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Budget brief 2020

Preamble

The budget brief 2020 contains highlights of the Finance Bill 2020 as they relate to direct and indirect taxes and certain other fiscal laws.

The provisions of the Finance Bill 2020 are generally applicable from 01 July 2020, unless otherwise specified.

The Budget brief contains the comments, which represent our interpretation of the legislation and we recommend that while considering their application to any particular case reference be made to the specific wordings of the relevant statutes.

This publication will be updated, after enactment of the Bill, to provide comments on enacted provisions, including changes in the proposals contained in the Bill, the update will be posted on our website www.kpmg.com.pk subsequent to the enactment of Finance Act, 2020.

13 June 2020

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Budget at a glance

	Budget estimate 2019-20	%	Revised estimate 2019-20	%	Budget estimate 2020-21	%
----- (Rupees in billion) -----						
Revenue						
Tax revenue	5,822	86.7	4,208	76.5	5,464	83.1
Non-tax revenue	895	13.3	1,296	23.5	1,109	16.9
	6,717	100.0	5,504	100.0	6,573	100.0
Less: Provincial share	3,255	48.5	2,402	43.6	2,873	43.7
Net revenue	3,462	51.5	3,102	56.4	3,700	56.3
Expenditure						
Development & net lending	843	12.0	699	10.2	792	11.1
Current	6,193	88.0	6,131	89.8	6,345	88.9
	7,036	100.0	6,830	100.0	7,137	100.0
Deficit	3,574	48.5	3,728	43.6	3,437	43.7
Funded by						
Capital receipts	833	23.3	1,045	28.0	1,396	40.6
Domestic debt – banks	339	9.5	1,724	46.3	889	25.9
External debt	1,829	51.2	890	23.9	810	23.6
Privatization proceeds	150	4.2	150	4.0	100	2.9
Surplus from provinces	423	11.8	(81)	(2.2)	242	7.0
	3,574	100.0	3,728	100.0	3,437	100.0

Highlights

Income Tax

- Scope of Industrial undertaking proposed to be enhanced to include builders and developers for the purpose of import of plant and machinery.
- Pakistan resident ship owning company registered with SECP after 15 November 2019 and having its own Pakistan Flag seaworthy vessel proposed to pay tonnage tax of an amount equivalent to 75 US cents per ton of gross registered tonnage per annum.
- Threshold of collection charges as allowable deduction against rental income proposed to be reduced from 6% to 2%
- Individual and AOP proposed to opt for net income taxation in respect of income from property.
- Threshold of deduction for cash payment against the business income under single account head proposed to be enhanced from Rs. 50,000 to Rs 250,000.
- Threshold of expenditure liable to be disallowed as a business expense made other than through crossed banking instrument / online transfer of payment proposed to be enhanced from Rs 10,000 to Rs. 25,000.
- Threshold proposed to be enhanced from Rs.15,000 to Rs 25,000 as allowable deduction against business income if the salary is paid in cash.
- Expenditure incurred on account of utility bills proposed to be disallowed if in excess of the limits on violation of condition as may be prescribed.
- Expenditure attributable to sales made to person liable to be registered but not registered under the Act 1990 proposed to be disallowed under specified conditions but the disallowance not to exceed 20%.
- Allowable deduction under the head depreciation proposed to be reduced by 50% on account of normal depreciation in the year asset is brought into use and proposed to be allowed 50% in the year of disposal.
- For allowability of lease rental deduction in the case of passenger vehicles not plying for hire, the cost thereof is proposed to be restricted to the extent of Rs 2.5 million of the principal.
- Taxation of capital gain arising on disposal of immovable property proposed to be revamped by significantly reducing the holding period.
- Tax credit in respect of donation given by associate as donor proposed to be restricted.

- Tax credit on enlistment proposed to be restricted for companies opting for enlistment on or before 30 June 2022.
- Filing of statement of voluntary contribution and donations proposed to be made obligatory for Non-Profit Organization.
- For tax credit under section 100C, donation from associates proposed to be excluded from restricted funds.
- Interest/Profit on debt paid to foreign affiliates proposed to be restricted to 15% of taxable income before depreciation, amortization and foreign profit on debt.
- Unexplained receipts proposed to be treated as Business income in respect of suppressed amount of production and sales / receipts.
- Scope of minimum tax regime under section 113 proposed to be extended to permanent establishment of non-resident.
- Certain specified persons proposed to require to prepare and furnish a tax profile to the FBR within the prescribed time.
- Commissioner proposed to be empowered for granting approval for revision of return in case of bonafide omission.
- Non furnishing of tax profile proposed to lead to be treated as non-ATL taxpayer.
- Statement of final taxation under section 115 proposed to be omitted.
- Wealth statement proposed to be revised subject to prior approval from Commissioner in case of bonafide omission.
- Concept of self-assessment based on the complete return of income filed by the taxpayer proposed to be subjected to automated adjusted assessment to rectify computational errors and wrongly claimed credits.
- Concept of agreed assessment proposed to be introduced whereby taxpayer is provided an option to get its case settled through Assessment Oversight Committee subject to certain conditions.
- Appeal fee proposed to be increased for filing of appeals before Commissioner Appeal and Appellate Tribunal.
- Filing of Appeal at Appellate Tribunal proposed to be subject to payment of 10% of the tax amount upheld by Commissioner Appeal.
- Rate of tax at import stage proposed to be revamped by inserting twelfth schedule.

- Rate of tax at import stage proposed to be reduced to 1% and 2% incase on capital goods and raw material respectively by industrial undertaking for its own use.
- Rate of tax deduction and scheme of taxation under section 152 on payment to permanent establishment of non-resident on account of sale of goods, rendering of services and execution of contracts proposed to be aligned with resident persons.
- Rate of deduction of tax on account of cohesive business arrangement proposed to be reduced to 1.4% from 2.1%.
- Toll manufacturing proposed to be treated a sale of goods under section 153.
- Engineering services proposed to be excluded from reduced rate of 3% hence to be subjected to withholding tax at 8%.
- Withholding tax statement proposed to be filed on quarterly basis.
- Audits under section 177 proposed to be conducted electronically.
- Sectoral benchmark ratios provided by FBR proposed to be used by Commissioner for determining taxable income of the taxpayer in cases where taxpayer fails to furnish record or is unable to provide sufficient explanation.
- Provision relation to collection / deduction of taxes at source proposed to be omitted in cases of tax on local purchase of cooking oil or vegetable ghee by certain persons, tax on steel melters and composite units, advance tax on functions and gathering, advance tax on cable operators and other electronic media, advance tax on dealers, commission agents and arhatis etc., advance tax on education related expenses abroad, advance tax on insurance premium and on tobacco.
- Withholding tax on dividend proposed to be synchronized with chargeability rates.
- 4% tax proposed on imported finished pharmaceutical products not manufactured in Pakistan as certified by Drug Regulatory Authority of Pakistan.
- Rate of tax on Return on investment in Sukuk proposed to be increased from 15% to 25%.
- Payment of dividend, fee for technical services, royalty, insurance and reinsurance premium to non-resident person proposed not to be subjected to Tenth Schedule.
- Profit on debt derived by an individual from a debt instrument issued by the Federal Government and purchased exclusively through a bank account maintained abroad, a non-resident Rupee account repatriable or a foreign currency account maintained with a banking

company in Pakistan proposed to be subject to withholding tax at the rate of ten percent as a final discharge. Further, such taxpayers would fall outside the purview of the Tenth Schedule even if their name does not appear on the ATL.

- An explanation proposed to be inserted whereby sale by public auction or auction by tender includes renewal of license previously sold through public auction or auction by tender and that where payment is received in installments, advance tax is to be received with each installment.
- Taxation regime of payment to resident person for use of machinery and equipment proposed to be changed from 'final tax' to 'minimum tax'.
- Bar on Commissioner proposed for delegating powers to amend or further amend an order of withholding tax recovery below the rank of Additional Commissioner.
- An industrial and commercial consumer of electricity proposed to be entitled to obtain exemption certificate under section 235, provided advance tax liability for the entire year is discharged.
- Taxation regime of payments made for advertisement services to non-resident media person relaying from outside Pakistan proposed to be changed from 'final tax' to 'minimum tax'.
- In case sale of goods by public listed company, the Commissioner is proposed to be required to issue 'nil' or reduced rate withholding tax certificate within fifteen days of filing of application where advance tax liability has been discharged. Such certificate proposed to be automatically issued by IRIS where the Commissioner does not issue the same within the said fifteen days. However, the Commissioner proposed to modify or cancel the certificate issued automatically by IRIS on the basis of reasons to be recorded and after providing opportunity to being heard to the applicant.
- For taxpayer's facilitation and for the sake of transparency, an enabling provision proposed to be introduced for expeditious processing and automatic payment of refunds by the Board through a centralized refund processing system.

Sales tax

- Active taxpayers who have not filed quarterly withholding tax statements are proposed to be excluded from the definition of 'active taxpayer'.
- The electricity supplied by WAPDA is proposed to be included in the definition of 'value of supply' effective from 01 July 2019 to streamline the 'value of supply' given in

erstwhile Sales Tax Special Procedure Rules, 2007.

- Difference between sale and purchase price of used cars proposed to be chargeable to sales tax under value of supply.
- The Board proposed to be empowered to restrict wastage of materials on which input tax has been claimed.
- Commissioner or the Officer of Inland Revenue empowered to follow the decision by a High Court or the Appellate Tribunal in case of registered person in so far as it applies to question of law arising in any pending assessments.
- Commissioner or the Officer of Inland Revenue empowered to modify the assessment irrespective of the limitation period if subsequently decision of the High Court or the Appellate Tribunal is reversed or modified.
- The threshold of requirement of CNIC on tax invoice in case of supplies made by retailers is proposed to be enhanced from Rs. 50,000 to Rs. 100,000.
- The audit proceedings proposed to be conducted electronically through video links or any other facility.
- Authorized officers are proposed to have access to real time electronic access to records of the registered person.
- Commissioner (Appeals) proposed to not admit any evidence not produced before the assessing officer unless satisfied that the appellant was prevented by sufficient cause from producing such material or evidence before the assessing officer.
- Appeal filing fee is proposed to be enhanced according to status of appellant as to company or otherwise ranging from Rs.2,500 to Rs.5,000.
- Alternative Dispute Resolution process is proposed to be revamped with the aim to make these provisions more taxpayer friendly.
- The Board is proposed to be empowered to obtain real time access of information and databases from government organizations / authorities such as NADRA, FIA etc. The information shall be kept confidential and only be used for tax purposes.
- The restriction on registered manufacturers or producers to make taxable supplies to registered persons exceeding value of one hundred million rupees in a financial year and ten million rupees in a month, proposed to be extended to all registered persons.

- The exemptions and zero rating for Gwadar Port and Gwadar Free Zone introduced through the Tax Laws Amendment Ordinance, 2019 are proposed to be part of Fifth and Sixth Schedules of the Act.
- Import and supply of ships and all floating crafts chartered by a Pakistan entity and flying the Pakistan flag is proposed to be exempted from levy of Sales Tax till 2023.
- Dietic foods intended for consumption by children suffering from inherent metabolic disorder are proposed to be exempted from sales tax.
- Supplies made from retail outlets being integrated with Board's computerized system for real-time reporting of sales proposed to be subject to 12% sales tax instead of existing rate of 14%.
- Sales tax withholding for inactive registered person is proposed to be increased from 1/5th of sales tax shown on sales tax invoice to 5% of the gross value.
- The value addition tax is proposed to not apply on all raw materials and intermediary goods imported by a manufacturer for in-house consumption.

Federal excise

- The Bill proposes to empower the Board to restrict input FED on wastage of material.
- The Bill seeks to bind tax authorities to abide by the decision of High Court or Appellate Tribunal on question of law in respect of similar cases pending before them.
- The Bill proposes to extend the scope of seizure and confiscation to all dutiable goods. Presently, it is restricted to cigarettes and beverages only.
- The Bill proposes to increase appeal fee from Rs. 1,000 to Rs. 2,500 for non-company cases and Rs. 5,000 for company for appeal to Commissioner (Appeal).
- The Bill proposes to empower Commissioner (Appeal) not to admit any documentary evidences which were not produced earlier before the assessing officer without any sufficient cause.
- It is proposed that the appeal by Appellate Tribunal shall be decided as per procedures laid down under Section 131 and 132 of Income Tax Ordinance, 2001 and rules made thereunder.
- The Bill seeks to streamline the provisions of Alternative Dispute Resolution.

- Various agencies including NADRA are required to provide real time access of information to FBR.
- It is proposed that the parameters for selection of audit shall be kept confidential by the Board.
- The Bill proposes to impose levy of FED on caffeinated energy drinks at the rate of 25% on retail price.
- The Bill proposes to levy FED on E-liquid for electric cigarettes at the rate of Rs. 10 per ML
- The Bill proposes to levy of FED on imported double cabin pick-up vehicle at 25% ad val.
- The Bill proposes to levy FED on locally manufactured double cabin pick-up vehicle at the rate of 7.5% ad val.
- The Bill proposes to enhance rate of FED on cigars, cheroots, cigarillos and cigarettes of tobacco and tobacco substitute from 65% to 100% on retail price.
- The Bill proposes to enhance rate of FED on filter rod for cigarette from Re. 0.75 per filter rod to Rs. 1 per filter rod.
- It is proposed that rate of FED on different category of cements shall be reduced from Rs. 2 per KG to Re. 1.75 per KG.

- The provision regarding the frequency of conducting an audit only once in a three years as inserted vide Finance Act, 2018, is proposed to be omitted.
- Electronic communication of notices, orders etc. made applicable to all registered persons.

