Finance Bill 2022

Highlights & Comments

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THE INCOME TAX ORDINANCE, 2001

The following amendments have been proposed in Income Tax Ordinance, 2001 through the Finance Bill, 2022:

BENEFICIAL OWNER
Section 2(7A), 181E

The concept of Beneficial Ownership which currently is in existence in the Companies Act 2017 has now also been introduced in the taxation law but extended to Association of Persons also.

DEFINITION
Section 2(7A)

The term Beneficial Owner has been defined in clause 7A in section 2 of the Ordinance, according to the said definition Beneficial owner is that natural person who:

a) ultimately owns or controls a Company or association of persons, whether directly or indirectly, through at least ten percent shares or voting rights; or
b) exercise ultimate effective control, through direct or indirect means, over the company or association of persons including control over the finances or decisions or other affairs of the company or association of persons;

RECORD OF BENEFICIAL OWNER
Section 181E

Every Company and Association of Persons are required to electronically furnish particulars of its beneficial owners electronically. However, the form and manner of furnishing of detail will be prescribed.

The particulars of beneficial owners are to be kept updated as and when there is a change in the particulars of the beneficial owners.

PENALTY FOR DEFAULT
S. No. 30 Section 182(1)

Any default in compliance with maintenance of record non furnishing particulars shall be liable to penalty of Rs. 1.000 million for each default.

TAX ON HIGH EARNING PERSONS FOR POVERTY ALLEVIATION
Section 4C & Division IIB of Part I of the First Schedule

In order to alleviate poverty a new levy viz Tax on high earning person for poverty alleviation is proposed to be levied. The basis of levy is as under:

1) Every person whose income exceeds Rs.300.000M in a tax year.

2) Applicable with effect from tax year 2022

3) Tax will be levied @ 2% of the income exceeding Rs.300.000M.

4) Income shall be sum of the following:

   a) profit on debt, dividend, capital gains, brokerage and commission;

   b) taxable income (other than brought forward depreciation and brought forward business losses) under section 9 of the Ordinance, if not included in clause (i);

   c) imputable income as defined in clause (28A) of section 2 excluding amounts specified in clause (i); and

   d) income computed, other than brought forward depreciation, brought forward amortization and brought forward business losses.

5) The tax payable shall be paid alongwith the return of income.

6) In case of non-payment of tax by the person alongwith the return, the Commissioner shall by an order in writing, determine the tax payable, and shall serve upon the person, a notice of demand specifying the tax payable and within the time specified under section 137 of the Ordinance.

7) Where the tax so determined by the Commissioner is not paid by a person the Commissioner shall recover the tax payable under sub-section (1).

8) The Board may, by notification in the official Gazette, make rules for carrying out the purposes of this section.

FEE FOR TECHNICAL SERVICES OR FEE FOR OFFSHORE DIGITAL SERVICES

Section 6 & 152 (1DC) & (1DD) & Division IV of Part I of First Schedule

The banks & foreign exchange dealers making payment to non resident persons on account of Pakistan source fee for money transfer operations, card network services, payment gateway services, interbank financial telecommunication services liable to deduct tax @10% at the time of making the payment.

Corresponding insertion has been made in section 152 of the Ordinance, according to which:

a) Every exchange company licensed by the State Bank of Pakistan shall deduct tax at the time of making payment of service charges or commission or fee, by whatever name called, to the global money transfer operators, international money transfer operators or such other persons engaged in international money transfers or cross-border remittances for facilitating outward remittances

b) Every banking company at the time of making payment to card network company or payment gateway or any other person, of any transaction fee or licensing fee or service charges or commission or fee by whatever name called or interbank financial telecommunication services, shall deduct tax at the time of making such payment.
In case of retention of charges by the non resident recipient the banking company or the exchange company as the case may be shall be deemed to have paid the amount and the payer shall collect the tax accordingly.

TAX ON DEEMED INCOME

Section 7E & VIIIC of Part I of the First Schedule

A new concept of deemed income has been introduced to tax surplus immovable property of a person. According to this new amendment with effect from tax year 2022 a person is deemed to have received rent equal to five percent of the fair market value of an immoveable property situated in Pakistan whether such property has actually been rented out for any consideration or not. Such deemed income is liable to be taxed @20% of estimated rent.
However, provisions of this section does not apply to:

a) one self-owned immovable property;

b) self-owned business premises from which business is carried out;

c) self-owned agriculture land where agriculture activity is carried out by person but does not include farmhouse and land annexed thereto;

d) where the fair market value of the property or properties, in aggregate, excluding properties mentioned in clauses (a), (b) and (c) does not exceed twenty five million Rupees;

e) a Provincial Government, a Local Government, a local authority or a development authority;

f) land development and construction projects of builders and developers registered with Directorate General of Designated Non-Financial Businesses and Professions of Board;

g) a property which is subject to tax as Income from Property and the tax chargeable is more than tax chargeable under this section. However, if the tax chargeable is less than the tax chargeable in this section then the difference excess amount shall be paid in this section.

EXCESS CONTRIBUTION TOWARDS GRATUITY, PENSION OR SUPER ANNUATION FUND NOT ADMISSIBLE

Section 21(ea)

According to this newly inserted provision any contribution towards any approved Gratuity, Pension or Super Annuation of Fund in excess of fifty percent shall be inadmissible.

