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& Co.

**Tax Memorandum  
Finance Bill 2020**

*Strictly for circulation to clients  
and staff of ZA& Co.*

## **TAX MEMORANDUM**

### **FINANCE BILL, 2020 [**Finance Bill**]**

This memo highlighted the important changes introduced through Finance Bill, 2020 which was presented in National Assembly on June 12, 2020 which includes Income Tax, Sales Tax, Customs Act, Federal Excise Duty and changes in certain other laws having vested powers with Federal Government. For considering the precise effect of a particular change, reference should be made to the specific wordings in the relevant statute.

All proposed changes through the Finance Bill 2020 which will be effective from July 1, 2020, until unless specified elsewhere, with subject to approval by the Parliament and with the assent of the President.

The commentary is copyright of **M/s Zulfiqar Ahmad & Co., Chartered Accountants** and should not be copied/ used for any personal purposes. The commentary involves our interpretation of salient features proposed through Finance Bill, 2020 and we highly recommend not to make any business judgements based on any understanding being shared through this document.

**We, ZA, do not take any responsibility for any comments made therein.**

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### KEY ECONOMIC INDICATORS

#### Economic Survey 2019-20

As the new fiscal year FY2020 began, the economy started to witness a stable turnaround which confirmed that the Government has taken appropriate policy actions to address the macroeconomic imbalances. During July- March, FY2020, fiscal deficit has been reduced to 4.0 percent of GDP, while current account deficit reduced by 71 percent during July-April, FY2020.

However, as the economy was transitioning from stabilization to growth, the outbreak of Coronavirus (COVID-19) during the second half of current fiscal year brought multifaceted challenges for Pakistan to preserve the economic gains achieved as a result of various efforts to improve the fundamentals of the economy.

Similar to the entire world, Pakistan's economy has also been affected due to COVID-19 outbreak through various channels like decline in domestic as well as global demand. The provisional GDP growth rate for FY2020 is estimated at negative 0.38 percent.

To invigorate the growth, SBP has also taken various steps including reduction in interest rate to 8 percent, refinancing schemes for medical centers and various incentives for export-oriented industries etc. The IMF has given a one-year relief to Pakistan amid the pandemic and a US\$1.386 billion were given under the Rapid Financing Instrument to address the economic impact of COVID-19.

Particulars		2018-19	2019-20
GDP	%	1.9%	-0.4%
Per Capita Income	US \$	1455.1	1355
Consumer price Index	Growth %	6.8	11.2
Total Revenue	% of GDP	12.9	11.2
Tax revenue	Rs. B	11.8	8.6

Non Tax Revenue	Rs. B	1.1	2.6
Total Expenditure	% of GDP	22	15.3
Current Expenditure	Rs. B	18.7	13.4
Developmental Expenditure	Rs. B	3.1	1.8
Overall Deficit	% of GDP	9.1	4
Inflation	%	8.4	9.1
Exports	\$ - B	19.7	20.1
Imports	\$ - B	36.1	40.3
Remittance	\$ - B	18.8	17.8

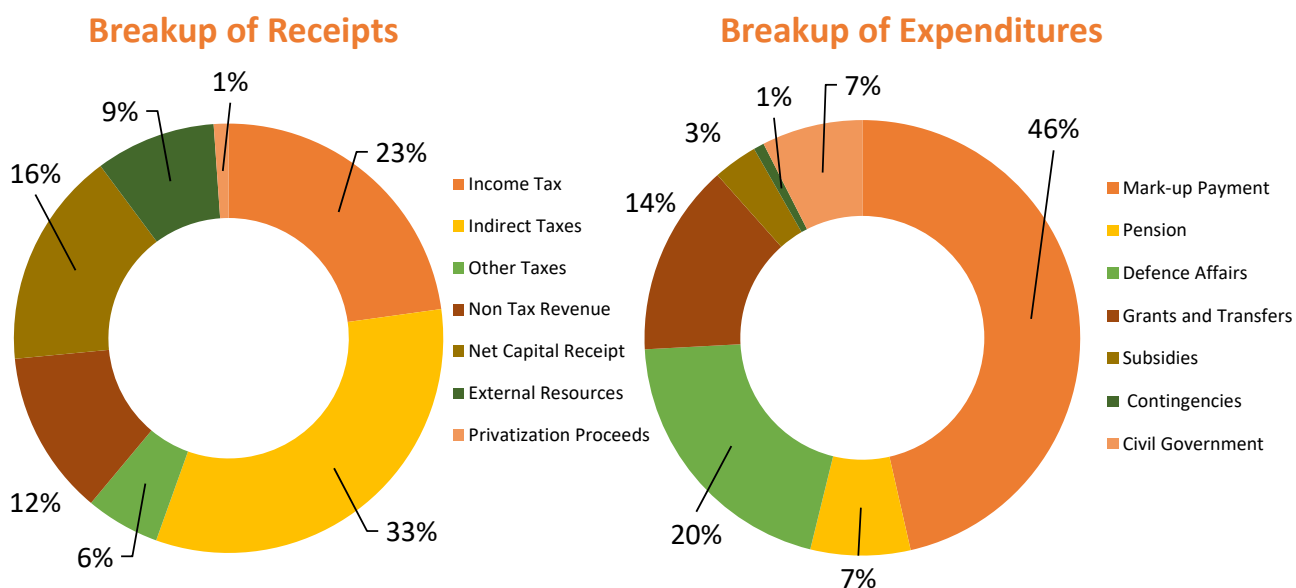
\* B - Billion

## Budget – At a Glance

The following table sets out the Key Budget Financials:

	Revised 2019-20	Budget 2020-21
Rs. in Million		
<b>RESOURCES</b>		
Net revenue receipt	3,102,409	3,699,507
Net Capital Receipt	966,708	1,463,179
Estimated Provincial Surplus	(80,664)	241,865
Internal Resources	3,988,453	5,404,551
External Resources	2,272,921	810,347
Privatization Proceeds	150,000	100,000
	6,411,374	6,314,898
<b>EXPENDITURE</b>		
Current Expenditure on Revenue Account	7,375,757	6,345,150
Development Expenditure	759,431	886,346
	8,135,188	7,231,496
<b>Bank Borrowing</b>	<b>1,723,814</b>	<b>916,598</b>

## Receipt and Expenditures at Glance



# Executive Summary

### Income Tax Amendments

#### Upshot

- The **special regime for builders/ developers** introduced through The Tax Laws (Amendment) Ordinance No.1 of 2020, **has been proposed to be passed** through parliament, as it is.
- Relief has been proposed for general public on account of **allowability of expenditures against “Income from Property”** while taxing the net income under NTR.
- **Limits of allowable expenditures**, not being made through banking channels, **has been substantially enhances** for single account head, single transaction and salaries.
- **Disallowability of deductions** for industrial undertakings has been proposed on account of **sales over and above Rs. 100 million a year per unregistered person.**
- **Claim of deduction in respect of Lease Rentals** have been proposed to be limited, **on principal amount, to the extent of Rs. 2.5 million**, on vehicles not plying for hire.
- **Regime of taxation of capital gains** on immovable property has substantially been **relieved, in terms of exemption and rate of taxation.**
- **Donations made to associates** have been proposed to have **half of the limit in terms of claimability of credit and straight deduction.**
- **Deduction on account of foreign profit on debt has been limited to the extent of 15%** of taxable income before depreciation, amortization and profit on debt.
- **Self assessment under section 120** has been proposed to undergo **certain clerical tests** for which notice of observations may also be issued.
- **Scope of assessment under section 122(5)** has been proposed to be **enhanced** by giving more power to authorities.
- **Withholding Statements have been proposed to be filed quarterly instead of bi-annually.**
- **Various advance tax provisions have been abolished.**
- **Stringent measures** have been proposed to effect claim of **credit under section 100C** for NPOs, Trusts and Welfare Institutions.

### Sales Tax Amendments

#### Upshot

- Efforts have been made to improve tax base by extending support to registered persons dealing with general public, in the business of **used vehicles** by Board and **value of supply is calculated by taking the difference between purchase value and sales value.**
- Board is empowered to impose **restrictions on wastage** of goods or class of goods on which input tax is claimed.
- Threshold to **mention NIC/NTN** on the invoice in case of purchases made by unregistered person **from the retailer** has been increased from **Rs. 50,000 to Rs. 100,000.**
- New concept has been introduced for conducting the **audit proceedings by the Commissioner through electronic way.**
- Board has empowered **Commissioner (Appeals) not to entertain the supporting evidences** not presented before OIR without any valid reason.
- Amendment has been made to provide **information to FBR on real time basis by the agencies like NADRA, FIA, provincial excise and taxation departments, utility companies** etc.
- Exemption has been allowed on Dietetic foods for consumption of children suffering from inherent metabolic disorder subject to certain conditions.
- To support documentation Board **reduced the sales tax rate from 14% to 12% for integrated retailers** in the Eight schedule.
- In order to avail the benefit of reduced rate of withholding, qualifying criteria has been fixed as status of “active tax payer”.
- In Twelfth Schedule value addition tax of 3% is not applicable on raw materials and intermediary goods imported by a manufacturer for in-house consumption.
- In the current situation of COVID - 19, Federal Government extended the exemption period up to 3 months further starting from June 20, 2020 as granted via SRO 237(I)/2020 dated March 20, 2020.



### Federal Excise Duty Amendments – Upshot

- It has been proposed to **omit the condition** of conducting an **audit only once in a three year period**, as inserted vide Finance Act, 2018.
- Levy the FED on caffeinated energy drinks has been enhanced from 13% to 25%.
- It is proposed to increase the rate of FED from 65% to 100% on cigars, cigarillos and cigarettes along with the increase in FED rate on filter rods from Rs. 0.75 to Rs. 1 per filter rods.
- It is proposed to levy the FED on e-liquids on electric cigarettes @ 10 Rs. Per ml.
- In current situation of COVID – 19 reduction in the production of cement FED has been reduced from Rs. 2 per kg to Rs. 1.75 per Kg.
- FED on the double cabin has been levied @ 7.5% in case of locally manufactured and @ 25% in case of imported one.

### Other Laws Amendments – Upshot

- Luxury tax on residential and farm houses having area of over 2 kanal, has been proposed to be imposed in Islamabd.
- Capital Value Tax of Federal Government will not apply from April 17, 2020.

# Income Tax Ordinance, 2001

## Income Tax Ordinance, 2001

### ENHANCEMENT OF INDUSTRIAL UNDERTAKING DEFINITION

(Section 2(29C))

The Finance Bill has proposed to ratify the changes incorporated via the Tax Laws (Amendment) Ordinance No.1 of 2020. Through the Finance Bill, FBR has proposed to provide reliefs to Builders/ Developers on account of import of plant & machinery.

Therefore, Builders/ Developers can avail every kind of reliefs in duties and taxes at the time of import of plant & machinery that is already savored by the Industrial Undertakings.

Further, it is important to mention here that the relief is directed specifically at the import stage of plant & machinery and cannot be assumed to be applicable for every kind of general tax credit/ relief available to the Industrial Undertakings. However, these reliefs would be subject to the conditions and criteria's imposed by the Board.

### NON PROFIT ORGANISATION

(Section 2(36))

Through the Finance Bill, the scope of allowing approval in respect of NPOs under the Income Tax Ordinance, 2001 [**the Ordinance**] has been slightly shrunked in the context of activities that are undertaken for the beneficial purposes of general public.

Previously, the any NPO undertaking any type of development work, was allowed to be approved as NPO under the Ordinance.

### TAX ON SHIPPING COMPANIES –

(Section 7A)

An attempt has been made to impose “tonnage tax” of **0.75 USD per ton of gross registered tonnage per annum** under Presumptive Tax Regime on Pakistan resident ship owning companies registered with Securities and Exchange Commission of Pakistan after

November 15, 2019 and having its own sea worthy vessel registered under Pakistan Flag. Legislature has also proposed to increase the timeframe of applicability of this section till June 30, 2023.

### DEDUCTIONS UNDER THE HEAD INCOME FROM PROPERTY

(Section 15A)

Through the proposed amendment, the Board has intended to provide option to individuals and AOPs, without any minimum threshold, to avail various following deductions against its gross rental income, mentioned as below, under section 15A of the Ordinance, who opt to pay tax as per normal slab rates on their taxable income, and abolished the existing minimum threshold of Rs. 4 million;

- Repair & maintenance
- Insurance
- Local rate, tax, charge or cess
- Ground rent
- Profit on mortgage
- Any expenditure incurred for the purpose of deriving rent including administration and collection charges which has also been proposed to be reduced from 6% to 2%.

### DEDUCTIONS NOT ALLOWED

(Section 21)

Following major amendments have been proposed through the Finance Bill;

- The aggregate expenditure limit, paid or payable through banking channel, under a single account head has been increased **from fifty thousand rupees to two hundred and fifty thousand rupees**;
- The expenditure limit, paid or payable through banking channel, for a single transaction has been increased **from ten thousand rupees to twenty-five thousand rupees**.

