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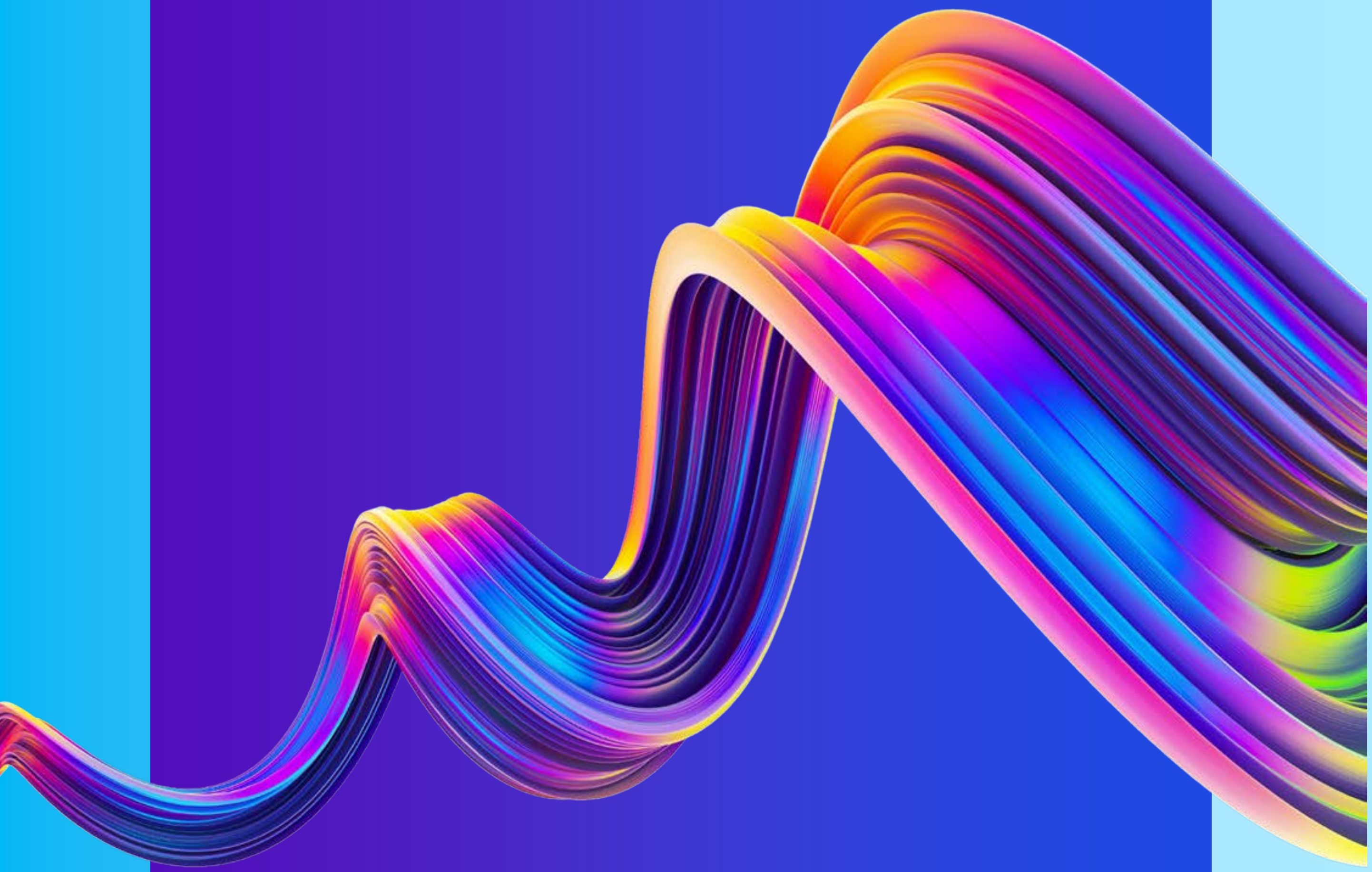

Budget Brief 2022

June 2022

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Preamble

There could not have been a tougher time for any government to come up with a balanced budget, one that not only satisfies the conditions agreed with IMF but also provides relief to the masses reeling from runaway inflation and placate the electorate in the election year. The Finance Bill 2022 succeeds on the second front to some extent as it reduces tax rates on salaried class, enhances taxable threshold for non-salaried individuals albeit slightly and restores sales tax exemptions on solar panels and agricultural machinery. In a separate measure, the Government has announced 15% increase in government employees's salaries. Though it may not amount to much given the impact of inflation resulting from a plummeting rupee and highest ever fuel prices, it still gives some breathing space to those with fixed incomes of up to PKR 100,000 per month.

On revenue generating measures, the Bill increases tax rates on gains in real estate, imposes withholding taxes on outward remittances through credit cards as well as remittance services provided by international operators, increases tax on banking companies by up to 5%, and provides for new levies in the form of a 20% tax on rent 'deemed to have been earned' on non-productive properties valuing PKR 25 million or more, and an additional 2% 'poverty reduction tax' on those earning more than PKR 300 million. These are targeted measures to tax the rich and if implemented in spirit, they will significantly help in achieving the highly ambitious revenue target of PKR. 7,004 billion as there are otherwise no administrative measures introduced by FBR to improve the working of its force, barring introduction of a provision relating to wearing of uniform, if that could be called a 'reform'.

This publication summarizes the significant amendments brought through the Bill and our comments thereon. The Bill is subject to approval by the national assembly and may undergo changes before its promulgation into law. We advise that the specific wordings of the Bill and later, the Finance Act, 2022 and the related laws to be considered as they apply to the facts of the case, before forming any opinion on a matter.

11 June 2022

Contents

Budget at a glance

Budget Estimates	Revised estimate 2020-21	%	Budget estimate 2021-22	%	Budget estimate 2022-23	%
	------------------------------ (Rupees in billion) ------------------------------					
Revenue						
Tax revenue	4,691	73.4	5,829	73.7	7,004	77.8
Non-tax revenue	1,704	26.6	2,080	26.3	2,000	22.2
	6,395	100.0	7,909	100.0	9,004	100.0
Less: Provincial share	2,704	42.3	3,412	43.1	4,100	45.5
Net revenue	3,691	57.7	4,497	56.9	4,904	54.5
Expenditure						
Development & net lending	652	9.0	964	11.4	808	8.5
Current	6,560	91.0	7,523	88.6	8,694	91.5
	7,212	100.0	8,487	100.0	9,502	100.0
Deficit	3,521	42.3	3,990	43.1	4,598	45.5
Funded by						
Non-Bank borrowing	1,307	31.1	1,241	31.1	1,996	43.4
Domestic debt – banks	649	18.4	681	17.1	1,173	25.5
External debt	1,323	37.6	1,246	31.2	533	11.6
Privatization proceeds	-	0.0	252	6.3	96	2.1
Surplus from provinces	242	6.9	570	14.3	800	17.4
	3,521	100.0	3,990	100.0	4,598	100

Highlights

Income Tax

- Definition of 'Beneficial Owner' introduced along with the requirement to furnish particulars and update it in case of any change later.

- Definition of 'Distributor' introduced.

- Definition of 'fair market value' provided to mean as referred in section 68 of the Ordinance 2001.

- Concept of 'Synchronized Withholding Administration and Payment Agent' or 'SWAPS agent' introduced along with mechanism of payment and tax collected by them.

- Super tax earlier introduced for rehabilitation of temporarily displaced persons, proposed to be revived but this time 'for poverty alleviation' in the shape of 'tax on high earning persons with sum of specified incomes exceeding Rs.300 million @ 2% from tax year 2022 and onwards.

- Final tax proposed @10% on fee for money transfer operations, card network services, payment gateway services, interbank financial telecommunication services.

- Tax on fee for offshore digital services proposed to be increased from 5% to 10%.

- Concept of deemed rental income of 5% of FMV of immovable property proposed from tax year 2022 with tax rate of 20%.

- Amount in excess of 50% of the contribution to an approved gratuity fund, pension fund or superannuation fund to be treated disallowed tax deduction.

- Disallowing of expenditure proposed as is attributable to sales claimed by any person who is required but fails to integrate his business with Board through fiscal electronic device and software but the disallowance not to exceed 10% of allowable deduction.

- Restriction on allowability of depreciation to 50% for the first tax year and 50% in the year of disposal is proposed to be omitted for allowing depreciation without such restriction in the first year and no depreciation in the year of disposal.

- For avoidance of disallowance of expense, Companies have to make payment exceeding rupees one million through digital means from business bank account with effect from the date notified by the Board.

- Limit for claiming tax depreciation on cost of depreciable assets being a passenger transport vehicle not plying for hire is proposed to be enhanced from Rs. 2.5 million to Rs. 5 Million.

- Immovable property or structural improvement thereto, proposed to be no more eligible depreciable assets.

- Taxation of gain on disposal of immovable property situated in Pakistan proposed to be categorized in open plots, constructed property and flats at the rates varying from 15% to 0% depending upon the holding period. 0% applies with holding period of flats > 2 year; constructed property > 4 years; and open plots > 6 years.

- Benefit of 25% reduction / exemption of gain arising on disposal of the capital asset due to the holding period of more than one year (other than shares of public companies including the vouchers of PTC certificates, modaraba certificates or any instrument of redeemable capital) proposed to be withdrawn.

- Benefit of valuation of capital assets in given circumstance (e.g. under gift, succession/ inheritance/ devolution, distribution of assets on dissolution of AOP or on company's winding up) at fair market value on the date of transfer or acquisition is proposed to be withdrawn.

- Incentive to the acquiring company, of carryforward of business losses for revival of sick industrial units is proposed to be withdrawn effective from the date of its introduction on 2 March 2022.

- Deductible Allowance to the individual on profit on debt on loan for house is proposed to be withdrawn.

- Tax credits for investment in shares, health insurance and approved pension fund also proposed to be withdrawn.

- Availability of100% tax credit on Income from exports of computer software or IT services or IT enabled services is proposed to be withdrawn. Currently those not qualifying for this tax credit were subject to withholding tax of 1% as final tax. This rate is now proposed to be reduced to 0.25%.

- Tax credit for foreign investment for industrial promotion introduced on 02 March 2022 is proposed to be withdrawn from the date of its introduction.

- Scope of resident individual extended and now Citizen of Pakistan not a tax resident of any other country is proposed to be treated as resident individual.

- Explanation proposed to be introduced to clarify that exempt income of an AOP shall remain exempt in the hand of member of AOP.

- New special procedure relating to payment of tax through commercial electricity connections is proposed on prescribed persons (i.e. retailers other than Tier-I, specified service providers) as a substitution to special provisions relating to traders.

- Special provision relating to investment in new company for industrial promotion is proposed to be withdrawn with effect from the date of its introduction i.e. 2 March 2022.

- Enabling provision proposed to be introduced for empowering Commissioner to recharacterize, from tax year 2018 and onwards, the income and deductions by treating a place of business in Pakistan as permanent establishment (if part of cohesive business operations etc.).

- Remittance through money services bureau, exchange companies or money transfer operations is proposed to be deemed to constitute foreign exchange remitted from outside Pakistan through normal banking channel for avoidance of provisions of unexplained income or assets.

- It is proposed that separate notice need not to be issued under section 111 of the Ordinance 2001 if explanation as to the nature and source of any amount as provided therein has been confronted to the taxpayer through a notice under section 122(9).

- Right of carrying forward of excess amount of minimum tax under section 113 of the Ordinance 2001 against the normal tax liability of the subsequent tax year is proposed to be withdrawn.

- Subject to specified conditions, Board is proposed to be empowered to issue income tax general order with specified consequences for the persons not appearing in the active taxpayer list but are liable to file return under the Ordinance 2001.

- Time limit for issuance of best judgement assessment order is proposed to be increased from 5 to 6 years after the end of tax year or income year to which it relates.

- Time limit to pass an order after issuance of show-cause under section 122(9) is proposed to be increased from 120 days to 180 days.

- Mechanism of Alternative Dispute Resolution proposed to be revamped to make it more stringent and binding force.

- All tax deducted at import stage on imports made by an industrial undertaking for its own use is proposed to be made adjustable.

- Commercial imports again proposed to be brought under final tax regime, other than income arising from Import of edible oil, packing material, paper and paper board or plastic where tax deducted to remain as minimum tax.

- Due to proposed deletion of provisions with respect to tax credit on investment in shares and contribution to approved pension fund, the relevant adjustment by employer in tax deduction from salary is proposed to be consequentially omitted.

- Service charges or commission or fee paid to global money transfer operators, international money transfer operator or such other persons engaged in international money transfer or cross border remittances for facilitating outward remittances are proposed to be subjected to withholding of taxes by the exchange company.

- Withholding of taxes proposed while making payment to card network company or payment gateway or any other person, of any transaction fee or licensing fee or services charges or commission or fee by banking company.

- 6 years' time limitation as to the maintenance of records is proposed not to apply in respect of the investment, money, valuable article, or expenditure discovered by the Commissioner as is situated or incurred outside Pakistan or concealed income is foreign-sourced.

- Enabling provision for sharing of data by NADRA on its own motion or upon application by the Board has been proposed.

- Provisions of section 216A introduced for conducting proceedings against the authority and person mentioned under section 207 are proposed to be withdrawn.

- Period of holding of immovable property proposed to be increased from 6 to 10 years for non-applicability of advance tax on sale or transfer of immovable property.

- Withholding of tax on renting of machinery has been proposed to be omitted.

- Collection of advance tax by educational institution proposed to be withdrawn.

- Enabling provision for introducing prize schemes to promote tax culture proposed.

- Advance tax at the rate of 1% on persons remitting amounts abroad through credit or debit or prepaid card proposed to be restored.

- Rate of corporate tax on income of banking companies proposed to be increased to 45%.

- Increase proposed in rate for collection of tax from 1% to 2% on purchase of motor vehicles under section 231B for persons on ATL and 4% for persons not on ATL.

- Increase proposed in rate for collection of tax from 1% to 2% on purchase or transfer of immovable property under section 236K for persons on ATL and 5% for persons not on ATL.

- Income derived by a Collective Investment Scheme, RIET Scheme or a Special Purpose Vehicle is exempt from tax provided it distributes 90% or more of its accounting income as reduced by capital gains. Accumulated losses will also be adjusted.

- Subsidy granted by the Federal Government for the purpose of implementation of any orders of the Federal Government is taxable.

- Profits and gains derived from electric power generation project shall be exempt for a period of the life cycle of the project or 25 years from the date of commencement of commercial production, whichever is earlier.

- Tax audit will not be conducted of a person whose income tax affairs have been audited in any of the preceding four tax years.

- Advance tax and deduction of tax at source is not required to be paid/collected in case of non-profit organizations mentioned in Table 1 of clause (66) of Part I of the Second Schedule as recipients of payment.

