declaring such account were proposed. It is now clarified that penalty for not declaring the Business Bank Account will only apply where any person willfully fails to declare business bank account(s), in his registration application or fails to amend his registration profile to declare existing business bank account(s).

10. Power to Arrest and prosecute [Section 203, 203B]

The Bill proposed to empower tax officers to arrest and prosecute any person who has committed concealment of income or any offence warranting prosecution under the Ordinance.

Considering the concerns raised by the taxpayers and tax professionals through different forums as to such harsh measures, it is now clarified that procedure for arrest and prosecution would only be invoked where the offence of concealment of income has resulted in non-payment of tax of Rs.100 million and above in case of a filer and Rs. 25 million or above in case of non-filer.

Further, provision related to arrest and prosecution are amended as under:

- (i) Taxpayer can only be arrested when based on material evidence brought on record, as a result of audit conducted by the auditors in terms of sub-section (8) of section 177 read with section 214C of this Ordinance, an assessment is made or amended under section 121 or 122 of this Ordinance, as the

case may be, and the assessing officer records a finding that the taxpayer has committed the offence of concealment of income which has resulted in nonpayment of tax of Rs.100 million and above in case of a filer and Rs.25 million or above in case of non-filer. The taxpayer may be arrested after obtaining written approval of the Committee.

It is to be noted that the provisions proposed through the Bill did not provide for the above monetary limits for filer and non-filer and for availability of definite information through audit and assessments.

- (ii) The Committee comprises the Minister for Finance and Revenue, the Chairman of the Board and the senior most member of the Board.

The provisions proposed through the Bill did not cover constitution of such Committee and its permission prior to arrest of the taxpayer.

11. 227BA. Reward and benefits for certain persons [Section 227BA]

Through the Act, a new section is introduced to empower the Board to sanction rewards to e-intermediaries for filing of returns of new taxpayers.

The Board, with the approval of Federal Minister in charge, is now empowered to announce benefits, rebates, tax credits, allowances and any other incentive in cash or otherwise for class or classes of persons.

The Board with the approval of the Federal Minister in charge may, by notification in the official Gazette,

prescribe the procedure in this behalf and also notify the class or classes of persons eligible under this section. The provisions of this section shall take effect from the date notified by the Board.

This is a welcome move which will encourage the e-Intermediaries to support the national cause of increase in number of filers and tax payers. The Board may also consider facilitating the intermediaries for introducing and / or using the technology based solutions.

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

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

Through the Act, 'battery' has been replaced with 'auto parts', thus enhancing the scope of advance tax.

The First Schedule

Rates of Tax

Rate of Dividend Tax [Division III of Part I of First Schedule]

Currently, tax on dividend received from mutual funds is charged at 15% under Division III of Part I of First Schedule. Through the Act, dividend received from Real Estate Investment Trusts has also been subjected to tax at 15%.

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

The Bill proposed to insert an additional column (8), wherein rates of tax on capital gains on disposal of securities for tax year 2022 and onwards were provided. The tax rate on capital gain on disposal of securities covered under section 37A were proposed to be charged at 5% to 12.5% without reproduction of complete table under the said division which resulted in confusion amongst the taxpayers as to which rates were being proposed to be reduced.

In order to remove the anomaly, the Act provides for the following revised table clarifying the tax rates on different transactions:

S.No.	Period	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018, 2019, 2020 and 2021		Tax Year 2022 and onwards
					Securities acquired before 01.07.2016	Securities acquired after 01.07.2016	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Where holding period of a security is less than twelve months	12.5%	15%	15%	15%	15%	12.5%
2.	Where holding period of a security is twelve months or more but less than twenty-four months	10%	12.5%	12.5%	12.5%		
3.	Where holding period of a security is twenty - four months or more but the security was acquired on or after 1st July, 2013.	0%	7.5%	7.5%	7.5%		

S.No.	Period	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018, 2019, 2020 and 2021		Tax Year 2022 and onwards
					Securities acquired before 01.07.2016	Securities acquired after 01.07.2016	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
4.	Where the security was acquired before 1st July, 2013	0%	0%	0%	0%	0%	0%
5.	Future commodity contracts entered into by member of Pakistan Mercantile Exchange	0%	0%	5%	5%	5%	5%

**Capital gain on disposal of immovable property
[Division VIII of Part I of First Schedule]**

The Bill proposed to introduce the flat rate of 5% on capital gains on disposal of immovable property which has not been approved by the Parliament.

Further, through the Act, tax rates on disposal of immovable property are increased as under:

S.No	Amount of Gain	Rate of Tax
(1)	(2)	(3)
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%

**Minimum tax under Section 113
[Division IX of Part I First Schedule]**

Minimum tax on flour mills is currently charged at 0.25%. The Bill proposed to introduce reduced minimum tax rates on various goods; however, minimum tax on flour mills was not separately included in the table proposing the reduced rates. This gave an impression that flour mills will be subject to minimum tax at 1.25%.

In order to clarify the above matter, through the Act, a new entry (g) for flour mills has been inserted in the table providing reduced minimum tax rate of 0.25%.

Deduction at Source

**Advance Tax on Dividend
[Division I of Part III of First Schedule]**

Through the Act, withholding tax at 15% on dividend received from Real Estate Investment Trusts (REITs) is prescribed, which is in line with the related change in chargeability of tax on dividends from REITs at 15%.

**Payment to Non-resident
[Division II of Part III of First Schedule]**

Through the Act, Oil field services provided by non-resident persons are included in the list of services which are subject to withholding tax at the reduced rate of 3% under minimum tax regime.

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

- a) Through the Bill, it was proposed to enhance the scope of services subject to reduced withholding tax of 3% by including Oil field services, telecommunication services, warehousing services, collateral management services, travel and tour services.

Through the Act, architectural services being engineering services are also included under the list of services subject to reduced rate withholding tax at 3%.

It is interesting to note that apart from oil field services, these new services have not been covered under the relevant Division dealing with services provided by non-resident persons. As such non-resident persons providing these services will still be subject to current withholding tax rates.

- b) Relief in withholding tax rate on Execution of Contracts
- Withholding tax rate has been reduced from 7% to 6.5% for recipients companies,
 - Withholding tax rate has been reduced from 7.5% to 7% for recipients other than companies.

Reduction in withholding tax rate, though very minimal would provide relief to such contractors considering the fact that such withholding is to be treated as minimum tax.

Second Schedule

**Amendments in Part I of the
Second Schedule - Exemption
from Total Income**

**(i) Profit on debt on Provident Fund
and Approved Pension Fund
[Clauses (22), (23) and (23C)]**

Through the Bill, it was proposed that payment received by the members from Provident Fund and Approved Pension Fund would be taxable at 10% as separate block of income to the extent of amount representing profit on debt earned on accumulated balance in such Funds, if such amount exceed Rs 500,000.

These amendments have not been approved. Accordingly, withdrawal amount representing profit on debt will not be taxable in the hands of members of Provident Fund and Approved Pension Fund.

