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**TAX HANDBOOK - FINANCE ACT 2020  
(COMPARATIVE STUDY)**

**ZAHID JAMIL  
& CO.**

An Independent Member Firm  
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This Tax Handbook has been prepared as a general guide for the benefit of our clients and is available to other interested persons upon request. It sets out interpretation of only the significant amendments by the Finance Act, 2020 (the act) in the Income Tax Ordinance, 2001, the Sales Tax Act, 1990 and the Federal Excise Act, 2005 in a concise form sufficient enough to amplify the important aspects of the changes to be made.

All changes through the Finance Act 2020, subject to approval by National Assembly and Presidential assent, are effective from July 1, 2020.

Certain amendments will be effective on the next day of assent given by the President to these provisions.

The Finance Act, 2020 brief can also be accessed on our Website [www.zahidjamilco.com](http://www.zahidjamilco.com)

## Income Tax Ordinance 2001

| Sr # | Section   | Before Amendments  | After Amendments   |
|------|---|--|--|
| 1    | <p><b>Section 2(36), Section 100C and Clause (66), Part I of the Second Schedule</b></p> <p><b>Tax credit for NPOs, trusts and welfare institutions</b></p> | <p>Non-Profit Organization (“NPO”) has been defined to mean any person other than an individual which has been established for religious, educational, charitable, welfare or development purposes, or for the promotion of an amateur sport.</p> <p>Clause (66) of Part I of the Second Schedule to the Ordinance exempts any income derived by certain non-profit institutions, trusts and welfare organizations.</p>  | <p>The Finance Act, 2020 has bring about a change in the above definition to remove the phrase “or development purposes” from the above definition and replace it with the expression “purposes for general public”.</p> <p>New condition inserts in addition to existing, to obtain 100C credit a statement of voluntary contributions and donations received in the immediately preceding year, in the prescribed form and manner, is required to be submitted.</p> <p>The scope of such taxation is extended to the surplus funds of ‘trusts and welfare institutions as well’</p> <p>The Finance Act, 2020 replace this Clause by bifurcating the list into two sets of entities. The first list comprises of entities including relief funds established by governments and government sector welfare entities whose incomes (from whatever source) will remain exempt from tax without fulfillment of any conditions as before the amendment. The second list mainly consist of NPOs, trusts and welfare institutions which are mainly involved in actives of welfare for general public. Such entities have been subject to the provisions of Section 100C of the Ordinance in order to qualify for the exemption in terms of Clause (66) referred above.</p> |
| 2    | <p><b>Sections 2(29C), 100D and Eleventh Schedule</b></p> <p><b>Special provisions relating to builders and developers</b></p>                              | <p>The special tax relief and incentives have been introduced for businesses/ industries related to construction sector by insertion of Section 100D along with the Eleventh Schedule to the Ordinance through the Tax Laws (Amendment) Ordinance, 2020.</p> <p>The aforesaid provisions introduced a separate tax regime for builders and developers who get themselves registered with the FBR for the purposes of the above scheme by 31 December 2020. The Government now to enact the above amendments through the Finance Act, 2020.</p> <p>Additionally, effective 01 May 2020, builders and developers are proposed to be included in the ambit of an ‘industrial undertaking’ for the purpose of import of plant and machinery for building and development activity.</p> <p>Now through the Finance act, 2020 a resident company engaged in hotel business in Pakistan also has been added in the definition of Industrial Undertaking.</p> <p>Moreover, the loss sustained by a hotel business in Pakistan, incurred after July 01, 2020, shall be allowed to be carried forward for 8 years.</p> |  |

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|-------------|--|--|--|
| 3           | <b>Section 2</b><br><b>Definition of Integrated enterprise Clause (30A),</b> | The Finance Act, 2020 introduce the definition of ‘Integrated enterprise’ by adding new Clause (30A) in section 2 of the Ordinance which means a person integrated with the FBR through approved fiscal electronic device and software and who fulfills obligations and requirements for Integration as may be prescribed.   |  |
| <b>Sr #</b> | <b>Section</b>   | <b>Before Amendments</b>   | <b>After Amendments</b>  |
| 4           | <b>Section 2 (30AC)</b><br><b>Definition of IRIS</b>                         | Although the online portal ‘IRIS’ has been in place from the tax year 2014, however, a formal reference thereof is neither available in the Ordinance nor in the Income Tax Rules.   | The Finance Act, 2020 has now introduce the definition of ‘IRIS’ portal in the Ordinance through insertion of a new Clause in Section 2, in the following manner –<br><br>“A web-based computer program for operation and management of Inland Revenue taxes administered by the Board”<br><br>Pursuant to the above definition, the term “IRIS” is now being to be referred to in various Sections of the Ordinance.  |
| 5           | <b>Section 2(31A)</b><br><b>Definition of Local Government</b>               | Through the 18th Amendment in the Constitution of Pakistan, precincts of provincial autonomy were revamped by abolishing all items from the Concurrent List – the list of legislative subjects which appeared in the Fourth Schedule to the Constitution. This mandated that the subjects mentioned therein could now be legislated on by the Provincial legislatures. Subsequent to the above, each province has legislated their own laws to establish an elected local government system. | The definition of ‘Local Government’ has been updated, which would refer to the definition contained in the Acts enacted by each province and the Islamabad Capital Territory.   |
| 6           | <b>Section 7A</b><br><b>Tax on shipping of a resident person</b>             |  | Section 7A deals with the taxation of resident persons engaged in the business of shipping. The Finance Act, 2020 introduce a new Clause (c) which states that a Pakistan resident ship owning company registered with the Securities and Exchange Commission of Pakistan after the 15th day of November, 2019 and having its own sea worthy vessel registered under Pakistan Flag shall pay tonnage tax of an amount equivalent to seventy-five US Cents per ton of gross registered tonnage per annum.<br><br>The Finance Act, 2020 extend the applicability of Section 7A till the date of 30th June, 2030. |

| Sr # | Section  | Before Amendments   | After Amendments  |
|------|--|---|---|
| 7    | <p><b>Section 15A</b></p> <p><b>Deductions against Income from Property</b></p>                      | <p>Presently a deduction in respect of 'income from property' is allowed on account of expenditure incurred for collecting rent and other expenditures of administrative nature is subject to the threshold of 6% of rent chargeable to tax in respect of such property.</p> <p>Presently, individuals and AOPs deriving income under the head 'Income from Property' above PKR 4 Million have an option either to be taxed on gross amount or opt for net income taxation by claiming expenses under Section 15A of the Ordinance.</p> | <p>The Finance Act, 2020 now reduce the said threshold to 4%.</p> <p>The Finance Act, 2020 omit the threshold for availing the said option with the result that now all individuals and AOPs have an option either to be taxed on gross amount or net income basis in respect of income chargeable to tax under the head 'Income from Property'.</p>  |
| 8    | <p><b>Section 21</b></p> <p><b>Deductions not allowed in computation of Income from Business</b></p> | <p>Section 21 of the Ordinance prescribes a list of expenditures that are not allowed as a deduction when computing Income from Business. This includes certain expenditures that are not made through banking channels if they exceed the prescribed thresholds.</p>   | <p>The Finance Act, 2020 now enhance the threshold of aggregate expenditure under a single account head from PKR 50 thousand to PKR 250 thousand, not made through banking channels, that would be allowed as a deduction when computing Income from Business.., Further the relaxation of a single cash transaction in the above limit has been enhanced from PKR 10 thousand to PKR 25 thousand. Similarly, the threshold of salary, not paid through banking channels, has been increased from PKR 15 thousand to PKR 25 thousand.</p> <p>The Bill had also proposed to disallow expenditure by an industrial undertaking in proportion of supplies made to sales tax unregistered persons. However, this proportionate disallowance was only proposed to be applicable in cases where supplies equal or exceed Rs. 100 million per person. Moreover, this proportionate disallowance was proposed to not exceed 20% of total expenditure claimed under this clause.</p> <p>The Act has further relaxed the disallowance limit up to 10% only, from the proposed 20%. The Act has also deferred application of this disallowance till 30th September 2020.</p> |

| 9  | <p><b>Section 22</b><br/><b>Depreciation deduction</b></p>                           | <p>Currently, the Ordinance allows a tax payer to claim full years depreciation in respect of an asset acquired during the year. Conversely, no depreciation is allowed in the year of disposal.</p>  | <p>The Finance Act, 2020 restrict the claim of depreciation to 50% of full year depreciation in the year of acquisition. Similarly, in relation to disposal of an asset, depreciation would be available to the extent of 50% of full year depreciation in the year of disposal.</p>   |   |                          |                          |    |  |     |   |     |  |     |                    |      |
|--|--|---|--|---|--------------------------|--------------------------|----|--|-----|---|-----|--|-----|--------------------|------|
| 10   | <p><b>Section 28</b><br/><b>Limit on deductions on account of lease payments</b></p> | <p>It may be noted that Clause (a) of sub-section 12 of Section 22 of the Ordinance restricts the costs of passenger transport vehicle not plying for hire up to PKR 2.5 million i.e. if the costs of such vehicle exceeds PKR 2.5 million, for the purpose of computing tax depreciation, it would be deemed to be PKR 2.5 million.</p>              | <p>The Finance Act, 2020 has bring about that lease rentals incurred by a lessee in respect of cost of passenger transport vehicles not plying for hire to the extent of principal amount shall not exceed Rs. 2.5 million.</p> <p>Similar limitation applies for claiming tax depreciation on such vehicles owned by a taxpayer.</p>  |   |                          |                          |    |  |     |   |     |  |     |                    |      |
| 11   | <p><b>Section 37</b><br/><b>Capital gains on disposal of immoveable property</b></p> | <p>The capital gain was eligible for reduction of 25 based on holding period exceeding one year up to eight years for open plots and one year up to four years for constructed property. Furthermore, the gain arising after holding period of eight years in case of open plot and four years in case of constructed property was taken as zero.</p> | <p>In order to incentivize economic activity in the real estate sector, the Finance Act, 2020 eliminate the separate mechanism for taxation of capital gains on immovable property by revamping the taxability of such capital gains as under:</p> <ul style="list-style-type: none"> <li>(a) Eliminating classification of immovable property into open plots and constructed property.</li> <li>(b) Reducing the holding period for 100 percent reduction in gain to four years.</li> <li>(c) Progressive reduction in the amount of gain based on each year of the holding period.</li> </ul>   |   |                          |                          |    |  |     |   |     |  |     |                    |      |
|  |  | <p><b>Current</b></p>   | <table border="1"> <thead> <tr> <th data-bbox="816 1293 1382 1367"><b>Holding Period for immoveable property</b></th> <th data-bbox="1382 1293 1547 1367"><b>Reduction in gain</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="816 1367 1382 1430">Does not exceed one year</td> <td data-bbox="1382 1367 1547 1430">0%</td> </tr> <tr> <td data-bbox="816 1430 1382 1503">Exceeds one year but does not exceed two years</td> <td data-bbox="1382 1430 1547 1503">25%</td> </tr> <tr> <td data-bbox="816 1503 1382 1577">Exceeds two years but does not exceed three years</td> <td data-bbox="1382 1503 1547 1577">50%</td> </tr> <tr> <td data-bbox="816 1577 1382 1650">Exceeds three years but does not exceed four years</td> <td data-bbox="1382 1577 1547 1650">75%</td> </tr> <tr> <td data-bbox="816 1650 1382 1709">Exceeds four years</td> <td data-bbox="1382 1650 1547 1709">100%</td> </tr> </tbody> </table> | <b>Holding Period for immoveable property</b> | <b>Reduction in gain</b> | Does not exceed one year | 0% | Exceeds one year but does not exceed two years | 25% | Exceeds two years but does not exceed three years | 50% | Exceeds three years but does not exceed four years | 75% | Exceeds four years | 100% |
| <b>Holding Period for immoveable property</b>      | <b>Reduction in gain</b>   |   |  |   |                          |                          |    |  |     |   |     |  |     |                    |      |
| Does not exceed one year                           | 0%   |   |  |   |                          |                          |    |  |     |   |     |  |     |                    |      |
| Exceeds one year but does not exceed two years     | 25%  |   |  |   |                          |                          |    |  |     |   |     |  |     |                    |      |
| Exceeds two years but does not exceed three years  | 50%  |   |  |   |                          |                          |    |  |     |   |     |  |     |                    |      |
| Exceeds three years but does not exceed four years | 75%  |   |  |   |                          |                          |    |  |     |   |     |  |     |                    |      |
| Exceeds four years                                 | 100%   |   |  |   |                          |                          |    |  |     |   |     |  |     |                    |      |

**Section 37 - Capital gains on disposal of immoveable property**

A new Clause (114AA) has also been introduced in Part I of Second Schedule to the Ordinance, whereby any capital gains derived by a resident individual from the sale of constructed residential property shall be treated as exempt from tax, if the following conditions are met:

- (a) at the time of sale, the residential property is being used for the purpose of personal accommodation by the resident individual, spouse or dependents of the individual, and for which any of the utility Finance Act, 2020s is issued in the name of such individual;
- (b) the land area of the property does not exceed 500 square yards in case of a house and 4000 square feet in case of a flat; and
- (c) such exemption has not been previously claimed by the individual, spouse or dependents of the individual.

