Tax memorandum 2021

Comments on changes in Fiscal Laws

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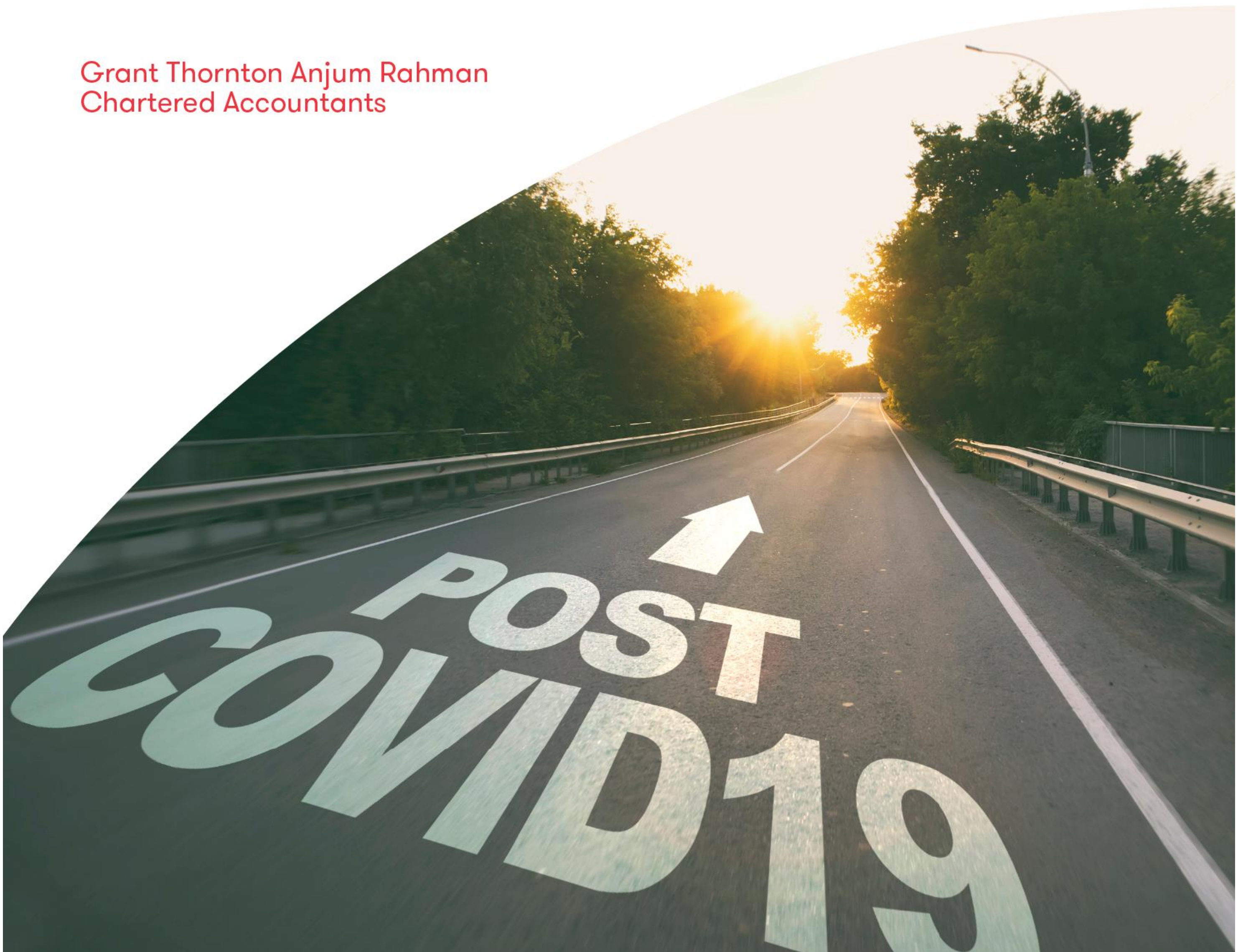

THE FINANCE BILL 2021

This Memorandum summarizes an overview of economy for the year 2020-2021 and the important changes proposed through the Finance Bill 2021. It contains comments on the budget and the Finance Bill 2021, including highlights of the changes in the Income Tax Ordinance, 2001, the Sales Tax Act, 1990, the Federal Excise Act, 2005, the Customs Act, 1969. The amendments proposed through the Income Tax Ordinance, 2001 and through other laws are intended to be effective once the President of Pakistan and the parliament have accorded their assent respectively and thereafter, would be effective from July 01, 2021 i.e. the tax year 2022 unless otherwise indicated.

This Memorandum is intended to provide general guidance to the readers on the important changes proposed through the Bill and should not be considered as a substitute for specific advice relating to a particular enactment. For considering the precise effect of a proposed change, reference should be made to the appropriate wordings in the relevant statutes and the notifications issued where relevant.

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June 13, 2021

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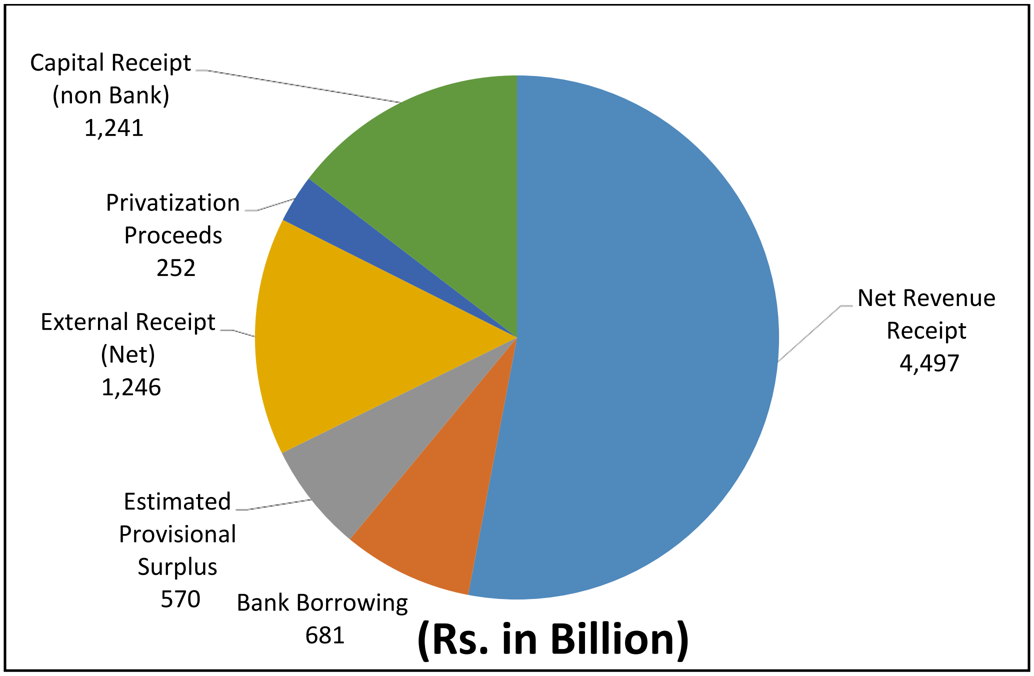
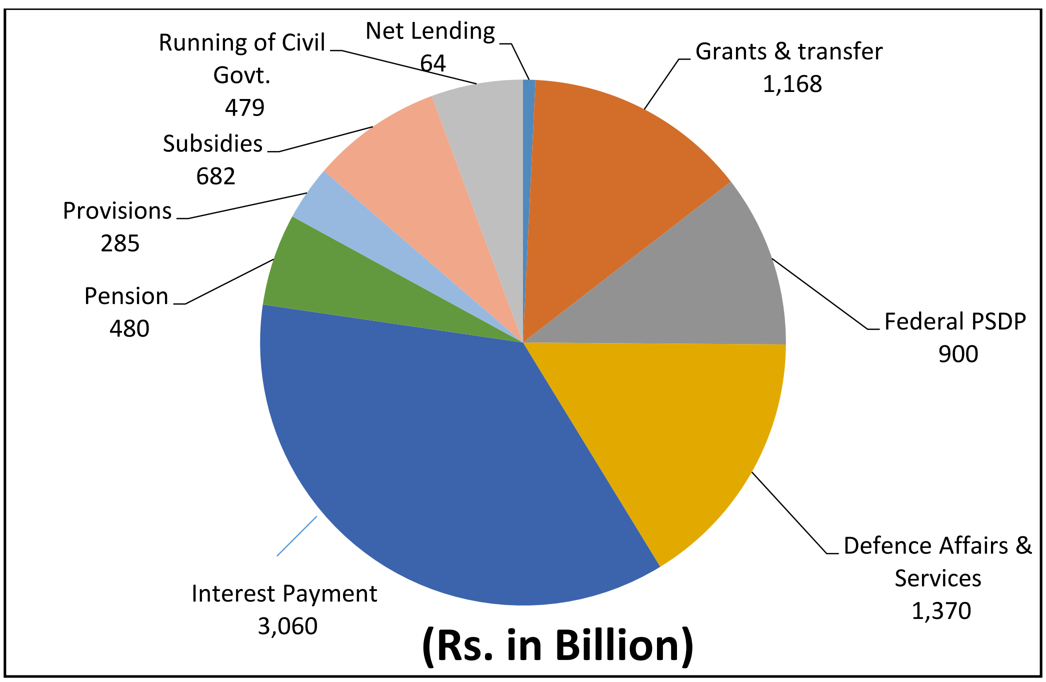
BUDGET AT A GLANCE

	2020 - 2021		2021- 2022	
	Rupees (billion)	%	**Rupees (billion)**	%
Sources (A+B+C)	**7,136**	**100**	**8,487**	**100**
A – Internal	**5,337**	**74.79**	**6,308**	**74.33**
Net revenue receipts	3,700	51.85	4,497	52.99
Net capital receipts	1,395	19.55	1,241	14.62
Bank borrowing	**889**	**12.46**	**681**	**8.02**
Estimated provincial surplus	242	3.39	570	6.72
B – External Receipts	**810**	**11.35**	**1,246**	**14.68**
C – Privatization Proceeds	**100**	**1.40**	**252**	**2.97**
Expenditures (D+E)	**7,136**	**100**	**8,487**	**100**
D – Current Expenditures	**6,345**	**88.92**	**7,523**	**88.64**
Interest	2,946	41.28	3,060	36.06
Pension	470	6.59	480	5.66
Defense affairs and services	1,289	18.06	1,370	16.14
Grants and transfers	905	12.68	1,168	13.76
Subsidies	209	2.93	682	8.04
Provisions	50	0.70	285	3.36
Running of Civil Government	476	6.67	479	5.64
E - Development Expenditures	**792**	**11.10**	**964**	**11.36**
Federal PSDP	722	10.09	900	10.60
Net Lending	72	1.01	64	0.75



Source: Federal Budget 2021-22, Ministry of Finance



Source: Federal Budget 2021-22, Ministry of Finance

ECONOMY REVIEW

Overview

During the fiscal year 2021, Pakistan's economy performed beyond expectations with major economic indicators showing a positive trend despite of COVID-19 pandemic. The economy of Pakistan rebounded strongly in 2021 and posted a growth of 3.94% which is not only substantially higher than the previous two years (-0.47% for FY2020 and 2.08% for FY2019) but also surpassed the target of 2.1% for FY2021. This unprecedented growth is attributed to the following reasons:

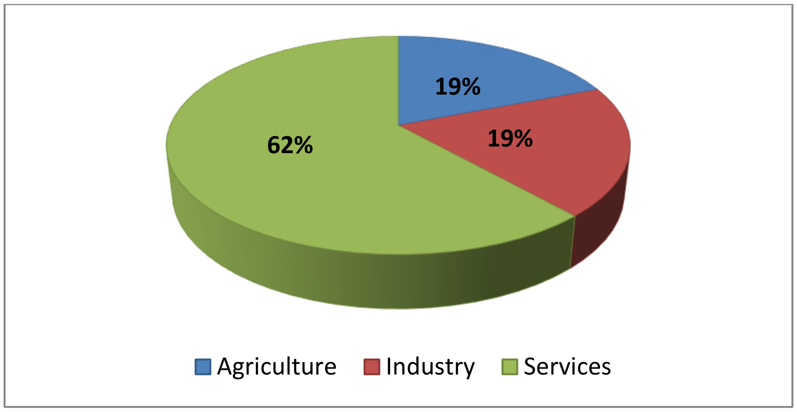
- Tax collection witnessed a significant growth surpassing the target by more than Rs.100 billion.
- Current account posted a surplus of $ 0.8 billion for the first time in seventeen years.
- Inflows of foreign exchange through Roshan Digital Account crossed the $ 1 billion mark.
- Successful fund raising of $2.5 billion through launch of Euro Bonds.
- SBP's Foreign currency reserves rose to $ 16 billion, four-years high.
- Stable credit rating during the year. All three major credit rating agencies (Moody's, Fitch and Standard & Poor's) reaffirmed their sovereign rating for Pakistan.
- The Policy rate remain unchanged at 7% which improved business sentiments.
- Impressive growth in stock market. During May 2021, PSX witnessed an all-time high daily trading volume with 2.21 billion shares traded in a single session.
- Large scale manufacturing (LSM) recorded highest period wise growth of 8.99% since FY2007.

The above indicators clearly show that the economy improved in the post COVID era. The business confident has returned and the economy is getting back to normal. It is expected that macroeconomic stabilisation measures will help the economy to move on a higher and sustainable growth trajectory.

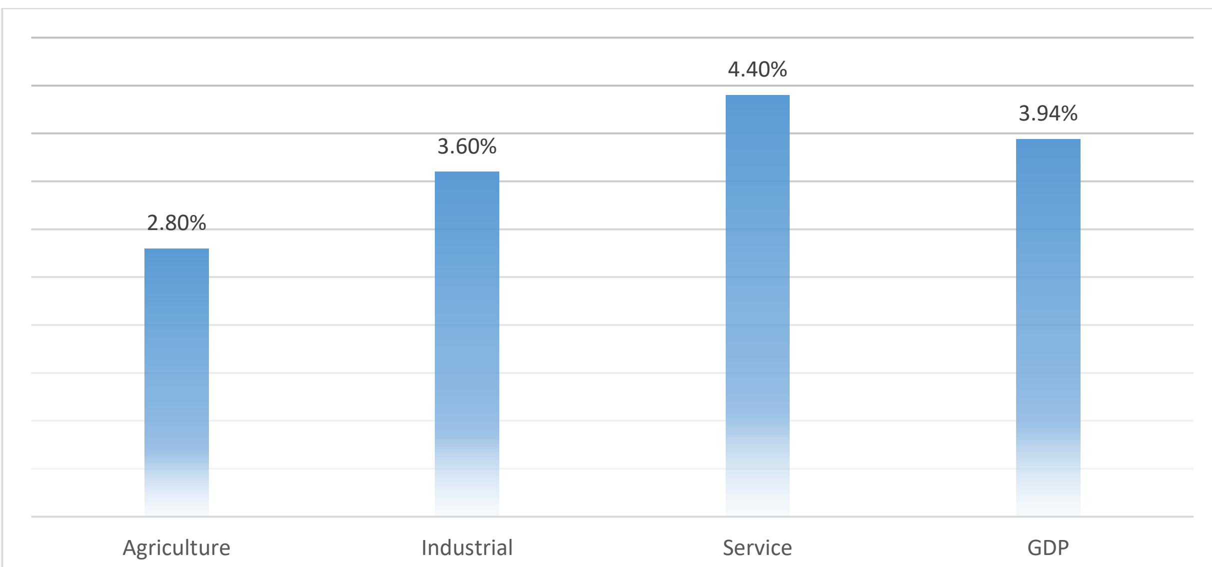
Key economic parameters						
	FY17 Actual	**FY18 Actual**	**FY19 Actual**	**FY20 Actual**	**FY21 Provisional**	**FY22 Forecast**
GDP (USD in billions)	305	313	283	288	296	310
GDP growth in PKR terms(%)	5.2	5.5	3.3	2.7	2.0	4
CPI (%)	4.8	4,7	6.8	10.7	8.7	7.5
Exports (USD in billions)	22	25	24	20	21	-
Imports (USD in billions)	48	56	52	37	42	-

Growth

Like many other economies, Pakistan has a diverse economy with three main sectors namely agriculture, industry and services having the following GDP share:



The overall GDP growth of 3.94% is primarily on the basis of the following sectors:



GDP

The provisional GDP growth rate for FY21 is estimated at 3.94%, against negative 0.4% for FY20 which surpassed the targeted rate of 2.1% for the outgoing fiscal year. Higher growth was due to robust growth of 2.8%, 3.6% and 4.4% in agriculture, industrial and services sectors respectively. The government is monitoring the country's situation actively and taking necessary measures to facilitate agriculture and industry sectors to avoid the downside risk and to further accelerate the economic recovery.

Agriculture

Like many other sectors, agriculture was hit hard by COVID-19. To curtail its impact, SBP allowed financial institutions to defer the payments of borrowers upto one year. Despite of the pandemic challenge, agriculture sector recorded a steady growth of 2.8% in FY21, slightly higher than last year. The major contributor to this growth were wheat, rice and maize.

Industry

The industrial sector recovered this year with a healthy growth rate of 3.6% against last year's negative growth. This is mainly due to a remarkable turnaround in LSM which witnessed an unprecedented growth of 9% as compared to 5% decline last year, largely because of accommodative policies by the government including the following:

- Introduction of SBP refinance scheme for payment of wages and salaries to workers and employees. The scheme provided financing facilities to a wide range of companies at a discounted rate allowing them to continue their business operations.
- Stimulus package for the construction sector (amnesty scheme and tax exemptions) which provided the impetus for its allied manufacturing segments.
- Electricity and gas subsidy for export oriented industries.
- Reduction of FED for cement industry.
- Tax exemptions for electric vehicle manufacturers.

Services

This sector mainly depends on performance of other sectors in the economy. Accordingly, similar to the industrial sector, services have also recovered in FY21 posting a growth of 4.4%. Positive growth of 8.4% was evident in wholesale and retail trade, mainly attributable to increase in business activities during the year.

Trade and payments

The fiscal sector has witnessed significant challenges due to additional expenditure made to lessen the negative impact of COVID-19. The fiscal deficit was contained at 3.5% of GDP during July-March FY2021 against 4.1% of GDP in the same period of last year.

The FBR tax collection witnessed a significant rise in ten months and total collection grew by 14.4% to stand at Rs.3,780 billion against Rs.3,303 billion in the same period of FY2020 surpassing the target by more than Rs.100 billion during the period under review. Non tax revenues stood at Rs.1,227 billion during July-March 2021 against Rs.1,324 billion in the same period of last year, showing a decline of 7.3%. Further, efficient expenditure management curtailed the overall expenditures during the current fiscal year. Total expenditures grew by 4.2% during July-March FY2021 as compared with the growth of 15.8% observed in the same period of FY2020.

During the current fiscal year, trade deficit widened from $17.6 billion to $21.3 billion mainly due to increase in total imports which stood at $42.3 billion as of April 2021 as compared to $37.3 billion in the same period last year with an increase of 13.5%. During the above period, total exports stood at $21 billion registering a growth of 6.5%.

On external front, the current account balance remained in surplus in FY21 due to strong growth in remittances. Current account posted a surplus of $0.8 billion during July-April for the first time in seventeen years. Remittances witnessed remarkable growth as more formal channels were opted due to restriction imposed on informal means in the wake of COVID-19. During the first ten months, remittances reached around $24 billion as compared to $19 billion last year with a substantial growth of 26%.

Pakistan has been struggling for several years to attract foreign investments to the country. However, during the current fiscal year, total direct investments showed a positive growth of 98% mainly attributed to the foreign public investment of $2.46 billion. As of March 2021, foreign currency reserves of Pakistan stood at $20.6 billion.

Inflation

Average inflation rate in Pakistan for the period July-May FY21 was recorded at 8.6% against 11.2% during the same period last year, mainly due to the following factors:

- Crackdown on speculative elements
- Resumption of sessional supplies of perishables
- Establishing Sahulat / Bachat bazars across the country
- Tax relief measures

Capital markets

During July-May FY2021, the benchmark KSE-100 index improved from 34,889 points to 47,896 points, gaining 13,006 points in the said period. As of May 31, 2021, an increase of 26.6% was witnessed in market capitalization and PSX market capitalization stood at Rs 8,267 billion. The distinguishing feature of this year is the significant number of IPOs took place (PSX witnessed five IPOs between July 2020 and March 2021). As a result of the above positive developments, PSX earned the title of being the best Asian stock market and fourth best-performing market across the globe.

Currency

During the current fiscal year, Pak Rupee remained relatively stable as compared to its performance last year. As of March 2021, PKR reached 152.5 per $, appreciating the rupee by 10% since June 2020. Further during FY 2021, total foreign currency reserves increased to $20.6 billion witnessing substantial growth of 9% over June 2020.

Future economic outlook

The economic activity of any country is linked with ease of doing business and ability of its people to spend. Pakistan has improved his position on the World Bank's current Ease of Doing Business Index and reached to 108^{th} position as compared to 136^{th} positon last year, making it in the list of top ten improvers.

The government has projected 24% growth in the tax revenue from current year projected figures of 4.7 billion. Although the said growth target appears challenging, however, the initiatives taken by the Government to control COVID pandemic together with a substantial development budget are likely to boost the economic activities in the coming year.

IMF has forecasted a 4% growth in the Pakistan's economy for FY2022, however, the Government is targeting a GDP growth of 4.8%. Due to fiscal consolidation supported by a continued strengthening of domestic consumption and resilient manufacturing and construction activities, this looks achievable. However, the government should exercise due care the to achieve the desired results, which may include the following measures:

- Simplification of tax laws by bringing automation in tax structure and attaining new avenues of taxation.
- Stabilizing of Pak Rupee by following an exchange rate regime based on economic fundamentals.
- Revamping the overall energy sector in order to minimize the circular debt.
- Ensuring smooth supply of essential items in order to keep the inflation index in check.
- Providing targeted incentives to IT sector in order to maximize its export potential.

