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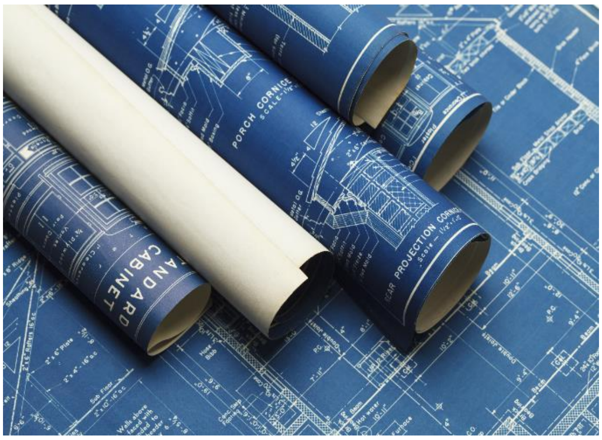
# Comments on the Tax Laws (Amendment) Ordinance, 2021

# Foreword



This memorandum contains a synopsis of "Tax Laws (Amendment) Ordinance, 2021" entailing the special incentive package for persons who intend to make investments through Foreign Currency Value Account or a Non-Resident Pakistan Rupee Value Account under Roshan Digital Account Scheme introduced by the State Bank of Pakistan. The Memorandum also covers various fiscal and monetary initiatives such as concessions announced for Special Technology Zones and electric vehicle industry besides reduction in minimum tax and withholding tax rates for traders, wholesalers and retailers.

The amendments made through the Amendment Ordinance, 2021 are immediately effective from February 12, 2021, unless specifically provided otherwise for certain amendments.

The memorandum is prepared and aimed at providing general guidance with the objective of keeping our clients and staff abreast of the incentives introduced under the scheme. Yousuf Adil, Chartered Accountants accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication. The users are therefore advised to seek professional advice before exercising any judgment, interpretation of any legal provision and acting thereupon.

**Karachi**
**February 19, 2021**

# Contents

# A. Amendments made in Income Tax Ordinance, 2001

## 1. Amendments related to Roshan Digital Account

Considering Government of Pakistan's policy to attract foreign investments and inflow of foreign exchange, State Bank of Pakistan has initiated Roshan Digital Account (RDA) Scheme in collaboration with various commercial banks operating in Pakistan. These accounts provide innovative banking solutions for millions of Non Resident Pakistanis (NRPs) seeking to undertake banking, payment and investment activities in Pakistan. RDA not only provides facilitation of opening bank account through online mechanism i.e. without physically visiting the bank branches, it also provides attractive returns on investments made in government securities.

Through the Amendment Ordinance, following tax incentives have been introduced for RDA holders:

### 1.1 Extension of final tax regime on capital gains for non-resident individuals [Section 152(1DA)]

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

### 1.2 Incentive for purchase or sale of immoveable property using FCVA or NRVA [Sections 236C and 236K]

Under the existing tax laws, any person responsible for registering, recording or attesting transfer of any immovable property shall at the time of registering, recording or attesting the transfer, collects from the buyer or seller (as the case may) advance tax as under:

| Section | To be collected from | Tax rates |
|---|---|---|
| 236C | Seller / Transferor | 1% of the gross amount of consideration received |
| 236K | Buyer / Transferee | 1% of the fair market value |

Tax so collected under existing provisions of law is adjustable for the payer against any tax liability including tax liability assessed on capital gains under section 37 of the Ordinance.

Through the Amendment Ordinance, it has now been provided that if the seller / transferor is a non-resident individual holding POC or NICOP or CNIC who had acquired the said immovable property through a FCVA or NRVA maintained with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan, the tax collected under section 236C from such persons shall be final discharge of tax liability in lieu of capital gains taxable under section 37 earned by the seller or transferor from the property so disposed of. We are of the view that this amendment will only benefit those investors who earn huge capital gains where capital gain tax under section 37 exceeds 1% of gross consideration received. In case of nominal capital gains or capital losses, tax collection at 1% could be higher as compared to tax on capital gains under section 37 for the seller.

