



FINANCE BILL

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An independent member firm of UC&CS America and UC&CS Global

FINANCE BILL 2021

This memorandum portrays the significant changes which have been introduced through Finance Bill 2021 in different taxation laws. These changes are mainly relating to Income Tax, Sales Tax, Federal Excise Duties and Custom duties. It also includes analysis of micro and macro-economic characteristics of our country during the tax year 2020-2021.

We have prepared this commentary for benefit, information and guidance of our prestigious clients, both local and foreign doing business in Pakistan, and it is available at our website <http://www.mhssco.com>.

These proposed changes will generally be applicable from 1st July 2021 until and unless specified.

The notes specified in this document are based on Finance Bill 2021. This Finance Bill shall be published as Finance Act 2021 as and when enacted.

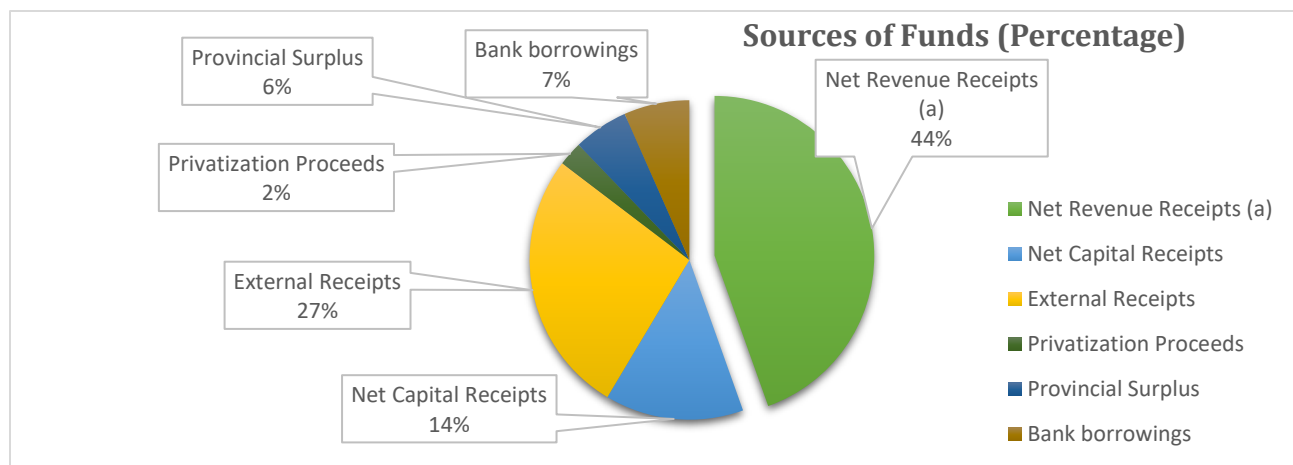
The memorandum is aimed at providing general guidance with the objective of keeping our clients and staff abreast of the changes in the aforementioned laws. MHSS accepts no duty of care or liability for any loss occasioned to any person acting in this publication. The readers are therefore advised to seek professional advice before exercising any judgment, interpretation of any legal provision and acting thereupon.

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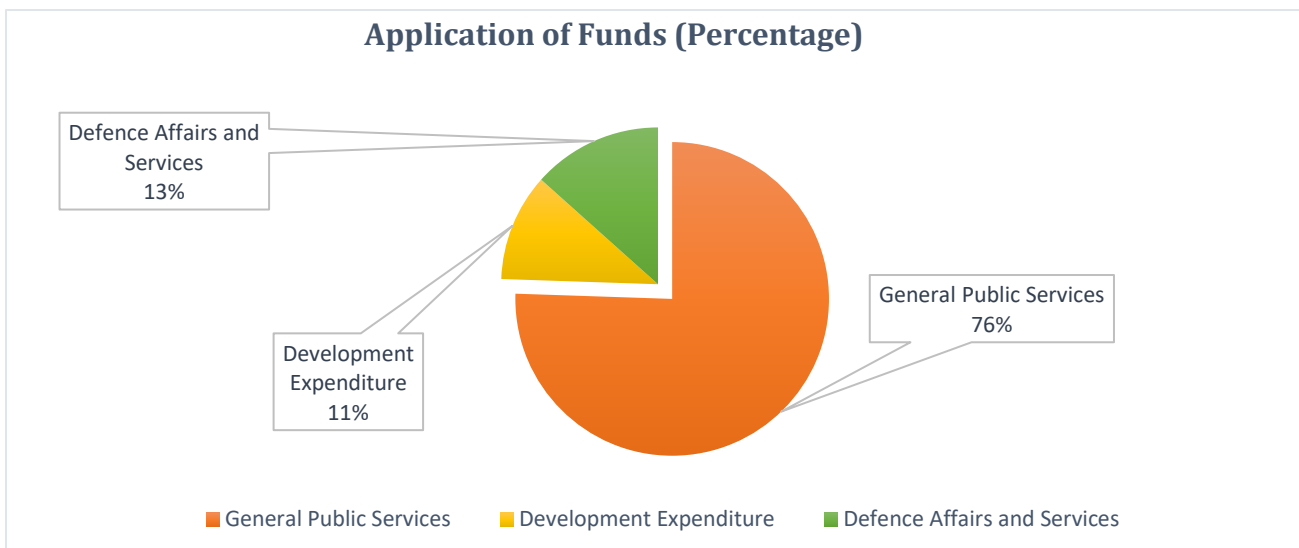
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FINANCE BILL HIGHLIGHTS 2021

SOURCES OF FUNDS	2021-22	2020-21	Difference
	Rupees in Billion		%
Net Revenue Receipts (a)	4,571	3,610	26.62%
Net Capital Receipts	1,440	1,701	-15.34%
External Receipts	2,748	2,287	20.16%
Privatization Proceeds	252	-	100.00%
Provincial Surplus	570	242	135.54%
Bank borrowings	681	649	4.93%
Total Sources of Funds	10,262	8,489	20.89%



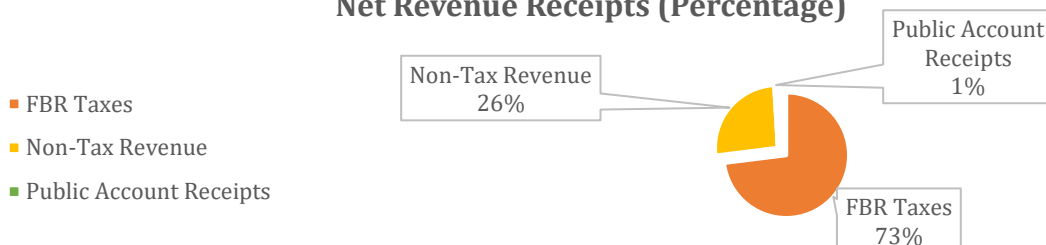
APPLICATION OF FUNDS	2021-22	2020-21	Difference
	Rupees in Billion		%
General Public Services (b)	7,751	6,327	22.50%
Development Expenditure	1,138	863	31.87%
Defense Affairs and Services	1,373	1,299	5.70%
Total Application of funds	10,262	8,489	20.89%



FINANCE BILL HIGHLIGHTS 2021

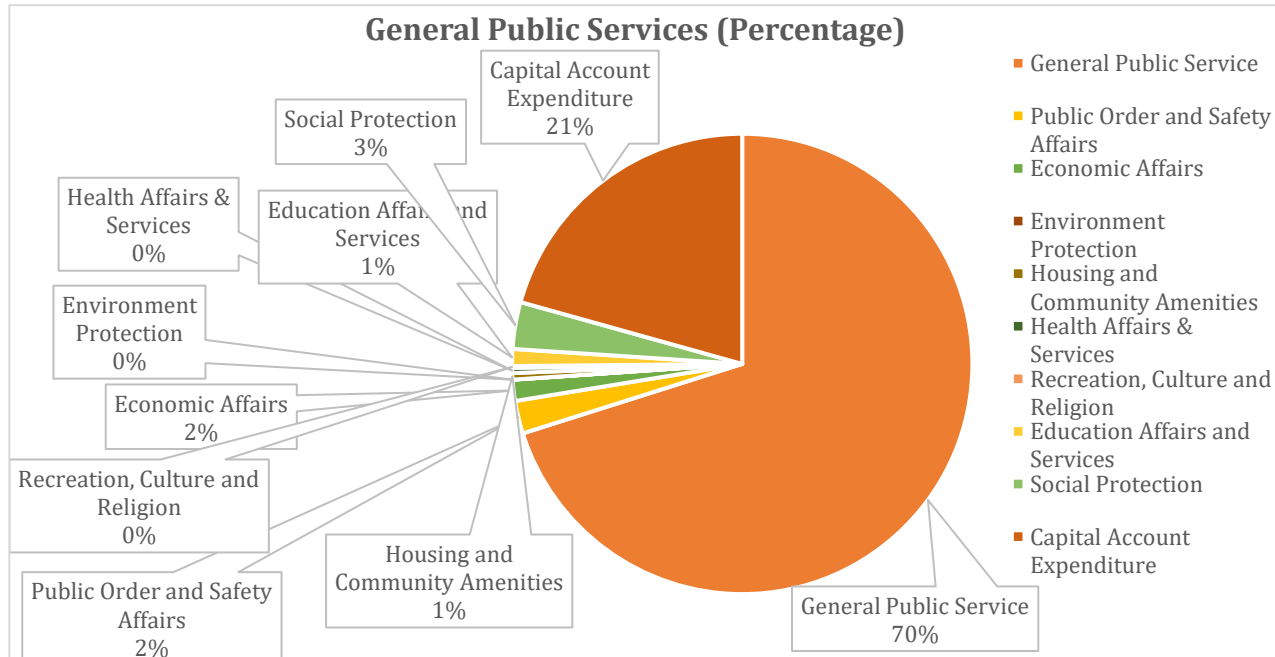
(a) NET REVENUE RECEIPTS	2021-22	2020-21	Difference
	Rupees in Billion		%
FBR Taxes	5,829	4,691	24.26%
Non-Tax Revenue	2,080	1,704	22.07%
Public Account Receipts	74	(81)	-191.36%
Gross Revenue Receipts	7,983	6,314	26.43%
Less: Provincial Share in Taxes	3,412	2,704	26.18%
Total Net Revenue Receipts	4,571	3,610	26.62%

Net Revenue Receipts (Percentage)



(b) APPLICATION OF FUNDS	2021-22	2020-21	Difference
	Rupees in Billion		%
General Public Service	5,435	4,491	21.02%
Public Order and Safety Affairs	179	169	5.62%
Economic Affairs	115	192	-40.10%
Environment Protection	0.436	0.399	9.27%
Housing and Community Amenities	35	10	250.00%
Health Affairs & Services	28	52	-46.15%
Recreation, Culture and Religion	10	12	-16.67%
Education Affairs and Services	92	88	4.55%
Social Protection	255	246	3.66%
Capital Account Expenditure	1,602	1,067	50.14%
Total Sources of Funds	7,751	6,327	22.50%

General Public Services (Percentage)

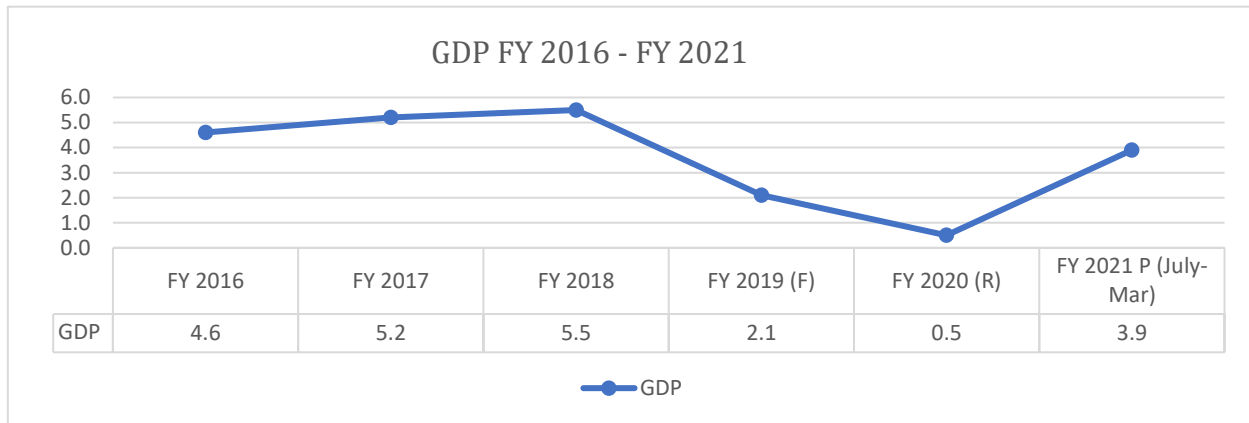


SECTION A. OVERVIEW OF THE ECONOMY

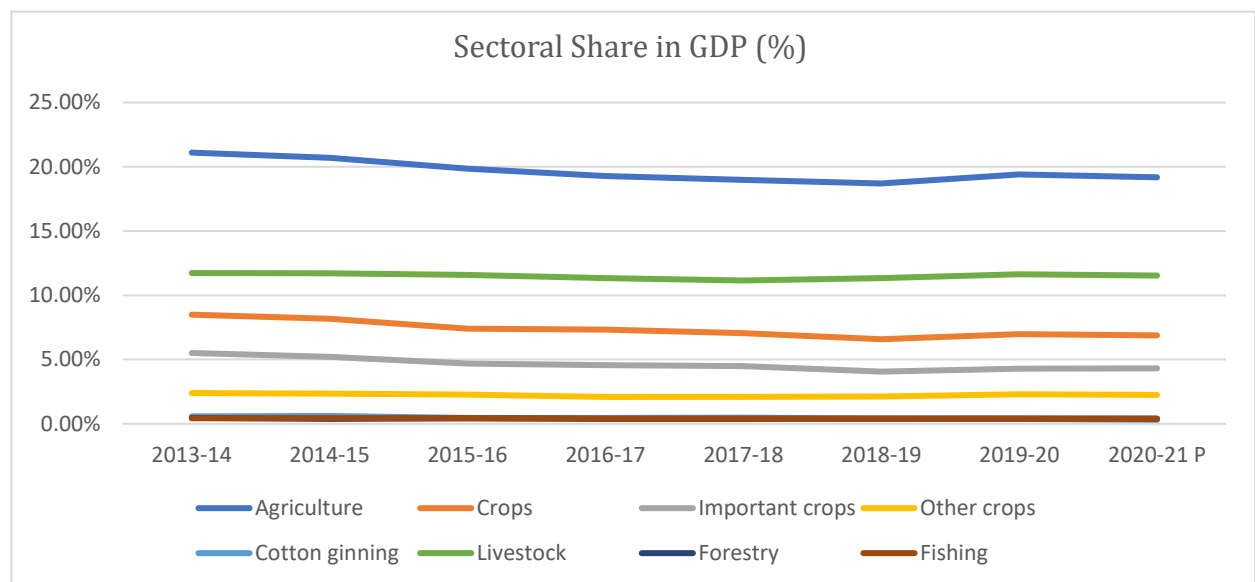
- The provisional GDP growth rate for FY2021 is estimated at 3.94 percent as compared to the GDP rate at negative -0.47 percent for FY 2020. The targeted GDP growth rate was 2.1 percent which is achieved mainly due to the good performance in the agriculture sector with a growth rate of 2.77%, 3.57% in industrial sector and 4.43% growth in services sector.
- Fiscal deficit as a percentage of GDP was contained at 3.5 percent during July-March FY2021 against 4.1 percent in the same period of last year. The primary balance posted a surplus of Rs. 451.8 billion during July-March 2021 against the surplus of Rs. 193.5 billion in same period of last year. Revenue collection by FBR during July-April, FY2021 is Rs. 3780.3 billion as compared to Rs. 3303.4 billion in FY 2020 showing a growth of 14.4 percent. The non-tax revenues stood at Rs. 1227.6 billion during July-March 2021 against 1324.4 billion in the same period of last year, showing a decline of 7.3 percent.
- Current account posted a surplus of \$0.8 billion, during July-April, FY2021 for the first time in 17 years. SBP's foreign exchange reserves rose to \$16 billion, four-years high.
- Pakistan's total liquid foreign exchange reserves increased to \$ 22.7 billion by the end of April 2021, up by \$ 3.8 billion, indicating a growth of 20.1 percent over the end-June 2020.
- Inflation was recorded at 8.8 percent for the period July-May FY2021 as compared to 10.9 percent during the same period last year on account of rise in the prices of global agrarian products and other commodities especially oil prices.
- Public debt was recorded at Rs. 38,006 billion [Domestic debt Rs. 25,552 billion and external public debt Rs. 12,454 billion] at the end of March 2021 as compared to Rs. 35,207 billion in the same period last year, showing an increase of 7.9 percent.
- Trade deficit increased by 21.02 percent to \$ 21.3 billion as compared to \$ 17.6 billion last year. Export of goods grew by 6.5 percent during July-April FY2021 and stood at \$ 21 billion as compared to \$ 19.7 billion in the same period last year. Import of goods grew by 13.5 percent to \$ 42.3 billion as compared to \$ 37.3 billion last year.
- The inflow of workers' remittances in Pakistan has been rising consistently since FY2018 and the trend continued in FY2021 with a meritorious growth of 29.0 percent and reached \$ 24.2 billion during July-April FY2021.
- As of May 31, 2021, the total market capitalization of the Pakistan Stock Exchange was Rs. 8,267 billion. An increase of 26.6 percent was witnessed in market capitalization, compared with the June 30, 2020 market capitalization of Rs. 6,529 billion. During July-May FY2021, the benchmark KSE-100 index improved from 34,889 points to 47,896 points, gaining 13,006 points in the said period.

GROWTH AND INVESTMENT

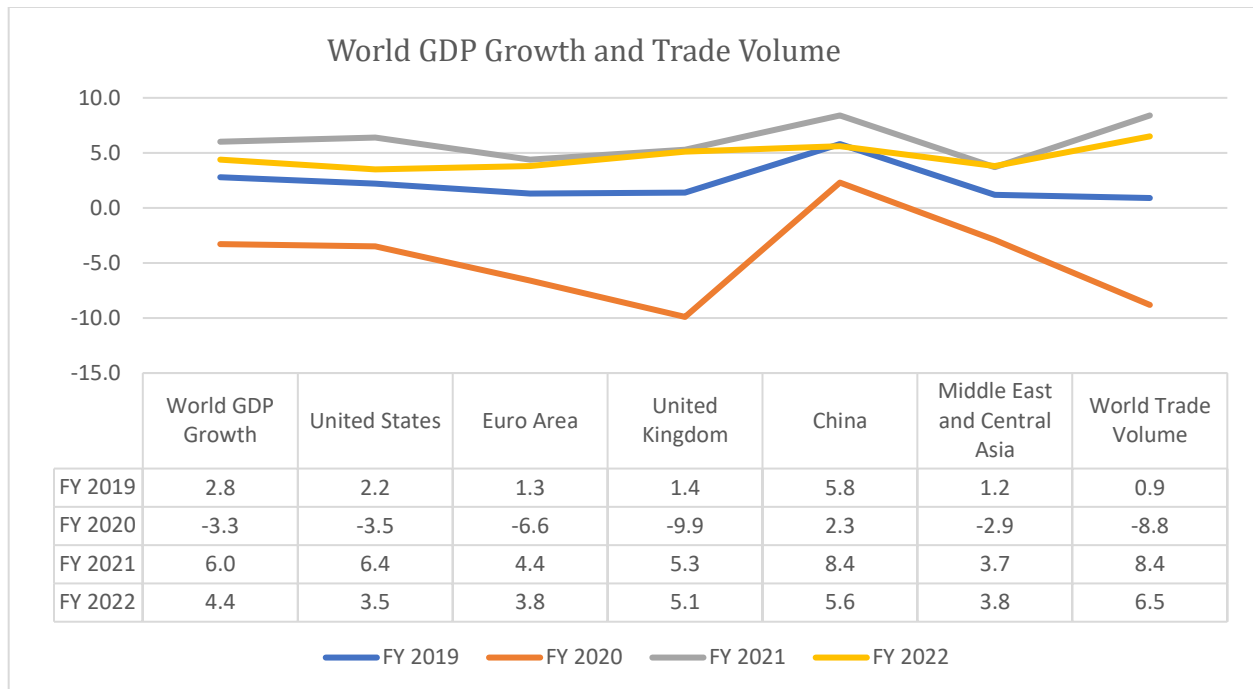
- Real GDP growth of 3.94 percent in FY2021 compared to the GDP rate at negative -0.47 percent for FY 2020 shows concerted efforts of government for addressing structural issues to avoid further macroeconomic imbalances.



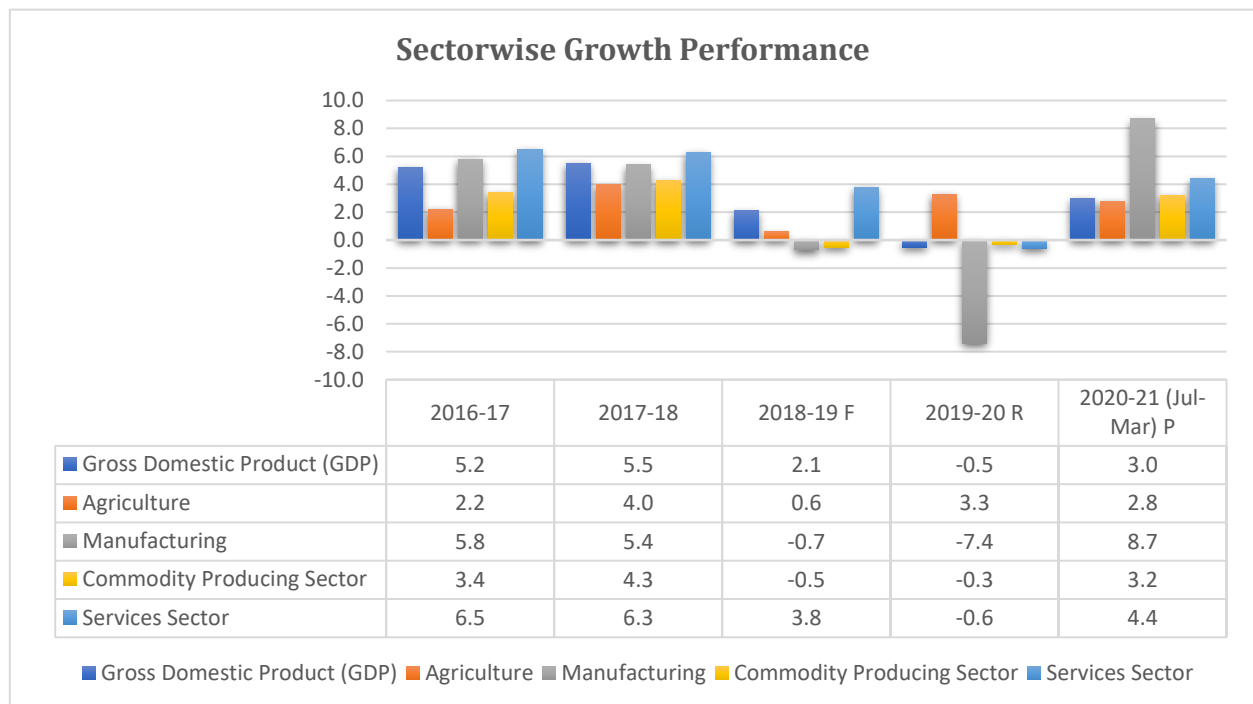
- Growth rate in agricultural sector remained 2.8% in FY2021 as compared to 3.3% in FY2020 showing a decrease of 17.8%. Industrial sector as a percentage of GDP stood at 19.1% in FY2021 as compared to 19.2% in FY2020 whereas its growth rate is 3.6% in FY2021 as compared to negative 3.8% in FY2020. Similarly, service sector as a percentage of GDP stood at 61.7% in FY2021 as compared to 61.4% in FY2020 whereas its growth rate is 4.4% in FY 2021 as compared to negative 0.6% in FY2020.



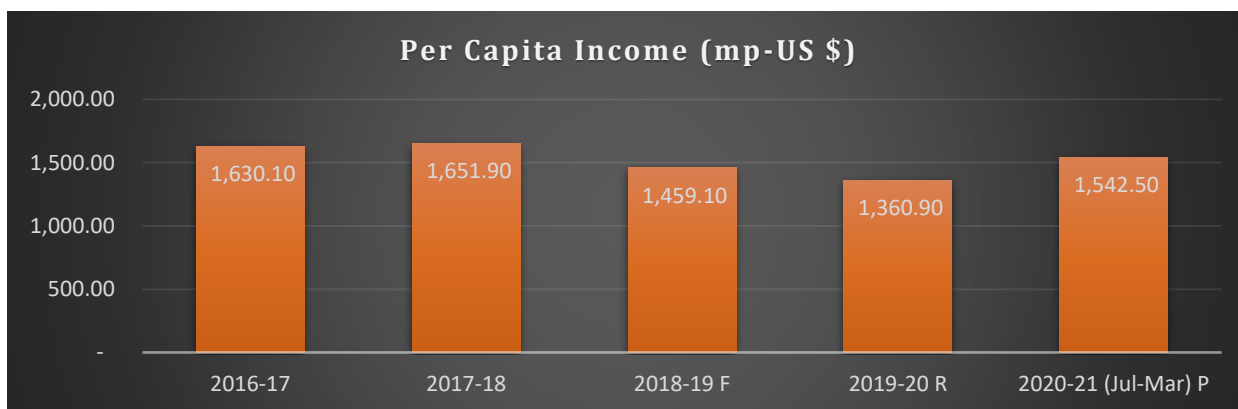
- Global outlook faces significant challenges of GDP growth during the fiscal year. A comparison of different world regions GDP growth rate and trade volume is given hereunder:



- In the industrial sector, growth in Manufacturing was recorded 8.7 percent on account of growth in LSM, SMEs and Slaughtering. The other sector which has shown significant growth was Construction, which recorded a growth of 8.3 percent due to increase in general government spending (36 percent). Furthermore, PM construction scheme of fixed taxation also played a vital role to boost this sector. Mining and Quarrying posted a decline of 6.5 percent due to decline in production of gas and crude oil by 4.7% and 6.7% respectively.



- Total investment to GDP ratio has reached to 15.2% in FY2021 as compared to 15.3% in FY2020 showing a decrease of 0.65 percent. Gross Fixed Capital Formation (GFCF) posted a growth of 13.8 percent in FY2021 and remained 13.6 percent of GDP. In private sector, the Gross Fixed Capital Formation (GFCF) is estimated at Rs. 4,681,348 million during FY2021 against Rs. 4,393,570 million in FY 2020 resulting in an increase of 6.5 percent. In public sector, the GFCF, posted a growth of 38.3 percent as it is estimated at Rs. 435.2 billion during FY2021 against Rs.314.8 billion during FY2020.
- In context of growth with protection of vulnerable segments, the mentioned government measured kept Per capita income in Pakistani rupees to continue its increasing trend. However, rebound was seen in per capita income in dollar term which reflects both stability of exchange rate and real economic growth.

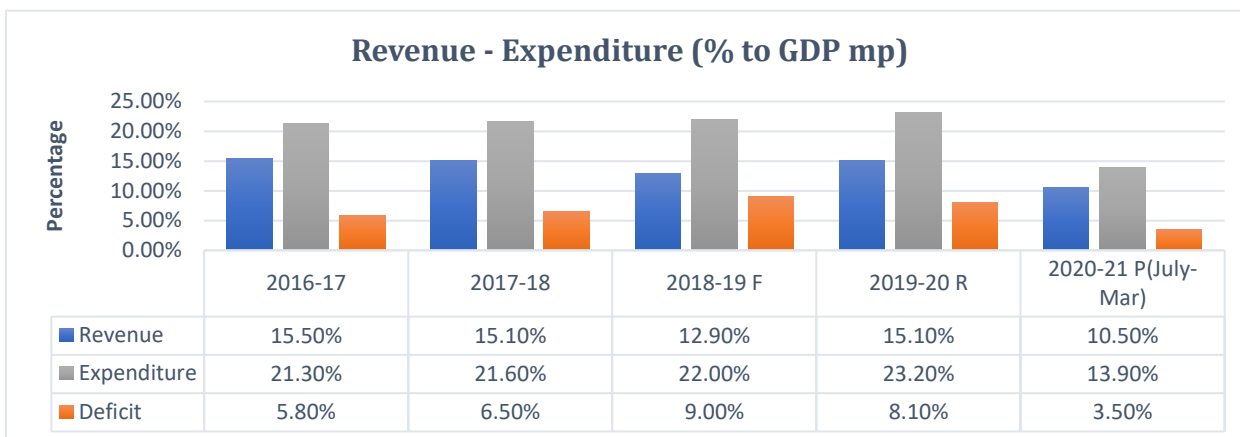


- In FY2021, share of the private consumption in GDP remained at 80.7% as compared 79.3% in FY2020. Growth in Private Consumption remained 16.8 percent significantly contributing in GDP growth on account of higher growth in workers remittances and cash transfer to low segment of society through Ehsaas Cash Emergency Program. However, in FY2021, growth in the Public Consumption remained 11.4 percent lower than 19.3 percent recorded last year mainly due to squeezing unnecessary expenditures as well as decrease in interest payments.

FISCAL DEVELOPMENT

- The initiatives taken by the Government have reflected a strong carry-over effect in the current fiscal year where the fiscal deficit contained at 3.5 percent of GDP during July-March, FY2021 against 4.1 percent of GDP in the same period of last year. The primary balance as a percentage of GDP remained 0.9 and posted a surplus of Rs. 451.8 billion during July-March 2021 against the surplus of Rs. 193.5 billion in same period of last year with 0.5 percentage of GDP.
- Total tax revenue (federal & provincial) grew by 11.9 percent during July-March, FY2021 and stood at Rs 3,765.0 billion. Within the total, federal tax collection witnessed a significant rise as it grew by 11.5 percent to stand at Rs 3,394.9 billion during July-March, FY2021 against Rs 3,044.3 billion in the same period of FY2020. Non-tax revenue, stood at Rs 1,227.6 billion during July-March, FY2021 against Rs 1,324.4 billion in the corresponding period last year, showing a decline of 7.3 percent. Out of the total, federal non-tax

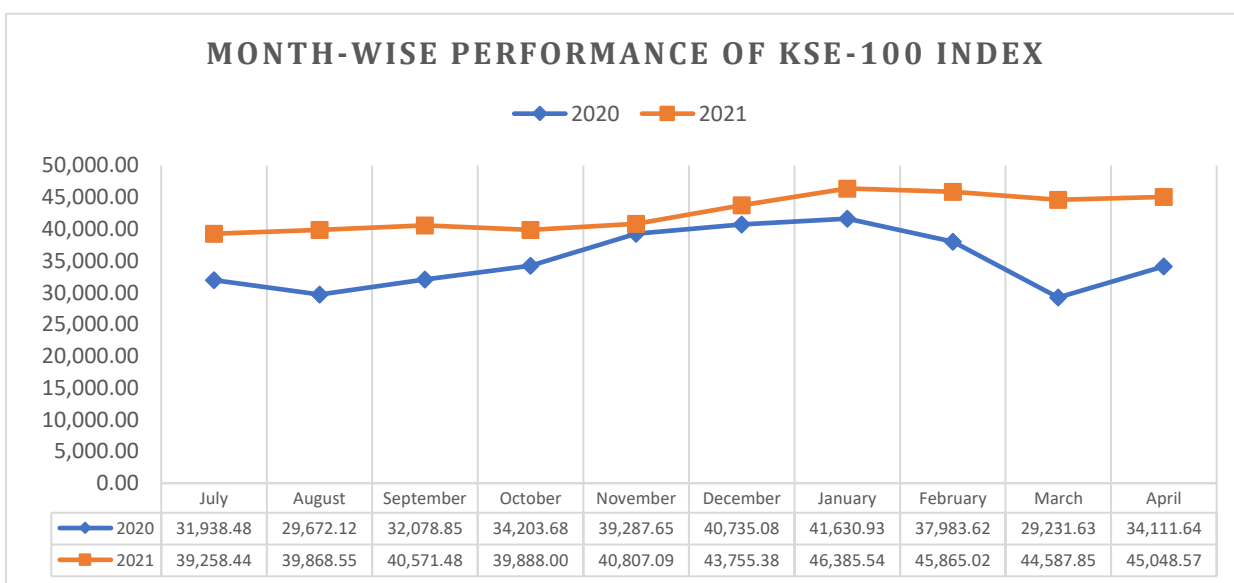
revenue recorded a decline of 8.0 percent to Rs. 1,145.4 billion during July-March, FY2021 against Rs. 1,244.8 billion in the same period of last year.