During the current year, Pakistan's inclusion in Amazon list is a major achievement. However, upgradation of E-Commerce sector is essential to avail the maximum benefit of this inclusion.

FINANCE BILL 2021-HIGHLIGHTS

Income Tax

- Separate tax regime introduced for manufacturing small and medium enterprises having annual turnover not exceeding Rs. 250 million from tax year 2021.
- Interest income of individuals and AOPs exceeding Rs. 5 million to be taxed under normal regime.
- Further extension in time bound concession for the builders and developers enjoying special tax regime under the Eleventh Schedule.
- Commissioner is no more empowered to reject the taxpayers' estimation of advance tax liability.
- Tax exemption certificate under section 153 to be issued within 15 days for all companies.
- Exports of services are subject to tax @ 1% in line with the exports of goods.
- Reconciliation of expenses as stated in audited accounts with actual payments to be filed with income tax return.
- The Board may also process refunds electronically from the tax year 2021 and onwards.
- Officer of Inland Revenue, as permitted by the Board, may prosecute and arrest the defaulter in case of concealment of income.
- No separate notice under section 111 is required if notice issued under section 122(9) of the Ordinance contains nature and sources of concealed transaction.
- Maximum threshold of turnover increased from Rs. 10 million to Rs. 100 million for Individuals and AOPs for nonpayment of minimum tax under section 113.
- No time limit for issuance of notice for filing of return to person having foreign income or foreign assets.
- Requirement of furnishing Taxpayers' Profile under section 114A abolished.
- The applicability of provisions of section 120(2A) regarding automated adjustments in respect of total income, taxable income and tax payable postponed till the date to be notified by the Board in the official Gazette.
- Precondition for making an enquiry for passing amended assessment order under section 122(5A) of the Ordinance withdrawn.

- Amended assessment order under section 122 of the Ordinance to be passed within 120 days of issuance of notice.

- Revised order to be passed within 120 days where matter is remanded back by the Commissioner under section 122A of the Ordinance.

- Person not declaring business bank accounts may be penalized and prosecuted.

- Telecommunication companies licensed by the Pakistan Telecommunications Authority (PTA) defined as 'Industrial Undertaking'.

- Allowances paid on fixed basis or on percentage of salary and allowances not actually spent wholly for the performance of employment to be taxed as salary income.

- Property income of individuals and AOPs to be taxed under normal tax regime.

- Excess of consideration received over the cost in case of disposal of depreciable assets to be taxed as capital gain.

- Gain on disposal of immovable property exceeding Rs. 5 million to be taxed under normal tax regime.

- Deductions allowed for payments of WWF and WPPF under provincial laws.

- Tax credits for specified industrial undertakings to the extent of 25% of the eligible investment amount with unused tax credit to be carried forward for a period not exceeding 2 years.

- The provisions of section 100C of the Ordinance relating to tax credit for charitable organizations simplified.

- The Federal Government empowered to enter into agreement with other governments in respect of the exchange of information for assistance in the recovery of taxes.

- Tax officials authorized to initiate recovery proceedings on a request from a foreign jurisdiction.

- Minimum tax under section 113 to be paid on receipts from sale of immoveable property where such receipts are taxable under the head 'Income from Business'.

- Minimum tax paid under section 113 in case of tax loss to be allowed for adjustment in subsequent years.

- A taxpayer can file revised return without accompanying the revised accounts if authorized by the Commissioner.

- Reduced rate of tax is proposed for capital gain on debt instruments, government securities and certificates including shariah compliant variant invested through Foreign Currency Value Account (FCVA) and Non-Resident Pakistani Rupee Value Account (NRVA).

- Trader of yarn also required to withhold tax under section 153 of the Ordinance.

- Tax exemption certificates to be issued to taxpayers enjoying 100% tax credit under any provisions of the Ordinance.

- Annual withholding tax statement under section 165 also be filed for non-salaried withholding tax payments.

- Recording of e-hearing to become permissible evidence before a court of law.

- Monthly threshold of Rs. 75,000 reduced to Rs. 25,000 for the purpose of levy of tax on domestic electricity consumers not appearing on the active taxpayer list.

- Scope of withholding tax provisions under sections 236G and 236H expanded to more industries.

- Tax collected from non-residents on purchase of property to be final tax.

- Cloud computing and data storage services to be treated as 'IT enabled services'.

Sales Tax & Federal Excise

- The limit of annual turnover for cottage industry increased to Rs. 10 million from Rs. 3 million.
- Listed companies allowed to claim entire amount of input tax instead of 90% of output tax.
- Furniture outlets/showrooms area for inclusion in Tier-1 retailer increased from 1,000 square feet to 2,000 square feet.
- Sales tax exempted on art and printing paper for publication of Holy Quran.
- Sales tax on cars having engine capacity upto 850cc reduced to 12.5% from 17% in addition to exemption from value added tax.
- FED withdrawn from import and supply of materials, plant and machinery by persons authorized under Export Facilitation Scheme, 2021.
- Sales tax exempted on food and other related goods supplied within limit of Border Sustenance Markets to be developed on Iran and Afghanistan borders but to be taxed when brought in tariff area.
- FED on electric vehicles (4 wheelers) withdrawn till June 30, 2026.
- Rate of FED on telecom services reduced from 17% to 16%.
- FED withdrawn from edible oils, vegetable ghee and cooking oil, fruit juices and steel billets, ingots, bars etc.
- The refund claimant to be compensated by additional amount at KIBOR in case of delayed refund under section 66.
- Locally manufacture silos to be exempted till June 30, 2026.
- Sales tax exemption on import of plant, machinery and raw material within Special Technology Zone.
- Sales tax on sugar to be charged at retail price.
- Exemption of sales tax withdrawn on edible oils and vegetable ghee, ice, Table salt, processed cheese, energy saver lamps.
- Zero rating of sales tax to abolish on supply of ship, aircraft, locally manufactured plant and machinery related to petroleum and gas sector.
- Standard rate of sales tax to be charged on Petroleum Crude Oil.

- Exemption of sales tax withdrawn on import of eggs, cereals and products of milling industry, fruit juices, milk cream, butter, cheese and sausages.

- Sales tax on supply of foods items sold under brand name like yogurt, cheese, butter, milk and cream, Ingredients of poultry feed, cattle feed enhanced to 17% from 10%.

- Sales tax on unworked silver and gold, articles of jewellery, ginned cotton increased to standard rate.

- Cash back benefits to be withdrawn and control measure to be placed on tier-1 retailer by introducing “mystery shopping”.

- FED charged on tobacco mixture, intended for consumption by using a tobacco heating system, at the rate of Rs. 5,200 per kilogram.

- New duties introduced on certain services in addition to FED at general rate of 16% percent.

- No sales tax payable at time of receipt of advance from customers.

- Commissioner/Chief Commissioner empowered to extend date of filing of return by 15 days or more.

- Constructive payments to be considered as payment under section 73.

- Common Identifier Number in form of CNIC and NTN introduced to facilitate ease of doing business.

- Sales tax at the rate of 1 % on local supply of electric vehicle reduced vide Tax Laws (Amendment) Ordinance, 2021 to be incorporated.

- Fixed sales tax on sim cards withdrawn.

- Time limit of five years for issuance of show-cause notice to be started from the end of financial year.

- Liability of payment of sales tax shifted on persons providing online market place.

- Whole of sales tax on purchase of reclaimed lead and used battery to be withheld by the registered manufacturer of lead batteries.

- Person operating online market place and person acquiring point of sale for accepting payment through debit or credit card included in Tier-1 retailer.

- Exemption on value addition tax already granted vide Tax Laws (Amendment) Ordinance, 2021 on import of electric vehicles, CKD kits for small car, 2-3 wheelers, HCVs to be incorporated.

- Exemption on import of CKD kits for electric vehicle manufacturer already granted vide Tax Laws (Amendment) Ordinance, 2021 to be incorporated.

- Exemption on temporary import of athletes'/sportsmen' goods already granted vide Tax Laws (Amendment) Ordinance, 2021 to be incorporated.

- Tax exemption to auto disable syringes already granted vide Tax Laws (Amendment) Ordinance, 2021 to be incorporated.

- Permission from the Commissioner no more required if revision of monthly sales tax return is in favor of revenue and is made within a period of sixty days.

- Specified goods sold without brand license to be considered as counterfeited goods.

- The Federal Government empowered to enter into bilateral/ multilateral international agreements for assistance in recovery of taxes and duties.

Islamabad Capital Territory Tax on Services

- Export of services proposed to be tax at zero rate.

Customs Duty

- Reduction / exemption of customs duty (CD), additional customs duty (ACD) and regulatory duty (RD) on import of goods/raw materials introduced for following sectors:

    - textile industry
    - flat rolled products of HRC and stainless steel
    - point of sale machines falling under 328 tariff lines
    - food processing industry
    - uncoated paper and paperboard for printing and graphic arts industry
    - vaccines for veterinary medicines and feed additives
    - goods falling under more than 100 PCT codes relating to Tourism industry
    - footwear industry
    - poultry industry
    - raw material for manufacturer of aseptic plastic packaging
    - cables / optical fiber manufacturers
    - paint Industry
    - Chemical and Artificial Leather Industry
    - Electronics Manufacturing Industry
    - furniture, coating, boiler manufacturing industry, bobbins and cops manufacturing industry etc
    - import of grain storage hermetic bags and cocoons
    - Inputs of Ready-To-Use Supplementary Foods (RUSF) and Ready-To-Use Therapeutic Food (RUTF)

- Following incentives and reliefs for pharmaceutical sector industries:

    - Exemption of CD & ACD on more than 350 Active Pharmaceutical Ingredients (APIs)
    - Plant, machinery and equipment subject to concessionary rate of 5%
    - Exemption of CD & ACD on raw material of auto-disable syringes and reduction in tariff on finished auto-disable syringes
    - Exemption of CD &ACD on six life-saving drugs
    - Extension in exemption from custom duties on import of COVID-19 related items for further six months.

- Value of unsolicited gifts through post or courier enhanced from Rs 20,000 to Rs 30,000.

- ACD on goods falling under 2436 tariff lines pertaining to 20%customs duty slab from 7% to 6% reduced.

- RD on skin and hides reduced.

- Uniform Export Facilitation Scheme proposed.

- Bond to Bond Transfer of goods through WeBOC without prior approval of the Collector proposed.

- RD on export of molasses, skin and hides.

- Scope of Anti-Smuggling provision expand to retailers.
- Concept of Common bonded warehousing for Small and Medium Enterprises introduced.
- Importers allowed to amend manifest till berthing event without seeking approval from custom authorities.
- The Collector authorized to extend warehousing period for six months.
- Time limit to decide cases wherein the impugned goods are lying at sea ports, airports or dry-ports released.
- Customs authorities empowered to issue correction / corrigendum certificate in case of genuine / obvious error.
- Registered users of WeBOC provided an opportunity of being heard before cancellation of registration.
- Perusal of validity of advance ruling extended to 3 years from 1 year.
- Removal of fine in case of delay in filing of goods declaration.
- Shipping lines made responsible for re-export of banned items imported in commercial quantities.
- Facility of release of vehicles used repeatedly for smuggling against redemption fine denied.
- Tariff structure for auto industry rationalized.
- RD on mobile phones rationalized.

SUMMARY OF CHANGES IN THE INCOME TAX ORDINANCE, 2001

Section

Various sections and rules

Reference of the Companies Ordinance, 1984 changed to the Companies Act, 2017

The bill seeks to substitute the references of the Companies Ordinance, 1984 (the repealed Ordinance) in various provisions of the Income Tax Ordinance,2001 wherever appearing to the Companies Act, 2017 which was promulgated on May 30, 2017. The Companies Ordinance, 1984 was repealed from the date of coming into force of the Companies Act, 2017. The substitution aims to make reference of the law enacted for regulation of the corporate sector in place of the repealed Ordinance. However, this substitution would not have any legal consequences for the period of promulgation of the Companies Act, 2017 and proposed substitution through the Finance Bill 2021 under the provisions of the Income Tax Ordinance, 2001. The section 8 of the General Clauses Act, 1897 provides that reference in any other enactment or any instrument to the provision so repealed be construed as reference to the provision enacted, meaning thereby that when an enactment is repealed and re-enacted, any reference to the repealed act to be considered as reference to the new act.

2(10A)

Business Bank Account

The bill seeks to insert definition of business bank account. It means all the bank accounts utilized by the taxpayer for business transactions. Such accounts have to be declared in the registration form under section 181 of the Ordinance. In case any business bank account is not declared in the registration form prescribed under section 181, the bill proposes penalty and prosecution provisions for non-declaration of the business bank account.

The above will help to improve documentation objective.

2(13AA) & 111

Concealment of Income

The bill seeks to provide definition by way of insertion 'Concealment of income" as:

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

In respect of unexplained income and assets, issuance of separate notice under section 111 is mandatory for initiating a proceeding against a taxpayer as held by the apex courts through the various reported judgments such as **"2019 PTD 1828"**, **"2021 PTD 192"** and **"2019 PTD 1347".**

The bill proposes to insert an explanation to sub-section (5) of t section 111, clarifying that a separate notice under this section is not required to be issued if the explanation regarding nature and sources of amount credited or the investment of money, valuable article, or the funds from which expenditure was made, has duly been confronted to the taxpayer through a notice under sub-section (9) of section 122 of the Ordinance.

2(29C) **Industrial Undertaking**

The bill seeks to amend the definition of "industrial undertaking" by omitting the clause (b) thereof which authorized the Board to include any other industrial undertaking in the definition through notification in the Official Gazette. Thus, the power of the Board is now withdrawn to notify any industry as industrial undertaking. The bill seeks to insert a new clause (c) to broaden the scope of definition of industrial undertaking by adding the telecommunications companies operating under the license of the Pakistan Telecommunication Authority.

2(30AD), **Information Technology (IT Services)**
2(30AE) **IT Enabled Services**

Definitions of IT services and IT enabled services were inserted in the statute book in the year 2003 under Clause (133) Part I of the Second Schedule of the Ordinance as follows:

- Information Technology (IT) services include software development, software maintenance, system integration, web design, web development, web hosting and network design.
- IT enabled services include inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, Human Resource (HR) services, telemedicine centers, data entry operations, locally produced television programs and insurance claims processing.

As reference of the IT services and IT enabled services have been made in several provisions of the Ordinance, therefore, the need to define each services was felt necessary in the definition section with broadening of scope by insertion of cloud computing services and data storage services.

2(59A), **Small and Medium Enterprise**

100E, 14th Schedule The bill proposes to provide the definition of "Small and Medium Enterprise". It means a person:

- engaged in manufacturing as defined in section 153(7)(iv);

  "manufacturer" means a person who is engaged in production or manufacturing of goods, which includes—

a) any process in which an article singly or in combination with other articles, material, components, is either converted into another distinct article or product is so changed, transferred, or reshaped that it becomes capable of being put to use differently or distinctly; or

b) a process of assembling, mixing, cutting or preparation of goods in any other manner

- Business turnover in a tax year does not exceed Rs. 250 million.

A proviso is appended to the proposed definition which provides that in any year, if turnover exceed Rs. 250 million, the entity shall not qualify as a Small and Medium Enterprise in that tax year or any subsequent tax year. The taxation mechanism is fully described in section 100E below.

2(59AB) **Small Company**

The bill seeks to propose an amendment in the definition of a Small Company by inserting another condition other than existing ones, that to qualify as a small company that it is not a Small and Medium Enterprise as defined in section 2(59A).

7B **Tax on Profit on Debt**

Division-IIIA Part-I, First Schedule

Presently the section 7B of the Ordinance provides tax on income, other than a company, from profit on debt does not exceed thirty-six million Rupees as a separate block of income with reduced tax rate of taxation from 15% to 20% at different levels of income.

The bill proposes to reduce the maximum threshold from thirty-six million Rupees to five million Rupees. As a consequence, thereof, income from profit on debt if it exceeds 5 million Rupees then whole income would be added to taxable income and be taxed as per Division I, Part I of the First Schedule. The proposed amendment is a harsh measure as the whole amount of profit on debt exceeding five million Rupees will be subject to tax at the accelerated rates between 30% to 35%.

The bill proposes to delete the existing rate of tax 17.5% and 20% on profit on debt exceeding Rs.5,000,000 and rationalize the rate of tax @ 15% on profit on debt to the extent of Rs.5 million.

The existing and proposed slabs are as follows:

		Existing	Proposed
S#	Profit on Debt	Rate of tax	
1.	Where profit on debt does not exceed Rs.5,000,000	15%	15%
2.	Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000	17.5%	-
3.	Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.36,000,000	20%	-

12 **Salary – allowances not admissible**

The bill proposes to insert an explanation appended to clause (c) of sub-section (2) of section 12 of the Ordinance. The Clause (c) provides the exclusion from the ambit of salary, any allowance solely expended in the performance of employee's duties of employment. The proposed amendment seeks to tax allowances which are given normally as salary on fixed or a percentage of salary allowances, irrespective whether or not the employee spends such amounts. Also, allowances will now be taxable if allowance is not wholly, exclusively, necessarily or certainly spent on behalf of the employer.

15, 15A, 56, **Income from Property**

Div. VIA, Part-I, First Schedule

The bill proposes to omit sub-sections (6) and (7) of the Ordinance. As a consequence, thereof, in case of individual or an association of person separate, rates for taxability of property income are withdrawn. Consequently, Division VIA, Part-I of First Schedule is proposed to be omitted. Now again, rental income of individual and an association of person is subject to tax on net income basis and deductions will be allowed in computing income chargeable under the head income from property as per section 15A of the Ordinance.

Consequential amendment is also proposed in sub section (15A) by substituting the word 'company' with the word 'person'.

An amendment is also proposed and exclusion provided for set-off of losses under the head income from property under section 56 of the Ordinance is also proposed to be omitted. As a result, any loss arising from income from property would be available for set off against person's income.

18 **Income from Business- Co-operative Societies**

The bill proposes to insert an explanation to section 18 of the Ordinance to clarify that income derived by co-operative societies from sale of good, immovable property or provision of services to its members is and has always been, chargeable to tax under the provisions of this Ordinance. At times, co-operative societies take the position that doctrine of mutuality is applicable in their cases as the members deal with themselves as a class and no profit arises in any shape to the Societies. Through the proposed insertion, the legislature has removed any ambiguity that may arise in taxing of income derived by co-operative societies.

22(13)(d) **Depreciation**

The bill proposes to substitute the phrase "consideration received shall be treated as cost of the property" with the phrase "the excess amount shall be taxable under section 37". The implication of the proposed change is that the amount above the written down value up to the cost of the asset would be treated as income from business and added in taxable income whereas where on disposal/sale, consideration received is more than the cost, the excess amount shall be taxable as capital gain in the manner as provided under section 37 of the Ordinance.

23A, 57 First Year Allowance

The bill proposes to omit section 23A of the Ordinance providing for first year allowance at the rate of 90% of the cost of plant and machinery and equipment of any industrial undertaking set-up in specified rural and under developed areas or an entity qualifying for exemption under Clause (126N) of Part I of the Second Schedule to the Ordinance. The first year allowance is available in lieu of initial allowance. The section was inserted in the year 2008. A consequential amendment by way of omission of the section 23A first year allowance has also been proposed in section 57 of the Ordinance.

37(1A), (4A) Capital Gains on sale of immovable property

The bill proposes to insert a proviso appended to sub-section (1A) of section 37. The proviso provides that where taxable gain on disposal of immoveable property exceeds Rs.5 million, the gain shall be chargeable to tax in the manner elaborated below:

- Capital gain shall be included in taxable income and accordingly taxed in the hands of individual/AOP as per Division I, Part I of the First Schedule on the basis of level of income whereas in the case of company, as per Division II of Part I of the First Schedule at the corporate rate. The corporate rate at present is 29%.

- With the proposed change there are two categories for the purposes of taxation of capital gain from immovable properties such as:

    - Capital gain below Rs. 5 million, and
    - Capital gain above Rs. 5 million

- The Capital gain above Rs. 5 million will be taxed at the normal tax rate applicable to the person whether an individual, AOP or a company and capital gain below Rs. 5 million would continue to be taxed as a separate block as per existing provisions.

- However, determination of capital gain above Rs. 5 million remains subject to benefit extended with respect to holding period under sub-section (3A) as mentioned below:

S.No.	Holding period	Gain
1.	Where the holding period of an immovable property does not exceed one year	**A**
2.	Where the holding period of an immovable property exceeds one year but does not exceed two years	**A x 3/4**
3.	Where the holding period of an immovable property exceeds two years but does not exceed three years	**A x 1/2**
4.	Where the holding period of an immovable property exceeds three years but does not exceed four years	**A x 1/4**
5.	Where the holding period of an immovable property exceeds four years	**0**

The bill proposes to insert an explanation to sub-section (1A) which provides that:

> "For removal of doubt, it is clarified that where a person is habitually engaged in transactions of sale and purchase of immoveable property or such sale and purchase is an adventure in the nature of trade and business, the provisions of this sub-section shall not apply and the income from such transactions shall be chargeable under the head of "Income from Business".

The expression 'habitually engaged' is a vague expression and would lead to controversy between the taxpayers and the tax department resulting in long drawn litigation. The other expression is 'such sale and purchase is adventure in the nature of trade and business'. The taxation officer may invoke this expression against the taxpayer even in relation to an isolated transaction. This may lead to discretionary/arbitrary exercise of power by the tax officials and would also lead to uncalled for litigation as was the case under the provisions of the Repealed Ordinance.

A proviso proposed to be inserted stipulating that if a capital asset acquired through gift is disposed of within two years of acquisition and the Commissioner is satisfied that such gift arrangement is a part of tax avoidance scheme, the Commissioner shall apply sub-section (3) of section 79 (non-recognition rules). This discretionary measure in the hands of the Commissioner may trigger unnecessary tax litigation.

39 Income from Other Sources

Through the Finance Act, 2019 receipt of any sum or fair market value of any property as gift is treated as income from other source chargeable to tax except where the same received from:

> "grandparents, parents, spouse, brother, sister, son and daughter".

