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Rules related to Online Integration of Businesses

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Preamble

The Government of Pakistan is continuously taking steps to improve the economic conditions of the country. Pakistan's low tax to GDP ratio augmented by prevalence of undocumented cash-based economy in trade, mid-tier and wholesale sector is one of the major contributors to these economic challenges.

In an effort to address these issues, the Federal Board of Revenue (FBR) introduced new regulations in August 2020 mandating companies and businesses operating in designated cities to install accredited Electronic Fiscal Devices [EFDs]. In 2024, this scope has been enhanced to prescribe more businesses that are not only required to install EFDs but also to integrate these with FBR through licensed software integrators.

22 May 2024

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Executive Summary

Chapter VIIA of the Income Tax Rules, 2002 has been amended through S.R.O. 428(I)/2024 dated 22 March 2024 (SRO) whereby the businesses prescribed in the SRO have been mandated to install and integrate an approved Electronic Fiscal Device (EFD) system with the FBR. This EFD will consist of a Sales Data Controller (SDC) and connected Point-of-Sale (POS) terminals and will be integrated through a licensed integrator.

All business establishments of the prescribed businesses need to be registered with the FBR, and details of each POS (location and registration number) must be submitted.

Every sale or service must be recorded through the EFD, generating a detailed fiscal invoice. This invoice includes information relating to the sales tax invoice including the unique QR code linked to the invoice. A clear printed copy with QR code and FBR invoice number must be provided to the customer for verification. Additionally, all transaction data needs to be electronically transmitted to the FBR system at regular intervals (daily, weekly, or monthly).

The effective date for putting this scheme into operations is currently set at 1 July 2024.

Key requirements for integration

Scope and obligations

The businesses listed in the schedule to the Rules, tabulated at page 3 of this commentary, are to be called 'integrated enterprise'. These businesses are mandated to integrate their transactions with FBR by installing and integrating approved Electronic Fiscal Device (EFDs) through a **licensed integrator**.

Integrated enterprise shall also notify the Board through computerized system and shall register each Point of Sale [POS] for the integration by providing below information:

- a) POS Registration Number (to be provided by the System);
- b) Name of business;
- c) Branch name;
- d) Branch address;
- e) POS identification number;
- f) Registration date; and
- g) License number of the integrator

Without recording of the invoice by the EFD, no sales of goods or services including ancillary sales and services can be made. The cost of integration and equipment is to be borne by the integrated enterprise.

Functions of EFD

EFD will be composed of a Sale Data Controller (SDC) and connected Point of Sale (POS) terminals. EFD is to receive, record, analyze and store fiscal data and format it into fiscal invoices or bills. It shall transmit the fiscal data to the Board's Computerized System through secure means. EFD will also be configured to print the invoice or bill.

EFD Process

Accredited POS system will transmit transaction data to the SDC, which will analyse, calculate taxes, generate bills with bill numbers, and transmit fiscal invoice to POS for printing along with number and QR code including digital signatures on invoices. Lastly, fiscal data will be forwarded to the Board's system.

The POS will also be configured to prepare and send weekly sales reports and maintain a log of activities.

Invoices generated by EFD

The invoices to be generated by EFD shall include the particulars requisite under the law for sales tax invoices besides also identifying POS Registration Number, Payment Method (cash or credit card). A copy of each invoice must be provided to the customer.

In case of sales returns, proper credit notes or supplementary invoice required for returns / exchanges shall be issued by EFD with reference to the original invoice and detail refund / charged amount with sales tax (if any).

EFDs shall be tamper-proof with backup at an offsite with CCTV footage and retention of data for three (3) months also generating alerts for malpractice, errors, or inconsistencies.

Record, access and examination

Businesses using the FBR system must keep complete transaction records at both their location and a central spot as well as grant access to authorized officials for checking compliance of these rules.

Online integration during transitioning period

In the transitional period the businesses can meet "online integration" requirements temporarily by confirming compliance and uploading invoice data every seven (7) days until the FBR's real-time communication system is ready or till such extended time allowed by the Commissioner.

Consequences of non-compliance or contravention

Tampering with the FBR system, issuing invoices outside the approved devices, or violating these rules can lead to penalties under the Income Tax Ordinance, 2001.

Reporting of failure to transfer sale or bill data to the Board

The FBR website offers a customer verification portal for invoices issued by integrated enterprises. Customers can confirm if their invoices have been transmitted to the FBR system. In case of discrepancies, the portal allows uploading an image of the invoice for further verification by the FBR.