PAYMENTS THROUGH DIGITAL MODE

Section 21(la)

This provision of making of digital payment by Companies was first proposed to be added in section 21of the Ordinance through the Tax Laws (Third Amendment) Ord. 2001 dated 15th September 2021. However, its effective date was not notified till date. Now this clause has again proposed but with its effective date to be notified.

According to this provision every Company shall be liable to make payment in a single account head which exceeds Rs.1.000M through digital mode from its business bank account already notified to the Commissioner. However, payments made under the following heads shall be exempt from payment through such mode:

a) utility bills;
b) freight charges;
c) travel fare;
d) postage; and
e) payment of taxes, duties, fee, fines or any other statutory obligation:

DISALLOWANCE OF EXPENSES CLAIMED BY PERSONS WHO FAILED TO INTEGRATE BUSINESS WITH THE BOARD
Section 21(r)

This new provision has been added in section 21 according to which if a person who is required to integrate his business with the Board but fails to do so than ten person of the total deductible expenses claimed by the business shall be disallowed.

DEPRECIATION
Section 23

The following amendments has been proposed in relation to Depreciation expenses:

Claim of Depreciation Expense in the year of Addition and in the year of Disposal
Sub section (2) & (8)

Through Finance Act 2020 provisos were added in sub section 2 & 8 of section 23 according to which depreciation expense claimed on an asset in the year of addition & in the year of disposal was to be reduced by fifty percent. Now, these provisos were sought to be removed.

Cost of Transport Vehicle entitle for Depreciation
Clause (a) Sec. 13

Presently a person entitled for depreciation on the Passenger Transport Vehicle to the extent of cost of Rupees Two & a Half Million. Now it is proposed to raise this cost to Rupees Five Million.

No initial Depreciation on Immovable Properties or structural Improvement thereon
Section 23(5) (e)

Businesses are allowed initial Depreciation on immovable property used for the first time in a tax year or any structural improvement thereon. Now this allowance has been withdrawn.

TAXATION GAIN ON IMMOVABLE PROPERTY & OTHERS
Section 37, 236C & 236K

The following amendment has been proposed in the provision of taxation of immovable property:

Basis of Taxation
Sub Section 1A, 3A & Division VIII of Part I of the First Schedule

At present, Taxable Capital gain is being computed as percentage of holding period such as 100%, 75%, 50%, 25% and 0% if holding period is less than 1 year, 1 to 2 years, 2 to 3 years and 3 to years respectively. The gain thus computed is liable to be taxed at rates varying from 3.5%, to 15% on taxable gain starting from Rs.5 million to over Rs.15 million.

Now it has been proposed to categorize into open plots, constructed property and flats as following:

S. No.	Holding Period	Rate of Tax		
		Open Plots	Constructed Property	Flats
1.	Less than one year	15%	15%	15%
2.	One to two years	12.5%	10%	7.5%
3.	Two to three years	10%	7.5%	0%
4.	Three to four years	7.5%	5%	-
5.	Four to five years	5%	0%	-
6.	Five to six years	2.5%	-	-
7.	Over six years	0%	-	-

INCREASE IN HOLDING PERIOD & TAX AT THE TIME OF SALE
Section 236C

Increase in holding period

Currently immovable properties which are held for more than four years are not liable for collection of tax at the time of sale by the transfer registering authorities. Now it has been proposed to extend the period of holding from four to ten years. Hence the property will be exempt from collection of tax at the time of sales if the holding period exceeds ten years.
Rate of tax for collection at the time of sale has also been increased from 1% to 2%.

Tax at the Time of Purchase
Section 236K
Rate of collection of tax at the time of registration of property has been increased from 1% to 2%.

TAXATION OF CAPITAL GAIN OTHER ASSETS
Section 37

Twenty-Five Percent Exemption on Taxation of Gain on Sale of Capital Asset Withdrawn
Sub Section 3

Currently 25% of the capital gain on sale of capital asset excluding immovable property & listed securities, if held for more than one year, is exempt from tax. Now this exemption has proposed to be withdrawn.

CONDITION FOR FAIR MARKET VALUE OF AN ASSET AS COST ACQUIRED IN CERTAIN CASES IS WITHDRAWN
Sub section 4A

Condition for taking into account the cost of the assets acquired under the following conditions at its fair market value at the time of such acquisition has been withdrawn:

a) under a gift from a relative, or bequest or will;

b) by succession, inheritance or devolution;

c) a distribution of assets on dissolution of an association of persons; or

d) on distribution of assets on liquidation of a company,

RATE OF TAX ON CAPITAL GAIN OF SECURITIES
Section 37A

The revised proposed rates of tax on gain on sale of securities are:

S.No.	Holding Period	Existing Rates	Proposed Rates
1.	Less than one year	12.5%	15%
2.	One to two years	12.5%	12.5%
3.	Two to thee years	12.5%	10%
4.	Three to four years	12.5%	7.5%
5.	Four to five years	12.5%	5%
6.	Five to six years	12.5%	2.5%
7.	More than six years	12.5%	0%
8.	Future commodity contracts by PMEX members	5%	5%

TAX CREDITS FOR INDIVIDUALS WITHDRAWN
Sec. 60C 62,62A & 63

It is proposed to withdraw the following tax credits allowed to individuals:

1) Deductible allowance for profit on debt allowed to individuals for the amount of any profit or share in rent paid him in a tax year on a housing finance loan.

2) Tax credit for investment in shares and insurance.

3) Tax credit for investment in health insurance

4) Contribution to an Approved Pension Fund.