It has also been provided that tax collected from buyer under section 236K will constitute final discharge of tax liability for such buyer or transferee, if he is a non-resident individual holding POC or NICOP or CNIC who had acquired the said immovable property through a FCVA or NRVA maintained with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan.

It needs to be clarified by FBR, whether or not tax collected under section 236K from the buyer at the time of purchase of property would constitute final discharge of tax in lieu of any capital gain tax that may arise to such buyer when he subsequently sells the property.

In order to avail the benefit of final tax regime at 1% (of gross consideration / fair market value of the property), buying and selling of the property is required to be made using abovementioned specified Accounts. The existing exclusions for non-collection of these taxes including when property was held for more than 4 years or seller being exempted e.g. first sale by original allottee, dependent of Shaheed, etc. will continue to apply.

**1.3 Extending scope of exemption related to profit on debt from Foreign Currency Accounts [ Clause (78) of Part I and Clause (5AC) of Part II to Second Schedule to the Ordinance]**

Under the existing law, any profit on debt derived from foreign currency accounts held with authorised banks in Pakistan, or certificate of investment issued by investment banks in accordance with Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan, by citizens of Pakistan and foreign nationals residing abroad, foreign association of persons, companies registered and operating abroad and foreign nationals residing in Pakistan is exempt from tax.

Through the Amendment law, the scope of the exemption has now been extended to include profit on debt derived by non-resident individuals, non-resident association of persons and non-resident companies from the said bank accounts and investments.

It has also been clarified that tax withholding under section 152 on payment of such profit on debt will be applicable at 0%.

**1.4 Extending scope of exemption related to profit on debt from Rupee Accounts [Clause (79) of Part I and Clause (5AC) of Part II to Second Schedule to the Ordinance]**

Under the existing law, any profit on debt derived from a rupee account held with a scheduled bank in Pakistan by a citizen of Pakistan residing abroad, where the deposits in the said account are made exclusively from foreign exchange remitted into the said account, is exempt from tax.

Through the Amendment Ordinance, the scope of exemption is extended to be applicable for non-resident individuals holding a POC or NICOP or CNIC.

It has also been clarified that tax withholding under section 152 on payment of such profit on debt will be applicable at 0%.

**1.5 Simplified tax regime for resident individuals earning profit on debt, who have declared foreign assets [Clause 5AA of Part II of the Second Schedule to the Ordinance]**

Under the existing law, profit on debt in the hands of individuals is taxable under section 7B depending on quantum of income as under:

| Profit on debt | Rate of tax |
|---|---|
| Where profit on debt does not exceed Rs.5,000,000 | 15% |
| Where profit on debt exceeds Rs. 5,000,000 but does not exceed Rs.25,000,000 | 17.5% |
| Where profit on debt exceeds Rs. 25,000,000 but does not exceed Rs. 36,000,000 | 20% |

Under the existing law, the payer is required to withhold tax at 15% (10% where annual profit on debt is upto Rs 500,000).

Pakistan resident individuals, who have declared foreign assets with the FBR in their latest Wealth Statement, are eligible for opening and operating RDA.

Through the Amendment Ordinance, an incentive for such individuals has been introduced for taxation of profit on debt at 10% as compared to existing taxation at higher rates as discussed above. Any profit on debt from a debt instrument, whether conventional or Shariah compliant, issued by the Federal Government under the Public

Debt Act, 1944 (XVIII of 1944) or its wholly owned special purpose company, purchased by a resident citizen of Pakistan who has already declared foreign assets to the FBR through a FCVA maintained with authorized banks shall be subject to withholding tax at 10%, irrespective of quantum of profit on debt. Tax so deducted shall be the final discharge of tax liability in respect of such profit on debt.