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| 11 a.       | <b>Section 37A</b>   | The Act has inserted a new subsection (3B) under Section 37A. Consequently, an explanation has been added with respect to securities. The subsection provides for shares of a public company to be treated as 'security', if at the time of disposal of such shares the company is public. This means that in case of shares held by shareholders of a private company, which has been converted into public company before disposal of such shares, such disposal shall be taxed under Section 37A.   |   |
| <b>Sr #</b> | <b>Section</b>   | <b>Before Amendments</b>   | <b>After Amendments</b>   |
| 12          | <b>Section 61</b><br><br><b>Tax credit on charitable donations</b> | Currently, donation paid to any board of education, university, educational institution, hospital or an NPO is entitled to tax credit under Section 61 of the Ordinance based on the following formula: $(A/B)*C$<br>Where<br>A is the amount of tax assessed<br><br>B is the person's taxable income for the tax year<br><br>C is the lesser of<br>Total amount of donation including the fair market of property<br><br>Thirty percent of the taxable in case of an individual and association of persons<br><br>Twenty percent income of the person for the year of the taxable income of the person for the year in case of Company. | In case where the donation is given by an associate, the Finance Act, 2020 reduce the limits provided in component C of the formula as follows:<br><br>Fifteen percent of the taxable income of the person for the year in case of an individual and association of persons<br><br>Ten percent of the taxable income of the person for the year in case of Company. |

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| 13 | <p><b>Section 65C</b></p> <p><b>Tax credit for enlistment</b></p>  | <p>Section 65C provides a tax credit, equal to 20 of the tax payable for the tax year, to companies opting for enlistment on a stock exchange in Pakistan for the year in which the Company is listed, and for the following three years.</p> | <p>The Finance Act, 2020 restrict the tax credit to companies that opt for enlistment till the 30th day of June, 2022.</p>  |
| 14 | <p><b>Section 106A</b></p> <p><b>Restriction on deduction of profit on debt payable to associated enterprise</b></p> |   | <p>In line with Action Plan 4 of the OECD’s recommendations on BEPS, the Finance Act, 2020 introduce a new section which imposes a restriction on deduction of profit on debt payable to associated enterprise. The salient features of the new section are:</p> <ul style="list-style-type: none"> <li>• Deduction of foreign profit on debt in excess of fifteen percent of taxable income before depreciation, amortization and foreign profit on debt shall be disallowed to a foreign controlled resident company (other than an insurance or banking company);</li> <li>• The section shall not apply if the total foreign profit on debt claimed as a deduction is less than PKR 10 million for a tax year;</li> <li>• Where the foreign profit on debt cannot be fully adjusted against the taxable income for a tax year, the excess amount shall be added to the amount of foreign profit on debt for the following tax year and shall be treated to be part of that deduction, or if there is no such deduction for that tax year, be treated as the deduction for that tax year and so on for three tax years following the year in which the foreign profit on debt was claimed as an expense;</li> <li>• This section shall apply in respect of foreign profit on debt accrued with effect from the first day of July, 2020, even if debts were contracted before the first day of July, 2020;</li> <li>• Foreign-controlled resident company means a resident company in which fifty percent or more of the underlying ownership of the company is held by a non-resident person either alone or together with an associate or associates; and</li> <li>• Foreign profit on debt means interest paid or payable to a non-resident person or an associate of a foreign-controlled resident company, and includes a wide variety of financial instruments, including instruments which in substance are in the nature of financial instruments, and also includes fees, expenses and exchange gains / losses related to such instruments.</li> </ul> |

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| 15 | <b>Section 111 Unexplained income or assets</b>  | Section 111 allows the Commissioner to make certain additions to the income of a person including the concealed income and suppressed amount of production or sales, etc. under the head 'income from other sources.  | The Finance Act, 2020 has bring that such amounts will be added to the person's income under the head businesses. This amendment seems to be a corrective amendment<br>As the nature of such items is related to business income and also as a consequence of this, the person will be allowed to claim adjustment of any brought forward business losses against such items.   |
| 16 | <b>Section 113 Applicability of minimum tax on permanent establishment of non-resident persons</b> | Section 113 of the Ordinance levies minimum tax on a person based on his turnover where such person is not liable to pay tax due to various reasons listed therein. However, the levy of minimum tax in case of corporate taxpayers, is only applicable on resident companies. This means that foreign companies having a permanent establishment in Pakistan (including a branch) are not subject to minimum tax.  | The Finance Act, 2020 has now include non-resident companies having a permanent establishment in Pakistan under the domain of minimum tax on turnover.  |
| 17 | <b>Section 114 and Section 115 Return of Income and Statement of Final Taxation</b>                | Persons whose entire income is governed under the FTR are required to file a statement in lieu of return of income pursuant to Section 115(4) of the Ordinance.   | <p>The Finance Act, 2020 now mandate such taxpayers to file the complete return of income pursuant to Section 114 of the Ordinance instead of the statement under section 115.</p> <p>Consequential amendments are to be made throughout the text of the Ordinance to give effect to this amendment.</p> <p>Also, the Finance Act, 2020 now empower the FBR to prescribe different forms of return for different classes of income or persons including persons subject to final taxation. As a result of the above, the privileges available to such persons who only filed statement under section 115(4) in the past like no requirement to file proper accounts appear to have been withdrawn in view of the fact, that almost the entire final tax regime has been converted into minimum tax regime whereby comparison of taxes withheld and actual tax liability based on profits of the person is now required.</p> <p>Similarly, in relation to revision of return of income, the Finance Act, 2020 require the CIR to grant approval in case of a Bonafide omission or wrong statement.</p> |
| 18 | <b>Sections 114A, 182 and 182A Taxpayer's profile</b>  | <p>In order to update and synchronize the taxpayer's particulars, the Finance Act, 2020 add a new Section 114A wherein following persons are required to furnish the tax profile in the prescribed form along with relevant annexures, statements or documents:</p> <ul style="list-style-type: none"> <li>• every person applying for registration under Section 181;</li> <li>• every person deriving income under the head "Income from Business"</li> </ul> |   |

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|    |   | <ul style="list-style-type: none"> <li>• every person whose income is subject to final taxation</li> <li>• any non-profit organization as per Clause (36) of Section 2</li> <li>• any trust or welfare institution</li> <li>• any other person prescribed by the Board</li> </ul> <p>The particulars that are required to be submitted include bank accounts, utility connections, business premises including all manufacturing, storage or retail outlets operated or leased by the taxpayer, types of businesses and other prescribed information.<br/>The deadline for furnishing the aforesaid profile is as follows:<br/>In case of a person registered before 30 September, 2020 - on or before 31 December, 2020<br/>In case of a person not registered before 30 September, 2020 - within ninety days of registration.</p> <p>In case there is a change in particulars, the profile is expected to be updated within ninety days of such change.</p> <p>The Finance Act, 2020 also provides a penalty of PKR 2,500 for each day of default, subject to minimum penalty of PKR 10,000, in case of non-furnishing of such profile. Further, non-furnishing of the tax profile may lead to non-inclusion of the name of the taxpayer in the ATL. However, the person shall be included in the active taxpayers' list subject to filing of profile after the due date and payment of surcharge as under;</p> <ul style="list-style-type: none"> <li>• PKR 20,000 in case of a company;</li> <li>• PKR 10,000 in case of an association of persons; and</li> <li>• PKR 1,000 in case of an individual.</li> </ul> |
| 19 | <p><b>Section 116</b><br/><b>Wealth Statement</b></p> | <p>Currently, If an individual, who has furnished a wealth statement, discovers any omission or misstatement therein, he can furnish a revised wealth statement along with the revised wealth reconciliation by identifying the reasons for revision, at any time before the receipt of the notice under Section 122(9) of the Ordinance.</p> <p>Currently, for revision of wealth statement, the Commissioner's approval is not required under Section 116.</p> <p>The Bill has proposed that the wealth statement shall be revised after approval from Commissioner. It also proposed that in cases of bonafide omission and wrong statements, the Commissioner shall compulsorily approve the revision request.</p> <p>The Act has now withdrawn the requirement for prior approval of Commissioner and has replaced the same with intimation to the Commissioner. However, the Act has also empowered the Commissioner to render the revision void after providing opportunity of being heard in case the revision is not for the purpose of correction of bonafide omission and wrong statements in his opinion.</p>   |

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| 20 | <b>Section 120 Sub-section (2A)</b><br><br><b>Deemed Assessment</b>           | Deemed assessment under section 120   | The Finance Act, 2020 bring a paradigm shift in the concept of self- assessment whereby the return of income filed by the taxpayer would now be processed through automated system to arrive at correct amounts of total income, taxable income and tax payable by making adjustments for any arithmetical error in the return, any incorrect claim, disallowance of any loss, deductible allowance or tax credit, disallowance of carry forward of any loss under section 182A <b>provided</b> with an opportunity of being heard.<br><br>If no adjustments have been made within six months of the filing of the return, the return declared by the taxpayer shall be deemed to have been taken as adjusted. |
| 21 | <b>Section 122</b><br><br><b>Amendment of assessment</b>                      | The Commissioner is authorized to amend an assessment based on ‘definite information’ “acquired from an audit or otherwise.   | The Finance Act, 2020 amend the provisions of sub-section (5) of Section 122 to the effect that even if after an audit, definite information could not be acquired by the Commissioner, he can still amend the assessment on the basis of his best judgement and make disallowances without specific supporting evidence.  |
| 22 | <b>Section 122D</b><br><br><b>Agreed assessment in certain cases</b>          | The Finance Act, 2020 insert a new Section to the Ordinance to provide for agreed assessment in case where a notice under sub- section (9) of Section 122 has been issued to the taxpayer.<br><br>A taxpayer after issuance of a notice for amendment of assessment may file an offer of settlement in the prescribed form before the Assessment Oversight Committee (AOC) in addition to filing a reply to the Commissioner. |  |
| 23 | <b>Sections 127, 129 and 131</b><br><br><b>Appeals to Appellate Authority</b> | The Finance Act, 2020 now enhance fees for filing appeals with the CIR (Appeals) and with the ATIR. The below table depicts the existing fees and the current fees –  |  |

| Authority | Individual/ AOP                     |                 | Company                             |                 |
|-----------|-------------------------------------|-----------------|-------------------------------------|-----------------|
|           | Appeal against assessment order PKR | Other order PKR | Appeal against assessment order PKR | Other order PKR |
|           | <b>CIR (Appeals)</b>                |                 |                                     |                 |
| Existing  | 1,000                               | 200             | 1,000                               | 1,000           |
| Current   | 2,500                               | 1,000           | 5,000                               | 5,000           |
|           | <b>ATIR</b>                         |                 |                                     |                 |
| Existing  | 2,000                               | 2,000           | 2,000                               | 2,000           |
| Current   | 2,500                               | 2,500           | 5,000                               | 5,000           |

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| 24 | <p><b>Section 134A<br/>Alternative<br/>Dispute<br/>Resolution</b></p>  | <p>The option of seeking remedy in ARDC was to be only available if the applicant withdraws the appeal pending before any court of law or an appellate authority after the appointment of the ARDC by FBR.</p> <p>The recommendations of ADRC were made binding on both the parties.</p> <p>The Committee for ADR consists of an officer of Inland Revenue not below the rank of a Commissioner, a person nominated by the taxpayer from a panel notified by the FBR and a retired judge nominated through consensus by the other two members. Furthermore, the Committee decides the dispute by majority.</p> | <p>The taxpayer would no longer be required to withdraw his appeal pending before the appellate forum immediately after the constitution of the Committee. Instead, the taxpayer shall withdraw the appeal pending before the appellate forum only if he is satisfied with the decision of the Committee/ FBR. It is further bring that the decision of the Committee/ FBR shall not be binding on the taxpayer but shall be binding on the Commissioner,</p> <p>provided that the order of withdrawal of appeal is communicated to the Commissioner within 60 days of the service of decision of the FBR upon the taxpayer. one year from the end of the financial year in which the order of higher authority is served.</p> <p>The Finance Act, 2020 now that the Committee shall comprise of the Chief Commissioner having jurisdiction over the case and two persons from a panel notified by the FBR. Conversely, the Committee shall decide the dispute through consensus rather than majority.</p> <p>The Finance Act, 2020 also bring that the Committee may, in case of hardship, stay the recovery of tax payable in respect of the dispute pending before it for a period not exceeding 120 days in aggregate or till the decision of the Committee or its dissolution, whichever is earlier.</p> |
| 25 | <p><b>Section 138<br/>Recovery of<br/>tax out of<br/>property and<br/>through<br/>arrest of<br/>taxpayer</b></p> | <p>Section 138 empowers the CIR to recover any tax due by a taxpayer, if the taxpayer fails to pay such tax within the time allowed by the CIR in the notice, through the following modes:</p> <ul style="list-style-type: none"> <li>• attachment and sale of any movable or immovable property of the taxpayer;</li> <li>• appointment of a receiver for the management of the movable or immovable property of the taxpayer; and</li> </ul> <p>arrest of the taxpayer and his detention in prison for a period not exceeding six months.</p>  | <p>In order to make recovery of taxes more efficient and effective, the Finance Act, 2020 empower the CIR to also exercise the powers provided in Section 48 of the ST Act for recovery of the outstanding tax liability. Such powers include the following:</p> <ul style="list-style-type: none"> <li>• deduct the amount from any money owing to the taxpayer and which may be at the disposal or in the control of such officer or any officer of Income Tax, Customs or Central Excise Department;</li> <li>• require by a notice in writing any person to stop clearance of imported goods or manufactured goods or attach bank accounts; and</li> </ul> <p>seal the business premises till such time the amount of tax is paid or recovered in full.</p>   |

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| 26 | <p><b>Advance tax</b><br/> <b>Section 147, Sub-section (4)</b></p>  | <p>Section 147 provides that every taxpayer shall be liable to pay quarterly advance tax and in accordance with sub-section (4), the same is required to be calculated on the basis of the turnover of the quarter. The Finance Act, 2018 inserted a proviso to sub-section (4) where advance tax liability in the case of a company or AOP, where it fails to provide the turnover for the quarter, or it is not known, the liability shall be worked out by taking the value of turnover for the quarter as being ¼th of 110% of the turnover of the latest tax year, for which a return has been filed.</p> | <p>The Finance Act, 2020 now insert another proviso in sub-section (4) where in the FBR may prescribe procedure for filing and calculation of turnover for the quarter through an automated system.</p>   |
| 27 | <p><b>Section 148 and the Twelfth Schedule</b></p> <p><b>Tax paid at import stage</b></p> <p>(A) <b>Rate of tax</b></p> | <p>Section 148 of the Ordinance requires collection of income tax by the Collector of Customs at the time of import of goods. Presently such tax collected at import stage is treated as a minimum tax in respect of the income arising out of such imports except under the following circumstances:</p> <ul style="list-style-type: none"> <li>• Raw material, plant &amp; machinery, equipment and parts imported by an industrial undertaking for its own use;</li> <li>• Motor vehicles in complete built unit (CBU) condition imported by</li> </ul>   | <p>The Finance Act, 2020 now introduce a new Schedule as the Twelfth Schedule to the Ordinance wherein all the goods imported into Pakistan may be classified under either of the three categories viz Part I, Part II and Part III based on PCT code wise listing of goods given in each part. Whilst Part III of the said Schedule prescribes the general rate of 5.5% to apply, the rate is reduced to 1% and 2% respectively for goods falling under Part I and II.</p> <p>The Act now has further empowered the Board to specify goods, imported to be used as raw material for importers' own use, to be treated as classified under Part II of the twelfth Schedule.</p> |