Businesses requiring integration

Following businesses need to be integrated with FBR:

S. #	Applicability on businesses
1	Restaurants operating under air-conditioned facility
2	Hotels, motels, guest houses, marriage halls, Marquees and clubs including race clubs operating under air conditioning facility
3	Inter-city travel by road providing air conditioning travel services and maintaining a fleet of 5 or more vehicles
4	Courier services and cargo services
5	Personal care services by beauty parlours, clinics and slimming clinics, massage centers, and pedicure centers operating under the facility of air conditioning
6	All medical service providers including dentists, physiotherapists, plastic surgeons, hair implant surgeons, and veterinary doctors charging fees of Rs. 500/- or more
7	Pathological laboratories, medical diagnostic laboratories including X-Rays, CT scan, M.R. Imaging etc.
8	Private hospitals or medical care centres providing medical consultation, hospitalization, or other ancillary services
9	Health clubs, gyms, physical fitness centres, swimming pools and multipurpose clubs operated by any civilian/ non-civilian administration
10	Photographers, videographers, and event managers charging fees of more than Rs. 50,000 per event.
11	Chartered Accountant and a Cost and Management Accountant
12	Retailers including manufacturer cum-retailer, wholesaler-cum retailer, importer-cum-retailer or such other person who combines the activity of retail sale with another business activity excluding the following: <ul style="list-style-type: none"> a) Working as a part of a national or international chain; b) Operating in an air-conditioned shopping mall (except kiosks); c) Having electricity bills exceeding Rs. 1.2 million in the past year; d) Wholesaler-cum retailer engaged in bulk import and supply on wholesale or retail basis; and e) Operating in a shop larger than 1000 square feet.
13	Foreign Exchange Dealers / Exchange Companies
14	Private schools, colleges, universities, and professional institutes/ vocational training centers charging fees per child of Rs. 1,000/- per month or more

Rules for Licensed software integrator

Comprehensive rules have now been prescribed in Part-II of Chapter VIIA of the Income Tax Rules, 2002 for any entity intending to apply for approval as a 'licensed integrator'. These are briefly indicated below:

Rule No.	Particulars	Explanation
33H	Licensing	Only licensed integrators can connect payment systems to the FBR system, and existing POS users can get a non-transferable license.
33I	Functions of Licensing Committee	A licensing committee, led by Member Digital Initiatives as convener, will ensure the process follows FBR's regulations.
33J	Application for Grant of license	To get a license, applicants will submit details and demonstrate a secure, adaptable real-time invoicing system.
33K	Procedure for Grant of license	After document review and potential inspections, the committee will make a recommendation within 45 days for grant of license by Member Digital Initiatives.
33L	Rights Granted to the Licensee	Licensed integrators will manage POS systems for five years, while following license conditions and without subcontracting.
33M	Renewal of license	Renewal applications shall be made three (3) months prior to expiry, followed by licensing committee review and recommendation.
33N	Technical support	Licensed integrators will maintain POS systems (equipment, upgrades, troubleshooting) and ensure secure data transmission.
33O	Responsibilities of the Member Digital Initiatives	Member Digital Initiatives will oversee the FBR POS system and fixing any issues that occur.
33P	Procedure for suspension, cancellation, or termination of license	FBR can suspend or cancel licenses for violations. Licensees can appeal within 30 days. During transition period, the old integrator must ensure a smooth handover to the new one. Integrated Enterprises can use approved methods to issue invoices until the new integration is complete.
33Q	Audit of the Licensed Integrator	FBR may audit Licensed Integrators and Integrated Enterprises on its own or on complaint by the concerned Commissioner.
33R	Fee and Charges	Licensed integrators will charge Integrated Enterprise for POS setup.
33S	Responsibilities of the Integrated Enterprise	Integrated Enterprise must ensure their POS systems function properly and report any issues to FBR within 24 hours.
33T	Functions of Commissioner Inland Revenue	FBR officials shall visit businesses to ensure proper system operation. Businesses that don't generate FBR invoices shall face legal action from the concerned Commissioner.

To conclude

These regulations appear to be an ambitious effort of the Government towards documentation of the economy.

It however remains pivotal that the system is implemented and started in a timely manner and is also stewarded very effectively under feedback from the stakeholders so that the desired results are reaped in a smooth manner without creating disruption to the businesses and the economic activity.

The key to success of such initiatives lies on the consistency and transparency of the implementation so that there is equal treatment and application of law on all.

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