Local travelling allowance paid to newspaper employees [Clause (40)]

Through Bill, it was proposed to tax any income of a newspaper employee representing Local Travelling Allowance paid in accordance with the decision of the Third Wage Board for Newspaper Employees constituted under the Newspaper Employees (Conditions of Service) Act, 1973, published in Part II of the Gazette of Pakistan, Extraordinary, dated the 28th June, 1980. This amendment has not been approved. Accordingly, such Local Travelling Allowance to Newspaper Employees will not be taxable.

Perquisites [Clause (53A)]

Through the Bill, it was proposed to tax the following perquisites received by an employee by virtue of his employment, namely:-

- (ii) free or subsidized food provided by hotels and restaurants to its employees during duty hours;
- (iii) free or subsidized education provided by an educational institution to the children of its employees;
- (iv) free or subsidized medical treatment provided by a hospital or a clinic to its employees; and
- (v) any other perquisite or benefit for which the employer does not have to bear any marginal cost, as notified by the Board.

Appreciating the strong resistance from the tax professionals and salaried individuals entitled for such benefits, the proposal for withdrawal of such exemption has not been approved by the Parliament. Accordingly, above mentioned perquisites will not be taxable in the hands of employees.

Medical benefits [Clause (139)]

Through the Bill, it was proposed to withdraw the below benefits in the hands of employees

- i. The benefit represented by free provision to the employee of medical treatment or hospitalization or both by an employer or the reimbursement received by the employee of the medical charges or hospital charges or both paid by him, where such provision or reimbursement is in accordance with the terms of employment:

Provided that National Tax Number of the hospital or clinic, as the case may be, is given and the employer also certifies and attests the medical or hospital bills to which this clause applies;

- ii. Any medical allowance received by an employee not exceeding ten per cent of the basic salary of the employee if free medical treatment or hospitalization or reimbursement of medical or hospitalization charges is not provided for in the terms of employment;

The proposal for withdrawal of such exemption has not been approved. Accordingly, above mentioned Medical benefits will not be taxable in the hands of employees. Restoring the above exemptions makes sense especially when there is a dearth of good and cheap medical care in the country combined with the fact that tax rates for salaried individuals have been gradually increased over last decade while removing most of the exemptions.

Insertion/Enhancement in Exemption Clauses

Exemption of Income [Clause (66)]

Through the Act, following new entities are added under Table 1 of clause (66), providing exemption of income.

S.No	Name
(xxi)	Layton Rahmatullah Benevolent Trust (LRBT) – This was earlier mentioned in Table 2 of this Clause providing 100% tax credit under section 100C
(xxii)	Baluchistan Education Endowment Fund (BEEF)
(xxiii)	Saylani Welfare International Trust - This was earlier mentioned in Table 2 of this Clause providing 100% tax credit under section 100C
(xxiv)	Chiniot Anjuman Islamia

Profits and gains derived by a refinery [Clause (126B)]

The Bill proposed exemption in respect of profits and gains derived by a new refinery or for upgradation, modernization or expansion project of an existing refinery, subject to certain conditions.

Through the Act, the condition of deep conversion refinery of at least 100,000 barrels per day has been omitted to avail exemption on profits and gains of an existing refinery for the purposes of upgradation, modernization or expansion project.

Furthermore, exemption period has been enhanced from 10 years to 20 years beginning from the date of commencement of commercial production in the case of new refinery. Exemption for 10 years from the date of completion of upgradation, modernization or expansion project of an existing refinery will, however, remain intact.

Furthermore, it is clarified the exemption under this clause shall only be available to those refineries whose products fulfill Euro 5 standards.

Profits and gains derived from sale of electricity [Clause (132AA)]

Through the Act, exemption on profits and gains derived from sale of electricity currently available to National Power Parks Management Company Limited is also extended to its demerged entities. Furthermore, the starting period of exemption has been changed i.e. it shall commence from the commercial operation dates and continuing after the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan for all such entities.

International buying house [Clause (149)]

A new clause is introduced through the Act, whereby exemption from total income has been provided to international buying house on

- i. Any sum remitted to Pakistan through banking channels in foreign currency received by an international buying house from its non-resident principal to meet its expenses in Pakistan; and
- ii. Any sum chargeable under the head "Salary" received by a person who, not being a citizen or resident of Pakistan, is engaged as an expert by an international buying house.

International Buying House has been defined as persons acting as buying offices, buyers agents, or representatives of international buyers for facilitating exports from Pakistan and are registered as liaison offices with Board of Investment or companies registered with SECP. Provided that such buying houses act as cost centers with the sole purpose to bring export orders to Pakistan on behalf of their principals and do not enter into any local business transactions in Pakistan and their expenses are remitted to Pakistan."

Part II – Second Schedule

Reduction in tax rates

Oil tanker contractor services [Clause (28F), Part II second schedule]

Part II of the Second Schedule provides reduced tax rates in respect of various taxpayers and specified transactions. Through the Act, a new clause (28F) is proposed to be inserted, whereby the withholding tax rate of 2% under section 153(1)(b) will apply in case of oil tanker contractor services.

Apparently this reduction in the rate has been introduced considering countrywide protest by Oil Tankers Association.

Part III – Second Schedule Reduction in Tax Liability

Profit on debt from Investment in Government Securities [Clause 20]

Part III of the Second Schedule provides for reduction in tax liability of various taxpayers.

Through the Act, a new clause is inserted, whereby 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 15% of the gross amount of the profit on debt and such tax shall be treated as final tax on such income.

Part IV - Second Schedule - exemption from specific provisions

Part IV of the Second Schedule to the Ordinance provides for exemption from the operation of certain provisions of the Ordinance, subject to such conditions and to the extent, as specified therein.

Recoupment of tax credit [Clause (4A)]

The Bill proposed that no provision of law shall apply for recouping of any tax credit already allowed to National Power Parks

Management Company (Private) Limited for investment in plant and machinery in the eve of privatization merely for the reason of change in ownership pattern or debt to equity ratio.

Through the Act, the scope of this exemption is extended notwithstanding non-issuance of share certificates or any restructuring of its ownership pattern or debt to equity ratio prior to privatization as part of privatization.

Minimum tax [Clause (11A)]

Through the Bill, it was proposed that provisions of minimum tax under section 113 will not apply to the new entity taking over National Power Parks Management Company (Private) Limited in the event of privatization.

Through the Act, the exclusion is revised and now to be applicable for National Power Parks Management Company (Private) Limited or demerged entities from the commercial operation dates and continuing after the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan.

Oil tanker contractor [Clause (43D)]

The withholding tax provision under section 153(1) (a) was not applicable for oil tanker contractor, if they pay tax at 2.5% on payments for rendering or providing of carriage services. The Bill proposed to increase tax rate from 2.5% to 3.5% to avail exclusion from provisions of section 153(1)(a) and (b).

The Parliament did not approve change in tax rate, therefore, such proposal is not enacted.

Exemption from income tax withholding [Clause (46AA)]

Presently, provision of section 153 are not applicable for companies receiving payments on account of payments for supply of electricity and gas. The Act extends the scope of withholding tax exemption for companies

receiving payments on account of transmission of electricity and gas.

Exemption on withholding tax on imports [Clause (56)]

The Bill proposed to exempt Motor Vehicles upto 80 cc in CBU condition from collection of tax under section 148 at import stage. Through the Act exemption is extended for motor vehicles upto 1000cc.