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|     |   | <p>manufacturer of motor vehicles;</p> <ul style="list-style-type: none"> <li>• Import by large import houses; and</li> <li>• A foreign produced film imported for the purposes of screening and viewing.</li> </ul>   |  |
| (B) | Broadening scope of minimum tax   |  | <p>The Finance Act, 2020 enhance the scheme of minimum tax to apply to all categories of import except by industrial undertaking importing goods subject to collection of tax either at 1 or 2, pursuant to Part I or Part II of the Twelfth Schedule. Accordingly, by virtue of the amendment, all other categories of imports would now fall under the minimum tax scheme.</p>   |
| (C) | Value of goods  |  | <p>The Finance Act, 2020 also amend the definition of the expressions Value of Goods which would be considered for the purpose of calculating income tax at import stage. The expression value of goods would now represent:</p> <ul style="list-style-type: none"> <li>• in case of goods chargeable to tax at retail price under the Third Schedule of the ST Act, the retail price of such goods increased by sales tax payable in respect of the import and taxable supply of the goods; and</li> <li>• in case of all other goods; the value of the goods as determined under the Custom Act, as if the goods were subject to ad valorem duty increased by the customs duty, federal excise duty and sales tax, if any, payable in respect of the import of the goods.</li> </ul> |
| (D) | Exemption from collection of tax on import of raw material by an industrial undertaking | <p>Presently, by virtue of Clause (72B) of Part-IV of Second Schedule to the Ordinance, a taxpayer has an option to obtain exemption certificate for non-collection of tax on the imports of raw material by an industrial undertaking on fulfilment of certain conditions and discharging its</p> | <p>Finance Act, 2020 now omit the aforesaid Clause 72B. Hence, exemption would no longer be available in respect of tax collected under Section 148 of the Ordinance to an industrial undertaking. Although there is substantial reduction in rate of collection of tax, as a result of withdrawal of such exemption, the taxpayer operating on margins lower than the rate of advance tax collected on imports or having adjustable losses/tax credits or enjoying tax exemption may still face liquidity hitches.</p>  |

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| (E) | <b>Exemption from collection of tax on import</b>  | <p>advance tax liability for the current tax year.</p> <p>Clause (56) of Part IV of the Second Schedule currently list down goods that are exempt from collection of tax under Section 148 of the Ordinance, on fulfilment of specified conditions.</p> <p>Simultaneously, a SRO 947(I)/2008 also identifies persons/classes of persons and goods/classes of goods that may claim exemption from the application of Section 148 of the Ordinance under certain circumstances.</p>   | <p>The Finance Act, 2020 capture the exemption available under the SRO 947(I)/2008 within the scope of Clause 56 of Part Four of the Second Schedule.</p>  |
| 28  | <b>Section 148 (A)</b><br><br><b>Tax on local purchase of cooking oil or vegetable ghee by certain persons</b> | <p>Section 148A of the Ordinance states that the manufacturers of cooking oil or vegetable ghee shall be chargeable to tax at the rate of 2 % on purchase of locally produced edible oil, which is a final tax on the income accruing from locally produced edible oil.</p>   | <p>The Finance Act, 2020 omit Section 148A of the Ordinance, which means that the income of such persons will subsequently be taxed under the Normal Tax Regime.</p>   |
| 29  | <b>Section 152</b><br><br><b>Payment to non-residents</b>  | <p>The Finance Act, 2019 introduced sub-section (4B) which allowed the Commissioner to permit payment after deduction of tax equivalent to 2.1 percent (being thirty percent of the tax chargeable on such payment).</p> <p>Similarly, while rationalizing the provisions relating to tax on services under section 153 of the Ordinance, through Finance Act, 2019, certain sectors were allowed a reduced rate of tax at 3% instead of a higher general rate of 8/10% of gross value of services. However, similar provisions were not adopted for permanent establishments of non-residents dealing in similar services.</p> | <p>The Finance Act, 2020 now reduce the rate to 1.4 percent (being twenty percent of the tax chargeable on the payment to the non-resident supplier).</p> <p>The Finance Act, 2020 also bring that the tax withheld, under sub-section (2A), from payments made to a permanent establishment of a non-resident shall be a minimum tax, except where payments are received for the sale of goods by a company being a manufacturer of such goods.</p> <p>The Finance Act, 2020 now provide similar mechanism for services rendered by permanent establishments of non-residents.</p> <p>The Finance Act, 2020 also includes various rationalization measures by proposing that:</p> |

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|   |   |  | <p>(1) the tax deducted from payment for advertisement services to a non-resident media person relaying from outside Pakistan is a minimum tax;</p> <p>(2) that the exemption application made by a permanent establishment under sub-section (4A) is made in a prescribed form; and</p> <p>(3) that the exemption application made by a payer shall include such other particulars as may be prescribed.</p>   |                                  |   |   |   |
| 30  | <b>Section 153</b>  |  |   |                                  |   |   |   |
| (A)   | <b>Withholding tax on receipts of resident persons</b>            |  |   |                                  |   |   |   |
|   | <b>Toll manufacturing</b>   |  | <p>Finance Act, 2020 has bring that receipts on account of toll manufacturing would be included with as sale of goods under section 153(1)(a) of The Ordinance.</p>   |                                  |   |   |   |
| (B)   | <b>Minimum tax on receipts</b>                                    |  | <p>The Finance Act, 2020 has now bring that tax deductible under section 153 would be minimum tax excluding the exceptions mentioned above. This would result in simplification of the law and may result in clearance of various ambiguities which were prevailing due to complexity and repetitiveness.</p>   |                                  |   |   |   |
| (C)   | <b>Exemption certificate for non-withholding of tax</b>           |  | <p>The Finance Act, 2020 has insert a proviso under sub-section (4) which states that incase of listed companies, the CIR would be required to issue an exemption certificate within fifteen days from the date of filing of an application if the advance tax liability has duly been discharged. It further proposes that incase if the certificate is not issued by the CIR within the stipulated fifteen days, it shall be deemed to be issued by the CIR and automatically processed by IRIS. However, it is also brings to empower the CIR to modify or cancel the certificate issued by automatically by IRIS on the basis of reasons to be recorded in writing after providing an opportunity of being heard to the taxpayer.</p> |                                  |   |   |   |
| (D)   | <b>Threshold for becoming withholding agent under Section 153</b> |  | <table border="1"> <tr> <td><b>Threshold of Turnover PKR</b></td> </tr> <tr> <td>100 million or above in any of the preceding tax year</td> </tr> <tr> <td>100 million or above in any of the preceding tax year</td> </tr> <tr> <td>Having turnover of 100 million or above</td> </tr> </table>  | <b>Threshold of Turnover PKR</b> | 100 million or above in any of the preceding tax year | 100 million or above in any of the preceding tax year | Having turnover of 100 million or above |
| <b>Threshold of Turnover PKR</b>                      |   |  |   |                                  |   |   |   |
| 100 million or above in any of the preceding tax year |   |  |   |                                  |   |   |   |
| 100 million or above in any of the preceding tax year |   |  |   |                                  |   |   |   |
| Having turnover of 100 million or above               |   |  |   |                                  |   |   |   |

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| 31 | <p><b>Section 165</b><br/><b>Withholding tax statements</b></p>          | <p>The Finance Act, 2019 amended the requirement to file withholding statements from monthly to bi-annual basis.</p>  | <p>It is now replacing the bi-annual statements with quarterly statement filing requirement. Such quarterly statements will be filed on 20th of month following the end of each quarter.</p>  |
| 32 | <p><b>Section 165A</b><br/><b>Furnishing of information by banks</b></p> | <p>The law also introduced a requirement through the Finance Supplementary (Amendment) Act, 2018 to provide a list of persons who received profit on debt in excess of PKR 500,000 during the preceding financial year.</p>   | <p>The Finance Act, 2020 eliminate the limit of PKR 500,000, thereby making it mandatory for Banking Companies to furnish a list of all persons receiving profit on debt.</p>   |
| 33 | <p><b>Refunds</b><br/><b>Section 170</b></p>                             | <p>A taxpayer who has paid tax in excess of the amount chargeable to tax under the Ordinance, may apply to the CIR for a refund as per the provisions laid out in Section 170 of the Ordinance. However, the present system of manually verifying and processing refunds is outdated and prone to inefficiencies.</p>   | <p>The Finance Act, 2020 empower the FBR to make rules to enable expeditious processing and automatic payment of refunds directly into the bank account of the taxpayers through a centralized processing system. The effective date of implementation of such a system is also provide to be determined by the FBR.</p>                              |
| 34 | <p><b>Section 175</b><br/><b>Power to enter and search premises</b></p>  | <p>The Ordinance grants certain powers to the CIR or any officer authorized by him, in order to enforce the provisions of the Ordinance. These powers include, among others, the power to have access to premises, making or extracting copies of documents, impounding any accounts, documents or computer disk, and making inventory of any articles found in the premises of the taxpayer.</p> | <p>The Finance Act, 2020 grant the CIR the power to have real-time electronic access to the information maintained by the taxpayers.</p> <p>The Finance Act, 2020 further insert sub-section (9) in Section 175, which would enable the FBR to make rules relating to electronic real-time access for audit or a survey of persons liable to tax.</p> |

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| 35 | <p><b>Section 175A - Real-time access to information and databases</b></p> <p>For broadening of the tax base and effective monitoring of tax evasion, the Finance Act, 2020 insert a new Section dealing with the provision of real-time access of information and database of various organizations to the FBR.</p> <p>As per the current provisions, following government agencies / corporations and utility sector will be required to grant real time electronic access to information and databases maintained by them to FBR;</p> <ul style="list-style-type: none"> <li>a) NADRA</li> <li>b) FIA and Bureau of Emigration and overseas Employment</li> <li>c) the Islamabad Capital Territory and provincial and local land record and development authorities</li> <li>d) the Islamabad Capital Territory and provincial Excise and Taxation Departments</li> <li>e) All electricity suppliers and gas transmission and distribution companies; and</li> <li>f) any other agency, authority, institution or organization notified by FBR.</li> </ul> <p>The Finance Act, 2020 has bring that above agencies / entities shall provide required information and data to FBR on periodic basis (frequency and form to be prescribed by FBR) until FBR makes arrangement for laying down infrastructure for the access and its alignment with its own database. Specifically, for electricity supplier and gas transmission and distribution companies, it is provided to allow time until January 2021 to consumers to update the ratio of sharing of a connection or the particulars of users.</p> <p>These amendments are notwithstanding anything to the contrary contained in the NADRA Ordinance, 2000 or Emigration Ordinance, 1979. Information received by FBR under this mechanism is provided to be kept confidential and used only for tax purposes.</p> |   |
| 36 | <p><b>Section 177</b></p> <p><b>Tax audit</b></p>   | <p>Conventionally, tax audits are conducted physically whereby the CIR calls for records and documents which he deems appropriate including books of account etc. either in paper or electronic form, from a taxpayer, in respect of a particular tax year. Considering the advent of technology and its revolutionizing impact on every facet of life, it has become imperative that other means of gathering information and conducting audit of the tax affairs of a person may be explored.</p> <p>Accordingly, a new sub-section (2A) is inserted in Section 177 of the Ordinance which empowers the CIR to conduct audit proceedings of a taxpayer electronically through video links or any other facility as may be prescribed by the FBR. We understand that for this purpose, the FBR would introduce a mechanism. panel Comprising of retired High Court Judge, retired District &amp; Sessions Judge, Chartered Accountant, Advocate, etc. It has also been bring that where a taxpayer fails to furnish records, documents, books of accounts, has furnished incomplete records or is unable to provide sufficient explanation regarding any defects in the records, the CIR may determine its taxable income on the basis of sectoral benchmark ratios. The sectoral benchmark ratios are defined as standard business sector ratios based on comparative cases, as notified by the FBR, and includes financial ratios, production ratios, gross profit ratio, net profit ratio, recovery ratio, wastage ratio etc.</p> |

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| 37 | <p><b>Section 182</b></p> <p><b>Offences and Penalties:</b></p>                | <p>Currently, in terms of Section 181AA, any application for a commercial or industrial connection of electricity or gas, as the case may be, shall not be processed unless the person applying is registered for tax purposes under Section 181 of the Ordinance.</p>  | <p>The Finance Act, 2020 now introduce penalty for non-compliance of the provision of the Section 181AA amounting to PKR 10,000 for each connection provided to an un-registered person.</p>   |
| 38 | <p><b>Section 205</b></p> <p><b>Default Surcharges</b></p>                     | <p>This section provides for the levy of default surcharge in case of non and/or late payment of tax. Default surcharge is generally calculated from the due date of payment to the actual date of payment. It follows that if the payment is not made for any reason then technically default surcharge could not be levied as the terminal date is not available/present.</p> | <p>The Finance Act, 2020 add a new sub-section (7) whereby it is provided that the Commissioner, at his discretion, may make assessment of default surcharge for the period of default or part thereof, even in a case the due tax has not actually been paid.</p>   |
| 39 | <p><b>Section 209</b></p> <p><b>Jurisdiction of income tax authorities</b></p> |   | <p>The Finance Act, 2020 insert a proviso after sub-section (2) of Section 209 whereby, FBR may also confer upon or assign to any Officer of Inland Revenue all or any of the powers and functions conferred upon or assigned to the Commissioner through Automated Case Selection System. Another proviso is also, according to which the FBR may make rules for conferment or assignment of such powers and functions through Automated Case Selection System.</p> <p>The Finance Act, 2020 also insert an explanation under which, for the purpose of this sub-section, the expression “Automated Case Selection System” means an algorithm for randomized allocation of cases by using suitable technological modes.</p> |

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| 40 | <p><b>Section 210</b><br/><b>Delegation</b></p>  | <p>The Finance Act, 2019 inserted a new sub-section in Section 161 whereby the Commissioner was empowered to amend or further amend an order of recovery already passed under section 161, and recover the tax that escaped at the time of passing of the said earlier order, if he considers that the order passed earlier is erroneous in so far it is prejudicial to the interest of revenue.</p>  | <p>The Finance Act, 2020 now make an amendment in sub-section (1A) of Section 210, through which the power of amendment of an order of recovery under sub-section (3) of Section 161 can now be delegated to an Additional Commissioner of Inland Revenue.</p>   |
| 41 | <p><b>Section 231B</b><br/><b>Advance tax on private motor vehicles</b></p>  | <p>The Finance Act, 2020 insert an explanation through which it is clarified that a motor vehicle does not include a rickshaw, motorcycle-rickshaw and any other motor vehicle having engine capacity upto 200cc.</p>   |  |
| 42 | <p><b>Section 235</b><br/><b>Advance tax on electricity consumptions</b></p>   | <p>Section 235 prescribes that advance tax is collected on the amount of electricity bill of a commercial or industrial consumer. Currently, the law empowers the Commissioner to issue an exemption certificate to a person whose income is exempt from tax.</p>   | <p>The Finance Act, 2020 now bring that an exemption certificate can also be issued to a person who has discharged his advance tax liability for the year.</p>   |
| 43 | <p><b>Sections 235B, 236D, 236F, 236J, 236R, 236U and 236X</b><br/><b>Omission of certain advance tax provisions</b></p> | <p>The Finance Act, 2020 withdraw the collection / deduction of tax at source in relation to the following:</p> <ul style="list-style-type: none"> <li>a) Advance tax on steel melters, and composite units;</li> <li>b) Advance tax on functions and gatherings;</li> <li>c) Advance tax on cable operators and other electronic media;</li> <li>d) Advance tax on dealers, commission agents and arhatis, etc</li> <li>e) Advance tax on education related expenses remitted abroad;</li> <li>f) Advance tax on insurance premium; and</li> <li>g) Advance tax on tobacco.</li> </ul> |  |
| 44 | <p><b>Section 236A</b><br/><b>Advance tax at the time of sale by auction</b></p>   | <p>Section 236A states that any person making sale by public auction or auction by tender shall collect advance tax at the rate of ten percent from the person to whom such property or goods are being sold.</p>   | <p>In order to put an end to such disputes, it is now bring that an explanation is inserted in Section 236A, whereby it is clarified that the expression “sale by public auction or auction by a tender” includes a renewal of a license previously sold by public auction or auction by a tender. It is also brings that where payment is received in installments, advance tax is to be collected with each installment.</p> |