- Tax on high earning person at the rate of 2% on income exceeding Rs. 300 million is also applicable to insurance, petroleum exploration & production and banking companies.

- Tax rate on investment in Federal Government has been enhanced for banking companies.

- tax collection on purchase of immovable property by a person not in an ATL will be 250%.

- tax collection on purchase of motor vehicle by a person not in an ATL will be 200%.

- the provisions of Tenth Schedule shall not apply in case of tax collection from proceeds from export of services.

- Tax credit on donations is extended to entities mentioned in Table 1 of Clause (66) of Part I of Second Schedule of the

Ordinance 2001by insertion in Thirteenth Schedule.

Sales tax

- The phrase "production, transmission and distribution of electricity," has been proposed to be included in the definition of "Goods" and "Supply".

- The definition of "Tier-1 retailer' has been proposed to include a person engaged in supply of articles of jewelry of precious metal or parts thereof.

- It has been proposed to include condition of active taxpayer status along with registration number for the purpose of levying further tax.

- It has been proposed to streamline the responsibility of online marketplace as a withholding agent between empowering section and relevant schedule.

- It has been proposed to revise the sales tax rates for retailer (other than Tier-1) based on their monthly electricity bill.

- It has been proposed to abolish the condition of indication of NIC or NTN on tax invoices and for subsequent admissibility of input tax.

- It has been proposed to reintroduce the limitation of input tax adjustment up to 90% of the output tax for listed companies.

- It has been proposed to empower the Board to direct the gas and electricity distribution companies for disconnecting the utility connection of any non-compliant person.

- Certain exemptions have been proposed to be introduced for local sales and import for the following items:

  — Photovoltaic cells;

  — Gold and silver, in unworked condition;

  — Tractor;

  — Machinery, equipment and materials imported for Export Processing Zone;

  — Goods temporarily imported into Pakistan.

- Certain exemptions have been proposed to be introduced for local supplies for the following items:

  — Supply of articles of jewelry of precious or parts on which tax has been paid at import stage;

  — Prepared food supplied by restaurants and caterers.

- Local coal and imported electric vehicle in CBU condition have been proposed to be charged at 17% instead of the reduced rate.

- Certain items have been proposed to be introduced for lower sales tax rate:

  — Supply of articles of jewelry of precious or parts other than on which tax has been paid at import stage;

  — Import of articles of jewelry of precious or parts;

  — Local supply of reclaimed lead.

- Fertilizer, natural gas supplied to fertilizer plant and phosphoric acid [if imported by fertilizer company] have been proposed to be charged at 10% instead of earlier reduced rate.

Federal Excise

- FED enhanced on cigarettes including e-liquids, filters of electronic cigarettes.

- FED on club, business and first-class international flights increased from Rs. 10,000 to Rs. 50,000.

- FED enhanced on telecommunication services from 16% to 19.5%.

Customs

- Time limit for provisional assessment reduced from 180 days to 90 days.

- Duty exempted on 26 Active Pharma Ingredients (APIs).

- Duty on agriculture machinery and allied industry machinery abolished.

- Custom duty, additional duties & regulatory duties on 400 items rationalized.

- Duty on import of basic raw materials for manufacturer of first- aid bandages exempted.
- Relevant provisions of law introduced in relation to Pakistan Single Window Portal.
- Rationalization and reduction of Customs Tariff Codes.

Islamabad Capital Territory Ordinance 2001

- Services provided by farmhouses now liable to sales tax under ICT Law.
- Restaurants and suppliers of food and drinks classified as service under ICT Law.
- Services rendered within Islamabad Capital Territory to be taxed at uniform rate of 15%.

Capital Value Tax

- Capital Value tax has been imposed on the value of certain assets.
- Mechanism for determination of the value of asset for the purpose of imposition of CVT has been provided.
- The collection of CVT shall be credited to the Federal Consolidated Fund under the head specified by the Federal Government.
- The Bill proposes to give power to the officer of Inland Revenue who may pass an order after giving the person an opportunity of being heard, and proceed to recover the tax under the provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 as if the tax were an arrear of income tax.
- The Commissioner has the power to revise any order on the application of the person.
- The provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 shall apply to the collection and recovery of tax under this section.
- Right to appeal against the order passed by Commissioner Inland Revenue or officer inland revenue has been provided in the proposed CVT law.
- The Federal Government reserves power to exempt any asset or class of asset from tax upon notification in official Gazette subject to such conditions as may be specified.

Sectoral analysis

SERVICES

Information Technology

Pakistan has witnessed remarkable growth in its information technology sector over the past three years, with the sector now contributing about 1% of GDP at about USD 3,500 million. The sector has been one of the main drivers of economic growth and the trend is expected to continue as the Digital policy of Pakistan 2018 projects the industry size to reach USD 20,000 million by 2025. The improved security situation has also encouraged start-ups like ride hailing services and online market platforms to invest in Pakistan.

The taxation policies follow the government's policy to encourage digitalization of economy and export of IT services. Presently, the export of software and IT services is subject to 1% withholding tax, where-against 100% tax credit can be claimed on compliance with certain procedural requirements. The Finance Bill, 2022 proposes to further reduce the rate to 0.25% while abolishing the tax credit. The tax so withheld can be claimed as final tax at the option of the service provider. In other words, the tax liability on export of IT services is proposed to be 0.25% of gross receipts, if the service provider so opts. It is to be noted that similar to export of goods, the export of services including IT services has already been zero-rated in Islamabad capital territory (ICT) for sales tax purposes and exempted from sales tax in Punjab and Sindh, subject to receipt of proceeds in foreign exchange.

Money remittance services

A new withholding tax of 10% has been proposed on fee paid by the exchange companies to international money transfer operators. Similarly, the banks have to withhold 10% on payment of fee and commission to card network operators (Visa and Mastercard), payment gateway services (such as SWIFT) and inter-bank financial telecom services. This withholding tax expands the scope of taxes on digital offshore services as otherwise it was not possible to bring these service providers into tax net. However, these taxes may have to be revisited after adoption of BEPS Pillar 1 rules relating to global taxation of multinationals providing digital services.

Entertainment and theater

This sector has in the past not received the due attention it deserves, in terms of a policy regime to encourage arts and films. The Pakistan film industry is presently in dire straits and the old cinema houses either stand closed or converted into shopping malls. The Bill proposes a blanket tax exemption of five years for new cinema operators in tehsils and towns having with no cinema. The Bill further proposes to exempt the import of cinematographic equipment from collection of advance tax on imports. Nevertheless, we believe that the revival of industry requires more than taxation incentives, as the viewers now have access to digital streaming services at home and it could be a long way before we see a revival of cinema culture in Pakistan.

Banking

The banking industry, which is already paying tax at the highest rate of 35% plus 4% super tax, sees its tax rate going further up to 45% for the next year, plus 2% further tax for poverty alleviation. Effectively, this translates into an increase of 8% in tax rate as super tax of 4% stands withdrawn. The Bill also proposes to increase tax rates on income from federal government securities depending upon advances to deposit ratio between 40% to 50%. Accordingly, the rates are proposed from 45% to 55% as against present rates of 35% to 40%.

The banking companies are also required to withhold tax at 10% of the fee or commission they remit to international card network operators and payment gateway services.

General

The Bill proposes to reduce the standard rate of sales tax on services in ICT to 15% as against existing 16%.

MANUFACTURING

Similar to banking industry, the manufacturing sector also appears to be on receiving end of the revenue generating measures of the finance Bill as it proposes to withdraw carry forward and adjustment of minimum tax on turnover against future corporate tax liability from all taxpayers including manufacturing sector which will severely impact those who have paid minimum tax in the past due to tax losses. It is not clear whether the proposed amendment will impact only minimum tax paid in future or will also restrict carry forward of tax paid till date. This may lead to litigation. On the flip side, the Bill proposes to provide exemption from minimum tax to manufacturers of local mobile phones.

The Bill however restores exemption from sales tax on import of power generation equipment, solar panels and invertors that had previously been withdrawn in January 2022.

Significant amendments

INCOME TAX

Beneficial owner defined

The Finance Bill proposes to define the term 'beneficial owner' as a natural person who:

a) ultimately owns or controls a company or AOP, whether directly or indirectly, through at least 10% shares or voting rights; or

b) exercise ultimate effective control, through direct or indirect means, over the company or AOP including control over the finances or decisions or other affairs of the company or AOP.

You can find more details about relevant provisions relating to 'beneficial owner' below under the heading '*Introduction of furnishing of record of beneficial owners*'.

Distributor defined

The Finance Bill proposes to define the term 'Distributor' for the purpose of Ordinance whereby the Distributor means a person appointed by manufacturer, importer or any other person for a specified area to purchase goods from him for further supply.

This insertion shall define scope and provide clarity to the term 'Distributor' used in various provisions of the Ordinance as to their applicability or otherwise especially 236G and 236H.

Fair market value defined

The Finance Bill has proposed to insert the definition of the term 'Fair Market Value' [FMV] whereby the value provided under section 68 of the Ordinance has been adopted for the purpose of the Ordinance.

The FMV was already explained under section 68 for the purpose of the Ordinance however the same has also been proposed to provide for the general definitions under the Ordinance.

Tax on high earning persons for poverty alleviation

As per policy measure conveyed, the Government has proposed to introduce revenue measure to tax the high earning individuals.

The Bill proposes to levy tax on high earning persons for poverty alleviation under section 4C by simply reintroducing the concept of super tax currently applicable on banking companies @ 4% on the income as defined under section 4B.

This tax is proposed to be levied from tax year 2022 onwards on every person. The salient features of the said levy are as follows:

- It is applicable @ 2% on every person whose income to be computed as prescribed as exceeds Rs. 300 million.
- The income for the purpose of this section is the same as provided under section 4B whilst the noticeable exclusion is the income earned under Eighth Schedule apparently as a policy measure to provide relief to the capital market.
- Tax is required to be paid along with the return of income.
- The Commissioner has been empowered to recover the tax if not paid by a person liable to pay said tax in the manner as provided for recovery of tax due.
- The Board is empowered to make rules for carrying out the purposes of this section.

Consequent to this proposed levy, the banking companies will be required to pay this tax over and above super tax under section 4B.

The levy is proposed for tax year 2022 and onward yet if enacted will be applicable from 1 July 2022.

This may lead to another round of litigation as already decided by Supreme Court of Pakistan under section 4B particularly in the cases of applicable double tax treaties and if so, this will create complications as to its retrospective application for tax year 2022.

Scope of taxability of payments to non-residents extended

The Finance Bill proposes to expand the scope of services covered under section 6 to include ‘fee for money transfer operations’, ‘card network services’, ‘payment gateway services’, ‘interbank financial telecommunication services’ in its scope of taxability for non-resident persons.

This amendment is aimed to enhance the scope and taxability of digital services.

Special withholding tax provisions have also been introduced for such receipts.

Tax on deemed rental income

In the wake of Government initiative to tax highly privileged persons, the Finance Bill proposes to tax deemed rental income of a resident person. Such deemed rental income will be taken at 5% of fair market value (FMV) of the immovable property situated in Pakistan whether such property has actually been rented out for any consideration or not.

This section however shall not be applicable on the following:

- One self-owned immovable property;
- Self-owned business premises from which business is carried out;
- Self-owned agriculture land where agriculture activity is carried out by person but does not include farmhouse and land annexed thereto;
- Where the fair market value of the property or properties, in aggregate, excluding properties mentioned above does not exceed twenty five million Rupees;
- A Provincial Government, a Local Government, a local authority or a development authority;
- Land development and construction projects of builders and developers registered with Directorate General of Designated Non-Financial Businesses and Professions of Board;
- This section shall also not be applicable where tax chargeable on income from property is higher than tax chargeable under this section. However, if tax chargeable on income from property is less than that chargeable under this section then the excess tax shall be payable by the person under this section.

Being effectively a measure to tax immoveable property this levy may well be challenged for legislative competence viz. the Federal legislative list.

Contribution to approved Gratuity, Pension and Superannuation Funds

Contribution by an employer to approved gratuity, pension or superannuation fund is admissible as deductible allowance for the purposes of business expenses.

The Bill proposes to allow such contributions up-to 50% of the total contribution made by the employer to such funds.

The proposed amendment shall create hassle for the employers as to how they will plug in the gap of differential contribution i.e. remaining 50% of the contribution. This appears to be anomaly which needs to be addressed.

The proposed amendment defeats the established concept that contributions to these approved funds are allowable expenditure.

Certain business expenditure payments through digital means made mandatory for claiming deductibility in case of companies

Previously, any expenditure for a transaction under a single account head which in aggregate exceeded Rs. 250,000, made otherwise through banking channels, including credit card, was not tax admissible. However, there were certain exceptions to this rule whereby cash payments could be considered as admissible deduction with respect to the following payments:

- Expenditure not exceeding Rs. 25,000.
- Payment of utility bills, freight charges, travel fare, postage and taxes, duties fee, fine or any other statutory obligations.

The Tax Laws Third Amendment Ordinance, 2021 dated 15 September 2021 has restricted the above provision of law to non-corporate taxpayers only. For companies, insertion of a new sub-section (la) in section 21 has been proposed whereby it has been made mandatory to make payments through ‘digital means’ from the 'business bank account notified to FBR under section 114A and not just through banking channels.

The term "digital means" has also been defined vide the Finance Supplementary Act 2022 dated 15 January 2022.

This provision shall be applicable from the date to be notified by the Board.

The Bill proposes to ratify the above referred amendments earlier inserted on 15 September 2021 and 15 January 2022.

The limit of expenditure requiring payment through this mean is proposed to be enhanced from Rs 250,000 to Rupees one million.

Option provided for Salary payments by all persons through digital means

Salary payments exceeding Rs. 25,000 per month were required to be paid through cross cheque or direct transfer to the employees' bank account in order to be considered as tax admissible.

The Tax Laws Third Amendment Ordinance, 2021 dated 15 September 2021 had inserted the term "digital means" in section 21(m) to align the said section with section 21(la) and providing additional option to all persons for making salary payment through digital means apart from cross cheque or direct transfer as stated above.

The Bill proposes to ratify these amendments.

Disallowance of expenses for businesses required to be integrated with FBR

In order to enforce integration of business with FBR as required under the Sales Tax Act 1990, the Bill proposes to disallow any expenditure attributable to sales claimed by the person who is required to integrate his business with FBR through approved electronic device and software but fails to do so.

However, such disallowance is restricted not to exceed 10% of the allowable deductions.

Depreciation allowance

The Finance Act 2020 restricted the deprecation claim on the assets put to use in business for the first time in a tax year commencing from 1 July 2020 to 50% of the allowable depreciation deduction.