Furthermore, the Act also introduced exemption of tax under section 148 on account of blind talking mobile phones imported by blind persons as per rules issued by the Board.

The Seventh Schedule

Rule (6C) was added in the Seventh Schedule to the Ordinance through the Finance Act, 2019 whereby for tax year 2020 and onwards, the taxable income of a banking company arising from additional income earned from additional investment in Federal Government securities is taxed at 37.5% instead of 35%.

The term additional income earned means markup income earned from additional investment in Federal Government Securities by the bank for the tax year.

“Additional investments” means average investment made in Federal Government securities by the bank during the tax year, in addition to the average investments held during the tax year 2019.

Taxable Income from additional investment is determined in accordance with following:

Table income subject to enhanced rate of tax = A x B/C

Where –

- A. is taxable income of the banking company;
- B. is markup income earned from the additional investment for the tax year; and

- C. is the total of the mark-up income and non-make-up income of the banking company as per accounts.

Through the Finance Act, 2021 amendments in Rule (6C) have been made whereby for tax year 2022 and onwards, tax rate on taxable income attributable to investment in Federal Government securities shall be determined based on asset to deposit ratio as on last day of the tax year rather than normal tax rate of 35% as under:

Asset to deposit ratio as on last day of the tax year	Tax rate proposed
Upto 40%	40%
Exceeds 40% but does not exceed 50%	37.5%
Exceeds 50%	35%

It is pertinent to note that the above amendments were not proposed through Finance Bill announced on June 11, 2021.

The Fourteenth Schedule

The Bill introduced the Fourteenth Schedule to the Ordinance, setting out the rules for computation of profits and gains for Small and Medium Enterprises (SMEs).

Through the Act, following new rules have been added to the Fourteenth Schedule:

Exports

Export proceeds of SMEs shall now be subject to tax under Final tax regime at rates given below:

Sr. No.	Category	Turnover	Tax rate
1	Category-1	Where annual business turnover does not exceed	0.25% of gross turnover

Sr. No.	Category	Turnover	Tax rate
		Rupees 100 million	
2	Category-2	Where annual turnover exceeds Rupees 100 Million but does not exceed Rupees 250 million	0.5% of gross turnover

Exclusion from Minimum Tax on Turnover

The Act provides that the levy of minimum tax under section 113 of the Ordinance shall not apply on the turnover of SMEs.

Tax on supply Goods

Tax deductible on supply of goods under section 153(1)(a) on account of sale or supply of goods by SMEs shall be considered as adjustable instead of minimum tax. This amendment would provide considerable relief to the SMEs.

Sales Tax Act, 1990

Tier-1 Retailer [Clause (43A) Section 2 – Definitions]

The Bill proposed insertion under the captioned definition to bring 'online marketplace operator' within the ambit of Tier-1 retailer which is now withdrawn through the Finance Act.

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

Through amendments in the charging provisions, the Bill proposed to impose the liability to pay sales tax on the person running the online market place whether or not the goods were owned by him. The Act has now done away with such charging provisions seeking to impose the liability to pay sales tax on online marketplace operator.

After dispensing with said charging provisions, online marketplace operator has now been proposed to be a withholding agent under Eleventh Schedule to the ST Act who is required to withhold sales tax at the rate of 2% of gross value of supplies of the persons other than Active Taxpayers. The withholding provisions will become effective from the date to be notified by the Board.

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

The Bill proposed to withdraw levy of FED on certain items of iron/steel industry on which levy of sales tax was restored by virtue of omission from the Sixth Schedule to the Sales Tax Act, 1990. Sub-section (9AA) has been now inserted through the Act under charging provisions specifying chargeability of sales tax on minimum

production for goods listed under Thirteenth Schedule to the ST Act. The same item wise minimum production schedule as was provided under Federal Excise Act, 2005 has been made part of the ST Act.

3. Adjustable Input Tax [Section 8B(6)]

Currently, captioned provisions disallow deduction of adjustable input tax for whole of a tax period by 15% to such Tier-1 retailer who does not integrate his retail outlet under provisions of ST Act. Through the Act the said percentage of disallowance has been enhanced from 15% to 60%. The amendment seems to have been made to increase the penalty for those Tier-1 retailers who are reluctant to integrate their POS with FBR.

4. Common Identifier Number [Proposed Section 21B]

The proposed section vide the Bill prescribing National Tax Number (NTN) in case of association of persons or company and Computerized National Identity Card (CNIC) in case of an individual person, to be common identifier number in addition to the Sales Tax Registration Number (STRN), has been withdrawn.

Fifth Schedule (Zero rated goods)

The Act inserts/restores following items under the Fifth Schedule thereby granting zero-rating of sales tax on such goods:

S. No.	Description	Comments
16	Milk (PCT Heading 04.01)	Previously was exempt, the Bill proposed restriction of exemption to local supplies only. Through the Act, the item has been brought into zero rated regime.
17	Fat filled milk excluding that sold in retail packing under a brand name or a trademark (PCT heading 1901.9090)	Previously was exempt, the Bill proposed restriction of exemption to local supplies only. Through the Act, the item has been brought into zero rated regime.
18	<p>(i) Supply, repair or maintenance of any ship which is neither;</p> <p>(a) A ship of gross tonnage of less than 15 LDT; nor</p> <p>(b) A ship designed or adapted for use for recreation or pleasure.</p> <p>(ii) Supply of spare parts and equipment for ships falling under (i) above.</p> <p>(iii) Supply of equipment and machinery for salvage, or towage services.</p> <p>(iv) Supply of equipment and machinery for other services provided for the handling of ships in a port.</p>	Zero rating was proposed to be omitted through Bill but has been retained in the Act. Only serial number has changed from 1 to 18.

Sixth Schedule (Exempt Goods)

Table I – Imports or Supplies

a) Restoration of Exemptions on Imports

The Bill restricted exemption of sales tax on the following items to local supplies only and imports thereof were made taxable. The exemption of sales tax on imports has now been restored through the Finance Act:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
11.	Eggs including eggs for hatching	0407.1100, 0407.1900 and 0407.2100, 0407.2900
19.	Cereals and products of milling industry <i>The following description previously part hereof has been deleted "excluding the products of milling industry, other than wheat and meslin flour, as sold in retail packing bearing brand name or a trademark"</i>	1001.1000, 1001.9000, 1002.0000, 1003.0000, 1004.0000, 1005.1000, 1005.9000, 1006.1090, 1006.2000, 1006.3010, 1006.3090, 1006.4000, 1007.0000, 1008.1000, 1008.2000, 1008.3000, 1008.9000, 1101.0010, 1101.0020, 1102.2000, 1102.9000, 1103.1100, 1103.1300, 1103.1900, 1104.2200, 1104.2300, 1104.2900 and 1104.3000
84.	Preparations suitable for infants, put up for retail sale.	1901.1000

b) New Insertions

The following items have been exempted from sales tax through insertion under serial no.133 of the Schedule:

Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
White spirit	2710.1240
Solvent oil	2710.1250

Table II – Local supplies only

a) Omissions

Following entries relating to exemption on local supplies of the following items have been omitted through the Act:

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)
18.	Supplies made by manufacturers of marble and granite having annual turnover less than five million rupees even if their annual utility bill is more than eight hundred thousand rupees	Respective heading
19.	Bricks (up to 30th June, 2018)	6901.1000

b) New insertion

Through the Act, local supply of 'Wheat Bran' classified under tariff heading 2302.3000 has been exempted from sales tax under entry No.27 of the Table-II of Schedule. The Bill previously proposed to withdraw reduced rate of 10% and tax the same at standard rate of 17%.