- Total expenditure grew by 4.2 percent during July-March, FY2021 as compared to 15.8 percent growth observed in the same period of FY2020. The expenditures stood at Rs. 6,644.6 billion (13.9 percent of GDP) during July-March, FY2021 against Rs. 6,376.0 billion (15.3 percent of GDP) in the comparable period of last year. The mark-up payments grew by 11.9 percent during July-March, FY2021 on account of higher growth in domestic debt servicing. In absolute terms, the mark-up payments increased to Rs. 2,103.9 billion during July-March, FY2021 from Rs. 1,879.7 billion as compared to same period of last year.

CAPITAL MARKET

- During July 2020 to April 2021 period, the benchmark KSE-100 index improved from 34,889.41 points to 44,262.35 points. During this time, the Index closed at its highest point of 46,933.63 on February 3, 2021. As of April 30, 2021, number of listed companies stood at 532, with total market capitalization of Rs. 7,718 billion.

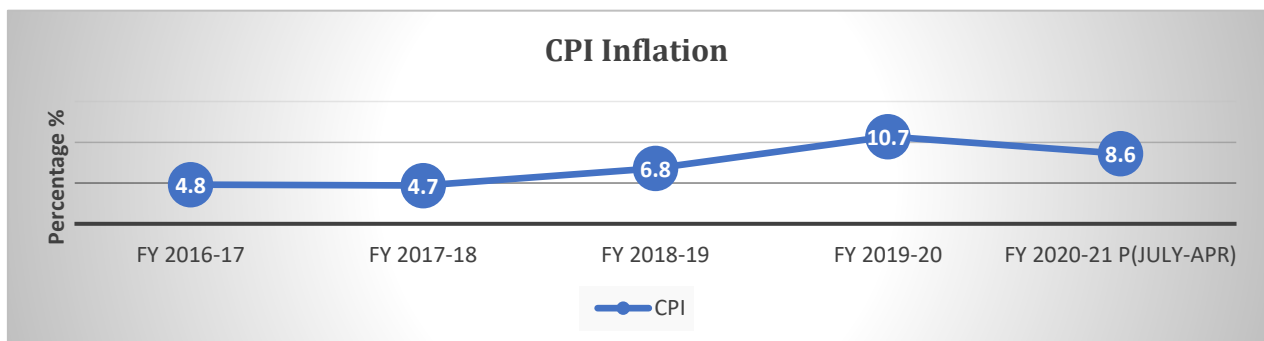


- Pakistan Stock Exchange witnessed five IPOs during July-March FY2021 period.

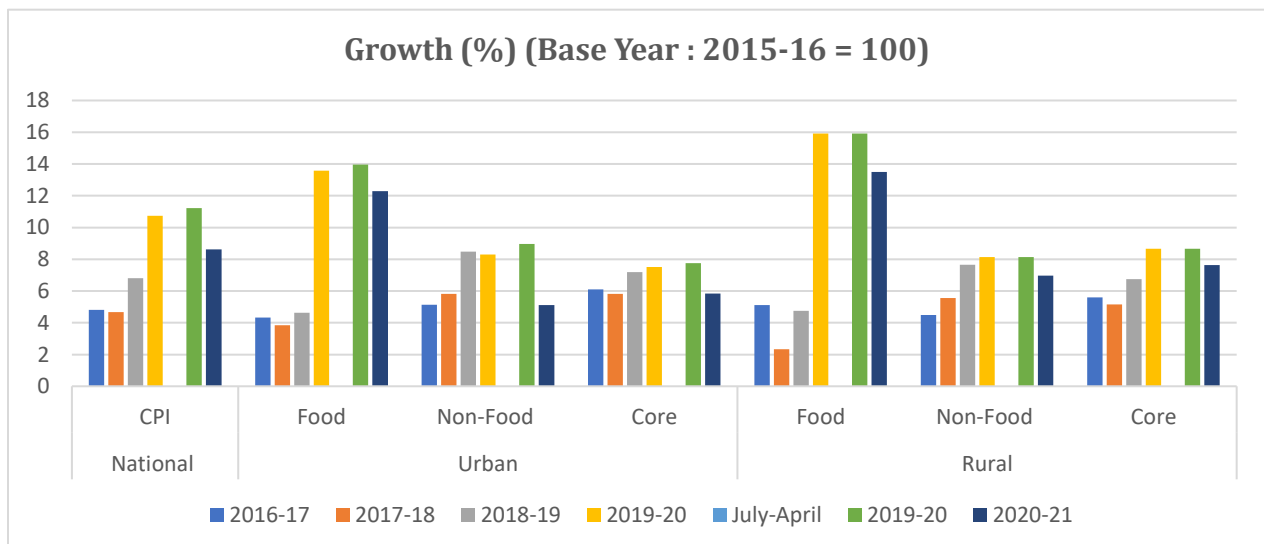
- As of March 31, 2021, 93 corporate debt securities remain outstanding, amounting to Rs. 782.875 billion, Term Finance Certificates (TFCs) amounting Rs. 151.898, Sukuk amounting Rs. 623.356 and Commercial Papers (CPs) amounting Rs. 7.621.
- Due to discontinuation of institutional investment and discontinuation of highest denomination prize bonds, the net proceeds have been counted at Rs. 86 billion as of March 31 2021.
- During the period July 01, 2020 to March 31, 2021, Rs. 2.31 million lots of various commodities futures contracts including gold, crude oil, US equity indices and FX pairs, worth Rs. 2.014 trillion were traded on PMEX.

INFLATION

- The headline inflation measured by the Consumer Price Index (CPI) was recorded at 8.6 percent during July-April FY2021 as against 11.2 percent during the same period last year. Inflation in Perishable food items was increased 0.1 percent against exorbitant increase of 34.7 percent during same period last year. Inflation in Non-Perishable food items and Non-alcoholic Beverages group recorded at 16.0 percent against the increase of 12.4 percent during the same period last year.



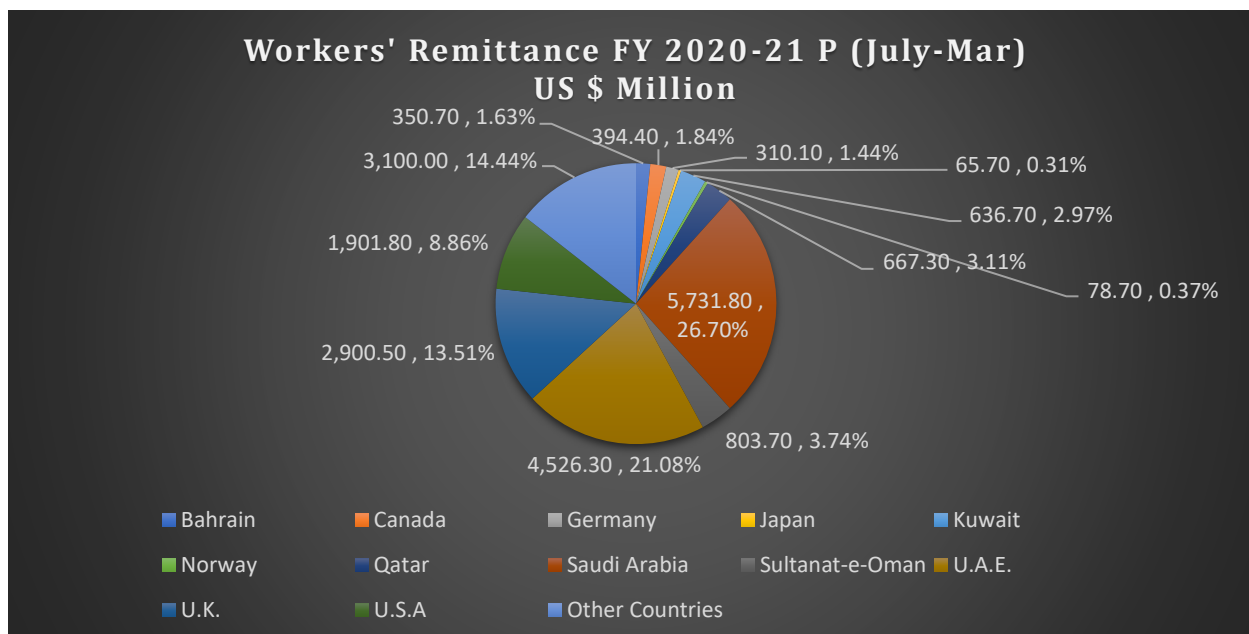
- Core inflation (defined as Non-Food and Non-Energy (NFNE) inflation) which is for Urban and Rural areas recorded at 5.8 percent and 7.6 percent respectively during July-April FY2021 as compared to 7.8 percent and 8.7 percent during the same period last year.



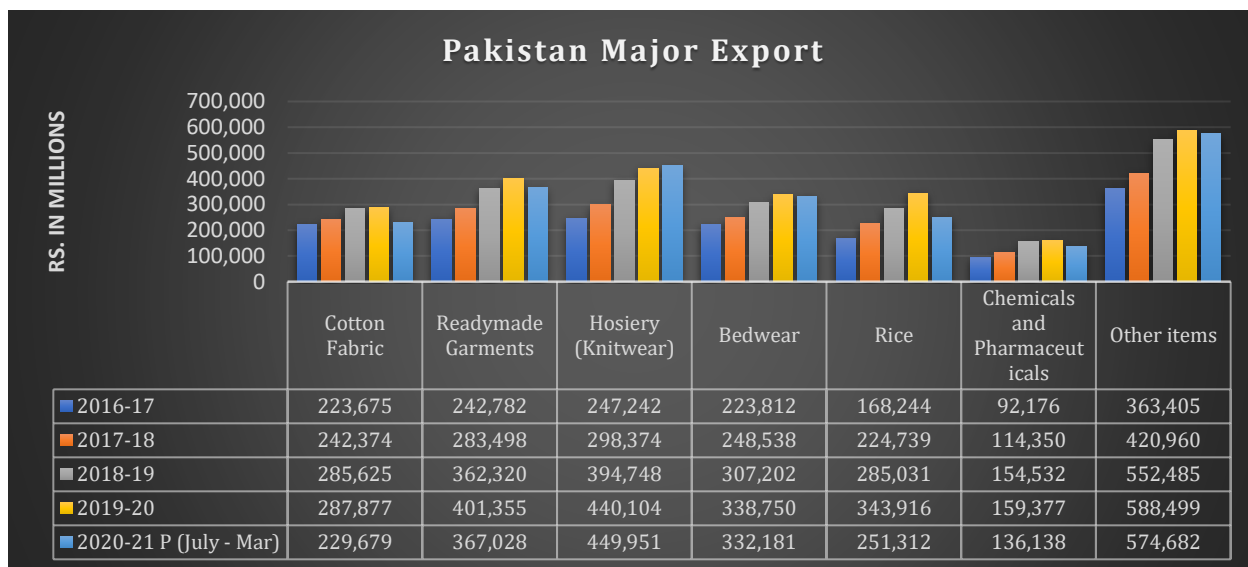
- Wholesale Price Index (WPI) for April 2021 is recorded at 16.6 percent against 14.6 percent in the previous month and 4.9 percent in the same month last year. The index on period average basis during July-April FY2021 has been recorded at 7.4 percent as against 12.2 percent during the same period last year.
- Sensitive Price Indicator (SPI) comprises of 51 essential items was recorded at 12.9 percent during July-April FY2021 against 14.3 percent in the same period last year.

BALANCE OF PAYMENTS AND RESERVES

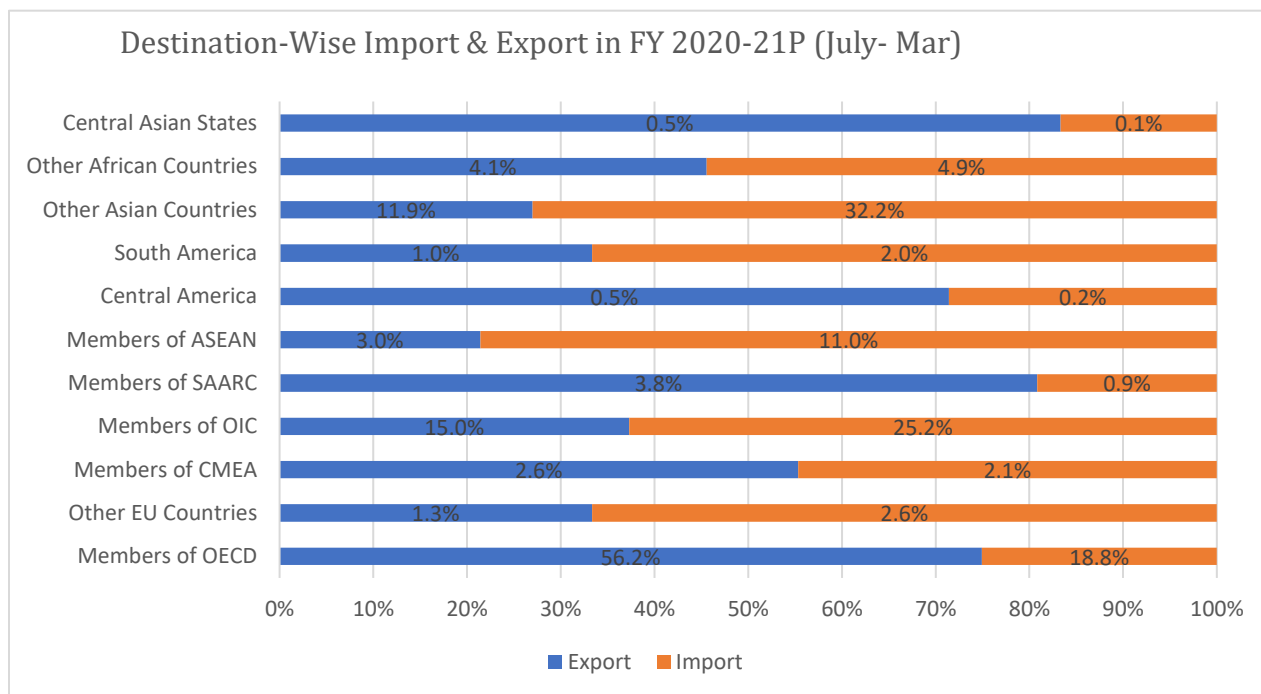
- Pakistan's total liquid foreign exchange reserves increased to US\$ 20.6 billion by the end of March 2021, up by US\$ 1.7 billion, indicating a growth of 9.1 percent over end-June 2020. SBP's reserves increased by US\$ 1.4 billion to the US\$ 13.5 billion and commercial banks' reserves by US\$ 355.8 million to US\$ 7.1 billion over end-June 2020. SBP's forward swap liabilities have been curtailed to US\$ 4.5 billion at present from US\$ 8.0 billion during FY2019. In aggregate, country's foreign exchange buffers increased by US\$ 12.3 billion.
- Current account deficit (CAD) of US\$ 19.2 billion in FY2018 gradually came down to US\$ 13.4 billion in FY2019 and improved further to US\$ 4.4 billion in FY2020. Subsequently, the CAD during July-March FY2021 turned into surplus of US\$ 959 million on cumulative basis as compared to a deficit of US\$ 4.1 billion in the same period of FY2020. Much of the improvement came from robust growth in the workers' remittances since FY2020.
- Exchange rate reached Rs 153.5 per \$ by the end of April 2021, effectively appreciating by 9.5 percent over end-June 2020.
- The inflow of workers' remittances in Pakistan has been rising consistently since FY2018 and the trend continued in FY2021 with a meritorious growth of 29.0 percent and reached \$ 24.2 billion during July-April FY2021.



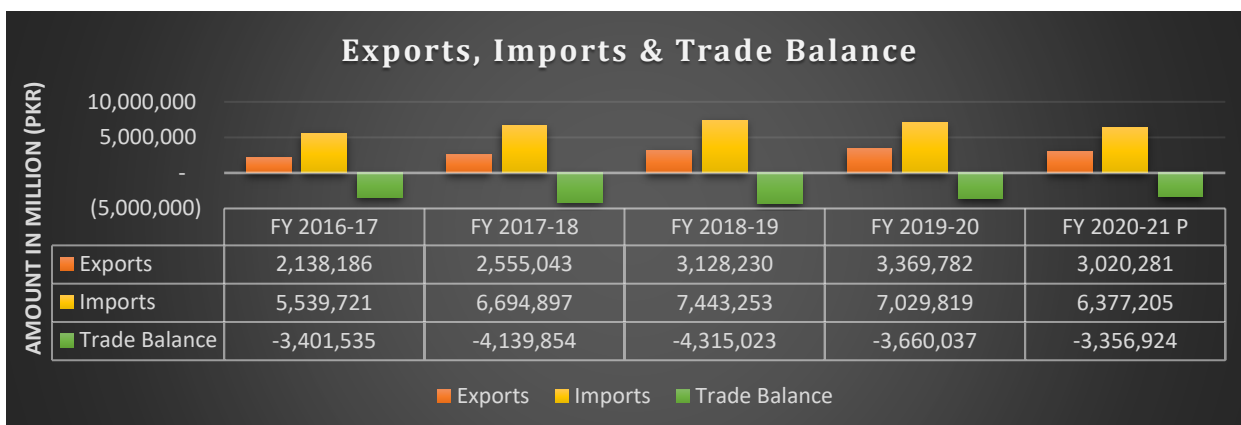
- During July-April FY2021, trade deficit increased by 21.3 percent to \$ 21.3 billion as compared to \$ 17.6 billion last year.
- Export of goods grew by 6.5 percent during July-April FY2021 and stood at \$ 21 billion as compared to \$ 19.7 billion in the same period last year.



- During July-March FY2021, export of goods grew by 2.3 percent to US\$ 18.7 billion as compared to US\$ 18.3 billion the same period last year. During July-March FY2021, exports of services moderately increased from US\$ 4.34 billion to US\$ 4.37 billion, thus showing a growth of 0.6 percent.



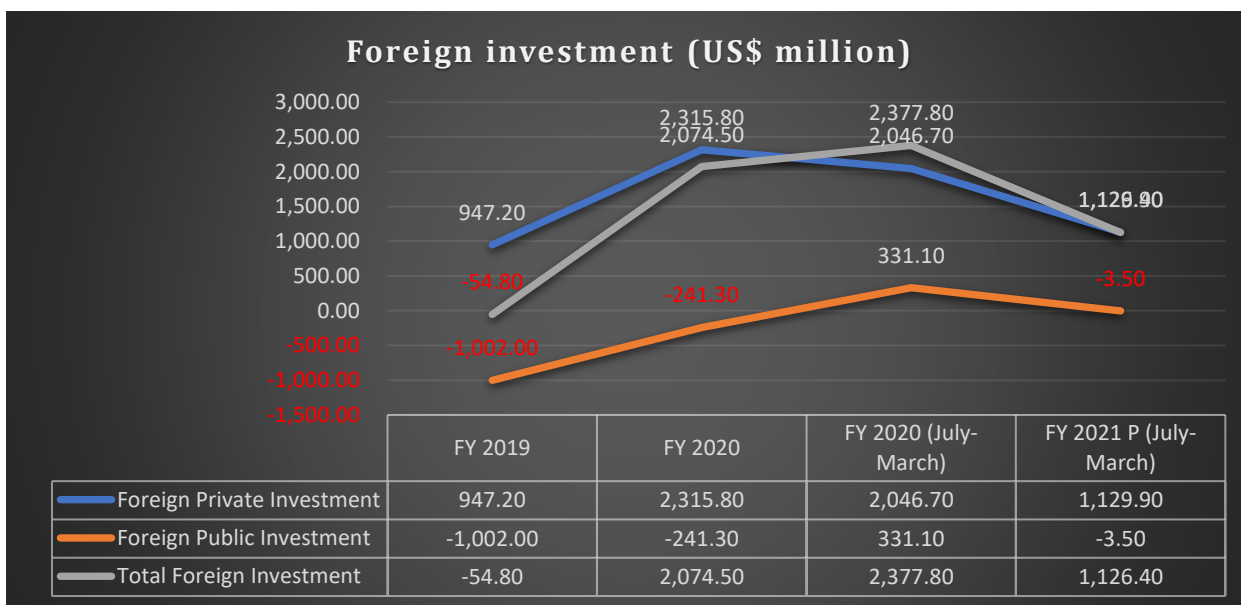
- Import of goods during July-April FY 2021 grew by 13.5 percent to \$ 42.3 billion as compared to \$ 37.3 billion last year. During July-March FY2021, import of goods grew by 9.4 percent to US\$ 37.4 billion as compared to US\$ 34.2 billion last year whereas Import of services declined by 20.4 percent and stood at US\$ 5.7 billion as compared to US\$ 7.2 billion last year. The major component in imports of services is transport which declined by 20 percent and reached US\$ 2.0 billion as compared to US\$ 2.5 billion in the same period last year. Deficit in services came down by 52.4 percent during the period under review.



- On a year-to-year basis, remittances posted a record high growth of 43.1 percent in March 2021 and clocked at US\$ 2.7 billion as compared to US\$ 1.9 billion last year. On month-on-month basis in March 2021, remittances accelerated by 20.3 percent as compared to February 2021.

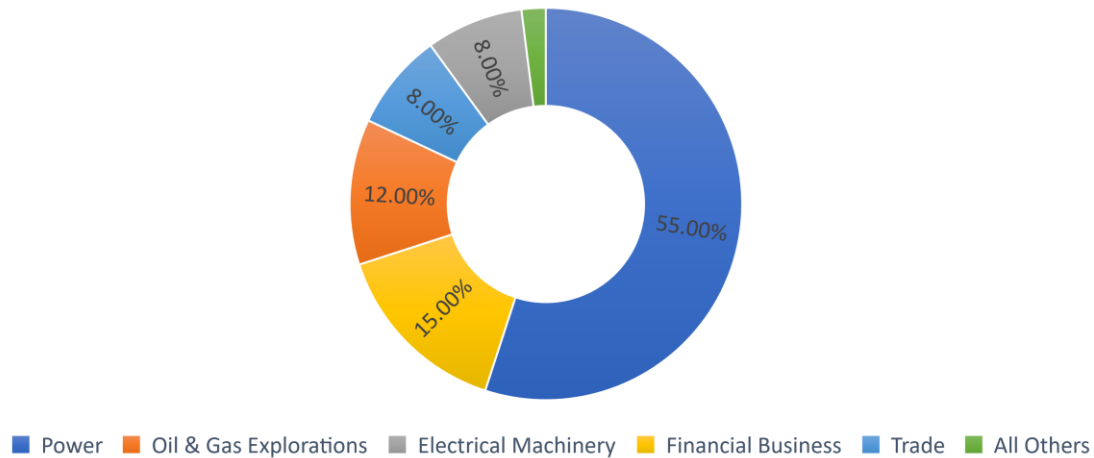
FOREIGN DIRECT INVESTMENT (FDI)

- During July-March FY2021, FDI in Pakistan reached US\$ 1.4 billion compared to US\$ 2.2 billion last year showing a decrease of \$0.8 billion, a decrease of 36 percent which is mainly due to sharp increase in gross outflows, which reflects the repayment of intercompany loans by firms in the communication, electrical machinery and power sectors during the period.



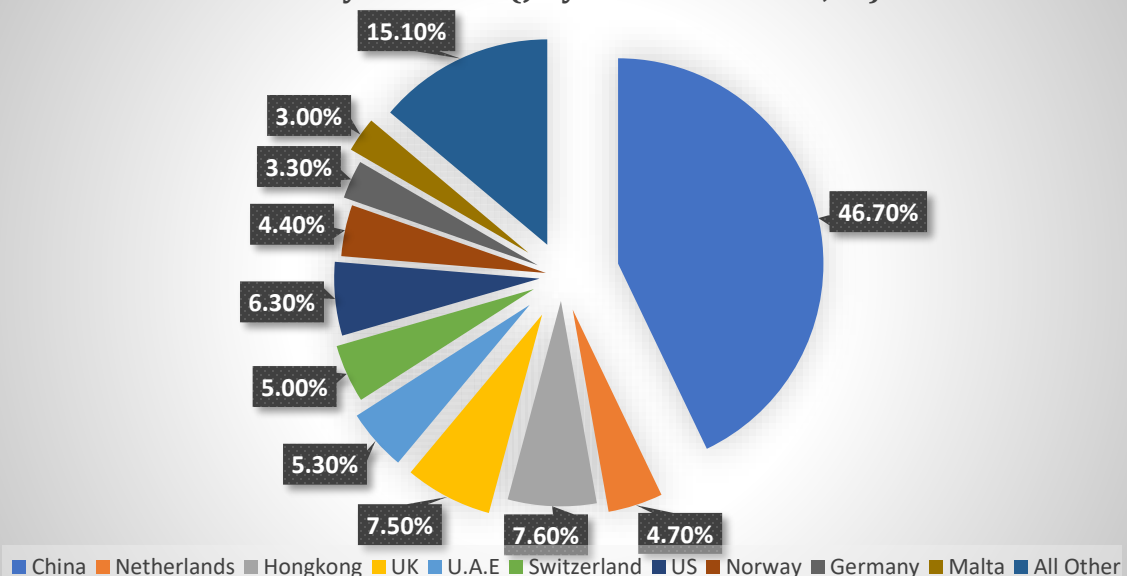
- On year-to-year basis, FDI reached US\$ 167.6 million in March FY2021 compared to US\$ 278.7 million in the same month last year. The inflows of FDI reached US\$ 2.3 billion during July-March FY2021 compared to US\$ 2.7 billion last year. The outflows of FDI during July-March FY2021 reached US\$ 872.8 million against US\$ 548.5 million last year.
- Sector wise information of the foreign direct investment for the FY2021 is given hereunder:

Sector-Wise FDI (July - March FY 2021)



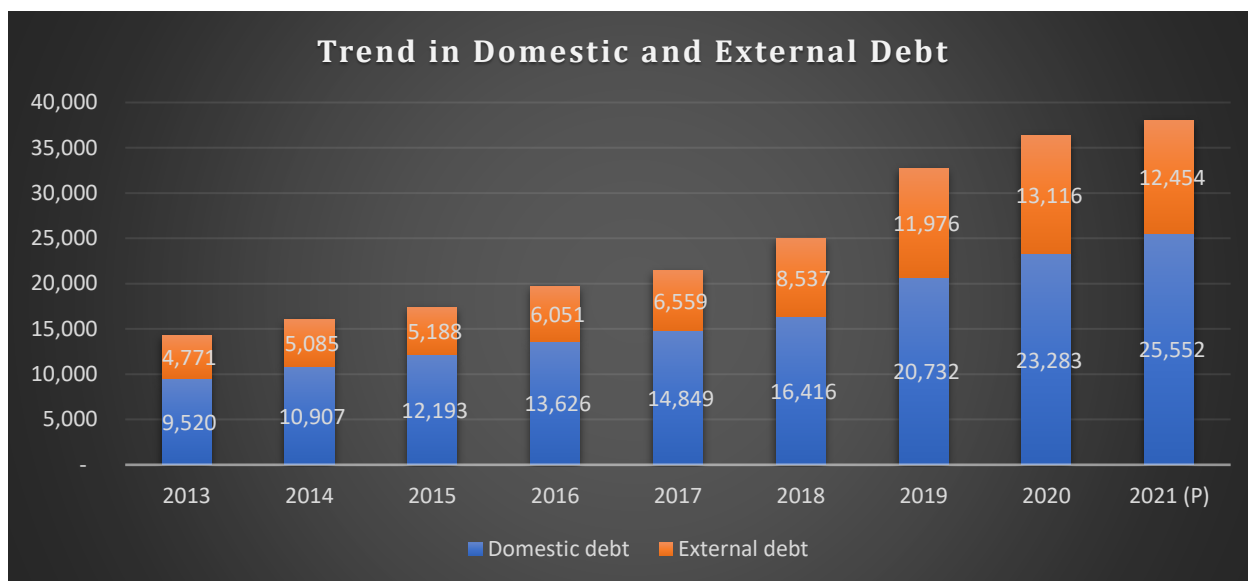
- The foreign portfolio investment during July-March FY2021 witnessed a net outflow of US\$ 268.7 million as against an inflow of US\$ 227.5 million in the same period last year. Outflows were recorded from both debt (US\$ 3.5 million) and equity securities (US\$ 265.2 million).

Country-Wise FDI (July - March FY 2021, %)

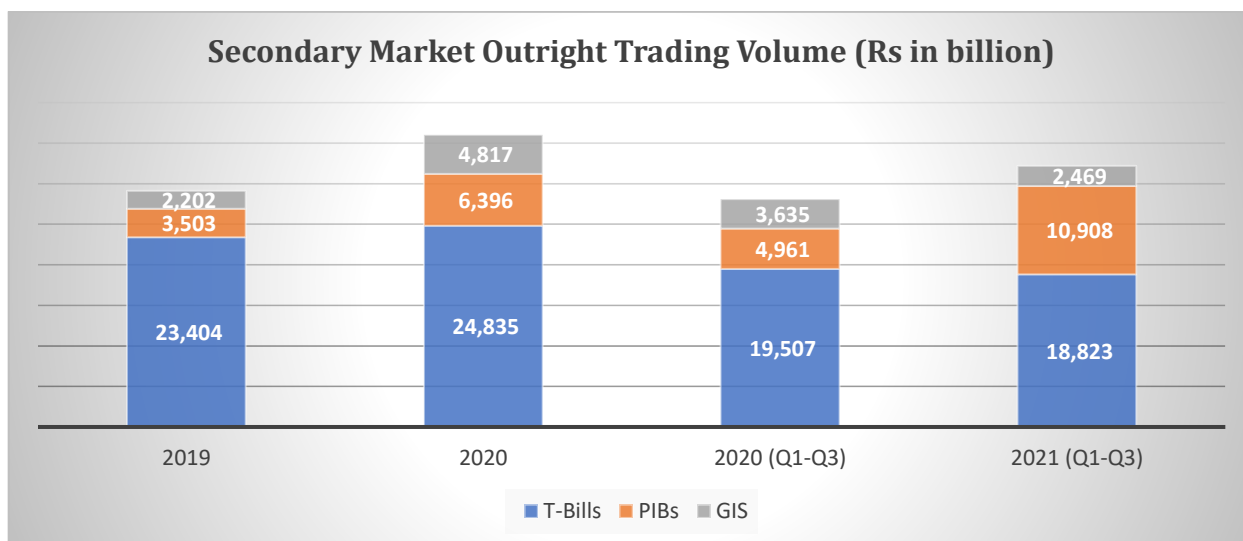


PUBLIC DEBT

- Public debt was recorded at Rs. 38,006 billion at the end of March 2021 as compared to Rs. 36,399 billion in the same period last year, registering an increase of 4.41 percent and an increase of Rs. 1,607 billion in monetary term. Interest servicing was recorded at Rs. 2,104 billion during first nine months of current fiscal year against its annual budgeted estimate of Rs. 2,946 billion.