The Bill now proposes to remove aforesaid restriction thereby allowing deprecation allowance without such restriction. Accordingly, the consequential relief for depreciation deduction equal to 50% allowed in the year of disposal through Finance Act 2020 has also been proposed to be removed to provide for parity between the provisions.

Vehicle cost restriction relaxed

The restriction on the cost of passenger transport vehicles not plying for hire for claim of depreciation was last reset in Finance Act 2012 at Rs 2.5 million.

Due to persistent inflation and devaluation of the currency the stakeholders were for long making representation to increase this amount.

The Finance Bill proposes to partly address this impact by enhancing the allowable cost for vehicles not plying for hire for the purpose of depreciation up to Rs. 5 million.

Eligible depreciable asset

The Bill proposes to specifically exclude immovable property and any structural improvements thereon from the definition of eligible depreciation assets.

Accordingly, the ambiguity with respect to claim of initial allowance on immovable property and structural improvements thereon has now been proposed to be removed and therefore initial allowance on such assets may not be claimable anymore for tax year 2023 and onwards.

Taxation of capital gains

The proposed amendments in capital gain taxation under section 37 are as follows:

Immovable property

Presently, capital gain on disposal of immovable property is reduced based on holding period and such capital gain is subject to progressive tax rates as provided under Division VIII of the Part I of the First Schedule.

The Bill now proposes to take away such reduction in amount of capital gain on disposal of immovable property as provided under section

37(3A) and to tax the entire amount of capital gain arising on disposal of immovable property on the basis of holding period on 100% amount of capital gain separately for open plots, constructed property and flats.

Capital assets

Currently, gain on capital assets, other than shares of public companies including the vouchers of Pakistan Telecommunication Corporation, modaraba certificates or any instrument of redeemable capital as defined in the Companies Act, 2017, held for more than 1 year is reduced by 25%.

The Finance Bill proposes to remove the aforesaid relief of reduction in gain.

Further, the Finance Bill has also proposed to delete sub-section (4A) thereby recognizing the cost of capital asset that become property of the person under the transactions referred to in sub-section (4A) under a gift, by succession/ inheritance/ devolution, distribution of assets on dissolution of an AOP or on liquidation of a company, to be the same cost as in the hands of the person disposing off said asset.

Exemption in multilateral agreement

The Bill proposes to extend the scope of exemption on any income received by the person, not being citizen of Pakistan, engaged as a contractor, consultant, or expert on a project in Pakistan to the bilateral or multilateral agreement which is currently restricted to bilateral or multilateral technical assistance agreement.

Further, the Finance Bill proposes to empower the Federal Government to exempt income of any person of an official development assistance financed loans and grants-in-aids subject to such conditions as it may specify through a notification in official gazette.

Powers of granting exemptions

The Bill proposes to sanctify the powers of amendment in Second Schedule for the purposes specified in section 53(2) to the Federal Government in addition to the Board as were inserted by Tax Laws (Third Amendment) Ordinance 2021 dated 15 September 2021.

Sick industrial units

The Income Tax Amendment Ordinance, 2022 allowed the acquiring company to adjust carry forward business losses of sick industrial units in the manner as specified under section 59C.

The Finance Bill now proposes to omit such relief by deleting section 59C with effect from the date of its introduction i.e. 02 March 2022.

Deductible allowances and tax credits

The Bill proposes to delete the deductible allowance for any profit of share in rent and share in appreciation for value of house loan by the individual under section 60C, tax credit for investment in shares and insurance under section 62, tax credit for investment in health insurance under section 62A and tax credit on contribution to an approved pension fund under section 63.

This proposed amendment will adversely affect the salaried individual and may also result in reduction in investments in the aforesaid products.

Apparently, this relief is proposed to be taken away in the wake of proposed reduction in salary taxation.

Tax credit on IT and IT enabled services

The Finance Act, 2021 introduced 100% tax credit on income from export of computer software or IT services or IT enabled services as defined under the Ordinance 2001 upto 30 June 2025 subject to fulfillment of specified conditions.

The Bill however now proposes to delete the aforesaid tax credit and to tax such income at the rate of 0.25% which will be final tax.

Tax credit for industrial promotion

The Income Tax Amendment Ordinance, 2022 allowed tax credit for foreign investment for industrial promotion in the manner as provided under section 65H.

The Finance Bill now proposes to omit such tax credit by deleting section 65H with effect from the date of its introduction i.e. 02 March 2022.

Resident individual

The Bill proposes to extend the scope of resident individual by treating the citizen of Pakistan who is not a tax resident of any other country to be the resident individual in Pakistan.

This amendment is apparently aimed to cater abuse of the tax Treaties.

Exemption on income of member of AOP

The Finance Bill proposes to explain that the share received by the member out of the income of the association shall also be exempt if the income of such association of person is exempt and no tax is payable under the Ordinance due to such exemption.

Final Tax on Retailers other than Tier -1

Currently section 99A read with Ninth Schedule provides special scheme of taxation for traders. This scheme of taxation was prescribed for tax years up till 2018.

The Bill proposes to substitute this scheme and bring it with reference to taxation of retailers as per the Section 3(9) of the Sales Tax Act 1990 whereby tax is be charged from retailers other than those falling in Tier-1 and specified service providers through their monthly electricity bills. The electricity supplier is required to deposit the amount so collected directly without adjusting against his input tax.

The Bill proposes that the tax will be collected through electricity Bill from retailers other than Tier-1 as defined under Sales Tax Act 1990 and specified service providers on commercial electricity connections. The tax is proposed to be collected at the rates tabulated below:

Gross amount of monthly bill	Tax
Up to Rs. 30,000	Rs. 3,000
Rs. 30,001 to Rs. 50,000	Rs. 5,000
Rs. 50,001 to Rs. 100,000	Rs. 10,000
Specified retailers and service providers as specified by the Board through Income Tax General Order	Rs. 50,000

A retailer who has paid sales tax under section 3(9) of the Act 1990 shall be treated to have discharged its liability for the purpose of this section.

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

The manner of payment and mechanism of collection including recovery shall be provided by the Board with approval of Minister in-charge through Income Tax General Order.

The Board may exempt any person or classes of person from the application of this section in such manner and with such conditions as may be specified.

Relaxation in time for specified 'Non-Profit Organization [NPOs]'

Section100C relating to hundred percent tax credit for NPOs was substituted vide Finance Act 2021 and reconfigured.

One of the preconditions to obtain hundred percent tax credit was to obtain approval as NPO from Commissioner under section 2(36).

This requirement was made applicable from 1 July 2022 for entities listed in Table II of clause 66 of the Part I of the Second Schedule.

Aforesaid date proposed to be extended till 1 July 2024.

Tax credit for promotion of industrial investment

The Income Tax Amendment Ordinance, 2022 allowed tax credit for promotion of industrial investment in the manner as provided under section 100F.

The Finance Bill now proposes to omit such tax credit by deleting section 100F with effect from the date of its introduction i.e. 02 March 2022

Commissioner empowered to recharacterize arrangement to establish Permanent Establishment (PE)

Section 109 empowers a Commissioner to recharacterize transaction.

The Bill proposes to introduce enabling provision for empowering Commissioner to treat place of business in Pakistan as PE from 2018 and onwards if it fulfills the conditions specified in section 2(41)(g) as inserted vide Finance Act 2018.

It is important to note that the Finance Act 2018 amended the definition of PE of a non-resident person in Pakistan to bring it in line with Base Erosion & Profit Shifting Action Plan 7 namely "Preventing the Artificial Avoidance of Permanent Establishment Status".

As per this clause PE include a fixed place of business that is used or maintained by a person if the person or an associate of a person carries on business at that place or at another place in Pakistan and:

- that place or other place constitutes a permanent establishment of the person or an associate of the person; or
- business carried on by the person or an associate of the person at the same place or at more than one place constitute complementary functions that are part of a cohesive business operation.

Un explained income or assets

Inward remittance through official means other than normal banking channel immune from probing

The Tax Laws Third Amendment Ordinance, 2021 enacted dated 15 September 2021 inserted an explanation that remittance through money service bureaus, exchange companies or money transfer operators shall be deemed to constitute foreign exchange remitted from outside Pakistan through normal banking channels to keep them out of ambit of proceedings under section 111. This was in line with Board's circular No. 5 of 2022 dated 30 August 2021.

The Bill proposes to ratify this amendment.

Requirement to issue separate notice dispensed with

By virtue of the nature of section 111 and considering various Courts judgements, it was previously an established law that non-issuance of separate notice under section 111 renders the proceedings initiated on account of addition under section 111 invalid. The Finance Act 2021 however inserted an explanation in this regard to counter the effect of superior court judgments that the explanation regarding income, expenditure or assets as has been confronted under section 122(9) of the Ordinance, it shall be treated as notice being properly served upon the taxpayer.

This explanation proposed to be made comprehensive covering all eventualities mentioned in section 111.

Entitlement to carry forward minimum tax withdrawn

Section 113 levies minimum tax on turnover at prescribed rates in stipulated circumstances.

Currently as per sub-section 2(c) any amount paid in excess of tax liability payable at corporate rate of tax can be carried forward for adjustment against the tax liability for the succeeding five tax years.

The Finance Act 2021 brought a positive amendment and inserted a proviso whereby if the turnover tax is paid since no tax is payable or paid for the year, the entire amount of turnover tax paid shall be carried forward for adjustment against the tax liability of the subsequent tax year. This amendment was brought as a curative measure in law to counter the judgment of Sindh High Court whereby the court held that to avail the carried forward of minimum tax on turnover, there should be normal tax liability.

Now, as a revenue measure, sub-section 2(c) is proposed to be deleted which will effectively convert this as a concurrent tax levy rather than an alternate tax provision leading to a tax charge in the books instead of currently recorded as deferred tax asset.

Powers to enforce filing of returns

The Bill proposes to insert a new section 114B to enforce filing of income tax return with following provisions.

The Board will have the powers to issue Income Tax General Orders (ITGOs) in respect of persons not appearing on active taxpayers' list and liable to file return that may entail any or all of the following consequences such as:

- Disabling of mobile phones or mobile SIMS;
- Discontinuance of electricity connection;

- Discontinuance of gas connection.

The Board or the Commissioner having jurisdiction may order restoration of mobile phones, SIMS, gas and electricity connection in case the Commissioner having jurisdiction is satisfied that:

- The return has been filed; or
- Person was not liable to file return.

To include the person under ITGO following conditions are required to be fulfilled:

- Notice has been issued under section 114(4);
- Date of compliance mentioned in the notice under section 114(4) has elapsed; and
- The person has not filed the return.

These stringent measures can be an effective tool to enhance tax base yet being clawing back of basic human rights enshrined in the Constitution, these should be implemented with due care and due diligence only to be initiated against such segments that are liable to be registered but have failed to do so to escape taxation.

Best judgement assessment

As per section 121, the Commissioner is empowered to make best judgement assessment of taxable income and tax liability based on available information in case of persons who have not filed return of income or are not complying with the tax audit notices.

Such assessment has to be carried out within five years after the end of the tax year or the income year to which it relates.

The Bill proposes to enhance this time period for carrying best judgement assessment from five years to six years.

Enhancement of time limit to pass an order after issuance of show cause notice

Finance Act 2021 prescribed a time limit to pass an order under section 122 within one hundred and twenty days after the issuance of show-cause notice. The Commissioner was though empowered to extend such period by further period of ninety days.

The Bill proposes to enhance the time period of one hundred and twenty days to one hundred and eighty days.

With the proposed amendment the tax authorities will effectively have two hundred and seventy days from the issuance of show cause notice to complete the proceedings.

Re-amendment of Alternate Dispute Resolution Committee [ADRC] provisions

The provisions of ADRC as per section 134A have remained a subject matter of amendments to bring it in line with stakeholders' representations in order to devise an effective alternative settlement mechanism. Major amendments were made vide Finance Acts 2018, 2020 and 2021.

Following amendments are now proposed by the Bill:

Entitled cases

The Bill proposes to limit eligibility of cases to be dealt by ADRC to those cases where tax liability of rupees One hundred million or above [currently no such limit] is involved.

The Bill proposes to reinstate the provision omitted by the Finance Act 2021 whereby cases involving criminal proceedings were not entitled to ADRC.

The current bar on cases involving question of law having effect on other cases is proposed to be omitted and hence such cases involving question of law or mixed question of law and facts will equally remain eligible for ADRC. Specific bar has been proposed in citing the ADRC decisions or taking as precedence in other cases or in different tax year.

Finance Act 2021 introduced the concept where application for dispute resolution shall be accompanied by an initial proposition for resolution of the dispute.

The Bill proposes to allow applicant to include an offer of tax payment in that initial proposition, which applicant would not be entitled to retract.

Time limit to appoint committee extended

The Bill proposes to extend the time limit in which the Board was required to appoint committee from current 30 days to 45 days.

Mechanism to constitute a Committee

The constitution of committee to be appointed by the Board has been proposed to be amended.

- As currently, the Chief Commissioner Inland Revenue having jurisdiction over the case shall remain to be part of committee.

- Currently two persons from a panel notified by the Board comprising of Chartered Accountants, Cost and Management Accountants, Advocates, having minimum of ten years' experience in the field of taxation and reputable businessmen are appointed by the Board.

The Bill proposes to amend this as follows:

The list of eligible persons in the panel to be extended to include [amongst above]:

- an officer of the Inland Revenue Service who retired in BS 21 or above; or

- a reputable businessman as nominated by Chambers of Commerce and Industry.

The entitlement of taxpayer to nominate from the panel omitted by Finance Act 2020 has been proposed to be restored.

Currently since the Board appoints the persons from the panel, the auditor or authorized representative of the taxpayers can be nominated as committee member, if appearing in panel notified by the Board.

Taxpayer is proposed to be given entitlement to nominate one panel member who is or has not been auditors or authorize representative of the taxpayers.

The third committee member is to be nominated, through consensus by the Chief Commissioner Inland Revenue and person nominated by the taxpayer, from the panel as notified by the Board. In case of no consensus the Board may nominate a member proposed by the taxpayer from the panel notified by the Board.

Status of pending appeals

Currently the taxpayer is not required to withdraw the appeal pending before the court of law or any appellate authority for availing ADRC. However, the decision of ADRC is only binding when taxpayer is satisfied with the decision and has withdrawn such appeal and has communicated the order of withdrawal to the Commissioner within 60 days of the service of the decision to the taxpayer.

Currently the Board shall communicate the order of appointment of committee to the court of law or the appellate authority where the dispute is pending and the Commissioner. This mechanism is proposed to be revamped.

The Bill now proposes that aggrieved person or the Commissioner or both should withdraw the appeal pending before any court of law or an Appellate Authority in the absence of which the committee shall not commence the proceedings. Further that an order to this affect shall be communicated to the Board within 75 days of the appointment of the committee else the committee shall be dissolved.