Table II – Conditional Exemption

The following new entry has been inserted through the Act making the listed item exempt from sales tax subject to specified condition.

Sr. No.	Description	PCT Heading	Conditions
21.	Import of POS machines	8470.2900, 8470.9000	POS machines imported for installation on retail outlets as are integrated with the Board's computerized system for real time reporting of sales.

Eighth Schedule (Goods subject to Specified rates)

Table – I

a. Restoration of Reduced Rate of Sales Tax

Through the Bill, reduced rate of sales tax on the following items was proposed to be withdrawn. The same reduced rating on these items has been restored through the Act.

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
6.	Plant and machinery not manufactured locally and having no compatible local substitutes	Respective headings	10%
7	Flavoured milk	0402.9900	10%
8	Yogurt	0403.1000	10%
9	Cheese	0406.1010	10%
10	Butter	0405.1000	10%
11	Cream	04.01 and 04.02	10%
14	Milk and cream, concentrated or containing added sugar or other sweetening matter	0402.1000 and 0402.2000	10%
15	Ingredients of poultry feed, cattle feed, except soya bean meal of PCT heading 2304.0000 and oil-cake of cotton-seed falling under PCT heading 2306.1000	1[2301.1000], 2305.0000, 2306.2000, 2306.3000, 2306.4100, 2306.5000, 2309.9010, 2309.9020, 2309.9090, 2936.2100, 2936.2200, 2936.2300, 2936.2400, 2936.2500, 2936.2600, 2936.2700, 2936.2800, and 2308.9000 (Guar Meal), 2303.1000	10%

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
		(Corn Gluton Feed/Meal), 2303.1000 (Residues of starch manufacture and similar residues), 3507.9000 (Enzymes-other), 2302.1000 (Maize Bran), 2302.2000 (Rice Bran), 2302.3000 (Wheat Bran), 2302.4000 (Other Cereals), 2302.5000 (Bran of Leguminous Plants), 2306.7000	

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
		<p>(Oil- cake and other solid residues of Maize (corn germ),</p> <p>2306.4900</p> <p>(Sesame Cake),</p> <p>2306.9000</p> <p>(Sesame Meal/other Meal),</p> <p>2842.1000</p> <p>(Double or complex silicates, including aluminosilicates whether or not chemically defined),</p> <p>2301.2090</p> <p>(Fish Meal),</p> <p>0505.9000</p> <p>(Poultry by product Meal),</p> <p>and the following items only of Feed Grade:</p> <p>2827.6000</p> <p>(Potassium Lodide),</p> <p>2833.2990</p> <p>(Manganese Sulphate),</p>	

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
		2833.2940 (Zinc Sulphate), 2817.4000 (Zinc Oxide), 2833.2500 (Copper Sulphate), 2833.2910 (Ferrous Sulphate), 2915.5000 (Propionic acid, its salts and esters), 2930.4000 (DL Methionine), 2930.4000 (Methionine Hydroxy Analogue (liquid)), 2922.4100 (Lysine Monohydro Chloride /sulphate),	

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
		2923.2000 (Lecithins), 2923.9010 (Betafin), 2922.4290 (Arganine), 2934.9910 (Furazolidon), 2922.5000 (Threonine), 2835.2600 (Mono Calcium Phosphate), 2835.2500 (Di Calcium Phosphate), and 2835.2600 (Mono Di Calcium Phosphate)	
29	(i) Harvesting, threshing and storage equipment: (ii) Wheat thresher (iii) Maize or groundnut thresher or sheller (iv) Groundnut digger (v) Potato digger or harvester (vi) Sunflower thresher (vii) Post hole digger (viii) Straw balers	8433.5200 8433.5200 8433.5900 8433.5300	5%

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
	(ix) Fodder rake (x) Wheat or rice reaper (xi) Chaff or fodder cutter (xii) Cotton picker (xiii) Onion or garlic harvester (xiv) Sugar harvester (xv) Tractor trolley or forage wagon (xvi) Reaping machine (xvii) Combined harvesters (xviii) Pruner/shears	8433.5200 8433.5900 8433.4000 8433.5900 8433.5900 8433.5900 8433.5900 8433.5200 8433.5200 8716.8090 8433.5900 8433.5100 8433.5900	
45	Following machinery for poultry sector : (i) Machinery for preparing feeding stuff, (ii) Incubators, brooders and other poultry equipment (iii) Insulated sandwich panels (iv) Poultry sheds (v) Evaporative air cooling system (vi) Evaporative cooling pad	8436.1000 8436.2100 and 8436.2900 Respective heading 9406.1020 and 9406.9020 8479.6000 8479.9010	7%
60	Fat filled milk	1901.9090	10%
61	Silver, in unworked condition	7106.1000, 7106.9110 and 7106.9190	1%

Sr. No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax
62	Gold, in unworked condition	7108.1100, 7108.1210 and 7108.1290	1%
63	Articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal	71.13	1.5% of value of gold, plus 2% of value of diamond, used therein, plus 3% of making charges <i>Previously 0.5% sales tax was applicable on value of diamond which has been enhanced to 2% through the Act.</i>

b. Further Reduction in Sales Tax Rate

The rate of sales tax on supplies made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales has been further reduced from current 12% to revised 10%.

c. New insertions

- i. The reduced rate of 12.5% previously proposed for the locally manufactured or assembled motorcars of cylinder capacity upto 850cc has now been extended to 1000cc motorcars also.
- ii. Goods supplied from tax-exempt areas of erstwhile FATA/PATA to the taxable areas has been reduced to 16%.

Eleventh Schedule (Withholding of Sales Tax)

The Act has inserted the following entries in the Eleventh Schedule:

Sno.	Withholding agent	Supplier Category	Rate of extent of deduction	
			As per the Act	Proposed through Bill
7.	Registered persons manufacturing lead batteries	Persons supplying any kind of lead under chapter 78 (PCT Headings:7801.1000, 7801.9100....)	75% of the sales tax applicable	Whole amount of sales tax applicable
8.	Online market place	Persons other than active taxpayers	2% of gross value of supplies: Provided that the Provisions of this entry shall be effective from the date as notified by the Board.”.	Entry not proposed in the Bill

Thirteenth Schedule

As a result transfer of steel products from FED regime to Sales Tax Regime, the following new schedule has been inserted prescribing minimum production for steel items for levy of sales tax under section 3(9AA) followed by procedure and conditions which were previously appearing under the Forth Schedule of the Federal Excise Act, 2005 that has been omitted through the Finance Act:

S. No.	Product	Production criteria
1.	Steel billets and ingots	One metric ton per 700 kwh of electricity consumed
2.	Steel bars and other re-rolled long profiles of steel	One metric ton per 110 kwh of electricity consumed
3.	Ship plates and other re-rollable scrap	85% of the weight of the vessel imported for breaking”; and

Federal Excise Act, 2005

First Schedule

TABLE I (Goods)

- a) The Bill proposed withdrawal of excise duty payable at reduced rate on import and locally manufactured electric vehicles (4 wheelers) upto June 30, 2026 and locally manufactured motor vehicles of cylinder capacity upto 850cc. Through the Act, proposed abolishment of duty on local manufacturing of vehicles of cylinder capacity up to 850cc has been withdrawn and the following amendments have been made through the Act thereby further reducing the applicable duty rates as under:

S. No.	Description of Goods	Duty Rate	
		Current	Revised
58B	(a) of cylinder capacity up to 1000c	2.5%	0%
	(b) of cylinder capacity from 1001cc to 2000cc	5%	2.5%
	(c) of cylinder capacity 2001cc and above	7.5%	5%

TABLE II (Services)

- a) By inserting the new serial no. 6A to the Table, the Bill proposed levy of further FED at Re.1 per call where call duration is exceeding three minutes. Through the Act, FED of 75 paisa per call has been retained on mobile phone calls with duration exceeding five minutes.