- The salary limit, paid or payable other than by a crossed cheque or direct transfer of funds to the employee's bank account **has been increased from fifteen thousand rupees per month to twenty-five thousand rupees per month.**
- Deductions have been proposed to be disallowed on account of utility bill that does not qualify limits and conditions which may be prescribed.
- Deductions have been proposed to be disallowed for expenditure attributable to sales made to persons required to be registered but not registered under the Sales Tax Act, 1990 [**the Act**] by an industrial undertaking are computed as a percentage of sales, exclusive of sales tax and federal excise duty, to unregistered person in proportion to total sales, if per person sales exceeds Rs. 100 million.

Further, disallowance of expenditure under this clause shall not, in any case, exceed twenty percent (20%) of total deductions claimed under this Part and the Board may, by notification in the official Gazette, exempt persons or classes of persons from this clause on the basis of hardship.

There are multiple uncertainties concerning the type of expenditures that will be undergoing test of disallowance under this clause.

### DEPRECIATION ALLOWANCE

*(Section 22)*

Prior to the proposed amendment, 100% depreciation was allowed in the year of purchase and no depreciation was allowed in the year of disposal.

However, through the proposed Finance Bill 50% of the depreciation is allowed in the year of purchase and also in the year of disposal, respectively, for the depreciable asset used in the person's business for the first time in a tax year commencing on or after the 1st day of July 2020.

This amendment is proposed to rationalize and even-out the depreciation deduction in the year of purchase and disposal.

### DEDUCTIONS ALLOWED IN RESPECT OF LEASE RENTALS

*(Section 28)*

Through Finance Bill, FBR has proposed to limit the claim of lease rentals, to the extent principal amount of Rs. 2.5 million, on account of cost of "passenger transport vehicles not plying for hire" leased from scheduled bank, financial institution, an approved modaraba, an approved leasing company or a Special Purpose Vehicle on behalf of the Originator for an asset used by the person.

Such amendment is proposed to align, the claim of deductions available in such category of vehicles, with depreciation available under section 22(13)(a) of the Ordinance.

The proposed amendment will have an adverse impact on taxable incomes of multiple taxpayers. Further, there is an element of uncertainty on its application in respect of vehicles already leased that have total principal amounts over and above the threshold of Rs. 2.5 million.

### TAXABILITY OF CAPITAL GAINS ON IMMOVEABLE PROPERTY

*(Section 37(3A))*

The regime of taxation of gains arisen from sale of immoveable properties, have once again been proposed to be revised through Finance Bill.

FBR has also recommended to abolish the conceptual change of plots and constructed houses and the new taxation system will, once again, be simple and straight forward.

## Income Tax Ordinance, 2001

The new taxation, based on holding periods, would be as follows;

Holding Period	Taxation Limits
Does not exceed one year	Complete gain is taxable
Exceeds one year but does not exceed two years	75% of the gain is taxable
Exceeds two years but does not exceed three years	50% of the gain is taxable
Exceeds three years but does not exceed four years	25% of the gain is taxable
Exceeds four years	Gain will be exempt

### CHARITABLE DONATIONS

*(Section 61)*

Tax credit allowed for charitable donation to an associate, as defined in section 85, has been reduced from 30% to 15% of taxable income for individual/AOP and 20% to 10% of taxable income for Company.

### TAX CREDIT FOR ENLISTMENT

*(Section 65C)*

Prior to the proposed amendment Board offers tax credit to encourage companies to be registered on the stock exchange which was introduced via Finance Act, 2010 through which a tax credit equals to 20% of taxable liability was introduced.

However, after the proposed amendment Board has limit the time period for tax credit offered under section 65C of the Ordinance. Through Finance Bill time limit has been restricted till 30th June 2022 which means that above stated tax credit will only be available to those companies who get themselves listed on the stock exchange before the said date.

### TAX CREDIT FOR CERTAIN PERSONS

*(Section 100C)*

Through the proposed amendment the scope of the section 100C has been amended by including the following;

- To avail tax credit, another clause has been introduced by requiring non-profit organizations (NPOs), trusts or welfare organizations to file statement of voluntary contributions and donations received in the immediately preceding tax year in the prescribed form and manner;
- Surplus funds chargeability has also been expanded by including trusts and welfare organizations, in addition to NPOs;
- Restricted funds have been re-defined as funds received from donor not being an associate of the organization.

### SPECIAL PROVISIONS RELATING TO BUILDERS AND DEVELOPERS

*(Section 100D, Division VIII of Part IV of First Schedule, Clause 114A of Part 1 of Second Schedule, Clause 9B of Part III of Second Schedule, Eleventh Schedule)*

#### ❖ Applicability

The special provisions are applicable to all Builders and Developers, who opt for such taxation and are registered with the Federal Board of Revenue (FBR) on a Project-by-Project basis.

The **Projects** that are covered under the said provisions are projects where the **builder** or **developer** will pay tax on land / constructed area in respect of the income arising from the sale of buildings or sale of plots, as the case may be, in respect of:

- A new project, with an estimated project life of two and a half years, initiated after the Commencement of Tax Laws (Amendment) Ordinance, 2020 and completed on or before September 30, 2022; or
- An incomplete existing project to be completed by September 30, 2022, with an estimated project life of three years from tax year 2020 onwards.

The meaning assigned to the 'project' and 'existing project' under the finance bill is quoted for better understanding as follows:

*“project” means a project for construction of a building with the object of disposal, or a project for development of land into plots with the object of disposal or otherwise;*

*‘existing project’ means a construction or development project, which –*

*(i) has commenced before the date of commencement of the Tax Laws (Amendment) Ordinance, 2020;*

*(ii) is incomplete;*

*(iii) is completed on or before the 30th day of September, 2022; and*

*(iv) a declaration is provided in the registration form under Eleventh Schedule to the effect of percentage of the project completed up to the last day of the accounting period pertaining to tax year 2019;*

### ❖ Who is a Builder and developer?

Builder and developer is defined to be any individual, Association of Persons, company established with the sole object of construction of buildings or development of land, and are registered with Federal Board of Revenue.

### ❖ Income of Builders and Developers

#### New Projects

Income of the above said persons, opting for the special provisions would be chargeable to tax under Final Tax Regime, consequently;

- The income shall not be chargeable to tax under any head of income in computing the taxable income of the person;
- No deduction shall be allowable under ITO, 2001 for any expenditure incurred in deriving the income;
- The amount of the income shall not be reduced by any deductible allowances and the set off of any loss; and
- Implication of section 113 (Turnover Tax) and 113C (Alternative Corporate Tax) shall not apply to profits and gains of Builders and Developers.

#### Existing Projects

Income arising from the existing projects will also be taxable under FTR from Tax year 2020 till the completion of the Project. However, income, profits and gains up to tax year 2019 from incomplete existing projects shall be assessable according to the provisions of the Ordinance, before the commencement of Tax Laws (Amendment) Ordinance, 2020.

#### Other Income of Builder and Developers

Any income of the builder or developer other than income subject to newly inserted section 100D shall be subject to tax as per normal provisions of the Ordinance.

### ❖ **Computation of Tax Liability – Insertion of Eleventh Schedule to the Ordinance**

The computation of tax would be based on per square feet and per square yard for builders and developers respectively, ranging from Rs.20/- to Rs.230/- per square feet / per square yard in respect of every approved project of builders and developers respectively.

#### **Tax liability on projects developed or approved by Naya Pakistan Housing and Development Authority [‘NAPHDA’] or under Ehsaas Program**

*(Insertion of Clause 9B to Part III of Second Schedule of ITO 2001)*

In case of projects developed or approved by NAPHDA or under Ehsaas program, the tax liability on the incomes, gains and profits shall be reduced by 90%.

### ❖ **Mechanism of discharge of computed Tax Liability**

#### **New Projects**

The tax liability computed as per the above stipulated rates, shall be divided on the estimated life of the project. Such division would result in computation of annual liability per project and annual liability would be discharged through four equal installments in accordance with the provisions of Section 147 of the Ordinance.

No tax credit shall be allowed against the tax liability except for advance tax collected from the builder or developer under section 236K of the Ordinance, after the date of promulgation of Tax Laws (Amendment) Ordinance, 2020 on purchase of immovable property utilized in the project. Also, there would be no refund of any tax collected or deducted under the Ordinance to builders and developers opting for the special provisions.

#### **Existing Projects**

In case of existing projects, tax liability shall be computed as above, and thereafter, the same shall be reduced by the percentage of completion up to the last day of accounting period pertaining to tax year 2019.

However, the liability for the tax year 2020 shall be paid along with the Income Tax Return in case of new and existing projects.

### ❖ **Incorporation of the Income in Books of Accounts / Return of Income / Wealth Statement**

Builders and Developers will not be allowed to incorporate their profits and gains in books of accounts (including wealth statements as the case may be) exceeding ten times of the amount of tax paid under this regime.

#### **No Questions to be asked on the Source of Capital Investment made in New Projects.**

### ❖ **Exemption from Operation of Section 111 of the Ordinance**

The builders and developers opting for special provisions shall be exempted from the operation of Section 111 of the Ordinance, subject to meeting of certain conditions while making the Capital Investment, which for better understanding are summarily tabulated as follows;



## Income Tax Ordinance, 2001

Mode of Carrying on Business as Builder / Developer	Investment through Cash	Investment through Land
Individual	The cash to be invested in project must be deposited in new account on or before December 31, 2020 and subsequently be withdrawn for investment expenses.	If the investment is to be made through introduction of land, then the land must be in name of individual at time of commencement of Tax Laws (Amendment) Ordinance, 2020.
AOP (Single Object: Builder and Developer s)	The AOP must be registered after the commencement of Tax Laws (Amendment) Ordinance, 2020 and the investment therein be transferred to it by its members through a crossed banking instrument on or before 31 December 2020.	The AOP must be registered after the commencement of Tax Laws (Amendment) Ordinance, 2020 and the land therein be transferred to it by its members on or before 31 December 2020. Provided, the land should be owned by the member at or before the commencement of Tax

		Laws (Amendment) Ordinance, 2020.
Company (Single Object: Builder and Developer s)	Same conditions applicable as in case of AOP.	Same conditions applicable as in case of AOP.

### ❖ Other Conditions to avail Exemption under Section 111 of the Ordinance

- The individual / shareholder / partner making a deposit or transferring the land shall submit a prescribed declaration with the required particulars, in the prescribed form in the IRIS portal;

- The money or land invested shall be wholly utilized in the project;

- The completion of the project is required to be certified for which the mode and the manner is discussed as follows;

#### ➤ **Builder:**

- The map approving authority or NESPAK shall certify that grey structure as per the approved map has been completed by the builder by September 30, 2022.

#### ➤ **Developer:**

- The map approving authority or NESPAK shall certify that landscaping has been completed by September 30, 2022;

- A firm of chartered accountants having an ICAP QCR rating of 'satisfactory', notified by the FBR for this purpose, shall certify that at least 50% of the plots have been booked for sale and at least 40% of the sale proceeds have been received by September 30, 2022; and



## Income Tax Ordinance, 2001

○ At least 50% of the roads have been laid up to sub-grade level as certified by the approving authority or NESPAK.

❖ **Simultaneous exemption available to the persons investing in the Projects of Builders and Developers**

The legislature has also extended the exemption from the operation of Section 111 of the Ordinance (*source of investment*) to all such persons who would invest in the first purchase of the projects approved under the special provisions.

The summary of such exemption is summarized as below;

**First Purchaser of the Building**

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

**Purchaser of the Plot**

○ The purchase is made on or before the 31st day of December, 2020;

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

○ Construction on such plot is commenced on or before the 31st day of December, 2020;

○ Such construction is completed on or before the 30th day of September, 2022 and the person registers himself with the Board on the online IRIS web portal.

❖ **Valuation of building or plot**

The value or price of land or building in the case of capital investment made by the builder or developer in a new project and investment made in the first purchase from such projects shall be taken as the higher of:-

○ 130% of the fair market value as notified by the FBR for the respective cities; or

○ At the option of the investor, the lower of the values determined by at least two independent valuers from the list of valuers approved by the State Bank of Pakistan.

Consequently, the declaration in the books of accounts/ wealth statement shall be in accordance with the above valuation method. The legislature intends to limit the extent exemption under Section 111 of the Ordinance to the extent of these amounts.

❖ **Exclusions from Exemption under Section 111 of the Ordinance**

The finance bill has proposed to specifically barred the following entities / persons / persons holding money from illicit sources, from availing the benefits of exemption under section 111 of the Ordinance.