However, withdrawal of appeal from court of law or an Appellate Authority shall be revoked if committee fails to decide within 120 days from its appointment and the appeal process will be reinstated.

Time limit for passing an order

The Bill proposes that the committee shall decide the dispute through consensus within 120 days of its appointment.

Currently in case where committee fails to make decision within the period 120 days, the Board shall dissolve the committee by an order in writing and shall re-constitute another committee. The Bill proposes to omit the Board's power to re-constitute another committee. Hence either the committee should make the decision in 120 days or else the appeal process will reinstate.

Stay against the recovery of tax

Currently recovery of tax stands stayed on the constitution of committee till the final decision or dissolution of the committee, whichever is earlier.

The Bill proposes that recovery of tax payable in connection with dispute shall be deemed to be stayed on withdrawal of appeal from Court of law or an Appellant Authority by the taxpayer.

Reinstatement of minimum tax on income from imports of certain goods

Prior to Finance Act, 2020 the income of every person arising from import of certain goods was subject to minimum tax under sub-section (8) of section 148 which was omitted vide Finance Act, 2020.

The Bill now also proposes to reintroduce final tax regime for commercial importers but minimum tax on the income arising from such imports on income of persons from the following proposed goods:

- edible oil;
- packaging material;
- paper and paper board; or
- plastics.

Through Finance Act, 2020 amendment was made to sub-section (7) of section 148, whereby, taxes collected at import stage by industrial undertaking were made adjustable only in cases where the goods were subject to tax at 1% or 2%.

The Bill now proposes that taxes collected at import stage at the rate of 5.5% which were adjustable only on certain conditions are proposed to be adjustable in all cases if such imports are made by industrial undertakings for its own use.

Tax credits no longer adjustable against deduction of tax from salary

Currently, employees who have made investment in shares or insurance or approved pension fund are eligible to claim credit against tax payable on salary by furnishing the requisite documents to the employer.

The Bill now proposes to amend section 149 to omit references to these tax credits owing to proposed deletion of relevant sections.

The only tax credit that will remain adjustable against tax deducted at source under section 149 is the tax credit on charitable donations.

Clarity regarding withholding tax on export of IT and IT enabled services

The Bill proposes to withdraw 100% tax credit available on export of IT and IT enabled services under section 65F due to which corresponding changes have also been made to section 154A and reference to tax credit under section 65F has been removed.

Further the Bill proposes a reduced rate of 0.25% as opposed to the current rate of 1% on all proceeds of export of IT and IT enabled services to be treated as final tax.

Withholding tax on payments to non-resident by exchange and banking companies

The Bill proposes to introduce withholding tax of 10% on payment of service charges, commission, transaction fee or licensing fee, by whatever name called, under sub-section (1DC) and (1DD) of section 152 to the following, by exchange companies licensed by the State Bank or by banking companies:

- Global money transfer operator;
- International money transfer operator;
- Other persons engaged in international money transfer;
- Card network company;
- Payment gateway.

Where such service fee, commission, transaction fee or licensing fee by whatever name called, is retained by such persons from amount payable to exchange or banking companies, the payment shall be deemed to have been made to such persons and tax shall have to be collected.

The Bill also proposes the tax collected under this section to be final tax.

Introduction of Synchronized Withholding Administration and Payments System (SWAPS) and SWAPS agents

The Bill has proposed a concept of SWAPS agents through a proposed insertion of sub-section (62B) of section 2 and section 164A whereby, upon notification by the Board, persons who are required to deduct or collect tax will have to integrate with the system designed by the Board for the purposes of making payment of taxes within the time frame to be prescribed.

The tax collected/ deducted or purported to be collected/ deducted by a notified SWAPS agent and credited to the Commissioner through digital mode will be treated to have been paid under the Ordinance.

Where a SWAPS agent fails to integrate with the Board, it will not be entitled to claim any tax credit specified under the Ordinance.

Removal of time limit for maintaining record for certain transactions

Currently, accounts and documents required to be maintained under section 174 of the Ordinance are to be maintained for a period of six years from the end of the year to which they pertain.

The Bill proposes that the above time limitation shall not apply to record related to concealed foreign income, investment, money, valuable article or expenditure which is situated or incurred outside Pakistan.

Amendment of assessment after completion of tax audit

Currently, in terms of section 177, the Commissioner is required to issue an audit report prior to amending the assessment of a taxpayer by issuing notice under section 122(9). Effectively, under the current regime, taxpayers are allowed two stage opportunities to furnish their responses – one at the time of audit proceedings and the other at the time of amendment of assessment proceedings.

The Bill now proposes to omit sub-section (6) of section 177 which effectively means that an audit report will no longer be required for the conclusion of audit proceedings. The Commissioner may now simply issue show-cause notice under section 122(9) and start amendment proceedings once the information is provided by the taxpayer during audit proceedings.

This change may lead to litigation. Previously, the Higher Courts have ruled that issuance of audit report is *sine qua non* to audit proceedings without which the same cannot be concluded as the same is a requirement of the Ordinance.

Broadening of tax base through exchange of information by NADRA

The Bill proposes to insert section 175B wherein, NADRA shall on its own motion or upon receipt of application by the Board share record and any information available or held by it for the purposes of broadening the tax base or affecting the purposes of the Ordinance. This was previously proposed through the Taw Laws (Third Amendment) Ordinance, 2021 which lapsed due to not having attained assent from the Parliament.

Through the now proposed enabling section, NADRA may:

i. Submit proposals and information to the Board with a view of broadening the tax base;

ii. Identify in relation to a person, where a taxpayer or not:

    — Income, receipts, assets, properties, liabilities, expenditures or transactions that have escaped assessment or are under-assessed or have been subject to excessive relief or refund or have been mis-declared or misclassified under a head of income or otherwise;

    — The value of anything specified above, if such value is at variance with the value notified by the Board or the district authorities, or if no value has been notified or its market value.

iii. Enter a MOU with the Board for the secure exchange and utilization of a person’s information.

The information shared with the Board may be used or utilized by the same or forwarded to the concerned jurisdiction where the subject matter is located.

NADRA may also compute indicative income and tax liability of anyone by use of AI, mathematical or statistical modeling or any other modern device or calculation method.

The indicative income and tax liability so computed shall be forwarded to the Board who shall notify the same to the person and present an option to the person to pay the determined amount on such terms and conditions or reprieves related to penalty or default surcharge and time limited as may be prescribed by the Board.

Where such amount is paid by the person, the payment made shall be an assessment order or an amended assessment order, as the case may be.

Introduction of furnishing of record of beneficial owners

The Bill proposes that a new section 181E be inserted under which every company and association of persons is to electronically furnish particulars of its beneficial owners on the form to be prescribed and to update the same as and when the change occurs.

The Bill proposes to define beneficial owners through insertion of subsection (7A) of section 2 as natural persons who:

a) Ultimately own or control a company or association of persons, whether directly or indirectly, through at least ten percent shares, or

b) Exercise ultimate effective control, through direct or indirect means, over the company or association of persons including finances or other decisions.

Non-disclosure of information of beneficial owners is proposed to attract a penalty of Rs. 1 million under section 182.

Proposed additions/changes in penalties for non-compliances of various provisions

The following existing penalty has been proposed to be substituted:

Description	Existing Provision	Proposed Amendment
Serial 1 related to non-compliance with sections 114 or 118	Penalty equal to 0.1% of tax payable of tax payable for each day of default subject to a maximum of 50% and a minimum of Rs. 40,000. The minimum shall be Rs. 5,000 if the income derived from salary is seventy five percent of income and the income is less than Rs. 5,000,000. Provided that the minimum shall be Rs. 5,000 if taxable income is up to Rs. 800,000/-. Provided further that the amount of penalty shall be reduced by 75%, 50% and 25% if return is filed within one, two or three months respectively.	The person shall pay penalty equal to higher of – (a) 0.1% of the tax payable for each day of default or (b) Rs. 1,000 for each day of default Provided minimum penalty shall be: Rs. 10,000 in case of individual having seventy five percent or more income from salary; or Rs. 50,000 in other cases The maximum shall not exceed two hundred percent of tax payable. Provided further that the amount of penalty shall be reduced by 75%, 50% and 25% if return is filed within one, two or three months respectively.

The salient features of the proposed additions are as follows:

Sr. No.	Description	Penalty	Relevant section
30	Contravention of section 181E	Penalty of Rs. 1,000,000 for each default	181E
31	Notified SWAPS agent fails to integrate or perform duties	Penalty of Rs. 50,000 for first seven days of default Rs. 100,000 for next seven days of default Rs. 50,000 for each week after second consecutive week of default	164A
32	Conducting transactions in a manner so as to avoid monitoring, tracking, reporting or recording for which a person is required to monitor, track report or record	Rs. 500,000 or two hundred percent of the amount of tax involved, whichever is higher.	237A

Sr. No.	Description	Penalty	Relevant section
	the transaction.		
33	Non-integration of business for monitoring, tracking, reporting or recording of sales, services and similar business transactions with the Board or its computerized software or does not register as required under the Ordinance	Up to Rs. 1,000,000 and if non-compliance persists, his business premises shall be sealed till such time he integrates his business as stipulated.	237A
34	A person fails to register his business as required or having registered does not integrate his business as required.	Such person shall pay – Rs. 500,000 for first default Rs. 1,000,000 for second default Rs. 2,000,000 for third default after fifteen days of order of second default Rs. 3,000,000 for fourth default after fifteen days of order of third default Provided that after the fourth default, his business premises shall be sealed. Provided further that if person integrates before imposition of second penalty, the first penalty shall be waived.	237A

Prosecution for non-integration with the Board and not issuing tax verifiable invoices

The Bill proposes to insert clauses (h) and (i) to sub-section (1) of section 191 of the Ordinance through which non-integration with the Board's computerized system, where required, and non-issuance of tax invoice verifiable by the Board's system will result in an offence punishable with imprisonment of one year or fine or both.

Public servants not to be compelled to provide any return, accounts or documents in proceedings before court or other authorities

The Bill proposes to substitute sub-section (2) of section 216 under which no public servant is to be compelled to provide any return, accounts or documents contained in or forming a part of records relating to any proceedings under the Ordinance or declarations made under the Voluntary Declaration of Domestic Assets Act, 2018, the Foreign Assets (Declaration and Repatriation) Act, 2018 or the Assets Declaration Act, 2019 or any records of the Income Tax Department generally, or any part thereof, or to give evidence before it in respect thereof notwithstanding provisions of any other law in force.

Proceedings against the authority and person

Provisions of section 216A were introduced in 2019 to initiate criminal proceedings against any authority who willfully and deliberately commits or omits an act which results in undue benefit or advantage to the authority or the officer or official or to any other person.

The Bill now proposes to omit this provision which was specifically introduced to bring harmony and deterrence against the authorities.

Income tax to be collected from retailers and service providers through electricity bill

The Bill proposes to insert sub-section (1A) to section 235 whereby, tax is to be collected through electricity bills in order to give effect to the provisions of the proposed section 99A as per the rates specified in Division IV of Part IV of First Schedule.

Advance tax on payments abroad through credit or debit or prepaid cards

The Bill proposes to insert section 236Y under which banking companies are required to collect "adjustable" advance tax at the time of transfer of sums remitted outside Pakistan on behalf of every person who completes a transaction with a person outside Pakistan at the rates specified in Division XXVII of Part IV of the First Schedule.

Promotion of tax culture through purchases from integrated enterprises

The Bill proposes to insert sub-section (2) to section 237 through which it has been mandated that integrated enterprises will not make any sale or render service without issuance of fiscal invoices.

To promote purchases through integrated enterprises the Bill also proposes to introduce section 237B under which the Board may prescribe prize scheme for the public to make purchases or avail services only from integrated enterprises.

To enhance monitoring of compliance with requirement to issue fiscal invoices, the Board may prescribe procedure for mystery shopping randomly and where discrepancies are observed, all the relevant penal provisions of the Ordinance will become applicable.

Tax on salary

The Bill proposes to revise the tax rates for salaried individual. The comparison of existing and proposed rates are as follows:

Taxable income (Rs)	Existing Rate	Proposed Rate
Upto 600,000	0	0
600,001 to 1,200,000	5% of the amount exceeding Rs. 600,000	Rs. 100
1,200,001 to 1,800,000	Rs. 30,000 plus 10% of the amount exceeding Rs. 1,200,000	7% of the amount exceeding Rs. 1,200,000
1,800,001 to 2,400,000	Rs. 90,000 plus 15% of the amount exceeding Rs. 1,800,000	
2,400,001 to 2,500,000		Rs. 84000 + 12.5% of the amount exceeding Rs. 2,400,000
2,500,001 to 3,500,000	Rs. 195,000 plus 17.5% of the amount exceeding Rs. 2,500,000	
3,500,001 to 3,600,000	Rs. 370,000 plus 20% of the amount exceeding Rs. 3,500,000	
3,600,001 to 5,000,000		Rs. 234,000 + 17.5% of the amount exceeding Rs. 3,600,000
5,000,001 to 6,000,000	Rs. 670,000 plus 22.5% of the amount exceeding Rs. 5,000,000	
6,000,001 to 8,000,000		Rs. 654,000 + 22.5% of the amount exceeding Rs. 6,000,000
8,000,001 to 12,000,000	Rs. 1,345,000 plus 25% of the amount exceeding Rs. 8,000,000	
12,000,001 to 30,000,000	Rs. 2,345,000 plus 27.5% of the amount exceeding Rs. 12,000,000	Rs. 2,004,000 + 32.5% of the amount exceeding Rs. 12,000,000."
30,000,001 to 50,000,000	Rs. 7,295,000 plus 30% of the amount exceeding Rs. 30,000,000	
50,000,001 to 75,000,000	Rs. 13,295,000 plus 32.5% of the amount exceeding Rs. 50,000,000	
75,000,001 and above	Rs. 21,420,000 plus 35% of the amount exceeding Rs. 75,000,000]	

Gross Salary (Rs)	Tax Liability		Tax incidence	
	Existing (Rs)	Proposed (Rs)	(reduction) / increase (Rs)	(reduction) / increase (%)
600,000	0	0	0	0
1,200,000	30,000	100	(29,900)	(99.67)
1,800,000	90,000	42,000	(48,000)	(53.33)
2,500,000	195,000	96,500	(98,500)	(50.51)
3,500,000	370,000	221,500	(148,500)	(40.14)
5,000,000	670,000	479,000	(191,000)	(28.51)
8,000,000	1,345,000	1,104,000	(241,000)	(17.92)
12,000,000	2,345,000	2,004,000	(341,000)	(14.54)
30,000,000	7,295,000	7,854,000	559,000	7.66