IT EXPORT SERVICES EXCLUDED FROM TAX CREDIT REGIME
Sec. 65F & Div. IVA of Part First Schedule

Presently IT software exporters are under tax credit regime. Now they are proposed to be excluded from this regime and liable for deduction of tax @0.25%.

TAX CREDIT FOR FOREIGN INVESTMENT FOR INDUSTRIAL PROMOTION WITHDRAWN
Section 65H

Through Income Tax Amendment Ordinance 2022 dated 02nd March 2022 this section was inserted under the Ordinance. However, this provision has now proposed to be deleted as never has been inserted.

NON RESIDENT PAKISTAN CITIZEN NOT TAX RESIDENT IN ANOTHER COUNTRY TO BE TREATED AS RESIDENT
Section 82(d)

This is a very significant amendment proposed. Currently only those persons who resides in Pakistan for more than 180 days are considered to be resident.

Now a clause (d) is proposed to be added in section 82 according to which a Pakistani citizen who is not a tax resident in country of its residence shall be treated resident in Pakistan.

Practical implementation of this clause will create lot of legal complications.

SHARE FROM EXEMPT INCOME OF AN ASSOCIATION OF PERSON TO BE REMAINED EXEMPT IN HANDS OF ITS MEMBER

Section 92

An explanation has been propose to be added to the provision relating to taxation of Association of Person(AOP). According to the explanation share in income earned by a member from exempt income of an AOP shall remain exempt in the hands of its members.

FIXED TAX REGIME FOR RETAILERS

Section 99A, 235 & Clause 2A of Div. IV of Part IV First Schedule

A new scheme of fixed tax has been introduced for retailers other than Tier I Retailors defined in the Sales Tax Act 1990 and specific service providers. According to this scheme:

i) A tax shall be charged and collected from retailers at the following rates provided in clause (2A) of Division IV, Part IV of the First Schedule.

Gross amount of monthly bill	Tax
Where the amount does not exceed Rs. 30,000	Rs. 3,000
Where the amount exceeds Rs. 30,000 but does not exceed Rs. 50,000	Rs. 5,000
Where the amount exceeds Rs. 50,000 but does not exceed Rs. 100,000	Rs. 10,000
Specified retailers and service providers through Income Tax General Order	Rs. 50,000

The above tax shall be in addition to tax already being paid on electricity under Division IV of Part IV of the First Schedule:

S. No.	Gross Amount of Bill	Tax
1	upto Rs. 500	Rs. 0
2	exceeds Rs. 500 but does not exceed Rs. 20,000	10% of the amount
3	exceeds Rs.20,000	Rs. 1,950 plus 12% of the amount exceeding Rs. 20,000 for commercial consumers. Rs. 1,950 plus 5% of the amount exceeding Rs. 20,000 for industrial consumers.

ii) A retailer who has already paid sales tax under sub-section (9) of section 3 of Sales Tax Act, 1990 (VII of 1990), shall not be required to pay tax under this section and the sales tax so paid shall constitute discharge of tax liability under this section.

iii) The tax collected or paid under this section shall be final tax on the income of persons covered under this section in respect of business being carried out from the premises where the electricity connection is installed.

INDUSTRIAL AMNESTY SCHEME WITHDRAWN

Section 100F

Amnesty scheme for investment in an industrial undertaking introduced through Income Tax Amendment Ordinance 2022 has not been ratified therefore deemed to never have been introduced.

RECHARACTERIZATION OF INCOME & DEDUCTIONS IN RESPECT OF A PERMANENT ESTABLISHMENT

Section 109(1)(e) & Section 2(41)(g)

A new clause (e) is proposed to be inserted in section 109(1) of the Ordinance relating to Recharacterization of Income & Deductions. According to this amendment a fixed place of business if fulfills the conditions laid down in clause (g) of sub section 41 of section 2 of the Ordinance shall be treated as a permanent establishment. This amendment shall have retrospective effect from tax year 2018.

UNEXPLAINED INCOME OR ASSETS

Section 111(4) & (5)

The following clarifications has been propose in section 111 of the Ordinance:

FOREIGN REMITTANCE

Sub Section 4

In order to remove ambiguity regarding mode of receipt of foreign remittance and following judgment of various Appellate forum an amendment has been proposed in sub section 4 of section 111 according to which foreign remittance received through money service bureaus, exchange companies or money transfer operators shall be deemed to constitute foreign exchange remitted from outside Pakistan through normal banking channels.

SEPARATE NOTICE

Sub Section 5

The Lahore High Court in one of its judgments held that no addition under this section can be made unless a separate notice for making addition under this head is issued to the taxpayer. Safter this judgment all additions made without issue of separate notice were deleted. Now it has been proposed to be specifically provide in the section that if the proposed additions relating to this section is confronted to taxpayer under notice u/s. 122(9) than no separate notice will be required.

CONCESSION TO CARRY FORWARD OF EXCESS MINIMUM TAX DISCONTINUED

Section 113(2) (c)

Taxpayers are allowed to carry forward the excess unadjusted minimum turnover tax paid in a tax year for adjustment against tax liability in subsequent tax years. Now this provision is proposed to be withdrawn.

POWERS TO ENFORCE FILING OF RETURN

Section 114B

An amendment has been proposed according to which the Board has been empowered to issue income tax general order in respect of persons who are not appearing on active taxpayers' list but are liable to file return under the provisions of the Ordinance.

Through this general order the Board can take following actions against the concerned persons:

a) disabling of mobile phones or mobile phone SIMS;
b) discontinuance of electricity connection; or
c) discontinuance of gas connection.