As a consequence, gift received from persons other than above became taxable. The bill seeks to change the above expression to include, "Relative as defined in sub-section (5) of section 85". The definition of relative as provided in section 85(5) of the Ordinance is as follows:

a) an ancestor, descendant of any of the grandparents or an adopted child, of the individual, or of a spouse of the individual; or
b) a spouse of the individual or of any person specified in clause (a).

The earlier expression that is proposed to be substituted is not in line with the provision of section 79 of the Ordinance which provides non-recognition rules for the purposes of this Ordinance that no gain or loss shall be taken to arise on the disposal of an asset. Such provision of law, amongst other, provide for the gift of the asset to a relative as defined in sub-section (5) of section 85 of the Ordinance. The scope of existing expression in section 39 is not broad enough; thereby, is in conflict with section 79 of the Ordinance. To eliminate the discrepancy and to bring it in conformity with the object and purpose of the provision of the law, such amendment was necessitated which accordingly been proposed. This is a positive change which eliminates the cause of any controversy on account of application of section 39 or section 79 of the Ordinance.

53 **Exemption and Tax Concessions in the Second Schedule**

The bill seeks to authorize in lieu of the Federal Government, the Board with the approval of the Federal Minister in Charge may, from time to time, pursuant to the approval of the Economic Coordination Committee of the Cabinet for amendment in the Second Schedule to the Income Tax Ordinance, 2001.

59B **Group Relief**

The bill proposes to correct a typographical error which removes ambiguity regarding surrender of losses by holding company to its subsidiary.

60A **Workers Welfare Fund**

Currently deductible allowance is available only for the payment of levy under the "Workers Welfare Fund Ordinance, 1971 (XXXVI of 1971)". The bill proposes to allow deduction as admissible in respect of any Workers Welfare Fund paid under any provincial law enacted after the Eighteenth Amendment to the Constitution.

This is a positive change as it would eliminate the confusion regarding admissibility of the claim in respect of payment of provincial levies.

60B **Workers Profit Participation Fund**

Currently deductible allowance is available only for the payment of levy under the "Companies Profit (Workers Participation) Act, 1968 (XII of 1968)". The bill proposes to allow deduction as admissible in respect of any workers participation fund paid under any provincial law enacted after the Eighteenth Amendment to the Constitution.

This is a positive change as it would eliminate the confusion regarding admissibility of the claim in respect of payment of provincial levies.

The bill further proposes to add a proviso so as to restrict the claim in respect of any payment to the province by trans-provincial establishment.

This amendment is in line with the decision of the Honorable Supreme Court of Pakistan.

61 & Thirteenth Schedule **Charitable Donations**

Currently tax credit is allowed for donations specified under section 61 whilst deduction is allowed from the income for donations to entities specified under Clause (61) of Part I of the Second Schedule.

The bill proposes to enlarge the scope of the relief for voluntary contributions and subscriptions in addition to donations.

The bill proposes to delete Clause (61) and to enlist entities specified therein in the Thirteenth Schedule (a proposed new schedule) so as to allow credit for donations/subscriptions/voluntary contributions to such entities instead of deduction from income.

The bill further proposes to allow credit for donations/subscriptions/voluntary contributions to entities which are eligible for tax credit under section 100C of the Ordinance.

The deduction from income is more beneficial than tax credit.

The above changes were earlier introduced through the Tax Laws (Second Amendment) Ordinance, 2021 which would otherwise expire after 120 days.

64C Tax Credit for Employing Fresh Graduates

Presently tax credit is allowable for employing fresh graduates qualified from a university or institution recognized by the Higher Education Commission.

The bill proposes to withdraw the relief provided by the Finance Act 2019.

This change was earlier introduced through the Tax Laws (Second Amendment) Ordinance, 2021 which would otherwise expire after 120 days.

This change is not good from an employment perspective as many jobs have been recently lost especially due to COVID-19.

64D Tax Credit for Point of Sale Machine

The bill proposes to insert this new section in the Ordinance so as to allow tax credit to any person who is required to integrate with the Board's computerized system for real time reporting of sale or receipt in respect of the amount invested in purchase of point of sale machine.

The amount of above tax credit shall be lower of the following:

- amount actually invested in purchase of point of sale machine; or
- rupees one hundred and fifty thousand per machine.

The term "point of sale machine" means a machine meant for processing and recording the sale transactions for goods or services, either in cash or through credit and debit cards or online payments in an internet enabled environment.

This amendment would be helpful for the purposes of documentation of the economy.

65C Tax Credit for Enlistment

Currently tax credit is allowable if a company gets enlisted on any registered stock exchange in Pakistan, on or before June 30, 2022 @ 20% of tax payable for the tax year in which the company is enlisted and at 10% for the following two tax years.

The bill proposes to withdraw the above relief.

This change was earlier introduced through the Tax Laws (Second Amendment) Ordinance, 2021 which would otherwise expire after 120 days.

65D Tax Credit for Newly Established Industrial Undertakings

Currently tax credit is allowable to a company formed on or after July 1, 2011 to June 30, 2021 for establishing and operating a new industrial undertaking, including corporate dairy farming for a period of five years from the date of setting up or commencement of commercial production, whichever is later.

The bill proposes to withdraw the above relief.

This change was earlier introduced through the Tax Laws (Second Amendment) Ordinance, 2021 which would otherwise expire after 120 days.

65F Tax Credit for Certain Persons

Currently certain persons or incomes are exempt under various clauses of the Second Schedule to the Ordinance. The bill proposes to withdraw the exemptions and instead allow tax credit to the following persons or incomes equal to 100% of the tax payable under any provisions of this Ordinance including minimum, alternate corporate tax and final taxes for the period:

- persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects;
- a start-up as defined in clause (62A) of section 2 for the tax year in which the startup is certified by the Pakistan Software Export Board and the next following two tax years; and
- Income from exports of computer software or IT services or IT enabled services upto the period ending on the 30th day of June, 2025:

Provided that eighty percent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels.

The above tax credit shall be available subject to fulfillment of the following conditions, where applicable, namely:

- income tax return has been filed;
- withholding tax statements for the relevant tax year have been filed in respect of those provisions of the Ordinance where the person is a withholding agent; and
- sales tax returns for the tax periods corresponding to relevant tax year have been filed if the person is required to file sales tax return under any of the Federal or Provincial sales tax laws.

The exemption from income is generally more beneficial than tax credit, as tax credit is lost in case of nil tax liability. The necessary amendment is, however, proposed in section 159 of the Ordinance so that a person eligible for tax credit under the provisions of the Ordinance would now be able to apply for and obtain exemption certificate under section 159 of the Ordinance on the basis of tax credit which is currently available for tax exemptions and tax credit under section 100C of the Ordinance.

The above changes in section 65F were earlier introduced through the Tax Laws (Second Amendment) Ordinance, 2021 which would otherwise expire after 120 days.

65G, **Tax Credit for Specified Industrial Undertakings**

Cl. 126L & Cl. 126O Currently certain industrial undertakings are exempt under various clauses of the Second Schedule to the Ordinance. The bill proposes to withdraw the exemptions and instead allow tax credit against tax payable including minimum and final taxes equal to 25% of the value of investment made in purchase and installation of new machinery, building, equipment, hardware, software except self-created software and used capital goods.

The tax credit not fully adjusted during the year of investment shall be carried forward to the subsequent tax year subject to the condition that it may be carried forward for a period not exceeding two years.

The above tax credit is allowable to the following industrial undertakings:

- Green field industrial undertaking as defined in clause (27A) of section 2 which is engaged in:
  - manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition; or
  - ship building.
- The tax credit specified under item (a) above would be available subject to the condition that the person is incorporated between June 30, 2019 and June 30, 2024 and the person is not formed by the splitting up or reconstitution of an undertaking already in existence or by transfer of machinery, plant or building from an undertaking established in Pakistan prior to commencement of the new business and is also not part of an expansion project.
- industrial undertaking set-up by June 30, 2023 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind, for a period of five years beginning from the date such industrial undertaking is set-up.

These changes were earlier introduced through the Tax Laws (Second Amendment) Ordinance, 2021 which would otherwise expire after 120 days.

79 Non-recognition Rules

Currently no gain or loss arises on following disposals of assets:

a) between spouses under an agreement to live apart;

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

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

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

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

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

The above treatment is, however, not applicable where the acquirer of the asset is a non-resident person.

The bill proposes that no gain or loss treatment shall be applicable for items (a), (b) & (c) above even if acquirer of asset is a non-resident person.

This is a positive change as otherwise the tax benefit can be lost merely for the reason that the person, being a non-resident, was abroad during the tax year.

99B & 99C Special Procedure for Small Traders and Shop-keepers
Special Procedure for Certain Persons

Currently the Federal Government is empowered to prescribe special procedure for scope and payment of tax, filing of return and assessment in respect of small traders and shop-keepers through official gazette.

Similarly, the Federal Government is currently empowered to prescribe special procedure for scope and payment of tax, record keeping, filing of return and assessment in respect of small businesses, construction businesses, medical practitioners, hospitals, educational institutions, etc. through official gazette.

The bill proposes to give the above power from the Government to the Board with the approval of the Minister-in-charge.

100 **Special provisions relating to the production of oil and natural gas, and exploration and extraction of other mineral deposits**

The profits and gains from the exploration and extraction business of notified mineral deposits of a wasting nature (not being petroleum or natural gas) shall be computed in accordance with the rules in Part II of the Fifth Schedule. At present, the Federal Government is empowered to notify any exploration and extraction business for the purpose of this sub-section. It is proposed to transpose these powers from the 'Federal Government' to 'the Board with the approval of the Minister-in-charge.

100C **Tax credit for charitable organizations**

Through the Tax Laws (Second Amendment) Ordinance, 2021, section 100C of the Ordinance has been substituted. It is now proposed to validate the said amendment through the bill. The summary of substituted section 100C is as under:

Persons eligible for tax credit:

- Specified person in Table II, Clause (66), Part I of the Second Schedule to the Ordinance ***(This entry is superfluous as these persons are already exempted from tax subject to fulfilment of the conditions specified in this section).***
- Trusts including trust administered under certain specified schemes by the Federal Government.
- Welfare institutions registered with Provincial or Islamabad Capital Territory (ICT) social welfare department.
- A non-profit company registered with SECP under section 42 of Companies Act, 2017.
- A welfare society registered under the Provincial or ICT laws related to registration of co-operative societies.
- A waqf registered under the Muslim waqf Validation Act, 1923 or any other law for the time being in force or in the instrument relating to the trust or the institution.
- A university or educational institutions being run by non-profit organization existing solely for educational purpose and not for profit.
- A religious or charitable institution for the benefit of public registered under any law for the time being in force; and
- International non-governmental organizations (NGOs) approved by the Federal Government.

Incomes eligible for tax credit:

- Income from donations, voluntary contributions, subscriptions;
- Income from house property;
- Income from investments in the securities of the Federal Government;

- Profit on debt from scheduled banks and microfinance banks;
- Grants received from Federal, provincial, local or foreign Government;
- Income from business to the extent that the same is expended in Pakistan for welfare purposes provided that only such extent of income shall be eligible for tax credit that bears the same proportion to income from all sources;
- Any income of persons specified in Table II of clause (66) of Part I of the Second Schedule to the Ordinance;
- Any income of a trust administered under a scheme approved by the Federal Government;
- Any income of a university or educational institute being run by non-profit organization existing solely for educational purposes and not for the purpose of profit.

Conditions for eligibility:

- Annual tax return has been filed;
- Tax required to be deducted or collected has been paid;
- Withholding tax statements for the relevant tax year have been filed;
- Administrative and management expenditure does not exceed 15% of the total receipt with certain exceptions;
- Approval from Commissioner has been obtained under section 2(36) provided that:
  - ➢ this condition shall apply for entities specified in Table II of clause (66) from 01 July 2022 and not for the earlier years ***(Note: The condition of obtaining NPO approval for tax credit / exemption for all entities mentioned in this clause is inappropriate as some entities are non-NPOs).***
  - ➢ None of the assets of the trust or welfare institutions confer private benefits to donors or their families or any other person related the author of the trust or his descendants to the maker of the institute or any other person and where such private benefit is conferred, the amount of such benefit shall be added to the income of the donor.
- A statement of voluntary contributions and donations received in the immediately preceding tax year has been filed in the prescribed form and manner.

100D Special provisions relating to builders and developers

The builders and developers can opt for special tax regime under the Eleventh Schedule. There are also some other incentives given in this section including immunity form probe under section 111 of the Ordinance. These relaxations are time bound. Through the bill, it is proposed to extend these limits as under:

	Deadline	
	Exiting	**Proposed**
Completion of project.	30th September 2022	30th September 2023
Injunction of Capital investment (cash or land) into a new project	31th December 2020	30th June 2021

to avail immunity from probe under section 111		
Submission of prescribed form for claiming above Immunity	No Time limit	30th June 2021
Payment by "first purchaser" **of unit of project to avail immunity from probe under section 111**	30th September 2022	31st March 2023
Purchase of plot for construction of the building and commencement of construction thereon to avail immunity from probe under section 111	31th December 2020 (for purchase and construction of building)	30th June 2021 and 31th December 2021 respectively.

100E & **Special provisions relating to Small and Medium Enterprises**

14th Schedule (proposed)

The bill proposes to introduce special procedures for taxation of Small and Medium Enterprises (SMEs), term "Small and Medium Enterprises" is defined in section 2(59A), from tax year 2021 and onwards under the proposed Fourteenth Schedule to the Ordinance.

These procedures would be applicable to the SMEs who will be registered with FBR (IRIS) as Small and Medium Enterprises Development Authority on its SME registration portal (SMERP).

The bill proposes to categorize the SMEs in the two types and provides two options for payment of tax as follows:

Category	Criteria	Normal Tax Regime (NTR)	Final Tax Regime (FTR)
Category-1	SME having annual business turnover up to Rs. 100 million	7.5% of taxable income	0.25% of gross turnover
Category-2	SME having annual business turnover from Rs. 100 Million to Rs. 250 Million	15% of taxable income	0.5% of gross turnover

The bill proposes simplified return form for SMEs to be prescribed by the Board. The SMEs, willing to pay tax under FTR, has to exercise option at the time of filing of return. Option once exercised shall be irrevocable for three tax years.

The SMEs will be immune from audit under section 177 and 214C of the Ordinance. The SME, filing return under NTR, may be selected for audit, through risk based parametric computer ballot, under section 214C of the Ordinance if tax to turnover ratio is below then the rate prescribed for respective category under FTR regime. The audit selection shall not exceed 5% of the total population paying tax less than the prescribed tax to turnover ratio.

107 **Agreements for the avoidance of double taxation and prevention of fiscal evasion**

The Federal Government is empowered to enter into a tax treaty, information exchange agreement, multilateral convention, an inter-governmental agreement or similar agreement or mechanism for the avoidance of double taxation or for the exchange of information for the prevention of fiscal evasion or avoidance of taxes including automatic and spontaneous exchange of information.

The bill proposes to enhance power of the Federal Government to enter into agreement with other governments in respect of 'the exchange of information for assistance in the recovery of taxes.

113 **Minimum tax on the income of certain persons**

Individuals and AOP having turnover up to rupees ten million are not required to pay minimum tax under section 113. The bill proposes to increase the said threshold from rupees ten million to rupees hundred million.

The bill further proposes to insert an explanation in the sub-section (2) to clarify the definition of turnover covers receipts from all business activities, including but not limited to, receipts from sale of immoveable property where such receipt is taxable under the head "Income from Business".

It should be noted that the Apex Courts in various judgments held that the provisions of section 113 are applicable on 'turnover' relating to 'Business Income' only and the term 'turnover' defined in section 113 of the Ordinance has been given an exhaustive meaning which only means gross receipts derived from the sale of goods; or rendering, giving or supplying services or benefits; or execution of contracts; and nothing more. Through the proposed insertion, the Federal Government intends to negate the principle enunciated by Apex Courts and to bring the 'receipts from sale of immoveable property taxable as business income' into the purview of the term 'turnover' to charge minimum tax on it. We, however, understand that until and unless the definition of term 'turnover' is amended to bring 'receipts from sale of immoveable property' in its ambit, such receipt will remain ousted from the ambit of minimum tax.

The bill also proposes to allow adjustment of minimum tax paid during the year in subsequent year, where no tax is payable for the year due to tax losses. The amendment is appreciated as currently, adjustment of excess of minimum tax in subsequent years is not allowed in the cases where taxpayers do not have any tax liability during the tax year.

114 **Return of income**

The Commissioner may issue a notice in writing requiring a non-filer to file a return in respect one or more of last five completed tax year. The bill proposes to insert a proviso to provide that time limitation of previous five completed tax years shall not apply if the Commissioner is satisfied on the basis of reasons to be recorded in writing that a person who fails to furnish return has foreign income or owns foreign assets.

This provision was earlier inserted through the Income Tax Amendment Ordinance, 2018 but was not validated in the Finance Act 2018.

A person is allowed to file revised return accompanied by the revised accounts if he discovers any omission or wrong statement in its original return. The bill proposes to waive the condition of accompanying revised accounts, if allowed by the Commissioner concerned in case where he considers that filing of revised accounts is not necessary.

114A Taxpayer Profile

In line with prevailing demand of business community, the bill proposes to omit section 114A requiring all registered taxpayers to furnish 'Taxpayer's Profile' in the specified format.

120 Assessments

The bill proposes to postpone the application of provisions of section 120 (2A) regarding automated processing of return furnished by the taxpayer through system to arrive at correct amounts of total income, taxable income and tax payable. These provisions are proposed to be postponed till the date notified by the Board in the official Gazette.

In line with this proposed amendment, the corresponding amendments in the section are also proposed.

122 Amendment of assessments

The Commissioner may, after making, or causing to be made, such enquiries as he deems necessary, amend, or further amend, an assessment order, if he considers that the assessment order is erroneous in so far it is prejudicial to the interest of revenue. The bill proposes to omit the prerequisite of making an enquiry.

The bill also proposes that an order shall be made within one hundred and twenty days of issuance of show cause notice and it can be extended to a period which does not exceed ninety days. But this will be applicable to a show cause notices issued from the first day of July, 2021 but the period during which the proceedings are adjourned on account of a stay order or ADR proceedings or agreed assessment proceedings or the time taken through adjournment by the taxpayer not exceeding sixty days shall be excluded from the computation of the period above period of 120 Days.

122A Revision by the Commissioner

The Commissioner is empowered to revise or remand back any order passed by any Officer of Inland Revenue other than the Commissioner (Appeals) except where an appeal lies against the said order. The bill proposes to prescribe time limit of one hundred and twenty days for passing of an order by sub-ordinate officer to whom proceeding is remanded back by the Commissioner.

134A Alternative Dispute Resolution

An ADRC cannot be constituted for a particular case if criminal proceedings have been initiated or the matter involved question of law. The bill proposes to empower the Board to constitute the ADRC even criminal proceedings have been initiated and in cases involving mixed question of law and facts, the Board to decide whether or not ADRC should be constituted. The bill proposes further amendments as under:

- the application for dispute resolution shall be accompanied by an initial proposition for resolution of the dispute, from which proposition, the taxpayer would not be entitled to retract.
- time period for constitution of an ADRC to reduce from sixty days to thirty days from the receipt of application.
- time period for ADRC in deciding the dispute to reduce from one hundred and twenty days to sixty days of its appointment with the relaxation of further thirty days.
- relief in the form of automatic stay from the recovery of tax on the constitution of committee till the earlier of final decision or dissolution of the committee.
- empower the Board to reconstitute the ADRC if it fails to decide the dispute with the specified period.

137 Due date for payment of tax

Currently, the law provides a period of 30 days for depositing the tax demand raised through an assessment or amended assessment order including appeal affect orders passed u/s 124(1) & (2).

The bill through insertion of a proviso seeks to curtail this time period in case of appeal affect orders passed u/s 124, consequently, the tax demand created would be payable immediately.

This is a harsh tax collecting measure burdening the taxpayer and the department may misuse the authority by issuing notice u/s 138 immediately after passing the order u/s 124.

146C Assistance in recovery and collection of taxes

On 12 September 2016, Pakistan signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (‘Convention’) under the aegis of the Organisation for Economic Co-operation and Development (OECD), as part of prevention of Base Erosion and Profit Shifting (BEPS) action plans. Pursuant to the above Convention, the following agreements were signed by Pakistan:

- Automatic Exchange of Tax Related Information (dated June 07, 2017).
- Multilateral Competent Authorities Agreement (dated June 21, 2017).

Keeping in view these Conventions/Agreements, following amendments in the Income Tax Ordinance, 2001 had been introduced in the past years to fulfil the obligations:

- Transfer pricing documentation and country-by-country (CbC) reporting;
- Controlled foreign companies (CFCs);
- Treaty abuse/shopping;
- Common Reporting Standards.

The proposed amendment is a step forward to fulfill the obligations in compliance of the BEPS action points which seeks to empower the tax department to initiate recovery measures in pursuance of a request made by a foreign jurisdiction in terms of a tax treaty, a multilateral convention and an inter-governmental agreement or similar arrangement or mechanism.

147(6) Advance tax

Existing provisions empowered the Commissioner to reject the estimate of advance tax liability after providing an opportunity to taxpayer, if he was not satisfied with the documentary evidences provided by the taxpayer.

The bill seeks to withdraw this authority by deleting the proviso earlier inserted by Finance Act, 2018. This is a positive change.

150A, 152A & 236S Return on investment in Sukuks
Payment for foreign produced commercials
Dividend in specie

The bill seeks to omit the existing withholding sections relating to return on investment in Sukuks, payment for foreign produced commercials and dividend in specie by introducing them in the existing provisions of Section 151, 152 and 150.