○ Investment by a holder of any Public Office [as defined in the Voluntary Declaration of Domestic Asset Act 2018 or his benamidar as defined in the Benami Transactions (Prohibition) Act, 2017] or his spouse or dependents;

## Income Tax Ordinance, 2001

- Investment by a public listed company, a real estate investment trust or a company whose income is exempt under any provision of the Ordinance; or
- Investment made from any proceeds derived from the commission of a criminal offence including the crimes of money laundering, extortion or terror financing.

### ❖ Restrictions on change in Ownership Pattern of a Builder or Developer

In case where exemption from section 111 of the Ordinance is claimed in respect of capital investment made by an individual or a person through a Company or AOP, change in pattern of ownership of a builder or developer before project completion shall be subject to the following restrictions: -

- A shareholder or a partner of a builder or developer shall not be allowed a change in ownership of an incomplete project except where at least fifty percent of the total project cost has been incurred up to the date of change of ownership which is to be certified by a firm of Chartered Accountants (having an ICAP QCR rating of 'satisfactory') notified by the Board for this purpose.
- Succession to legal heirs in case of deceased shareholder or a partner will be allowed.
- Additional partners or shareholders can be admitted only after December 31, 2020, however, they will be barred from claiming exemption section 111 of the the Ordinance.

### ❖ Registration & Filing Requirements

#### Registration & filing of an irrevocable option

The builders and developers shall get the projects registered electronically with the Board by December 31, 2020 on the IRIS portal by submitting the prescribed registration form,

along with an irrevocable option for the project to be assessed under this regime. Two separate registration forms are required to be filed in case the developer is also the builder for the project.

Persons availing exemption from Section 111 of the Ordinance are also required to be registered under this regime with the Board.

### Certification

A certificate is required to be provided to the Board by every Builder and Developer, which is to be obtained from approving authority, map approving authority or National Engineering Services Pakistan (NESPAK) certifying the total land area (in sq.yds), covered area (in sq.ft), saleable area (in sq.ft) and the type (commercial, residential or industrial) of the project.

The timing of provision of this certification is not specified, however it could be reasonably assumed that such certification would be provided to the Board at time of filing of registration of the Project.

### Tax Return and Wealth Statement

Builders and Developers who have opted for the special provisions are also required to electronically file annual tax returns (including wealth statements, wherever applicable) to be accompanied by evidence of tax payment. Such a tax return will be considered as an assessment order issued under section 120 of the Ordinance.

### ❖ Exemption from the Operation of Withholding Provisions of the Ordinance

Builders and Developers opting to be assessed under FTR would not be liable to make deduction of withholding tax on purchase of building material except steel and cement and all sorts of services being provided by non – corporate service providers.

### ❖ Exemption for Dividend Income

Dividend being paid out of the incomes, profits and gains, earned by the builder or developer being a company, will be exempt from tax.

### ❖ Reduction in Rate of Advance Tax on Sale through Auction – Section 236A of the Ordinance

The rate of advance tax collection on sales through Auction has been reduced to five percent from ten percent.

### ❖ Exemption of CGT on Sale of Constructed Residential Property by Resident Individuals *(Insertion of Clause 114AA to Part 1 of Second Schedule to the Ordinance)*

It has been laid down that no CGT would be applicable upon sale of constructed residential property subject to fulfillment of following conditions;

- The residential property was being used for personal accommodation by the resident individual, his spouse or dependents;
- Any of the utility bills is / was being issued in the name of such individual;
- The land area of the property does not exceed 500 Square yards in case of a house and 4000 square feet in case of a flat; and
- Exemption under this clause has not previously been availed by the individual, his spouse or dependents.

### ❖ Probable benefits of grant of Industrial Undertaking status to Builders and Developers

Upon attaining the status of industrial undertaking, all tax credits and benefits available to other industries could also be availed by Builders and Developers. Such benefits would be applicable to every person that qualify to be an industrial undertaking as per the newly inserted clause.

### RESTRICTION ON DEDUCTION OF PROFIT ON DEBT PAYABLE TO ASSOCIATED ENTERPRISE

*(Section 106A)*

Through Finance Bill, a restriction on deduction of foreign profit on debt, accrued with effect from the first day of July 2020, even if debts were contracted before the first day of July, 2020, has been introduced.

The section defines “foreign controlled resident company” as a non resident company owning more than 50% of the shares in the company, either alone or in concert with its associate(s).

Further, foreign profit on debt has been defined as markup being paid or payable in respect of loans received from a non resident person or associate of foreign controlled resident company. In addition to this, the definition covers a long list of specific inclusions as foreign profit on debt.

A deduction for foreign profit on debt claimed by a foreign-controlled resident company (other than an insurance company, or a banking company), if the total foreign profit on debt claimed as deduction is equals or more than Rs. 10 million for a tax year, during a tax year, shall be disallowed according to the following formula, namely:–

$$[B] - [(A + B) \times 0.15]$$

where—

A is the taxable income before depreciation and amortization; and

B is the foreign profit on debt claimed as deduction

Where in computing the taxable income for a tax year, full effect cannot be given to a deduction for foreign profit on debt, the excessive amount shall be carried forward to next three tax years.

## Income Tax Ordinance, 2001

The proposed amendment is going to have an impact on taxable incomes of many MNCs which will be observing strict compliance under this new promulgation.

### UNEXPLAINED INCOME OR ASSETS

*(Section 111)*

Currently, any addition on account of section 111(1) of the Ordinance, was to be made under the head "Income from Other Sources". Through Finance Bill, FBR has proposed that additions to the extent of suppression in respect of production, sales or any amount chargeable to tax or of any item of receipt liable to tax, if remained unexplained by the taxpayer, will be added under the head "Income from Business".

In our understanding, the FBR has made an attempt to ratify some observations made by appellate fora in their recent precedents.

### MINIMUM TAX ON THE INCOME OF CERTAIN PERSONS

*(Section 113)*

Through the proposed amendment the scope of the minimum tax has been extended by including permanent establishment of a non-resident company.

### RETURN OF INCOME

*(Section 114, 115)*

Prior to the proposed amendment, the taxpayer was required to file a statement under section 115 of the Ordinance, for the income subject to final taxation. However, as per the proposed amendment through this Finance Bill, the same has been omitted from the section 115 of the Ordinance, and the said requirement has been proposed to be added under the umbrella of section 114 of the Ordinance.

### TAXPAYER'S PROFILE

*(Section 114A)*

In pursuance of Federal Government policy to document the economy, a new section has been incorporated in Finance Bill. As per the guidance of the section every person who has been register under section 181 of the Ordinance need to file their profile before the 30th day of September, 2020 and in case the person is not registered under section 181 the person is required to file his profile within ninety days of registration.

The profile would include detailed credentials of the person including the bank accounts details, type of business, all of the locations of the business from where the business is conducted, utility bills and any other information required by the federal government. In case any of the above said information deviate the person is required to update their credentials within 90 days of alternation.

Thorough introduction of this section the Federal Government has moved one step closer toward achieving their goal of the documented economy.

### WEALTH STATEMENT

*(Section 116)*

Through Finance Bill, the Federal Government has assigned power to the Commissioner to grant approval regarding filling of revised wealth statement in case the Commissioner feels that the omission was not intentional. This procedure has been added to avoid rapid revision of wealth statements.

Further to streamline the compliance procedures for the persons whose income fall under the final tax regime a rectification has been made in section 116. Through this amendment an exemption has been provided from filling of wealth statement as the person have final tax regime income are only required to file a statement to the Commissioner instead of income tax return.

## Income Tax Ordinance, 2001

### ASSESSMENTS

*(Section 120)*

Through this proposed amended, a new sub-section (2A) has been inserted in the section 120 of the Ordinance while adding some further amendments throughout the section.

After the proposed amendments, the return of income shall be processed through an Automated System to check the following and make the adjustments accordingly;

- Arithmetic accuracy
- Incorrect claims if it is apparent from the information in the return
- Disallowance of any loss, deductible allowance or tax credit
- Disallowance of carry forward of any loss under section 182B(1)(b)

A proviso is also inserted which states that no adjustment shall be made unless a system generated notice is sent to taxpayer specifying the adjustments, and if response is received than adjustments are made accordingly. And if no response is received within 30 days of the notice, specified adjustments are made respectively. Such adjustments shall be made within six months of filing of the return and the taxpayer shall be intimated automatically through IRIS.

The new return, after incorporation of above challenges, will be considered as “deemed assessment order”. This amendment may create further legal impurities raising due concerns about amended assessments being made before the assessment is deemed as final.

In case the notice issued under this section, is answered by the department in negative, the taxpayers has also been allowed to prefer the said order in appeal before Commissioner (Appeals) under section 127 of the Ordinance.

### BEST JUDGEMENT ASSESSMENT

*(Section 121)*

Prior to the proposed amendment if a person fails to furnish a statement under sub-section 115(4) as required by a notice under sub-section 115(5) of the Ordinance, than the Commissioner has the power to make an assessment of the taxable income based on the available information.

Through this proposed amended, the same power has been omitted in line with omissions of statement under sub-section 115(4) and notice under sub-section 115(5) of the Ordinance. The same elements have also been omitted from section 116, 118 & 119 of the Ordinance.

### DEFINITE INFORMATION

*(Section 122)*

Amendment has been proposed to enlarge the scope of 122(5) of the Ordinance. The department is focused on passing orders on the basis of any information obtained as a result of audit or any definite information obtained otherwise.

This amendment is going to have a huge impact on the powers conferred to authorities under section 122 of the Ordinance. The assessments will no more remain challengeable on the legal grounds of unavailability of definite information.

### AGREED ASSESSMENT IN CERTAIN CASE

*(Section 122D)*

Through this Finance Bill a new section has been inserted through which the Board has provided a forum namely “Assessment Oversight Committee” through which the taxpayer may file for the settlement to the committee in relation to the notice issued under section 122(9) of the Ordinance.

Upon filing for the settlement reply to the Commissioner by the taxpayer, Committee may call for the record and after providing the opportunity of being heard, Committee has the power to modify the offer with consensus and communicate the decision to the taxpayer and if taxpayer is satisfied with the decision of the committee than taxpayer do the followings;

- Taxpayer shall deposit the tax payable along with the amount of penalty and default surcharge.
- The Commissioner shall amend the assessment accordingly with the decision of Committee.
- Taxpayer shall waive the right to prefer an appeal against amended assessment.
- No further proceedings shall be undertaken in respect of issues decided.

If the taxpayer is not satisfied with the decision of Committee, case shall be referred back to the Commissioner who decided the case in light of the written reply by the taxpayer. The Committee comprises of the following;

- The Chief Commissioner Inland Revenue having jurisdiction.
- The Commissioner Inland Revenue having jurisdiction.
- The Additional Commissioner Inland Revenue having jurisdiction.

This section shall not apply on the cases of concealment and where interpretation of question of law is involved. The Board may make rules to regulate the procedures of the Committee.

### **APPEAL TO THE COMMISSIONER APPEALS**

*(Section 127)*

Prior to this Finance Bill appeal fee for filing an appeal before Commissioner Appeals was one thousand rupees if appellant is company and two hundred rupees if appellant is not a company.

Through this Finance Bill it is proposed to increase the appeal filing fee in case of an appeal against assessment which is as follows:

- In case if appellant is a company proposed increase fee will five thousand rupees.
- In case if appellant is not a company proposed increase fee will two thousand and five hundred rupees.

In Other appeals the proposed appeal filing fee is as follows:

- In case if appellant is a company proposed increase fee will five thousand rupees.
- In case if appellant is not a company proposed increase fee will one thousand rupees.

### **APPEAL TO THE APPELLATE TRIBUNAL**

*(Section 131)*

Through Finance Bill, it has been inserted that the appeal to the Appellate Tribunal shall be accompanied by proof of payment of ten percent of the amount of tax upheld by the Commissioner (Appeals) and the prescribed fee for appeal to the Appellate Tribunal has been increased from two thousand rupees to five thousand rupees in case of company and rupees two thousand and five hundred in cases other than company.

### **ALTERNATIVE DISPUTE RESOLUTION**

*(Section 134A)*

Federal Government has proposed improvements in the methodology, structure and procedure of ADRC to be followed in order to swiftly decide on matters preferred by the aggrieved person.



## Income Tax Ordinance, 2001

ADRC shall comprise of three persons including Chief Commissioner Inland Revenue having jurisdiction over the case and two persons from penal of Chartered Accountants, Cost and Management Accountants and Advocates. Previously a retired Judge was also required to be included in Committee.

Further modifications include;

- requirement to withdraw the appeal from Court of Law or Appellate Tribunal after constitution of Committee has been omitted;
- facility of automatic grant of stay order has been withdrawn in modification, now Committee has to decide whether or not to stay the recovery of tax in dispute;
- Order of Committee shall be binding on Commissioner only if communicated within sixty days of service of decision; and
- The aggrieved person has given a choice to follow the order of Committee or peruse the appeal pending in Court of Law or Appellate Tribunal.