However, order for these actions can be withdrawn by the Board or the Commissioner if he is satisfied that —

a) the return has been filed; or
b) person was not liable to file return under the provisions of the Ordinance.

In order to include a person in the general order following conditions are required to be met:

a) notice under sub-section (4) of section 114 is to be issued and compliance date thereof has been elapsed; and
b) the person has not filed the return.

TIME LIMITATIONS FOR BEST JUDGMENT ASSESSMENT EXTENDED

Section 121(3)

Time limit for making a best judgment order is five years from end of the tax year or income year to which it relates. Now in order to bring it in line with time limitation provided in other assessment provisions of the Ordinance the limitation has been extended to six years.

TIME LIMIT FOR FRAMING AMENDED ASSESSMENT EXTENDED

Section 122(9)

Through Finance Act 2020 an amendment was made in section 122(9) of the Ordinance according to which the Assessing Officer was required to pass the amended order within one hundred & twenty days from the date of issue of the show cause notice. Now this time limit is proposed to be extended to one hundred & eighty days.

IMPORTS

Section 148(7), (7A) & 169

The following amendments has been proposed in section 148 relating to tax on imports:

COMMERCIAL IMPORTERS BACK IN FINAL TAX REGIME

Sub section (7)

It has been proposed to make tax deduction at import stage from the commercial importer shall be final discharge of tax instead of minimum tax except for those items on which tax is liable to be deducted @ 1% and 2%.

TAX ON IMPORT OF CERTAIN ITEM TO BE TREATED AS MINIMUM

Sub section (7A)

Tax deducted at import stage on import of following items shall be minimum tax:
i) edible oil;
ii) packaging material;
iii) paper and paper board; or
iv) plastics:

NO TIME LIMITATION FOR RETAINING RECORD OF FOREIGN ASSETS

Section 174(3)

Section 174 requires every person to maintain record for six years after the end of the tax for which they relates.

Whereas no time limitation has been prescribed for proceedings against a person in relation to its unexplained foreign assets under provisions of section 111. Hence in order to align with section 111(2)(ii) an amendment has been proposed in section 174(3) according to which the time limit of maintenance of record provided in sub section (3) shall not be applied in case of records pertaining to foreign assets.

NATIONAL DATABASE AND REGISTRATION AUTHORITY (NADRA)

Section 175B

A new section is proposed to be added according to which the NADRA on application from the Board share its records and any information available or held by it, with the Board, for broadening of the tax base or carrying out the purposes of the Ordinance.

CONDITION FOR ISSUING AUDIT REPORT WITHDRAWN

Section 177(6)

It is proposed to withdraw the condition for issuing audit report containing audit observations and finding after completing the audit.

FIRST SCHEDULE

RATES OF TAX FOR INDIVIDUALS AND ASSOCIATION OF PERSONS

Proposed	
TAXABLE INCOME - NON SALARIED	TAX RATES
Upto Rs. 600,000	0%
From Rs. 600,001 to Rs. 800,000	5% of the amount exceeding Rs. 600,000
From Rs. 800,001 to Rs. 1,200,000	Rs. 10,000 plus 12.5% of the amount exceeding Rs. 800,000
From Rs.1,200,001 to Rs. 2,400,000	Rs. 60,000 plus 17.5% of the amount exceeding Rs. 1,200,000
From Rs. 2,400,001 to Rs. 3,000,000	Rs. 270,000 plus 22.5% of the amount exceeding Rs. 2,400,000
From Rs. 3,000,001 to Rs. 4,000,000	Rs. 405,000 plus 27.5% of the amount exceeding Rs. 3,000,000
From Rs. 4,000,001 to Rs. 6,000,000	Rs. 680,000 plus 32.5% of the amount exceeding Rs. 4,000,000
From Rs. 6,000,001 onwards	Rs. 1,330,000 plus 35% of the amount exceeding Rs. 6,000,000

WHERE THE INCOME OF AN INDIVIDUAL CHARGEABLE UNDER THE HEAD SALARY EXCEEDS SEVENTY-FIVE PERCENT OF HIS TAXABLE INCOME, THE FOLLOWING RATES SHALL BE APPLIED

Proposed	
TAXABLE INCOME - SALARIED PERSON	TAX RATES
Upto Rs. 600,000	0%
From Rs. 600,001 to Rs. 1,200,000	RS. 100
From Rs. 1,200,001 to Rs. 2,400,000	7% of the amount exceeding Rs. 12,000,000
From Rs. 2,400,001 to Rs. 3,600,000	Rs. 84,000 plus 12.5% of the amount exceeding Rs. 2,400,000
From Rs.3,600,001 to Rs. 6,000,000	Rs. 234,000 plus 17.5% of the amount exceeding Rs. 3,600,000
From Rs. 6,000,001 to Rs. 12,000,000	Rs. 654,000 plus 22.5% of the amount exceeding Rs. 6,000,000
From Rs. 12,000,001 onwards	Rs. 2,004,000 plus 32.5% of the amount exceeding Rs. 12,000,000

PART 1
Division II

Rate of Tax for Companies

Type of Company	Existing Rates	Proposed Rates
Small company	20%	20%
Banking company	35%	45%
Any other company	29%	29%