Punjab Sales Tax on Services Act, 2012

1. Active Taxpayer [Section 2(1)]

Currently, the term 'active taxpayer' is nowhere defined in Punjab Sales Tax on Services Act, 2012 (the PST Act), rather a definition is available in the sales Special Procedure (Withholding) Rules, 2015 whereby 'Active taxpayer' means as a registered person appearing in 'active taxpayers list'. The Bill proposes that the definition of an 'active taxpayer' be added to the Act and shall mean a taxpayer:

- i. whose registration has not been suspended or blacklisted by the Punjab Revenue Authority (the Authority); and
- ii. who has filed his tax return for at least one of the preceding three consecutive tax periods.

2. Option to charge tax at standard rate. [Section 10A]

Currently, for only a few services chargeable to sales tax at reduced rate, the taxpayer has the right to opt to charge the sales tax at standard rate (i.e. 16%). The Bill proposes to make available the said option in case of all the services chargeable at reduced rate after the approval of the Authority subject to such conditions, restrictions and limitations as the Authority may impose.

Furthermore, the Authority has also been proposed to be vested with the power to revoke such approval in case there is a reason to believe that the taxpayer has misused the option. However, such revocation shall only take place after giving an opportunity of being heard to the taxpayer.

3. Penalty to charge sales tax more than the defined rates. [Section 48]

The Bill proposes to add a penalty clause in section 48 in serial 21 whereby any registered person who charges sales tax in excess to the defined rate in Second Schedule, shall be charged with the higher of the following:

- i. Rupees 10,000 per invoice; or
- ii. 10% of the invoice amount

By virtue of this amendment, any person charging sales tax at a rate higher than the:

- a. standard rate, in case of services taxable at standard rate, or;
- b. reduced rate without permission of the Authority in terms of newly proposed Section 10A, in case of services taxable at reduced rate.

shall be faced with the above proposed penalties.

4. Posting of an officer to business premises. [Section 59]

Currently, the above section empowers the Authority to post an officer at the premises of the registered person providing services to monitor the nature of services being provided by the registered person. The Bill proposes to amend the above section such that the Authority is also empowered to post an officer at the premises of the registered person receiving the services.

5. Decision in appeal. [Section 65]

Currently, Commissioner (Appeals) is required to pass order within an aggregate period of 180 days from filing of appeal and if the order is not passed by the Commissioner (Appeals) within 180 days from the end of the

month in which the appeal was filed, the Commissioner (Appeals) shall transfer the appeal to the Appellate Tribunal and shall attach his comprehensive report explaining the circumstances and reasons due to which the appeal could not be decided within time.

The Bill proposes to abolish such compulsory requirement of transfer of appeal in to the Tribunal in case appeal is not decided by the Commissioner (Appeals) within the said period of 180 days.

SECOND SCHEDULE

- b) The Bill proposes to extend the scope of levy of Punjab sales tax by including the following into the scope of taxable services, namely:

Sr. No.	Description of Services	Rate of PST proposed
7.	Services provided by the insurance agents and insurance brokers	5%
48	Services provided by persons for intra-city carriage of goods	15%
70	Entertainment services (including cinema, theater, concerts, circus, sports events, races, film, fashion shows and mobile stage shows)	0%

- c) The Bill proposes to bring changes in sales tax rates for the following services, namely:

Sr. No.	Description of Services	Existing rate	Proposed Rate
11.	Services provided by restaurants [including cafes, food (including ice-cream) parlors, coffee houses, coffee shops, deras, food huts, eateries, resorts and similar cooked, prepared or ready-to-eat food service outlets etc]. For payments against such services, reduced rate will also be applicable now on payments made through mobile wallets or QR scanning in addition to payment made through debit/ credit cards.	16%	5%
18	Services provided for personal care by (air conditioned) beauty parlors, salons, clinics, slimming clinics, spa (including saunas, Turkish baths and jacuzzi) and similar other establishments Currently, the reduced rate is applicable for payments made through debit/ credit cards. The Bill now proposes	16%	5%

Sr. No.	Description of Services	Existing rate	Proposed Rate
	the applicability of reduced rate for such services irrespective of the mode of payment.		
33	Services provided by fashion designers including use of brand name, logo or house mark, whether or not registered, in the manufacturing or trading of products, whether relating to textile, leather, jewelry or other product regimes including allied services such as cutting, stitching, printing, manufacturing, fabrication, assembly, embellishment, adornments, display including marketing, packing and delivering etc.	16%	5%
34	Services provided by the architects, town planners, landscapers, landscape designers, interior decorators and interior designers.	16%	5%
40	Services provided by the commission agents to home chefs. Currently, the reduced rate is applicable for Services provided by the commission agents to agricultural produce.	16%	5%
41	Call centers	19.5%	16%
44	Services provided by laundries and dry cleaners.	16%	5%
50	Services in relation to supply of tangible goods including machinery, equipment and appliances for use, without transferring right of possession and effective control of such machinery, equipment and appliances.	16%	5%
61	Services provided by warehouses or depots for storage or cold storages including letting of space for storages. EXCLUDING: Storage of agricultural produce for the person's own consumption.	16%	5%
64	Dress designing and stitching services.	16%	5%
65	Rental of bulldozers, excavators, cranes, construction equipment, Scaffolding framework and shuttering, generators, storage containers, Refrigerator, shelf or rack renting etc.	16%	5%

Khyber Pakhtunkhwa Finance Act, 2013

1. **Withholding Agent [Section 2(57)]**

Currently, the term 'withholding agent' has not been defined in the Act. The Bill proposes definition of 'withholding agent' be added to the KPK Finance Act, 2013 (the Act) which shall mean any person, who, as a recipient of taxable service or otherwise, withholds or deducts and pays or deposits tax directly to Government in the manner as may be prescribed.

2. **Standard or general tax rate application choice [Section 26A(1)]**

Currently, prior approval of the Authority is required to opt to pay sales tax at standard or general rate with input tax adjustment for services which are otherwise subject to reduced sales tax rate with no input tax adjustment.

The Bill proposes that in case of a company, a one month prior intimation to the Authority for the above option would suffice the purpose and no approval would be required by the Authority. However, in order to revert back to reduced rate, approval of the Authority would be required like any other case.