### RECOVERY OF TAX OUT OF PROPERTY AND THROUGH ARREST OF TAXPAYER

*(Section 138)*

Through Finance Bill, following further means has been inserted for the recovery of tax;

- a) deduct the amount from any money owing to person from whom such amount is recoverable and which may be at the disposal or in the control of such officer or any officer of Income Tax, Customs or Central Excise Department;
- b) require by a notice in writing any person to stop clearance of imported goods or manufactured goods or attach bank accounts;

- c) seal the business premises till such time the amount of tax is paid or-recovered in full.

### ADVANCE TAX PAID BY THE TAXPAYER

*(Section 147)*

Through Finance Bill, it has been inserted that where the taxpayer fails to provide turnover or the turnover for the quarter is not known, Board may also prescribe procedure for filing and calculation of turnover for the quarter through an automated system.

### ADVANCE TAX ON IMPORTS

*(Section 148)*

Through the finance bill it is proposed to modify the definition of value of goods. The proposed definition is as follows:

- in case of goods chargeable to tax at retail price under the Third Schedule of the Sales Tax Act, 1990, the retail price of such goods increased by sales tax payable in respect of the import and taxable supply of the goods; and
- in other cases; the value of the goods determined under the Custom Act, 1969 (IV of 1969), as if the goods were subject to ad valorem duty increased by the custom-duty, federal excise duty and sales tax, if any, payable in respect of the import of the goods.;

Further a new twelfth schedule has been incorporated in which the good to be imported are segregated in three parts on which advance tax is collected at the rates specified in part II of the first schedule.

The advance tax collected from large import houses, industrial undertaking and media house at import stage will be considered as minimum tax except for the imports made by the industrial undertaking for their personal use and advance tax is collected at the rate of 1

or 2 percent. This rectification has been in the finance bill by the federal government to ensure the minimum revenue raised from advance tax at the stage of import.

### **PAYMENTS TO NON-RESIDENTS**

*(Section 152)*

Through Finance Bill, it has been inserted that the tax deductible by a person in making a payment for advertisement services to a non-resident media person relaying from outside Pakistan shall be minimum tax on the income of non-resident person arising out of such payment.

Tax deducted, from the gross amount payable (including sales tax, if any), by a person in making a payment to a permanent establishment in Pakistan of a non-resident person shall be the minimum tax on the income of non-resident person arising out of such payment with the exception of where the payments are received for sale of goods by a company being a manufacturer of such goods. Deduction percentage has been decreased from 30% of the tax chargeable to 20% of the tax chargeable on the payment to permanent establishment of the non-resident on the cohesive business operation.

### **PAYMENTS FOR GOODS, SERVICES AND CONTRACTS**

*(Section 153)*

Withholding against payments made on account of Toll Manufacturing have been proposed to be brought under the ambit of section 153(1)(a) of the Ordinance.

Minimum tax classification in respect of payment to a sportsperson and electronic and print media for advertising services has been eliminated.

Through Finance Bill, following provisos are included regarding Commissioner allowing a payment without deduction of tax or deduction at reduced rate of tax:

Commissioner shall issue certificate for payment for the sale of goods including Toll manufacturing without deduction of tax within fifteen days of filing of application to a public company listed on a registered stock exchange in Pakistan if advance tax liability has been discharged and it shall be deemed to have been issued upon the expiry of fifteen days to the aforesaid public listed company and the certificate shall be automatically processed and issued by IRIS although the Commissioner may modify or cancel the certificate issued automatically by IRIS on the basis of reasons to be recorded in writing after providing an opportunity of being heard.

In the definition of "Prescribed person" Turnover limit for an individual/association of persons has been increased from fifty million rupees to one hundred million rupees and Turnover limit of one hundred million rupees or more in any of the preceding tax years for a person registered under the Sales Tax Act, 1990.

### **WITHDRAWAL OF BALANCE UNDER PENSION FUND**

*(Section 156B)*

Currently, the accumulated balance, up to 50%, received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 was exempt in case of retirement. The income over and above the threshold of 50% was taxable under normal tax regime.

FBR has proposed to tax the said taxable income at the average rate of tax on the basis of last three years, as is applicable in the case of golden handshakes under section 12(6) of the Ordinance. Further, the fund manager has been appointed as the withholding agent for deduction of said amount of tax at the time of payment of said income.



## Income Tax Ordinance, 2001

### STATEMENTS

(Section 165)

Period of filling of withholding statements have been changed from biannual to quarterly period, namely:

- a) in respect of quarter ending on the 31st day of March, on or before the 20th day of April;
- b) in respect of quarter year ending on the 30th day of June, on or before the 20th day of July;
- c) in respect of quarter ending on the 30th day of September, on or before the 20th day of October; and
- d) in respect of quarter ending on or before the 31st day of December, on or before the 20th January.

Net of withholding statement filler have been increased with the inclusion of Every person involved or engaged in economic transactions as prescribed by the Board.

### FURNISHING OF INFORMATION BY BANKS

(Section 165A)

The monetary limit on profit on debt exceeding five hundred thousand rupees has been eliminated for furnishing the list of persons receiving profit on debt and tax deductions thereon during preceding financial year.

### CREDIT FOR TAX COLLECTED OR DEDUCTED

(Section 168)

No tax credit shall be allowed for any tax collected or deducted that is a final tax on the:

- a) income of non-resident person for foreign produced commercial for advertisement on any television channel or any other media; and

- b) income of the non-resident company arising out of capital gain on the disposal of debt instruments and Government securities including treasury bills and Pakistan investment bonds invested through SCRA.

### TAX COLLECTED OR DEDUCTED AS A FINAL TAX

(Section 169)

Through the proposed bill, final tax on Imports under section 148, local purchase of cooking oil or vegetable ghee under 148A and tax collected from CNG station under section 234A and brokerage or commission is made by the Federal Government, a Provincial Government, Local Government, a company or an association of persons constituted by, or under any law u/s 233 is proposed to be omitted.

### REFUNDS

(Section 170)

Sub-section 6 has been proposed to be inserted suggesting that after the date notified by the Board, it may make rules for expeditious processing and automatic payment of refunds through centralized processing system.

### POWER TO ENTER AND SEARCH PREMISES

(Section 175)

### REAL-TIME ACCESS TO INFORMATION AND DATABASE

(Section 175A)

As a tax broadening measure and to document the economy, Federal Board of Revenue has been empowered by newly proposed section 56AB, to access in real time the information and database maintained by;

- National Database and Registration Authority [“NADRA”];

- Federal Investigation Agency [“FIA”] and the Bureau of Emigration and Overseas Employment [“BEOE”];
- Islamabad Capital Territory and provincial and local land record and development authorities;
- Islamabad Capital Territory and provincial excise and taxation departments;
- all electricity suppliers and gas transmission and distribution companies; and
- any other agency, authority, institution or organization notified by the Board.

For real time access of information and data base, Board shall make arrangements for laying the infrastructure and till then information and database shall be made available on periodic basis in manner as may be prescribed by the Board.

This will act as a stepping stone towards overall improvements in data sharing between Government Departments, which will eventually be assisting Government in adding control measures over broadening of tax base, highlight tax evaders, identify elements of money laundering and terrorist financing.

Further, the authorities have been proposed to be empowered to have real time access and searches of taxpayer’s premises/ data/ record etc.

### CONDUCT OF AUDIT ELECTRONICALLY

*(Section 177)*

To discourage the physical interaction of taxpayers with Revenue Authorities to ensure the independence of Officers conducting audit proceedings and avoid spread of COVID-19 virus a new amendment has been proposed to conduct the audits under section 25 of the Act electronically through video link or any other electronic facility.

Such initiative is encouraging as Revenue Authorities are finally adapting the modern technology which will help to work efficiently and huge backlog of open proceedings may get resolved, especially under the circumstances of COVID 19.

In cases, the taxpayer fails to furnish information or explanation etc, the Commissioner shall determine the taxable income on the basis of sectoral benchmark ratios i.e. business sector ratios, as notified by the Board on the basis of comparative cases.

### OFFENCES AND PENALTIES

*(Section 182)*

Penalty for false/ failure to furnish the statement as required as per section 115, has been omitted from serial no. 1A, 1AA and 10.

Further, serial no 4A and 4B has been proposed to be inserted, serial no 4A for charging penalty of Rs. 2500 per day of default with minimum penalty of Rs. 10,000 for not furnishing and updating taxpayer profile.

Serial no. 4B for charging penalty of Rs. 10,000 per connection of providing commercial or industrial connection of electricity or natural gas to an unregistered person.

### RETURN NOT FILED WITHIN DUE DATE

*(SECTION 182A)*

Through this Finance Bill, it is proposed that a person who fails to furnish or update a taxpayer’s profile within the specified period, shall not be included in the active payers’ list for the latest tax year. However, such person shall be included in the active taxpayers’ list upon filing the taxpayer’s profile and paying the surcharge amount.

## Income Tax Ordinance, 2001

### DEFAULT SURCHARGE

(SECTION 205)

Through this Finance Bill, it is proposed that where a person is liable for default surcharge, the Commissioner may make assessment of default surcharge for the period of default or part thereof, notwithstanding that the tax due has not actually been paid.

### JURISDICTION OF INCOME TAX AUTHORITIES

(SECTION 209)

Through this Finance Bill, it is proposed that the Board may also assign to any Officer of Inland Revenue all or any of the powers and functions conferred upon or assigned to the Commissioner, under this Ordinance, in through Automated Case Selection System. Automated Case Selection System means an algorithm for randomized allocation of cases by using suitable technological modes.

### ADVANCE TAX ON PRIVATE MOTOR VEHICLES

(Section 231B)

Through this Finance Bill, a clarification is provided that motor vehicle does not include rickshaw, motorcycle-rickshaw and any other motor vehicle having engine capacity upto 200cc.

### ADVANCE TAX COLLECTION

(Section 235B, 236D, 236F, 236J, 236R, 236U, 236X)

Through this Finance Bill, following sections have been omitted related to advance tax collection to provide relief to the taxpayers.

235B	Tax on steel melters and composite units.
236D	Advance tax on functions and gatherings
236F	Advance tax on cable operators and other electronic media

236J	Advance tax on dealers, commission agents and <i>arhatis etc.</i>
236R	Collection of advance tax on education related expenses remitted abroad
236U	Advance tax on insurance premium
236X	Advance tax on tobacco

### ADVANCE TAX COLLECTION

(Section 236A, 236C, 236I, 236Q)

Through this Finance Bill, following amendments proposed related to advance tax collection under chapter XII.

236A	Sale by public auction or auction by a tender includes renewal of a license previously sold by public auction or auction by a tender; and where payment is received in instalments, advance tax is to be collected with each instalment.
236C	Advance tax on the sale or transfer of immovable property shall not be collected if held for a period exceeding four years.
236I	Advance tax by educational institutions to be collected from a person not appearing on the active taxpayers' list.
236Q	Tax deductible under this section shall be the minimum tax.

### TAX ON CAPITAL GAINS ON DISPOSAL OF IMMOVABLE PROPERTY

(Division VIII, part I, First schedule)

Federal Government has proposed through the Finance Bill to reduce the tax on capital gain, the updated rates are as follow;

## Income Tax Ordinance, 2001

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

### RATES OF ADVANCE TAX

*(Part II of First schedule)*

The rate of advance tax to be collected by the Collector of Customs under section 148 shall be as follows:

Sr. No.	Persons	Rate
(1)	(2)	(3)
1.	Persons importing goods classified in Part I of the Twelfth Schedule	1% of the import value as increased by customs-duty, sales tax and federal excise duty
2.	Persons importing goods classified in Part II of the Twelfth Schedule	2% of the import value as increased by customs-duty, sales tax and federal excise duty
3.	Persons importing goods classified in Part III of the Twelfth Schedule	5.5% of the import value as increased by customs-duty, sales tax and federal excise duty

Further, it's proposed that persons that imports finished pharmaceutical products that are not manufactured in Pakistan and are certified by the Drug Regulatory Authority of Pakistan, rate of tax shall be 4%:

Furthermore, tax rates on import of mobile phones by any person shall be setout as:

Sr. No	C & F Value of mobile phone (in US Dollar)	Tax (in Rs.)	
		In CBU condition PCT Heading 8517.1219	In CKD/SKD condition under PCT Heading 8517.1211
(1)	(2)	(3)	(4)
1	Up to 30 except smart phones	70	0
2	Exceeding 30 and up to 100 and smart phones up to 100	100	0
3	Exceeding 100 and up to 200	930	0
4	Exceeding 200 and up to 350	970	0
5	Exceeding 350 and up to 500	3,000	5,000
6	Exceeding 500	5,200	11,500

### Part III

#### Division I

Through this Finance Bill, a new clause is proposed to be added in Division I Part III of the First Schedule proposing 25% rate of Income Tax in case of a person receiving dividend from a company where no tax is payable by such company, due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III.