Part IV
Division III
Section 234

Passenger transport vehicles plying for hire

S.No.	Capacity (Persons)	Existing Rates Rs. Per seat per annum	Proposed Rates Rs. Per seat per annum	
		AC / Non AC	Non AC	AC
1.	4 or more but less than 10	50	500	1,000
2.	10 or more bur less than 20	100	1,000	2,000
3.	20 or more	300	2,500	4,000

Division VII
ADVANCE TAX ON PURCHASE / REGISTRATION OF MOTOR VEHICLES
Section 231B (1) and (3)

S.No	Engine Capacity	Existing Tax	Proposed Tax	Change
1.	Upto 850 cc	Rs.7,500	Rs.10,000	No Change
2.	851cc to 1000cc	Rs.15,000	Rs.20,000	
3.	1001cc to 1300cc	Rs.25,000	Rs.25,000	
4.	1301cc to 1600cc	Rs.50,000	Rs.50,000	
5.	1601cc to 1800cc	Rs.75,000	Rs.150,000	Doubled
6.	1801cc to 2000cc	Rs.100,000	Rs.200,000	
7.	2001cc to 2500cc	Rs.150,000	Rs.300,000	
8.	2501cc to 3000cc	Rs.200,000	Rs.400,000	
9.	Above 3000cc	Rs.250,000	Rs.500,000	

Where there is no engine capacity e.g. electric cars, and value of vehicle is Rs.5 million or above, 3% of import value (increased by custom duty, sales tax and FED) or invoice value as the case may be.

ADVANCE TAX ON TRANSFER OF MOTOR VEHICLES
Section 231B (2)

Where there is no engine capacity e.g. electric cars, and value of vehicle is Rs.5 million or above tax of Rs. 20,000 shall be collectible.

Division XA

S.No	Description	Rate of Tax
1.	Foreign-produced TV drama serial or play	Rs. 1,000,000 per episode
2.	Foreign-produced TV play (single episode)	Rs. 3,000,000
3.	Advertisement starring foreign actor	Rs. 100,000 per second.

Division XXVII
Section 236Y

Advance tax on amount remitted through credit / debit / prepaid cards Proposed Rate 1%.

SECOND SCHEDULE

Part 1 – Exemptions from Total Income

- Limit of 50% on accumulated balance received from voluntary pension system offered by fund manager under Voluntary Pension System Rules, 2005 has been removed. (Clause 23A)

- Clause 66: Table 1: Any income derived by the following institutions, foundations, societies, boards, trusts and funds, is exempt without any Condition:
  - The Pakistan Global Sukuk Programme Company Limited.
  - Karandaaz Pakistan (from tax year 2015 onwards)
  - Public Private Partnership Authority (Effective from TY 2022 onward)
  - Hamdard Laboratories (Waqf) Pakistan

- Clause 66 – Followings persons moved from Table 2 to Table 1:
  - Pakistan Sweet Homes Angles and Fairies Place.
  - Pakistan Mortgage Refinance Company Limited.
  - Dawat-e-Islami Trust

- Accumulated losses to be taken into account against accounting income, by Collective Investment Scheme or a REIT for distribution among unit holders (clause 99)

- Exemption of Income of person representing subsidy by Federal Govt. withdrawn (Clause 102A).

- Following new exemptions have been introduced:
  - Income derived by Siyahkalem Engineering Construction Industry and Trade Company Limited from contract dated 23rd day of May 2017 with Earthquake Reconstruction and Rehabilitation Authority, financed by the Saudi Fund for Development with effect from Tax Year 2017.
  - Any income derived by a person from cinema operations in a tehsil or town where there is no cinema, for five years from the commencement of cinema operations. Provided that this exemptions shall only be available to those persons who start cinema construction on or before 31 day of December, 2023.

Part II – Reduction in Tax Rates

Following new reductions in tax rates / amendments are made:

- In the list of beneficiaries of reduced rate of tax @ 0.25% U/s 153(1)(a) and 113 minimum tax, Cement and steel have also been added with the existing conditions of sales tax ATL and Tier-1 retailers (Clause 24C and 24D)

Part III – Reduction in Tax Liability

The following reductions in tax liability have been withdrawn:

- flying allowance by flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces; (clause 1)

- submarine allowance by the officers of the Pakistan Navy. (clause 1)

- Total allowances received by pilots of any Pakistani airlines.

- 50% reduction in tax payable on capital gains on first sale by personnel of armed forces (clause 9A)

- 15% final tax on profit on debt from investment in government securities. (clause 20)

Following new Reductions in Tax Liability / Amendments are Introduced:

- Profit on Bahbood Saving Certificates or Pensioner Benefit Account and Shuhada Family Welfare Account is proposed to be taxed at 5%, reduced from existing rate of 10%.

Part IV – Exemption from Specific Provisions

- Local manufacturers of mobile phone devices are exempted from provisions of minimum tax U/s 113 (clause 11A (xlv)).

- Date of exemption from provisions from section 148 on import of certain goods has been extended from 30-Jun-2021 to 30-December-2021. (clause 12B)

- The provision of section 148 shall not apply on:
    - Import of thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s HANES Brands Inc. North Carolina, USA; (clause 12BA)
    - import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route (clause 12O)
    - import of cinematographic equipment as notified by the Federal Government (clause 12P)
    - import of the capital equipment as defined in Special Technology Zones Authority Act, 2021 (clause 60DA)

- Immunity from section 111 provided to investment by an individual in greenfield industrial undertaking has been withdrawn (clause 86).