152 Payment to non-residents

In order to attract investment in Government securities by the overseas Pakistanis and Pakistanis who owned and declared foreign assets in their latest filed wealth statement, the Tax Laws (Amendment) Ordinance, 2021 introduced reduced rate of taxation on capital gains arising from disposal of debt instruments, government securities and certificates including shariah compliant variant and invested through following:

- Foreign Currency Value Account; and
- Non-Resident Pakistani Rupee Value Account by non-resident individuals holding POC, NICOP or CNIC.

Banking companies were required to deduct 10% tax on such capital gains which is final tax on such income.

To provide the legislative support, the provision of the Ordinance is included in the Finance Bill for later approval by the Parliament.

153 Payments for goods, services and contracts

Currently, the Commissioner is to issue exemption certificate within fifteen days to companies listed on the Stock Exchange if the advance tax liability has been discharged.

The bill seeks to extend this benefit to all companies which is a beneficial measure

Currently, traders of yarn are exempt from application of withholding provision on payments received against yarn supplied to taxpayers specified in Clause 45A of Part-IV of the Second Schedule. The bill seeks to withdraw this exemption.

154A Export of services

The bill seeks to rationalize the rate of tax on export of services in line with the rates prescribed for export of goods. Consequently, below mentioned services which were either exempt or chargeable to tax at higher rates will now be taxed @ 1% as prescribed in Division-IVA, Part-III of the First Schedule, as final tax to be deducted at the time of realization of export proceeds by every authorized dealer in foreign exchange.

Sr.	Description	Taxability as per current law
1	Computer software, IT Services and IT enable Services not eligible for credit u/s 65F	Income from Business
2	Services including construction services - Corporate Sector	4% as per Clause 3(b), Part-II of the Second Schedule
3	Services including construction services - Non-Corporate Sector	5% as per Clause 3(b), Part-II of the Second Schedule
4	Technical services - Corporate & non-corporate	Exempt as per Clause 131 of Part-I of the Second Schedule
5	Royalty, Commission or fee - companies	Exempt as per Clause 131 of Part-I of the Second Schedule

The conditions prescribed to avail benefit of taxation under final tax regime are:

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

The taxpayer is entitled to opt out of final tax regime and be taxed on net income basis by filing the option along with the return u/s 114.

The taxpayer is entitled to avail credit of reasonable income attributable to the business activity while explaining the nature and source of income in any proceedings initiated u/s 111.

The Board in consultation with State Bank of Pakistan will prescribe the mode, manner and procedure of payment of tax. The Board is empowered to include or exclude services from application of this section.

155 Income of Property

The bill proposes to bring sub-lease of property under the ambit of withholding of taxes as per rates prescribed

159 Exemption or lower rate certificate

Currently, taxpayers are entitled to claim tax credit u/s 100C were eligible to apply for issuance of an exemption certificate. The bill proposes to extend the facility to all taxpayers entitled to 100% tax credit under the Ordinance.

The bill also proposes to bind the Commissioner to issue exemption or lower rate certificate within fifteen days of the filing of application by the companies. In case of failure of the Commissioner to issue the certificate within prescribed time, the certificate will be automatically processed and issued by the IRIS. The Commissioner, however, has been empowered to modify or cancel the certificate issued by IRIS by recording his reasons in writing after providing an opportunity of being heard.

165 Statements

Currently, every person deducting tax u/s 149 is required to e-file an annual statement. The bill proposes to place further obligation on a person to furnish annual statement in respect of deduction/collection of taxes under various sections of the Ordinance. This statement is required to be filed within thirty days from the end of the tax year.

The bill also proposes that a statement reconciling the amounts reported in annual statement and amounts declared in return, audited accounts should also be e-filed by the due of filing of annual income tax return.

170A Electronic processing and electronic issuance of Refunds by the Board

The proposes to empower the Board to process and issue a refund commencing from tax year 2021, without requiring refund application from the taxpayer to the extent of tax credit verified by the Board’s computerized system. Such refund shall electronically be transferred in the taxpayer’s notified bank account.

182 Penalty for failure to furnish a return or statement

S#	Section Reference	Offences	Existing Penalty	Proposed Amendment	Comments / Impact
1	114 & 118	Failure to furnish Income Tax Return	Higher of the followings: i) 0.1% of the tax payable for each day of default ii) 50% of the tax payable iii) Rs. 40,000/-	If taxable income is upto Rs. 800,000/-, minimum amount of penalty shall be Rs. 5,000/-	*Reduction in penalties in case of lower income taxpayers and in cases where default of late filing is less than 3 months*
			If 75% of the income is from salary and Salary Income is less than Rs.5,000,000/-, the minimum amount of penalty shall be Rs. 5,000/-	Penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return	
4A	114A	Failure to furnish or update Taxpayer's Profile	Rs. 2,500/- for each day of default subject to a minimum penalty of Rs. 10,000/-	Omission	*In line with Omission of Section*
4B	181AA	Non-provision of Industrial or Commercial Electricity or Gas connection to unregistered person	Rs.10,000/- for each connection provided to an unregistered person	Rs. 100,000/- for each connection provided to an unregistered person	*Increase in penalty from Rs. 10,000/- to Rs. 100,000/-*
6	137	Repetition of erroneous calculation in the return for more than one year whereby amount of tax paid is less than the actual tax payable under this Ordinance	Rs.30,000/- or 3% of the amount of tax involved, whichever is higher	Provided that no penalty shall be imposed to the extent of the tax shortfall occurring as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayer's position	*No penalty in case of dispute over legal interpretation of a provision*
10	114, 116, 174, 176, 177 and 118	Making a false or misleading, statement, furnishing or filing a false or mis-leading information or document or statement, omission from a statement made or information furnished to an Inland Revenue Authority	Rs. 25,000/- or 100% of the amount of tax shortfall, whichever is higher	Rs. 25,000/- or 50% of the amount of tax shortfall, whichever is higher	*Reduction in penalty from 100% to 50% of the amount of tax shortfall*

11	**175 and 177**	**Denies or obstruction access of the Commissioner or any authorized officer to the premises, place, accounts, documents, computers or stocks**	**Rs. 50,000/- or 100% of the amount of tax involved, whichever, is higher**	**Rs. 50,000/- or 50% of the amount of tax involved, whichever is higher**	***Reduction in penalty from 100% to 50% of the amount of tax involved***
16	**181C and 181D**	**Failure to display NTN at the place of business**	**Rs. 5,000/-**	**Failure to display NTN or business licence at the place of business**	***Penalty for failure to display business license has been introduced***
29	**181**	**Failure to declare business bank account(s), in the registration application or failure to amend registration profile to declare existing business bank account(s).**		**Rs. 10,000/- for each day of default since the date of submission of application for registration or date of opening of undeclared business bank account whichever is later**	***New Insertion to ensure declaration of business bank account(s) by the taxpayers***
				If penalty worked out as aforesaid is less than Rs. 100,000/- for each undeclared bank account, such person shall pay a penalty of Rs. 100,000/- for each undeclared business bank account	
				This provision shall be applicable from October 1st, 2021 during which period the taxpayer may update their registration forms	

191 Prosecution for non-compliance with certain statutory obligations

The bill proposes to bring within its ambit non-declaration of business bank account(s) in the registration form or updated registration form or return of income or wealth statement.

202 Power to compound offences
203 Trial by Special Judge

The bill proposes to omit old provisions relating to compound and trial by Special Judge and replace the same with a completely new procedure through insertion of Sections 203A to 203H.

203A Power to arrest and prosecute

The bill proposes to insert new provision empowering the Officer Inland Revenue, not below the rank of an Assistant Commissioner of Inland Revenue, who has reason to believe on the basis of material evidence that a person has committed the following offences:

- Concealment of Income which includes but is not limited to the following:

    - Suppression of any income/amount chargeable to tax;
    - Claim of any deduction/expenditure not actually incurred;
    - A person offers no explanation or the explanation is not satisfactory in the Commissioner Opinion relating to nature & source of following:

        i) Amount credited in persons books of account;
        ii) Investment, money or valuable article;
        iii) Funds for which the expenditure was made;
        iv) Suppression of any production, sales or receipt liable to tax.

- Offences warranting prosecution under the Ordinance which include but are not limited to the following:

    - Non-compliance to the statutory obligations;
    - False statement in verification;
    - Concealment of an offshore asset;
    - Failure to maintain record;
    - Improper use of NTN Certificate;
    - Making false or misleading statement;
    - Non-compliance with the notice u/s 116A-Foreign Income/Assets;
    - Enabling offshore tax evasion;
    - Obstructing an income tax authority;
    - Disposal of property to prevent attachment;

All arrests shall be carried out in accordance with the relevant provisions of CrPC (Code of Criminal Procedure, 1898;

Chief Commissioner, with the prior approval of the Board, has the authority to compound an offence subject to payment of tax due along with default surcharge and penalty as is determined under the Ordinance (this authority was previously existing u/s 202 which is now proposed to be omitted to make technical correction).

The bill further proposes to clarify that in case of a company, every director or Officer are liable to be arrested if the Officer Inland Revenue has reason to believe that such director/officer are personally responsible for offences.

203B Procedure to be followed on arrest of a person

The bill also proposes to lay down the procedure of arrest whereby key areas have been highlighted as under:

- Officer Inland Revenue (OIR) shall immediately intimate the fact of arrest to the Special Judge;
- Person arrested shall be produced before the Special Judge or Judicial Magistrate, within twenty-four hours of such arrest;
- Special Judge may admit the person to bail on executing a bond, with or without sureties;
- Special Judge has the powers for holding inquiry by remanding the person to the custody of an OIR on his written request and such custody shall not exceed to fourteen days;
- OIR has been proposed to exercise the powers of an officer in charge of a police station under the CrPC 1898 and all the subsequent procedures shall be followed accordingly like inquiry, trial etc.
- Magistrate of the first class may record any statement or confession during inquiry under the Ordinance in accordance with Section 164 of the CrPC.

203C Special Judges

The bill proposes to empower the Federal Government to appoint as many special judges as it considers necessary, however, no person other than a Sessions Judge shall be appointed.

203D, E, F, G & H Powers and Functions of Special Judges

The bill proposes to lay down the complete function (modus operandi) of a special Judge by inserting following sections:

- 203D. Cognizance of Offences by Special Judges;
- 203E. Special Judge, etc. to have exclusive jurisdiction;
- 203F. Provisions of Code of Criminal Procedure, 1898, to apply;
- 203G. Transfer of cases;
- 203H. Place of Sittings.

227E E-Hearing

The bill proposes to empower the Board to design and prescribe e-hearing module for the purpose of conducting hearings and electronically receiving any information. The bill also proposes that recording of e-hearing proceedings shall be admissible as evidence before any forum or court of law.

230I **Directorate General of Compliance Risk Management**

Through the proposed insertion, the Bill seeks to establish Directorate General of Compliance Risk Management. There are no details provided for any compliance risk management. The functions, jurisdiction and powers of the Directorate General will be notified by the Board.

231B **Advance tax on private motor vehicles**

Div.VII, Part IV, 1st Schedule

The bill proposes to prescribe rates of withholding tax on sale made prior to registration by the person who originally purchased it from the local manufacturer in order to discourage "on" money. The proposed slabs are as under:

S#	Engine capacity	Tax (Rs.)
(1)	(2)	(3)
1	Up to 1000cc	50,000
2	1001cc to 2000cc	100,000
3	2001cc and above	200,000"; and

233B **Brokerage and Commission**

Currently, every AOP constituted by or under any law is required to deduct tax on account of payment of brokerage and commission. The bill proposes that advance tax shall only be deducted by an AOP whose turnover is hundred million rupees or more.

The bill also proposes to bring within its ambit, every individual whose turnover is hundred million rupees or more, to deduct tax while making any payment on account of brokerage and commission.

235 **Electricity consumption**
235A **Domestic electricity consumption**

The bill seeks to omit Section 235A pertaining to advance tax collection from domestic consumer and merge the same with Section 235 pertaining to advance tax collection from commercial or industrial consumer.

The bill proposes that advance tax from a domestic consumer shall not be collected if his name appears on the Active Taxpayers' List (ATL) issued by the Board.

The bill further proposes that advance tax would not be collected from a person who produces a certificate from the Commissioner that his entire income is subject to FTR or falls under minimum tax regime under any other provision of the Ordinance.

236C **Advance Tax on sale or transfer of immovable property**

The bill seeks to include public and private real estate projects registered or governed under any law, joint ventures and private commercial concerns within the domain of withholding agent for collection of advance tax under this section.

In order to facilitate overseas Pakistanis holding POC, NICOP or CNIC who had acquired an immovable property through FCVA or NRVA, the Bill proposes that the tax collected from such persons shall be final discharge of tax liability in lieu of capital gains taxable under Section 37 of the Ordinance.

236G & 236H **Advance tax on sales to distributors, dealers and wholesalers**
Advance tax on sales to retailers

The bill seeks to enlarge the scope of advance tax collection on sales of pharmaceuticals, poultry and animal feed, edible oil and ghee, battery, tyres, varnishes, chemicals, cosmetics, IT equipment made to distributors, dealers, wholesalers and retailers.

236K **Advance tax on purchase or transfer of immovable property**

The bill seeks to include public and private real estate projects registered or governed under any law, joint ventures, private commercial concerns within the domain of withholding agent for collection of advance tax under this section.

Tax collected under the existing provision is adjustable. The Bill proposes that the tax collected from overseas Pakistanis holding POC, NICOP or CNIC who had acquired an immovable property through FCVA or NRVA shall be final discharge of tax liability.

This provision will discourage investment from non-resident Pakistanis as amount invested would be taxed at the time of purchase on the one hand while on the other the sale of such property would also be taxed in view the amendments proposed in Section 236C.

The Bill further clarifies that in cases where payable advance tax has been collected in full along with installments, no further tax shall be collected at the time of transfer of property in the name of purchaser.

242 **Benefits of repealed provisions**

Concessions and Exemptions repealed by the Tax Laws (Second Amendment) Ordinance, 2021 have been protected by specifying that beneficiaries of such concessions and exemptions already expired or expiring on June 30th , 2021 would continue to avail the benefits for the prescribed period.

RELIEF MEASURES

- Following withholding tax provisions are proposed to be omitted. Corresponding tax rates in Part-IV of the First Schedule are also proposed to be omitted to effect the omission of withholding tax provisions.

Provision	Description
153B	**Collection of tax on payment of royalty to residents.**
231A	**Collection of tax on cash withdrawal.**
231AA	**Collection of tax on banking instruments.**
233A	**Collection of tax from members by a stock exchange registered in Pakistan.**
233AA	**Collection of tax on marginal financing by NCCPL.**
234A	**Collection of tax from CNG stations.**
236B	**Collection of tax on domestic air travel.**
236HA	**Collection of tax on certain petroleum products.**
236L	**Collection of tax on international air travel.**
236P	**Collection of tax on banking transactions other than throughcash.**
236S	**Tax on dividend on species**
236V	**Collection of tax on extraction of minerals.**
236Y	**Collection of tax from persons remitting amounts abroadthrough credit or debit or prepaid cards.**

FIRST SCHEDULE

Part-I **Rate of super tax**

Division-IIA (section 4B) The bill proposes the prescribe rate of super tax on banking companies to be extended from the tax year 2021 onwards. Earlier it was inserted through the Amendment Ordinance, 2021 dated February 12, 2021 shall stand rescinded on the coming into force of this Act.

Division-VII **Capital gains on disposal of securities**

(section 37A) The bill proposes to reduce capital gain tax on disposal of securities from 15% to 12.5% but extends the applicability of the tax rate on taxation of capital gains on disposal of securities even holding period of shares is eight years. The extra tax of 5% would be charged on capital gain on securities where holding period twenty-four months or more and acquired before 01.07.2016.

<table>
<tr><th rowspan="2">S. No.</th><th rowspan="2">Period</th><th colspan="2">Tax years 2018, 2019, 2020 and 2021</th><th>Tax year 2022 and onwards</th></tr>
<tr><th>Securities acquired before 01.07.2016</th><th>Securities acquired after 01.07.2016</th><th></th></tr>
<tr><td>1.</td><td>Where holding period of a security is less than twelve months</td><td></td><td rowspan="3">15%</td><td rowspan="3">12.5%</td></tr>
<tr><td>2.</td><td>Where holding period of a security is twelve months or more but less than twenty-four months</td><td>12.50%</td></tr>
<tr><td>3.</td><td>Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2013</td><td>7.50%</td></tr>
<tr><td>4.</td><td>Where the security was acquired before 1st July, 2013</td><td>0%</td><td>0%</td><td>0%</td></tr>
<tr><td>5.</td><td>Future commodity contracts entered into by the members of Pakistan Mercantile Exchange</td><td>5%</td><td>5%</td><td>5%</td></tr>
</table>

Division-VIII **Tax on Capital Gains on disposal of immovable property**

(section 37) The bill proposes to prescribe tax rate of five present on capital gain of disposal of immoveable properties in line with changes in section 37(1A).

The existing slabs that are substituted as follows:

S. No.	Amount of Gain	Rate of tax
1	Where the gain does not exceed Rs.5 million	**2.5%**
2	Where the gain exceeds Rs.5 million but does not exceed Rs.10 million	**5%**
3	Where the gain exceeds Rs.10 million but does not exceed Rs.15 million	**7.5%**
4	Where the gain exceeds Rs.15 million	**10%; and**

Division-IX **Minimum tax under section 113**

(section 113) The bill proposes to include new sectors in the existing prescribed tax rate for chargeability of minimum tax on turnover under section 113. A comparison of existing and proposed rates are provided below:

S.No.		Person(s)	Minimum Tax as percentage of the person's turnover for the year	
(1)		**(2)**	**Existing**	**Proposed**
1.	(a)	Oil marketing companies, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.)	0.75%	0.75%
	(b)	Pakistan International Airlines Corporation; and		
	(c)	Poultry industry including poultry breeding, broiler production, egg production and poultry feed production;		
2.	(a)	Oil refineries	0.3%	0.5%
	(b)	Motorcycle dealers registered under the Sales Tax Act, 1990		
3.	(a)	Distributors of pharmaceutical products, fast moving consumer goods and cigarettes;		
	(b)			

		Petroleum agents and distributors who are registered under the Sales Tax Act, 1990;		
	(c)	Rice mills and dealers;	0.25%	0.25%
	(d)	Tier-1 retailers of fast moving consumer goods who are integrated with Board or its computerized system for real time reporting of sales and receipts;		
	(e)	Person's turnover from supplies through e-commerce including from running an online marketplace as defined in clause (38B) of section 2.		
	(f)	Persons engaged in the sale and purchase of used vehicles		
4.	In all other cases		1.5%	1.25%

Part-II **Advance tax on import**

(section 148) The bill proposes to insert a new clause (c) in case of importers of CKD kits of electric vehicles for small cars or SUVs with 50 kwh battery or below and LCVs with 150 kwh battery or below shall be one percent.

Earlier the clause was inserted through the Amendment Ordinance, 2021 dated February 12, 2021 shall stand rescinded on the coming into force of this Act.

Part-III **Advance tax on dividend in specie**

Division-I (section 236S) The bill proposes to omit section 236S providing withholding in respect of Dividend in specie. As a consequence, thereof reference of that section also proposed to be omitted from this division.

Division-IA **Profit on debt**

(section 151) The bill proposes to omit proviso to streamline withholding tax @ 15% on profit on debt.

Division-IB **Return on investment in Sukuk**

The bill proposes to substitute the reference of 150A to expression "on return on investment in sukuks from sukuk holders". The withholding tax will be deducted under the proposed sub-section 1A of section 151.

Division-II	**Payment to non-residents**
(section 152)	The bill proposes to prescribe rate at 10% for capital gain on disposal of debt instruments by non-residents through specified accounts. Earlier the sub-sections (1D) and (1DA) were inserted through the Amendment Ordinance, 2021 dated February 12, 2021 shall stand rescinded on the coming into force of this Act.
Division-III	**Payments for Goods or Services**
section 153(1) clause (a)	The bill proposes to omit sub-paragraph (ab) whereby withholding tax rate 2% and 2.5% of the gross amount payable in case of company and in any other case respectively on supplies made by the distributors of fast moving consumer goods.
clause (b)	The bill proposes to make technical amendment / substitute the Clause (133) of Part I of the Second Schedule to section 65F inserted through the Finance Bill, 2021. The bill proposes to include certain services like oil field, telecommunication, warehousing, collateral management services and travel and tour services in scope of reduced withholding tax rate i.e. 3%. The bill proposes to add explanation in the above clause that the tax rate under this sub-paragraph shall be applicable only to a service provider whose services are subjected to withholding tax on gross receipts and the service provider has not agitated taxation of gross receipts before any court of law.
Division-IIIB	**Royalty paid to resident persons**
(section 153B)	The bill proposes to omit Division IIIB pursuant to deletion of section 153B.
Division-IVA	**Exports of Services**
(section 154A)	The bill proposes to insert tax rate under newly inserted section 154A for receipt on export of services. The rate of tax to be deducted shall be one percent of the proceeds of the export.
Division-V	**Income from Property**
(section 155)	The bill proposes to introduce new rate of withholding tax by existing eight slabs to four slabs whereby 35% rate of tax on income exceeding Rs.8 million. The proposed slabs are as under:

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

Division-VIB **Tax on CNG Stations**

(section 234A) The bill proposes to omit Division VIB subsequent to deletion of section 234A.

Part-IV Division-IIA (section 233A) **Rates for collection of tax by a stock exchange registered in Pakistan**

The bill proposes to omit Division IIA subsequent to deletion of section 233A.

Division-IIB (section 233AA) **Rates for collection of tax by NCCPL**

The bill proposes to omit Division IIB subsequent to deletion of section 233AA.

Division-IV **Electricity Consumption**

(section 235) The bill proposes to substitute for change of tax rate for collection of advance tax from commercial, industrial or domestic consumers of electricity. The proposed slabs are as under:

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

(2) The rate of tax to be collected on domestic electricity consumption shall be--

(i) zero percent where the amount of monthly bill is less than Rs.25,000; and

(ii) 7.5% if the amount of monthly bill is Rs.25,000 or more;”

Division-V **Telephone users**

(section 236) The bill proposes to reduce withholding tax rates from 12.5% to 10% for tax year 2022 and 8% for onwards for telephone user on account of mobile telephone and prepaid internet or telephone cards.