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| 45   | <b>Section 236C</b><br><br><b>Advance tax on sale or transfer of immovable property</b>                  | Currently, advance tax under section 236C is not collected if the immovable property has been held for a period exceeding five years.  | The Finance Act, 2020 to reduce this limitation to four years, in order to bring it in line with the exemption of capital gains tax on sale of immovable property which will not be applicable to property held for a period exceeding four years. |
| 46   | <b>Section 236I</b>  | Currently, Section 236I prescribes that advance tax at the rate of five percent shall be collected by educational institutions from all persons, where the annual fee exceeds PKR 200 thousand.                | It is now bring that the advance tax shall only be collected from persons not appearing in the ATL.  |
| 47   | <b>Section 236Q</b><br><br><b>Advance tax on payment to residents for use of machinery and equipment</b> | Section 236Q deals with the withholding tax on payment to residents for use of machinery and equipment. Currently, the tax deducted at the time of making payment is a final tax on the income of such person. | The Finance Act, 2020 now amend that the tax deducted shall be a minimum tax on the income of such person.   |
| <b>FIRST SCHEDULE<br/>PART I</b>   |  |  |  |
| 48   | <b>Rate of tax on capital gain on immovable property</b>   | The Finance Act, 2020 reduce the rate of capital gain tax on disposal of immovable property as prescribed under Division VIII of the Part I of the First Schedule to the Ordinance which are as under:         |  |
| <b>Amount of Gain</b>  |  |  | <b>Existing rate of tax</b>  |
| <b>Current rate of tax</b>   |  |  |  |
| Where the gain does not exceed Rs.5 million                              |  |  | 5  |
| Where the gain exceeds Rs. 5 million but does not exceed Rs. 10 million  |  |  | 10   |
| Where the gain exceeds Rs. 10 million but does not exceed Rs. 15 million |  |  | 15   |
| Where the gain exceeds Rs. 15 million                                    |  |  | 20   |
|  |  |  | 10   |

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| 49   | <b>Advance tax on imports</b>              | The Finance Act, 2020 to replace the existing rate table by providing different rates for Part I, II & III mentioned in newly current Twelfth Schedule to the Ordinance which are as under: |   |
|  |  | <b>Persons</b>  | <b>Rate (of import value as increased by customs duty, sales tax and federal excise duty)</b>   |
|  |  | Person importing goods classified on Part I of the Twelfth Schedule   | 1%  |
|  |  | Person importing goods classified on Part II of the Twelfth Schedule  | 2%  |
|  |  | Person importing goods classified on Part III of the Twelfth Schedule   | 5.5%  |
| <p>Through the Finance Act, 2020 :</p> <ul style="list-style-type: none"> <li>a reduced rate of 1 to be collected on goods covered under rescinded SRO 1125(I)/2011 dated 31 December 2011.</li> <li>rate of collection of tax at 4 on import of finished pharmaceutical products that are not manufactured otherwise in Pakistan as certified by the Drug Regulatory Authority of Pakistan.</li> </ul> <p>Through the Finance Act, 2020 replace the existing table of rate of collection of advance tax on imports of mobile phone by providing separate rates for mobile phones imported in CBU condition and CSK/SKD condition, which are as under:</p> |  |   |   |
|  |  | <b>Tax in Rupees</b>  |   |
| <b>S.No.</b>   | <b>C&amp;F Value of Mobile Phone (USD)</b> | <b>In CBU condition PCT Heading 8517.1219</b>   | <b>In CSK.SKD condition PCT Heading 8517.1211</b>   |
| 1.   | Up to 30                                   | 70  | 0   |
| 2.   | Exceeding 30 and up to 100                 | 730   | 0   |
| 3.   | Exceeding 100 and up to 200                | 930   | 0   |
| 4.   | Exceeding 200 and up to 350                | 970   | 0   |
| 5.   | Exceeding 350 and up to 500                | 3,000   | 5,000   |
| 6.   | Exceeding 500                              | 5,200   | 11,500  |
| 50   | <b>Advance tax on Dividend</b>             | The rate of withholding tax on payment of dividend remains.   | <p>Finance Act, 2020 provide rate of withholding of tax on payment of dividend at 25 to a person receiving dividend from a Company where no tax is payable by such company, due to exemption of income or carry forward of business losses under Part VIII of Chapter III or claim of tax credits under X of Chapter III. The current change will remove the difference in the withholding tax rates and the charging rate on payment of dividend.</p> <p>The Act has further specified advance tax rates in case of dividends paid by mutual funds to be 15% in line with tax charged under Section 5.</p> |

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| 51 | <b>Advance tax on profit on debt</b>  | The advance tax rates deducted on profit of debt remains unchanged. At present, the rate of withholding tax on payment of profit up to Rs.500,000/- is 10%. | Through the Finance Act, 2020 the bank will deduct tax at the rate of 10% on the payment of profit up to Rs.500,000/- after obtaining a certificate from the recipient that during the tax year the profit on debt would remain less than Rs.500,000/-.  |                      |
| 52 | <b>Advance tax on return on investments in Sukuks received from a special purpose vehicle</b> | The rate of withholding tax on payment of return on Sukuk received from a special purpose vehicle remains same.   | The Finance Act, 2020 increase the rate of withholding of tax on return on Investment in Sukuk in case of a Company from 15% to 25% The change will remove the difference in the withholding tax rates and the charging rate on of return on sukuk investment for a company. The rates of withholding on return on Sukuk are as under: |                      |
|    |   | <b>Sukuks Holder</b>  | <b>Existing Rates</b>  | <b>Current Rates</b> |
|    |   | Company   | 15%  | 25%                  |
|    |   | Individual or AOP (More than one million)   | 12.5%  | 12.5%                |
|    |   | Individual or AOP (Less than one million)   | 10%  | 10%                  |
| 53 | <b>Payments to non-residents</b>  | The withholding tax rates on payments to non-residents remains unchanged.   | Finance Act, 2020 provide parity between withholding tax rates applicable to permanent establishment of non-resident persons and resident persons. The revised rates of withholding of tax on payments to non-residents are as under:  |                      |
|    |   | <b>Types of Payment</b>   | <b>Existing Rate</b>   | <b>Current Rate</b>  |
|    |   | Receipt on account of rendering of transport services through a PE of non-resident  | 2%   | 3%                   |
|    |   | Receipt on account of rendering of following services through a PE:<br>Freight forwarding services, air cargo services, courier services,                   |  |                      |

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|                                     | manpower outsourcing services, hotel services, security guard services, software development services, IT services and IT enabled services as defined in clause (133) of Part I of the Second Schedule, tracking services, advertising services (other than by print or electronic media), share registrar services, car rental services, building maintenance services, services rendered by Pakistan Stock Exchange Limited, Pakistan Mercantile Exchange Limited and inspection and certification, testing and training services. | 8%   | 3%   |
| <b>PART IV</b>                      |  |  |  |
| 54                                  | <b>Advance tax on extraction of minerals</b>   | Currently, Section 236V requires collection of tax at 5 from a person not appearing on the ATL on the value of minerals extracted, produced, dispatched and carried away from the licensed or leased area of the mines.  | The Finance Act, 2020 extend such collection to persons appearing on the ATL as well.  |
| 55                                  | <b>The Finance Act, 2020 to omit the following collection of advance tax:</b>  |  |  |
|                                     | <b>Section Reference</b>   | <b>Heads of advance tax collection</b>   |  |
|                                     | 236D   | Advance tax on functions and gatherings  |  |
|                                     | 236F   | Advance tax on cable operators and other electronic media  |  |
|                                     | 236J   | Advance tax on dealers, commission agents and arhatis  |  |
|                                     | 236R   | Advance tax on education related expenses remitted abroad  |  |
|                                     | 236U   | Advance tax on insurance premium   |  |
| <b>SECOND SCHEDULE<br/>PART - I</b> |  |  |  |
| 56                                  | <b>Section 156B and Clause (23A)<br/>Withdrawal of balance under Pension Fund</b>  | Presently, a pension fund manager making payment from individual pension accounts, maintained under any approved Pension Fund, is required to deduct tax at an average rate of tax of preceding three tax years, in accordance with Section 12 (6) of the Ordinance from any amount:<br>• withdrawn before the retirement age;<br>• withdrawn, if in excess of 50 of his | The Finance Act, 2020 omit the provisions of Section 156B of the Ordinance and replicate the same by inserting a proviso in Clause (23A), Part I of the Second Schedule. Overall, the impact of such omission of Section 156 and inclusion of a proviso to Clause (23A) does not entail any tax implications but appears to be an attempt to harmonize the exemption and the requirement for deduction of due tax. |

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|    |   | <p>accumulated balance at or after the retirement age.</p> <p>Similarly, pursuant to Clause (23A) of the Part I of the Second Schedule, accumulated balance up to 50 received from voluntary pension system offered by a pension fund manager under the Voluntary Pension System Rule, 2005 is exempt at the time of eligible person's:</p> <p>a) retirement;<br/>(b) disability in rendering him unable to work ; or<br/>(d) death by his nominated survivors.</p>  |  |
| 57 | <p><b>Clause (61)</b><br/><b>Exemption on donations</b></p> | <p>This Clause provides exemption to any amount paid as donation to the various specified institutions, subject to fulfillment of identified conditions. The Finance Act, 2020 introduce the following institutions as well into the list:</p> <ul style="list-style-type: none"> <li>• The Prime Minister's COVID – 19 Pandemic Relief Fund 2020;</li> <li>• Ghulam Ishaq Khan Institute of Engineering Sciences and Technology (GIKI);</li> <li>• Lahore University of Management Sciences;</li> <li>• Dawat-e-Hadiya, Karachi;</li> <li>• Baitussalam Welfare Trust;</li> <li>• Patients' Aid Foundation; and</li> <li>• Alkhidmat Foundation.</li> <li>• Alamgir Welfare Trust International has been added in Clause (61) of Part I of the Second Schedule, exempting any amount of donation paid to the institution.</li> <li>• Income of Naya Pakistan Housing and Development Authority has been exempted vide Act.</li> <li>• The act extend exemption on capital gain on sale of immoveable property to a Developmental REIT Scheme from 2020 to 2021.</li> </ul> <p>The Act now extends exemption on capital gain on sale of immoveable property to both Rental and Developmental REIT Scheme from 2021 and 2020, respectively, to 2023.</p> <p>Further, in line with the amendments in Section 61 of the Ordinance, the Finance Act, 2020 insert a proviso to cap the amount of donations given by an associate to the extent of:</p> <ol style="list-style-type: none"> <li>1) in the case of an individual or association of persons, 15 of the taxable income of the person for the year; and</li> <li>2) in the case of a Company, 10 of the taxable income of the person for the year.</li> </ol> <p>The Finance Act, 2020 also provides the major shift of the mode of payment of donations by proposing that provisions of the above Clause shall apply only on donations paid by a crossed cheque drawn on a bank.</p> |  |

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| 58 | <p><b>Clause (66)</b></p> <p><b>Exemption to income of certain charitable and other institutions</b></p>                | <p>Clause (66) provides exemption from tax to any income of certain charitable and other institutions specified therein.</p>  | <p>The Finance Act, 2020 substitute the existing list of institutions provided therein by the existing institutions as well as certain new institutions.</p> <p>The following institutions have been added in Clause (66) of Part I of the Second Schedule, so that incomes derived by such institutions would be exempt from tax:</p> <p><b>Table No.1:</b></p> <ol style="list-style-type: none"> <li>I. Sindh Institute of Urology and Transplantation, SIUT Trust and Society for the Welfare of SIUT.</li> <li>II. Shaukat Khanum Memorial Trust (Parallel to Govt. Institutions)</li> <li>III. National Endowment Scholarship for Talent (NEST).</li> </ol> <p><b>Table No.2: (Exemption subject to 100C)</b></p> <ol style="list-style-type: none"> <li>I. .Alamgir Welfare Trust International</li> <li>II. Foundation University</li> </ol> |
| 59 | <p><b>Clause (99A)</b></p> <p><b>Profits and gains on sale of immovable property to a developmental REIT scheme</b></p> | <p>Profits and gains on sale of immovable property to a developmental REIT scheme with the object of development and construction of residential buildings is exempt up to 30 June 2020.</p>  | <p>The Finance Act, 2020 extend the said exemption up to 30 June 2021.</p>   |
| 60 | <p><b>Clause (126A)</b></p> <p><b>Exemption to income derived by certain companies</b></p>                              | <p>Income derived by the certain Companies from Gwadar Port operations are exempt from tax for a period of 23 years with effect from 6 February 2007. The Tax Laws (Amendment) Ordinance, 2019 has extended the scope of operations for exemption from “Gwadar port” to “Gwadar port and Gwadar Free Zone”.</p> | <p>The Finance Act, 2020 has bring the above insertion with the object of enactment effective from 1 June 2020.</p>  |