- Domestic debt was recorded at Rs. 25,552 billion at the end of March 2021 as compared to Rs. 23,283 billion in the same period last year, showing an increase of Rs. 2,269 billion, an increase of 9.7 percent. Interest servicing of domestic debt was recorded at Rs. 1,934 billion for the first nine months of the fiscal year. Government issued three broad types of marketable securities in order to raise debt i.e. Treasury Bills (T-bills), Pakistan Investment Bonds (PIBs) and Government Ijara Sukuk (GIS). Component wise analysis of the domestic is as follows:
 - Main component of the Domestic Debt remained Permanent debt which constituted 62 percent of domestic debt portfolio and recorded at Rs. 15,882 billion at end March 2021, representing an increase of Rs. 1,852 billion.
 - Floating debt was recorded at Rs. 6,000 billion or around 24 percent of total domestic debt portfolio at end March 2021, representing an increase of Rs. 421.7 billion.
 - Unfunded debt stood at Rs 3,652 billion at end March 2021, constituted around 14 percent of total domestic debt portfolio. Unfunded debt recorded net reduction of Rs. 22 billion during first nine months of current fiscal year.
- External debt was recorded at Rs. 12,454 billion or \$81.6 billion at the end of March 2021 as compared to Rs. 13,116 billion in the same period last year, showing a decrease of Rs. 662 billion, a decrease of 5 percent. Interest servicing of external debt was recorded at Rs. 170 billion for the first nine months of the fiscal year. Gross external loan disbursements were recorded at US\$ 7,724 million⁵ during first nine months of 2020-21. External public debt repayments were recorded at US\$ 5,147 million during first nine months of current fiscal year compared with US\$ 5,537 million during the same period last year. Interest payments were recorded at US\$ 1,080 million during first nine months of current fiscal year as compared to US\$ 1,580 million during same period of preceding year. The translational loss on account of depreciation of US Dollar against other international currencies was more than offset by the appreciation of Pak Rupee against US Dollar by 9 percent which led to reduce the Rupee value of external public debt.



- Global public debt to GDP Ratio increased by 13 percentage points, from 84 percent in 2019 to 97 percent in 2020, whereas, Pakistan's Debt-to-GDP ratio witnessed minimal increase of 1.7 percentage points and stood at 87.6 percent at end June 2020 compared with 85.9 percent at end June 2019.

TAXATION

- The provisional net collection grew by 14.4 percent to Rs 3,780.3 billion during July-April, FY2021 against Rs 3,303.4 billion in the same period last year. The expected collection of taxes in May-June FY 2021 is Rs. 911 billion.
- The net collection of direct taxes has registered a growth of 11.2 percent during the first ten months of FY 2021. The net collection has increased from Rs. 1,225.0 billion to Rs. 1,362.4 billion. The major contributors of income tax are withholding tax, voluntary payments and collection on demand.
- The net collections of indirect taxes have witnessed a growth of 16.3 percent. It is accounted for 64 percent of the total FBR tax revenue. The net sales tax collection during July-April, FY2021 remained at Rs. 1,592.5 billion, showing healthy growth of 18.1 percent. Around 56 percent of total sales tax was contributed by sales tax on import while the rest was contributed by the domestic sector.
- The collection of federal excise duties (FED) during July-April, FY2021 has recorded a growth of 8.4 percent. The net collection has stood at Rs. 223.4 billion during July-April, FY2021 as against Rs 206.1 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, services and beverages.
- Customs duty has registered a growth of 15.0 percent in net revenues. The net collection has increased from Rs. 523.4 billion during July-April, FY2020 to Rs. 602.0 billion during July-April, FY2021. The major revenue spinners of customs duty have been vehicles, mineral fuels, iron and steel, electrical machinery, plastic, edible fruits, etc.
- COVID-19 pandemic had a significant impact on the national economy and the revenue collection efforts of FBR. Keeping in view the negative impact of COVID-19 on the economy the yearly target of the current

fiscal year has been reduced downward from Rs. 4,963 billion to Rs. 4,691 billion, which means Rs 272 billion lesser than the original target.

- FBR issued / adjusted refunds of around Rs. 253.0 billion in the first ten months of FY2021, which is 66.5 percent higher than Rs. 151.8 billion in FY2020. In absolute terms, Rs. 101.0 billion more have been paid as a refund during the period under consideration.
- Number of income tax return filers for TY 2020 has crossed 3.0 million. Mobile Application, Tax Asaan, has been launched which provides for basic verification features like ATL, Online NTN/STRN inquiry, exemption certificates and sales tax registration. FBR has embarked on a plan to integrate all sales outlets of tier-1 retailers with FBR's central computerized system. FBR has launched Maloomat (tax profiling system) on its web portal, containing data of 53 million citizens, giving access to the filers and non-filers to the information about their assets and bank accounts. In September 2020, through Audit Policy, 2019, a total number of 12,533 cases were selected for audit for Tax Year 2018 through Risk based Audit Management System (RAMS).
- Tax expenditure of Federal Taxes for FY 2021 are as follows:

Description (Rs. in Billions)	2016-17	2017-18	2018-19	2019-20	2020-21
Income Tax	14.005	61.78	141.6	378.03	448.046
Sales Tax	250.06	281.05	597.7	518.81	578.456
Custom Duty	151.68	198.15	233.1	253.11	287.771
Total	415.75	540.98	972.4	1150	1314.27

SPECIAL ECONOMIC ZONES (SEZs)

Till FY2018, only 7 SEZs existed, while 6 of them had converted from their earlier status as Industrial estates (IEs) or Industrial Parks (IPs). However, with the advent of CPEC SEZs, the establishment of SEZs across the country took up pace, showing investor confidence in the industrial regime. As of now, 22 SEZs have been approved, while 21 of them have been notified by the BOI (Box-IV). These include, 4 CPEC SEZs, 3 Private SEZs (including two Sole Enterprise SEZs), and a Science and Technology Park that is being established by NUST in Islamabad. During the FY2021, following SEZs are approved by the Government:

Name of the Special Economic Zone (SEZ)	Developer	Area (Acres)
Allama Iqbal Industrial City (AIIC), Faisalabad, Punjab	FIEDMC	2,800
National Science and Technology Park (NSTP), Islamabad, ICT	NUST	58
JW-SEZ China-Pakistan SEZ (JWSEZ), Lahore, Punjab	JWSEZ Group	231
Quaid-e-Azam Business Park (QABP), Sheikhpura, Punjab	PIEDMC	1,536
Service Long March Tyres, SESEZ, Jamshoro, Sindh	SLM	50
Siddiqsons Tinsplate SESEZ, Lasbela, Balochistan	STPL	71

SECTION B. INCOME TAX ORDINANCE, 2001

SALIENT FEATURES

- Cloud computing and data storage services are proposed to be included in the scope of IT and IT enabled services.
- Property income shifted from block taxation regime to normal tax regime.
- Reduction of block taxation on capital gain on disposal of immovable properties if gain exceeds Rs. 20 million.
- The Bill proposes that profit on debt up to PKR 5,000,000 would be taxed at 15% of the gross amount as a final discharge of tax liability. Any profit on debt exceeding PKR 5,000,000 would be taxed under the head 'income from other sources' at rates applicable to the taxpayer. This threshold is presently PKR 36,000,000.
- Tax on "on" money on vehicles, if vehicle is disposed without registration.
- Expansion of scope of withholding tax collection from supply chain below manufacturers and importers of specified sectors (sections 236G and 236H).
- Reduction in threshold of monthly electricity bill for withholding tax on electricity consumption from Rs. 75,000 to Rs. 25,000 from domestic users not appearing on Active Taxpayers' list.
- No requirement of issuance of separate notice in concealment cases.
- Special regime for export of services at par with export of goods to be taxed @ 1% under final tax regime.
- The Bill proposes to collect withholding of tax on rental income from sub-lessee of an immovable property at the rates prescribed in section 155.
- Broadening of scope of withholding agents for the purpose of collection of withholding tax on commission income (section 233).
- Streamlining withholding tax collection on sale and purchase of immovable property (section 236C and 236K).
- Rationalization of withholding tax regime for exporters.
- Taxability of profit on debt component of GP fund and other such funds.
- Various exemptions from salary including special allowance and medical benefits provided to an employee by an employer are proposed to be withdrawn
- During the current financial year, Tax Laws (Second Amendment) Ordinance, 2021 was promulgated to implement corporate income tax reforms to provide level playing field to all businesses. Certain tax credits, concessions and exemptions were withdrawn. The provisions of the Ordinance have been made part of the Finance Bill.

- The threshold for individual and AOPs for levy of minimum tax under section 113 is proposed to be enhanced from PKR 10 million to PKR 100 million.
- The general rate on minimum tax on turnover basis is proposed to be reduced.
- The Bill proposes extend exemption to Special Economic Zone Enterprises, Zone Developers and Zone Enterprises from payment of minimum tax.
- Tax exemption on the import of capital goods and dividend income of private funds from investment in special technology zone enterprise.
- Introduction of special tax regime for manufacturing SMEs by inserting a new fourteen schedule to the ordinance.
- Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10 years.
- The bill proposes to extend the benefit of reduced rate of 3% withholding tax under section 153 the following 5 sectors:
 - Oil field services
 - Telecommunication services
 - Warehousing services
 - Collateral Management services
 - Travel and tour services
- Telecommunication services sector are proposed to be included under the ambit of industrial undertaking.
- Exemption to Electronic warehousing receipts traded on Pakistan Mercantile Exchange.
- Withdrawal of following withholding taxes:

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

- Provincial WWF & WPPF allowance are to be allowed as a deductible allowance while calculating income.

- Adjustment of business loss against property income is proposed.
- Withdrawal of power of Commissioner to reject advance tax estimates presented by taxpayer.
- Non recognition of gain/loss on disposal of assets to non-residents under gift from relative, inheritance and agreement to live apart is proposed.
- The rate on capital gain tax on disposal of securities are reduced from 15% to 12.5% is proposed.
- The bill proposes to limit the power of tax authorities to conduct inquiry under section 122(5A).
- Live animals, raw hides and unpackaged meat are to be included in definition of agriculture produce.
- Reduction in tax liability by 25% for women entrepreneurs.
- Import of books and agriculture are proposed to be exempted.
- Exemption from tax for bagasse fired power generating units and reduced rate of tax on dividend income from such projects.
- Extension in time limits for availing tax benefits under section 100D and Eleventh Schedule vide Income Tax (Amendment) Ordinance 2021 dated 21.02.2021 are proposed to be made part of the Finance Bill.
- Tax exemptions and concessions for Roshan digital accounts and implementation of electric vehicles and mobile phone policy implemented vide Tax Laws (Amendment) Ordinance, 2021 dated 11.02.2021 made part of the Finance Bill.
- The Bill proposes to strengthen the mechanism of Alternate Dispute Resolution.
- Elimination of requirement of filing of application for automated issuance of refund are proposed.
- The Bill proposes that the introduction of time limitation for disposal of show cause notices.
- The Bill proposes that recording of e-hearing to be admissible evidence.
- Automated issuance of exemption certificates if application is not disposed by Commissioner within 15 days is proposed.
- The Finance Bill proposes to withdrawal the requirement of updating tax profile.
- Income derived by co-operative societies from sale of goods, immovable property or provision of services to its members is proposed to be taxed under the head 'income from business'.
- Delegation of power of Federal Government to Board with the approval of Federal Minister in-charge.
- Extension of time for issuance of notice for filing of return in case of foreign income or foreign assets.
- Time limitation imposed for completion of assessment in pursuance of orders of the Commissioner is to be proposed.
- Streamlining measure for monitoring of withholding taxes requiring taxpayers to file online statement along with reconciliation.
- Establishment of Directorate of compliance Risk Management in FBR.
- Tax credit on installation of point-of-sale machines is proposed.
- Notification of business bank accounts made mandatory.

1. DEFINITIONS

[Section 2]

The changes proposed in the definitions are as follows:

i. BUSINESS BANK ACCOUNT

[Clause 10A]

Presently, there is no definition of term “Business Bank Account” which is being used/referred in different provisions of Income Tax Law, however, now through this Finance Bill 2021, definition of Business Bank Account is being proposed. According to the said definition, Business Bank Account shall be the bank account of tax payer which the tax payer will declare in Form 181 (form for registration/modification of registration) at the time of initial registration or subsequent amendment. Through this definition, it is clear that now the tax payer has to declare the detail of all of his bank accounts in its FBR profile.

ii. CONCEALMENT OF INCOME

[Clause (13) (AA) of Section 2]

The Finance Bill has proposed the definition of Concealment of Income. Presently, there is no such definition given in law rather it was generally discussed in Section 111 (unexplained income or assets). The proposed definition is as under:

- a. the suppression of any item of receipt liable to tax in whole or in part, or failure to disclose income chargeable to tax;
- b. claiming any deduction or any expenditure not actually incurred; and
- c. any act referred to in sub-section (1) of section 111 where tax payer could not offer explanation about nature and source of below mentioned events:
 - i. any amount is credited in a person’s books of account
 - ii. a person has made any investment or is the owner of any money or valuable article;
 - iii. a person has incurred any expenditure; or
 - iv. any person has concealed income or furnished inaccurate or particulars of income including:
 - a. the suppression of any production, sales or any amount chargeable to tax; or
 - b. the suppression of any item of receipt liable to tax in whole or in part.

Explanation: Mere addition of any item of income declared by tax payer as exempt or disallowance of any expenditure by assessing officer shall not be treated as concealed income unless the assessing officer proves malafide claim of exemption about item of income or malafide claim of deduction/allowance of any expenditure.

iii. AMENDMENT IN DEFINITION OF INCOME

[Clause (29) of Section 2]

Currently income of members of Stock Exchange from sales and purchase of shares is subject to collection of advance tax under section 233A. Now Finance Bill proposes to omit the requirement of collection of advance tax under section 233A, As the definition of income given in clause 29 of section 2 of income tax ordinance 2001 contain reference to the said section of law (233A) therefore finance

bill proposes to remove the reference of said section in definition of income. This is just a corresponding change in clause 29 pursuant to change proposed in section 233A.

iv. AMENDMENT IN DEFINITION OF INDUSTRIAL UNDERTAKING
[Clause (29C) of Section 2]

Finance Bill 2021 proposed to include the “Telecommunication Companies” operating under the license of Pakistan Telecommunication Authority under the definition of industrial undertaking. This change has multiple implications such as now the telecommunication sector shall be eligible for exemptions and privileges available to industrial undertakings operating in Pakistan.

v. IT SERVICES
[Clause (30AD) of Section 2]

The definition of IT services is proposed to be shifted in section 2 of the Income Tax Ordinance, 2001 by inserting a new clause 30AD. Presently, the said definition is referred in section 65F which was inserted in tax Laws (Second Amendment) Ordinance, 2021 dated 24.03.2021. Before this, the said definition was mentioned in Clause 133 Part 1 of Second Schedule. The said definition is as under:

“Information Technology (IT) services include software development, software maintenance, system integration, web design, web development, web hosting and network design.

vi. IT ENABLED SERVICES
[Clause (30AE) of Section 2]

The definition of IT ENABLED services is proposed to be shifted in section 2 of the Income Tax Ordinance, 2001 by inserting a new clause 30AE. Presently the said definition is referred in section 65F which was inserted in Tax Laws (Second Amendment) Ordinance, 2021 dated 24.03.2021. Before this, the said definition was mentioned in clause 133 Part 1 of Second Schedule. The said definition is as under:

“IT enabled services include inbound or outbound call centers, medical transcription, remote monitoring, graphics design, accounting services, Human Resource (HR) services, telemedicine centers, data entry operations, cloud computing services, data storage services, locally produced television programs and insurance claims processing”.

Cloud Computing services and data storage services are newly inserted IT enabled services through Finance Bill 2021.

vii. SMALL AND MEDIUM ENTERPRISES
[Clause (59A) of Section 2]

Finance Bill, 2021 proposed the definition of “Small and Medium Enterprises” which defines the “Small and Medium Enterprise” a person who is engaged in manufacturing as defined in clause (iv) of sub-section (7) of section 153 of the Ordinance and his business turnover in a tax year does not exceeds two hundred and fifty million rupees:

Provided that if annual business turnover of a Small and Medium Enterprise exceeds two hundred and fifty million rupees, it shall not qualify as Small and Medium Enterprise in the tax year in which annual turnover exceeds that turnover or any subsequent tax year.

viii. AMENDMENT IN DEFINITION OF SMALL COMPANY

[Clause (59AB) of Section 2]

The Finance Bill seeks to streamline the definition of Small Company and to differentiate it from SME. the definition of small company has four conditions with respect to paid up capital and undistributed reserves not exceeding 50m and no. of employees not exceeding 250 and turn over not exceeding 250m and is not formed by splitting existing business. Now to put more emphasis, another condition is that it is not small and medium enterprise as defined in clause 59A.

2. REDUCTION IN LIMIT FOR INCOME ARISING FROM PROFIT ON DEBT COVERED UNDER FTR

[Section 7B]

Currently, income arising from profit on debt by individual and AOP up to Rs. 36 million is covered under FTR. Now Finance Bill 2021 proposed to reduce the said limit up to Rs. 5 million only. Now any income arising from POD exceeding Rs. 5 million shall be normal income for Individual and AOP and shall be taxable under the normal slab rates of the individual and AOP.

3. INCOME FROM INVESTMENT IN SUKUK INCLUDED IN PURVIEW OF SECTION 8

[Section 8(I)]

Currently, law is unclear about the nature of tax regime applicable to income arising from Investment in SUKUK as mentioned in section 5AA. Now the Finance Bill seeks to make a technical correction by including the said income in purview of section 8 of Income tax ordinance, 2001. Now, the said income shall be covered under Final Tax Regime.

4. EXPLANATION REGARDING DEFINITION OF SALARY-ALLOWANCE FOR PERFORMING OFFICIAL DUTIES.

[Section 12(c)]

Clause C of sub-section 2 of section 12, while adding different kind of allowances in definition of salary, clarifies that the allowances solely expended by employees in performance of official duties shall not be treated as salary. However, no further clarification was available in law about allowances for performing official duties. Now the bill seeks to propose further clarification about allowance for performing official duties which is as under:

Explanation. – For removal of doubt, it is clarified that the allowance solely expended in the performance of employee's duty does not include:

- (i) allowance which is paid in monthly salary on fixed basis or percentage of salary; or
- (ii) allowance which is not wholly, exclusively, necessarily or actually spent on behalf of the employer.

5. AMENDMENT IN PROVISIONS RELATING TO INCOME FROM PROPERTY

[Section 15(6)(7)]

Presently, option is available to tax payer that they can opt to pay tax under presumptive tax regime at the rates specified under Division VIA of Part 1 of first schedule or on net taxable income basis by applying rates specified under division 1, Part 1, first schedule. Now finance bill proposed to omit sub-section 6 of section 15 which result in withdrawals of Presumptive tax regime for income from property. Similarly, Division VIA of part 1 of first schedule is also proposed to be omitted.

Now income from property shall be included in total income of individual and AOP and shall be taxed under Division 1 Part 1 of the First Schedule.

Furthermore, presently minimum rent chargeable to tax under the head “Income from Property” is Rs. 200,000 for individual and AOP, however, after the proposed omission of subsection 6 and 7, the said limit shall no more be applicable. Now minimum limit applicable to total taxable income from all heads shall be Rs. 400,000 under Division 1 Part 1 of First Schedule of ITO, 2001.

6. CLARIFICATION REGARDING BUSINESS TRANSACTIONS BETWEEN COOPERATIVE SOCIETIES AND ITS MEMBERS

[Section 18(1)(b)]

The Finance Bill seeks to insert clarification under Clause b of sub-section 1 of section 18 which specify that income derived by Associations from sale of goods/rendering of services to its members. Now, through this proposed clarification, it is specified that income derived by cooperative societies from sale of immovable property to its members is and has always been chargeable to tax as “Income from Business”. This provision shall have retrospective effect with respect to charging tax on such sale.

7. CONSIDERATION RECEIVED ON DISPOSAL OF IMMOVABLE PROPERTY OWNED BY BUSINESS

[Section 22(13)(d)]

Currently, clause d of sub-section 13 of section 22 specifies that where, at the time of disposal of depreciable immovable asset, consideration received exceeds cost of such asset, the consideration received shall be treated as cost. This would bring two outcomes:

1. Calculation of gain on disposal equals to amount of depreciation claim over life of asset
2. Non recognition of gain by an amount by which consideration received exceeds cost

Now the Finance Bill seeks to amend the said clause and now any excess of consideration received over cost of asset shall be chargeable to tax under the head capital gain rather than income from business.

8. WITHDRAWAL OF FIRST YEAR ALLOWANCE FOR CERTAIN INDUSTRIAL UNDERTAKING

[Section 23A]

Currently, a deduction is allowed as first year allowance to industrial undertaking operating in specified rural areas or manufacturing companies of cellular mobile phones qualifying for exemption under clause (126N) of Part I of the Second Schedule of ITO, 2001 in lieu of initial allowance. Now Finance Bill 2021 seeks to omit first year allowance granted to such industrial undertakings as mentioned above.

9. AMENDMENT IN TAXATION OF CAPITAL GAINS ON DISPOSAL OF IMMOVABLE PROPERTY

[Section 37(1A)]

- a. Currently, Capital Gain arising on disposal of immovable property is chargeable to tax at slab rates prescribed under division VIII part 1 first schedule of ITO, 2001. However, Finance Bill 2021 seeks to propose following amendments:
 1. With substitution of slab rates prescribed in Division VIII of Part 1 of First Schedule with single rate of tax @5% of capital gain instead of existing slab rates varying from 2.5% to 10%. Thus, the gain below Rs. 5 million computed by taking benefit of holding period shall be subject to tax @ 5%.
 2. Taxable capital gain arising on disposal of immovable property (calculated as per formula given under sub-section section 3A) upto Rs. 5 million shall be chargeable to tax under sub-section 1A @ 5% and it shall be treated as Separate Block income

3. Taxable capital gain arising on disposal of immovable property (calculated as per formula given under sub-section 3A) exceeding Rs. 5 million shall be chargeable to tax under sub-section 1 under the head “capital gains” and thus it shall fall under normal tax regime.
- b. Presently, where a person acquires a capital asset by virtue of gift, and subsequently sell such capital assets, for the purposes of calculation of capital gain, fair market value of such asset at the time of transfer of gift to acquirer is taken as cost of such asset and resultantly difference of such FMV being cost and consideration received for sale of such asset is taken as capital gain. Now Finance Bill 2021 proposes that if such asset is sold within two years of acquisition, and CIR is satisfied that the said gift transaction was entered into as part of tax avoidance scheme, then cost of such asset in the hands of original transferor of asset shall be taken to be the cost of the asset for the purpose of calculating capital gains. Effectively this would remove the effect of gift transaction and taxable capital gain would be high.

10. SET OFF LOSSES ALLOWED AGAINST INCOME FROM PROPERTY

[Section 56(1)]

Pursuant to change in the nature of regime applicable to income from property (from option to be taxed either as separate block or on net income basis (NTR regime) by applying applicable rates in Division 1 Part 1 of First Schedule for Individual/AOP), Finance Bill has proposed a corresponding change in section 56 and now tax payer would be able to adjust loss under the head “Income from Business” against income from property and vice versa.

11. DEDUCTIBLE ALLOWANCE FOR WWF & WPPF PAID TO PROVINCES.

[Section 60(A)]

Before enactment of 18th Constitutional Amendment, WWF and WPPF laws were under the jurisdiction of Federation and accordingly, FBR was the authority to collect contributions to WWF & WPPF. Accordingly, tax payers were allowed a deductible allowance against its taxable income. Then pursuant to 18th Amendment, the jurisdiction to govern, enforce WWF & WPPF was transferred to provinces. Now, therefore, Bill seeks to propose that WWF paid to provincial authorities by taxpayer shall also be allowed as deductible allowance. The said change is applicable for such companies which are operating in a single province, however, if a company is operating in multiple provinces, then such deduction is not yet allowed. The said matter is yet to be resolved

12. TAX CREDIT FOR POINT-OF-SALE MACHINE

[Section 64(D)]

Where a person, who is required to integrate their point of sales system with the FBR’s computerized system for real time reporting of sale or receipt, integrates his system with FBR during a tax year, he shall be allowed tax credit in respect of amount invested in point-of-sale machine. Such tax credit shall be lesser of:

- a. Amount invested in purchase of machines or
- b. Rs. 150,000 per machine

Further bill proposes a definition of Point of sale machine as a machine meant for processing and recording the sale transactions for goods or services, either in cash or through credit and debit cards or online payments in an internet enabled environment.

13. OMISSION OF TAX CREDIT FOR NEWLY ESTABLISHED INDUSTRIAL UNDERTAKING

[Section 65D]

Currently equity-based investments in newly established industrial undertaking is entitled for a five-year tax credit equal to quantum of equity invested in the project. However, such tax credit was omitted by the

Government vide Tax Law (Second Amendment) Ordinance 2021 dated 24.03.2021. Finance Bill reinforce the same amendment in ITO.

14. TAX CREDIT FOR CERTAIN PERSONS

[Section 64(F)]

- A new section 64F was introduced in Tax Laws (Second Amendment) Ordinance 2021 dated 24.03.2021 and same has been made a part in Finance Bill 2021. Under the said section, following persons or incomes shall be **allowed a tax credit equal to one hundred per cent of the tax payable under any provisions of this Ordinance including minimum, alternate corporate tax and final taxes for the period**, to the extent, upon fulfillment of conditions and subject to limitations detailed as under:
 1. persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects;
 2. startup as defined in clause (62A) of section 2 for the tax year in which the startup is certified by the Pakistan Software Export Board and the next following two tax years; and
 3. Income from exports of computer software or IT services or IT enabled services up to the period ending on the 30th day of June, 2025:

Provided that eighty percent of the export proceeds is brought into Pakistan in foreign exchange remitted from outside Pakistan through normal banking channels.
- The tax credit shall be available subject to fulfillment of the following conditions, where applicable:
 - a) Return has been filed.
 - b) withholding tax statements for the relevant tax year have been filed in respect of those provisions of the Ordinance, where the person is a withholding agent; and
 - c) sales tax returns for the tax periods corresponding to relevant tax year have been filed if the person is required to file Sales Tax Return under any of the Federal or Provincial sales tax laws.

15. TAX CREDIT FOR INVESTMENT IN GREEN FIELD PROJECTS INTRODUCED VIDE TAX LAWS (SECOND AMENDMENT) ORDINANCE 2021

[Section 65(G)]

A new section 64G was introduced in Tax Laws (Second Amendment) Ordinance 2021 dated 24.03.2021 and same has been made a part in Finance Bill 2021. Under the said section, an investment tax credit equal to 25% of the eligible investment amount, shall be allowed against tax payable including minimum tax and final tax:

“Eligible Investment means investment made in purchase and installation of new machinery, buildings, equipment, hardware and software, except self-created software and used capital goods.”

“Eligible person means”

- a. Green field industrial undertaking as defined in clause (27A) of section 2 engaged in the following:
 - i. the manufacture of goods or materials or the subjection of goods or materials to any process which substantially changes their original condition; or
 - ii. ship building

Provided that the person incorporated between the 30th day of June, 2019 and the 30th day of June, 2024 and the person is not formed by the splitting up or reconstitution of an undertaking already in existence

or by transfer of machinery, plant or building from an undertaking established in Pakistan prior to commencement of the new business and is not part of an expansion project; and

- b. industrial undertaking set up by the 30th day of June 2023 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use (no multiple uses) for generation of renewable energy from sources like solar and wind, for a period of five years beginning from the date such industrial undertaking is set up.

16. NON-RECOGNITION RULES-REQUIREMENT OF RESIDENCY FOR SOME CASES ONLY

[Section 79]

Under section 79, no gain or loss arise on disposal of assets under certain circumstances mentioned therein however there was requirement that in order to avail the benefit of non-recognition rules, the acquirer of the asset must be resident at the time of acquisition. Now the Finance Bill seeks to restrict the said condition of residency only for below mentioned cases of disposals:

- a) by reason of the compulsory acquisition of the asset under any law where the consideration received for the disposal is reinvested by the recipient in an asset of a like kind within one year of the disposal.
- b) by a company to its shareholders on liquidation of the company.
- c) by an association of persons to its members on dissolution of the association where the assets are distributed to members in accordance with their interests in the capital of the association.

Thus, the Bill proposes to harmonize the position through amendment whereby this non-recognition rules shall also be applicable in case of non-resident persons for following transactions:

- Transfer of asset between spouses;
- Transfer of asset in case of death of a person to a beneficiary or to an executor;
- Gift of asset to a relative

17. ADDITION OF ELIGIBLE PERSONS IN THE LIST OF PERSONS ENTITLED FOR TAX CREDIT

[Section 100C]

Certain class of persons mentioned in clause 66 part I second schedule were reclassified into section 100C vide Tax Law Second Amendment Ordinance, 2021 dated 24.03.2021 and same are made part of finance bill 2021. Accordingly, now these persons listed in Section 100C are excluded from exemption list and they will be allowed 100% Tax credit in compliance to section 100C of the Ordinance. List of such persons added therein are as under:

- Persons specified in Table -II of clause 66 of part I of the ordinance namely:

Abdul Sattar Edhi Foundation	Pakistan Disabled Foundation
Al-Shifa Trust	Forman Christian College
Bilquis Edhi Foundation	Habib University Foundation
Fatimid Foundation	Begum AkhtarRukhsana Memorial Trust Hospital
Pakistan Engineering Council	Al-Khidmat Foundation
The Institution of Engineers	Dawat-e-Islami Trust
Liaquat National Hospital Association	Sardar Trust Eye Hospital, Lahore
The Citizens Foundation	Akhuwat. (xxx) Audit Oversight Board
Greenstar Social Marketing Pakistan (Guarantee) Limited	Patient's Aid Foundation

Indus Hospital, Karachi	Al-Shifa Trust Eye Hospital
Gulab Devi Chest Hospital	Saylani Welfare International Trust
Pakistan Poverty Alleviation Fund	SARMAYA-E-PAKISTAN LIMITED
National Academy of Performing Arts	Lahore University of Management Sciences, Lahore
Pakistan Sweet Homes Angels and Fairies Place	Dawat-e-Hadiya, Karachi
National Rural Support Program	Ghulam Ishaq Khan Institute of Engineering Sciences and Technology.
Pakistan Bar Council	Society for the Promotion of Engineering Sciences and Technology in Pakistan (SOPREST)
Pakistan Centre for Philanthropy	Businessmen Hospital Trust
Pakistan Mortgage Refinance Company Limited	Bait us salam Welfare Trust
Aziz Tabba Foundation	Alamgir Welfare Trust International
Layton Rahmat ullah Benevolent Trust (LRBT)	Foundation University.
The Kidney Centre Post Graduate Training Institute	

- A trust administered under a scheme approved by Federal Government
- A trust
- A welfare institution registered with provincial or Islamabad social welfare department
- A welfare society
- A Non-Profit company registered with the SECP
- A waqf registered under Mussalman Waqf Validating Act, 1913
- A university or education institutions
- A religious or charitable institution for the benefit of public

18. EXTENSION IN VALIDITY DATE FOR BUILDERS COVERED IN SECTION 100D **[Section 100D]**

One of the core conditions mentioned in section 100D is related to completion of registered projects where said projects are required to be completed till 30th September 2022. Subsequently, through an Income Tax (Amendment) Ordinance, 2021, the said time lines were extended. These subsequent amendments in time lines are now being ratified through proposed amendments as part of the Finance Bill. Now Finance Bill prescribes following timelines in line with Income Tax (Amendment) Ordinance, 2021:

- New and existing projects are required to be completed by 30th September 2023.
- Investment in the form of money is required to put into a newly opened bank account on or before 30th June, 2021.
- Person making investment shall submit prescribe form on IRIS on or before 30th June, 2021.
- For first purchaser of building shall not be questioned about source of money under section 111 if payment is made to Builder on or before 31st march 2023.