Customs

- Reduction of customs duty on 90 tariff lines from 11% to 3% and 2 tariff lines from 11% to 0%.
- Reduction of customs duty on certain raw materials of various industries.
- Zero-rating of goods imported by the foreign airlines under Air Services Agreement proposed.
- Gwadar International Terminals Limited and Gwadar Marine Services Limited and their contractors and sub-contractors are proposed to be zero-rated.
- Zero-rating of imports by certain businesses to be established in the Gwadar Free Zone Area for a period of 23 years proposed.
- Zero-rating of dietetic foods for medicinal purposes proposed.

- Zero-rating of Diagnostic Kits for Cancer and Corona Virus proposed.
- Extension in zero-rating upto 30 June 2023 for import of plant, machinery and equipment for setting up new industries in erstwhile FATA proposed.
- Zero-rating of machinery, equipment & other goods, if imported by Internet Service Providers, proposed.
- Zero-rating/reduced rate is proposed to be allowed to the specific manufacturers for import of various raw materials.
- Scope and procedure for obtaining “Advance Ruling” together with revision in its definition are proposed.
- Under-invoicing and over-invoicing to be treated as Fiscal Fraud.
- Opportunity of being heard is proposed to be provided through Customs Computerized System in the case of reassessment.
- Appellate Tribunal shall be required to pass Order within a period of 30 days in the case of smuggling.
- Board is empowered to grant benefits to the authorized economic operators including laying down any procedure or mode for collection of customs duties, etc.
- Substitution of penalties in case of goods, currency, gold, etc. smuggled.

Sectoral analysis

Manufacturing

Manufacturing sector has been showing declining trends in the past with a year-on-year contraction of 22.9% recorded in March 2020, and a deep recession anticipated in next fiscal year in view of lockdowns and business closures from CoVid-19 pandemic. While the Government has given incentives coupled with amnesty to construction sector, no such relief package viz-a-viz tax rates has been announced for manufacturers. The corporate tax rate will continue at 29%.

However, under an unrelated package which is not part of the budget, the Prime Minister has directed the Board to expedite issuance of refunds to exporters that had accumulated after termination of sales tax zero rating regime last year. The Bill does not propose a revival of the said regime though the matter was vigorously pursued by the exporters.

However, the Bill proposes to reduce the rate of sales tax from 14% to 12% in case of supplies of finished fabric, and locally manufactured finished articles of textile and textile made-ups and leather and artificial leather, as made from retail outlets integrated with the Board's computerized system.

It further provides for reduction in rate of customs duty for various items including those used as industrial inputs. This includes reduction from 11% to 20% at present to a minimum 3% in case of certain chemicals, vaccines, wood tar and oils, bars and rods, hand or foot operated air pumps, tankers,

liquid meters etc. Further, the rate of duty is proposed to be 0% for manufacturers of disposable syringes and saline infusion sets, buttons, ready to use supplementary foods, aircraft engine for use in aircraft and trainer aircraft, aluminum beverage cans and home appliances.

The rates of advance tax on imports are also proposed to be reduced to 1% to 2% depending upon the PCT code.

Construction

The tax incentive package announced in April 2020 for revival of construction sector through a Presidential Ordinance is now part of the Finance Bill, 2020 for approval by the Parliament as required by the Constitution. While there are no significant changes from the amendments brought earlier, it would be in the fitness of things to summarize the key changes without repeating the details:

- The construction sector declared as an 'industrial undertaking' through suitable amendment in the Ordinance. Consequently, the sector is now entitled to seek exemption from advance tax otherwise collectible on import of machinery.
- Introduction of a fixed rate tax regime effective Tax Year 2020 for builders and developers through promulgation of the Eleventh Schedule read with section 100D of the Ordinance. The scheme is optional and covers 'new projects'

(that start after 17 April 2020 but before 31 December 2020) to be completed by 30 September 2022; and 'existing projects' also to be completed by the said date. Where the said scheme is opted for, no credit will be admissible for tax paid at source under any provision of the Ordinance, save on purchase of property. The option can be e-filed through the Board's IRIS software by 31 December 2020 or 30 days of start of a new project, whichever is earlier.

- For the purposes of the Eleventh Schedule, a project will be considered complete in case of a builder when the grey structure is completed – that is when the roof of the top floor has been laid as per the approved plan. For a developer however, the project will be considered complete on satisfaction of following conditions:
 - at least 50% of the total plots have been booked in the name of buyers; and
 - at least 40% of the sale proceeds have been received;
 - landscaping has been completed; and
 - at least 50% of the roads have been laid up to subgrade level as certified by the approving authority or NESPAK.
- Immunity from probe regarding source of investment with respect to amount invested as capital in a building or land subject to certain conditions, including first purchaser of such building or land. The immunity however does not cover public office holders or their benamidars, a public company, a real estate investment trust and a company whose income is exempt under any provision of the Ordinance.
- Exemption on dividend income received from a company being a builder or a developer out of the profits and gains derived from a project covered under the Eleventh Schedule.
- Exemption from withholding tax obligations on purchase of building material except steel and cement; and on services of plumbing, electrification, shuttering and allied works obtained from non-corporate service providers.

- Tax liability to be computed on annual basis for each eligible project as under and payable on quarterly basis as per the following formula:

$$\frac{\text{Tax Liability as per rates prescribed}}{\text{Estimated project life}}$$

In case of development of plots and construction of buildings on the same plots, both rates shall apply.

For low-cost projects developed or approved by Naya Pakistan Housing and Development Authority (NAPHDA) or under the Ehsaas program, the tax rates levied will be reduced by 90%.

The Bill further proposes a general reduction in capital gains tax leviable on sale of immoveable property by reducing the holding threshold for non-taxation to 04 years as against 08 years at present for open plots; in addition to complete exemption on first sale of residential property of area not exceeding 500 square yards in case of a house and 4,000 square feet in case of a flat.

Persons	Property Type	Area	(A) Karachi, Lahore and Islamabad	(B) Hyderabad, Sukkur, Multan, Faisalabad, Rawalpindi, Gujranwala, Sahiwal, Peshawar, Mardan, Abbottabad, Quetta	Urban Areas not specified in A and B
		Area in Sq. Fts.	Rate per Sq. ft.		
Tax on Builders	Commercial Buildings	Any size	Rs.250	Rs.230	Rs.210
	Residential Building	up to 3000	Rs.80	Rs.65	Rs.50
		3000 & above	Rs.125	Rs.110	Rs.100
		Area in Sq.Yds.	Rate per Sq. Yds.		
Tax on Developers	Entire Project (Other than Industrial Area)	Any size	Rs.150	Rs.130	Rs.100
	Development of Industrial Area	Any size	Rs.20	Rs.20	Rs.10

Respective rates shall apply for building being used for both residential and commercial purpose.

Non-residents (foreign companies and certain individuals)

Though not an economic sector in itself, the categorization of 'non-residents' is crucial for income tax purposes as it is central to determination of tax charge as well as application of certain specific tax regimes, including application of tax treaties. There has however been a gradual shift in the past few years to bring non-residents at par with residents and to do away with certain concessions such as availability of 'final tax regime' for specific incomes. Many such concessions were withdrawn last year. The Bill now proposes to further level the playing field through following amendments:

- Imposition of minimum tax on turnover in line with local companies as provided in section 113 of the Ordinance. Where however receipts are already subject to withholding tax which constitutes minimum tax (such as in case of services rendered to corporate sector), there will be no additional financial impact.
- Tax withheld on sale of goods and execution of contracts by a Permanent Establishment [PE] such as a branch office, to be treated minimum tax in the same manner as for services. The said tax already constitutes minimum tax for local companies except manufacturers.
- Reduction in withholding tax rate from 8% to 3% for certain services rendered by PE of a non-resident in line with similar rates for local companies.
- Reduction in rate of withholding tax under section 152(4A) on payments against imports that form part of cohesive business operations undertaken by non-resident associates. The rate is proposed to be reduced to 20% of the rate provided under section 152(1A) from existing 30% (which means reduction from 2.1% to 1.4%)
- Non-application of the Tenth Schedule on payment of dividend, fee for technical services, royalty, insurance and reinsurance premium to a non-resident, meaning no increase in withholding rate even if the non-resident shareholder is not appearing on the Board's active taxpayers' list.
- Taxation regime of payments made for advertisement services to non-resident media person relaying from outside Pakistan proposed to be changed from final tax to minimum tax.
- Provisions of section 236P regarding withholding tax on banking transactions not to apply to a non-resident rupee account repatriable [NRAR], or a foreign currency account maintained in Pakistan by a non-resident and used for investment in Government debt securities issued under the Public Debt Act, 1944. The rate of tax on profit

on debt (interest) paid on such investment also proposed at 10% (as against 15% in general).

Non-profit organizations

Following an increasingly rigorous regime for registration and approval by the regulators, the NPOs are now coming under greater scrutiny by the tax authorities amid reduction in foreign grants over successive years. The requirements for availability of 100 percent tax credit against income have been increasing almost every year and this year appears to be no exception. Effective 01 July 2020, in addition to the requirement of being approved by the Commissioner under section 2(36) of the Ordinance to avail tax credit, the NPOs would be required to file a statement of voluntary contributions and donations received in the immediately preceding tax year in a format to be prescribed by the Board. The concession for non-chargeability of 10% tax on surplus funds forming part of restricted grants is also proposed to be done away with when those funds had been received from a donor who enjoys the status of an associate.

Tax credit available to a donor is also proposed to be reduced in case of donation to an associated NPO.

The Bill also proposes to withdraw unconditional exemption from tax to certain NPOs and requiring them to comply with the provisions of section 100C effective Tax Year 2022 (starting 01 July 2021) in

order to be eligible for 100 percent tax credit. These NPOs include the Edhi Foundation, The Citizens Foundation, Fatimid Foundation, Al-Shifa Trust, Pakistan Engineering Council, Sindh Institute of Urology and Transplantation, National Rural Support Program, Pakistan engineering Council, Pakistan Bar Council, Pakistan Poverty Alleviation Fund, Shaukat Khanum Memorial Trust and Lahore University of Management Sciences, amongst others. Hence subject to this proposal getting the Parliament's nod, these organizations will be required to obtain approval from the Commissioner under section 2(36) if not already obtained, submit their annual tax returns and statement of voluntary contributions to the Board and comply with tax withholding obligations on payments including filing of regular withholding statements.

We believe that while this is a positive step for documentation of fund flow, it is equally important to make it easier for an NPO to obtain Commissioner's approval under section 2(36) as it has been noted in practice that the process is very cumbersome and the law does not provide for a time frame within which an application is to be decided by the Commissioner or an independent redressal forum in case of rejection by the Commissioner.

Significant amendments

INCOME TAX

Mandatory installation of Electronic Fiscal device in case of company and non-company cases

The FBR vide SRO 296(1)/2020 proposed insertion of Chapter VIIA to the Rules, 2002 namely 'Online Integration of Businesses' whereby the companies were required to install electronic fiscal device (EFD) which interalia includes restaurants, hotels, motels, guest houses, marriage halls, intercity travel by road, courier services, Medical practitioners, accountants, hospitals or medical cares etc. etc. In case other than company the taxpayers were required to install the device operating in eight major cities, which included: Karachi, Lahore, Islamabad, Rawalpindi, Faisalabad, Multan, Peshawar, and Gujranwala and the FBR is intended to make it mandatory the installation of EFD for services.

By installation of EFD following tasks were to be performed:

- Receive, record, analyze and store fiscal data;
- Format fiscal data into fiscal invoices or bills;
- Transmit the fiscal data to the board's computerized system through secure means; and
- Print invoice or bills.

The Bill now proposes to define the term integrated enterprise in line with draft SRO 296 issued on 9 April 2020 by the Federal Board of Revenue (FBR) providing rules for online integration of business in the Rules, 2002.

The Bill proposes to define integrated enterprise

a person integrated with the Board through approved fiscal electronic device and software and who fulfills obligations and requirements for integration as may be prescribed

Scope of Non-Profit Organization [NPO] limited to include establishment for general public

NPO means persons other than individual which is established for religious, educational, charitable, welfare or development purposes, or for the promotion of an amateur sport.

The Bill proposes to replace term 'development purposes' with 'purposes for general public'.

Taxation of Pakistan resident ship owning company - introduced

Section 7A provides tax rate for resident person engaged in the business of shipping based on tonnage tax. The provision of this section expiring on 30 June 2020 are proposed to be extended till 30 June 2023.

The Bill also proposes to extend the scope of provision of section 7A to a Pakistan resident ship owning company registered with Securities and Exchange of Pakistan after 15 November 2019 having its own sea worthy vessel registered under Pakistan flag the tax payable by such company shall be equal to 75 US cents per ton of gross registered tonnage per annum.

Deductions against Income from House Property

The Bill proposes to restore the scheme of taxation for Individual and AOP from separate block of taxation to net income basis. As a background until 2016 income from house property in both cases were on net income basis.

Finance Act, 2019 amended the taxation regime to provides.

Property income upto Rs 4 Million was liable to be taxed as a separate block of income without deduction of expenses.

Income of property of more than Rs 4 Million, the Individual and AOP were allowed to opt for taxation on net income basis.

The bill proposes to withdraw the threshold of Rs 4 million therefore making option available to all levels of income on net income basis.

Further the bill proposes expenses on account of collection charges shall be restricted from 6% to 2% in all cases.

Threshold of inadmissible deductions against business income revised

The Bill proposes following enhancements:

- Under section 21(l) any expenditure for a transaction under a single account head which in aggregate, other than through banking channel is proposed to be enhanced from Rs.50,000 to Rs.250,000.
- Other payment from Rs.10,000 to Rs.25,000.
- Salary exceeding fifteen thousand rupees made other than through crossed cheque or direct transfer of funds is currently not deductible. The bill proposes to enhance this threshold to Rs.25,000.

Utility bills

The bill proposes that expenditure on account of utility bill in excess of limits and in violation of conditions as may be prescribed shall be disallowed.