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| 61 | <p><b>Clause (126AB)</b></p> <p><b>Exemption to foreign lenders and local banks</b></p>  | <p>Profit on debt derived under a Financing Agreement with China Overseas Ports Holding Company Limited by foreign lenders or local banks (where the Government or State Bank of Pakistan holds more than 75 shares in such local bank) is exempt from tax. The Tax Laws (Amendment) Ordinance, 2019 has inserted the following companies to extend the scope of exemption.</p> <ul style="list-style-type: none"> <li>• China Overseas Port Holding Company Pakistan (Private) Limited;</li> <li>• Gwadar International Terminals Limited;</li> <li>• Gwadar Marine Services Limited; and</li> <li>• Gwadar Free Zone Company Limited.</li> </ul> | <p>The Finance Act, 2020 enact the amendments effective from 1 June 2020.</p>  |
| 62 | <p><b>Clause (126AC)</b></p> <p><b>Exemption to income derived by contractors and sub-contractors of certain companies</b></p> | <p>Income from Gwadar Port operations earned by contractors or sub-contractors of the following Companies is exempt from tax for a period of 20 years effective from 1 July 2016. The Tax Laws (Amendment) Ordinance, 2019 has extended the scope of operations for exemption from “Gwadar port” to “Gwadar port and Gwadar Free Zone”.</p>  | <p>The Finance Act, 2020 enact effective from 1 June 2020.</p>   |
| 63 | <p><b>Clause (126E)</b></p> <p><b>Income of zone enterprise in Special Economic Zone</b></p>                                   | <p>Income derived by a zone enterprise is exempt for a period of 10 years reckoned from the date the developer certifies that the zone enterprise has commenced commercial operations and for a period of 10 years to a developer of zone starting from the date of signing of development agreement in Special Economic Zone.</p>   | <p>The Finance Act, 2020 insert a proviso by virtue of which exemption under the above Clause will be available to co- developers as defined under the EPZ Rules 2013 subject to the condition that a certificate has been furnished:</p> <p>(a) by the developer that he has not claimed exemption under this clause and has relinquished his claim in favour of the co-developer; and by the Special Economic Zone Authority validating that the developer has not claimed exemption under this clause and has relinquished claim in favour of the co-developer.</p> |

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| 64                | <b>Clause (147)</b><br><br><b>Income of Federal Government Employees Housing Authority</b>           |   | The Finance Act, 2020 insert a new clause (147) whereby any income derived by the federal Government Employees Authority shall be exempt from tax for the tax year 2020 and the following four tax years.  |
| <b>Part – II</b>  |  |   |  |
| 65                | <b>Clause (5AA)</b><br><br><b>Profit on debt earned by non-resident individual</b>                   |   | A new clause (5AA) is inserted by virtue of which tax to be deducted under sub-section (2) of Section 152 from payment to an individual on account of profit on debt earned from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident rupee account or a foreign currency account maintained with a banking company in Pakistan shall be 10 of the gross amount paid. It is provided that the tax deducted on such profit on debt shall be final tax. |
| 66                | <b>Clause (24CA)</b><br><br><b>Supplies to Utility Store Corporation of Pakistan</b>                 | It would be recalled that on 7 April 2020 a new clause (24CA) was inserted whereby Utility Stores Corporation of Pakistan making payment on account of supply of tea, spices, salt, dry milk, sugar, pulses, wheat flour and ghee was required to withhold tax at the rate of 1.5 to a person other than a Company. | The clause was timebound upto 30 June 2020. The Finance Act, 2020 extend the timelines upto 30 September 2020.   |
| <b>Part – III</b> |  |   |  |
| 67                | <b>Clause (9B)</b><br><br><b>Housing projects by Naya Pakistan Housing and Development Authority</b> |   | The Finance Act, 2020 insert a new clause (9B) whereby tax on income, profits and gains of low cost housing projects developed or approved by Naya Pakistan Housing and Development Authority or under the Ehsaas Programme shall be reduced by 90%.   |

| <b>Part-IV</b> |   |  |   |
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| 68             | <p><b>Clause 9A</b></p> <p><b>Exemption from deduction of tax on payment of scrap steel purchase by steel melters</b></p> | <p>Currently the steel melters are absolved from the responsibility of withholding tax under Section 153(1)(a) of the Ordinance in respect of payment made on account of purchase of scrap provided that due tax is collected under Section 235B of the Ordinance.</p>   | <p>The Finance Act, 2020 now omits this clause of the Ordinance. Subsequently, the payment of scrap steel purchase by steel melters would be subject to deduction of tax under Section 153(1)(a) of the Ordinance at the applicable rate as provided under the Ordinance.</p>   |
| 69             | <p><b>Clause 11A</b></p> <p><b>Exemption from application of Minimum Turnover Tax – Section 113</b></p>                   | <p>Clause 11A of Part-IV of the Second Schedule to Ordinance contains the list of persons who are not liable to pay minimum tax under Section 113 of the Ordinance. The list included a modaraba registered under the Modaraba Companies and Modaraba (Flotation and Control) Ordinance, 1980.</p>                         | <p>The Finance Act, 2020 that only such modaraba would be exempt from the mischief of Section 113 who qualify for exemption under Clause (100) of Part I of the Second Schedule to the Ordinance.</p> <p>The Finance Act, 2020 also provides the benefit of Clause 11 A to the following:</p> <ul style="list-style-type: none"> <li>• The Prime Minister’s COVID-19 Pandemic Relief Fund-2020; and</li> <li>• the Federal Government Employees Housing Authority for the tax year 2020 and the following four tax years.</li> <li>• Naya Pakistan Housing and Development Authority for tax year 2020 and next four tax years.</li> <li>• Hajj Group Operator for tax year 2021: and</li> </ul> <p>A resident company involved in hotel business in Pakistan in respect of turnover for the period from 1-04-2020 to 30-06-2020.</p> |
| 70             | <p><b>Clause 12B</b></p> <p><b>Exemption from collection of tax on import of medical and surgical supplies</b></p>        | <p>In order to fight a universally unprecedented challenge in the shape of Novel Corona Virus Pandemic, the Government introduced a SRO 236(I)/2020 dated 20 March 2020 wherein, the import of certain medical and surgical supplies have been exempted from the collection of tax under Section 148 of the Ordinance.</p> | <p>The Finance Act, 2020 enacts Clause 12B of Part IV of the Second Schedule effective from 20 March 2020 till 30 September 2020.</p>   |

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| <p>71</p> <p>A)</p> <p>B)</p> | <p><b>Clause 12C</b></p> <p><b>Exemption from collection of tax on import of pulses</b></p> <p><b>CLAUSE 12D &amp; 12E</b></p> <p><b>Medical equipment relevant to Covid-19</b></p> | <p>Vide SRO 287(I)/2020 where pulses has have been exempted from the collection of tax under Section 148 of the Ordinance by inserting a Clause 12B to the Part IV of the Second Schedule to the Ordinance.</p>       | <p>The Finance Act, 2020 enact the said Clause effective from 07 April 2020 till 30 September 2020.</p> <p>Some further drugs and medical equipment relevant to Covid-19 treatment have been provided an exemption from Section 148 on fulfillment on certain conditions.</p>   |
| <p>72</p>                     | <p><b>Clause 46AA</b></p> <p><b>Payments not subject to withholding of tax under Section 153 of the Ordinance</b></p>   | <p>SRO 586(I)/91 dated 30 June 1991 specifies a list of persons who are / may seek an exemption from withholding of tax under Section 153 of the Ordinance. In order to harmonize the provision of the Ordinance.</p> | <p>The Finance Act, 2020 insert a new clause in Part IV to the Second Schedule of the Ordinance by specifying all the persons which are listed in the aforesaid SRO. Following are the list of the persons who are excluded from the provision of Section 153 of the Ordinance:</p> <ul style="list-style-type: none"> <li>• A provincial government</li> <li>• A local authority</li> <li>• Persons who are residents of Azad Kashmir and execute contracts in Azad Kashmir only and produce a certificate to this effect from the concerned income tax authority.</li> <li>• Persons receiving payments from a company or an association of persons having turnover of fifty million rupees or more or from an individual having turnover of fifty million rupees or more exclusively for the supply of agriculture produce including fresh milk, fish by any person engaged in fish farming, live chicken, birds and eggs by any person engaged in poultry farming and by an industrial undertaking engaged in poultry processing which has not been subjected to any process other than that which is ordinarily performed to render such produce fit to be taken to market.</li> <li>• Companies receiving payments for the supply of electricity and gas.</li> <li>• Companies receiving payments for the supply of crude oil.</li> <li>• Hotels and restaurants receiving payments in cash for providing accommodation or food or both, as the case may be.</li> <li>• shipping companies and air carriers receiving payments for the supply of</li> </ul> |

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|    |  |  | <p>passenger tickets and for the cargo charges of goods transported</p> <ul style="list-style-type: none"> <li>• Clause 56C</li> <li>• Clause 56D</li> </ul> <p>Certain categories of person like oil marketing companies and persons receiving the amounts below the threshold on which the withholding of tax provision invocable are already part of the Ordinance.</p> <ul style="list-style-type: none"> <li>• Unregistered individuals receiving payments for supply of: <ul style="list-style-type: none"> <li>○ Sand</li> <li>○ Bricks</li> <li>○ Grit</li> <li>○ Gravel</li> <li>○ Crushed stone</li> <li>○ Soft mud</li> <li>○ Clay</li> </ul> </li> <li>• Following persons in respect of services provided to construction sector: <ul style="list-style-type: none"> <li>○ Artisans</li> <li>○ Plumbers</li> <li>○ Electricians</li> <li>○ Surface finishers</li> <li>○ Carpenters</li> <li>○ Painters</li> <li>○ Daily wagers</li> </ul> </li> <li>• Subject to following conditions: <ul style="list-style-type: none"> <li>○ The person is unregistered;</li> <li>○ The CNIC number and address of such individual is recorded by payer; and</li> <li>○ Payment is made directly to the individual</li> </ul> </li> </ul> |
| 73 | <p><b>Clause (63)</b></p> <p><b>Institution deemed to be approved as NPO</b></p> | <p>Previously Dawat-e-Hadiya, Karachi and Lahore University of Management Sciences (LUMS), Lahore were deemed to be approved as a non-profit organization by the CIR under Section 2(36) of the Ordinance.</p> | <p>The Finance Act, 2020 now omit the aforesaid Clause 63 Part IV of Second Schedule to the Ordinance, since the names of the above institutions are to be included in Clause 66 Part I of the Second Schedule to the Ordinance. Consequently, to avoid redundancy the above-mentioned institutions have been removed from here.</p>  |

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| 74 | <p><b>Clause 72AA</b></p> <p><b>Exemption from deduction of tax to Non-resident Hajj Group Operator</b></p>           | <p>The Finance Act, 2020 insert a new clause to provide exemption from the application of provisions of Section 152 of the Ordinance whereby no deduction of tax would be required on payment made to a non-resident Hajj Group Operator in respect of Hajj operations.</p>   |  |
| 75 | <p><b>Clause 101AA</b></p> <p><b>Exemption from application of Section 231A, 231AA, and 236P of the Ordinance</b></p> | <p>The Finance Act, 2020 insert a new clause to provide exemption from deduction of tax under following Section from a Pak Rupee Account to the extent of foreign remittances credited into such account in a tax year:</p> <ul style="list-style-type: none"> <li>• Tax deducted under Section 231A of the Ordinance on cash withdrawal of amount exceeding Rs.50,000 in single day;</li> <li>• Tax deducted under Section 231A of the Ordinance on banking instruments exceeding Rs.25,000 in single day; and</li> <li>• Tax deducted under Section 236P of the Ordinance on banking transactions otherwise than through cash exceeding Rs.50,000 in a single day.</li> </ul> |  |
| 75 | <p><b>Clause 102</b></p> <p><b>Exemption from application of Section 233 of the Ordinance</b></p>                     | <p>The Finance Act, 2020 insert a new clause to provide exemption from deduction of tax under Section 233 of the Ordinance in respect of a commission received by a retail branchless banking agent on any amount disbursed by the Ehsaas Emergency Cash Transfer Programme for the period commencing on 16 April 2020 and ending on 30 September 2020.</p>   |  |
| 76 | <p><b>Clause 111A</b></p> <p><b>Persons not appearing in the Active Taxpayers' List (ATL)</b></p>                     | <p>The Finance Act, 2019 introduced a separate schedule in the Ordinance to deal with persons who do not appear on the Active Taxpayer List (ATL) i.e. who are not in the tax net and are not filing their declaration so far. In this connection, Section 100BA was also introduced vide Finance Act, 2019 which governs the collection or deduction of</p>  | <p>The Finance Act, 2020 now insert a new clause whereby any payment made to a Non-Resident on account of dividend shall not attract the provisions of Tenth Schedule to the Ordinance. Accordingly any non-resident whose name does not appears on ATL, provisions of the Tenth Schedule would not be applicable on dividend paid to such non-resident.</p> |

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|    |  | <p>advance income tax, computation of income and tax payable by such persons.</p> <p>The Tenth Schedule generally provides that where ever tax is required to be deducted or collected under any provisions of the Ordinance from a person whose name is not appearing in the ATL, the rate of withholding will be doubled in case of deduction or collection from such persons (with some exceptions).</p>   |  |
| 77 | <p><b>Clause 112A</b></p> <p><b>Exemption from application of Section 231A, 231AA, and 236P of the Ordinance</b></p>       | <p>The Finance Act, 2020 insert a new Clause 112A of Part IV of Second Schedule to the Ordinance whereby the provisions of Section 236P of the Ordinance relating to tax deducted on banking transactions otherwise than through cash exceeding Rs.50,000 in a single day do not apply to a non-resident rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan of a non-resident individual investing in a debt instrument issued by the Federal Government under the Public Debt Act, 1944.</p>   |  |
| 78 | <p><b>Clause 114</b></p> <p><b>Exemption to a non-resident from getting registered and filing of income tax return</b></p> | <p>The Finance Act, 2020 insert a new Clause whereby a non-resident individual would not be required to get the tax registration and file its return of income solely by reason of earning profit on debt from a debt instrument, whether conventional or shariah compliant, issued by the Federal Government under the Public Debt Act, 1944 and purchased exclusively through a bank account maintained abroad, a non-resident rupee account repatriable (NRAR) or a foreign currency account maintained with a banking company in Pakistan.</p>  |  |
| 79 | <p><b>Clause 116</b></p> <p><b>Exemption from application of Section 151, 231A, 231AA, and 236P of the Ordinance</b></p>   | <p>The Finance Act, 2020 insert a new Clause 112A of Part IV of Second Schedule to the Ordinance whereby the following taxes shall not apply to The Prime Minister’s COVID-19 Pandemic Relief Fund-2020:</p> <ul style="list-style-type: none"> <li>• Tax deducted under Section 151 of the Ordinance on profit on debt;<br/>Tax deducted under Section 231A of the Ordinance on cash withdrawal of amount exceeding Rs.50,000 in single day;</li> <li>• Tax deducted under Section 231A of the Ordinance on banking instruments exceeding Rs.25,000 in single day; and</li> <li>• Tax deducted under Section 236P of the Ordinance on banking transactions otherwise than through cash exceeding Rs.50,000 in a single day.</li> </ul> |  |