## Income Tax Ordinance, 2001

### Division IA

It is proposed through the Finance Bill that in case of reduce rate of profit on debt, "the tax payer furnishes a certificate to the payer of profit during the tax year".

### Division IB

It is proposed through the Finance Bill that the rate of tax to be deducted on Return on Investment in Sukuks u/s 150A of the ITO 2001 is increased from 15% to 25%.

### Division II

Through this Finance Bill, it is proposed in Division II, Part III of the First Schedule that following further services have been inserted along with transport services. The services added are: freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in clause (133) of Part I of the Second Schedule, tracking services, advertising services (other than by print or electronic media), share registrar services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services. Further the rate of Income tax is also proposed to increase from 2% to 3% of the gross amount payable.

Furthermore, it is proposed that in case of other than above mentioned services, 8% and 10% of the gross amount payable, have been applied in case of a company and for other than company respectively.

### Division III

Through this Finance Bill, it is proposed in Division III, Part III of the First Schedule that toll manufacturing is included in the category of sale of goods. It means the same Income Tax rates of sale of goods will be applicable on the toll manufacturing.

Further it is also proposed that engineering services shall be omitted from the reduce rate of Income Tax withholding i.e. 3%. It means the engineering services will be taxable at the normal rate of Income Tax i.e. 8% and 10% of the gross amount payable, in case of a company and other than company respectively.

### Part IV

#### Division VIII

Through this Finance Bill, it is proposed in Division VIII of Part IV of the First Schedule, a proviso has been inserted in advance tax at the time of sale by auction of immovable property, the rate of collection of tax has been reduced from 10% to 5% of the gross sale price.

#### Division XI, XIII, XVII, XXIV & XXV

Through this Finance Bill, it is proposed that the above Divisions of the First Schedule shall be omitted from the Income Tax Ordinance 2001. The relevant proposed omitted divisions are as follows:

Division	Section	Status
XI	236D	Omitted
XIII	236F	-- do --
XVII	236J	-- do --
XXIV	236R	-- do --
XXV	236U	-- do --

#### Division XXVI

#### Advance Tax on Extraction of Minerals

The rate of tax to be collected under section 236V shall be 5% of the value of the minerals ~~for persons who are not appearing in the active taxpayers' list.~~

### TAXABILITY OF INCOME FROM CERTAIN TYPE OF PENSIONS

*(Clause 23A of Part I of Second Schedule)*

Currently, the accumulated balance, up to 50%, received from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 was exempt in case of retirement. The income over and above the threshold of 50% was taxable under normal tax regime.

FBR has proposed to tax the said taxable income at the average rate of tax on the basis of last three years, as is applicable in the case of golden handshakes under section 12(6) of the Ordinance. Further, the fund manager has been appointed as the withholding agent for deduction of said amount of tax at the time of payment of said income.

### CLAIM OF DONATION AS STRAIGHT DEDUCTION TO CERTAIN PARTIES

*(Clause 61 of Part I of Second Schedule)*

Following parties have been proposed to be added to the list on which, post July 1, 2020, straight deduction from taxable income will be allowed;

- The Prime Minister's COVID-19 Pandemic Relief Fund-2020;
- Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI);
- Lahore University of Management Sciences;
- Dawat-e-Hadiya, Karachi;
- Baitussalam Welfare Trust;
- Patients' Aid Foundation;
- Alkhidmat Foundation;

Further, the limit of claimability of deduction on account of donation has been reduced to 15% in case of individual and AOP and to 10%, in case of a Company, if donation is made to an associate, as defined under section 85 of the Ordinance. The condition of payment through banking channel, in respect of donations under this clause, has also been proposed to be added, to claim such deduction.

### EXEMPTION OF INCOME OF CERTAIN INSTITUTIONS

*(Clause 66 of Part I of Second Schedule)*

Currently, a long list of certain institutions have been enjoying relief of exemption from levy of income tax under the Ordinance, as mentioned in the said clause. Through the Finance Bill, 2020, it has been proposed to add some more parties to the said list. Further, the list of parties has been bifurcated into two separate tables and institutions, as mentioned in Table 2 of the said list, are proposed to observe compliance, **starting from July 1, 2021**, of section 100C of the Ordinance, in order to avail this exemption of taxable income. The list, bifurcated in Table 1 and Table 2, has been annexed with our commentary as "**Annexure A**".

### EXEMPTION OF INCOME OF DEVELOPEENTAL REIT SCHEME

*(Clause 99A of Part I of Second Schedule)*

Through the Finance Bill, 2020, the benefit of exemption to Developmental REIT Scheme on its profits and gains from sale of immoveable property with the object of development and construction of residential building, has been extended from June 30, 2020 to June 30, 2021.

### EXEMPTION OF INCOMES OF COMPANIES OPERATING IN GAWADAR FREE ZONE

*(Clause 126A of Part I of Second Schedule)*

Federal Government has proposed to exempt the income of companies operating in Gawadar Free Zone with effect from June 1, 2020.

### EXEMPTION OF INCOME OF CO DEVELOPER UNDER SPECIAL ECONOMIC ZONE

*(Clause 126E of Part I of Second Schedule)*

Federal Government has proposed to extend the benefit of exemption of income already available to Developers of a Special Economic



Zone to his Co-Developer as well, if the Developer has not claimed the said exemption and has relinquished his right for his Co-Developer and a validation to this effect has been obtained from the Special Economic Zone Authority.

### **EXEMPTION OF INCOME OF FEDERAL GOVERNMENT EMPLOYEES HOUSING AUTHORITY**

*(Clause 146 of Part I of Second Schedule)*

The income of Federal Government Employees Housing Authority has been proposed to be exemption from levy of income tax for a period of five years starting from tax year 2020.

### **PROFIT ON DEBT EARNED BY NON RESIDENTS**

*(Clause 5AA of Part II of Second Schedule)*

It has been proposed that the rate of withholding tax on profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident Rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan shall be ten percent of the gross amount paid and will be taxed under Final Tax Regime.

### **REDUCE RATE OF WITHHOLDING UNDER SECTION 153(1)(a) ON CERTAIN PAYMENTS**

*(Clause 24CA of Part II of Second Schedule)*

The rate of withholding tax on account of payments being made by Utility Stores Corporation of Pakistan to the parties supplying tea, spices, salt, dry milk, sugar, pulses wheat flour and ghee to such corporation, has been proposed to be 1.5% from

April 7, 2020 till September 30, 2020. The said relief will not be applicable if tea, spices, salt and dry milk is sold under a brand name. Further, in case the rate of withholding is already below 1.5%, the lower rate, as already applicable, would apply.

### **STEEL MELTERS AND COMPOSITE STEEL UNITS**

*(Section 235B and Clause 9A of Part IV of Second Schedule)*

Advance Tax, currently applicable and being collected from Steel Melters and Composite Steel Units, through their electricity bills, is non adjustable and being considered as discharge of withholding tax applicable under section 153 of the Ordinance, on the payment for local sale of scrap by these parties by the virtue of clause 9A of Part IV of Second Schedule.

Through the Finance Bill, the such complete regime has been proposed to be abolished and these parties will be required to withhold income tax at applicable rates under section 153(1)(a) of the Ordinance.

### **EXEMPTION FROM LEVY OF MINIMUM TAX U/S 113 OF THE ORDINANCE**

*(Section 11A of Part IV of Second Schedule)*

Relief from levy of minimum tax u/s 113 of the Ordinance will now be applicable, in respect of those Modaraba Companies, which will be distributing 90% of their profits, not in the nature of bonus shares. The said amendment is proposed in line with the conditions already added under clause 100 of Part I of Second Schedule, for eligibility of exemption on incomes of Modaraba Companies.

Further, the incomes of The Prime Minister's COVID-19 Pandemic Relief Fund-2020, completely and the Federal Government Employees Housing Authority, for the tax year 2020 and the following four tax years, has also been proposed to be exempted from levy of minimum tax u/s 113 of the Ordinance.

## Income Tax Ordinance, 2001

### EXEMPTION FROM ADVANCE TAX LEVIABLE AT IMPORT STAGE U/S 148 OF THE ORDINANCE ON CERTAIN ITEMS

*(Section 12B and 12C of Part IV of Second Schedule)*

As a COVID relief measure, items being used by the medical staff and hospitals as Personal Protective Equipment and for cure of Corona Virus has been proposed to be exempted from levy of advance tax under section 148 of the Ordinance from March 20, 2020 till September 30, 2020. Further, similar exemption has been proposed for importing pulses from April 7, 2020 till September 30, 2020.

### EXEMPTION FROM WITHHOLDING OF TAX UNDER SECTION 153

*(Section 46AA of Part IV of Second Schedule)*

Payments, if made to following parties, have been proposed to be exempted from withholding provisions of section 153;

a Provincial Government;

(ii) a local authority;

(iii) persons who are residents of Azad Kashmir and execute contracts in Azad Kashmir only and produce a certificate to this effect from the concerned income tax authority;

(iv) persons receiving payments from a company or an association of persons having turnover of fifty million rupees or more or from an individual having turnover of fifty million rupees or more exclusively for the supply of agriculture produce including fresh milk, fish by any person engaged in fish farming, live chicken, birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market;

(v) companies receiving payments for the supply of electricity and gas;

(vi) companies receiving payments for the supply of crude oil;

(vii) hotels and restaurants receiving payments in cash for providing accommodation or food or both, as the case may be; and

(viii) shipping companies and air carriers receiving payments for the supply of passenger tickets and for the cargo charges of goods transported.

### EXEMPTION FROM WITHHOLDING OF TAX UNDER SECTION 148

*(Clause 56 of Part IV of Second Schedule)*

Payments, if made to following parties, have been proposed to be exempted from withholding provisions of section 148;

- I. the Federal Government;
- II. a Provincial Government;
- III. a Local Government;
- IV. a foreign company and its associations whose majority share capital is held by a foreign government;
- V. a person who imports plant and machinery for execution of a contract with the Federal Government or a provincial government or a local government and produces a certificate from that government;
- VI. companies importing high speed diesel oil, light diesel oil, high octane blending component or kerosene oil, crude oil for refining and chemical used in refining thereof in respect of such imports; and
- VII. Petroleum (E&P) companies covered under the Customs and Sales Tax Notification No. S.R.O.678 (I)/2004, dated the 7th August, 2004, except motor vehicles imported by such companies.



### ISSUANCE OF EXEMPTION CERTIFICATE REGARDING WITHHOLDING OF TAX UNDER SECTION 148

*(Clause 72 of Part IV of Second Schedule)*

With the perspective to increase collection of advance tax, the federal government has proposed in the finance bill to revoke the issuance of exemption certificate regarding withholding of tax under section 148 of the Ordinance to the industrial undertakings if the tax liability has been paid for the current tax year, determined on the basis of the preceding two tax years.

*(Clause 101AA of Part IV of Second Schedule)*

Through Finance Bill a new clause 101AA is proposed to be inserted by which it is stated that the provision of section 231A, 231AA and 236P shall not apply to a Pak rupee account in a tax year to the extent of foreign remittances credited into such account during that period.

*(Clause 102A of Part IV of Second Schedule)*

Through Finance Bill a new clause 102A is proposed to be inserted by which it is stated that the provision of section 233 shall not apply to commission received by a retail branch less banking agent on disbursed amount by the Ehsaas cash transfer program for a period ranging from April 16, 2020 to September 30, 2020

*(Clause 111A of Part IV of Second Schedule)*

Through Finance Bill a new clause 111A is proposed to be inserted by which it is stated that the provision of section 100BA and rule 1 of tenth schedule shall not apply of the payments of dividend to nonresident persons.

*(Clause 112A of Part IV of Second Schedule)*

Through Finance Bill a new clause 112A is proposed to be inserted by which it is stated that the provision of section 236P shall not apply to a nonresident rupee account repatriable (NAR) or a foreign currency account maintained with a banking company in Pakistan of a nonresident individual investing in debt instrument under public debt Act 1944.

*(Clause 114A of Part IV of Second Schedule)*

Through Finance Bill a new clause 114A is proposed to be inserted by which it is stated that the provision of clause (AE) of subsection (1) of section 114 and section 181 shall not apply to a non resident individual as discussed in 112A on profit on debt purchased exclusively through a bank account maintained abroad.

*(Clause 116 & 117 of Part IV of Second Schedule)*

Through Finance Bill a new clause 116 & 117 is proposed to be inserted by which it is stated that the provision of section 151, 231A, 231AA and 236E shall not apply to the PM covid-19 relief fund and 236P shall not apply at the time of transfer of any sum to the above relief fund.