Expenditure on sales attributable to unregistered persons in case of industrial undertaking

The bill proposes that expenditure attributable to sales made to persons required to be registered but not registered under the Act 1990 by an industrial undertaking shall be disallowed.

The expenditure to be disallowed shall be calculated as follows.

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

where

- A - total amount of deductions claimed under this Part;
- B - the turnover for the tax year; and
- C - the total amount of sales exclusive of sales tax and federal excise duty to persons required to be registered but not registered under the Act, 1990 where sales equal to or exceed rupees one hundred million per person.

It has also been proposed that disallowance of expenditure under this clause shall however not exceed twenty percent of total deductions claimed.

The bill also provides that the Board may, exempt persons or classes of persons from this clause on the basis of hardship.

Split of depreciation allowance in the year of purchase and in the year of disposal

Section 22 allows deduction of depreciation on depreciable assets used in the business in the tax year.

Currently, full year depreciation is allowable in the year of acquisition and no depreciation is admissible in the year of disposal.

The Bill proposes to insert a proviso for reduction in allowable depreciation deduction to 50% when a depreciable asset is brought to use in the persons business for the first time in a tax year commencing from 1 July 2020. Consequently, bill also proposes depreciation deduction shall be allowed equal to 50% in the year of disposal on assets brought to use in tax year commencing from 1 July 2020.

Above proposal will effectively result into apportionment of depreciation by allowing 50% in the year of acquisition and 50% in the year of disposal.

Deduction on account of lease rentals

Currently a deduction is allowed for a tax year for any lease rental incurred by a person to a scheduled bank, financial institution, an approved modaraba, an approved leasing company or a Special Purpose Vehicle on behalf of the Originator

for an asset used by the person for the purposes of business.

The Bill proposes to limit the cost of passenger transport vehicle, not plying for hire, to the extent of principal amount of Rs. 2.5 million for claim of lease rental as allowable deduction against business income.

Capital gain on sale of immovable property- Rationalization of holding period and tax rates

Taxation of immovable property was introduced through Finance Act 2012 subject to holding periods without any distinction as to open plot and constructed property.

The Finance Act 2019 provided the computation of taxable gain on disposal of open plots and constructed property respectively subject to the holding period

S. No.	Holding period of open plot	Holding period of constructed property	Taxable Gain
1	Not exceeding one year	Not exceeding one year	100%
2	Exceeds one year but does not exceed eight years	Exceeds one year but does not exceed four years	75%
3	Exceeds eight years	Exceeds four years	0

The Bill proposes to combine the computation of capital gain on disposal of open plots and

constructed property with a newly inserted provision explaining computation of the amount of gain arising on disposal of immovable property subject to the holding period as under:

S. No.	Holding period	Taxable Gain
(1)	(2)	(3)
1	Not exceeding one year	100%
2	Exceeds one year but does not exceed two years	75%
3	Exceeds two years but does not exceed three years	50%
4	Exceeds three years but does not exceed four years	25%
5	Exceeds four years	0

Related provision for collection of advance tax under section 236C have also been proposed for alignment about holding period from five to four years.

Limit of tax credit on charitable donations between associates

Section 61 entitled a taxpayer to claim tax credit on donation paid to specified institution.

The amount of tax credit is calculated by applying average of tax on the amount of donation.

The amount of donation entitled to tax credit as above is to be calculated as the total amount of donations including the fair market value of any

property given, however subject to limits based on taxable income.

The Bill proposes to reduce the limits in case of donation to associates from 30% to 15% in case of individual or AOP; and in case of company from 20% to 10% of the taxable income of the donor.

Cap on date of enlistment for claiming tax credit

Section 65C entitled a company to claim tax credit in case it opts for enlistment in any registered stock exchange in Pakistan.

The tax credit is allowed at 20% of the tax payable for the tax year in which said company is enlisted and for the following three tax years provided that the tax credit for the last two years is to be allowed at 10% percent of the tax payable.

Currently, this tax credit is not timebound but now the bill proposes that this tax credit shall be applicable if company opts for such enlistment by 30th day of June 2022.

Tax credit for NPOs

Bill proposes following:

Conditions for claim of tax credit

NPO, Trust, or Welfare Institutions are entitled to tax credit equal to 100% of tax payable including minimum tax and final tax subject to fulfillment of specified conditions.

The bill proposes a new condition requiring NPO, Trust, or Welfare Institutions to submit a statement of voluntary contributions and donations received in the immediately preceding tax year which has been filed in the prescribed form and manner.

Taxation of surplus funds

Under section 100C(1A), the surplus funds of NPO, Trust, or Welfare Institutions are to be taxed at ten percent.

The surplus funds have been specifically defined in which exclude restricted funds i.e. any fund received by the organization but could not be spent and treated as revenue during the year due to any obligation placed by the donor.

The bill proposes to remove donations received from an associate from the scope of 'restricted funds' meaning thereby donations from associates even with obligations placed on them shall form part of surplus funds subject to tax at ten percent.

Taxation of Construction Industry including Builder and Developers

The Federal Government vide Tax Laws (Amendment) Ordinance, 2020 laid down special provisions for taxation of builders and developers on a project specific basis. These are now proposed to be enacted through this bill.

For sake of brevity we would like you to refer to our sectoral analysis given on the page No. 10 for detailed comments on these amendments.

Restriction on foreign Profit on Debt payable to Associates

The Bill proposes to introduce section 106A for disallowing deduction of foreign profit on debt payable to non-resident person or associate effectively by 15% in case of foreign controlled resident company.

Subject to the provisions related to transaction between Associates under section 108 and Recharacterisation of income and deductions under section 109, a deduction for foreign profit on debt claimed by foreign controlled resident company other than insurance or a banking company during a tax year, shall be disallowed according to following formula:

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

where

- A the taxable income before depreciation and amortization; and
- B the foreign profit on debt claimed as deduction

This section shall not apply to a foreign-controlled resident company if the total foreign profit on debt claimed as deduction is less than ten million rupees for a tax year.

Where in computing the taxable income for a tax year, full effect cannot be given to a deduction for foreign profit on debt, the excessive amount shall be added to the amount of foreign profit on debt for the following tax year and shall be treated to be part of that deduction, or if there is no such deduction for that tax year, be treated to be the deduction for that tax year and so on for three tax years.

This section shall be applicable in respect of foreign profit on debt accrued with effect from 1 July 2020, even if debts were contracted before 1 July 2020.

It may be pertinent to mention that profit on foreign debt is also suggested to restricts under thin capitalization rules provided under section 106. Subsection 4 of section 106A intends to provide a mechanism but due to drafting error anomaly arises which requires suitable amendments while passing the bill.

For the purpose of this section:

- a) "foreign-controlled resident company" means a resident company in which fifty per cent or more of the underlying ownership of the company is held by a non-resident person either alone or together with an associate or associates; and
- b) "foreign profit on debt" means interest paid or payable to a non-resident person or an associate of the foreign-controlled resident company and includes-
 - i. interest on all forms of debt;
 - ii. payments made which are economically equivalent to interest;
 - iii. expenses incurred in connection with the raising of finance;
 - iv. payments under profit participating loans;
 - v. imputed interest on instruments such as convertible bonds and zero-coupon bonds;
 - vi. amounts under alternative financing arrangements such as Islamic finance;
 - vii. the finance cost element of finance lease payments;

- viii. capitalized interest included in the balance sheet value of related asset, or the amortisation of capitalised interest;
- ix. amounts measured by reference to a funding return under transfer pricing rules;
- x. where applicable, notional interest amounts under derivative instruments or hedging arrangements related to an entity's borrowings;
- xi. certain foreign exchange gains and losses on borrowings and instruments connected with the raising of finance;
- xii. guarantee fees with respect to financing arrangements; and
- xiii. arrangement fee and similar cost related to the borrowing funds.

Agreements for avoidance of double taxation and prevention of fiscal evasions

Currently section 107 empowers the Federal Government to enter into tax treaty, tax information exchange agreement, a multilateral convention, an inter-governmental agreement or similar agreement or mechanism for the avoidance of double taxation or for the exchange of information for the prevention of fiscal evasion or avoidance of taxes including automatic exchange of information with respect to taxes on income imposed under this

Ordinance (or any other law for the time being in force and under the corresponding laws in force in that country and may, by notification in the official Gazette), make such provisions as may be necessary for implementing the said instruments.

The Bill proposes to insert the term ‘spontaneous’ along with ‘automatic’ with respect to exchange of information for the purpose of imposing taxes on income under the Ordinance.

Un-Explained suppressed amount of production, sales or any amount treated as Business Income

Presently under section 111(1) any amount credited, value of investment, money, value of the article or amount of expenditure suppressed, amount of production, sales or any other amount chargeable to tax or of any items of receipt liable to tax as not appropriately explained is to be included into person’s income chargeable to tax under the head ‘Income from other sources’.

Now the bill proposes following shall be treated as income from business (instead of income from other sources) if not adequately explained in the Commissioners opinion.

- any suppressed amount of production,
- sales or any amount chargeable to tax or

- of any item of receipt liable to tax for which the person offers no explanation about the nature and source of such amount credited.

Scope of Minimum tax extended to PE of non resident

Presently, minimum tax on turnover under section 113 at prescribed rates is applicable on a resident company, individuals and associations of persons, having turnover of PKR 10 million or more in the tax year 2017 and onwards.

The Bill proposes to extend the scope of minimum tax under section 113 of the Ordinance 2001 to a PE of non-resident.

Return of income

Every person whose income falls under final tax regime was required to file statement under section 115.

The bill proposes to introduce a requirement for every person to furnish a return of income whose income for the year is subject to final taxation.

This bill also proposes to empower FBR to prescribe different returns for different classes of income or persons including persons subject to final taxation.

It also proposes to empower Commissioner to grant approval for revision of return in case of a bonafide omission or wrong statement.

Since the filing of statement of final taxation under section 115(4) of the Ordinance has been proposed to be done away with and the persons or classes of person whose income fall under final taxation will be required to file return of income therefore corresponding changes have been proposed in section 118 which provides for the method of filing the statement, thereby deleting the wordings on becoming redundant.

Similarly, the clause providing for extension of time for filing the statement of final taxation has been proposed to be omitted from section 119 on becoming redundant.

Taxpayer's profile

In order to improve documentation bill proposes new section 114A which provides following person will be required to furnish a profile:

- Person applying for registration under section 181;
- Person deriving income chargeable to tax under the head of "income from business";
- Person whose income is subject to final taxation;

- Any non-profit organization as defined in clause (36) of section 2;
- Any other person prescribed by the Board.

The said profile shall:

- be in the prescribed form and accompanied by such annexures, statements or documents as may be prescribed;
- fully state, in the specified form and manner, the relevant particulars of –
 - (i) bank accounts;
 - (ii) utility connections;
 - (iii) business premises including all manufacturing, storage or retail outlets operated or leased by the taxpayer;
 - (iv) types of businesses; and
 - (v) such other information as may be prescribed;
- be signed by the person being an individual, or the person's representative where section 172 applies; and
- filed electronically on the web as prescribed by the Board

- A taxpayer’s profile shall be furnished,
 - on or before the 31st day of December 2020 in case of person registered under section 181 before the 30th day September 2020; and
 - within 90 days registration in case of a person not registered under section 181 before the 30th day of September 2020.
- A taxpayer’s profile shall be updated within 90 days of change in any of the relevant particulars of information as mentioned in clause (b) of sub-section (2).

The Bill proposes to exclude taxpayer from ATL who fails to furnish or updates his profile within the time prescribed in this regard.

The Bill also proposes that such person shall be included in ATL upon filing the profile subject to payment of surcharge at following rates:

Taxpayer’s category	Rupees
Company	20,000
Association of Persons	10,000
Individuals	1,000

Revision of Wealth Statement- Prior approval of Commissioner Required

Currently, the person who discovers any omission or wrong statement in his wealth statement can furnish a revised wealth statement at any time before issuance of notice under section 122(9) for that tax year.

The Bill proposes to subject the revision of wealth statement with the prior approval of the Commissioner who shall grant approval in case of a bona fide omission or wrong statement in the wealth statement. Further, the Bill also proposes to provide for limitation of revision of the wealth statement of five years from the due date of filing of return for that tax year.

Automatic re-computation of total and tax payable parameters

Where a complete return has been filed by a taxpayer the same is taken as an assessment of taxable income made by the Commissioner including the tax due thereon equal to those respective amounts as declared by the taxpayer in the return and the return so filed is treated as deemed assessment order issued by the Commissioner upon the filing date of return. However, in case the return is not complete the Commissioner is empowered to issue a notice to the taxpayer seeking from him to fulfil any deficiencies noticed by him (other than incorrect

amount of tax payable on taxable income declared in the return or short payment of tax payable), provided that no such notice shall be issued after expiry of 180 days from the end of the financial year in which return was furnished.

The Bill now proposes to introduce a new concept of deemed assessment whereby the assessment will be deemed to be made by the commissioner and the return to be taken as completed if the return filed by the taxpayer is processed through automated system to arrive at the correct amounts of total income, taxable income and tax payable by making adjustments for:

- i) Any arithmetical error in the return;
- ii) Any incorrect claim apparent from any information in the return;
- iii) Disallowance of any loss, deductible allowance or tax credit claimed under Parts VIII, IX and X respectively of Chapter III;
- iv) And disallowance of any carry forward loss under section 182A(1)(b) [erroneously reference to Chapter IV has been made instead of Chapter III vide Finance Act 2018).

The scope of the ‘arithmetically error’ and ‘incorrect claim apparent from any information in the return’ has also been explained in the Bill.

Provided that an opportunity of being heard on the intended adjustments to be made shall be given through a system generated notice to the taxpayer and no adjustments shall be made without such notice.