Gross Salary (Rs)	Tax Liability		Tax incidence	
	Existing (Rs)	Proposed (Rs)	(reduction) / increase (Rs)	(reduction) / increase (%)
50,000,000	13,295,000	14,354,000	1,059,000	7.97
75,000,000	21,420,000	22,479,000	1,059,000	4.94
100,000,000	30,170,000	30,604,000	434,000	1.44

Tax on Individuals (other than salaried) and AOP

The Bill proposes to revise the existing tax rates for AOP and individuals other than salaried. The comparison of existing and proposed rates are as follows:

S. No.	Taxable Income	Existing	Proposed
1	Where taxable income does not exceed Rs. 400,000	0%	0%
2	Where taxable income exceeds Rs. 400,000 but does not exceed Rs. 600,000	5% of the amount exceeding Rs. 400,000	
3	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000	Rs. 10,000 + 10% of the amount exceeding Rs. 600,000	5% of the amount exceeding Rs. 600,000
4	Where taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000		Rs. 10,000 + 12.5% of the amount exceeding Rs. 800,000
5	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,400,000	Rs. 70,000 plus 15% of the amount exceeding Rs. 1,200,000	Rs. 60,000 plus 17.5% of the amount exceeding Rs. 1,200,000
6	Where taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	Rs. 250,000 plus 20% of the amount exceeding Rs. 2,400,000	Rs. 270,000 plus 22.5% of the amount exceeding Rs. 2,400,000
7	Where taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 4,000,000	Rs. 370,000 plus 25% of the amount exceeding Rs. 3,000,000	Rs. 405,000 plus 27.5% of the amount exceeding Rs. 3,000,000
8	Where taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 6,000,000	Rs. 620,000 plus 30% of the amount exceeding Rs. 4,000,000	Rs. 680,000 plus 32.5% of the amount exceeding Rs. 4,000,000
9	Where taxable income exceeds Rs. 6,000,000	Rs. 1,220,000 plus 35% of the amount exceeding Rs. 6,000,000	Rs. 1,330,000 plus 35% of the amount exceeding Rs. 6,000,000

Gross Amount (Rs)	Tax Liability		Tax incidence	
	Existing (Rs)	Proposed (Rs)	(reduction) / increase (Rs)	(reduction) / increase (%)
400,000	-	-	-	0%
600,000	10,000	-	(10,000)	-100%
800,000	30,000	10,000	(20,000)	-67%
1,200,000	70,000	60,000	(10,000)	-14%
2,400,000	250,000	270,000	20,000	8%
3,000,000	370,000	405,000	35,000	9%
4,000,000	620,000	680,000	60,000	10%
6,000,000	1,220,000	1,330,000	110,000	9%
10,000,000	2,620,000	2,730,000	110,000	4%

Rate of tax for companies

The Bill proposes to increase the rate of tax for banking companies to 45% as compared to the existing rate of 35%. Tax rates for other company (29%) and small company (20%) are not changed.

Super tax for banking companies

The Bill proposes to confine super tax for banking companies upto tax year 2022.

Tax on high earning persons for poverty alleviation

The Bill proposes to charge tax on the income of higher earning persons under section 4C on following tax rates:

Income Under Section 4C	Rate of Tax
Where income does not exceed Rs. 300 million	0% of the income
Where income exceeds Rs. 300 million	2% of the income

Rate of tax on certain payments

The Bill proposes to amend the rate of tax on certain payments made to non-resident persons. The proposed rates of tax are presented in below table:

Type of Payment	Existing Tax Rate	Proposed Tax Rate
Royalty	15%	15%
Fee for Technical Services	15%	15%
Fee for offshore digital services	5%	10%
Other specified payments	0%	10%

Rate of tax on capital gains of securities under section 37A

The Bill proposes to substitute the current rate of tax applicable on capital gains on securities under section 37A applicable from tax year 2023 and onwards as following:

S. No.	Holding Period	Proposed Tax Rate
1	Where the holding period does not exceed one year	15%
2	Where the holding period exceeds one year but does not exceed two years	12.5%
3	Where the holding period exceeds two years but does not exceed three years	10%
4	Where the holding period exceeds three years but does not exceed four years	7.5%
5	Where the holding period exceeds four years but does not exceed five years	5%
6	Where the holding period exceeds five years but does not exceed six years	2.5%
7	Where the holding period exceeds six years	0%
8	Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%

Rate of tax on capital gain on sale of immovable property

The Bill proposes to substitute the existing rate of tax on capital gain on sale of immovable property under section 37(1A). The proposed rates of tax are given in below table:

Holding Period	Open Plots	Constructed Property	Flats
Where the holding period does not exceed one year	15%	15%	15%
Where the holding period exceeds one year but does not exceed two years	12.5%	10%	7.5%
Where the holding period exceeds two years but does not exceed three years	10%	7.5%	0
Where the holding period exceeds three years but does not exceed four years	7.5%	5%	0
Where the holding period exceeds four years but does not exceed five years	5%	0	0

Holding Period	Open Plots	Constructed Property	Flats
Where the holding period exceeds five years but does not exceed six years	2.5%	0	0
Where the holding period exceeds six years	0%	0	0

Tax on deemed rental income

The Bill proposes to tax deemed rental income at the rate of 20% under section 7E.

Tax on Import of goods specified in Part-II of the Twelfth Schedule

The Bill proposes to increase rate of tax on imports made by commercial importers in case of import of goods classified in Part-II of the Twelfth Schedule. The proposed rate is 4% of the import value as increased by customs duty, sales tax and federal excise duty in case of commercial importer as compared to 2%.

Tax on import of mobile phones

S. No.	C & F Value of mobile phone (in US Dollar)	Tax (Rs.) In CBU condition	Tax (Rs) in CKD/SKD condition
5	Exceeding 350 and up to 500	5,000	3,000
6	Exceeding 500	11,500	5,200

Rate of tax on export of services

The Bill proposes to substitute existing rate of tax on export of services under section 154A with the following proposed tax rates:

S. No.	Types of Receipts	Existing	Proposed
1	Export proceeds of Computer software or IT services or IT Enabled services by persons registered with	1% of proceeds	0.25% of proceeds

S. No.	Types of Receipts	Existing	Proposed
	Pakistan Software Export Board		
2	Any other case	1% of proceeds	1% of proceeds

Tax on motor vehicle

The Bill proposes to substitute rate of annual token tax on passenger transport vehicles plying for hire under section 234. Existing and proposed rates of tax as per seating capacity are given below:

Existing

S. No.	Capacity	Rs. per seat per annum
1	4 or more persons but less than 10 persons	50
2	10 or more persons but less than 20 persons	100
3	20 persons or more	300

Proposed

S. No.	Capacity	Rs. per seat per annum Non-Air Conditioned	Rs. per seat per annum Air Conditioned
1	4 or more persons but less than 10 persons	500	1,000
2	10 or more persons but less than 20 persons	1,500	2,000
3	20 persons or more	2,500	4,000

Collection of tax on electricity consumption

The Bill proposes to collect tax from retailers other than tier-I retailers and specified service providers through commercial electricity connections under section 99A.The proposed rate of tax is given in below table:

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

Advance tax on purchase, registration and transfer of motor vehicles

The Bill proposes to substitute existing rates of tax collected by motor vehicle registering authority of Excise and Taxation Department at the time of registration or manufacturer of a motor vehicle at the time of sale of vehicle. The proposed rates of tax are given in below table:

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

The Bill further proposes that:

- motor vehicle registering authority at the time of registration and manufacturer of vehicle shall collect tax at the rate of 3% of the import value for imported goods or invoice value for locally manufactured / assembled vehicles where engine capacity is not applicable and the value of vehicle is rupees five million or more.
- the motor vehicle registering authority at the time of transfer of registration / ownership shall collect at Rs. 20,000/- where engine capacity is not applicable, and the value of vehicle is rupees five million or more.
- in case of transfer of registration / ownership of vehicles the rate of tax shall be reduced by ten percent each year from the date of first registration in Pakistan.

Advance tax on sale or transfer of Immovable property

The Bill proposes to increase the rate of advance tax on sale or transfer of Immovable property under section 236C. The proposed rate of tax is 2% of the gross amount of consideration received as compared to existing rate of 1%.

Advance tax on TV plays and advertisements

The Bill proposes to substitute rate of advance tax on TV plays and advertisements collected under section 236CA. The proposed rates of tax are given in below table.

S. No	Description	Existing (Rs)	Proposed (Rs)
1.	Foreign-produced TV drama serial or play	1,000,000 per episode	1,000,000 per episode
2.	Foreign-produced TV play (single episode)	3,000,000	3,000,000
3.	Advertisement starring foreign actor	500,000 per second	100,000 per second

Collection of advance tax by educational institutions

The Bill proposes to omit collection of tax by educational institutions at the rate of 5% of the amount of fee.

Advance tax on purchase of immovable property

The Bill proposes to increase the rate of advance tax on purchase of Immovable property under section 236K. The proposed rate of tax is 2% of the fair market value as compared to existing rate of 1%.

Advance tax on renting of machinery

The Bill proposes to omit collection of tax on payment to a resident person for right to use machinery and equipment under section 236Q.

Advance tax on amount remitted abroad through credit, debit or prepaid cards

The Bill proposes to collect advance tax on amount remitted abroad through credit, debit or prepaid cards at the rate of 1% of the gross amount remitted abroad under section 236Y.

SECOND SCHEDULE

Part I - Exemptions from total income

New exemptions proposed in Second Schedule

The Bill proposes to insert the following new exemptions

- Income derived by Siyahkalem Engineering Construction Industry and Trade Company Limited from contract dated 23rd May 2017 with Earthquake Reconstruction and Rehabilitation Authority, financed by the Saudi Fund for Development with effect from tax year 2017 (clause 150).

- Any income derived by a person from cinema operations in a tehsil or town where there is no cinema, for five years from the commencement of cinema operations. Provided that these exemptions shall only be available to those persons who start cinema construction on or before 31st December 2023 (clause 151)

Amendment in certain exemptions

- The Bill proposes to substitute clause (23A) whereby receipt of accumulated balance from voluntary pension system offered by a pension fund manager under VPS Rules is proposed to be exempt without any condition.

- Currently, under clause (99) any income derived by a Collective Investment Scheme or a REIT Scheme is exempt if not less than ninety per cent of its accounting income of that year, as reduced by capital gains whether realized or unrealized is distributed amongst the unit or certificate holders or shareholders as the case may be.

  The Bill proposes to amend this Clause to allow reduction of accumulated losses from accounting income for the purpose of computing "distributable income".

- The Bill proposes to shift the following entries from Table 2 of clause (66) to Table 1 of clause (66):

S. No.	Description
1	Pakistan Mortgage Refinance Company Limited
2	The Pakistan Global Sukuk Programme Company Limited
3	Karandaaz Pakistan from tax year 2015 onwards
4	Pakistan Sweet Homes Angles and Fairies Place
5	Public Private Partnership Authority for tax year 2022 and subsequent four tax years
6	Dawat-e-Islami Trust
7	Hamdard Laboratories (Waqf) Pakistan

Amendment in exemption on electricity generation projects

The Bill proposes to add explanation after the sixth proviso in Clause (132) which clarifies that the exemption available under this clause shall continue to remain available to those persons to whom such exemption was available on or before 30th June 2021 before insertion of sixth proviso.

The Bill also proposes to restrict exemption under this clause upto the life cycle of the project or 25 years from the date of commencement of commercial production, whichever is earlier.

Exemptions withdrawn

The Bill proposes to withdraw the following exemptions:

- Clause (23B) providing exemption to amounts received as monthly installments from an income payment plan invested out of accumulated balance of an individual pension accounts with a pension fund manager or an approved annuity plan or another individual pension account of eligible person or survivors pension account maintained with any other pension fund manager as specified in VPS Rules are exempt if accumulated balance is invested for 10 years.

- Clause (102A) providing exemption in respect of a subsidy granted by the Federal Government for the purpose of implementation of any orders of the Federal Government in this behalf.

  The very purpose of this exemption is to facilitate the privatization process of government owned organizations by granting subsidy to such organizations which may inter alia included cash disbursements for settlement of their obligations or waiver of their liabilities towards Federal Government.

Part II - Reduction in tax rates

Reduced tax rates extended to distributors of 'Steel' sector

The Bill proposes to ratify the amendments made through Tax Laws (Third Amendment) Ordinance, 2021 dated 15 September 2021 whereby 'Steel' sector was included in Clauses (24C) and (24D) pursuant to which withholding tax rate under section 153(1)(a) and minimum tax rate under section 113 of Ordinance 2001 of 0.25% will apply on distributors, dealers, sub-dealers, wholesalers and retailers of 'Steel' also.

Part III - Reduction in tax liability

Exemptions withdrawn

- The Bill proposes to omit clause (1) which provided reduced tax rate of 2.5% in respect of any amount received as flying allowance by flight engineers, navigators of Pakistan Armed Forces, Pakistani Airlines or Civil Aviation Authority, Junior Commissioned Officers or other ranks of Pakistan Armed Forces and submarine allowance by the officers of the Pakistan Navy.

- The Bill proposes to omit clause (1AA) which provided reduced tax rate of 7.5% in for total allowances received by pilots of any Pakistani airlines.

- The Bill proposes to omit clause (9A) which provided for tax payable on the reduced amount of 'Capital Gains' on disposal of immovable property on the first sale of immovable property acquired or allotted to ex-servicemen and serving personal of Armed Forces or ex-employees or serving personnel of Federal and Provincial Governments, being original allottees of the immovable property, duly certified by the allotment authority.

- The Bill proposes to omit clause (20) which provided that tax payable by a person other than a banking or an insurance company in respect of profit on debt from investment in Federal Government securities is 15 percent which was considered as final tax.

Reduction in tax rate on Income from Bahbood Savings Certificate

The Bill proposes to amend clause (6) to further reduce tax rate from 10% to 5% on the income earned from investment in Bahbood Savings Certificate or Pensioners Benefit Account and Shuhada Family Welfare Account.

Part IV - Exemptions from specific provisions

- The Bill proposes to ratify amendment made in clause (11A) through Tax Laws (Third Amendment) Ordinance, 2021 dated 15 September 2021 whereby minimum tax under section 113 was exempted for mobile phone manufacturers engaged in the local manufacturing of mobile phone devices.

- The Bill proposes to extend the date of exemption upto 31 December 2021 from application of section 148 of Ordinance 2001 on certain items as mentioned in Clause (12B).

- The Bill proposes to substitute clause (95) to provide exemption to the Second Pakistan International Sukuk Company Limited and the Third Pakistan Sukuk Company Limited from application of advance tax payment, profit on debt, payment to non -residents, on sale by auction and purchase / transfer of immoveable property. Further, these exemptions are also proposed to be applicable on Global Sukuk Programme Company Limited as a payer.