*(Seventh Schedule, Rule 7C)*

It is proposed in the Finance Bill in rule 7C of the seventh schedule that the provision of section 4B shall apply to the banking companies and shall be taxed at the applicable rate till year 2021. Prior to this amendment the provision of section 4B is applicable till year 2020. It means the board is enhancing the time period from year 2020 to year 2021 for the application of section 4B on the banking companies.

*(rule 10 of tenth schedule)*

It is proposed through the Finance Bill in rule 10 of the tenth schedule by which the board proposed the following changes;

The section 152[(1),(1AA) & (2)] shall be substituted by section 152(2A)(a). Further a new sub rule is inserted by which section 152 (2) to the extent of clause (5AA) of part II. Furthermore, tax collected under section 235B, 236D, 236F, 236J, 236R, 236U, 236V & 236X shall be omitted from the rule 10 of the tenth schedule.

# Sales Tax Act, 1990

### DEFINITION OF ACTIVE TAXPAYER

*(Section 2(1))*

Through the Finance Bill, a corrective amendment, has been proposed in the definition of active taxpayer. The earlier requirement should have been filing of bi annual statement under Section 165 of the Ordinance, but the stipulated requirement was filing of two consecutive monthly statements. Now, a corrective change has been proposed to be introduced by substitution of filing of quarterly statement under Section 165 of the Ordinance.

It implies that non – filing of quarterly statement would grant a non-active status to the taxpayer as per the provisions of the Act.

Further, the expression 'blocked' in terms of section 21 of the Act has also been excluded from the negative list of the definition of Active Taxpayer.

### DEFINITION OF OUTPUT TAX

*(Section 2(20))*

Since the legislative powers to levy and collect the sales tax has been devolved over Provinces through Eighteen Amendment, resultantly persons providing services in a particular Province are liable to pay output sales tax applicable thereon to the relevant Provinces.

Hence, a long due amendment has been proposed in definition of Output Sales Tax as provided in clause (20) of section 2 of the Act by restricting the definition thereof to the extent of Sales Tax due on services bring provided in jurisdiction of Islamabad Capital Territory only under Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (XLII of 2001).

### VALUE OF SUPPLY OF ELECTRICITY

*(Section 2(46))*

As the generation, supply and distribution of electricity is a regulated sector in Pakistan and WAPDA is Authority responsible for charging the masses for the electricity supplied in Pakistan on the basis of priced fixed by NEPRA subject to few exception.

Further, since the cost of electricity generation varies from Producer to Producer and each producer is supplying electricity to NEPRA at different rates, an amendment in definition of value of supply was desired to streamline the value of supply of electricity for the purposes of charging Sales Tax. Hence, the definition of value of supply has been proposed to be revised from value charged by the Independent Power Producer to the value charged by the WAPDA.

### VALUE OF SUPPLY OF USED CAR

*(Section 2(46))*

Federal Government has, in the past, made substantial efforts to document and tax the market of used cars.

In this background, an attempt has been made to rationalize this situation and an amendment has been proposed by inserting a new clause (j) in section 2 of the Act. According to which, the value of supply for person dealing in used vehicles, on which sales tax has already been paid at the time of import or manufacturing, shall be the difference between sale and purchase price of said vehicle.

This amendment will eventually result in cash flow generation for the Federal Government from this untapped market.

### RESTRICTION ON ADJUSTMENT OF INPUT TAX (FED) RELATED TO WASTAGE OF MATERIAL

*(Section 7)*

In backdrop of adjustment of duties of excise, Federal Government has empowered the Board to notify the limits of wastage of goods or class of goods on which input tax has been claimed. Consequently, input tax related to wasted goods over and above the limits prescribed shall be disallowed.

Such restriction shall force the businesses using duty paid materials as input, to streamline and upgrade their manufacturing processes to control the abnormal wastages which may indirectly increase investment in research & development activities and technologically advanced plant & machinery.

### POWER OF TAX AUTHORITIES TO MODIFY ORDERS

*(Section 11C)*

Through Finance Bill, a new section 11C has been proposed to be inserted, in line with provisions of section 124A of the Ordinance. Such section shall bind the Commissioner and Inland Revenue Officer [‘IRO’] to follow the orders of High Court and Appellate Tribunal in case of a registered person while deciding the question of laws arising during proceedings against said taxpayers under the Act instead of using own legal mind regardless of the fact that Inland Revenue Authorities has preferred an appeal or reference there against.

Further, if any such orders of appellate are reversed or modified subsequent to exercise of powers conferred under this section, the Commissioner or IRO may modify their assessment accordingly within one year from receipt of order to conform to the final decision.

Adaptation of above mentioned advisory by IR Authorities shall improve their efficiency and effectiveness in conclusion of assessment proceedings and provide an element of certainty to taxpayers in planning their taxation affairs arising due to development of expectation that Inland Revenue Authorities shall behave in already decided manner.

### TAX INVOICES

*(Section 23)*

Through Finance Act, 2019 a condition was introduced requiring the retailers to obtain CNIC / NTN of unregistered persons buying goods of worth Rs. 50,000/- or more. However, introduction of such amendment gravely impacted the business due to resistance of Trade Unions.

Consequently, implementation of such amendment was deferred few times and so far FBR has failed to implement this provision effectively.

To meet the half way with Trade Union’s restricting provision of CNIC/NTN upon sale to unregistered, a further amendment has been proposed by increasing the exception limit of value of supply from Rs. 50,000/- to Rs. 100,000/- to provide the CNIC / NTN on Sales Tax invoice under section 23 of the Act.

### CONDUCT OF AUDIT ELECTRONICALLY

*(Section 25)*

To discourage the physical interaction of taxpayers with Revenue Authorities to ensure the independence of Officers conducting audit proceedings and avoid spared of COVID-19 virus a new amendment has been proposed to conduct the audits under section 25 of the Act electronically through video link or any other electronic facility.

Such initiative is encouraging as Revenue Authorities are finally adapting the modern technology which will help to work efficiently and efficient disposal of huge backlog of open proceedings may get resolved, especially under the circumstances of COVID 19.

### OFFENCES AND PENALTIES

*(Section 33)*

To rationalize the imposition of penalty regime, below tabulated amendment has been proposed in section 33 of the Act;

Sr #	Offences	Penalties	Section
1	2	3	4
25	Any person, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system, fails to get himself registered under the Act, and if registered, fails to integrate in the manner as required under law.	Such person shall liable to pay a penalty up to one million rupees, and if continues to commit the same offence after a period of <del>six</del> two months after imposition of penalty as shall be sealed <del>and an embargo shall be placed on his sales till such time he integrates his business in the manner as stipulated under sub-section 9A of section 3 or 40C, as the case may be.</del>	Section 3(9A) & 40C.
28	Any person who is required to share information under section 56AB, fails to do so in the manner as required under the law.	Such person shall pay a penalty of twenty five thousand rupees for first default and fifty thousand rupees for each subsequent default.	56AB.

### MANNER OF PREFERRING APPEAL BEFORE COMMISSIONER, APPEALS

(Section 45B)

Appeals to Commissioner (Appeals), to specify the structure of appeal documents, fee for preferring the appeal and procedure to be followed in deciding the appeals, which is identical to procedure and manner prescribed in other fiscal laws, has been proposed on similar pattern under the Act.

As per newly introduced subsection, an appeal shall;

- be in prescribed form;
- be verified in the prescribed manner;
- state precisely the grounds on which the appeal is based;
- be accompanied by the prescribed fee i.e. Rs. 5,000/- for Companies and for others Rs. 2,500/- in case of an appeal against assessment and Rs.5,000/- for companies and Rs. 1,000/- in any other case; and
- be filed with Commissioner (Appeals) within 30 days of receipt of order.

Further, Commissioner (Appeals) is barred from entertaining the material or document which was not produced before assessing authorities unless appellant was prevented by sufficient cause from producing the material or document.

The bar will put additional pressure on taxpayers to provide all possible evidence, required under the proceedings without any exception, before assessing officers. Appeals to Commissioner (Appeals), to specify the structure of appeal document, fee for preferring the appeal and procedure to be followed in deciding the appeals, which is identical to procedure and manner prescribed in other laws i.e. Federal Excise Act, 2005.

### ALTERNATE DISPUTE RESOLUTION

(Section 47A)

Federal Government has proposed improvements in the methodology, structure and procedure of ADRC to be followed in order to swiftly decide on matters preferred by the aggrieved person.

ADRC shall comprise of three persons including Chief Commissioner Inland Revenue having jurisdiction over the case and two persons from panel of Chartered Accountants, Cost and Management Accountants and Advocates. Previously a retired Judge was also required to be included in Committee.

Further modifications include;

- requirement to withdraw the appeal from Court of Law or Appellate Tribunal after constitution of Committee has been omitted;
- facility of automatic grant of stay order has been withdrawn in modification, now Committee has to decide whether or not to stay the recovery of tax in dispute;
- Order of Committee shall be binding on Commissioner only if communicated within sixty days of service of decision; and
- The aggrieved person has given a choice to follow the order of Committee or peruse the appeal pending in Court of Law or Appellate Tribunal.

### REAL TIME ACCESS OF INFORMATION AND DATABASES

(Section 56AB)

As a tax broadening measure and to document the economy, Federal Board of Revenue has been empowered by newly proposed section 56AB, to access in real time the information and database maintained by;

- National Database and Registration Authority [“NADRA”];
- Federal Investigation Agency [“FIA”] and the Bureau of Emigration and Overseas Employment [“BEOE”];
- Islamabad Capital Territory and provincial and local land record and development authorities;
- Islamabad Capital Territory and provincial excise and taxation departments;
- all electricity suppliers and gas transmission and distribution companies; and
- any other agency, authority, institution or organization notified by the Board.

For real time access of information and data base, Board shall make arrangements for laying the infrastructure and till then information and database shall be made available on periodic basis in manner as may be prescribed by the Board.

This will act as a stepping stone towards overall improvements in data sharing between Government Departments, which will eventually be assisting Government in adding control measures over broadening of tax base, highlight tax evaders, identify elements of money laundering and terrorist financing.

### CERTAIN TRANSACTIONS NOT ADMISSIBLE

(Section 73)

To discourage the sales to unregistered persons and penalize the persons not supporting the initiative of Government to document the economy an amendment was introduced vide Tax Laws (Second Amendment) Ordinance, 2019 to place a limit on manufacturer on sales to unregistered person. As per amendment, manufacturers were allowed to make taxable supplies to unregistered persons to the extent Rs. 100 million in a year and Rs. 10 million in a month. Failure to comply with limits prescribed was penalized by disallowing the input tax attributable to such supplies.



## Sales Tax Act, 1990

Now, through the Finance Bill scope of such restriction has been proposed to enhance from manufacturer to all registered person. Such measure would improve the overall economic position.

### THE FIFTH SCHEDULE

Following items have been proposed to be inserted in the Fifth schedule:

Sr #	Description
13.	Supplies of raw materials, components and goods for further manufacture of goods in the Gwadar Free Zone and export thereof, provided that in case of supply to tariff area of Pakistan, tax shall be charged on the value assessed on the Goods Declaration for import.

### THE SIXTH SCHEDULE – TABLE - 1

Following items have been proposed to be inserted and modified in the sixth schedule (table - 1):

Sr. #	Description	Headin g
1	2	3
100D	Machinery, equipment, materials and goods imported either for exclusive use within the limits of Gwadar Free Zone, or for making exports therefrom, subject to the conditions that such machinery, equipment, materials and goods, are imported by investors of Gwadar Free Zone, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (Act IV of 1969) and rules made thereunder shall, mutatis mutandis, apply	Respec tive Headin gs.

	provided that if any of such goods is taken out of the Zone for purpose other than the export, the tax on the same shall be paid by the importer.	
103	Import and supply thereof, up to the year <del>2020</del> "2023", of ships 1[...] and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistan entity and flying the Pakistan flag, except ships or crafts acquired for demolition purposes or are designed or adapted for use for recreation or pleasure purposes, subject to the condition that such ships or crafts are used only for the purpose for which they were procured and in case such ships or crafts are used only for the purpose for which they were procured, and in case such ships or crafts are used for demolition purposes within a period of five years of their acquisition, sales tax applicable to such ships purchased for demolition purposes shall be chargeable.	Respec tive Headin gs
154	Dietetic foods intended for consumption by children suffering from inherent metabolic disorder subject to the conditions that the importer shall acquire approval and quota from Ministry of National Health Services, Regulations and Coordination.	Respec tive Headin gs

## Sales Tax Act, 1990

**TABLE - 3**

It is proposed to substitute the sr. no. 15A in the sixth schedule (table - 3):

Sr. #	Description	Heading	Condition
15 A	Parts and components for manufacturing LED Lights:-		
	(i) Housing / Shell. Shell cover and base cap for all kinds of LED lights and bulbs.	Respective heading	If imported by LED light manufacturers registered under the Sales Tax Act, 1990
	(ii) Bare and stuffed Metal Clad Printed Circuit Boards (MCPCB) for LED.	8534.0000	subject to annual quota determination by the Input Output Co-efficient
	(iii) Constant Current Power Supply for of LED Lights and Bulbs (1-300W)	8504.4090	Organization (IOCO);
	(iv) Lenses for LED lights and bulbs.	9001.9000	

- In S. no. 66 rate of sales tax on retailers belonging to textile & leather sectors who integrated their retail outlets with Board's computerized system for real time reporting of sales has been revised from 14% to 12%.