- e. Deadline for purchaser of plot who intends to construct building is extended upto 30th June, 2021 subject to condition that construction on the said plot is commenced on or before 31st December 2021 and such construction is completed on or before 30 September 2022.

19. SPECIAL PROVISIONS RELATING TO SMALL AND MEDIUM ENTERPRISES

[Section 100E]

in order to support small business segment of the society, simplified tax regime with lower rate of tax has been introduced and simplified tax return has been introduced. The definition of small and medium enterprises can be viewed at start of this document. Requirements under 14th Schedule are as under:

RULES FOR COMPUTATION OF PROFIT AND GAINS FOR SMALL AND MEDIUM ENTERPRISES

- 1. Registration.** - Small and medium enterprise shall be required to register with FBR on its Iris web portal or Small and Medium Enterprises Development Authority on its SME registration portal (SMERP).

- 2. Categories and tax rates:**

Category	Tax Rate
Category-1: Where annual business turnover does not exceed Rupees 100 million	7.5% of taxable income
Category-2: Where annual business turnover exceeds Rupees 100 million	15% of taxable income

- 3. Option for FTR**

The small and medium enterprises may opt for taxation under final tax regime at the rates given in the table below:

Category	Tax Rate
Category-1: Where annual business turnover does not exceed Rs. 100 million	0.25% of gross turnover
Category-2: Where annual business turnover exceeds Rs. 100 million	0.5% of gross turnover

The said option shall be irrevocable for three years.

4. Audit

- SMEs who opt for taxation under normal law under rule 3 may be selected for tax audit through risk based parametric computer ballot under section 214C of the Ordinance if its tax to turnover ratio is below tax rates given in rule 4 of these rules.
- The cases selected under sub-rule (1) of this rule shall not exceed 5% of the total population of SMEs whose tax to turnover ratio is below tax rates given in rule 4 of these rules.

20. SEPARATE NOTICE UNDER SECTION 111 IS NOT REQUIRED

[Section 111]

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

21. ENHANCEMENT IN LIMITS OF TURNOVER FOR INDIVIDUAL/AOP FOR CHARGING MINIMUM TAX.

[Section 113]

Currently, individual and AOP having turn over exceeding Rs. 10 million are required to pay turn over tax under section 113 of ITO, 2001. Now the Finance Bill has proposed to increase the said turn over limit to Rs. 100 million.

Furthermore, presently section 113(2)(c) allows carryforward of minimum tax paid in excess of the normal tax payable for a period of 5 years. However, there is conflict between tax payer and tax authorities in case if there is no tax payable. Now the said issue will be settled as the Bill proposes to allow such benefit of carryforward even in case no tax is payable.

The rate of turnover tax has also been reduced from 1.5% to 1.25%.

22. FURBISHING OF RETURN OF INCOME-TIMELINE FOR ISSUANCE OF NOTICES

[Section 114(4)]

Currently, under section 114(5), Commissioner is empowered to issue notice requiring tax payer to file tax return for any of last five completed tax years or any of last 10 completed tax year in case of non filer. However, vide Tax Laws (Second Amendment) Ordinance, 2021 dated 24.03.2021 proviso to said section which states that the said limit shall not be followed if commissioner is satisfied that the tax payer has foreign income or foreign asset. In such case there would be no time limit to issue notice.

23. CONDITIONS FOR FILLING OF REVISED ACCOUNTS AT THE TIME OF REVISION OF RETURN MAY BE WAIVED

[Section 114(6)]

Currently, there is a condition that in case of revision of return where taxpayer was required to accompany revised accounts or audited accounts along with return. However, now the Commissioner has been given a power to waive off this condition that if Commissioner is satisfied that revised accounts are not necessary then he may waive the said condition.

24. TAX PAYER PROFILE

[Section 114A]

Currently, the taxpayers are required to update their profiles before 30th June 2021. However, now the Finance Bill 2021 has proposed to omit the said section. Therefore, the requirement regarding updating of tax payer profile has been removed.

25. WITHDRAWALS OF COMMISSIONER POWER FOR MAKING ENQUIRY AND CHANGE IN TIME LINE FOR PASSING ORDER

[Section 129(5A)]

Currently, section 122(5A) the powers have been given to Commissioner to conduct an inquiry and amend the assessment of a taxpayer if Commissioner is satisfied that the assessment is erroneous in so far it is prejudicial to the interest of revenue. The Finance Bill proposes to withdraw the power of the CIR to conduct such inquiry.

Currently, there is no time limit given in sub-section 9 of section 122 for passing an assessment order. However, now the Finance Bill proposes to insert timelines within which the tax authorities are expected to frame their assessment under section 122 or implement the directions given by the CIR under section 122A.

26. REVISION BY COMMISSIONER**[Section 122A]**

Currently, under the law, there is no time limit for issuing order if any order is remanded back to any lower authority by the Commissioner for modification, alteration, implementation of directions or de novo proceedings. However, now the Bill proposes that if any order is remanded back to any lower authority by the Commissioner for modification, alteration, implementation of directions or de novo proceedings, the order giving effect to the directions of the Commissioner shall be issued within one hundred and twenty days.

27. IMMEDIATE PAYMENT OF TAX DEMAND UNDER ORDER GIVING EFFECT TO APPEAL**[Section 127]**

Bill seeks to propose that the period of 30 days for payment of tax demand shall not apply where a demand is created though an order giving effect to order/direction of commissioner appeals, appellate tribunal court, supreme court and such demand shall be paid immediately.

28. ASSISTANCE IN THE RECOVERY AND COLLECTION OF TAXES**[Section 146(c)]**

Pursuant to change in section 107 agreement with foreign tax authorities for avoidance of double taxation or for assistance in recovery of taxes, now corresponding section has been introduced where tax authority can request each other for recovery of due taxes.

29. WITHDRAWAL OF POWER OF COMMISSIONER TO REJECT THE ESTIMATES SUBMITTED BY TAX PAYER**[Section 147]**

Section 147(6) of Income provides that if tax payer estimates at any time before last instalment of advance tax is due, that tax payable by him for relevant tax year is likely to be less than the amount he is required to pay on quarterly basis, he can submit an estimate to the Commissioner and the Commissioner was empowered to reject the said estimate filed by the taxpayer forcing him to pay more amount of advance tax then he is actually required to pay. The Finance Bill now proposes to withdraw such power of the Commissioner by proposing to remove the relevant proviso.

30. RETURN ON INVESTMENT IN SUKUKS**[Section 150A]**

Presently every special purpose vehicle or a company, at the time of making payment of a return on investment in Sukuks to a Sukuk Holder is required to deduct tax from the gross amount of return on investment at the rate of 10% to 25% depending on the nature of Sukuk Holder under section 150A. Through Finance Bill 2021 it has been proposed to omit this section and has been proposed to add it under section 151 Profit on Debt. Through this amendment now it is unclear that why it has been added under the section of Profit on Debt whereby in all part of the Ordinance return on investment in Sukuks is separately dealt with. However, may it be added here that by virtue of Section 8, taxation of return on investment in Sukuks would still fall under Final Tax Regime.

31. PAYMENTS TO NON-RESIDENTS**[Section 152]**

- i. Finance Bill proposes that every person responsible for making payment directly or through an agent or intermediary to a Non-Resident person for foreign produced commercial for advertisement on any

television channel or any other media, shall deduct tax at the rate of twenty percent from the gross amount paid. The tax deducted under this sub-section shall be final tax on the income of non-resident person arising out of such payment.

- ii. In addition to above, it has also been proposed that every banking company maintaining a Foreign Currency Value Account (FCVA) or a non-resident Pakistani Rupee Value Account (NRVA) of a Non-Resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) shall deduct tax under Final Tax Regime from capital gain arising on the disposal of debt instruments and government securities and certificates (including Shariah compliant variant) invested through aforesaid accounts at the applicable rate.
- iii. Every special purpose vehicle or a company, at the time of making payment of a return on investment in Sukuks to a Non- Resident Sukuk Holder shall deduct tax under Final Tax Regime from the gross amount of return on investment at the applicable rate.

32. PAYMENT FOR FOREIGN PRODUCED COMMERCIALS

[Section 152A]

Due to inclusion of the payment related to foreign produced commercial under section 152, the Finance Bill has proposed to omit this section.

33. PAYMENTS FOR GOODS, SERVICES AND CONTRACTS

[Section 153 & 159]

At present the Commissioner may, on application made by the recipient of a payment may allow in cases where tax deductible is not minimum, by an order in writing, any person to make the payment without deduction of tax. However, no time period was prescribed for issuance of the said certificate prior to the Finance Act, 2020.

Furthermore, said section also bounds the Commissioner to issue the exemption certificate to Public Listed Companies in case of payment on account of goods, within 15 days if advance tax liability has been discharged and in case it is not issued then it would be deemed to be issued to said company.

Now the bill has extended the scope of this provision of issuance of exemption certificate within 15 days to every company. By virtue of said amendment, every company could take the advantage of this provision. In this regard, respective provisions have also been provided under section 159 for the purpose of uniform application of both sections.

Moreover, presently there are no reduced rate of withholding income tax on payments made to traders of yarn by the taxpayers specified in the zero-rated regime of sales tax (as provided under clause (45A) of Part-IV of the Second Schedule under sub section 5 of the Section 153. The Finance Bill has proposed to withdraw this exemption. By virtue of this amendment now traders of yarn would fall under clause 45A and would be subject to withholding of tax at the rate of 1% after fulfilling the conditions specified therein.

34. PAYMENT OF ROYALTY TO RESIDENT PERSONS

[Section 153B]

Presently, every person paying an amount of royalty to a resident person shall deduct tax as an adjustable tax from the gross amount payable at the rate of 15%. Now the Finance Bill has proposed to withdraw this section, due to which royalty being in the nature of services would be subject to withholding of income tax under section 153 and tax so deducted would be minimum tax.

35. EXPORT OF SERVICES

[Section 154A]

Finance Bill 2021 has proposed to insert a new section for taxation of export of services. Presently, export of services is taxable at the rate of 50% of the tax rate applicable under section 153 by virtue of clause 3 of part II of Second Schedule of ITO. However, now the Finance Bill has added this section in order to encourage the service sector to export the services. Moreover, some other services have also been added under the purview of this section, which was previously exempted under second Schedule of ITO, which has also been proposed to be removed through this bill and included the same under this section.

As per this section every authorized dealer in foreign exchange shall, at the time of realization of foreign exchange proceeds deduct tax from the proceeds at the rate of 1% on account of the following;

- a) Exports of computer software or IT services or IT enabled services in case tax credit under section 65F is not available;
- b) Services or technical services rendered outside Pakistan or exported from Pakistan;
- c) Royalty, commission or fees derived by a resident company from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise;
- d) Construction contracts executed outside Pakistan; and
- e) Other services rendered outside Pakistan as notified by the Board from time to time;

In respect of above, **the taxpayer may opt to be taxed under final tax Regime**, provided that the option shall be exercised every year at the time of filing of return. However, following conditions needs to be met if taxpayer opt to be taxed under FTR:

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

Moreover, where a taxpayer, while explaining the nature and source of any amount, investment, money, valuable article, expenditure, referred to in section 111, takes into account any source of income which is subject to final tax in accordance with the provisions of this section, he shall not be entitled to take credit of a sum that can be reasonably attributed to the business activity or activities mentioned in sub-section (1).

In other words, it could be explained that in case person opt to be taxed under FTR under this section and while explaining the source of income, the person includes above specified incomes into explanation then while explaining any expenditure or any other some like foreign remittance which is attributable to above specified incomes, would not include again for double consideration.

36. RENT OF IMMOVEABLE PROPERTY

[Section 155]

Presently, there was no withholding of income tax under section 155 on the rental income which falls under other head like income from other sources on ground rent or on sub lease of land or building, however, now the Finance Bill 2021 has inserted the explanation by virtue of which it is clarified that withholding of income tax would be made on rent of immovable property even if the rental income does not fall under the head income from property.

37. STATEMENTS**[Section 165]**

Presently, there is no requirement to file annual statement in addition to quarterly statement of withholding income tax except annual statement for withholding of income tax on salary payments by the business. However, now the Finance Bill proposes to e-file an annual statement of withholding of income tax for the relevant tax year to the Commissioner **within thirty days of the end of tax year** in addition to statement to be filed for salary.

Moreover, the Finance Bill also proposes to e-file a reconciliation statement to the Commissioner reconciling the amounts mentioned in annual statement filed annually as required above with the amounts declared in the return, audited accounts or financial statements by the due date of filing of return of income.

38. ELECTRONIC PROCESSING AND ELECTRONIC ISSUANCE OF REFUNDS BY THE BOARD**[Section 170A]**

The Finance Bill seeks to insert new section, which provided that from tax year 2021, the Board may process and issue refund to the taxpayer who has filed the return of income without requiring refund application by the taxpayer to the extent of tax credit verified by the Board's computerized system as may be prescribed. The refund amount sanctioned under this section shall be electronically transferred in the taxpayer's notified bank account.

39. CHANGES IN AMOUNTS/RATES OF PENALTIES**[Section 182]**

Material changes in penalty amounts/Provisions are as under:

SR. NO.	DESCRIPTION	CHANGE OF RATE/AMOUNT/PROVISION
	Where a person fails to furnish return of income within due date.	In this regard, it is provided that if taxable income is up-to eight hundred thousand Rupees, the minimum amount of penalty shall be five thousand Rupees: Provided also that the amount of penalty shall be reduced by 75%, 50% and 25% if the return is filed within one, two and three months respectively after the due date or extended due date of filing of return as prescribed under the law.
1A	Where any person fails to furnish a statement as required under section 165 or 165A or 165B within the due date.	In this regard, it is provided that where it stands established that no tax was required to be deducted or collected during the relevant period, minimum amount of penalty shall be ten thousand Rupees.
4A	Any person who is required to furnish or update a taxpayer's profile but fails to furnish or update within the due date.	This penalty has been removed as it relates to last tax year only. Relevant section has also been omitted by the Finance Bill 2021.
6	Any person who repeats erroneous calculation in the return for more than	In this regard it is provided that no penalty shall be imposed to the extent of the tax shortfall occurring

	one year whereby amount of tax less than the actual tax payable under this Ordinance is paid.	as a result of the taxpayer taking a reasonably arguable position on the application of this Ordinance to the taxpayer's position
29	Where any person fails to declare business bank account(s), in his registration application or fails to amend his registration profile to declare existing business bank account(s).	Such person shall pay a penalty of Rs. 10,000 for each day of default since the date of submission of application for registration or date of opening of undeclared business bank account whichever is later: Provided that if penalty worked out as aforesaid is less than Rs.100,000 for each undeclared bank account, such person shall pay a penalty of Rs.100,000 for each undeclared business bank account: Provided further that this provision shall be applicable from the first day of October, 2021 during which period the taxpayer may update their registration forms In respect of above an amendment has also been made in section 191 to prosecute for non-compliance to declare business bank account(s) in the registration form.

The major amendment which is proposed through this bill is that it is now clarified that **establishing mens rea is not necessary for levying of penalty under this section**. Presently, there are number of judgments which provides the caution to taxpayer that in order to levy penalty mens rea should be established on the part of taxpayer. However, after this proposed amendment, penalty amount would not be waived off and it must be payable in case of any contravention to the provision of the ordinance.

40. POWER TO ARREST AND PROSECUTE, PROCEDURE, COGNIZANCE, TRANSFERS ETC.

[Section 203A, 203B, 203C, 203D, 203E, 203F, 203G and 203H]

By virtue of Finance Bill, it has been proposed that an officer of Inland Revenue not below the rank of an Assistant Commissioner of Inland Revenue or any other officer of equal rank authorized by the Board in this behalf, who on the basis of material evidence has reason to believe that any person (**including every director or officer of that company**) has committed offence of concealment of income or any offence warranting prosecution under this Ordinance, may cause arrest of such person.

Afterward, he shall immediately intimate the fact of the arrest of that person to the Special Judge within twenty-four hours of such arrest. In this regard, the provision of the Code of Criminal procedure, 1898 (Act V of 1898), so far as they are not inconsistent with the provisions of this Ordinance, shall apply to the proceedings of the court of a Special Judge and such court shall be deemed to be a court of Sessions for the purpose of the said Code.

Furthermore, nothing shall preclude the Special Judge or the Judicial Magistrate from remanding any such person to the custody of an officer of Inland Revenue holding inquiry against that person if such officer makes a request in writing to that effect. In this connection, while holding an inquiry, an officer of Inland Revenue shall exercise the same powers as are exercisable by an officer in charge of a police station under the Code of Criminal Procedure, 1898

41. E-HEARING**[Section 227E]**

The Finance Bill has proposed to introduce E-hearing module for the purpose of conduction hearings. In this regard, all provisions of the Ordinance relevant to the hearing would mutatis mutandis applicable. In this regard, Board has power to design and prescribe e-hearing module for the purpose of conducting hearings, granting opportunity of being heard and electronically receiving any information for the purpose of this Ordinance. In this regard, recording of e-hearing proceedings shall be admissible as evidence before any forum or court of law.

42. CASH WITHDRAWAL FROM A BANK AND ADVANCE TAX ON TRANSACTIONS IN BANK**[Section 231A & 231AA]**

The Finance Bill has proposed to introduce a major relief measure for non-filers, whereby there were subject to deduction of tax at the rate of 0.6%. By virtue of said amendment there would be no withholding by the banks on cash withdrawal and on banking transactions.

43. ADVANCE TAX ON PRIVATE MOTOR VEHICLES**[Section 231B (2A)]**

The Finance Bill in order to enhance the revenue has introduced new sub section under above referred section. By virtue of said section, every motor vehicle registration authority of Excise and Taxation Department shall, at the time of registration, collect tax at the applicable rates, if the locally manufactured motor vehicle has been sold prior to registration by the person who originally purchased it from the local manufacturer. Said rates are as follows;

S. No.	Engine capacity	Tax
(1)	(2)	(3)
1.	Up to 1000cc	Rs. 50,000
2.	1001cc to 2000cc	Rs. 100,000
3.	2001cc and above	Rs. 200,000

44. BROKERAGE AND COMMISSION**[Section 233]**

At present, prescribed Persons under this section includes only that AOP which is constituted by or under law. Said AOP includes only that AOP, which is incorporated by any constitution of Pakistan and it is normally an AOP which is a public sector AOP or any other AOP which is established under any law by the Government and also operated and managed by the Government.

However, Finance Bill proposes to includes any AOP whether incorporated by Government or any other person in Pakistan having turnover of hundred million rupees or more as a prescribed person for the purpose of withholding of income tax at the time of making payment on account of brokerage and commission. Furthermore, bill also proposes to add any Individual as prescribed person who have turnover of hundred million rupees or more.

45. ELECTRICITY CONSUMPTION**[Section 235]**

Presently, advance tax is collected on the amount of electricity bill of a commercial or industrial consumer. However, the Finance Bill proposes to widen the scope of chargeability of this section and also added the

domestic consumer under this section. **Under this section only that domestic consumer is included who is not included in the active taxpayer list.** In order to streamline the applicability of this section on domestic consumer section 235A has been omitted by the Finance Bill.

Due to this change, now Domestic consumer which is presently chargeable to tax under section 235A in the case where monthly electricity bill is Rs. 75000 or more would not be subject to collection of advance tax if they appear in the active taxpayer list. Furthermore, the persons who are not included in that list are now chargeable to tax taxation at the rate of:

- (i) zero percent the amount of monthly bill is less than Rs.25,000; and
- (ii) 7.5% if the amount of monthly bill is Rs. 25,000 or more.

Moreover, a major change has also been proposed in this section whereby said section is not applicable to the person whose entire income is subject to Final Tax Regime or minimum tax regime under any provisions of this Ordinance other than this section.

46. ADVANCE TAX ON SALE OR TRANSFER OF IMMOVEABLE PROPERTY

[Section 236C & 236K]

These sections deal with the tax on collection of tax from Seller and Buyer on sale and purchase of immovable property and tax so deducted is adjustable tax except the fact where property is sold in the same year of purchase, in which case the tax deducted would-be minimum tax for seller.

However, in this connection the Finance Bill has proposed that if the Seller or Transferor and in other case Buyer or Transferee is a Non-Resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) who had acquired the said immovable property through a Foreign Currency Value Account (FCVA) or NRP Rupee Value Account (NRVA) maintained with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan, the tax collected under this section from such persons shall be final discharge of tax liability.

Furthermore, in the case of seller this tax would be collected in lieu of capital gains taxable under section 37 earned by the seller or transferor from the property so disposed of which means in that case seller would not be subject to tax under section 37 and tax deducted under this section would be treated as a Final Discharge for the person.

47. ADVANCE TAX ON SALES TO DISTRIBUTORS, DEALERS, WHOLESALERS AND RETAILERS

[Section 236G & 236H]

Under above section advance tax is collected by manufacturers/commercial Importer from above persons engaged in the business of in electronics, sugar, cement, iron and steel products, motorcycles, pesticides, cigarettes, glass, textile, beverages, paint or foam sector at the time of sale as per the applicable rate provided under above sections. In this connection, the Finance Bill has proposed to add further following sector in above list:

pharmaceuticals,	varnishes,
poultry and animal feed,	chemicals,
edible oil and ghee,	cosmetics,
battery,	IT equipment
tyers,	

In addition to above, the Finance Bill has also proposed that the reduced rate of advance tax on sale to Distributors, Dealers or Wholesalers of Fertilizer shall be **0.25% instead of 0.7%**, if they are already appearing on both the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001 (XLIX of 2001).

Moreover, currently rate of collection of tax from retailer u/s 236H is separate for electronic goods and other goods at the rate of **1% and 0.5%** respectively, now the Finance Bill proposes to apply the uniform rate of **0.5%** on all products.

48. WITHDRAWAL OF SECTIONS REGARDING COLLECTION OF ADVANCE TAX

The Finance Bill 2021 proposes to withdraw the responsibility of different persons from collection of advance tax on account of following;

Sr. No.	Description	Section
1.	Collection of tax on cash Withdrawal from a bank	231A
2.	Advance tax on transaction in bank	231AA
3.	Collection of tax from members by a stock exchange registered in Pakistan-	233A
4.	Collection of tax by NCCPL from members, Margin Financiers, trading Financier on Marginal Financing.	233AA
5.	Collection of tax through gas bill of a Compressed Natural Gas station	234A
6.	Advance tax on purchase of domestic air ticket by Airline	236B
7.	Tax on sale of certain petroleum products	236HA
8.	Advance tax on purchase of international air ticket	236L
9.	Collection of tax on banking transactions other than through cash.	236P
10.	Collection of tax at the time of making payment of Dividend in specie	236S
11.	Collection of tax on extraction of minerals.	236V
12.	Collection of tax from persons remitting amounts abroad through credit or debit or prepaid cards.	236Y

49. BENEFITS OF REPEALED PROVISIONS

[Section 236W]

The Finance Bill proposes to add a saving section for the ordinances which are due to be expired in tax year 2021, however, benefit of which is still available by virtue of said provisions. By virtue of this section existing beneficiaries of exemptions or concessionary provisions of the Ordinance, already expired or expiring, on thirtieth day of June, 2021 or repealed by Tax Laws (Second Amendment) Ordinance, 2021 shall continue to enjoy benefits of the repealed provisions for the periods prescribed therein and subject to conditions and limitations specified therein.

1. FIRST SCHEDULE

Rate of Super Tax for Companies – 4B

Presently, the impression was that super tax will be abolished after the tax year 2021 for Banking Companies as well. However, the Finance Bill proposes to carry out its application for 2021 onwards on banking companies only.

Rate of tax on profit on debt – 7B

The rate of tax for profit on debt imposed under section 7B shall be straight 15% irrespective of the volume of the amount. Currently rate on Profit on debt is as follows:

Sr. No.	Profit on Debt	Present Rate of tax	Proposed Rate
-1	-2	-3	
1	Where profit on debt does not exceed Rs. 5,000,000	15%	15%
2	Where profit on debt exceeds Rs. 5,000,000 but does not exceed Rs. 25,000,000	17.50%	
3	Where profit on debt exceeds Rs. 25,000,000 but does not exceed Rs. 36,000,000.	20%	

Rate of tax on income from property - 15

Due to inclusion of head of income from property under Normal tax Regime the rates applicable on income from property as a separate block of income are omitted. Now income from property would be taxed at the normal rates applicable to the persons.

Capital gain on disposal of securities - 37A

The Finance Bill has proposed to reduce the capital gain on disposal of securities from 15% to 12.5% where holding period of a security is less than twelve months for tax year 2022 and onwards and for previous years rate is same. Revised table would be as follows:

Sr. No.	Period	Tax Years 2020 and 2021		Tax year 2022 and onwards
		Securities acquired before 01.07.2016	Securities acquired after 01.07.2016	
-1	-2	-6	-7	-8
1	Where holding period of a security is less than twelve Months	15%	15%	12.50%
2	Where holding period of a security is twelve months or more but less than twenty-four months	12.50%		
3	Where holding period of a security is twenty-four months or more but the security was acquired on or after 1st July, 2013.	7.50%		
4	Where the security was acquired before 1st July, 2013	0%	0%	0%
5	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	5% and	5%

Tax on capital gains on disposal of immoveable property - 37

The rate of tax for disposal of immovable property imposed under section 37 **shall be 5% if gain does not exceed Rs. 5 million and if it exceeds then it would be taxed under normal tax regime.** Currently tax rate on disposal is as follows:

Sr. No.	Amount of Gain	Present Rate of tax	Proposed Rate of tax
-1	-2	-3	
1	Where the gain does not exceed Rs. 5 million	2.50%	5%
2	Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	5%	Taxed under NTR
3	Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	7.50%	
4	Where the gain exceeds Rs. 15 million	10%	

Minimum tax - 113

The finance bill proposes following changes for charging minimum tax u/s 113

Sr. No	Person(s)	Present Rate	Proposed Rate
(1)	(2)	(3)	
1.	(a) Oil marketing companies, Oil refineries, Sui Southern Gas Company Limited and Sui Northern Gas Pipelines Limited (for the cases where annual turnover exceeds rupees one billion.) (b) Pakistani Airlines; and (c) Poultry industry including poultry breeding, broiler production, egg production and poultry feed production. (d) Dealers or distributors of fertilizer and (e) person running an online marketplace as defined in clause (38B) of section 2.	0.75% for (a) to (e)	0.75% for (a) to (c) only. Point (d) and (e) has been removed from this Sr. No.
2.	(a) Distributors of pharmaceutical products, fast moving consumer goods and cigarettes; (b) Petroleum agents and distributors who are registered under the Sales Tax Act, 1990; (c) Rice mills and dealers; and (d) Flour mills. (e) Tier-1 retailers of fast-moving consumer goods who are integrated with Board or its computerized system for real time reporting of sales and receipts; (f) Person's turnover from supplies through e-commerce including from running an online marketplace as defined in clause (38B) of section 2.	0.25% for (a) to (d)	0.25% for (a) to (g) except flour Mills as these has been omitted

	(g) Persons engaged in the sale and purchase of used vehicles		
3.	(a) Oil refineries (b) Motorcycle dealers registered under the Sales Tax Act, 1990.	0.3% for (b) only	0.5% for (a) and (b)
4.	In all other cases.	1.5%	1.25%

Rates of Advance tax - 148

The Finance Bill has proposed to reduce the rate of advance tax at the rate of **1%**, collectible at the time of import by importers of CKD kits of electric vehicles for small cars or SUVs with 50 kwh battery or below and LCVs with 150 kwh battery or below.

Advance Tax on Dividend - 150

The Finance Bill has proposed to exclude the dividend in specie from purview of taxability under section 236S of Income Tax Ordinance and included it in the definition of dividend. Accordingly, now dividend in specie would be taxed under section 150.

Profit on debt - 151

The Finance Bill has proposed to remove the reduced rate of **10%** available to taxpayer if the taxpayer furnishes a certificate to the payer of profit that during the tax year yield or profit paid is rupees five hundred thousand rupees or less.

Payment for Goods or Services - 153

- Currently, supplies made by distributors of fast-moving consumer goods are subject to withholding of tax at the rate of 2% in case of company and 2.5% in other cases. However, the Finance Bill has proposed to remove these reduce rate available to distributor of fast-moving consumer goods.
- Now these supplies are subject to withholding tax as per standard rate applicable to goods subject to reduced rate available to **Distributors, Dealers, Sub-dealers, Wholesalers and Retailers, who appear in active taxpayer list, of fast-moving consumer goods at the rate of 0.25% under clause 24-C of part II of Second Schedule of ITO.**
- The Finance Bill has proposed to add following services in the list of services which are subject to withholding at reduced rate of 3%:
 - **oilfield services,**
 - **telecommunication services,**
 - **warehousing services,**
 - **collateral management services,**
 - **travel and tour services**

The Finance Bill also proposes to clarify that the reduced tax rates shall be applicable only to a service provider whose services are subjected to withholding tax on gross receipts and the service provider has not agitated taxation of gross receipts before any court of law.

Royalty paid to resident persons - 153B

The Finance Bill has proposed to withdraw the separate taxation for payment of royalty to resident persons which is currently subject to withholding at the rate of 15%.

Exports of services - 154A

The Finance Bill has proposed to tax the export of services under section 154A at the rate of 1% of the export proceeds.