The Bill proposes to substitute clause (96) to provide exemption to the Second Pakistan International Sukuk Company Limited and the Third Pakistan Sukuk Company Limited from application of tax withholding on profit on debt, payments for goods & services, rent of immoveable property and sale / transfer of immoveable property. Further, these exemptions are also proposed to be applicable on Global Sukuk Programme Company Limited as a recipient.

New exemptions

- Clause (120) proposes to be inserted to exempt application of section 148 on import of drones donated by Ministry of Agriculture and Rural Affairs (MARA), Government of China to Pakistan through Sea Route.
- Clause (12P) proposes to be inserted to exempt application of section 148 not to apply on import of cinematographic equipment as notified by the Federal Government.
- Clause (97A) proposes to be inserted to provide exemption from sections dealing with taxing of 'capital gains' on immoveable property, tax collection on sale / transfer or purchase / transfer of immoveable property to National Highway Authority in respect of transfer of immovable property to the Pakistan Global Sukuk Programme Company Limited and in respect of transfer of immoveable property to National Highway Authority from the Second Pakistan International Sukuk Company Limited or the Pakistan Global Sukuk Programme Company Limited.
- Clause (120) proposes to be inserted to provide that the provisions of advance tax paid to collection agents at import stage and deduction of tax at source as required in Divisions II and III of Part V of Chapter X and Chapter XII of the Ordinance for deduction or collection of withholding tax shall not apply to the persons mentioned in Table 1 of clause (66) of Part I of the second Schedule as recipients of payment. However, they shall continue to act withholding and collecting agent.
- The Bill proposes to ratify amendment made through Tax Laws (Third Amendment) Ordinance, 2021 dated 15 September 2021 by inserting clause (12BA) whereby imports of thirty million adult 3xPly Knit face masks received as humanitarian assistance from M/s HANES Brands Inc. North Carolina, USA for distribution within the population of Lahore Division, Government of the Punjab become exempt from the application of section 148 of the Ordinance.

Relaxation from tax audit

The Bill proposes to insert clause (105A) to provide that a taxpayer shall not be selected for tax audit whose income tax affairs have been audited in any of the preceding four tax years. However, Commissioner may select a person for tax audit with the approval of Federal Board of Revenue.

Exemptions withdrawn

Exemptions in respect of unexplained income or assets

The Bill proposes to omit clause (86) which provided exemption from applicability of provisions of section 111 to certain persons.

Insurance business and petroleum exploration and production business

As a consequence of proposed insertion of section 4C "Tax on high earning persons for poverty alleviation" levying tax at the rate of 2 percent on income exceeding Rs. 300 million for tax year 2022 onwards, it is also proposed to be made applicable on insurance business and petroleum exploration business pursuant to proposed insertion of Rule 6DA in Fourth Schedule and Rule 4AB in Fifth Schedule.

Banking companies

As a consequence of proposed insertion of section 4C "Tax on high earning persons for poverty alleviation" levying tax at the rate of 2 percent on income exceeding Rs. 300 million for tax year 2022 onwards, it is also proposed to be made applicable on banking companies pursuant to proposed insertion of Rule 7CA in Seventh Schedule.

The Bill also proposes to enhance the rate of tax for taxable income attributable to investment in the Federal Government securities earned by banking companies as follows:

S. No.	Condition	Existing	Proposed
1	if the gross advances to deposit ratio as on last day of the tax year is up to 40%	40%	55%
2	if the gross advances to deposit ratio as on last day of the tax year exceeds 40% but does not exceed 50%	37.5%	49%
	if the gross advances to deposit ratio as on last day of the tax year exceeds 50%.	35%	45%

Further, by way of inserting an Explanation, it is proposed to be clarified that the tax rate under this sub-rule is applicable to total income attributable to total investment in Federal Government securities.

Rate of deduction or collection of tax for persons not appearing in Active Taxpayers' List [ATL]

The Bill proposes to increase collection of tax as follows in case of persons not appearing in ATL:

- tax required to be collected by motor vehicle registering authority or manufacturer of motor cars and jeep by two hundred percent of the rate specified in First Schedule; and
- the tax required to be collected by a person responsible for recording purchase or transfer of immoveable property by two hundred and fifty percent of the rate specified in First Schedule.

The Bill also proposes that the provisions of Tenth Schedule shall not apply in case of tax collection from proceeds from export of services.

Consequential / editorial changes are proposed for non-application of Tenth Schedule in respect of following tax withholding provisions due to their omission:

S. No.	Tax deduction / collection under section	Description
1	156B	Withdrawal of balance under pension fund
2	236I	Fee payment to educational institution
3	236Q	Payment to residents for use of machinery and equipment

Advance tax on imports

Shifting from Part II to Part I

The Bill proposes to move the following item from Part II to Part I of Twelfth Schedule whereby the tax Collection at import stage will reduce from 2% to 1%:

S. No	PCT Code	Description
1	27.01	Coal; briquettes, ovoids and similar solid fuels manufactured from coal

Insertion of items in Part II

The Bill proposes to insert the following new items in Part II which attracts tax collection at the rate of 2% at import stage:

S. No.	PCT Code	Description
1	8504.3100	SMD Inductors for LED bulb and lights

S. No.	PCT Code	Description
2	8504.4090	Constant Current Power Supply of LED lights and bulbs
3	8532.2200	Electrical Capacitors Aluminum Electrolytic for LED bulbs and lights
4	8539.9020	Base Cap for all kinds of LED bulbs
5	8539.9090	Bare or Stuffed Metal Clad Printed Circuit Boards (MCPCB) for all kinds of LED bulbs
6	8539.9090	Housing / Shell, Shell Cover and Base Cap for all kinds of LED Bulbs
7	9001.9000	Lenses for LED Bulbs and Lights
8	9405.1090	Housing / Shell, Shell Cover and Base Cap for all kinds of LED lights
9	9405.9900	Bare or Stuffed Metal Clad Printed Circuit Boards (MCPCB) for all kinds of LED lights

Tax credit allowed to donors for donation to specified entities

The Bill proposes to ratify the amendment made through the Tax Laws (Third Amendment) Ordinance, 2021 whereby all the entities appearing in Table – I of Clause (66), Part I of the Second Schedule to Ordinance 2001 are now part of Thirteenth Schedule for the purpose of Section 61 of the Ordinance enabling the donor to claim tax credit on donation to these entities as well.

SALES TAX

Definition of goods & supply enhanced

The Bill proposes to include production, transmission, and distribution of electricity in the definition of goods. Similar corresponding amendment is also proposed in definition of supply.

Definition of sales tax revised

The Bill seeks to revise the definition of sales tax whereby fee and services charges imposed and collected under Section 76 of Act, 1990 are proposed to be excluded from the ambit of sales tax.

Scope of Tier–1 retailer definition enhanced

Section 2(43A) provides threshold limit and qualification criteria for tier-1 retailers. The Bill now proposes to enhance the scope of definition through inclusion of person engaged in supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal in the ambit of definition of Tier-I retailer.

Scope of tax enhanced

Section 3 of the Act, 1990 deals with the scope of tax. The Bill Proposes following amendments in the aforesaid section;

— Currently, further tax is charged at the rate of three percent [3%] on taxable supply made to person who do not hold registration number.

— Now in addition to the requirement of obtaining registration number the person also needs to have an active taxpayer status to avoid levy of further tax.

— Online marketplace facilitating sale of third party goods was obliged to withhold tax at the rates specified in Sr. No. 8 of the Eleventh Schedule of the Act, 1990 through proviso in sub section 7 which was previously introduced through Tax Laws (Third Amendment) Ordinance, 2021.

— Upon lapse of the above Ordinance, the Bill proposes to introduce the same proviso in sub-section 7, which states that in case of online market place facilitating sales of third party goods, it is the responsibility of online market place operator to withhold the sales tax at the rates specified in Sr. No. 8 of the Eleventh Schedule of the Act, 1990.

— Tax charged from retailers other than those falling in Tier – I is proposed to be amended as follows under section 3 of the Act, 1990:

Exiting Rate		Revised Rate	
Rate %	Monthly bill of electricity (Rs.)	Rate Rs.	Monthly bill of electricity Rs.
5%	Where monthly bill of electricity does not exceed 20,000	Rs. 3,000 per month	Where monthly bill of electricity does not exceed 30,000
7.5%	Where monthly bill of electricity exceeds 20,000	Rs. 5,000 per month	Where monthly bill of electricity exceeds 30,000 but does not exceed 50,000
		Rs. 10,000 per month	Where monthly bill of electricity exceeds 50,000

— Enhance the powers of the Board by adding proviso to section 3(9) regarding inclusion of any persons through general orders to pay rupees fifty thousand [50,000] per month through their monthly electricity bill.

— To enhance the powers of the Board by inserting a new sub-section 11 after the repealed sub-section 10 of Section 3 which authorizes the Board to require any person or class of persons to integrate their invoice issuing machines with the Board's computerized system for real time reporting of sales.

Input tax credit allowed

The Finance Act 2019 inserted clause (m) in section 8(1) whereby input tax attributable to the supplies and services made to unregistered persons shall not be allowed on proportionate basis out of total supplies, where the sale invoices do not bear the NIC numbers or NTN of the unregistered persons.

The Bill proposes to omit the aforesaid clause (m). Consequently, input tax on supplies and services made to unregistered persons is proposed to be allowed.

Relief earlier allowed to listed companies withdrawn

Section 8B deals with input tax adjustment and inter-alia provides that registered person shall not be allowed to adjust the input tax in excess of 90% of the output on supply of goods for a tax period. However, such restriction of adjustment of input tax does not apply to public limited companies listed on Pakistan Stock Exchange.

The Bill proposes to do away with the above relaxation meaning thereby to treat the listed companies at par with non-listed companies with regard to adjustment of input tax in excess of the 90% of the output.

Discontinuance of gas and electricity connections reintroduced

The Board was given power through section 14A which was previously introduced through Tax Laws (Third Amendment) Ordinance, 2021 to direct the gas and electricity distribution companies for discontinuing the gas and electricity connections of any person who fall in the following categories:

— Any person, including tier-1 retailers, who fail to register for sales tax purposes; or

— Notified tier-1 retailers registered but not integrated with the Board's computerized Computer system.

Subsequent to registration or integration of the above persons, the Board shall notify the restoration of their gas or electricity connections.

Upon Repeal of the above Ordinance, the Bill seeks to introduce section 14AB which contains the similar provisions as were introduced through Section 14A previously.

Requirement of CNIC and NTN on invoice done away with

Under clause (b) of section 23(1) of Act, 1990, tax invoice shall inter alia bear the CNIC number or NTN in case of supplies made to unregistered persons, excluding supplies made by a retailer where transaction value inclusive of sales tax does not exceed Rs. 100,000.

The Bill proposes to omit the requirement of stating CNIC number and NTN on the invoice. Consequent to this proposed amendment the tax invoice inter alia contains the name, address and registration number of the recipient.

Scope of penalty extended to QR codes for invoices

The scope of penalty relating to avoidance of monitoring, tracking, reporting or recording of transactions is proposed to be extended to mentioning of QR codes in addition to invoice number or bar codes.

Third Schedule

The Bill proposes to substitute the expression "3402.2000" with words "Respective heading" in serial number 7 for detergents.

Sixth schedule

Exemptions proposed
Table I

The Bill proposes to insert Exemption on following items in Table-I of Sixth Schedule of Act, 1990:

Entry No.	Description of goods
163	Goods imported by various agencies of the United Nations, diplomats, diplomatic missions, privileged persons and privileged organizations which are covered under various Acts and, Orders, rules and regulations made thereunder; and agreements by the Federal Government: Provided that such goods are charged to zero-rate of customs duty under the Customs Act, 1969 (IV of 1969), and the conditions laid therein. Provided further that exemption under this serial shall be available with effect from the 15th day of January 2022.
164.	Photovoltaic cells whether or not assembled in modules or made up into panels
165.	Goods imported by or donated to hospitals run by the non-profit making institutions subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969, (IV of 1969).
166.	Goods excluding electricity and natural gas supplied to hospitals run by the charitable hospitals of fifty beds or more.
167.	Goods temporarily imported into Pakistan, meant for subsequent exportation charged to zero-rate of customs duty subject to the similar restrictions, limitations, conditions and procedures as are envisaged for the purpose of applying zero-rate of customs duty on such goods under the Customs Act, 1969 (IV of 1969).
168.	Silver, in unworked condition
169.	Gold, in unworked condition
170.	Tractor
171.	Seeds for sowing
172.	Machinery, equipment and materials imported either for exclusive use within the limits of Export Processing Zone or for making exports therefrom, and goods imported for warehousing purpose in Export Processing Zone, subject to the conditions that such machinery, equipment, materials and goods are imported by investors of Export Processing Zones, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (IV of 1969) and rules made thereunder shall mutatis mutandis, apply.

Table II

The Bill proposes to insert exemption on following items in Table-II of Sixth Schedule of Act, 1990:

Entry No.	Description of goods
52	Supply of articles of jewelry, or parts thereof, of precious metal or of metal clad with precious metal on which tax has been paid at the import stage @ 4%.
53.	Prepared food or foodstuff supplied by Restaurants and caterers

Table III

The Bill proposes to insert Exemption on following items in Table-III of Sixth Schedule of Act, 1990:

Entry No.	Description of goods
22	1. Machinery, equipment and spares meant for initial installation, balancing, modernization, replacement or expansion of projects for power generation through hydel, oil, gas, coal, nuclear and renewable energy sources including under construction projects entered into an implementation agreement with the Government of Pakistan prior to 15th day of January 2022. 2. Construction machinery, equipment and specialized vehicles, excluding passenger vehicles, imported on temporary basis as required for the construction of project. **Conditions:** This concession shall also be available to primary contractors of the project upon fulfilment of the following conditions, namely:- (a) the contractor shall submit a copy of the contract or agreement
	under which he intends to import the goods for the project; (b) the Chief Executive or head of the contracting company shall certify in the prescribed manner and format as per Annex-A that the imported goods are the projects bona fide requirement; and (c) the goods shall not be sold or otherwise disposed of without prior approval of the FBR on payment of sales tax leviable at the time of import; (ii) temporarily imported goods shall be cleared against a security in the form of a post-dated cheque for the differential amount between the statutory rate of sales tax and the amount payable along with an undertaking to pay the sales tax at the statutory rates in case such goods are not re-exported on conclusion of the project.

Exemption proposed to be withdrawn

Table I

The Bill proposes to withdraw exemption currently available on following items in Table-I of Sixth Schedule.