Provided further that, in case no reply is filed by the taxpayer within 30 days of the issue of such notice, the adjustments shall be made as proposed in the notice.

Provided also that where no adjustments have been made within six months of filing of return, the amounts as declared in the return by the taxpayer shall be deemed to have been taken as adjusted amounts on the return filing day and the taxpayer shall be intimated through IRIS accordingly.

Hence, the very concept of universal self-assessment has been disturbed and effectively it is no more there in the law and the position of the erstwhile 1979 Ordinance has apparently been restored which will further shake the confidence of the taxpayers in FBR.

Further, the proposed amendments may be cumbersome for both the taxpayers and the field formations as follows:

- enhance the limitation for amendment for six more months as the return will not be treated as deemed assessment order unless the proposed adjustments are made or taken to be made.

- in the presence of sub-section (3) of section 120 the introduction of these provisions may double jeopardize the taxpayers.
- This will also create a parallel provision empowering the Commissioner to revise the version declare by the taxpayer especially in view of this proposed sub-section is made appealable as well through appropriate amendment in section 127 in case the taxpayer is dissatisfied.
- Further, tax payment has been subjected to system verification of FBR. This will create hardship for the taxpayers for the reasons the system may not verify credits under certain sections, tax period mistake in CPRN etc. It is not provided for as to how the difference between the claim of the taxpayer and the system verification will be catered. Since the provision is proposed to be made appealable therefore it may increase the litigation.
- It also poses a question as to how the taxpayers who are required to file the return manually will be catered under this proposed automated assessment for adjustment. It appears that they will still be qualified for self-assessment even after the amendment. This will not be equal treatment of the taxpayers and against the principle of equality.

- Further, how the already overburdened automated system 'IRIS' will cater and provide for application of these proposed changes.

Statement of final taxation – best judgement assessment

Applicability of best judgement assessment as envisaged under section 121 has been proposed to be deleted.

Amendment of assessment

The Commissioner is empowered to amend or further amend an assessment order under section 122(5) on the basis of definite information acquired from an audit or otherwise.

The Bill now proposes to empower the Commissioner to amend or further amend an assessment order on the basis of audit or on the basis of definite information.

The above proposed amendment appears to nullify the impact of legal objections and judicial pronouncements.

Agreed assessment

The bill proposes to introduce a new section for making agreed assessments, in the cases not involving concealment of income or the cases involving interpretation of law having effect on other cases, whereby after issuance of the show-

cause notice under section 122(9) the taxpayer has been provided with an option to file offer of settlement as per prescribed form with the Assessment Oversight Committee [Committee] but the taxpayer will also be required to file reply to the notice to the Commissioner.

The Committee after examining the offer along with the case record and hearing the taxpayer is empowered to accept or modify the offer through consensus and will communicate its decision to the taxpayer.

Once the taxpayer accepts the decision of the Committee, he shall deposit the amount of tax payable including any amount of penalty and default surcharge as per decision of the Committee and thereafter the Commissioner shall pass the amended order in accordance with the decision of the Committee.

The taxpayer will be divested with his right to appeal to challenge said amended order based on the agreed assessment, however no further proceedings shall be undertaken on the issues decided by the Committee unless the tax so agreed has not been deposited by the taxpayer.

In case the Committee has not been able to arrive at a consensus or where the taxpayer is not satisfied with the decision of the Committee, the case shall be referred back to the Commissioner and he shall proceed further to dispose of the

matter on the basis of reply to the show-cause notice filed by the taxpayer.

The Committee shall consist of the Chief Commissioner, the Commissioner and the Additional Commissioner all having jurisdiction over the taxpayer. The Board is empowered to make rules regulating the procedure of the Committee and matters relating to the proceedings of the Committee.

The introduction of the above provision will not only ease out the revenue generation for FBR but also its burden of litigation will be reduced by manifold. Further, the proposed amendment may burden the taxpayer to the exposure of similar assessments for other tax years as well once he agrees for a tax year.

Appeal before the Commissioner Appeals

The Bill proposes sub-section (2A) of section 120 to be appealable.

Further, the prescribed fee for filing of appeal proposed to be increased as follows:

Appeal against an assessment:

- i) In the case appellant is a company from Rs. 1,000 to Rs. 5,000
- ii) In the case appellant is not a company from Rs. 1,000 to Rs. 2,500

Appeal against any other order:

- i) In the case appellant is a company from Rs.1,000 to Rs.5,000
- ii) In the case appellant is not a company from Rs.200 to Rs.1,000

Further, it has been proposed that the Commissioner (Appeals) shall specify the amount of tax upheld in the order passed by him.

Mandatory payment of 10 percent of tax upheld by CIR-A for filing of appeal before Appellate Tribunal

The Bill proposes that appeal to be filed by taxpayer against the order of the Commissioner (Appeals) shall not be admitted by the Tribunal unless 10% of the tax demand upheld by the Commissioner (Appeals) has been deposited by the taxpayer and the memo of the appeal is accompanied by proof of the same.

The proposed amendment will create hardship for the taxpayer as in case of exorbitant tax demands 10% thereof becomes very significant hence it may impede the exercise of right to appeal by the taxpayer which is a principle of natural justice and the fundamental rights hence this amendment may not hold the field if challenged before the superior judiciary in view of certain judicial precedents including judgment of Lahore High Court available in the field on this principle. It is therefore

suggested that this payment, if necessary at all, should be linked to seeking stay of demand instead of restricting filing the appeal upfront before the Tribunal.

Further, the prescribed fee for filing the appeal has been proposed to be increased from Rs.2,000 to Rs.5,000 in case of company and from Rs.2,000 to Rs.2,500 in cases other than company.

Alternative Dispute Resolution provisions revamped

The Bill propose following changes:

- The constitution of committee to be appointed by the Board has been proposed to be amended as follows:
 - Currently the Committee comprises of an Officer of Inland Revenue not below the rank of Commissioner. The bill proposes to replace it with Chief Commissioner Inland Revenue having jurisdiction over the case.
 - Currently one person from a panel notified by the Board comprising of Chartered Accountants, Cost and Management Accountant, Advocates, having minimum of ten years in the field of taxation can be nominated by the taxpayer.
 - The bill proposes to appoint two, instead of one, person from the panel. These shall

however to appointed by the Board i.e. entitlement of taxpayer to nominate has been proposed to be omitted.

- Currently the auditors or authorized representative of the taxpayers cannot be nominated as committee member. This restriction is not part of new scheme envisaged under this proposed section.
- A reputable businessman can currently be nominated by Chambers of Commerce. This is not part of proposed provision.
- Currently a member of committee includes a retired judge not below the rank of District and Sessions Judge as agreed by Officer of Inland and the other nominated person. The proposed bill does not have this provision.

- Currently the aggrieved person and the Board are required to withdraw the appeals pending before the appellate authority in the absence of which the committee shall not commence its proceedings. Further that an order to this effect is to be communicated to the Board within 75 days of the appointment of ADRC else the ADRC shall be dissolved.

This mechanism is proposed to be withdrawn. It is proposed that the Board shall now communicate the order of appointment of committee to the court of law or the appellate

authority where the dispute is pending and the Commissioner.

However, it is proposed that unless the appeal is withdrawn by the taxpayer the decision of the committee shall not be binding on the Commissioner.

As is currently provided, the decision of the committee shall remain to be non-binding on the taxpayer.

Currently recovery of tax payable by a taxpayer in connection with dispute before committee is deemed to be stayed on withdrawal of appeal by the taxpayer. This is now proposed to be replaced. The Committee may grant stay against recovery of tax payable by a taxpayer in case of hardship for a period not exceeding 120 days in aggregate or till the decision of the committee or it's dissolution, whichever is earlier.

In case the said order is not communicated to the Commissioner within 60 days of service of decision of committee upon the aggrieved person, the decision of committee shall not be binding on the Commissioner.

- Upon of receipt of the order of dissolution by the taxpayer the court of law of the Appellate Authority is currently required to decide the appeal within six months. The timeline is proposed to be removed.

Mode of recovery of tax

In case the outstanding tax demand as referred to in the notice under section 138(1) is not paid within the specified time therein, the Commissioner is empowered to proceed to recover the said amount from the taxpayer through any of the following modes:

- Attachment and sale of any moveable or immovable property of the taxpayer;
- Appointment of receiver for the management of the movable or immovable property of the taxpayer; and
- Arrest of the taxpayer and his detention in prison for a period not exceeding 6 months.

The Bill proposes to introduce another mode of recovery of outstanding tax demand as specified under clauses (a), (ca) and (d) of sub-section (1) of Section 48 of the Act 1990. These are:

- Deduction of amount owing to the taxpayer current lying with the Commissioner [clause a];
- Stop clearance of imported or manufactured goods [clause ca]; and
- Imposing of embargo [clause d]

Quarterly advance tax

The editorial amendments have been proposed to be made in sub-section (2) of Section 147. A new proviso has also been proposed to be added to empower FBR to prescribe the procedure for filing and calculation of turnover for the quarter through an automated system.

Though this amendment appears to be procedural however this may give rise to various differences in taxpayer's version of the turnover and the turnover which will be calculated by automated system.

Advance tax collection on imports

The section 148 of the Ordinance prescribes collection of advance tax by collector of imports from importers on the value of goods as per the rates specified in the Part II of the First Schedule.

The bill proposes to bring following changes in this section:

- To insert twelfth schedule specifying the goods that will be subject to collection of tax under this section.
- Substitution of rates currently given in the Part II of the First Schedule, the bill proposes new rates in respect to goods falling in Part I, II and III respectively to the Twelfth Schedule has been proposed.

- Under subsection 7, the tax collected under this section is minimum tax except in case of:
 - a) raw material, plant, machinery, equipment and parts by an industrial undertaking for its own use;
 - c) motor vehicles in CBU condition by manufacturer of motor vehicles;
 - d) large import houses; and
 - e) A foreign film imported

The bill proposes to omit the clauses (a) to (e) above and to provide that tax collected shall not be minimum tax in case goods on which tax is required to be collected under this section at the rate of 1% or 2% by an industrial undertaking for its own use.

- Currently the tax collected at import is minimum tax in respect of edible oil, packing material, plastic material and import of ships by shipbreakers.

The bill proposes to omit minimum tax regime in above cases.

These will fall in the normal or minimum tax regime depending on the rate of collection of tax.

- Value of goods currently means value of the goods as determined under the Customs Act, 1969 (IV of 1969), as if the goods were subject to ad valorem duty increased by the customs-duty, federal excise duty and sales tax, if any, payable in respect of the import of the goods

The bill proposes that in case of goods chargeable to tax at retail price under the Third Schedule of the Sales Tax Act, 1990, the retail price of such goods increased by sales tax payable in respect of the import and taxable supply of the goods. The current definition is proposed to apply in rest of the cases.

Tax on local purchase of cooking oil or vegetable ghee

Currently the manufacturers of cooking oil or vegetable ghee, or both are chargeable to tax at the rate of two percent on purchase of locally produced edible oil being the final tax in respect of income accruing from locally produced edible oil.

The bill proposes to omit this section.

The manufacturers of cooking oil or vegetable ghee, or both shall accordingly fall under normal tax regime.

Change of taxation regime of advertisement services to non-resident media person from final to minimum tax regime

Presently, payments made for advertisement services to non-resident media person relaying from outside Pakistan is subject to final tax under section 152(1AAA).

The Bill proposes to change the tax regime from 'final tax' to 'minimum tax' in line with changes made for other payments to non-resident person through the Finance Act, 2019.

Change of taxation regime of payment to Permanent Establishment (PE) of a non-resident person from final to minimum tax regime

PE of a non-resident person receiving payments from resident persons on account of sale of goods and execution of a contract are currently under normal tax regime under section 152(2A), however, resident persons are subject to minimum tax regime on receiving similar payments.

The Bill proposes to change the taxation regime of PE of a non-resident person from normal taxation to minimum taxation except sale of goods by a company being a manufacturer of such goods keeping it consistent with resident person.

Toll manufacturing charges subject to tax withholding as 'goods'

Presently, payment to 'toll manufacturer' is subject to withholding of tax under section 153(1)(b) of the Ordinance, 2001 on amount received considering them as 'service provider'.

The Bill proposes to classify payment to 'toll manufacturer' as sale of goods and subject to withholding of tax under section 153(1)(a) of the Ordinance.

Expeditious issuance of exemption certificate in case of sale of goods by listed company

The Commissioner is empowered to issue exemption certificate in respect of payment without deduction of tax or at a reduced rate of tax except where tax deduction is minimum tax. However, no time period is prescribed for issuance of the said certificate.

The Bill proposes that in case sale of goods by public listed company, the Commissioner is required to issue such certificate within fifteen days of filing of application where advance tax liability has been discharged.

The Bill also proposes for automatic issuance of such certificate by IRIS where the Commissioner does not issue the same within fifteen days of filing of application. However, the Commissioner may modify or cancel the certificate issued automatically

by IRIS on the basis of reasons to be recorded and after providing opportunity to being heard to the applicant.

Enhancement of threshold for becoming 'prescribed person' for tax withholding purposes

Currently, individuals and AOPs having turnover of Rs. 50 million or above in any of the preceding tax years and a person registered under the Act 1990, without any threshold of turnover, is considered as 'prescribed person' for tax withholding purposes.

The Bill proposes to enhance the turnover threshold to Rs. 100 million or above in any of the preceding tax years in case of all the above persons.

Filing of withholding tax statements

Prior to amendment made through the Finance Supplementary (Second Amendment) Act, 2019, withholding tax statements were required to be filed on monthly basis. The said Act replaced the requirement of filing of withholding tax statements from monthly basis to biannual.

The Bill now proposes to change the requirement of filing of withholding tax statements from 'biannually' to 'quarterly'. Such statements are proposed to be filed by 20th day of the following month after each quarter end.