Income from property - 155

The Finance Bill has proposed to enhance the gross rent limit for taxation purpose from 200,000 to 300,000. Now there would be no withholding of income tax on rent if gross amount of rent does not exceed 300,000. Revised table for withholding of income tax on property income is attached:

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

Electricity consumption - 235

According to present law rate of collection of tax under section 235 deals with industrial and commercial consumer. Now, the Finance Bill has proposed to change the applicable rate for them and also included the domestic consumer under this section; Revised slabs are as under:

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

The Finance Bill also proposes to add the taxation of domestic consumer who are not included in the active taxpayer list are now chargeable to tax and rate of tax to be collected on those domestic electricity consumers shall be:

- (i) zero percent the amount of monthly bill is less than Rs.25,000; and**
- (ii) 7.5% if the amount of monthly bill is Rs. 25,000 or more**

Telephone users - 236

The Finance Bill proposes to revise the rates of collection of tax under section 236:

Sr. No.	Persons	Present tax rate	Proposed tax rate
(a)	In the case of a telephone subscriber (other than mobile phone subscriber) where the amount of monthly bill exceeds Rs. 1000.	10% of the exceeding amount of bill.	10% of the exceeding amount of bill.
(b)	In the case of subscriber of internet, mobile, telephone and pre-paid internet or telephone card	12.5% of the Amount of bill or sales price of internet pre-paid card or prepaid telephone card or sale of units through any electronic medium or whatever form.	10% for the tax year 2022 and 8% onwards of the; ➤ amount of bill or ➤ sales price of internet pre-paid card or ➤ prepaid telephone card or ➤ sale of units through any electronic medium or whatever form

Advance Tax on Transfer of Motor Vehicles – 231B

The Finance Bill proposes to tax the sale of motor vehicles if the locally manufactured motor vehicle has been sold prior to registration by the person who originally purchased it from the local manufacturer at the following rates;

S. No.	Engine capacity	Tax
-1	-2	-3
1	Up to 1000cc	Rs.50,000
2	1001cc to 2000cc	Rs.100,000
3	2001cc and above	Rs.200,000

Advance tax on sale to distributors, dealers or wholesalers – 236G

The Finance Bill has proposed that the reduce rate of advance tax on sale to Distributors, Dealers or Wholesalers of Fertilizer shall be **0.25% instead of 0.7%**, if they are already appearing on both the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

Advance tax on sale to retailers – 236H

Presently, following rates are applicable for collection of advance tax from retailers:

S.No	Category of sale	Rate of tax
-1	-2	-3
1	Electronics	1%
2	Others	0.50%

In respect of above, the Finance Bill has proposed the uniform rate of 0.5% for collection of tax under section 236H irrespective of the fact it is electronic product or not.

Withdrawal of section regarding collection of advance tax

The Finance Bill 2021 proposes to withdraw the responsibility of different persons from collection of advance tax on account of following. Accordingly, relevant tax rates have also been removed from Schedule 1 of the Income Tax ordinance.

Sr. No.	Description	Section
13.	Collection of tax on cash Withdrawal from a bank	231A
14.	Advance tax on transaction in bank	231AA
15.	Collection of tax from members by a stock exchange registered in Pakistan-	233A
16.	Collection of tax by NCCPL from members, Margin Financiers, trading Financier on Marginal Financing.	233AA
17.	Collection of tax through gas bill of a Compressed Natural Gas station	234A
18.	Advance tax on purchase of domestic air ticket by Airline	236B
19.	Tax on sale of certain petroleum products	236HA
20.	Advance tax on purchase of international air ticket	236L
21.	Collection of tax on banking transactions other than through cash.	236P
22.	Collection of tax at the time of making payment of Dividend in specie	236S
23.	Collection of tax on extraction of minerals.	236V
24.	Collection of tax from persons remitting amounts abroad through credit or debit or prepaid cards.	236Y

2. SECOND SCHEDULE

(A) EXEMPTIONS FROM TOTAL INCOME

[Second Schedule PART I]

The Finance Bill 2021 proposed following amendments in second schedule of ITO.

EXEMPTION TO A PAKISTANI SEAFARER WORKING ON VESSELS

Clause (4)

Presently, salary received by a Pakistani seafarer, working on Pakistan flag vessels or a foreign vessel is exempt under this clause. Now the Finance Bill 2021 has proposed to Omit this clause due to which salary received by said person would be taxable in light of applicable provision of ITO.

WITHDRAWAL OF EXEMPTIONS ON PROFIT ON DEBT

[Clauses 22 & 23 & 23A]

Presently any payment from a provident fund to which the Provident Funds Act, 1925 (XIX of 1925) applies is exempt. However, the Finance Bill 2021 has proposed to exclude the exemption on profit on debt earned on provident fund contributions exceeding rupees five hundred thousand. Accordingly, profit on debt exceeding rupees five hundred thousand shall be chargeable to tax @ 10% as separate block of income and the person making payment shall deduct tax at the said rate.

Moreover, accumulated balance due and becoming payable to an employee participating in a recognized provident fund is exempt. Now the Finance Bill 2021 has proposed that said exemption shall not be available to the payments representing profit on debt earned on provident fund contributions exceeding rupees five

hundred thousand. The profit on debt exceeding rupees five hundred thousand shall be chargeable to tax @ 10% as separate block of income and the person making payment shall deduct tax at the said rate.

Moreover, withdrawal from the voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rules, 2005 is exempt. Now the Finance Bill 2021 has proposed that exemption under this clause shall not be available to the payments representing profit on debt earned on accumulated balance in an approved pension fund. This profit on debt shall be chargeable to tax @ 10% as separate block of income.

EXEMPTIONS REGARDING SPECIAL ALLOWANCE

[Clause 39]

Presently, any special allowance or benefit or other perquisite granted to meet expenses wholly and necessarily incurred in the performance of the duties of an office or employment of profit is exempt. Now The Finance Bill 2021 has proposed to omit this clause. By virtue of this clause taxpayer normally takes advantage and declare the portion of their salaries as exempt under this clause. Now this exemption is withdrawn.

EXEMPTIONS REGARDING TRAVELLING ALLOWANCE OF NEWS PAPER EMPLOYEES

[Clause 40]

Presently, any income of a newspaper employee representing Local Travelling Allowance paid in accordance with the decision of the Third Wage Board for Newspaper Employees constituted under the Newspaper Employees (Conditions of Service) Act, 1973, published in Part II of the Gazette of Pakistan, Extraordinary, dated the 28th June, 1980, is exempt. Now Finance Bill 2021 has proposed that this clause shall be omitted and this exemption shall be disallowed **and accordingly income shall become taxable under ITO.**

EXEMPTIONS REGARDING PERQUISITES RECEIVED BY AN EMPLOYEE BY VIRTUE OF HIS EMPLOYMENT

Clause (53A)

Presently, perquisites received by an employee by virtue of his employment from hotels, restaurants, hospitals, educational institution, etc. are exempt. Now the Finance Bill 2021 has proposed to omit this clause. Accordingly, all of the benefits received by virtue of employee's employment would be taxable as per applicable provision of law.

EXEMPTIONS REGARDING DONATION TO THE CERTAIN INSTITUTIONS

Clause (61)

Presently donation to the certain institutions, foundations, societies, boards, trusts and funds is exempt and is directly allowed as deduction from total income. Now Finance Bill 2021 has proposed to omit this clause, now this deduction would not be available **under this clause.** However, the bill has proposed to insert the same under section 61 of the Income Tax Ordinance, 2001 as a tax credit and has also specified the institutes which are included under that section by inserting new schedule Thirteenth.

EXEMPTIONS REGARDING DONATION TO INSTITUTIONS, FOUNDATIONS, SOCIETIES, BOARDS, TRUSTS AND FUNDS

Clause (66)

Income derived by following institution has been proposed to be exempted in addition to other institutions already provided in the above clause.

Table 1

(xxxvii)	Islamic Naya Pakistan Certificates Company Limited (INPCCL).
(xxxviii)	Abdul Sattar Edhi Foundation.
(xxxix)	Patient's Aid Foundation.
(xl)	Indus Hospital and Health Network.
(xli)	Securities and Exchange Commission of Pakistan.
(xlii)	Dawat-e-Hadiya, Karachi.
(xliii)	Privatisation Commission of Pakistan.
(xliv)	The Citizens Foundation.
(xlv)	Sundus Foundation.
(xlvi)	Ali Zaib Foundation
(xlvii)	Fauji Foundation.
(xlviii)	Make a Wish Foundation
(xlix)	Audit Oversight Board.
(xlx)	Supreme Court Water Conservation Account.
(xlxi)	Political Parties registered with Election Commission of Pakistan.

Under Table 2 income derived by the institution, foundations, societies, boards, trusts and funds are exempt subject to the provisions of section 100C. due to inclusion of following institute in Table 1, same has been removed from Table 2:

Table 2

(i)	Abdul Sattar Edhi Foundation.
(viii)	The Citizens Foundation.
(x)	Indus Hospital, Karachi.
(xxx)	Audit Oversight Board.
(xxxi)	Patient's Aid Foundation.
(xxxvi)	Dawat-e-Hadiya, Karachi.

EXEMPTIONS REGARDING PAYMENT OF PROFIT ON DEBT PAYABLE TO A NON-RESIDENT PERSON

Clause (72)

Presently, any profit on debt payable to a non-resident person in light of conditions provided in clause 72 are exempt. Now the Finance Bill 2021 has proposed that this clause shall be omitted and accordingly this exemption shall be withdrawn **and accordingly income shall become taxable under ITO.**

EXEMPTION ON INCOME OF AN AGENCY OF A FOREIGN GOVERNMENT, A FOREIGN NATIONAL

Clause (75)

Presently, any income of an agency of a foreign Government, a foreign national or any other non-resident person approved by the Federal Government for the purposes of this clause, from profit on moneys borrowed under a loan agreement or in respect of foreign currency instrument approved by the Federal Government is exempt. Now the Finance Bill 2021 has proposed that to restrict this exemption for profit on debt and capital gains only.

EXEMPTION ON PROFIT ON DEBT DERIVED FROM FOREIGN CURRENCY ACCOUNTS**Clause (78)**

Presently, any profit on debt derived from foreign currency accounts held with authorized banks in Pakistan, or certificate of investment issued by investment banks in accordance with Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan is exempt from total income, by;

- citizens of Pakistan and
- foreign nationals residing abroad,
- foreign association of persons,
- companies registered and operating abroad and
- foreign nationals residing in Pakistan

Now the Finance Bill proposes to restrict this exemption to only;

- non-resident individuals,
- non-resident association of persons and
- non-resident companies

EXEMPTION ON PROFIT ON DEBT DERIVED FROM A RUPEE ACCOUNT**Clause (79)**

Any profit on debt derived from a rupee account held with a scheduled bank in Pakistan by a citizen of Pakistan residing abroad, where the deposits in the said account are made exclusively from foreign exchange remitted into the said account is exempt from total income. Now bill proposes to restrict this exemption to **non-resident individual holding**;

- Pakistan Origin Card (POC) or
- National ID Card for Overseas Pakistanis (NICOP) or
- Computerized National ID Card (CNIC)

EXEMPTION ON FOLLOWING CLAUSES IS DISALLOWED NOW**Clause (80)**

Presently, income derived from a private foreign currency account held with an authorized bank in Pakistan, or certificate of investment issued by investment banks in accordance with the Foreign Currency Accounts Scheme introduced by the State Bank of Pakistan, by a resident individual who is a citizen of Pakistan is exempt from total income. Now the Finance Bill 2021 has proposed that this clause shall be omitted and this exemption shall be withdrawn **and accordingly income shall become taxable under ITO.**

EXEMPTION ON PROFIT ON DEBT PAYABLE BY AN INDUSTRIAL UNDERTAKING**Clause (90)**

Presently profit on debt payable by an industrial undertaking in Pakistan under certain conditions is exempt. Now Finance Bill 2021 has proposed that this clause shall be omitted and this exemption shall be withdrawn **and accordingly profits and gains shall become taxable under ITO.**

INCOME DERIVED BY ANY BOARD FOR THE PURPOSES OF CONTROLLING, REGULATING OR ENCOURAGING MAJOR GAMES**Clause (98)**

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

exempt. Now Finance Bill 2021 has proposed that this clause shall be omitted and this exemption shall be withdrawn **and accordingly profits and gains shall become taxable under ITO.**

EXEMPTION ON PROFITS AND GAINS ACCRUING TO A PERSON ON SALE OF IMMOVABLE PROPERTY
Clause (99A)

Presently, profits and gains accruing to a person on sale of immovable property to a REIT Scheme up to thirtieth day of June, 2015 was exempt. Now the Finance Bill 2021 has proposed to make live this exemption by replacing the year 2015 with 2023.

EXEMPTION ON DIVIDEND INCOME IN CASE OF GROUP RELIEF
Clause (103C)

Presently, dividend income derived by a company, if the recipient of the dividend, for the tax year is eligible for group relief under section 59B, is exempt. Now the Finance Bill 2021 has proposed that this clause shall be omitted and this exemption shall be withdrawn. May it be added here that Any income derived from inter-corporate dividend within the group companies entitled to group taxation is still exempt by virtue of clause 103A.

EXEMPTION ON DIVIDEND INCOME AND LONG-TERM CAPITAL GAINS OF ANY VENTURE CAPITAL FUND FROM INVESTMENTS IN ZONE ENTERPRISES
Clause (103D)

Finance Bill 2021 has proposed that dividend income and long-term capital gains of any venture capital fund from investments in zone enterprises as defined in clause (p) of section 2 of the Special Technology Zones Authority Ordinance, 2020 for a period of ten years commencing from issuance of license by the Authority to the zone enterprise shall be exempt.

ANY INCOME CHARGEABLE UNDER THE HEAD “CAPITAL GAINS DERIVED BY A RESIDENT INDIVIDUAL
Clause (114AA)

Presently, any income chargeable under the head “capital gains” derived by a resident individual from the sale of constructed residential property under some conditions is exempt. Now the Finance Bill 2021 has proposed that this clause shall be omitted and this exemption shall be withdrawn **and accordingly income shall become taxable under ITO.**

EXEMPTION FROM INCOME OF NEW DEEP CONVERSION OIL REFINERY
Clauses (126B)

Finance Bill 2021 has proposed that Profits and gains derived by a refinery will be exempt from total income;

- (a) from new deep conversion refinery of at least 100,000 barrels per day for which approval is given by the Federal Government before the 31st day of December, 2021; or
- (b) for the purpose of upgradation, modernization or expansion project of deep conversion refinery of at least 100,000 barrels per day of any existing refinery which makes undertaking to the Federal Government in writing before the 31st day of December, 2021 in this regard:

Provided that this exemption shall be available for a period of ten years beginning from the date of commencement of commercial production in the case of new refinery and from the date of completion of up gradation, modernization or expansion project of existing refinery.

PROFITS AND GAINS DERIVED BY A REFINERY**Clause (126BA)**

Presently, Profits and gains derived by a refinery set up between the 1st day of July, 2018 and the 30th day of June, 2023 with minimum 100,000 barrels per day production capacity for a period of twenty years beginning in the month in which the refinery is set up or commercial production is commenced, whichever is later, are exempt. Now the Finance Bill 2021 has proposed to exempt the income of new deep conversion refinery only, thus this exemption has been removed. Now refineries would be taxable under ITO who do not engage in the deep conversion refinery.

EXEMPTION TO ZONE DEVELOPER AND (B) ZONE ENTERPRISES (C) SPECIAL TECHNOLOGY ZONES AUTHORITY**Clause (126EA)**

Finance Bill 2021 has proposed to exempt profits of the followings under ITO:

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

PROFITS AND GAINS DERIVED FROM A FRUIT PROCESSING OR PRESERVATION UNIT**Clause (126H)**

Presently, profits and gains derived by a taxpayer, from a fruit processing or preservation unit set up in Balochistan Province, Malakand Division, Gilgit, Baltistan and FATA between the first day of July, 2014 to the thirtieth day of June, 2017, both days inclusive, engaged in processing of locally grown fruits for a period of five years beginning with the month in which the industrial undertaking is set up or commercial production is commenced, whichever is later, are exempt from tax. However, the Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned profits and gains, from a fruit processing or preservation unit, **shall become taxable under ITO.**

PROFITS AND GAINS OF MANUFACTURER OF PLANT AND MACHINERY FOR GENERATION OF RENEWABLE ENERGY**Clause (126I)**

Presently profits and gains derived by a taxpayer, from an industrial undertaking set up by 31st day of December, 2016 and set up between the 1st March, 2019 and the 30th June, 2023 and engaged in the manufacture of plant, machinery, equipment and items with dedicated use for generation of renewable energy from sources like solar and wind, for a period of five years, are exempt from tax. However, Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned profits and gains, from an industrial undertaking **shall become taxable under ITO.**

PROFIT AND GAINS OF WAREHOUSING OR COLD CHAIN FACILITIES FOR STORAGE OF AGRICULTURE PRODUCE**Clause (126J)**

Presently, profits and gains derived by a taxpayer, from an industrial undertaking set up and engaged in operating warehousing or cold chain facilities for storage of agriculture produce are exempt from tax. However, the Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned profits and gains, from an industrial undertaking set up and engaged in operating warehousing or cold chain facilities for storage of agriculture produce, **and accordingly profits and gains shall become taxable under ITO**

INDUSTRIAL UNDERTAKING SET UP FOR ESTABLISHING AND OPERATING A HALAL MEAT PRODUCTION UNIT**Clause (126K)**

Presently profits and gains derived by a taxpayer, from an industrial undertaking set up for establishing and operating a halal meat production unit, are exempt from tax under some conditions as given in this clause of ITO. However, Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned profits and gains, from an industrial undertaking set up for establishing and operating a halal meat production unit, **shall become taxable under ITO.**

PROFITS AND GAINS DERIVED BY A TAXPAYER FROM A TRANSMISSION LINE PROJECT**Clause (126M)**

Profits and gains derived by a taxpayer are exempt from a transmission line project set up in Pakistan on or after the 1st day of July, 2015 for a period of ten years. Presently it does not apply to projects set up on or after the thirtieth day of June, 2018. However, finance bill has proposed to increase this time period upto June 2022.

PROFITS AND GAINS OF A COMPANY FROM A GREEN FIELD INDUSTRIAL UNDERTAKING**Clause (126O)**

Presently profits and gains of a company are exempt from a green field industrial undertaking for a period of five years. However, finance bill has proposed to withdraw this exemption **and accordingly profits and gains shall become taxable or avail tax credit under section 65G of the ITO.**

PROFITS AND GAINS FROM ROYALTY COMMISSION AND FEE FOR TECHNICAL SERVICES**Clause (131)**

Presently profit and gains derived by way of royalty, commission or fees from a foreign enterprise in consideration for the use outside Pakistan of any patent, invention, model, design, secret process or formula or similar property right, or information concerning industrial, commercial or scientific knowledge, experience or skill made available or provided to such enterprise are exempt from income tax after fulfilling certain conditions. **Now this exemption has been withdrawn and same has been included under section 154A and subject to tax at reduced rate of 1%.**

PROFITS AND GAINS DERIVED BY A TAXPAYER FROM AN ELECTRIC POWER GENERATION PROJECT**Clause (132)**

Profits and gains derived by a taxpayer from an electric power generation project set up in Pakistan is exempt after fulfilling certain conditions provided in said clause. The Finance bill has added another condition whereby bill has proposed that exemption under this clause shall not be available to persons, who enter into agreement or to whom letter of intent is issued by Federal or Provincial Government for setting up an electric power generation project in Pakistan after the 30th day of June, 2021.

EXEMPTION ON PROFITS AND GAINS DERIVED FROM SALE OF ELECTRICITY BY NATIONAL POWER PARKS MANAGEMENT COMPANY LIMITED

Clause (132AA)

Finance Bill 2021 has proposed that profits and gains derived from sale of electricity by National Power Parks Management Company Limited commencing from the date of change of ownership as a result of privatization by the Privatization Commission of Pakistan shall be exempt from tax under this clause of ITO.

EXEMPTION ON PROFITS AND GAINS DERIVED BY A TAXPAYER FROM A COAL MINING PROJECT IN SINDH, SUPPLYING COAL EXCLUSIVELY TO POWER GENERATION PROJECTS IS DISALLOWED

Clause (132B)

Presently, Profits and gains derived by a taxpayer from a coal mining project in Sindh, supplying coal exclusively to power generation projects, are exempt. However, Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned profits and gains derived by a taxpayer from a coal mining project in Sindh, shall become taxable under ITO.

EXEMPTION ON PROFITS AND GAINS DERIVED BY A TAXPAYER FROM A BAGASSE/BIOMASS BASED COGENERATION POWER PROJECT

Clause (132C)

Finance Bill 2021 has proposed that profits and gains derived from a bagasse/biomass-based cogeneration power project having one or more boilers of not less than 60 bar (kg/CM³) pressure each, commissioned after the first day of January 2013 shall be exempt from tax under this clause of ITO.

EXEMPTION ON INCOME FROM EXPORTS OF COMPUTER SOFTWARE OR IT SERVICES OR IT ENABLED SERVICES

Clause (133)

Presently Income from exports of computer software or IT services or IT enabled services upto the period ending on 30th day of June, 2025, is exempt. Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned income derived by a taxpayer from **exports of computer software or IT services or IT enabled services, shall become taxable or could avail tax credit in light of section 65F of the ITO.**

EXEMPTION ON INCOME OF A SPECIAL PURPOSE VEHICLE

Clause (136)

Presently, any income of a special purpose vehicle as defined in the Asset Backed Securitization Rules, 1999 made under the Companies Ordinance, 1984, is exempt. The Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned income, shall become taxable under ITO.

EXEMPTION ON FREE TREATMENT OR HOSPITALIZATION OR BOTH BY AN EMPLOYER OR THE REIMBURSEMENT RECEIVED BY THE EMPLOYEE

Clause (139)

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

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

In respect of above, The Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned benefit, **shall become taxable under ITO.**

EXEMPTION ON PROFIT AND GAINS DERIVED BY LNG TERMINAL OPERATORS AND TERMINAL OWNERS
Clause (141)

Presently, profit and gains derived by LNG Terminal Operators and Terminal Owners for a period of five years beginning from the date when commercial operations are commenced, are exempt. However, the Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned profit and gains derived by LNG Terminal Operators and Terminal Owners, shall be taxable under ITO.

EXEMPTION ON PROFIT AND GAINS DERIVED BY A START-UP
Clause (143)

Presently, profit and gains derived by a start-up as defined in clause (62A) of section 2 for the tax year in which the start-up is certified by the Pakistan Software Export Board and the following two tax years, are exempt. However, Finance Bill 2021 has proposed that this clause shall be omitted and above-mentioned profit and gains derived by a start-up, **shall be taxable after availing tax credit under section 65F of the ITO.**

EXEMPTION ON INCOME IN TRIBAL AREAS
Clause (146)

Presently, income which was not chargeable to tax prior to the commencement of the Constitution (Twenty-fifth Amendment) Act, 2018 of any individual domiciled or company and association of persons resident in the Tribal Areas forming part of the Provinces of Khyber Pakhtunkhwa and Balochistan under paragraph (d) of Article 246 of the Constitution with effect from the 1st day of June, 2018 to the 30th day of June, 2023 (both days inclusive), is exempt. However, Finance Bill 2021 has proposed that this clause shall be omitted and now any income derived by the persons resident of tribal areas shall become taxable under ITO.

EXEMPTION ON INCOME OF ISLAMIC NAYA Pakistan CERTIFICATES
Clause (148)

Exemption on any income derived by Islamic Naya Pakistan Certificates has been moved in clause 66 of this part.

(B) REDUCTION IN TAX RATES

[SECOND SCHEDULE PART II]

REDUCTION IN TAX PAYABLE BY A PERSON FALL UNDER THE FIFTH SCHEDULE
[Clause 2]

Currently under said clause income of persons whose profits or gains from business are computed under the Fifth Schedule to this Ordinance as is derived from letting out to other similar persons any pipeline for the purpose of carriage of petroleum shall be charged to tax at the same rate as is applicable to such persons in accordance with the provisions of the said Schedule.

By virtue of this Finance Bill 2021, it has been proposed to omit this clause and forfeit this reduction in tax.

TAX PAYABLE IN RESPECT OF EXPORT OF SERVICES**[Clause 3, 3B]**

Currently under said clauses income from services rendered outside Pakistan, construction contracts executed outside Pakistan and income of Pakistan Cricket Board derived from sources outside Pakistan are taxed at reduced rates as mentioned in the abovementioned clauses. However due to inclusion of same (excluding PCB Income) under section 154A the Finance Bill 2021 has proposed to omit these clauses and forfeit these reductions in tax.

TAX PAYABLE ON PROFIT ON DEBT ON INSTRUMENT ISSUED BY GOVERNMENT**[Clause 5AB]**

The Finance Bill proposes to add new clause, whereby rate of tax to be deducted under section 151 shall be ten percent from the profit on debt from a debt instrument, whether conventional or Shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 (XVIII of 1944) or its wholly owned special purpose company, purchased by a resident citizen of Pakistan who has already declared foreign assets to the Board through a Foreign Currency Value Account (FCVA) maintained with authorized banks in Pakistan under the foreign exchange regulation issued by the State Bank of Pakistan. Furthermore, the tax so deducted shall be the final tax.

TAX PAYABLE ON CAPITAL GAINS ON DISPOSAL OF IMMOVABLE PROPERTY**[Clause 5B]**

Currently under said clause tax in respect of capital gains derived by a person from the sale of shares or assets by a private limited company to Private Equity and Venture Capital Fund shall be charged at the rate of ten per cent of such gains. Now the Finance Bill 2021 proposed to remove this clause and to remove reduction in tax.

TAX PAYABLE ON IMPORT OF WHITE SUGAR**[Clause 9AA, 9AB, 9AC]**

The Finance Bill 2021 proposed to introduce new clauses in respect of import of white sugar from the 25th day of August, 2020 to the 15th day of November, 2020 both days inclusive, tax shall be collected at the rate of 0.25% as per quantity, quality, mode and manner prescribed by Ministry of Commerce during the said period and

(9AB) Tax on commercial import of the white sugar shall be collected at the rate of 0.25% from the 26th day of January 2021 till the 30th day of June, 2021.

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

TAX PAYABLE IN THE CASE OF A COMPANY WHOSE SHARES ARE TRADED ON STOCK EXCHANGE**[Clause 18B]**

Presently, taxpayer payable in case of company is reduced by 2% whose shares are traded on stock exchange if it fulfills certain conditions. Now the Finance Bill 2021 proposed to remove this clause and to remove the reduction in tax.

TAX PAYABLE ON DIVIDENDS DECLARED BY A COMPANY ATTRIBUTABLE TO PROFITS AND GAINS
[Clause 18C]

The Finance Bill 2021 has proposed to introduce new clause that states that the rate of tax shall be reduced to 7.5% in case of dividends declared by a company as are “attributable” to profits and gains derived from a bagasse and biomass-based co- generation power project qualifying for exemption under clause (132C) of Part-I of this Schedule: provided that the amount of “attributable” dividends shall be computed in accordance with the following formula, namely:

$$A \times (B / C)$$

Where-

- A is the total amount of dividend for the year;
- B is the accounting profit for the year attributable to the bagasse and biomass-based cogeneration power project qualifying for exemption under clause (132C) of Part-I of this Schedule; and
- C is the total accounting profit before tax for the year.

Explanation: for the removal of doubt, it is clarified that accounting profit attributable to the bagasse/biomass-based cogeneration power project would be determined by the external auditor of the company and the external auditor shall issue a certificate to this effect.

REDUCE RATE OF WITHHOLDING FROM LARGE DISTRIBUTION HOUSES
[Clause 24A]

The Finance Bill proposes to withdraw the reduction of withholding tax at the rate of 1% u/s 153 (1) (a) from large Distribution Houses.

REDUCE RATE OF WITHHOLDING FROM DEALERS/SUB DEALERS OF SUGAR, CEMENT AND EDIBLE OIL
[Clause 24C]

The Finance Bill 2021 has proposed to enlarge the scope of this clause by adding more persons in the beneficiary list of this clause. By virtue of this amendment, rate of tax U/S 153 (1) (a) in the case of distributors, dealers, sub-dealers, wholesalers and retailers (Tier-1, see note) as recipient of payment of;

- **fast-moving consumer goods,**
- **fertilizer,**
- **electronics excluding mobile phones,**
- **sugar,**
- **cement, and**
- **edible oil**

shall be **0.25% of gross amount of payments** subject to the condition that beneficiaries of reduced rate are appearing on the Active Taxpayers’ Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

Note

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

REDUCED RATE OF MINIMUM TAX FROM DEALERS/SUB DEALERS OF SUGAR, CEMENT AND EDIBLE OIL
[Clause 24D]

The Finance Bill 2021 has proposed to enlarge the scope of this clause by adding more persons in the beneficiary list of this clause. By virtue of this amendment, rate of minimum tax U/S 113 in the case of **distributors, dealers, sub-dealers, wholesalers and retailers (Tier-1, see note)** of;

- **fast-moving consumer goods,**
- **fertilizer,**
- **locally manufactured mobile phones**
- **electronics excluding imported mobile phones,**
- **sugar,**
- **cement, and**
- **edible oil**

shall be **0.25% of the turnover** subject to the condition that beneficiaries of reduced rate are appearing on the Active Taxpayers' Lists issued under the provisions of the Sales Tax Act, 1990 and the Income Tax Ordinance, 2001.

Note

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

TAX PAYABLE ON IMPORT OF HYBRID CARS
[Clause 28A]

Presently, above clause provided reduction in tax rate applicable at the time of import of Hybrid cars. The Finance Bill 2021 has proposed to withdraw the tax reduction on import of hybrid cars. Accordingly, applicable rate as per section 148 would apply.

REDUCED RATE OF MINIMUM TAX OF TRADERS OF YARN
[Clause 28E]

Currently, for or tax year 2020, rate of minimum tax under section 113 is 0.5% in case of a trader of yarn being an individual, however, now the Finance Bill proposes to make this reduction permanent for these traders.

(C) REDUCTION IN TAX LIABILITY
[SECOND SCHEDULE PART III]

REDUCTION IN TAX PAYABLE OF A FULL TIME TEACHER
[CLAUSE 2]

This Finance Bill 2021 has proposed to withdraw reduction in tax payable given in above-mentioned clause. By virtue of said omission the reduction in tax liability equal to **25% of tax payable** will not be reduced on income from salary.

TAX PAYABLE ON PROFITS AND GAINS DERIVED BY A PERSON FROM LOW-COST HOUSING PROJECTS
[CLAUSE, 9]

Currently, tax payable on the income, profits and gains of persons referred above shall be reduced by 50% after meeting certain criteria specified in said clause. However, the Finance Bill 2021 has proposed to restrict this exemption to those projects only, which commence on or before the 30th day of June, 2024.

TAX PAYABLE ON PROFITS AND GAINS DERIVED BY A PERSON FROM LOW-COST HOUSING PROJECTS
APPROVED BY NAPHDA
[CLAUSE 9B]

Currently tax payable on the income, profits and gains of persons referred above shall be reduced by 90%. However, Finance Bill 2021 has proposed to restrict this exemption to those projects only which commence on or before the 30th day of June, 2024.

TAX PAYABLE BY COTTON GINNERS ON THEIR INCOME AND PROFITS
[CLAUSE, 17]

This Finance Bill 2021 has proposed to insert a new clause regarding tax payable by cotton ginner on their income and profits. By virtue of this proposal tax payable shall not be more than 1% of their turnover from cotton lint, cotton seed, cotton seed oil and cotton seed cake, provided that the tax so payable shall be final tax in respect of their cotton ginning and oil milling activities only.