- NHA has been exempted from provisions of section 37, 236C and 236K on transfer of immovable property to certain institutions (clause 97A)

- Entities listed in Table 1 of clause 66 of Part 1 of Second Schedule have been exempted from provisions of withholding taxes as recipients of payment, however, they will continue to be withholding agents (clause 120)

- Provision of section 177 and 214C i.e. audit are not applicable on person, whose affairs have already been audited in any of preceding four years. However, commissioner has been empowered to select case of person for audit with Approval of the Board.

SALES TAX ACT, 1990

Following are the amendments proposed in Sales Tax Act, 1990;

GOODS AND SUPPLY DEFINITION
Section 2(12) & (33)

It is proposed to add "production, transmission and distribution of electricity" in the definition of Goods for legal cover.

SALES TAX DEFINITION
Section 2(29A)

It is proposed to exclude the fee and service charges, from the definition of 'Sales Tax', imposed under Section 76 of the Act.

TIER-1 RETAILER DEFINITION
Section 2(43A)

It is proposed to add person engaged in supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal to broaden the Tier-1 retailer definition.

SCOPE OF TAX
Section 3

It is proposed to extend further tax levy on those taxpayers who are not an active taxpayer. After proposed amendment, further tax is chargeable to person who did not obtain registration and also who are not active taxpayer.
It is proposed to insert new provision to make liable online marketplace operator to withhold the sales tax under eleventh Schedule to the Sales Tax Act, 1990.

Fixed Sales Tax Retailer other Tier-1 Retailer

It is proposed to amend this sub-section to bring all retailers other than Tier-1 Retailers under Fixed Sales Tax Regime. Before this proposed amendment, those retailers charged 5% and 7.5% of sales tax on their monthly electricity bills. After proposed amendment, fixed sales tax will be collection as following through electricity bills.

i) Rs. 3,000 per month where the monthly bill amount does not exceed Rs. 30,000;
ii) Rs. 5,000 per month where the monthly bill amount exceeds Rs 30,000 but does not exceed Rs. 50,000;
iii) Rs. 10,000 per month where the monthly bill amount exceeds Rs. 50,000; and
iv) Board prescribe persons or class of person to pay Rs. 50,000 sales tax per month through monthly electricity bills.

It is also proposed in Income Tax Ordinance that such retailer file income tax return under simplified final tax regime.

TIME AND MANNER OF PAYMENT
Section 6

It is proposed to authorize Federal Government to allow to pay sales tax in installments, with limitations and restrictions to Federal Government, Provincial Governments or any public sector organization on import or supply of any goods or class of goods and this permission may allowed from any pervious date specified in the notification.

TAX CREDIT NOT ALLOWED IN CASE OF CNIC NOT MENTIONED
Section 8(1)(m)

That according to section 8(1)(m), proportionate input tax not allowed on supplies made without CNIC to unregistered buyers. It is proposed to omit this clause, hence, after proposed amendment supplier can claim input tax paid on supplies to unregistered persons without mentioning CNIC number. Requirement of mentioning CNIC number in sales tax invoice also proposed to omit.

ADJUSTABLE INPUT TAX
Section 8B

It is proposed to amend this section and after proposed amendment, Public Limited Companies listed on Pakistan Stock Exchange will not be able to claim input tax in excess of ninety percent.

Section 14AB. Discontinuance of gas and electricity connections: -

It is proposed to insert new section to disconnect gas and electricity connections of following person by gas and electricity distribution companies through General Order and restoration also through General Order of Gas and Electricity connections;

(i) Any person, including tier-1 retailers, who fail to register for sales tax purpose or

(ii) Notified tier-1 retailers registered but not integrated with the Board'

It is Proposed to Amend Sixth Schedule as following:

Table 1 (Imports or Supplies)

Serial No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Remarks/Amendment
13.	Edible vegetables 758[imported from Afghanistan] including roots and tubers, 759[except ware potato and onions], whether fresh, frozen or otherwise preserved (*e.g.* in cold storage) but excluding those bottled 760[or] canned 761[***].	0701.1000, 762[***], 0702.0000, 763[***], 0703.2000,0703.9000, 0704.1000, 0704.2000, 0704.9000, 0705.1100, 0705.1900, 0705.2100, 0705.2900, 0706.1000, 0706.9000, 0707.0000, 0708.1000, 0708.2000, 0708.9000, 0709.1000, 0709.2000, 0709.3000, 0709.4000, 0709.5100, 0709.6000, 0709.7000, 0709.9000, 0710.1000, 0710.2100, 0710.2200, 0710.2900, 0710.3000, 0710.4000, 0710.8000, 0710.9000, 0712.2000, 0712.3100, 0712.3200, 0712.3300, 0712.3900 and 0712.9000	(a) against serial number 13, in column (3), the expression "0709.5910, 0709.5990," shall be omitted;
137.	Paper weighing 60 g/m2 852[, art paper and art card] for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by IOCO	4802.5510 2[,4810.1990, 4810.1910, 4810.2900, and 4802.6990], 8402.6990,	against serial number 137,– (i) in column (2), after the words "printing paper", the words "art card" shall be inserted; and (ii) in column (3), after the expression "8402.6990", the expression "4810.2900" shall be added;

Following new clauses are proposed to be inserted in Sixth Schedule:

Serial No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Remarks/New Inserted
163.	Goods imported by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder; and agreements by the Federal Government: Provided that such goods are charged to zero-rate of customs duty under the Customs Act, 1969 (IV of 1969), and the conditions laid therein. Provided further that exemption under this serial shall be available with effect from the 15th day of January, 2022.	99.01, 99.02, 99.03 and 99.06	(g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
164.	Photovoltaic cells whether or not assembled in modules or made up into panels	8541.4200 and 8541.4300	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–