### 1.6 100% higher withholding tax rates under Tenth Schedule will not apply for individuals maintaining FCVA or NRVA [Clause (111AB) of Part IV of the Second Schedule to the Ordinance]

Under the existing law, a person not appearing in active taxpayers list is subject to 100% higher withholding tax for various transactions. The Amendment Ordinance now provides that such provisions will not apply to non-resident individual holding POC or NICOP or CNIC maintaining a FCVA or NRVA with authorized banks in Pakistan.

### 1.7 Withholding tax under certain provisions will not apply to FCVA or NRVA

Following withholding tax provisions will not apply to FCVA and NRVA holders in respect of such accounts only:

| Section | Nature |
|---|---|
| 231A | Cash withdrawal from a bank |
| 231AA | Advance tax on transactions in bank |
| 236P | Advance tax on banking transactions otherwise than through cash |

### 1.8 Return filing and tax registration requirements not applicable for FCVA or NRVA [Section 114 and 181 of the Ordinance]

As per the Amendment Ordinance, tax registration and return filing requirements are not applicable in respect of a nonresident individual holding POC or NICOP or CNIC maintaining a FCVA or a NRVA with authorized banks in Pakistan. This exception is only applicable for following sources of income:

(a) Profit on debt on FCVA or NRVA.

(b) Profit on debt earned on Government of Pakistan(GOP) securities either conventional or Shariah Compliant where investment has been made from proceeds of FCVA or NRVA.

(c) Capital gain on disposal of immovable property acquired from proceeds of FCVA or NRVA.

(d) Capital gain on disposal of securities traded on Pakistan Stock Exchange and units of mutual funds that are acquired from proceeds of FCVA or NRVA.

(e) Dividend income from securities traded on Pakistan Stock Exchange and mutual funds that are acquired from proceeds of FCVA or NRVA.

## 2. Tax Incentives for RDA - Summarized

Tax Incentives for promotion of RDA, as introduced through the Amendment Ordinance are summarized in below table:

| S.No. | Tax Incentive | Applicable for | Detailed comments covered in paragraph: |
|---|---|---|---|
| **1.** | Final Tax regime at 10% on capital gains on the disposal of debt instruments and government securities and certificates (including Shariah compliant variant) invested through aforesaid accounts. | A non-resident individual holding POC or NICOP or CNIC operating FCVA or NRVA. | 1.1 |
| **2.** | Tax deducted by registrar at the time of purchase or sale of immoveable property under section 236C and 236K (1% of gross consideration received / 1% of fair market value) will be treated as final discharge of tax liability. No tax will be payable under section 37 on capital gains arising on disposal of such property. | If the seller / transferor or buyer / transferee is a non-resident individual holding POC or NICOP or CNIC who had acquired the said immovable property through a FCVA or NRVA maintained with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan. | 1.2 |
| **3.** | Profit on debt from foreign currency accounts held with authorized banks in Pakistan is now exempt from tax. | Non-resident individuals, Association of persons and Companies earning profit on debt from foreign currency accounts held with authorized banks in Pakistan. | 1.3 |
| **4.** | Profit on debt from rupee account held with a scheduled bank is exempt from tax. | Non-resident individuals holding a POC or NICOP or CNIC. | 1.4 |
| **5.** | Simplified final tax regime at 10% on account of profit on debt, as compared to existing taxation at higher tax rates depending quantum of the interest income. | Any profit on debt from a debt instrument, whether conventional or Shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 (XVIII of 1944) or its wholly owned special purpose company, purchased by a **resident citizen of Pakistan who has already declared foreign assets to the FBR** through a FCVA maintained with authorized banks in Pakistan under the foreign exchange regulation issued by the State Bank of Pakistan. | 1.5 |
| **6.** | 100% higher withholding taxes for not appearing in Active Taxpayers List will not apply. | Non-resident individual holding POC or NICOP or CNIC maintaining a FCVA or NRVA with authorized banks in Pakistan. | 1.6 |