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| 80                             | <p><b>Clause 117</b></p> <p><b>Exemption from application of Section 236P of the Ordinance</b></p> |  | <p>The Finance Act, 2020 insert a new Clause 117 of Part IV of Second Schedule to the Ordinance whereby no tax is required to be deducted under Section 236P of the Ordinance in respect of banking transactions otherwise than through cash at the time of transfer of any sum to The Prime Minister’s COVID-19 Pandemic Relief Fund- 2020.</p>  |
| <p><b>Seventh Schedule</b></p> |  |  |   |
| 81                             | <p><b>Applicability of Super Tax under Section 4B of the Ordinance</b></p>                         | <p>Presently, the Super tax for rehabilitation of temporarily displaced persons is applicable to banking companies until the tax year 2020.</p>  | <p>The Finance Act, 2020 to extend the applicability of such Super Tax on banking Companies for the tax year 2021 as well.</p>  |
| <p><b>Tenth Schedule</b></p>   |  |  |   |
| 82                             | <p><b>Exemption to certain payment to non-resident from application of Tenth Schedule</b></p>      | <p>The Tenth Schedule generally provides that where ever tax is required to be deducted or collected under any provisions of the Ordinance from a person whose name is not appearing in the ATL, the rate of withholding will be doubled in case of deduction or collection from such persons.</p> | <p>The Finance Act, 2020 now provide such exception to the following payments made to non-residents:</p> <p>Payment of royalty and fee for technical services made to non-resident on which tax is required to be deducted under Section 152(1) of the Ordinance;</p> <ul style="list-style-type: none"> <li>• Payment of insurance and reinsurance premium made to non-resident on which tax is required to be deducted under Section 152(1AA) of the Ordinance;</li> <li>• Payment of other general expenses not covered specifically and attract withholding of tax under Section 152(2) of the Ordinance.</li> </ul> <p>In addition to the above, currently the payment made by a resident person to a permanent establishment of a non-resident in Pakistan in respect of supplies of goods on which tax is required to be deducted under Section 152(2A)(a) of the Ordinance does not</p> |

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|    |  |   | attract the provisions of the tenth Schedule. However, the Finance Act, 2020 to bring such payments also under the mischief of Tenth Schedule. Accordingly, any payment made to a permanent establishment of a non-resident in Pakistan who is not appearing on ATL would attract the provisions of the Tenth Schedule.  |
| 83 | <b>Redundant Clauses of the Tenth Schedule</b> | In line with the existing omission of various Sections of the Ordinance in respect of withholding of tax on various payments, the Finance Act, 2020 now omit the following clauses from the Tenth Schedule as a consequential amendment:<br>Sub-rule k of Tenth Schedule – Tax on steel melters and composite units<br>Sub-rule n of Tenth Schedule – Advance tax on functions and gatherings | <ul style="list-style-type: none"> <li>• Sub-rule o of Tenth Schedule – Advance tax on cable operators and other electronic media</li> <li>• Sub-rule q of Tenth Schedule – Advance tax on dealers, commission agents and arhatis etc</li> <li>• Sub-rule u of Tenth Schedule – Collection of advance tax on education related expenses remitted abroad</li> <li>• Sub-rule v of Tenth Schedule – Advance tax on insurance premium</li> <li>• Sub-rule w of Tenth Schedule – Advance tax on extraction of minerals</li> <li>• Sub-rule x of Tenth Schedule – Advance tax on tobacco</li> </ul> |

| Sr # | Section   | Before Amendments  | After Amendments  |
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| 1    | <b>Active taxpayer</b><br><br><b>Section 2(1) (a) &amp; (d)</b> | <p>Section 21 of the ST Act specifies various scenarios such as issuance of fake invoices, committed tax fraud, claiming fraudulent input tax or refunds, etc. where the FBR or the Commissioner may blacklist such persons, suspend their registration or block the refunds / input tax adjustment of the person. Section 2(1)(a) provides that the person who is blacklisted or whose registration is blocked in terms of section 21 of the ST Act shall not be covered under the definition of Active Taxpayer.</p>   | <p>The Finance Act, 2020 omit the term “blocked” from the definition of the term “Active Taxpayer” which appears to be a corrective amendment as Section 21 of the ST Act only refers to suspension of registration. However, it may also be inferred that even if the refunds or input tax adjustment of a registered person is blocked in view of Section 21 of the ST Act he may not be treated as a non-active taxpayer.</p> <p>It may be noted that the Finance Act, 2020 also amend section 165 of the Ordinance and the filing of a quarterly statement instead of a bi-annual withholding statement. Consequently, Section 2(1)(d) of the ST Act is also sought to be amended. The Finance Act, 2020 now substitute the words “ two consecutive monthly” with the term “quarterly”. Accordingly, every registered person who fails to file quarterly withholding statement under Section 165 of the Ordinance, shall also be declared as non-active taxpayer.</p> |
| 2    | <b>Section 2(20) (c)</b><br><br><b>Output tax</b>               | <p>Section 2(20) of the ST Act provides the definition of the term “output tax” which means “sales tax charged under ST Act on supply of goods”, “tax levied under the FE Act in sales tax mode” and “Provincial Sales Tax levied on services rendered”. After the Eighteenth Amendment in the Constitution of Pakistan, 1973, the Provinces have enacted their respective Acts and are charging and collecting sales tax on the services rendered in their respective jurisdiction. However, the sales tax on services under ICT Ordinance is still administered and collected by the FBR. Hence the term “Provincial Sales Tax levied on services rendered” in the definition of the term “output tax” under the ST Act seems to be redundant.</p> | <p>The Finance Act, 2020 streamline the situation and substitute clause (c) of sub-section (20) of section 2 of the ST Act and retain only “sales tax on the services rendered or provided” by the person under the ICT Ordinance, and accordingly has this amendment.</p>  |



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|   |  | Input tax disallowed due to this restriction shall be carried forward to the next period and shall be treated as input tax of that period.  |  |
| 6 | <b>Section 11C</b><br><br><b>Power of tax authorities to modify orders, etc.</b> | <p>The Finance Act, 2020 insert a new section, Section 11C to the ST Act, whereby the Commissioner or the Officer Inland Revenue, notwithstanding whether any appeal is filed before the Supreme Court of Pakistan, or a reference is filed before any High Court, may follow the decision of the Appellate Tribunal or the High Court, decided on or after the first day of July, 1990, in case of any pending assessment of a taxpayer, which applies the same question of law, until the decision of the High Court or the Appellate Tribunal is reversed or modified. The aforesaid section also provides that in case the decision of the High Court or the Appellate Tribunal is reversed or modified, the Commissioner or Officer Inland Revenue may, within a period of one year from the date of receipt of such decision, modify the assessment or order in which the decision of the Appellate Tribunal or the High Court was followed, so that it conforms to the final decision.</p> <p>The new section also states that the period of one year from the date of receipt of the Order of the High Court or the Supreme Court of Pakistan, shall be notwithstanding the expiry of period of limitation prescribed for making any assessment or order.</p> |  |
| 7 | <b>Section 23(1)(b) Tax invoice</b>  | Clause (b) of sub-section (1) of Section 23 of the ST Act requires every registered person to provide name, registration number of the recipient and CNIC or NTN of the un-registered person, as the case may be, excluding supplies made by a retailer where the transaction value inclusive of sales tax amount does not exceed PKR 50,000, if sale is being made to an ordinary consumer.  | The Finance Act, 2020 now provide that where a transactional value is less than PKR 100,000, a retailer is not required to mention CNIC or NTN of an unregistered person.  |
| 8 | <b>Section 25 (2A)</b><br><br><b>Access to record, documents, etc.</b>           |   | The Finance Act, 2020 insert new sub-section (2A) in Section 25 of the ST Act, which empowers the Commissioner to conduct audit proceedings electronically through video links or any other facility as prescribed by the FBR. |
| 9 | <b>Section 26(1) Return</b>  | Section 26 of the ST Act, provides that the registered person shall furnish not later than the due date a true and correct return in the prescribed form. The electronic Sales Tax Return form comprises of several Annexures which every registered person is required to submit. However, it has been observed that in various cases the return could be filed where complete information is not provided other than the information which impact the net liability or carry forward/or refund of the return filer. Such information includes detail of exempt purchases and sales, etc.  | The Finance Act, 2020 insert a term “complete” in addition to “true and “correct” in Section 26(1) of the ST Act.  |

## (Comparative Study)

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| 10 | <b>Section 33, Serial 25 &amp; 28</b><br><b>Offenses and penalties</b>                                       | <p>The serial number 25 of the table under Section 33 of the ST Act deals with the offence committed by a person who is required to integrate his business for monitoring, tracking, reporting or recording of sales, production and similar business transactions with the FBR or its computerized system.</p>  | <p>The Finance Act, 2020 now brings that even after imposition of penalty, if a person does not integrate his business with the FBR system within two months, the business premises shall be sealed until he integrates such business.</p> <p>Such person shall pay a penalty of twenty five thousand rupees for first default and fifty thousand rupees for each subsequent default .</p>  |
| 11 | <b>Section 38(1)</b><br><b>Authorized officers to have access to premises, stocks, accounts and records.</b> | <p>The FBR has powers to authorize any of its officers or Commissioner on its behalf to have free access to business or manufacturing premises, registered office or any other place where any stocks, business records or documents required under this Act are kept or maintained belonging to any registered person liable for registration or whose business activities are covered under this Act or who may be required for any inquiry or investigation in any tax fraud committed by him or his agent or any other person.</p>   | <p>The Finance Act, 2020 widen the scope to include real-time access. The Finance Act, 2020 further empower the FBR to make Rules relating to electronic real-time access for audit or a survey of persons liable to tax.</p>   |
| 12 | <b>Appeals</b><br><b>Section 45B (1A)</b>  | <p>The Finance Act, 2020 new sub-section (1A) to Section 45B of the ST Act whereby procedure for filing of appeals before the Commissioner (Appeals) is prescribed. An appeal shall now :</p> <ol style="list-style-type: none"> <li>1) be in the prescribed form;</li> <li>2) be verified in the prescribed manner;</li> <li>3) state precisely the grounds upon which the appeal is made;</li> <li>4) be accompanied by the prescribed fee specified in sub-section (1B); and</li> <li>5) be lodged with the Commissioner (Appeals) within the time set out in sub-section (1).</li> </ol> <p>The Finance Act, 2020 omit the above proviso and insert new sub-section (1B) which introduces different fee for corporate and non-corporate taxpayers as under:</p> <ul style="list-style-type: none"> <li>➤ In case of appeals against as assessment       <ul style="list-style-type: none"> <li>• For corporate taxpayer is 5,000</li> <li>• For other than corporate taxpayer is 2,500</li> </ul> </li> <li>➤ In case of other appeals       <ul style="list-style-type: none"> <li>• For corporate taxpayer is 5,000</li> <li>• For other than corporate taxpayer is 1,000</li> </ul> </li> </ul> |   |
| 13 | <b>Section 47A</b><br><b>Alternative Dispute Resolution</b>  | <p>The option of seeking remedy in ARDC was to be only available if the applicant withdraws the appeal pending before any court of law or an appellate authority after the appointment of the ARDC by FBR.</p> <p>The recommendations of ADRC were made binding on both the parties.</p>   | <p>The taxpayer would no longer be required to withdraw his appeal pending before the appellate forum immediately after the constitution of the Committee. Instead, the taxpayer shall withdraw the appeal pending before the appellate forum only if he is satisfied with the decision of the Committee/ FBR. It is further brings that the decision of the Committee/ FBR shall not be binding on the taxpayer but shall be binding on the Commissioner, provided that the order of withdrawal of appeal is communicated to the Commissioner within 60 days of the service of decision of the FBR upon the taxpayer. one year from the end of</p> |

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|    |  |   | <p>the financial year in which the order of higher authority is served.</p> <p>The Finance Act, 2020 now brings that the Committee shall comprise of the Chief Commissioner having jurisdiction over the case and two persons from a panel notified by the FBR. Conversely, the Committee shall decide the dispute through consensus rather than majority.</p> <p>The Finance Act, 2020 also provides that the Committee may, in case of hardship, stay the recovery of tax payable in respect of the dispute pending before it for a period not exceeding 120 days in aggregate or till the decision of the Committee or its dissolution, whichever is earlier.</p>  |
| 14 | <p><b>Section 56 (1)(d) &amp; (2)(d)</b></p> <p><b>Service of orders, decisions etc.</b></p> | <p>Section 56 of the ST Act deals with the service of notices and other documents. Sub-section (1)(d) and sub-section (2)(d) of Section 56 provides that any notice, order or requisition required to be served, shall be treated as properly served if sent electronically through email or to the e-folder maintained for the purpose of e-filing of Sales Tax-cum-Federal Excise returns, to limited companies, both public and private.</p> | <p>The Finance Act, 2020 substitute the expression “limited companies, both public and private” with “registered person”. Consequently, electronically service of notices and other documents through email or to the e-folder maintained for the purpose of e-filing of Sales Tax-cum-Federal Excise returns, shall be treated as the prescribed mode of serving notices, orders or requisition to all registered persons irrespective of their legal status.</p>  |
| 15 | <p><b>Section 56AB</b></p> <p><b>Real-time access to information and databases.</b></p>      |   | <p>For broadening of the tax base and effective monitoring of tax evasion, the Finance Act, 2020 insert a new section dealing with the provision of real-time access of information and database of various organizations to the FBR.</p> <p>The Finance Act, 2020 further amend that all electricity suppliers and gas transmission and distribution companies shall make arrangements by 01 January 2021 for allowing the consumers to update the ratio of sharing of a connection and the particulars of users. It is also brings`` that the FBR shall make arrangements for laying the infrastructure for real-time access to information and databases described above and aligning it with its own database. The information and record received under this section shall be used only for tax purposes and kept confidential.</p> <p>Keeping in view the fact that the establishment of such real-time infrastructure by the FBR, as well as the concerned organizations, may take significant time and may be subject to various constraints, the Finance Act, 2020 also amend that until real-time access to information and database is made available, such information and data shall be provided periodically in any other form and manner as may be prescribed.</p> |

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|    |  |  | <p>The detail from Federal Investigation Agency and Bureau of Emigration and Overseas Employment was related to details of international entry and exit of all persons, and information pertaining to work permits, employment visas and immigration visas.</p> <p>Now through Act, the information from both agencies has been restricted to only international travel.</p> <p>The same amendment has also been introduced in ITO.</p> |
| 16 | <p><b>SECTION 58A<br/>REPRESENTATIVE</b></p> | <p>Section 58A provides provisions regarding representative of a taxpayer including of a non- resident person to represent it in department and appellate forums. Through bill an explanation was proposed that non-resident for sales tax purposes shall have same meaning as provided in Income Tax.</p> | <p>Now Act also has provided FBR, power to specify persons or class of persons through notification and subject to such conditions and restrictions, to be considered as representatives of non-resident.</p>   |

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| 16 | <b>SECTION 58A REPRESENTATIVE</b> | Section 58A provides provisions regarding representative of a taxpayer including of a non- resident person to represent it in department and appellate forums. Through bill an explanation was proposed that non-resident for sales tax purposes shall have same meaning as provided in Income Tax. | Now Act also has provided FBR, power to specify persons or class of persons through notification and subject to such conditions and restrictions, to be considered as representatives of non-resident. |
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**Fifth Schedule**  
**The Fifth Schedule of the ST Act deals with levy of zero rate of sales tax.**