The Bill also proposes for filing of such quarterly withholding tax statement by persons involved or engaged in economic transactions as may be prescribed by the Board.

Furnishing of information of profit on debt by banking companies without limit

Currently, banking companies are *inter alia* required to furnish list of persons receiving profit on debt exceeding Rs. 500,000 and tax deductions thereon during preceding financial year.

The Bill proposes to do away with the said limit, meaning thereby, a banking company will be required to furnish details of persons receiving profit on debt irrespective of the quantum of profit on debt.

Issuance of centralized income tax refunds

In order to facilitate taxpayers and for transparency of the affairs, an enabling provision is proposed to be introduced for expeditious processing and automatic payment of refunds by the Board through a centralized refund processing system.

Real-time access to information and databases by various agencies

The Bill proposes that arrangement shall be made by the following agencies to provide real-time access to information and database to the Board:

- NADRA;
- FIA;
- Bureau of Emigration and Overseas Employment;
- ICT, provincial and local land record and development authorities;
- ICT and provincial Excise and Taxation Departments;
- Utilities Companies;
- Any other agency, authority, institution or organization as notified by the Board.

In case of sharing of utilities connections, update about the ratio of sharing or particulars of the user will be furnished by 1st day of January 2021.

The Commissioner or any other authorized officer may access to such real-time information or databases for purpose of making an audit of a taxpayer or a survey of persons liable to tax. The Board may make rules relating to such real-time access for audit or survey.

Audit proceedings electronically

The Bill proposes to empower the Commissioner to conduct audit proceedings under section 177

electronically through video links or any other facility as may be prescribed by the Board.

Determination of taxable income on the basis of sectoral benchmark ratios

The Bill proposes to empower the Commissioner to determine taxable income of a taxpayer on the basis of sectoral benchmark ratios prescribed by Board where a taxpayer does not provide the required record, documents, books of accounts or sufficient explanation etc. Furthermore, the Board may notify business sector ratios on the basis of comparative cases, financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio and such other ratios in respect of such sectors may be prescribed.

Offences and penalties

The Bill proposes to introduce following new penalties for failing to update profile and for contravening the provisions relating to compulsory registration in certain cases.

S. No.	Offence	Penalty
4A	Any person who is required to furnish or update a taxpayer's profile but fails to furnish or update within the due date.	Such a person shall pay a penalty of Rs. 2,500 for each day of default from the due date subject to a minimum penalty of Rs.10,000.

S. No.	Offence	Penalty
4B	Any person who contravenes the provisions of section 181AA.	Such a person shall pay a penalty of Rs. 10,000 for each connection provided to an unregistered person.

Assessment of default surcharge without payment of tax

The Bill proposes to empower the Commissioner to make assessment of default surcharge under section 205 for the period of default or part thereof despite that the tax due has not actually been paid.

Automated Case Selection System

In order to ensure transparency, the Bill proposes to introduce a new concept of electronic and randomized allocation of cases through an automated case selection system. After a case has been selected for audit, the jurisdiction for audit and adjudication is proposed to be assigned to separate officers through automated case selection system which is an algorithm for randomly assigning cases to officers through technological modes.

Delegation of power of revision of withholding tax recovery order

The Finance Act, 2019 empowered the Commissioner to amend or further amend an order of withholding tax recovery if he considers that the

original order is erroneous and prejudicial to the interest of revenue.

The Bill proposes to restrict the Commissioner not to delegate these powers below the rank of Additional Commissioner.

Exclusion from the term 'motor vehicle' for collection of advance tax

The Bill proposes to insert an Explanation that the term 'motor vehicle' will not to include a rickshaw, motorcycle-rickshaw and any other motor vehicle having engine capacity upto 200cc for the purposes of advance tax collection under sections 231B of the Ordinance, 2001.

It is recalled that the Board had issued a press release on 25 July 2019 to this effect, however, the Bill proposes to make this as part of the statute.

Exemption certificate to industrial and commercial consumer of electricity

Currently, by virtue of SRO 1053(I)/2010 dated 22 November 2010, an industrial and commercial consumer of electricity is entitled to obtain exemption certificate under section 235, if advance tax liability for the entire year is discharged.

Now such facility is proposed to be a part of the statute.

Sale by auction includes “renewable of licenses”

Renewal of licenses is generally not considered as sale by auction and therefore, loss of revenue with respect to advance tax collection under section 236A.

The Bill proposes to insert an explanation whereby sale by public auction or auction by tender includes renewal of license previously sold through public auction or auction by tender and that where payment is received in installments, advance tax is to be received with each installment.

Relief to active taxpayers from tax collection by educational institutions

At present, advance tax is collected by educational institutions where annual fee exceeds Rs, 200,000.

The Bill proposes to exclude taxpayers who appear on ATL from the application of this tax collection.

Change of tax regime of rental of machinery or equipment from final to minimum tax

At present, withholding of tax from payment to resident person for use of machinery and equipment is subject to final tax under section 236Q.

The Bill proposes to change the regime from ‘final tax’ to ‘minimum tax’.

Omission of withholding / collection of advance tax

Currently there are number of withholding / collection of advance tax provisions which created hardship to the taxpayers. In order simplify the withholding / collection of advance tax provisions, it is proposed to omit the following withholding / advance tax provisions:

Section	Description
148A	Tax on local purchase of cooking oil or vegetable ghee by certain persons
156B	Withdrawal of balance under pension fund
235B	Tax on steel melters and composite units
236D	Advance tax on functions and gatherings
236F	Advance tax on cable operators and other electronic media
236J	Advance tax on dealers, commission agents and arhatis etc.
236R	Collection of advance tax on education related expenses remitted abroad
236U	Advance tax on insurance premium
236X	Advance tax on tobacco

First schedule

Capital gains on disposal of Securities

(Division VII, Part I, First Schedule)

The Bill proposes to maintain the tax rate on capital gains for tax year 2021 and onwards, as applicable

in tax years 2018 to 2020, on disposal of securities taxable under section 37A of the Ordinance.

Tax on Capital gains on disposal of immovable property

(Division VIII, Part I, First Schedule)

The Bill proposes to reduce the existing capital gains tax by fifty percent on disposal of immovable properties taxable under section 37(1A) of the Ordinance.

The table below represents the comparison of existing and revised rates:

Capital Gains	Existing Rate	Proposed Rate
Where the gain does not exceed Rs. 5 million	5%	2.5%
Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million	10%	5%
Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million	15%	7.5%
Where the gain exceeds Rs. 15 million	20%	10%

Rates of advance tax at import stage

(Part II, First Schedule)

The Bill proposes to introduce new tax rates applicable on imports.

The proposed rates are applicable with respect to goods classified in Part I, II and III of the proposed Twelfth Schedule. Whereas, separate tax rates are proposed for the following:

- manufacturers covered under rescinded SRO 1125(I)/2011 dated 31 December 2011 as it stood on 28 June 2019;
- persons importing finished pharmaceutical products not manufactured otherwise in Pakistan; and
- persons importing mobile phone in CBU and CKD/SKD condition.

The proposed rates with respect to the Twelfth schedule are as under:

Goods classified as per Twelfth Schedule	Proposed Rate
Part I	1%
Part II	2%
Part III	5.5%

The existing and proposed rates for with respect to the following remained the same:

- Manufacturers covered under rescinded SRO 1125(I)/2011 dated 31 December 2011 as it stood on 28 June 2019 on import of items covered under the aforementioned SRO.
- Person importing finished pharmaceutical products that are not manufactured otherwise in Pakistan; as certified by the Drug Regulatory Authority of Pakistan.

The rate of tax on import of mobile phone are proposed with respect to following PCT Headings:

- PCT Heading 8517.1219 for Completely Built Unit (CBU) condition.
- PCT Heading 8517.1211 for semi-knocked down (SKD) and completely knocked down (CKD) condition.

The proposed tax rate on import of mobile phones are as under:

C & F Value (in USD)	Tax in Rupees	
	CBU	CKD/SKD
Up to 30 except smart phones	70	Nil
Exceeding 30 and up to 100 and smart phones up to 100	100	Nil
Exceeding 100 and up to 200	930	Nil
Exceeding 200 and up to 350	970	Nil

C & F Value (in USD)	Tax in Rupees	
	CBU	CKD/SKD
Exceeding 350 and up to 500	3,000	5,000
Exceeding 500	5,200	11,500

Advance tax on dividend

(Division I, Part III, First Schedule)

The Bill proposes to introduce withholding tax rate of 25% on dividend received from a company where no tax is payable by such company, due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III.

The proposed amendment removes the anomaly created by Finance Act, 2019 between the charging rates and withholding rate on dividend received from a company where no tax is payable by such company, due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under Part X of Chapter III.

Profit on debt

(Division IA, Part III, First Schedule)

The reduced withholding tax rate of 10% is applicable where the yield or profit on debt is rupees five hundred thousand or less.

The Bill proposes that in order to seek tax deduction at 10% the recipient shall furnish a certificate to the payer that during the tax year the yield or profit paid is rupees five hundred thousand or less.

In case the recipient fails to furnish a certificate the payer shall be obliged to deduct tax at standard rate of 15%.

Return on Investment in Sukuks

(Division IB, Part III, First Schedule)

The Bill proposes to enhance the withholding tax rate from 15% to 25% on payment of return on investment in sukuk to a company. The proposed amendment shall bring the withholding tax rate at par with the chargeable tax rate applicable in case of a company.

Payment to Non-resident

(Division II, Part III, First Schedule)

Through Finance Act, 2019 the rate of tax for certain specified sectors were reduced to 3% from 8% in case of resident company. However, in case of non-resident company the applicable rate remained at 8%, except for transport services where the applicable rate was 2%.

The Bill proposes remove the anomaly and to bring rate of tax in case of non-resident at par with

resident company by introducing 3% rate on the specified sectors.

The reduce rate is proposed to be applicable in the cases of transport services, freight forwarding services, air cargo services, courier services, manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in clause (133) of Part I of the Second Schedule, tracking services, advertising services (other than by print or electronic media), share registrar services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited and Pakistan Mercantile Exchange Limited inspection and certification, testing and training services.

In case of resident and non-resident company, engineering services are proposed to be made liable to withholding tax at standard rate of 8% in case of company and 10% in case of other than company.

Payment for goods or services

(Division III, Part III, First Schedule)

The Bill proposes to include toll manufacturing in sales of goods for withholding tax purposes under section 153(1)(a) of the Ordinance.

The proposed amendment could create an anomaly as toll manufacturing is considered as services

instead of goods. The Hon'ble High Court of Sindh in 2015 PTD 2533 has already held that toll manufacturing is a service.

This may give rise to dispute with the tax authorities, who may treat the recipient of toll manufactured goods as not falling in the ambit of manufacturer hence his income from such goods fall in the minimum tax regime.

Further, the Bill proposes to exclude 'engineering services' from the benefit of reduced withholding tax rate of 3%. After the proposed amendment, the 'engineering services' will be subject to 8% withholding in case of company and 10% in other cases.

Advance tax at the time of sale by Auction

(Division VIII, Part IV, First Schedule)

The Bill proposes to reduce the withholding advance tax from 10% to 5% in case of sale of immovable property by auction.

Advance tax on functions and gatherings

(Division XI, Part IV, First Schedule)

The Bill proposes to omit the withholding advance tax on functions and gatherings in line with deletion of section 236D.

Advance tax on extraction of minerals

(Division XXVI, Part IV, First Schedule)

The advance tax on extraction of mineral is required to be collected at 5% rate from persons who are not appearing in the active taxpayers' list.

The Bill proposes to enhance the scope of the advance tax to all persons, including those whose name appear on the active taxpayers' list.

Advance tax - Omissions

The Bill proposes to omit the following withholding advance tax provisions:

Section	advance tax
236F	Cable operators and other than electronic media
236J	Dealers, commission agents and arhatis, etc.
236R	Education related expenses remitted abroad
236U	Insurance premium

Second schedule

Exemption from total income

(Part I, First Schedule)

- The accumulated balance upto 50% received by the eligible to person's at time of his (a) retirement, or (b) disability rendering him unable to work; or (c) death by his nominated survivors

is exempt from tax, where the amount is received from voluntary pension system offered by pension fund manager under the Voluntary Pension System Rules, 2005.

The Bill proposes that in case of withdrawal before retirement age or withdrawal at the time of or after retirement age in excess of fifty persons of the accumulated balance, the fund manager shall charge the withdrawal at the average rate of tax paid in the preceding three tax years in accordance with section 12(6). No tax shall be deducted in case of disability rendering him unable to work or in case of his death by his nominated survivors.

- The Bill proposes to introduce following new entrants in the list of institutions, foundations, societies, boards, trusts and funds to whom donations made are exempt from tax in the hands of donor:
 - The Prime Minister’s COVID-19 Pandemic Relief Fund-2020
 - Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI)
 - Lahore University of Management Sciences
 - Dawat-e-Hadiya, Karachi
 - Baitussalam Welfare Trust

- Patients’ Aid Foundation
- Alkhidmat Foundation

The Bill proposes that amount so donated by an associate shall not exceed:

- in the case of an individual or association of persons, fifteen percent of the taxable income of the person for the year.
- in the case of a company, ten percent of the taxable income of the person for the year.

Further proposes that the amount so donated is paid by a crossed cheque drawn on a bank.

Under clause (66), any income of certain specified institutions is treated as exempt. The Bill proposes to divide the institutions into two tables.

- 1) **Table 1:** any income of institutions, foundations, societies, boards, trusts and funds, whose name appear in the table is entitled to exemption.
- 2) **Table 2:** any income of institutions, foundations, societies, boards, trusts and funds, whose name appeared in the table is entitled exemption through claim of hundred percent tax credit as per the requirement of section 100C of the Ordinance. The exemption shall be subject to fulfilment of conditions given in section 100C with effect from 1 July 2021.