THE RATE OF WITHHOLDING TAX OF AN INDEPENDENT POWER PRODUCER
[CLAUSE, 18]

This Finance Bill 2021 has proposed to insert a new clause regarding the rate of withholding tax on value of offshore supply contract of an Independent Power Producer located wholly or partly in territories of **AJK** shall be 1% provided:

- (i) PPIB has issued Letter of Support for the project;
- (ii) its EPC Contract has been executed and submitted to NEPRA for EPC stage tariff determination prior to the enactment of Finance Act, 2018;
- (iii) offshore supply contract arrangement of offshore supply contractor having permanent establishment in Pakistan falls under the purview of cohesive business operation as contemplated under Income Tax Ordinance, 2001; and
- (iv) such 1% tax shall be full and final liability of the offshore contractor.

TAX PAYABLE BY WOMAN ENTERPRISES UNDER THE HEAD "INCOME FROM BUSINESS"
[CLAUSE, 19]

Finance Bill 2021 has proposed to reduce the tax payable by woman enterprises on profit and gains derived under the head "Income from Business" shall be reduced by 25%. In this regard, woman enterprise means a startup established on or after first day of July 2021 as sole proprietorship concern owned by a woman or an AOP all of whose members are women or a company whose 100% shareholding is held or owned by women. Furthermore, benefit of this clause shall not be available to a business that is formed by the transfer or reconstitution or reconstruction or splitting up of an existing business.

(D) EXEMPTIONS FROM SPECIFIC PROVISIONS**[SECOND SCHEDULE PART IV]**

The Finance Bill 2021 seeks to propose the following amendments in Part IV of second schedule of ITO.

CARRY FORWARD OF LOSSES IN THE CASE OF INDUSTRIAL UNDERTAKING SET UP IN ZONE**Clause (6)**

Presently, in the case of losses referred to in section 57 in respect of an industrial undertaking set up in an area declared by the Federal Government to be a “Zone” within the meaning of Export Processing Zones Authority Ordinance, 1980 (IV of 1980), the period of six tax years specified in the said section shall not apply. However, by virtue of proposed Finance Bill said clause has been removed now it would be allowed to carry forward its loss up-to the period of six tax years.

WITHDRAWAL OF EXEMPTION FROM NON-APPLICATION OF MINIMUM TAX**Clause (11A)**

The Finance Bill has proposed to remove the exemption available for non-application of minimum tax u/s 113 on the following;

- non-profit organizations approved under clause (36) of section 2 or clause (58) or included in clause (61) of Part-I of this Schedule
- a taxpayer who qualifies for exemption under clause (133) of Part-I of this Schedule, in respect of income from export of computer software or IT services or IT enabled services;
- start-up as defined in clause (62A) of section 2.

The Finance Bill has proposed to grant exemption from 113 in case of following;

- Islamic Naya Pakistan Certificates Company Limited (INPCCL);
- receipts from sale of electricity produced from a bagasse and biomass-based co-generation power project
- new entity taking over National Power Parks Management Company Limited in the eve of privatization
- zone enterprises qualifying exemption under clause 126E of Part 1 of second Schedules
- zone developer, zone enterprises and special technology zones authority
- Persons mentioned in Table I of clause (66)

EXEMPTION FROM COLLECTION OF ADVANCE TAX UNDER SECTION 148**Clause (12B)**

Presently, there was no collection of income tax u/s 148 at the time of import of goods provided for a period commencing from 20th day of March, 2020 and ending on 30th day of September, 2020. In this regard, the Finance Bill proposes to increase the ending period upto June 2021.

BORDER SUSTENANCE MARKETS**Clause (12N)**

The Finance Bill has proposed to entertain the border sustenance markets which are established with the cooperation of Iran and Afghanistan. By virtue of said introduction, section 148 and section 154 shall not apply on the import and export of goods which takes place within the jurisdiction of Border sustenance markets. Said goods has been provided in the tables. However, the exemption under this clause shall be available on the import of goods subject to following conditions, namely:

- i. Such goods shall be supplied only within the limits of Border Sustenance Markets established in cooperation with Iran and Afghanistan;
- ii. If the goods, on which exemption under this table has been availed, are brought outside the limits of such markets, income tax shall be charged on the import value as per provisions of section 148 of this Ordinance;
- iii. Such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of income tax involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction;
- iv. The said exemption shall only be available to a person upon furnishing proof of having a functional business premises located within limits of the Border Sustenance Markets; and
- v. Breach of any of the conditions specified herein shall attract relevant legal provisions of the Ordinance, besides recovery of the amount of income tax along with default surcharge and penalties involved.

Note: These goods have been listed in the Sixth Schedule of Sales Tax Act Portion.

INCREASE IN RATE OF TAX

Clause (43D & 43E)

The Finance Bill proposes to increase the applicable tax rate u/s 153 to 3.5% from 2.5% and 3% respectively of following;

- Oil tanker contractor
- Goods transport contractor

REDUCED RATE OF WITHHOLDING FROM FIVE ZERO RATED SECTORS

Clause (45A)

As per said clause currently withholding of tax rate is one percent on local sales, supplies and services provided or rendered to the tax payers falling in the following categories of sales tax zero-rated taxpayers. In this regard, the Finance Bill has proposed to add a condition for availing such reduce rate, whereby it is clarified that the relief of reduced rate for withholding tax under clause (a) and (b) of sub-section (1) of section 153 is available only to the local sales, supplies and services made by the taxpayers of those five zero rated sectors. Thus, it is clarified that the person supplying and receiving should both fall under those five categories.

PURCHASE OF MOTOR VEHICLES FROM GENERAL PUBLIC

Clause (45B)

The Finance Bill 2021 seeks to propose that provisions of section 153 shall not apply on the purchase of used motor vehicles from general public.

NON-APPLICATION OF WITHHOLDING SECTION ON RECIPIENT OF PAYMENT ON ACCOUNT OF AGRICULTURAL PRODUCE

Clause (46AA)

The Finance Bill 2021 seeks to propose that subject to fulfillment of provision of certificate as per the procedure laid down in clause (12) of Part IV of Second Schedule, persons receiving payments exclusively for the supply of agriculture produce are exempt from withholding of income tax. In this regard, bill has added the following in the definition of agricultural produce;

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

Provided that above exemption will not be available on the payments for agriculture produce which has been subjected to any process other than that, which is ordinarily performed to render such produce to be fit to be taken to the market.

NON-APPLICATION OF PROVISIONS OF SECTION 148

Clause (56)

The Finance Bill 2021 seeks to propose that there would be no collection of tax under section 148 at the time of import on following;

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

COMPANIES OPERATING TRADING HOUSES

Clause (57A)

Presently, said clause provides the exemption from withholding of income tax under section 153 to companies operating trading house Like METRO, CASH N CARRY and other large trading houses. However, now the Finance Bill 2021 proposes to withdraw this exemption.

IMPORT OF THE CAPITAL EQUIPMENT BY ENTITY OPERATING UNDER SPECIAL TECHNOLOGY ZONE

Clause (60DA)

The Finance Bill 2021 seeks to propose to add a new clause whereby provisions of section 148 shall not apply to the import of the capital equipment as defined in section 2 of the Special Technology Zones Ordinance 2020 (XIII of 2020) by:

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

NON-WITHHOLDING ON TELECOMMUNICATION SERVICES**Clause (79A)**

The Finance Bill 2021 seeks to propose to add new clause, whereby provisions of clause (b) of sub-section (1) of section 153 shall not apply to payments received by National Telecommunication Corporation against provision of telecommunication services including ancillary services specified in sub-section (3) of section 41 of the Pakistan Telecommunication (Re-organization) Act, 1996 (XVII of 1996).";

CLAUSE RELATED TO WITHHOLDING OF TAX ON CASH WITHDRAWAL REMOVED**Clauses (101), (101A) and (101AA)**

The Finance Bill 2021 proposes to remove the withholding on cash withdrawal; thus, all relevant clause has also been removed. Following clauses are removed;

- i. cash withdrawal made from a "Branchless Banking (BB) Agent Account" utilized to render branchless banking services to customers.
- ii. Pak Rupee account if the deposits in the account are made solely from foreign remittances credited directly into such account.
- iii. a Pak Rupee Account in a tax year to the extent of foreign remittances credited into such account during that tax year.

NO DOUBLE RATE OF WITHHOLDING ON NON-RESIDENT INDIVIDUAL HOLDING PAKISTAN ORIGIN CARD (POC)**Clause (111A)**

The Finance Bill 2021 has proposed to add new clause, whereby double rate of withholding would not be applied in light of tenth schedule to non-resident individual holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or Non-resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan.

NON-REQUIREMENT OF FILLING OF ANNUAL INCOME TAX RETURN**Clause (114A)**

The Finance Bill proposes to add new clause, whereby non-resident individual is not required to file annual income tax return if he is holding Pakistan Origin Card (POC) or National ID Card for Overseas Pakistanis (NICOP) or Computerized National ID Card (CNIC) maintaining a Foreign Currency Value Account (FCVA) or a Non-resident Pakistani Rupee Value Account (NRVA) with authorized banks in Pakistan under the foreign exchange regulations issued by the State Bank of Pakistan:

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

- a) profit on debt on FCVA or Non-resident Pakistani Rupee Value Account (NRVA);
- b) profit on debt earned on Government of Pakistan (GOP) securities either conventional or Shariah Compliant where investment has been made from proceeds of FCVA or NRVA;
- c) capital gain on disposal of immovable property acquired from proceeds of FCVA or NRVA;
- d) capital gain on disposal of securities traded on Pakistan Stock Exchange and units of mutual funds that are acquired from proceeds of FCVA or NRVA; or
- e) dividend income from securities traded on Pakistan Stock Exchange and mutual funds that are acquired from proceeds of FCVA or NRVA.";

NON-APPLICATION OF WITHHOLDING TAXES TO ISLAMIC NAYA PAKISTAN

Clause (118)

The Finance Bill proposes to add new clause, whereby *provisions of withholding taxes contained in the Income Tax Ordinance, 2001 (XLIX of 2001) shall not apply to Islamic Naya Pakistan Certificates Company Limited (INPCCL) as a recipient.*

NON-APPLICATION OF WITHHOLDING TAXES TO LOCALLY MANUFACTURED MOBILE PHONES

Clause (119)

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

3. [THIRD SCHEDULE]

FIRST YEAR ALLOWANCE

Finance Bill 2021 proposes to omit the First Year Allowance which is currently available under certain conditions specified in section 23A at the rate of 90%.

4. [TENTH SCHEDULE]

RULES FOR PERSONS NOT APPEARING IN THE ACTIVE TAXPAYERS' LIST

The Finance Bill 2021 has proposed to omit certain sections and also changed the taxation regime of income from property. Accordingly, it has excluded those section from non-application of tenth schedule by virtue of which persons were not chargeable to double taxation. Thus, summarizing above, now there would be double rate of withholding on income from property u/s 155 if person is not appearing in active taxpayer list to whom the withholding agent is going to make payment.

5. [ELEVENTH SCHEDULE]

RULES FOR COMPUTATION OF PROFITS AND GAINS OF BUILDERS AND DEVELOPERS.

The Finance Bill proposes the following amendments under this schedule;

- i. The estimated life for tax purposes required for computation of annual tax liability of builders are developers has been increased from two and half years to Three and half years.
- ii. Moreover, estimated life of existing incomplete projects has also been increased from three years to four years.
- iii. The deadline for electronic registration of project on IRIS has been increased from 31st December 2020 to 31st December 2021.
- iv. In order to avail immunity from explanation of source of investment under section 111 read with section 100D of ITO, it is required that the project shall be registered latest by 30th day of June, 2021.
- v. In order to avail immunity from explanation of source of investment under section 111 read with section 100D of ITO, shareholding pattern could not be changed. However, there are certain conditions in Rule 8, fulfilling of which allow the person to change the shareholding pattern. One of the conditions is that additional person could be added after 31st December 2020. This date has now been proposed to be changed to 31st December 2021.
- vi. Cutoff date for the purpose of commencement of project has also been increased to 31st December 2021 from 31st December 2020.

6. [THIRTEENTH SCHEDULE]

SECTION 61 OF INCOME TAX ORDINANCE, 2001

The Finance Bill has proposed to remove the exemption available under clause 61 of Second Schedule and transfer its taxability in section 61 of ITO and provided the tax credit on the donations provided to those institute. In this regard, bill has also updated the list of those institute and included in the Thirteenth schedule of ITO. Said table is provided below:

S. No.	Name
(1)	(2)
1.	any Sports Board or institution recognized by the Federal Government for the purposes of promoting, controlling or regulating any sport or game.
2.	The Citizens Foundation.
3.	Fund for Promotion of Science and Technology in Pakistan.
4.	Fund for Retarded and Handicapped Children.
5.	National Trust Fund for The Disabled.
6.	Fund for Development of Mazaar of Hazarat Burn i Imam.
7.	Rabita-e-Islami's Project for printing copies of the Holy Quran.
8.	Fatimid Foundation, Karachi.
9.	Al-Shifa Trust.
10.	Society for the Promotion of Engineering Sciences and Technology in Pakistan.
11.	Citizens-Police Liaison Committee, Central Reporting Cell, Sindh Governor House, Karachi.
12.	ICIC Foundation.
13.	National Management Foundation.
14.	Endowment Fund of the institutions of the Agha Khan Development Network (Pakistan listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network.

15.	Shaheed Zulfiqar Ali Bhutto Memorial Awards Society.
16.	Iqbal Memorial fund.
17.	Cancer Research Foundation of Pakistan, Lahore. ,
18.	Shaukat Khanum Memorial Trust, Lahore.
19.	Christian Memorial Hospital, Sialkot.
20.	National Museums, National Libraries and Monuments or institutions declared to be National Heritage by the Federal Government.
21.	Mumtaz Bakhtawar Memorial Trust Hospital, Lahore.
22.	Kashmir Fund for Rehabilitation of Kashmir Refugees and Freedom Fighters.
23.	Institutions of the Agha Khan Development Network (Pakistan) listed in Schedule 1 of the Accord and Protocol, dated November 13, 1994, executed between the Government of the Islamic Republic of Pakistan and Agha Khan Development Network.
24.	Azad Kashmir President's Mujahid Fund, 1972.
25.	National Institute of Cardiovascular Diseases, (Pakistan) Karachi.
26.	Businessmen Hospital Trust, Lahore.
27.	Premier Trust Hospital, Mardan.
28.	Faisal Shaheed Memorial Hospital Trust, Gujranwala.
29.	Khair-un-Nisa Hospital Foundation, Lahore.
30.	Sind and Balochistan Advocates' Benevolent Fund.
31.	Rashid Minhas Memorial Hospital Fund.
32.	Any relief or welfare fund established by the Federal Government.
33.	Mohatta Palace Gallery Trust.
34.	Bagh-e-Quaid-e-Azam project, Karachi.
35.	Any amount donated for Tameer-e-Karachi Fund.
36.	Pakistan Red Cres-cent Society.
37.	Sank of Commerce and Credit International Foundation for Advancement of Science and Technology.
38.	Federal Board of Revenue Foundation.
39.	The Indus Hospital, Karachi.
40.	Pakistan Sweet Homes Angels and Fairies Place.
41.	Al-Shifa Trust Eye Hospital.
42.	Aziz Tabba Foundation.
43.	Sindh Institute of Urology and Transplantations Trust and Society for the Welfare of SIUT.
44.	Sharif Trust.
45.	The Kidney Centre Post Graduate Institute.
46.	Pakistan Disabled Foundation.
47.	Sardar Trust Eye Hospital, Lahore.
48.	Supreme Court of Pakistan — Diamer Bhasha & Mohmand Dams — Fund.
49.	Layton Rahmat ullah Benevolent Trust (LRBT).
50.	Akhuwat.
51.	The Prime Minister's COVIE)-19 Pandemic Relief Fund-2020.
52.	Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI).

53.	Lahore University of Management Sciences.
54.	Dawat-e-Hadiya, Karachi.
55.	Bait us salam Welfare Trust.
56.	Patients' Aid Foundation.
57.	Al khidmat Foundation.
58.	Alamgir Welfare Trust International.
59.	Prime Minister's Special Fund for victims of terrorism.
60.	Chief Ministers (Punjab) Relief Fund for Internally Displaced Persons (1DPs) of KPK.
61.	Prime Ministers Flood Relief Fund 2010 and Provincial Chief Ministers Relief Funds for victims of flood 2010.
62.	Waqf for Research on Islamic History, Art and Culture, Istanbul.

7. [FOURTEENTH SCHEDULE]

SECTION 100E OF INCOME TAX ORDINANCE, 2001

These rules shall apply to small and medium enterprises as defined in Clause (59A) of Section 2 of the Ordinance. In this regard, said schedule consist of six rules which are listed below;

- i. Application.
- ii. Registration
- iii. Categories and tax rates
- iv. Option for Final Tax Regime
- v. Audit
- vi. Provisions of Ordinance to apply

Above rules has been explained in detail under section 100E.

SECTION C. TAX RATE CARD 2022

TAX RATES FOR SALARIED INDIVIDUAL		
(Division I, Part 1 of the First Schedule)		
1	Upto Rs.600,000	0%
2	Rs.600,001 to Rs. 1,200,000	5% of the amount exceeding Rs 600,000
3	Rs.1,200,001 to Rs. 1,800,000	Rs. 30,000 + 10% of the amount exceeding Rs 1,200,000
4	Rs.1,800,001 to Rs. 2,500,000	Rs. 90,000 + 15% of the amount exceeding Rs 1,800,000
5	Rs.2,500,001 to Rs. 3,500,000	Rs. 195,000 + 17.5% of the amount exceeding Rs 2,500,000
6	Rs.3,500,001 to Rs. 5,000,000	Rs. 370,000 + 20% of the amount exceeding Rs 3,500,000
7	Rs.5,000,001 to Rs. 8,000,000	Rs. 670,000 + 22.5% of the amount exceeding Rs 5,000,000
8	Rs.8,000,001 to Rs. 12,000,000	Rs. 1,345,000 + 25% of the amount exceeding Rs 8,000,000
9	Rs.12,000,001 to Rs. 30,000,000	Rs. 2,345,000 + 27.5% of the amount exceeding Rs 12,000,000
10	Rs.30,000,001 to Rs. 50,000,000	Rs.7,295,000 + 30% of the amount exceeding Rs 30,000,000

TAX RATES FOR BUSINESS INDIVIDUAL & AOP

(Division I, Part 1 of the First Schedule)		
1	Upto Rs.400,000	0%
2	Rs.400,001 to Rs. 600,000	5% of the amount exceeding Rs 400,000
3	Rs.600,001 to Rs. 1,200,000	Rs. 10,000 + 10% of the amount exceeding Rs 600,000
4	Rs.1,200,001 to Rs. 2,400,000	Rs. 700,000 + 15% of the amount exceeding Rs 1,200,000
5	Rs.2,400,001 to Rs. 3,000,000	Rs. 250,000 + 20% of the amount exceeding Rs 2,400,000
6	Rs.3,000,001 to Rs. 4,000,000	Rs. 370,000 + 25% of the amount exceeding Rs 3,000,000
7	Rs.4,000,001 to Rs. 6,000,000	Rs. 620,000 + 30% of the amount exceeding Rs 4,000,000
8	Exceeding Rs. 6,000,000	Rs. 1,220,000 + 35% of the amount exceeding Rs 4,000,000

TAX RATES FOR COMPANIES

(Division II, Part 1 of the First Schedule)		
TYPE	TAX RATE (2021)	TAX RATE (2022)
Banking Company	35%	35%
Public and Private Company	29%	29%
Small Company	22%	21%

SUPER TAX FOR COMPANIES

(Division IIIA, Part 1 of the First Schedule)		
TYPE	TAX RATE (2021)	TAX RATE (2022 & onwards)
Banking Company	4%	4%

CAPITAL GAIN ON DISPOSAL OF IMMOVABLE PROPERTY

(Division VIII, Part 1 of the First Schedule)		
	TAX RATE (2021)	TAX RATE (2022)
Where the gain does not exceed Rs. 5 million	2.50%	5.00%
Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	5.00%	Tax Under NTR
Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	7.50%	
Where the gain exceeds Rs. 15 million	10.00%	

WEALTH STATEMENT AND RECONCILIATION U/S 116

Filing of Wealth statement along with reconciliation statement U/S 116 is compulsory for all individual tax payer.
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FOREIGN INCOME AND ASSET STATEMENT U/S 116A

Filing of foreign income and asset statement along with return of income is compulsory for individual who earns 10,000\$ or is the owner of foreign assets having a value of 10,000\$ or more.
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WORKER WELFARE FUND

2% of WWF shall be paid by industrial establishments, who's income during the tax year is Rs.500,000 or more and shall be entitled to claim deductible allowance for the amount paid as WWF in a tax year .

PROVINCIAL WWF

WWF paid under Workers' Welfare Fund enacted by Provinces shall be entitled to a deductible allowance as well.
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Nature of Payment		Section	2021		2022	
			Filer	Non-Filer	Filer	Non-Filer
All Cases except under		113	1.25% of Turnover		1.25% of Turnover	
Oil Marketing Companies, Refineries, SSGCL, SNGPL, PIA, Poultry Industry, Dealer or Distributor of Fertilizer and person running an online marketplace as defined in clause (38B) of section 2		113	0.75% of Turnover		0.75% of Turnover	
Distributors of Pharma, Fast Moving Consumer Goods, Cigrattes, Petroleum Agent, Rice Mills/ Dealers, Integrated Tire 1 Retailer of FMCG,Persons u/s 2(38B), Seller purchaser of used vehicles		113	0.25% of Turnover		0.25% of Turnover	
Oil refineries and Motorcycles Dealers		113	0.3% of Turnover on motorcycle dealer		0.5% of Turnover	
Persons importing goods classified in Part I of the Twelfth Schedule					1.00%	
Persons importing goods classified in Part II of the Twelfth Schedule					2.00%	
Persons importing goods classified in Part III of the Twelfth Schedule					5.50%	
Import by importers of CKD kits of electric vehicles for small cars or SUVs with 50 kw/h battery or below and LCVs with 150 kw/h battery or below.					Reduced by 1%	
Persons importing finished pharmaceutical products that are not manufactured otherwise in Pakistan, as certified by Drug Regulatory Authority of Pakistan					4.00%	
Companies owing power project privatised by WAPDA, set up for power generation & supplying coal		150	7.50%	15.00%	7.50%	15.00%
Dividend		150	7.50% to 15%	15% to 30%	7.50% to 15%	15% to 30%
Profit on Debt upto Rs. 500,000		151	10.00%	20.00%	*10%	20.00%
Profit on Debt Exceeding Rs. 5,000,000		151	15.00%	30.00%	15.00%	30.00%
Profit on Debt Exceed Rs. 5,000,000 but does not exceed 25,000,000		151	17.50%	35.00%	17.50%	35.00%
Profit on Debt Exceed Rs. 25,000,000 but does not exceed 36,000,000		151	20.00%	40.00%	20.00%	40.00%
*Not applicable if the taxpayer furnishes a certificate to the payer of profit that during the tax year yield or profit paid is rupees five hundred thousand rupees or less.						
Royalty or Fee for Technical Services by Non-Residents		152(1)	15.00%	30.00%	15.00%	30.00%
Contract by Non-Resident		152(1)(a)	7.00%	14.00%	7.00%	14.00%
Advertisement services from non-resident person relaying from outside Pakistan		152(1AAA)	10.00%	20.00%	10.00%	20.00%
Fee for offshore digital services		152(1C)	5.00%	10.00%	5%	10%
Sales of Goods by Permanent Establishment of Non Resident - Companies		152(2A)	4%	8%	4.00%	8.00%
Sales of Goods by Permanent Establishment of Non Resident - other than Companies		152(2A)	4.50%	9.00%	4.50%	9.00%
Renderig of Transport and specified services by PE of Non Residents		152(2A)	8.00%	16.00%	3.00%	6.00%
Other Services rendered by PE of Non Residents- Companies		152(2A)	8.00%	16.00%	8.00%	16.00%
Other Services rendered by PE of Non Residents- other than Companies		152(2A)	10.00%	20.00%	10.00%	20.00%
Contract including Sports Contract		152(2A)	7.00%	14.00%	7.00%	14.00%
Sale of goods (Companies) Including FMCG by Distributers		153(1)(a)	4.00%	8.00%	4.00%	8.00%
Sale of goods (Other Than Companies) Including FMCG by Distributers		153(1)(a)	4.50%	9.00%	4.50%	9.00%
Sale of Rice, Cotton seed and edible oil		153(1)(a)	1.50%	1.50%	1.50%	1.50%
Transport services including services Specified		153(1)(b)	3.00%	6.00%	3.00%	6.00%
Other Services - Companies		153(1)(b)	8.00%	16.00%	8.00%	16.00%
Other Services - Other than Companies		153(1)(b)	10.00%	20.00%	10.00%	20.00%
Contracts (Companies)		153(1)(c)	7.00%	14.00%	7.00%	14.00%
Contracts (Other than Companies)		153(1)(c)	7.50%	15.00%	7.50%	15.00%
Contracts (Sports Persons)		153(1)(c)	10.00%	20.00%	10.00%	20.00%
Services of Sticking, Dying, Printing, Embroidery, Washing, Sizing and Weaving to Exporters		153(2)	1.00%	2.00%	1.00%	2.00%
Services of Sticking, Dying, Printing, Embroidery, Washing, Sizing and Weaving to Exporters		153(2)	1.00%	1.00%	1.00%	1.00%
Exports of Goods		154	1.00%	1.00%	1.00%	1.00%
Exports of Services		154A	N/A	N/A	1.00%	1.00%
Indenting Commission		154(2)	5.00%	5.00%	5.00%	5.00%
Prize & Winnings		156	15% to 20%	30.00%	15% to 20%	30.00%
Commission on petroleum products		156A	12.00%	24.00%	12.00%	24.00%
Locally manufactured motor vehicle sold prior to registration by the original purchaser						
Up to 1000cc		231B	N/A	N/A	Rs.50,000	Rs.100,000
1001cc to 2000cc			N/A	N/A	Rs.100,000	Rs.200,000
2001cc and above			N/A	N/A	Rs.200,000	Rs.400,000
Advertising agents		233 (1)	10.00%	20.00%	10.00%	20.00%
Advertizing Commissions		233 (1)	8.00%	16.00%	8.00%	16.00%
Brokerage and Commission (Other Than Above)		233 (1)	12.00%	24.00%	12.00%	24.00%
Advance Tax on use of Scientific Equipment		236Q	10.00%	20.00%	10.00%	20.00%
ADJUSTABLE TAX						
Sale of goods (Listed and manufacturer Companies)		153(1)(a)	4.00%	8.00%	4.00%	8.00%

DEDUCTION ON INCOME FROM PROPERTY U/S 155 FOR IND. & AOP

(Dision V, Part III of the First Schedule)			
Description	2021	Description	2022
Upto Rs. 200,000	NIL	Upto Rs. 300,000	NIL
Rs.200,000 to Rs.600,000	5% of the amount exceeding Rs.200,000	Rs.300,000 to Rs.600,000	5% of the amount exceeding Rs.300,000
Rs.600,000 to Rs.1,000,000	20,000 + 10% of the amount exceeding Rs.600,000	Rs.600,000 to Rs.2,000,000	15,000 + 10% of the amount exceeding Rs.600,000
Rs.1,000,000 to Rs.2,000,000	60,000 + 15% of the amount exceeding Rs.1,000,000	Exceeding Rs. 2,000,000	155,000 + 25% of the amount exceeding Rs.2,000,000
Rs.2,000,000 to Rs.4,000,000	210,000 + 20% of the amount exceeding Rs.2,000,000		
Rs.4,000,000 to Rs.6,000,000	610,000 + 25% of the amount exceeding Rs.4,000,000		
Rs.6,000,000 to Rs.8,000,000	1,110,000 + 30% of the amount exceeding Rs.6,000,000		
Exceeding Rs. 8,000,000	1,710,000 + 35% of the amount exceeding Rs.8,000,000		

DEDUCTION ON INCOME FROM PROPERTY U/S 155 FOR COMPANIES

(Dision V, Part III of the First Schedule)	
The rate of Tax to be Deducted under section 155, in case of company shall be 15%	

SECTION D. SALES TAX ACT, 1990

SALIENT FEATURES

1. The sale of goods through online market place is proposed to be brought into the sales tax net by deeming the online market place as supplier in respect of third-party sales through their platform.
2. For specified goods, it is proposed that it may be made mandatory for manufacturers of such goods to obtain brand license for each separate brand or SKU.
3. Zero-rating is proposed to be withdrawn from Petroleum Crude Oil, parts/components of zero-rated plant and machinery, import of plant and machinery by petroleum and gas sector and supply, repair and maintenance of ships.
4. Sixth Schedule is proposed to be streamlined and exemptions other than relating to basic food items, health and education are proposed to be withdrawn.
5. Eighth Schedule is proposed to be streamlined and reduced rates other than relating to basic food items, health and education are proposed to be brought into standard regime.
6. Sales tax on sugar is proposed to be levied on retail price by including the said product in Third Schedule.
7. The minimum annual threshold of turnover from all supplies for cottage industry is proposed to be increased from Rs. 3 million to Rs. 10 million.
8. The threshold of shop area in case of furniture outlet/showrooms is proposed to be increased from 1000 square feet to 2000 square feet for inclusion in tier- 1 retailer.
9. Public limited companies are proposed to be excluded from the purview of section 8B.
10. Mechanism for the extension of time for furnishing of return is being introduced.
11. For facilitation purpose, the concept of constructive payment is proposed to be introduced in section 73.
12. For establishment of Border Sustenance Markets, exemption from sales tax is proposed to be granted on food related and other consumable goods.
13. It is proposed that small cars upto engine capacity of 850cc may be exempted from value added tax along with the reduction in sales tax rate from 17% to 12.5%.

1. RELAXATION FOR COTTAGE INDUSTRY

[Section 2(5AB) (d)]

Presently, for Cottage Industry, the threshold for annual turnover from all supplies is Rs. 3 million. However, now the Finance Bill 2021 has proposed to increase the said threshold to up to Rs. 10 million.

2. INTRODUCTION OF DEFINITION OF ONLINE MARKET PLACE

[Section 2(18A) & 3(3)(c)]

The Government has decided to regularize e-commerce sector and to bring it into tax net and through the Finance Bill 2021 it has proposed the definition of online market place which is as under:

“Online Market Place” includes an electronic interface such as a market place, e-commerce platform, portal or similar means which facilitate sale of goods, including third party sale, in any of the following manner, namely:

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

3. TIER – 1 RETAILER

[Section 2(43A)]

The Finance Bill 2021 proposes to amend the definition of Tier – 1 retailer and following new kind of Retailers have been brought into ambit of Tier 1 retailers:

- 1) The Retailers who have acquired POS for accepting debit or credit card payment from any banking company or digital payment service providers are now proposed to be included in the Tier – 1 retailers.
- 2) A retailer operating an online market place supplying goods through e-commerce platform, whether or not the goods are owned by him;
- 3) Furthermore, relaxation has been introduced for retailers of Furniture/Showrooms and in their retailer with shop size of 2000 square feet or more shall be treated as tier 1 retailers.