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| 17 | Supplies of raw materials, plant and machinery to Gwadar Free Zone were zero rated, which were withdrawn through the Tax Laws (Second Amendment) Ordinance, 2019. | The Finance Act, 2020 to re-introduce the application of zero rate on the said supplies made by insertion of the following entries, effective from 01 June 2020. |
|----|---|--|

| S.No. | Description  |
|-------|--|
| 13    | Supplies of raw materials, components and goods for further manufacture of goods in the Gwadar Free Zone and export thereof, provided that in case of supply to tariff area of Pakistan shall be taxed at the value assessed on the Goods Declaration for import   |
| 14    | <p>Supplies of locally manufactured plant and machinery of the following specifications, to manufacturers in the Gwadar Free Zone, subject to the conditions, restrictions and procedure given below, namely:-</p> <ul style="list-style-type: none"> <li>(i) plant and machinery, operated by power of any description, as is used for the manufacture or production of goods by that manufacturer</li> <li>(ii) apparatus, appliances and equipment specifically meant or adapted for use in conjunction with the machinery specified in clause(i).</li> <li>(iii) mechanical and electrical control and transmission gear, meant or adapted for use in conjunction with machinery specified in clause(i).</li> <li>(iv) parts of machinery as specified in clauses (i), (ii) and</li> <li>(v) identifiable for use in or with such machinery.</li> </ul> <p><b>Conditions, restrictions and procedures:-</b></p> <ul style="list-style-type: none"> <li>(a) the supplier of the machinery is registered under the Act;</li> <li>(b) proper bill of export is filed showing registration number;</li> <li>(c) the purchaser of the machinery is an established manufacturer located in the Gwadar Free Zone and holds a certificate from the Gwadar Port Authority to that effect;</li> <li>(d) the purchaser submits an indemnity bond in proper form to the satisfaction of the concerned Commissioner Inland Revenue that the machinery shall, without prior permission from the said Commissioner, not be sold, transferred or otherwise moved out of the Gwadar Free Zone before a period of five years from the date of entry into the Zone;</li> <li>(e) if the machinery is brought to tariff area of Pakistan outside Gwadar Free Zone, sales tax shall be charged on the value assessed on the Goods Declaration for import; and breach of any of the conditions specified herein shall attract legal action under the relevant provisions of the Act, besides recovery of the amount of sales tax along with default surcharge and penalties involved.</li> </ul> |

| <b>Sixth Schedule</b><br><b>Deals with exemptions of goods from levy of sales tax.</b><br>Table 1 (on import and local supplies) The Finance Act, 2020 to amend the following serial number.  |   |  |
|---|---|--|
| S.No.   | Description<br>(Existing)   | Description<br>(Current)   |
| 100A  | Ship Bunker Oils bought and sold to the ships calling on / visiting Gwadar Port having Concession Agreement with the Gwadar Port Authority  | Ship Bunker Oils bought and sold to the ships calling on / visiting Gwadar Port <b>by the aforesaid operating companies</b> , having Concession Agreement with the Gwadar Port Authority |
| The above amendment in serial No. 100A apparently mentions only specific operating companies whereas earlier only concession agreements were referred to. The aforesaid description and certain amendments thereto are effective from 01 June 2020. The Finance Act, 2020 extend the exemption provided under serial No. 103 up to the year 2023 which deals with import and supply of ships and all floating crafts etc.   |   |  |
| The Finance Act, 2020 insert the following entries:   |   |  |
| S.No.   | Description   | Tariff Heading   |
| 100D  | Machinery, equipment, materials and goods imported either for exclusive use within the limits of Gwadar Free Zone, or for making exports therefrom, subject to the conditions that such machinery, equipment, materials and goods, are imported by investors of Gwadar Free Zone, and all the procedures, limitations and restrictions as are applicable on such goods under the Customs Act, 1969 (Act IV of 1969) and rules made thereunder shall, mutatis mutandis, apply provided that if any of such goods is taken out of the Zone for purpose other than the export, the tax on the same shall be paid by the importer | Respective headings  |
| The above serial number is effective from 01 June 2020.<br><b>Amendments in Sixth Schedule (Exempt Items):</b><br><b>Entry No. 103 in Table-1:</b> <ul style="list-style-type: none"> <li>The exemption under entry 103 related to import and supply of ships and all floating craft etc. which expires on 2020 now to be extended to 2023. Now it is extended up to 2030.</li> </ul> <b>Through Act the following items are also added in sixth schedule:</b> <ul style="list-style-type: none"> <li>Oil cake and other solid residues, whether or not ground or in the form of pellets (PCT code 2306. 1000 [Entry 155])</li> <li>Import of CKD kits by local manufacturers of following Electric Vehicles: [Entry 156]–</li> <li>Road Tractors for semi-trailers (Electric Prime Movers) (PCT code 8701.2060)</li> <li>Electric Buses (PCT code 8702.4090) (iii) Three-Wheeler Electric Rickshaw (PCT code 8703.8030)</li> <li>Three-Wheeler Electric Loader (PCT code 8704.9030)</li> <li>Electric Trucks (PCT code 8704.9059)</li> <li>Electric Motorcycle (PCT code 8711.6090)</li> </ul> <b>In Table 3:</b><br><b>Through Act, entry no. 20 is added as follows:</b> <ul style="list-style-type: none"> <li>Plant and machinery for the assembly/ manufacturing of electric vehicles, subject to condition that the exemption shall be admissible on one time basis for setting up the new assembly and/or manufacturing facility of the vehicles and expansion in the existing units to the extent of electric vehicles specific plant and machinery, duly approved/ certified and determined by the Engineering Development Board (EDB)</li> </ul> |   |  |

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

**Table 3**

The Finance Act, 2020 to substitute the entry of Serial No.15A as follows:

| Existing   |             | Current  |                    |
|--|-------------|--|--------------------|
| Description  | PCT Heading | Description  | PCT Heading        |
| Parts and Components for manufacturing LED lights and bulbs:-            |             | Parts and Components for manufacturing LED lights:-                                |                    |
| (i) Aluminum Housing/ Shell for LED (LED Light Fixture)                  | 9405.1090   | (i) Housing /shell. Shell cover and base cap for all kinds of LED lights and bulbs | Respective heading |
| (ii) Metal Clad Printed Circuit Boards (MCPCB) for LED                   | 8534. 0000  | (ii) Bare and stuffed Metal Clad Printed Circuit Boards (MCPCB) for LED            | 8534. 0000         |
| (iii) Constant Current Power Supply for of LED Lights and bulbs (1-300W) | 8504.4090   | (iii) Constant Current Power Supply for of LED Lights and bulbs (1-300W)           | 8504.4090          |
| (iv) Lenses for LED lights and bulbs                                     | 9001.9000   | (iv) Lenses for LED lights and bulbs   | 9001.9000          |

| <b>Eighth Schedule</b><br><b>The Eighth Schedule deals with goods subject to specific rates of sales tax.</b>                       |  |
|---|--|
| 19  | <p>The Finance Act, 2020 to substitute the following entries in Table-1 of the Eight Schedule to the ST Act:</p> <ul style="list-style-type: none"> <li>• <b><u>Serial No. 56 - Potassium Chlorate</u></b><br/>Presently, import and supply of potassium chlorate is subject to fixed amount of sales tax of PKR 70 per kilogram in addition to the standard rate of sales tax at 17 . The Finance Act, 2020 to enhance the fixed amount of sales tax from PKR 70 to 80 per kilogram.</li> <li>• <b><u>Serial No. 66 - Integrated Retail Outlets</u></b><br/>Supplies made from retail outlets which are integrated with FBR’s computerized system for real time reporting of sales were required to charge sales tax at the rate of 14 . The Finance Act, 2020 now to reduce the applicable rate to 12.</li> <li>• <b><u>Amendments in Table No.1</u></b><br/><br/><b>Deleted entry through Act:</b><br/>Oil cake and other solid residues, whether or not ground or in the form of pellets PCT 2306.1000. Rate of tax 5%. [entry 2]</li> <li>• <b><u>Amendments in Table No.2</u></b><br/><b>New entry no. 70 through Act:</b></li> <li>• Following locally manufactured electric vehicles <ul style="list-style-type: none"> <li>○ Road Tractors for semi-trailers (Electric Prime Movers) PCT code 8701.2060, Sale Tax rate 1%,; local supplies only</li> <li>○ Electric Buses PCT code 8702.4090 Sale Tax rate 1%,; local supplies only</li> <li>○ Three wheeler electric richshaw PCT code 8703.8030, Sale Tax rate 1%,; local supplies only</li> <li>○ Three-wheeler electric loader PCT code 8704.9030, Sale Tax rate 1%; local supplies only</li> <li>○ Electric trucks PCT code 8704.9059, Sale Tax rate 1%, local supplies only</li> <li>○ Electric motorcycle PCT code 8711.6090, Sale Tax rate 1%; local supplies only</li> </ul> </li> </ul> |
| <b>Ninth Schedule</b><br><b>The Ninth Schedule deals with levy of sales tax on imports or supply of cellular mobile phones etc.</b> |  |
| 20  | <p>The previous table proposed vide Bill has been splitted into two separate Tables without any changes in Sales Tax rates, ass under:</p>   |

**Table 1**

ales Tax on supply (payable at the time of supply by CMOs):

| S.No. | Description/Specificati on of Goods          | Sales tax on supply (payable at time of supply by CMOs) % |
|-------|--|---|
| 1.    | Subscriber Identification Module (SIM) Cards | 250   |

**Table 2**

Cellular mobile phones in CKD/CBU form:

| S.No. | Description / Specification of Goods  | Sales tax on CBUs at the time of import or registration (IMEI number by CMOs) | Sales tax on import CKD/SKD condition | Sales tax on supply of locally manufactured mobile phones in CBU condition in addition to tax under column (4) |
|-------|---|---|---------------------------------------|--|
| 1.    | Cellular mobile phones or satellite phones to be charged on the basis of import value per set, or equivalent value in rupees in case of supply by the manufacturer, at the rate as indicated against each category: - |   |                                       |  |
|       | A. Not exceeding US\$ 30 (excluding smart phones)   | Rs 130  | Rs 10                                 | Rs 10  |
|       | B. Not exceeding US\$ 30 (smart phones)   | Rs 200  | Rs 10                                 | Rs 10  |
|       | C. Exceeding US\$ 30 but not exceeding US\$ 100   | Rs 200  | Rs 10                                 | Rs 10  |
|       | D. Exceeding US\$ 100 but not exceeding US\$ 200  | Rs 1,680  | Rs 10                                 | Rs 10  |
|       | E. Exceeding US\$ 200 but not exceeding US\$ 350  | Rs 1,740  | Rs 1,740                              | Rs 10  |
|       | F. Exceeding US\$ 350 but not exceeding US\$ 500  | Rs 5,400  | Rs 5,400                              | Rs 10  |
|       | G. Exceeding US\$ 500   | Rs 9,270  | Rs 9,270                              | Rs 10  |

**LIABILITY, PROCEDURE AND CONDITIONS: and**

note has also been deleted and new clauses are inserted as follows through Act:

- (i) The liability to pay the tax on the goods specified in this Schedule shall be,
  - a) In case of the goods specified in Table-I, of the Cellular Mobile Operator (CMO);
  - b) in case of goods specified in columns (3) and (4) of Table-II, of the importer; and
  - c) in case of goods specified in column (1), against S. No. 2, in column (2),–5) of Table-II, of the local manufacturers of the goods.

- (ii) The time of payment of tax due under this Schedule shall be the same as specified in section 6;
- (iii) The tax paid under this Schedule shall not be deductible against category A, the output tax payable by the purchaser or importer of the goods specified in this Schedule;
- (iv) The input tax paid on the input goods attributable to the goods specified in this Schedule shall not be deductible for the tax payable under this Schedule; and
- (v) The Board may prescribe further mode and manner of payment of tax due under this Schedule

**AMENDMENT IN TENTH SCHEDULE**

The tenth schedule prescribes fixed tax rate on bricks in (PCT heading 6901.0000). Now through Act Tax on cement/concrete blocks PCT code 6810.1100 has also been added as follows with no input tax adjustment:

| S.No. | Item  | Tax                 |
|-------|---|---------------------|
| 1     | Paver                                       | Rs 2 per square ft. |
| 2     | Hollow Block (volume less than 1 cubic ft)  | Rs 3 per piece      |
| 3     | Solid Block (volume less than 1 cubic ft)   | Rs 3 per piece      |
| 4     | Kerb Stone (volume less than 1 cubic ft)    | Rs 5 per piece      |
| 5     | Kerb Stone (volume greater than 1 cubic ft) | Rs 10 per piece     |

**Eleventh Schedule**

**The Eleventh Schedule specifies the withholding agents and provides the rates of sales tax withholding.**

|    |  |   |
|----|--|---|
| 21 | Section 3(7) authorizes the Federal Government to notify a person as sales tax withholding agents along with the manner and conditions for withholding of sales tax. The procedure for deduction and deposit of sales withholding has been prescribed under Chapter XIV-D read with Rule 150ZZH to Rule 150ZZK of the Sales Tax Rules, 2006. | <p>The Finance Act, 2020 substitutes the preamble of the Table for clarifying the specified rates provided under the Eleventh Schedule and the exclusions mentioned thereafter. The Finance Act, 2020 also brings significant amendment under the sales tax withholding regime by replacing the term “Registered persons” with the expression “Active Taxpayers” in the specified categories of suppliers in column (3) of the Table. The amendments have been tabulated below:</p> <p>Through finance Act, 2020 supply of sand, stone, gravel/crush and clay to low cost housing schemes sponsored or approved by Naya Pakistan Housing and Development Authority has also been excluded from withholding under Eleventh Schedule.</p> |
|----|--|---|

| <b>S.No.</b> | <b>Withholding Agent</b>  | <b>Existing Supplier Category</b>                        | <b>Current Supplier Category</b>                                  | <b>Rate or Extent of Deduction</b>   |
|--------------|---|--|---|--|
| <b>(1)</b>   | <b>(2)</b>  | <b>(3)</b>   | <b>(3)</b>  | <b>(4)</b>   |
| 1            | (a) Federal and provincial government departments; autonomous bodies; and public sector organizations.<br>(b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001) | Registered persons                                       | Active Taxpayers  | 1/5 <sup>th</sup> of Sales Tax as shown on invoice   |
| 2            | (a) Federal and provincial government departments; autonomous bodies; and public sector organizations<br>(b) Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)  | Person registered as a wholesaler, dealer or distributor | Active Taxpayer registered as a wholesaler, dealer or distributor | 1/10 <sup>th</sup> of Sales Tax as shown on invoice  |
| 3            | Federal and provincial government departments; autonomous bodies; and public sector organizations   | Unregistered persons                                     | Persons other than Active Taxpayers                               | Whole of the tax involved or as applicable to supplies on the basis of gross value of supplies |
| 4            | Companies as defined in the Income Tax Ordinance, 2001 (XLIX of 2001)   | Unregistered persons                                     | Persons other than Active Taxpayers                               | 5 of gross value of supplies   |
| 5            | Registered persons as recipient of advertisement services   | Person providing advertisement services                  | Person providing advertisement services                           | Whole of sales tax applicable  |
| 6            | Registered persons purchasing cane molasses   | Unregistered persons                                     | Persons other than Active Taxpayers                               | Whole of sales tax applicable  |

| <b>Twelfth Schedule (Minimum Value Addition Tax)</b>   |   |
|--|---|
| <b>The Twelfth Schedule to the ST Act levies minimum value addition tax at the rate of three percent at import stage</b> |   |
| 22   | The Finance Act, 2020 substitute the entry provided under clause (i) of condition (2) which lists the goods that are excluded from the purview of minimum value addition tax. |

| <b>Existing Exclusion</b>  | <b>Current Exclusion</b>  |
|--|---|
| (i) Raw materials and intermediary goods meant for use in an industrial process which are subject to customs duty at a rate less than 16 ad valorem under First Schedule to the Customs Act, 1969; | (i) Raw materials and intermediary goods imported by a manufacturer for in house consumption; |

