

TAX COMMENTARY

2020



The Tax Commentary contains the highlights of Finance Bill 2020 which will be generally applicable from 01 July 2020 unless specifically specified.

The Commentary contents are our interpretation of the proposed legislation, and we strongly emphasize that reference be made to the specific wordings of the relevant statutes while considering their application to any particular scenario.

June 12, 2020

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Proposed Amendments

- ◆ Income Tax Law
- ◆ Sales Tax Law
- ◆ Federal Excise Law
- ◆ Customs Law



01

INCOME TAX LAW

RELEIF MEASURES

- **Deletion of Withholding Taxes**

The following withholding tax provisions are being deleted:

Section	Description
236R	Collection of advance tax on education related expenses remitted abroad
235B	Tax on steel melters and composite units
156B	Withdrawal of balance under pension fund
148A	Tax on local purchase of cooking oil or vegetable ghee by certain persons
236D	Advance tax on functions and gatherings
236F	Advance tax on cable operators and other electronic media

Section	Description
236J	Advance tax on dealers, commission agents and arhatis etc.
236U	Advance tax on insurance premium
236X	Advance tax on tobacco

- Enhancement of Threshold for **Becoming Prescribed Person** for Withholding of Tax on Supplies, Services and Contracts from **fifty to hundred million rupees** and a similar threshold of hundred million rupees is being prescribed for a sales tax registered person to become a withholding agent.
- **Reduction in Holding Period and Tax Rates for Capital Gain** on Immoveable Property to incentivize and propel economic activity in the real estate sector, the bifurcation of plots and constructed property for determining holding period of capital gains is being done away with i.e. the holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years. In addition, rates are also being reduced on capital gains emanating from disposal of immoveable property.

- Increase in Threshold of Section 21(l) per transaction delineated under section 21(l) is being increased from **Rs. 10,000/- to Rs. 25,000/-**. Similarly, the threshold of payments under a single from **Rs.50,000/- to Rs.250,000/-**.
- Increase in Threshold of Section 21(m) from **Rs. 15,000/- per month to Rs. 25,000/-** per month.
- Enabling Adjustability of Property Expenses for All Individuals/AOPs
- Exempting Withholding Tax on Cash Withdrawal to the extent of Foreign Remittances
- Promoting Investment in Government Debt Instruments through a foreign bank account, a non-resident rupee account repatriable or a foreign currency account.
- Issuance of Centralized Income Tax Refunds
- Hajj Operators to be Exempted from Withholding Tax on Payments to Non-Residents

- Explanation for excluding Vehicles Up to 200cc from the Ambit of Advance Tax
- Advance Tax on Auction of Immovable Property to be Collected in Installments
- Prompt Issuance of Exemption Certificates to Public Listed Companies within 15 days
- Collection of Advance Tax by Educational Institutions not to Apply to Persons on the ATL
- **Rationalizing Tax on Imports:**

by shifting from person-specific rates to goods specific rates cascaded according to the type of goods, with tax @1% for capital goods, 2% for raw materials and 5.5% for finished goods irrespective of status of the importer. However, the prevailing concessional rates on certain items such as remeltable scrap of iron and steel, potassic and urea fertilizers, LNG, Gold, Cotton, goods that were importable by manufacturers under the rescinded SRO 1125(I)/2011 dated 31.12.2011, mobile phones etc. are being maintained.

- Agreed Assessment through arbitration by Assessment Oversight Committee
- Strengthening Alternate Dispute Resolution Mechanism
- Taxation Of Resident Shipping Companies as per latest marine policy

PROCEDURAL MEASURES

- **Taxpayer's Profile**

Automated Adjusted Assessment to rectify computational errors and wrongly claimed credits

- Real-Time Access to Databases of Certain Organizations
- Audit on the Basis of Benchmark Ratios
- Enabling E-Audit
- Strengthening Compliance Regime of Non-Profit / Welfare Organizations

- Electricity Expense to be Treated as an Inadmissible Business Deduction subject to non-disclosure of name of actual user from 01.01.2021
- Disallowance of Business Expenditure Proportionate to Sales Made to Sales Tax Unregistered Persons
- Rationalizing Depreciation Deduction based on the Half Year Rule
- Limiting Interest Deductibility to Foreign Affiliates

TECHNICAL MEASURES

- Rationalization of Cost of Transport Vehicle for Claiming Deduction on Account of Lease Rentals
- Filing of Withholding Statements under section 165 on Quarterly Basis
- Incentivizing and Promoting the Construction Industry

- Tax Exemptions and Concessions for the Gwadar Port and the Gwadar Free Zone
- Incorporation of Relief measures provided through SROs during the COVID pandemic



02

SALES TAX LAW

Threshold for obtaining CNIC from buyer

The Bill proposes to increase the minimum threshold of supplies by retailers for obtaining CNIC of the buyers is proposed to be increased from Rs 50,000 to 100,000.