Division-VI **Cash withdrawal from bank**

(section 231A) The bill proposes to omit Division VI subsequent to deletion of section 231A.

Division-VIA (section 231AA) **Advance tax on Transactions in Bank**

The bill proposes to omit Division VIA subsequent to deletion of section 231AA.

Division-IX **Advance tax on Purchase of Air Tickets**

(section 236B) The bill proposes to omit Division IX subsequent to deletion of section 236B.

Division-XIV **Advance tax on sale to Distributors, Dealers or Wholesalers**

(section 236G) The bill proposes reduced withholding tax rate on sale to distributors, dealers or wholesalers of fertilizers for persons appearing in the Active Taxpayers’ List of Sales Tax and Income Tax by inserting proviso as under:

"Provided that the rate of advance tax on sale to distributors, dealers or wholesalers of fertilizer shall be 0.25%, if they are already appearing on both the Active Taxpayers’ Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001)."

Earlier the proviso was inserted through Amendment Ordinance, 2021 dated February 12, 2021 which shall stand rescinded on the coming into force of this Act.

Division-XV **Advance tax on sale to retailers**

(section 236H) The bill proposes to prescribe standard rate of 0.5% withholding tax on sale to retailers.

Second Schedule Part I Exemption from total income	**The bill proposes to withdraw the following exemptions:** (The Clauses 72A, 74, 90, 90A, 91, 98, 100, 101, 103C, 104, 105, 105A, 110B, 110C, 114, 126B, 126L, 126O, 131, 132A, 132B, 133, 135A, 136, 141, 143, 146 were omitted by the Tax Laws (Second Amendment) Ordinance, 2021. The bill now proposes to re-enact this Clause to provide the legislative support for later approval by the Parliament.)
Clause 4	**Salary income of Pakistani Seafarer** Salary income received by a Pakistani seafarer working on either Pakistani or foreign vessels.
Clause 22 & 23	**Withdrawal of exemption on profit on debt derived by Provident Fund** The bill proposes to restrict exemption on profit on debt earned from provident fund contributions upto Rs. 500 thousand and also proposes to tax the said exceeding amount of profit on debt @ 10% as separate block of income.
Clause 23C	**Withdrawal of exemption on profit on debt derived by Pension Fund** The bill proposes to restrict exemption on profit on debt earned from pension fund upto Rs. 500 thousand and also proposes to tax the said exceeding amount of profit on debt @ 10% as separate block of income. Local travelling allowance paid in accordance with the decision of the third Wage Board for Newspaper Employees.
Clause 53A	**Perquisites received by certain employees by virtue of employment** ▪ Free or subsidized food provided by hotels and restaurants to its employees during duty hours. ▪ Free or subsidized education provided by an educational institution to the children of its employees. ▪ Free or subsidized medical treatment provided by a hospital or a clinic to its employees.
Clause 57(1)(iii)	**Income from Sheikh Sultan Trust, Karachi** Income from voluntary contributions, house property and investments in securities of the Federal Government derived by Sheikh Sultan Trust, Karachi

Clause 61 **Donations to certain institutions**

This clause currently provides list of institutions to whom amount paid as donation is allowable as a straight deduction from taxable income.

The above clause was omitted by the Tax Laws (Second Amendment) Ordinance, 2021, however at the same time the legislature inserted a new Schedule (Thirteen) wherein all the institutions existing under said Clause have been added for claim of tax credit by amending the enabling provisions of Section 61 (discussed under the relevant head).

The bill now proposes to re-enact this clause to provide the legislative support for later approval by the Parliament.

Clause 64A
Clause 64B **Donation to the victims of terrorism, IDPs and Flood**
Clause 64C

These clauses currently provide straight deduction from taxable income in respect of amount donated to the victims of terrorism, IDPs and Flood 2010.

The above clause was omitted by the Tax Laws (Second Amendment) Ordinance, 2021, however, at the same time the legislature inserted a new Schedule (Thirteen) wherein all above three relief funds have been added for claim of tax credit by amending the enabling provisions of Section 61 (discussed under the relevant head).

The bill now proposes to re-enact this clause to provide the legislative support for later approval by the Parliament.

Clause 66 **Income of certain Charitable and Other Institutions (NPOs)**

The bill proposes to add fifteen institutions, foundations boards, and trusts in the list of Table – I which deals with straight exemption from tax without any condition which are as follow:

- Islamic Naya Pakistan Certificates Company Limited (INPCCL).
- Abdul Sattar Edhi Foundation.
- Patient's Aid Foundation.
- Indus Hospital and Health Network.
- Securities and Exchange Commission of Pakistan.
- Dawat-e-Hadiya, Karachi.
- Privatisation Commission of Pakistan.
- The Citizens Foundation.
- Sundus Foundation.
- Ali Zaib Foundation.
- Fauji Foundation.
- Make a Wish Foundation.
- Audit Oversight Board.
- Supreme Court Water Conservation Account.
- Political Parties registered with Election Commission of Pakistan.

The bill also seeks to omit the following institutions, foundations boards, and trusts from the list of Table –II, however, all these institutions have been elevated to Table-I and effectively would not be required to fulfill the conditions laid down in Section 100C:

- Abdul Sattar Edhi Foundation.
- The Citizens Foundation.
- Indus Hospital, Karachi.
- Audit Oversight Board.
- Patient's Aid Foundation.
- Dawat-e-Hadiya, Karachi.

Profit on debt derived by Hub Power Company Limited on its bank deposits or accounts with financial institution relating to the project operations.

Clause 75 **Profit on debt and capital gains derived by Agency of Foreign Government by non-resident person**

The bill proposes to substitute this clause in order to rationalize the scope of exemption which now will be available to agency of a foreign government, or any other non-resident person approved by the Federal Government in respect of profit on debt and capital gain arising on debt and debt instruments.

Any income derived by a resident individual who is a citizen of Pakistan from the following:

- private foreign currency account held with an authorized bank in Pakistan
- certificate of investment issued by investment banks

Clause 90 **Profit on debt payable by Industrial undertaking to Foreign Institutions**

Profit on debt payable by an industrial undertaking in Pakistan to foreign institutions:

- on moneys borrowed under a loan agreement entered into with an approved financial institution in a foreign country; and
- on moneys borrowed or debts incurred by it in a foreign country in respect of the purchase outside Pakistan of capital plant and machinery in any case where the loan or debt is approved by the Federal Government

Clause 90A **Bonds issued by Pakistan Mortgage Refinance Company**

Profit on debt derived by any person on bonds issued by Pakistan Mortgage Refinance Company, to refinance the residential housing mortgage market, for a period of five years.

Clause 91 **Income of a textbook board**

Any income of a text book board of a Province established under any law for the time being in force.

Clause 98 **Controlling, regulating or encouraging major games and sports**

Income derived by any Board or other organization established by Government in Pakistan for the purposes of controlling, regulating or encouraging major games and sports recognized by Government.

Clause 99A **Profits and gains of a REIT Scheme**

The bill seeks to extend the grant of exemption upto 30-06-2023 as against the existing date of 30-06-2015.

Clause 101 **Profits and gains derived by Venture Capital Fund**

Profits and gains derived between the 1st July, 2000 and the 30th June, 2024, by a venture capital company and venture capital fund.

Clause 103 **Distribution received from collective investment scheme**

Any distribution received by a taxpayer from a collective investment scheme registered by the SECP under the Non-Banking Finance Companies and Notified Entities Regulations, 2007, including National Investment (Unit) Trust or REIT Scheme or a Private Equity and Venture Capital Fund out of the capital gains of the said Schemes or Trust or Fund.

Clause 103C **Dividend income**

Dividend income derived by a company, if the recipient of the dividend, for the tax year is eligible for group relief under section 59B.

Clause 103D **Dividend Income and Long Term Capital Gain**

The bill proposes to insert a new Clause providing exemption against any dividend income and long term capital gains derived by any venture capital fund from investments in zone enterprises as defined in Clause(P) of section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years commencing from issuance of license by the Authority to the zone enterprise.

Income derived by the Libyan Arab Foreign Investment Company being dividend of the Pak-Libya Holding Company.

Clause 105 **Income of Kingdom of Saudi Arabia**

Income derived by the Government of Kingdom of Saudi Arabia being dividend of the Saudi-Pak Industrial and Agricultural Investment Company (AICL) Limited.

Clause 105A **Income of Pak Kuwait Investment Company**

Income derived by Kuwait Foreign Trading Contracting and Investment Company or Kuwait Investment Authority being dividend of the Pak Kuwait Investment Company in Pakistan.

Clause 110B **Transfer of a capital asset**

Gain on transfer of a capital asset, being a membership right held by a member of an existing stock exchange, for acquisition of shares and trading or clearing rights.

Clause 110C **Transfer of a capital asset**

Gain by a person on transfer of a capital asset, being a bond issued by Pakistan Mortgage Refinance Company to refinance the residential housing mortgage market.

Clause 114 **Capital Gains**

Any income chargeable under the head capital gains derived by a person from an industrial undertaking set-up in an area declared by the Federal Government to be a Zone.

Clause 114AA **Sale of constructed residential property**

Income chargeable under the head capital gains derived by a resident individual from the sale of constructed residential property subject to fulfillment of certain conditions as specified under the clause.

Clause 117 **Plying of any vehicle**

Any income derived by a person from plying of any vehicle registered in the territories of Azad Jammu and Kashmir.

Clause 126B **Exemption of Refinery**

The bill proposes to omit name specific exemption (Khalifa Coastal Refinery) and substituted this Clause by providing exemption to any refinery setup between 01-07-2018 to 30-06-2023 and subject to fulfilment of certain conditions. The exemption previously provided for a period of 25 years has now been curtailed to 10 years.

Clause 126EA **Exemption for Zone developer, Zone enterprises and Special Technology Zones**

The bill proposes to exempt the Profits and gains derived by:

- zone developer as defined in section 2 of the Special Technology Zones Authority Ordinance, 2020 from development and operations of the zones for a period of ten years starting from the date of signing of the development agreement;
- zone enterprises as defined in section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years from the date of issuance of license by the Special Technology Zone Authority; and
- Special Technology Zones Authority established under the Special Technology Zones Ordinance 2020.

Clause 126I **Income of manufacturer of Plant and Machinery**

Any profits and gains derived by a taxpayer, from an industrial undertaking set-up and engaged in the manufacture of plant, machinery, equipment and items with dedicated use for generation of renewable energy.

Clause 126J **Income of operating warehousing or cold chain facilities**

Any profits and gains derived by a taxpayer from an industrial undertaking set-up and engaged in operating warehousing or cold chain facilities for storage of agriculture produce.

Clause 126K **Halal Meat Production Unit**

Profits and gains derived by a taxpayer, from an industrial undertaking set-up for establishing and operating a halal meat production unit.

Clause 126L **Income of Industrial Undertaking in KPK and Baluchistan**

Profits and gains derived by a taxpayer, from an industrial undertaking set-up in the Provinces of Khyber Pukhtunkhwa and Baluchistan.

Clause 126M **Income of Transmissions Line Project**

Profit and gains of a transmission line project was previously exempt from tax subject to fulfillment of certain conditions till 2018.

This bill proposes to extend this exemption till 2022.

Profits and gains derived by a taxpayer from a fruit processing or preservation unit set-up in Balochistan Province, Malakand Division, Gilgit Baltistan and FATA.

Clause 126O **Green field industrial undertaking**

Profits and gains of a company from a green field industrial undertaking for a period of five years incorporated on or after the first day of July, 2019.

Provided that the green field industrial undertaking is not formed by

a) the splitting up or reconstitution of an undertaking already in existence or

b) by transfer of machinery or plant from an undertaking established in Pakistan before the commencement of the new business.

Clause 131 **Foreign source incomes derived by Corporate and Non-Corporate**

The exemptions currently available under this clause have been taxed @ 1% through enactment of Section 154A. (discussed in Section 154A).

132 **Sale of Electricity**

The bill proposes to restrict the exemption available under this Clause by inserting a proviso that exemption shall not be available to person, who enter into agreement or to whom letter of intent is issued by Federal or Provincial government for setting-up an electric power generation project in Pakistan after the 30th day of June, 2021.

Exemption on any profits and gains derived by a taxpayer, from an industrial undertaking set-up and engaged in the manufacture of plant, machinery, equipment and items with dedicated use for generation of renewable energy.

Clause 132AA **Income of National Power Parks Management Company Limited**

The bill proposes to exempt the profits and gains of National Power Parks Management Company Limited starting from the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan.

Clause 132C **Bagasse/biomass based cogeneration power projects**

The bill proposes to insert a new Clause prescribing exemption from tax on profit and gain derived by a taxpayer from a bagasse/biomass based organization power projects having one or more boilers of not less than 60 bar (kg/CM3) pressure and commissioned after 01-01-2013

Clause 133 **Income from exports of Computer software or IT services or IT enabled services**

Exemption available under this clause has been replaced with the following:

- 100% tax credit subject to fulfillment of certain conditions as specified under section 65F (discussed under the relevant head)

- Taxation as export proceed @ 1% if the tax credit u/s 65F is not available. (discussed in Section 154A)

Clause 141 **Profit and gains from LNG Terminal Operators and Terminal Owners**

Profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of 5 years beginning from the date when commercial operations are commenced.

Clause 143 **Profit and gains of a start-up**

Profit and gains derived by a start-up as defined in Clause (62A) of section 2 for the tax year in which the start-up is certified by the Pakistan Software Export Board and the following two tax years.

The above clause was omitted by the Tax Laws (Second Amendment) Ordinance, 2021. The bill now proposes to re-enact this Clause to provide the legislative support for later approval by the Parliament.

Clause 146 **Exemption to persons resident in FATA/PATA**

Any income which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 (XXXVII of 2018) of:

- any individual domiciled or company, and
- association of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June, 2018 to the 30th day of June, 2023 (both days inclusive).

Clause 148 This clause does not exist in the Ordinance as updated up to 30-06-2020

Second Schedule Part-II **Reduction in tax rates**

(The Clauses 2, 3, 3B, 5B, 18, 18B, 24AA, 28A, 28B were omitted by the Tax Laws (Second Amendment) Ordinance, 2021. The bill now proposes to re-enact this Clause to provide the legislative support for later approval by the Parliament.)

Clause 2 Tax reduction available to person liable to tax under the Fifth Schedule in respect of letting out to any other similar person any pipeline for the purpose of carriage of petroleum has been proposed to be withdrawn.

Clause 3 The bill seeks to omit the reduction in tax rates by 50% in respect of income from services rendered outside Pakistan and construction contracts executed outside Pakistan. Pertinent to mention here that reduction in tax rates have now proposed to be been taxed @ 1% through enactment of section 154A as export proceeds.

Clause 3B Tax reduction available to Pakistan Cricket Board ("PCB") in respect of certain sources/receipts derived from sources outside Pakistan has been done away.

Clause 5AB The bill proposes to insert this new Clause to reduce the tax to be deducted under section 151 to 10% from 15% arising on debt instruments, whether conventional or Shariah Compliant, issued by the Federal Government under the Public Debt Act, 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 Foreign Currency Value Account (FCVA) maintained with authorized banks in Pakistan under the foreign exchange regulation issued by the State Bank of Pakistan.

Clause 5AC The bill seeks to reduce the rate of tax to be deducted under sub-section (2) of section 152 or under section 151 to zero percent of the gross amount of profit that are covered under Clauses (78) and (79) of Part-I of the Second Schedule through the insertion of this new Clause.

Clause 5B The bill seeks to omit Clause (5B) which specifies the capital gains derived by a person from the sale of shares or assets by a Private Equity and Venture Capital Fund to be charged at the rate of 10% of such gains.

Clause 9AA This bill seeks to reduce the tax rate in respect of import of white sugar from 25th of August, 2020 to 15th of November, 2020 shall be collected at the rate of 0.25% as per quantity, quality, mode and manner prescribed by Ministry of Commerce during the said period.

Clause 9AB Tax under section 148 on commercial import of the white sugar shall be collected at the rate of 0.25% from the 26th day of January 2021 till the 30th day of June, 2021

Clause 9AC Subject to quota allotment by Commerce Division, tax under section 148 shall be collected at the rate of 0.25% on import of raw sugar imported by sugar mills from the 26th day of January, 2021 to the 30th day of June, 2021 both days inclusive provided that such imports shall not exceed fifty thousand metric tons per sugar mill and three hundred thousand metric tons in aggregate by the sugar industry.

Clause 18 The bill proposes to omit the reduction in tax rate in respect of modaraba which was currently @ 25%.

Clause 18A The bill proposes to omit reduced corporate tax rate i.e. 20% in respect of a company setting-up industrial undertaking between the first day of July, 2014 to the 13 day of June, 2017.

Clause 18B The bill proposes to omit the reduction in corporate tax rate by 2% in case of a company whose shares are traded on stock exchange subject to fulfillment of certain conditions.

Clause 18C The bill proposes to insert new clause for reduction of tax rate @ 7.5% in case of dividends declared by a company as are attributable to profits and gains derived from a bagasse and biomass based co-generation power project qualifying for exemption under Clause (132C) of Part-I of this Schedule

Clause 24A The bill proposes to omit the reduction in tax rates @ 1% u/s 153(1)(a) in respect of large distribution houses as defined u/s 148(7)(d)

Clause 24AA The bill proposes to omit the reduced rate of tax @ 6% u/s 152 in case of M/S CR-NORINCO JV.

Clause 24C The bill proposes to reduce the rate of tax u/s 153(1)(a) in the case of distributors, dealers, sub-dealers, wholesalers and retailers of fast moving consumer goods, fertilizer, electronics excluding mobile phones, sugar, cement,and edible oil as recipient of payment shall be 0.25% of gross amount of payments subject to the condition that beneficiaries of reduced rate are appearing on the Active Taxpayers' List issued under the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

Provided that the benefit under this clause shall only be available to those Tier-1 retailers as defined under Sales Tax Act, 1990 who are integrated and configured with Board or its computerized system for real time reporting of sales or receipts.

Clause 24D The bill proposes to reduce the rate of minimum tax u/s 113(1) in the case of distributors, dealers, sub-dealers,wholesalers and retailers of fast moving consumer goods,fertilizer, electronics excluding mobile phones, sugar, cement,and edible oil as recipient of payment shall be 0.25% of gross amount of payments subject to the condition that beneficiariesof reduced rate are appearing on the Active Taxpayers' List issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

Provided that the benefit under this clause shall only be available to those Tier-1 retailers as defined under the Sales Tax Act, 1990 who are integrated and configured with Board or its computerized system for real time reporting of sales or receipts.

Clause 28A The bill proposes to omit the reduced rate of tax u/s 148 on import of hybrid cars.

Clause 28B	The bill seeks to the reduced rate of tax @ 0.15% under section 231A on cash withdrawals by an exchange company.
Clause 28E	The bill proposes to extend the facility of reduced rate of minimum tax u/s 113 @ 0.5% in case of trade of yarn being an individual.
Second Schedule Part-III	**Reduction in tax liability** (The Clauses 2, 7, 8, were omitted by the Tax Laws (Second Amendment) Ordinance, 2021. The bill now proposes to re-enact this Clause to provide the legislative support for later approval by the Parliament.)
Clause 2	The bill proposes to omit the reduction of tax payable in a year in which the rupee is revaluated or devalued by a taxpayer whose profits or gains are computed under the Fifth Schedule and who had entered into an agreement with the government.
Clause 7	The bill proposes to omit the reduced amount of tax payable by foreign film-markers by 50% on income from film making in Pakistan.
Clause 8	The bill proposes to omit the reduced amount of tax payable by resident companies by 70% on income from film.
Clause 9	This clause provides for reduction in tax liability by 50% in case of low-cost housing projects. The bill seeks to insert a proviso to restrict the applicability of reduction in tax liability for aforesaid projects commencing on or before 30th June 2024. The above proviso has been inserted through the Tax Laws (Second Amendment) Ordinance, 2021. The bill now proposes to re-enact this Clause to provide the legislative support for later approval by the Parliament.
Clause 9(B)	This Clause provides for reduction in tax liability by 90% in case of low-cost housing developed or approved by NAPHDA or under the Ehsaas Program. The bill seeks to insert a proviso to restrict the applicability of reduction in tax liability for aforesaid projects commencing on or before 30th June 2024. The above proviso has been inserted through the Tax Laws (Second Amendment) Ordinance, 2021. The bill now proposes to re-enact this clause to provide the legislative support for later approval by the Parliament.
Clause 17	The bill proposes to insert this Clause by specifying that tax payable by cotton ginners on their income and profits shall not be more than sum of 1% of their turnover from cotton lint, cotton seed, cotton seed oil and cotton seed cake.

Provided that the tax so payable shall be final tax in respect of their cotton ginning and oil milling activities only.
The above clause has been inserted through the Tax Laws (Amendment) Ordinance, 2021. The bill now proposes to re-enact this clause to provide the legislative support for later approval by the Parliament

Clause 18 The rate of withholding tax on value of off-shore supply contract of an Independent Power Producer located wholly or partly in territories of Azad Jammu and Kashmir shall be 1% subject to fulfillment of certain conditions. The tax so deducted shall be the full and final liability of offshore contractor.

Clause 19 The bill proposes to reduce the tax payable by 25% on income from business derived by the women enterprises. The express women enterprise means a startup established on or after 01-07-2021 as sole proprietorship, AOP or a company owned by the women only.

This concession provide under this clause will not be available to such business that is formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

Part IV, 2nd Sch.

Clause (2) **Extended period for carry forward of losses - EPZ**

In case of industrial undertaking set-up in export processing zone for losses referred in section 57 the condition of six tax periods shall not apply.

The above Clause was omitted by the Tax Laws (Second Amendment) Ordinance, 2001.

The bill proposes to omit this Clause to provide the legislative support for later approval of the Parliament.