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|--|---|---|
| <p>Before the Finance Act, 2019 imports of raw material and intermediary goods made by a manufacturer were not subject to minimum value addition tax. The Finance Act, 2019 had withdrawn this facility and restricted it to raw materials and intermediary goods which were subject to customs duty at a rate less than 16 ad valorem which created an outcry among various manufacturing sectors including automobile and thereby raised litigations before the High Courts.</p> |   | <p>The Finance Act, 2020 now the above amendment. However, the above amendments if given the retrospective effect would do away with the pending relevant litigations.</p> <p style="text-align: right;">%</p>  |
| 23   | <b>Sales Tax Measures Announced in the Budget Documents</b> | <p>In the salient features attached to the Finance Act, 2020, it is indicated that the SRO 237(I)/2020 dated 20 March 2020 through which the Federal Government has granted exemption to health related items and equipment owing to the present circumstances of COVID-19 till 19 June 2020 is being further extended for another three months starting from the 20 June 2020.</p> |

## Federal Excise Act 2005

| Sr # | Section   | Before Amendments   | After Amendments   |
|------|---|---|--|
| 1    | <p><b>Section 6(2AB)</b></p> <p><b>Adjustment of duties of excise</b></p>               | <p>The FE Act, subject to certain conditions and limitations, allows deduction of input tax paid on goods sold to registered persons, which are used directly as inputs for the purpose of manufacturing or production of excisable goods. Such conditions include payments and receipts through banking channels, the declaration of duty paid by the respective supplier in his return, and payment of the amount of tax due, as indicated in his return.</p> | <p>The Finance Act, 2020 insert sub-section (2AB) in Section 6 of the FE Act, 2005 whereby the Board through a notification in the official gazette, may impose restrictions on the adjustment of input tax attributable to the wastage of material, on which input tax has been claimed, in respect of the goods or a class of goods.</p>   |
| 2    | <p><b>Section 14C</b></p> <p><b>Power of tax authorities to modify orders, etc.</b></p> |   | <p>The Finance Act, 2020 insert a new section, Section 14C to the FE Act, whereby the Commissioner or the Officer Inland Revenue, notwithstanding whether any appeal is filed before the Supreme Court of Pakistan, or a reference is filed before any High Court, may follow the decision of the Appellate Tribunal or the High Court, decided on or after the first day of July, 2005, in case of any pending assessment of a taxpayer, which applies the same question of law, until the decision of the High Court or the Appellate Tribunal is reversed or modified. The aforesaid Section also provides that in case the decision of the High Court or the Appellate Tribunal is reversed or modified, the Commissioner or Officer Inland Revenue may, within a period of one year from the date of receipt of such decision, modify the assessment or order in which the decision of the Appellate Tribunal or the High Court was followed, so that it confirms to the final decision. The Section also provides that the period of one year from the date of receipt of the Order of the High Court or the Supreme Court of Pakistan, shall be notwithstanding the expiry of period of limitation prescribed for making any assessment or order.</p> |

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|---|--|--|--|
| 3 | <p><b>Section 26(1)</b><br/><b>Power to seize</b></p>  | <p>Sub-section (1) of Section 26 of the FE Act provides that counterfeited cigarettes or beverages or cigarettes ,un-manufactured tobacco or beverages, which have been manufactured unlawfully or on which duty has not been paid as required under FE Act and rules made thereunder, shall be liable to seizure along with the means of conveyance used for carriage or transportation of these goods.</p> | <p>The Finance Act, 2020 extend the application of sub-section (1) of Section 26 of the FE Act, and it is bring that such seizure shall also be applicable on all other dutiable goods, on which FED has not been paid in the manner as required under the FE Act or the rules made thereunder.</p>  |
| 4 | <p><b>Section 27</b><br/><b>Confiscation of cigarettes, un-manufactured tobacco or beverages</b></p> | <p>Section 27 of the FE Act provides that cigarettes, un-manufactured tobacco or beverages seized for the reason of counterfeiting, shall be liable for confiscation and shall be destroyed in the manner as prescribed in the FE Act.</p>   | <p>The Finance Act, 2020 extend the application of Section 27 of the FE Act, and it is brings that such confiscation and destruction of counterfeited goods shall not be restricted to seized cigarettes, un-manufactured tobacco or beverages, but shall now be applicable to all goods which are subject to FED under the FE Act and which are seized for the reason of counterfeiting. The caption of Section 27 of the FE Act is also brings to be modified and will now read as “confiscation of goods subject to Federal Excise Duty”.</p>   |
| 5 | <p><b>Section 33</b><br/><b>Appeals to Commissioner (Appeals)</b></p>                                |  | <p>The Finance Act, 2020 to insert new a sub-section (1A) to the Section 45B of the ST Act whereby procedure for filing appeals before the Commissioner (Appeals) is prescribed. An appeal shall now :</p> <p>(f) be in the prescribed form;</p> <p>(g) be verified in the prescribed manner;</p> <p>(h) state precisely the grounds upon which the appeal is made;</p> <p>(i) be accompanied by the prescribed fee specified in sub-section (1B); and</p> <p>(j) be lodged with the Commissioner (Appeals) within the time set out in sub-section (1).</p> <p>Finance Act, 2020 omit the above proviso and insert new sub- section (1B) which introduces different fee for corporate and non-corporate taxpayers as under:</p> <ul style="list-style-type: none"> <li>➤ In case of appeals against as assessment             <ul style="list-style-type: none"> <li>• For corporate taxpayer is 5,000</li> <li>• For other than corporate taxpayer is 2,500</li> </ul> </li> <li>➤ In case of other appeals             <ul style="list-style-type: none"> <li>• For corporate taxpayer is 5,000</li> <li>• For other than corporate taxpayer is 1,000</li> </ul> </li> </ul> |

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| 6 | <p><b>Section 34</b></p> <p><b>Appeals to the Appellate Tribunal</b></p>     |  | <p>The Finance Act, 2020 insert sub-section (3) under Section 34 of the FE Act, whereby the Appellate Tribunal may admit, hear and dispose any appeal as per the procedure laid down under Section 131 and 132 of the Ordinance and rules made thereunder.</p>   |
| 7 | <p><b>Section 38</b></p> <p><b>Alternate Dispute Resolution</b></p>          | <p>The option of seeking remedy in ARDC was to be only available if the applicant withdraws the appeal pending before any court of law or an appellate authority after the appointment of the ARDC by FBR.</p> <p>The recommendations of ADRC were made binding on both the parties.</p> <p>The Committee for ADR consists of an officer of Inland Revenue not below the rank of a Commissioner, a person nominated by the taxpayer from a panel notified by the FBR and a retired judge nominated through consensus by the other two members. Furthermore, the Committee decides the dispute by majority.</p> | <p>The taxpayer would no longer be required to withdraw his appeal pending before the appellate forum immediately after the constitution of the Committee. Instead, the taxpayer shall withdraw the appeal pending before the appellate forum only if he is satisfied with the decision of the Committee/ FBR. It is further brings that the decision of the Committee/ FBR shall not be binding on the taxpayer but shall be binding on the Commissioner, provided that the order of withdrawal of appeal is communicated to the Commissioner within 60 days of the service of decision of the FBR upon the taxpayer. one year from the end of the financial year in which the order of higher authority is served.</p> <p>The Finance Act, 2020 now provides that the Committee shall comprise of the Chief Commissioner having jurisdiction over the case and two persons from a panel notified by the FBR. Conversely, the Committee shall decide the dispute through consensus rather than majority.</p> <p>The Finance Act, 2020 also provide that the Committee may, in case of hardship, stay the recovery of tax payable in respect of the dispute pending before it for a period not exceeding 120 days in aggregate or till the decision of the Committee or its dissolution, whichever is earlier.</p> |
| 8 | <p><b>Section 42B(1A)</b></p> <p><b>Selection for audit by the Board</b></p> | <p>Section 42B provides that the FBR may select persons or classes of persons for an audit of records and documents, through computer ballot, which may be random or parametric as the Board may deem fit.</p>   | <p>The Finance Act, 2020 insert a new sub-section (1A), whereby the Board, notwithstanding anything contained in the FE Act or any other law, for the time being in force, shall keep the parameters confidential. The amendment is in line with Section 214C of the Ordinance.</p>  |
| 9 | <p><b>Section 46(10)</b></p> <p><b>Audit</b></p>                             | <p>Under Section 46 of the FE Act, the Officer of Inland Revenue authorized by the Board or the Chief Commissioner, may conduct an audit of the records of a taxpayer, once in three years. Until 30 June 2018, the frequency of conducting audits was annual, which was modified to once in a three-year period</p>   | <p>The Finance Act, 2020 now omit the condition of conducting the audit once in a three-year period as contained in sub- section 10 of Section 46 by deleting the sub-section entirely. If passed, this will unnecessarily burden taxpayers, while handing over sweeping powers to the assessing officer of inland revenue to conduct audits covering one or multiple tax years with no reprieve for the taxpayer available under the law, in absence of any prescribed limitation. The consequence of this change will likely erode the taxpayer’s confidence in the revenue</p>  |

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|    |  | through the Finance Act, 2018. The aforesaid amendment of 2018 demonstrated the confidence of the Government on the records maintained by registered persons.  | machinery and the probable unnecessary wastage of time and effort by the revenue authorities.   |
| 10 | <b>Section 47(1)(2)</b><br><br><b>Service of notices and other documents</b>     | Section 47 of the FE Act deals with the service of notices and other documents. Sub-Section 1(d) and sub-section 2(d) of Section 47 provides that any notice, order or requisition required to be served, shall be treated as properly served if sent electronically through email or to the e-folder maintained for the purpose of e-filing of Sales Tax-cum-Federal Excise returns, by limited companies, both public and private. | The Finance Act, 2020 substitute the expression “limited companies, both public and private” with “registered person”. With this amendment, the electronic transmission of notices and other documents through email or to the e-folder maintained for the purpose of e-filing of Sales Tax-cum-Federal Excise returns, shall be treated as the prescribed mode of serving notices, orders or requisition, extended to cover all registered persons irrespective of their legal status, and by so doing shall also include within its ambit all registered individuals and AoPs.  |
| 11 | <b>Section 47(AB)</b><br><br><b>Real-time access to information and database</b> |  | <p>The Finance Act, 2020 insert a new section dealing with the provision of real-time access of information and database of various organizations to the FBR.</p> <p>The Finance Act, 2020 further bring that all electricity suppliers and gas transmission and distribution companies shall make arrangements by 01 January 2021 for allowing the consumers to update the ratio of sharing of a connection and the particulars of users. It is also bring that the FBR shall make arrangements for laying the infrastructure for real-time access to information and databases described above and aligning it with its own database. The information and record received under this section shall be used only for tax purposes and kept confidential.</p> <p>The Finance Act, 2020 also provides that until real-time access to information and database is made available, such information and data shall be provided periodically in any other form and manner as may be prescribed.</p> |

|              |  |  |                                     |  |                       |                                     |  |
|--------------|--|--|-------------------------------------|--|-----------------------|-------------------------------------|--|
| 12           | <b>First Schedule, Table I</b><br><br><b>Amendments in the First Schedule</b>  | The Finance Act, 2020 amend the Table I of the First Schedule to the FE Act: |                                     |  |                       |                                     |  |
|              |  | <b>Existing</b>  |                                     |  | <b>Current</b>        |                                     |  |
| <b>S.No.</b> | <b>Description</b>   | <b>Tariff Heading</b>  | <b>Duty</b>                         | <b>Description</b>   | <b>Tariff Heading</b> | <b>Duty</b>                         |  |
| 8            | Cigars, cheroots, cigarillos and cigarettes, of tobacco substitutes  | 24.02  | Sixty Five per cent of retail price | Cigars, cheroots, cigarillos and cigarettes of tobacco and tobacco substitutes.  | 24.02                 | Sixty Five per cent of retail price |  |
| 13           | Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers | 25.23  | PKR2 per kilogram                   | Portland cement, aluminous cement, slag cement, super sulphate cement and similar hydraulic cements, whether or not colored or in the form of clinkers | 25.23                 | PKR 1.50 per kilogram               |  |
| 56           | Filter rod for cigarettes  | 5502.009   | PKR 0.75 per filter rod             | Filter rod for cigarettes  | 5502.009              | PKR 1 per filter rod                |  |

|              |  |                        |                 |
|--------------|--|------------------------|-----------------|
|              | The Finance Act, 2020 insert the following new entries in the Table I of the First Schedule to the FE Act:   |                        |                 |
| <b>S.No.</b> | <b>Description</b>   | <b>Tariff Heading</b>  | <b>Duty</b>     |
| 8a           | E-liquids by whatsoever name called, for electric cigarette kits   | Respective heading     | PKR 10 per ml % |
| 55C          | Imported double cabin (4x4) pick-up vehicles   | 8704.2190<br>8704.3190 | 25 ad valorem   |
| 55D          | Locally manufactured double cabin (4x4) pick-up vehicles.<br><br>Now Act has restricted this to vehicles booked on or before the 30th June 2020 subject to the restriction or conditions specified by the FBR. | 8704.2190<br>8704.3190 | 7.5 ad valorem  |



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