3. **Special procedure and tax withholding provisions [Section 30(3)]**

Unlike other provincial service sales tax laws, no provision regarding personal liability of the withholding agent in case of failure to withhold or pay sales tax, is currently provided in the Act. The Bill proposes to introduce a new sub section whereby the withholding agent shall be personally liable to withhold and deposit sales tax. In case of failure on his part to do

so, it shall be his personal liability to pay such due amount of tax along with default surcharge and penalty under the Act.

Furthermore, the Bill proposes that such tax along with default surcharge and penalty may be recovered from such person under section 87 of the Act.

4. **Adjustments [Section 32(3)]**

As per section 32 of the Act, the KPRA authority may allow registered persons to claim adjustments or deductions, including refunds arising as a result thereof, in respect of the tax paid under any other law on any account in respect of any taxable service or goods or class of taxable services or goods provided by them subject to such conditions and restrictions as it may specify.

However, currently, no provision regarding specification of date for claiming of such adjustments has been defined in the Act.

The Bill proposes to amend section 32(3) to the effect that the notification issued shall specify such date and if no date is defined in the notification for adjustment of the tax paid under any other law, the date of coming into effect of such notification shall be deemed to be the specified date for taking adjustments.

5. **Joint and several liability of registered persons where tax unpaid [Section 35]**

Currently, the scope of joint and several liability to pay sales tax is limited to registered persons only. The Bill proposes to broaden the above scope by including other persons (i.e. unregistered persons) as well. Furthermore, the Bill proposes to

impose the responsibility on both registered person and otherwise to ensure that the service provider from whom they have obtained taxable services deposits the sales tax relating to that transaction.

6. Assessment of tax [Section 40]

The Bill proposes to add the following explanations to the above section:

- Section 40 shall apply in cases involving:
 - a. Tax collected by registered person but has not been paid
 - b. Short payment of tax whether due to short receipt, short collection, claim of inadmissible input tax.

However, where short payment of tax has resulted from collusion, abetement, deliberate attempt, mis-statement, fraud, false or fake documents etc. the provisions of subsection (2) of section 68 (i.e. Recovery of tax not levied or short-levied), shall apply.

- The term audit has been explained as departmental audit, external audit, special audit or any other scrutiny of records, facts and tax affairs in any manner, style or mode, resembling audit or appearing like audit.
- The term non-paid and short-paid amount of tax has been explained as non-paid or short-paid amount as was or is to be withheld or has been withheld by a person receiving a service or services as withholding agent but has not been deposited or has been short-deposited to Government

7. Offences and penalties [Section 64]

The Bill proposes to levy similar penalties on the withholding agents as are imposed on service providers in accordance with section 64 of the Act on account of:

- Failure to make registration application;
- Failure to file return within the due date;
- Failure to deposit the amount of tax due;
- Failure to maintain record;
- Failure to produce any record or to furnish requisite information;
- Obstruct access to business premises or any other record; and
- Commits or attempts to commit tax fraud

8. Default surcharge [Section 65]

The Bill proposes that the inter-bank rate which would be used to calculate the default surcharge under section 65 shall be the quarterly average of inter-bank rate of State Bank of Pakistan. Furthermore, the default surcharge shall not be calculated on compound basis and also the default surcharge shall be prorated in terms of days of the relevant month.

9. Exemption from Penalty and Default Surcharge [Section 66]

Currently, the provincial Government has powers to exempt any registered person or any taxable service from payment of the whole or any part of the penalty and default surcharge through notifications and all such notifications are to be laid before the Council before the end of each financial year.

The Bill now seeks to require laying of such notifications before the KPK Provincial Assembly instead of the Council.

10. Recovery of tax not levied or short-levied [Section 68]

The Bill proposes to extend the power of Authority to issue notice for non-levy or short-levy of tax for upto five years from the relevant tax period which is currently three years as per the Act.

The Bill also proposes to remove the limit on period of adjournments taken for the calculation of days within which the order for non-payment of short-payment of tax shall be issued. Currently the period of adjournments is limited to 30 days.

11. Powers of adjudication [Section 76]

The Bill proposes to extend the power of the Authority to regulate the system of adjudication including transfer of cases, make changes in pecuniary limits of its officers and for extension/condonation of time limits as per section 99 of the Act.

12. Decision in appeal [Section 81]

Currently, the Collector (Appeals) cannot remand any matter for de novo consideration. The Bill proposes that in special circumstances, the Collector (Appeals) be empowered to remand any matter for de novo considerations for which reasons and purpose shall be recorded by the Collector (Appeals) in writing.

13. Recovery of arrears of tax [Section 87]

The Bill proposes to empower the Assistant Collector or above ranked officer to make recovery of tax directly from the person who holds the custody of any money of the defaulter or otherwise has to pay to the defaulter.

14. Condonation of time-limit [Section 99]

Currently, the Authority cannot condone a time limit which results in increase of tax payable, penalty or default surcharge unless a reasonable opportunity of being heard is provided to the taxpayer. The Bill proposes to limit the restriction to increase of tax payable only by excluding penalty and default surcharge from the scope of such restriction.

The Bill also proposes that officers of lower rank shall not be able to condone the time limit for cases falling under jurisdictions of higher rank officers.

Second Schedule

- d) The Bill proposes to amend the description of reduced rate / exemption scope of existing service headings by virtue of which following services shall be taxable as under:

Sr. No.	Description of Services	Rate of tax proposed
1.	Local non-corporate standalone hotels and clubs	8% or 5% where RIMS is installed
1.	Non-corporate hospitality business located in the tourist spots of Galiyat and Kaghan valleys.	5%
5.	Companies providing labor or manpower supplies including recruitment for overseas jobs or employment	15%
5.	Companies providing business support services	15%
8.	Non- corporate automobile dealers	2%
10.	Health related franchise services	Exempt
13.	Cleaning, fumigation and decontamination	5% (without input tax adjustment)
14.	Construction work of the projects of Public Sector Development Programme as were undertaken and completed before June 30, 2021	Exempt
14.	Construction services, including allied works, provided or rendered, in respect of low-cost housing projects and schemes of the Provincial Housing Authority of KPK	Exempt
14.	Land development and commercial construction for areas allocated, fixed or used exclusively for school, medical dispensaries, mosque, graveyards, parks, public toilets, corridors (insight passages of building) and stair provided that these facilities are meant for common use of the public at large without the involvement of any commercial projects including intention or purpose for sale, leasing or renting	Not taxable
16.	Leases and licenses granted, or fees and royalties received by Government department or as the case may be, by the lessees or licensees. Provided that no tax shall be demanded in case of the charges for such leases, licenses, fees or royalties etc., received upto June 30, 2021 if tax thereon has not been already withheld, paid or recovered (no refund or waiver of any	2% without input tax adjustment