### THE ELEVENTH SCHEDULE

Following amendments has been proposed in the eleventh schedule:

- The word registered person is substituted with "Active Taxpayer".
- The word unregistered person is substituted with "Persons other than Active Taxpayers".

### THE TWELFTH SCHEDULE

Through this Finance bill it is proposed that value addition under this schedule shall not be charged on the raw materials and intermediary goods imported by a manufacturer for in-house consumption.

Prior to this amendment it was read that value addition under this schedule shall not be charged on the raw materials and intermediary goods meant for use in an industrial process and subject to custom duty at a rate less than 16%.

### REDUCED RATE - 8TH SCHEDULE

Following amendments has been proposed in the eight schedule:

- In S. no. 56 rate of potassium chlorate [KClO<sub>3</sub>] has been revised from Rs. 70 per kg to Rs. 80 per Kg.



# Federal Excise Act, 2005

### **CEILING ON ADJUSTMENT OF POWER TO SEIZE & CONFISCATE INPUT TAX (FED) RELATED TO WASTAGE OF MATERIAL**

*(Section 6)*

In backdrop of adjustment of duties of excise, Federal Government has empowered the Board to notify the limits of wastage of materials on which input tax has been claimed. Consequently, input tax related to wasted material over and above the limits prescribed shall be disallowed.

Such restriction shall force the businesses using duty paid materials as input, to streamline and upgrade their manufacturing processes to control the abnormal wastages which may indirectly increase investment in research & development activities and technologically advance plant & machinery.

### **POWER OF TAX AUTHORITIES TO MODIFY ORDERS**

*(Section 14C)*

Through Finance Bill, a new section 14C has been proposed to be inserted, in line with provisions of section 124A of the Ordinance and 11C of the Act, to advise to Commissioner and IRO to follow the orders of High Court and Appellate Tribunal in case of a registered person while deciding the question of laws arising during proceedings against said taxpayers under Federal Excise Act, 2005 instead of using own legal mind regardless of the fact that Inland Revenue Authorities has preferred an appeal or reference there against.

Further, if any such orders of appellate are reversed or modified subsequent to execution of powers conferred under this section, the Commissioner or IRO may modify their assessment accordingly within one year from receipt of order to conform to the final decision.

Adaptation of above mentioned advisory by IR Authorities shall improve their efficiency and effectiveness in conclusion of assessment proceedings and provide an element of certainty to taxpayers in planning their taxation affairs arising due to development of expectation that Inland Revenue Authorities shall behave in already decided manner.

*(Section 26 & 27)*

Amendment proposed in section 26 and 27 empowering the seizure and confiscation respectively, of counterfeited cigarettes or beverages and unmanufactured tobacco, has increased the scope of power to seize and confiscate from limited (before mentioned items) counterfeited items to all counterfeited dutiable goods.

Such amendment shall further support Government's ongoing efforts to curb the smuggling of counterfeited goods and protect the local documented industry by providing them level playing field. Further, this amendment may also shrink huge revenue leakage due to sale of counterfeited goods in local markets.

### **MANNER OF PREFERRING APPEAL BEFORE COMMISSIONER, APPEALS**

*(Section 33)*

Appeals to Commissioner (Appeals), to specify the structure of appeal documents, fee for preferring the appeal and procedure to be followed in deciding the appeals, which is identical to procedure and manner prescribed in other fiscal laws, has been proposed on similar pattern under the FED Act.

As per newly introduced subsection, an appeal shall;

- be in prescribed form;
- be verified in the prescribed manner;
- state precisely the grounds on which the appeal is based;
- be accompanied by the prescribed fee i.e. Rs. 5,000/- for Companies and for others Rs. 2,500/- in case of an appeal against assessment and Rs.5,000/- for companies Rs. 1,000/- in any other case; and
- be filed with Commissioner (Appeals) within 30 days of receipt of order.

Further, Commissioner (Appeals) is barred from entertaining any material or document which was not produced before assessing authorities unless appellant was prevented by sufficient cause from producing the material or document.

The bar will put additional pressure on taxpayers to provide all possible evidence, required under the proceedings without any exception, before assessing officers.

### PROCEDURE OF DISPOSAL OF APPEALS BY APPELLATE TRIBUNAL

*(Section 34)*

Newly introduced subsection (3) in section 34 has streamlined the procedure to be followed by the Appellate Tribunal to dispose of appeals by specifying that the Appellate Tribunal may admit, hear and dispose of appeal as per procedure laid down in section 131 and 132 of the Income Tax Ordinance, 2001 and rules made thereunder.

### ALTERNATE DISPUTE RESOLUTION

*(Section 38)*

Federal Government has proposed improvements in the methodology, structure and procedure of ADRC to be followed in order to swiftly decide on matters preferred by the aggrieved person.

ADRC shall comprise of three persons including Chief Commissioner Inland Revenue having jurisdiction over the case and two persons from panel of Chartered Accountants, Cost and Management Accountants and Advocates. Previously a retired Judge was also required to be included in Committee.

Further modifications include;

- requirement to withdraw the appeal from Court of Law or Appellate Tribunal after constitution of Committee has been omitted;

- facility of automatic grant of stay order has been withdrawn in modification, now Committee has to decide whether or not to stay the recovery of tax in dispute;
- Order of Committee shall be binding on Commissioner only if communicated within sixty days of service of decision; and
- The aggrieved person has given a choice to follow the order of Committee or peruse the appeal pending in Court of Law or Appellate Tribunal.

### OMISSION OF RESTRICTION OF AUDIT ONCE IN EVERY THREE YEARS

*(Section 46)*

Previously, Chief Commissioner or IRO were empowered to audit of records or documents of any person registered under Federal Excise Act, 2005 only once in every three year. Such restriction has been proposed to be abolished through Finance Bill and consequent powers of adjudication has been increased.

### SERVICES OF NOTICE AND OTHER DOCUMENTS ELECTRONICALLY

*(Section 47)*

As per modification proposed by Finance Bill, service of notices and other documents via email or e - folder maintained for the purposes of e-filing of Sales-cum-Federal Excise Return by the registered person shall be considered as properly served. Before the change introduced by the Finance Bill, service of notices and other documents via email or e-folder was restricted to limited liability companies only.

## Federal Excise Duty, 2005

### REAL TIME ACCESS OF AMENDMENT IN FIRST SCHEDULE – INFORMATION AND DATABASES TABLE I – NEW ENTRY

(Section 47AB)

As a tax broadening measure and to document the economy, Federal Board of Revenue has been empowered by newly proposed section 47AB, to access in real time the information and database maintained by;

- National Database and Registration Authority [“NADRA”];
- Federal Investigation Agency [“FIA”] and the Bureau of Emigration and Overseas Employment [“BEOE”];
- Islamabad Capital Territory and provincial and local land record and development authorities;
- Islamabad Capital Territory and provincial excise and taxation departments;
- All electricity suppliers and gas transmission and distribution companies; and
- Any other agency, authority, institution or organization notified by the Board.

For real time access of information and data base, Board shall make arrangements for laying the infrastructure and till then information and database shall be made available on periodic basis in manner as may be prescribed by the Board.

This will act as a stepping stone towards overall improvements in data sharing between Government Departments, which will eventually be assisting Government in adding control measures over broadening of tax base, highlight tax evaders, identify elements of money laundering and terrorist financing.

Sr. #	Description of Goods	Heading	Rate of Duty
6a	Caffeinated energy drinks	2202.1010 2202.9900	25% of the retail price
8a	E-liquids by whatsoever name called, for electric cigarette kits	Respective Heading	Rupees 10 per ml
55C	Imported double cabin (4x4) pick-up vehicles	8704.2190 8704.3190	25% ad val
55D	Locally manufactured double cabin (4x4) pick-up vehicles	8704.2190 8704.3190	7.5% ad val”

#### CHANGE OF RATE OF DUTY

Sr. #	Description of Goods	Heading	Rate of Duty	
			Old	New
8	Cigars, cheroots, cigarillos and cigarettes of tobacco and tobacco substitutes	24.02	65% Of retail	100% of retail

Scope of entry no. 8 above has been increase by inclusion of Tobacco Substitutes.

## Federal Excise Duty, 2005

Sr .#	Descripti on of Goods	Headin g	Rate of Duty	
			Old	New
13	Portland cement, aluminous per cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers	25.23	Two rupees per kilogram	One rupee and seventy five paisa per kilogram
56	Filter rod for cigarette	5505.00 90	0.75 per filter rod	1 per filter rod

# Customs Act, 1969

### ADVANCE RULING

(Section 2 & 212B)

Worldwide, the concept of advance ruling is widely used to provide the businesses with certainty about the implication of transaction intended to be entered into and advance ruling obtained by business is mandatorily followed by the Revenue Authorities provided the complete facts were provided at the time of obtaining the ruling.

However, the concept of Advance Ruling is not functional in Pakistan due to ambiguities surrounding around the procedure to be followed by Revenue Authorities in issuance of Advance Ruling. Further, the definition of Advance Ruling provided in Customs Act, 1969 was also unclear about the scope of Advance Ruling.

Hence, an amendment has been proposed to facilitate the business to determine in advance intended business transaction and facilitate the Revenue Authorities to issue Advance ruling covering all possible aspects of applicable provision of Customs Act, 1969. Accordingly, as per proposed amendment Advance Ruling shall be a written decision by the Board or any officer or a committee authorized by Board, on the request of an applicant for determination of classification, origin or applicability of a particular relief or exemption on goods prior to their importation or exportation, valid for a specified period of time.

Through the Finance Bill following scenarios has been defined under which taxpayer can require advance ruling, which will be binding on applicant as well as custom Collectorates for a period specified by board, along with the procedure for seeking and granting of the advance ruling. Advance ruling can be called on following issues.

(i) classification of goods under First Schedule to this Act;

(ii) determination of origin of the goods under the rules of origin notified for bilateral and multilateral agreements;

(iii) applicability of notifications issued in respect of duties under this Act or any tax or duty chargeable under any other law for the time being in force in the same manner as duty of customs leviable under this Act; or

(iv) any other matter as the Board may specify by notification in the official Gazette

It is to be noted here that under the Ordinance of 2001, the provisions of advance ruling only bind the commissioner and not the applicant. However, as per the proposed law the advance ruling is binding on the applicant as well as for the customs collectorate for a specified time period.

If the proposed amendment is adopted then there would be different legal interpretations of laws being regulated by a single regulator. Further, making advance ruling binding upon the applicant is not in accordance with the internationally followed practices and principles.

### SMUGGLING – DEFINED

(Section 2)

As part of initiative of Government to curb the unethical practices of smuggling, the scope of the expression smuggling has been proposed to be enhanced. Previously, smuggling was limited to the extent of taking goods out of or into Pakistan in breach of prohibition or restriction for the time being in force. However, the proposed amendment intends to cover all the ancillary persons directly or indirectly engaged in facilitation of smuggling in addition to the person primarily responsible for smuggling. Due to proposed amendment, whole supply chain of smuggling will be discouraged and everyone involved in smuggling supply chain will be held accountable at par.

### ASSISTANCE TO CUSTOM OFFICERS

(Section 7)

A special force has been formed by the Government of Pakistan to account for or protect the goods being transported in or out of Pakistan through the Borders of Pakistan. Through the proposed amendment, Officers of Customs would now also be empowered to obtain assistance from Border Military Police in addition to other



Government Department and agencies as specified in section 7 of the Customs Act, 1969.

### **DETENTION, SEIZURE AND CONFISCATION OF GOODS**

*(Section 17)*

Under section 17 of the Customs Act, 1969 goods imported into, or attempted to be exported out of, Pakistan in violation of the provisions of Customs Act, 1969 are liable to detention, seizure and confiscation. Through the proposed amendment, a time limit has been imposed on detention which shall not exceed 15 days which may be extended further subject to further approval of the Chief Collector or Director General to maximum of another 15 days. As a result of such measure it has been intended to reduce the time taken by the Custom Authorities in resolution of disputes.

### **MINIMAL DUTIES NOT TO BE DEMANDED**

*(Section 19C)*

To save the time and cost of Custom Authorities in processing the low value imported item and focus their energies on highly value matters, an amendment has been proposed in section 19C of Customs Act, 1969, minimal value limit of imported items on which no duty and taxes shall be collected if the value is Rs. 5,000/- or below.