| S.No. | Tax Incentive | Applicable for | Detailed comments covered in paragraph: |
|---|---|---|---|
| **7.** | Withholding tax provisions under section 231A (Cash withdrawal from a bank), 231AA (Advance tax on transactions in bank) and 236P (Advance tax on banking transactions otherwise than through cash). | FCVA and NRVA holders in respect of such accounts only. | 1.7 |
| **8.** | Return filing and tax registration requirements are not applicable. | A nonresident individual holding POC or NICOP or CNIC maintaining a FCVA or a NRVA with authorized banks in Pakistan deriving following sources of income only:<br><br>(a) Profit on debt on FCVA or NRVA.<br><br>(b) Profit on debt earned on Government of Pakistan(GOP) securities either conventional or Shariah Compliant where investment has been made from proceeds of FCVA or NRVA.<br><br>(c) Capital gain on disposal of immovable property acquired from proceeds of FCVA or NRVA.<br><br>(d) Capital gain on disposal of securities traded on Pakistan Stock Exchange and units of mutual funds that are acquired from proceeds of FCVA or NRVA.<br><br>(e) Dividend income from securities traded on Pakistan Stock Exchange and mutual funds that are acquired from proceeds of FCVA or NRVA. | 1.8 |

## 3. Other amendments made in the Income Tax Ordinance, 2001

### 3.1 Incentives for Islamic Naya Pakistan Certificates Company Limited (INPCCL)

Following incentives have been introduced for INPCCL:

(i) Income from all sources would be exempt from tax [Clause (148) of Part I of the Second Schedule to the Ordinance];

(ii) Section 113 related to Minimum Tax will not apply to INPCCL [ sub clause (xxxix) of Clause (11A) of Part IV of the Second Schedule to the Ordinance]; and

(iii) Tax withholding provisions of the Ordinance shall not apply to INPCCL as a recipient.

### 3.2 Advance Tax from the buyers of locally manufactured vehicles selling such vehicles within 90 days from the delivery [Section 231B(2A)]

In order to discourage "On Money" practice of selling vehicles, every motor vehicle registering authority of Excise and Taxation Department shall now be responsible to collect advance tax from buyers of locally manufactured motor vehicles, who subsequently sell vehicle within 90 days of delivery of such vehicle, whether prior to or after registration of vehicle. However, such tax collection is applicable till June 30, 2021.

Rate of advance tax from such buyers shall be as following:

| Sr. No. | Engine Capacity | Tax |
|---|---|---|
| (1) | (2) | (3) |
| 1. | Up to 1000cc | Rs.50,000 |
| 2. | 1000cc to 2000cc | Rs.100,000 |
| 3. | 2000cc and above | Rs.200,000 |

### 3.3 Extension of applicability of super tax for banking companies beyond tax year 2021 [Division IIA, Part I of First Schedule]

As per existing law, the banking companies are required to pay super tax at the rate of 4% till tax year 2021. Through the amendment, the period of applicability of super tax on banking companies has now been extended beyond tax year 2021.

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

To encourage environment friendly electric vehicle industry, the legislature has reduced advance tax rate to 1% under section 148 required to be collected at import stage for import of following items:

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

### 3.5 Exemption on profit and gains of transmission line project [Clause (126M) of Part I of Second Schedule]

Under the existing law, profit and gains derived by a taxpayer from a transmission line project set-up in Pakistan on or after the 1st day of July 2015 are exempt from income tax for a period of 10 years. However, this exemption was not available for projects set up on or after June 30, 2018. Through the amendment Ordinance, such exemption has now been extended to the projects set up till June 30, 2022.