Following Tariff Heading in Serial no. 13 of the Table 1 of Sixth Schedule are proposed to be withdrawn:

Tariff heading proposed to be withdrawn	Description of goods
0709.5910	Globe artichokes
0709.5990	Mushrooms, Shiitake, Matsutake, Truffles (others)

Table II

The Bill proposes to withdraw exemption currently available on following items in Table-II of Sixth Schedule:

Tariff Heading proposed to be withdrawn	Description of goods
0701.9000 0703.1000	Supply of ware potato and onions

Exemption proposed to be substituted and rationalized

Table I

The Bill proposes to substitute exemption currently available on following items through Table-I of Sixth Schedule that was introduced through Finance Supplementary Act, 2022, this entry has been further amended as follows:

Entry No.	Existing description of good	Proposed description of goods
32.	Newsprint, newspapers, journals, periodicals, books but excluding directories.	Newsprint and books but excluding brochures, leaflets and directories

The Bill proposes to add following description in the following entries of Table-I of Sixth Schedule:

Entry No.	Existing description of good	Proposed description of goods
137	Paper weighing 60 g/m2, art paper and printing paper for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by	Paper weighing 60 g/m2, art paper and printing paper, art card for printing of Holy Quran imported by Federal or Provincial Governments and Nashiran-e-Quran as per quota determined by

Entry No.	Existing description of good	Proposed description of goods
	IOCO	IOCO

A new tariff heading has been added in serial no. 137 of Table-I of Sixth Schedule:

Tariff heading proposed to be added	Description of goods
4810.2900	Other Papers

Following description of the tariff headings are proposed to be substituted in Table-I of Sixth Schedule:

Entry No.	Tariff heading	Existing description of good	Proposed description of goods
45	9027.8000	Other Instruments and Apparatus	Others
120	3822.0000	Diagnostic or laboratory reagents on a backing, prepared diagnostic or laboratory reagents whether or not on a backing, other than those of heading 30.02 or 30.06; certified reference materials	Respective headings
133	2930.9090 2931.0010 2931.0090 2932.2920 2933.3930 2941.9050 3402.1110		Respective headings

Entry No.	Tariff heading	Existing description of good	Proposed description of goods
	3402.1190 3402.1290 3402.1300 3402.1990		

Table II

The Bill proposes to add description in the following entries of Table-II of Sixth Schedule:

Entry no	Existing description of good	Proposed description of goods
45	Edible vegetables including roots and tubers, except ware potato and onions, whether fresh, frozen or otherwise preserved (e.g. in cold storage) but excluding those bottled or canned	Edible vegetables including roots and tubers whether fresh, frozen or otherwise reserved (e.g. in cold storage) but excluding those bottled or canned.

The following tariff headings are proposed to be substituted in Table-II of Sixth Schedule:

Entry no	Tariff heading	Existing description of goods	Proposed description of goods
32	0403.1000	Yogurt	Respective heading

Table IV

The following tariff headings are proposed to be substituted in serial no. 80 of Table-IV of Sixth Schedule:

Entry no	Description	Existing tariff heading	Proposed tariff heading
80	Yogurt	0403.1000	0403.2000

Eight Schedule – Table I
Reduced rate withdrawn

The Bill proposes to withdraw reduced rate of sales tax currently available on following items under Table-I of Eighth Schedule:

Entry no.	Description of goods	Existing reduced rate of sales tax
25	Agricultural tractors.	5%
47	Locally produced coal	Rs. 425 per metric ton or 17% ad valorem, whichever is higher
75	Import of electric vehicles in CBU conditions	12.5%

Eight Schedule – Table – I
Reduced rate introduced

The Bill proposes to insert following items in Table-I of Eighth Schedule for application of reduced rate of sales tax:

Entry no.	Description of goods	Proposed reduced rate	Condition
78	Supply of articles of jewelry or parts thereof of precious metal or of metal clad with precious metal.	3%	No input tax shall be adjusted.
79	Import of articles of jewelry or parts	4%	No input tax shall be adjusted.

Entry no.	Description of goods	Proposed reduced rate	Condition
	thereof of precious metal or of metal clad with precious metal.		
80	Local supply of reclaimed lead	1%	Subject to the conditions that: (i) Supplies are made to registered manufacturers of lead and lead batteries and (ii) No refund of input tax shall be admissible.

Eight Schedule – Table – I Amendments

The Bill proposes following amendments in Table-I of Eighth Schedule:

- Presently, under Serial No. 43, natural gas supplied to fertilizer plants for use as feed stock in manufacturing of fertilizer are subject to sales tax at 5%. The Bill proposes to enhance the sales tax rate to 10%;
- Phosphoric acid as specified in Serial No. 44 with condition that "if imported by fertilizer company for manufacturing of DAP" is presently subject to sales tax at 5%. The Bill proposes to increase the rate to 10%;
- Under Serial No. 52 Fertilizers (all types) are presently charged to sales tax at 2%. The Bill seeks to increase the rate to 10%;
- Under Serial No. 53, the Bill proposes to substitute the expression "9405.4090" with the word "Respective headings";
- Under Serial No. 56, presently import and supply of Potassium Chlorate (KCLO3) is chargeable to sales tax at the rate of 17% along with rupees 90 per kilogram. The Bill now proposes to reduce the rate to 17% along with rupees 60 per kilogram.

Ninth Schedule – Table – II Withdrawal of fixed tax on mobile phones

The Bill proposes to charge sales tax on certain category of cellular mobile phones from fixed tax to uniform sales tax rate in the following manner:

Category with description of mobile phones	Sales tax on import in CKD /SKD condition (Existing)	Sales tax on import in CKD /SKD condition (Proposed)
Cellular mobile phones or satellite phones Exceeding US$ 100 but not exceeding US$ 200	Rs. 10	10% ad valorem
Exceeding US$ 200 but not exceeding US$ 350	Rs. 1,740	10% ad valorem
Exceeding US$ 350 but not exceeding US$ 500	Rs. 5,400	10% ad valorem
Exceeding US$ 500	Rs. 9,270	10%

Eleventh Schedule – Amendment

Under Serial No. 7, the Bill proposes to substitute the expressions "8548.1010" and "8548.1090" with the word "Respective headings".

Twelfth Schedule – Amendment

Twelfth Schedule prescribes minimum value addition tax levied and collected on imports of taxable goods at the rate of 3% subject to certain exclusions such as raw materials and intermediary goods imported by a manufacturer for in house consumption.

Now the Bill proposes to collect minimum value addition tax on compressor scrap (PCT heading 7204.4940), motor scrap (PCT heading 7204.4990) and copper cable cutting scrap (PCT heading 7404.0090) on imports by manufacturer for in house consumption.

FEDERAL EXCISE DUTY

Table – 1 of First Schedule

The Bill proposes to enhance FED rates on locally produced cigarettes as follows:

S. No.	Description of Goods	Existing rate	Proposed FED rate
9	Locally produced cigarettes if their on- pack printed retail price exceeds Rs.5,960 per thousand cigarettes	Rs. 5,200 per thousand cigarettes	Rs. 5,600 per thousand cigarettes
10	Locally produced cigarettes if their on- pack printed retail price does not exceed Rs.5,960 per thousand cigarettes	Rs. 1,650 per thousand cigarettes	Rs. 1,850 per thousand cigarettes

The Bill proposes to rationalize FED rates on certain goods as follows:

S. No.	Description of services	Existing		Proposed	
		Tariff Heading	FED rate	Tariff Heading	FED rate
8a	E-liquids by whatsoever name called, for electric cigarette kits	Respective heading	Rs. 10 per ml	Respective heading	Rs. 10,000 per Kg
56	Filter rod for cigarettes	5502.9090	Re.1 per filter rod	Respective heading	Rs.1,500 per Kg

Table -II of First Schedule

The Bill proposes to enhance FED rates on certain excisable services as follows:

S. No.	Description of services	Existing rate	Proposed FED rate
3 (b) (ii)	Services provided or rendered in respect of travel by air of passengers embarking on international journey from Pakistan in Club, business and first class.	Rs.10,000	Rs. 50,000
6	Telecommunication services, excluding such services in the area of a Province where such Province has imposed Provincial sales tax and has started collecting the same through its own Board or Authority, as the case may be	16%	19.5%

Exclusion of fees and service charges from definition of duty

Through Finance Act 2019, section 49 was inserted which empowers the Board to levy fee and service charges for valuation etc.

The Bill proposes to exclude aforesaid fee and service charges from the definition of the term "duty" for the purpose of FE Act, 2005.

CUSTOMS

Fifth Schedule (Reduced Rate)

New insertions in the Schedule

Part I

Description	H.S Code	Duty rate
Aluminum Electrolytic capacitor	8532.2200	0%
SMT Electrical Transformer	8504.3100	0%
Aluminum sheet	7606.1200 7606.9190	0%
Tantalum capacitors	8532.2100	0%

Description	H.S Code	Duty rate
(DIP/SMD)		
Other inductors, small transformer, coil (DIP/SMD)	8504.4090 8504.5000	0%

Part II (Table A)

Description	H.S Code	Duty rate
Active Pharmaceutical Ingredients		
Acetone	2914.1100	0%
Anti-Foam	3824.9999	0%
Acetic Anhydride	2915.2400	0%
(+) - (1S,2S)-2-Methylamino-1-Phenylpropan-1-OL Base	2939.4900	0%
4-(N-Acetyl) Amino-N1-(5-Methyl-3-Isoxazolyl) Benzenesulfonamide	2935.9090	0%
Add (1RS,2RS)-2-(dimethylamino) methyl)-1-(3-methoxyphenyl) cyclohexanol	2942.0000	0%
5-(2,4,5-trimethoxyphenyl) methyl) pyrimidine-2, 4-diamine (TMP Technical)	2933.5920	0%
Para-Amino-Phenol	2922.2900	0%
Add 2-(4-Isobutylphenyl) Propionic Acid Crude	2916.3990	0%
Racemic-2-{4(4-chlorophenyl)phenyl methyl}-1 piperazin Ethanol (Crude)	2933.5990	0%
1-[1-[[[(1 R)-1-(3-(1 E)-2(-7-chloro-2 quinoliyl)phenyl]-3-[2(1-hydro xylmethylethyl)phenyl)propyl]t hiomethyl cyclopropane acetic acid (montelukast acid pure)	2933.4990	0%
1-cyclopropyl- 6-fluro-4 oxo-7 piperazine-i-ylquinoline - 3 carboxylic acid - hydrochloric acid (crude)	2933.5990	0%
1-Cyclopropyl- 6-fluoro-1,4dihydro-8- methoxy-7((4as,7as)- octahydro-6H-pyrrolo(3,4-b)pyridine 6-yl)-4-oxo-3-quinolinecarboxylic acid	2933.4920	0%
9,10-Difloro-2,3-dihydro-3 methyl-7-oxo-7Hpyrido[1,2,3-de]-1,4-benzoxazine-6 carboxylic acid crude	2934.9990	0%
(S)-(-)-9 floro-2,3 Dihydro-3-Methyl-10-14Methyl-1-piperazinyl)-7-oxo-7H- pyrido (1,2,3 de)1,4-Benzoxzine-6-Carboxylic acid hemihydrates Crude	2933.4990	0%
Sitagliptin Free Base	2933.5990	0%
2-(2-chlorophenyl)-2-(methylamino cyclohexanone (Ketamine Base)	2922.3900	0%
Glacial Acetic Acid	2915.1100	0%
Activated carbon	3802.1000	0%
Sodium Hydro-Sulfite	2831.1010	0%
Methanol	2905.1100	0%
Potassium Hydroxide	2815.2000	0%
Dimethylformamide	2924.1990	0%
n-heptane	2901.1090	0%
Ethylene diamine tetra acetic acid	2921.2100	0%
Iso Propyl Alcohol	2905.1220	0%

Part III

Description	H.S Code	Duty rate
Raw materials/inputs for poultry and textile sector; other goods		
Stamping foils	3212.1000	0%
Dyed	5407.9200	5%
Of yarns of different colours	5407.9300	5%
Printed	5407.9400	5%
Of other materials	6702.9000	5%

Description	H.S Code	Duty rate
Poly-butylene terephthalate	3907.7000	0%
Membrane for filtering or purifying water	8421.2100	0%
Carbon Fiber Composite Core	8545.9090	0%
Flavouring powders for food preparation	2106.9030	3%
Following Raw Materials for the manufacturing of Filters other than automotive: -		
Adhesive	3506.9190	5%
Epoxide resins	3907.3000	
Filter media/paper	4811.5990 4811.9000	
Non-woven fabric media	5603.9200 5603.9300 5603.9400	
Steel plates/sheets of prime quality	Respective heading	

Part-VII (Table-B)

Description	H.S Code	Duty rate
Miscellaneous		
Glycerol, crude; glycerol waters and glycerol lyes.	1520.0000	7%

Omission from the Schedule

Part-II (Table-A)

Description	H.S Code	Duty rate
Active Pharmaceutical Ingredients		
Sitagliptin Phosphate Monohydrate	2933.5990	0%
Trimethoprim	2933.5990	0%
Protacine (Proglumet, Dimaleate)	2933.5990	0%

Part-III

Description	H.S Code	Duty rate
Raw materials/inputs for poultry and textile sector; other goods		
Unsaturated Polyester Resin (UPR)	3907.9100	5%
Petroleum oils and oils obtained from bituminous minerals, crude	2709.0000	2.5%

Part-VII (Table-B)

Description	H.S Code	Duty rate
Miscellaneous		
Motor spirit	2710.1210	10%
Polymers of ethylene, in primary forms	3901.0000`	3%
Polymers of propylene or of other olefins, in primary forms	3902.0000	3%

Change in rate in the Schedule

Part-I

Description	H.S Code	Existing rate	Proposed rate
1. Agricultural Machinery			
Tractor mounted trencher	8701.9220 8701.9320	2%	0%
1(C). Irrigation, Drainage and Agro-Chemical Application Equipment			
Tubewells filters or strainers.	8421.2100	2%	0%
1(D). Harvesting, Threshing and Storage Equipment			
Fodder/forage wagon.	8716.8090	5%	0%
1(E). Fertilizer and Plant Protection Equipment.			