### **ALLOWING MUTILATION AND SCRAPPING OF GOODS**

*(Section 27A)*

Previously, importers used to request the Custom Authorities to scrap and mutilate the new or used goods imported, so that reduced amount of duties and taxes could be paid on such goods which results into lower revenue collection and release of undervalued goods. To curb this practice, an amendment has been proposed under which Custom Authorities has been barred to scrap or mutilate the new imported items and are required to collect duties and taxes as per their classification.

### **FISCAL FRAUD**

*(Section 32A)*

Currently, under or over invoicing to reduce the impact of applicable duties and taxes is major cause of revenue leakage and at the same time putting the local industry at competitive disadvantage.

Through the Finance Bill it is proposed to treat the above mentioned scenario as Fiscal fraud where any person declares value which is significantly higher or lower than the actual value that is the price actually paid or payable for the goods when the same are exported outside Pakistan and it is proposed to initiate the proceedings against such person under this section subject to conditions or limitations as may be prescribed by the Board under the rules.

Through the Finance Bill it is proposed to enhance the scope of penal provisions to such person who has committed the fiscal fraud even if such fiscal fraud has no revenue implication

### **SCRUTINY OF GD BY CUSTOMS**

*(Section 80)*

Through the Finance Bill it is proposed that the custom officer shall serve a notice to the importer through Customs Computerized System and provide him opportunity of hearing, if he so desires before making reassessment of taxes and duties. Previously customs officer was empowered to make reassessment of duties and taxes without even intimating the importer.

### **DECLARATION BY PASSENGER OR CREW OF BACKAGE**

*(Section 139)*

Through the Finance Bill it is proposed to treat the act of passenger travelling through land route, ship or air travel, as smuggling within the meaning of clause (s) of section 2 where any person attempts to bring into or takes out of

## Customs Act, 1969

Pakistan, currency, gold, precious metals or stones, in any form through concealment in baggage or circumventing customs controls.

### OFFENCES & PENALTIES

(Section 156)

Through the Finance Bill new penalties has been proposed on carrying out certain offences.

8(i) Where any goods be smuggled into or out of Pakistan,-	such goods shall be liable to confiscation and any person concerned in the offence shall be liable to-	(d) if the value of the goods is from PKR 7,500,001 to 10,000,000 (both inclusive);	a penalty not exceeding four times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding ten years:  Provided that the sentence of the imprisonment shall not be less than three years.
(a) if the value of the goods is from PKR 150,001 to 3,000,000 (both inclusive);	a penalty not exceeding the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding two years;	(e) if the value of the goods exceeds PKR 10,000,000;	a penalty not exceeding five times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding fourteen years: Provided that the sentence of the imprisonment shall not be less than five years and the whole or any part of his moveable and immoveable assets and property shall also be liable to forfeiture in accordance with section 187 of the Customs Act, 1969:
(b) if the value of the goods is from PKR 3,000,001 to	a penalty not exceeding two times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding three years:  Provided that the sentence of the imprisonment shall not be less than two years.		Provided further that, in the case of such goods as may be notified by the Federal Government in the official Gazette, the sentence of imprisonment shall not be less than five years and the whole or any part of his property shall also be liable to forfeiture.
(c) if the value of the goods is from PKR 5,000,001 to 7,500,000 (both inclusive);	a penalty not exceeding three times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding five years:  Provided that the sentence of the imprisonment shall not be less than two and half years.		

## Customs Act, 1969

8(iii) If the smuggled or prohibited goods comprise currency, gold, silver, platinum or precious stones in any form-	such currency or goods shall be liable to confiscation and any person concerned in the offence shall be liable to-
(a) if the value of the currency or goods is upto US \$ 10,000 or equivalent in value (currency of other denomination) etc;	a penalty not exceeding the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding two years;
(b) if the value of the currency or goods is from US \$ 10,001 to US \$ 20,000 (both inclusive) or equivalent in value (currency of other denomination) etc;	a penalty not exceeding two times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding three years: Provided that the sentence of the imprisonment shall not be less than two years.
(c) If value of the currency or goods is from US \$ 20,001 to US \$ 50,000 (both inclusive) or equivalent in value (currency of other denomination) etc;	a penalty not exceeding three times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding five years: Provided that the sentence of the imprisonment shall not be less than two and half years.
(d) if the value of the currency or goods is from US \$ 50,001 to US \$ 100,000 (both inclusive) or equivalent in value (currency of other denomination) etc;	a penalty not exceeding four times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding ten years;

	Provided that the sentence of the imprisonment shall not be less than three years.
(e) if the value of the currency or goods exceeds US \$ 100,000 or equivalent in value (currency of other denomination) etc;	a penalty not exceeding five times the value of the goods; and upon conviction by a Special Judge he shall further be liable to imprisonment for a term not exceeding fourteen years: Provided that the sentence of the imprisonment shall not be less than five years and the whole or any part of his moveable and immoveable assets and property shall also be liable to forfeiture in accordance with section 187 of the Customs Act, 1969.

### POWER OF ADJUDICATION

(Section 179)

Through the Finance Bill it is proposed to restrict the time limit, for deciding the cases, wherein the provisions of fiscal fraud have been invoked, upto maximum of thirty days from the issuance of show cause notice.

### BURDEN OF PROOF AS TO LAWFUL AUTHORITY

(Section 187)

A proviso has been inserted to emphasize that any person who has committed an alleged offence under this Act shall bear the burden of proof to provide evidences in support of his stance pertaining the fact, that any property owned by him in his name or someone else's name was not acquired from the proceeds of crime.

### ORDER OF APPELLATE TRIBUNAL

(Section 194B)

Through the finance Bill it is proposed that the Appellate Tribunal must decide all appeals in which the provisions of fiscal fraud have been invoked within a period of thirty days.

### ALTERNATE DISPUTE RESOLUTION

(Section 195C)

Federal Government has proposed improvements in the methodology, structure and procedure of ADRC to be followed in order to swiftly decide on matters preferred by the aggrieved person.

ADRC shall comprise of three persons including Chief Collector having jurisdiction over the case a persons from penal of Chartered Accountants, and Advocates having ten years of experience in field of taxation and reputable business man as nominated by chamber of commerce and industry and a person to be nominated by board. Previously a retired Judge was also required to be included in Committee.

Further modifications include;

- requirement to withdraw the appeal from Court of Law or Appellate Tribunal after constitution of Committee has been omitted;
- facility of automatic grant of stay order has been withdrawn in modification, now Committee has to decide whether or not to stay the recovery of tax in dispute;
- Order of Committee shall be binding on Commissioner only if communicated within sixty days of service of decision; and
- The aggrieved person has been given a choice to follow the order of Committee or peruse the appeal pending in Court of Law or Appellate Tribunal.

### PROCEDURE FOR SALE OF GOODS AND APPLICATION OF SALE PROCEEDS

(Section 201)

Through the Finance Bill it is proposed to restrict the share of the importer in the sale proceeds, of the confiscated goods, upto the value declared by importer in the filed goods declaration note.

### AUTHORIZED ECONOMIC OPERATORS PROGRAMME

(Section 212A)

Through the Finance Bill it is proposed to grant benefit to authorized economic operators in the following manners

- (a) Laying down any procedure or mode for collection of customs duties, fee, surcharge, penalty or any other levy under this Act or any other law;
- (b) Deferring collection of customs duties, fee, surcharge, penalty or any other levy either in whole or in part;
- (c) Condoning or substituting whole or part of the bank guarantee or pay order of a scheduled bank required under this Act with any other financial instrument as deemed appropriate.

## Other Laws

## Other Laws

### ANTI DUMPING DUTIES ACT, 2015

(Section 51)

A new proviso to section 51 has been introduced allowing the release of goods provisionally against the security in shape of bank guarantee or pay order of schedule bank along with indemnity bond equal to amount of anti-dumping duty imposed on subject goods, where a competent court of law has stayed preliminary or final determination of anti – dumping duty to be collected in the same manner as custom duties under Customs Act, 1969.

In case **preliminary or final determination is upheld by the court**, duty shall be paid by the importer and security with the customs department shall be released otherwise the same shall be en – cashed to settle the duty liability.

If the **preliminary or final determination is set aside by the court**, security shall be released, if not required for recovery of any outstanding previous liability.

### PUBLIC FINANCE MANAGEMENT ACT, 2019

#### NON TAX REVENUE – DEFINED

A clause (ma) has been inserted in section 2 defining the Non Tax Revenues which include;

- All revenues received by the Federal Government, all loans raised by that Government and all moneys received by it in repayment of any loan i.e. Federal Consolidated Fund;
- All other moneys received by or on the behalf on Government;
- Received by or deposited with the Supreme Court or any other court established under the authority of the Federation; and
- Recurring income from Government investment and provision of services.

#### REVENUE COLLECTION OFFICE

Revenue Collection Office has been defined in newly introduced clause (ua) of section 2 as a ministry, division or its attached department or subordinate office responsible for collection, monitoring and reporting of non-tax revenue.

#### LEVY, COLLECTION AND ADMINISTRATION OF NON TAX REVENUE

In a bid to increase the non – tax revenue in line with the policy statement of the Government, a new chapter VIIIA has been introduced comprising on section 40A, 40B, 40C, 40D and 40E for the purposes of levy, collection and administration of non – tax revenues. As per newly inserted chapter;

## Other Laws

- the administrative ministries and divisions shall be responsible for policy formulation and administration of non-tax revenue;
- Non tax revenue shall be levied and charged in accordance with the provisions of relevant laws and such other applicable instruments;
- The revenue collection offices shall be responsible for collection of all the accrued amounts of non-tax revenue from liable public entities, individuals, firms, companies etc.;
- An amount equal to monthly weighted financing cost of Government's domestic borrowings shall be payable during the period of default, in addition to the amount due;
- If the amounts are not paid within ninety days of having been due, the Finance Division, in consultation with the concerned Division may refer any defaulter's case to the Commissioner (Inland Revenue) concerned for recovery as it were an arrear of income tax. Such provision would cause a conflict whereby the powers of recovery could be objected upon by the defaulters being non – tax in nature; and
- The revenue collection offices shall deposit the collected amounts in Federal Consolidated Fund.
- Surplus profits as per the provisions of relevant laws; and
- Any other amount owed to the Government as accrued.

Public entities means, where;

- any board, commission, company, corporation, trust or other fund or account is established by or under any law which is fully or substantially funded either from the Federal Consolidated Fund or by way of taxes, levies, duties or other public monies accruing to it in terms of any laws; or
- any entity other than a state enterprise is established by or under any law, the activities of which may result in a financial commitment or other liability being incurred by the Government.

Further, public entities declared by the Federal Government for the purposes this Act shall pay non – tax revenue representing;

- Mark up on loans lent by the Government, as per the amortization schedule attached with the financing agreement;
- Dividend against the Government's equity investments as declared by the respective board of directors out of accrued profits of the entity;



## Other Laws

### TAX ON LUXURY HOUSES IN ISLAMABAD CAPITAL TERRITORY

In current stringent financial situation of masses caused due to the COVID-19, Federal Government is committed not to put additional financial burden on middle and lower class by imposing taxes and duties thereon. Instead Federal Government is exploring alternate avenues to collect revenues to bridge the budget deficit and proposed tax on luxury houses in Islamabad Capital Territory ["ICT"] is result of such efforts. Through this proposed amendment, Federal Government intends to impose tax on elite class of Pakistan living in luxury houses who can afford to pay additional taxes without shading a tear. As per newly proposed scheme of tax (tabulated below), Federal Government has proposed to recover tax through Ministry of Interior on residential houses and Farm houses as follow;

#### RESIDENTIAL HOUSES

Sr. #	Category of Residential Houses	Rate of Tax in rupees
1	Two kanal to four kanal covered area of more than 600 Square feet.	100,000/- per kanal
2	Five to above with covered area of more than eight thousand Square feet.	200,000/- per kanal

#### FARM HOUSES

Sr. #	Category of Farm Houses	Rate of Tax in rupees
1	Four kanal area under farming;  (i) A farm house with covered area between 5,000 to 7,000 Square feet.  (ii) A farm house with covered area of between 7,001 to 10,000 Square feet.  (iii) A farm house with covered area more than 10,000 Square feet.	25 per Square foot of the covered area per annum  40 per Square foot of the covered area per annum  40 per Square foot of the covered area per annum
2	More than four kanal area under farming;  (i) A farm house with covered area between 5,000 to 7,000 Square feet.  (ii) A farm house with covered area of between 7,001 to 10,000 Square feet.  (iii) A farm house with covered area more than 10,000 Square feet.	60 per Square foot of the covered area per annum  70 per Square foot of the covered area per annum  80 per Square foot of the covered area per annum

Self-occupied residential or farm houses of widows shall be exempt from application of luxury tax.