4. LIABILITY TO PAY TAX ON GOODS SOLD THROUGH ONLINE MARKET PLACE

[Section 3(3)]

The Finance Bill 2021 has proposed that liability to tax in case of goods sold through online market place shall be on the person running online market place whether or not goods are owned by him or not.

5. WITHDRAWAL OF CASH BACK FOR CUSTOMERS OF TIER 1 RETAILERS

[Section 3(9A)]

Presently, customers of Tier-1 retailers are entitled to a cash back of 5% subject to the conditions placed by the Board. However, the Finance Bill 2021 proposes to withdraw this cash back entitlement.

6. RELAXATION FOR PUBLIC LISTED COMPANY FOR 100% INPUT TAX ADJUSTMENT

[Section 8B (1)]

Finance Bill 2021 proposes to exclude the public listed companies from the purview of section 8B. Therefore, the public listed companies will be able to claim 100% input tax adjustment.

7. TIME LIMITATION OF SHOW CAUSE NOTICES

[Section 11 (5)]

Presently, show cause notice for short payment or non-payment of sales tax could be issued within five years of the due date related to the tax period in question. i.e. Due date for July 2020 return was 15th Aug 2020, therefore, the time barred date for July 2020 in the previous law would be 15th Aug 2025. Now, the Finance Bill has proposed that the show cause notice can be issued within five years calculated from the end of the financial year relating to the tax period in question.

8. INTRODUCTION OF COMMON IDENTIFIER NUMBER

[Section 21B]

Finance Bill 2021 proposes to introduce the concept of Common Identifier Number (CIN). For this purpose, a new section 21B is proposed to be inserted. Extract of the section is given below;

- i. From the tax period July 2021 and onward, in the case of individual, having Computerized National Identity Card (CNIC) issued by the National Database and Registration Authority (NADRA), registered or liable to be registered under the provisions of section 14, CNIC shall be common identifier number in addition to sales tax registration number (STRN)."
- ii. From the tax period July 2021 and onward, in the case of association of persons or company, having National Tax Number (NTN), registered or liable to be registered under the provisions of section 14, NTN shall be common identifier number in addition to sales tax registration number (STRN).

9. RECORDS

[Section 22(1)(e) & (eb)]

Finance Bill 2021 proposes to include cash books in the records to be maintained by registered person under the sales tax law.

Furthermore, maintaining the records required the Sales Tax Act, 1990 in electronic form is proposed to be recognized. For this purpose, a new clause (eb) under Section 22(1) is being inserted which, states a registered person can maintain and keep its business records mentioned in clauses (a) to (ea) of Section 22(1) in electronic form.

10. EXTENSION OF TIME FOR FURNISHING SALES TAX RETURN

[Section 26AB]

Currently, there is no concept of extension in due date for submission of sales tax returns. The Finance Bill 2021 proposes to introduce the mechanism for extension by inserting a new section 26AB. Following are the key provisions in this regard:

- a. A registered person required to furnish a return under section 26 may apply, in writing, to the Commissioner for an extension of time to furnish the return
- b. Commissioner may grant extension for 15 days due to reason mentioned therein. For extension of longer period, commissioner shall consider whether exists exceptional circumstances for granting exemptions for longer period.
- c. If commissioner rejects extension, tax payer may apply to chief commissioner for extension.

11. LICENSING OF BRAND NAME**[Section 40E]**

Finance Bill 2021 proposes the introduction of a licensing requirement for specified goods. It will be mandatory for manufacturers of such goods to obtain brand license for each separate brand or SKU.

Any specified brand and SKU found to be sold without obtaining a license from the Board shall be deemed as counterfeit goods and will be resulted in seizing and destruction of goods in the prescribed manner.

Further procedural details will be clarified by the Board by SROs in future.

12. EXCHANGE OF INFORMATION WITH OTHER MINISTRY AND PROVINCIAL GOVERNMENTS**[Section 56A(1A)]**

Data sharing with Government ministries and provincial authorities is being introduced. The Finance Bill 2021 introduces a new sub-section (1A) under section 56A. The extract of above said sub-section is given below:

“The Board shall have power to share data or information including real time data videos, images received under the provisions of this Act with any other Ministry or Division of the Federal Government or Provincial Government, subject to such limitations and conditions as may be specified by the Board”.

13. AGREEMENT FOR ASSISTANCE IN RECOVERY OF TAXES**[Section 56A (3)]**

Regarding collection of taxes on behalf of or upon request of foreign government, The Finance Bill 2021 introduces a new sub-section (3) under section 56A which empowers federal government to enter into or multilateral convention, and inter-governmental agreement or similar agreement or mechanism for assistance in the recovery of taxes.

14. POWER OF BOARD TO MAKE RULES FOR MYSTERY SHOPPING FOR POS INTEGRATED RETAILERS:**[56C(2)]**

Finance Bill proposes that board may prescribe procedure for “mystery shopping” in respect of invoices issued by tier-1 Retailers integrated with FBR online system randomly and in case of any discrepancy.

15. ADDITIONAL PAYMENT FOR DELAYED REFUND**[Section 67]**

The taxpayers are entitled to compensation payment in case of delayed refund. The Finance Bill proposes that where a refund due in the consequence of any order passed under section 66 is not made within forty-five days of date of such order, there shall be paid to the claimant in addition to the amount of the refund due to him, a further sum equal to KIBOR per annum of the amount of refund, due from the date of the refund order.

16. ADJUSTMENT AGAINST AMOUNT PAYABLE AND RECEIVABLE BETWEEN PARTIES**[Section 73(1)]**

Sec 73 of the Sales Tax Act, 1990 deals with payments mechanism between the seller and purchases. However, there was no consideration of the case where the transactions between the parties are in both ways. i.e. A selling party also purchases some goods from its customers. In other words, there was no consideration where both payable and receivable balances between the parties existed. Both parties were required to pay amount for each invoice through banking channel to comply with the requirements of sec 73. The Finance Bill 2021 proposes to introduce the concept of off-setting of balance in the sec 73. However, prior approval of Commissioner is required to avail the benefit of such offset. The newly proposed proviso is reproduced below;

“The adjustments made by a registered person in respect of amounts payable and receivable to and from the same party shall be treated as payments satisfying the provisions of this sub-section subject to following conditions, namely:

(a) sales tax has been charged and paid by both parties under the relevant provisions of this Act and rules prescribed thereunder, wherever applicable; and

(b) the registered person has obtained prior approval of the Commissioner before making such adjustments.”

17. TAXABILITY OF SUGAR UNDER THE THIRD SCHEDULE

[The Third Schedule]

The Finance Bill 2021 proposes to include “Sugar” in the Third Schedule and therefore, the sales tax on sugar will be charged by the manufacturer on the retail price. However, Sugar supplied as industrial raw material will not fall under the ambit of the third schedule.

18. ZERO RATING

[The Fifth Schedule]

The Finance Bill has proposed to **withdraw** zero rating on various items including crude oil, raw materials and components relating to plant and machinery used in supply of zero-rated goods, supply, repair and maintenance of ships, aircrafts and related machinery and equipment, supplies of locally manufactured plant and machinery to petroleum and gas exploration sector. For this purpose, the serial numbers 1,6, 10 and 11 are proposed to be omitted from the Fifth Schedule.

Furthermore, the Finance Bill proposes to **allow** zero rating of local supply raw materials, components, parts and plant and machinery supplied locally to the registered exporters authorized under Export Facilitation Scheme, 2021.

19. EXEMPTIONS

[Sixth Schedule]

Finance Bill 2021 proposes to streamline the exemptions under the Sales Tax Act, 1990 by majorly allowing the exemptions related to food, health and education related items and withdrawing exemptions on other items. This is proposed through significant changes in the Sixth Schedule. Exemption of various items including the following is proposed to be **withdrawn**.

EXEMPTIONS PROPOSED TO BE WITHDRAWN

Following items have been omitted. Items 11 to 85 have been shifted from table 1 to table 2 which means now their local supply shall be exempt only:

TABLE – 1:

Sr. No.	Description
11	Eggs including eggs for hatching
19	cereals and products of milling industry other than wheat and meslin flour, as sold in retail packing bearing brand name or trade mark.
24	Edible oils and vegetable ghee, including cooking oil, on which Federal Excise Duty is charged, levied and collected.
26	Fruit Juices, whether fresh, frozen or otherwise preserved but excluding bottled, canned or packed

27	Ice and waters excluding those for sale under brand names or trademarks
29	Table salt including iodized salt excluding salt sold in retail packing bearing brand names and trademarks.
29C	Glass bangles
73A	Milk and cream concentrated or containing added sugar or other sweetening material excluding those sold in retail packing
74	Flavored milk, excluding that sold in retail packing under a brand name
75	Yogurt, excluding that sold in retail packing under a brand name
76	Whey, excluding that sold in retail packing under a brand name
77	Butter, excluding that sold in retail packing under a brand name
78	<i>Desi</i> ghee, excluding that sold in retail packing under a brand name
78	Cheese, excluding that sold in retail packing under a brand name
80	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name
82	Frozen prepared or preserved sausages and similar products of poultry meat or meat offal 2[, excluding those sold in retail packing under a brand name or a trademark]
83	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry, meat and fish excluding those sold in retail packing under a brand name or a trademark
84	Preparations suitable for infants, put up for retail sale
85	Fat filled milk excluding that sold in retail packing under a brand name or a trademark
91	Energy saver lamps
93	Bicycles
101	Raw and pickled hides and skins, wet blue hides and skins, finished leather, and accessories, components and trimmings, if imported by a registered leather goods manufacturer, for the manufacture of goods wholly for export, provided that conditions, procedures and restrictions laid down in rules 264 to 278 of the Customs Rules, 2001 are duly fulfilled and complied with.
103	Import and supply thereof, up to the year 2030, of ships and all floating crafts including tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistan entity and flying the Pakistan flag, except 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.
106	Import of Halal edible offal of bovine animals
108	Components or sub-components of energy saver lamps, namely: -(a) Electronic Circuit (b) Plastic Caps (upper and lower) (c) Base Caps B22 and E27

	(d) Tungsten Filaments (e) Lead-in-wire (f) Fluorescent powder (Tri Band Phosphor) (g) Adhesive Additive (h) Al-oxide Suspension (i) Capping Cement (j) Stamp Pad Ink (k) Gutter for Suspension
115	Plant, machinery and equipment imported for setting up fruit processing and preservation units in Gilgit-Baltistan, Baluchistan Province and Malakand Division upto the 30th June, 2019 subject to the same conditions and procedure as are applicable for import of such plant, machinery and equipment under the Customs Act, 1969 (IV of 1969).
123	Aircraft, whether imported or acquired on wet or dry lease
124	Maintenance kits for use in trainer aircrafts
125	Spare parts for use in aircrafts, trainer aircrafts or simulators
128	Aviation simulators imported by airline company recognized by Aviation Division
153	Steel billets, ingots, ship plates, bars and other long re-rolled profiles, on such imports and supplies by the manufacturer on which federal excise duty is payable in sales tax mode. Note: steel items are proposed to be shifted in sales tax regime from FED regime.

TABLE – 2

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

Various items are **proposed to be exempted** from sales tax including the items related to the electric vehicles, import of raw materials, components, parts and plant and machinery by the registered exporters under Export Facilitation Scheme 2021 and import of plant machinery and equipment within Special Technology Zone. Relevant entries in the second schedule are produced below;

EXEMPTIONS PROPOSED

TABLE – 1:

Sr. No.	Description	Headings
137.	Art paper and printing paper	4810.1990, 4810.1910 and 4802.6990

157.	Import of CKD (in kit form) of following electric vehicles (4 wheelers) by local manufacturers till 30 th June 2026: i. Small cars/SUVs with 50 Kwh battery or below; and ii. Light commercial vehicles (LCVs) with 150 kwh battery or below	Respective headings
158.	Goods temporarily imported into Pakistan by International Athletes which shall be subsequently taken by them within 120 days of temporary Import	Respective headings
159.	Import of auto disable Syringes till 30th June, 2021 i. with needles ii. without needles	9018.3110 9018.3120
160.	Import of following raw material for the manufacturers of auto disable syringes till 30th June, 2021 (i) Tubular metal needles (ii) Rubber Gaskets	9018.3200 4016.9310
161.	Import of plant, machinery, equipment and raw materials for consumption of these items within Special Technology Zone by the Special Technology Zone Authority, zone developers and zone Enterprises	Respective headings
162.	Import of raw materials, components, parts and plant and machinery by registered persons authorized under Export Facilitation Scheme, 2021 notified by the Board with such conditions, limitations and restrictions.	Respective headings

TABLE - 2:

Sr. No.	Description
26	Supply of locally produced silos till 30.06.2026
27	Eggs including eggs for hatching
28	cereals and products of milling industry other than wheat and meslin flour, as sold in retail packing bearing brand name or trade mark.
29	Edible oils and vegetable ghee, including cooking oil, on which Federal Excise Duty is charged, levied and collected.
30	Fruit Juices, whether fresh, frozen or otherwise preserved but excluding bottled, canned or packed
31	Ice and waters excluding those for sale under brand names or trademarks
32	Table salt including iodized salt excluding salt sold in retail packing bearing brand names and trademarks.
33	Glass bangles
34	Milk and cream concentrated or containing added sugar or other sweetening material excluding those sold in retail packing
35	Flavored milk, excluding that sold in retail packing under a brand name

36	Yogurt, excluding that sold in retail packing under a brand name
37	Whey, excluding that sold in retail packing under a brand name
38	Butter, excluding that sold in retail packing under a brand name
39	<i>Desi</i> ghee, excluding that sold in retail packing under a brand name
40	Cheese, excluding that sold in retail packing under a brand name
41	Processed cheese not grated or powdered, excluding that sold in retail packing under a brand name
42	Frozen prepared or preserved sausages and similar products of poultry meat or meat offal excluding those sold in retail packing under a brand name or a trademark
43	Meat and similar products of prepared frozen or preserved meat or meat offal of all types including poultry, meat and fish excluding those sold in retail packing under a brand name or a trademark
44	Preparations suitable for infants, put up for retail sale
45	Fat filled milk excluding that sold in retail packing under a brand name or a trademark

20. BORDER SUSTENANCE MARKETS

[Sixth Schedule- Table-IV]

The concept of Border Sustenance Markets is proposed in the Finance Bill 2021. The Border Sustenance Markets will be established in cooperation with Iran and Afghanistan and these are included in tax exempt areas. The Finance Bill proposes to exempt specified goods when supplied within the limits of the Border Sustenance Markets. The proposed conditions are given below:

- i. Such goods shall be supplied only within the limits of Border Sustenance Markets established in cooperation with Iran and Afghanistan;
- ii. If the goods, on which exemption under this Table has been availed, are brought outside the limits of such markets, sales tax shall be charged on the value assessed on the goods declaration import or the fair market value, whichever is higher;
- iii. Such items in case of import, shall be allowed clearance by the Customs Authorities subject to furnishing of bank guarantee equal to the amount of sales tax involved and the same shall be released after presentation of consumption certificate issued by the Commissioner Inland Revenue having jurisdiction;
- iv. The said exemption shall only be available to a person upon furnishing proof of having a functional business premises located within limits of the Border Sustenance Markets; and
- v. Breach of any of the conditions specified herein shall attract relevant legal provisions of this Act, besides recovery of the amount of sales tax along with default surcharge and penalties involved.

The specified goods are mentioned under the **Table IV of the Sixth Schedule**. The said table is reproduced below:

Sr. No.	Description	Headings
1	Seed (Potatoes)	701.1
2	Tomatoes, fresh or chilled	702

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3	Onions and shallots	703.1
4	Garlic	703.2
5	Cauli flowers cabbage	704.9
6	Carrots and turnips	706.1
7	Cucumbers and gherkins fresh or chilled	707
8	Peas (pisum sativum)	708.1
9	Beans (vigna spp., Phaseolus spp.)	708.2
10	other leguminous vegetables	708.9
11	Peas (Pisum sativum)	713.1
12	Grams (Dry/Whole)	713.201
13	Dried leguminous vegetables	0713.2090, 713.909
14	Beans of the species Vigna mung (L.) Heppe or Vigna radiata (L.) Wilczek	713.31
15	Small red (Adzuki) beans (Phaseolus or Vigna angularis)	713.32
16	Kidney beans including white beans	713.33
17	Bambara – vigna subteranea or vaahdzeia subterrea	713.34
18	Beans vigna unguiculata	713.35
19	Other	713.399
20	Lentils (Dry/Whole)	713.401
21	Broad beans (Vicia faba var. major) and horse beans (Vicia faba var. equina, Vicia faba var. minor)	713.5
22	Pigeon peas (cajanus cajan)	713.6
23	Vanilla (Neither crushed nor ground)	905.1
24	Cinnamon	906.11
25	Other (Cinnamon And Cinnamon Tree Flowers)	906.19
26	Neither crushed nor ground (Cloves)	907.1
27	Crushed or ground (Cloves)	907.2
28	Neither Crushed nor ground (Nutmeg)	908.11
29	Crushed or ground (Nutmeg)	908.12
30	Neither crushed nor ground (Maze)	908.21
31	Crushed or ground (Maze)	908.22
32	Large (Cardammoms)	908.311
33	Small (Cardammoms)	908.312
34	Crushed or ground (Cardammoms)	908.32
35	Neither crushed nor ground (Coriander)	909.21
36	Crushed or ground (Coriander)	909.22
37	Neither crushed nor ground (Seeds of Cumins)	909.31
38	Crushed or ground (Seeds of Cumins)	909.32

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39	Neither crushed nor ground (Seeds of Anise, Badian, Caraway, Fennel etc)	909.61
40	Crushed or ground (Seeds of Anise, Badian, Caraway, Fennel etc)	909.62
41	Thyme; bay leaves	910.991
42	Barley (Seeds)	1003.1000, 1003.9
43	Sunflower seeds, whether or not Broken	1206
44	Locust beans	1212.92
45	Cereal straws and husks	1213
46	Knives and cutting blades for paper and paper board	8208.901
47	Of a fat content, by weight, not exceeding 1 % (milk and cream)	401.1
48	Of a fat content, by weight, exceeding 1 % but not exceeding 6 % (milk and cream)	401.2
49	Of a fat content, by weight, exceeding 6 % but not exceeding 10% (Milk and Cream)	401.4
50	Of a fat content, by weight, exceeding 10 % (Milk and Cream)	401.5
51	Leeks and other alliaceous vegetables	703.9
52	Cauliflowers and headed Broccoli	704.1
53	Brussels sprouts	704.2
54	Cabbage lettuce (head lettuce)	705.11
55	Lettuce	705.19
56	Chicory	0705.2100, 705.29
57	Fruits of the genus Capsicum or of the genus Pimenta	709.6
58	Figs	804.2
59	Fresh (grapes)	806.1
60	Dried (Grapes)	806.2
61	Melons	0807.1100, 807.19
62	Apples	808.1
63	Green Tea	902.1
64	Other Green Tea	902.2
65	Crushed or ground (Ginger)	910.12
66	Turmeric (curcuma)	910.3
67	Other (spice)	910.999
68	Lactose (Sugar)	1702.111
69	Sugar Syrup	1702.112
70	Sugar Other	1702.19
71	Caramel	1702.902
72	Oil-cake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soya bean oil.	2304
73	Other (animal feed)	2309.9

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74	For Sewing (Thread)	5204.201
75	For embroidery (Thread)	5204.202
76	Spades and shovels	8201.1
77	Tools for masons, watchmakers, miners and hand tools nes	8205.59
78	For kitchen appliances or for machines used by the food industry	8208.3
79	Other kitchen appliances	8208.909
80	Yogurt	403.1
81	Other (Potatoes)	701.9
82	Sweet corn	710.4
83	Mixtures of vegetables	710.9
84	Fresh (Dates)	804.101
85	Dried (Dates)	804.102
86	Apricots	809.1
87	Sour cherries (Prunus cerasus)	809.21
88	Other (Apricots)	809.29
89	Peaches, including nectarines	809.3
90	Plums and sloes	809.4
91	Strawberries	810.1
92	Kiwi Fruit	810.5
93	Neither crushed nor ground (Ginger)	910.11
94	Wheat and Meslin (Other)	1001.19
95	Wheat and Meslin (Other)	1001.99
96	Of Wheat (Flour)	1101.001
97	Of Meslin	1101.002
98	Vermacelli	1902.192
99	Other (Packed Cake)	1905.9
100	Homogenised preparations	2007.1
101	Citrus Fruit	2007.91
102	Other (jams)	2007.99
103	Organic surface-active products and preparations for washing the skin, in the form of liquid or cream and put up for retail sale, whether or not containing soap	3401.3
104	Preparations put up for retail sale	3402.2
105	Other (washing preparations)	3402.2
106	Tableware and kitchenware of porcelain or china	6911.109
107	Household articles nes & toilet articles of porcelain or china	6911.9
108	Glassware for table or kitchen purposes (excl. glass having a linear c)	7013.49

109	Glassware nes (other than that of 70.10 or 70.18)	7013.99
110	Spoons	8215.991
111	Tableware articles not in sets and not plated with precious metal	8215.999
112	Bicycles and other cycles (including delivery tricycles), not motorized	8712
113	Vacuum flasks	9617.001
114	Vacuum flasks/vacuum vessels complete w/cases; parts o/t glass inners (others)	9617.002

21. REDUCED RATE OF SALES TAX [THE EIGHTH SCHEDULE]

The Eight Schedule deals with the goods chargeable at the reduced rates. The Finance Bill proposes to withdraw reduced rate for various items and subject them to the standard sales tax rate i.e. 17%.

WITHDRAWAL OF REDUCED RATE

The items proposed to be charged under normal rate include the following;

S. N	Description
1	Soyabean meal
5	Raw cotton and ginned cotton
6	Plant and machinery not manufactured locally and having no compatible local substitutes
7	Flavoured milk
8	Yogurt
9	Cheese
10	Butter
11	Cream
14	Milk and cream, concentrated or containing added sugar or other sweetening matter
15	Ingredients of poultry feed, cattle feed, except soya bean meal of PCT heading 2304.0000 and oilcake of cotton-seed falling under PCT heading 2306.1000
19	Waste paper
20	Plant, machinery, and equipment used in production of biodiesel
22	Soya bean seed
29	(i) Harvesting, threshing and storage equipment (ii) Wheat thresher (iv) Maize or groundnut thresher or sheller (v) Groundnut digger (vi) Potato digger or harvester (vii) Sunflower thresher (viii) Post hole digger (ix) Straw balers

	(x) Fodder rake (xi) Wheat or rice reaper (xii) Chaff or fodder cutter (xiii) Cotton picker (xiv) Onion or garlic harvester (xv) Sugar harvester (xvi) Tractor trolley or forage wagon (xvii) Reaping machines (xviii) Combined harvesters (xix) Pruner/shears
45	Following machinery for poultry sector: (i) Machinery for preparing feeding stuff (ii) Incubators, brooders and other poultry equipment (iii) Insulated sandwich panels Respective heading (iv) Poultry sheds (v) Evaporative air-cooling system (vi) Evaporative cooling pad
50	LNG/RLNG
60	Fat filled milk
61	Silver, in unworked condition
62	Gold, in unworked condition
63	Articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal.
65	Ginned cotton
67	LNG imported for servicing CNG sector and local supplies thereof

PROPOSED REDUCED RATES

Hybrid cars and locally manufactured cars under 850 cc are proposed to be charged under reduced rate scheme. The proposed rates are given below:

Sr. No.	Description	Proposed Rate	Conditions
71.	vehicles (4 wheelers) till 30 th June, 2026: Small cars/SUVs with 50 Kwh battery or below; and Light commercial vehicles (LCVs) with 150 kwh battery or below	1%	If supplied locally
72.	Motorcars	12.5%	Locally manufactured or assembled motorcars of cylinder capacity upto 850cc

73.	Import and local supply of Hybrid Electric Vehicles: i. Upto 1800 cc ii. From 1801 cc to 2500 cc	8.5%. 12.75%	
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22. WITHHOLDING SALES TAX [THE NINTH SCHEDULE]

Reclaim lead and lead batteries sector is an unmanaged sector. The Finance Bill 2021 proposes the withholding of sales tax for reclaimed lead and used lead batteries in order to bring the sector under the tax net.

Withholding Agent	Supplier Category	Rate /Extent of sales tax to be withheld
Registered persons manufacturing lead batteries	Persons supplying reclaimed lead or used lead batteries	Whole of the sales tax applicable".

23. [TWELFTH SCHEDULE]

It is proposed that cars up to engine capacity of 850cc may be exempted from value added tax.

Exemption from value addition tax on import of electric vehicles, CKD kits for small car, 2-3 wheelers, HCVs and all these vehicles in CBU conditions was granted vide Tax Laws (Amendment) Ordinance, The Finance Bill 2021 proposes it to be incorporated in the Twelfth Schedule.

Under Twelfth Schedule, following clauses are proposed to be added.

(xi) Electric vehicles (4 wheelers) CKD kits for small cars/SUVs, with 50 kwh battery or below and LCVs with 150 kwh battery of below till 30th June, 2026;

(xii) Electric vehicles (4 wheelers) small cars/SUVs, with 50 kwh battery or below and LCVs with 150 kwh battery of below in CBU condition till 30th June, 2026;

(xiii) Electric vehicles (2-3 wheelers and heavy commercial vehicles) in CBU condition till 30th June, 2025; and

(xiv) motor cars of cylinder capacity up to 850cc.

SECTION E. ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

Relief for IT sector

In the Finance Bill 2021, to promote and encourage IT sector, it is proposed that any type of export of IT services shall be charged zero per cent.

SECTION F. CUSTOMS ACT, 1969

SALIENT FEATURES

- The concept of common warehouse is added to ease the importer / exporter and small and medium size entities.
- The addition of master bill of lading, bill of lading, airway bill, certificate of origin in the definition of document is to reduce forgery and fraud risk.
- The concept of electronic assessment of Good Declaration is introduced to improve fairness and remove flaws in system.
- The Directorate General of National Nuclear Detection Architecture and Directorate Marine are formed to ensure delegation of duties and proper operation of the department.
- The vessel intimation report is introduced to ensure smoothness and timely management of imports.
- The definition of owner of goods is introduced to confirm the legal title and to ensure the fairness and immediate response on import.
- The word “Retailing” is inserted in definition of smuggling to discourage smuggling practices.
- The concept of applying on custom computerized application for license of a private ware house and public ware house is added to ease the process of taking license and ensure fairness.
- The provision to formulate dispute resolution committee regarding valuation of good is added to reduce cost of business and improving the relation between customs and general public.
- The Federal Government have power to exempt custom duties by enforcement on notifications upto June 2022.
- The substitution of word “Determined” with “using reasonable means” in value of imported and exported goods is done to remove restriction to find value of goods.
- The delegation of power to find custom values to Collector Custom is included to ensure segregation of duties and promote business.
- The power is given to Director Custom to find value of good using all possible means (international publication) to ensure proper value is assigned.
- The Director General Valuation is given power to find value in case of any dispute / issue on value assigned by director general custom.
- The competent authority may revise or rescind the custom value determined by Collector / Director Customs.
- The power to take over the imported goods subject to approval of board is given to chief collector customs to ensure time and cost saving for businesses.
- The power given to director general valuation to make decision of disputes subject to 30 days for filing litigation and decision to be given in 60 days is there to avoid time wastage and ensure smooth operations.

- The owner is not allowed to apply for scraping of goods after filing of goods declaration to avoid custom duty evasion.
- Considering the date by shown of good declaration in advance on arrival of the conveyance by which goods have been imported for the goods fall under section 79 (goods cleared for home consumption) & 104 (goods cleared from warehouse)
- if rate of duty change after the submission of the goods declaration and before the berthing or cross-over event of the vessel or the vehicle respectively, Considering the date on which the vessel has berthed or the vehicle has crossed-over the border.
- The condition of not sending notice within 5 years of filing a statement if amount is less than Rs. 100 is replaced by Rs. 20,000 to facilitate businesses.
- The power to make rules regarding money laundering is assigned to board to ensure proper rules are made to eliminate money laundering.
- The restrictions regarding submission of import manifest on in charge of conveyance before entering into the country is to ensure proper management and documentation.
- Authorized agent may amend the import manifest before the berthing of vessel or cross over the vehicle.
- Inclusion of clause to file documents necessary for assessment along with the Good Declaration is there to ensure proper documentation and valuation of goods.
- The provision of examination of goods after clearance of goods declaration is inserted to ensure correct filling of good declaration.
- The provision to re-export out of Pakistan, goods banned or restricted to discourage import of banned goods.
- Offence detected and that offence resolvable after importing of good, in respect of imported goods which are absolutely not liable wholly or partly confiscate.
- The power is given to collector custom to direct correction of value or quantity in a good declaration before warehousing this is done to relax provision of not to amend good declaration.
- The power of collector custom to give extension of goods to remain in warehouse for 1 month is increased to 6 months to ensure sinking of funds and promote ease of doing business.
- The provision is inserted regarding suspension of registration of user, the collector customs first send notice and give opportunity of being heard.
- Allow custom not below rank of Assistant Collector to correct bona fide clerical error in good declaration to ensure ease of doing business enhance.
- The increase of penalties of breach of requirements of placing invoice and packing list inside import container is inserted and fail to attached electronic documents to ensure proper documentation regulation is compiled for the purpose of economy is documented.
- The restriction of not accepting fine for the third time illegal or unlawful activity, only liable of confiscation of goods to ensure compliance with laws.

- Reducing time limits for goods lying on airport, dry ports making decision within thirty days of show cause which may further be extended to 15 days.
- The power given to Board, Chief Collector and Collector to call for records to ensure legality of notice of subordinate fairness in custom operations.
- The power of Additional Collector is segregated to Deputy Collector in case of reference to be made to high court, this is done to ensure effectiveness of custom functions.
- The offering of cash prizes to custom official and law enforcement agencies on preventing evasion of custom duty and smuggled goods is done to prevent custom duties evasion and smuggling and encourage the officials.
- Validity period of advance ruling is increased from one year to three years in accordance with international benchmark and facilitating trade.

CHANGE IN FIRST SCHEDULE TO RELIEF INDUSTRY

- Reduction / Exception given in custom duties to promote textile industry.
- Reduction / exemption given in custom duty on HRC and Rolled stainless steel industry.
- Reduction / exemption on raw materials and intermediary goods and point of sale machines.
- Reduction / exemption on inputs / raw materials of food processing industry to promote food processing industry.
- Reduction of duty on uncoated paper and paperboard for printing and graphic arts industry.
- Reduction / exemption of duty on Vaccines for veterinary medicines and feed additives to incentivize the dairy sector.
- Reduction / exemption of duty on goods falling under more than 100 PCT codes relating to Tourism industry.
- Reduction of duties on raw material/inputs of footwear industry to promote footwear industry.
- Reduction / exemption of custom duty on inputs for poultry industry
- Reduction / exemption of custom duty on raw material for manufacturer of aseptic plastic packaging.
- Exemption of additional custom duty on import of raw materials for cables / optical fiber manufacturers
- Reduction / Exemption of custom duty and additional custom duty on raw materials for Paint Industry
- Reduction / Exemption of custom duty and additional custom duty on raw materials for Chemical and Artificial Leather Industry
- Reduction / Exemption of custom duty and additional custom duty on inputs for Electronics Manufacturing Industry
- Reduction / exemption of custom duty and additional custom duty on raw materials / inputs of furniture, coating, boiler manufacturing industry, bobbins and cops manufacturing industry.
- Reduction of Additional custom duty on goods falling under 2436 tariff lines pertaining to 20% customs duty slab from 7% to 6%

- Extension in exemption from customs duties on import of COVID-19 related items for further 6 months.
- Exemption of custom duty and additional custom duty on Inputs of Ready-To-Use Supplementary Foods (RUSF) and Ready-To-Use Therapeutic Food (RUTF).
- Exemption of custom duty and additional custom duty on life-saving drugs
- Improve the value of unsolicited gifts through post or courier from Rs.20,000 to 30,000
- Exemption of custom duty and additional custom duty on import of grain storage hermetic bags and cocoons
- Rationalization of tariff structure on auto sector
- Rationalization of regulatory duty on import of Mobile Phones to encourage import substitution and promote local manufacturing.
- Increase in rates of regulatory duty on import of non-essential / luxury items to support local industry and maintain trade deficit.
- Reduction of regulatory duty on import of cocoa paste, butter and powder being industrial input goods.