Clause (4A) **Recouping of tax credit - National Power Parks Management Company Ltd**

The bill proposes to insert the Clause providing that no provisions of law shall apply for recouping of tax credit already allowed to National Power Parks Management Company Limited for investment in plant and machinery in the eve of privatization merely for the reasons of change in its ownership pattern or debt to equity ratio.

Clause (11A) **Minimum tax under section 113**

The bill proposes to withdraw the exclusion to charge minimum tax in terms of Section 113 on following persons:

ix	non-profit organizations;
x	a taxpayer who qualifies for exemption on income from export of computer software or IT services or IT enabled services;
xiii	a modaraba qualifying for exemption under clause (100) of Part-I of this Schedule;
xv	corporatized entities of WAPDA to their receipts on account of sales of electricity, from the date of their creation upto the date of completion of the process of corporatization;
xviii	companies, qualifying for exemption in respect of receipts from a coal mining project in Sindh, supplying coal exclusively to power generation projects;
xxix	start-up as defined in clause (62A) of section 2

The above Clauses were omitted by the Tax Laws (Amendment) Ordinance, 2001. The bill proposes to omit these clauses to provide the legislative support for later approval of the Parliament.

The bill proposes to provide exclusion to charge minimum tax in terms of Section 113 on following persons by inserting following Clauses:

xxxix	Islamic Naya Pakistan Certificates Company Limited (INPCCL);
xl	receipts from sale of electricity produced from a bagasse and biomass based co-generation power project qualifying for exemption under clause (132C) of Part-I of this Schedule;
xli	new entity taking over National Power Parks Management Company Limited in the eve of privatization;
xv	corporatized entities of WAPDA to their receipts on account of sales of electricity, from the date of their creation upto the date of completion of the process of corporatization;
xlii	Persons qualifying for exemption under clause (126E) of Part I of this Schedule for tax year 2021 and onwards;
xliii	Persons qualifying for exemption under clause (126EA) of Part I of this Schedule;
xliv	Persons mentioned in Table I of clause (66) of Part I of Second Schedule;

The above Clauses were inserted by the Tax Laws (Amendment) Ordinance, 2001. The bill proposes to insert these Clauses to provide the legislative support for later approval of the Parliament.

Clause (12B) **Non-application of section 148 - extension**

Currently, provisions of section 148 shall not apply to the import of certain goods mentioned in table of Clause 12B, for a period commencing from 20 March, 2020 and ending on 30 September, 2020.

The bill proposes to extend the ending date till 30 June, 2021.

Clause (12F) **Non-application of section 148 – import of wheat by TCP**

The bill proposes to insert the clause providing that the provision of section 148 shall not apply on import of 1.5 million tons of wheat having PCT Heading 1001.1900 and 1001.9900 in pursuance of Cabinet Decision in case No.399/23/2020 dated the 16th June, 2020.

Clause (12G) **Non application of sections 148 – import of white sugar by TCP**

The bill proposes to insert the Clause providing that the provisions of section 148 shall, in pursuance of the Cabinet Decision in case No. 541/30/2020 dated the 4th August, 2020, not apply on import by the Trading Corporation of Pakistan of 300,000 metric tons of white sugar having PCT heading 1701.9910,1701.9920.

Clause (12H) **Non application of sections 148 – import of oxygen gas, cylinders, cryogenic tanks**

The bill proposes to insert the clause providing that the provisions of section 148 shall not apply on import of Oxygen gas, Cylinders, Cryogenic tanks.

Concessions shall also apply to letters of credit opened or goods declaration forms filed on or after the 23rd June, 2020.

Clause (12I) **Non-application of section 148 – import by NDMA**

The bill proposes to insert the clause providing that the provisions of section 148 shall not apply on import of 83 X Micron sprayers for Anti-Locust Operation (Respective heading) by National Disaster Management Authority (NDMA).

Clause (12J) **Non-application of section 148 – import of wheat by TCP**

The bill proposes to insert the clause providing that the provisions of section 148 shall not apply on import of three hundred thousand metric tons of wheat through tendering process by the Trading Corporation of Pakistan. (Cabinet Decision in case No. 34/02/2021 dated 12th Jan 2021)

Clause (12K) **Non-application of section 148 – import of cryogenic tanks**

The bill proposes to insert the clause providing that the provisions of section 148 shall not apply on import of Cryogenic Tanks (for oxygen gas) by the manufacturers of oxygen for a period of three months starting from the 25th day of December, 2020.

Concessions shall also apply to letters of credit opened or goods declaration forms filed on or after the 25th day of December, 2020.

Clause (12L) **Non-application of sections 148 and 153 – import and supply of white sugar by TCP**

The bill proposes to insert the clause providing that the provisions of section 148 and 153 shall not apply on import and subsequent supply of five hundred thousand metric tons of white sugar imported by the Trading Corporation of Pakistan.

Clause (12M) **Non-application of section 148**

The bill proposes to insert the Clause providing that the provisions of section 148 shall not apply on import of certain goods for a period of one hundred and eighty days starting from the 14th day of May, 2021.

Clause (12N) **Border sustenance markets – import and export**

The bill proposes to provide the non-application of the section 148 on the import of goods and section 154 on the exports of goods within the jurisdiction of Border sustenance markets-

a) The provisions of section 148 shall not apply on the import of goods which takes place within the jurisdiction of Border sustenance markets specified in the Table-I.

b) The provisions of section 154 shall not apply to the export of goods which takes place within the jurisdiction of Border sustenance markets specified in Table-II.

The exemption under this clause shall be available on the import of goods subject to fulfilment of certain conditions.

Clause (43D) **Reduced rate under section 153(1)(a) – scope extended - Oil tanker contractor**

The existing exemption form the application of clause (a) i.e. sale of Goods has been extended towards clause (b) i.e. rendering/ providing of services, however @ 3.5% (previously @ 2.5%) in case of oil tanker contractors.

Clause (43E) **Reduced rate under section 153(1)(a) – scope extended - goods transport contractor**

The existing exemption form the application of clause (a) i.e. sale of goods has been extended towards clause (b) i.e. rendering/ providing of services, however @ 3.5% (previously @ 3%) in case of goods transport contractors.

Clause (43G) **Non-application of section 153 – commodity future contracts**

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

Clause (45) **Non-application of section 153 – scope extended - manufacturer cum exporter**

The exemption from application of Section 153(1) has been proposed to be extended to the payments made on account of purchase of the goods liable to special rates of tax deduction like rice, cotton seed oil or edible oil etc.

Clause (45A) **Reduced rate of section 153 – five zero-rated sectors**

An explanation has been proposed to be inserted to restrict the scope of exemption of application of Section 153(1)(a)/153(1)(b) in respect of the taxpayers of categories specified i.e. commonly known as five zero rated sectors.

Clause (45B) **Non-application of section 153 – used motor vehicles**

The provisions of section 153 shall not apply on the purchase of used motor vehicles from general public.

Clause (46AA)(iv) **Non-application of section 153 – substituted – supply of agriculture produce**

Currently, the sub-clause (iv) states that the provisions of sections 153 shall not apply to persons receiving payments from a company or an association of persons having turnover of fifty million rupees or more or from an individual having turnover of fifty million rupees or more exclusively for the supply of agriculture produce including fresh milk, fish by any person engaged in fish farming, live chicken, birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market.
The Bill proposes to substitute the sub-clause with the following:

"subject to fulfillment of procedure laid down in clause (12) of Part IV of Second Schedule, persons receiving payments exclusively for the supply of agriculture produce including following –

i) fresh milk;
ii) fish by any person engaged in fish farming;
iii) live chicken, birds and eggs by any person engaged in poultry farming;
iv) live animals by any person engaged in cattle farming;
v) unpackaged meat; and
vi) raw hides:

Provided that this clause shall not apply to the payments for agriculture produce which has been subjected to any process other than that which is ordinarily performed to render such produce to be fit to be taken to the market.

Clause (47B) Modaraba and Private Equity and Venture Capital Fund exemption omitted

The bill proposes to exclude the exemption from the application of Sections 150, 151, 233 and Part I, Division VII of the First Schedule in respect of “Modarba” and “a Private Equity and Venture Capital Fund”.

Clause (56) Non-application of section 148 – scope extended

The bill proposes that the provisions of section 148, regarding withholding tax on imports shall not apply in respect of following additional areas:

(liia)	Goods temporarily imported into Pakistan by international athletes which would be subsequently taken back by them within one hundred and twenty days of temporary import;
(xiii)	Goods produced or manufactured and exported from Pakistan which are subsequently imported in Pakistan within one year of their exportation, provided conditions of section 22 of the Customs Act, 1969 (IV of 1969) are complied with;
(xiv)	Plant and machinery imported for setting up of a bagasse/biomass based cogeneration power project qualifying for exemption under clause (132C) of Part-I of this Schedule;
(xv)	Persons authorized under Export Facilitation Scheme 2021 notified by the Board with such scope, conditions, limitation, restrictions and specification of goods;
(xvi)	motor vehicles up to 850cc in CBU condition
(xvii)	Printed books excluding brochures, leaflets and similar printed matter, whether or not in single sheets (PCT code 49.01).
(xviii)	Newspapers, journals and periodicals, whether or not illustrated or containing advertising material (PCT code 49.02).

The above Clauses were inserted by the Tax Laws (Amendment) Ordinance, 2001. The bill proposes to insert these clauses to provide the legislative support for later approval of the Parliament.

Clause (57A) Large import houses – exemption of sections 153 and 169 withdrawn

The provisions of sections 153 and 169 shall not apply to large import houses if all the conditions of Sec 148 are fulfilled for a tax year.

Clause (60DA) **Non-application of section 148 – import of capital equipment**

The provisions of section 148 shall not apply to the import of the capital equipment by the following:

(a)	**zone developers as defined in section 2 of the Special Technology Zones Ordinance 2020 for consumption in the special technology zones for the period of 10 years commencing from the date of signing the development agreement;**
(b)	zone enterprises as defined in section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years from the date of issuance of license by the Special Technology Zone Authority;
(c)	Special Technology Zones Authority established under the Special Technology Zones Ordinance 2020.

Clause (61) **Non-application of section 231A – COMPENSATION FROM GOP**

The provisions of section 231A shall not apply in respect of any cash withdrawal, from a bank, made by an earthquake victim against compensation received from GOP including payments through Earthquake Reconstruction and Rehabilitation Authority (ERRA) account.

Clause (72A) **Non-application of sections 21(l), 113 and 152 – Hajj group operator**

The provisions of Clause (l) of section 21, sections 113 and 152 shall not apply in case of a Hajj Group Operator in respect of Hajj operations provided that the tax has been paid at the rate of Rs.3,500 per Hajji for the tax year 2013 and Rs.5,000 per Hajji for the tax year 2014 TO [2017] in respect of income from Hajj operations.

Clause (79A) **Non-application of section 153 - National Telecommunication Corporation**

The provisions of clause (b) of sub-section (1) of section 153 shall not apply to payments received by National Telecommunication Corporation against provision of telecommunication services including ancillary services specified in sub-section (3) of section 41 of the Pakistan Telecommunication (Re-organization) Act, 1996 (XVII of 1996)

Clause (91)(xvii) **Non-application of section 148 – scope extended – agricultural machinery**

The provisions of section 148 shall not apply to Corn harvester/corn picker and silage maker with their respective PCT headings.

Clause (111AB) **Non-application of Active Taxpayers List (ATL) – non-resident individual holder of POC, NICOP, CNIC**

The provisions of section 100BA and Rule 1 of the Tenth Schedule shall not apply to non-resident individual holding Pakistan Origin Card (POC) or (NICOP) or (CNIC) maintaining a (FCVA) or (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan.

The above clause was inserted by the Tax Laws (Amendment) Ordinance, 2001. The bill proposes to insert these clauses to provide the legislative support for later approval of the Parliament.

Clause (114A) **Requirement to file return omitted**

Currently, the clause states that the provisions of clause (ae) of sub-section (1) of section 114 and section 181 shall not apply to a non-resident individual solely by reason of profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a nonresident rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan.

The bill proposes that the provisions of clause (ae) of sub-section (1) of section 114 and section 181 shall not apply to a non- resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or a Non-resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan:

Provided that this clause shall not apply if the person referred in this clause has Pakistan-source taxable income other than the following; namely:—

- profit on debt on FCVA or Non-resident Pakistani Rupee Value Account (NRVA);
- 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;
- capital gain on disposal of immovable property acquired from proceeds of FCVA or NRVA;
- capital gain on disposal of securities traded on Pakistan Stock Exchange and units of mutual funds that are acquired from proceeds of FCVA or NRVA; or
- dividend income from securities traded on Pakistan Stock Exchange and mutual funds that are acquired from proceeds of FCVA or NRVA.

The above clause was inserted by the Tax Laws (Amendment) Ordinance, 2001. The bill proposes to insert these clauses to provide the legislative support for later approval of the Parliament.

Clause (118) **Islamic Naya Pakistan Certificate Company Limited**

The provisions of withholding taxes contained in the Income Tax Ordinance, 2001 (XLIX of 2001) shall not apply to Islamic Naya Pakistan Certificates Company Limited (INPCCL) as a recipient.

The above Clause was inserted by the Tax Laws (Amendment) Ordinance, 2001. The bill proposes to insert these clauses to provide the legislative support for later approval of the Parliament.

Clause (119) **Non-application of section 153 – locally manufactured mobile phones distributors, dealers, wholesalers and retailers**

The provisions of section 153(1)(a) shall with effect from the first day of July, 2020 not apply to distributors, dealers, wholesalers and retailers of locally manufactured mobile phone devices as withholding agent.

The above clause was inserted by the Tax Laws (Amendment) Ordinance, 2001. The bill proposes to insert these clauses to provide the legislative support for later approval of the Parliament.

THIRD SCHEDULE SECTION 23

The bill proposes to omit the entry (a) in the S. No. IV in Part-I, which mentioned the depreciation rate for below ground installations

The bill propose to omit the expression “23A and” to give effect to the proposed omission of section 23A.

FIFTH SCHEDULE PART-II

Rules for The Computation of Profit and Gain from The Exploration and Extraction of Mineral Deposit (Other Than Petroleum)

The bill proposes to omit rule 4 of Part II which governed the tax exemption of the profits from refining or concentrating mineral deposit

Seventh Schedule Rule 7C

Super tax

The proposed amendment seeks to extend the applicability of super tax to banking companies which is to expire in tax year 2021 to 2022 and onwards. Necessary changes are also made in Division IIA of Part I of the First Schedule accordingly.

Instead of being abolished the levy has been made a permanent tax.

EIGHTH SCHEDULE RULE (6)

Rules for the Computation of Capital Gains on Listed Securities

The bill seeks to substitute the references of the Companies Ordinance, 1984 (the repealed Ordinance) in various provisions of the Ordinance wherever appearing to the Companies Act, 2017 which was promulgated on May 30, 2017.

TENTH SCHEDULE RULE (10)

Rules for persons not appearing in the Active Taxpayers' List

The Rule 10 specifies the sections of the Income Tax Ordinance, 2001 which do not apply on tax collectible or deductible in case of persons not appearing in the Active Taxpayers' List (ATL).

The bill proposes to omit certain clauses in Rule 10 which has the effect of reducing the sections which do not apply to the persons not appearing in the ATL:

- clause (d) tax deducted under section 155 on income from property
- clause (f) tax deducted under section 231A on cash withdrawal
- clause (g) tax deducted under section 231AA on bank transactions
- clause (h) tax collected under section 233AA on tax collection by NCCPL
- clause (j) tax deducted under section 235A on domestic electricity consumption
- clause (m) tax collected under section 236B on purchase of domestic air ticket
- clause (r) tax collected under section 236L on purchase of international air ticket
- clause (s) tax collected under section 236P on banking transactions other than through cash

ELEVENTH SCHEDULE

Rules for the computation of profits and gains of builders and developers and tax payable thereon

The bill proposes to extend the estimated project life as provided in clause (b) of sub-rule (2) of Rule 2 from two and a half years to three and a half years. This will result in a lower tax liability for a particular project on annual basis.

The bill also seeks to amend the first proviso to the above clause which aims to facilitate the builders and developers by increasing the estimated project life of incomplete projects from three years to maximum four years from tax year 2020 through tax year 2023; similarly, the tax payable shall also be shall also be reduced by the percentage of completion up to the last day of the accounting period pertaining to tax year 2019 or tax year 2020 as declared n the registration form.

The bill also seeks to omit the second proviso which required the payment of tax liability for tax year 2020 to be paid along with the return.

The bill proposes to amend sub-rule (1) of Rule 3 which requires the electronic registration of a builder/developer on IRIS web portal. The last date for the electronic registration of a builder/developer is proposed to be extended from December 31st, 2020 to December 31st, 2021.

The bill also proposes to insert a new proviso after the proviso already present in clause (a) of sub-rule (1) of Rule 3 by which the benefit of sub-section (3) of section 100D i.e. the non-applicability of provisions of section 111 to capital investment in a new project is required to be claimed by the builder or developer. For the purpose of claiming the aid benefit, the project shall be registered latest by June 30, 2021.

The bill also aims to restrict the exemption for new partners/shareholders from the provisions of section 111 by virtue of sub-section (3) of section 100D. The new partners/shareholders in a builder/developer after December 31, 2021 may join but such new partners/shareholders shall not be eligible for exemption under sub-section (3) of section 100D.

The bill proposes to amend the proviso to the definition of "commencement of project" in clause (d) of sub-rule (1) of rule 9. The proposed amendment extends the cutoff date from December 31, 2020 to December 31, 2021 when the Board may provisionally accept the commencement of the project after the builder/developer has taken all actions necessary for approvals and the approval is delayed beyond a period of 30 days from the date of application.

Thirteenth Schedule

Tax Credit on Donations/Subscriptions/Voluntary Contributions
(under section 61)

S. No. Name
(1) (2)

1. **Any Sports Board or institution recognised by the Federal Government for the purposes of promoting, controlling or regulating any sport or game.**
2. **The Citizens Foundation.155**
3. **Fund for Promotion of Science and Technology in Pakistan.**
4. **Fund for Retarded and Handicapped Children.**
5. **National Trust Fund for The Disabled.**
6. **Fund for Development of Mazaar of Hazarat Burn i Imam.**
7. **Rabita-e-lslami's Project for printing copies of the Holy Quran.**
8. **Fatimid Foundation, Karachi.**
9. **Al-Shifa Trust.**
10. **Society for the Promotion of Engineering Sciences and Technology in Pakistan.**
11. **Citizens-Police Liaison Committee, Central Reporting Cell, Sindh Governor House, Karachi.**
12. **ICIC Foundation.**
13. **National Management Foundation.**
14. **Endowment Fund of the institutions of the Agha Khan Development Network (Pakistan listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network.**
15. **Shaheed Zulfigar Ali Bhutto Memorial Awards Society.**
16. **Iqbal Memorial fund.**
17. **Cancer Research Foundation of Pakistan, Lahore. ,**
18. **Shaukat Khanum Memorial Trust, Lahore.**
19. **Christian Memorial Hospital, Sialkot.156**
20. **National Museums, National Libraries and Monuments or institutions declared to be National Heritage by the Federal**

Government.

21. Mumtaz Bakhtawar Memorial Trust Hospital, Lahore.
22. Kashmir Fund for Rehabilitation of Kashmir Refugees and Freedom Fighters.
23. Institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network.
24. Azad Kashmir President's Mujahid Fund,1972.
25. National Institute of Cardiovascular Diseases, (Pakistan) Karachi.
26. Businessmen Hospital Trust, Lahore.
27. Premier Trust Hospital, Mardan.
28. Faisal Shaheed Memorial Hospital Trust, Gujranwala.
29. Khair-un-Nisa Hospital Foundation, Lahore.
30. Sind and Balochistan Advocates' Benevolent Fund.
31. Rashid Minhas Memorial Hospital Fund.
32. Any relief or welfare fund established by the Federal Government.157
33. Mohatta Palace Gallery Trust.
34. Bagh-e-Quaid-e-Azam project, Karachi.
35. Any amount donated for Tameer-e-Karachi Fund.
36. Pakistan Red Cres-cent Society.
37. Sank of Commerce and Credit International Foundation for Advancement of Science and Technology.
38. Federal Board of Revenue Foundation.
39. The Indus Hospital, Karachi.
40. Pakistan Sweet Homes Angels and Fairies Place.
41. Al-Shifa Trust Eye Hospital.
42. Aziz Tabba Foundation.
43. Sindh Institute of Urology and Transplantation,SIUT Trust and Society for the Welfare of SIUT.
44. Sharif Trust.
45. The Kidney Centre Post Graduate Institute.
46. Pakistan Disabled Foundation.
47. Sardar Trust Eye Hospital, Lahore.
48. Supreme Court of Pakistan — Diamer Bhasha & Mohmand Dams — Fund.
49. Layton Rahmatullah Benevolent Trust (LRBT).
50. Akhuwat.
51. The Prime Minister's COVIE)-19 Pandemic Relief Fund-2020.158
52. Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI).
53. Lahore University of Management Sciences.
54. Dawat-e-Hadiya, Karachi.
55. Baitussalam Welfare Trust.
56. Patients' Aid Foundation.
57. Alkhidmat Foundation.

58. **Alamqir Welfare Trust International.**
59. **Prime Minister's Special Fund for victims of terrorism.**
60. **Chief Ministers(Punjab) Relief Fund for Internally Displaced Persons (1DPs) of KPK.**
61. **Prime Ministers Flood Relief Fund 2010 and Provincial Chief Ministers Relief Funds for victims of flood 2010.**
62. **Waqf for Research on Islamic History, Art and Culture, Istanbul.**

SUMMARY OF CHANGES IN THE SALES TAX ACT, 1990

Section

2(4AA) **Definition of Commissioner (Appeals)**

The bill seeks to include the Commissioner (Appeals) as appointed under section 30 of the Act. The intention behind the proposed change is to mention the office of the Commissioner Appeal in the ambit of hierarchy of officers as presently only the Commissioner, the Chief Commissioner and Officer of Inland Revenue are defined under section 2 of the Sales Tax Act, 1990.