Exemption on specific items due to COVID-19

The Federal Government granted exemption to health related items and equipment through SRO 237(I)/2020 dated 20-3-2020 which is being extended for another three months starting from the 20th June 2020.

Exemption on Import of dietetic food

Exemption allowed on import of dietetic foods intended for special medical purposes for the children suffering from Inherited Metabolic Syndrome.

Reduction in POS sales tax

POS sales tax had been reduced to 12% from 14% for organized retail sector which is integrated online with FBR through Point of Sale system

Real-time access to information and databases

New section 56AB inserted that arrangements shall be made to provide real-time access of information and database to the Board by various authorities such as NADRA, FIA, provincial excise & taxation departments etc. in the prescribed form and manner

Tax concessions and exemptions to Gawadar Port and Gawadar Free Zone

Tax law has been inserted pertaining to tax exemption and concession to Gwadar Port and Gwadar free zone

Alternate Dispute Resolution

To strengthen the Alternate Dispute Resolution process and to make it more taxpayer-friendly, it is proposed that the taxpayer is allowed to withdraw his case from any court of law or any appellate authority after decision of ADRC. Furthermore, the decision of ADRC, once it is conveyed by the taxpayer to the tax authorities, is binding upon the tax authorities

Widening of scope of section 73

The scope of section 73 is proposed to be widened to cover all registered persons supplying taxable goods instead of manufacturer or producer only.



03

FEDERAL EXCISE LAW

Levy of FED on Cigars, energy drinks etc

Increase in the rate of FED on cigars, cheroots , and cigarillos and cigarettes from 65% to 100% of retail price; increase in the rate of FED on filter rods from Rs 0.75 to Rs 1 per filter rod; while levy of FED on e-liquids of electric cigarettes @ Rs 10 per ml and on caffeinated energy drinks @ 25%

Levy of FED on double cabin

Levy of FED @ 7.5% ad valorem in case of locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones.

Reduction of FED on Cement

FED on cement has been reduced from Rs. 2 per kg to Rs. 1.75 per kg.



04

CUSTOM LAW

Concessional Import under 5th Schedule:

On the request of various local industries, a number of their inputs/intermediary raw materials are being allowed concessional import under new serial number of the fifth schedule through IOCO quota determination.

- Exemption of custom duties on import of raw materials by manufacturers of Butyl Acetate.
 - Exemption of custom duty on import of raw material by manufacturer of syringes and saline infusion sets.
 - Exemption of customs duties on import of raw material by manufacturers of buttons.
 - Reduction in custom duty on import of raw material by manufacturers of interlining/buckram.
 - Reduction of custom duty and exemption of additional custom duty and regulatory duty on import of raw materials by manufacturers of Wire rod
 - Exemption of custom duties and regulatory duty on import of machinery, equipment and other project related items for setting up of internet cable landing stations.
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- Exemption of custom duties on import of raw material by beverage can manufacturers.
- Reduction in Custom duty and exemption from Additional custom duty on import of raw material by food packaging industry.

Exemption from customs duties on import

Exemption from customs duties on import of COVID19 related items, has been extended due to the continuation of pandemic.

Exemption on Import of Edible oil:

Exemption from 2% ACD on import of edible oils and oil seeds under PM's COVID19 Relief Package has been extended.

Exemption on Import of dietetic food and supplementary foods:

Exemption allowed on import of dietetic foods intended for special medical purposes for the children suffering from Inherited Metabolic Syndrome Ready to use Supplementary Foods (RUSF).

Exemption on Diagnostic kits and life saving drug:

Exemption of all duties & taxes on import of Diagnostic Kits for Cancer and Corona Virus and life saving drug life saving drug Meglumine Antimonite for treatment of leishmaniasis.

Reducing rate of Additional customs duty on Palm Stearin

To incentivizing soap manufacturing industry by reducing rate of Additional customs duty on Palm Stearin.

Availability of concessions to Special Economic Zones

Scope of Concessions has been enhanced to Special Economic Zones.

Reduction in duties for several industries:

Regulatory duty on several industrial inputs is reduced to decrease their cost of doing business

Increase in Import Duties as Tariff protection:

Tariff protection for domestic industry by increasing/levy of regulatory duty on import of those items which are also locally manufactured



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