Sr. No.	Description of Services	Rate of tax proposed
	such tax amount shall be admissible under any circumstances)	
19.	Management services including fund and asset management services provided by non-corporate entities	5% (without input tax adjustment)
47.	All allied, ancillary, auxiliary, related, substitutive, comparable or matchable services not specifically, directly or indirectly mentioned anywhere in this Schedule but fall in or are linked in any manner to the category or categories of services covered in any of the class or classes of services mentioned or included in the Schedule provided that no argument as to variation in description shall be relevant or permissible for the application of this entry regardless whether such allied and other services are provided by the same person (service provider) whose services are falling under other serial number or numbers or by any other person (service provider) to such same person or to any other person.	Rate of Tax as per closest respective entry or entries

e) The Bill proposes to bring changes in sales tax rates for the following services, namely:

Sr. No.	Description of Services	Existing rate	Proposed Rate
6.	Advertisements on or through print media of all types and forms	5%	1%
9.	Stand alone car wash (car wash station) services	2%	1%
10.	Franchise services	10%	15%
14.	Construction services	2%	5% and 2% for Govt. funded projects
19.	Services specified in S. No 19 if provided by corporate entities and to such entities as are operating in collaboration or subsidiary or branch of foreign services providers	5%	15%

Sr. No.	Description of Services	Existing rate	Proposed Rate
20.	Cinematographic production, photographic services, recording services and telecasting or broadcasting services	2%	1%
26.	Life insurance	Exempt	15%
26.	Health insurance and Services in respect of Government sponsored Sehat Card Plus program	Exempt	1%
27.	Cold storage services (including other form of warehousing of agricultural produce)	10%	1%
34.	Services provided by underwriters including sponsorship services	2%	1%
36.	Services provided or rendered by auctioneers	2%	1%
39.	Services provided or rendered in respect of quality assurance, quality control, quality inspection (including preinspection), quality verification or certification including verification or certification of quality or standards under ISO regime	2%	1%
44.	Services relating to or in respect of the installation, erection, commissioning or other permanent structure-affixed/linked/tied placement (whether full or in part) of any industrial, mechanical or electrical plant, machinery or equipment excluding installation of domestic equipment etc for residential use)	2%	1%

Principles of application and interpretation:

The Bill proposes to add four new paragraphs in the section of Principles of Application and Interpretation, the gist of which is as below:

- A registered person providing services at a reduced rate of tax, upon request of its buyer from corporate sector, may provide services to such buyer on standard rate.
- Authority shall provide exemption from tax after taking concurrence from the Finance Department of Government on such conditions, restrictions or limitations as the Authority may deem appropriate to recommend or impose.

- Corporate entities shall not pay tax at reduced rate for various specified services including specialized workshops, franchise, specialized agencies, contractual execution of work, airport/ dry port services etc. (other than public sector entities providing services covered therein), quality assurance, inspection certification services and installation and commissioning services unless otherwise mentioned in the Second Schedule or under any notification issued under the Act. Such entities shall pay tax at standard rate of 15% with input tax adjustment.
- Services provided by or relating to dealers of agriculture machinery and equipment, commission agents of agriculture produce, agriculture- specific market research, human resource development or management in agricultural fields, and exhibitions of agricultural products or products usable exclusively in agriculture sector shall be charged to tax only at the rate of two percent (2%) without any input tax adjustment.

Balochistan Sales Tax on Services Act, 2015

1. Definitions (Section 2) & First Schedule

The Bill seeks to define certain services which have also been included under the First Schedule to The Baluchistan Sales Tax on Services Act, 2015 (the Act) under the respective tariff heading as given under the following table.

Clause u/s 2	Tariff Heading	Description of Service	Definition
(26A)	9805.2100	Beaching	"Beaching" includes any activity under which a ship, vessel, boat or any similar structure whether complete, incomplete, damaged or undamaged is moved from sea waters to the shore or grounded in shallow waters for the purpose of cargo / goods loading or unloading, embarkation or disembarkation of persons / passengers, repair, maintenance, dismantling, breaking or for any other similar purposes.
(29A)	9819.3100	Cab aggregator	"Cab aggregator" means a person who is an aggregator or operator or intermediary or online marketplace who canvasses or solicits or facilitates passengers for travel by motor vehicles like taxi, cab, car, van, motorcycle and rickshaw, and who connects the passenger or the intending passenger to a driver of any of the aforesaid motor vehicles through telephone, cellular phone, internet, web based services or GPS or GPRS-based services, electronic or digital means, whether or not he charges or collects any fee, fare, commission, brokerage or other charges or consideration for -providing or rendering such service.
(52A)	9822.2100	Depot far storage including cold storage services	"Depot far storage including cold storage services" means the facility or space provided or rendered or let out on rent or otherwise for the storage, cold storage or warehousing of goods including those in the loft - of liquids and gases, but not including the storage of food grains and fresh vegetables and fruits not subjected to further processing and also not including the storage in public bonded warehouses as defined in clause (125).

Clause u/s 2	Tariff Heading	Description of Service	Definition
(111A)	9869.0000	Online market place services	“Online marketplace services” means an information technology platform run by e-commerce entity or organization over an electronic network that acts as a facilitator in transactions that occur between a buyer and a seller or between a service provider and service recipient.
(114A)	9805.2100	Pilotage	“Pilotage” means any activity involving rendering or providing of any service connected with guiding or providing a parking of a ship or vessel in water near the shore end includes toeing of a vessel or ship from mooring to the shore and its anchorage near or on a berth, wharf or dock.
(154A)	9870.0000	Site preparation and clearance, excavation and earth moving and demolition services	<p>“Site preparation and clearance, excavation and earth moving and demolition services” means any service provided or rendered, to any person by another person, in relation to site preparation and clearance, excavation and earthmoving and demolition and such other similar activities, including -</p> <ul style="list-style-type: none"> (i) drilling, boring and core extraction services for construction, geophysical, geological and similar purposes but not including the services in relation to mining of minerals, oil or gas (as covered under tariff heading 9866.0000); or - landfill, leveling, trench digging, rock removal, blasting and similar services; or (ii) soil stabilization; or (iii) horizontal drilling for passage of cables or drain pipes; or (iv) land reclamation work; or (v) contaminated top soil stripping work; or demolition or wracking of bidding, structure or road.
(162A)	9806.6000	Supply of movable property by way of lease, license or similar arrangements	“Supply of movable property by way of lease, license or similar arrangements” means the services provided or rendered, to any person by another person, by way of lease, license, renting, hire purchase, or similar arrangements wherein usage takes place of machinery, equipment, appliances and other tangible goods including bulldozers, excavators, road rollers

Clause u/s 2	Tariff Heading	Description of Service	Definition
			and levelers, cranes, construction machinery and equipment, earthmoving machinery and equipment, scaffolding, generators, refrigerators or in relation to such usage or renting
(180A)	9856.0000	Training Services	“Training Services” means the training services provided or rendered by any person, institute or establishment, by whatever name called, for imparting skill or knowledge or lesson on any subject or field, with or without issuance of a certificate, and includes the services of vocational, professional, technical, commercial or specialized trainings, courses, seminars, workshops and lectures imparted for consideration but does not include the services of coaching or training of sports.
(185A)	9822.2100	Waste collection, transportation, processing and management services	“Waste collection, transportation, processing and management services” means services provided in the matters of collection, processing, transportation, disposal, recycling and management of all kinds of wastes, waste materials and garbage and includes road and street cleaning services, whether manually, mechanically or otherwise

2. Second Schedule (Taxable Services)

The Bill proposes to tax the above defined services under the respective tariff headings at the rates specified in the table below:

Tariff Heading	Description of Service	Rate of Tax
9805.2100	Beaching	15%
9805.2100	Pilotage	15%
9819.3100	Cab aggregator	15%
9822.2100	Waste collection, transportation, processing and management services.	15%
9869.0000	Online market place services	15%
9870.0000	Site preparation and clearance, excavation and earth moving and demolition services	15%
9822.2100	Waste collection, transportation, processing and management services	15%

Whereas ‘supply of movable property by way of lease, license or similar arrangements’ and ‘training services’ are already taxable at the rate of 15%.