2(5AB) **Increase in limit of annual turnover of Cottage Industry**

The bill proposes to enhance the minimum threshold of the annual revenue from three million rupees to ten million as one of the condition for qualification as a cottage industry.

This is intended to provide relief to the small manufacturers to avail benefits of cottage industry.

2(18A)
3(3) **Definition of online market place and liability to pay tax**

The bill proposes to insert the definition of online market place which would cover an electronic inter-face such as an e-commerce platform or similar means through which channel, the sale of goods is made including third party sale, in any of the following manner:

- by controlling the terms and conditions of the sale;
- authorizing the charge to the customers in respect of the payment for the supply; or
- ordering or delivering the goods.

The insertion of this definition corresponds with the amendment proposed in the provision relating to the liability for the payment of sales tax through the proposed insertion of sub-section(3) to the Section 3 of the Act under which the responsibility for the payment of the sales tax is intended to be assigned to the person running online market place.

The online sales are undertaken by two modes such as:

a) where the online sale is facilitated by the intermediary and delivery is directly made to the buyer by the Vendor. In this case the payment is not routed through the intermediary.

b) Online sale is executed through the intermediary and the payment is also routed through the intermediary.

The proposed change does not cater for modes of sales given in (a) above where the intermediary does not receive payment of goods including sales tax. Thus the matter needs to be clarified for successful integration of proposed section.

2(43A) Insertion of new retailers in the definition of "Tier-1 retailer"

The bill seeks to add the following persons in the definition of "Tier-1 retailer"

- retailer of furniture having area of two thousand square feet or more
- A retailer operating an online market place supplying goods through e-commerce platform, whether or not the goods are owned by him
- A retailer who has acquired point of sale for accepting payment through debit or credit cards from banking companies or any other digital payment service provider authorized by the State Bank of Pakistan.

However, it is pertinent to mention that the person only operating online market place and is not involved in own retail business rather providing his platform to facilitate sales of other vendors should not require to be registered under the Sales Tax Act, 1990 and thus is not be covered under the Tier-1 retailer. This aspect needs to be elaborated by FBR.

2(44) Amending definition of time of supply

The bill proposes to omit the condition of advances received from the customer in the ascertainment of the time of the supply for the sales tax purpose other than hire purchase agreement. Thus, only the actual delivery or availability of goods to the customer would be considered for the purposes of supply.

This is a relief measure as the responsibility of the payment of sales tax on the basis of advance is withdrawn.

3(9A) Removing sales tax cash back of customer of Tier-1 Retailer

The bill proposes to withdraw the cash back benefit to the customer purchasing goods from the Tier-1 Retailer. This provision was inserted through the Finance Act, 2019 to encourage the consumers to make purchase from the registered persons. It appears no benefits accrued due to such measure which is being withdrawn through the proposed amendment.

8B(1) Restriction of input tax not applicable on listed companies

Presently, the law stipulates that certain registered tax payers were only entitled to adjust input tax against output tax upto ninety percent and ten percent of the output tax is to be paid at the time of filing sales tax return.

The bill seeks to provide benefit to the listed companies only by removing the ceiling of ninety percent of monthly input tax claim against the output tax. Now listed companies can adjust 100 percent of the input tax against the output tax.

This measure will ease the cash flow concerns of the listed companies. Further, the carry forward and refund of input taxes would also be reduced.

11(5) Time limit for issuance of show cause notice

Presently, a show-cause notice is issued under the law within five years for the relevant tax period.

The bill seeks to enhance the time limit for the issuance of show cause notice from the relevant date of each tax period during the financial year to the end of that financial year. The impact of the proposed change is that the time limitation provided will commence from the end of the financial year instead of end of each tax period.

The legislation intends to align and streamline the sales tax assessments and audits on an annual basis similar with the income tax audits. The extended time is being allowed to the field officers to issue show-cause notices to the taxpayers.

21B Common identifier number

The bill proposes to insert CNIC Number in addition to sales tax registration number (STRN) as a common identifier number for the individual's information in the tax portal and its integration, matching and tracing with other systems.

Similarly, for AOPs and companies, who are registered or liable to be registered, the NTN is proposed to be the common identifier along-with STRN.

This measure, if implemented effectively, is expected to enhance the data integration of the registered persons and in turn will improve documentation.

22(1) Electronic version of records

The bill proposes to insert the requirement of maintaining electronic version of records for ready assessment of the sales tax liability in addition to the requirement of manual records.

This proposed insertion makes it mandatory for the registered person to maintain electronic records. In the past, some registered persons contested were reluctant in providing an electronic records on the basis that maintenance of such records was not a legal requirement.

25AA(2) Transactions between associates

By virtue of the insertion, the Board would be empowered to prescribe rules for determining transfer pricing of taxable supplies between associates to reflect fair market values in arm's length transactions.

26AB Extension for furnishing sales tax returns

The bill proposes to insert new section, whereby the Commissioner would be empowered to extend the date of filing of return by fifteen days or more in the presence of any reasonable grounds provided to the Commissioner's satisfaction.

In case, the Commissioner does not grant the requested extension, the Chief Commissioner is also empowered to extend the date of filing of return by fifteen days or longer in the presence of exceptional circumstances.

However, the Commissioner or the Chief Commissioner are still not empowered to extend the date of payment of sales tax.

40D Border sustenance markets

The bill proposes to introduce a new concept of **'Border Sustenance Markets'** which means market to be set-up near border with the corporation of respective governments of Iran and Afghanistan.

The bill seeks to levy sales tax on supplies originating from border sustenance markets to tariff areas of Pakistan.

The proposed measure is to curtail smuggling of goods into Pakistan and make goods specified in the proposed new Table IV of the Sixth Schedule subject and liable to sales tax if brought into tariff area of Pakistan. The following are the particulars:

(i) Such goods will only be supplied within limits of Border Sustenance Markets;
(ii) If goods are brought outside limit of Border Sustenance Markets, the sales tax will be charged on fair value or value of goods declared at import, whichever is higher;
(iii) In case of import of such goods, the custom authority will clear the goods only if bank guarantee equal to the amount of sales tax is provided;
(iv) Exemption is only available to the person on furnishing proof of functional business premises located within limits of the Border Sustenance Market; and
(v) In case of breach of any condition, default surcharge and penalty shall be levied.

S#	List of Items
1	Seed (Potatoes)
2	Tomatoes, fresh or chilled
3	Onions and shallots
4	Garlic
5	Cauliflowers cabbage
6	Carrots and turnips
7	Cucumbers and gherkins fresh or chilled
8	Peas (pisum sativum)
9	Beans (vigna spp., phaseolus spp.)
10	other leguminous vegetables
11	Peas (Pisum sativum)
12	Grams (Dry/Whole)
13	Dried leguminous vegetables
14	Beans of the species Vigna mungo (L.) Hepper or Vigna radiata (L.) Wilczek

15	Small red (Adzuki) beans (Phaseolus or Vigna angularis)
16	Kidney beans including white beans
17	Bambara – vigna subteranea or vaahdzeia subterrea
18	Beans vigna unguiculata
19	Other
20	Lentils (Dry/Whole)
21	Broad beans (Vicia faba var. major) and horse beans (Vicia faba var. equina, Vicia faba var. minor)
22	Pigeon peas (cajanus cajan)
23	Vanilla (Neither crushed nor ground)
24	Cinnamon
25	Other (Cinnamon And Cinnamon Tree Flowers)
26	Neither crushed nor ground (Cloves)
27	Crushed or ground (Cloves)
28	Neither Crushed nor ground (Nutmeg)
29	Crushed or ground (Nutmeg)
30	Neither crushed nor ground (Maze)
31	Crushed or ground (Maze)
32	Large (Cardammoms)
33	Small (Cardammoms)
34	Crushed or ground (Cardammoms)
35	Neither crushed nor ground (Coriander)
36	Crushed or ground (Coriander)
37	Neither crushed nor ground (Seeds of Cumins)
38	Crushed or ground (Seeds of Cumins)
39	Neither crushed nor ground (Seeds of Anise, Badian, Caraway, Fennel etc)
40	Crushed or ground (Seeds of Anise, Badian, Caraway, Fennel etc)
41	Thyme; bay leaves
42	Barley (Seeds)
43	Sunflower seeds, whether or not broken
44	Locust beans
45	Cereal straws and husks
46	Knives and cutting blades for paper and paper board
47	Of a fat content, by weight, not exceeding 1 % (milk and cream)
48	Of a fat content, by weight, exceeding 1 % but not exceeding 6 % (milk and cream)
49	Of a fat content, by weight, exceeding 6 % but not exceeding 10% (Milk and Cream)
50	Of a fat content, by weight, exceeding 10 % (Milk and Cream)
51	Leeks and other alliaceous vegetables
52	Cauliflowers and headed broccoli
53	Brussels sprouts
54	Cabbage lettuce (head lettuce)
55	Lettuce
56	Chicory
57	Fruits of the genus Capsicum or of the genus Pimenta
58	Figs
59	Fresh (grapes)
60	Dried (Grapes)
61	Melons
62	Apples
63	Green Tea
64	Other Green Tea
65	Crushed or ground (Ginger)
66	Turmeric (curcuma)
67	Other (spice)
68	Lactose (Sugar)
69	Sugar Syrup
70	Sugar Other
71	Caramel
72	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya bean oil.
73	Other (animal feed)
74	For Sewing (Thread)
75	For embroidery (Thread)

76	Spades and shovels
77	Tools for masons, watchmakers, miners and hand tools nes
78	For kitchen appliances or for machines used by the food industry
79	Other kitchen appliances
80	Yogurt
81	Other (Potatoes)
82	Sweet corn
83	Mixtures of vegetables
84	Fresh (Dates)
85	Dried (Dates)
86	Apricots
87	Sour cherries (Prunus cerasus)
88	Other (Apricots)
89	Peaches, including nectarines
90	Plums and sloes
91	Strawberries
92	Kiwi Fruit
93	Neither crushed nor ground (Ginger)
94	Wheat and Meslin(Other)
95	Wheat and Meslin (Other)
96	Of Wheat (Flour)
97	Of Meslin
98	Vermacelli
99	Other (Packed Cake)
100	Homogenised preparations
101	Citrus Fruit
102	Other (jams)
103	Organic surface-active products and preparations for washing the skin, in the form of liquid or cream and put up for retail sale, whether or not containing soap
104	Preparations put up for retail sale
105	Other (washing preparations)
106	Tableware and kitchenware of porcelain or china
107	Household articles nes & toilet articles of porcelain or china
108	Glassware for table or kitchen purposes (excl. glass having a linear c
109	Glassware nes (other than that of 70.10 or 70.18)
110	Spoons
111	Tableware articles not in sets and not plated with precious metal
112	Bicycles and other cycles (including delivery tricycles), not motorised
113	Vacuum flasks
114	Vacuum flasks/vacuum vessels complete w/cases; parts o/t glass inners (others)

40E Licensing of brand name

The bill proposes a condition on the manufacturers of certain goods to be specified subsequently by the FBR, to obtain brand license for each brand or stock keeping unit (SKU) in manner to be prescribed by the Board. In case any manufacturer sells brand or SKU without obtaining license from the Board, such goods will be declared as counterfeit goods, liable to outright confiscation or destruction in the manner to be prescribed.

The purpose behind the proposed change is to document each brand or SKU of the manufacturer with FBR to curtail sales tax evasion. This measure should not be correlated to registration of brand or SKU under Trade Marks rules and regulations.

48(3) Recovery of arrears of tax

The bill proposes to assist any governmental authority, regulatory body etc. in the foreign jurisdiction under a tax treaty, bilateral or a multilateral convention, inter-government agreement or similar agreements etc. in collection and recovery of tax from any person and assistance in its recovery.

This measure will help in collection and recovery of sales tax pertaining to Pakistan from a person in foreign jurisdiction or vice-versa, which has similar tax treaty, agreement or mechanism.

56A(1A) **Power to share data or information**

The bill seeks to empower the Board to share data or information including real time data, videos and images received under the provisions of this Act with any other Ministry or Division of the Federal Government or Provincial Government.

This measure will specifically facilitate the provincial authorities to obtain sales tax data to identify any discrepancy in reporting made by any taxpayer.

56C(2) **Control check on invoices issued by Tier-1 Retailer**

The bill seeks to empower the Board to prescribe the procedure for "mystery shopping" on invoices issued by Tier-1 Retailer integrated with FBR. The term "mystery shopping" generally includes the concept wherein any control check is performed by walk through procedures to check the compliance of the transaction or quality of the product.

The procedure would be prescribed to provide guidance on these checks to verify the tax compliance on a sample basis from the selected retailers.

67 **Compensation in case of delayed refund under section 66**

The bill seeks to compensate the taxpayer in case of claim of refund where the refund is not made within forty-five days of order passed under section 66 of the Act with the sum equal to KIBOR per annum.
This will remove the anomaly as claimants of refund under section 10 were already compensated for late payment of refund with sum equal to KIBOR per annum of the amount of refund.

73(1) **Certain transactions not admissible**

The bill proposes to treat adjustment of amount payable/receivable from same party as payment under section 73 subject to the following conditions:

- sales tax has been charged and paid by both the parties under the relevant provisions of the Act; and
- the registered person has sought prior approval of the Commissioner before making such adjustments.

This measure will facilitate the constructive payment mechanism as amount payable/receivable are to be settled by way of an adjustment.

Third Schedule **Sales tax charged at retail value**

The bill seeks to insert sugar in the retail price regime except for its supply as an industrial raw material to pharmaceuticals, beverage and confectionery industries.

Fifth Schedule **Zero Rating**

The bill seeks to omit the following items the Zero Rated Regime:

Serial Number	Item
1 (i)	Supply, Repair or Maintenance of any ship ▪ having gross tonnage of 15 LDT or more; ▪ not designed for recreation or pleasure
1 (ii)	Supply, repair, maintenance of any aircraft ▪ of weight-8000 kilograms or more; ▪ not designed for recreation or pleasure
1(iii)	Supply of spare parts and equipment for 1(i) and 1(ii) above
1(iv)	Supply of equipment and machinery for pilot age, salvage or towage services.
1(v)	Supply of equipment and machinery for air navigation services.
1(vi)	Supply of equipment and machinery for other services provided for the handling of ships or aircraft in a port or Customs Airport.
6	Supplies to locally manufactured plant and machinery to petroleum and gas sector Exploration and Production companies, their contractors and sub-contractors] as may be specified by the Federal Government
10	Petroleum Crude Oil (PCT heading 2709.0000).
11	Raw materials, components, sub-components and parts, for use in the manufacturing of such plants and machinery as is chargeable to sales tax at the rate of zero percent subject to specified condition.

The bill further seeks to insert the following item under zero rated regime:

Serial Number	Item
15	local supplies of raw materials, components, parts and plant and machinery to registered exporters authorized under Export Facilitation Scheme, 2021 notified by the Board with specified condition

Sixth Schedule – Table-1:

Exemption on local supply or import of goods

The bill proposes to withdraw the sales tax exemption on import or supply of the following goods:

Serial No.	List of items with broad detail
24	Edible oils and vegetable ghee, including cooking oil, on which Federal Excise Duty is charged, levied and collected by a registered manufacturer or importer as if it were a tax payable under section 3 of the Act. (Exemption of this entry shall not be available on local supplies made by importers, distributors, wholesalers or retailers).
27	Ice and waters excluding those for sale under brand names or trademarks.
29	Table salt including iodized salt excluding salt sold in retail packing bearing brand names and trademarks.
29C	Glass bangles.
80	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name.
82	Frozen prepared or preserved sausages and similar products of poultry meat or meat offal, excluding those sold in retail packing under a brand name or a trademark.
91	Energy saver lamps
93	Bicycles
101	Raw and pickled hides and skins, wet blue hides and skins, finished leather, and accessories, components and trimmings, if imported by a registered leather goods manufacturer, for the manufacture of goods wholly for export, provided that conditions, procedures and restrictions laid down in rules 264 to 278 of the Customs Rules, 2001 are duly fulfilled and complied with.
103	Import and supply thereof, of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistan entity and flying the Pakistan flag except for demolition purpose and recreational purpose etc subject to specified conditions.
106	Import of *Halal* edible offal of bovine animals
108	Components or sub-components of energy saver lamps.
115	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Balochistan Province and Malakand Division subject to the specified condition and procedure.
123	Aircraft, whether imported or acquired on wet or dry lease
124	Maintenance kits for use in trainer aircrafts of PCT headings 8802.2000 and 8802.3000.
125	Spare parts for use in aircrafts, trainer aircrafts or simulators
128	Aviation simulators imported by airline company recognized by Aviation Division.
153	Steel billets, ingots, ship plates, bars and other long re-rolled profiles, on such imports and supplies by the manufacturer on which federal excise duty is payable in sales tax mode .

The bill proposes to limit the exemption to art paper and printing paper for publication of the Holy Quran.

The bill seeks to include the following goods for exemption on import or supply:

Serial No.	Summary of omission
157	Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30th June, 2026: (i) Small cars/SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below
158	Goods temporarily imported into Pakistan by International Athletes which shall be subsequently taken by them within 120 days of temporary import
159	Import of auto disable Syringes till 30th June, 2021 (i) with needles (ii) without needles
160	Import of following raw materials for the manufacturers of auto disable syringes till 30 June, 2021 (i) Tubular metal needles (ii) Rubber Gaskets
161	Import of plant, machinery, equipment and raw materials for consumption of these items within Special Technology Zone by the Special Technology Zone Authority, zone developers and zone enterprises.
162	Import of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions as specified.

Sixth Schedule – Table-2:

Exemption on local supplies only

The bill proposes to withdraw the exemption on local supply of the following goods.

Serial No.	Summary of omission
17	Raw and pickled hides and skins, wet blue hides and skins
19.	Bricks
24	LED or SMD lights and bulbs meant for conservation of energy
25	Cottonseed oil

The bill proposes to withdraw the exemption on import of the following goods. However, local supply is still exempt on the following goods.

Serial No.	Summary of goods (various specified headings)
26	Supply of locally produced silos till 30.06.2026
27	Eggs including eggs for hatching
28	Cereals and products of milling industry excluding the products of milling industry, other than wheat and meslin flour, as sold in retail packing bearing brand name or a trademark
29	Sugar beet

30	Fruit juices, whether fresh, frozen or otherwise preserved but excluding those bottled, canned or packaged.
31	Milk and cream, concentrated or containing added sugar or other sweetening matter, excluding that sold in retail packing under a brand name
32	Flavored milk, excluding that sold in retail packing under a brand name
33	Yogurt, excluding that sold in retail packing under a brand name
34	Whey, excluding that sold in retail packing under a brand name
35	Butter, excluding that sold in retail packing under a brand name
36	Desi ghee, excluding that sold in retail packing under a brand name
37	Cheese, excluding that sold in retail packing under a brand name
38	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name
39	Sausages and similar products of poultry meat or meat offal excluding sold in retail packing under a brand name or trademark
40	Products of meat or meat offal excluding sold in retail packing under a brand name or trademark
41	Preparations suitable for infants, put up for retail sale
42	Fat filled milk excluding that sold in retail packing under a brand name or a trademark

Eight Schedule – Table-1:

Reduce rate subject to conditions

The bill seeks to remove the following goods from the reduced rate regime which will now be taxable at the standard rate:

Serial No.	Summary of goods
1	Soyabean meal
5	Raw cotton and ginned cotton
6	Plant and machinery not manufactured locally and having no compatible local substitutes
7	Flavoured milk
8	Yogurt
9	Cheese
10	Butter
11	Cream
14	Milk and cream, concentrated or containing added sugar or other sweetening matter
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
19	Waste paper
20	Plant, machinery, and equipment used in production of bio-diesel
22	Soya bean seed
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 (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 machines (xvii) Combined harvesters (xviii) Pruner/shears
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
50	LNG/RLNG
51	LNG/RLNG
60	Fat filled milk
61	Silver, in unworked condition
62	Gold, in unworked condition
63	Articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal.
65	Ginned cotton
67	LNG imported for servicing CNG sector and local supplies thereof

The bill proposes to change the sales tax structure of Potassium Chlorate as follow:

Serial No.	Goods	Existing Rate	Proposed Rate	Proposed Condition
56	Potassium Chlorate (KCLO3)	17% along with rupees 80 per kilogram	17% along with rupees 90 per kilogram	90 per kilogram shall not apply on imports made by and supplies made to organizations under the control of Ministry of Defence Production.

The bill proposes to levy the sales tax on reduced rate on the following goods subject to conditions mentioned therein.

Serial No.	Summary of goods	Rate	Condition
71	Following locally manufactured or assembled electric vehicles (4 wheelers) till 30th June, 2026: (i) Small cars/ SUVs with 50 Kwh battery or below; and (ii) Light commercial vehicles (LCVs) with 150 kwh battery or below	1%	If supplied locally
72	Motorcars (Respective Heading: 87.03)	12.5%	Locally manufactured or assembled motorcars of cylinder capacity upto 850cc.
73	Import and local supply of Hybrid Electric Vehicles: (a) Upto 1800 cc (Respective Heading: 87.03) (b) From 1801 cc to 2500 cc (Respective Heading:87.03)	8.5% 12.75%	

Ninth Schedule – Table-1:

Sales tax on supply (payable at the time of supply by CMO)

The bill seeks to treat the sales tax on supply of SIM Cards by cellular mobile operators as withdrawn effective from 01 July, 2020 with the explanation that such withdrawal will not affect FBR stance on chargeability of sales tax on SIM cards pending before any court of law.