The Bill further proposes to introduce new entrants in each of the two tables.

Table 1:

- Pakistan International Sukuk Company Limited.
- The Prime Minister’s COVID-19 Pandemic Relief Fund 2020.
- Saarc Arbitration Council (SARCO).
- International Parliamentarians’ Congress.

Table 2:

- Lahore University of Management Sciences, Lahore.
- Dawat-e-Hadiya, Karachi.
- Ghulam Ishaq Khan Institute of Engineering Sciences and Technology.
- Society for the Promotion of Engineering Sciences and Technology in Pakistan (SOPREST).
- Businessmen Hospital Trust.
- Baitussalam Welfare Trust.

— The Bill proposes to exempt the profit and gains on sale of immovable property to a Development REIT Scheme with the object of development and construction of residential buildings upto 30 June 2021. As per existing clause the exemption is valid till 30 June 2020.

— Please refer page No. 10 of this publication for detailed commentary.

— The Bill proposes to include **Gwadar Free Zone** in clause (126A) and deemed the same to be inserted from 1 June 2020.

The **Gwadar Free Zone** was included in clause (126A) by the Ordinance 2019 with effect from 6 February 2007. The proposed amendment seeks to change the effective date.

Under clause (126A) income derived by China Overseas Ports Holding Company Limited, China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited from Gwadar Port operations is exempt from tax for a period of twenty-three years with effect from 6 February 2007.

— The Bill proposes to include China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited in clause (126AB)

and deemed the same to be inserted from 1 June 2020.

China Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited were included in clause (126AB) by the Ordinance 2019 with effect from 1 July 2016. The proposed amendment seeks to change the effective date.

Under clause (126AB) exemption was granted to profit on debt derived by the foreign lenders or any local banks having more than seventy five percent shareholding of the Government or state bank of Pakistan under Financing Arrangement with China Overseas Ports Holding Company Limited for a period of twenty-three years, with effect from 1 July 2016.

- The Bill proposes to include **Gwadar Free Zone** in clause (126AC) and deemed the same to be inserted from 1 June 2020.

The **Gwadar Free Zone** was included in clause (126AC) by the Ordinance 2019 with effect from 1 July 2016. The proposed amendment seeks to change the effective date.

Under clause (126AC) income derived by contractors and sub-contractors of China Overseas Ports Holding Company Limited, China

Overseas Ports Holding Company Pakistan (Private) Limited, Gwadar International Terminal Limited, Gwadar Marine Services Limited and Gwadar Free Zone Company Limited from Gwadar Free Zone operations is exempt for a period of twenty years, with effect from 1 July 2016.

- The Bill proposes to extend the exemption available to zone enterprise as defined in the Special Economic Zones Act, 2012 by including the co-developers defined in Special Economic Zone Rules, 2013, subject to the furnishing of certificate by:
 - the developer that he has not claimed exemption under this clause and relinquished his claim in favour of co-developers; and,
 - the Special Economic Zone Authority validating that the developer has not claimed exemption under this clause and relinquished his claim in favour of co-developers.
- The Bill proposes to grant exemption to any income derived by the Federal Government Employees Housing Authority for the tax year 2020 and the following four tax years.

Reduction in tax rates

(Part II, Second Schedule)

- The Bill proposes to reduce the rate of tax to 10% on profit on debt paid to non-resident individual on account of profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident Rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan. The tax deducted shall be final tax.
- The Bill proposes to reduce the rate of tax to 1.5% of the gross amount of payment in respect of supply of tea, spices, salt, dry milk, sugar, pulses, wheat flour and ghee supplied to Utility Stores Corporation of Pakistan by a person other than a company.

The benefit of reduced rate is available for the period commencing from 7 April 2020 to 30 September 2020 subject to the condition that supply of tea, spices, salt and dry milk are not sold under a brand name.

The reduced rate shall not be applicable where the rate of tax under clause 153(1)(a) is less than 1.5% under any provisions of the Ordinance.

Reduction in tax liability

(Part III, Second Schedule)

- The Bill proposes to introduce clause (9B) to facilitate developers and builders by reducing the amount of tax payable by 90% on the income from projects of 'low cost housing' developed or approved by Naya Pakistan Housing and Development Authority (NAPHDA) or under the Ehsaas Program.

Exemption from specific provisions

New exemptions

The Bill proposes to introduce following new exemptions:

- Minimum tax under section 113 to those modaraba that are qualifying for exemption under clause (100) of Part I of Second Schedule instead of Modaraba registered under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (XXXI of 1980).
- Minimum tax under section 113 to the followings:
 - The Prime Minister's COVID-19 Pandemic Relief Fund 2020.

- the Federal Government Employees Housing Authority for the tax year 2020 and the following four tax years.
 - Collection of tax on import of certain pharmaceutical equipment and products for use during COVID-19 pandemic. The exemption was earlier introduced through the SRO 236(I)/2020 dated 20 March 2020. It is proposed that provisions of section 148 shall not apply to the import of items for a period commencing from 20 March 2020 to 30 September 2020.
 - Import of pulses during the period commencing from 7 April 2020 to 30 September 2020.
 - Recipient of payment under section 153 on account of sales of goods, rendering or providing of services and execution of contract:
 - a Provincial Government.
 - local authority.
 - persons who are residents of Azad Kashmir and execute contracts in Azad Kashmir only and produce a certificate to this effect from the concerned income tax authority.
 - persons receiving payments from a company or an association of persons having turnover of fifty million rupees or more or from an individual having turnover of fifty million rupees or more exclusively for the supply of agriculture produce including fresh milk, fish by any person engaged in fish farming, live chicken, birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market.
 - companies receiving payments for the supply of electricity and gas.
 - companies receiving payments for the supply of crude oil.
 - hotels and restaurants receiving payments in cash for providing accommodation or food or both, as the case may be.
 - shipping companies and air carriers receiving payments for the supply of passenger tickets and for the cargo charges of goods transported.
- The above clause covers most of the exemptions given in SRO586(I)/91. The exemption for payment of goods and services have already been covered in section 153.

— Tax on imports under section 148 by the following:

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

The above exemptions are already given under SRO947(I)/2008. However, few of the

exemptions given in the SRO have not been proposed to be incorporated in the clause.

- Hajj Group Operator in respect of Hajj operations from section 152
- Pak Rupee Account in respect of section 231A, 231AA and 236P to the extent of foreign remittances credited into such account during that tax year tax year.
- Tax on commission received by retail branchless banking agent on any amount disbursed by the Ehsaas Emergency Cash Transfer Program during the period from 16 April 2020 to 30 September 2020.
- With respect to section 236P in relation to non-resident rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan of a non-resident individual investing in a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944.
- Application of normal withholding tax on dividend, received by non-resident person, without increasing the tax by hundred percent, even if the name of non-resident do not appear in the active taxpayers list as prescribed under the Tenth schedule.

- Non-resident company not to file return of income where the income of non-resident having no permanent establishment in Pakistan is subject to final tax regime and arises solely by reason of capital gain or profit on debt earned from the investment in debt securities and Government securities including treasury bill and Pakistan investment bonds through special convertible rupee account maintained with a banking company or financial institution in Pakistan.
- Non-resident individual not to file return of income, where the income is taxable under final tax regime, and from tax registration solely by reason of profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan.
- Section 151, 231A, 231AA and 236P not to apply on Prime Minister’s COVID-19 Pandemic Relief Fund 2020.
- Section 236P not to apply at the time of transfer of any amount towards the Prime Minister’s COVID-19 Pandemic Relief Fund 2020.

Withdrawal of Exemptions

The Bill proposes to withdraw following exemptions:

- Collection of tax under section 148 on import of raw material by an industrial undertaking.
- Deemed approval given to M/s Dawat-e-Hadiya, Karachi and Lahore University of Management Sciences, Lahore under 2(36)(c) as these institutions are proposed to be included in the proposed Table 2 in clause 66 of Part I of Second Schedule.
- Steel melters and composite steel units with respect to section 153(1)(a), as a payer, in respect of purchase of scrap, provided tax is collected under section 235B.
- Option to file return under clauses 56C, 56D, 56E, 56G and 63 to be taxed under normal tax regime instead of minimum tax regime.

Seventh and Tenth Schedule

Seventh Schedule

Seventh Schedule prescribed rules for computation of profits and gains of banking companies.

The corporate rate of tax applicable on a banking company has been prescribed at 35% under the First Schedule. Whereas, Super tax at 4%, under

section 4B, was made applicable for tax year 2021 by Finance Supplementary (Second Amendment) Act, 2019.

The Bill proposes to make suitable amendment in the Seventh Schedule with respect to the corporate tax rate and Super tax for tax year 2021.

Tenth Schedule

The Tenth Schedule provides special provisions relating to persons not appearing in the Active Taxpayers' list:

- The Bill proposes to delete the reference to section 115(4) wherever appearing in the Tenth Schedule, as section 115(4) is proposed to be deleted from the Ordinance.
- The Bill proposes that the following payments, made to non-resident person, shall not be increased by hundred percent withholding tax under the Tenth Schedule:
 - Payment to non-resident for royalty and Fee for Technical Services.
 - Insurance or reinsurance premium.
 - Payment under section 152(2).
 - Payments to non-resident individual, on account of profit on debt earned from a debt instrument, whether conventional or

shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident Rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan.

- The following payments are proposed to be made liable to hundred percent increase in tax rate, if the name of the person do not appear on the active taxpayers' list:

Section	Particulars
152(2A)(a)	payments to PE of non-resident on account of sale of goods.
236V	advance tax on extraction of minerals

The following section stand deleted by virtue of separate amendment hence, not to have any impact due to Tenth Schedule:

Section	Particulars
235B	tax on steel melters and composite units
236D	advance tax on functions and gatherings
236F	advance tax on cable operators and other electronics
236J	advance tax on dealers, commission agents and arhatis etc.
236R	collection of advance tax on education related expenses remitted abroad
236U	advance tax on insurance premium.
236X	advance tax on tobacco.

SALES TAX

“Active taxpayer” to exclude blocked person and to include a person who fails to file quarterly statements

Clause (a) of sub-section (1) of section 2 of the Act inter alia defines active taxpayer to mean a person who is not blacklisted or whose registration is not suspended or is not blocked in terms of section 21 of the Act. Perusal of section 21 of the Act reveals that there is no concept of blocking a registered person.

Therefore, now the Bill proposes to omit the condition ‘*is not blocked*’ from above clause to bring it line with section 21 of the Act.

Further, Clause (d) provides that a registered person who fails to file two consecutive monthly withholding tax statements under section 165 of the Ordinance shall not be an active taxpayer.

The Bill now proposes to harmonize Clause (d) with provisions of section 165 of the Ordinance whereby registered person who fails to file quarterly statement under the Ordinance will no longer be an active taxpayer.

“Output tax” to include sales tax levied under Islamabad Capital Territory

Subsequent to 18th constitutional amendment, provincial sales tax legislations were promulgated

and chargeability and collection of sales tax on services were delegated to provinces.

The Bill proposes to harmonize the definition of output tax so as to substitute provincial sales tax with the sales tax levied under Islamabad Capital Territory (Tax on Services) Ordinance, 2001, which remains within the domain of FBR.

“Value of supply” to include electricity supplied by WAPDA

With effect from 01 July 2019, clause (h) was inserted in sub-section (46) of section 2 of the Act after elimination of the Sales Tax Special Procedure Rules, 2007 while WAPDA was not mentioned in the amendment inserted by the Finance Act, 2019.

The Bill proposes to amend Clause (h) of sub-section (46) of section 2 in order to include WAPDA with effect from 01 July 2019 along with Independent Power Producers.

Further, new clause (j) is proposed to be added in sub-section (46) of section 2 of the Act which is applicable on the registered persons dealing in used vehicles sold in open markets after making certain value addition. It is proposed that value of supply will be difference between sale and purchase price. However, this clause will only be applicable where used car is purchased from general public and sales tax was originally paid at the time of import or manufacture.

Determination of tax liability – Board empowered to restrict wastage of material

The Bill proposes to insert sub-section (5) in section 7 whereby the Board will be empowered to restrict wastage of materials on which input tax has been claimed in respect of goods or class of goods.

Empowering Commissioner or Inland Revenue Officer to follow the decision of High Court or Appellate Tribunal while finalizing the pending assessment

Similar to section 124A of the Ordinance, the Bill proposes to insert new section 11C, which specifies that where question of law has been decided by a High Court or the Appellate Tribunal on or after 01 July 1990 in the case of a registered person, the Commissioner or the Officer of Inland Revenue may follow the said decision in case of said taxpayer in so far as it applies to question of law arising in any assessment pending before the Commissioner or an officer of Inland Revenue, until the decision of the High Court or of the Appellate Tribunal is reversed or modified.

Further, it is proposed that in case subsequently, decision of the High Court or the Appellate Tribunal is reversed or modified, the Commissioner or the Officer of Inland Revenue may, within a period of one year of receipt of decision, modify the assessment so that it conforms with the final decision. In such case, expiry of the limitation period will not apply.

Tax invoice – Threshold enhanced from Rs. 50,000/- to Rs. 100,000/-

Currently, tax invoice shall inter alia bear the CNIC number in case of supplies made to unregistered persons, excluding supplies made by a retailer where transaction value inclusive of sales tax does not exceed fifty thousand rupees.

The bill seeks to enhance foregoing limit from fifty thousand rupees to one hundred thousand rupees.

Electronic access to records and documents for the purpose of audit

In the wake of Covid-19 pandemic, a new sub-clause (2A) is proposed to be inserted to conduct the audit proceedings electronically through video links or any other facility.