Notifications issued by Sindh Revenue Board (SRB)

Notification No.SRB-3-4/13/2021 & SRB-3-4/14/2021 dated June 30, 2021

a. Exemption on export of Call Centre Services

Upto June 30, 2021, services provided or rendered by a call centre from a place of business in Sindh for which the registered person received value of services from a place outside Pakistan in foreign exchange, were taxable at reduced rate of 3%.

Though aforesaid notifications, above reduced rating on Call centre services has been withdrawn and simultaneously such services exported and delivered by registered persons to persons outside Pakistan have been exempted from whole of the Sindh sales tax leviable subject to certain conditions regarding remittance through banking channel and SBP reporting.

b. Withdrawal of Exemption

The exemption of sales tax available on the following services has been withdrawn:

Tariff Heading No.	Description of services and the conditions and restrictions for exemption
Respective sub-headings of tariff heading 98.12	<ol style="list-style-type: none">1. Telecommunication Services involving charges payable on the International leased lines or bandwidth services used by software exporting firms registered with the Pakistan Software Exporting Board;2. Telecommunication Services involving charges payable on the International leased lines or bandwidth services used by software exporting firms registered with the Pakistan Software Exporting Board;

c. Changes in description of services

Through the notification description of export of services of Accountants and Auditors & Software of IT-based system development consultants classified under tariff heading 9815.3000 & 9815.6000 has been rephrased as under:

Service Heading	Description of Service	
	Existing	Amended
Accountants and Auditors	Accountant and Auditors' services exported, by registered persons, outside Pakistan, to such of the service recipients as are not located and not resident in Pakistan, subject to the condition that the value of export of the services is received in foreign exchange through banking channels in the business bank accounts of the registered person exporting the services and is also reported to the State Bank of Pakistan in the manner prescribed by the State Bank of Pakistan.	Accountant and Auditors' services exported and delivered by registered persons to persons outside Pakistan subject to the condition that the value of export of the services is received in foreign exchange through banking channels in the business bank accounts of the registered person exporting the services and is also reported to the State Bank of Pakistan in the manner prescribed by the State Bank of Pakistan.
Software of IT-based system development consultants	Software or IT-based system development consultants' services exported, by registered persons, outside Pakistan subject to the condition that the value of export of the services is received in foreign exchange through banking channels in the business bank accounts of the registered person exporting the services and is also reported to the State Bank of Pakistan in the manner prescribed by the State Bank of Pakistan.	Software or IT-based system development consultants' services exported and delivered by registered persons to persons outside Pakistan subject to the condition that the value of export of the services is received in foreign exchange through banking channels in the business bank accounts of the registered person exporting the services and is also reported to the State Bank of Pakistan in the manner prescribed by the State Bank of Pakistan.

Notification No.SRB-3-4/17/2021 dated June 30, 2021

Exemption of sales tax on Health Insurance services falling under tariff heading 9813.1600 has been further extended for one year upto June 30, 2022.

Notification No.SRB-3-4/18/2021 dated June 30, 2021

Through Notification No.SRB-3-4/15/2019 dated June 27, 2019, services of Cable TV Operators falling under tariff heading 9819.9000 were exempted from whole of the sales tax subject to certain conditions which included filing of sales tax return, e-deposit of sales tax liability on other taxable services and compliance of sales tax withholding rules. The Notification provided timeline for compliance of these conditions which has now been extended in the following manner:

Condition	Timeline	
	Existing	Revised
Filing of sales tax returns for the periods from July 2016 to June 2020	July 31, 2020	July 31, 2021
Deposit of tax liability on taxable services	August 31, 2020	August 31, 2021
Deposit of sales tax withholding if not deducted or withheld by service recipient or withholding agent	August 31, 2020	August 31, 2021

The effective date of above notification dated June 27, 2019 has also been extended from current June 30, 2021 to June 30, 2022 unless rescinded earlier.

Notification No.SRB-3-4/19/2021 dated June 30, 2021

Through Notification No.SRB-3-4/12/2020 dated June 22, 2020, services of recruiting agents classified under tariff heading 9805.6000 were notified to be taxable at reduced rate of 8% for the tax periods of the financial years 2018-19, 2019-20 and 2020-21 subject to certain conditions specified under the said notification. The reduced rating was restricted to recruitment of persons or group of persons for employment outside Pakistan, whereas services for recruitment of individuals for employment in Pakistan was taxable at the standard rate of 13%.

Through the above notification dated June 30, 2021, now for the financial year 2021-22 the above rate of 8% has been further reduced to 5% on services provided or rendered by recruiting agents as classified under tariff heading 9805.6000. Services for recruitment of individuals for employment in Pakistan shall continue to remain taxable at the standard rate of 13% as was applicable earlier.

Notification No.SRB-3-4/15/2021 dated June 30, 2021

a. Requirement to file scanned attachment (Rule 16)

Currently there is requirement to file scanned attachment, as evidence where, the input tax claimed on goods used, consumed, or utilized for providing services exceeds 20% of output tax.

The Rule has been redrafted in a way to remove lacuna whereby word 'services' has been replaced with the word 'taxable services' so as to restrict the limit of 20% to the extent of input taxes utilized in provision of taxable services only instead of applying this threshold to gross input taxes including related to provision of both taxable and non-taxable services. Moreover, the above limit shall now apply to input taxes on acquisition of both goods and services which was earlier restricted to the extent of input tax on acquisition of taxable goods only.

In place of 'attachment', the invoices of goods and services in respect of which input tax is claimed have been specified as the documents to be filed where input claim exceeds as aforesaid.

b. Appointment of e-intermediary (Rule 19)

The Rule provides for a person to be appointed as e-intermediary having experience in the relevant field of providing taxation services. Professional experience as earlier defined under the Rule has been redefined whereby now professional experience mean qualification & experience as a registered person:-

- (a) Providing or rendering the services of an accountant;
- (b) Providing or rendering the services of legal practitioner and consultants;
- (c) Who is an income tax practitioner registered with a tax bar affiliated with All Pakistan Tax Bar Association and providing or rendering services of a tax consultant; or
- (d) As may be approved by the Board.

c. Service provided by hotels, motels etc. (Rule 42)

As against current requirement of issuing invoices containing value exclusive of Sindh sales tax, persons providing or rendering services of a restaurant have now been allowed to issue invoices showing value inclusive of Sindh sales tax with the condition that person clearly and legibly has indicated on menu card, price list and invoice that the price of item served is inclusive of the amount of sales tax. In such cases, service provider has been required to calculate and deposit amount of tax under the tax fraction formula.

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About Yousuf Adil

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.

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