Eleventh Schedule

Withholding of sales tax

The bill proposes to make the registered manufacturer of lead batteries responsible to withhold full amount of applicable sales tax on the purchases of reclaimed lead or used lead batteries

Twelfth Schedule

Minimum value addition tax

The bill proposes to exempt the following goods from purview of the value addition tax:

Items	Exemption
Electric vehicles (4 wheelers) CKD kits for small cars/SUVs, with 50 kwh battery or below	30 June, 2026
LCVs with 150 kwh battery or below	30 June, 2026
Electric vehicles (4 wheelers) small cars/SUVs, with 50 kwh battery or below	30 June, 2026
LCVs with 150 kwh battery or below in CBU condition;	30 June, 2026
Electric vehicles (2-3 wheelers and heavy commercial vehicles) in CBU condition	30 June, 2025
Motor cars of cylinder capacity up to 850cc	Not restricted

SUMMARY OF CHANGES IN THE FEDERAL EXCISE ACT, 2005

Section

4(4) **Filing of return and payment of duty etc.**

Currently a registered person is required to obtain permission from the Commissioner Inland Revenue to revise its monthly return for correcting any omission or incorrect declaration made therein, irrespective of the financial implication of such revision.

The bill proposes to allow making of revision in favor of revenue i.e. a revision resulting an increase in duty payable or decrease in claim of refund without the aforesaid approval. The said revision must be made within sixty days of submission of the original return. This is unfair treatment on the part of registered person as if a return was filed incorrectly, they should also be allowed to make a revision without prior approval from the Commissioner.

Similar provisions have already been introduced in the income tax as well as sales tax laws vide amendments brought through Finance Act, 2016 and 2019 respectively.

14(4) **Recovery of unpaid duty or of erroneously refunded duty or arrears of duty, etc.**

The section 14 of the FED Act empowers the officer of Inland Revenue to recover duty and its arrears payable under the Act.

The bill proposes to allow invocation of these recovery measures in pursuance of a request from a foreign jurisdiction under a tax treaty, a multilateral convention, and inter-governmental agreement or similar agreement or mechanism.

45AA **Licensing of brand name.**

The bill proposes to introduce a new section 45AA requiring manufacturers of specified goods to obtain brand license for each brand or stock keeping unit (SKU) in a manner prescribed by the FBR.

The bill further proposes that the sale of such specified brand of SKU without obtaining a license in the prescribed manner shall be deemed to be a sale of counterfeited goods, liable to be confiscated or destroyed along with any other penal action prescribed under the Act.

47A Agreements for the exchange of information or assistance in recovery of duties.

Currently, section 47A of the FED Act empowers the Federal Government to enter into bilateral or multilateral agreements with provincial governments or with governments of foreign countries for the exchange of information with respect to excise duty imposed under the FED Act or any other law of Pakistan, or under the corresponding laws of that country and to put in place a mechanism for implementation of such agreements.

The bill through addition of sub-section 1A to Section 47A, proposes to empower the Federal Board of Revenue to share any data or information including real time data videos, images received under the provisions of FED Act with other ministry or division of the federal government or provincial government subject to any limitations and conditions to be specified by the FBR.

The bill also proposes to empower the Federal Government to enter into bilateral or multilateral convention and inter-governmental agreement or similar agreement or mechanism for assistance in the recovery of duties recoverable under the Act.

49(2) Fee and service charges.

Currently section 49 of the FED Act empowers the FBR to notify in official gazette to levy fee and service charges for valuation, in respect of any other service or control mechanism provided by any formation under the control of the Board, including ventures of public private partnership, at such rates as may be specified in the notification. These powers are to be exercised with the approval of the Federal Minister-in-charge.

The bill proposes to further empower the Board to authorize and prescribe the manner in which the aforesaid fee and service charges shall be expanded.

First Schedule Table I

The bill proposes to delete the following entries:

S.No	Description of Goods	Heading/ sub-heading Number	Rate of Duty
1	Edible oils excluding deoxidized soybean oil falling under the heading 15.18	15.07, 15.08, 15.09, 15.10, 15.11, 15.12, 15.13, 15.14, 15.15, 15.16 15.17, and 15.18	Seventeen percent ad val.
2	Vegetable ghee and cooking oil	Respective headings	Seventeen per cent ad val.
57	Fruit juices, syrups, and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters	Respective heading	Five per cent of retail price
58	Steel billets, ingots, ship plates, bars and other long re-rolled products	Respective Headings	Seventeen per cent ad val.

The bill proposes to add the following new serial number 8c after serial number 8b:

S.No	Description of Goods	Heading/ sub-heading Number	Rate of Duty
8c.	Tobacco mixture in an electrically heated tobacco product by whatever name called, intended for consumption by using a tobacco heating system without combustion	2403.9990	Rupees five thousand two hundred per kg;

The bill proposes to amend the entries bearing numbers 55, 55B and 56 in the following manner

S.No	Description of Goods	Heading/ sub-heading Number	Rate of Duty
55.	Imported Motor cars, SUVs and other motor vehicles excluding auto rickshaws, principally designed for the transport of persons (other		

	than those of headings 87.02 **and till the 30th day of June, 2026 electric vehicles (4 wheelers)**), including station wagons and racing cars (a) of cylinder capacity up to 1000cc (b) of cylinder capacity from 1001cc to 1799cc (c) of cylinder capacity from 1800cc to 3000cc (d) of cylinder capacity exceeding 3001cc	87.03	 2.5% *ad val.* 5% *ad val.* *25% ad val.* *30% ad val.*
55B	Locally manufactured or assembled motor cars, SUVs and other motor vehicles excluding auto rickshaws principally designed for the transport of persons (other than those of headings 87.02 **and till the 30th day of June, 2026 electric vehicles (4 wheelers)**), including station wagons and racing cars (a) of cylinder capacity up to 851cc to 1000cc (b) of cylinder capacity from 1001cc to 2000cc (c) of cylinder capacity from 2001cc and above	87.03	 2.5% ad val. 5% ad val. 7.5 ad val.
56	Filter rod for cigarettes	5502.9090	Rupee one per filter rod.

Table II The bill proposes to amend the entry number 6 in the following manner:

S.No	Description of Services	Heading/ sub-heading Number	Rate of Duty
6.	Telecommunication services, excluding such services in the area of a Province where such Province has imposed Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be.	98.12 (all sub headings)	Sixteen percent of the charges

The bill proposes to amend the entry number 8 in the following manner:

S.No	Description of Services	Heading/ sub-heading Number	Rate of Duty
8.	Services provided or rendered by banking companies excluding Merchant Discount Rate (MDR) for accepting digital payment, insurance companies, cooperative financing societies, modaraba , musharika, leasing companies, foreign exchange dealers, non-banking	98.13	Sixteen per cent of the charges

	financial institutions, Assets Management Companies and other persons dealing in any such services.		

Second Schedule

The bill proposes to delete the following entries:

S.No	Description of Goods	Heading/ sub-heading number
1	Edible oil excluding epoxidized soya bean oil falling under heading 15.18	15.07, 15.08, 15.09, 15.10, 15.11, 15.12, 15.13, 15.14 15.15, 15.16, 15.17 & 15.18
2	Vegetable ghee and cooking oil	Respective headings
4	Steel billets, ingots, ship plates, bars and other long re-rolled products	Respective headings

Third Schedule Table I

The bill proposes to introduce the following new entries 24 and 25 after entry number 23:

S.No	Description of Goods	Heading/ sub-heading number
24	The following goods, when supplied within the limits of the Border Sustenance Markets, established in cooperation with Iran and Afghanistan:	
	i) Animal Fats and Oil and their fractions	1516.1000
	(ii) Vegetable Fats and their fractions	1516.2010
	Vegetable Oils and their fractions	1516.2020
	Provided that, such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of duty involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction: Provided further that, the said exemption shall only be available to a person upon furnishing proof of having a functional business premises located within limits of the Border Sustenance Markets.	
25	Import and supply of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions.”	Respective headings

SUMMARY OF CHANGES IN THE CUSTOMS ACT, 1969

Section

2(kka) **Definition – Document**

This section defines the word "document" for the purposes of customs clearance or making a declaration to Customs. The bill seeks to include master bill of lading and certificate of origin in the definition of word "document".

2 (kkc) **Definition – Electronic assessment**

The bill seeks to insert a new definition in the Act to provide legal cover to the electronic assessment of goods. The proposed definition is as under:-

> "Electronic assessment" means assessment of a goods declaration in Customs Computerized System by an officer of Customs or by the computerized system according to the selectivity criteria".

2 (ld) **Definition – Vessel Intimation Report (VIR)**

To bring clarity and avoid undue litigation, the bill seeks to define Vessel Intimation Report by inserting a new clause as follows:-

> **"Vessel Intimation Report (VIR)"** means an intimation regarding impending arrival of a vessel at a customs sea port, where the customs computerized system is operational, to the customs authorities in the form and manner, by the carrier or his agent, as may be prescribed by rules;"

2 (oo) **Definition – Owner**

To avoid unnecessary litigation regarding ownership of goods being imported or exported, the bill seeks to define the word "owner" by inserting a new clause as follows:-

> "owner" of goods includes any person who is for the time being entitled, either as owner or agent for the owner, to the possession of the goods;"

2 (s) **Definition – Smuggle**

To bill proposes to bring within its ambit the retailer found in possession of smuggled goods, hereby widening its scope.

3CCB Directorate General of National Nuclear Detection Architecture

The Finance bill proposes to insert new section 3CCB to provide for the creation of new Directorate General of National Nuclear Detection Architecture to comply with International obligations being a member state of International Atomic Energy Agency (IAEA). The objective is to prevent smuggling of nuclear and radiological materials and averting any possibility of nuclear/ radiological terrorism.

The Directorate General of National Nuclear Detection Architecture shall consist of a Director General and as many Deputy Director Generals, Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette, appoint.

3CCC Directorate General of Marine

To deal with customs matter especially anti-smuggling activities at sea, a new Directorate is proposed to be established which shall consist of a Director General and as many Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may by notification in the official Gazette appoint.

12 Power to appoint or license public warehouses

The Collector of Customs, in his jurisdiction, has the power to appoint or license public warehouses wherein dutiable goods may be stored without payment of customs duty.

The bill seeks to amend section 12 of the Customs Act to bring uniformity and clarity in issuance of Public Bond Warehouse license and cover the future initiative of bonded warehouse system whereby online application to obtain license can be filed with the Collector of Customs where Customs Computerized System is operational.

12A Power to appoint or license common warehouses

The bill seeks to insert a new section whereby the Collector of Customs is empowered to appoint or license common warehouses wherein dutiable goods may be deposited without payment of customs duty on owner or licensee's own account. This will encourage Small and Medium Enterprises which are unable to import full container load (FCL).

The license granted is subject to fulfilment of conditions as laid down by the Act or any rules made thereunder. Any infringement of the conditions may result in cancellation of the license by the Collector of Customs, subject to providing an opportunity of being heard.

13 **Power to license private warehouses**

The Collector of Customs, in his jurisdiction, has the power to appoint or license private warehouses wherein dutiable goods may be deposited without payment of customs duty.

The bill seeks to amend section 13 of the Customs Act to bring uniformity and clarity in issuance of Public Bond Warehouse license and cover the future initiative of bonded warehouse system whereby online application to obtain license can be filed with the Collector of Customs where Customs Computerized System is operational.

18(E) **Board's power to bring changes in Pakistan Customs Tariff**

The FBR has the power to make changes in the Pakistan Customs Tariff as specified in the First Schedule of the Act for the purposes of statistical suffix only.

The bill seeks to enhance powers of the Board, in this regard, to constitute a Committee or a Centre for the purpose of settlement of disputes regarding classification of goods and may prescribe rules or procedures for carrying out the purpose of this section.

19 **Federal Government's power to grant exemption**

The Federal Government is empowered to grant exemption, vide gazette notification, from whole or part of customs duties including fine, penalty and any other charge on import or export of goods, in certain exceptional circumstances. All such notifications are required to be placed before the National Assembly and shall stand rescinded at the end of financial year in which those were issued.

The validity of notifications issued by the Federal Government after July 01, 2019 and placed before National Assembly is proposed to be enhanced one year further till June 30, 2022 if not earlier rescinded by the Federal Government.

25A **Power to determine the customs value**

The Director of Customs Valuation, on his own motion or on reference by any person or officer of Customs, is empowered to determine the valuation of goods imported or exported from Pakistan for Customs purposes.

The bill seeks to empower the Collector of Customs as well to determine the customs valuation of such goods on his own motion. Further, to discourage under invoicing, the bill seeks to empower the Director to use the values from internationally acclaimed publications, periodicals, bulletins, official websites of manufacturers or indenters for the purposes of determining custom value of such goods. The bill also proposes to empower the Director General Valuation to determine the custom value in case of conflict.

25C Power to takeover imported goods

In order to avoid delay, the bill seeks to grant approval from the Board to Chief Collector to takeover imported goods in case the value declared in goods declaration is not actual transactional value as per satisfaction of the Collector of Customs.

25D Review of the value determined

At present, the review petition against the valuation determined by the Director of Valuation can be filed before the Director General Valuation. The bill seeks to empower the DG Valuation to cancel or determine the valuation afresh at his own motion or on petition filed by the aggrieved person within thirty days of the valuation order. The bill also proposes to provide time limitation of sixty days for DG Valuation to decide the case.

30 Date of determination of rate of import duty

Currently, where a goods declaration is manifested in advance of the arrival of the conveyance by which the goods are imported, the relevant date for the purposes of determination of rate of duty is the date on which the manifest of the conveyance is delivered at the port of first entry.

In order to avoid misuse by the importers and undue litigation, the bill seeks to substitute the first proviso to above section whereby the relevant date for the purposes of determination of rate of duty shall be the date on which the goods declaration is manifested under section 79 or section 104 as the case may be. Except for the declaration of those goods, in respect of which the rate of duty change after the submission of the goods declaration and before the berthing or cross-over event of the vessel or the vehicle respectively, the relevant date in which case, for the purposes of this section, shall be the date on which the vessel has berthed or the vehicle has crossed-over the border.

32 Recovery of tax not levied / short levied or erroneously refunded

The bill proposes to remove inconsistency in section 32 regarding recovery of tax not levied or short levied or erroneously refunded. Such recovery cannot be made if the amount of tax involved is less than Rupees twenty thousand in case the default is inadvertent or on some misunderstanding. In other cases, the exemption from recovery of tax is available if the tax amount involved is less than Rupees one hundred.

The bill proposes to increase the exemption threshold from Rupees one hundred to Rupees twenty thousand.

32C Mis-declaration of value for illegal transfer of funds

In order to curb practice of illegal transfer of funds in or out of Pakistan by mis-declaration of value of goods imported or exported, a team consisting the Additional Collector, an expert and officer of the State Bank of Pakistan have to submit a report in writing to the Chief Collector. The bill proposes to omit the role of the State Bank Pakistan in this regard by empowering the Board to make rules in respect thereof.

44 Delivery of import manifest in respect of conveyance other than vessel

At present, the person-in-charge of a conveyance other than a vessel before arrival or within twenty-four hours of arrival has to file manually or electronically import manifest to an appropriate customs officer. The bill seeks to curtail this time to three hours of landing in case of customs airport and in case of land customs-station, as per time prescribed in the rules.

45 Amendment in cargo declaration

The bill seeks to amend sub-section (2) of section 45 to allow amendments in cargo declaration i.e. manifest, by the shipping lines or their agents, before the berthing event, without any permission from the Customs authorities and to bring the Act and rules in consonance with each other.

80 Checking of goods declaration by the Customs

Currently goods cleared through green channel are not examined by the Customs. The bill seeks to amend section 80 enabling a customs officer to examine the goods declaration processed through green channel in case of information.

82 Re-exportation of banned goods

The bill seeks to insert new proviso to section 82 in order to make shipping lines responsible for re-export of banned items imported and not cleared or auctioned within sixty days of arrival. The above amendment aims to harmonize the provisions of the Customs Act, 1969 and the Import Policy Order.

88 Correction of bona fide error

To facilitate trade, the bill seeks to amend section 88 to allow correction of bona fide errors on goods declaration form by the Collector of Customs after recording reasons in writing. Earlier this facility was allowed before warehousing of goods only.

98 Period for which goods may remain warehoused

The goods may be warehoused for a period of six months which may extend to further one month period by the Collector of Customs upon request of the owner of goods. The bill seeks to allow the Collector to extend warehousing period to six months.

155F Cancellation of registration of registered user

At present, the Collector of Customs can cancel the registration of a registered user, after recording reasons in writing, if the conditions of registration are not complied with or some conditions of registration are breached or some offence under the Act has been committed.

The bill seeks to amend this section to afford opportunity of being heard to the registered users in accordance with the canons of natural justice.

155R Correction of clerical errors

The Collector of Customs, for reasons to be recorded in writing, may allow correction of clerical/inadvertent errors in computerized system.

The bills seeks to insert proviso to the above section enabling the Assistant Collector for issuance of correction or corrigendum certificate in case where any clerical or typographical error is noted in goods declaration except in the circumstances where the goods have been removed from the customs area or assigned reference number electronically.

156 Offences & Penalties

The bill proposes amendments in fine & penalties which are listed in below table:

Sr No.	Description	Penalty	
		Existing	Proposed
1	If any person contravenes the requirement of placement of invoice and packing list inside the import container or consignment.	Such person shall be liable to a penalty not exceeding fifty thousand rupees.	"such person shall be liable to a penalty as under:- 1stTime Rs.100,000/- 2ndTime Rs.500,000/- 3rdTime Rs.1,000,000/- 4th Time Outright confiscation of goods and blockage of WEBOC user ID for one year.
2	If any person fails to attach or electronically upload mandatory documents required under section 79 or 131 of the Customs Act, 1969	NIL	such person shall be liable to a penalty as under:- 1stTime Rs.50,000/- 2ndTime Rs.100,000/- 3rdTime Rs.150,000/- 4thTime Rs.200,000/- 5thTime Rs.250,000/- and onwards.
3	If the goods declaration is not filed within the prescribed period of ten days.	The owner of such goods shall be liable to a penalty at the rate of rupees **five thousand** per day for the initial five days of default and at the rate of rupees **ten thousand** per day for each day of default thereafter. Provided that the total penalty imposed shall not exceed rupees one hundred thousand. 87[Provided further that the aforesaid penalty shall not apply in cases where goods are imported or received as gift by individuals without NTN or STRN through courier or air cargo, diplomatic cargo and imports made by the Federal Government or Provincial Government or Local Government,]	Omitted
4	If any person without lawful excuse, the proof of which shall be on such person, is involved in retailing of smuggled goods or any goods in respect to which there may be reasonable suspicion that they are smuggled goods	Nil	Confiscation of goods and imposition of penalty not exceeding ten times the value of goods. In case the value of goods exceed Rs 300,000 further conviction by Special Judge to imprisonment for a term not exceeding six years
5	If any person, without lawful excuse the proof of which shall be	NIL	Confiscation of goods and imposition of penalty not

	on such person is in any way involved in retailing of goods, not being goods referred to in clause 89, which have been unlawfully removed from a warehouse, or which are chargeable with a duty which has not been paid, or with respect to the importation or exportation of which there is a reasonable suspicion that any prohibition or restriction for the time being in force under or by virtue of this Act has been contravened, or if any person is in relation to any such goods in any way, without lawful excuse, the proof of which shall be on such person, concerned in any fraudulent evasion or attempt at evasion of any duty chargeable thereon, or of any such prohibition or restriction as aforesaid or of any provision of this Act applicable to those goods,		exceeding ten times the value of goods.

157 Confiscation of conveyance

The bill proposes to make amendment in section 157 to discourage unscrupulous elements having dedicated conveyances for smuggling so that if vehicle is apprehended third time for charge of smuggling, it should not be released against a redemption fine.

179 Time period of adjudication

Currently, the cases are to be decided within ninety days of the issuance of show cause notice or within such period extended by the Collector for which reasons shall be recorded in writing, but such extended period shall in no case exceed sixty days.

The bills seeks to curtail the adjudication period to thirty days of issuance of show cause notice in cases wherein goods are lying at sea-port, airport or dry port. This period can be extended by another fifteen days by the Collector of Customs, if required so.

196 **Reference to High Court**

The bill seeks to amend section 196 to allow Deputy Collector or Deputy Director duly authorized by the Collector or Director to prefer an application / reference before the Honourable High Court against the orders passed by Appellate Tribunal.

202B **Reward to officers and officials of Customs and Law Enforcement Agencies**

At present cash reward is allowed to the officers of Customs Services of Pakistan in cases involving evasion of customs-duty and other taxes.

The bill seeks to substitute the existing section to allow the officials of other law enforcement agencies, who assist Customs officers and officials or are actually instrumental in seizure of smuggled goods and vehicles as confirmed by the respective Collectorate of Customs and to the informer providing credible information leading to such confiscation or detection, as may be prescribed by rules by the Board. The cash reward will be granted only after realization of part or whole of the duty and taxes involved in such cases.

212B **Validity of Advance Ruling**

To meet the international benchmarks, it is proposed to amend section 212B by increasing the period of validity of advance ruling from the current one year to three years.

First Schedule	**Amendment in Chapter 99, Sub-chapter 5**
	This chapters deals with zero rating of customs duty on imports made by the units located in Export Processing Zones (EPZ)/ Special Economic Zones (SEZ)/Gwadar and Free Zones. The bill proposes to extend benefit of zero rating of customs duty to the entities falling in the Special Technology Zones (STZ) or Authorized Under Export Facilitation Schemes
	EXEMPTIONS THROUGH AMENDMENTS IN FIFTH SCHEDULE
Fifth Schedule	The bill proposes to substitute the existing Fifth Schedule including:
Part – I Table	**Import of Plant, Machinery, Equipment and Apparatus, including Capital Goods for various industries/sectors**
Part – II Table A Table C	**Import of Active Pharmaceutical Ingredients, Excipients/Chemicals, Drugs, Packing Material/ Raw Materials for Packing and Diagnostic Kits and Equipment, Components and other Goods**
Part – III	**Raw Materials/Inputs for Poultry and Textile Sector; Other Goods**
Part – V(A) Table – I Table – II	**Import of Electric Vehicles (EV) CBU & their Parts Under Electric Vehicle Policy 2020**
Part – VIII	**Imports of specific Goods allowed at Joint Border Sustenance Markets**

Karachi
1st & 3rd Floor, Modern Motors House,
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