Offences and penalties

Currently, in term of serial number 25 of the table provided in section 33 of the Act, the business premises of any person is sealed and embargo is placed on his sales after six months from imposing of penalty of one million rupees, who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the Board or its computerized system but:

- Fails to get himself registered under the Act.

- If registered, fails to integrate in the manner as required under law.

The Bill now proposes to reduce the foregoing defaulting period from six months to two months. Further, the restriction for embargo on sales is proposed to be omitted, however, the business premises will remain sealed till such time that the said person integrates his business.

Further, the Bill seeks to prescribe a new penalty as under:

S. No.	Offences	Penalties	Section reference
28	Any person who is required to share information under section 56AB, fails to do so in the manner as required under the law	Twenty five thousand rupees for first default and fifty thousand rupees for each subsequent default	56AB

Authorized officers empowered to real time electronic access to records

The authorized officers have free access to business or manufacturing premises, registered office, or any other place where any stock or record is maintained or kept by the registered person.

The Bill now proposes to extend scope of access to include real time electronic access to records of the registered person. It is further proposed that the

Board may make rules in relation to real time access for audit.

Commissioner (Appeals) not to admit any documentary evidence not presented at assessment stage

Similar to sub-section (5) of section 128 of the Ordinance, the Bill proposes to insert new sub-section (5) in section 45B of the Act which provides that the Commissioner (Appeals) shall not admit any documentary evidence which was not produced before the assessing officer unless the Commissioner (Appeals) is satisfied that the appellant was prevented by sufficient cause from producing such material or evidence before the assessing officer.

Further, the existing appeal filing fee of one thousand rupees is proposed to enhance as under:

Appeal fee against	In case of company	Other than company
Assessment	Rs.5,000	Rs.2,500
Any other case	Rs.5,000	Rs.1,000

Alternative dispute resolution provisions revamped

The concept of alternative dispute resolution was first introduced by the Finance Ordinance, 2002 to provide an avenue for the expeditious settlement of disputes between the Board and taxpayers and to

reduce the high pendency of cases at various appellate forums.

In a bid to make the mechanism more effective, the Bill proposes to substitute the provisions relating to alternative dispute resolution. Following are the salient features of the proposed scheme:

- The Board after examining the application of an aggrieved person shall appoint a Committee within 60 days consisting of Chief Commissioner and two persons from a panel comprising of Chartered Accountants, Cost and Management Accountants, Advocates, having minimum of ten years' experience in the field of taxation and reputable businessmen.
- The Committee may stay the recovery of tax payable up to 120 days in aggregate or till the decision of committee whichever is earlier.
- The Committee will be required to pass the order within 120 days of its appointment failure of which shall dissolve the committee and the appeal shall stand restored under specified procedure.
- The decision of the Committee shall be binding on the Commissioner where the aggrieved person has withdrawn the appeal pending before any appellate authority or the court of law and has communicated the order of withdrawal to the Commissioners within 60 days of the service of decision of the Committee.

- If the Committee fails to decide the dispute within the period of 120 days, FBR shall dissolve the Committee and the matter shall be decided by the appellate authority and the withdrawn appeal of the taxpayer shall stand reinstated.

Real time access to information and database by the Board

The Bill proposes to empower the Board to receive real time access of information and databases from following organizations / authorities:

- The National Database and Registration Authority
- Federal Investigation Agency
- The Bureau of Emigration and Overseas Employment
- Islamabad Capital Territory and Provincial and local land record and development authorities
- Islamabad Capital Territory and Provincial Excise and Taxation Departments
- All electricity suppliers and gas transmission and distribution companies
- Any other agency, authority, institution or organization notified by the Board

The information shall be kept confidential and only be used for tax purposes.

Certain transactions not admissible – supply to unregistered person

Vide the Tax Laws (Amendment) Act, 2020, sub-section (4) was inserted in section 73 of the Act whereby registered manufactures or producers were restricted to make all taxable supplies exceeding value of one hundred million rupees in a financial year and ten million rupees in a month, to registered persons.

The Bill now proposes to enhance the scope of this sub-section by imposing the restriction to all registered persons.

Insertion of Zero Rating applicable to Gwadar Port and Gwadar Free Zone in Fifth Schedule

The Bill proposes to insert below entries relating to Gwadar Port and Gwadar Free Zone which were earlier incorporated in Fifth Schedule of Act through Tax Laws (Amendment) Ordinance, 2019. The below entries shall be effective from 01 June 2020 and subject to certain conditions, restrictions and procedures.

Entry No.	Description of goods
13	Supplies of raw materials, components and goods for further manufacture of goods in the Gwadar Free Zone and export thereof, provided that in case of supply to tariff area of Pakistan, tax shall be charged

Entry No.	Description of goods
	on the value assessed on the Goods Declaration for import.
14	Supplies of locally manufactured plant and machinery of the following specifications, to manufacturers in the Gwadar Free Zone, subject to the conditions, restrictions and procedure given below, namely: <ul style="list-style-type: none"> (i) plant and machinery, operated by power of any description, as is used for the manufacture or production of goods by that manufacturer. (ii) apparatus, appliances and equipment specifically meant or adapted for use in conjunction with the machinery specified in clause (i). (iii) mechanical and electrical control and transmission gear meant or adapted for use in conjunction with machinery specified in clause (i). (iv) parts of machinery as specified in clauses (i), (ii) and (iii), identifiable for use in or with such machinery.

Insertion of Exemptions applicable to Gwadar Free Zone in Sixth Schedule

The Bill proposes to insert below entry relating to Gwadar Free Zone which was earlier incorporated in Sixth Schedule of Act through Tax Laws (Amendment) Ordinance, 2019. The below entry shall be effective from 01 June 2020.

Entry No.	Description of goods
100D	Machinery, equipment, materials and goods imported either for exclusive use within the limits of Gwadar Free Zone, or for making exports therefrom, subject to the conditions that such machinery, equipment, materials and goods, are imported by investors of

Entry No.	Description of goods
	Gwadar Free Zone, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (Act IV of 1969) and rules made thereunder shall, mutatis mutandis, apply provided that if any of such goods is taken out of the Zone for purpose other than the export, the tax on the same shall be paid by the importer.

Extension of period of exemptions in Sixth Schedule

Import and supply 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 is exempt from levy of Sales Tax till the year 2020. The Bill now proposes to extend the aforesaid exemption up to 2023.

New Exemption proposed under Sixth Schedule

Entry No.	Description of goods	PCT heading
154	Dietetic foods intended for consumption by children suffering from inherent metabolic disorder subject to the conditions that the importer shall acquire approval and quota from Ministry of National Health Services, Regulations and Coordination.	Respective headings

Substitutions of exemptions proposed in Sixth Schedule

Serial number 15A is proposed to be substituted whereby exemptions provided on parts and components for manufacturing LED lights and bulbs are being substituted as follows:

Entry No.	Description of goods	PCT heading
15A	Parts and Components for manufacturing LED lights:	
	(i) Housing /shell. Shell cover and base cap for all kinds of LED lights and bulbs	Respective Headings
	(ii) Bare and stuffed Metal Clad Printed Circuit Boards (MCPCB) for LED	8534.0000
	(iii) Constant Current Power Supply for of LED Lights and Bulbs (1-300W)"	8504.4090
	(iv) Lenses for LED lights and bulbs.	9001.9000

The above exemption shall be available only if imported by LED light manufacturers registered under the Sales Tax Act, 1990 and subject to annual quota determination by the Input Output Co-Efficient Organization.

Amendments proposed in Reduced rates under Eighth Schedule

Entry No.	Description of goods	Rate of sales tax	
		Existing	Proposed
56	Potassium Chlorate (KClO ₃)	17% alongwith rupees 70 per kilogram	17% alongwith rupees 80 per kilogram
66	Supplies as made from retail outlets as are integrated with Board's computerized system for real-time reporting of sales	14%	12%

Sales tax rates amended under Ninth Schedule proposed to be rationalized

Currently, smartphones up to the value of USD 30 are charged fixed sales tax of Rs. 130/-.

The Bill propose to charge fixed sales tax of Rs. 200/- on smart phones up to the value of USD 30.

Amendments in sales tax withholding provisions under Eleventh Schedule

S. No.	Withholding agent	Supplier category	Existing rate	Proposed rate
1	Companies as defined in Income Tax Ordinance, 2001	Registered Person (Active Taxpayers)	1/5 th of Sales Tax shown on invoice	No change

S. No.	Withholding agent	Supplier category	Existing rate	Proposed rate
		Active taxpayers registered as a wholesaler, dealer or distributor	1/10 th of Sales Tax shown on invoice	No change
		Registered Person (Inactive taxpayers)	1/5 th of Sales Tax shown on invoice	5% of gross value
		Unregistered Person	5% of gross value	No change
2	Federal and Provincial government departments, autonomous bodies and public sector organizations	Registered Person (Active Taxpayers)	1/5 th of Sales Tax shown on invoice	No change
		Active taxpayers registered as a wholesaler, dealer or distributor	1/10 th of Sales Tax shown on invoice	No change
		Registered Person (Inactive taxpayers)	1/5 th of Sales Tax shown on invoice	Whole of Sales Tax applicable on gross value of supplies
		Unregistered Person	Whole of Sales Tax applicable on gross value of supplies	No change

Relaxation of condition for inapplicability of value addition tax under Twelfth Schedule

Currently, value addition tax is not applicable on raw materials and intermediary goods meant for use in an industrial process which are subject to customs duty at the rate less than 16%.

The Bill propose to relax the said conditions and to exempt from charging value addition tax on all raw materials and intermediary goods imported by a manufacturer for in-house consumption.

FEDERAL EXCISE

Table 1 of First Schedule

FED on certain goods

The Bill proposes to introduce FED on certain goods tabled below:

S. No.	Description of goods	Tariff heading	Proposed rate
6a	Caffeinated energy drinks	2202.1010, 2202.9900	25% of the retail price
8a	E-liquids by whatsoever name called, for electric cigarette kits	Respective heading	Rupees ten per ml
55C	Imported double cabin (4x4) pick-up vehicles	8704.2190, 8704.3190	25% ad val
55D	Locally manufactured double cabin (4x4) pick-up vehicles	8704.2190, 8704.3190	7.5% ad val

FED rate to be enhanced

The Bill proposes to enhance FED on certain goods tabled below:

S. No.	Description of goods	Existing rate	Proposed rate
8	Cigars, cheroots, cigarillos and cigarettes of tobacco and tobacco substitutes	65% of retail price	100% of retail price
56	Filter rod for cigarettes	Re. 0.75 per filter rod	Rs. 1 per filter rod

FED rate to be reduced

The Bill proposes to reduce FED on below goods:

S. No.	Description of goods	Existing rate	Proposed rate
13	Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers	Rs. 2 per kg	Re. 1.75 per kg

Restriction on input FED claim on wastage of material

The Bill proposes to insert new sub-section (2AB) under Section 6 of Federal Excise Act, 2005 (Act, 2005) which empowers the Board to impose restrictions on wastage of material on which input

tax has been claimed in respect of the goods or class of goods.

Power of tax authorities to modify orders

The Bill proposes to insert Section 14C in the Act, 2005 to bind tax authorities to abide by the decision of High Court or the Appellate Tribunal on question of law in respect of cases involving similar question of law pending before the Commissioner regardless of the fact that such decisions are pending before higher appellate forum. However, if the decision of High Court or Appellate Tribunal is subsequently reversed or modified, the Commissioner shall be empowered to modify the assessment within a period of one year from the date of receipt of decision of High Court or Appellate Tribunal in order to give effect of final decisions.

Scope for seizure of goods and confiscation enhanced

The Bill seeks to extend the scope of certain provision in Section 26 and 27 of the Act, 2005 regarding seizure and confiscation of goods to all dutiable goods. Presently, these provisions are applicable to cigarette, beverages and un-manufactured tobacco.

Upward revision in Appeal fee in company and non-company cases

The mode, manner and other allied matters relating to appeal before Commissioner (Appeal) have expressly been provided under Federal Excise Rules, 2005. Nevertheless, the mode for filing of appeal and appeal fee with upward revision from Rs. 1,000 to Rs. 2,500 for non-company cases and Rs. 5,000 for company is now proposed to be included under Section 33 of the Act, 2005.

Commissioner (Appeal) empowered not to admit any evidence in appeal if not already produced

The Bill also proposes to empower the Commissioner (Appeal) not to admit any documentary material or evidence during the hearing if not already produced by the appellant before the assessing officer at the time of adjudication without any sufficient cause.

Appeal before Appellate Tribunal

The Bill seeks to provide expressly that appeal by Appellate Tribunal under the Act, 2005 shall be decided as per procedures laid down under Section 131 and 132 of the Income Tax Ordinance, 2001 and rules made thereunder.

Streamlining provisions of Alternative Dispute Resolution [ADRC] with that of provisions introduced in Income Tax Ordinance, 2001 and Sales Tax Act, 1990

The Bill proposes to substitute the provisions relating to ADRC to streamline the scheme and introduce similar provisions for ADRC as have been introduced in Income Tax Ordinance, 2001 and Sales Tax Act, 1990.

Empowering the Board for selection of audit

The Board is empowered to select persons or classes of persons for audit of records and documents through computer ballot which may be random or parametric. However, the Bill proposes to give power to the Board to keep the parameters confidential.

Frequency of Audit enhanced

The Bill proposes to omit the provisions of subsection 10 of Section 46 of the Act, 2005 which presently provide for conducting audit only once in three years.

Electronic service of notices, orders etc. extended to all registered persons

Provisions relating to electronic communication of notices, orders etc. are currently applicable to limited companies. The Bill seeks to extend these provisions to all registered persons.

Arrangement to access of information and databases on real-time

The Bill proposes to insert Section 47AB to make arrangement with National Database and Registration Authority [NADRA], Federal Investigation Agency, Bureau of Emigration and Overseas Employment, Federal and Provincial Local land and Development Authority etc. to enable provision of real time access of information and database about taxpayer in the prescribed form and manner from such authorities.