### 3.6 Advance tax on sale to distributors, dealers or wholesalers of fertilizer [Division XIV of Part IV of First Schedule]

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

**3.7 Reduced rate withholding tax under section 153(1)(a) in case of dealers and sub-dealers of fast moving consumer goods, fertilizers, sugar, cement and edible oil. [Clause (24C) of Part II of Second Schedule]**

Under the existing law, withholding tax rate under section 153(1)(a) in case of dealers and sub-dealers of sugar, cement and edible oil, as recipient of the payment is 0.25% of the gross amount of payment.

Through the Amendment Ordinance, such reduced withholding tax rate is now extended for dealers and sub-dealers of fast moving consumer goods and fertilizers also, subject to the condition that benefit of reduced rate of withholding tax shall be available to all above dealers and sub-dealers (including sugar, cement and edible oil) only if they are already registered under the Sales Tax Act, 1990 or they get themselves registered within 60 days of the promulgation of the Tax Laws (Amendment) Ordinance, 2021.

**3.8 Minimum tax under section 113 in case of dealers and sub-dealers of fast moving consumer goods, fertilizers, sugar, cement and edible oil. [Clause (24D) of Part II of Second Schedule]**

Under the existing law, minimum tax under section 113 is applicable at the reduced rate of 0.25% in case of dealers and sub-dealers of sugar, cement and edible oil subject to the condition that name of such dealers and sub-dealers is appearing in Active Taxpayer's List issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

Through the Amendment Ordinance, such benefit of such reduced minimum tax is now extended to dealers and sub-dealers of fast moving consumer goods and fertilizers also, subject to the condition that benefit of reduced rate of withholding tax shall be available to all above dealers and sub-dealers (including sugar, cement and edible oil) only if they are already registered under the Sales Tax Act, 1990 or they get themselves registered within 60 days of the promulgation of the Tax Laws (Amendment) Ordinance, 2021.

**3.9 Tax payable by cotton ginners [Clause (17) of Part III of Second Schedule]**

Tax payable by cotton ginners on their income and profits has now been restricted to the sum of 1% of their turnover from cotton lint, cotton seed, cotton seed oil and cotton seed cake. Further, tax so payable shall be final tax in respect of their cotton ginning and oil milling activities only.

**3.10 Exemption from advance tax on goods temporarily imported into Pakistan by international athletes [Clause (56) of Part IV of Second Schedule]**

To encourage sports activities in Pakistan, advance tax under section 148 at import stage in case of goods temporarily imported into Pakistan by international athletes has been exempted subject to the condition that such goods would be subsequently taken back by them within 120 days of temporary import.

**3.11 Exemption from withholding tax under section 153(1)(b) on payments received by National Telecommunication Corporation [Clause (79A) of Part IV of Second Schedule]**

Exemption from withholding tax under section 153(1)(b) of the Ordinance has now been introduced for payment received by National Telecommunication Corporation against provision of telecommunication services including ancillary services specified in sub-section (3) of section 41 of the Pakistan Telecommunication (Re-organisation) Act, 1996.

# B. Comments on SBP Circulars related to FCVA and NRVA

**1. Types of RDA**

Two types of Bank accounts are being offered under RDA:

(i) Foreign Currency Value Account (FCVA);

(ii) NRP Rupee Value Account (NRVA)

**2. Eligibility for operating RDA**

Eligible persons for opening RDAs are as under:

(i) Individual Non-Resident Pakistani Nationals (NRPs) having CNIC / NICOP;

(ii) Foreign Nationals having POC; and

(iii) Resident Individual Pakistanis who have duly declared assets held abroad, as per wealth statement with Federal Board of Revenue in latest return (they can only operate foreign currency account).