Serial No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Remarks/New Inserted
165.	Goods imported by or donated to hospitals run by the non-profit making institutions subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969, (IV of 1969).	99.13 and 99.14	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
166.	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more.	Respective headings	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
167.	Goods temporarily imported into Pakistan, meant for subsequent exportation charged to zero-rate of customs duty subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969 (IV of 1969).	99.19, 99.20 and 99.21	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
168.	Silver, in unworked condition	7106.1000, 7106.9110 and 7106.9190	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
169.	Gold, in unworked condition	7108.1100, 7108.1210 and 7108.1290	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
170.	Tractor	8701.9220 and 8701.9320	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
171.	Seeds for sowing	Respective heading	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–
172.	Machinery, equipment, and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing Zone, subject to the conditions that such machinery, equipment, materials, and goods are imported by investors of Export Processing Zones, and all the procedures, limitations and restrictions as	Respective headings.	g) after serial number 162, the following new serial numbers and entries relating thereto in columns (2) and (3) shall be added, namely:–

Serial No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Remarks/New Inserted
	are applicable on such goods under the Customs Act, 1969 (IV of 1969) and rules made thereunder shall mutatis mutandis, apply.		

Table 2 (Local Supplies Only)

Following serial numbers are proposed to be omitted from Table 2 of Sixth Schedule:

Serial No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Remarks/Omitted
11.	Supply of ware potato and onions	0701.9000 and 0703.1000]	a) serial number 11 and entries relating thereto in columns (2) and (3) shall be omitted;

Following new insertions proposed:

Serial No	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Remarks/New Inserted
45.	Edible vegetables including roots and tubers whether fresh, frozen or otherwise reserved (e.g. in cold storage) but excluding those bottled or canned.	Respective heading	(c) against serial number 45 and entries relating thereto in columns (2) and (3) shall be substituted, namely:–
52.	Supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal on which tax has been paid at the import stage @ 4%.	71.13	(d) after serial number 51, the following new serial number and entries relating thereto in columns (2) and (3) shall be added, namely:–
53.	Prepared food or foodstuff supplied by Restaurants and caterers	Respective heading	(d) after serial number 51, the following new serial number and entries relating thereto in columns (2) and (3) shall be added, namely:–

Table 3 (Annexure)

Following new insertions are proposed:

S. No	Description	PCT heading	Conditions	Remarks/ New Inserted
22.	1. Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through hydel, oil, gas, coal, nuclear and renewable	Respective Headings	(i) This concession shall also be available to primary contractors of the project upon fulfilment of the following conditions, namely:- a) the contractor shall submit a copy of the contract or	(i) in the Annexure, after omitted serial number 21, in column (1), the following new serial number and entries relating thereto to in columns (2), (3) and (4) shall be added, namely:–

S. No	Description	PCT heading	Conditions	Remarks/ New Inserted
	energy sources including under construction projects entered into an implementation agreement with the Government of Pakistan prior to 15th day of January, 2022. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project.		agreement under which he intends to import the goods for the project; (b) the Chief Executive or head of the contracting company shall certify in the prescribed manner and format as per Annex-A that the imported goods are the projects bona fide requirement; and (c) the goods shall not be sold or otherwise disposed of without prior approval of the FBR on payment of sales tax leviable at the time of import; (ii) temporarily imported goods shall be cleared against a security in the form of a post-dated cheque for the differential amount between the statutory rate of sales tax and the amount payable along with an undertaking to pay the sales tax at the statutory rates in case such goods are not re-exported on conclusion of the project.	

It is proposed to amend in the Eighth Schedule, in Table-1, in column (1),–

Eight Schedule Table 8

Following serial numbers are proposed to be omitted from this Schedule:

S.No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition	Remarks/Omitted
25.	Agricultural tractors	905[8701.9220 and 8701.9320]	5%		(a) serial numbers 25, 47 and 75 and entries relating thereto in columns (2), (3), (4) and (5) shall be omitted;
47.	Locally produced coal	27.01	Rs. 425 per metric tonne or 17% ad valorem, whichever is higher	Nil	(a) serial numbers 25, 47 and 75 and entries relating thereto in columns (2), (3), (4) and (5) shall be omitted;
75.	Import of electric vehicle in CBU conditions	8703.8090	12.5%		(a) serial numbers 25, 47 and 75 and entries relating thereto in columns (2), (3), (4) and (5) shall be omitted;

Following amendments are proposed in this Schedule:

S.No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition	Remarks/Amendment
56.	Potassium Chlorate (KCLO3)	Respective headings	17% alongwith rupees 915[60] per kilogram	Import and supply thereof. Provided that rate of rupees 916[90] per kilogram shall not apply on imports made by and supplies made to organizations under the control of Ministry of Defence Production.	(c) against serial number 56, in columns (4) and (5), for the expression "90", the expression "60" shall be substituted.