Description	H.S Code	Existing rate	Proposed rate
Spray pumps (diaphragm type).	8413.8100	5%	0%
All types of mist blowers.	8414.5990	5%	0%
1(G). Post-harvest Handling and Processing and Miscellaneous Machinery.			
Pre-fabricated CO_2 Controlled Stores.	9406.1090 9406.9090	2%	0%
1(H). Green House Farming and Other Green House Equipment.			
Geo-synthetic liners (PP/PE Geo synthetic films of more than 500 microns).	3921.9010 3921.9090	3%	0%
Greenhouses (prefabricated).	9406.1010 9406.9010	5%	0%
1(I). Machinery, Equipment and Other Capital Goods for Miscellaneous Agro-Based Industries like Milk Processing, Fruit, Vegetable or Flowers Grading, Picking or Processing etc.			
Evaporators for juice concentrate	8419.8990	5%	0%
Machinery used for dehydration and freezing.	8418.6990	5%	0%
Heat exchange unit.	8419.5000	5%	0%
Machinery used for filtering and refining of pulps/juices.	8421.2200	5%	0%
1(J). Horticulture and Floriculture			
Machines for making cartons, boxes, cases, tubes, drums or similar containers, other than by moulding	8441.3000	5%	0%
PU panels (Insulation).	Respective headings	5%	0%
Generator sets 10 to 25 KVA.	8502.1120 8502.1130	5%	0%
Refrigerating machines with engine fitted on common base for refrigerated containers.	8418.6920	5%	0%
Other refrigerating or	8418.5000	5%	0%

Description	H.S Code	Existing rate	Proposed rate
freezing chests, cabinets.			
Tubes, pipes and hollow profiles of iron and steel.	7304.3100 7304.3900	5%	0%
1(K). Fish or shrimp farming and seafood processing machinery and equipment.			
Compressor	8414.8090	5%	0%
Generator	8502.1130 8502.1190	5%	0%
Condenser	8502.1200	5%	0%
Boast freezer	8418.3090	5%	0%
Fiber glass tubs	8418.4090	5%	0%
Insulated plants	7019.9090	5%	0%
Flake ice plants	8418.6990	5%	0%
Water aerators	8414.8090	2%	0%
2. Machinery and equipment for development of grain handling and storage facilities including silos.	Respective Headings	0%,3%, 5%	0%
3. Cool chain machinery, equipment including Capital goods.	Respective Headings	0%,3%, 5%	0%

Part-II (Table-A)

Description	H.S Code	Existing rate	Proposed rate
Active Pharmaceutical Ingredients			
Ossein Mineral Complex	2106.9090	20%	0%

Part-II (Table B)

Description	H.S Code	Existing rate	Proposed rate
Excipients / Chemicals			
Other vegetable saps and extracts (Pharmaceutical grade)	1302.1900	5%	10%

Part-III

Description	H.S Code	Existing rate	Proposed rate
Raw Materials/Inputs for Poultry and Textile Sector; Other Goods			
Other	3005.9090	5%	0%
Other	3920.2090	5%	0%
Other woven fabrics (Dyed)	5407.5200	5%	0%

Part-VII (Table-B)

Description	H.S Code	Existing rate	Proposed rate
Miscellaneous			
Containing by weight more than 50 % of graphite or other carbon or of a mixture of these products	6903.1000	15%	3%

Definitions

- In order to curb the menace of smuggling of essential commodities out of Pakistan, "bordering and coastal areas" are proposed to be defined under section 2(bbc) which means all districts located along with international borders including coastal areas of Pakistan, as notified by Provincial Governments.

- "Standardized information and documents lodged with a single-entry point through Pakistan Single Window" are proposed to be included in the definition of "documents" under section 2(kka) in order to align with Pakistan Single Window Act, 2021

- "Essential commodities" which are prone to smuggling out of the country through international borders due to price differential in the international market are proposed to be defined under section 2(kkd) which means those items, availability of which are considered vital for domestic use or consumption, as notified by the Board, from time to time, in consultation with ministries concerned.

- "Other government agencies" are proposed to be defined under section 2(oa) in line with clause (n) of sub-section (1) of section 2 of the Pakistan Single Window Act, 2021.

- "Pakistan Single Window" are proposed to be defined under section 2(pb) in line with clause (m) of sub-section (1) of section 2 of the Pakistan Single Window Act, 2021.

- In order to align with Pakistan Single Window Act, 2021, words "Trade Controls" are proposed to be included in the definition of "Risk Management System" under section 2(qb).

- "Essential commodities, as notified by the Board" are proposed to be included in the definition of "smuggle" under section 2(s).

- "Trade controls" are proposed to be defined under section 2(sa) in line with clause (x) of sub-section (1) of section 2 of the Pakistan Single Window Act, 2021

- "Un-authorized access" is proposed to be defined under section 2(sb) in line with clause (y) of sub-section (1) of section 2 of the Pakistan Single Window Act, 2021.

General power of Federal Government to exempt customs duties

The Bill proposes to extend the general power of Federal Government to allow exemption from customs duties from 30 June 2022 to 30 June 2023 through amendment in the second proviso of sub-section 5 of section 19.

Provisional determination of liability

Presently, six months are provided to finalize the provisional assessment which may further extend to three months in exceptional circumstances under sub-section (2) of section

81. In order to facilitate trade and avoid delay in realization of government revenue, the Bill proposes to reduce the said timelines from six months to three months and from three months to one month respectively.

Power to allow warehousing

Presently, under section 98, the Collector of Customs and the Chief Collector of Customs are empowered to allow warehousing facility. In order to facilitate trade, the Bill proposes to revise the power of allowing warehousing facility as under:

1. The Additional Collector of Customs, for a period not exceeding one month
2. The Collector of Customs, for a period not exceeding six months

Frustrated cargo

Presently under section 138(1), goods which are brought into a customs-station by reason of inadvertence or consignee has dishonored his commitments or otherwise, the goods are allowed to be exported without payment of duties. The Bill proposes to provide an option to any other person by changing the consignee name for clearance under section 79.

Offences and penalties

The Bill proposes to amend / insert the following entries in the Table of Offences and Penalties:

S. No.	Offences	Penalties
8(i)	Where any goods including essential commodities as notified by Board is smuggled	Such goods shall be liable to confiscation and any person concerned in offence shall be liable to penalties already specified therein
105(i),(ii), (iii), (iv), (v), (vi), (vii), (viii)	Offences in relation to Pakistan Single Window • Un-authorized access to information, data, etc. • Un-authorized copy, transmission, etc. • Un-authorized interference or damage, etc. • Use of any information system, data or intent to commit fraud by any input, alteration, etc. • Use, make, supply, retain, obtain device or software for offences under section 13 of the Pakistan Single Window Act, 2021. • Obtain, sell, process, use or transmit another person's Unique User Identifier or attempt to it • Tamper with or attempt, alter or re-program of the system • Write, offer, make available, distribute, or transmit a malicious code with the intent to cause harm to Pakistan Single Window system	Imprisonment for specified period or with specified fine or both

Power to stop and search conveyance

Under section 164, appropriate officer of customs is empowered to stop any conveyance or aircraft for the purpose of search, etc. However, in case of essential commodities as notified by the Board, it is proposed that the power of search shall only be exercised within bordering and coastal areas.

Procedure in case of seizure of essential commodities

A new section 170A is proposed to be inserted for explaining procedure in case of seizure of essential commodities, as notified by the Board. The section illustrates that such seized goods shall be deposited in the nearest custom-house or the nearest place appointed by the Collector of customs.

Power of adjudication

The Bill seeks to enhance the pecuniary jurisdiction of Additional and Deputy Collector in section 179 in order to rationalize the workload of adjudicating authorities and quick disposal of cases as under:

Adjudicating authorities	Adjudication amount in million	
	Existing	Proposed
Additional Collector	Three	Five
Deputy Collector	One	Two

Wharfage or storage fees and port charges

Presently, under section 203, the Collector of Customs may from time to time fix the period after which goods lying in any customs area or custom-house premises shall be subject to payment of fees as prescribed by the Board.

The Bills proposes to empower Collector of Customs to also fix the port charges on import and export of goods for services rendered by terminal operators, as prescribed by the Board. The Collector of Customs would also be empowered to fix charges for storing seized and confiscated goods, vehicles, etc. in declared State warehouse.

Protection of action taken under the Customs Act

Section 217 provides that no suit, prosecution, or other legal proceeding shall lie against the Federal Government or any public servant for anything which is done or intended to be done in good faith in pursuance of the Customs Act.

The Bill proposes to include Provincial Government in this section in order to extend the protection provided in this section to the actions taken in good faith by the officers of Provincial government.

TAX ON SERVICES (ISLAMABAD CAPITAL TERRITORY)

The Bill proposes to provide for charge of sales tax at 15% on the services provided by farmhouses, restaurants and suppliers of food and drinks.

The Bill proposes to reduce the general rate of sales tax on services from 16% to 15%. Further, the rate of sales tax for call centres is also proposed to be reduced from 17% to 15%.

The Bill proposes to withdraw the charge of sales tax on IT and IT enabled services.

Sales tax on hospitality industry

The Bill seeks to enhance the scope of chargeability of sales tax on hospitality industry. As per proposed amendment, the services of farmhouses, restaurants and suppliers of food and drinks have also been brought into sales tax net at 15%.

Reduction in general rate of sales tax

Presently, the general rate of sales tax chargeable under the ICT Ordinance 2001 is 16%. The Bill proposes to reduce the general rate of sales tax to 15%.

Reduction in tax rate for call centres

At present, the services of call centres are subject to charge of sales tax at 17%. In line with the reduction of general rate of sales tax to 15%, the Bill proposes to reduce the rate of sales tax for call centres to 15%.

Withdrawal of sales tax on IT and IT enabled services

Presently, the IT and IT enabled services are chargeable to sales tax at 5%. In order to promote the IT sector, it has been proposed to withdraw the charge of sales tax on IT and IT enabled services.

CAPITAL VALUE TAX

The Bill proposes to impose a Capital Value Tax [CVT] on the value of certain assets to be called Capital Value Tax, 2022.

The capital value tax would be levied, charged and collected as follows:

S. No.	Assets / description	Rate
1	Motor vehicle held in Pakistan where the value exceeds Rs 5 million	2% of the value
2	Assets held of resident individual, whether movable or immovable held abroad where the value of such assets exceeds Rs 100 million	1% of the value

S. No.	Assets / description	Rate
3	Such assets or class of assets as specified by the Federal Government through a notification in the official Gazette	At such rates and in such manner as may be specified.

Determination of the value

Value of the asset for imposing CVT shall be determined in the manner provided below:

a) in case of motor vehicle:

i) where the vehicle is imported in Pakistan, the import value assessed by the Customs authorities as increased by customs duties;

(ii) where the vehicle is manufactured or assembled locally in Pakistan, the value at which the motor vehicle is sold by the local manufacturer or assembler;

(iii) where the vehicle is auctioned, the auction price;

(iv) in any other case, the total consideration paid to acquire, alter or improve the vehicle;

b) the value of the motor vehicle mentioned in clause (c) shall be reduced by 10 percent for each year from the end of financial year in which the motor vehicle is acquired.

Provided that the value shall be treated as zero-

(i) after 10 years from the end of financial year in which the motor vehicle is acquired;

(ii) where the value after reduction as mentioned in this clause, is less than or equal to Rs.5 million;

c) in case of assets of a resident individual irrespective of moveable or immoveable held abroad, the value shall be the higher of-

(i) the total consideration paid to acquire, alter or improve the asset; or

(ii) the fair market value of the asset;

d) in case of assets notified by Federal Government, the value shall be as specified in such notification

Collection or payment of CVT

The CVT shall be collected or paid in the following manner:

a) For imported vehicles, to be collected at the time of import of motor by Collector of Customs. The provisions of the Customs Act, 1969 shall apply to the collection and payment of such tax.

b) For locally manufactured or assembled vehicle, local manufacturer or assembler shall collect tax from the buyer of the motor vehicle.

c) any person making sale by public auction or auction by a tender of motor vehicle shall collect tax from the person to whom such motor vehicle is sold on the sale value 'auction price' of motor vehicle.

d) The tax shall be collected at the time of sale or where the payment is made in installments at the time of payment of first installment and the tax collected shall be paid to the credit of the Federal Government through remittance to the Government Treasury or deposit in an authorized branch of the State Bank of Pakistan or the National Bank of Pakistan within seven days of the date of collection:

e) Every motor vehicle registering authority of Excise and Taxation Department at the time of collecting motor vehicle tax shall also collect tax at the rate Specified in First Schedule:

Provided that tax under this clause shall not be collected from the person in the financial year in which tax has been paid or collected from the said person under this section at the time of-

(i) import;

(ii) purchase from local manufacturer or assembler; or

(iii) auction;

f) in case of assets of a resident individual whether moveable or immoveable, the person holding the assets shall be liable to pay tax at the time of filing of income tax return for the tax year in the manner prescribed; and

g) in case of assets notified by Federal Government, the tax shall be collected or paid in the manner as specified in such notification.

Proceed to be credited

The collection of CVT shall be

credited to the Federal Consolidated Fund under the head specified by the Federal Government.

Penalty for non-payment and collection of CVT

The following penalty is proposed if a person fails to:

a) pay tax to the credit of the Federal Government;

b) collect tax; or

c) pay to the credit of the Federal Government after having collected the tax, the person shall be personally liable to pay–

(i) the amount of tax; and

(ii) the default surcharge at a rate equal to twelve per cent per annum on the tax unpaid computed for the period commencing on the date on which the tax was due and ending on the date on which it was paid.

Passing of an order by an officer

The Bill proposes to give power to the officer of Inland Revenue who may pass an order after giving the person an opportunity of being heard, and proceed to recover the tax under the provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 as if the tax were an arrear of income tax.

Revision of order

The Commissioner has the power to revise any order on the application of the person.

Application of the provision of Income Tax Ordinance and Income Tax Rules

The provisions of the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002 shall apply to the collection and recovery of tax under this section.

Right to appeal

If any person is aggrieved with any order passed by the Commissioner or an officer of Inland Revenue under this section may prefer an appeal before the Commissioner (Appeals) against the order as provided in section 127 of the Income Tax Ordinance, 2001.

Exemption

The Federal Government reserves power to exempt any asset or class of asset from tax upon notification in official Gazette subject to such conditions as may be specified.

Definition

For the purpose of this levy, Commissioner, Commissioner (Appeals), officer of Inland Revenue, person and resident individual shall have the meanings as defined in the Income Ordinance, 2001.

MOBILE HANDSET LEVY

Revision of rates

Mobile Handset Levy was introduced through Finance Act 2018. The Bill proposes to enhance the rates of this levy as follows:

S. No.	Mobile Phones having C&F Value (US Dollars)	Rate of levy per set in Pak Rupees	
		Existing	Proposed
1.	Up to 30	Nil	100
2.	Above 30 and up to 100	Nil	200
3.	Above 101 and up to 200	500	600

<table>
<tr><th rowspan="2">S. No.</th><th rowspan="2">Mobile Phones having C&F Value (US Dollars)</th><th colspan="2">Rate of levy per set in Pak Rupees</th></tr>
<tr><th>Existing</th><th>Proposed</th></tr>
<tr><td>4.</td><td>Above 201 and up to 350</td><td>1500</td><td>1800</td></tr>
<tr><td>5.</td><td>Above 351 and up to 500</td><td>3500</td><td>4000</td></tr>
<tr><td>6.</td><td>Above 501 and up to 700</td><td rowspan="2">7000</td><td>8000</td></tr>
<tr><td>7.</td><td>Above 701</td><td>16000</td></tr>
</table>

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