**3. Operation and connected matters related to FCVA**

State Bank of Pakistan has provided following guidance as to operation of FCVA under FE Circular no. 2 of 2020 dated August 5, 2020:

**3.1 General Operations**

- Authorized Dealers (ADs) shall clearly mark the account as resident or non-resident at the time of account opening.
- ADs shall allow operations in the account through the digital channels e.g. internet/mobile banking, ATM/ Debit cards. The ADs may also issue cheque book to the account holder, if required.
- ADs may issue supplementary ATM/Debit cards as per applicable laws /regulations.
- The resident individual desirous to open FCVA shall have to provide the declaration of his/her assets held abroad, including latest wealth tax statement filed with the FBR.
- The ADs are encouraged to provide online real time convertibility from FCY to PKR based on the request made by the account holder digitally for the eligible debits from the account. For the sake of transparency, the ADs shall indicate the exchange rate applicable to the transaction.
- ADs may allow non-resident Pakistanis to open the account jointly with other residents/non-residents, as per applicable laws/banking practices. These accounts should, however, be treated as non-resident accounts. However, a resident Pakistani, having foreign assets declared with FBR, may be allowed to open the account jointly with a resident only.
- In case the account becomes dormant due to non-operation, ADs shall devise a mechanism, aligned with applicable regulations, to reactivate the account digitally, in case of non-resident account. However, for resident FCVA, the ADs may reactivate the account digitally or otherwise in compliance with the applicable regulations and their own policy.
- ADs will ensure ongoing monitoring of these accounts to mitigate ML/FT risk.

**3.2 Credits to FCVA**

- Remittances received from abroad through banking channels.
- Transfer of funds from his/her own NRVA with the same AD.
- Profit/interest on the permissible investments made from the account
- Dis-investment proceeds from the permissible investments made from the account.
- Reversal of any incorrect debit in the account.

### 3.3 Debits to FCVA

- Investment in permissible securities, provided that the relevant laws/regulations permit such investment, as under:

  (i) Government of Pakistan's registered debt securities denominated in FCY only.

  (ii) Term deposit/remunerative product scheme, denominated in FCY, of the same AD.

## 4. Operation and connected matters related to NRVA

State Bank of Pakistan has provided following guidance as to operation of NRVA under FE Circular no. 1 of 2020 dated August 5, 2020:

### 4.1 General Operations

- ADs will enable operations in the account through the digital channels e.g. internet/mobile banking, ATM/ Debit cards, besides the conventional modes in practice. The ADs may also issue cheque book to the account holder, if required.
- ADs may issue supplementary ATM/Debit cards as per applicable laws /regulations and banking practices.
- In case debit cards are used outside Pakistan, settlement thereagainst shall be made by the AD through interbank.
- ADs may allow non-resident Pakistanis to open the account jointly with other residents/non-residents, as per applicable laws/banking practices. These accounts should, however, be treated as non-resident accounts.
- In case the account becomes dormant due to non-operation, ADs shall devise a mechanism to reactivate the account digitally, in compliance with the applicable regulations.
- ADs will ensure ongoing monitoring of these accounts to mitigate ML/FT risk.

### 4.2 Credits to NRVA

- Remittances received from abroad through banking channels.
- Transfer of funds between account holders' own FCVA and other NRVA with the same AD.
- Proceeds from disinvestment/sale/maturity of Government of Pakistan's debt securities, residential and commercial real estate, quoted shares, term deposits, and profit/rent/dividend/ /interest on such securities/properties/shares/ deposits received on account of specified investments made from the account.
- Reversal of any incorrect/wrong debit in the account.

### 4.3 Debits to NRVA

- Investments in the following, provided that the relevant laws/regulations permit such investment:

  (i) Registered Debt securities of Government of Pakistan (T-bills, PIBs, Sukuk and any other registered debt securities of the government including CDNS securities).

  (ii) Shares quoted on the stock exchange(s) in Pakistan.

  (iii) Residential and commercial real estate.

  (iv) Term /remunerative deposit products of the AD maintaining the account.

The transfer of funds for the above investments shall be allowed by the ADs through the special instructions received from the account holder in this behalf.

- Transfer of funds to account holder's own FCVA and other NRVA with the same AD.