1. DEFINITIONS**[Section 2]**

The Finance Bill has proposed the following amendments in the definitions:

- **ADDITIONAL DOCUMENTS FOR CUSTOM CLEARANCE**

[Section 2 clause(kka)]

It is proposed to broaden the scope of definition of the term “Documents” by including the documents “master bill of lading, bill of lading, airway bill, certificate of origins” used for custom clearance as part of “documents”.

- **ELECTRONIC ASSESSMENT**

[Section 2 clause (kkc)]

It is proposed to add a new definition (kkc) of the “Electronic Assessment”. Electronic Assessment of goods declaration in Custom Computerized System by an officer of Customs or by the computerized system according to the selectivity criteria. By the said addition of this clause, it is easier to assess goods with computerized system instead of manually physical inspection. With the addition of said clause, risk of fraud shall be reduced.

- **VESSEL INTIMATION REPORT (VIR)**

[Section 2 clause(ld)]

The Finance Bill has inserted a new clause which prescribes timely confirmation to custom authorities by the carrier or his agent regarding vessel at a Customs Sea report provided that computerized system of customs authority is operational.

- **OWNER**

[Section 2 clause (oo)]

A new clause has proposed to be added in the definition section which has defined the word “Owner” of goods in depth. In view of this clause an owner is a person of goods and includes any person who is for the time being entitled, either as owner or agent for the owner, to the possession of the goods.

- **SMUGGLED**

[Section 2 clause (s)]

It is proposed to amend the clause (s) by mere adding the word “Retailing” after the word “Concealing” already inserted. Retailer is an intermediary between manufacture and end consumer. If any person retails smuggled goods subject to this clause, he will fall in a definition of smuggle.

2. CONSTITUTION OF DIRECTORATE GENERAL OF NATIONAL NUCLEAR DETECTION ARCHITECTURE

[Section 3CCB]

It is proposed to insert a section in which officers for National Nuclear Detection Architecture are mentioned as “The Directorate General of National Nuclear Detection Architecture, shall consist of a Director General and as many Deputy Director Generals, Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette appoint.

3. COMPOSITION OF DIRECTORATE GENERAL OF MARINE

[Section 3CCC]

It is proposed to insert this section in which officers for National Nuclear Detection Architecture are mentioned as “The Directorate General of Marine shall consist of a Director General and as many

Directors, Additional Directors, Deputy Directors, Assistant Directors and such other officers as the Board may, by notification in the official Gazette appoint.

4. POWER TO APPOINT OR APPROVE APPLICATION FOR PUBLIC WAREHOUSE LICENSE.
[Section 12]

Presently, in Customs Act, the section 12 dealt with power to appoint or license public warehouse. In the Finance Bill this section is amended by giving ease to applicant for license for public warehouse by submitting application through systems to respective Collector of Customs in his jurisdiction. The collector of custom may cancel the license if violation of any provision of act.

5. POWER TO APPOINT OR LICENSE FOR COMMON WAREHOUSE.
[Section 12A]

The Finance Bill has added new section 12A which deals with power to appoint or license common warehouse for importers. Traders/Businessmen have now an extra option for storage of their goods in a common warehouse. They can apply for common warehouses in addition to public & private warehouses without payment of custom duties. Collector of Custom may cancel the license of common warehouse if violation of Custom Act.

6. POWER TO APPOINT OR LICENSE FOR PRIVATE WAREHOUSE.
[Section 12]

Presently in Customs Act, the section 12 dealt with power to appoint or license private warehouse. In the Finance Bill 2021 this section is amended by giving ease to applicant for license for private warehouse by submitting application through systems to respective Collector of Customs in his jurisdiction. Collector of Custom may cancel the license of common warehouse if violation of Custom Act.

7. CONSTITUTION OF A COMMITTEE OR CENTRE FOR DISPUTES SETTLEMENTS REGARDING CLASSIFICATION OF GOODS & PAKISTAN CUSTOM TARIFF (PCT)
[Section 18E]

It is proposed to add a condition that for the purposes of statistical suffix of Pakistan Customs Tariff (PCT) Code, the board may form a committee or centre to sort out conflicts relating to classification of goods and may set out procedures necessary for the purpose of this matter.

8. POWER OF FEDERAL GOVERNMENT TO ISSUE NOTIFICATIONS REGARDING EXEMPTION OF GOODS FROM CUSTOM DUTIES
[Section 19(Sub-Section 5)]

This section of Customs Act, 1969 provides powers to federal Government to exempt duty any goods imported into, or exported from Pakistan on account of any immediate action for the purposes of national security, natural disaster, national food security in emergency situations, protection of national economic interests. Presently, all active notifications issued thereunder are effective till 30 June 2021 only. Through the Finance Bill 2021, it is proposed that all notifications issued after 01 July 2016, if not rescinded earlier, and placed before the National Assembly be continued and enforced up to 30 June 2022. Now, the said amendment will provide legal coverage to the notifications issued during the said period.

9. UPDATION OF VALUE DETERMINATION METHOD OF IMPORTS/EXPORTS GOODS
[Section 25 (Sub-Section 9)]

The Finance Bill has explained and made clear for arriving at customs value of goods (imported/exported), by adding the precise words "Using reasonable means" with the word "determined" in sub-section 9 of section 25.

10. DISTRIBUTION OF AUTHORITY BETWEEN OFFICIALS**[Section 25A (Sub-Section 1)]**

The proposed Bill has distributed the authority of officials by adding the expression “the Collector of Customs on his own motion or” along with the expression already inserted “Director of Customs on his own motion or”. By the addition of this expression both can determine.

ADDITION IN AUTHORITY OF DIRECTOR**[Section 25A (Sub-Section 1)]**

Presently in Customs Act, Director has power to determine the customs value of any goods or category of goods imported into or exported out of Pakistan, after following the methods laid down in section 25, whichever is applicable. New proposed amendment in this subsection has extended the Director’s Authority. Director may incorporate values from internationally acclaimed publications, periodicals, bulletins or official websites of manufacturers or indenters of such goods. The new said amendment has made an ease for director to determine accurate value of goods.

POWER OF DIRECTOR GENERAL OF VALUATION TO DETERMINE CUSTOMS VALUE**[Section 25A (sub-section 2A)]**

A new sub-section (2A) is inserted in this proposed Finance Budget. The purpose of this section is to resolve disputes on values of goods (determined under subsection 1 of Section 25A) imported or exported out of Pakistan. This section delegates power to “Director General of Valuation” to determine applicable customs value in case of any conflict arose in sub-section 1 of section 25A.

ADDITION OF EXPRESSION OF SUB-SECTION 2A**[Section 25A (sub-section 4)]**

Sub-Section 4 of Section 25A deals with the customs value determined under sub-section (1) of section 25A shall be applicable until and unless revised or rescinded by the competent authority. Now Finance Bill has added the expression “or the case may be under sub-section (2A)” after the subsection (1) due to addition of new subsection (2A). Moreover, both subsection relates to power for determining customs value of goods.

11. SHIFT OF POWER TO THE RESPECTIVE CHIEF COLLECTOR**[Section 25C]**

It is proposed that the duties performed by the “respective Chief Collector” instead of the “Board” to determine the customs value of any goods or category of goods imported into or export out of Pakistan.

12. REVISION IS REPLACED WITH REVIEW OF THE VALUE DETERMINED**[Section 25D]**

It is proposed to enhance the powers of Director General Valuation to move the petition in his own capacity or any person or custom officer within thirty days to revise the custom value, and he may cancel or determine the said review petition. Also, he shall conclude this petition within sixty days.

13. PROCEDURAL CHANGE IN GOODS DECLARATION**[Section 27A]**

It is proposed that on the request of owner Board shall allow before filling of goods declaration for the purpose of charging duty at applicable rate on scraped goods.

14. DATE OF DETERMINATION OF RATE OF DUTY**[Section 30]**

In is proposed that the first proviso of section 30, date is considered for determination of duty rate by way of good declaration manifested in advance on arrival of the conveyance and the goods have been imported fall under section 79 (goods cleared for home consumption) & 104 (goods cleared from warehouse). As the case may be, except for those goods declaration in respect of which the rate of duty change after the submission of the goods declaration and before the berthing or cross-over event of the vessel or the vehicle respectively, in this case date consider on which the vessel has berthed or the vehicle has crossed-over the border.

15. THRESHOLD FOR THE ISSUANCE OF SHOW CAUSE NOTICE**[Section 32]**

It is proposed that the in the section 32 of sub-section 3A the proceeding limit of importer/ exporter shall be enhanced from one hundred to twenty thousand rupees limitation. One who has recoverable liability less than twenty thousand rupees recoverable amount then no proceeding shall initiate.

16. TRANSFERRING OF POWER TO THE BOARD REGARDING ISSUANCE OF OFFICIAL GAZETTE**[Section 32 C]**

In is proposed that the further rulings regarding state bank action against the mis-declaration of any person shall be mentioned through official gazette by the Board.

17. DECREASE THE TIME LIMIT REGARDING DELIVERY OF IMPORT MANIFEST**[Section 44]**

It is proposed that, if deliver or file electronically an import manifest to appropriate officer of Customs this section may decrease the time limit of the custom airport after delivery of import from 24 hours to 3 hours and the inform custom-station at the time entry into the country.

18. CHANGE OF IMPORT MANIFEST**[Section 45]**

It is proposed that the authorized agent may amend the import manifest before the berthing of vessel or cross over the vehicle.

19. DOCUMENTS UPLOADED BY IMPORTER**[Section 79]**

In is proposed that grant the addition about the uploading of mandatory documents by the importer or his agent of goods declaration for the assessment purposed as mentioned by the board.

20. PRIOR APPROVAL OF GOODS DECLARATION THROUGH GREEN CHANNEL**[Section 80 (4)]**

This section is proposed to be inserted that only Custom Computerized system through green channel for goods examination is insufficient; therefore, the approval of collector of custom is also required.

21. NON-CLEARANCE OF GOODS**[Section 82 C]**

It is proposed that if the importer is not approachable or banned or restricted by notification of government within sixty days then re-export any good to out of Pakistan.

22. RELIEF ON CONFISCATION OF GOODS**[Section 83 B]**

It is proposed that where any offence detected and that offence resolvable after importing of good, in respect of imported goods which are absolutely not liable wholly or partly confiscate.

23. MODE OF RECTIFICATION OF ERROR**[Section 88 (5)]**

It is proposed that by virtue of sub section 5 of section 85 the collector may write reasons behind the commission of error which is occurred in goods declaration. After that he may direct to importer for rectification of the said error.

24. PERIOD FOR WHICH GOODS MAY REMAIN WAREHOUSE**[Section 98(1)(a)]**

It is proposed that the period of holding the perishable goods is extend from one month to six months in the warehouse of custom department by the collector of customs.

25. CLEARANCE FOR EXPORTATION**[Section 131(2)]**

It is proposed that the “custom computerized system has not been introduced” shall be omitted now only in the writing for the reason to recorded the examination of goods belonging to exporter at a designated place as he deems fit and proper.

26. CANCELLATION OF REGISTRATION OF REGISTERED USER**[Section 155F]**

It is proposed that the custom officer gives a notice and opportunity of being heard before the cancellation of registration of registered user.

27. AUTHORIZATION FOR CORRECTION OF CLERICAL ERROR**[Section 155R]**

It is proposed that under section 29 of Custom Act, 1969 the good declaration note issued, if there is any error in that good declaration note the importer or exporter may apply to the concerned officer not below the rank of Asst collector for the issuance of correction certificate upon his satisfaction.

28. PENALTIES**[Section 156]**

Following penalties are proposed to be imposed:

- i. If any person contravenes the requirement of placement of invoice and packing list inside the import container or consignment then such a person shall be liable to a penalty as under;

1st time Rs 100,000/-

2nd time Rs 500,000/-

3rd time Rs 1,000,000/-

4th time Outright confiscation of goods and blockage of WeBOC user ID for one year.

- ii. If any person fails to attach or electronically upload mandatory documents required under section 79 or 131 of customer Act 1969 then such a person shall be liable to a penalty as under;

1st time	Rs 50,000
2nd time	Rs 100,000
3rd time	Rs 150,000
4th time	Rs 200,000
5th time	Rs 250,000 and onwards,

- iii. Penalties on the followings are now omitted:

- a) If without entry duly made, any goods are taken or passed out of any customs-station
 - b) If the good declaration is not filled with in the prescribed period of ten days.
- iv. In this Finance Bill, it is proposed that the retailer of any smuggled goods and unlawful goods or drugs shall be liable to imprisonment with fine or both same like on the person carrying, removing depositing, harboring, keeping or concealing.

29. THIRD PARTY CONFISCATION

[Section 157]

It is proposed that the person liable to the confiscation has been sized for the third time, no option to pay fine in lieu of the confiscation shall be given.

30. RECOVERY OF DUTIES AND OTHER TAXES

[Section 179]

It is proposed that the collector of customs shall confiscate the goods or recover the duties and other taxes on the goods lying on the airport or seaport the collector shall be decided within thirty days instead of ninety days of the issuance of show cause notice which can be extended by another fifteen days by collector of custom.

31. POWER AUTHORIZED TO BOARD

[Section 195]

It is proposed that Board is authorized with the power to call any one and examine the record of any proceeding with in his jurisdiction under this act for the purpose of satisfying itself.

32. APPEAL IN HIGH COURT

[Section 196]

It is proposed to give the power of appeal in the High court, to the Deputy Collector instead of Additional Collector.

33. REWARD TO CUSTOM OFFICER

[Section 202B]

It is proposed to provide the reward to the custom officer on confiscation of smuggled goods or evasion of taxes on any goods. Reward is also proposed to the whistle blower to point out the smuggled goods or vehicle.

34. **ADVANCE RULING**

[Section 212B]

It is proposed that the validity period of advance ruling is increased from one year to three years in accordance with international benchmark and facilitating trade.

35. **REDUCTION CONCESSION IN CUSTOM DUTIES**

[First schedule]

It is proposed that the following industries are involved to get relief as under;

Description of Industry / Item	Rate Proposed
Glucose precursors, Yeast, Toxin Binders, Energy supplements for cow's transition period, Non-protein nitrogen sources - vaccines for veterinary medicines and feed additives imported by dairy sector, Acidifiers, Electrolytes for calves, Biotin, Buffers, Copper boluses.	5%
Imiglucerase, Laronidase, Agalsidase, Alghlucosidase Alfa, Protactant Alfa and Caffeine Citrate – These are 6 live saving drugs	0%
Specified machinery, equipment and other goods for textile sector, subject to condition that imported by textile industrial units registered with Ministry of Textile Industrial & not locally manufactured.	0%
Specified goods for tourism projects, subject to certification by the concerned Secretary of Provincial Tourism Department or equivalent Authorized Officer of the Federal Government as bona fide requirement of the approved projects with objective to promote tourism industry.	50% of prevailing rate of custom duty
Medicaments used as input by poultry industry.	3%
PVC Emulsion grade imported by Sales Tax registered manufacturers of artificial leather subject to quota determination by Input Output Co-efficient Organization (IOCO) and also subject to lab test.	0%
Release paper imported by Sales Tax registered manufacturers of artificial leather subject to quota determination by IOCO.	3%
Specified inputs, if imported by manufacturers of Ready to Use Supplementary Foods (RUSF) and Ready-To-Use Therapeutic Food (RUTF), duly authorized by United Nations World Food Program (UNWFP) and subject to annual quota determination by IOCO.	0%
Grain storage hermetic bags and cocoons subject to certification by Ministry of National Food Security and Research (MoNFS&R) that imported goods are bona fide requirement for use in the Agriculture Sector. The authorized officer of the Ministry shall furnish all relevant information online to Pakistan Customs Computerized System against specific user ID and Password obtained under section 155D of the Customs Act, 1969.	0%
Inputs relating to footwear industry, if imported by Sales Tax registered Shoe manufacturers subject to quota determination by IOCO.	5%
Raw material i.e. Film of ethylene for manufacturer of aseptic plastic packaging is proposed to 15% from 16%, if imported by a Sales Tax registered manufacturer of aseptic plastic packages meant for liquid foods, subject to quota determination by IOCO.	15%
Ednozym Pectofruit, Endozym Pectofruit PR, Endozym Alphamyl MG, Silite Normal Speed, Silite High Speed and Spindasol FJ under if imported by Sales Tax registered manufacturers of Food Processing Industry, subject to quota determination by IOCO.	3%

Auto Sector Tariff Structure

Description	Rate Proposed
Import of 4-wheeler Vehicles Electric (CBU),	Concessional rate of 10% is proposed to be allowed till June 30, 2022 which is proposed to increase to 25% from July 1 2022 to June 30, 2026.
Import of first 100 4-wheeler Electric Vehicles (CBU) per company	Concessional rate of 50% of the above rates is proposed till June 30, 2026 subject to approval/certification by Engineering Development Board (EDB) which shall also monitor compliance with EV Policy 2020.
CKD and Spare parts of Electric Vehicles 4- wheelers:	
i) EV Specific components for assembly/manufacture in kit-form (CKD) ii) Components for assembly / manufacture in any kit-form (CKD) - Non- Localised parts - Localised parts	Concessional rate of 1% is proposed till June 30, 2026 subject to certification and quota determination by EDB. Concessional rate of 10% is proposed till June 30, 2026 Concessional rate of 25% is proposed till June 30, 2026 <i>Subject to fulfillment of conditions mentioned at Para- 2 of the SRO 656(I) / 2006 dated 22.06.2006.</i>

SECTION G. FEDERAL EXCISE ACT, 2005

SALIENT FEATURES

- Revision of return can be done without approval of Commissioner within 60 days or payment of tax if exceeded and claimant of refund is reduced to original return.
- Jurisdictions (Foreign Jurisdiction, Inter Government Agreement) will provide assistance for Collection and recovery of duties.
- Manufactures of the specified goods are required to obtain license of each brand or stock keeping unit. If not then confiscation and destruction of goods.
- The board have power to assist in recovery and provide information to Government.
- FED is eliminated on items fruit juices, edible oil and vegetable ghee and metal related products to facilitate the lower prices.
- Duties are imposed on electronically heated tobacco products @ Rs.5,200 per Kg.
- Electric vehicles (4 wheelers) are given exemptions from Federal Excise Duties.
- Locally manufactured small cars up to engine capacity of 850cc are exempted from Federal duties to facilitate the low earning families.
- FED on telecommunication is reduced by 1 % i.e. 17% to 16%.
- It is proposed to impose duty on phone call exceeding duration of 3 minutes @ Rupee 1 per call. Further, for every 1 GB of internet data usage Rs. 5 and for every SMS Rupee 0.1 duty is also imposed to enhance the revenue.
- FED on payments through Merchant Discount Rate (MDR) are being abolished to promote transactions through debit and credit cards.
- In the areas of FATA and PATA, industrial units are given exemptions from Federal Excise Duties to promote the area.
- Food and other consumable goods are exempted from FED in the Markets established in Border areas of Iran and Afghanistan.
- Exemption on import and zero rating of local supplies in case of raw materials, components, parts and plant and machinery to registered person is granted in introduction of Export Facilitation Scheme 2021.

1. APPROVAL NOT REQUIRED IN CASE OF REVISION OF RETURN**[Section 4: Sub-Section (4)]**

It is proposed to make a new addition due to which the approval of commissioner for revision of return shall not be required if revised return is filed within 60 days of original return or the duty payable is more than or refund claimed is less than in original return.

2. RECOVERY OF FEDERAL EXCISE UNDER TAX TREATY AND MULTILATERAL AGREEMENTS**[Section 14: Sub-Section (4)]**

It is proposed that make a new addition under this section which will help in recovery of unpaid duty or of erroneously refunded duty or arrears of duty under a tax treaty, a multilateral convention, and inter-governmental agreement or similar agreement or mechanism.

3. BRAND LICENSING REQUIREMENT**[Section 45AA]**

It is proposed to make a new addition under which manufacturers of the specified goods shall be required to obtain brand license for each brand or stock keeping unit (SKU) in such manner as may be prescribed by the Board. Any specified brand and SKU found to be sold without obtaining a license from the Board shall be deemed counterfeit goods and liable to outright confiscation and destruction in the prescribed manner.

4. ENHANCE THE DUTIES OF BOARD**[47A]**

- i. The budget has proposed to increase the scope of the Board regarding the collection and recovery of duties along with agreement for the exchange of information. Information includes the real time data videos, images received with any other Ministry or Division of the Federal Government or Provincial Government.
- ii. Federal Government may enter into a bilateral or multilateral convention, and inter-governmental agreement or similar agreement or mechanism for assistance in the recovery of duties.

5. CHANGES IN FIRST SCHEDULE**[Table 1, Sr. No.1, 2, 57 and 58]**

- i. The budget has proposed to exclude FED at 17% on the following goods from First schedule:
 - Edible oils excluding deoxidized soybean
 - Vegetable ghee and cooking oil
 - Fruit juices, syrups and squashes, waters containing added sugar or sweetening matter etc. excluding mineral and aerated waters
 - Steel Billets, ingots, ship plates, bars and other long re-rolled products
- ii. The budget has proposed to make an addition under **serial no 8b** as under:

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

- iii. The budget has proposed to insert the **Sr. No. 55 of table 1** by virtue of it the electric vehicles (4 wheelers) are exempted from FED till 30th June 2026.

6. RELIEF ON CARS UP TO 850CC

[S No 55B]

The budget has proposed to provide relief by way of providing exemption of FED on car up to 850cc.

7. CHANGES IN TABLE II

- i. It is proposed to include the advertisement on TV in the services sector although currently included in goods.
- ii. It is proposed to reduce the FED on Telecommunication services in **S. No. 6** from 17% to 16%.
- iii. It is proposed to levy FED on the following services:

Sr. No.	Description of Goods	Heading	Rate of Duty
6A.	Following telecommunication services: (a) Mobile phone call, if call duration exceeds three minutes	Respective sub-heading of 98.12	One Rupee per call in addition to the rates of duty specified under Serial No. 6.
	(b) Internet services	9812.6000	One Rupee per GB in addition to the rates of duty specified under Serial No. 6.
	(c) SMS services	9812.1710	Ten paisa per SMS in addition to the rates of duty specified under serial no. 6.

- iv. FED has been proposed to be excluded from Payment on account of Merchant Discount Rate (MDR).

8. CHANGES IN SECOND SCHEDULE

- i. It is proposed to exclude following goods from the Second schedule for which duty is collectible under sales tax mode. It is proposed to include following items under sale tax and charge sale tax at the rate of 17%. The following items includes:
 - Edible oil excluding epoxidized soybean oil falling under heading 15.18
 - Vegetable ghee and cooking oil
 - Steel Billets, ingots, ship plates, bars and other long re-rolled products

9. EXEMPTION ON FED ON ADDITION OF ITEMS IN THE THIRD SCHEDULE

- i. It is proposed to exempt the FED upon satisfaction of the following conditions and limitation on the addition of the following items in third schedule:

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

PARTNERS

MALIK HAROON AHMAD, FCA

He is a Fellow Member of Institute of Chartered Accountants of Pakistan. He graduated as Bachelor of Commerce from University of Punjab in 1994. He is practicing member since 2005. Previously, he worked in the capacity of Senior Manager Taxation in Ford Rhodes Sidat Hyder & Company (Chartered Accountants), a member firm of Ernst & Young (E&Y) International, one of the big accountancy firms in the world. He spent 11 years with EY Ford Rhodes in different capacities.



Professional Experience and Achievements:

He has 25 years of experience in the field of consultancy especially Taxation, Audit and Corporate work. During his service, he gained diversified experience of corporate tax planning, counseling and benefit optimization, handling matters relating to Capital Value tax, Provincial Professional Tax, Corporate Asset Tax. He is supervising a large team of employees (around 225+) working in the fields of Corporate Compliance Services, Internal Control development and Re Engineering Services, Audit & Assurance, Accountancy assignments.

He is also a Life time member of Lahore Tax Bar Association. He is a writer of three books published by the Professional Business Publications [PBP], Emile Wolf International United Kingdom. He is writer of Articles on different issues in the Newspapers and Magazines. He is also interviewed as tax expert in TV shows on different taxation issues.

SHAHID MEHMOOD SHAKER, FCA

He is a Fellow Member of Institute of Chartered Accountants of Pakistan. He qualified as Chartered Accountant in June 2003. He also qualified his MBA in finance in the year 1999. He worked as a partner in Qadeer and Company, Chartered Accountants (from February 2005 – September 2009) and also worked as CFO in Ayesha Textile Mills Limited (from September 2002- February 2005).



Professional Experience and Achievements:

He has 15 years of experience in the field of consultancy especially Audit, System development and System Evaluation assignments. He has very rich experience of conducting various assignments in External audit as well as Internal Audit section especially assignments relating to Financial Institutions, Textile sector, Construction companies, Steel Sector, Leather Sector, Rice Sector, Sugar, Power Sector etc.

MUHAMMAD SAFDAR, FCA

He is a Fellow Member of Institute of Chartered Accountants of Pakistan (ICAP). He did his Bachelors from University of Punjab in 1997. He started his career in 2005 as a Proprietor of Muhammad Safdar & Co. Chartered Accountant.

Professional Experience and Achievements:

He is experienced and expert in the areas of Financial advisory, Feasibility studies, Corporate restructuring, Tax planning, Compliance Services, Audit and Assurance Services. He is also working as advisor to the Board of a number of industrial and commercial undertakings.

He was also a visiting faculty member of the University of the Punjab.

**MUHAMMAD NAWAZ, ACA**

He is a Fellow Member of Institute of Chartered Accountants of Pakistan with 11+ years practical experience. He was acting as a Senior Manager Business Advisory in Malik Haroon Shahid Safder & Co. Chartered Accountants from December 2016 till March 2021. Previously, he was acting as a Manager Business Advisory in Tariq Abdul Ghani Maqbool & Co., Chartered Accountants from December 2011 to November 2016. Before that period, he completed his articles from Tariq Abdul Ghani Maqbool and CO., Chartered Accountants.

**Professional Experience and Achievements:**

He holds a good command in financial and management consulting with sound understanding of Corporate and Taxation, ERPs, Business Process Re-engineering, Financial Reporting and Auditing. He has solid interpersonal and writing skills with the ability to communicate ideas and contribute as team leader and team player.





MHSS CLIENTS

INDUSTRIES

Large Number of Chinese Clients	Infrastructure	Chemicals
Energy, Utilities & Mining	Hospitality & leisure	Entertainment & Media
Engineering Companies	Paper & packaging	Government & Public Services
Transformers Manufacturers	Food & Agriculture	Industrial Manufacturing
Contracting Companies	Metals	Pharmaceuticals & Life Sciences
Dairy Farms & Processing	Retail & Consumer	Hospitals
Information Technology	Pesticides	Transportation & Logistics
Mobile Phone manufacturers	Automotive	Nonprofit Organizations
Real estate and Housing Societies	Advertising	Textile & apparel
Waste Management Company	Education	Certification & training Companies
Cement Plant Contractors	Oil Drilling Companies	Gas Processing Plant Contractors
Importers	Exporters	Steel Manufacturers

INTERNATIONAL AFFILIATION

- MHSS is an independent member firm of **United Consulting & Corporate Services (UC&CS) America** in Pakistan. According to the IAB World Survey, UC&CS America is the 27th largest firm globally and 2nd largest firm in Latin America.
- MHSS is an independent member firm of **UC&CS Global** in Pakistan. UC&CS Global is an Association of Independent Firms in all over the World. According to the IAB World Survey 2020, UC&CS Global is the 22nd largest association globally.

SERVICES

Business Registrations:

- All types of Companies registrations (Private), (Public), (Listed)
- Foreign Company, Branch Office, Liaison Office, Joint Venture
- Partnership, Non-for Profit, NGO, Trust
- Trade Mark, Patent, Copyright, Brand
- Registration with Board of Investment (BOI), Chamber of Commerce
- Registration with FBR, WEBOC
- Listing of Companies on Pakistan Stock Exchange
- Legal Services of drafting of Business Agreements
- Advice on Social Security, PESI, EOBI, Pension Fund, Gratuity Fund and Provident Fund
- Obtaining approvals/permissions/sanctions /registrations from Regulatory Authorities
- Business mergers, de-mergers, acquisition and disposals matters

Taxation Services:

- Advice on legal structure and Government policies
- Withholding Income Tax and withholding sales tax compliances
- Preparation and filing of monthly Sales Tax Returns (FBR) and Provincial Revenue Authorities.
- Preparation and filing of monthly Withholding Tax Statements.
- Filing of Annual Income Tax Return under the requirement of Income Tax Ordinance
- Compliance of Legal & Tax notices and tax exemptions matters
- International taxation issues
- Providing opinions on transactions from a domestic law and tax treaty point of view
- Tax planning, tax support and all types of corporate tax matters

Audit and Assurance Services:

Business Advisory Services:

- | | |
|---|---------------------------------------|
| ➤ Feasibility studies | ➤ Physical verification of assets |
| ➤ Business valuations | ➤ Litigation support and disputes |
| ➤ Business process & internal controls review | ➤ Supply chain management |
| ➤ Budgeting & forecasting | ➤ Standard operating procedures (SOP) |
| ➤ Project evaluation | ➤ Gap analysis |

Software Services

- ERP Solution for Manufacturing, Construction, Steel and many other manufacturing concerns [BE Tech]
- Point of Sale (POS) Solution [Safasha Retail Pro]
- Implementation of Off the shelf Accounting Software

Human Resource Services

Business Retainership Services

IMPORTANT ANNOUNCEMENTS:

- **Mr. Mohammad Nawaz** has now become the Partner of MHSSCO.
- **MHSSCO shall continue to operate through its sub office at 71 C3, Gulberg III Lahore.**
- **During the year, MHSSCO shifted its office from Rawalpindi to New Office in Islamabad at the following address:**
 - Office #8 3rd floor, Al-Rehmat Mall, G 11 Markaz, Islamabad.
- **MHSSCo has opened a new office at Gujrat at the following address:**
 - Upper Floor Shehroz Plaza, Near S.A fans Area Estate, Main Grand Trunk Rd, Small Industrial Area, Gujrat
- **MHSSCO is going to shift its office to the new office to 25 G, Gulberg II, Lahore from 01 July 2021.**



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