CUSTOMS

First Schedule

- Reduction of customs duty on 90 tariff lines from 11% to 3% and 2 tariff lines from 11% to 0%.
- Customs duty reduced for following raw materials:

Description	Existing rate	Proposed rate
Feldspar (2529.1000)	3%	0%
Other aromatic hydrocarbon (2707.5000)	20%	16%
Transformer Oil (2710.1997)	16%	11%
Carbon black (other than rubber grade) (2803.0020)	20%	16%
Acetylene black (2803.0030)	3%	0%

Description	Existing rate	Proposed rate
Ammonium chloride (2827.1000)	3%	0%
Formic acid (2915.1100)	20%	16%
Vinyl acetate (2915.3200)	3%	0%
Adipic acid, its salts and esters (2917.1200)	3%	0%
Tanning substances, tanning preparations based on chromium sulphate (3202.9010)	20%	16%
Disperse dyes and preparations based thereon:		
Powdered (3204.1110)	16%	3%
Liquid (3204.1120)	16%	11%
Pigments and preparations based thereon:		
Powdered (3204.1710)	16%	3%
Liquid (3204.1720)	16%	11%
Aluminum paste and powder (3212.9010)	16%	11%
Greases (3403.1910)	20%	16%
Shoe adhesives (3506.9110)	16%	11%
Gum Rosin (3806.1010)	3%	0%
Preparations of a kind used as cores or coatings for welding electrodes or rods (3810.9010)	3%	0%
Styrene- acrylonitrile (SAN) copolymers (3903.2000)	3%	0%
Poly(methylene phenyl isocyanate) (crude MDI, polymeric MDI) (3909.3100)	20%	3%
Silicones in primary forms (3910.0000)	3%	0%

Description	Existing rate	Proposed rate
Petroleum resins (3911.1010)	20%	16%
Of polyurethanes (3921.1300)	20%	16%
Vulcanised rubber thread and cord. (40.07 and headings related thereto)	20%	16%
Unbleached (4804.2100)	16%	3%
Other (4804.2900)	16%	3%
Refractory products of a kind used in industrial ovens, kilns and furnaces (6903.9010)	16%	11%
Aluminium slugs (7616.9920)	20%	16%
Buckle (8308.9020)	20%	16%
Pressure-reducing valves (8481.1000)	16%	11%
Electrical transformers, static converters (for example, rectifiers) and inductors (85.04)		
Having a power handling capacity not exceeding 1 kVA (8504.3100)	20%	16%
Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (85.35)		
Up to 17.5 kV (8535.2110)	20%	3%
Liquid crystal devices not constituting articles (90.13)		
Other devices, appliances and instruments (9013.8000)	3%	0%
Liquid meters (9028.2000)	20%	0%

- Customs duty increased for following raw materials:

Description	Existing rate	Proposed rate
Submersible motors of stainless steel (8501.5210)	3%	11%
Modular clean room panels (9406.9050)	3%	20%

Zero rate Customs Duty through Chapter 99

Tariff Heading 9903

- The Bill proposes to zero-rate goods imported by the foreign airlines under Air Services Agreements signed by the Aviation Division, Cabinet Secretariat, Government of Pakistan with other countries on the basis of reciprocity and duly concurred by the Federal Board of Revenue.

Tariff Heading 9917

- Under serial No. (2), the Bill proposes to substitute plant & machinery with capital goods as defined in the preamble of the Part-I of the Fifth Schedule to the Customs Act for the purpose of zero rating.

It is also proposed to include Co-developer for the purpose of zero-rating subject to certain conditions.

Under serial No. (3)(i), it is proposed to include for zero-rating Gwadar International Terminals Limited and Gwadar Marine Services Limited and their contractors and sub-contractors exclusively for construction and operation of the terminals and the Free Zone Area for a period of forty (40) years.

- Under serial No. (3)(ii), it is proposed that the Ship bunker oils imported by the Concession holder for the sole purposes of supplying fuels and lubricants to all visiting ships including foreign and local and fishing vessels at Gwadar Port for a period of forty (40) years for zero-rating. Presently, supplying of fuel & lubricants is restricted to only the ships used in the port & its terminal.
- Serial No. (3)(iv) is proposed to be substituted to elaborate and explain the zero-rating as under:

Imports by the following businesses to be established in the Gwadar Free Zone Area for a period of 23 years with effect from 1st July, 2016, packaging, distribution, stuffing and de-stuffing, CFS, container yard, warehousing including cool and cold rooms, transshipment, labelling, light end assembly and re-assembly, imports and exports/value added exports, value adding of imports, other similar or related businesses activities and such commercial activities as are required to support the free zone.

Tariff Heading 9925

- The Bill proposes to introduce following items for the purpose of zero-rating:

Dietetic foods for medicinal purposes, subject to submission of provisional enlistment certificate duly issued under the Drug Regulatory Authority Act, 2012 (XXI of 2012), and the rules made thereunder, by the Drug Regulatory Authority of Pakistan.

Tariff Heading 9939

- It is proposed to include Diagnostic kits for the Cancer and Corona Virus for the purpose of zero-rating.

Fifth Schedule (Reduced rates)

New insertion

Part I

S. No	Description	Duty Rate	Conditions
36	Machinery, equipment and other project related items for setting up of Submarine Cable Landing stations		If imported by Internet Service providers registered under the Sales Tax Act 1990, duly certified by the Ministry of Information Technology and
	(i) Tubes Pipes and hollow profiles of cast iron	0%	

S. No	Description	Duty Rate	Conditions
	(7303.0000)		Telecommunication and Pakistan Telecommunication Authority (PTA), and subject to annual quota determination by the Input Output Co-efficient Organization (IOCO).
	(ii) Articles of non-malleable cast iron (7325.1000)	0%	
	(iii) Static Converters (8504.4090)	0%	
	(iv) Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus (8517.6290)	0%	
	(v) Optical fiber Cables (8544.7000)	0%	
37	Other Electric Conductors exceeding 32000 V (8544.6090)	11%	If imported by manufacturers of transformers, registered under the Sales Tax Act 1990.

Part II (Table C)

S. No.	Description	Duty Rate
34	Meglumine antimonite (3004.9099)	0%

Part III

S. No.	Description	Duty rate
119	Organic composite solvents and thinners, not elsewhere specified or included; prepared paint or varnish removers, if imported by manufacturer of Butyl Acetate (3814.0000)	5%
120	Semi-finished products of Iron or non- alloy steel, if imported by manufacturer of Wire Rods (7207.1110 to 7207.2090)	5%
121	Plasticised (Poly Vinyl Chloride), if imported by manufacturer of disposable syringes and saline infusion sets (3904.2200)	0%
122	Other unsaturated Polyesters, if imported by manufacturer of buttons (3907.9100)	0%
123	Other saturated Polyesters, if imported by manufacturer of interlining/buckram (3907.9900)	5%
124	(i) Skimmed milk powder (0402.1000)	0%
	(ii) Chickpeas (0713.2010)	
	(iii) Soyabean oil (1507.9000)	
	(iv) Palm Olein (1511.9030)	
	(v) Hydrogenated vegetable fats (1516.2010)	
	(vi) Malto dextrins (1702.9030)	
	(vii) Premixes of vitamins and minerals (2106.9090)	
	(viii) Emulsifier (3404.9090)	
	(ix) Antioxidant (3824.9999)	
	If imported by manufacturer of Ready to Use Supplementary Foods (RUSF), duly authorized by United Nations World Food	

S. No.	Description	Duty rate
	Program (UNWFP)	

Condition

The above goods shall be imported by manufacturer registered under the Sales Tax Act, 1990, subject to annual quota determination by Input Output Co-efficient Organization (IOCO).

Part VI

S. No.	Description	Duty rate	Condition
7	Aircraft engine (8407.1000)	5%	For use in aircraft and trainer aircraft.

Change in rate / description*Part I*

Under serial no. 26, zero-rating for import of plant, machinery and equipment for setting up new industries in erstwhile FATA was available upto 30 June 2020. The Bill proposes to extend this facility upto 30 June 2023.

Part III

S. No.	Description	Existing rate	Proposed rate
96	Coils of aluminum alloys subject to the certain conditions met by local	5%	0%

S. No.	Description	Existing rate	Proposed rate
	manufacturer of aluminium beverage cans (7606.9290)		
116 (xiii)	Glass board for manufacturing TV panels (LCD, LED, OLED, HDI etc) (8529.9090)	10%	0%

Definition

Presently, “advance ruling” is defined to mean classification determined by the Board or any officer or committee authorized by the Board for the assessment of the goods intended to be imported or exported.

The Bill proposes to amend this definition to include determination of classification, origin or applicability of a particular relief or exemption on goods prior to their importation or exportation for a specified period.

General power to exempt from customs duties

The Bill seeks to amend section 19 so as to provide legal cover to notifications issued by the Federal Government under this section upto 30 June 2021.

Minimal duties not to be demanded

The Bill proposes substitution of section 19C in a manner that where the value of imported goods does not exceed Rs. 5,000, no duties and taxes shall be demanded subject to certain conditions

and restrictions as may be prescribed by the Board under the rules.

Fiscal fraud

The Bill seeks to insert new clause in section 32A to take cognizance of the offence of under-invoicing or over-invoicing and proceedings shall accordingly be initiated under this section subject to conditions or limitations as may be prescribed by the Board under the rules.

Checking of goods declaration by the Customs

Section 80(3) states that if during the checking of goods declaration, it is found that any statement in the declaration is not correct relating to the assessment, the goods shall be reassessed to duties, taxes and other charges levied thereon.

The Bill proposes to insert a proviso whereby now opportunity of being heard shall be provided to the importer through Customs Computerized System in the case of reassessment.

Orders of Appellate Tribunal

Under section 194-B the Appellate Tribunal shall be required to decide the appeal within sixty days or within such extended period as the Tribunal may, for reasons to be recorded in writing fix.

The Bill proposes that in the case of smuggling, appeals shall be decided within a period of 30 days.

Alternative dispute resolution

The Bill proposes amendments through substitution of various provisions under section 195C. The salient features of the amendments are as under:

- In lieu of retired judge, any person shall be nominated by the Board from a panel notified by the Board.
- The condition that the aggrieved person or the concerned Collector under Alternative Dispute Resolution shall withdraw the appeal pending before any court of law is no more applicable.
- The Board shall communicate the order of appointment of Committee to the court of law or the appellate authority.
- The decision of the Committee shall be binding on the Collector when the aggrieved person, after satisfying with the decision of the Committee, has withdrawn the appeal pending before the court of law or any appellate authority. In case the withdrawal order is not communicated to the Collector within sixty days from the service of the decision of the Committee, the decision of the Committee shall not be binding on the Collector.

Authorized economic operator programme

Under section 212A, the Federal Government may devise authorized economic operator programme to provide facilitations relating to secure supply chains of imported and exported goods through simplified procedures.

Now, the Bill proposes to empower the Board to grant benefits to the authorized economic operators which includes -

- (a) laying down any procedure or mode for collection of customs duties, fee, etc.
- (b) deferring collection of customs duties, fees, etc. either in whole or in part.
- (c) condoning or substituting whole or part of the bank guarantee or pay order with any other financial instrument.

The above benefits shall be provided by the Board under the rules subject to the conditions, limitation or restrictions to be made thereunder.

Advance ruling

The Bill proposes to introduce new section whereby an applicant desirous of advance ruling shall make an application stating any of the following questions for the purpose of advance ruling:

- (a) classification of goods
- (b) determination of origin of the goods
- (c) applicability of notifications issued in respect of duties under the Customs Act or any tax or duty chargeable under any other law for the time being in force as duty of customs leviable under Customs Act.
- (d) any other matter as the Board may specify by notification.

The advance ruling shall be binding on the applicant as well as on the customs collectorates.

Offences and penalties

The Bill proposes to substitute serial No. 8(i) and (iii) under section 156 as under:

S. No.	Offences	Penalties	Imprisonment
(i)	Where any goods be smuggled into or out of Pakistan and if the value	Such goods shall be liable to confiscation and the person shall be liable to	

S. No.	Offences	Penalties	Imprisonment
	of goods is:		
	(a) PKR 150,001 to 3,000,000	Not exceeding the value of the goods	Not exceeding two years
	(b) PKR 3,000,001 to 5,000,000	Not exceeding two times the value of the goods	Not exceeding three years but not less than two years.
	(c) PKR 5,000,001 to 7,500,000	Not exceeding three times the value of the goods	Not exceeding five years but not less than two and half years.
	(d) PKR 7,500,001 to 10,000,000	Not exceeding four times the value of the goods	Not exceeding ten years but not less than three years.
	(e) Exceeds PKR 10,000,000	Not exceeding five times the value of the goods	Not exceeding fourteen years but not less than five years alongwith forfeiture of movable and immovable property
(iii)	If the smuggled or prohibited goods comprise currency, gold, silver, platinum or precious stones in any form. If the value of currency or goods is:	such currency or goods shall be liable to confiscation and any person concerned in the offence shall be liable to-	

S. No.	Offences	Penalties	Imprisonment
	(a) Up US\$ 10,000	Not exceeding value of goods	Not exceeding two years
	(b) US\$ 10,001 to 20,000	Not exceeding two times the value of the goods	Not exceeding three years but not less than two years.
	(c) US\$ 20,001 to 50,000	Not exceeding three times the value of the goods	Not exceeding five years but not less than two and half years.
	(d) US\$ 50,001 to 100,000	Not exceeding four times the value of the goods	Not exceeding ten years but not less than three years.
	(e) Exceeds US\$ 100,000	Not exceeding five times the value of the goods	Not exceeding fourteen years but not less than five years alongwith forfeiture of movable and immovable property



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