- Transfer of funds to other FCY, PKR account and non-resident Rupee account – non-repatriable (NRAN) with any bank in Pakistan.
- Remittances and Payments outside Pakistan to the extent of balance available in the account, without any prior approvals from the bank or the State Bank, except for investment in real estate which will be subject to compliance with specified terms & conditions.
- Any local withdrawal or payment in PKR to any person resident in Pakistan. However, any amount so paid shall not be allowed to be credited back into the account.
- Reversal of any incorrect /wrong credit entry in the account.

# C. Amendments in Sales Tax Act, 1990

### 1. Exemption of Sales Tax on imports: Table-1 Sixth Schedule

The following entry has been inserted under Sixth Schedule to the Sales Tax Act, 1990 which provides exemption of sales tax on import of CKD kits for the 4-wheeler electric vehicles.

| Serial No. | Description | Heading No. of First Schedule to the Customs Act, 1969 |
|---|---|---|
| 157. | Import of CKD kits for the following electric vehicles (4 wheelers) by local manufacturers till the 30th day of June, 2026:-<br>(a) Small cars and SUVs with 50 kwh battery or below; and<br>(b) Light commercial vehicles (LCVs) with 150 kwh battery or below | Respective headings |

### 2. Reduced rate of Sales Tax at on local supply: Table-1 Eighth Schedule

The following entry has been inserted under Eighth Schedule to the Sales Tax Act, 1990 which provides reduced rate of sales tax on supply of locally manufactured or assembled 4-wheeler electric vehicles:

| Serial No. | Description | Heading No. of First Schedule to the Customs Act, 1969 | Rate of Sales Tax | Condition |
|---|---|---|---|---|
| 71. | Following locally manufactured or assembled electric vehicles (4 wheelers) till the 30th day of June, 2026:-<br>(a) Small cars and SUVs with 50 kwh battery or below; and<br>(b) Light commercial vehicles (LCVs) with 150 kwh battery or below | Respective heading | 1% | If supplied locally |

### 3. Exemption of VAT on Import: Twelfth Schedule

The following sub-clauses have been inserted under Twelfth Schedule to the Sales Tax Act, 1990 providing exemption from applicability of 3% Value Added Tax (VAT) on different categories of electric vehicles.

- ✓ Electric vehicles (4 wheelers) CKD kits for small cars or SUVs, with 50 kwh battery or below and Light Commercial Vehicles (LCVs) with 150 kwh battery or below till the 30th day of June 2026.
- ✓ Electric vehicles (4 wheelers) small cars or SUVs, with 50 kwh battery or below and Light Commercial Vehicles (LCVs)
- ✓ with 150 kwh battery or below in CBU condition till 30th day of June 2026.
- ✓ Electric vehicles (2-3 wheelers and heavy commercial vehicles) in CBU condition till the 30th say of June 2025.

# D. Amendments Customs Act, 1969

## 1. Special Technology Zones (STZ)

Special Technology Zones Authority Ordinance, 2020 (STZO) has been promulgated recently for development of science and technology in Pakistan. A Special Technology Zone Authority (Zone Authority) is established under STZO which has been authorized to appoint Zone Developer through development agreement and issue licenses to zone enterprises for the notified zone.

Under STZO, there are provisions regarding availability of duty and tax incentives for a period of ten years for the zone developer and zone enterprises. Through the Tax Laws (Amendment) Ordinance, 2021 corresponding amendments have been made in the fiscal laws to practically allow and give effect to these incentives. The period of availability of such incentives would start:

i. **For Zone Developers:** from the date of signing of development agreement.

ii. **For Zone Enterprises:** from the date of issuance of license by the Zone Authority

The following entries have been inserted under sub-chapter V of Chapter 99 (which provides 0% custom duty on imports) under First Schedule to the Customs Act, 1969 to specify and for providing effect to the custom duty incentives given under STZO for Zone Authority, Developers and Enterprises:

"(i) Capital goods including but not limited to materials, plant, machinery, hardware, equipment and software for a period of ten years as prescribed in the Special Technology Zone Authority Ordinance, 2020 (Ordinance No. XIII of 2020), if not manufactured locally, imported from the date of signing of the development agreement for consumption within zones by the Special Technology Zones Authority and zone developers, subject to such conditions, limitations and restrictions as the Federal Board of Revenue may impose from time to time; and

(ii) Capital goods including but not limited to materials, plant, machinery, hardware, equipment and software for a period of ten years as prescribed in the Special Technology Zone Authority Ordinance, 2020 (Ordinance No. XIII of 2020), if not manufactured locally, imported from the date of issuance of license by the Special Technology Zones Authority for consumption within zones by the said Authority and zone enterprises, subject to such conditions, limitations and restrictions as the Federal Board of Revenue may impose from time to time."

The incentives allowed under STZO do not impose any condition or limitation for availing customs duty incentives whereas incentives introduced in the Customs Act, 1969 are subject to conditions and restrictions as the FBR may impose from time to time. This poses a bit inconsistency between two laws.

## 2. Electric 4-Wheelers

The concessional rates which were previously allowed to two-wheelers and three-wheelers electric vehicles have now been extended for 4-wheelers vehicles as a result of Electric Vehicle Policy approved by Federal Cabinet. The following entries have been inserted under Fifth Schedule Part-V(A) to the Customs Act, 1969:

**a. 4-wheelers electric vehicles imported in CBUs**

| Serial No. | Vehicle Description | PCT Code | Rate of Customs Duty | Conditions |
|---|---|---|---|---|
| 7. | Electric Vehicles 4-wheelers | 8703.8090 | 25% | The concession shall be admissible till 30th June 2026. |
| 8. | Electric Vehicles 4-wheelers | 8703.8090 | 12.5% | The concession shall be admissible till 30th June 2026, on import of Electric Vehicles 4-wheelers (CBU) per company of the same variant to be assembles or manufactured as mentioned in column (2) of this table to the extent of maximum 100 units per company, duly approved/ certified by Engineering Development Board (EDB). EDB shall monitor compliance with EV Policy 2020 and intimate FBR immediately in case of violation by any manufacturer to stop further clearance at the concessional rate, specified in column (4) |

**b. 4-wheelers electric vehicles imported in CKD**

| Serial No. | Vehicle Description & PCT Code | Description of Imported Goods | Rate of Customs Duty | Conditions |
|---|---|---|---|---|
| 7. | Electric Vehicles 4-wheelers (PCT Code 8703.8090) | i. EV Specific components for assembly / manufacturer in any kit-form (CKD) | 1% (notwithstanding the rate of customs duty on these items as specified in the First Schedule to the Customs Act, 1969). | The concession shall be admissible to manufacturers of electric vehicles 4-wheelers till 30th June 2026, subject to certification and quota determination by the EDB. |
| | | ii. Components for assembly / manufacture in any kit-form (CKD) Non-Localized parts. | 10% | The concession shall be admissible till 30th June 2026 subject to the conditions mentioned in para 2 of the SRO.656(I)/2006 dated June 22, 2006. |
| | | iii. Components for assembly / manufacture in any kit-form (CKD) Localized parts. | 25% | The concession shall be admissible till 30th June 2026 subject to the conditions mentioned in para 2 of the SRO.656(I)/2006 dated June 22, 2006. |

c. Besides above, concession on import of CBU chargers with CKD kits which was previously available for 2 and 3 wheeler electric vehicles have been extended to 4 wheelers.

# E. Amendments in Federal Excise Act, 2005

**Table-1 First Schedule**

Imported and locally manufactured/ assembled motor cars, SUVs are subject to FED at the rates ranging from 2.5% ad val to 30% ad val. Currently, rikshaws designed for transportation of persons are exempt from such levy. Through the Tax Laws (Amendment) Ordinance, 2021, exemption has also been allowed to 4 wheelers electric vehicles falling under tariff heading 87.03 till June 30, 2026.

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