Following new insertions are proposed:

S.No.	Description	Heading Nos. of the First Schedule to the Customs Act, 1969 (IV of 1969)	Rate of Sales Tax	Condition	Remarks/New Inserted
78.	Supply of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal.	71.13	3%	No input tax shall be adjusted	(d) after serial number 77, the following new serial and entries relating thereto in columns (2), (3), (4) and (5) shall be added, namely:–
79.	Import of articles of jewellery, or parts thereof, of precious metal or of metal clad with precious metal.	71.13	4%	No input tax shall be adjusted	(d) after serial number 77, the following new serial and entries relating thereto in columns (2), (3), (4) and (5) shall be added, namely:–
80.	Local supply of reclaimed lead	Respective heading	1%	Subject to the conditions that: (i) Supplies are made to registered manufacturers of lead and lead batteries; and (ii) No refund of input tax shall be admissible.".	(d) after serial number 77, the following new serial and entries relating thereto in columns (2), (3), (4) and (5) shall be added, namely:–

Twelfth Schedule

It is proposed to amend and Insert New Clause in the Twelfth Schedule:

Procedure and conditions: clause (2), in sub-clause (i),	(2) The value addition tax under this Schedule shall not be charged on,— 947[(i) Raw materials and intermediary goods imported by a manufacturer for in-house consumption excluding compressor scrap (PCT heading 7204.4940), motor scrap (PCT heading 7204.4990) and copper cable cutting scrap (PCT heading 7404.0090)	(15) in the Twelfth Schedule, in the Table, under the heading, Procedure and conditions, against clause (2), in sub-clause (i), after the word "consumption", the expression "excluding compressor scrap (PCT heading 7204.4940), motor scrap (PCT heading 7204.4990) and copper cable cutting scrap (PCT heading 7404.0090)" shall be added.;

THE ISLAMABAD CAPITAL TERRITORY (TAX ON SERVICES) ORDINANCE, 2001

Amendments in the Islamabad Capital Territory (Tax on Services) Ordinance, 2001, – (XLII of 2001). – In the Islamabad Capital Territory (Tax on Services) Ordinance, 2001 (XLII of 2001), in the Schedule:

Table 1, in column (1). –

S. No.	Description	Heading Nos. of the First Schedule	Rate of Services Tax	Remarks/Changes
1	**Services provided or rendered by hotels, motels, guest houses, farmhouses, restaurants, marriage halls, lawns, clubs and caterers.** Services provided or rendered by hotels motels, guest houses and farmhouses. Services provided or rendered by restaurants. Services provided or rendered by marriage halls and lawns. Services provided or rendered by clubs. Services provided or rendered by caterers, suppliers of food and drinks	98.01	Fifteen percent	(1) in Table 1, in column (1). – (i) for S.No.1 and entries related thereto in columns (2), (3) and (4), the following shall be substituted, namely:-

Rate of Tax:

It is proposed to reduce the rate of tax from sixteen percent to fifteen percent, where applicable. (Against Serial Nos. from 2 to 59).

CAPITAL VALUE TAX (CVT)

The bill proposes to re-introduce Capital Value Tax (CVT) on the following assets:

S.No	Nature of Assets	Rate of Tax	Valuation Basis	Person responsible to collect CVT
1)	Motor vehicle held in Pakistan where the value of motor vehicle exceeds rupees five million;	2% of the value	where the vehicle is imported in Pakistan, the import value assessed by the Customs authorities as increased by customs duties	Collector of Customs - at the time of import
			where the vehicle is manufactured or assembled locally in Pakistan, the value at which the motor vehicle is sold by the local manufacturer or assembler	Local manufacturer or assembler at the time of sale
			where the vehicle is auctioned, the auction price	any person making sale by public auction or auction by a tender
			in any other case, the total consideration paid to acquire, alter or improve the vehicle	Motor Vehicle Registering Authority at the time of collecting motor vehicle tax, if not already paid at import, sale by local manufacturer of auction.
		Value of vehicles shall be reduced by 10% every year and will be treated as zero: - after 10 years of acquisition - value after such reduction is less than or equal to Rs.5 million		
2)	Assets of a resident individual, whether movable or immovable, held abroad where the value of such assets exceeds rupees one hundred million	1% of the Value	Value shall be higher of: - the total consideration paid to acquire, alter or improve the asset; or - the fair market value of the asset	Person holding the assets at the time of filing of return
3)	Such assets or class of assets as specified by the Federal Government through a notification in the official Gazette, at such rates and in such manner as may be specified	Specified in notification	Specified in notification	Specified in notification

- The proceeds of the tax collected under this section shall be credited to the Federal Consolidated Fund under the head specified by the Federal Government.
- Where a person fails to pay tax to the credit of the Federal Government, collect tax or pay to the credit of the Federal Government after having collected the tax, the person shall be personally liable to pay amount of tax as well as the default surcharge at a rate equal to twelve per cent per annum on the tax unpaid computed for the period commencing on the date on which the tax was due and ending on the date on which it was paid.
- The provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 shall apply to the collection and recovery of CVT.
- The Federal Board of Revenue may, by notification in the official Gazette, prescribe the manner and procedure relating to the collection and recovery of, or any other matter relating to the capital value tax.
- The Federal Government may, by notification in the official Gazette, exempt any asset or class of assets from tax subject to such conditions as may be specified.

MOBILE PHONES LEVY

Levy on Mobile Phones was introduced through Finance Act, 2018, which is now proposed to be levied on following rates:

Sr. No	Mobile Phones having C&F Value (US Dollars)	Rate of levy per set in Pak Rupees
1.	Up to 30	100
2.	Above 30 and up to 100	200
3.	Above 101 and up to 200	600
4.	Above 201 and up to 350	1800
5.	Above 351 and up to 500	4000
6.	Above 501 and up to 700	8000
7.	Above 701 and above	16000